



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence



2015-16
PFMA

Briefing to the Portfolio Committee: Department of Public Works
Audit outcomes of the portfolio for the 2015-16 financial year

1

The AGSA's promise and focus



Reputation promise

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The Auditor-General of South Africa (AGSA) has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, it exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.

Role of AGSA in the BRRR process

- Our role as the AGSA is to reflect on the audit work performed to assist the portfolio committee in its oversight role in assessing the performance of the entities taking into consideration the objective of the committee to produce a BRRR.
- To provide the portfolio committee with applicable information and guidance on the Department of Public Works portfolio's 2015-16 audit outcomes so that they, the committee, can ensure effective oversight.
- To enable oversight to focus on areas that will lead to good governance.



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Our annual audits examine three areas

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1

FAIR PRESENTATION AND
RELIABILITY OF FINANCIAL
STATEMENTS

2

RELIABLE AND CREDIBLE
PERFORMANCE INFORMATION
FOR PREDETERMINED
OBJECTIVES

3

COMPLIANCE WITH KEY
LEGISLATION ON FINANCIAL
AND PERFORMANCE
MANAGEMENT



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Unqualified opinion with no findings (clean audit)



Auditee:

- produced credible and reliable financial statements that are free of material misstatements; and
- reported in a useful and reliable manner on performance as measured against predetermined objectives in the annual performance plan (APP); and
- observed/complied with key legislation in conducting their day-to-day to achieve on their mandate.

Financially unqualified opinion with findings



Auditee produced financial statements without material misstatements but struggled to:

- align their performance reports to the predetermined objectives they committed to in their APPs; and/or
- set clear performance indicators and targets to measure their performance against their predetermined objectives; and/or
- report reliably on whether they achieved their performance targets; and/or
- determine which legislation they should comply with and implement the required policies, procedures and controls to ensure compliance.

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Qualified opinion



Auditee:

- had same challenges as those that were unqualified with findings but, in addition, they could not produce credible and reliable financial statements.
- had material misstatements on specific areas in their financial statements, which could not be corrected before the financial statements were published.
- did not comply with key legislation in certain instances.

Adverse opinion



Auditee:

- has so many material misstatements in their financial statements that we disagree with almost all the amounts and disclosures in the financial statements.
- was unable to provide sufficient supporting documentation for amounts in the financial statements and achievements reported in the annual performance report.
- did not comply with key legislation.

Disclaimed opinion



Auditee:

- could not provide us with evidence for most of the amounts and disclosures reported in the financial statements, and we were unable to conclude or express an opinion on the credibility of their financial statements.
- was unable to provide sufficient supporting documentation for amounts in the financial statements and achievements reported in the annual performance report.
- did not comply with key legislation.

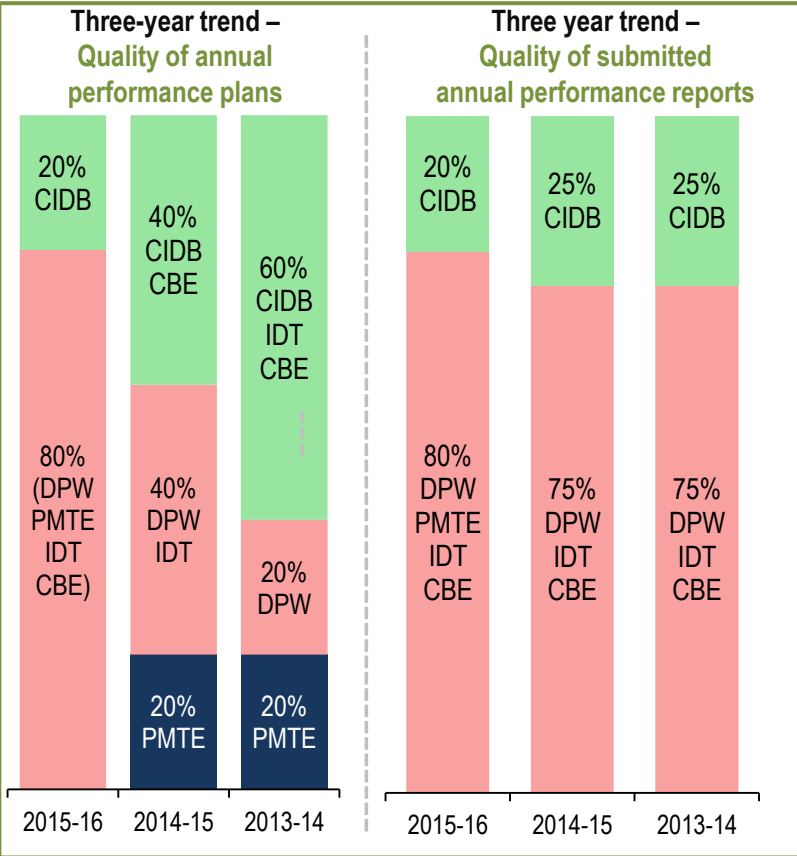
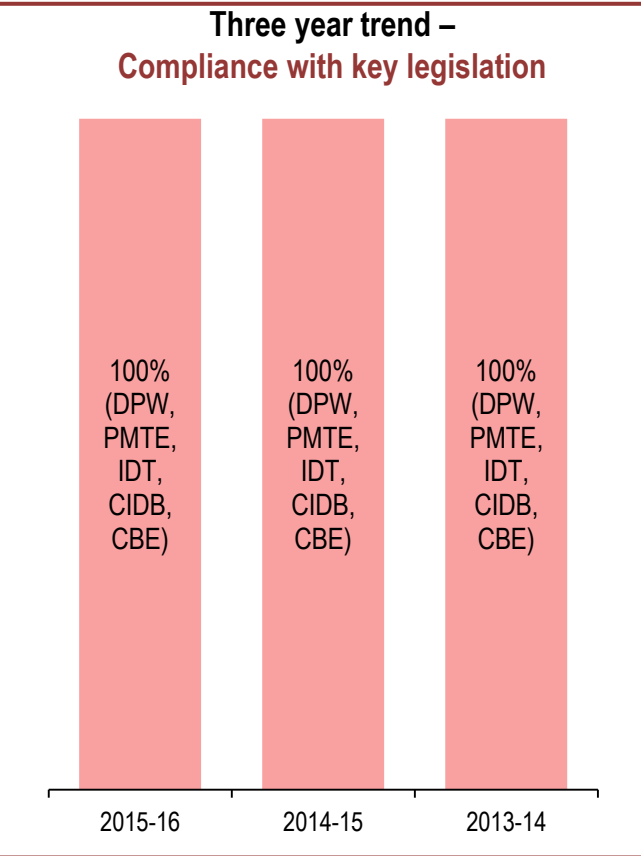
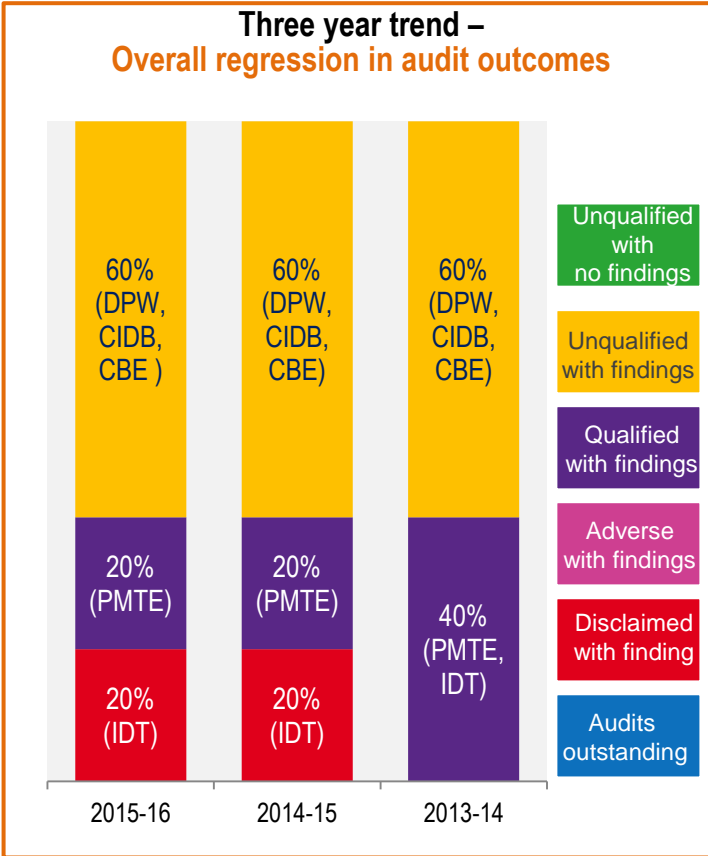


2

The 2015-16 audit outcomes and key messages



Regression in audit outcomes over 3 years



1 To improve/maintain the **overall audit outcomes**, financial statements processes,

- IDT's inability to accurately and completely account for programme related balances and transactions has resulted in a regression from a qualification in 2013-14 to a disclaimer of opinion in 2014-15. Action plans were approved but were not fully implemented resulting in a repeat disclaimer in 2015-16
- Though PMTE remained unchanged with a qualification between 2013-14 and 2015-16, the number of qualifications reduced in 2015-16. This can be attributed to the efforts made by management to enhance the control environment.

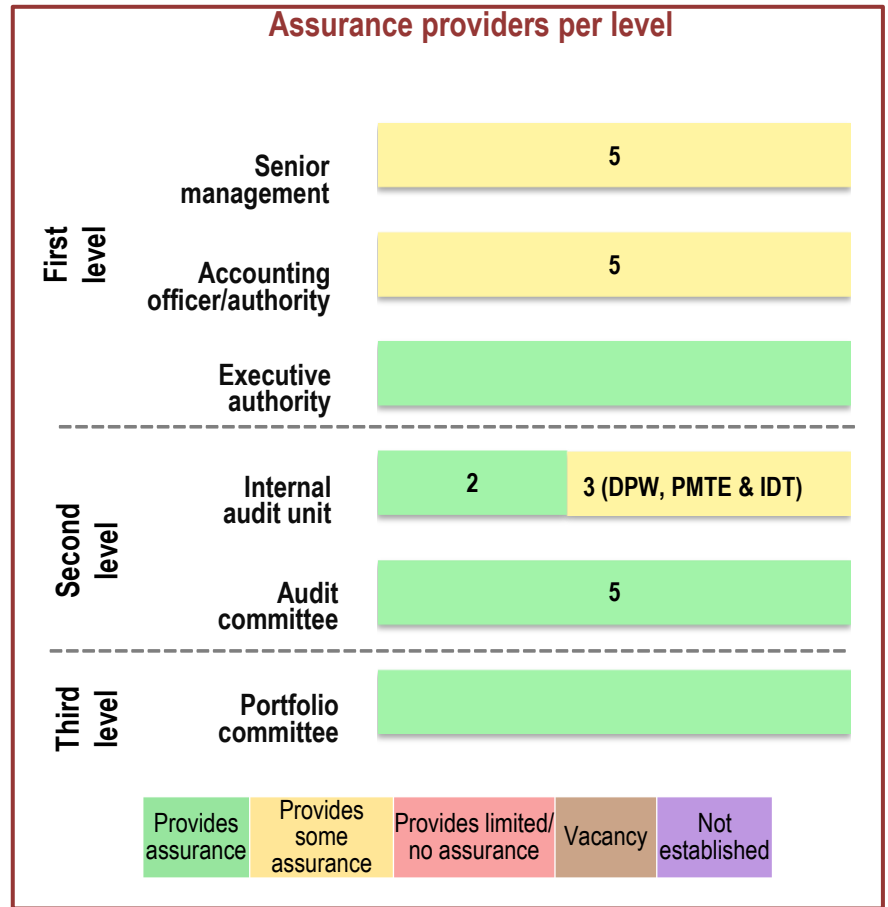
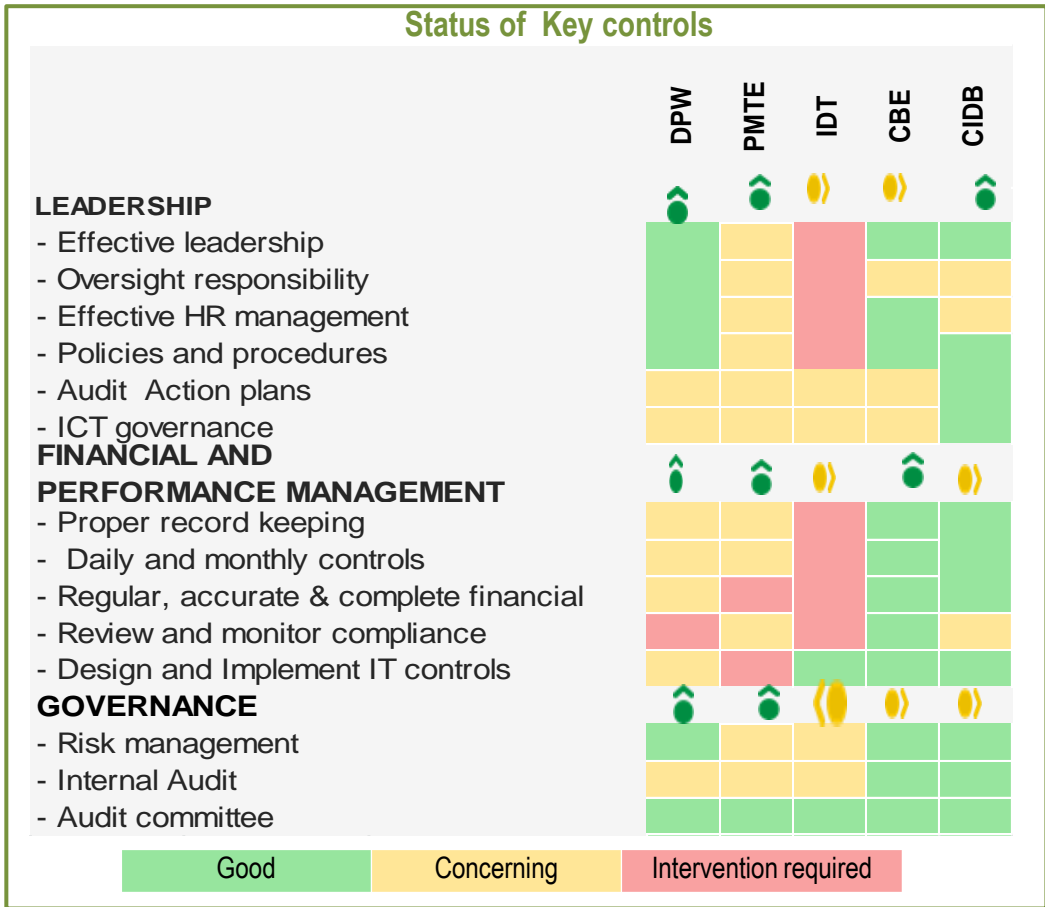
2 **compliance** with key legislation and....

- **Only CIDB** were able to submit quality financial statements that did not require material adjustments as a result of the audit process.
- Although there was a significant reduction in the amount of irregular expenditure incurred in the portfolio, **none of the entities were fully successful in the prevention thereof.**

3 **performance planning and reporting** must be improved by....

- We raised concerns on the annual performance reports submitted by all entities in the portfolio, **with the exception of the CIDB** where no material adjustments to the performance information submitted were required.
- The internal audit unit at CIDB conducted a review of the performance report, and management were able to correct the errors identified before submitting the performance report for auditing.
- PMTE for the first time submitted their own APP in 2015-16 and is still enhancing their systems and controls.

Regression in audit outcomes over 3 years - continued



4 ... providing attention to the **key controls** by...

- The control environments within the Public Works portfolio is showing some movement in the right direction; however, this is not occurring at the required pace across the board.
- The Department should enhance their monitoring and review over annual financial statements as well as over the record management of agencies collecting information regarding EPWP on their behalf.
- The improvement in the overall control environment at PMTE can largely be attributed to the robust implementation of the turn around strategy including the filling of key positions within the finance unit.
- IDT should timeously implement and monitor the implementation of actions plans that will be effective in addressing the reasons for the repeat disclaimer.

5 ... the key role players as part of their role in **combined assurance**

- The assurance provided by the audit committee improved over the three years, and they provided a level of assurance linked to their legislative mandate.
- Management was slow in implementing the recommendations from internal and external auditors as well as the audit committee to ensure positive audit outcomes.
- The Portfolio committee provided assurance through robust engagements with management, follow up on recommendations, action plans and quarterly reports.




3

**Performance management linked
to programmes/ objectives tested**



Quality of annual performance plan slightly regressed and quality of submitted annual performance reports slightly regressed



Outcomes of programmes/objectives selected for testing:

Auditee:	Move ment	Programmes/ Objectives	Usefulness	Reliability
DPW		Programme 2: Intergovernmental Coordination	No material findings reported	No material findings reported
		Programme 3: Expanded Public Works Programme (EPWP)	No material findings reported	The reported performance information was not reliable when compared to the source information or evidence provided.
		Programme 4: Property and Construction industry policy regulation	No material findings reported	No material findings reported
PMTE		Programme 3: Construction Project Management	A total of 100 % indicators were not verifiable.	The auditee could not provide sufficient appropriate evidence in support of the reported performance information
		Programme 4: Real Estate Management	A total of 100 % indicators were not verifiable.	The reported achievements against planned targets of important indicators were not reliable when compared to the information
		Programme 6: Facilities Management	A total of 100 % indicators were not verifiable.	The auditee could not provide sufficient appropriate evidence in support of the reported performance information
IDT		Programme 1: Integrated service delivery	No material findings reported	Adequate and reliable audit evidence could not be provided for the reported achievements against the planned targets of 44% of indicators. These targets were informed by the value of programme expenditure.



Quality of annual performance plan slightly regressed and quality of submitted annual performance reports slightly regressed (continued)

Outcomes of programmes/objectives selected for testing:

Auditee:	Move ment	Programmes/ Objectives	Usefulness	Reliability
CIDB		Focus area 1: Strengthen and enforce the CIDB regulations to reduce construction risk, all forms of fraud and corruption in the sector	No material findings reported	No material findings reported
		Focus area 2: Build, capacitate and enhance compliance in the industry to deliver quality infrastructure in the country	No material findings reported	No material findings reported
CBE		Programme 1: Government Policies and Priorities	No material findings reported	No material findings reported
		Programme 2: Skills Infrastructure Delivery”	No material findings reported	No material findings reported
		Programme 3: BE Research, Information and Advisory”	No material findings reported	No material findings reported



4 **Financial management**



Slight improvement in compliance with legislation and quality of financial statements

Figure 1: Qualification areas over three years

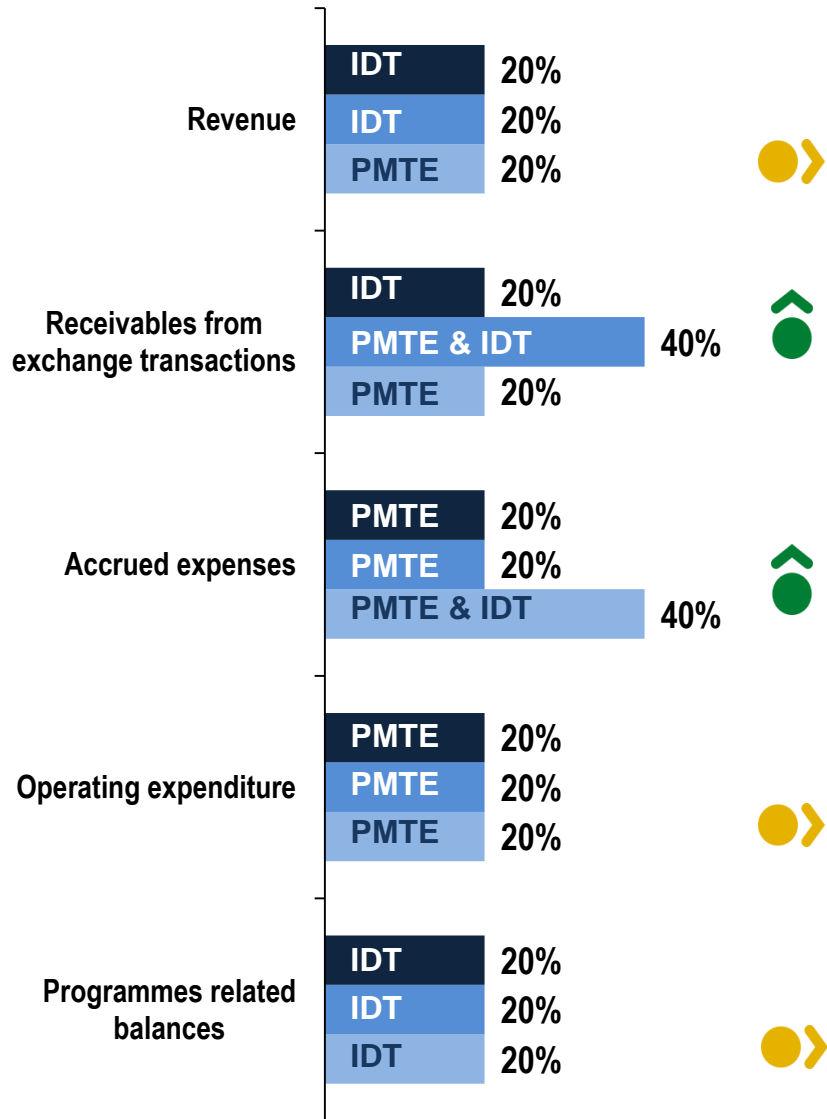
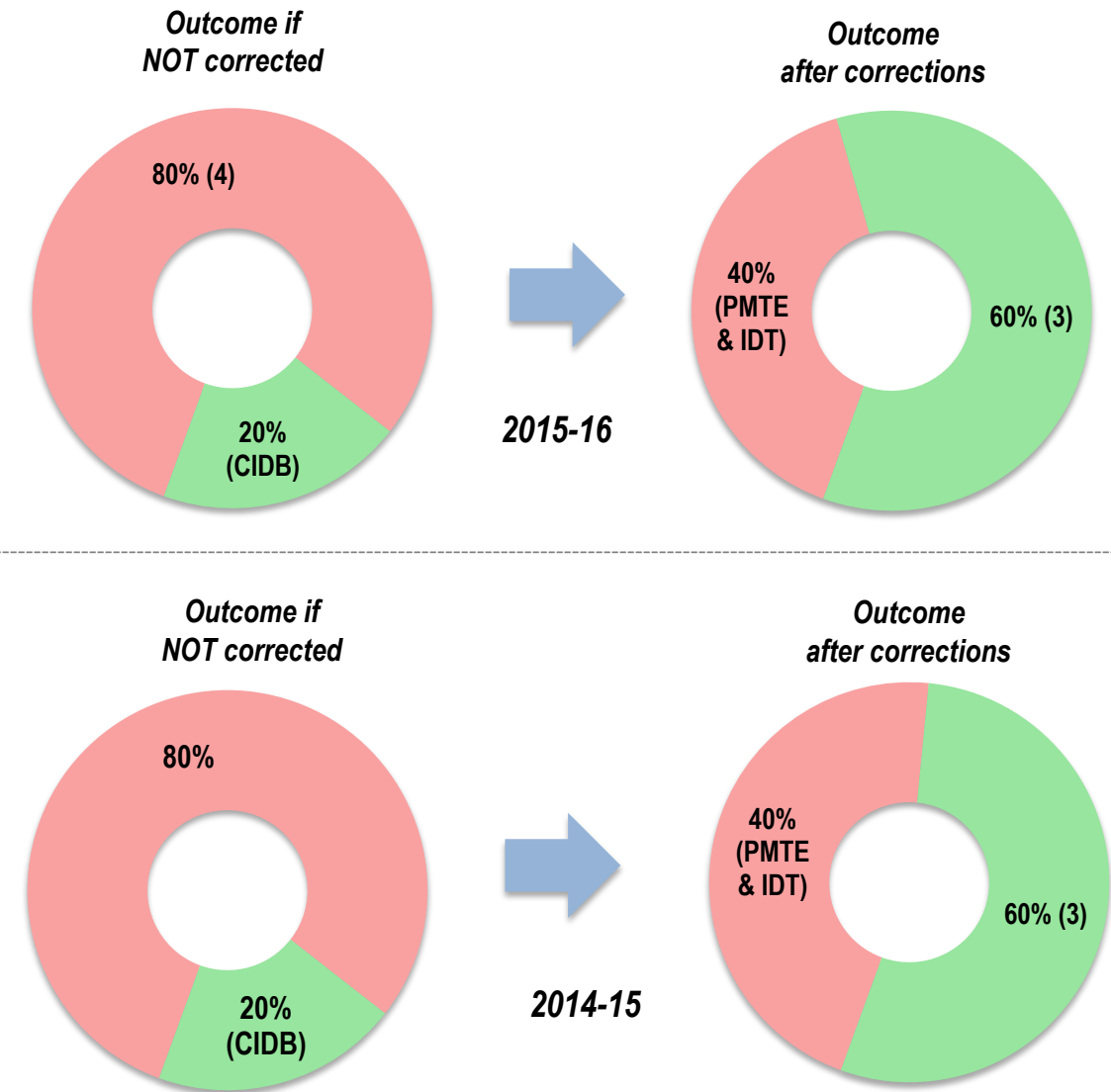


Figure 2: Auditees who avoided qualifications due to the correction of material misstatements during the audit



2015-16 2014-15 2013-14

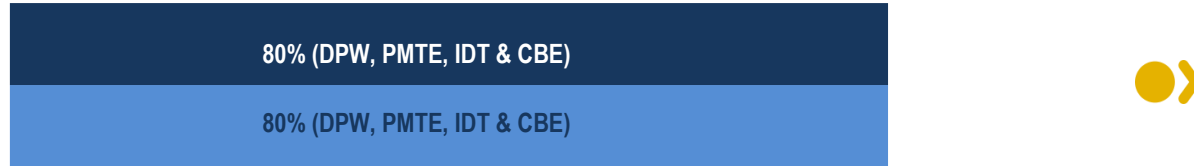
Improved Stagnant Regressed

With no material misstatements With material misstatements

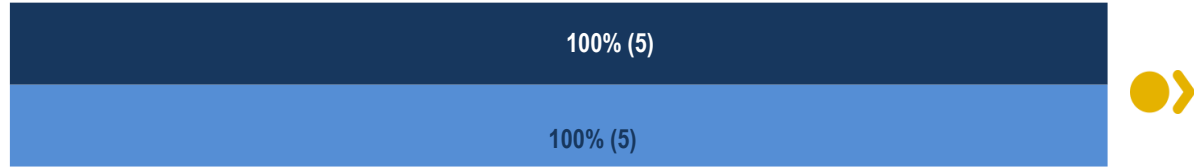
Slight improvement in compliance with legislation and quality of financial statements

Figure 3: Findings on compliance with key legislation – all auditees

Material misstatements in submitted annual financial statements



Prevention of unauthorised, irregular and/ or fruitless and wasteful expenditure



Management of procurement and/ or contracts

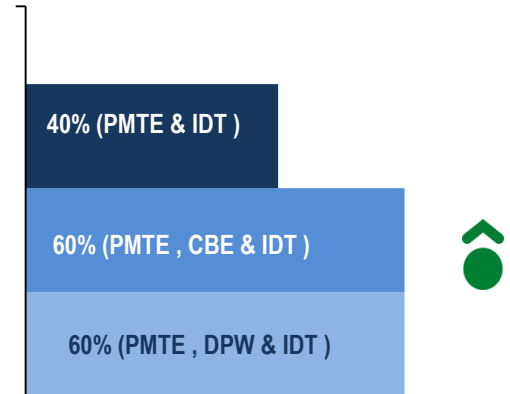


Revenue management

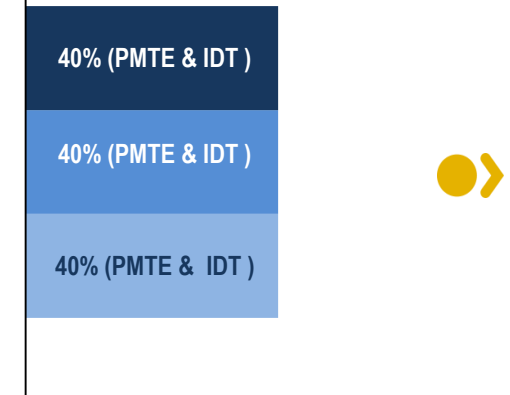


Figure 4: Findings on compliance with key SCM legislation – all auditees

Uncompetitive or unfair procurement processes



Awards to close family members/ business partners of employees



2015-16

2014-15

2013-14



Improved

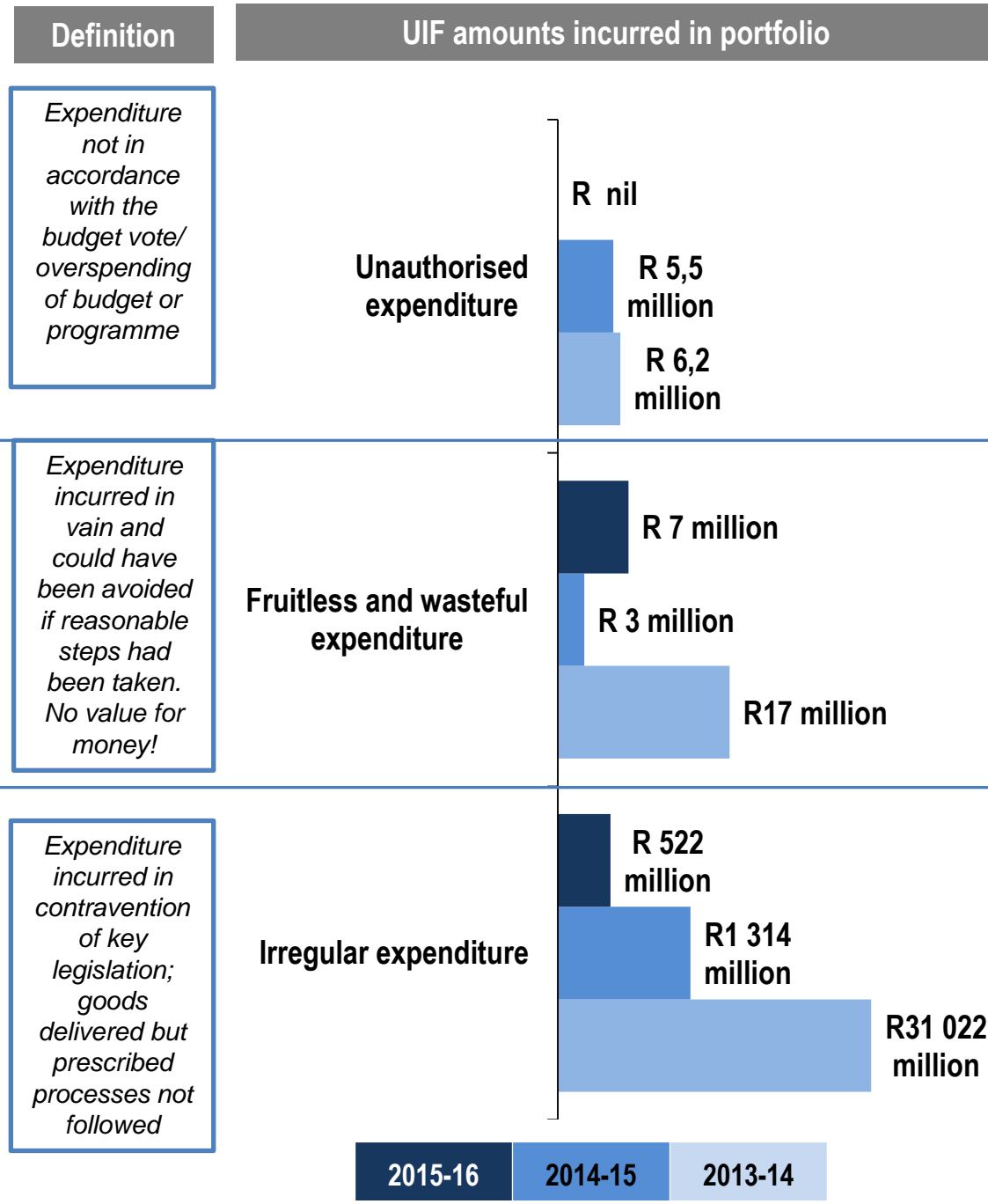


Stagnant



Regressed

Unauthorised, irregular as well as fruitless and wasteful expenditure increase over 3 years and follow up action



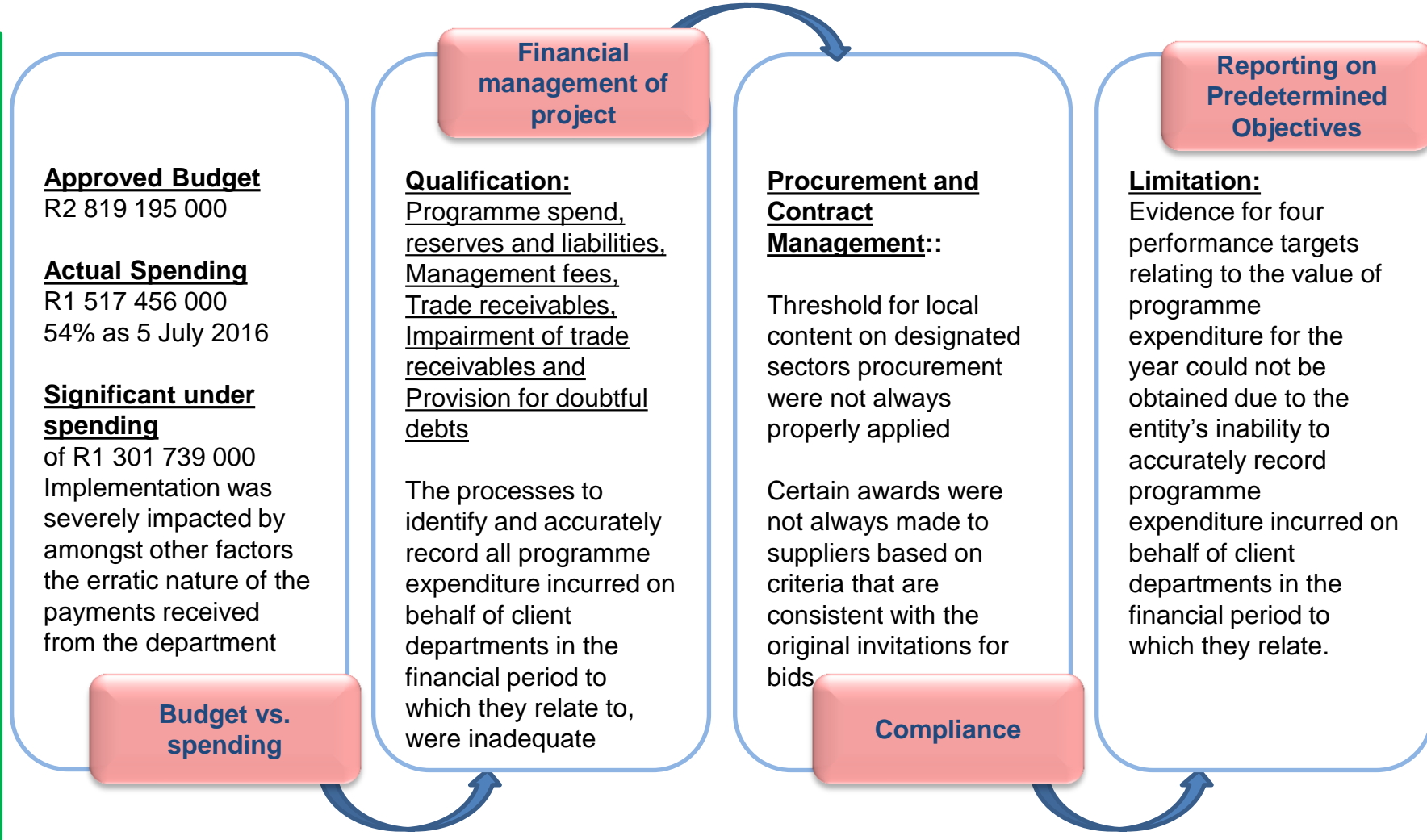
UIF amounts incurred entity (R'000)					
	DPW	PMTE	IDT	CBE	CIDB
	↓				
	-	-	-	-	-
	5 500	-	-	-	-
	↓	↓	↑	↓	
	1 700	66	4 891	-	-
	2 100	239	250	722	-
	↓	↓	↓	↓	↓
	1 700	509 676	6 075	2 287	2 3488
	55 300	1 233 549	15 000	4 100	5 900

■ Reduction ■ Increase

Key projects selected for audit - IDT

Department of Basic Education (Limpopo)

Implementation of the Limpopo Department of Education's "New, additions and Rehabilitation of Schools programmes initially planned for implementation by March 2016



Approved Budget
R2 819 195 000

Actual Spending
R1 517 456 000
54% as 5 July 2016

Significant under spending
of R1 301 739 000
Implementation was severely impacted by amongst other factors the erratic nature of the payments received from the department

Qualification:
Programme spend, reserves and liabilities, Management fees, Trade receivables, Impairment of trade receivables and Provision for doubtful debts

The processes to identify and accurately record all programme expenditure incurred on behalf of client departments in the financial period to which they relate to, were inadequate

Procurement and Contract Management::

Threshold for local content on designated sectors procurement were not always properly applied

Certain awards were not always made to suppliers based on criteria that are consistent with the original invitations for bids

Limitation:
Evidence for four performance targets relating to the value of programme expenditure for the year could not be obtained due to the entity's inability to accurately record programme expenditure incurred on behalf of client departments in the financial period to which they relate.

Service Delivery Impact

- The IDT and relevant client department did not always ensure that payments were made to suppliers within the required 30 day period. These delays in payments significantly impacted on the contractors ability to complete the project.
- These delays eventually necessitated the processing of advance payments to suppliers which were incorrectly account for by IDT management as programme expenditure.

Root cause

- The IDT places significant reliance on the use of consultants to verify the work performed by contractors. Management must strengthen its own verification processes and hold transgressing consultants accountable in instances where progress certificates do not agree to work on site .



6

Top three root causes, follow up on commitments and proposed recommendations



Top three root causes, follow up on commitments and proposed recommendations

1

... the following **root causes** must be addressed ...

Root causes

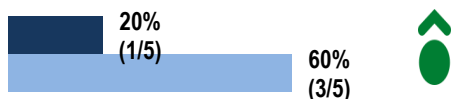
Slow response by management
(Accounting officer and senior management)



Instability or vacancies
in key positions



Lack of consequences for poor
performance and transgressions



■ 2015-16 ■ 2014-15

- Vacancies at senior management level at DPW, IDT and CBE resulted in misstatements in the performance reports that were not detected and corrected by management during the review process.
- The overall stagnation in compliance was as a result of auditees not effectively implementing all recommendations relating to SCM preventative controls, such as approval of deviations, and identifying conflicts before awards were issued.

2

... through honouring the following **commitments** made by the executive authority.....

Status of key commitments by minister

The Minister committed to implementing policies governing prestige procurement at the Department of Public Works.

The executive authority committed to address shortcomings in the leasing environment at the Property Management Trading Entity

As part of the multi-year turnaround strategy the Minister committed to producing an immovable asset register that complies with generally recognised accounting practice (GRAP)

The Minister committed to the stabilisation and enhancement of leadership at the department of Public Works and the Property Management Trading Entity

Not implemented

In progress

Implemented

New

- In our interaction with the minister, commitments were solicited and certain of the prior year's commitments were reinforced.
- A lot of the commitments made are currently in progress, and thus no improvement in overall audit outcomes has been noted at this stage.

3

... and implementation of the following **proposed commitments** by the Portfolio committee ...

1. Monitoring the implementation of action plans to address qualifications at IDT and PMTE.
2. The accounting officer/authority of DPW and CBE should provide quarterly feedback to the Minister and PC on the progress made in filling of key vacancies..
3. The PC should monitor the progress made in the portfolio to investigate irregular expenditure and the implementation of consequence management
4. Management of PMTE should provide feedback to the PC with regards to the finalisation of the provisional amounts with respect to immovable assets in preparation for full GRAP compliance for the financial year ending 31 March 2017..

Questions

