



**PFMA
2022-23**

Budgetary review and recommendations report (BRRR) **Portfolio Committee on Public Works**

06 October 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.





Damaged works due to prolonged projects

CONTINUED MISUSE of state resources and persistent weaknesses in systems of transparency, accountability and performance are of significant concern for citizens of South Africa broadly

THE NEGATIVE IMPACT on the lived reality of South Africa's people is the most important story represented by the numbers, findings and audit outcomes.



Crossing rivers without bridges and the Welisizwe bridges



Peeling due to high moisture



Mamelodi magistrate court project on hold



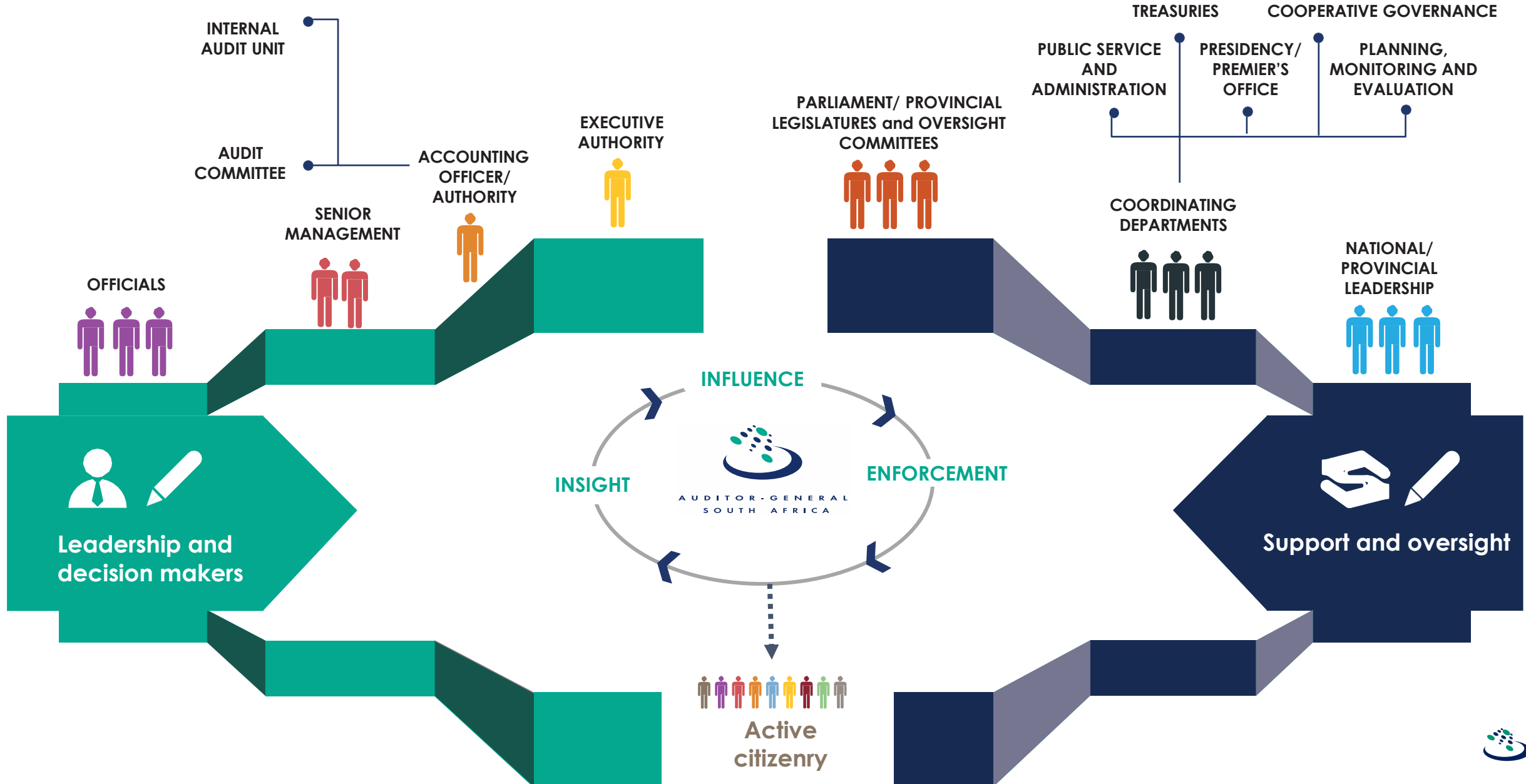
Construction project on hold



Blocked drains



All have a role to play in accountability ecosystem



Improvement over administration term

	Unqualified with no findings (clean)	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Outstanding audits	
2019-20 FIRST YEAR OF ADMINISTRATION	1	3	1	0	1	1	7
2021-22	1	2	2	0	1	1	7
2022-23	1	3	2	0	0	1	7

MOVEMENTS FROM PREVIOUS YEAR:
2 ↑ 0 ↓

FROM FIRST YEAR OF ADMINISTRATION:
1 ↑ 0 ↓

Council of the Built Environment (CBE) →

Construction Industry Development board (CIDB) ↑
Agrement South Africa (ASA) →
Department of Public Works and Infrastructure (DPWI) →

Property Management Trading Entity ↑
Independent Development Trust (IDT) →

The portfolio has seen an improvement in the overall audit outcomes:

- PMTE resolved the prior year disclaimer opinion due to producing a reconciliation for the changes made to the asset register.
- CIDB improved from Qualified opinion in the prior year to an unqualified opinion with findings by making adjustments on revenue during the audit to the current year and prior year misstatement

all auditees (Except Parliamentary Village) submitted financial statements on the legislated date.

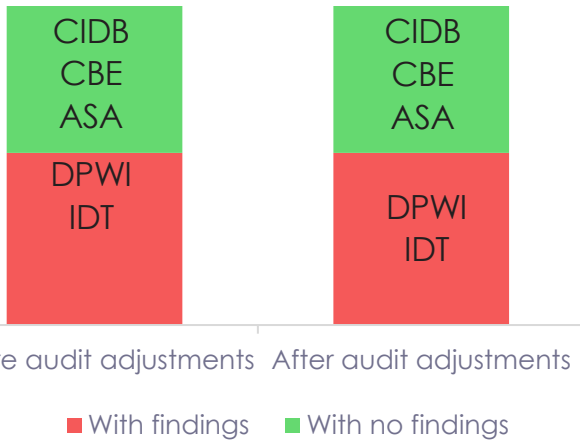
Parliamentary Village Management Board (PVMB): management have not prepared for audit submission financial statements since 2014. This is due to a lack of having a stable governance structure/board to manage the affairs the entity.



Portfolio performance



Quality of performance reports before and after audit



Findings: Planning for service delivery

The Expanded Public Works Programme (EPWP) indicator was changed to number of reports produced that reflect work opportunities created. Since the dept is now reporting on progress reports, there is a requirement to establish a process of compiling these progress reports. However, adequate processes were not established in order to prepare, review and authorize, on a consistent basis, the EPWP progress reports. Consequently, we could not provide assurance on the progress on EPWP work opportunities reported. – **Pr3: DPWI**

Findings: Reliability

- Reported achievement on 4 indicators could not be adequately supported by sufficient evidence to confirm reliability thereof **Pr1: IDT**.
- The number of work opportunities created in the year under review that were reported on the EPWP reporting system could not be confirmed for their reliability. **Pr3: DPWI**
- Reported achievement on the number of design solutions completed for identified user departments could not be adequately supported by sufficient evidence to confirm reliability thereof. **Pr8: DPWI**
- The department reported more than what was achieved on the number of design solutions completed for identified user departments.

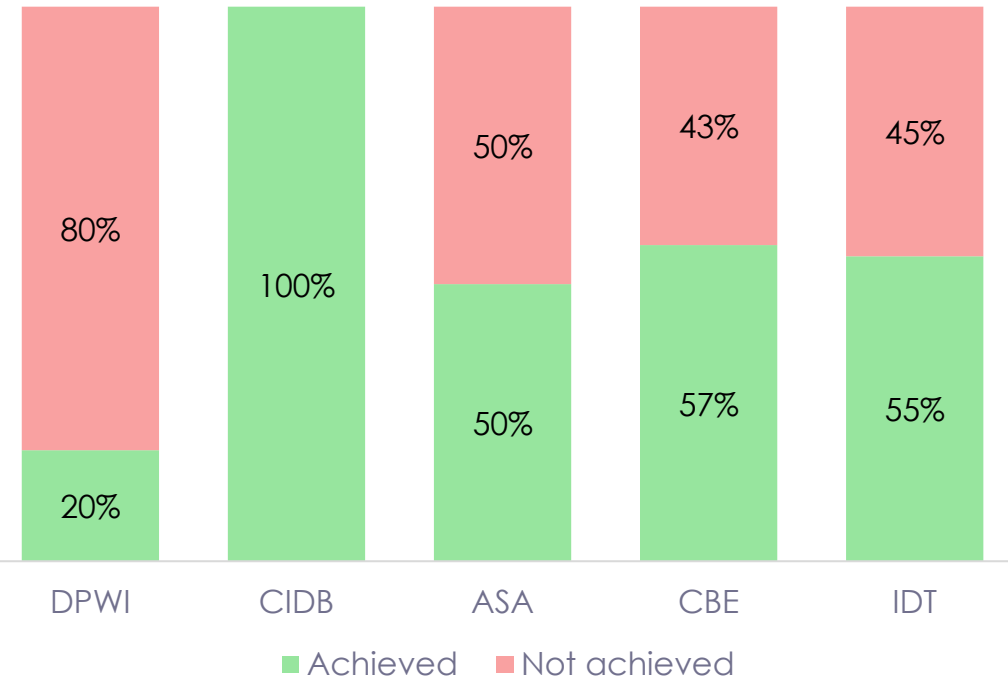
Impact

- At **IDT**, the general public is not able to discern the full extent of the service delivered, as the entity is not able to adequately monitor its performance.
- The sector is not able to successfully track and monitor the impact the work opportunities created, as well as the training provided has on the upliftment of the unskilled, marginalized and unemployed people of South Africa.
- The **DPWI** does not provide the designs of projects timeously, which contributes to projects commencement delays. This, therefore, frustrates the client departments to a point that they have started to look alternative options more and more.
- Enough savings are not realised from private leases arrangements, resulting in the continuation of funds from the fiscus going to private individuals.



Performance against targets

Achievement of annual targets as reported in annual performance report (all indicators) – 2022-23



CIDB – Best practice

CIDB best practice was able to achieve all the targets set for the year due to regular monitoring on regular basis. However, it still needs to ensure that entity has an impact in the entire industry to ensure that all construction companies are complying with the CIDB act and regulation.

Impact of targets not achieved - DPWI

- Although the 86% of the budget was spent on the programme that is key to service delivery, at DPWI, only 20% of the planned targets were achieved. The infrastructure projects will not be ready for use by the intended users on time which delays the service delivery and there is a chance of requesting additional funds to complete the projects which will put a strain on the fiscus.
- The purpose of the programme is to provide efficient, effective and integrated public social infrastructure delivery and management services. The services provided by the entity is of significant importance as the provision of infrastructure delivery and the job creation has a direct impact on the public as a whole. The non-performance of primary targets has a negative impact on the lived realities of people.

Impact of targets not achieved – Agreement SA

58.8% (10 of 17) of the projects were approved as per the timelines. The infrastructure projects will not be readily available on time for the intended users.

Impact of targets not achieved – Council for Built Environment

With the targets not being met the entity will not be able to create more opportunities for the targeted members of the community to ensure the adequate participation in the built environment.

Impact of targets not achieved – IDT

User departments will not have the infrastructure readily available for use when the infrastructure is not completed on time. Further, the user departments intends to built their own projects due to the delays caused by the IDT.



Achieving key performance targets – summarised information from performance report

Department of Public Works and Infrastructure – MTSF indicators and targets

Performance indicator	Target	Actual performance as at 31 March 2023	Comments
Number of validated EPWP work opportunities reported by public bodies into the EPWP-RS	5 million	3 940 719	The department appears to be on track to achieve the target, however the credibility of the reported achievement is questionable.
Infrastructure Fund established and operationalized	R100 billion Infrastructure Fund established and operationalised	R100 billion fund established and raised	The fund has been established through DBSA and the spending of it on infrastructure development is not yet visible. There are still delayed infrastructure projects that will not be ready for use by the intended users. Also, the user departments intends to take the responsibility of construction from DPWI and construct their own infrastructure projects.
Capacity building programme	Design and implement a capacity building programme for the procurement and delivery of infrastructure by March 2021/22	The programme has been established in consultation with the National Treasury and DBSA	The target has been achieved, however it is still not yet demonstrated on how the programme will be implemented.
Hectares (Ha) of Land redistributed or acquired and or allocated for agrarian transformation, industrial parks, human settlements and rural development	1,5 million of land redistributed	173 243 hectares of land released	The department is not on track to achieve the MTSF target.

Material irregularities



Status of Material irregularities

Appropriate actions have been taken

DPWI(1): Payments on **state funerals** exceed contract amounts Disciplinary actions were taken and SIU is recovering the financial loss of **R9.1 million**.

DPWI(1): Payments on **state funerals** exceed contract amounts. Disciplinary process was finalized and, financial loss recovery of **R0,8 million** is in progress.

PMTE(1): Beitbridge unfair procurement process Disciplinary finalised and employees charged, and the SIU through a court process, has **stopped** a **likely financial loss of R17 million**.

PMTE(1): Beitbridge payment not in line with Bill of quantities. The disciplinary finalised and employees charged, recovery of financial loss is still ongoing through SIU – **R1 million**

Appropriate action are being taken

PMTE(1): Lease overpayment (**lease no: 140227**) on building used by Defence. The **whole financial loss of R3,8 Million** was recovered and disciplinary actions taken. Weak control environment remains a concern.

PMTE(1): Lease overpayment (**lease no:140280**) on building used by Rural Development and Land Reform. The **whole financial loss of R10,9 Million** was recovered and disciplinary actions taken. Weak control environment remains a concern.

PMTE (1): Lease overpayment (**lease no 139901**) on building used by Department of Justice. The **whole financial loss of R1,5 million of R4,5 million** has been recovered and disciplinary actions taken. Weak control environment remains a concern.

PMTE(1): Incorrect approval of an extension of time on **Magistrate Court project**. Recovery of financial loss of **R3 million** and disciplinary processes are in progress.

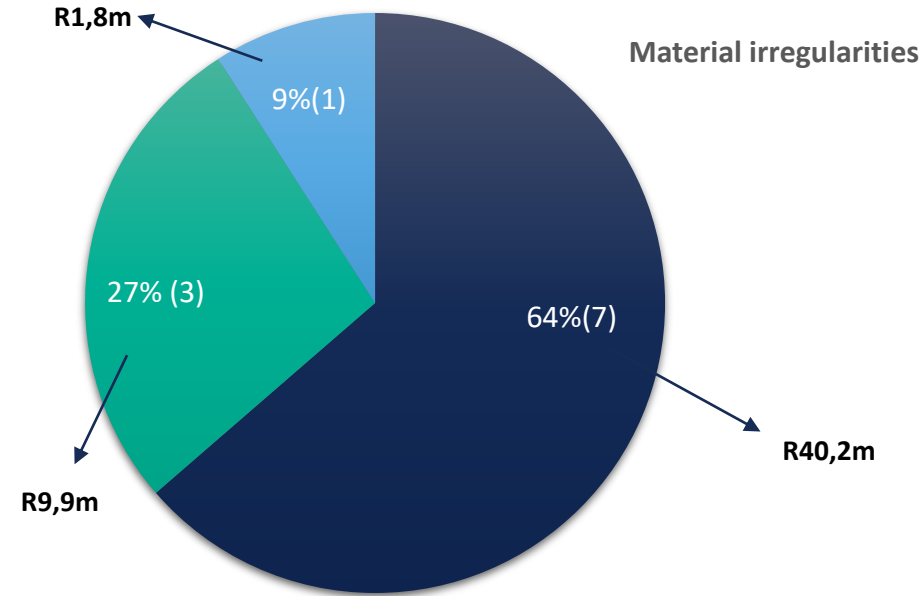
Recommendations

PMTE (1) Assets not safeguarded for **Leeukop prison**. Recommendations made by The AGSA Material Irregularity Committee to the AO **were not implemented:** investigating the non-compliance, quantifying the losses and taking disciplinary actions by **30 January 2023**.

IDT (1) - VAT payments were made late by the trust, which resulted in penalties and interest of **R1,8 million** being charged by SARS. **Recommendations** were made to the AO to investigate the losses, take disciplinary actions against responsible officials and recover the losses by **December 2023**.

AO Notified

Overpayment on purchase of bridge materials(not paid according To BOQ) and delivery costs (delivery weights and distance paid higher than actual weight and distance) for the **Welisizwe Rural bridges projects** – **auditee to quantify the full loss**



■ PMTE ■ DPWI ■ IDT ■

2022-23: *DPWI (1)
2021-22: PMTE (2)
2020-21: PMTE (2)
2019-20: DPWI (2) PMTE (2)
 *The loss is unquantifiable

MI notification in progress

AG is in **the process to** issue a MI notification due to the underutilisation of **Telkom Towers Complex**. This property was purchased for **R 694 million** in 2016 however only 1 out of the 9 buildings forming part of the complex is utilised.





From INACTION to ACTION

The Accounting Officer has taken appropriate steps to resolve 3 material irregularities in the current year

- 2 PMTE
- 1 DPWI



ACTIONS TAKEN BY AUDITEES

- R17 m** Prevented financial loss from taking place
- R9,9 m** Financial loss in the process of recovery
- R16.2 m** Financial loss recovered from lease overpayments

- 11 Responsible officials identified and disciplinary process completed or in process
- 3 Investigations instituted
- 2 Stopped supplier contracts where money is being lost
- 3 Internal controls and processes improved to prevent recurrence



The MI has caused the intended impact as significant actions have already been taken by AA/AO



Examples of shift in culture

PMTE: The has increased its oversight of procurement and contract management of special or emergency infrastructure projects to prevent reoccurrence. **R17 million** in likely financial loss was prevented due to the MI.

PMTE has been able to recover **R16,2 million lease overpayments.**

DPWI The department developed a specific policy to govern the state funerals/ events to prevent reoccurrence. Furthermore, the department is embarking on buying its own events infrastructure and develop internal capacity to implement events/ funerals.



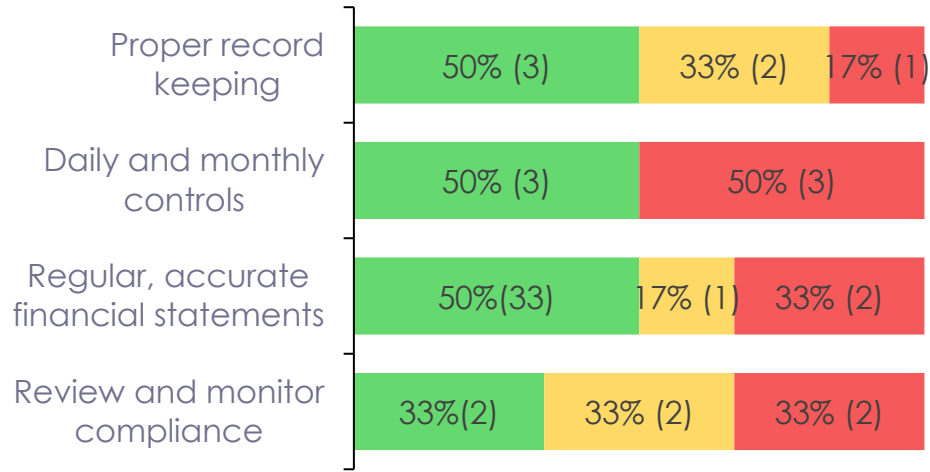


Financial management and compliance

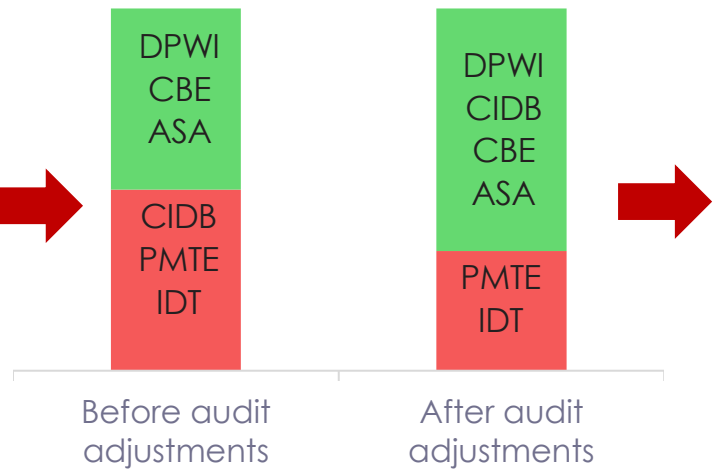


Impact on quality of financial statements submitted for auditing

Financial management controls



■ Good
 ■ Of concern
 ■ Intervention required



■ Unmodified
 ■ Modified

Main qualification areas

IDT

- Programme Assets
- Programme Expenditure
- Programme trade and other receivables
- Irregular expenditure

PMTE

- Payables from exchange transactions
- Revenue from exchange transaction
- Commitments
- Lease commitments

Impact

- Internal control systems developed to address prior year qualifications have not been effective in certain instances. Issues around leases at PMTE remain leading to overpayments being made. Weaknesses in financial management controls relating to programme assets and liabilities and prior year irregular expenditure at IDT is still a concern. Action plans should be intensified to address all weaknesses and be monitored regularly.
- The trading entity did not appropriately disclose the future commitments for both assets and lease commitments due to proper record keeping and deficiencies in daily and monthly controls
- Non-compliances with laws and regulations has been reported within the portfolio. Repeat findings plus new issues were noted. Preventative controls have not been prioritised but the portfolio has been reactive in responding to compliance issues.



Revenue



Expenditure



Debt-collection period > 90 days at **02** auditees
Average debt-collection period = **108 days**
More than 10% of debt irrecoverable at **02** auditees
-PMTE (75%)
-IDT (28%)

R1,7 million of expenditure was **fruitless and wasteful** (2 auditees)
Creditor-payment period > 30 days at **01** auditee
Creditors greater than available cash at year-end at **01** auditee
Average creditor-payment period = 44 days
- PMTE (107 days)
- IDT (30 days)
- DPWI (22 days)
- CIDB (16 days)

These analysis exclude the S4(3) and small auditees : CBE and ASA

Doubt whether auditees can continue as going concern

IDT
(4 years)

IDT

The following risks impact the financial viability of IDT:

- The inability for the entity to generate sufficient revenue to fund operational expenditure.
- The reliance on the government grant from the DPWI.
- Cash outflows higher than the cash inflows (excluding financial assistance from DPWI), affecting the bank balance of the entity.
- The increased risk of litigation against the entity.
- Current litigation cases against the IDT, with a possible future outflow of economic resources.

PMTE

The following negatively impact PMTEs financial viability:

- **ended year in deficit** (expenditure more than revenue) and with a bank overdraft of R1,8 billion
- The entity pays suppliers on behalf of user departments before recovering the money (e.g. leases and municipal services) however **receivables are 75%** impaired these may not be recovered
- Overpayments on leases also put pressure on the trading entity's liquidity as these amounts are not immediately recovered

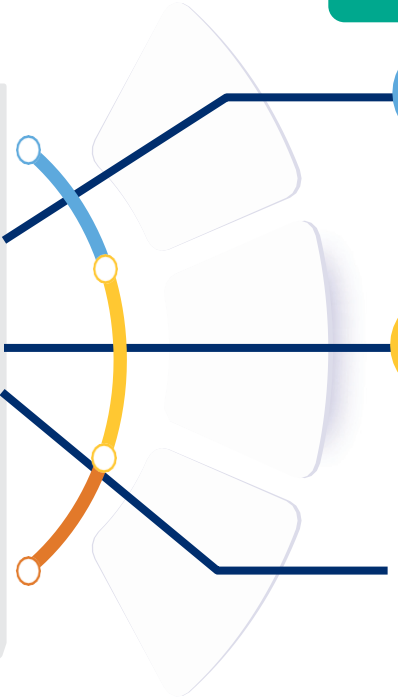


National Treasury Instruction No. 4 of 2022/2023: **PFMA Compliance and Reporting Framework** (Instruction) which came into effect on **03 January 2023**, was issued in terms of section 76(1)(b), (e) and (f), (2)(e) and (4)(a) and (c) of the PFMA

Public objective of the Instruction note is to prescribe the **principles and compliance reporting requirements** for PFMA institutions to the Public Finance Management Act, 1999 regarding **unauthorised, irregular and fruitless and wasteful expenditure** (UIF&WE).

Framework

The new framework brought **significant changes** in relation to the disclosure of **irregular, and fruitless and wasteful expenditure** (IFWE). These changes are as follows:



- 1** **Movement** in the disclosure note of IFWE has been moved from annual financial statements to the annual report.
- 2** **PFMA institutions** will only disclose IFWE incurred in the current year, with a one-year comparative analysis.
- 3** **Historical balances (i.e., opening balances)** have been completely removed from the annual financial statements

Message to portfolio committee

The fact that the disclosure of IFWE (historical balances and movements) is **no longer required on the annual financial statements** and **no audit assurance is provided** thereon, the oversight structures would need to engage **directly with the information disclosed in the annual report** to exercise their oversight responsibility.

AGSA refined its audit approach to uphold transparency by continuing to audit the IFWE disclosure in the annual report

There is a clear messaging in the audit report on reliability of the IFWE disclosure in the annual report

The objective was to ensure that we could still be in a position to report to users of the AFS in cases where these historic balances of IFWE are not complete and accurate. This had no impact on the audit opinion.





2022-23



● No material findings ● Material findings



Most common areas of

	PMTE	IDT	CIDB	DPWI	ASA
Quality of financial statements	X	X	X		
Prevention of irregular, unauthorised, and fruitless and wasteful expenditure	X	X			X
Effecting consequences	X	X		X	
Revenue Management	X	X			

- The lack of proper internal controls for PMTE and IDT has led to qualified financial statements.
- These entities also do not collect their revenue as required which has an impact on their financial viability.
- 3 auditees in the portfolio are not effecting the required consequence management, by not investigating fruitless and irregular expenditure



Status of compliance with legislation on procurement and contract management



2022-23

ASA, CIDB, CBE

PMTE, DPWI

IDT

MOVEMENTS FROM PREVIOUS YEAR:

0 ↑ 0 ↓

FROM FIRST YEAR OF ADMINISTRATION:

0 ↑ 0 ↓

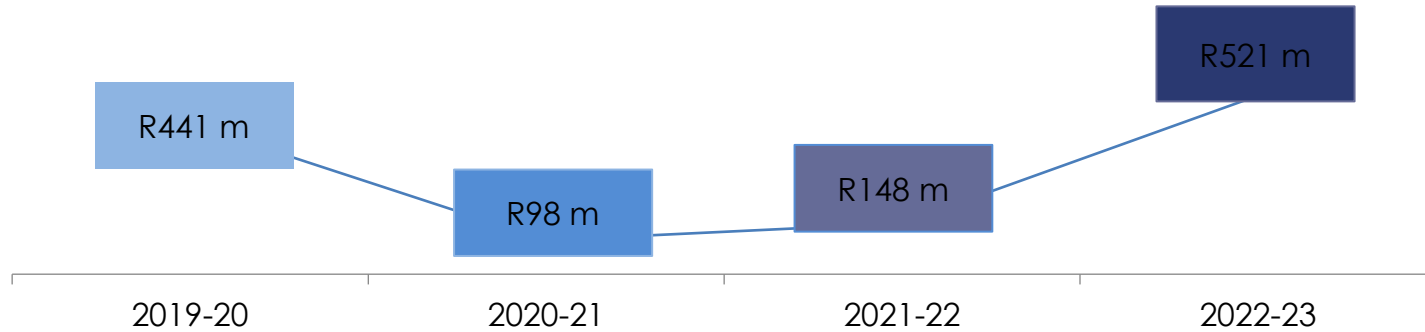
● With no findings ● With findings ● With material findings

Details of procurement findings	PMTE	IDT	CIDB	DPWI	ASA
Uncompetitive and unfair procurement processes	X	X	-	X	
Prohibited awards to employees	-	-	-	-	
Prohibited awards to other state officials	-	-	-	-	
Limitations on audit of awards selected for testing	-	R7 m	-	-	

IDT- supply chain management policies are significantly outdated, as well as information not submitted for audit which has resulted in significant findings related to compliance.
PMTE- There were findings related to an uncompetitive procurement process which may have resulted in the incorrect supplier being awarded the contracts
ASA, CIDB, CBE- No non-compliance was identified on procurement and contract management



Annual irregular expenditure



Top contributors



Irregular expenditure is not complete

Qualifications / still investigating to determine full amount = 1 auditee (25%) (2022-23) (1 auditee -2021/22)
 Limitation in auditing procurement = R7 m

Impact of irregular expenditure incurred

Breach of five pillars of procurement – equitable, fair, cost effective, transparent and competitive:
 R285,60 (IDT) and 247 m (PMTE)

Limitation of scope: IDT: R8,73 m (This includes a variety of projects)

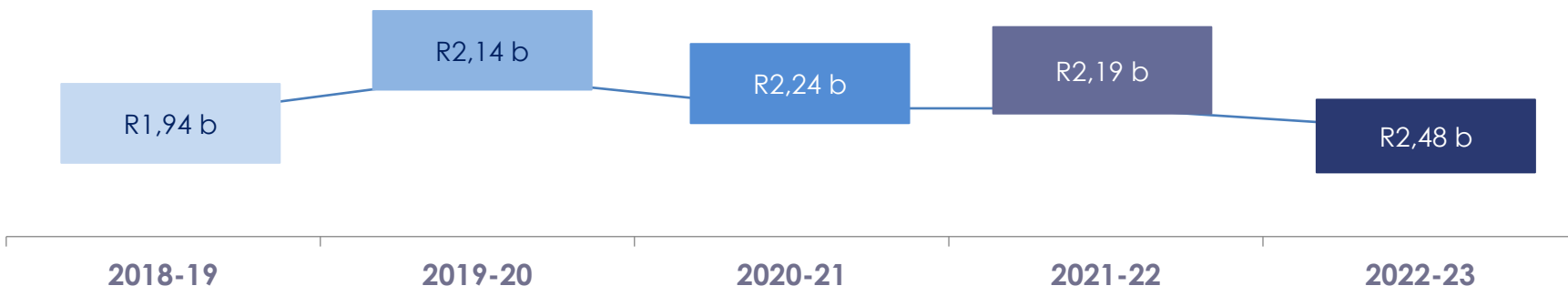
Other: DPWI: R3,9 m (Procedural non-compliance with HR management processes. (8,9M –Settlement agreement reached without client consent)

These analysis exclude the S4(3) and small auditees : CBE and ASA



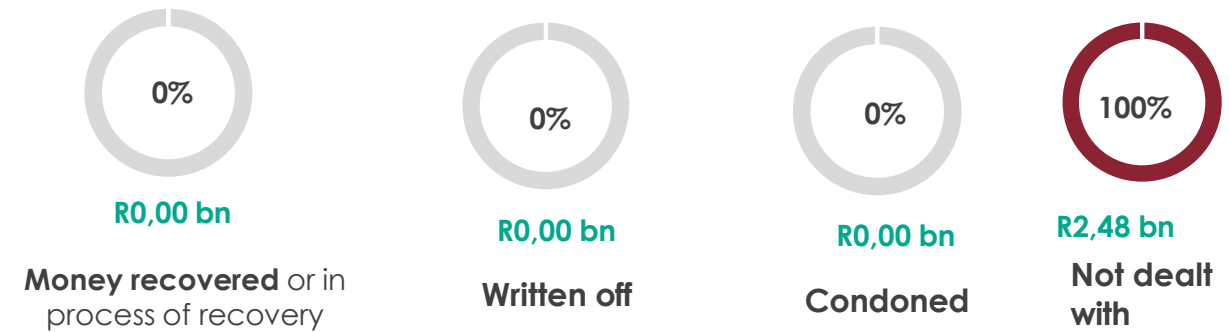
Consequence management – dealing with irregular expenditure

Closing balance of irregular expenditure continues to increase



All the auditees in the portfolio have not dealt with irregular expenditure

How have auditees dealt with irregular expenditure



- R1,98 b PMTE
- R385 m IDT
- R120 m DPWI
- R0,12 m CIDB

The lack of dealing with irregular expenditure has a negative ripple effect in that there will be re-occurrence of similar instances of irregular expenditure that continues to result in leakage to the Fiscus.

Reasons for IE not dealt with:

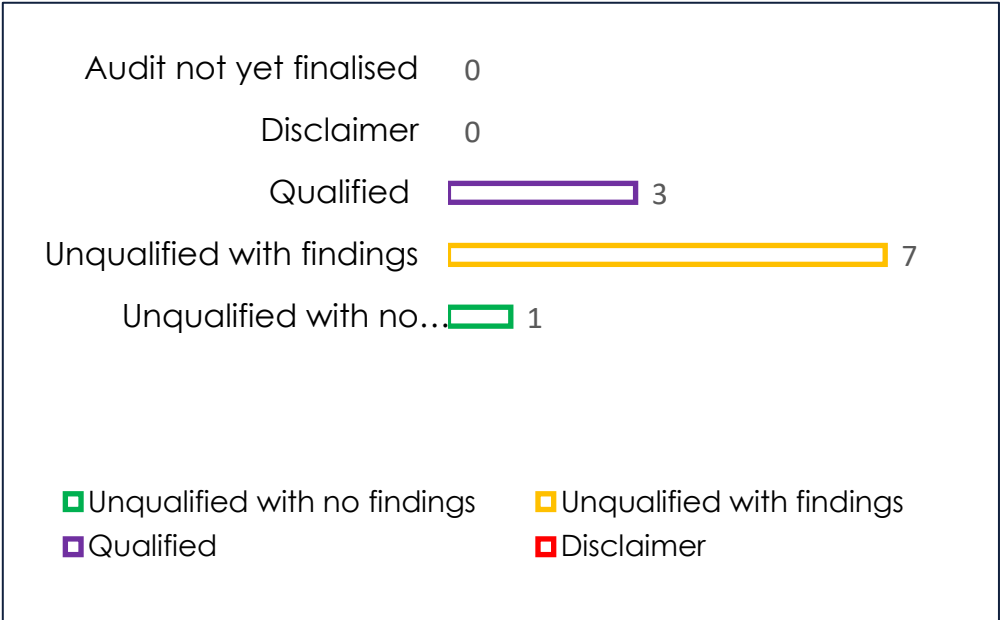
- The PMTE is currently in the process of getting approval to write off a significant portion of the irregular expenditure balance.
- The auditee is still incurring irregular expenditure on multi year contracts
- Lack of consequence management
- Slow responses to the identified irregular expenditure therefore no investigations were done on the root causes of the irregular expenditure



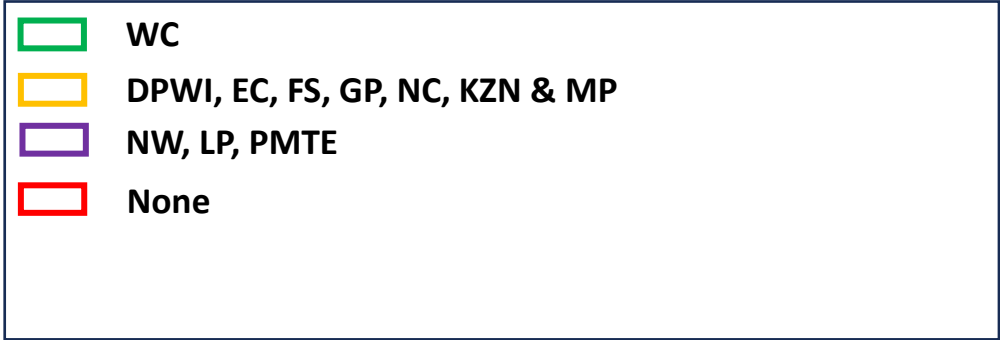
DPWI Sector



Summary of audit outcomes



- We **commend the PMTE** for an improved audit opinion from a **disclaimer** in the prior year to a **qualified audit** opinion in the current year.
- This improvement was due to the asset register being supported by the required underlying reconciliations. The trading entity however, remains qualified due to material misstatements on Payables from exchange transactions, revenue from exchange transactions and commitments
- **LP** regressed in the current year from unqualified to a **qualified audit opinion** due to qualifications on irregular expenditure and Accrued departmental revenue.
- **NW** on the other hand remain the with a **qualified opinion**. This is due to failures to adequately record all instances of irregular expenditure.
- **Other 7 auditees** which obtained **unqualified opinion with findings**, have been stagnant in battling to submit quality and credible financials and performance reports for audits.
- While we **commend WC** for sustaining a **clean audit**, the loopholes which are further unpacked below related to infrastructure projects, maintenance of buildings as well as mismanagement of leases have resulted in some of the user departments constructing their own infrastructure projects and these affect all these auditees.



MTSF Analysis

Output Indicators	Lead/Contributing	Status	NDPWI	IDT	FS	KZN	NC	EC	WC	LP	MP	GP	NW
Improved asset management and reporting in the public sector	Contributing	On track											
Number of employment opportunities facilitated through the Mass Employment Stimulus Programme	Contributing	On track											
Number of validated EPWP work opportunities reported by public bodies into the EPWP-RS	Lead	On track											
Infrastructure Fund established and operationalized	Lead	DBSA responsible											
Capacity building programme	Lead	NT/DBSA resp.											
Number of schools that are provided with appropriate sanitation facilities through Sanitation Appropriate for Education Initiative	Contributing	Basic Education Dept. resp.											
Number of Coastal Cities Planned	Contributing	Achieved											
Number of government owned land parcels released towards spatial transformation and spatial justice	Lead	Not on track											
Hectares (Ha) of Land redistributed or acquired and or allocated for agrarian transformation, industrial parks, human settlements and rural development	Lead	Not on track											
% of approved land reform projects provided with post settlement support	Lead	Not on track											
Percentage share by gender, age and disability of hectares (Ha) of land acquired, for redistribution, restitution, tenure reform and access to title deeds	Contributing	Land reform Dept. resp.											

Included in the APP

Not included in the APP

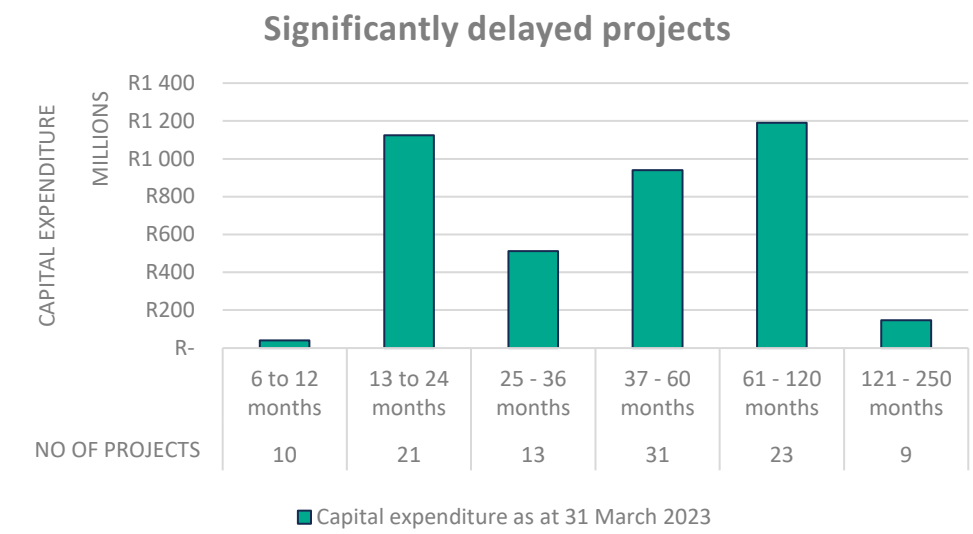
Indicators are consolidated into one indicator in the APP > i.e. Hectares (Ha) of Land redistributed or acquired and or allocated for agrarian transformation, industrial parks, human settlements and rural development



The state of Infrastructure



User departments have lost confidence in DPWI's capabilities to deliver quality infrastructure in a timely manner and within budget due to its poor track record.



- ❑ The public works portfolio continues to fail to deliver projects that are of quality, in a timely manner, and within budget.
- ❑ There were **107 significantly delayed projects** in the 2022-23 financial period with a total cumulative capital expenditure of **R 3,9 billion**. These delays are mainly attributable to the poor performance of the contractors. These are the infrastructures that are not ready for use by client departments.
- ❑ In the current financial year, there were **63** of **107** projects **delayed** by more than 3 years, which is not in line with the average 3-year industry construction period.

❑ As result of delays and poor construction works by PMTE, we are seeing more user departments **assuming functions which were designated for DPWI**, such as construction of infrastructure, maintenance of state property and the payment municipal services. For example, the **restoration of the burnt down parliament** done by DBSA, **87 Defense major projects** and **159 SAPS projects**

Burnt down Parliament building



These user departments have decided to add infrastructure as **part of their mandate** OR **opt for PPP agreements**, which are very expensive and range from 1-3 decades. An example the is the new constructed Head office of Department of Agriculture, Land Reform and Rural Development under PPP agreement with a 27 year period and a cost of R4 billion.

Nggamakhwe police station



The contract for renovations at Nggamakhwe Police Station in the Eastern Cape was awarded in 2012, but 11 years later only 40% of the work has been completed. A total amount of R12 million has been spent and due to the abandoned infrastructure, this led to vandalism and harboring of criminals and drug activities as asserted by the community.

Land Reform and Rural Development



For 2022-23, the **infrastructure investment budget was revised to R255,2 billion**, across all spheres of government (including public entity and SOEs)*. The capital investment into infrastructure by the public amounts to **3,84% of GDP in 2022-23** (estimated), this is **significantly lower** compared to the National Development Plan target of 10% of GDP for public sector.

Some of the **strategic Infrastructure projects (SIP)** are delayed due to lack of funding. **The National Infrastructure Plan 2050 already highlighted that there will be an estimated R2,15 trillion finance gap to achieve the National Development Plan goals.**

Inadequate need assessment and ineffective use of feasibility studies

- Failure to conduct proper needs assessment and feasibility study led to delay on completion of projects
- The significant number of cancelled and abandoned projects questions the due diligence applied in assessing the need for these projects.

Ineffective monitoring of project milestones, project cost and build quality

- Delayed projects resulting in increased cost and financial losses:
 - Standing time
 - Extension of time
 - Default Interest
 - Remedial work
- Negatively impacts service delivery
- Contractors were paid for work not adhering to quality standards

Intergovernmental coordination and collaboration failure

- There was inadequate inter-governmental relationships, as a result, commissioning of projects was hampered.

Ineffective utilisation of facilities and poor condition of state buildings

- Completed infrastructure not utilised as intended and to the full capacity
- State buildings found to be in dilapidated state due to lack of maintenance
- Privately leased buildings preferred over state owned yet the same buildings are in poor conditions due to not being maintained.

1

Despite significant investments:

- Service delivery is impacted** due to the **poor state of infrastructure**.
- Communities **do not have access to basic services** and have to incur additional costs to obtain a service.
- Widespread community **protests, vandalism** and **outbreaks of violence** as the public vent their frustration due to the slow pace of service delivery.
- Government has also not been able to execute infrastructure projects with agility to enable **creation of jobs** or **work opportunities**.

2

Recommendations:

- Key role players should plan together the long-term turnaround strategy of SA infrastructure**
- Projects should be **adequately planned to reduce delivery delays**, unnecessary extensions, and cost increases.
- Segregation of coordination, monitory and custodianship role among multiple role players** prevents clear accountability and consequence management on the state of SA infrastructure.
- CIDB should utilise its enforcement powers as one of the regulators** of the construction industry.

WHAT WE FOUND

Resulting in (as examples)



Project implemented by PMTE

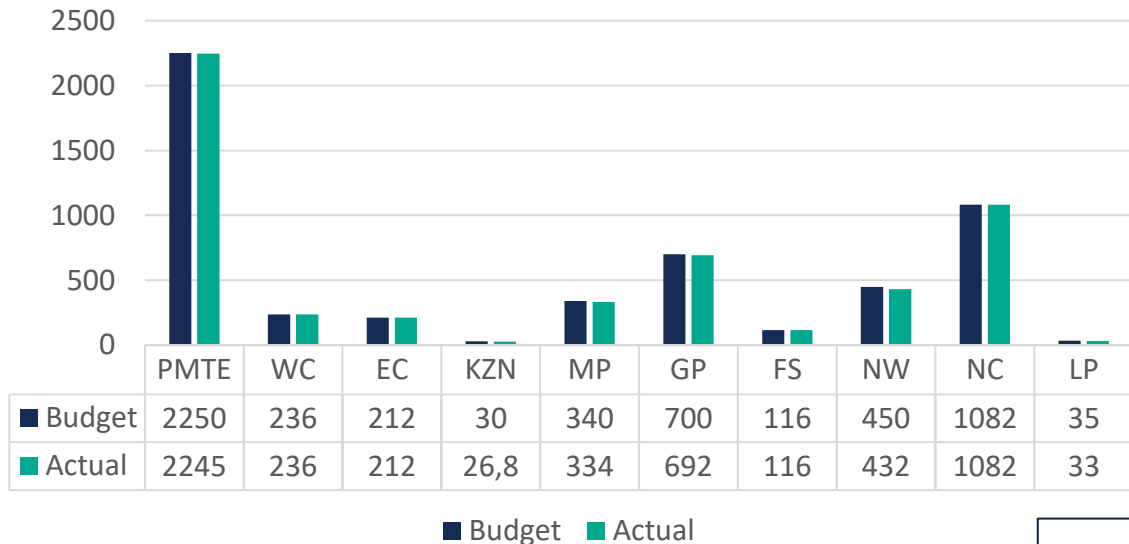
The **upgrade of Kitchen Equipment** for SA Army College at Thaba Tshwane in Pretoria has been **delayed** by **four years** and **three months**, resulting in **confirmed losses** to date amounting to **R1 076 469**. The kitchen equipment is to be replaced with equipment capable of providing meals for approximately **1,000 members per meal**.



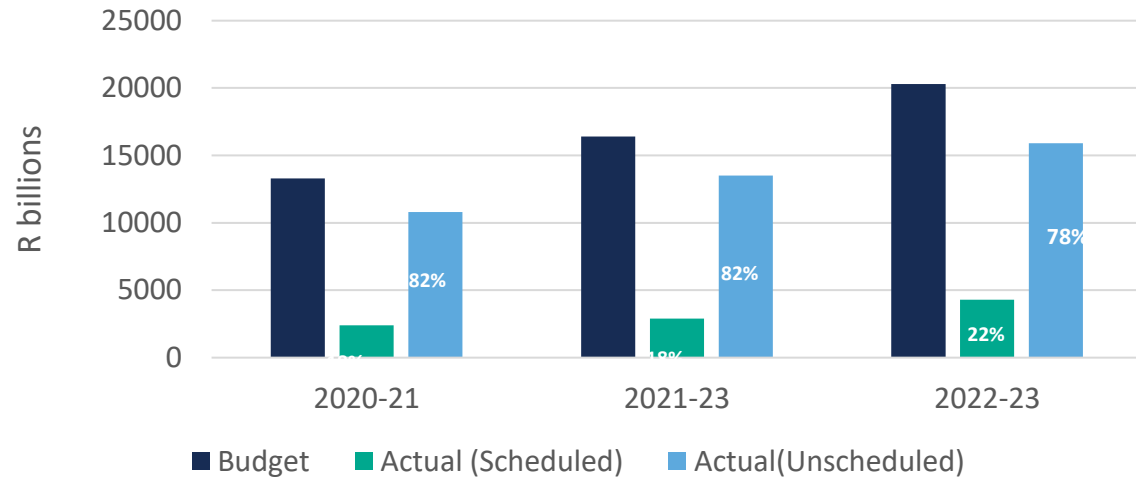
The Parys Correctional Facility – Implemented by DBSA

The Parys Correctional facility has closed for the duration of the upgrade. The **current 76 bed spaces** were therefore **not available** during the construction period. The **76 inmates** were **allocated** to the **Sasolburg Correctional Centre**. There is currently **overcrowding** at the Sasolburg Correctional Centre which is standing at **62,25%** which was aggravated by the relocation of inmates from the Parys correctional facility. To date, the project is currently **delayed** by **16 months** with likely financial losses of **R28 278 026,69**.

Budget vs actual



Scheduled vs Unscheduled maintenance



- The analysis revealed that the public works and infrastructure sector used most of its allocated maintenance budget. However, the sector is more reactive rather than proactive in its response to the client department emergency requests that could have been addressed through regular preventative maintenance of state buildings.
- The impact of the above picture is that the cost of maintaining the properties might be higher in future if the maintenance is not performed regularly and conditional assessments are not done on time.

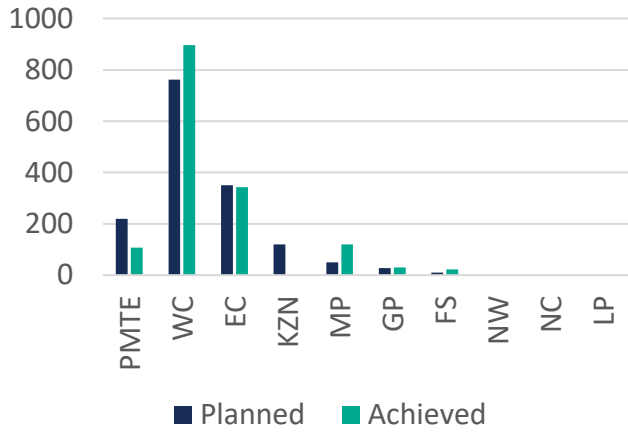
- The departments' goal over the strategic period under review is to achieve an 80:20 ratio of scheduled to unscheduled maintenance. Contrary to the set goal, the department has not achieved this goal as expenditure on unscheduled maintenance has consistently exceeded scheduled maintenance.
- This indicates that the department is more reactive than proactive in repairing and maintenance state owned properties. This has resulted in building's conditions deteriorating which then become vacant and unutilized as user departments move out for the safety of employees and ordinary citizens
- Maintenance has seen the **gap on the spending on planned vs unplanned maintenance**.
- Appropriate **preventative maintenance** is therefore not properly planned and thus not effectively executed.
- Consequently, the **state of current state-owned infrastructure** continues to decline – exacerbating the need for ongoing unplanned maintenance.



Condition assessment

Condition assessment by the auditee

Condition assessment



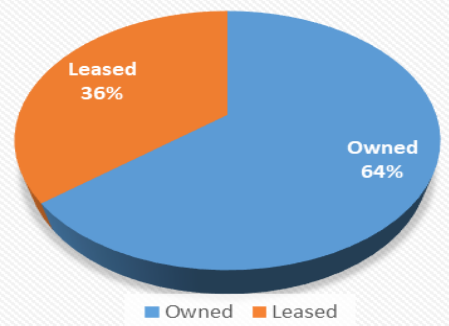
- In the current year the sector has 11 6 428 properties but managed to perform condition assessment on 1 519 properties. It therefore remains a concern that not all buildings will be subject to a conditional assessment every 5 years. As required by GIAMA.
- As a result of not performing these conditional assessment, most of the building are not assessed, which results in money spent on reactive maintenance that does not improve the overall condition of buildings.

- For example, a condition assessment was performed on the **New Brighton Police Station in October 2022**, and **it was found that it is in poor condition**. It was recommended that the walls should be demolished and reconstructed. **However, PMTE has not done any maintenance on this building.**

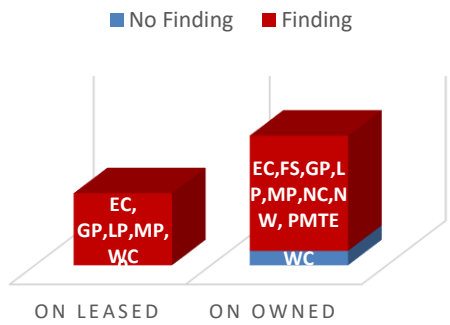


Condition assessment by the AG

Number of buildings



PROVINCES WITH FINDINGS

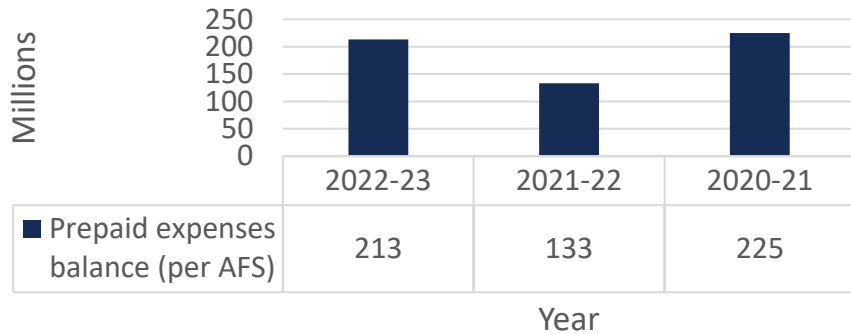


This indicates that the department is not doing condition assessments on time to identify the maintenance needs required **resulting in the state buildings being in dilapidated state.**

Example of building visited by the AG team at Old Parliamentary Village



Overpayments on leased buildings



■ Prepaid expenses balance (per AFS)

- While the trading entity is making progress in identifying overpayments, it still a concerns in the control environment remain due to the **controls being reactive** when overpayments after made are not effective in preventing overpayments.
- There are currently 3 MIs on overpayment of leases
- In the past these overpayments are due to **capturing and system deficiencies**, where payments were not in accordance with lease agreements
- In the current year we noted **that PMTE is overpaying landlords on parking bays** where the parking bays per lease do not exist
- This is a concern as these should be confirmed before lease commences.
- While management addresses the identified overpayments, we recommend ensuring the whole portfolio is addressed.

Example- overpayment on parking bays

-The trading entity entered into a lease agreement with landlord for the TULBAGH PARK BUILDING, in February **2010**. According to the lease agreements there were 761 parking bays, the monthly rate per parking bay was **R433, 20**. The user department is still in occupation of this building and currently **paying R990 per parking bay** .

During the AGSA verification of the parking bays, we found only 552 parking bays on the premises, therefore the **trading entity is paying for 209 parking pays that don't exist**.

More than R2 million was paid in the current year for parking bays that don't exist in this building alone, and **over R19million in the duration of this lease**.

The **Trading Entity agreed to a total overpayment of R16million** over the duration of the lease. And as at 18 August 2023. A letter was sent to the landlord requesting reimbursement of R16 714 686.

Month to Month leases

The trading entity has established a national lease negotiating committee to address month to month leases and negotiate at market related rates.

We noted the following in the current year:

- The lease on the Hallmark building was renegotiated from **R241 per sqm to R102** resulting in a **saving of more than R3,5m per month and more than R42m in the first year**.
- However, leases not negotiated still result in losses like the Thibault Nivarre Wachtuis complex where the contract expired in February 2019, the entity is currently paying **R217 per sqm making a monthly loss of R6.2m per month and more than R75million per annum**

We also noted that the month to month leases have increased from **248 (2022) to 310** in the current year.



Condition of leased properties

One of the MTSF goals of the Public Works sector is to provide a dignified client experience for its user departments and where they are not able to provide this from their asset register they sector leases from private landlords.

There are concerns noted from user departments where the quality of leased buildings, especially those provide key service delivery are in poor condition.

We have noted instances where even the leased buildings are not in good conditions

KwaThema Police station- PMTE

The KwaThema police station under the JHB region has been in poor condition for years. This has been the only police station in the area since 2004,

however now **Holding cells cannot be used and there is no area to detain criminals.**

The **charge office is not safe to use** therefore they use a room at the back where there isn't enough space and there isn't any privacy, where required.

There are **numerous safety issues** identified ranging from **electrical faults**, exposed electrical wires, **sewage blockages** and **damaged ceilings** which pose risks to both the community and the police officials.



Roslyn Police Station- PMTE

The Roslyn police station in the PTA region also has similar issues where doors don't have handles, sewage blockages, mould on walls dilapidated or leaking roof.

A bigger safety concern is that **criminals are detained in chairs as there is no holding cells** and **ammunition room door handle is broken therefore guns are kept in a room only locked with a padlock**, this poses a safety hazard.

Further the building caught fire in the last 2 years however there is no proof that fire extinguishers are maintained



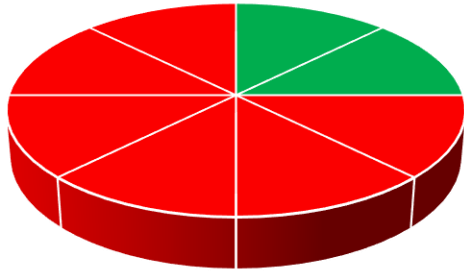
Mould and moisture forming on the kitchen cell wall and paint peeling from the slab



This is the door to the firearms room (storage) and the handles are not working hence this method of chain and lock is used .



Module Status



- Unscheduled Maintenance
- Lease-in
- Immovable Asset Management
- Condition Assessment
- Infrastructure budgeting and CPM
- Lease Out

Archibus was procured by PMTE through a deviation approved by NT, as a system that manages the operational aspects of **Assessment Management lifecycle**.

This will **reduce** the number of **manual processes** in the entity and ensure **efficient service delivery** to user departments. In addition, processes and key units will be able to **integrate processes** through the ERP system and be able to obtain critical information immediately to respond to user department's needs.

The ARCHIBUS project was initiated in **2015**, however, **8 years later** and only **2** out of the **8 modules** are Live and being used by PMTE. This is despite two Suppliers being appointed and a cumulative expenditure of **R 36 348 962**.

In addition, a new supplier has been awarded **R 52 207 000** to upgrade, enhance, complete and intergrade modules for ERP solution.

Supplier	Contract Award Amount	End of contract expenditure
LDM	R 22 017 516	R 16 500 028 (75%)
ALCM	R 22 895 092	R 19 848 934 (87%)

Key observations

Poor contract management

The project is significantly delayed due to poor contractor performance relating to the software development . However, no penalties were issued to these suppliers.

System development

It is concerning that the new service provider will have to redo work which should have been done by the previous 2 suppliers who were paid for their services. Based on the new contract award value and scope of work, this indicates that the old system may be scrapped and a completely new system developed .

License fees

During the 2022-23 year, PMTE purchased end user licences which are not compatible with the ARCHIBUS software version currently in use. Furthermore, it was noted that some of these licenses were purchased for modules that are not ready for use. A total of R2 771 464.32 was spent in this regard. In addition, a Material Irregularity has been issued in DPWI KZN for a similar non-compliance.

Recommendations

- The appointed supplier should be **monitored** on progress made and held **accountable** for any **delays** or **poor workmanship**.
- **Regular reports** should be made to the Minister, AO and CFO on **progress** to ensure that the project is **completed** and brought to **use**. **Disciplinary actions** should be actioned on any poor contract management by internal officials.



KZN FLOODS- Welisizwe bridges

Welisizwe programme

The country was severely impacted by **heavy rains in April 2022**. This resulted in floods and rural communities **unable to have access to basic amenities e.g. schools , clinics etc.** due to damages to infrastructure (Roads, bridges and property). In addition, accesses were rendered difficult and unsafe to utilise in the affected areas, causing great inconveniences to the affected communities. Urgent interventions were required in the most affected provinces, and the Welisizwe programme was identified as the appropriate tool for the construction and reconstruction of KwaZulu Natal bridges.

The **KZN department of transport** approved funds of **R292 million** for the construction of **24 bridges**, the NDPWI was the coordinator and DOD was the implementing agent.

Projects started in July 2022

What we found

The following findings were identified during the real-time audit of the project:

- We noted items that were included on the invoice but were not part of the bill of quantity.
- Inaccurate KMs charged by the supplier resulting in the overstatement of invoices.
- In certain instances the weights (tons) charged on the invoice can not be verified. Potential overstatement.
- Materials delivered on site does are not aligned to the BOQ materials however the material price were not adjusted

The MI was issued on 31 July 2023 for a financial loss

Further the supplier was based in Gauteng which meant huge delivery costs to travel to KZN

Foresight

- The president approved an **additional R3 billion** for the programme to be extended to 6 other provinces in the next 3 years.
- The **supplier moved the operations to KZN** to decrease the transport costs
- **Two bridges** were completed and no structural issues were identified by PABU
- The programme has moved to other provinces.
- There is still **one supplier** as the DPWI has not completed the procurement processes

The Mona Bridge in Ndwedwe community brought massive impact in the area.





Leadership instability

The DPWI has not had a permanent **DG** since 2019. Since then, a total of **3 officials** have occupied the position on an **acting capacity**.

This has led to **lack of consistency** as well as following through on commitments which are longer than a year. This has a **ripple effect** in the **stability** and **effective functioning** of the organisation as a whole.



Infrastructure South Africa (ISA)

ISA is established as a **single point of entry** for infrastructure **planning, management, and delivery**. ISA is a **catalyst** for closing the infrastructure investment gap and meeting the **infrastructure target** set out in the **NDP**.

ISA is not an independent entity but operates as a strategic unit of infrastructure excellence within DPWI.

- ISA has been allocated **R600 million** for project preparation.
- ISA is also tasked with the **Refurbish, Operate and Transfer (ROTP)** programme to address the **poor state of government properties**.
- **Total Facilities Management (TFM)** model to put in place routine maintenance which will **prevent the hijacking** of buildings and **optimization** of the **state-owned fixed asset portfolio**.



The Parliamentary Villages Management Board

The Director-General of Public Works is the standing chairperson of the Board. However, there is **currently no functional board**. This **instability** has amongst others resulted in :

- **No AFS** being submitted to the AG **since 2013**.
- Board not being held **accountable** for the **R 11 million** transfer received from DPWI annually
- **Neglected** state of **facilities**
- Lack of action and resolution of long-standing **problems**
- **Safety concerns**, lack of accountability in contracts

Conclusions and recommendations



In 2021-22, we recommended the following:

- The accounting officer should make sure that the **reduction of month-to-month leases is accompanied by reduced rates** that are aligned to market rates.
- Develop an **immovable assets plan** for all unoccupied properties to outline how the vandalized properties not fit for purpose can be refurbished to be fit for purpose.
- Perform an **investigation on all cancelled projects** (Impaired) where a significant amount has been spent to determine the **extent of fruitless and wasteful expenditure**.
- The executive authority and the accounting officer should **refer leases as a whole to SIU for investigation**, especially **in relation to mismanagement of leases** that **result in recurring overpayments**.
- Unutilized buildings should be **safeguarded** to avoid buildings being **vandalized**.
- The accounting officer should take **decisive actions on employees who override the ARCHIBUS and SAGE systems** which results in overpayments and misstatements.

- **Develop and include indicators** on the APP for the 4 MTSF indicators not addressed at all.
- Infrastructure investment should focus on **proactively** maintaining existing properties to ensure they are fit for use and reducing the number of privately leased buildings.

Overall reflections on the implementation of recommendations:

- The PMTE has established a national lease negotiating committee to assist with ensuring expired leases are renegotiated at market-related rates.
- While noting the existing constraints on Fiscus, there is an appetite for the refurbishing, operating, and transferring (ROTP) program that seeks to address the poor state of government properties (utilised and unutilised).
- We note with concern that the implementation of the recommendations made was not expedited to resolve the challenges within the sector. This includes investigations on cancelled projects, leases overpayments and development of pro-active maintenance.
- With the 2019-24 MTSF period coming to an end in the next cycle, there remain 4 MTSF indicators that were included on the APPs, this hinders the government's strategic goals and lived experiences of ordinary citizens.

 Implemented

 In progress

 Not implemented



Overall root causes of significant findings

- Lack of pro-active maintenance of state-owned properties which results in illegal occupation and vandalism
- Lack of standardized indicators for the sector in accordance with MTSF targets, this impedes on the sectors ability to monitor achievement of targets
- Lack of inter-departmental co-ordination between key divisions
- Lack of efficient and effective information systems used in the preparation of financial statements.

Key recommendations to, and commitments by, accounting officers and authorities

- Increase in number and frequency of condition assessments and detailed maintenance plans to ensure proactive maintenance of properties
- Standardized sector indicators to ensure that the MTSF targets are met
- The accounting officer should intensify the actions with respect to infrastructure projects to successfully implement their mandate. Expediting these actions will translate into sustained, consistent, and meaningful improvements in the lived reality of ordinary South Africans

Commitments by executive authority

- **Omitted indicators** to be included in the 2023/24 APP and work towards achieving planned targets for the remaining period of MTSF.
- Investigate the **ten highest-paid landlords** that were highlighted in the sector report, to establish reasons and identify overpayments that should be recovered.
- Investigate **cancelled and delayed construction projects**, from the start to the end phase and where the plans did not materialize, the responsible officials will be held accountable.
- Request the department to institute its own independent investigation on **the issues of IDT.**

In 2021-22, we recommended the following:

- refer leases to SIU for investigation
- Ensure reduction of month-to-month leases is accompanied by reduced rates that are aligned to market rates.
- The sector should have standardized indicators aligned to the 2024 MTSF goals.
- Sector should strive to achieve the set target ratio of 80:20 of scheduled to unscheduled maintenance.
- Unutilized buildings should be safeguarded to avoid buildings being vandalized
- Delays and cancellation of projects should be investigated early to determine the real root causes



Overall reflections on implementation of recommendations:

- Efforts have been made to respond to the recommendations which include investigation of cancelled projects and recovery of lease overpayments.
- The Department has not implemented sufficient actions in addressing pro-active maintenance of state property, safeguarding of vacant/unutilised buildings , prevention of lease overpayments and project delays.
- Lastly, the DPWI sector is yet to agree on a standardised indicator.

Key messages going forward: 2024

1

Pro-active maintenance of state property to increase the utilisation of state property and reduced of **hijacked** and **vandalised** buildings.

2

Impact of **business forums** on **construction project progression** and the ripple effect on **service delivery** and **lived experience of ordinary citizens**

3

Monitoring of key **infrastructure objectives** to ensure the achievement of the MTSF set targets

4

Co-ordination of infrastructure SA and the sector with respective to construction projects that realise timeous **return on investment**.



THANK YOU



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