



AUDITOR - GENERAL
SOUTH AFRICA

BUDGETARY REVIEW AND RECOMMENDATIONS

REPORT (BRRR):

Portfolio Committee on
Public Works and
Infrastructure

11 October 2022

*Briefing document on the
audit outcomes for the
DPWI portfolio:*

2021-22

Table of contents

1. Introduction.....	3
1.1 Reputation promise of the Auditor-General of South Africa.....	3
1.2 Role of the AGSA.....	3
1.3 Role of the portfolio committee.....	3
1.4 Mandate of the AGSA and the portfolio committee.....	4
1.5 Purpose of this document.....	5
1.6 Shifting the public sector culture through the accountability ecosystem.....	5
1.7 Audit outcomes explained.....	6
2. Regression in audit outcomes over administration term.....	7
2.1 Overview.....	7

1. Introduction

1.1 Reputation promise of the Auditor-General of South Africa

The Auditor-General of South Africa (AGSA) 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 Role of the AGSA

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 performance of entities, taking into consideration the committee's objective to produce a budgetary review and recommendations report (BRRR).

1.3 Role of the portfolio committee

Section 5(2) of the Money Bills Procedures and Related Matters Amendment Act 9 of 2009 allows for each committee to compile a BRRR, which must be tabled in the National Assembly. Section 5(3) provides for a BRRR to contain the following:

- An assessment of entities' service delivery performance given available resources
- An assessment on the effectiveness and efficiency of entities' use and forward allocation of available resources
- Recommendations on the forward use of resources

1.4 Mandate of the AGSA and the portfolio committee

Slide 2

AGSA mandate	Portfolio committee mandate
<p>Section 188 of the Constitution</p> <p>The AGSA must audit and report on the accounts, financial statements and financial management of government institutions.</p> <p>Section 20(2) of the Public Audit Act (PAA)</p> <ul style="list-style-type: none"> • The AGSA must prepare an audit report containing an opinion/conclusion on the: <ul style="list-style-type: none"> ○ fair presentation of the financial statements ○ compliance with applicable legislation ○ reported performance against predetermined objectives. • Discretionary audits (including special audits, investigations and performance audits) <p>Section 5(1B) of the PAA</p> <p>The auditor-general has the power to:</p> <ul style="list-style-type: none"> • issue a material irregularity (MI) • include recommendations in the audit report • take an appropriate remedial action • issue a certificate of debt, as prescribed, where an accounting officer/authority has failed to comply with remedial action. 	<p>National Assembly Rule 227</p> <p>Portfolio committees may, amongst other things, perform the following functions:</p> <ul style="list-style-type: none"> • Deal with bills and other matters falling within their portfolio, as referred to them in terms of the Constitution, legislation or rules, or by resolution of the assembly • Maintain oversight of their portfolios of national executive authority, including implementation of legislation, any executive organ of state falling within their portfolios, any constitutional institution falling within their portfolios, and any other body or institution in respect of which oversight was assigned to them • Consult and liaise with any executive organ of state or constitutional institution • Monitor, investigate, enquire into and make recommendations concerning any such executive organ of state, constitutional institution or other body or institution, including the legislative programme, budget, rationalisation, restructuring, functioning, organisation, structure, staff and policies of such organ of state, institution or other body or institution • Consult and liaise with any executive organ of state or constitutional institution • Perform any other functions, tasks or duties assigned to them in terms of the Constitution, legislation, these rules, the joint rules or resolutions of the assembly, including functions, tasks and duties concerning parliamentary oversight or supervision of such executive organs of state, constitutional institutions or other bodies or institutions.

1.5 Purpose of this document

The purpose of this briefing document is for the AGSA to reflect on the audit outcomes to assist the portfolio committee in its oversight role of assessing the performance of entities, taking into consideration the objective of the committee to produce a BRRR.

1.6 Shifting the public sector culture through the accountability ecosystem






Slide 3



- *The accountability ecosystem is the network of stakeholders that have a mandate and/or responsibility, whether legislative or moral, to drive, deepen and/or insist on public sector accountability.*
- *A more active and engaged accountability ecosystem would add to the much-needed effort of shifting public sector culture and would alleviate the overreliance on the AGSA to assume responsibility for improving audit outcomes and enforcing consequences.*

- *Shifting the public sector culture towards one that is characterised by performance, accountability, transparency and integrity can only be accomplished if all role players in the broader accountability ecosystem fulfil their respective responsibilities and mandates.*
- *Given the nature of the AGSA’s mandate, by the time that we audit the financial statements of auditees and report on adverse findings, multiple failures have already occurred along the accountability value chain. After our audits, other steps are required to complete the accountability cycle.*
- *Improvement in sound financial management to enhance the lives of citizens does not only reside within the domain and responsibility of the accounting officer or authority and the auditors. It depends on the entire accountability ecosystem to enable a culture of accountability in a sustainable and meaningful way.*

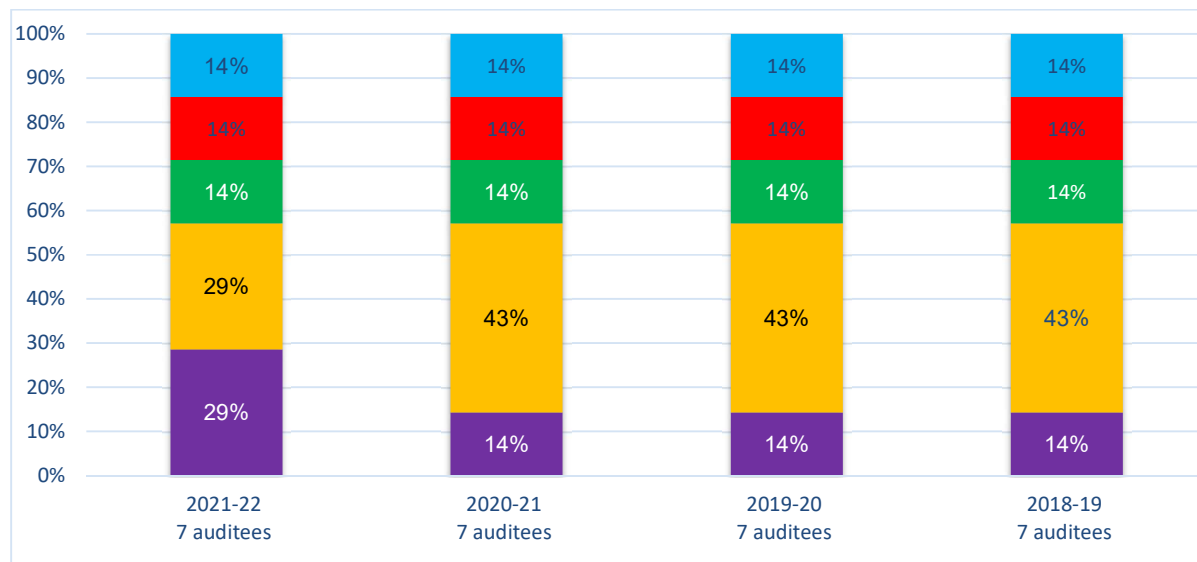
1.7 Audit outcomes explained

Unqualified opinion with no findings (clean audit)	Financially unqualified opinion with findings	Qualified opinion	Adverse opinion	Disclaimed opinion
 <p>Auditee:</p> <ul style="list-style-type: none"> • produced credible and reliable financial statements that are free of material misstatements • reported in a useful and reliable manner on performance as measured against predetermined objectives in the annual performance plan (APP) • complied with key legislation in conducting their day-to-day operations to achieve their mandate 	 <p>Auditee produced financial statements without material misstatements or could correct the material misstatements, but struggled in one or more area to:</p> <ul style="list-style-type: none"> • align performance reports to the predetermined objectives they committed to in APPs • set clear performance indicators and targets to measure their performance against their predetermined objectives • report reliably on whether they achieved their performance targets • determine the legislation that they should comply with and implement the required policies, procedures and controls to ensure compliance 	 <p>Auditee:</p> <ul style="list-style-type: none"> • had the same challenges as those with unqualified opinions 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. 	 <p>Auditee:</p> <ul style="list-style-type: none"> • had the same challenges as those with qualified opinions but, in addition, they had so many material misstatements in their financial statements that we disagreed with almost all the amounts and disclosures in the financial statements 	 <p>Auditee:</p> <ul style="list-style-type: none"> • had the same challenges as those with qualified opinions but, in addition, they 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

2. Regression in audit outcomes over administration term

Slides 4

Four-year audit outcomes



2.1 Overview

We commend Council for the Built Environment (CBE) management for continuing to obtain a clean audit over the past four years. An improvement was noted with regards to Independent Development Trust (IDT) as they improved from disclaimer opinion in the past three years to a qualified audit opinion.

With regards to Department of Public Works and Infrastructure (DPWI) and Agrément South Africa (ASA), a stagnant outcome of unqualified with findings was noted over the four-year period. Management should focus on improving internal controls with regards to compliance with laws and regulations as well as audit of predetermined audit objectives to improve the opinion to a clean audit.

Regression in the audit outcome of the Construction Industry Development Board (CIDB) was noted as a result of systems and processes not being in place to account for all revenue related to construction awards which are not registered on the register of projects (ROP).

Property Management Trading Entity (PMTE) regressed from a qualified audit opinion over the past three years to a disclaimer in the current year. This regrettable change is attributed to the mismanagement of immovable assets which saw the prior records of assets being significantly change without keeping track of the changes.

Slides 6

2.2 Quality of financial reporting

Auditee	Outcome	Details on qualification areas
Property Management Trading Entity (PMTE)	Disclaimer	<p><u>Property, plant and equipment</u> – mismanagement of immovable assets which saw the prior records of assets being significantly change without keeping track of the changes.</p> <p><u>Payables from exchange transactions</u> – Prior year qualification continued in the current year on leases due to information captured on Archibus materially differing from the actual lease documents. Furthermore, incorrect calculation of municipal accruals and incorrect recognition of goods & services received after year end was identified and led to the qualified audit.</p>
Independent Development Trust (IDT)	Qualified	<p><u>Programme assets and liabilities</u> – disclosure note, programme expenditure, programme assets and programme liabilities – the accounts could not be audited due to status of accounting records and the non-submission of information to support the balance.</p> <p><u>Irregular expenditure</u> – the entity was not able to provide sufficient appropriate audit evidence to support the opening balance.</p>
Construction Industry Development Board (CIDB)	Qualified	<p><u>Revenue and receivables from non-exchange</u> – systems and processes are not in place to account for all revenue related to construction awards which are not registered on the register of projects (ROP).</p>

Slides 7

2.3 Financial health risk

Auditees in the portfolio take longer to collect money from their debtors as indicated by the average debt-collection period of 41 days.

PMTE ended the year in deficit (expenditure more than revenue), current liabilities exceed current assets and the entity has a bank overdraft of R1.02 billion and creditor payment period remains over 100 days.

IDT disclosed significant doubt in financial statements about the ability to continue operating as a going concern in the foreseeable future, this is based on the cash flow forecast for the 2022/2023 financial year, showing a net cash outflow and this will result in a decline in the availability of resources.

Slides 8 - 9

2.4 Compliance with key legislation

The auditees within the portfolio continue to struggle with compliance with key legislation. Consequence management and prevention of irregular expenditure seem to be of concern as most auditees had material findings.

Slides 10

2.5 Irregular expenditure analysis

During the year under review, auditees incurred irregular expenditure amounting to **R148 million**, which was disclosed in the financial statements. The analysis of irregular expenditure shows that irregular expenditure **increased** by **51%** compared to the prior year. Appropriate approval not obtained from the delegated authority and the incorrect procurement process not followed, are the main contributing factors on the irregular expenditure.

Slides 11

2.6 Consequence management

The following material non-compliance issues relating to consequence management were identified and reported:

Auditee	Description	Root cause
DPWI	Disciplinary steps were not taken against some of the officials who had incurred or permitted irregular expenditure and fruitless and wasteful expenditure.	Investigations into fruitless and wasteful expenditure were not performed, furthermore, where investigations were concluded, the recommendations were not implemented.
PMTE	Lack of sufficient appropriate audit evidence that investigations were	Although majority of the allegations related to irregular expenditure were prioritised by the investigation structures,

Auditee	Description	Root cause
	<p>conducted into all allegations of financial misconduct committed by officials.</p> <p>In addition, we noted a lack of sufficient appropriate audit evidence that disciplinary steps were taken against officials who had incurred irregular expenditure.</p>	<p>the implementation of recommendations from the finalised reports were not always prioritised by senior management of the trading entity.</p>
IDT	<p>Lack of sufficient appropriate audit evidence that investigations were conducted into all allegations of financial misconduct committed by officials.</p> <p>In addition, we noted a lack of sufficient appropriate audit evidence that disciplinary steps were taken against officials who had incurred irregular, fruitless and wasteful expenditure.</p>	<p>Investigation into matters concerning financial misconduct, irregular, fruitless and wasteful expenditure were not performed.</p>
ASA	<p>Lack of sufficient appropriate audit evidence that disciplinary steps were taken against officials who had incurred fruitless and wasteful expenditure.</p>	<p>Proper and complete records were not maintained as evidence to support the investigations into fruitless and wasteful expenditure.</p>
Parliamentary Village Management Board	<p>Disciplinary steps were not taken against some of the officials who had incurred or permitted irregular expenditure.</p>	<p>Upon completion of investigation into the procurement and financial management of the board, the recommendations which include disciplinary actions against a number of implicated officials, were not implemented.</p>

Slides 12 - 15

2.7 Findings on the audit of the annual performance report and achievement of targets

The portfolio has seen an improvement in the quality of performance reports, with three out of the five auditees receiving an unqualified opinion on the reported performance information in the current year as opposed to 2 from the prior year. In addition, three auditees (DPWI, CIDB, CBE) achieved more than 50% of their planned annual targets while as IDT and ASA fell short.

The common findings on reported information stem from indicators/ measures not well-defined, Lack of sufficient/appropriate evidence to support the reported performance information and in certain instances the supporting evidence provided materially differing from the reported achievement.

The above has had a negative impacted on service delivery and the lived experience of citizens. Subsequently the reported number of work opportunities created is not accurate and the opportunities created do not solve the high unemployment rate due to lack of upskilling, training and certification of beneficiaries. Furthermore, lack of adequate construction project management has resulted in a large number of significantly delayed projects.

Finally, an analysis of the 2024 Medium Term Strategic Framework (MTSF) targets against the portfolio's performance has revealed that not all auditees have prioritised these targets in their annual performance plans (APPs). Furthermore, some of the targets which are prioritised are unlikely to be met based on the current performance. For example 1.5 million Ha redistributed is planned to be redistributed by 2024, however only 300 000 Ha were distributed to date.

Auditee	Material findings	Number of targets achieved against number of targets planned for 2021-22 (%)	Impact of targets not achieved
DPWI	Programme 3 – Number of work opportunities reported in the expanded public works programme-reporting system (EPWP)-RS by public bodies (some supporting evidence provided materially differed from the reported achievement, while in other instances we were unable to obtain sufficient appropriate audit evidence)	1 016 646 out of 1 009 972 (101 %)	Target was achieved
DPWI	Programme 3 – percentage of EPWP participation amongst designated groups (women, youth and persons with disabilities) reported on the EPWP RS by the public bodies (some supporting evidence provided materially differed from the reported achievement, while in other instances we were unable to obtain sufficient appropriate audit evidence.)	Women – 69% out of 60% (115%) Youth – 41% out of 55% (75%) Persons with Disabilities 1% out of 2% (50%)	Work opportunities are not created for designated groups which means there is no reduction of unemployment rate for youth and persons with disabilities.
DPWI	Programme 8 – no. of design solutions completed for identified user departments (achievements reported in the annual performance report materially differed from the supporting evidence provided)	2 out of 1 (200%)	Target was achieved

Auditee	Material findings	Number of targets achieved against number of targets planned for 2021-22 (%)	Impact of targets not achieved
DPWI	Programme 8 – no. of infrastructure projects completed (achievements reported in the annual performance report materially differed from the supporting evidence provided)	128 out of 95 (135%)	Target was achieved
IDT	Programme 1 – percentage of projects completed on time (the method of calculation for achieving the planned indicator was not clearly defined, further we were unable to obtain sufficient appropriate audit evidence to support reported achievements)	56% out of 70% (80%)	Construction projects are not always completed within agreed period, budget and time which leads to a large number of significantly delayed projects.
IDT	Programme 1 – percentage of projects completed within budget (we were unable to obtain sufficient appropriate audit evidence to support reported achievements)	50% out of 70% (71%)	Construction projects are not always completed within agreed period, budget and time which leads to a large number of significantly delayed projects.
IDT	Programme 1 – percentage of weighted B-BBEE (based on total programme spend) (the method of calculation for achieving the planned indicator was not clearly defined)	44% out of 70% (63%)	Expired BBEE certificates. This impacts the validity of expenditure allocation resulting in underreporting.
IDT	Programme 1 – number of work opportunities created through expanded public works programme – non-state sector (EPWP-NSS excluding IDT programme portfolio) (we were unable to obtain sufficient appropriate audit evidence to support reported achievements)	100 212 out of 42 868 (234%)	Target was achieved

Slides 17 – 18

2.8 Main root causes, recommendations and commitments for the portfolio

All role players should continue to work together to strengthen the capacity, processes and controls of entities in the portfolio, which will enable credible financial and performance reporting, compliance with key legislation, sound financial management and improved service delivery.

The significant roots causes within the portfolio has been identified and key recommendations were outlined to stakeholders.

3. DPWI SECTOR ANALYSIS

Slides 20

3.1 Reflection on sector audit outcome

One auditee (WC) in the sector has maintained the clean audit while other eight (8) auditees eight received unqualified audit opinion. PMTE has regressed in the current year by obtaining a disclaimer opinion.

Slides 22 - 28

3.2 MTSF Analysis

High analysis of the MTSF targets against the strategic plan and the annual performance plans (APPs) for the sector was conducted. This was to identify if MTSF indicators have been included in the APPs of the auditees. Furthermore, we assessed the quality of the performance indicators to determine if their achievements will have an impact on citizens that benefits from DPWI's mandate. More insights on this exercise performed by the auditors have been included on the slides 22-28.

Slides 29 - 42

3.3 Infrastructure projects and maintenance of properties

For the 2021-22 audits, we paid specific attention to infrastructure delivery, focusing on matters which may impact on the auditees' ability to deliver services to citizens. In addition, we also focused on facilities management in the form of condition assessment.

The slides provide insights on state-owned buildings regarding;

- Properties with poor condition but still utilised.
- Unutilised properties
- State properties vandalised

We have also reflected on the project management deficiencies which resulted in the following;

- Projects with expenditure that exceeds the budgeted amount
- Significantly delayed projects
- Cancelled projects while the amount have already been incurred.

Slides 44 - 47

3.4 Management of private leases

We commend the sector and ministers initiatives on reducing the number of month-to-month (MTM) leases by stopping all payments relating leases on MTM and ensuring the renegotiation of expired leases. However, it is concerning that MTM leases are a permanent solution for managing leases as such the reduction in the number of MTM leases has not resulted to the desired savings.

Despite the number of material irregularities identified on lease overpayments and management commitment to take appropriate steps towards wrong dowers, a culture of overpayment has not changed. In the current year we have seen cumulative lease overpayments of R165 million despite the auditee procuring external intervention in the form of a service provider to address the root causes.

Lastly, an analysis of the lease payments revealed that the top 10 highest paid landlords received approximately 50% of the total R4.6 billion spent on leases.

Slides 49 - 51

4. Material irregularities (MIs)

Definition: A material irregularity (MI) means any non-compliance with, or contravention of, legislation, fraud, theft or a breach of a fiduciary duty identified during an audit performed under the PAA 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.

4.1 Auditees in the portfolio scoped in

	2021-22	2022-23
Auditees	Department of Public Works and Infrastructure	Department of Public Works and Infrastructure

	Property Management Trading Entity Independent Development Trust	Property Management Trading Entity Independent Development Trust
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4.2 Material irregularities identified during current year audit

MI 1

Leeuwkop prison asset not appropriately safe guarded during construction

Boilers at Leeuwkop prison were not appropriately safeguarded during construction, resulting in them being damaged due to exposure to severe weather conditions. The accounting officer was not implementing appropriate actions in resolving the MI as a result AGSA issued recommendations which will be followed up in February 2023.

MI 2

Lease no. 140280 – overpayment

Between October 2017 and March 2019, payments made on the lease of office accommodation and parking were higher than those provided for in the renewed lease agreement. Disciplinary action was concluded, and final warning was issued to the supervisor responsible and is in progress as monthly lease payments has been stopped. Consultants were appointed to unearth the extent of the financial loss.

MI 3

Construction contract extensions approved, incorrectly included contract value adjustment

The construction of the Mamelodi magistrate's court project has been significantly delayed and the expenditure incurred to date exceeds the initial contract amount. The practical completion date of the contract has been extended and PMTE has been approving the contract extensions with adjustments to the contract value that were based on the approved claims that resulted from civil unrest, riots, strikes and lockouts. This was not in line with the contract. The recovery process is yet to be implemented thought consultants and project manager has since retired as a result no disciplinary actions has been taken.

MI 4

Lease no. 140227 – overpayment

Between September 2019 and March 2021, payments made on the lease of office accommodation and parking were higher than those provided for in the lease agreement. Disciplinary action was concluded, and a verbal warning was issued to the portfolio manager responsible, and recovery is in progress as monthly lease payments has been stopped. Consultants were appointed to unearth the extent of the financial loss.

MI 5

Late submission of VAT returns from March 2020 until January 2022

On numerous occasions from March 2020 until October 2022, VAT returns were submitted late by the public entity, which resulted in penalties being charged by SARS. We are still in a process of evaluating accounting authority's response.

Status of previously reported material irregularities

MI 6

Expenditure on state events exceeding the contract amount

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. The AGSA issued recommendations to the accounting officer which were subsequently implemented. The investigation has been conducted and recovery process for financial loss has commenced.

MI 7

Price and quantity variances pertaining to the funeral related expenditures

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. Investigation was conducted, disciplinary process is ongoing and recovery process is in progress.

MI 8

Unfair procurement process for the Beitbridge borderline infrastructure project

Competitive bidding processes were not followed to appoint contractors and consultant for the Beitbridge borderline infrastructure project in March 2020. This is likely to result in material financial losses, as market-related prices were not secured. Investigation was completed and employees identified to have caused any wrong doings are currently undergoing disciplinary process. Furthermore, the recovery of financial loss is still ongoing through Special Investigation Unit (SIU).

MI 9**Beitbridge borderline infrastructure project establishment cost**

Establishment costs were incorrectly included in the bill of quantities pertaining to the Beitbridge borderline infrastructure project in March 2020, due to ineffective internal controls to prevent the inclusion and payment thereof. Investigation was completed and employees identified to have caused any wrong doings are currently undergoing disciplinary process. Furthermore, the recovery of financial loss is still ongoing through SIU.

Observations and recommendations

The Material Irregularity (MIs) committee was established to identify areas where potential MIs may occur and implement proactive measures to prevent the MI from occurring. For majority of the MIs, investigations were initiated to unearth the root causes of the irregularities and consequence management instituted against implicated officials.

Internal policies and controls were enhanced in certain instances and management has seen the benefits as no recurrence of similar MIs were noted in those areas. Furthermore, delays in the disciplinary proceedings against some officials were noted, this was due to the implicated officials obtaining an interdict on the completed investigation reports which require the auditee to challenge it in court prior to proceeding with the process of recovering the financial losses.

With regards to lease overpayments, the controls put in place has not been effective as some officials are continuing to circumvent the payment systems. This meant that overpaid landlords continued to be paid and losses were not fully recovered.

Slides 49 - 51**5. Flood relief**

The floods caused damage to government properties in KwaZulu-Natal and the Eastern Cape. The PMTE determined that 65 properties (48 projects), which included state-owned properties leased to user departments, suffered damage to roofs, ceilings, gutters and structures.

Repairs and capital project costs to make properties fit for purpose again were estimated at R10,8 million and R19 million, respectively. Out of 48 repairs and maintenance projects planned, 43 projects have been completed. Service providers were appointed to conduct the repairs of the damaged buildings using the deviation process.

As part of our audit, we selected 20 projects for testing where the risk areas were identified. The following risk areas were noted which have been explained on the slides in detail;

- Possible unfair advantage to contractor
- Late submission of quotations, authorised amounts exceeded and open-ended appointments
- Little market analyses and competition

Moreover, we have highlighted the roots causes as well as the impact of such risks on the PMTE. In addition, recommendations were made to the accounting officer.