



Briefing note to SCOPA

PFMA
2020-21

Department of Public Works Portfolio (Limited to PMTE and DPWI only)
2020-21

09 February 2022



AUDITOR-GENERAL
SOUTH AFRICA

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SECTION 1: INTRODUCTION

Reputation promise of the Auditor-General of South Africa

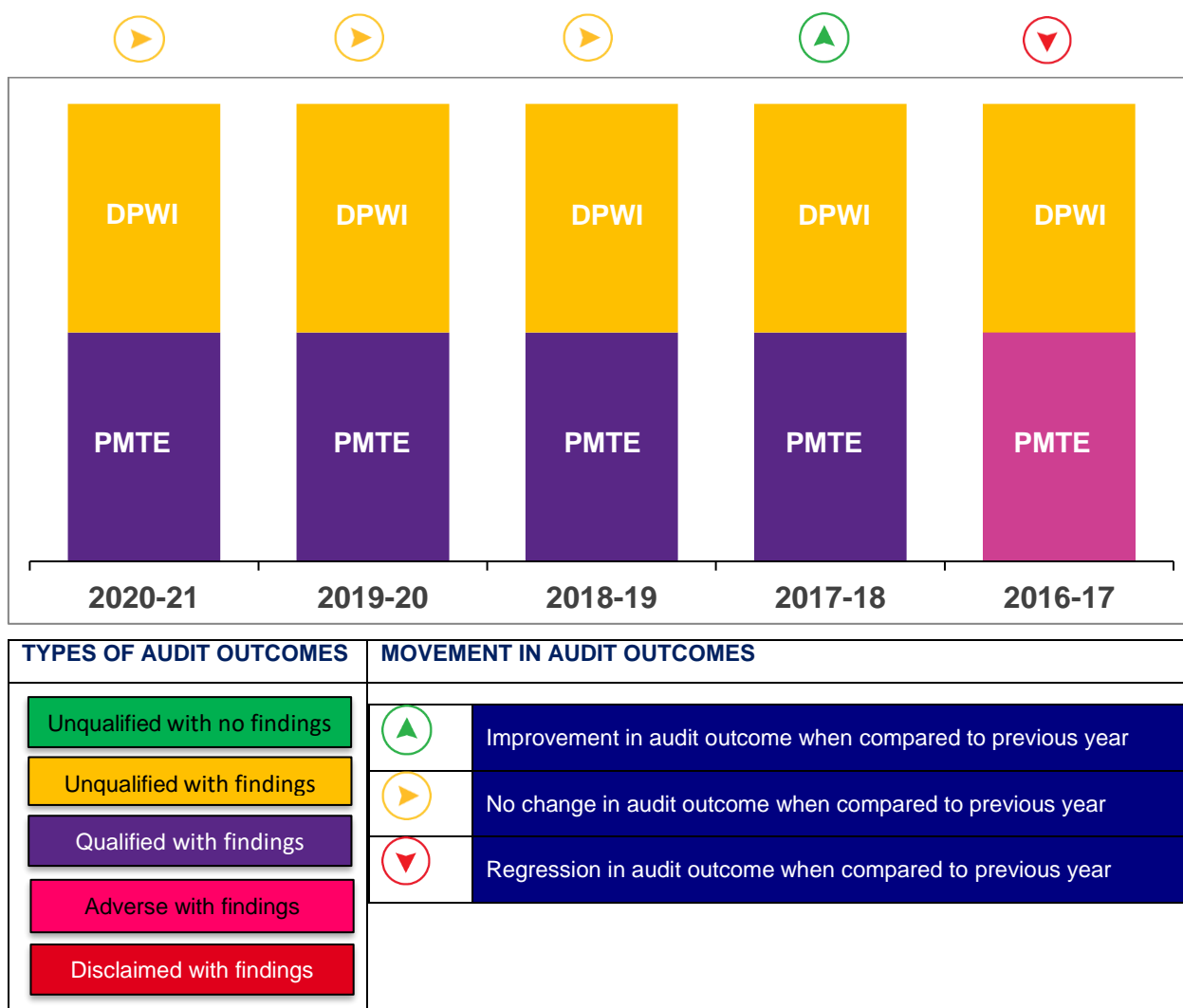
1. The Auditor-General has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, it exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.

Purpose of document

2. The purpose of this briefing document is for the Auditor-General of South Africa (AGSA) to provide an overview of the audit outcomes, and highlight other findings in respect of the Department and Public Works and Infrastructure (DPWI) and Property Management Trading Entity (PMTE) for the 2020/21 financial year, as well as the insights from the implementation of PAA amendments.

SECTION 2: AUDIT OPINION HISTORY

3. The audit outcomes for the portfolio for the past 5 years are summarised below:



4. The DPWI's audit outcomes have not improved over the past 5 years remained financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations. The PMTE's audit outcomes have remained stagnant over the past 4 years by continuously achieving a qualified audit opinion and material findings on compliance subject matters since the last improvement that was realised in 2017/18. We, however, commend the trading entity for resolving the qualification on immovable assets register in the 2020-21 PFMA audit. The valuation of the immovable assets register had been a contributing factor in the qualification of the entity for the past 4 years. Management was able to finally resolve the extent issues (property size) where the extent of properties included on the Immovable assets register (IAR) differed from the supporting documents. Another improvement was noted in relation to the classification of assets under construction, as the qualification relating to this component was resolved in the current financial year.
5. The lack of improvement is attributable to management's inability to implement proper record keeping controls in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.
6. Material misstatements were identified in the financial statements (PMTE), as these were not prepared in accordance with the applicable financial reporting framework. This is due to information captured on ARCHIBUS materially differing from the actual lease documents as well as new leases that were signed but not loaded on the system resulting in repeat findings. The trading entity has not

been proactive in addressing root causes yielding negative results. Implementation of action plans by management has not been effective in certain instances.

7. Audit of predetermined objectives (AoPO) reported material findings on selected programme (s) as management's controls to address the systems of collecting, verifying and storing financial and performance information were not effectively implemented. This resulted in achievements in the performance report not being supported by sufficient appropriate audit evidence.
8. Additionally, the trading entity's performance information was reported in the annual performance report of Department of Public Works and Infrastructure. The usefulness and reliability of the reported performance information was tested as part of the audit of Department of Public Works and Infrastructure and any audit findings are included in the management and auditor's report of Department of Public Works and Infrastructure (DPWI).

Financial statements (PMTE)

Financial statements qualification areas	20-21	19-20	18-19	17-18	16-17
<i>Payables from exchange transactions-</i>	✓	✗	✗	✓	✓
<i>Receivables from exchange transactions</i>	✓	✗	✗	✗	✓
<i>Property, plant and equipment and property maintenance</i>	✗	✓	✓	✓	✓
<i>Operating leases expenditure</i>	✗	✓	✗	✗	✗
<i>Revenue from exchange transactions</i>	✗	✓	✗	✗	✗
<i>Provisions</i>	✗	✗	✗	✗	✓

Table 1

Payables from exchange transactions

Finding	Root cause	Recommendation
<ul style="list-style-type: none"> Differences were noted between Accrued expenses-lease balances presented on the financial statements and the recalculated balance. Consequently, payables from exchange transactions was overstated by R450 258 312. This also has an impact on the surplus for the period and on the accumulated surplus. 	<ul style="list-style-type: none"> Action plans developed to address audit findings of the prior year were not effectively implemented and monitored. 	<ul style="list-style-type: none"> Audit action plans should be actively driven by top management to ensure achievement of milestones and corrective action taken where milestones are not achieved. The population for the previous periods should be reviewed to ensure that the lease Masterfile database is updated with current and accurate information and proper internal controls implemented to ensure that payment verifications identify/deter overpayments from reoccurring. Monthly reconciliation of lease payments should be substantiated with supporting evidence and that includes incorporating invoices from the lessors

Table 2

Receivables from exchange transactions

Finding	Root cause	Recommendation
<p>In addition to the individually material uncorrected misstatement on Payables from exchange transactions, Receivables from exchange transactions was materially misstated by R534 504 138 due to the cumulative effect of individually immaterial uncorrected misstatements in Receivables from exchange transactions:</p> <ul style="list-style-type: none"> Accommodation debtors - leasehold inter-governmental stated at R195 684 000 is overstated by R17 572 495. Prepaid expenses – leases stated at R339 178 000 is overstated by R190 360 282. Prepaid expenses - implementing agent stated at R775 490 000 is understated by R15 766 325. Revenue accrual - recoverable leases stated at R305 374 000 is overstated by R342 337 686. 	<ul style="list-style-type: none"> Action plans developed to address audit findings of the prior year were not effectively implemented and monitored. 	<ul style="list-style-type: none"> Audit action plans should be actively driven by top management to ensure achievement of milestones and corrective action taken where milestones are not achieved. The population for the previous periods should be reviewed to ensure that the lease Masterfile database is updated with current and accurate information and proper internal controls implemented to ensure that payment verifications identify/deter overpayments from reoccurring. Monthly reconciliation of lease payments should be substantiated with supporting evidence and that includes incorporating invoices from the lessors

Table 3

Audit of pre-determined objectives

- Some supporting evidence provided materially differed from the reported achievements, while in other instances we were unable to obtain sufficient appropriate audit evidence. This was due to the lack of accurate and complete records.
- The department continued to receive unfavorable audit outcomes on the number of work opportunities reported in the EPWP system. The reported numbers materially differed from supporting evidence, while in certain instances some of the work opportunities created were not reported resulting in under-reporting. These outcomes have been stagnant for more than 5 years
- The construction project management (CPM) programme lacked verifications during the input and processing of data, which resulted in different issues of validity, accuracy and completeness on some of the indicators.
- Customised indicators enhanced coordinating and monitoring and sector alignment efforts as well as collaborating with internal audit have remained our main recommendations to be implemented by the department in attempt to improving the audit outcomes.

PREDETERMINED OBJECTIVES	20-21	19-20	18-19	16-17	15-16
Programme 03 - Expanded Public Works Programme	Qualified ⬇️	Qualified ⬇️	Qualified ⬆️	Disclaimer ⬇️	Disclaimer ⬇️
Programme 08 – Construction Project Management		Qualified ⬇️	Qualified ⬆️	Disclaimer ⬇️	Disclaimer ⬇️

Table 4

Report on the Audit of Compliance with Legislation

SUBJECT MATTER	20-21	19-20	18-19	17-18	16-17
Annual financial statements	Yes (Both)	Yes (PMTE)	Yes (PMTE)	Yes (PMTE)	Yes (PMTE)
Expenditure management	Yes (Both)	Yes (Both)	Yes (PMTE)	Yes (PMTE)	Yes (PMTE)
Asset management	Yes (PMTE)	No	No	No	No
Consequence management	Yes (Both)	No	No	No	Yes (PMTE)
Procurement and contract management	Yes (PMTE)	Yes (Both)	Yes (PMTE)	No	Yes (PMTE)
Revenue Management	Yes (PMTE)	No	Yes (PMTE)	Yes (PMTE)	Yes (PMTE)

Table 5

Annual financial statements, performance and annual report

13. The annual financial statements submitted by **DPWI** for auditing were not free from misstatements, consequently, material misstatements on provisions for impairment and contingent liabilities identified by the auditors in the submitted financial statement were corrected, resulting in the financial statements receiving an unqualified opinion.
14. The financial statements submitted for auditing by **the trading entity** were not prepared in accordance with the prescribed financial reporting framework and supported by full and proper records.
- The uncorrected material misstatements are detailed in Table 1 above resulting in the financial statements receiving a qualified opinion.

Expenditure management

15. Irregular expenditure is expenditure incurred in contravention of or that is not in accordance with a requirement of any applicable legislation. These public sector institutions incurred irregular expenditure in contravention of section 38(1)(c)(ii).

Entity	Movement	2020-21		2019-20	
		Amount incurred R 2020-21	Closing balance R 2020-21	Amount incurred R 2019-20	Closing balance R 2019-20
DPWI	⬆️	R5 253 000	*R196 125 000	R83 974 000	R190 872 000
PMTE	⬆️	R82 937 000	R1 935 531 000	R343 938 000	R1 852 594 000

Table 6

16. The irregular expenditure of R 5 253 000 incurred by DPWI in the 2020/21 financial year was a result of salaries of employees that were appointed irregularly in the prior years.
17. The irregular expenditure incurred by PMTE was a result of non-adherence to the PFMA, Treasury Regulations in awarding of contracts as well as the Irregular appointment of officials by the trading entity. Table 7 below lists the top 5 incidents that contributed to the IE incurred in the current year.

Description	Amount
Appropriate approval not obtained from delegated authority	R 40 664 000
Bidder not awarded correct functionality points	R 11 828 000
Incorrect procurement process followed	R 4 782 000
Irregular appointment of officials	R 3 404 000

Non-compliance with tax requirements	R 2 192 000
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Table 7

18. The trading entity also disclosed Details of irregular expenditure under assessment to the value of R 1 560 005 000 due to variation orders above 15% that were not approved by National Treasury, operating lease payments running on a month to month despite the clause not being provided for in the lease agreements, procurement and contract management etc.
19. Fruitless and wasteful expenditure is expenditure which was made in vain and would have been avoided had reasonable care been exercised. Neither the department nor the trading entity incurred fruitless and wasteful expenditure. It is a concern, however that there is no movement in the fruitless and wasteful expenditure incurred in the prior years.

Entity	Movement	2020-21		2019-20	
		Amount incurred R 2020-21	Closing balance R 2020-21	Amount incurred R 2019-20	Closing balance R 2019-20
DPWI	▲	R 0	R 973 000	R 0	R 973 000
PMTE	▲	R 0	R 88 308 000	R 61 000	R 88 308 000

Table 8

Asset Management

20. Proper control systems were not in place at the trading entity to ensure the safeguarding of assets. The non-compliance resulted in a material irregularity as reported in the section on material irregularities.
21. Some construction components were left unattended and exposed to bad weather conditions, consequently resulting into erosion.

Revenue Management

22. Effective and appropriate steps were not taken to collect all money due.

Consequence Management

23. Disciplinary steps were not taken against the officials who had incurred and permitted fruitless and wasteful expenditure and losses resulting from fruitless and wasteful expenditure were not recovered from the liable persons.
24. Appropriate audit evidence could not be provided to confirm that investigations were conducted into all allegations of financial misconduct committed by officials and disciplinary hearings were not held for confirmed cases of financial misconduct committed by some of the officials.

Procurement and contract management

Procurement processes – general

25. Three (3) awards with a value of R441 832.68 were procured without inviting at least the minimum prescribed number of written price quotations from prospective suppliers, and the deviation was approved even though it was possible to obtain the quotations.
26. Three (3) quotations to the value of R517 244, 80 were procured from suppliers whose tax matters had not been declared by the South African Revenue Service to be in order.
27. One (1) contract with a value of R500 728 771, 13 was procured without inviting competitive bids, and the deviations were not approved.



28. One contract with a value of R157 995 881.50 was procured without inviting competitive bids, and the deviations were approved even though it was practical to invite competitive bids.
29. Seven (7) contracts and One (1) quotation with a value of R191 479 227 were awarded to bidders who did not comply with specified pre-qualification criteria requirement.
30. One (1) contract, which failed to achieve the minimum qualifying score for functionality criteria were not disqualified as unacceptable.
31. Two (2) contracts, which achieved the minimum qualifying score for functionality criteria, were not evaluated further.

Local content and production (designated sectors)

32. Specifications for Seven (7) awards with a total value of R88 700 713,02 did not stipulate the minimum threshold for local production and content.
33. Five (5) contracts and two (2) quotations with a total value of R88 700 713,02 were awarded to bidders that did not submit a declaration of local production and content.
34. Five (5) contracts and two (2) quotations with a total value of R R88 700 713,02 were awarded to bidders that did not meet the minimum threshold for local production and content.

Material irregularities issued to date on the portfolio

35. The DPWI portfolio commenced implementation of PAA in 2019-20, to date a total of 7 MIs have been issued which resulted to cumulative financial loss of R43,3 million (31 March 2020: R25,2 million) . Of the 3 MI's issued in 2019-20, the Accounting Officer (AO) were found to be taking appropriate steps to address them, while for one, recommendations were approved and included in the Audit Report where the AO failed to initiate investigation to enable further actions to be taken to address the MI.

Description of the MI	Financial loss (R)	Entity	Period	Status
Unfair Procurement Process for the Beitbridge borderline infrastructure Project.	17 050 000	PMTE	2019 - 20	AO Action in progress
Beitbridge Bordeline infrastructure Project establishment cost not in line will bill of quantity	1 099 500	PMTE	2019 - 20	AO Action in progress
Leeuwkop prison Asset not appropriately safe guarded during construction	1 851 108	PMTE	2020 - 21	Assessing response AO
Lease No. 14028 – Overpayment on building occupied by Rural Development	10 962 077	PMTE	2020 - 21	AO Action in progress
Construction contract extensions on Mamelodi Magistrate court project incorrectly approved resulting in excessive financial losses incurred.	3 011 124	PMTE	2022 - 21	AO Action in progress
Expenditure on State Funerals in excess of the contract amounts paid by the department	8 762 161	DPWI	2019 - 20	AO Action in progress
Expenditure on State Events paid by the department exceeded contract amounts	825 832	DPWI	2019 - 20	Recommendations incl. in AR

Table 9

SECTION 3: DRIVERS OF INTERNAL CONTROLS

Drivers of internal control														
Department	Leadership						Financial & performance management					Governance		
	Effective leadership culture	Oversight responsibility	HR management	Policies and procedures	Action plans	IT governance	Proper record keeping	Processing and reconciling controls	Reporting	Compliance	IT systems controls	Risk management	Audit committee	Internal audit
DPWI 2020-21	🔴	🔴	🟡	🟡	🟡	🟡	🟡	🟡	🔴	🔴	🟡	🔴	🟢	🟢
PMTE 2020-21	🔴	🔴	🟡	🔴	🔴	🟡	🔴	🔴	🔴	🔴	🔴	🔴	🟢	🟢

Table 10

36. The internal controls were assessed as follows:

🟢	The required preventative or detective controls were in place.
🟡	Progress was made, but improvement is still required,
🔴	Intervention is required to design and/or implement appropriate controls.

37. The significant deficiencies in internal controls which led to our overall assessment of the status of the drivers of key controls, as included above are described below: DPWI

- Management established a formal code of conduct that addressed appropriate ethical and moral behaviour; however, the Director-General is currently on suspension and undergoing disciplinary processes. Instances of non-compliance that resulted in material irregularities are being investigated, as indicated under the other reports section of this report.
- The accounting officer did not implement all the appropriate actions (investigate, identify responsible officials and implement disciplinary processes against the officials as well recover the financial loss) committed in response to the material irregularity notification on state events expenditure that exceeded the contract amount.
- The department developed a plan to address internal and external audit findings, but the appropriate level of management did not monitor adherence to the plan in a timely manner. Consequently, material adjustments to the annual financial statements were made while material findings on performance information as well as compliance with laws and regulations were identified and reported.
- Consequence management in line with the recommendations of completed investigation reports was not implemented in certain instances. In addition, other investigations that were reported to be in progress in the prior year have been closed without a clear indication of the outcomes and recommendations to enable consequence management where necessary.

38. The significant deficiencies in internal controls which led to our overall assessment of the status of the drivers of key controls, as included above are described below: PMTE

- Management did not properly review the details of the leases that were recorded on ARCHIBUS; as a result, significant differences were identified on the leases disclosed in the annual financial statements and the details of the lease as per the lease contract. This was exacerbated by the fact that lease information is decentralised, and regional officials were not provided with recent lease agreements concluded by Real Estate Management Services (REMS) timely, as a result latest lease agreements were not captured on Archibus system.
- Management's review and monitoring of compliance with applicable laws and regulations was ineffective, which resulted in material non-compliance findings on expenditure, procurement and contract management. Non-compliance with legislation could have been prevented had compliance been properly reviewed and monitored. Furthermore, management did not take effective steps to assess, evaluate and disclose all irregular expenditure in the annual financial statement.

SECTION 4: RECOMMENDATIONS

39. Key recommendation to DPWI and PMTE:

- Enhance the capturing, review and monitoring controls around management of leases to address the lease qualification and overpayments
- Enhance review and monitoring processes and partner with internal audit to improve performance information outcomes
- There should be a discipline in ensuring that accurate and complete financial and performance records are maintained. This will ensure that financial statements and performance reports are supported by reliable evidence.
- Responsive action plans should be implemented and continuously monitored for effectiveness to enable timely responses to material deficiencies that impact reliable and credible financial and performance reporting.
- Consequence management should be implemented and monitored on employees who have transgressed in respect of incurring irregular expenditure, and financial and other misconduct. Leadership of the public institutions must instil a culture of accountability and a tone that will ensure internal controls are adhered to, and where transgressions are identified immediate appropriate action should be taken.

40. The following are recommended in relation to MI's:

- Take decisive consequence management actions to set a tone that financial losses (MI's) will not be tolerated in the portfolio.
- Obtain thorough understanding of weaknesses that resulted in MI's to better curb further financial losses.
- Collaborate with internal audit function to find ways to enhance preventative controls and empower the portfolio to detect and address MI's prior to being identified through the audit.

41. Recommended actions to committee:

- Monitor the implementation of the resolution taken by committee to ensure effective implementation and feedback.



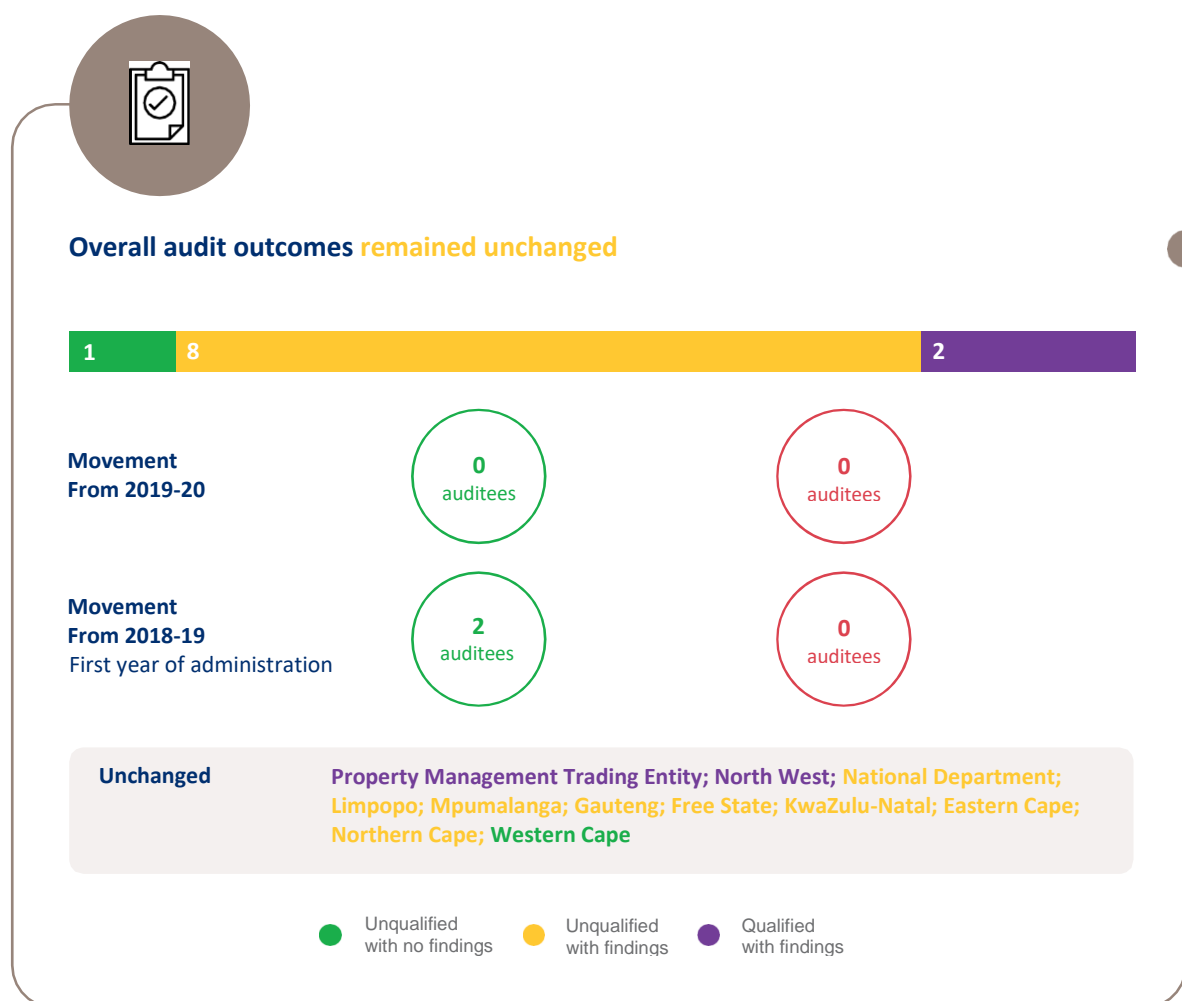
SECTION 5: KEY COMMITMENTS BY THE EXECUTIVE AUTHORITY

42. Below is our assessment of the progress in implementing the commitments made by the Minister to address the prior and current year's audit findings.

Commitments	Date of commitment	Status
<ul style="list-style-type: none"> Facilitate that three-day training on capturing of lease contracts on Archibus (refresher for those who were offered it and new for new officials). Institute consequence management on confirmed cases of duplicate capturing of information and lack of adequate verification. Issue directive to all Regional Offices: REMS to upload lease contracts within 24 hours after the lease is signed. Monitor implementation and apply consequence management. 	2020/21 Audit	In progress
<ul style="list-style-type: none"> The department commissioned a data analysis to uncover the underlysing issues resulting into lease overpayments. 	2020/21 Audit	In progress
<ul style="list-style-type: none"> Non-compliance with SCM policies/prescripts Provide Workshop on SCM Processes to refresh knowledge of SCM Prescripts to officials involved in the SCM Processes and managing of Contracts in the Department. 	2020/21 Audit	In progress
<ul style="list-style-type: none"> Monthly reports on valid EPWP participants forwarded to reporting public bodies by Programme Managers and Sector Managers 	2020/21 Audit	In progress
<ul style="list-style-type: none"> The executive authority indicated that she will monitor the progress on the MI commitments and hold AO accountable. 	2020/21 Audit	In progress

SECTION 6: PUBLIC WORKS SECTOR

43. The audit outcomes in the sector for the 2020/21 PFMA cycle are summarised below and the snapshot shows the audit outcomes of 11 auditees in the sector – the national department, 9 provincial departments and 1 trading entity:



Overall sector message and recommendations

44. Although the highest budget is spent on public works infrastructure, which is good, majority of the infrastructure projects are significantly delayed which affect service delivery. In addition, it is a concern that only 16% of the budget is spent on facility management (maintenance of properties) despite this being a requirement of the act to ensure health and safety occupation by user departments. In the contrary, leases spending are the second highest in the sector, which shows over-reliance on leases while the sector could spend these funds improving the conditions of the buildings they own and lease those to user departments.
45. There is excessive spending directed toward leases rather than the maintenance of existing infrastructures. Consequently, some of the critical service delivery related properties such as police stations and clinics have been closed due to being dilapidated.
46. In addition, some of the properties that are in poor conditions and not fit to be utilized such as schools are still being used placing the lives of the beneficiaries or end users in danger.
47. On the other hand, significant number of infrastructure projects are delayed, not being finalized within the planned time and allocated budget consequently resulting in financial losses by the state

48. Due to insufficient maintenance of properties and significantly delayed delivery of infrastructure projects further exacerbate the use of private leases by the sector in order to respond to the needs of the user departments
49. The resultant over- reliance on leases have created opportunities of mismanagement of these leases evidence by the excessive use of month to month contracts as well as overpayment of leases to the lessors

Recommendations to sector AO

50. The budget should be realigned to critical strategic initiatives so that key initiatives are prioritized.
51. DPWI should be at the forefront of its coordination, monitoring and evaluation role by influencing consistency of tracking key strategic initiatives.
52. Instances of poor performance, misuse of funds and slow delivery on key projects warrant prompt consequence management and tighter performance management measures to enable a resilience, ethical and capable sector that enable user departments to deliver services timely.

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