



# PFMA 2016-17



## Budgetary review and recommendations report

Public works portfolio

03 October 2017



AUDITOR-GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

# Reputation promise

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



## Role of the AGSA in the reporting process

Our role as the AGSA is to reflect on the audit work performed to assist the portfolio committee in its oversight role of assessing the performance of the entities taking into consideration the objective of the committee to produce a *Budgetary review and recommendations report (BRRR)*.



1

# The AGSA's Public Audit Act Promise and Focus



# Our annual audit examines three areas



**1** FAIR PRESENTATION AND RELIABILITY OF FINANCIAL STATEMENTS

**2** RELIABLE AND CREDIBLE PERFORMANCE INFORMATION FOR PREDETERMINED OBJECTIVES

**3** COMPLIANCE WITH KEY LEGISLATION ON FINANCIAL AND PERFORMANCE MANAGEMENT

## Unqualified opinion with no findings (clean audit)



Auditee:

- produced credible and reliable financial statements that are free of material misstatements
- reported in a useful and reliable manner on performance as measured against predetermined objectives in the annual performance plan (APP)
- complied with key legislation in conducting their day-to-day operations to achieve their mandate

## Financially unqualified opinion with findings



Auditee produced financial statements without material misstatements or could correct the material misstatements, but struggled in one or more area to:

- align their performance reports to the predetermined objectives they committed to in their APPs
- set clear performance indicators and targets to measure their performance against their predetermined objectives
- report reliably on whether they achieved their performance targets
- determine the legislation that they should comply with and implement the required policies, procedures and controls to ensure compliance

## Qualified opinion



Auditee:

- had the same challenges as those with unqualified opinions with findings but, in addition, they could not produce credible and reliable financial statements
- had material misstatements on specific areas in their financial statements, which could not be corrected before the financial statements were published.

## Adverse opinion



Auditee:

- had the same challenges as those with qualified opinions but, in addition, they had so many material misstatements in their financial statements that we disagreed with almost all the amounts and disclosures in the financial statements

## Disclaimed opinion



Auditee:

- had the same challenges as those with qualified opinions but, in addition, they could not provide us with evidence for most of the amounts and disclosures reported in the financial statements, and we were unable to conclude or express an opinion on the credibility of their financial statements

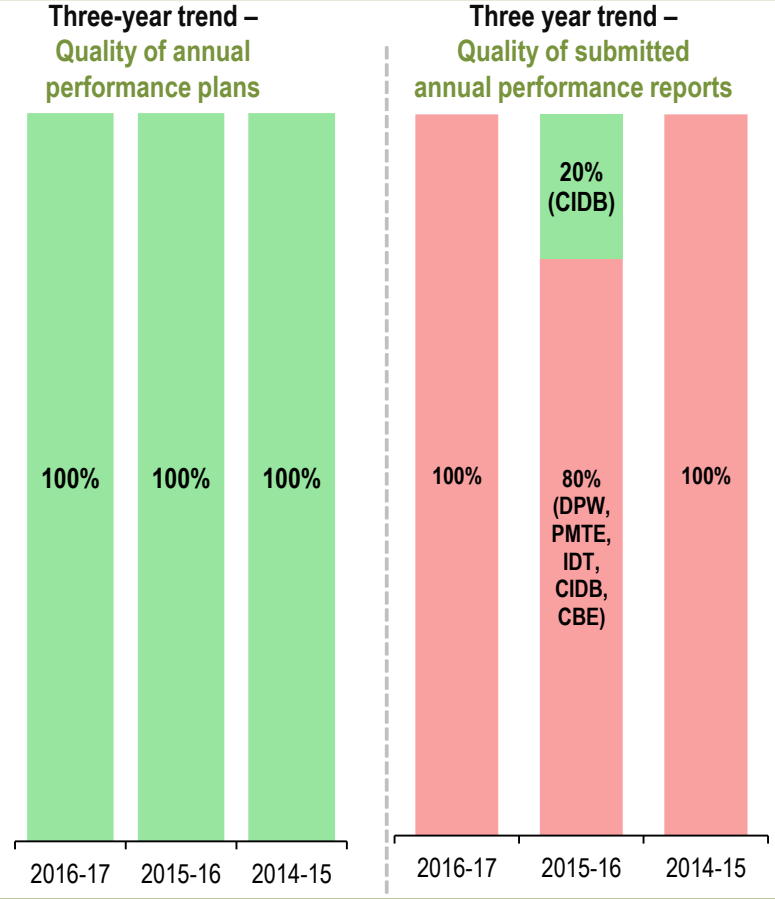
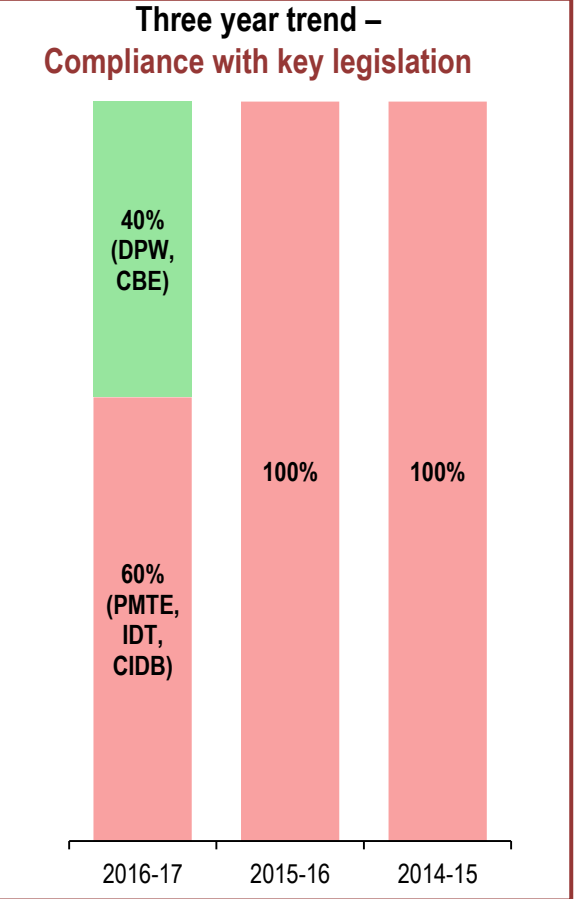
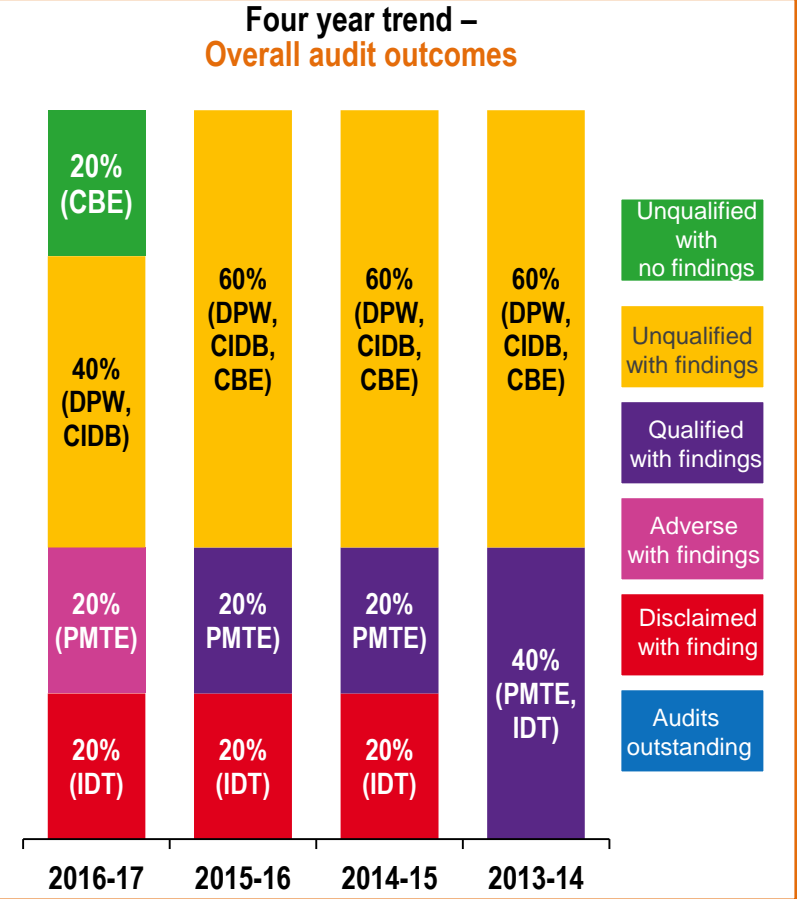
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## The 2016-17 audit outcomes and key messages





# Regression in audit outcomes in the current year



**1** To improve the **overall audit outcomes**, financial statements processes,

- CBE is commended for obtaining a clean audit outcome by submitting financial statements that were free of material misstatements and for complying with all relevant legislation.
- DPW and CIDB remained stagnant with unqualified audit outcomes with findings on other areas.
- The audit outcome of PMTE regressed to an adverse audit outcome from a qualification in the prior period.
- IDT remained stagnant with a disclaimed audit outcome in the current period.
- More details regarding the negative audit outcomes for PMTE and IDT are provided on the next slide.

**2** .... **compliance** with key legislation and....

Although improvement has been noted at some entities, areas of concern still remain regarding the following:

- Material misstatements were identified in the AFS submitted for audit at PMTE and IDT resulting in negative audit outcomes
- Inadequate controls over monitoring of compliance with legislation resulted in non-adherence to SCM prescripts. This has been the main cause of the escalating irregular expenditure

**3** .... **performance planning and reporting** must be improved by....

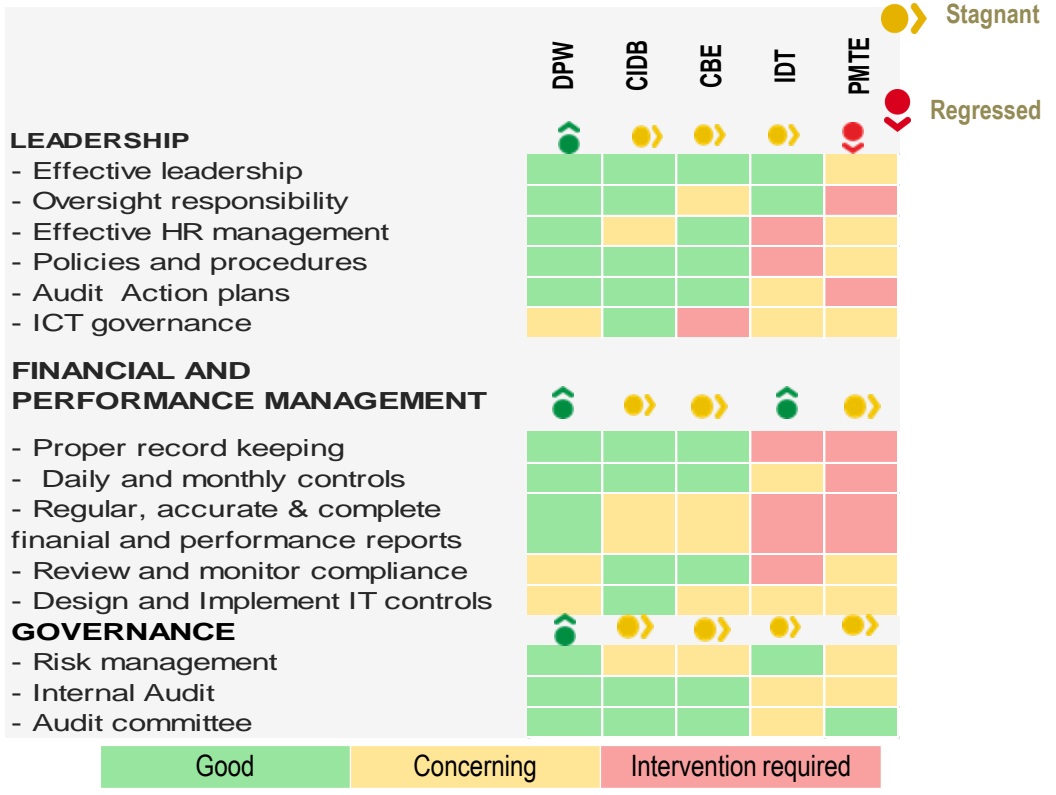
- Reviewing of all reported achievement against the supported evidence to ensure that they are valid, accurate and complete.
- Achievement of the planned targets needs to be monitored on a quarterly basis and also be audited by the internal auditors quarterly.



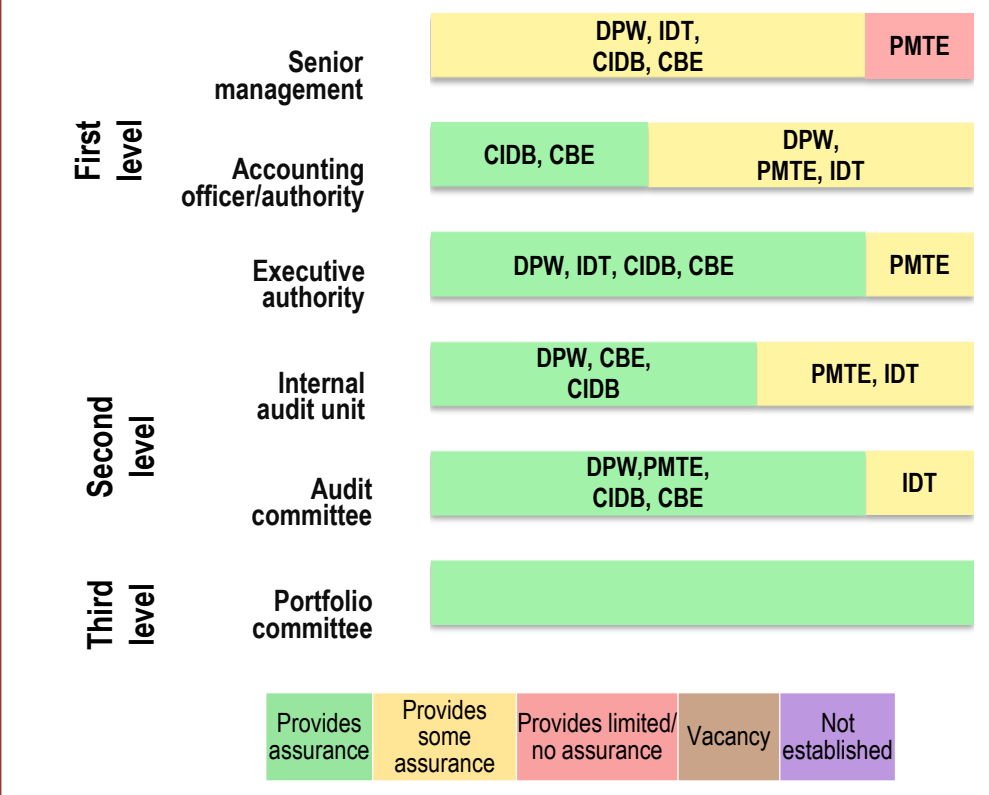
With no material findings	With material findings	Outstanding audits	No APR/ late submitted
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# Regression in audit outcomes in the current year - continued

## Status of Key controls



## Assurance providers per level



4 ... providing attention to the **key controls** by...

- The negative audit outcomes at PMTE and IDT are a reflection of the lack of effective financial management disciplines, inadequate reconciliatory processes and management's inability to implement action plans in a timely manner at these entities.
- There is a lack of credible financial reporting throughout the year at PMTE and IDT to enable leadership to review and take appropriate and timeous corrective action where required.
- Leadership should enhance oversight and adopt a zero tolerance approach when it comes to non-compliance with legislation. The starting point for this would be addressing the repeated non-compliance with SCM legislation reported in prior years.
- Review of annual performance reports (APR) should be enhanced, and an additional review by internal audit should be performed prior to their submission for audit to prevent material adjustments.






5 ... the key role players as part of their role in **combined assurance**

- The effectiveness of the work performed by the various assurance providers such as audit committee and the executive authority has not yet yielded the desired results, due to management's failure to adequately implement their recommendations.
- The slow response by management was thus recognised as the key root cause that hindered the progress or resulted in regression in the audit outcomes.



# Audit outcomes for the current year - PMTE

- The PMTE regressed from a qualified audit outcome in 2015-16 to an adverse audit outcome in the 2016-17. Although the entity delayed the submission of their annual financial statements (which were submitted on 7 July 2017), this did not result in an improvement in the quality of the financial statements and supporting schedules submitted for auditing.

	Qualification areas 2016/17	Qualification areas 2015/16
	<b><u>Property, plant and equipment (PPE):</u></b> <ul style="list-style-type: none"> <li>• Incorrect use of source data in determining value of assets disclosed in immovable asset register.</li> <li>• Operating expenditure recognised as additions to PPE</li> </ul>	<b><u>Property, plant and equipment (PPE):</u></b> <ul style="list-style-type: none"> <li>• Not qualified. PPE was disclosed at provisional amounts due to GRAP transitional provisions.</li> </ul>
	<b><u>Accrued expenses:</u></b> <ul style="list-style-type: none"> <li>• The entity could not provide supporting documentation for accrued expenses due to inadequate systems for maintaining records.</li> </ul>	<b><u>Accrued expenses:</u></b> <ul style="list-style-type: none"> <li>• Also qualified due to inadequate systems for maintaining records, albeit for a different category.</li> <li>• The root cause remains the same and has not been adequately addressed.</li> </ul>
	<b><u>Receivables</u></b> <ul style="list-style-type: none"> <li>• We were unable to obtain assurance regarding amounts recoverable from client departments, as the entity could not provide the relevant supporting documentation.</li> </ul>	<b><u>Receivables</u></b> <ul style="list-style-type: none"> <li>• Not qualified due to the related account being disclosed at provisional amounts due to GRAP transitional provisions.</li> </ul>
	<b><u>Provisions – unscheduled maintenance</u></b> <ul style="list-style-type: none"> <li>• PMTE could not provide supporting documentation for scheduled maintenance provision due to inadequate systems for maintaining records.</li> </ul>	<b><u>Provisions – unscheduled maintenance</u></b> This balance was disclosed for the first time in 2016/17
	<b><u>Property rates expenditure</u></b> <ul style="list-style-type: none"> <li>• This matter was resolved in the current period.</li> </ul>	<b><u>Property rates expenditure</u></b> <ul style="list-style-type: none"> <li>• We were unable to confirm ownership of the properties for which property rates had been paid, due to inadequate systems for maintaining records.</li> </ul>

Not subject to qualification






Not subject to qualification due to transitional provision

Subject to qualification

ACCOUNTABILITY = PLAN + DO + CHECK + ACT

# Audit outcomes for the current year - IDT

- The IDT remained with a disclaimer audit outcome in 2016-17 with improvement on the issues compared to 2015-16 .

Qualification areas 2016/17	Qualification areas 2015/16
 <b>Programme Reserves &amp; Liabilities and Programme Receivables:</b> The systems and processes to identify and accurately record all programme expenditure incurred on behalf of client departments in the financial period to which they relate to, were inadequate.	<b>Programme spend and Programme reserves and liabilities:</b> Material balances were presented in the financial statements without accurate and complete underlying accounting records.
 <b>Management Fees and Trade and Other Receivable</b> The IDT did not recognise revenue due to it from project management fees for the year under review as the systems and processes to identify and accurately record all programme expenditure incurred on behalf of client departments in the financial period to which they relate to, were inadequate	<b>Management fees, Trade receivables, Impairment of trade receivables and Provision for doubtful debts</b> The IDT did not recognise revenue due to it from project management fees as the systems and processes to identify and accurately record all programme expenditure incurred on behalf of client departments in the financial period to which they relate to, were inadequate
 <b>Related parties</b> This matter was resolved in the current period.	<b>Related parties</b> Insufficient reconciliations to account for programme expenditure incurred on behalf of Department of Public Works
 <b>Aggregation of immaterial uncorrected misstatements current year</b> Immaterial uncorrected misstatements were also not material in aggregate.	<b>Aggregation of immaterial uncorrected misstatements current year</b> Immaterial uncorrected misstatements were also not material in aggregate.
 <b>Prior period error</b> The disclosed prior period error contained misstatements due to programme expenditure not recognised in the period to which it relates to.	<b>Prior period error</b> The IDT did not disclose prior period errors relating to Programme spend and Programme reserves.

Not subject to qualification

Subject to qualification

**ACCOUNTABILITY = PLAN + DO + CHECK + ACT**

3

Performance management linked to programmes/ objectives tested & key projects audited



# Quality of APP and analysis of expenditure per programme vs performance achievements - DPW

Programmes	Usefulness	Reliability	Material adjustments	Budgeted amount (R '000)	Spent amount (R '000)	% Spending	No. of targets planned	No. of targets achieved or overachieved	% Achievement
Programme 1- Administration	Not audited	Not audited	-	R516 006	R450 444	87.3%	16	11	69%
Programme 2- Intergovernmental Coordination	Not audited	Not audited	-	R28 639	R16 477	57.5%	4	3	75%
Programme 3 – Expanded Public Works Programme	No material findings	Material finding	-	R2 319 500	R2 301 446	99.2%	5	4	80%
Programme 4 – Property and Construction Industry Policy and Research	No material findings	No material findings	X	R3 553 089	R3 547 048	99.8%	3	3	100%
Programme 5- Prestige Policy	No material findings	Material finding	-	R95 565	R87 931	92.0%	4	1	25%
<b>Totals</b>				<b>R6 512 799</b>	<b>R6 403 346</b>	<b>98.3%</b>	<b>32</b>	<b>19</b>	<b>59%</b>

Kindly refer to page 53 to 58 of the annual report for the detail of where management has reported on the their achievement of the above targets for each programme as included in the Annual Performance Report.



# Quality of APP and analysis of expenditure per programme vs performance achievements – PMTE

Programmes	Usefulness	Reliability	Material adjustments	Budgeted amount (R '000)	Spent amount (R '000)	% Spending	No. of targets planned	No. of targets achieved or overachieved	% Achievement
Programme 1-Administration	Not audited	Not audited	--	R786 050	R623 937	79.4%	5	1	20%
Programme 2-Real Estate Investment Services	Not audited	Not audited	--	R116 521	R108 330	93.0%	10	8	80%
Programme 3-Construction Project Management	No material findings	Material finding	--	R4 842 942	R4 473 336	92.4%	9	2	22 %
Programme 4-Real Estate Management services	No material findings	Material finding	X	R5 932 469	R6 030 959	101.7%	9	7	78%
Programme 5: Real Estate Information & registry Services	No material findings	Material finding	--	R86 836	R72 277	83.2%	3	3	100%
Programme 6:Facilities Management Services	No material findings	Material finding	--	R2 735 280	R2 903 969	106.2%	9	4	44%
<b>Totals</b>				<b>R14 500 098</b>	<b>R14 212 808</b>	<b>98.0%</b>	<b>39</b>	<b>21</b>	<b>54%</b>

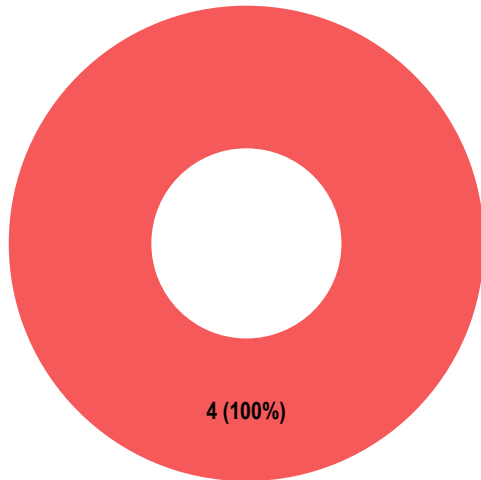
Kindly refer to page 61 to 71 of the annual report for the detail of where management has reported on the their achievement of the above targets for each programme as included in the Annual Performance Report.



# Key projects selected as part of the statutory audit

5 key projects were audited across DPW, PMTE and IDT. We noted **4** projects are not achieving the desired progress.

## Construction projects completed on time and within budget



 Targets achieved

 Targets not achieved/ not evaluated

## Key findings

- Potential fruitless and wasteful expenditure was identified on these projects that can result in an overstatement of the value of the assets created.
- Targets were not achieved (projects were identified where spending was significantly over budget, and the projects were also significantly delayed).
- SCM processes were not followed on certain projects which will result in irregular expenditure.





# Executive summary on Key Projects audited

#	Key Projects audited	Budget versus spending	Financial management (AFS)	Compliance	Pre-determined objectives	Responsible entity
1	<i>Expanded Public Works Programme</i>					DPW
2	<i>Upgrade of C-Max Correctional Facility</i>					PMTE
3	<i>Upgrade of Skilpadhek Border Post</i>					PMTE
4	<i>Upgrade of Van Rhynsdorp Correctional Centre</i>					PMTE
5	<i>Schools projects</i>					IDT

Material findings / concerns noted

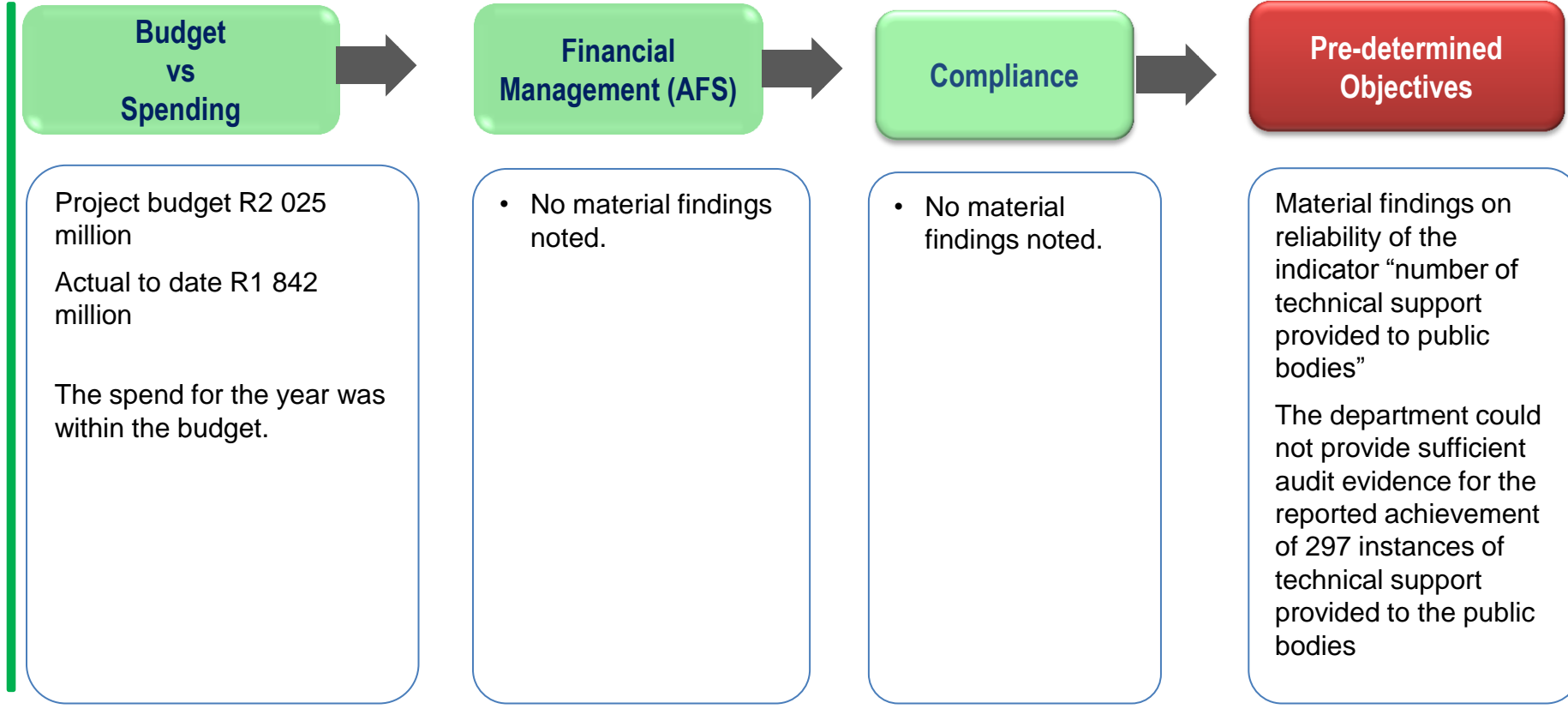
No material findings / concerns noted



**ACCOUNTABILITY = PLAN + DO + CHECK + ACT**

# 1. DPW: Expanded Public Works Programme

Programme 3:  
Expanded Public  
Works Programme

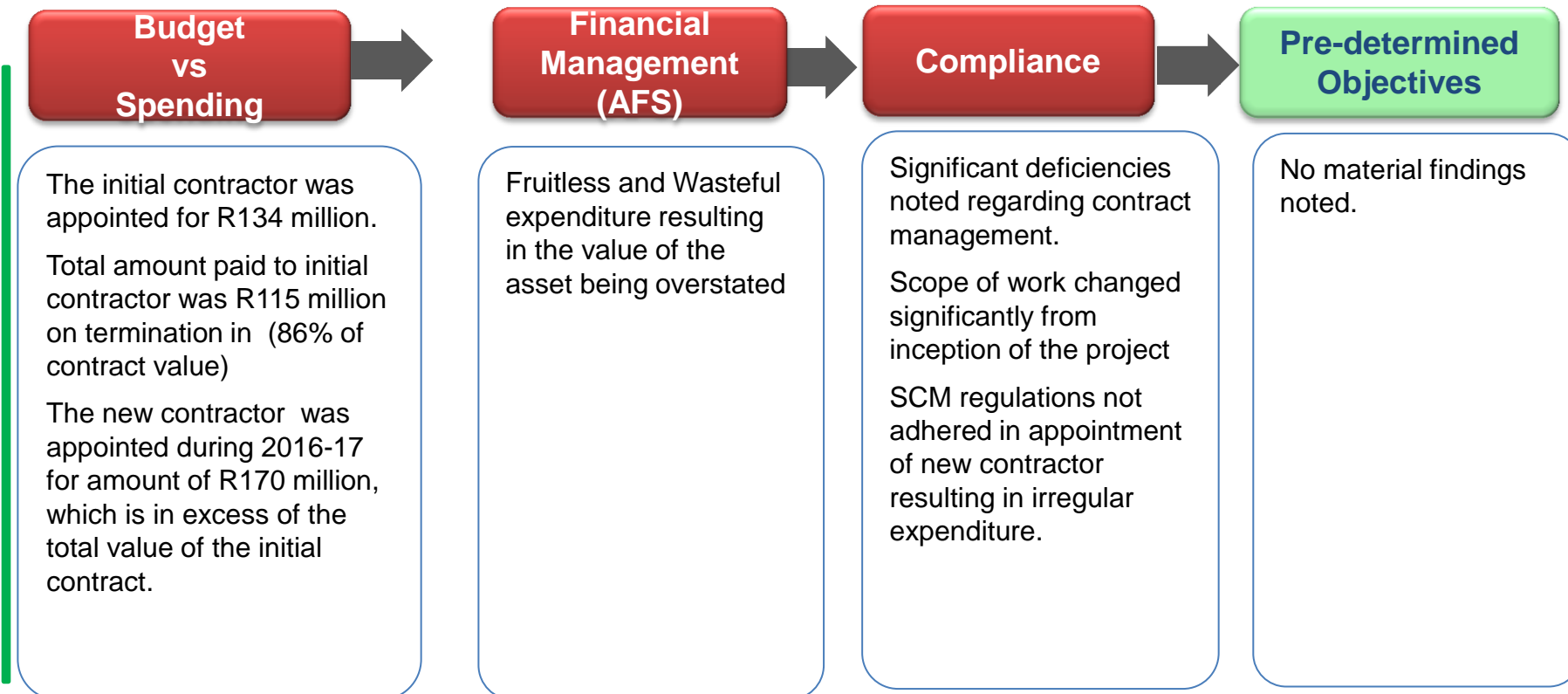


The department did not include the MTSF indicator “Number of work opportunities created” on their annual performance plan and report in the current year. Due to this being programme being a key government priority, audit work was performed and issues similar to those previously identified were noted to have recurred in the current period. Findings that were identified on monitoring of performance on the expanded public works programme indicate that it is not yet functioning optimally, and it cannot be concluded that the earmarked funds were in all instances spent in line with the intended purposes to reach the people as planned.

- The following are some of the key findings noted:
- Reported beneficiaries were noted to be deceased.
  - Identity numbers of beneficiaries found to invalid.
  - Attendance registers and proof of payments were not always submitted.
  - Instances were identified where some beneficiaries have been included on multiple projects when they have only worked on one project.

■ Material findings / concerns noted
 ■ No material findings / concerns noted

# 2. PMTE: Upgrade of C-Max Correctional Facility



Programme 3 – Construction Project Management

Project start date: **March 2011**  
 Original planned completion date: **17 July 2012**  
 Anticipated Completion date: **19 July 2018**

**Value for money audit**

As part of the audit, an assessment of the value for money received on this project was conducted. There is an estimated R49.9 million for Fruitless and Wasteful expenditure identified during the audit, on the amounts paid to the original contractor where the work was redone by the replacement contractor.

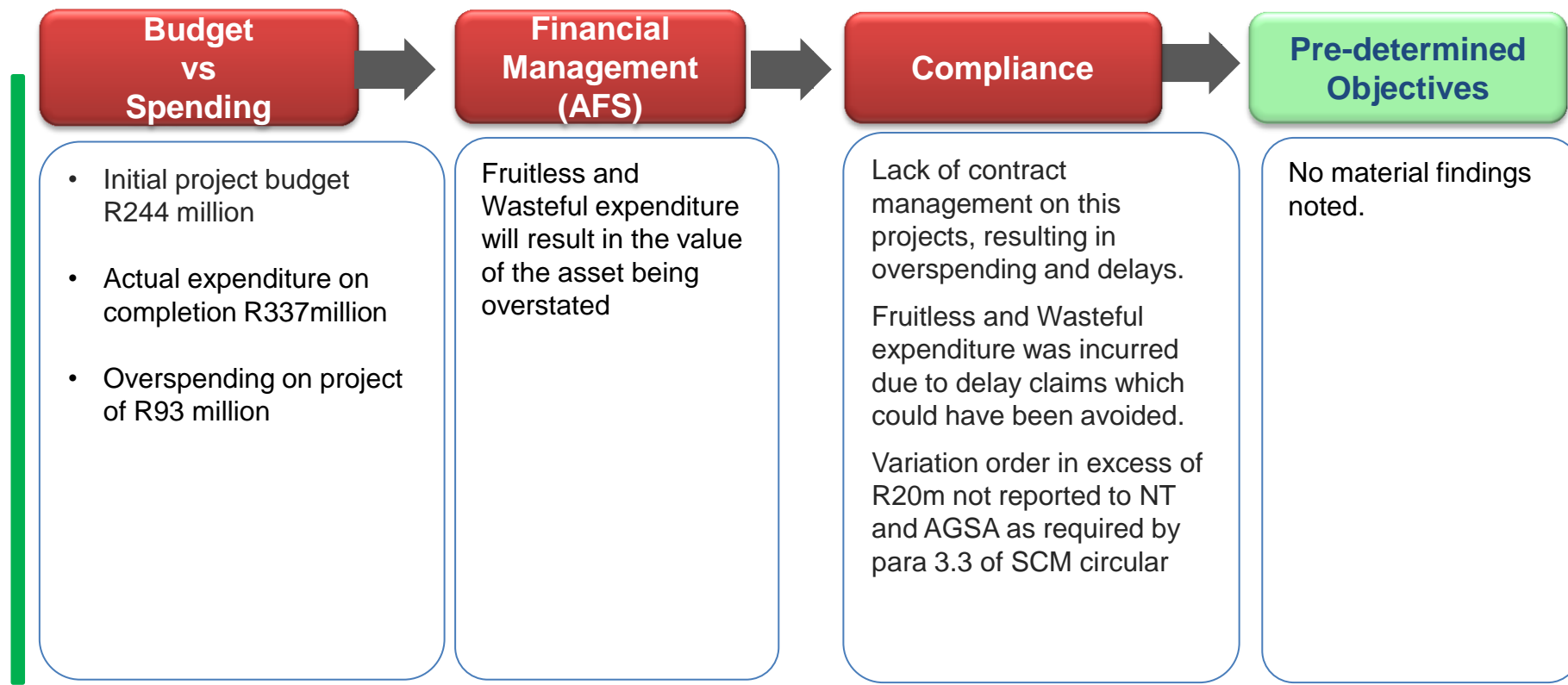
The recommendation to the department is to conduct a full investigation to determine the full extent of the fruitless and wasteful expenditure on this project.

 **Material findings / concerns noted**  **No material findings / concerns noted**



# 3. PMTE - Upgrade of Skilpadhek Border Post

Programme 3 – Construction Project Management



- Project started: **22 October 2008**
- Original planned completion date : **22 June 2010**
- Actual completion date: **24 October 2016** (approx. 6 years later than anticipated)

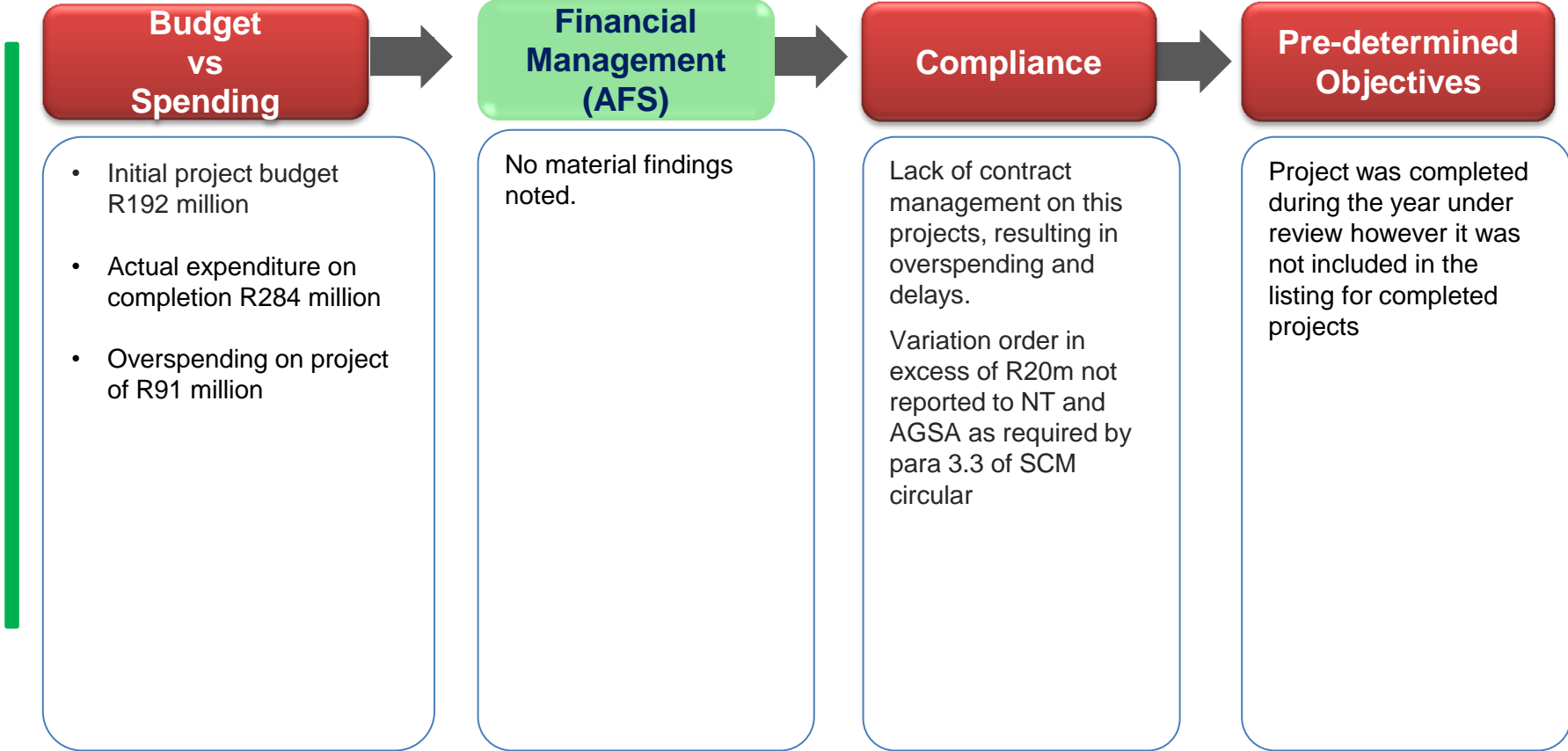
### Value for money audit

There is estimated amount of R55.7 million for Fruitless and Wasteful expenditure identified during the audit where payments were made to the contractor for claims made, where the work was delayed due to circumstances which extended the project or prevented work from being performed as originally planned. From our assessment of the claims, these could have been avoided had reasonable care been taken during the planning phase of the project.

■ **Material findings / concerns noted**
■ **No material findings / concerns noted**

# 4. PMTE - Upgrade of Van Rhynsdorp Correctional Centre

Programme 3 –  
Construction  
Project  
Management



- Project started: **October 2007**
- Original planned completion date : **11 October 2009**
- Actual completion date: **21 September 2016** (approx. 7 years later than anticipated)

**Value for money audit**

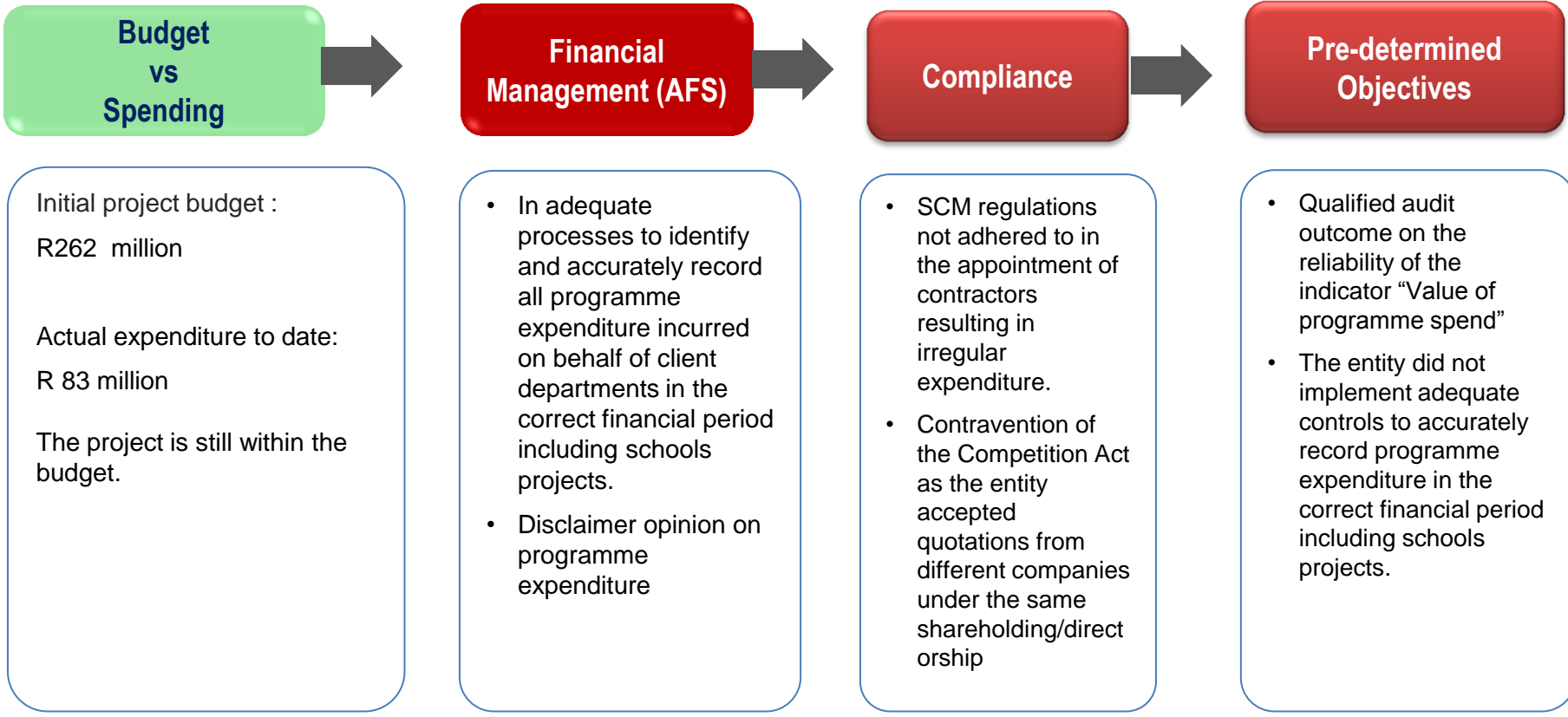
As part of the audit an assessment of the value for money received on this project was conducted. We noted that A poorly defined project scope as evident by a total of 18 additions and changes to the scope of work at an additional amount of R60 million to the original contract amount, contributed to the above mentioned delays and expenditure escalation

 **Material findings / concerns noted**     **No material findings / concerns noted**

# 5. Schools infrastructure project



Programme 1 – Integrated service delivery



**23 School visited**

**Budget vs Spending**

- There were no concerns noted on the budget as the actual expenditure to date did not exceed the total project budgeted amount

**Value for money audit**

As part of the audit an assessment of the value for money received on this project was conducted. We noted that 10 of 23 projects visited had quality concern and 4 of the schools had incorrect specifications implemented. Non compliances to SCM regulations led to irregular expenditure of R18 416 450 on behalf of the client department.

■ **Material findings / concerns noted**
■ **No material findings / concerns noted**

4

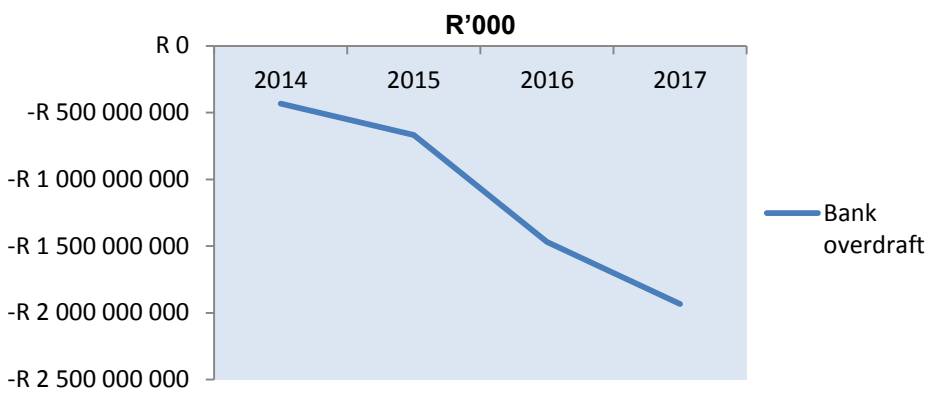
## Financial health and financial management



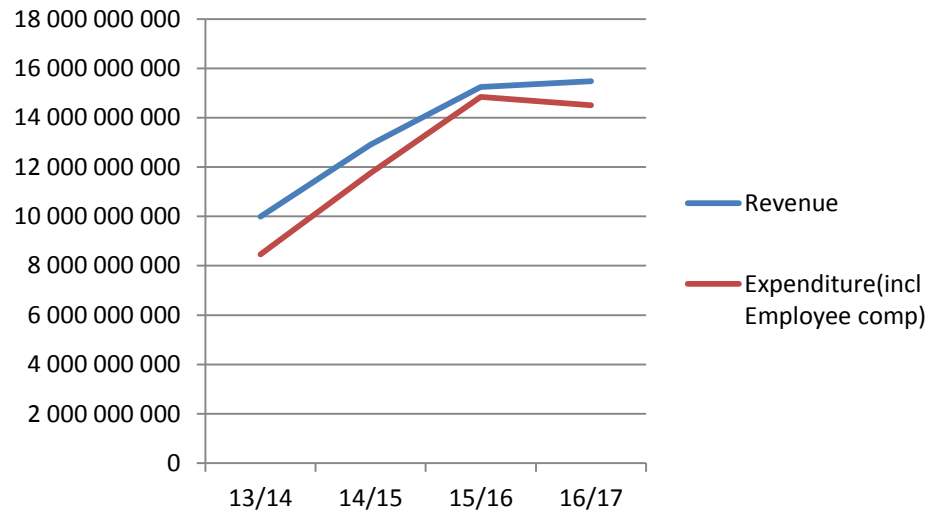
# Financial Viability: PMTE

**Figure 1: Going concern considerations**

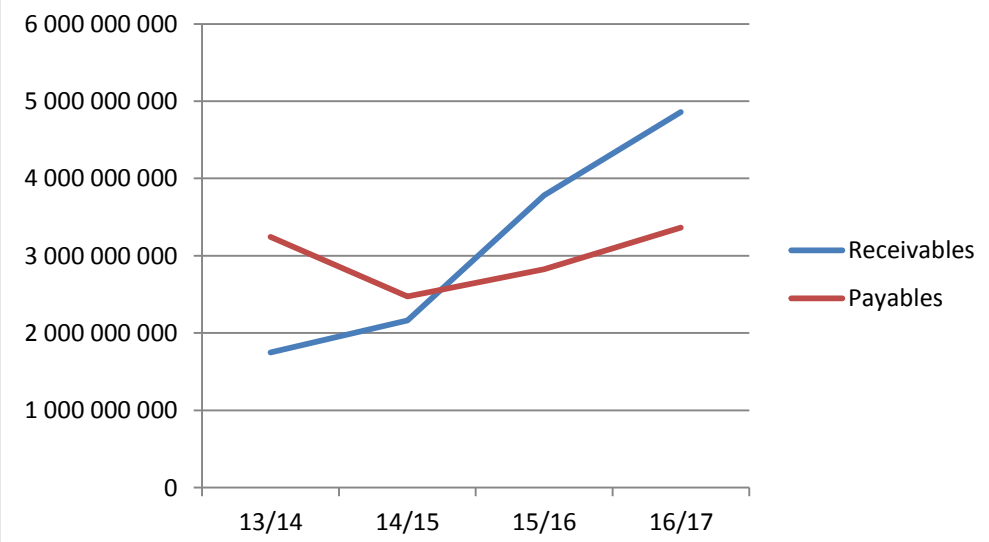
The bank overdraft is consistently increasing over the years. This is a strong indicator of going concern challenges.



The expenditure line is consistently below the revenue line which is a positive indicator, and slightly mitigates the risk of going concern indicated by the overdraft above.



FINANCIAL VIABILITY RATIOS		
Liquid assets as a percentage of current liabilities (excl. deferred revenue)	70%	71%
Debtors' days	54 days	47 days
Creditors' days	84 days	70 days



The ratios and diagram above show the gap between receivables and payables steadily increasing, which highlights an increased working capital that the entity has to finance.

The biggest concern surrounding financial viability at the entity is due to the current business model, which requires PMTE to fund all expenditure before recovering amounts from client departments. As client departments are increasing their payment period, this results in PMTE taking longer to settle their debts.





# Improvement in compliance with legislation and poor quality of financial statements

Figure 1: Findings on compliance with key legislation – all auditees

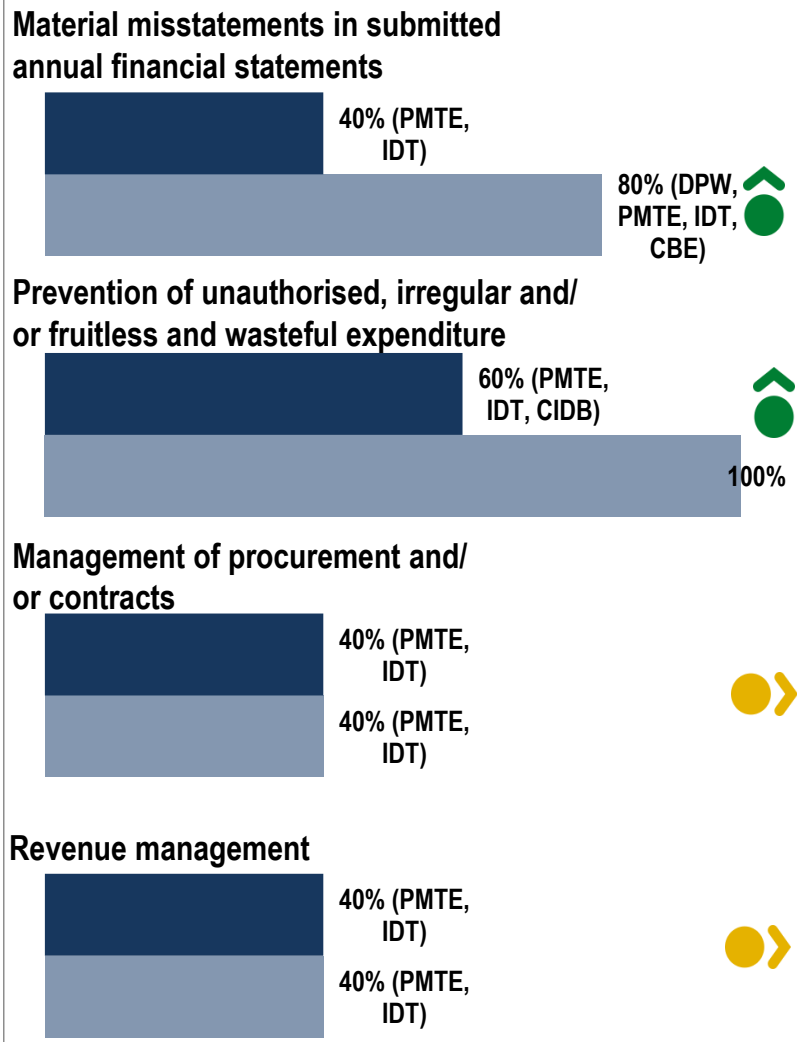
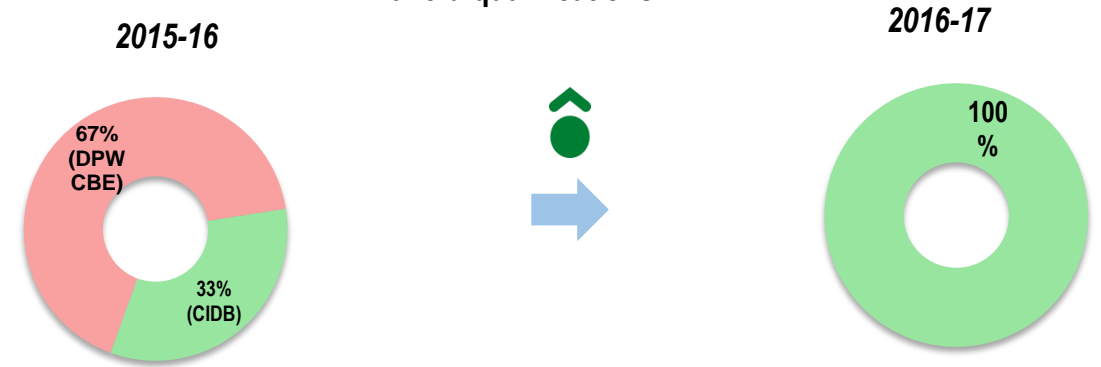


Figure 2: Qualification areas over two years

Auditee	Property, plant and equipment		Payables / provisions		Receivables		Programme reserves		Expenditure		Revenue	
	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16
PMTE	X		X	X	X					X		
IDT					X	X	X	X			X	X

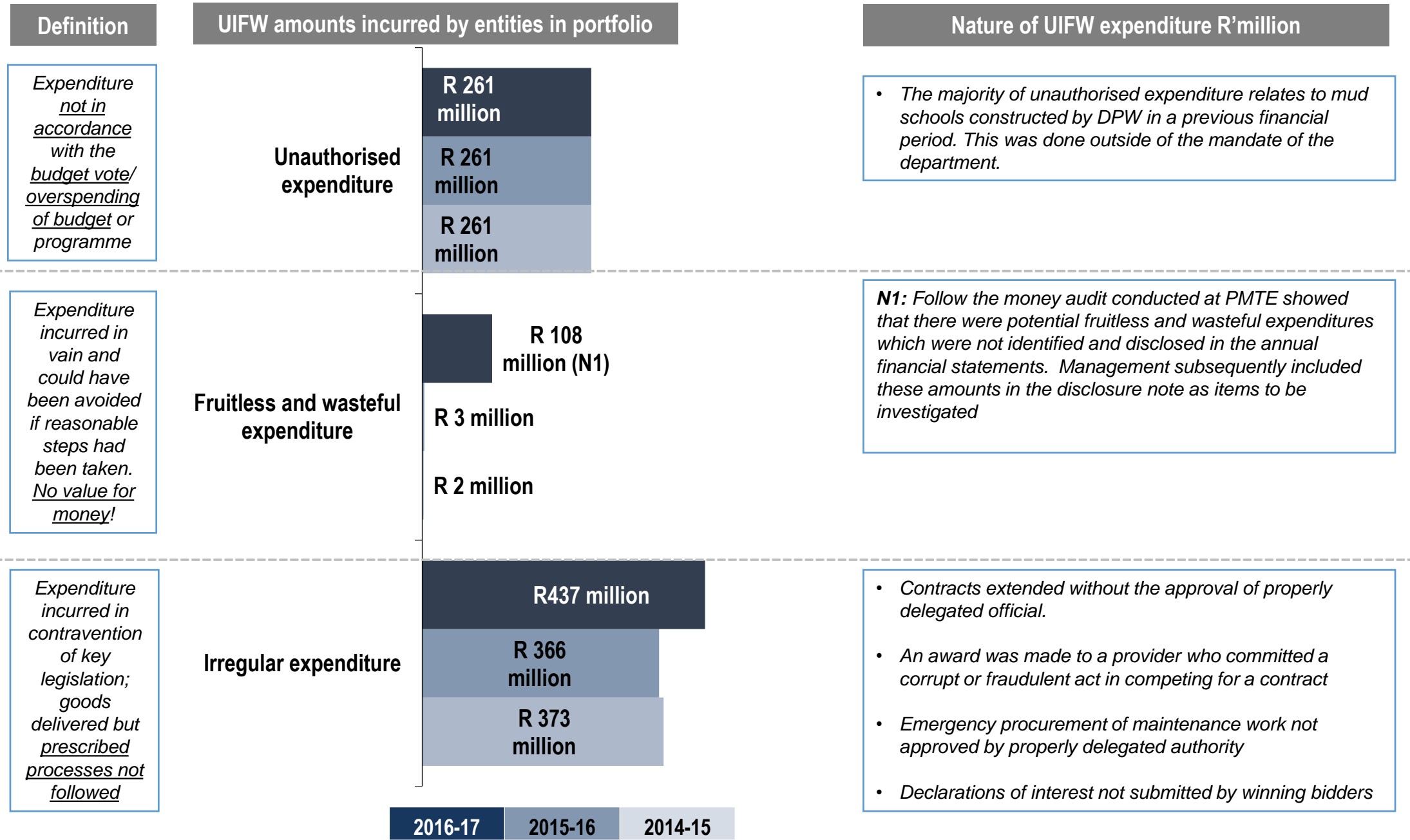
Figure 3: Auditees who required correction of material misstatements during the audit to avoid qualifications



2016-17
2015-16
↑ Improved
 → Stagnant
 ↓ Regressed
 No adjustments required
Required adjustment



# Unauthorised, irregular as well as fruitless and wasteful expenditure disclosed in the financial statements



2016-17    2015-16    2014-15



# Fraud and consequence management

- One auditee had a material findings on non-compliance with legislation on consequence management

**Investigations to be conducted on allegations of financial and/or fraud and SCM misconduct within PMTE – (non compliance included in the audit report)**

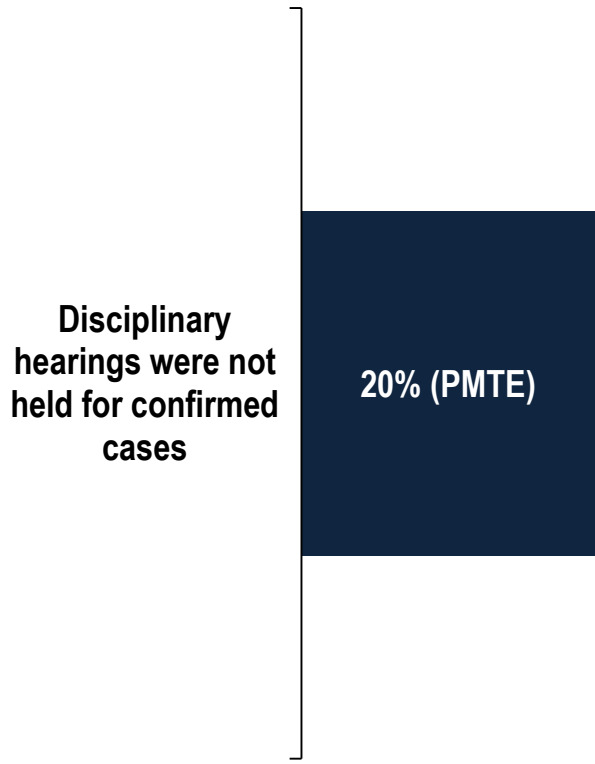
**Previous year unauthorised, irregular and fruitless and wasteful expenditure reported for investigation**

There four categories of investigations to be conducted.

- Unauthorised expenditure
- Fruitless and Wasteful Expenditure
- Irregular Expenditure
- Financial misconduct and other.

All allegations within the department received through

- the National Hot-line,
  - DG's office or
  - from requests from Chief directors,
- are investigated by the Risk Management unit at DPW.



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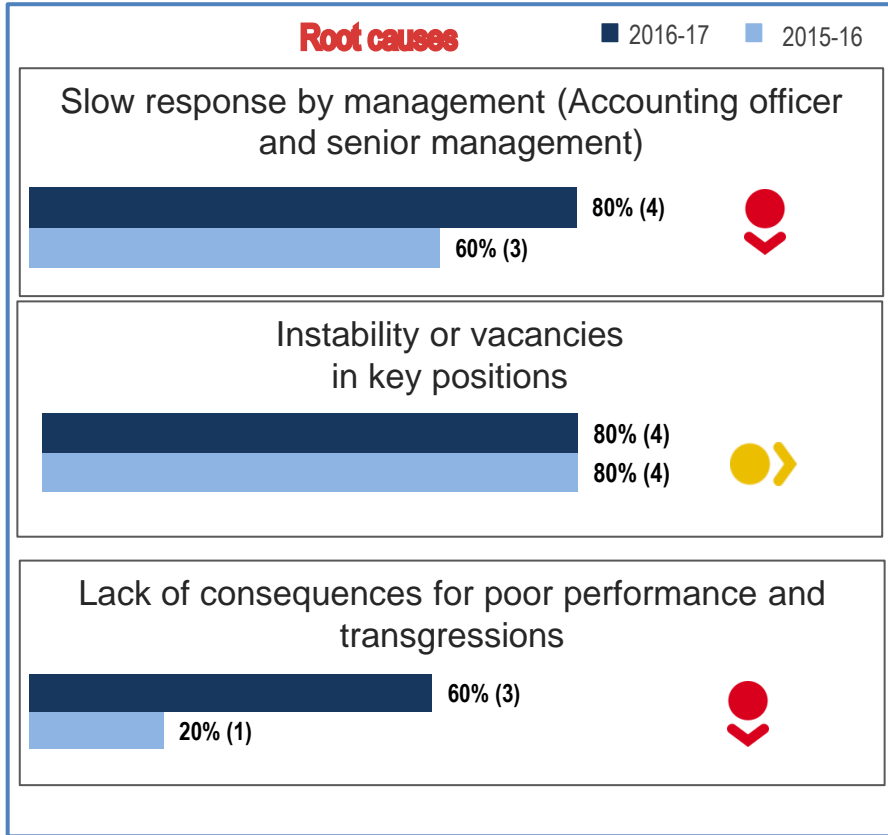
**Top three root causes, follow up  
on commitments and proposed  
recommendations**



# Top three root causes, follow up on commitments and proposed recommendations

1

... the following **root causes** must be addressed ...



- The main reason for the regression in audit outcome for PMTE, as well the negative audit outcome at IDT, was inadequate implementation of audit action plans.
- The slow response by management in addressing issues identified in previous periods lead to the repeat findings across all entities in the current period.
- The portfolio continues to be hampered by instability in key positions
- Performance contracts were not in place for senior management in certain instances.

2

... through honouring the following **commitments** made by the executive authority.....

### Status of key commitments by minister

- Not implemented:** The Minister committed to implementing policies governing prestige procurement at the Department of Public Works
- Not implemented:** The Minister committed to the stabilisation and enhancement of leadership at the Department of Public Works and the Property Management Trading Entity.
- Not implemented:** 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 2017.
- In progress:** The executive authority committed to address shortcomings in the leasing environment at the Property Management Trading Entity.
- In progress:** The Minister committed to ensure that adequate human resources are appointed at PMTE in terms of both numbers and skills.

Not implemented
In progress
Implemented
New

- These commitments were received from the previous Minister, however we have assessed the current status of these commitments.
- We are in the process of arranging a meeting with the new Minister, where we will request new commitments.

3

... and implementation of the following **proposed commitments** by the PC.

1. PC must request management to provide quarterly feedback on the implementation and progress on the action plans to address poor audit outcomes within the portfolio.
2. PC must request management to provide quarterly feedback on controls implemented regarding management on key projects, to ensure that no overspending and fruitless expenditure is incurred.
3. Feedback on consequence management must be provided quarterly to PC on actions taken for all transgressions resulting in irregular and fruitless and wasteful expenditure incurred.
4. PC must request feedback on actions implemented to improve the financial health at PMTE and IDT.



6

## AGSA audit methodology improvements



# AGSA audit methodology improvements

Engaging accounting officers in **conversations** that are **insightful, relevant and have an impact**

**Status of records review**



Pro-active follow up procedures



Financial and non – financial information (internal and external reports/documents & discussions with senior managers)



## Key control engagements / status of records review – objectives

- Identify key areas of concern that may derail progress in the preparation of financial and performance reports and compliance with relevant legislation and consequential regression in audit outcome
- Provide our assessment of the status of key focus areas that we reviewed
- Assess progress made in implementing action plans/ follow through with commitments made in previous engagements
- Identify matters that add value in putting measures and action plans in place well in advance to mitigate risks

## Feedback linked to Focus Areas



# AGSA audit methodology improvements (cont.)



We have enhanced our **audit methodology** to ensure you continue to receive a **valuable** and **relevant product**

It was the result of a robust and methodical process:



In-depth research



Numerous local and international discussions

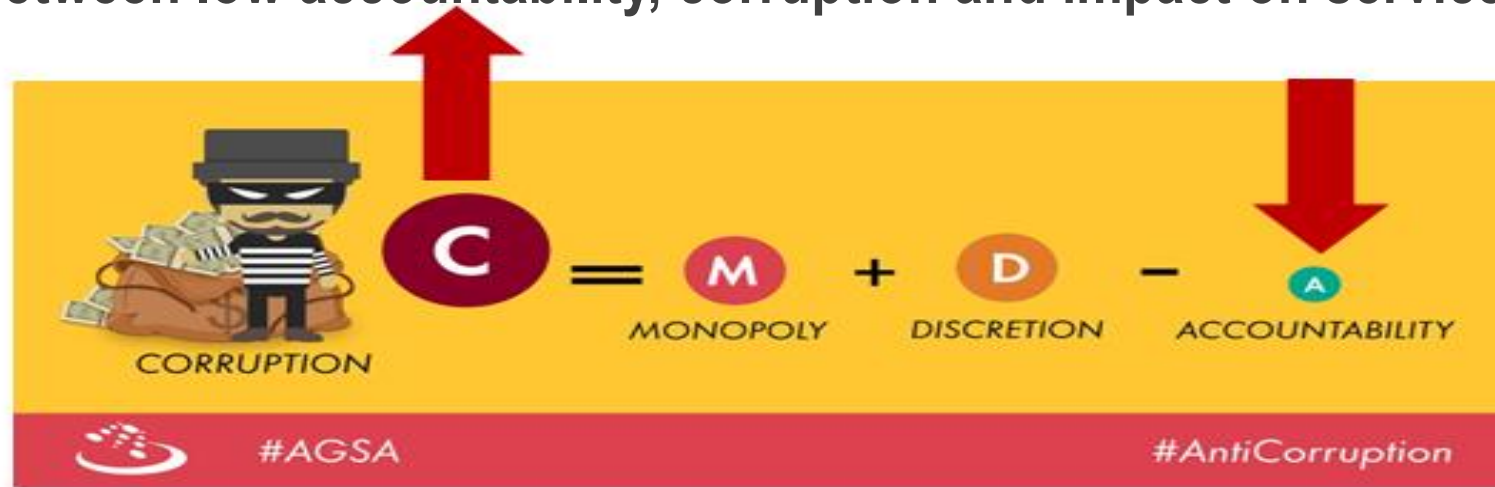


Thousands of hours of testing

The audits will be more **focused** and **integrated** with a robust risk approach, allowing you to continue driving **accountability** and **good governance**.



# Correlation between low accountability, corruption and impact on service delivery



Source: Robert Klitgaard (academic anti-corruption research)



ACCOUNTABILITY = PLAN + DO + CHECK + ACT

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