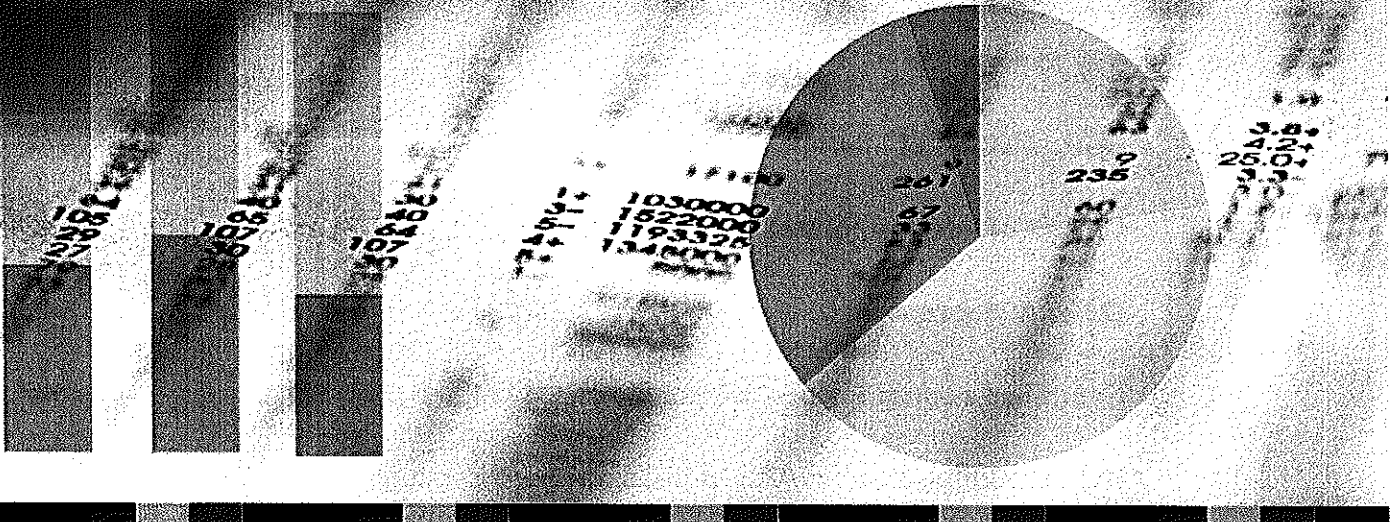


PC BRIEFING NOTE



PFMA audit outcomes of the 2014-15 financial year

National Department of Public Works
14 October 2015



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

CONTENTS

1.	Introduction	1
2.	Audit opinion history	5
3.	Key focus areas	10
4.	Other matters of interest	35
5.	Drivers of internal control	40
6.	Other AGSA reports	41
7.	Combined Assurance on Risk Management in the Public Sector	43
8.	Minister commitments and progress on these commitments	44
9.	Proposed commitments for the Portfolio Committee	45

1. Introduction

1.1 Reputation promise of the Auditor-General of South Africa

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

1.2 Purpose of document

The purpose of this briefing document is for the Auditor-General of South Africa (AGSA) to provide an overview of the audit outcomes and other findings in respect of the National Department of Public Works and its entities for the 2014/15 financial year

1.3 Overview

In terms of the Constitution of the Republic of South Africa, 1996 (Act No 108 of 1996), the President has allocated a functional mandate to the Department of Public Works. The mandate is provided for in the Government Immovable Asset Management Act (2007). The objective of the act is to ensure efficient and effective planning of immovable asset management within government, as well as to improve service delivery. The Department of Public Works is responsible for the provision of official accommodation for all national departments and all members of Parliament as well as providing construction and property management services to client departments at the national level. The department is also responsible for providing leadership for and coordinating the expanded public works programme.

The Property Management Trading Entity originates from the decision taken in 2006 by National Treasury that accommodation related costs be devolved by the Department of Public Works to client departments. The devolution of these budgets is aimed to ensure the long term sustainability of the Department of Public Works and its immovable assets as well as compliance with the Public Finance Management Act (1999), which requires that the full cost of a service be visible on each department's budget.

On 28 November 2005 the Department of Public Works submitted a business case for an interim mechanism for approval to National Treasury and on 14 March 2006 approval was granted for the establishment of the Property Management Trading Entity subject to certain conditions, amongst others the finalisation of the business case for the entity. The business case was approved and this has brought about significant changes in the functioning and reporting by the department and the Property Management Trading Entity.

Since inception the Property Management Trading Entity has been responsible for all property management activities which include:

- Property maintenance and capital works;
- Payment of property rates and taxes;
- Payment of municipal services on behalf of client departments;
- Recovering accommodation charges in respect of state owned property from client departments; and
- Leasing properties from private landlords to provide accommodation to client departments in the absence of suitable state owned accommodation and in turn recovering these lease instalments from client departments.

The property management activities have therefore always been performed and accounted for by the Property Management Trading Entity. However, in line with the long term strategy to transform the PMTE into a fully-fledged property management entity, immovable assets as well as income and expenditure directly related thereto were transferred from the department to the Property Management Trading Entity during the previous financial year. This move has exempted the Property Management Trading Entity from disclosing fair values of immovable assets until 31 March 2016 in line with Directive 2 issued by the Accounting Standards Board. This therefore resolved the previous audit qualification on valuation of immovable assets reported in the department for the year ended 31 March 2013.

Additionally, with the approval of National Treasury, the Property Management Trading Entity now also accounts for irregular expenditure resulting from construction contracts entered into in contravention of supply chain regulations from the onset of the 2013-14 financial year. This was previously accounted for by client departments.

During 2013-14 the PMTE revisited all expenditure incurred since 1 April 2009 to completely identify all irregular expenditure incurred since that date. This was necessitated by audit qualifications on the completeness of irregular expenditure since the 2009-10 financial year. This exercise, combined with the change in accounting for construction related irregular expenditure mentioned in the preceding paragraph, resulted in significant amount of irregular expenditure reported for the financial year ended 31 March 2014.

The negotiations for a new Programme Budget structure between Department and the National Treasury was concluded during the year under review and culminated in a new role for the Department and the PMTE. The Department will henceforth focus on policy formulation, intergovernmental relations and the concurrent functions across the Public Works family, EPWP, policy construction, and Prestige functions. The PMTE will be the implementation entity of the Department focusing on the total state property portfolio including liaison with client departments, leasing in-and/or out of properties, facilities management and property construction and maintenance. This revised structure resulted in more functions having been transferred from DPW to PMTE in the 2014-15 financial year.

Legislative mandate

The Constitutional mandate for the Department is provided in Schedule 4, Part 4, of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) [Constitution] which makes reference to "Functional Areas of Concurrent National and Provincial Legislative Competence." In executing its mandate, the Department also has to observe the principles of good cooperative governance and intergovernmental relations, as provided for in Section 41 of the Constitution.

As set out in the Government Immovable Asset Management Act (2007), the Department of Public Works is also mandated to be the custodian and portfolio manager of national government's immovable assets. This includes the provision of office accommodation and expert built environment services to client departments at the national level; as well as the planning, acquiring, managing and disposing of immovable assets under the custody of the department. The department is further mandated to coordinate and provide strategic leadership in job creation initiatives through the implementation of the expanded public works programme, and to regulate the construction and property industries.

Vision

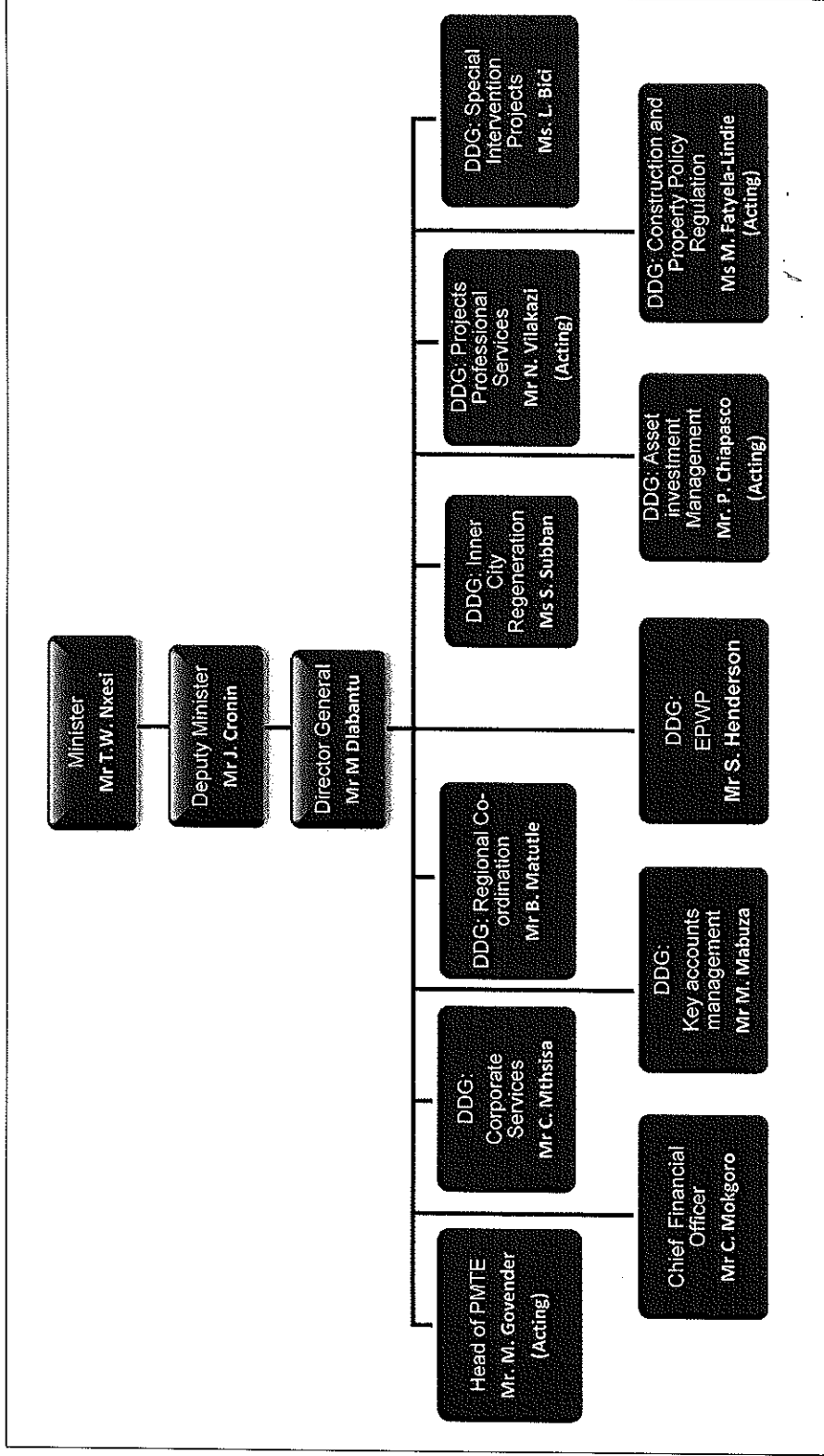
The vision of the department is to be a world-class Public Works Department.

Mission and objectives

The Department of Public Works (DPW) aims to promote the government's objectives of economic development, good governance and rising living standards and prosperity by providing and managing the accommodation, infrastructure needs of national departments, by leading the national Expanded Public Works Programme and transformation of the construction and property industries. In pursuance of this objective the Department will endeavour to:

- Efficiently manage the asset life cycle of immovable assets under the Department's custodianship;
- Provide expert advice to all three spheres of Government and parastatals on immovable assets;
- Contribute to the national goals of job creation and poverty alleviation through programme management, leading and directing of public works programmes nationally, of which the Expanded Public Works Programme (EPWP) forms an integral part; and
- Provides strategic leadership to the Construction and Property Industries.

1.4 Organisational structure









Head of PMTE: Mr. Paul Serote was formally appointed as the Head of the PMTE on 1 July 2015

2. Audit opinion history

Audit opinions	14/15	13/14	12/13	11/12	10/11
• National Department of Public Works (DPW)					
• Property management Trading Entity (PMTE)					
• Independent Development Trust (IDT)					
• Council for the Built Environment (CBE)					
• Construction Industry Development Board (CIDB)					
Qualification areas	14/15	13/14	12/13	11/12	10/11
• Completeness of Irregular Expenditure (DPW 09-10 to 12-13 and PMTE since 09-10)		✓	✓	✓	✓
• Operating lease expenditure (PMTE)		✓	✓		
• Operating expenses – Property rates and taxes (PMTE)	✓				
• Operating expenses – property maintenance (PMTE)	✓	✓			
• Lease commitments (DPW 10-11 to 11-12 & PMTE since 10-11)		✓	✓	✓	✓
• Lease assets/liabilities (PMTE)		✓	✓		
• Accruals (PMTE)	✓	✓	✓		
• Prepayments (PMTE)		✓		✓	
• Provisions (PMTE)		✓			
• Other income – tender deposits (IDT)		✓			
• Leave pay accrual (IDT)		✓			
• Programme cash and cash equivalents and programme reserves and liabilities (IDT) (Accountst separately disclosed in current year with comparative information – disclaim also on comparative in current year)	✓	✓			
• Revenue and trade and other receivables (IDT) (Cut-off matters identified impacted on 14-15 and 13-14)	✓	✓			
• Trade and other receivables and other losses (IDT) (Due to retropective restatement of retention revenue – disclaimed on both 14-15 and 13-14 in current year)	✓	✓			
• Aggregation of immaterial uncorrected misstatements (IDT) (Expenditure, Other income, property plant and equipment and trade and other payables)	✓				
• Immovable assets (DPW)			✓	✓	✓
• Completeness of Fruitless and Wasteful Expenditure (PMTE 10-11 to 12-13/DPW only 11-12)			✓	✓	✓
• Receivables (DPW 11-12/PMTE 08-09 to 14-15)	✓	✓	✓	✓	✓
• Revenue (PMTE)			✓	✓	✓

• Commitments • (PMTE 10-11 & 11-12/DPW 11-12 & 12-13)			✓	✓	✓
• Retention liability (PMTE)			✓		
• Related party transactions • (DPW 11-12/PMTE 09-10 to 11-12)				✓	✓
• Contingent assets (PMTE)				✓	
• Payables (PMTE)				✓	✓
• Expenditure (DPW since 10-11/PMTE since 09-10)				✓	✓
• Bank overdraft (PMTE)					✓
• Contingent liabilities (PMTE & DPW 10-11)					✓
• Restatement of comparative amounts (PMTE)					✓
• Public-private partnership (PPP) (DPW)					✓
Predetermined objectives	14/15	13/14	12/13	11/12	10/11
• National Department of Public Works (DPW)	✓	✓	✓	✓	✓
• Property management Trading Entity (PMTE)	Does not report separately, forms part of annual performance report of the department. PMTE will report separately from 2015-16 onwards.				
• Independent Development Trust (IDT)	✓		✓	✓	✓
• Council for the Built Environment (CBE)				✓	✓
• Construction Industry Development Board (CIDB)				✓	✓
Compliance with laws and regulations	14/15	13/14	12/13	11/12	10/11
• National Department of Public Works (DPW)	✓	✓	✓	✓	✓
• Property management Trading Entity (PMTE)	✓	✓	✓	✓	✓
• Independent Development Trust (IDT)	✓	✓	✓	✓	✓
• Council for the Built Environment (CBE)	✓	✓	✓	✓	✓
• Construction Industry Development Board (CIDB)	✓	✓	✓	✓	✓

AUDIT OPINION LEGEND

	CLEAN AUDIT OPINION: No findings on PDO and Compliance
	UNQUALIFIED with findings on PDO and Compliance
	QUALIFIED AUDIT OPINION (with/without findings)
	DISCLAIMER/ADVERSE AUDIT OPINION
	ENTITY NOT YET ESTABLISHED
	DEPARTMENT/ENTITY HAD FINDINGS (in the related matter)

2.1 Modified opinions

2.1.1 Property Management Trading Entity – Qualified opinion

Material misstatements were identified in the following balances and were not corrected by management;

- **Payables from exchange transactions (Accruals)**

In the current year, PMTE purchased a new accounting system, however as at year end only a few modules were implemented. One of the modules that was not yet implemented was the Accruals module, thus the entity had to once again utilise manual workbooks to account for accruals.

The complexity of the entity, different expenditure streams require accruals to be accounted for differently, coupled with the fact that accruals are decentralised (i.e. each region accounts for their own accruals) resulted in an increased risk of human error.

Our audit procedures identified material understatement of the balance, management did not revisit the population and as such the accruals balance was qualified.

- **Receivables from exchange transactions**

The nature on PMTE's operation is such that the entity pays invoices to suppliers (contractors or municipalities) on behalf of client departments, and thereafter recovers these amounts from the client departments.

In order to comply with GRAP, PMTE raises an accrual for those amounts where the service has been rendered by the supplier before year end but the invoice has not yet been received. Where these amounts are to be recovered from client departments, a "revenue accrual" debtor is required to be raised.

Due to the effect of the misstatement on accruals described above, the revenue accrual debtor is also misstated.

- **Operating expenses**

As part of our testing of property rates, we were required to confirm that the properties on which rates are being paid, actually belong to National Department of Public Works or to the National Government.

Due to the modules on the accounting system relating to fixed assets not being implemented, the asset register is maintained outside the system. The asset register did not have the same unique identifier as the rates payments information, thus significant interrogation was required before any linking could be performed.

After extensive investigations and engagements with management, a significant portion of the properties could not be linked. Management advised that some of these properties belonged to private people and to other custodians but PMTE is required to make these payments. We were unable to obtain sufficient appropriate evidence to support these payments resulting in a material limitation of scope.

2.1.2 Independent Development Trust – Disclaimer of opinion

The disclaimer of opinion was expressed as a result of the following:

- **Programme cash and cash equivalents and Programme reserves and liabilities**

The prior year audit qualification relating to the reconciling of the accounts related to funds received from client departments/entities was not yet reconciled resulting in the opening balance of the current year's programme reconciliation not being audited. The current year's programme reconciliations were also not finalised for all regions, programmes and projects. The historical reconciling items must still be investigated and cleared. We could not confirm the amounts by alternative means and consequently were unable to determine whether any adjustments relating to Programme cash and cash equivalents were necessary.

- **Revenue and trade and other receivables**

IDT did not accurately recognise revenue due to them from project management fees. This was due to inadequate controls to identify and accurately record all invoices in the correct financial years for services rendered by suppliers and retention withheld (relating to programme expenditure), which forms the basis on which the management fee revenue is charged.

- **Trade and other receivables and other losses**

IDT did not perform an individual assessment for each project to identify impaired debtors. We could not confirm the amounts by alternative means and consequently, I was unable to determine whether any adjustments to trade and other receivables were necessary.

- **Aggregation of immaterial uncorrected misstatements current year**

The financial statements were materially misstated due to the cumulative effect of numerous individually immaterial uncorrected projected misstatements amounting to R7,3 million in the following items: expenditure, other income, property plant and equipment and trade and other payables as included in the statement of financial position, the statement of financial performance and the notes to the financial statements.

2.2 Emphasis of matters

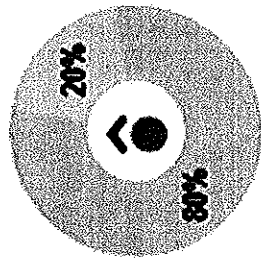
Department/Entity	Emphasis of matter raised
National Department of Public Works (DPW)	<p>Restatement of corresponding figures: <i>As disclosed in note 34 to the financial statements, the corresponding figures for 31 March 2014 have been restated as a result of errors discovered during the financial year ended 31 March 2015 in the financial statements of the Department of Public Works at, and for the year ended, 31 March 2014.</i></p> <p>Material impairments: <i>As disclosed in note 12 to the financial statements, material impairments to the amount of R52 971 000 were provided for as a result of irrecoverable receivables.</i></p> <p>Material underspending on the vote: <i>As disclosed in the appropriation statement, the department has materially underspent the budget on Programme 2: Immovable Asset Management, Sub-Programme 1 – Infrastructure (Public Works) – to the amount of R70 638 000. Consequently, certain planned infrastructure projects were not completed.</i></p>
Property management Trading Entity (PMTE)	<p>Restatement of corresponding figures: <i>As disclosed in note 30 to the financial statements, the corresponding figures for 31 March 2014 were restated as a result of errors discovered during 2015 in the financial statements of the PMTE at, and for the year ended, 31 March 2014.</i></p>

Department/Entity	Emphasis of matter raised
<p>Property management Trading Entity (PMTE)</p>	<p>Material impairments: <i>As disclosed in note 18 to the financial statements, potential losses to the amount of R100 349 000 were incurred as a result of an impairment of irrecoverable trade debtors.</i></p> <p>Transfer of functions: <i>The Department of Public Works transferred certain property management functions including the related assets, liabilities and staff to the PMTE as at 1 April 2013. An additional transfer took place as at 1 April 2014. The PMTE has taken advantage of transitional provisions in terms of GRAP 105 and Accounting Standards Board's Directive 2 to measure all assets and liabilities transferred. The effect of these transfers is detailed in note 33 to the financial statements.</i></p>
<p>Independent Development Trust</p>	<p>Restatement of corresponding figures: <i>As disclosed in note 27, to the financial statements, the corresponding figures for 31 March 2014 have been restated as a result of an error discovered during 31 March 2014 and 31 March 2015 in the financial statements of the Independent Development Trust at, and for the year ended, 31 March 2014.</i></p> <p>Material impairments: <i>As disclosed in note 9 to the financial statements, material impairments to the amount of R40,64 million were incurred as a result of an impairment of trade and other receivables.</i></p>

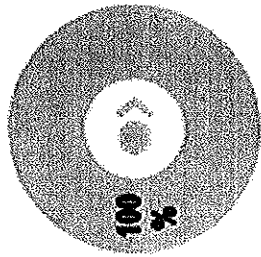
3. Key focus areas

Auditor-General six key focus areas

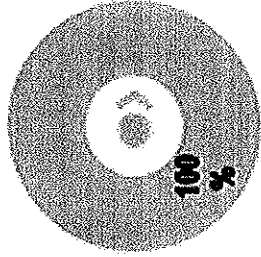
Quality of submitted financial statements



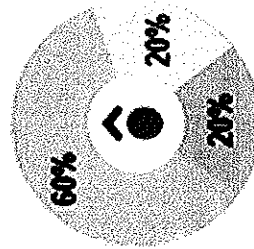
Quality of submitted performance reports



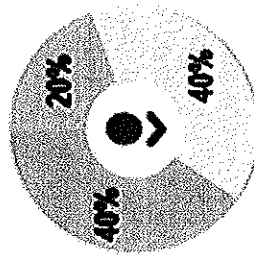
Compliance with legislation



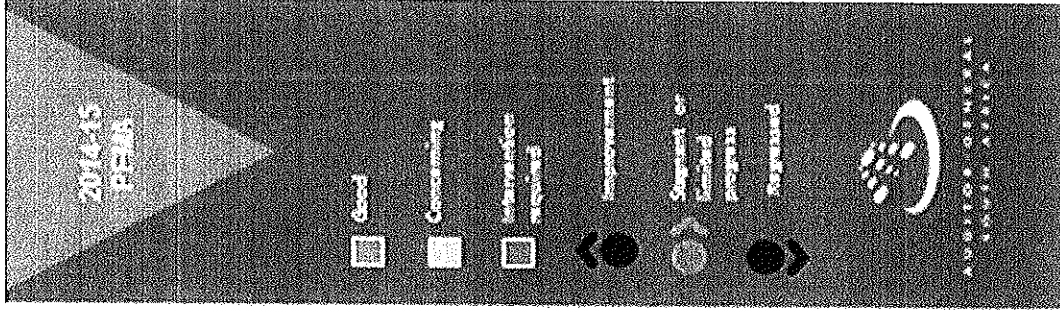
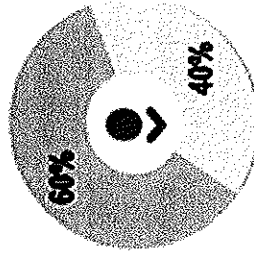
Financial health



Human resource management



Information technology



3.1 Material errors/omissions in submitted annual financial statements

Department/ Entity	Finding	Root cause	Recommendation
National of Public Works (DPW)	The financial statements submitted for auditing were not fully prepared in accordance with the Modified Cash Standard prescribed by the National Treasury as required by section 40(1)(b) of the PFMA and Treasury Regulation 18.2.	The review of the financial statements were ineffective in certain areas. This specifically pertain to new disclosure requirements.	Changes in reporting requirements need to be timeously identified and measures for compliance implemented. Financial statements should be reviewed by all governance structures i.e. management (CFO), the accounting officer/authority, internal audit and audit committee throughout the year and with intensified effort for the financial statements submitted for auditing.
Property management Trading Entity (PMTE)	Financial statements were not submitted for auditing within two months after the end of financial year, as required by section 40(1)(c)(i) of the PFMA. The financial statements submitted for auditing were not supported by full and proper records, as required by section 40(1) (a) of the PFMA. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected, which resulted in the financial statements receiving a qualified audit opinion.	The absence of an appropriate accounting system for the entire period to record transactions in accordance with GRAP impacted the trading entity's ability to generate information within a reasonable time and accuracy. Monthly management accounts are not being prepared for the entity. As a result there is a lack of credible financial reporting throughout the year. Significant challenges were experienced with the transfer from BAS to SAGE accounting systems.	A formal process and timelines should be in place for preparation of year-end financial statements to enable sufficient time for adequate reviewing processes by all identified governance structures. The full implementation of the new financial accounting system (SAGE) at PMTE should be finalised urgently.

Department/ Entity	Finding	Root cause	Recommendation
Independent Development Trust (IDT)	<p>The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework and supported by full and proper records as required by section 55(1)(a) and (b) of the Public Finance Management Act. Material misstatements of revenue, expenditure, employee cost, trade and other receivables and trade and other payables and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a disclaimer audit opinion.</p>	<p>Material journals were passed to reverse transactions incorrectly accounted for in SAGE. Manual journals of approximately R14 billion were then processed to correctly account for these transactions.</p> <p>Management did not diligently perform daily and monthly reconciliations and thus was unable to produce complete and accurate records supporting the financial statements.</p>	<p>This will enable leadership to review and take appropriate and timely corrective action where required.</p>

Department/ Entity	Finding	Root cause	Recommendation
Council for the Built Environment (CBE)	The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework as required by section 55(1) (b) of the Public Finance Management Act. Material misstatements of non-current assets, current liabilities and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.	A lack of review and accountability by those involved in the compilation of financial statements.	

3.1.1 Comments on additional AGSA interactions to help improve financial outcomes

Department/ Entity	Additional interaction/ additional service	Impact / outcome
National Department of Public Works (DPW)	Critical audit findings identified were escalated and discussed first with the accounting officer and then with the chairperson of the audit committee. The potential impact of these audit findings on the audit opinion was emphasised and corrective action required highlighted. Extended timelines for provision of additional information and adjustments were agreed.	The matters were successfully corrected, resulting in an unqualified audit opinion.

Department/ Entity	Additional interaction/ additional service	Impact/ outcome
Property management Trading Entity (PMTE)	Potential qualification areas were brought to the attention of senior management and escalated to the accounting officer and the head of the trading entity timeously to allow for corrective actions to be implemented.	Some qualification areas were resolved, however other material misstatements were not adequately corrected due to slow response from management.
Independent Development Trust (IDT)	The audit team had various interactions with the CFO, CEO, accounting authority and chairperson of the audit committee since the compilation of the of the interim management report (when serious shortcomings were initially identified and reported) and the receipt of the annual financial statements on 31 May 2015.	Although some of the matters were successfully resolved, significant matters remained unresolved due to slow response from management, resulting in the disclaimed audit opinion.
Council for the Built Environment (CBE)	Regular meetings with the chairperson of the board, the CFO, the audit committee where held to emphasise the matters and the potential impact thereof on the audit opinion	The information was provided and the annual financial statements submitted adjusted resulting in an unqualified audit opinion.

3.2 Predetermined objectives

Department/ Entity	Finding	Root cause	Recommendation
National Department of Public Works (DPW)	<p>The the National Treasury's Framework for managing programme performance information (FMPPi) requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objective, indicators and targets. Adequate and reliable corroborating evidence could not be provided for 26% of the targets to assess the reliability of the reported performance information.</p> <p>We identified material misstatements in the annual performance report submitted for auditing on the reported performance information for Programme 2: Immovable Asset Management. As management subsequently corrected the misstatements, we did not identify any material findings on the usefulness and reliability of the reported performance information.</p>	<p>The department does not adequately guide and monitor the public bodies that implement EPW projects to ensure that the EPWP project files are properly filed and easily retrievable for audit purposes.</p> <p>Information systems did not have adequate built-in controls to facilitate accurate, complete and valid reporting on predetermined objectives, for example validation testing of identity numbers.</p> <p>Inadequate/late involvement from internal audit to verify actual results reported throughout the year.</p>	<p>Information recorded in the annual performance report should be agreed to the supporting portfolio of evidence before it is submitted for auditing purposes.</p> <p>Public bodies should be visited on a regular basis to ensure that they have implemented a proper system of collation and retention of evidence supporting actual achievements reported.</p> <p>These site visits should assess whether public bodies comply with the Ministerial Determination of 4 May pertaining to records management. Where deficiencies are identified such public bodies should be requested to implement the required corrective action and DPW should follow up to ensure that deficiencies have been addressed.</p> <p>Frequent and timeous reviews should be performed by internal audit to ensure that actual achievements reported in quarterly performance report, is reliable.</p> <p>Matters reported on during the AGSA interim audit should receive prompt attention to avoid recurrence at year-end.</p>

Department/ Entity	Finding	Root cause	Recommendation
Independent Development Trust (IDT)	The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Overall, 30% of the significantly important targets were not reliable because I was unable to obtain sufficient appropriate audit evidence for 15% significantly important targets. In addition, compared to the source information	Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.	Management should enhance verification controls to agree supporting portfolio of evidence to the reported performance information before submission for audit purposes. Internal audit must include verification of reliability of actual achievements reported in their annual workplan and give management assurance that performance reported is indeed supported by sufficient and appropriate audit evidence.
Council for the Built Environment (CBE)	Material misstatements were identified in the annual performance report submitted for auditing on the reported performance information for programme 2: Skills Development in the Built Environment. As management subsequently corrected the misstatements, I did not identify any material findings on the usefulness and reliability of the reported performance information.	The public entity did not have formally documented standard operating procedures to ensure the proper implementation of the overall performance process of planning, budgeting, implementation and reporting.	Management should develop and prepare standing operating procedures that will allow for consistent collection and reporting of information. The implementation thereof should be monitored by leadership in the entity. Information recorded in the annual performance report should be agreed to the supporting portfolio of evidence before it is submitted for auditing purposes.

Department/ Entity	Finding	Root cause	Recommendation
Construction Industry Development Board (CIDB)	Material misstatements were identified in the annual performance report submitted for auditing on the reported programme 1: Construction register services. As management subsequently corrected the misstatements, I did not identify any material findings on the usefulness and reliability of the reported performance information.	Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.	Information recorded in the annual performance report should be agreed to the supporting portfolio of evidence before it is submitted for auditing purposes.

3.2.1 Comments on additional AGSA interactions to help improve APOO outcomes

Department/Entity	Additional interaction/ additional service	Impact / outcome
National Department of Public Works (DPW)	<p>The AGSA did a review of the 2014-15 annual performance plan before it was approved by the Executive Authority. During this review shortcomings pertaining to usefulness of performance indicators and targets were identified and communicated.</p> <p>Material findings on the reliability of reported performance identified through the audit were escalated and discussed, first with the accounting officer and then with the chairperson of the audit committee.</p>	<p>Review of APP: All matters identified were addressed, thus no material findings were raised pertaining to the usefulness of performance information.</p> <p>Interactions: Material misstatements reported pertaining Programme 2: Immovable Assets were successfully corrected. Therefore no material findings on the reliability of reported performance for this programme were reported in the audit report.</p>

Department/Entity	Additional interaction/ additional service	Impact / outcome
Independent Development Trust (IDT)	Corrective actions and extended timelines for additional information and adjustments were agreed.	Despite the interactions management was however still not able to provide adequate and reliable corroborating evidence for reported performance information pertaining to Programme 3: Expanded Public Works Programme.
Council for the Built Environment (CBE)	Regular meetings with the chairperson of the board, the CFO, the audit committee where held to emphasise the matters and the potential impact thereof on the audit report.	Material misstatements reported pertaining Programme 1 were not corrected as IDT's systems were not correctly updated with the supplier details regarding BBBE, women owned and youth status.
Construction Industry Development Board (CIDB)	Regular meetings with the chairperson of the board and the CFO were held to emphasise the matters and the potential impact thereof on the audit report.	Management effected the changes to the annual performance report for programme 2: Skills Development in the Built Environment. As management subsequently corrected the misstatements, no material findings on the usefulness and reliability of the reported performance information were reported. Material misstatements which were identified by the auditors for programme 1: Construction register services were subsequently corrected by management.

3.3 Compliance with legislation*

* This summary excludes all compliance matters reported in other paragraphs in the briefing note.

Department/Entity	Finding	Root cause	Recommendation
<p>National Department of Public Works (DPW)</p>	<p>Strategic planning and performance management: Effective, efficient and transparent systems of risk management and internal control with respect to performance information and management was not maintained as required by section 38(1)(a)(i) of the PFMA.</p> <p>Specific and appropriate information systems to enable the department to monitor the progress made towards achieving the goals, targets and core objectives as indicated in the strategic plan and annual performance plan were not implemented and operational as required by Public Service Regulation Part IIIB.1(f)(i)(ii).</p>	<p>The department did not ensure that there was an effective, efficient and transparent system of internal control regarding performance management, which described and represented how the department's processes of performance planning, monitoring, measurement, review and reporting were conducted, organised and managed. Although certain internal requirements/controls exist, these are not being implemented by all role-players thus rendering the system ineffective and inefficient.</p> <p>The manual system in place to monitor the progress made towards achieving goals, targets and core objectives is not being adequately implemented by all users.</p>	<p>Management should review current requirements in place with regards to performance management and then enhance and consolidate it to create a comprehensive system of internal control, with appropriate policies and procedures forming the base, which will dictate the department's processes going forward.</p> <p>The effective implementation of this policy for tracking, reporting and evaluation of performance information should be monitored and enforced at branch level in order to facilitate the reporting of accurate, valid and complete performance information.</p> <p>Staff from all units should be provided with the necessary training to ensure a proper understanding of the requirements of the policy.</p> <p>Quarterly reports and the underlying portfolio of evidence must be interrogated with regards to achievement milestones after each report is tabled. Where progress is not adequate action plans must be tabled with proposed corrective action to be taken in the next quarter to ensure that relevant targets are still met by year-end. Process owners must be held</p>

Department/Entity	Finding	Root cause	Recommendation
			<p>accountable for implementation of corrective action.</p> <p>The new EPWP information system must contain appropriate data validation controls to avoid entries containing errors, e.g. invalid ID numbers.</p>
	<p>Internal audit:</p> <p>The operational procedure and monitoring mechanisms were not assessed over transfers in terms of the annual Division of Revenue Act as required by Treasury Regulation 3.2.8.</p>	<p>The finding occurred as a result of the fact that there were delays in the appointment of the Service Provider which was appointed to complete the above-mentioned audits. This audit is however now in progress.</p>	<p>The Internal Audit unit and the audit committee must prioritise all the requirements listed in Treasury Regulation 3.2, including those relating to transfers made, in order to assist the accounting officer in maintaining efficient and effective controls by evaluating those controls to determine their effectiveness and efficiency, and by developing recommendations for enhancement or improvement. Given the strategic priority of EPWP this audit should be concluded without further delay and reported on within a timeframe that allows management to implement corrective action prior to the submission of the annual performance report for 2015-16.</p>
	<p>Expenditure management:</p> <p>Steps taken to prevent irregular expenditure, as required by section 38(1)(c)(ii) of the Public Finance Management Act and Treasury Regulation 9.1.1, were in certain instances not effective.</p>	<p>The department's HR management was ineffective, thus adequate and sufficiently skilled resources were not in place to enable the investigation of all irregular expenditure reported and</p>	<p>Management should continue to enhance preventative controls in place. Currently the pre-audit of awards, should be enhanced to ensure irregular expenditure is prevented.</p>

Department/Entity	Finding	Root cause	Recommendation
	<p>Consequence management: Effective and appropriate disciplinary steps were not taken in certain instances against officials who made or permitted irregular expenditure as required by section 38(1)(h)(iii) of the PFMA and Treasury Regulation 9.1.3.</p>	<p>the taking of required disciplinary steps where required. Changes to the supply chain management policy only became effective in September 2014 and therefore did not yet yield the required result. The volume of transactions declared irregular at DPW and PMTE far exceeds the norm thus creating difficulty in complying with timelines prescribed in legislation pertaining to investigations to be conducted.</p>	<p>Policies and procedures with regards to prestige procurement must be reviewed and updated and must include guidelines on reasonable costs to be incurred for prestige activities, this exercise must include the updating of the Ministerial Handbook.</p> <p>High level discussions to be held to resolve the communication timelines surrounding prestige procurement to enable sufficient time for DPW to follow supply chain prescripts for all procurement. There should be a particular focus on prestige events.</p> <p>Management should ensure that all remaining irregular expenditure is investigated and corrective/disciplinary steps implemented as a matter of urgency.</p> <p>The progress pertaining to the aforementioned should be reported monthly to the executive authority and to the audit committee.</p>

<p>Property management Trading Entity (PMTE)</p>	<p>Procurement and contract management:</p> <p>Sufficient appropriate audit evidence could not be obtained that all contracts were awarded in accordance with the legislative requirements as the entity did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information was accessible and available to evaluate compliance.</p> <p>Goods and services with a transaction value below R500 000 were in certain instances procured without obtaining the required price quotation, as required by treasury regulation 16A6.1.</p> <p>Goods and services with a transaction value above R500 000 were in certain instances procured without inviting competitive bids, as required by treasury regulation 16A6.1. A number of deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of treasury regulation 16A6.4.</p> <p>Sufficient appropriate audit evidence could not be obtained that invitations for competitive bidding were advertised for a required minimum period and advertised in the government tender bulletin, as required by treasury regulation 16A6.3(c).</p> <p>Sufficient appropriate audit evidence could not be obtained that bid adjudication was done by committees which were composed in accordance with the policies of the trading entity, as required by treasury regulation 16A6.2(a), (b) and (c).</p>	<p>No formal records management policy/procedure to ensure proper retention of all documentation. As a result of the limitations experienced, the findings reported on procurement might not reflect the true extent of irregularities and SCM weaknesses.</p> <p>Inadequate monitoring of compliance with supply chain management laws and regulations.</p> <p>Inadequate procurement planning resulting in unjustified deviations.</p>	<p>Record keeping and retention must be improved, proper filing system should be implemented to facilitate the retrieval of information when requested for audit purposes.</p> <p>Compliance to all relevant SCM laws and regulations must be confirmed prior to finalisation of procurement transactions.</p> <p>Procurement plans should be developed and approved in advance by management to avoid unjustified deviations and to ensure compliance with the all the applicable laws and regulations in the SCM unit.</p> <p>Monthly deviations report should be prepared and reviewed by senior management and immediate corrective action to be taken in instances where unjustified deviations are occurring</p>
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Department/Entity	Finding	Root cause	Recommendation
	<p>Sufficient appropriate audit evidence could not be obtained that contracts were awarded to suppliers whose tax matters have been declared by the South African Revenue Service to be in order, as required by treasury regulation 16A9.1(d) and the preferential procurement regulations.</p> <p>Sufficient appropriate audit evidence could not be obtained that contracts were awarded to bidders based on points given for criteria that were stipulated in the original invitation for bidding, as required by treasury regulation 16A6.3(a) and preferential procurement regulations.</p> <p>Contracts and quotations were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, in contravention of treasury regulation 16A8.3.</p> <p>Sufficient appropriate audit evidence could not be obtained that the preference point system was applied in all procurement of goods and services above R30 000, as required by section 2(a) of the Preferential Procurement Policy Framework Act and treasury regulation 16A6.3(b).</p> <p>Sufficient appropriate audit evidence could not be obtained that contracts were awarded to suppliers based on preference points that were allocated and calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations.</p>		

Department/Entity	Finding	Root cause	Recommendation
	<p>Sufficient appropriate audit evidence could not be obtained that contracts were awarded to bidders that scored the highest points in the evaluation process, as required by section 2(1)(f) of Preferential Procurement Policy Framework Act and preferential procurement regulations.</p> <p>Contracts were awarded to bidders who did not submit a declaration of past supply chain practices such as fraud, abuse of supply chain management system and nonperformance, in contravention of treasury regulation 16A9.2</p>		
	<p>Consequence management:</p> <p>Effective and appropriate disciplinary steps, in certain instances, were not taken against officials who made or permitted irregular expenditure, as required by section 38(1)(h)(iii) of the PFMA and treasury regulation 9.1.3.</p>	<p>Lack of timeous disciplinary action against transgressors. There is insufficient capacity to immediately investigate all reported irregularities.</p>	<p>Enhancing of oversight and monitoring functions in respect of SCM, zero tolerance towards non-compliance.</p> <p>The monitoring role should be focused on ensuring that all Supply Chain Management laws and regulations have been followed prior to procurement being finalised. Thus preventing irregular expenditure.</p> <p>Disciplinary action must be enforced in all appropriate instances.</p>
	<p>Expenditure management:</p> <p>Steps taken to prevent irregular and fruitless and wasteful expenditure, as required by section 38(1)(c)(ii) of the PFMA and treasury regulation 9.1.1, were in certain instances not effective.</p>	<p>Lack of stringent controls around prevention of irregular and fruitless expenditure more especially within the leases and procurement of goods and services..</p>	<p>Consequence management must be enhanced to dissuade the incurrance of fruitless and wasteful and irregular expenditure.</p> <p>Adequate steps should be taken to ensure that payments to landlords are made using the correct information as per the signed lease agreements.</p>

Department/Entity	Finding	Root cause	Recommendation
	<p>Revenue management: Effective and appropriate steps were not taken to collect all money due, as required by section 38(1)(c)(i) of the PFMA and treasury regulations 11.2.1, 15.10.1.2(a) and 15.10.1.2(e).</p> <p>Asset management and liability management: The entity's main bank account was overdrawn throughout the reporting period, in contravention of treasury regulation 19.2.3.</p>	<p>Continuous overpayments on contracts due to an inadequate financial system which does not detect and/or prevent the overpayments.</p> <p>Inadequate oversight by management as information that was captured on the system was not comprehensively reviewed for accuracy.</p> <p>Refer to the financial health section</p>	<p>Implementation of the financial system to ensure that payments are made in line with the signed contracts.</p> <p>Refer to the financial health section</p>

Department/Entity	Finding	Root cause	Recommendation
<p>Independent Development Trust (IDT)</p>	<p>Procurement and contract management:</p> <p>The procurement processes did not comply with the requirements of a fair supply chain management system as per section 51(1)(a)(iii) of the PFMA, in that invitations for competitive bidding were not advertised for a minimum period as prescribed in the SCM policy.</p> <p>Contracts were awarded to bidders based on points given for criteria that were not stipulated in the original invitation for bidding, in contravention of the Preferential Procurement Regulations.</p> <p>Contracts were awarded to bidders based on preference points that were not calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations.</p> <p>Persons in service of the entity whose close family members, partners or associates had a private or business interest in contracts awarded by the entity failed to disclose such interest, as required by PFMA section 50(3)(a).</p> <p>Persons in service of the entity whose close associates had a private or business interest in contracts awarded by the entity participated in the process relating to that contract in contravention of PFMA section 50(3)(b).</p> <p>Sufficient appropriate audit evidence could not be obtained that all contracts were awarded in accordance with the legislative requirements as accurate contract register and tenders selected for testing could not be provided for audit purposes.</p>	<p>Management did not review and monitor compliance with laws and regulations.</p> <p>Effective leadership based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the best interests of the entity was not provided.</p> <p>Management did not implement proper record keeping in a timely manner.</p>	<p>Enhancing oversight and monitoring functions in respect of SCM, zero tolerance towards non-compliance.</p> <p>The monitoring role should be focused on ensuring that all Supply Chain Management laws and regulations have been followed prior to procurement being finalised. Thus preventing irregular expenditure.</p> <p>Updating of SCM policy and procedures in line with latest laws/regulations on an ongoing basis, training to all applicable staff members to enhance understanding of principles.</p> <p>Record keeping and retention must be improved.</p> <p>Enhancing of performance management of SCM employees and implementing strict consequences for repeat transgressions.</p>

Department/Entity	Finding	Root cause	Recommendation
	<p>Expenditure management: The accounting authority did not take effective steps to prevent irregular expenditure and fruitless and wasteful expenditure, as required by section 51(1)(b)(ii) of the Public Finance Management Act.</p>	<p>Management did not review and monitor compliance with applicable laws and regulations</p>	<p>Enhancing of oversight and monitoring functions in respect of SCM, zero tolerance towards non-compliance. The monitoring role should be focused on ensuring that all Supply Chain Management laws and regulations have been followed prior to procurement being finalised. Thus preventing irregular expenditure.</p>
	<p>Consequence management: Effective and appropriate disciplinary steps were not taken against officials who incurred irregular expenditure and fruitless and wasteful expenditure, as required by section 51(1)(e)(iii) of the Public Finance Management Act.</p>	<p>Effective leadership based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the best interests of the entity was not provided.</p>	<p>Management should ensure that all irregular and fruitless and wasteful expenditure are investigated as a matter of urgency and appropriate steps taken against officials that incurred or permitted the occurrence of irregular and fruitless expenditure The progress pertaining to the aforementioned should be reported monthly to the accounting authority and to the audit committee.</p>

Department/Entity	Finding	Root cause	Recommendation
	<p>Revenue management: Effective and appropriate steps were not taken to collect all money due, as required by section 51(1)(b)(i) of the Public Finance Management Act .</p>	<p>Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.</p>	<p>IDT must develop a debt recovery strategy to ensure that all long outstanding debtors are timeously recovered.</p>
	<p>Strategic planning and performance management: Effective, efficient and transparent systems of risk management and internal controls with respect to performance information and management was not maintained as required by section 51(1)(a)(i) of the PFMA.</p>	<p>Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.</p>	<p>Management should implement controls to ensure that information recorded in the annual performance report agree to the supporting portfolio of evidence before it is submitted for auditing purposes.</p>
<p>Council for the Built Environment (CBE)</p>	<p>Procurement and Contract Management: Invitations for a competitive bid was not advertised for a required minimum period, as required by Treasury Regulations 16A6.3(c). Bid adjudication was not always done by committees which was composed in accordance with the policies of the public entity, as required by Treasury Regulations 16A6.2(a), (b) and (c). The preference point system was not applied in all procurement of goods and services above R30 000 selected for testing as required by section 2(a) of the Preferential Procurement Policy Framework Act and Treasury Regulations 16A6.3(b).</p>	<p>There were a lack of monitoring by senior finance staff to ensure compliance with legislation. The entity does have policies in place aligned to legislation however in the current year there has been inadequate supervision and review to ensure compliance has been achieved. Concerns have also been raised on the filing system as supporting documentation is not easily retrievable for audit purposes.</p>	<p>Enhancing of oversight and monitoring functions in respect of SCM, zero tolerance towards non-compliance. The monitoring role should be focused on ensuring that all Supply Chain Management laws and regulations have been followed prior to procurement being finalised. Thus preventing irregular expenditure. Updating of SCM policy and procedures in line with latest laws/regulations on an ongoing basis.</p>

Department/Entity	Finding	Root cause	Recommendation
	<p>Expenditure Management: The accounting authority did not take effective steps to prevent irregular expenditure, as required by section 51(1)(b)(ii) of the Public Finance Management Act.</p>		<p>Training to all applicable staff members to enhance understanding of principles, consequences should be implemented were staff repeatedly make them guilty of non-compliance. Record keeping and retention must be improved.</p>
	<p>Asset Management: Proper control systems to safeguard and maintain assets were not implemented, as required by sections 50(1)(a) and 51(1)(c) of the Public Finance Management Act.</p>	<p>The entity did not perform regular asset counts as well as reconciliations between the asset register and the general ledger (accounting records)</p>	<p>Management must ensure that assets counts are performed at least quarterly. Monthly reconciliations between the general ledger and asset register should be performed by finance officials and reviewed by the CFO.</p>
<p>Construction Industry Development Board (CIDB)</p>	<p>Expenditure management The accounting authority did not take effective steps to prevent irregular expenditure, as required by section 51(1)(b)(ii) of the PFMA.</p>	<p>The accounting authority does not exercise adequate oversight responsibility over reporting and compliance with laws and regulations and internal control</p>	<p>Enhancing of oversight and monitoring functions in respect of SCM, zero tolerance towards non-compliance. The monitoring role should be focused on ensuring that all Supply Chain Management laws and regulations have been followed prior to procurement being finalised. Thus preventing irregular expenditure.</p>

3.4 Financial Health

Department/Entity	Finding	Root cause	Recommendation
<p>Property management Trading Entity (PMTE)</p>	<p>Going concern: The entity's overdraft has increased from R433 million in 2014 to R674 million at year-end. In addition, the net current liability situation has deteriorated, with current liabilities exceeding current assets by R4.5 billion (2014: R2.1 billion). However, the entity is now comfortably in a net asset position.</p> <p>The overall financial situation of PMTE can be summarised as being unfavourable but improving.</p>	<p>Late/non-recovery of amounts owing to PMTE by client departments.</p>	<p>The PMTE should consider changing its business model by billing client departments in advance instead of recovering expenditure afterwards.</p> <p>The implementation of a new billing system enabling effective debtor management, which has been planned for a long time, must be finalised without delay.</p> <p>Payments made by PMTE on behalf of client departments should have adequate and accurate supporting documentation to enable recovery thereof.</p>

3.5 Human resource management and consequence management

Department/Entity	Finding	Root cause	Recommendation
<p>National Department of Public Works (DPW)</p>	<p>Human resource management and compensation: Funded vacant posts were not filled within 12 months after becoming vacant as prescribed by Public Service Regulation 1/III/C.1A.2.</p>	<p>The finding occurred as result of the fact that there was an unexpected delay in the finalisation of the updated organisational structure of the DPW and PMTE. Additionally, the total employee cost budget allocated to the department was not sufficient to fill all vacant posts. Several unfunded posts additional to the establishment were in place during the year under review which placed a strain on the budget resulting in the department not having had a sufficient budget to fill funded positions.</p>	<p>Recent discussions with management revealed that a new organisational structure has been proposed which at the time the finalisation of the audit report was pending approval by the Executive Authority. This new structure was developed in line with the transfer of more functions to PMTE which took effect on 1 April 2015. It is critical that this new organisational structure is approved and the relevant funding secured with National Treasury to enable the department to fill posts considered essential (in line with the new structure) within the 12 month timeframe required by the Public Service Regulations. Failure to do so could compromise the delivery of critical functions by both DPW and PMTE.</p>

3.6 Information technology

Department/Entity	Finding	Root cause	Recommendation
National Department of Public Works (DPW) Security Management	The IT Security Policy and Patch Management procedures documents had not been approved.	The position of the Chief Director for Information Systems was vacant and this resulted in policies not being signed off on time. Formal alternative procedures for approval had not as yet been defined to allow for approval.	Management should ensure the security policy and the patch management procedure documents are approved and communicated to relevant stakeholders.
DPW User Account Management	The appropriateness of PERSAL users' access rights were not reviewed periodically. The activities of persons with administrator privileges on PERSAL were not monitored.	The PERSAL manager who was responsible for initiating user access and system controllers' review processes is no longer serving in that position. The acting PERSAL controllers were not adequately trained to facilitate these reviews resulting in the reviews not being performed. The acting PERSAL controllers could also not review one another's' activities on the system as they had equal system access.	Management should ensure that the PERSAL manager is appointed to facilitate the PERSAL management processes and training should be provided to all officials in acting capacities.
DPW IT Service Continuity	The department had not formally documented and approved a Disaster Recovery Plan (DRP) subsequently a disaster recovery test was not performed.	Development of a DRP had been delayed to allow for the implementation of infrastructural changes within the IT environment in support of the turnaround strategy.	Management should ensure that the disaster recovery plan is developed, approved and communicated to the relevant stakeholders at the department.
DPW IT Governance	A permanent Chief Information Officer (CIO) has not been appointed while the acting CIO was currently on a six month contract. The services rendered by the State Information Technology Agency (SITA) were not monitored as monitoring meetings were not held.	A longer term contract was not negotiated as the duration of the current projects was not adequately estimated. The SITA account manager had not been available for monitoring meetings during the period under review.	The CIO position should be filled and adequate staff continuity measures should be established. Regular meetings with SITA should be held to ensure that service levels are being met and where there are concerns these are escalated.

Department/Entity	Finding	Root cause	Recommendation
Property management Trading Entity (PMTE) IT Service Continuity	The backup policy/procedure for the new backup tool in use was not approved. Backup restorations were not performed. Backup tapes were not taken offsite.	A new backup tool was implemented during the period under review, however the controls were still being designed and implemented.	Management should ensure that the backup policy/procedure is adequately designed and approved, backup restoration testing is performed periodically and backup tapes should be stored offsite.
Independent Development Trust (IDT) IT Governance	The ICT governance policy and IT Steering committee terms of reference had not been approved. The minutes for the IT Steering committee meetings held were not signed. An IT Strategic Plan was still under revision. The information security officer (ISO)'s oversight role was not clearly defined and delegated to a specific person. The services rendered by Telkom were not monitored as monthly reports were not reviewed.	The Executive Manager: Corporate Services who was driving the design of IT governance policies and processes was acting as the Chief Executive Officer during the financial year. The demanding nature of these two roles negatively impacted the progress made in respect to the development and implementation of IT governance policies and processes. The appointment of an ISO was not feasible due to the nature and extent of the entity's security management requirements. Service delivery was not being adequately monitored due to the reports provided by Telkom containing technical details that could not be understood by the IT team due to its technical nature.	The IT governance policy should be approved. Terms of reference for the IT steering committee should be approved and minutes thereof signed off. The finalization of the IT strategic plan should be expedited. Management should consider building the oversight aspect of an ISO into the job profile of an existing official in the entity. The format of the Telkom reports should be revised to include a simple summary of the progress and performance achieved against the defined service levels and reviewed monthly.
IDT Security Management	There was no evidence showing that the firewall rule sets were reviewed.	The firewall administration responsibilities were not delegated to a specific person as the firewall was being administered by Telkom on the entity's behalf.	The ICT unit should request the system generated list/report of the rules configured on the IDT firewall from Telkom and review the firewall rules as per the firewall policy guidelines.

Department/Entity	Finding	Root cause	Recommendation
<p>IDT User Account Management</p>	<p>The user account management procedures were inadequately documented. There was no evidence showing that the activities of the HR focus, Active Directory and Great Plains system administrators were being monitored, user administration on the HR Focus system was being performed by the Human Resources. There was no segregation of duties matrix/standard which depicts what functions should be allocated to a specific user on the Great Plains and HR Focus systems.</p>	<p>Management was of the opinion that the current procedures are sufficient and had not included the lacking key processes. Management developed a matrix some time ago but this has not been updated to address the current environment because the environment has not changed much.</p>	<p>The current user account management procedure should be updated to address the lacking key processes.</p> <p>A designated official who is not involved in the administration on Active Directory, Great Plains and HR Focus should perform regular reviews of the audit logs for the activities that are performed by the administrators.</p> <p>A segregation of duties (SOD) matrix for the Great Plains and HR Focus systems. The segregation of duties matrix should define the functions which should be allocated to each job role.</p>

4. Other matters of interest

(a) Unauthorised expenditure: Expenditure not in accordance with the budget vote

Unauthorised expenditure					Recommendation
Department/ Entity	Movement	Amount R 2014/15	Amount R 2013/14	Root cause	
1 National Department of Public Works (DPW)	↓	R5 501000	R6 215 000	Expenditure was incurred pertaining to contracts entered into in prior year's pertaining to the MUD schools project.	Management need to ensure that all cost incurred and transactions entered into are in line with the mandate of the department. The department must continuously follow up the request for condonement and funding for these transactions with National Treasury.

(b) Irregular expenditure: Expenditure incurred in contravention of key legislation

Irregular expenditure					Recommendation
Department/ Entity	Movement	Amount R 2014/15	Amount R 2013/14	Root cause	
1 National Department of Public Works (DPW)	↓	R55 283 446	R152 052 000	Changes to the supply chain management policy, only become effective since September 2014 and therefore did not yet yield the required result.	The preventative controls, therefore the pre-audit of awards (prior to them being awarded) should be enhanced to ensure irregular expenditure is prevented.

Irregular expenditure					
Department/ Entity	Movement	Amount R 2014/15	Amount R 2013/14	Root cause	Recommendation
2	Property Management Trading entity (PMTE)	R1 233 549 000	R6 214 055 000	Inadequate monitoring and review resulted in officials responsible for the supply chain management not following the SCM regulations, poor planning and unjustified deviations.	High level discussions to be held to resolve the timelines surrounding prestige procurement. Policies and procedures with regards to prestige procurement must be reviewed and updated and must include guidelines on reasonable costs to be incurred for prestige activities, this exercise must include the updating of the Ministerial Handbook. Compliance to all relevant SCM laws and regulations must be confirmed prior to finalisation of procurement transactions. Procurement plans should be developed and approved in advance by management to avoid unjustified deviations and to ensure compliance with the all the applicable laws and regulations in the SCM unit.
3	Independent Development Trust (IDT)	R14 981 000	R4 789 000	Management did not review and monitor compliance with laws and regulations Effective leadership based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the best interests of the entity was not provided. Management did not implement proper record keeping in a timely manner.	Enhancing of oversight and monitoring functions in respect of SCM, zero tolerance towards non-compliance. The monitoring role should be focused on ensuring that all Supply Chain Management laws and regulations have been followed prior to procurement being finalised.

Irregular expenditure					
Department/ Entity	Movement	Amount R 2014/15	Amount R 2013/14	Root cause	Recommendation
4					<p>Thus preventing irregular expenditure.</p> <p>Updating of SCM policy and procedures in line with latest laws/regulations on an ongoing basis, training to all applicable staff members to enhance understanding of principles. Record keeping and retention must be improved.</p>
Council for the Built Environment (CBE)	↑	R4 144 0000	R352 000	<p>There was a lack of monitoring by senior finance staff to ensure compliance with legislation.</p> <p>The entity does have policies in place aligned to legislation however in the current year there has been inadequate supervision and review to ensure compliance has been achieved.</p> <p>Concerns have also been raised on the filing system as supporting documentation is not easily retrievable for audit purposes.</p>	<p>Enhancing of oversight and monitoring functions in respect of SCM, zero tolerance towards non-compliance.</p> <p>The monitoring role should be focused on ensuring that all Supply Chain Management laws and regulations have been followed prior to procurement being finalised.</p> <p>Thus preventing irregular expenditure.</p> <p>Updating of SCM policy and procedures in line with latest laws/regulations on an ongoing basis, training to all applicable staff members to enhance understanding of principles. Record keeping and retention must be improved.</p>

Irregular expenditure					
Department/ Entity	Movement	Amount R 2014/15	Amount R 2013/14	Root cause	Recommendation
5 Construction Industry Development Board (CIDB)	↓	R5 897 269	R5 955 000	The accounting authority does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control	Enhancing of oversight and monitoring functions in respect of SCM, zero tolerance towards non-compliance. The monitoring role should be focused on ensuring that all Supply Chain Management laws and regulations have been followed prior to procurement being finalised. Thus preventing irregular expenditure.

(c) Fruitless and wasteful expenditure: Expenditure that should not have been incurred (incurred in vain that could have been avoided and no value for money received)

Fruitless and Wasteful expenditure					
Department/ Entity	Movement	Amount R 2014/15	Amount R 2013/14	Root cause	Recommendation
1 National Department of Public Works (DPW)	↑	R2 127 000	R130 000	Management paid a court judgment without performing a reconciliation of payments made to the claim submitted.	Management must ensure that proper and timeous reconciliations are performed when claims against the department are received.

				Legal fees and settlement cost that had to be paid pertaining to labour related matters	Management need to ensure that the overpayment is recovered from the service provider.
2	Property Management Trading entity (PMTE)	↓	R239 000	R16 186 000	Management need to enhance the monitoring controls pertaining to HR to prevent labour related claims against the department. Regular inspections must be performed to ensure that all leased premises are still being occupied. The entity should perform investigations and charge officials who are responsible for the incurrence of the fruitless and wasteful expenditure timeously.
3	Independent Development Trust (IDT)	↑	R253 000	R70 000	Implement strict creditor's payments terms and align financial processes to ensure that invoices are paid within 30 days, to avoid interest being charged.
4	Council for the Built Environment (CBE)	↑	R45 000	R0	All IT related procurement should be pre-approved by the IT manager.
5	Construction Industry Development Board (CIDB)	↓	R0	R185 000	Not applicable as no fruitless and wasteful expenditure incurred in the current year.

5. Drivers of internal controls

Department & Entities	Drivers of internal control													
	Leadership						Financial & performance management						Governance	
	Effective leadership culture	Oversight responsibility	HR management	Policies and procedures	Action plans	IT governance	Proper record keeping	Processing and reconciling controls	Reporting	Compliance	IT systems controls	Risk management	Internal audit	Audit committee
National Department of Public Works (DPW)														
Property Management Trading Entity (PMTE)														
Independent Development Trust (IDT)														
Council for the Built Environment (CBE)														
Construction Industry Development Board (CIDB)														

6. Other reports**6.1 Investigations****The National Department of Public Works (DPW) and Property Management Trading Entity (PMTE) :**

Numerous internal allegations, mainly relating to transgressions with respect to supply chain management, potential fraud and financial misconduct are being investigated on an ongoing basis.

The alleged abuse of urgent and emergency procurement and the use of sole suppliers are the subject of an ongoing investigation. The investigation aims to establish whether there was collusion between officials and service providers and to determine any reckless spending of funds. The investigation is being probed in phases. The department has instituted disciplinary action in respect of the finalised reports on an ongoing basis.

Proclamation No. R. 59 of 2013 was approved on 20 December 2013 by the President for the Special Investigating Unit to probe allegations relating to the prestige project involving the security upgrading of the private residence of the President situated at Nkandla, KwaZulu-Natal. This report was concluded on 20 August 2014.

Independent Development Trust (IDT):

Various investigations in progress by internal audit and external service providers. These investigations were initiated based on allegation of possible fraud, corruption and procurement irregularities covering various periods. The outcome of these investigations is uncertain.

Council for the Built Environment (CBE):

An investigation was requested by the minister in accordance with section 19(3) of the Council for the Built Environment Act, 2000 (Act No. 43 of 2000) regarding the functions of the council. The investigation was finalised subsequent to year-end and has not yet been made public.

A forensic investigation was requested by the accounting authority and conducted by an external service provider into procurement and recruitment procedures. The outcome of the investigation indicated that there were internal control deficiencies within the supply chain management division as well as within human resource management.

The accounting authority then initiated an investigation into the chief executive officer regarding failure to carry out resolutions, declare a business interest and adhere to delegations of authority. The investigation was still in progress at the time of this report.

Construction Industry Development Board (CIDB):

The CIDB instituted an investigation in relation to the registration of contractors at the CIDB. The investigation was still in progress at the date of this report.

7. Combined Assurance on Risk Management in the Public Sector

Management assurance First level of assurance	
Senior management	Executive authority
Required assurance levels	
Extensive	Extensive

- Management's assurance role**
- Senior management – take immediate action to address specific recommendations and adhere to financial management and internal control systems
 - Accounting officers/ authority – hold officials accountable on implementation of internal controls and report progress quarterly and annually
 - Executive authority – monitor the progress of performance and enforce accountability and consequences

Oversight assurance Second level of assurance	
Coordinating / Monitoring institutions	Internal audit
Required assurance levels	
Extensive	Extensive

- Oversight's assurance role**
- National Treasury/DPSA – monitor compliance with laws and regulations and enforce appropriate action
 - Internal audit – follow up on management's actions to address specific recommendations and conduct own audits on the key focus areas in the internal control environment and report on quarterly progress
 - Audit committee – monitor risks and the implementation of commitments on corrective action made by management as well as quarterly progress on the action plans

Independent assurance Third level of assurance		
Oversight (portfolio committees/ councils)	Public accounts committee	External audit
Required assurance levels		
Extensive	Extensive	Extensive

- Role of independent assurance**
- Oversight (portfolio committees) – review and monitor quarterly progress on the implementation of action plans to address deficiencies
 - Public accounts committee – exercise specific oversight on a regular basis
 - External audit – provide independent assurance on the reliability, accuracy and credibility of reported financial and performance information and identify instances non-compliance

Turnaround plans	As part of the multi-year turnaround strategy, the Minister committed to producing an immovable asset register that complies with Generally Recognised Accounting Practice (GRAP) by 31 March 2016.	31 March 2016	
Turnaround plans, supply chain management and financial management	The executive authority committed to address shortcomings in the leasing environment at the Property Management Trading Entity.	31 March 2016	
Human resource management	The Minister committed to ensure that adequate human resources are appointed at PMTE in terms of both numbers and skills.	31 March 2016	

STATUS LEGEND

 Commitment has been implemented
 Commitment in progress

9. Proposed commitments for the Portfolio Committee

The previous committee committed to monitoring the progress of the turnaround strategy at DPW and PMTE, including the following: finalisation of the PMTE business case; implementation of an accrual accounting system (SAGE) for PMTE; status of disciplinary action where unauthorised, irregular, fruitless and wasteful expenditure was not prevented; preparation of regular financial statements and the capacitation of governance functions. The committee also committed to monitor going concern issues at PMTE and IDT. These commitments were in progress when the committee's term came to an end.

Commitments to be considered for adoption by the present committee:

- Implementation of audit action plans by portfolio to resolve matters included in audit reports issued for 2014-15, in particular for the Property Management Trading Entity who received a qualified audit opinion and the Independent Development Trust for which an audit opinion was not expressed. Particular attention should also be paid to the reliability of actual achievements reported on the Expanded Public Works Programme.
- Implementation of appropriate information systems at PMTE, including streamlining the implementation of an appropriate accrual accounting (SAGE) and billing system at PMTE which will eliminate manual processes currently required to compile accrual based financial statements.
- Continuously monitoring the actions being taken by leadership in the portfolio to prevent irregular expenditure, including progress made on investigating alleged irregular transactions at the department and PMTE to eliminate the back-log that currently exists, and the status of disciplinary action where unauthorised, irregular, fruitless and wasteful expenditure was not prevented.
- Monitoring the effectiveness of internal audit in contributing to clean administration in the portfolio.
- Monitoring management's actions to resolve issues regarding financial health at the PMTE.
- Monitoring spending on infrastructure at the Department of Public Works and PMTE and how it links to actual delivery of infrastructure projects.

