



**PFMA
2022-23**

Portfolio Committee on Department of Public Works and Infrastructure

29 March 2023



AUDITOR-GENERAL
SOUTH AFRICA



MISSION

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



VISION

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



Material irregularities

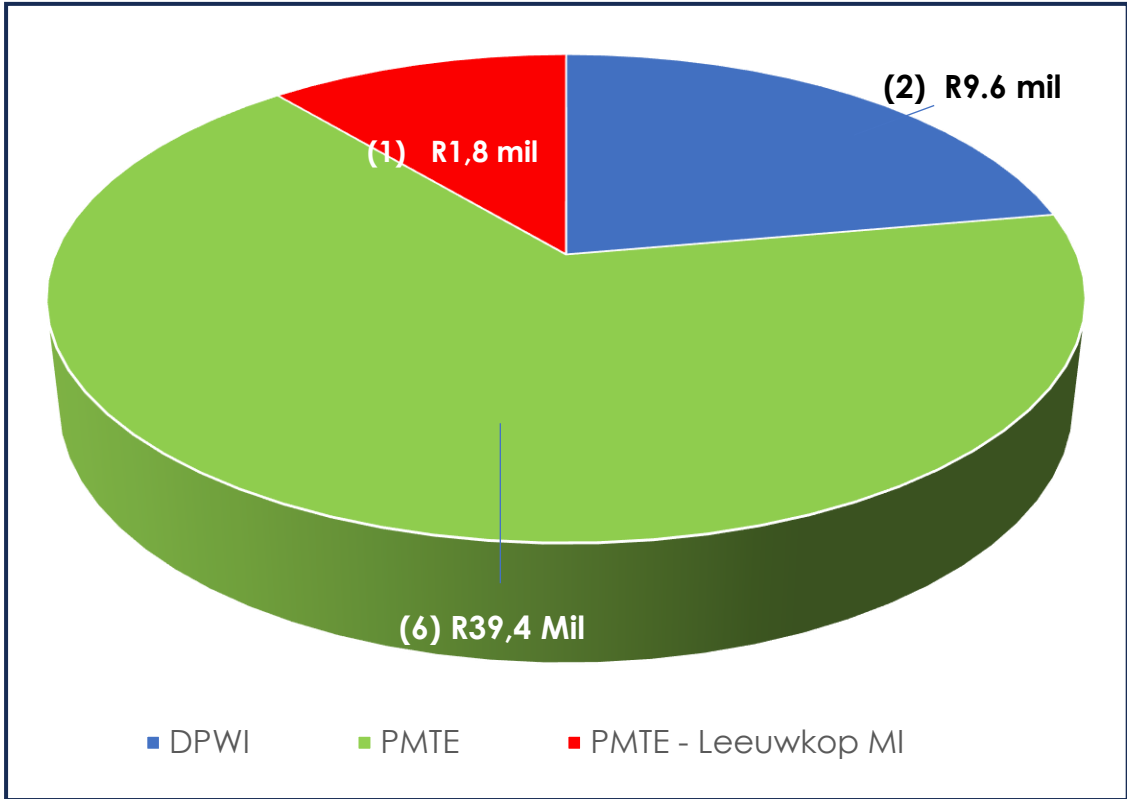


R52 mil – Total Financial loss

7 MIs – PMTE
2 MIs - DPWI

R14,7 mil – Loss recovered

MI recommended to MIC
Leeuwkop Prison MI – Financial loss R1,8 million



2021-22: PMTE(2)
2020-21: PMTE(3)
2019-20: DPWI (2) PMTE(2)

Overall assessment status

DPWI

The expenditure on **state funeral** and **state events** - the AO has taken appropriate actions and the control environment was improved, as no further MIs were noted. 😊

PMTE

Beitbridge borderline infrastructure project - the AO has taken appropriate actions and the control environment was improved as no further MIs were noted. We commend management on the collaboration with Special Investigating Unit (SIU) and Presidential Infrastructure Coordinating Committee (PICC) in speedy response to investigate the root causes. 😊

Lease overpayments - There have been a number of interventions to address these overpayments. These interventions and initiatives have improved controls around the detection and recovery of the overpayments. However, they are not adequate to prevent ongoing overpayments. 😞

Mamelodi Magistrate court - there has been no improvement in this MI and in the control environment with respect to the construction projects. There are still significantly delayed projects. 😞

Leeuwkop prison – the AO is in disagreement with the AGSA on this MI. Engagements are ongoing on finalise the matter. 😞



MIs identified on DPWI - State Funerals

Notified	MI description and financial loss	Investigation	Disciplinary action taken and recovery of financial loss	Improvement of the control environment
<p>02 September 2020</p>	<p>Expenditure on <u>state funerals</u> between May 2018 and December 2018 exceeded the contract amount and the services paid for differed from those provided for in the contracts.</p> <p>Irregularity: Non-compliance with TR 8.1.1</p> <p>Impact: Material financial loss of R9,1 million</p>	<p>The internal investigation confirmed the irregularities and recommended disciplinary actions against the five responsible officials.</p> <p>SIU instituted an investigation based on referral and instituted a civil claim against the supplier. Report not shared by SIU.</p> <p>A criminal case was registered with the SAPS (case number 359/07/2021) by the SIU and the investigation is still ongoing.</p>	<p>In June 2022 the former DG, who was on suspension, returned briefly and subsequently agreed to take early retirement in August 2022. The department did not take any further action beyond this.</p> <p>The two officials (both Chief Directors) were also charged in February 2021. However, as at March 2023, there is no evidence of any disciplinary action taken against them.</p> <p>The other two officials (both Administration Clerks) contracts came to an end in December 2019. No further action was taken beyond this.</p> <p>Recovery of financial loss: As at March 2023, the SIU has not finalised the process of recovering the financial loss.</p>	<p>Ever since the MI was raised, the department has</p> <ul style="list-style-type: none"> • Ensured that no additional instances of overpayments on state events have been identified since the MI was issued. • Is embarking on buying its own infrastructure and developed internal capacity to implement by itself • introduced a policy framework for contract management. • Implemented a manual system where officials from Prestige Unit and Provisioning & Logistics Unit will manually compare quotation prices against scheduled prices before purchase orders are issued. • Introduced segregation of duties within the Prestige Unit functions. • Drafted cost norms and standard document and submitted them to the Presidency for inputs as part of the review of State Official and Provincial Official funeral policy manual. • Resolved that an official from prestige unit now attends all state events and funerals to ensure that goods/services are indeed provided, • Divided the procurement of the panel of service providers into two regional panels. The panel for the south region(WC,NC,FS and EC) is underway and awaiting approval. The submission for the north region is currently being compiled and it is anticipated that the panel of service providers would be appointed by 01 April 2023.



MIs identified on DPWI - States Events

Notified	MI description and financial loss	Investigation	Disciplinary action taken and recovery of financial loss	Improvement of the control environment
<p>03 September 2020</p>	<p>Expenditure on state events The prices charged on the invoices for three state events from July 2018 to November 2018 differed from the prices quoted on the pricing schedule submitted by the supplier during the tender process.</p> <p>Irregularity: Non-compliance with TR 8.1.1</p> <p>Impact: Material financial loss of R0,8 million</p>	<p>After the notification, management committed to investigate the MI.</p> <p>We determined that the above commitments had not been implemented within reasonable time based on the evidence of progress received on 07 May 2021. This necessitated the decision to escalate the matter and issue recommendations which were to be implemented by 3 February 2022.</p> <p>Followed-up on 04 February 2022 and obtained evidence that our recommendations had been implemented.</p>	<p>Two officials (both Chief Directors) were identified to be responsible for the MI.</p> <p>Letters were written to both officials to commence the disciplinary process and further charges were added to their ongoing disciplinary case arising from another related MI (i.e. state funeral) that was raised. However, as at March 2023, there is no evidence of any disciplinary action taken against them.</p> <p>Recovery of financial loss The department issued summons against the service provider in April 2022, for the recovery of the amount. Counsel has applied for a court date in the North Gauteng High Court and the matter is expected to sit in 2023 on a date yet to be confirmed.</p>	<p>Refer to the previous slide.</p>



MIs identified on PMTE – Beitbridge borderline infrastructure project

Notified	MI description and financial loss	Investigation	Disciplinary action taken and recovery of financial loss	Improvement of the control environment
<p>13 November 2020</p>	<p>Competitive bidding processes were not followed to appoint contractors and consultants for the Beitbridge borderline infrastructure project in March 2020. As a result, market-related prices were not secured.</p> <p>Irregularity: Non-compliance with TR 16A3.2(a)</p> <p>Impact: Likely Material financial loss of R17 million</p>	<p>An investigation was conducted between April and June 2020 by department's Governance and Risk Committee (GRC), with the assistance of SIU and built environment specialists from the Presidential Infrastructure Coordinating Committee (PICC). The investigation outlined the losses incurred on the project.</p> <p>In March 2022, the Special Tribunal handed a judgment on the Civil Case which stripped the contractor and principal agent off any profits arising from the project.</p>	<p>Disciplinary actions (Same twelve officials were implicated on both MIs)</p> <ul style="list-style-type: none"> • <u>Two</u> senior officials (DDG projects, Director Special & Major Projects) were implicated in the investigation report. One official is challenging the report in the Labour Court. The state attorney has appointed the initiator and chairperson for facilitation and disciplinary enquiry for the other senior official, and the hearing is scheduled for 28 – 31 March 2023. • The former <u>Minister's advisor</u> was served with the charges in March 2022. From evidence obtained, it is not clear how the process was finalised. • The <u>former DG</u> was served with an updated charge sheet in October 2020 (was already serving a suspension), but retired in August 2022 before any further actions were taken. 	<p>Several Bid committee (Bid Specification, Bid Evaluation and Bid Adjudication) training sessions have been rolled out and it is a continuous process, and have also been rolled out throughout the department.</p> <p>Probity audits are implemented by internal audit for tenders greater than R10 million.</p> <p>The Compliance checklists has been enhanced to prevent any SCM irregularities.</p>
<p>13 November 2020</p>	<p>Establishment costs were incorrectly included in the bill of quantities due to ineffective internal controls to prevent the inclusion and payment thereof.</p> <p>Irregularity: Non-compliance with TR 8.1.1</p> <p>Impact: Likely Material financial loss of R1,09 million.</p>	<p>The judgement appeal by the contractor and principal agent was dismissed with costs on 7 September 2022. Both parties have now appealed to the High Court (March 2023).</p> <p>A criminal case no :359/07/2021 was registered with the SAPS in July 2021 by the SIU and the investigation is still ongoing (March 2023).</p>	<ul style="list-style-type: none"> • <u>Eight</u> officials (3 Chief Directors, 4 Directors, 1 Deputy Director) received suspensions without pay and final written warnings sanctions from the Chairperson of the National Bid Adjudication Committee (NBAC). The sanctions were approved by the Acting Director General to be effected on 01 November to 31 December 2022. The sanctions varied from one to two months. These employees have since returned to work upon the conclusion of the sanction period (March 2023 are still employed). 	<p>The national adjudicating committee approving tenders above R75 million has been increased from one to four different committees.</p> <p>Overall, it is our assessment that the appropriate actions are being taken by the department to address the matters raised in the MI.</p>

MIs identified on PMTE - PMTE Lease overpayments

Notified	MI description and financial loss	Investigation	Disciplinary action taken and recovery of financial loss	Improvement of the control environment
<p>27 August 2021</p>	<p>The landlord was overpaid by R10 962 076, 63</p> <p>Management didn't capture on the ARCHIBUS system the renewed lease agreement that had lower monthly rentals and escalation rates between October 2017 and March 2019.</p> <p>Payments made on the lease of office accommodation and parking (lease no:140280) were based on the expired lease agreements which had higher rates than those provided for in the renewed lease agreement.</p> <p>Irregularity: Non-compliance with TR 8.1.1</p> <p>Impact: Likely Material financial loss of R10,9 million</p>	<p>The AO conducted an internal investigation on the cause of lease overpayment and the investigation concluded that the overpayment occurred due to incorrect lease payments made on a monthly basis to the landlord, as a result of not capturing the renewed lease agreement that had lower monthly payments.</p> <p>As at February 2022, the entity captured the lease details on the system correctly for this <u>specific lease agreement</u> and the lease is currently paid in accordance to the valid lease agreement. No further overpayments have been identified since the correction.</p>	<p>Disciplinary action taken <u>Two middle management</u> officials were identified to be responsible for the MI. They were issued with final written warning letters in January 2022 (and the matter was closed).</p> <p>Recovery of financial loss During the BRRR we reported that payments were stopped in order to recover the financial loss. As of February 2023, the AO has recovered the full financial loss of R10,9 million.</p>	<p>As at March 2023, the trading entity has implemented controls to detect any lease overpayments, and such controls include:</p> <ul style="list-style-type: none"> - Monthly reconciliations before payments are made to the landlord and lease invoices/lease obligation as per signed lease contract. - Internal circular on recovery of financial losses resulting from lease overpayments has been developed.. - Overpayments are referred to the internal (DPWI) MI committee to initiate the recovery process and consequence management. <p>However, concerns in the control environment remain due to the fact that the controls are not effective in preventing overpayments.</p>



MIs identified on PMTE - PMTE Lease overpayments

Notified	MI description and financial loss	Investigation	Disciplinary action taken and recovery of financial loss	Improvement of the control environment
<p>03 June 2022</p>	<p>The landlord was overpaid by R3 802 787</p> <p>Upon implementation of the new system in 2019, management commenced and consistently made overpayments to the landlord.</p> <p>Between September 2019 and March 2021, payments made on lease of office accommodation and parking (lease no:140277) were higher than those provided for in the lease agreement.</p> <p>Irregularity: Non-compliance with TR 8.1.1</p> <p>Impact: Likely Material financial loss of R3,8 million</p>	<p>The AO conducted the investigation on the cause of the overpayments and concluded that this was due to the old system before the information was migrated to the new system in September 2019.</p> <p>As at July 2021, the entity has captured the lease details on the system correctly for this specific lease agreement and the lease is being paid in accordance to the lease agreement. No further overpayments have been made since the correction of this lease agreement.</p>	<p>Disciplinary action taken Middle management official was identified to be responsible for the cause of the MI and was given a verbal warning in July 2021.</p> <p>Recovery of financial loss In the BRRR we reported that payments were stopped in order to recover the financial loss, as of February 2023, the AO has recovered the full financial loss of R3,8 million.</p>	<p>As at March 2023, the trading entity has implemented controls to detect any lease overpayments, and such controls include:</p> <ul style="list-style-type: none"> - Monthly reconciliations before payments are made to the landlord and lease invoices/lease obligation as per signed lease contract. - Internal circular on recovery of financial losses resulting from lease overpayments has been developed.. - Overpayments are referred to the internal (DPWI) MI committee to initiate the recovery process and consequence management. <p>However, concerns in the control environment remain due to the fact that the controls are not effective in preventing overpayments.</p>



MIs identified on PMTE - PMTE Lease overpayments

Notified	MI description and financial loss	Investigation	Disciplinary action taken and recovery of financial loss	Improvement of the control environment
<p>10 November 2022</p>	<p>The landlord was overpaid by R4 452 528</p> <p>The overpayments made between June 2015 to December 2017, while the entity was using old system were as a result of various reasons.</p> <p>Upon implementation of the new system in September 2019, the data from the old system was migrated incorrectly and management consistently made overpayments to the landlord.</p> <p>Between September 2019 and July 2021, payments made on lease of office accommodation and parking (lease no:139901) were higher than those provided for in the lease agreement.</p> <p>Irregularity: Non-compliance with TR 8.1.1</p> <p>Impact: Likely Material financial loss of R4,5 million</p>	<p>The AO conducted an investigation into the overpayments and confirmed that the overpayment was largely due client department occupying additional space without following due processes.</p> <p>Furthermore, the investigation revealed that other overpayments were as a result of incorrect data migration controls from the old system to the new system as overpayment occurred due to incorrect lease payments being made monthly to the landlord.</p> <p>As at May 2022, the entity has captured the lease details on the system correctly for this specific lease agreement and the lease is being paid in accordance to the lease agreement. No further overpayments have been made since the correction of this lease agreement.</p>	<p>Disciplinary action taken Three (3) middle management officials were identified to be responsible for the cause of the MI.</p> <p>One official has left the employment of the state as of December 2022 and HR was requested to trace the employee. The two officials were given an opportunity to make representation regarding the MI in December 2022.</p> <p>As of February 2023, the entity was evaluating the officials responses.</p> <p>Recovery of financial loss In January 2023, a letter of recovery was sent to the landlord to notify them that lease payments will be stopped in order to recover the financial loss.</p> <p>The recovery process is expected to commence in March 2023.</p>	<p>As at March 2023, the trading entity has implemented controls to detect any lease overpayments, and such controls include:</p> <ul style="list-style-type: none"> - Monthly reconciliations before payments are made to the landlord and lease invoices/lease obligation as per signed lease contract. - Internal circular on recovery of financial losses resulting from lease overpayments has been developed.. - Overpayments are referred to the internal (DPWI) MI committee to initiate the recovery process and consequence management. <p>However, concerns in the control environment remain due to the fact that the controls are not effective in preventing overpayments.</p>



MI identified on PMTE - Leeuwkop Prison

Notified	MI description and financial loss	Status	Improvement of the control environment
<p>26 August 2021</p>	<p>Boilers at Leeuwkop Prison were not appropriately safeguarded during construction, resulting in them being damaged due to exposure to severe weather conditions.</p> <p>Irregularity: Non-compliance with TR 10.1.1(a)</p> <p>Impact: Likely Material financial loss of R1 851 108,31</p>	<p>The MI was issued to the then AO(acting DG) in August 2021 and the AO disagreed with the MI. The acting period of the AO came to an end in March 2022.</p> <p>A new acting DG was then appointed in April 2022. AGSA met with the DG in May 2022 to appraise him of the MI and afford him an opportunity to make his own assessment whether he agrees with the MI or not. The acting DG assessed the AGSA submissions and also disagreed with the MI.</p> <p>Recommendations were made in July 2022 by the AGSA Material Irregularity Committee to the Acting DG to investigate the project and identify :</p> <ul style="list-style-type: none"> - Any non-compliance to determine if any <u>official should be held responsible</u>. - <u>quantify the financial loss</u> relating to the boilers - <u>Take appropriate actions</u> against the responsible officials and - Implement <u>controls to prevent any further losses</u> on account of inadequate safeguarding or other damage in relation to construction site. <p>The Acting DG was afforded six(6) months to implement the recommendations, which were due by 31 January 2023.</p> <p>The Acting DG then requested a meeting with the AGSA in December 2022 to allow the entity to make further representations on why they disagree with the MI. It was agreed that further evidence to support these representations must be submitted to the AGSA by no later than 31 January 2023. This duly done and the AGSA is currently assessing those submissions.</p> <p>As at March 2023 , the MI is under evaluation by the AGSA Material Irregularity Committee.</p>	<p>No actions taken and recommendations have not been implemented as yet, due to the disagreement.</p>



MIs identified on PMTE - Mamelodi Magistrate Court

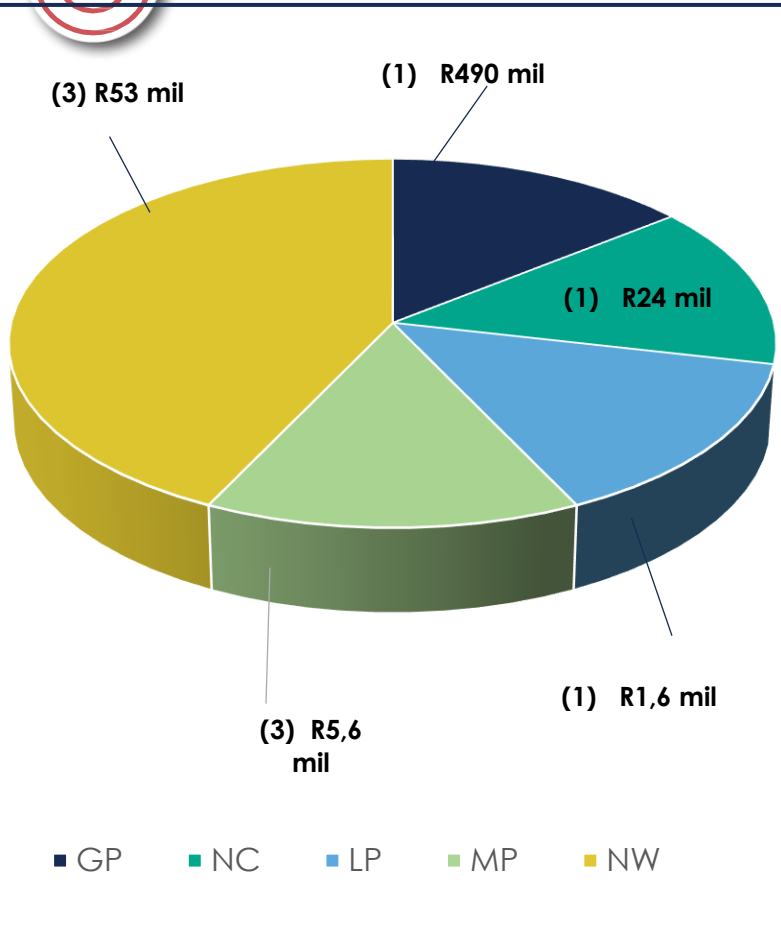
Notified	MI description and financial loss	Investigation	Disciplinary action taken and recovery of financial loss	Improvement of the control environment
<p>15 October 2021</p>	<p>PMTE approved the contract extensions in the construction of the Mamelodi Magistrate's Court, with adjustments to the contract value, which were not in line with the contract Joint Building Construction Committee (JBCC).</p> <p>Irregularity: Non-compliance with section 45(a) of the PFMA</p> <p>Impact: Likely Material financial loss of R3 011 124,24</p>	<p>The AO conducted an investigation in May 2022 to identify the cause of the MI. The findings revealed that there was poor contract management and misrepresentation of the contract with respect to clauses pertaining to civil commotion, strikes and riot as per JBCC.</p> <p>The investigation further identified the three implicated officials and the matter was referred to Labour Relations (a Division within PMTE's HR) in March 2022 for consequence management.</p>	<p>Disciplinary action taken Three senior officials we identified (Project Manager, Director and Chief Director)r were identified as persons who have recommended, supported and approved the application respectively.</p> <p>In May 2022, the officials were requested to make representations on why disciplinary actions should not be instituted against them.</p> <p>The charge has still not been finalised in March 2023.</p>	<p>The trading entity implemented workshops as an intervention for preventing future MI's of a similar nature.</p> <p>However, even though the controls are being implemented there were similar instances that were raised in the prior year audit (2021/22) that resulted in further fruitless and wasteful expenditure. Thus, the control environment has not improved.</p> <p>However, concerns in the control environment remain due to the fact that the controls are significantly delayed projects.....refer to the sector report on what was said!!!</p>



Provincial Material irregularities identified



Provincial MIs



2021-22: NC(1) MP(1) GP(1)
 2020-21: NW(3)
 2019-20: LP (1)

1 Notifications issued to AO

MP (1) – Overpayment by exceeding BoQ quantities
 NC (1)- Expenditure exceeding budget
 GP (1)- Refurbishment costs of a private hospital without refund and not used.

2 Responses received & appropriate

LP(1) – Tender awarded to a bidder who did not score the highest points

3 Recommendation stage

No recommendations made.

4 Follow up Recommendation

No follow up on recommendations.

5 Actions taken

NW (3): Three MIs raised in North west, the action taken by the AO are appropriate and the implementation is on progress.

6 MI Resolved

None.



Overall message

There are instances where we have seen the culture shift at both the DPWI and PMTE since the issuing of some MIs. This is the case in state funerals and state events, as well as Beitbridge MIs.

However, there are instances where, although actions have been taken and the accounting officer is taking steps to recover financial losses and execute disciplinary processes against the implicated officials, there is still stagnation within the control environment. For example, although in one lease overpayment MI corrective actions were taken place, there are other instances of lease overpayments that are still recurring.

The MI committee was developed to identify potential areas that may be subjected to MIs and implement pro-active measures to prevent potential MIs

Senior management have signed a 10 commandments which they individually took an oath to abide by in executing their daily duties which will promote and uphold the values of good corporate governance.

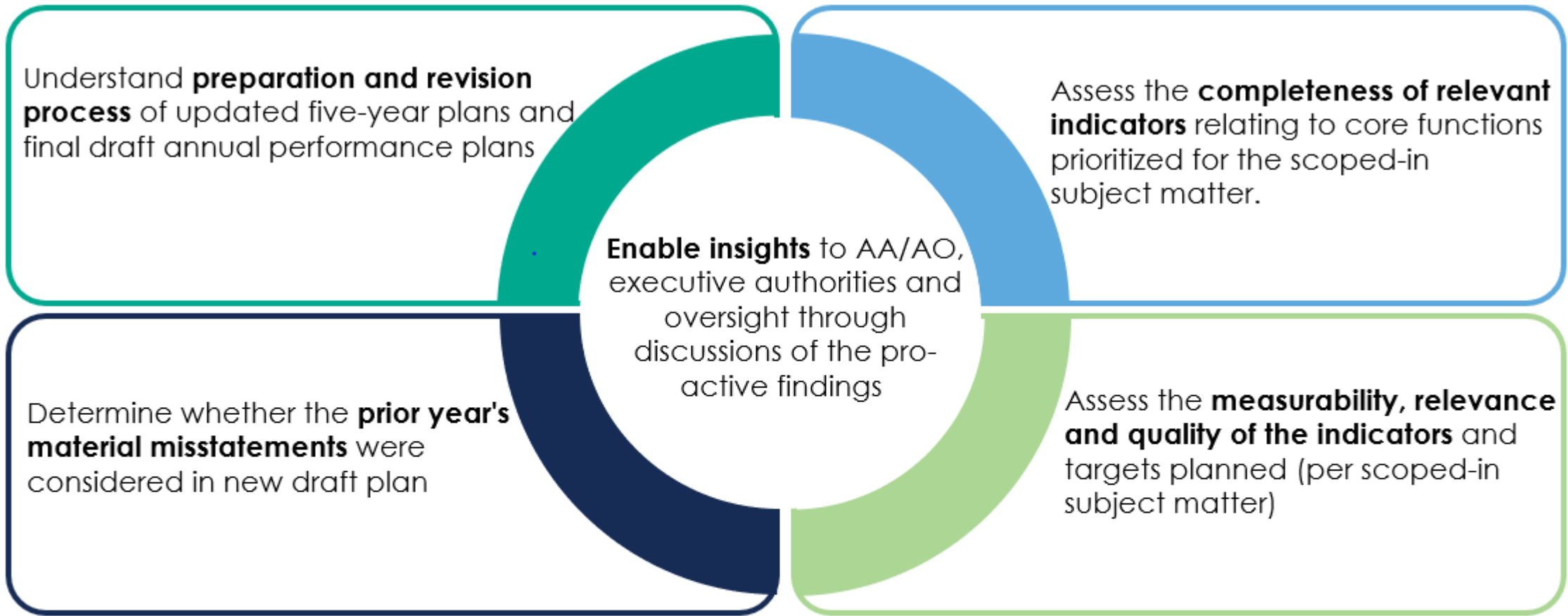
Recommendations for portfolio committee

- The portfolio committee (PC) should regularly monitor the actions taken by the AO in order to fast track addressing the MIs that have been communicated. More specifically, the PC should insist on decisive actions that the AO is implementing that will see a culture change within the leasing, as well as the construction and infrastructure divisions.
- The PC should insist on specific and decisive turnaround actions that will see the culture in the space of leases as well as the infrastructure shifting towards a clean control environment.



Pro-active Reviews of APPs





NOTE: Proactive review findings **will not have an impact on the audit conclusion** of the scoped in subject matter for the year under review (2022/23)

MTSF Indicator	Target	Lead/Contributor	Auditors comment
% of approved land reform projects provided with post settlement support	100%	Lead	The department did not include the indicator in their APP for 2023/24 as they assert that it is mandated to DRDLR. <i>Impact from sector report</i>
Percentage share by gender, age and disability of hectares (Ha) of land acquired, for redistribution, restitution, tenure reform and access to title deeds	Minimum target as per sector equity targets	Contributor	During the audit of completeness of the indicators, we traced the MTSF indicators to DPWI APP and confirmed that the indicator is not included.
Number of government owned land parcels released towards spatial transformation and spatial justice	50 Land parcels by 2024 and identification of government buildings that can be used as a catalyst for spatial trans	Lead	During the audit of completeness of the indicators, we traced the MTSF indicators to DPWI APP and confirmed that the indicator is not included.
Number of work opportunities reported on the EPWP-RS funded by DPWI	5495	Lead	During the audit of completeness of the indicators, we traced the MTSF indicators to DPWI APP and confirmed that the indicator is not included.



Sector report



The sector report for the 2021-22 FY will cover the following topics:

BUDGET ON KEY STRATEGIC OBJECTIVES

This will focus on how the public works and infrastructure sector **funds** are spent in relation to the core mandate of the sector.

STRATEGIC OBJECTIVES AND THE ACHIEVEMENT OF THE SET TARGET

This will focus on the public works and infrastructure sector performance against their mandate and 2019-2024 Medium-Term Strategic Framework (MTSF). Furthermore, this will highlight the impact on the lived experienced of the citizens.

STATE PROPERTY MANAGEMENT

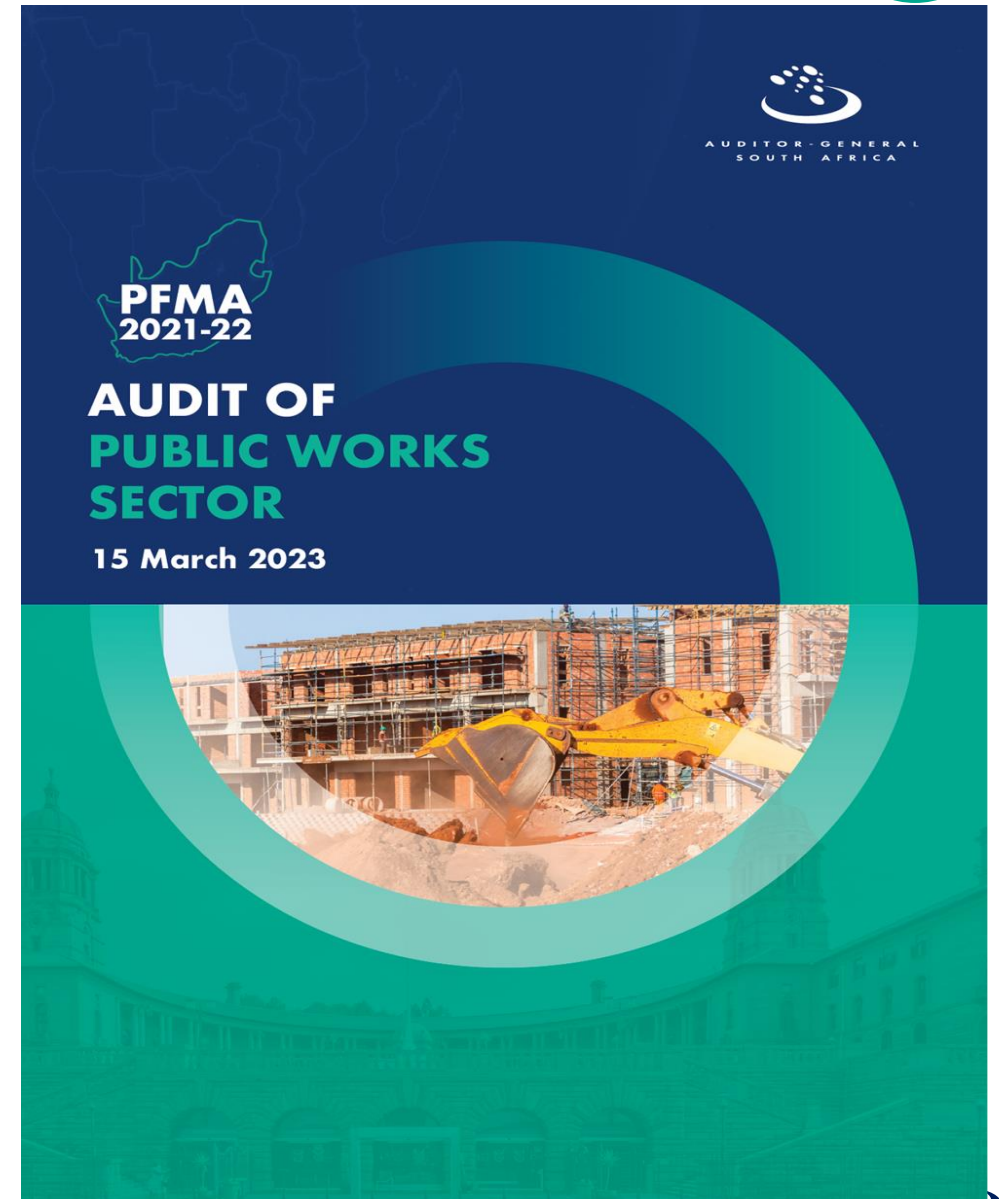
This will reflect on the condition of state-owned properties and the maintenance thereof. In addition, we will unpack how the entity has performed in ensuring they maintain productive assets and delivered on their mandate.

INFRASTRUCTURE PROJECT MANAGEMENT

This will cover how the sector is managing construction projects which are requested by user departments.

PRIVATELY LEASED PROPERTIES USED BY THE STATE

This will focus on month-to-month leases, lease overpayments and market analysis.



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