



AUDITOR-GENERAL  
SOUTH AFRICA

# ANNEXURE E: MANAGEMENT REPORT

The Human Sciences Research  
Council (HSRC)

2022-23

# ANNEXURE E: SUMMARY OF DETAILED AUDIT FINDINGS

1. This annexure summarises the findings that were communicated to management during the audit. The detailed findings are available on request.
2. The findings are rated as follows:

	Matters that will be reported in the auditor's report and should be addressed urgently.
	Matters that should be addressed to prevent material misstatements in the financial statements or material findings on the annual performance report and compliance with legislation in future. Also includes matters that significantly affected auditee performance.
	Matters that do not have a direct impact on the audit outcome or a significant impact on auditee performance, but were communicated to assist with improving processes and mitigating risks.

## Summary of audit findings

Finding	Rating	Classification					Number of times reported in previous two years
		Financial	Performance	Compliance	Internal control	Delivery	
<b>Annual financial statements</b>							
C20 Incomplete disclosure of Irregular, fruitless and wasteful expenditure		√					0
C27 Prepayment and advances		√					0
C29 Research cost – differences noted between payroll report and AFS amount for direct labour expense		√					0
C17 Property plant and equipment depreciation calculated incorrectly		√					0
C19 Completeness of the fixed asset register					√		0

Finding	Rating	Classification					Number of times reported in previous two years
		Financial	Performance	Compliance	Internal control	Delivery	
<b>Procurement and contract management</b>							
C7 Inconsistent application of evaluation criteria				√			0
C5 Incompleteness of tender register					√		0
C6 Inconsistencies noted between scoring sheet and approved evaluation criteria					√		0
C8 Calculation differences noted for functionality					√		0
C1 SCM policy not aligned to National Treasury instruction note 2 of 2021/22					√		0
C11 Contract management – Not all performance reviews were done				√			1
C13 Deviations not reported to National Treasury within 14 days					√		0
C15 Inconsistent application of functionality scoring criteria for quotations					√		0
C4 Employees doing other remunerative work and having interest in other institutions				√			0

## 1. Incomplete of Irregular, fruitless and Wasteful Expenditure

### Requirement

Section 55 (1) (a) of the Public Finance Management Act states "The accounting authority for a public entity must keep full and proper records of the financial affairs of the public entity"

Section 55 (1) (b) of Public Finance Management Act states that: "The accounting authority for a public entity must prepare financial statements for each financial year in accordance with generally accepted accounting practice, unless the Accounting Standards Board approves the application of generally recognised accounting practice for that public entity"

Section 57(a) of Public Finance Management Act states that: "An official in a public entity must ensure that the system of financial management and internal control established for that public entity is carried out within the area of responsibility of that official".

Annexure A of National Treasury Instruction no 4 of 2022/23: PFMA Compliance and Reporting framework states:

Par 7.7 -Unauthorised, irregular and fruitless and wasteful expenditure for the current financial year include:

- (a) amounts incurred and confirmed in that financial year; and/or
- (b) payments made as it relates to multi-year contracts.

7.8 -Unauthorised, irregular and fruitless and wasteful expenditure for the previous financial year include:

- (a) amounts confirmed in that financial year;
- (b) amounts that were under assessment in that financial year and confirmed in the current financial year
- (c) Amounts that were not identified and are identified and confirmed in the current financial year.

### Audit finding

During the audit of the disclosure note for irregular, fruitless and wasteful expenditure, we noted that the note does not include all amount of irregular, fruitless and wasteful expenditure as per par 7.7 and 7.8 of the framework.

Managements note currently discloses the following;

	2023 March R'000	2022 March R'000
<b>Irregular Expenditure and Fruitless and Wasteful Expenditure</b>		
Irregular Expenditure	2 982	39 276
Fruitless and Wasteful Expenditure	2 636	14
<b>Closing balance</b>	<b>5 618</b>	<b>39 290</b>

Amounts that should be included in note as per reconciliation in the annual report;

Description	2022/2023	2021/2022
	R'000	R'000
Irregular expenditure that was under assessment in 2022/23	-	-
Irregular expenditure that relates to prior year and identified in the current year	-	19 579
Irregular expenditure for the current year	2 982	792
Irregular expenditure paid in the current year that relates to irregular expenditure identified in the prior year	28 395	-
<b>Total</b>	<b>31 377</b>	<b>20 371</b>

Description	2022/2023	2021/2022
	R'000	R'000
Fruitless and wasteful expenditure that was under assessment in 2021/22	341	440
Fruitless and wasteful expenditure that relates to 2021/22 and identified in 2022/23	-	-
Fruitless and wasteful expenditure for the current year	2 636	14
<b>Total</b>	<b>2 977</b>	<b>454</b>

The root cause of the finding is that the instruction note is fairly new and is therefore prone to misinterpretation. The above finding results in the following;

- 2023 –Understatement of irregular expenditure by R 28 395 000
- 2022- Overstatement of irregular expenditure by R 18 905 000
- 2022- Understatement fruitless and wasteful expenditure by R 440 000
- 2023- Understatement of fruitless and wasteful expenditure by R 341 000

#### Internal control deficiency

##### Financial and performance management

- Management did not prepare regular, accurate and complete financial reports that are supported and evidenced by reliable information.
- Management did not comply with disclosure requirements as per the framework

#### Recommendation

- Management should ensure that they comply with the disclosure requirements of the framework and include all amounts required.

#### Management's response

Description	Response
Does Management agree with the finding (Yes/No)	Irregular Expenditure – Yes Fruitless & Wasteful Expenditure - No
Detail reason for agreeing/disagree with finding	Irregular Expenditure – Confusion arose due to the new reporting changes that are being implemented for the first time this year.  Fruitless & Wasteful Expenditure The amounts disclosed in the AFS are correct however, the amounts on the annual report need to be revised.
Detail corrective action to be taken	Irregular Expenditure 2022/23 – 2 982 to be removed as per finding 1 above. Only 28 395 will remain  2021/22 – Only 792 to be disclosed in the AFS. 19 579 to be removed from Annual Report as it relates to the 2020/21 financial year.  Fruitless & Wasteful Expenditure Fruitless & Wasteful Expenditure under assessment disclosed in the annual report should be removed as it was erroneously disclosed. No Fruitless & Wasteful Expenditure was under assessment during the period under review.
Does the finding affect an amount disclosed in the Financial Statements (Yes/No)	Irregular Expenditure Yes – Notes to the AFS  Fruitless & Wasteful Expenditure No, the amount disclosed in the AFS is correct. The correction will be made on the annual report.
If yes what corrections will be made to the population	Irregular Expenditure The note will be updated accordingly in totality, the note and the annual report.  Fruitless & Wasteful Expenditure The correction will be made on the annual report.
If yes and no corrections will be made the reason why such a conclusion has been reached should be indicated.	N/A
Position of official responsible to take corrective actions	Finance Director
Does management agree with the root cause indicated	Yes.
If management does not agree with the root cause indicated, please	N/A

provide the root cause according to management.	
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**Auditor's conclusion**

Management agreed with the finding and adjusted the AFS disclosure to only include UIFWE amounts incurred and paid in the current year and comparative year. The team tested these adjustments and accepted the changes.

The finding will be reported in the audit report as a corrected material misstatement.

## 2. Prepayment and advances

### Requirements

Section 51 (1)(a) (i) of the Public Finance Management Act states "An accounting authority for public entity must ensure that public entity has and maintains an effective, efficient, and transparent system of financial and risk management and internal control".

Section 55 (1) (a) of the Public Finance Management Act states "The accounting authority for a public entity must keep full and proper records of the financial affairs of the public entity"

GRAP 1-paragraph 17 states that "Financial statements shall present fairly the financial position, financial performance, and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses. The application of Standards of GRAP with additional disclosures, when necessary, is presumed to result in financial statements that achieve a fair presentation."

The pre-payments and advance accounting policy states "Payments made in advance to suppliers are in respect of goods and services in line with the business of the entity. An item will be recognised as a prepayment if the payment was made in advance and at the reporting period these goods and services had not been delivered or rendered to the entity. Prepayments and advances will be derecognised as and when goods and services are received. There is no contractual right to receive a refund in cash or another financial instrument from the suppliers"

### Audit finding

During audit of pre-payments and advances, we noted the below differences in amounts indicated per the prepayments and advance schedule for the below suppliers that have been paid in advance for the services to be provided, and the auditors calculation of the balances of the amounts paid to suppliers in advance taking into account the subscription period:

Details as per listing schedule						Invoice details			Auditors' recalculation			Differences	
Number	Supplier name	Invoice number	Invoice Amount	Subscription Period		Total Prepayments Balance @ 31 March 2023	Invoice number	Invoice Date	Invoice Amount Exclu	Amount exclusive of VAT	Monthly amount		Pre-payment and advance as at 31 March 2022
1	EBSCO INFORMATION SERVICES-	53231800003809	138,620.00	01-Mar-23	28-Feb-24	R115,516.45	53231800003809	22/03/2022	R138,619.75	R138,619.75	R11,551.65	R127,068.10	R11,551.65
2	ELSEVIER B V	BS941/P10/1A - F582365	R307,762.92	01-Jan-23	31-Dec-23	R230,822.18	F582365	02-Jan-23	R307,762.92	R307,147.38	R25,595.62	R276,432.65	R45,610.47
3	ELSVIE	BS969/P11/3A - M588132	R1,469,014.22	01-Jan-23	31-Dec-23	R1,285,387.44	M588132	14-Feb-23	1,277,403.67	R1,396,002.76	R116,333.56	R1,047,002.07	-R238,385.37
<b>TOTAL</b>			<b>R1,915,397.14</b>			<b>1,631,726.07</b>			<b>R1,723,786.34</b>				<b>(181,223.25)</b>

The root cause for the above differences were due to:

- Management did not properly determine the above prepayments made in advance at reporting period for services not rendered to the entity due to not deducting the value of the services delivered from the amounts paid to the suppliers, considering the subscription periods.
- Item 2 and 3- The differences is due to errors in translating the amounts exclusive of VAT from US dollars into South African rands.

The projected misstatement from the overstatement indicated above amounts to R 413 394.05

### Internal control deficiency

#### Financial and performance management

- Management did not prepare regular, accurate and complete financial reports.
- Management did not implement controls over daily and monthly processing and reconciling transactions
- Management did not implement internal controls to ensure that the pre-payments and advances line item is accurately determined and presented in annual financial statements submitted for audit.

### Recommendation

Systems and processes should be implemented by management to ensure that prepayment amounts are calculated appropriately as per the requirements of the GRAP standard and PFMA and disclosed accordingly.

### Management's response

Description	Response
Does Management agree with the finding (Yes/No)	<b>No</b>
Detail reason for agreeing/disagree with finding	<p><b>No – Item 2 &amp; 3</b></p> <p>The conversion into Rand amounts was not done correctly by the auditor. HSRC used amounts as converted by the bank.</p> <p><b>No- Item 2</b></p>

	<ul style="list-style-type: none"> <li>The prepaid balance for this transaction was correctly determined.</li> <li>The service runs from 01 Jan – Dec 2023, the prepaid period at 31 March is 9 months.</li> </ul> <p><b>Yes- Items 1 and 3</b> regarding the apportionment of the prepaid amounts.</p> <p>Management does not agree with the extrapolated figure as it is based on the incorrect amount.</p>
Detail corrective action to be taken	A correction journal will be passed.
Does the finding affect an amount disclosed in the Financial Statements (Yes/No)	Yes, The AFS will be adjusted.
If yes what corrections will be made to the population	A correction journal will be passed for items 1 and 3 after revisiting the population.
If yes and no corrections will be made the reason why such a conclusion has been reached should be indicated.	Corrections will be made to adjust the pre-payments balances
Position of official responsible to take corrective actions	Finance Director
Does management agree with the root cause indicated	No
If management does not agree with the root cause indicated, please provide the root cause according to management.	The confusion was caused by the Invoice date format on the foreign invoices. Eg 31/12/2023 vs 12/31/2023

**Auditors' conclusion**

Management revisited the population and indicated that only item 1 and 3 were identified as misstated. The team performed additional testing and found a misstatement indicating that errors still exists in the population. Therefore, the original projected misstatement of R392 533.54 remains.

The finding will be recorded in the schedule of unadjusted differences.



### 3. Research cost – differences noted between payroll report and AFS amount for direct labour expense

#### Requirement

Section 51 (1)(a) (i) of the Public Finance Management Act states "An accounting authority for public entity must ensure that the public entity has and maintains an effective, efficient, and transparent system of financial and risk management and internal control"

Section 55 (1) (a) of the Public Finance Management Act states "The accounting authority for a public entity must keep full and proper records of the financial affairs of the public entity"

#### Audit finding

During the audit of Research Cost (Direct Labour Expense), we identified that the supporting schedule (project payroll report received 22/06/2023) did not agree to the amount recorded in the financial statements.

Refer to the table below for the calculation to arrive at the amount indicated:

Account no.	Difference reduced by the following accounts in the trial balance that would not have formed part of the payroll report.	R9 890 366.67
349750	Skills development	(R1 344 508.68)
330091	Leave provision expense	(R41 584.51)
341910	Participants incentives	(R1 833 545.16)
341920	Honorariums paid	(R899 343.95)
341200	Sundry benefits	(R1 066 172.15)
	<b>Difference</b>	<b>R4 705 212.22</b>

This results in an overstatement of **R4 705 212.22**

The root cause of the finding is that reports and schedules that support amounts included in the financial statements are not reconciled and reviewed so that source information agrees to disclosed amounts.

#### Internal control deficiency

Financial and performance management

Management did not prepare financial information that is supported and evidenced by reliable information

#### Recommendation

Reports and source documentation should be reviewed and agreed to the financial statements and maintained to ensure an appropriate audit trail is maintained.

#### Management's response

Description	Response
Does Management agree with the finding (Yes/No)	Yes, but not with the overstatement figure.
Detail reason for agreeing/disagree with finding	Management provided a detailed reconciliation between the General Ledger and the payroll reports. The discrepancy between the two was R3 million.
Detail corrective action to be taken	Management will perform a monthly reconciliation between the General Ledger and the payroll reports going forward .
Does the finding affect an amount disclosed in the Financial Statements (Yes/No)	No, The finding does not affect the amount disclosed in the AFS. The issue is on the reconciliation and not the amount disclosed on the AFS.
If yes what corrections will be made to the population	None
If yes and no corrections will be made the reason why such a conclusion has been reached should be indicated.	None
Position of official responsible to take corrective actions	Finance Director HR - Payroll
Does management agree with the root cause indicated	Yes

If management does not agree with the root cause indicated, please provide the root cause according to management.	N/A
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**Auditor's conclusion**

Management agrees with the finding. Managements reconciliation was tested and confirmed that R 3 052 590 as per payroll reports could not be reconciled back to the AFS. This results in an understatement of research cost by this amount.

The finding will be recorded in the schedule of unadjusted differences

#### 4. Property plant and equipment depreciation calculated incorrectly

##### Requirements

Section 55 (1) (a) of the Public Finance Management Act states "The accounting authority for a public entity must keep full and proper records of the financial affairs of the public entity"

Section 55 (1) (b) of Public Finance Management Act states that: "The accounting authority for a public entity must prepare financial statements for each financial year in accordance with generally accepted accounting practice, unless the Accounting Standards Board approves the application of generally recognised accounting practice for that public entity"

Section 57(a) of Public Finance Management Act states that "an official in a public entity must ensure that the system of financial management and internal control established for that public entity is carried out within the area of responsibility of that official".

GRAP 1 paragraph 17 states that: "Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses. The application of Standards of GRAP with additional disclosures, when necessary, is presumed to result in financial statements that achieve a fair presentation."

##### Audit finding

##### Property, plant and equipment-Depreciation

During the audit of property, plant and equipment, differences between the auditor's depreciation recalculation and depreciation recorded was noted. The difference is directly attributable to current year additions as shown below:

Number of items	Depreciation as per FAR R	Depreciation as per Auditor's recalculation R	Difference R
10	6 627.61	12 459.71	5 832.10

The root cause of the finding is the incorrect calculation of the depreciation charge on the asset system. This results in a projected understatement of depreciation by R1 770 107.31

##### Internal control deficiency

Financial and performance management

Management did not:

- Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.
- Implement controls over daily and monthly processing and reconciling transactions
- Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.
- Exercise adequate review controls over the fixed asset register to ensure that depreciation is calculated correctly.

##### Recommendation

- Management should review the formulas, inputs of the fixed asset register to confirm that depreciation is calculated correctly.

##### Management's response

Description	Response
Does Management agree with the finding (Yes/No)	In agreement with the finding, but not with the projected understatement of depreciation by R1 770 107.31
Detail reason for agreeing/disagree with finding	The bulk updating of the Fixed Asset Register (FAR) had an error on the useful life column which utilised the amount instead of the number of months indicated as depreciation months. The error was identified as only affected periods 10 to 12, January 2023 to March 2023.
Detail corrective action to be taken	The entire population was revisited (periods 10 to 12), and the affected assets' useful lives were corrected as follows: (Refer to 17.1 and 17.2)

		Total before correction	Total After correction
	Depreciation Charge	R1 102,72	R288 505,15
Does the finding affect an amount disclosed in the Financial Statements (Yes/No)	Yes.		
If yes what corrections will be made to the population	<p>The entire population was revisited (periods 10 to 12), and the affected assets' useful lives were corrected. Journals will be done to correct the depreciation amount.</p> <p>The following will be corrected:</p> <ul style="list-style-type: none"> <li>• The Statement of Financial Performance with the additional depreciation of R287 402.43</li> <li>• The Statement of Financial Position, the amount relating to assets will be reduced by R287 402.43</li> <li>• The PPE note will be corrected.</li> <li>• Any other notes to the AFS regarding depreciation and amortisation will be corrected.</li> </ul>		
If yes, and no corrections will be made the reason why such a conclusion has been reached should be indicated.	Corrections will be made.		
Position of official responsible to take corrective actions	Finance Director		
Does management agree with the root cause indicated	<p>No.</p> <p>Not in agreement with the following root cause:</p> <ul style="list-style-type: none"> <li>• Implement proper record-keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.</li> </ul>		
If management does not agree with the root cause indicated, please provide the root cause according to management.	Other 3 root causes acceptable to management.		

#### Auditor's conclusion

Management agreed to the finding, revisited the entire population and made corrections. Management's corrections were tested and changes made were evaluated and accepted. Additional testing was performed and a misstatement was found. Therefore, the original projected misstatement of R1 770 107.31 remained.

The finding will be recorded in the schedule of unadjusted differences

## 5. Completeness of fixed asset register

### Requirements

Section 55 (1) (a) of the Public Finance Management Act states "The accounting authority for a public entity must keep full and proper records of the financial affairs of the public entity"

Section 55 (1) (b) of Public Finance Management Act states that: "The accounting authority for a public entity must prepare financial statements for each financial year in accordance with generally accepted accounting practice, unless the Accounting Standards Board approves the application of generally recognised accounting practice for that public entity"

Section 57(a) of Public Finance Management Act states that "an official in a public entity must ensure that the system of financial management and internal control established for that public entity is carried out within the area of responsibility of that official".

GRAP 1 paragraph 17 states "Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses. The application of Standards of GRAP with additional disclosures, when necessary, is presumed to result in financial statements that achieve a fair presentation."

### Audit finding

During the audit of property, plant and equipment, we noted that the register that was provided by HSRC to the auditors for audit purposes was not complete as the following assets could not be traced to the register:

No	Barcode No:	Category	Asset Description	Location	Estimated value (R)
1	61234	Office furniture	Couch	14th floor	842.86
2	76174	Equipment	Fridge	14th floor	750.53
3	75255	Equipment	Fridge	13th floor	750.53
4	57166	Equipment	Microwave	13th floor	287.76
5	75264	Equipment	Microwave	13th floor	287.76
6	77178	Computer equipment	Laptop	10th floor	21 826.44
7	77125	Computer equipment	Laptop	10th floor	21 826.44
		Total			46 572.32

The root cause of the finding is that internal controls implemented by management did not ensure that all property, plant and equipment were recorded in the fixed asset register.

This results in a projected understatement of property plant and equipment of R58 982, based on the estimated value of the assets identified.

### Internal control deficiency

#### Financial and performance management

Management did not:

- Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.
- Implement controls over daily and monthly processing and reconciling transactions
- Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information
- Keep an accurate and complete register that supports the carrying amount of property, plant and equipment on the Annual Financial Statements

### Recommendation

Management of assets must perform continuous reviews of the fixed asset register to ensure that it is accurate and complete.

### Management's response

Description	Response
Does Management agree with the finding (Yes/No)	No, not in agreement.
Detail reason for agreeing/disagree with finding	The specific assets were on the Fixed Asset Register (FAR) shared with the AGSA on Refer to 18.1

	<p>The assets are indicated on the FAR. See attached 18.1</p> <p><u>Item 1 – 5:</u> Some older assets' barcodes had been replaced with new barcodes after they had fallen off. Print screens from the Assetware showing the newly replaced barcodes that are linked to the assets ID in the FAR. A delay in updating the new system with newly allocated barcodes was experienced due to the unavailability of barcodes during the period.</p> <p><u>Items 6 &amp; 7:</u> There was a delay experienced during the period when we ran out of barcodes and there was a delay in allocating the barcodes and updating the system simultaneously.</p>
Detail corrective action to be taken	<p>The assets have since been allocated barcodes and the asset register has been updated with a barcode.</p> <p>Refer to the attached live FAR print screens for the linked barcodes and asset IDs for the items. (18.2 – 18.8)</p> <p>Management will implement more proactive measures to ensure the manual barcodes are available at all times to allocate and link to asset IDs in addition of assets in the FAR and ensure FAR is updated timeously.</p>
Does the finding affect an amount disclosed in the Financial Statements (Yes/No)	<p>No. Assets are included in the original FAR, and no additions have been made. There is no misstatement of assets to be corrected.</p>
If yes what corrections will be made to the population	N/A
If yes and no corrections will be made the reason why such a conclusion has been reached should be indicated.	Assets are included in the FAR.
Position of official responsible to take corrective actions	N/A
Does management agree with the root cause indicated	<p>No, not agreeing to:</p> <ul style="list-style-type: none"> <li>• Implement proper record-keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.</li> <li>• Implement controls over daily and monthly processing and reconciling transactions</li> <li>• Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information</li> <li>• Keep an accurate and complete register that supports the carrying amount of property, plant and equipment on the Annual Financial Statements</li> </ul>
If management does not agree with the root cause indicated, please provide the root cause according to management.	N/A

**Auditor's conclusion**

Management's response is acknowledged. The team confirmed that the assets were included in the FAR. Management indicated disagreement to the finding raised, however the basis of the disagreement outlines an internal control deficiency as the replaced bar codes of assets are not timeously updated on the system as they are physically updated physically on the assets. The finding is reported as an internal control deficiency in the established processes that needs to be addressed.

## 6. Inconsistent application of evaluation criteria

### Requirements

Section 51 (1)(a)(iii) of the Public Finance Management Act, 1999 (PFMA) states that “the accounting authority for a public entity must and maintains an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective”

Treasury Regulation 16A3.2 states “A supply chain management system referred to in paragraph 16A.3.1 must –(a) be fair, equitable, transparent, competitive and cost effective; and (b) be consistent with the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000)”

### Audit finding

During the audit of supply chain management for competitive bids that occurred during the 2022/23 financial year, we noted that there were inconsistencies in the application of the scoring criteria. The below are inconsistencies noted:

<p>BID NUMBER: HSRC/11/2022/23- Appointment of service provider for decommissioning old fire pumps supply and install new sprinkler and hydrant pumps and commissioning:</p> <p>Extract of the scoring criteria per the approved bid specification:  <i>“Team Leader</i>  <i>Copies of relevant qualifications/ certification with either FSIB, ASIB or Fire Systems Training</i></p> <ul style="list-style-type: none"> <li>• 1 year experience – (3 points)</li> <li>• 2-3 years' experience – (5 points)</li> <li>• 9 years' experience – (15 points)</li> <li>• 10 and more years' experience- (25 points)”</li> </ul> <p><i>“Safety Plan and OHS</i>  <i>The bidder is required to provide a safety plan that is in line with the scope of work. The safety plan is to include but not limited to:</i></p> <ul style="list-style-type: none"> <li>• Organogram of the safety team</li> <li>• Provision of a safety officer.</li> <li>• Provision of a comprehensive baseline risk assessment.</li> <li>• Accredited safety certification</li> </ul> <p><i>No safety plan (0 Points)</i>  <i>Safety plan covering all the above (5 Points)”</i></p>
<p>The scores awarded by Frank Ragedi for the above criteria were as follows:          -10 Points for the team leader criteria.          -4 Points for the Safety plan and OHS</p>

The finding above amounts to a non-compliance as the functionality criteria applied, specifically the scoring/weight, is not consistent with the approved evaluation criteria indicated in the bid documents.

### Internal control deficiency

#### Financial and performance management

- Review and monitor compliance with applicable laws and regulations
- Bid evaluation committee did not properly review score sheets to ensure that they consistently applied the approved evaluation criteria as indicated in the bid documents.

### Recommendation

- Management should ensure adequate control are in place to prevent non-compliance with SCM processes and regulations
- The bid evaluation committee must ensure through proper reviews that the evaluators complied with the score criteria approved, when awarding bidder's points.

### Management's response

Description	Response
Does Management agree with the finding (Yes/No)	Yes

<b>Detail reason for agreeing/disagree with finding</b>	N/A
<b>Detail corrective action to be taken</b>	<ul style="list-style-type: none"> <li>• Training to all BEC members on the evaluate the tenders received according to the evaluation criteria set in the advertised bid.</li> <li>• An appointment was made of a service provider to develop and implement a new Supply Chain Management e-Procurement System in June 2023. The system will assist with only scores on the TOR being available to be awarded.</li> </ul>
<b>Does the finding affect an amount disclosed in the Financial Statements (Yes/No)</b>	No
<b>If yes what corrections will be made to the population</b>	N/A
<b>If yes and no corrections will be made the reason why such a conclusion has been reached should be indicated.</b>	N/A
<b>Position of official responsible to take corrective actions</b>	Demand Manager Head: SCM
<b>Does management agree with the root cause indicated</b>	Yes.
<b>If management does not agree with the root cause indicated, please provide the root cause according to management.</b>	N/A

#### **Auditor's Conclusion**

Management's response is acknowledged. The finding is agreed to be non-compliance that is not material. We urge SCM management to put adequate control in place such as BAC proper reviews of score sheets provided by BEC members, to prevent non-compliance with SCM processes and regulations.

The finding is reported as an internal control deficiency in the established processes that needs to be addressed.



## 7. Incomplete tender register

### Requirement

Public Finance Management Act section 40(1)(a) states "an accounting officer for a public entity must keep proper records of the financial affairs of the public entity in accordance with any prescribed norms and standards"

Section 51 (a) (i) of the Public Finance Management Act states "An accounting authority for public entity must ensure that public entity has and maintains an effective, efficient, and transparent system of financial and risk management and internal control"

### Audit finding

During the audit of the supply chain management -competitive bids, we noted that the register that was provided by HSRC to the auditors for audit purposes was not complete as the following bid could not be traced to the register:

HSRC/14/2022/23- Appointment of a service provider to provide leadership coaching programme to the HSRC for a period of one year.

This results in an internal control deficiency as the SCM management failed to keep proper records of the bids advertised and awarded during the 2022/23 financial year.

### Internal control deficiency

#### Financial and performance management

- Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting
- Management did not ensure that an accurate and complete tender register is kept to support procurements.

### Recommendation

Management of supply chain management must perform continuous reviews of the bid register to ensure that it is accurate and complete.

### Management's response

Description	Response
Does Management agree with the finding (Yes/No)	Yes
Detail reason for agreeing/disagree with finding	Register kept in Excel. Human error
Detail corrective action to be taken	<ul style="list-style-type: none"> <li>• Internal control regarding the compilation and review of the bid register to be removed from the SCM practitioner to the Demand Manager for completion, to be reviewed by the Head: SCM.</li> <li>• An appointment was made of a service provider to develop and implement a new Supply Chain Management e-Procurement System in June 2023. The system will assist with the electronic capture of the bid register.</li> </ul>
Does the finding affect an amount disclosed in the Financial Statements (Yes/No)	No
If yes what corrections will be made to the population	N/A
If yes and no corrections will be made the reason why such a conclusion has been reached should be indicated.	N/A
Position of official responsible to take corrective actions	Head: SCM Demand Manager
Does management agree with the root cause indicated	Yes
If management does not agree with the root cause indicated, please provide the root cause according to management.	N/A

**Auditor's Conclusion**

Management's response is acknowledged. The finding is agreed to be a control deficiency, we urge SCM management to perform continuous reviews of the bid register to ensure that it is accurate and complete.

The finding is reported as an internal control deficiency in the established processes that needs to be addressed.

## 8. Inconsistencies noted between scoring sheet and approved evaluation criteria

### Requirement

Section 51(1)(a)(i) of the Public Finance Management Act states "An accounting authority for public entity must ensure that public entity has and maintains an effective, efficient, and transparent system of financial and risk management and internal control"

Section 51(1)(a)(iii) of the Public Finance Management Act, 1999 (PFMA) states that "the accounting authority for a public entity must and maintains an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective"

Public Finance Management Act section 40(1)(a) states "an accounting officer for a public entity must keep proper records of the financial affairs of the public entity in accordance with any prescribed norms and standards"

Treasury Regulation 16A3.1 states "The accounting officer or accounting authority of an institution to which these regulations apply must develop and implement an effective and efficient supply chain management system in his or her institution for –(a) the acquisition of goods and services"

Treasury Regulation 16A3.2 states "A supply chain management system referred to in paragraph 16A.3.1 must –(a) be fair, equitable, transparent, competitive and cost effective; and (b) be consistent with the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000)"

### Audit finding

During the audit of supply chain management for competitive bids that occurred during the 2022/23 financial year, we noted that there were inconsistencies in the evaluation criteria used in the scoring sheets compared to the approved bid specification/ evaluation criteria. The below are inconsistencies noted:

<p>Bidvest Steiner (Pty) Ltd BID NUMBER: HSRC/05/2022/23- Appointment of a service provider to render Comprehensive Hygiene Services to the HSRC for a period of three years</p> <p>Extract of the bid evaluation criteria per the approved bid specification: "Financial statements Provide audited / reviewed financial statements for the last three years (2018/19,2019/20, &amp; 2020/21) ✓Tender award cost estimated is 30% or less of the company's total revenue= 5 points ✓Current ratio of 2:1 or better= 5 points ✓Unqualified audit outcomes over three years and positive bank balance with no bank overdrafts= 5 points ✓No financial statements= 0 points"</p>
<p>Extract of the evaluation criteria per the scoring sheets: "Financial status of the bidder Bidders must provide the audited/reviewed financial statements for the last 2 years ending 2018/19 and 2019/20 – 5 Points Points allocation 2018/2019 financial statements (2) 2019/2020 financial statements (2) Both 2018/19 and 2019/2020 statements (5)"</p>

The finding above amounts to an internal control deficiency as there is a lack of review from the bid evaluation and adjudication committee, as they failed to ensure that the functionality criteria per scoring sheet utilised to rate the bidders aligns to the approved bid specification. The ratings and the reasoning's on the scoring sheets follow the criteria approved per the bid specification however, was done on the incorrect scoring sheet.

### Internal control deficiency

#### Financial and performance management

- Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting
- Bid evaluation committee did not ensure that the functionality criteria per scoring sheet utilised to rate the bidders aligns to the approved bid specification to ensure that the evaluation and award of bids is supported by accurate evaluation sheets.

### Recommendation

- The bid evaluation committee must ensure through reviews that the details- functionality per the score sheet to be utilized to rate the bidders aligns with the approved bid specification.
- Proper record keeping should be implemented to ensure that everything aligns.

### Management's response



Description	Response
Does Management agree with the finding (Yes/No)	No
Detail reason for agreeing/disagree with finding	The scoresheet did not have the correct criteria printed out, but the BEC did evaluate the tender in terms of the advertised functionality. Refer to the scoring sheet of the BEC Chairperson in 6.1 to 6.3.
Detail corrective action to be taken	<ul style="list-style-type: none"> <li>• If there is any discrepancy in terms of the scoresheet and the approved TOR, new scoresheets will be issued in line with the approved TOR criteria.</li> <li>• An appointment was made of a service provider to develop and implement a new Supply Chain Management e-Procurement System in June 2023. The system will assist with the electronic transfer of scoring criteria from the approved TOR to the scoresheet.</li> </ul>
Does the finding affect an amount disclosed in the Financial Statements (Yes/No)	No
If yes what corrections will be made to the population	N/A
If yes and no corrections will be made the reason why such a conclusion has been reached should be indicated.	N/A
Position of official responsible to take corrective actions	Demand Manager Head: SCM
Does management agree with the root cause indicated	Yes.
If management does not agree with the root cause indicated, please provide the root cause according to management.	N/A

#### Auditor's Conclusion

Management's response is acknowledged. The finding is disagreed to be a control deficiency; however, the auditor still believes that proper records were not kept, this is due to the fact that the criteria printed on the score sheets did not match that which was approved by BAC per the bid specification. We do acknowledge that the evaluators evaluated the bidders on the accurate criteria, however one had to refer back to the bid specification to agree that the scores provided are aligned to the approved criteria, discarding the criteria that was printed score sheet as it had errors. In that regard proper records were not kept. We further urge BEC to reviews the score sheets to ensure that the printed details- functionality per the score sheet to be utilized to rate the bidders aligns with the approved bid specification. This will result in proper records being kept.

The finding is reported as an internal control deficiency in the established processes that needs to be addressed.

## 9. Calculation differences noted for functionality

### Requirement

Public Finance Management Act section 51(1) (a) (iii) states "an accounting authority for a public entity must ensure that that public entity has and maintains an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost-effective".

Public Finance Management Act Section 51(1)(a)(i) s "An accounting authority for public entity must ensure that public entity has and maintains an effective, efficient, and transparent system of financial and risk management and internal control"

### Audit finding

During the audit of the supply chain management for competitive bids that occurred during the 2022/23 financial year, we noted that the following differences between the functionality recalculated scores and the scores provided by HSRC for the following bids:

Contract	Recorded	Audit calculation	Difference
<b>HSRC/01/2022/23- Appointment of a service provider to provide office space and accommodation for the HSRC Cape Town office</b>			
Ingenuity Property Investment	49	47.5	-1.5
<b>HSRC/10/2022/23-Appointment of a service provider to undertake data collection for covid 19 mortality study from selected health facilities in Gauteng</b>			
The Aurum Institute	30	28.25	-1.75
<b>HSRC/14/2021/22 -Appointment of a service provider to design, host and maintain a virtual museum for a period of two (2) years</b>			
Functionality: Hash Topic (Pty) Ltd	54	51.8	-2.2
Presentation: Hash Topic (Pty) Ltd	28	27.4	-0.6
<b>HSRC/13/2022/23-Appointment of a service provider to undertake renovations to existing buildings and additional office space through modular prefabricated units for the HSRC Sweetwater.</b>			
Artem Investments	73.17	70	-3.17
<b>HSRC/07/2022/23 -Appointment of a Service Provider to provide Labour Relations Consultants Services for a period of three (3) years.</b>			
Botshabelo Corporate Solution	73.33	78.33	5
LEM \Consulting	43.33	48.33	5
Apex Business Solution	49.17	55.83	6.66
Botshabelo Corporate Solution	73.33	78.33	5
<b>HSRC/03/2022/23 -Appointment of a service provider to Research Management System (RMS) conversion to SharePoint for a period of twelve (12) months.</b>			
Africa Software Architects	43.33	49.17	5.84
Aliki IT Solutions	85.83	80.83	-5
Sizwe Africa IT	55	60.83	5.83
<b>HSRC/09/2022/23 -Appointment of a service provider(s) to collect data for the 2022 annual round of the South African Social Attitudes Survey (SASAS)</b>			
FS: Ask Afrika (Pty)Ltd	74	73.8	-0.2
FS: Catalyst Research &Strategy (Pty)Ltd	33	32	-1
FS: Mr Field Research (Pty)Ltd	78.6	77.6	-1
FS: Munyai Consulting (Pty)Ltd	33.2	32.6	-0.6
KZN: Clusture Low/Middle Khumbula Consulting (Pty)Ltd	36.8	36.4	-0.4
KZN: Clusture Low/Middle Munyai Consulting (Pty)Ltd	33.2	32.6	-0.6
KZN: Clusture Low/Middle Slieseng Business Enterprise CC	84.2	86.2	2
GP: Cluster Lower/Middle Khumbula consulting (Pty)Ltd	36.2	36.8	0.6
GP: Cluster Lower/Middle Sokoza Consulting	78	72	-6
GP: Cluster Upper/High Catalyst Research &Strategy (Pty)Ltd	33	37.6	4.6
MP: Fields Focus Research	80.6	80.2	-0.4
<b>HSRC/05/2022/23-Appointment of a Service Provider to render Comprehensive Hygiene Services for a period of three (3) years-Bidvest Steiner (Pty) Ltd</b>			
SSG Cleaning (Pty)Ltd	60	57.50	-2.50

Quatro Hygiene Services	15.5	14.75	-0.75
<b>HSRC/11/2022/23-Appointment of service provider for decommissioning old fire pumps supply and install new sprinkler and hydrant pumps and commissioning-Fire Check</b>			
Fire Check (Pty) Ltd	88.00	88.17	0.17
<b>HSRC/04/2022/23-Appointment of a Service Provider to Supply and Installation of CCTV Cameras and Access Control Solutions for the HSRC - Pretoria, Cape Town, Durban and Pietermaritzburg-Nashua Tshwane</b>			
Data Connectivity Solution(Pty)Ltd	63	64	1
Harambe Technologies(Pty)Ltd	92	93	1
Piezo Corp(Pty)Ltd	40.4	30.4	-10
Nashua Tshwane	81	71	-10
Bright Idea Projects 3119 CC	70	68	-2
Xtremetec Management & Consulting	75	72	-3
Sizwe Africa IT group (Pty)Ltd	76	70	-6
<b>HSRC/04/2022/23- Appointment of a Service Provider to Supply and Installation of CCTV Cameras and Access Control Solutions for the HSRC - Pretoria, Cape Town, Durban and Pietermaritzburg</b>			
Data Connectivity Solution (Pty)Ltd	63	64	1
Harambe Technologies (Pty)Ltd	92	93	1
Piezo Corp (Pty)Ltd	40.4	30.4	-10
Nashua Tshwane	81	71	-10
Bright Idea Projects 3119 CC	70	68	-2
Xtremetec Management & Consulting	75	72	-3
Sizwe Africa IT group (Pty)Ltd	76	70	-6

The finding above amounts to internal control deficiency as there is a lack of review on the scores consolidated by the bid evaluations committee, the exceptions did not result in the incorrect bidders being awarded the tenders.

#### Internal control deficiency

##### Leadership

- Exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls

##### Financial and performance management

- Review and monitor compliance with applicable legislation
- Bid evaluation and adjudication committee did not implement proper review controls to ensure that functionality points were calculated correctly to ensure compliance with treasury regulations. Improper calculation of functionality scores may result in an incorrect conclusion of a bid deemed acceptable/ not acceptable.

#### Recommendation

- Bid evaluation and adjudication committee must ensure that proper review controls are implemented for functionality points calculated.

#### Management's response

Description	Response
Does Management agree with the finding (Yes/No)	<ol style="list-style-type: none"> <li>1. <b>HSRC/01/2022/23- Appointment of a service provider to provide office space and accommodation for the HSRC Cape Town office</b> <ul style="list-style-type: none"> <li>• Not in agreement</li> </ul> </li> <li>2. <b>HSRC/10/2022/23-Appointment of a service provider to undertake data collection for covid 19 mortality study from selected health facilities in Gauteng</b> <ul style="list-style-type: none"> <li>• In agreement</li> </ul> </li> <li>3. <b>HSRC/14/2021/22 -Appointment of a service provider to design, host and maintain a virtual museum for a period of two (2) years</b> <ul style="list-style-type: none"> <li>• Not in agreement</li> </ul> </li> <li>4. <b>HSRC/13/2022/23-Appointment of a service provider to undertake renovations to existing buildings and additional office space through modular prefabricated units for the HSRC Sweetwater.</b> <ul style="list-style-type: none"> <li>• Not in agreement</li> </ul> </li> </ol>

	<ol style="list-style-type: none"> <li>5. <b>HSRC/07/2022/23</b> -Appointment of a Service Provider to provide Labour Relations Consultants Services for a period of three (3) years. <ul style="list-style-type: none"> <li>• In agreement</li> </ul> </li> <li>6. <b>HSRC/03/2022/23</b> -Appointment of a service provider to Research Management System (RMS) conversion to SharePoint for a period of twelve (12) months. <ul style="list-style-type: none"> <li>• Not in agreement</li> </ul> </li> <li>7. <b>HSRC/09/2022/23</b> -Appointment of a service provider(s) to collect data for the 2022 annual round of the South African Social Attitudes Survey (SASAS) <ul style="list-style-type: none"> <li>• In agreement</li> </ul> </li> <li>8. <b>HSRC/05/2022/23</b>-Appointment of a Service Provider to render Comprehensive Hygiene Services for a period of three (3) years-Bidvest Steiner (Pty) Ltd <ul style="list-style-type: none"> <li>• In agreement</li> </ul> </li> <li>9. <b>HSRC/11/2022/23</b>-Appointment of service provider for decommissioning old fire pumps supply and install new sprinkler and hydrant pumps and commissioning-Fire Check <ul style="list-style-type: none"> <li>• In agreement</li> </ul> </li> <li>10. <b>HSRC/04/2022/23</b>-Appointment of a Service Provider to Supply and Installation of CCTV Cameras and Access Control Solutions for the HSRC - Pretoria, Cape Town, Durban and Pietermaritzburg-Nashua Tshwane <ul style="list-style-type: none"> <li>• In agreement</li> </ul> </li> </ol>
<p>Detail reason for agreeing/disagree with finding</p>	<ol style="list-style-type: none"> <li>1. <b>HSRC/01/2022/23</b> -Appointment of a service provider to provide office space and accommodation for the HSRC Cape Town office <ul style="list-style-type: none"> <li>• Not in agreement</li> <li>• The score in the competitive schedule is 48.75. The comparative schedule is attached as 8.1 A. The scoresheets are attached as 8.1.1 – 8.1.4.</li> <li>• The BAC report indicates 48.75 and we The BAC report is attached as 8.1 B</li> </ul> </li> <li>2. <b>HSRC/10/2022/23</b>-Appointment of a service provider to undertake data collection for covid 19 mortality study from selected health facilities in Gauteng <ul style="list-style-type: none"> <li>• In agreement</li> <li>• Scoring difference of 1.75 is not affecting the final award.</li> </ul> </li> <li>3. <b>HSRC/14/2021/22</b> -Appointment of a service provider to design, host and maintain a virtual museum for a period of two (2) years <ul style="list-style-type: none"> <li>• Not in agreement</li> <li>• The consolidated scores and scoresheets were in the file. Attached are the scoresheets as 8.2 A.</li> <li>• The BAC report is attached as 8.2 B.</li> </ul> </li> <li>4. <b>HSRC/13/2022/23</b>-Appointment of a service provider to undertake renovations to existing buildings and additional office space through modular prefabricated units for the HSRC Sweetwater. <ul style="list-style-type: none"> <li>• Not in agreement</li> <li>• The scores recorded in the scoresheets of BEC members average 73.33 which were correctly reflected in the comparative schedule as attachment 8.3 A and score sheets as 8.3.1 – 8.3.6.</li> <li>• The BEC report indicates a score of 73.17, attached as 8.3 B.</li> </ul> </li> <li>5. <b>HSRC/07/2022/23</b> -Appointment of a Service Provider to provide Labour Relations Consultants Services for a period of three (3) years. <ul style="list-style-type: none"> <li>• In agreement</li> <li>• Scoring differences of 5.00 and 6.66 did not affect the final award, as the threshold was set at 70%.</li> </ul> </li> <li>6. <b>HSRC/03/2022/23</b> -Appointment of a service provider to Research Management System (RMS) conversion to SharePoint for a period of twelve (12) months. <ul style="list-style-type: none"> <li>• Not in agreement</li> <li>• The scores recorded in the scoresheets of BEC members average to 43.33 for Africa Software; 85.83 for Akili Africa and 55 for Sizwe Africa which were correctly reflected in the comparative schedule and BEC report. The</li> </ul> </li> </ol>

	<p>comparative schedule and scoresheets are attached as 8.4 A, and the BEC report as 8.4 B.</p> <p>7. <b>HSRC/09/2022/23 -Appointment of a service provider(s) to collect data for the 2022 annual round of the South African Social Attitudes Survey (SASAS)</b></p> <ul style="list-style-type: none"> <li>In agreement</li> <li>Scoring difference of between 6.00 and 0.20 not affecting the final award, as the threshold was set at 70%.</li> </ul> <p>8. <b>HSRC/05/2022/23-Appointment of a Service Provider to render Comprehensive Hygiene Services for a period of three (3) years-Bidvest Steiner (Pty) Ltd</b></p> <ul style="list-style-type: none"> <li>In agreement</li> <li>Scoring differences of 2.5 and 0.75 not affecting the final award as both suppliers did make the threshold of 70%.</li> </ul> <p>9. <b>HSRC/11/2022/23-Appointment of service provider for decommissioning old fire pumps supply and install new sprinkler and hydrant pumps and commissioning-Fire Check</b></p> <ul style="list-style-type: none"> <li>In agreement</li> <li>Scoring difference of 0.17 not affecting the final award.</li> </ul> <p>10. <b>HSRC/04/2022/23-Appointment of a Service Provider to Supply and Installation of CCTV Cameras and Access Control Solutions for the HSRC - Pretoria, Cape Town, Durban and Pietermaritzburg-Nashua Tshwane</b></p> <ul style="list-style-type: none"> <li>Not in agreement</li> <li>Scoring difference of between 1.00 and 10.00 not affecting the final award, as the threshold was set at 70%.</li> </ul>
Detail corrective action to be taken	<ul style="list-style-type: none"> <li>Internal control regarding the compilation and review of the file is to be implemented and signed off by responsible officials.</li> <li>An appointment was made of a service provider to develop and implement a new Supply Chain Management e-Procurement System in June 2023. The system will assist with the electronic capture and calculation of scores.</li> </ul>
Does the finding affect an amount disclosed in the Financial Statements (Yes/No)	No, as no irregular expenditure was incurred due to the award and payment of the tenders.
If yes what corrections will be made to the population	N/A
If yes and no corrections will be made the reason why such a conclusion has been reached should be indicated.	N/A
Position of official responsible to take corrective actions	Head: SCM Demand Manager
Does management agree with the root cause indicated	Yes
If management does not agree with the root cause indicated, please provide the root cause according to management.	N/A



**Auditor's Conclusion**

Management's response is acknowledged. The finding did not result in non-compliance or irregular expenditure. It is agreed that control deficiencies were identified with regards to some of the recalculated bid scores for functionality. Therefore, the auditor concludes that overall, the control deficiency is valid and stands as such with regards to the calculations of bidders scores for functionality.

We further urge the SCM management to ensure that calculations for functionality are accurately calculated through thorough reviews to ensure that the internal memos indicate accurate results for each bidder.

The finding is reported as an internal control deficiency in the established processes that needs to be addressed.

**10. SCM policy not aligned to SCM National Treasury instruction note 2 of 2021/22**

**Requirement**

**In terms of Paragraph 51(a) (i) of the Public Finance Management Act** “An accounting authority for a public entity must ensure that the public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control.”

**Audit finding**

During the performance of the SCM business process walkthrough procedures, we evaluated the SCM policy and procedures and noted the following inconsistencies.

- The policy still makes reference to practice note 8 of 2007/2008, which was repealed in instruction note 2 of 2021/22. The table on page 17 of the policy states that 1 written quotation can be obtained for transactions between R2 000 and R 5 000 and 3 verbal quotes for transactions between R 5 000 and R 10 000. This is in contradiction with instruction note 2, section 3.2, which stipulates that the accounting authority must invite at least 3 written price quotations for transactions that are above R 2 000 but not exceeding R 1 000 000. This inconsistency may result in the incorrect application of the legislation which could cause irregular expenditure.
- Instruction note 2, section 3.2.2, requires that institutions prescribe the minimum number of days for the invitation of price quotations, ensuring that prospective suppliers are afforded enough time to submit their quotations and balancing with the need for the organ of state to deliver services. We could not identify this requirement within the policy. We take note of the SCM process guide provided by management however, it prescribed the number of days a procurement process takes to be finalised, based on the threshold, and not the number of days for the invitation of price quotations.

Management indicated the repeal was misinterpreted, as the only change observed relating to threshold values was extending the tender process to start at above R1 000 000 and no longer above R500 000. Therefore, the other thresholds remained the same.

**Internal control deficiency**

**Leadership**

- Leadership did not effectively review the SCM policy and procedures to ensure that they are aligned to SCM instruction note 2 of 2021/22.

**Recommendation**

- Leadership should review the SCM policy and procedures against the legislative requirements to ensure alignment to the latest SCM prescripts and request management to update accordingly.

**Management's response**

Description	Response
Does Management agree with the finding (Yes/No)	Yes.
Detail reason for agreeing/disagree with finding	The reason in this regard arose from inadequate editing of the SCM Policy after being reviewed.  Management further agrees to the finding relating to non-specifying of number of days for RFQ advertisement period which was only clear within our Procedure / SCM Process Chart than in the SCM Policy. This requirement has only been fulfilled in our process chart stipulating the full turn -around times for different procurement thresholds values instead detaching advert period from inclusive turn-around times as required by the Instruction note 02 of 2021/2022.
Detail corrective action to be taken	Noting the recommendations from AGSA finding, we have already updated our SCM Policy to accommodate the entire requirements of the Instruction note 02 of 2021/ 2022 and cleared the identified contradictions of the Instruction notes. Our revised SCM Policy with amendments to correct the identified errors is now submitted to HSRC Exco for discussion and recommendation to HSRC Board for approval.
Does the finding affect an amount disclosed in the Financial Statements(Yes/No)	No

If yes what corrections will be made to the population	None
If yes and no corrections will be made the reason why such a conclusion has been reached should be indicated.	None
Position of official responsible to take corrective actions	Head SCM
Does management agree with the root cause indicated	Yes

**Auditor's conclusion**

Management's response noted, the latest SCM policy will be reviewed in the next audit cycle. However, management disclosed that they went back to the population to confirm if there were any procurements undertaken applying the requirements of practice note 8 of 2007/2008, which was repealed in instruction note 2 of 2021/22. The non-compliance did not result in irregular expenditure.

The finding is reported has been addressed and will be revisited in the next audit cycle.

## 11. Contract management -Not all performance reviews were done

### Requirements

In terms of paragraph 51(a) (i) of the Public Finance Management Act "An accounting authority for a public entity must ensure that the public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control."

In terms of paragraph 7.9.1 of the SCM procedures "Contract Administrator monitors and assess the performance of all contractors during the contract period"

In terms of paragraph 7.10.1 of the SCM procedures "Contract Administrator must ensure that the performance of all contracts and consultants is assessed during the period of the contract. This will be performed on a quarterly basis."

### Audit finding

During the audit of the supply chain management –contract management, we noted that only one assessment was done for the contracts selected, refer to table below, as opposed to 4 in accordance with the policy.

This results in an internal control deficiency as the management failed to perform all reviews. Not performing all quarterly reviews may result in non-performance not being identified and timeous action might not be taken to resolve the matter / terminate contract, which may lead to fruitless and wasteful expenditure.

No	Service provider	Description	Amount
1	EBSCO	Journal Subscription	R 14 577 272
2	Lateral Unison	Insurance Brokerage services	R 129 796
3	Jive Media	Strengthening the Capacities of Science Granting Councils in Gender and Inclusivity	R 1 408 322
4	CSIR	Required expert knowledge of Dr Mutanga to conduct the project (NFSNS)	R 1 546 750
5	VM Refrigeration Air-conditioning and Electrical Projects	Maintenance & Service of Baltimore & HVAC (3 years)	R 707 232,37
6	Dimension Data (Pty) Ltd	Configure Microsoft teams for UC for all HSRC staff(HSRC/10 - Teams Direct Routing Pilot Phase	R 102 033,72
7	GENDER AT WORKS (G@W)	Strengthening the Capacities of Science Granting Councils in Gender and Inclusivity	R 4 412 438
8	Geoscope South Africa	Collect & Capture data for Business Innovation Survey(DSI)	R 2 741 205
9	IPSOS (Pty) Ltd	Provision of Data Quality Control to the HSRC for the South African	R1 035 000
10	Metrofile Holdings (Pty) Ltd	Off-Site Archiving Storage for a period of five (5) years	R4 500 000
11	University of Kwazulu Natal (UKZN)	The Imprint of Education (TIE) Project	R1 608 060
12	Skynet South Africa (Pty) Ltd	Courier services for HSRC Offices	R3 500 000
13	Gray Link Biz Consulting	Job Recruitment Portal	R 626 068

Performance review reports were not provided at all for the following contract:

No	Service Provider	Description	Amount
14	Universal Pathology Laboratory SA	Lab test vitro anti-SARS COV-2 test	R7 714 194.93

### Internal control deficiency

#### Financial and performance management

- Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.
- Management did not implement the controls established over contract management.
- Management did not ensure that they perform all quarterly performance reviews to ensure compliance with their policy and procedures.

**Recommendation**

Management must perform quarterly performance reviews for all contracts as stipulated in the policy and procedures.

**Management's response**

Description	Response
Does Management agree with the finding (Yes/No)	In agreement for not quarterly done. (1-13) Not in agreement for not done at all (14)
Detail reason for agreeing/disagree with finding	Although the policy states quarterly review some services are delivered once a year, and not every quarter. Due to capacity constraints, only an annual assessment was done in the current year.  (14) Find attached the performance review for UPL as 11.1 for quarter 4. The performance for UPL was done by the former buyer Ronewa and she then left the organisation in early May without properly filing the performance review.
Detail corrective action to be taken	An appointment was made of a service provider to develop and implement a new Supply Chain Management e-Procurement System in June 2023. The system has an electronic module for contract management.
Does the finding affect an amount disclosed in the Financial Statements (Yes/No)	No
If yes what corrections will be made to the population	N/A
If yes and no corrections will be made the reason why such a conclusion has been reached should be indicated.	N/A
Position of official responsible to take corrective actions	Demand Manager Head: SCM
Does management agree with the root cause indicated	
If management does not agree with the root cause indicated, please provide the root cause according to management.	Refer to the revision of the root cause.

**Auditors' response**

Management's response is acknowledged and indicated a disagreement with the finding communicated. However, conclusion can be drawn that the finding is valid and remains.

The finding is reported as an internal control deficiency in the established processes that needs to be addressed.

## 12. Deviations Not Reported To National Treasury Within 14 days

### Requirements

Public Finance Management Act section 40(1) (a) states "an accounting officer for a public entity must keep proper records of the financial affairs of the public entity in accordance with any prescribed norms and standards"

Section 51 (a) (i) of the Public Finance Management Act states "An accounting authority for public entity must ensure that public entity has and maintains an effective, efficient, and transparent system of financial and risk management and internal control"

PFMA Instruction Note no.3 of 2021/22 Par. 4.6 states" The AO/OA must within 14 days after the finalisation of the procurement by "other means", report the procurement to the relevant treasury and the Auditor general of South Africa (AGSA) in a format determined by the National Treasury.

### Audit finding

During the audit of the supply chain management for deviation requirements, we noted that management did not report the deviation for the following procurements within 14 days of finalisation.

Supplier	Description	PO/ Award Date	E-mail Date	Days
Telkom	Payments of monthly Telkom accounts	15 June 2022	1 July 2022	16
Science direct	Journal Subscription	17 January 2023	02 February 2023	16

The above finding results in a non-compliance with the instruction note

### Internal control deficiency

#### Financial and performance management

- Review and monitor compliance with applicable legislation.
- Management did not implement controls for reporting deviations by "other means" to treasury within 14 days of finalisation of procurements as stipulated in the National Treasury instruction

### Recommendation

Management of supply chain management must ensure they implement controls for reporting deviation within 14 days.

### Management's response

Description	Response
Does Management agree with the finding (Yes/No)	Yes
Detail reason for agreeing/disagree with finding	It was an oversight by the responsible official.
Detail corrective action to be taken	An appointment was made of a service provider to develop and implement a new Supply Chain Management e-Procurement System in June 2023. The system will assist with capturing the data for the deviation register. The communication will be built into the system for automatic reporting to stakeholders.
Does the finding affect an amount disclosed in the Financial Statements (Yes/No)	No
If yes what corrections will be made to the population	N/A
If yes and no corrections will be made the reason why such a conclusion has been reached should be indicated.	N/A
Position of official responsible to take corrective actions	Demand Manager Head: SCM
Does management agree with the root cause indicated	Yes

If management does not agree with the root cause indicated, please provide the root cause according to management.	N/A
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**Auditor's conclusion**

Management's response is acknowledged. Management agrees with the finding. Conclusion can be drawn that the finding is valid and remains.

The finding is reported as an internal control deficiency in the established processes that needs to be addressed.

### 13. Inconsistent application of functionality scoring criteria for quotations

#### Requirements

Section 51 (1)(a) (iii) of the Public Finance Management Act, 1999 (PFMA) states that “the accounting authority for a public entity must and maintains an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective”

Treasury Regulation 16A3.2 states “A supply chain management system referred to in paragraph 16A.3.1 must –(a) be fair, equitable, transparent, competitive and cost effective; and (b) be consistent with the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000)”

#### Audit finding

During the audit of supply chain management for quotations we noted the following inconsistencies in the application of the evaluation criteria/ functionality for the award of ‘PO029908- Tindzaba Consulting- follow up coaching session 3 groups x 3hrs a group’.

Below is a summary of where inconsistencies were noted on score sheet of Juliana Veloen. The points that could be awarded was 15, if requirement was met and 0, if not met. It appeared that the scorer did not apply this yes or no system of scoring and instead applied a sliding scale scoring system with 15 being the maximum, which is inconsistent with the other scorers.

#### Tonex

Criteria	Points to be allocated	Score
Work plan undertake the follow up of the Group Coaching	15	13
Work plan to undertake the coaching of the two additional teams in the Impact Centre	15	13
360 Assessment questions for SPU team	15	13
Work plan to undertake individual coaching for five team member	15	13

#### Tindzaba

Criteria	Points to be allocated	Score
Work plan undertake the follow up of the Group Coaching	15	14
Work plan to undertake the coaching of the two additional teams in the Impact Centre	15	14
360 Assessment questions for SPU team	15	14
Work plan to undertake individual coaching for five team member	15	14

Criteria	Points to be allocated
Work plan	60,00
Experience	20,00
Letters of reference	20,00

**Minimum threshold required 70**

#### Summary of results from scoresheets

Points awarded	HSRC calcs	
	Tindzaba	Tonex
Juliana Veloen	96,00	72,00
Akhona Mncadi	100,00	80,00
Carolina C Roscigno	100,00	80,00
Sub Total	296,00	232,00
Total average	<b>98,67</b>	<b>77,33</b>



The root cause of the finding is that the scores awarded by J Velen for the work plan criteria are not consistent with method of scoring provided in the approved criteria.

The finding above amounts to a non-compliance as the functionality criteria applied, specifically the scoring method and is not consistent with the approved evaluation criteria indicated in the submitted request for quotation. The correct supplier was awarded the quote therefore this does not result in irregular expenditure.

### Internal control deficiency

#### Financial and performance management

- SCM reports prepared were not supported and evidenced by reliable information.
- Evaluators did not properly review score sheets to ensure that they consistently applied the approved evaluation criteria as provided in the request for quotation.

#### Recommendation

- Management should ensure adequate review controls are in place to prevent non-compliance with SCM processes and regulations.
- Management should ensure that SCM member's evaluating quotations apply the approved evaluation criteria consistently as this could lead to irregular expenditure if a supplier is incorrectly awarded a quotation based on points calculated/awarded incorrectly.

#### Management's response

Description	Response
Does Management agree with the finding (Yes/No)	Not in agreement.
Detail reason for agreeing/disagree with finding	<p>The specification for the quotation is attached as 15.1.</p> <p>The method of scoring is not set for the concept on page 3 of the evaluation criteria, only the total of the awarded for the section.</p> <p>Evaluators may interpret the technical approach to a project differently.</p> <p>Section 9.5.2 of the attached SCM Practice note 03 of 2003 - states that" <i>In the tender evaluation process, each panel member should after thorough evaluation award his/her own value or points to every criterion without discussing any aspect of any bid with the other members</i>". Attached as 15.2</p> <p>This means independent scoring must be maintained and deliberated after the meeting; however, members have a right to defend their technical scores for the purpose of ethical conduct and fairness within our procurement process. The only scores that can be aligned are the set evaluation criteria as in the specification for capacity &amp; competence as the point are set per years of experience.</p>
Detail corrective action to be taken	N/A
Does the finding affect an amount disclosed in the Financial Statements (Yes/No)	No
If yes what corrections will be made to the population	N/A
If yes and no corrections will be made the reason why such a conclusion has been reached should be indicated.	N/A
Position of official responsible to take corrective actions	None
Does management agree with the root cause indicated	No

If management does not agree with the root cause indicated, please provide the root cause according to management.	N/A
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**Auditor's conclusion**

Management's response noted however, it is evident that the scoring of points was not to be done on a sliding scale. The points were not understood to be awarded on a scale of 0 to 15 but rather a definite score of 15 or 0 based on whether the bidder met the criteria. This is evident in the manner in which the other officials awarded points. Furthermore, this issue was raised under the audit of competitive bids as well, which is an indicator that there are officials who do not apply the evaluation criteria correctly /consistently and management needs to address this challenge. On this basis the finding remains reported as an internal control deficiency as the application of the scoring did not result in non-compliance or irregular awards.

The finding is reported as an internal control deficiency in the established processes that needs to be addressed.

## 14. Employees doing other remunerative work and having interest in other institutions

### Requirements

Section 51(1)(a)(i) of the Public Finance Management Act states "An accounting authority for public entity must ensure that public entity has and maintains an effective, efficient, and transparent system of financial and risk management and internal control"

Paragraph 6.4 of the Code of ethics states "Managers or other employees, must disclose any interest that they have, or that a family member, or other person with whom they are closely connected has, in any entity that wishes to engage in any activity or transaction with the HSRC"

Paragraph 6.4 of the Code of ethics further states "Managers or other employees must not undertake any work for personal income, unless such work has been expressly authorized at the appropriate level of management and unless undertaking such work does not constitute a conflict of interest"

Paragraph 2.1 of the Income for Private Work procedure states "An HSRC employee who wishing to undertake employment- whether income generating or not-outside HSRC must submit a written application and should satisfy his or her responsible Executive that the employment will not result in any conflict of interest or interference with the performance of the employees' duties at the HSRC; and obtain the written permission of his or her responsible Executive and approved by the CEO of the HSRC"

### Audit finding

During the execution of our audit procedure on the supply chain management, we identified that the below members have interests in the below stated institutions. We further identified that their employees' files did not include declarations of such interests.

Employee No.	Employee Name	Employee Title At HSRC	Institution Name	Type Of Interest/ Interest	Authorisation for additional work
1011496	Mr Ndumiso Khumalo	HR Consultant	Ondimi Services	Director	No
1010140	Mr Ashley Latchu	IT Director	NECSA	Board Member	Yes
1002875	Mr Ngwako Lebeya	Administrator: ISA	Shumane Holdings	Unknown	No
1011497	Ms Felicity Mkhongi	PhD Research Trainee	Felicete Trading Projects Pty	Unknown	No

The finding results in an internal control deficiency and non-compliance with internal policies.

### Internal control deficiency

#### Financial and performance management

- Management did not review and monitor compliance of staff with HSRC policy on the Code of ethics

### Recommendation

- Management should ensure that all employees within the HSRC comply with the said policies, and consider implementing an annual declaration process to enforce this requirement and appropriate action be taken on staff that do not comply.
- Management should hold regular workshops on compliance with internal policies and annual declarations made by staff.

### Management's response

Description	Response
Does Management agree with the finding (Yes/No)	Yes
Detail reason for agreeing/disagree with finding	Management agrees and will ensure that control deficiencies are corrected. Management will ensure that awareness about the importance of declaring interests is made within the HSRC.

Detail corrective action to be taken	<ul style="list-style-type: none"> <li>• Development of the new Declaration of Interest Policy – Currently approved by Policy Forum and en route to the HSRC Board for approval.</li> <li>• Revision of the Declaration Form to include ALL interests. The new form has broadened the scope of declarations – The revised form is currently being used, as of quarter 1 of 2023/2024.</li> <li>• Ensuring that Employees know that the Declaration of Interest is mandatory as per the Policy. – This will be emphasised, and employees will be made aware of the consequences of non-compliance with the HSRC's Policies.</li> <li>• Running an electronic system for employees to declare – The system is currently open and will close on 30 June 2023. Reminders are being sent and we are targeting 100% compliance. Those who do not comply will be flagged and instructed to comply.</li> <li>• Investigating the cost of or running the Computer Assisted Audit Techniques (CAAT) report to identify any possible conflicts of interest once or twice a year. Those who do not comply will be flagged and instructed to comply.</li> </ul>
Does the finding affect an amount disclosed in the Financial Statements (Yes/No)	No
If yes what corrections will be made to the population	
If yes and no corrections will be made the reason why such a conclusion has been reached should be indicated.	No corrections will not be made as this does not affect the AFS.
Position of official responsible to take corrective actions	HRM Director and Risk Management Director.
Does management agree with the root cause indicated	Not Root cause was indicated.
If management does not agree with the root cause indicated, please provide the root cause according to management.	A new and updated declaration form was shared. The previous declaration form was not clear and gave the impression that a declaration of interest should only be made when there is a potential conflict of interest.

#### Auditor's response

Managements comments are noted and we are in agreement with the steps proposed by management as indicated above, to address the control deficiency. The control deficiency is not considered a significant deficiency and therefore will not be reported in the management report. The implementation of the proposed steps will be revisited in the following audit.

The finding is reported as a non-compliance with established internal policies that needs to be addressed.