

161091PCCOOP

PFMA
2015-16



Cooperative Governance and Traditional Affairs portfolio

PC briefing note



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Purpose of the presentation

Annually oversight committees set aside time to focus on assessing the performance of departments. On completion of the process, portfolio committees are required to develop department-specific budgetary review and recommendations reports (BRRR), which express the committee's view on the department's budget for recommendation to the National Treasury ahead of the following year's budget period.

Our role as the AGSA is to reflect on the audit work performed to assist the portfolio committee in its oversight role of assessing the departments' performance, taking into consideration the objective of the committee to produce a BRRR.

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1. Introduction

1.1 Reputation promise of the Auditor-General of South Africa

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.

1.2 Purpose of document

The purpose of this briefing document is for the Auditor-General of South Africa (AGSA) to provide an overview of the audit outcomes and other findings of the Vote 4: Cooperative Governance and Traditional Affairs and its entities for the 2015-16 financial year.

1.3 Overview

The departments of Cooperative Governance and Traditional Affairs reported as two separate departments from the 2014-15 financial year onwards. Included in the portfolio outcomes are the following two constitutional institutions:

- Commission for the Promotion and Protection of the rights of cultural, religious and linguistic communities (CRL Rights commission); and
- Municipal Demarcation Board (MDB).

The portfolio is responsible for the implementation of Outcome 9: "A responsive, accountable, effective and efficient developmental local government system" over the 2014-19 MTSF period, which has the following sub-outcomes:

- a) Members of society have sustainable and reliable access to basic services.
- b) Intergovernmental and democratic governance arrangements for a functional system of cooperative governance strengthened.
- c) Sound financial and administrative management.
- d) Promotion of social and economic development.
- e) Local public employment programmes expanded through the Community Work Programme (CWP).

Specific focus is placed on 27 district priority areas during implementation.

Aim of the vote

The main purpose of Vote 4 is to improve cooperative governance across the three spheres of government in partnership with institutions of traditional leadership, thereby ensuring that provinces and municipalities carry out service delivery and development functions effectively.

1.3.1 Department of Cooperative Governance

Legislative mandate

DCoG's mandate is derived from Chapters 3, 5, 6, 7 and 9 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996).

The DCoG is mandated to:

- Develop and monitor the implementation of national policy and legislation seeking to transform and strengthen key institutions and mechanisms of governance to fulfil their developmental role;

- Develop, promote and monitor mechanisms, systems and structures to enable integrated service delivery and implementation within government; and
- Promote sustainable development by providing support to and exercising oversight over provincial and local government.

The DCoG is to develop national policies and legislation with regard to local government and to monitor, inter alia, the implementation of the following:

- Municipal Property Rates Act, 2004 (Act No.6 of 2004);
- Local Government: Municipal Finance Management Act, 2003 (Act No 56 of 2003);
- Disaster Management Act, 2002 (Act No. 57 of 2002);
- Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000);
- Local Government: Municipal Structures Act, 1998 (Act No. 117 of 1998);
- The Intergovernmental Relations Framework Act (Act No. 13, of 2005);
- Local Government: Municipal Demarcation Act, 1998 (Act No. 27 of 1998);
- Organised Local Government Act, 52 of 1997;
- Fire Brigade Services Act, 99 of 1987;
- Remuneration of Public Bearers Act, 20 of 1998; and
- Local Government: Cross-Boundary Municipal Act, 29 of 2000.

Vision

An integrated, responsive, accountable, and effective system of Cooperative Governance.

Mission and objectives

The DCoG aims to facilitate cooperative governance throughout all spheres of government in order to build a capable state that fulfils its developmental role through:

- Development of appropriate policies, integrated programmes and regulatory mechanisms;
- Promotion of service delivery support through enabling mechanisms and Intergovernmental Relations;
- Achievement of social cohesion through the creation of enabling mechanisms for communities to participate in governance; and
- Monitoring and evaluating the implementation of cooperative governance policies and programmes.

South African Local Government Association

The South African Local Government Association (SALGA) is a Schedule 3A listed entity in terms of the PFMA. This entity has achieved a clean audit opinion for the fourth consecutive year.

In accordance with its constitutional mandate, SALGA is obliged to transform the local government sector to one that has the required capacity to make a meaningful contribution to poverty alleviation, economic development and all socio-economic opportunities that the state has geared itself to provide for its people. Its mandate rests on six primary pillars:

- Representation, Advocacy and Lobbying (representing the interests of members in legislatures and other policy making and oversight structures. Engaging with various stakeholders, public debates etc. in the interest of Local Government);
- Employer Body (being an effective employer representative for members);
- Capacity Building (facilitating capacity building initiatives);
- Support and Advice (provision of tools and services that enable municipalities to understand and interpret trends, policies and legislation affecting Local Government and to implement the said policies and plans);

- Strategic Profiling of Local Government (enhancing the profile and image of local government as an important and credible agent for the delivery of services); and
- Knowledge and Information Sharing (building and sharing a comprehensive hub of Local Government knowledge and intelligence that will enable informed delivery of other SALGA mandates).

1.3.2 Department of Traditional Affairs

Legislative mandate

DTA's mandate is derived from Chapters 12 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996).

In addition to the constitutional mandate, the Department's mandate is also informed by the following three pieces of legislation that it administers:

- Traditional Leadership and Governance Framework Act (TLGFA), 2003 (Act No. 41 of 2003);
- National House of Traditional Leaders (NHTL) Act, 2009 (Act No. 22 of 2009); and
- Commission for the Promotion and Protection of the Rights of Cultural, Religious and Linguistic Communities Act (Act 19 of 2002).

Vision

Integrated traditional affairs for sustainable development and social cohesion.

Mission and objectives

To coordinate traditional affairs activities across government through:

- Development of appropriate policies, norms and standards, systems and regulatory framework governing traditional affairs;
- Provision of support to traditional affairs institution;
- Enhancement of information and knowledge management on traditional affairs; and
- Promotion of culture, heritage and social cohesion.

1.3.3 Municipal Infrastructure Support Agent

MISA was established as a government component in terms of Section 7(5)(c) of the Public Service Act (PSA) as amended by Act 30 of 2007. The establishment of MISA as a government component is integrally tied to the turnaround strategy of the Department of Cooperative Governance.

MISA was established to address capacity challenges, after municipalities did not spend app. 14% of their R9,9 billion Municipal Infrastructure Grant (MIG) budget during the 2012-13 financial year. MISA provides support and develop technical capacity towards sustained accelerated municipal infrastructure and service delivery through:

- Providing technical support to targeted municipalities to improve infrastructure planning, implementation as well as operations and maintenance. Managing the deployment of professional service providers to municipalities; and
- Ensuring that sufficient technical capacity is built within municipalities that would result in effective and efficient service delivery in the long term, including all training administration activities.

1.3.4 Constitutional institutions

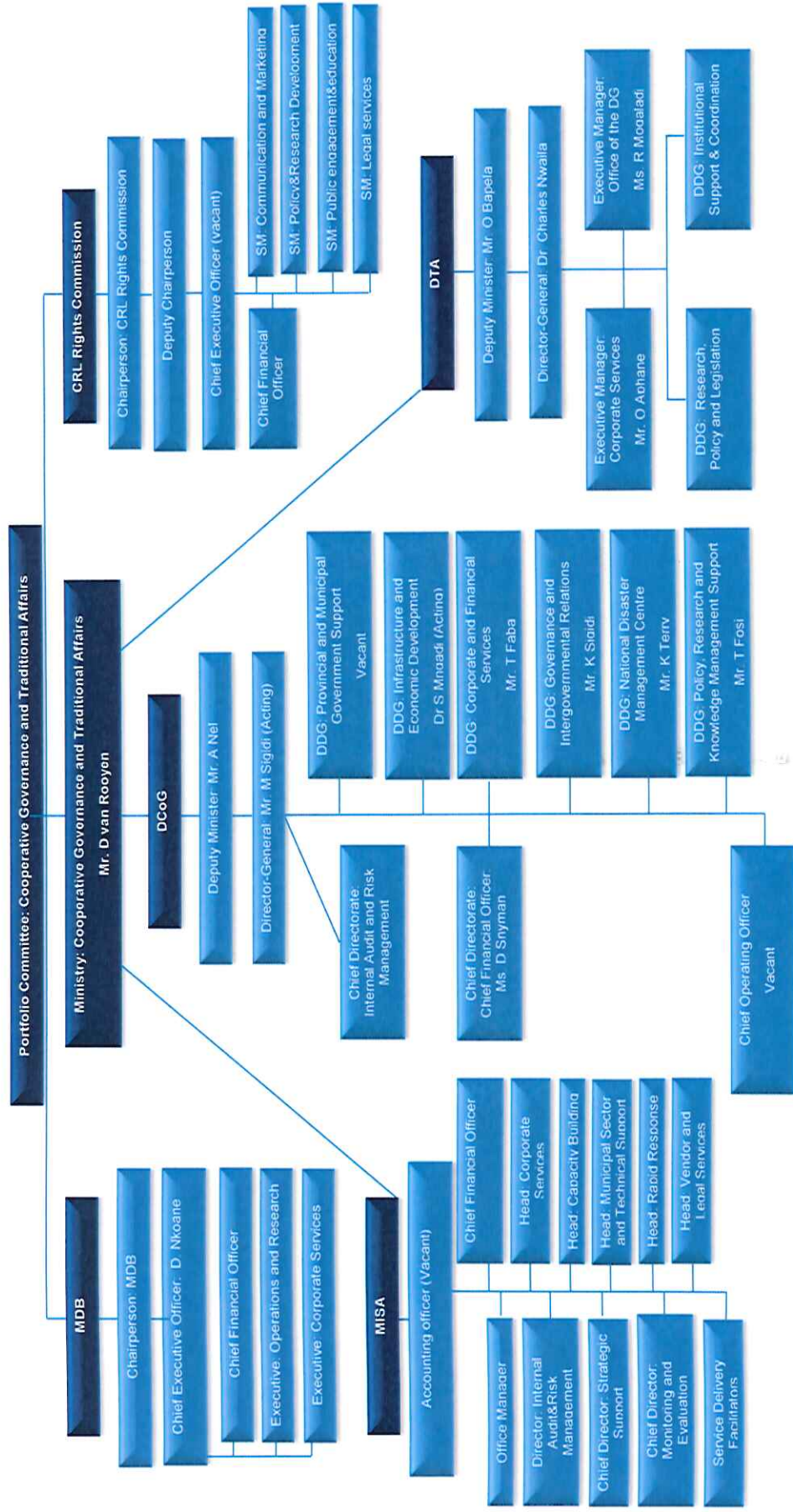
1.3.4.1 CRL Rights Commission

The CRL Rights Commission is mandated to promote respect for and further the protection of the rights of cultural, religious and linguistic communities; promote and develop peace, friendship, humanity, tolerance, national unity among and within cultural, religious and linguistic communities on the basis of equality, non-discrimination and free association; to promote the right of communities to develop their historically diminished heritage and to recognise community councils.





1.3.4.2 Municipal Demarcation Board



















MDB is an independent authority responsible for the determination of municipal boundaries. The Board's status as an independent authority is also protected by section 3 of The Local Government: Municipal Demarcation Act, 1998, and various judgements by the Constitutional Court. In addition to the determinations and re-determinations of municipal boundaries, the Board is also mandated by legislation to declare the district management areas; to delimit wards for local elections; and to assess the capacity of municipalities to perform their functions.

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2. Audit opinion history

	Clean audit opinion: Financially unqualified opinion with no findings on PDO and compliance
	Financially unqualified opinion with findings on PDO and compliance
	Qualified audit opinion (with findings)
	Disclaimed/adverse audit opinion
n/a	Entity not yet established / Department no longer reporting as a combined department

DESCRIPTION	Movement	15-16	14-15	13-14
Audit opinions				
Departments of Cooperative Governance and Traditional Affairs		n/a	n/a	
Department of Cooperative Governance				
Department of Traditional Affairs				n/a
Municipal Infrastructure Support Agent		Audit outstanding		
South African Local Government Association				
CRL Rights Commission				
Municipal Demarcation Board				
Qualification issues				
Department of Cooperative Governance				
Goods and services		✓		
Movable tangible capital assets		✓		
OTHER MATTERS				
Predetermined objectives				
Department of Cooperative Governance		✓	✓	✓
Department of Traditional Affairs				
Municipal Infrastructure Support Agent		Audit outstanding	✓	✓
South African Local Government Association				
CRL Rights Commission				✓
Municipal Demarcation Board		✓		
Compliance with legislation				
Departments of Cooperative Governance and Traditional Affairs		n/a	n/a	✓
Department of Cooperative Governance		✓	✓	n/a
Department of Traditional Affairs		✓	✓	n/a
Municipal Infrastructure Support Agent		Audit outstanding	✓	✓
South African Local Government Association				
CRL Rights Commission		✓	✓	✓
Municipal Demarcation Board		✓	✓	✓

2.1 Basis for qualified opinion

Department/entity	Basis for qualified opinion
Department of Cooperative Governance	<p>Goods and services</p> <p>I was unable to obtain sufficient appropriate audit evidence for payments made to Community Work Programme implementing agents as the department could not provide accurate and complete substantiating records, as required by the contracts signed with implementing agents. I could not confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustment to goods and services stated at R2 501 289 000 (2015: R1 737 745 000) in note 5 to the financial statements was necessary.</p> <p>Movable tangible capital assets</p> <p>I was unable to obtain sufficient appropriate audit evidence for movable tangible capital assets, as the department did not maintain an asset register for the Community Work Programme that adhered to the minimum requirements for an asset register as prescribed by the National Treasury. Additionally, assets were not in all instances measured in line with the prescripts of the Modified Cash Standard on capital assets. I was unable to confirm the physical assets and fair presentation thereof by alternative means. Consequently I was unable to determine whether any adjustment relating to movable tangible assets stated at R143 718 000 (2015: R102 734 000) in note 29 to the financial statements was necessary.</p>

2.2 Significant emphasis of matters

Department/entity	Emphasis of matter raised
Department of Cooperative Governance	<p>Restatement of corresponding figures</p> <p>As disclosed in note 31 to the financial statements, the corresponding figures for 31 March 2015 have been restated as a result of errors discovered during 2016 in the financial statements of the Department of Cooperative Governance at, and for the year ended, 31 March 2015.</p>

3. Key focus areas

3.1 Predetermined objectives

Department/entity	Finding	Common root cause	Recommendation
Department of Cooperative Governance Municipal Demarcation Board	<p>Programme 1: Administration</p> <p><i>Reliability of reported performance information</i></p> <p>The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets. The reported performance information was not reliable when compared to the evidence provided.</p>	<p><i>Usefulness of reported performance information</i></p> <ul style="list-style-type: none"> Inadequate implementation of action plans to address audit findings raised during previous financial years. 	<ul style="list-style-type: none"> Leadership and management should ensure that audit action plans are developed timely to address the root causes and that progress against the audit action plan is monitored regularly. Appropriate action should be taken against

Department/ entity	Finding	Common root cause	Recommendation
	Programme 2: Policy, Research and Knowledge Management <i>Reliability of reported performance information</i> The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets. The reported achievements against planned targets of 40% of the indicators were not reliable when compared to the evidence provided.	<ul style="list-style-type: none"> • Lack of adequate review of the annual performance plan before approval. <i>Reliability of reported performance information</i> <ul style="list-style-type: none"> • The department did not adequately/effectively utilise the PRIMNET system throughout the year to upload all relevant supporting documents to support actual achievements reported. • Lack of adequate review of the documents uploaded on the PRIMNET system by various role players to ensure that the evidence is appropriate and sufficient to support actual achievements reported. • Lack of effective cooperation between the Monitoring and evaluation unit and the officials from the various branches. 	repeat transgressors. <ul style="list-style-type: none"> • Management should continue to report on the progress of the action plan on a quarterly basis to the audit committee. • Management should adhere to the requirements of the FMPPI to ensure that all indicators are well defined and verifiable and that all targets are specific and measurable. It is imperative that the nature of support/monitoring to be provided by the department is clearly articulated in the plan. • Technical indicator descriptions must be clearly documented in the annual performance plan for all indicators. This will ensure that indicators are well defined and verifiable if adequately documented. • Management should ensure that the PRIMNET system is effectively utilised i.e. all relevant supporting documents to support actual achievements reported should be uploaded; proper reviews by various levels on the systems should take place and discrepancies followed up and resolved; • Processes are put in place to ensure better coordination and cooperation between the various units
	Programme 3: Governance and Intergovernmental Relations <i>Usefulness of reported performance information</i> I was unable to obtain sufficient appropriate audit evidence to support the reasons provided for the variance between planned targets and actual achievements.		
	<i>Reliability of reported performance information</i> The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of the reported performance information. This was due to the fact that the auditee could not provide sufficient appropriate evidence in support of the reported performance information.		
	Programme 4: National Disaster Management Centre <i>Reliability of reported performance information</i> The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets. The reported performance information was not reliable when compared to the evidence provided.		
	Programme 5: Provincial and Municipal Government Support <i>Usefulness of reported performance information</i> I was unable to obtain sufficient appropriate audit evidence to support the reasons provided for the variance between planned targets and actual achievements.		

Department/ entity	Finding	Common root cause	Recommendation
	<p><i>Reliability of reported performance information</i> The FMPPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets. The reported performance information was not reliable when compared to the evidence provided.</p> <p>Programme 6: Infrastructure and Economic Development</p> <p><i>Usefulness of reported performance information</i> I was unable to obtain sufficient appropriate audit evidence to support the reasons provided for the variance between planned targets and actual achievements.</p> <p>Performance targets should be specific in clearly identifying the nature and required level of performance and measurable as required by the FMPPPI. A total of 43% of the targets were not specific and could not be measured.</p> <p>Performance indicators should be well defined by having clear definitions so that data can be collected consistently and is easy to understand and use and should be verifiable, as required by the FMPPPI. A total of 43% of the indicators were not well defined and verifiable.</p> <p><i>Reliability of reported performance information</i> The FMPPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of the reported performance information. This was due to the fact that the auditee could not provide sufficient appropriate evidence in support of the reported performance information.</p>		
	<p><i>Adjustment of material misstatements</i> I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of Programme 3: Governance and Intergovernmental Relations and Programme 6: Infrastructure and Economic Development. As management subsequently corrected only some of the misstatements, I identified material findings on the usefulness and</p>	<ul style="list-style-type: none"> • Lack of adequate understanding and implementation of all laws, regulations and guides relating to predetermined objectives by the monitoring and evaluation unit; 	<ul style="list-style-type: none"> • All relevant staff members should be trained so as to ensure that they have an in depth understanding and knowledge of the requirements for reporting on predetermined objectives.

Department/ entity	Finding	Common root cause	Recommendation
	reliability of the reported performance information.	<ul style="list-style-type: none"> • Lack of adequate review of the annual report by management before submission to the auditors. 	<ul style="list-style-type: none"> • The annual report is adequately reviewed by management before submission for audit. A checklist may assist in this regard.
	<p>Programme 2: Research and Knowledge Management</p> <p><i>Usefulness of reported performance information</i></p> <p><u>Consistency of indicators and targets</u></p> <p>Treasury Regulation 5.2.4 requires the annual performance plan to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 33% of the reported indicators and 100% of the reported targets were not consistent with those in the approved annual performance plan.</p> <p><u>Measurability of indicators and targets</u></p> <p>The FMPPI requires that performance targets should be specific in clearly identifying the nature and required level of performance and measurable. A total of 67% of targets were not specific and measurable.</p> <p>The FMPPI requires that performance indicators should be well defined by having clear definitions so that data can be collected consistently and is easy to understand and use. A total of 67% of indicators were not well defined.</p> <p>The processes and systems that produced the indicator should be verifiable, as required by the FMPPI. A total of 67% of indicators were not verifiable.</p>	<ul style="list-style-type: none"> • Leadership did not exercise effective oversight responsibility regarding performance reporting as well as related internal controls. The lack of oversight was primarily attributable to the fact that critical leadership positions were vacant for a significant part of the financial year under review. • Regular, accurate and complete performance reports that were supported and evidenced by reliable information were not prepared throughout the year. 	<ul style="list-style-type: none"> • Management should adhere to the requirements of the FMPPI to ensure that all indicators are well defined and verifiable and that all targets are specific and measurable i.e. the nature and required level of performance is clearly specified and measurable. • Technical indicator descriptions must be clearly documented in the annual performance plan for all indicators. This will ensure that indicators are well defined and verifiable if adequately documented. • It should be noted that a review was performed on the 2016-17 annual performance plan and no material findings were noted pertaining to the usefulness criteria. The findings relating to usefulness are therefore not likely to repeat in the upcoming financial year. • There should be processes in place to ensure that all reported information is accurate, valid and complete.
	<p>Programme 4: Corporate Services</p> <p><i>Usefulness of reported performance information</i></p> <p><u>Consistency of indicators and targets</u></p> <p>Treasury Regulation 5.2.4 requires the annual performance plan to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 86% of the reported indicators and 93% of the reported targets were not consistent with those in the approved annual performance</p>		

Department/ entity	Finding	Common root cause	Recommendation
	<p>plan. Additionally, 22% of the indicators and 22% of the targets that were reported on in the annual performance report were not included in the approved annual performance plan.</p> <p><u>Measurability of indicators and targets</u></p> <p>The FMPPPI requires that performance targets should be specific in clearly identifying the nature and required level of performance and measurable. A total of 44% targets were not specific and measurable.</p> <p>The FMPPPI requires that performance indicators should be well defined by having clear definitions so that data can be collected consistently and is easy to understand and use. A total of 61% of indicators were not well defined.</p> <p>The processes and systems that produced the indicator should be verifiable, as required by the FMPPPI. A total of 61% indicators were not verifiable.</p>		
	<p>Programme 4: Corporate Services</p> <p><i>Reliability of reported performance information</i></p> <p>The FMPPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets. The reported performance information was not reliable when compared to the source information or evidence provided.</p>	<ul style="list-style-type: none"> • Inadequate monitoring of management of the completeness of source documentation in support of actual achievements. • Inadequate technical indicator descriptions for the accurate measurement, recording and monitoring of performance. 	<ul style="list-style-type: none"> • Technical indicator descriptions must be clearly documented in the annual performance plan for all indicators. This will ensure that indicators are well defined and verifiable if adequately documented. • There should be processes in place to ensure that all reported information is accurate, valid and complete.

3.2 Compliance with legislation

Department/ entity	Finding	Common root cause	Recommendation
Department of Cooperative Governance	<p>Financial statements, performance and annual reports</p> <p>The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework and supported by full and proper records as required by section 40(1)(a) and (b) of the Public Finance Management Act.</p> <p>Material misstatements of payables, expenditure and disclosure items identified by the auditors in the submitted financial</p>	<ul style="list-style-type: none"> • Lack of adequate review of the financial statements by management. • Lack of adequate oversight and monitoring by the CWP unit to ensure that the implementing agents are complying with the minimum 	<ul style="list-style-type: none"> • The monthly and quarterly financial statements prepared by the department should be adequately reviewed. The level of review should include management (Chief Financial Officer), internal audit and those charged with governance.

Department/ entity	Finding	Common root cause	Recommendation
	statements were subsequently corrected, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.	<p>requirements and implementing the necessary controls.</p> <ul style="list-style-type: none"> • Misinterpretation of the CWP implementation manual by the CWP and finance unit regarding the assets and the disclosure thereof, therefore controls not maintained and implemented throughout the year i.e. asset registers, asset counts etc. 	<ul style="list-style-type: none"> • The CWP unit should enhance and strengthen their oversight provided to ensure that the implementing agents are implementing adequate controls and record keeping. • Management should ensure that the non-compliance by the implementing agents is dealt with in an appropriate and timely manner.
	<p>Procurement and contract management</p> <p>Goods and services of a transaction value above R500 000 were procured without inviting competitive bids, as required by Treasury Regulation 16A6.1.</p> <p>Contracts and quotations were awarded to suppliers whose tax matters had not been declared by the South African Revenue Services to be in order as required by Treasury Regulations 16A9.1(d) and the Preferential Procurement Regulations.</p> <p>Thresholds for local content on designated sectors procurement were not properly applied in accordance with the requirements of preferential procurement regulation 9.</p> <p>Contracts and quotations were awarded to bidders based on preference points that were not allocated and calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations.</p>	<ul style="list-style-type: none"> • Inadequate implementation of action plans to address audit findings raised during previous financial years. • Lack of adequate/timely action being taken against non-complying implementing agents. • Inadequate oversight and monitoring of the CWP project by the CWP unit on a monthly and quarterly basis. 	<ul style="list-style-type: none"> • Leadership and management should ensure that audit action plans are developed timely to address the root causes and that progress against the audit action plan is monitored regularly. • Management should ensure that the non-compliance by the implementing agents is dealt with in an appropriate and timely manner.
	<p>Expenditure management</p> <p>Effective steps were not taken to prevent irregular expenditure, amounting to R482 283 000 as disclosed in note 24 of the AFS, as required by section 38(1)(c)(ii) of the Public Finance Management Act and Treasury Regulation 9.1.1.</p>		<ul style="list-style-type: none"> • Possible irregular expenditure cases are investigated on a regular basis i.e. monthly and the necessary follow up actions are implemented. • All irregular expenditure is reported on a monthly basis to the National Treasury as required by the PFMA and TR.

Department/ entity	Finding	Common root cause	Recommendation
Department of Traditional Affairs	Expenditure management Effective steps were not taken to prevent irregular expenditure, amounting to R4 183 000 as disclosed in note 21 of the AFS, as required by section 38(1)(c)(ii) of the Public Finance Management Act and Treasury Regulation 9.1.1.	Lack of oversight from leadership to ensure that applicable laws and regulations are adhered to.	Management should adequately review compliance with supply chain management laws and regulations during the initiation of the transaction.
CRL Rights Commission	Expenditure management Effective steps were not taken to prevent irregular expenditure, amounting to R43 252 as disclosed in note 20 of the AFS, as required by section 38(1)(c)(ii) of the Public Finance Management Act and TR 9.1.1.	Lack of oversight from leadership to ensure that applicable laws and regulations are adhered to. Compliance with applicable laws and regulations not effectively reviewed and monitored.	Management should adequately review and monitor compliance with supply chain management laws and regulations during the initiation of the transaction.
Municipal Demarcation Board	Expenditure management Effective steps were not taken to prevent irregular expenditure, amounting to R65 500 as disclosed in note 32 of the AFS, as required by section 38(1)(c)(ii) of the Public Finance Management Act and Treasury Regulation 9.1.1.	Inadequate oversight responsibility regarding the internal controls over deviations.	Management should focus on ensuring that proper planning takes place prior to procuring goods and services to ensure adequate time to comply with requirements and minimise deviations.


3.3 Financial health

No material matters to report.

4. Other matters of interest


4.1 Unauthorised expenditure:

Definition: Expenditure not in accordance with the budget vote

Department/ entity	Move- ment	Amount 2015-16	Amount 2014-15	Common root cause	Recommendation
Department of Traditional Affairs		-	2 252 000	n/a	n/a

4.2 Irregular expenditure:


Definition: Expenditure incurred in contravention of key legislation

Department/ entity	Move- ment	Amount 2015-16	Amount 2014-15	Common root cause	Recommendation
Department of Cooperative Governance		482 283 000	155 375 000	<ul style="list-style-type: none"> Inadequate implementation of action plans to address audit findings raised during previous 	<ul style="list-style-type: none"> Leadership and management should ensure that audit action plans are developed timely to address the root

Department/ entity	Move- ment	Amount 2015-16	Amount 2014-15	Common root cause	Recommendation
				<p>financial years, specifically in relation to procurement taking place as part of the CWP.</p> <ul style="list-style-type: none"> • Lack of adequate/timely action being taken against non-complying implementing agents. • Inadequate oversight and monitoring of the CWP project by the CWP unit on a monthly and quarterly basis. 	<p>causes and that progress against the audit action plan is monitored regularly.</p> <ul style="list-style-type: none"> • Management should ensure that the non-compliance by the implementing agents is dealt with in an appropriate and timely manner.
Department of Traditional Affairs	↓	4 183 000	6 518 000	Inadequate oversight from leadership to ensure that applicable laws and regulations are adhered to.	Management should adequately review compliance with supply chain management laws and regulations during the initiation of the transaction.
Municipal Infrastructure Support Agent		Audit outstanding	73 228 840	n/a	n/a
CRL Rights Commission	↑	43 252	-	<ul style="list-style-type: none"> • Lack of oversight from leadership to ensure that applicable laws and regulations are adhered to. • Compliance with applicable laws and regulations not effectively reviewed and monitored. 	<ul style="list-style-type: none"> • Management should focus on ensuring that proper planning takes place prior to procuring goods and services to ensure adequate time to comply with requirements and minimise deviations. • Management should adequately review and monitor compliance with supply chain management laws and regulations during the initiation of the transaction.
Municipal Demarcation Board	↓	65 500	3 052 000	Inadequate oversight responsibility regarding the internal controls over deviations.	Management should focus on ensuring that proper planning takes place prior to procuring goods and services to ensure adequate time to comply with requirements and minimise deviations.

4.3 Fruitless and wasteful expenditure:




Definition: Expenditure that should not have been incurred (incurred in vain that could have been avoided and no value for money received)

Department/ entity	Move- ment	Amount 2015-16	Amount 2014-15	Common root cause	Recommendation
Municipal Infrastructure Support Agent		Audit outstanding	512 303	n/a	n/a
CRL Rights Commission		51 000	-	Fruitless and wasteful expenditure consists of one payment where a revaluation exercise for fixed assets was commissioned and paid for however the report was never utilised as the initial decision to account for assets based on revalued amounts was subsequently reversed.	Management should comprehensively review all procurement needs prior to transactions being entered into to avoid fruitless and wasteful expenditure.

5. Drivers of internal control

Drivers of internal control			
Auditee	Leadership	Financial and performance management	Governance
Department of Cooperative Governance			
Department of Traditional Affairs			
Municipal Infrastructure Support Agent	Audit outstanding	Audit outstanding	Audit outstanding
South African Local Government Association			
CRL Rights Commission			
Municipal Demarcation Board			

STATUS LEGEND

	Good
	In progress
	Intervention required

6. Other AGSA reports

6.1 Investigations

Department of Cooperative Governance

- An investigation was conducted by an external service provider into various allegations relating to possible improper procurement of travel management solutions and abuse of travel benefits in the Department of Cooperative Governance. The scope of the audit was to investigate possible fraudulent and/or irregular transactions perpetrated through travel, accommodation and conferencing arrangements under the stewardship of the department's travel agency. The allegations also included abuse of travel privileges, not in accordance with departmental policy. There was also potential conflict of interest by some officials through colluding with the travel agency to book venues where they might possibly have an interest. The report had been issued as at the end of February 2016. A follow-up investigation (phase 2) is currently in progress.
- An investigation was conducted by an external service provider into possible tender irregularities in the appointment of the implementing agents for the Community Work Programme as well as the review of irregular expenditure incurred by the programme. The investigation was concluded at the end of March 2016 and the department is in the process of following up on the recommendations made.

Department of Traditional Affairs

- The National Treasury is performing an investigation at the request of the Department. The investigation was initiated based on possible fraudulent and/or irregular transactions perpetrated through travel, accommodation and conferencing arrangements done under the stewardship of the contracted travel agency. At the end of the reporting period, the investigation was not yet concluded.

Municipal Demarcation Board

- An independent consulting firm performed a forensic investigation at the request of the Board. The investigation was initiated based on tender irregularities involving senior management of the Board. The investigation was concluded in August 2015 and resulted in disciplinary actions being instituted against the officials concerned.

7. Combined assurance on risk management in the public sector



Management's assurance role

- **Senior management** – take immediate action to address specific recommendations and adhere to financial management and internal control systems
- **Accounting officers/ authority** – hold officials accountable on implementation of internal controls and report progress quarterly and annually
- **Executive authority** – monitor the progress of performance and enforce accountability and consequences

Oversight's assurance role

- **National Treasury/ DPSA** – monitor compliance with laws and regulations and enforce appropriate action
- **Internal audit** – follow up on management's actions to address specific recommendations and conduct own audits on the key focus areas in the internal control environment and report on quarterly progress
- **Audit committee** – monitor risks and the implementation of commitments on corrective action made by management as well as quarterly progress on the action plans

Role of independent assurance




- **Oversight (portfolio committees)** – review and monitor quarterly progress on the implementation of action plans to address deficiencies
- **Public accounts committee** – exercise specific oversight on a regular basis on any report which it may deem necessary
- **National Assembly** – provide independent oversight on the reliability, accuracy and credibility of National and provincial government

8. Minister's commitments and progress on these commitments

The following are commitments made by the minister and their progress:

Focus area	Commitment	Made by	Date	Status
Action plan to address internal and external audit findings	Action plans to address repeat findings will be implemented and monitored in a timely manner.	Minister	Ongoing	Although the departments and entities had actions plans in place, not all the findings as raised in the prior year was addressed by all the departments/entities in the current year. For some of the departments/entities of the matters as raised in the prior year were resolved in the current year, however new matters arose in the current year.

STATUS LEGEND

	Commitment has been implemented
	Commitment in progress
	Commitment has not been implemented

9. Assessment of the Portfolio committee

The following criteria were used to evaluate the level of assurance for the Portfolio Committee:

- Whether the Portfolio Committee executes its roles and responsibilities in terms of oversight over budget and performance information and service delivery; and
- Whether the Portfolio Committee hold the department accountable for their actions to address recommendations by the committee to improve on prior year audit outcomes.

Based on the above listed matters the committee was assessed as having provided assurance.

It is imperative that the following prior year commitments, which were recommended and obtained from the Portfolio Committee, are reinforced by the committee for the current year so as to ensure progression towards clean administration by the entities within the portfolio:

- Require entities to compile monthly financial statements;
- Request entities to have action plans on which feedback must be presented quarterly (progress reporting);
- To request entities to take action against transgressors;
- Review quarterly reports on performance information; and
- Review implementation and assessment of key controls.

