



BUDGETARY REVIEW AND RECOMMENDATIONS REPORT | **PFMA** 2017-18

Briefing to Portfolio Committee on Public Works



AUDITOR-GENERAL
SOUTH AFRICA

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

Our 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



The AGSA expresses the following different audit opinions

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 performance reports to the predetermined objectives they committed to in 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

The percentages in this presentation are calculated based on the completed audits of 6 auditees, unless indicated otherwise

The overall audit outcomes are indicated as follows:

-  Unqualified with no findings
-  Unqualified with findings
-  Qualified with findings
-  Adverse with findings
-  Disclaimed with findings
-  Audits outstanding

Auditees in Public Works Portfolio

DPW – Department of Public Works

PMTE – Property Management Trading Entity

IDT – Independent Development Trust

CIDB – Construction Industry Development Board

CBE – Council for the Built Environment

ASA – Agrément South Africa*

* Included for first time in 2017-18 therefore not included in comparative figures presented.

Movement over the previous year is depicted as follows:

 Improved

 Unchanged

Movement of 5% or less:

 slight improvement

 slight regression

 Regressed



2

The 2017-18 audit outcomes



ACCOUNTABILITY = PLAN + DO + CHECK + ACT



Little improvement in plan-do-check-act cycle



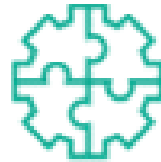
Portfolio snapshot (2017-18)



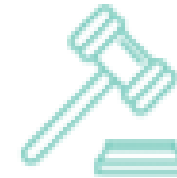
Clean audits: 17%
1 auditee
(2016-17: 20%
1 auditee)



**Quality financial
statements:
67% 4 auditees**
(2016-17: 60% 3 auditees)



**Quality performance
reports: 17% 1 auditee**
(2016-17: 20% 1 auditee)

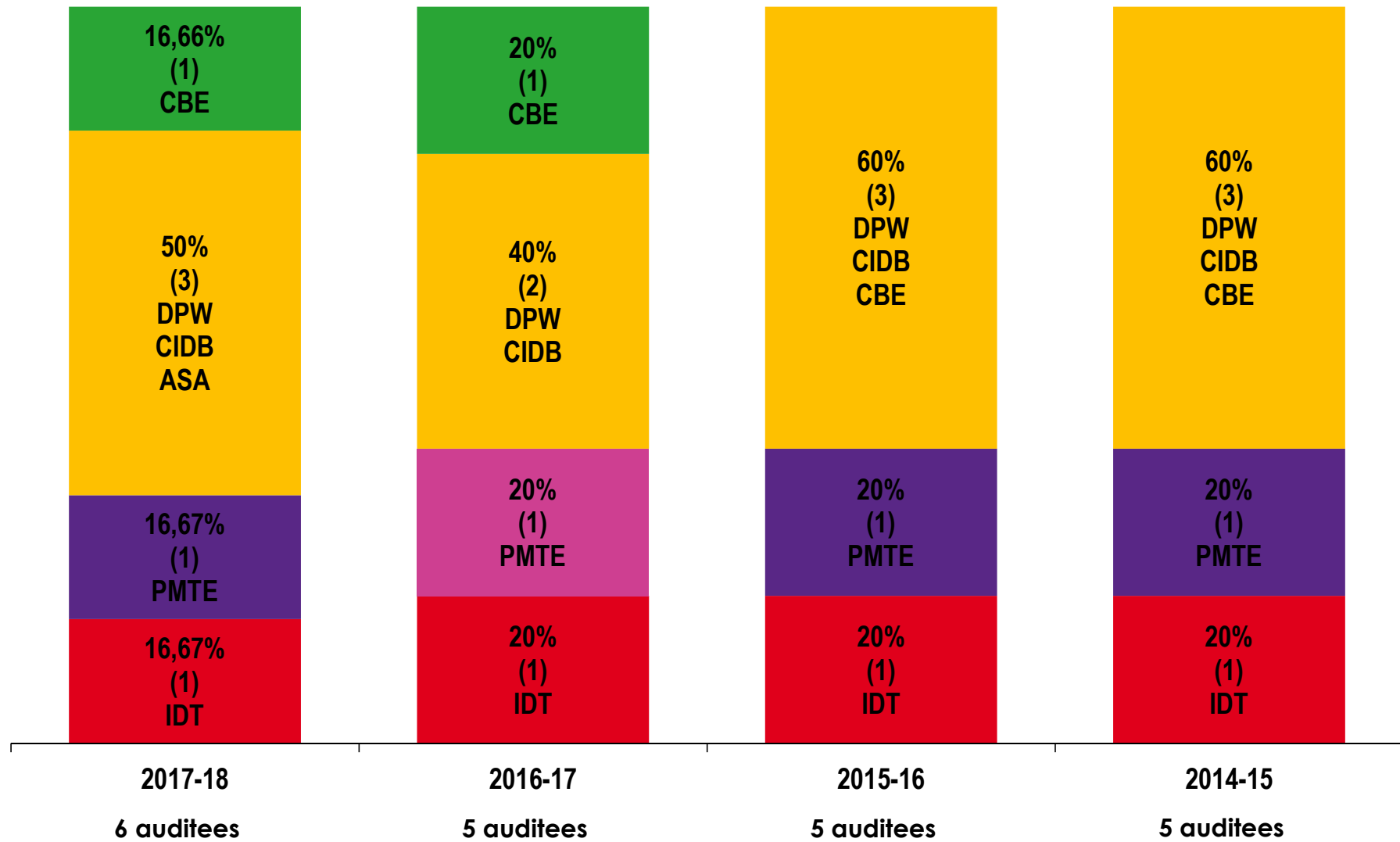


**No findings on compliance
with legislation:
33% 2 auditees**
(2016-17: 40% 2 auditees)



**Irregular expenditure:
R210m**
(2016-17: R277m)

Audit outcomes of portfolio over four years



Qualification areas - PMTE

The PMTE improved from an adverse audit outcome in 2016-17 to a qualified audit outcome in the 2017-18. Although there was an improvement in the audit outcome, this was due to corrections made to the AFS as a result of audit findings.

Qualification areas 2016/17			Qualification areas 2017/18	
Incorrect use of source data in determining value of assets disclosed in immovable asset register. Operating expenditure recognised as additions to PPE.	Property, plant and equipment	▶	Property, plant and equipment	The incorrect use of source data in determining value of assets occurred in the current year. The incorrect classification of expenditure was resolved after audit adjustments.
The entity could not provide supporting documentation for accrued expenses	Accrued Expenses	▶	Accrued expenses	The entity did not recognise all amounts meeting the definition of a liability.
We were unable to obtain assurance regarding amounts recoverable from client departments.	Receivables	▲	Receivables	No qualification on receivables in the current year
The entity could not provide supporting documentation for maintenance provision	Provisions - Maintenance	▲	Provisions - Maintenance	Material adjustments made to the provision subsequent to submission for audit which resulted in the matter being resolved.

Not subject to qualification

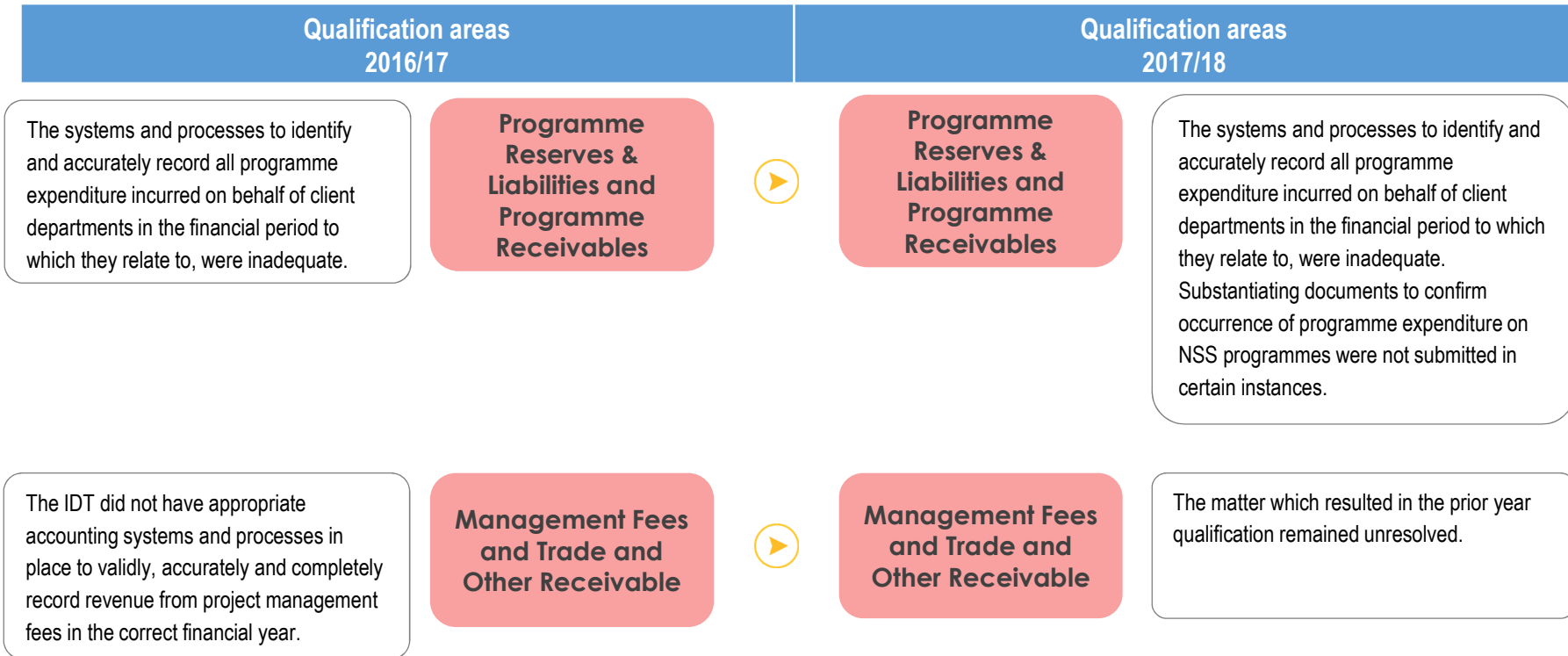
Not subject to qualification after corrections to AFS

Subject to qualification



Qualification areas - IDT

The IDT's audit outcome stagnated at a disclaimer of audit opinion in 2017-18.



Not subject to qualification
Not subject to qualification after corrections to AFS
Subject to qualification



ACCOUNTABILITY = PLAN + DO + CHECK + ACT

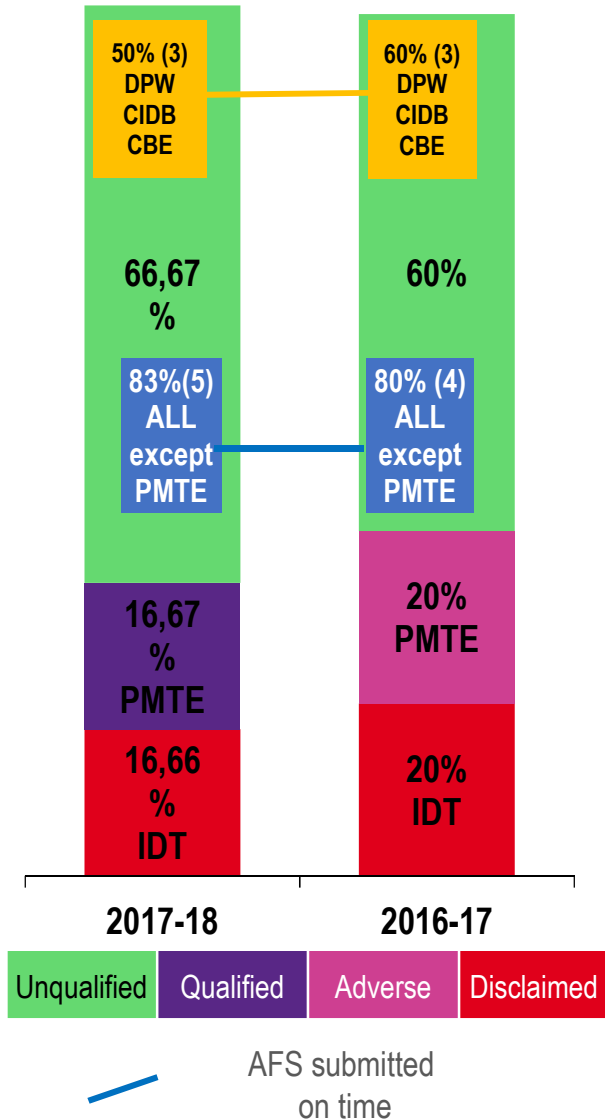
Movement table (2017-18 over 2016-17)

Audit outcome	MOVEMENT				
	1 Improved	4 Unchanged	0 Regressed	1 New auditee	0 + 0 Outstanding audits
Unqualified with no findings = 1		CBE			
Unqualified with findings = 4		DPW CIDB		ASA	
Qualified with findings = 1	PMTE				
Adverse with findings = 0					
Disclaimed with findings = 0		IDT			

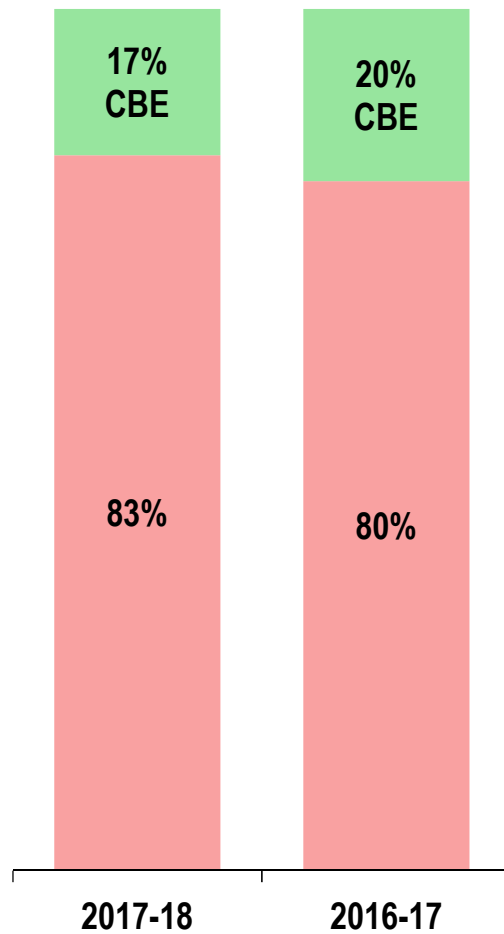
Colour of the number indicates the audit opinion from which the auditee has moved.

Movement on the quality of financial statements, annual performance reports and compliance

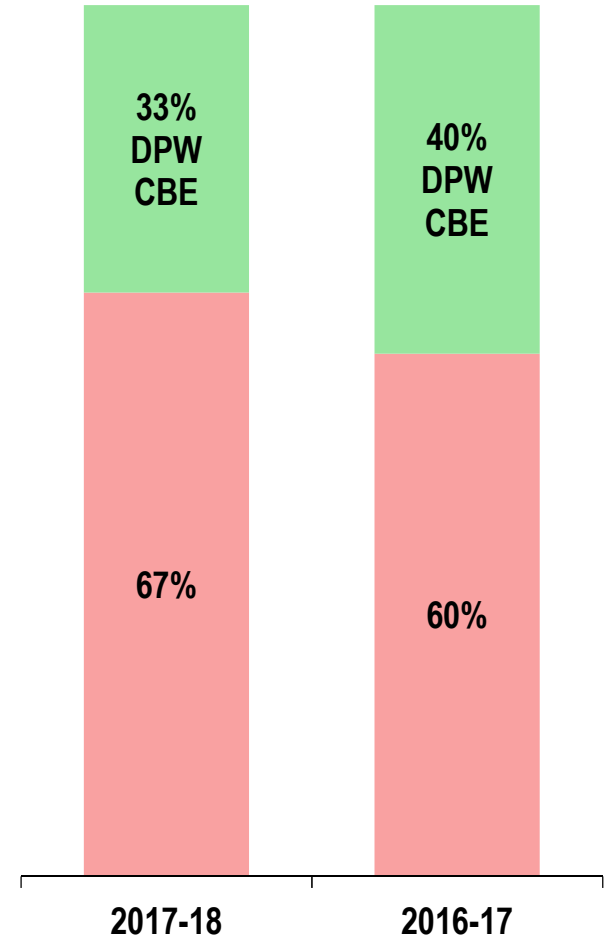
Audit of financial statements



Findings on annual performance reports

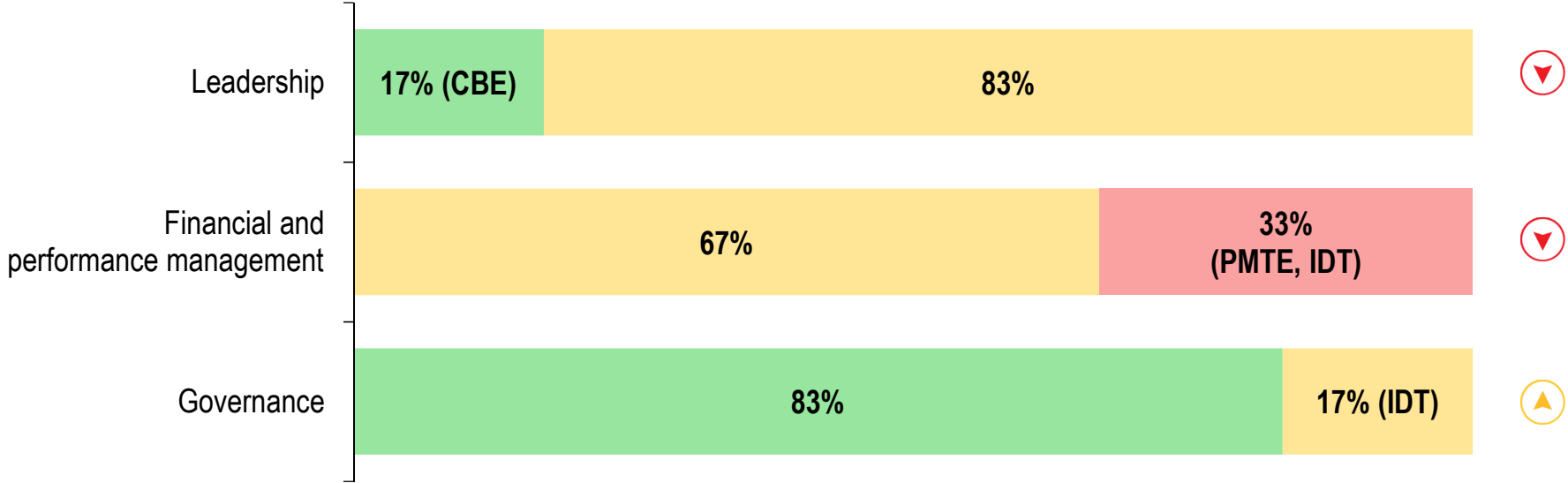


Findings on compliance with key legislation

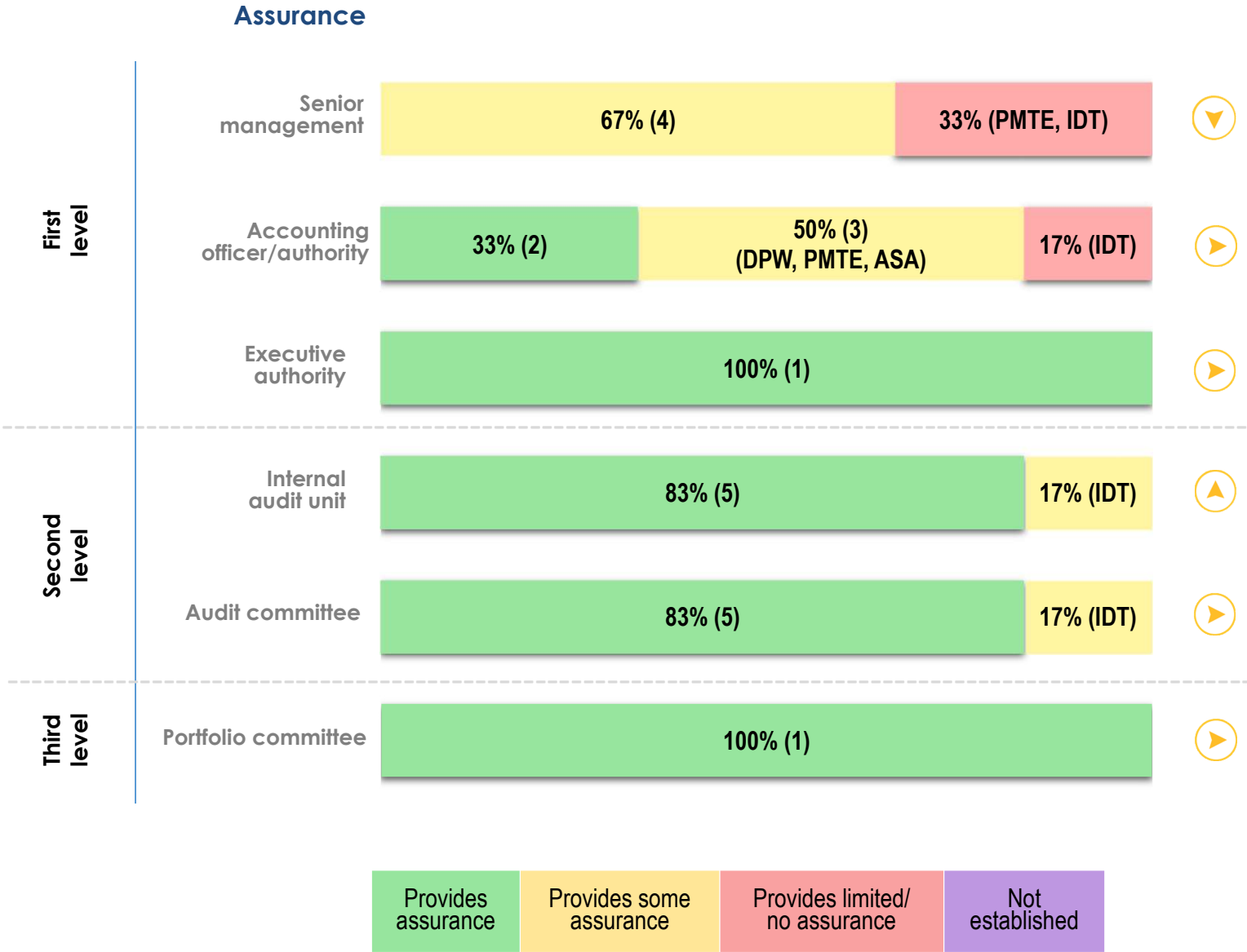


With no findings (green)
With findings (red)

Status of internal control



Assurance provided



3

Management and delivery of key programmes



Management and delivery on key programmes – spending, performance and reporting

Programme	2017-18 Budget	Budget spent	Material misstatements	Unauthorised, irregular and fruitless and wasteful	Findings on material indicators		Achievement of targets – from performance report
					Indicator	Useful and reliable?	
Expanded public works (DPW)	R2.0 billion	99%	No	No	Number of EPWP work opportunity reported on EPWP- RS by Public Bodies	No	Target was not achieved
Construction Project Management (PMTE)	R4.3 billion	90%	No	Yes	Number of infrastructure projects completed	No	Target was achieved
Integrated Service Delivery – Value of programme spend (IDT)	R5.0 billion	88%	Yes	Yes	Value of Programme spend	No	Target was not achieved

UE – Unauthorised expenditure IE – Irregular expenditure FWE – Fruitless and wasteful expenditure

■ Good

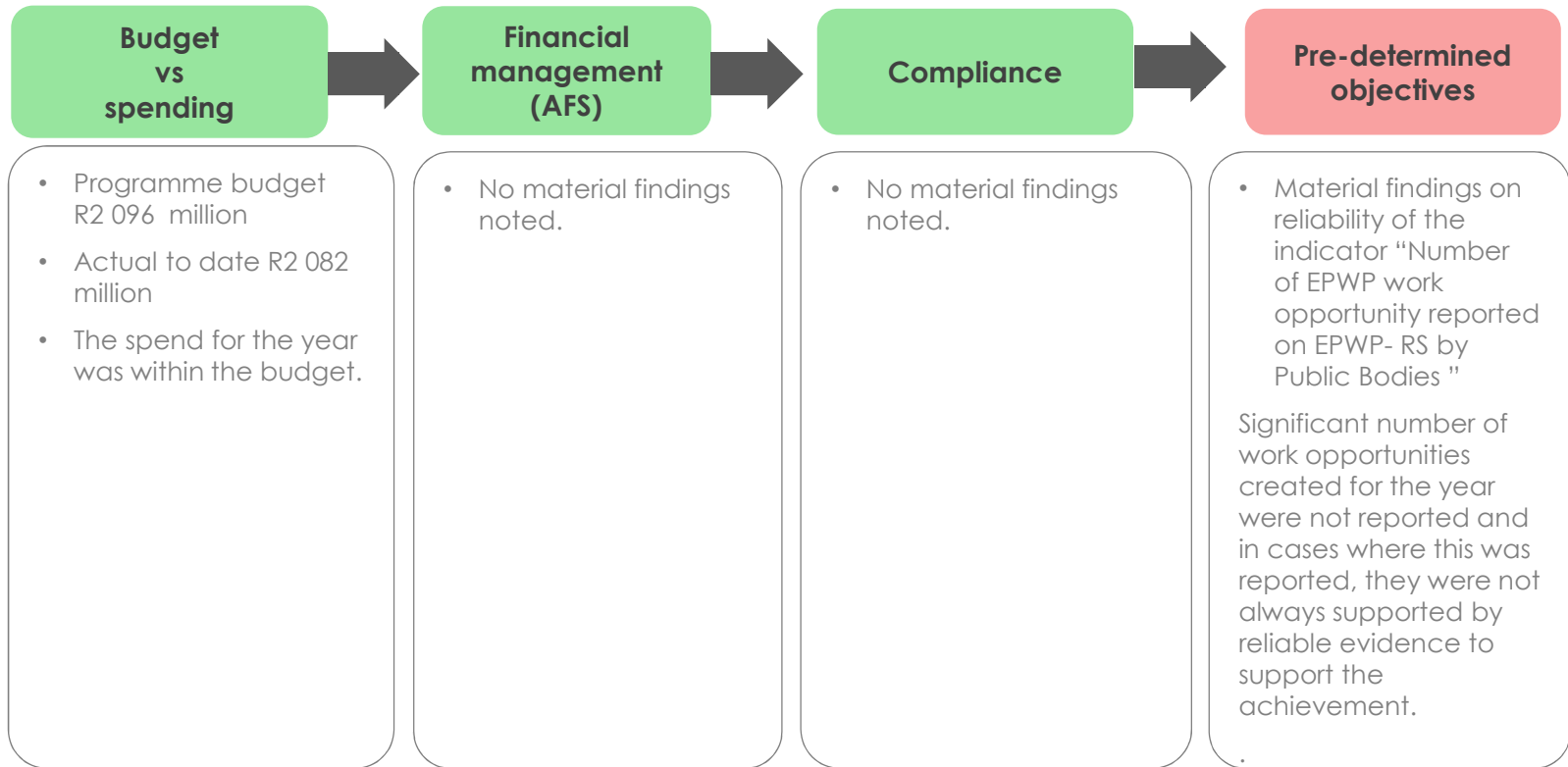
■ Of concern

■ Intervention required

DPW – Expanded Public Works Programme



Programme 3 – Expanded Public Works Programme



While the majority of the budget was utilised in the current year (99%) by public bodies, the targets for the programme were not achieved. It should however be noted that the material findings identified with respect to work opportunities created indicate that we are unable to conclude that the earmarked funds were in all instances spent in line with the intended purpose. We noted that the department increased the number of site visits in the current period; however, this intervention did not appear to have the desired impact as similar issues have recurred

Value add audit

As part of the audit an assessment of the key deliverables of this programme was conducted. Our focus for the current year was on training of EPWP beneficiaries, which was indicated in the Department of Public Work's strategic plan (2015-2020) as a critical component of EPWP. We found that while no formal training is provided to beneficiaries due to budgetary constraints, on-job training, mentoring and coaching are offered to home-based care EPWP beneficiaries. This informal training provided to beneficiaries is however not recorded and captured to assist beneficiaries to build a work-based portfolio of evidence that can be used for recognition of prior learning, which may assist them in obtaining gainful employment in a related field once their time on the EPWP programme is completed.

PMTE – Follow up on infrastructure projects audited in prior year

Key Project	Major issue	Unauthorised, irregular and fruitless and wasteful	Current status
Upgrade of C-Max correctional facility (Gauteng)	Amounts paid to the original contractor where the work was redone by the replacement contractor.	R49.9 million possible FWE	The internal investigation done by the entity was finalised after year-end, and confirmed that FWE was incurred.
Skilpadhek Border Post (North West)	Payments 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.	R55.7 million possible FWE	The internal investigation is still in progress
Van Rhynsdorp Correctional facility (Western Cape)	<ul style="list-style-type: none"> Penalties not recovered from guarantor Cost of extension of time incurred for the contractor waiting for critical information (115 days) Landscaping changes and waste 	R12 million possible FWE	The internal investigation is still in progress

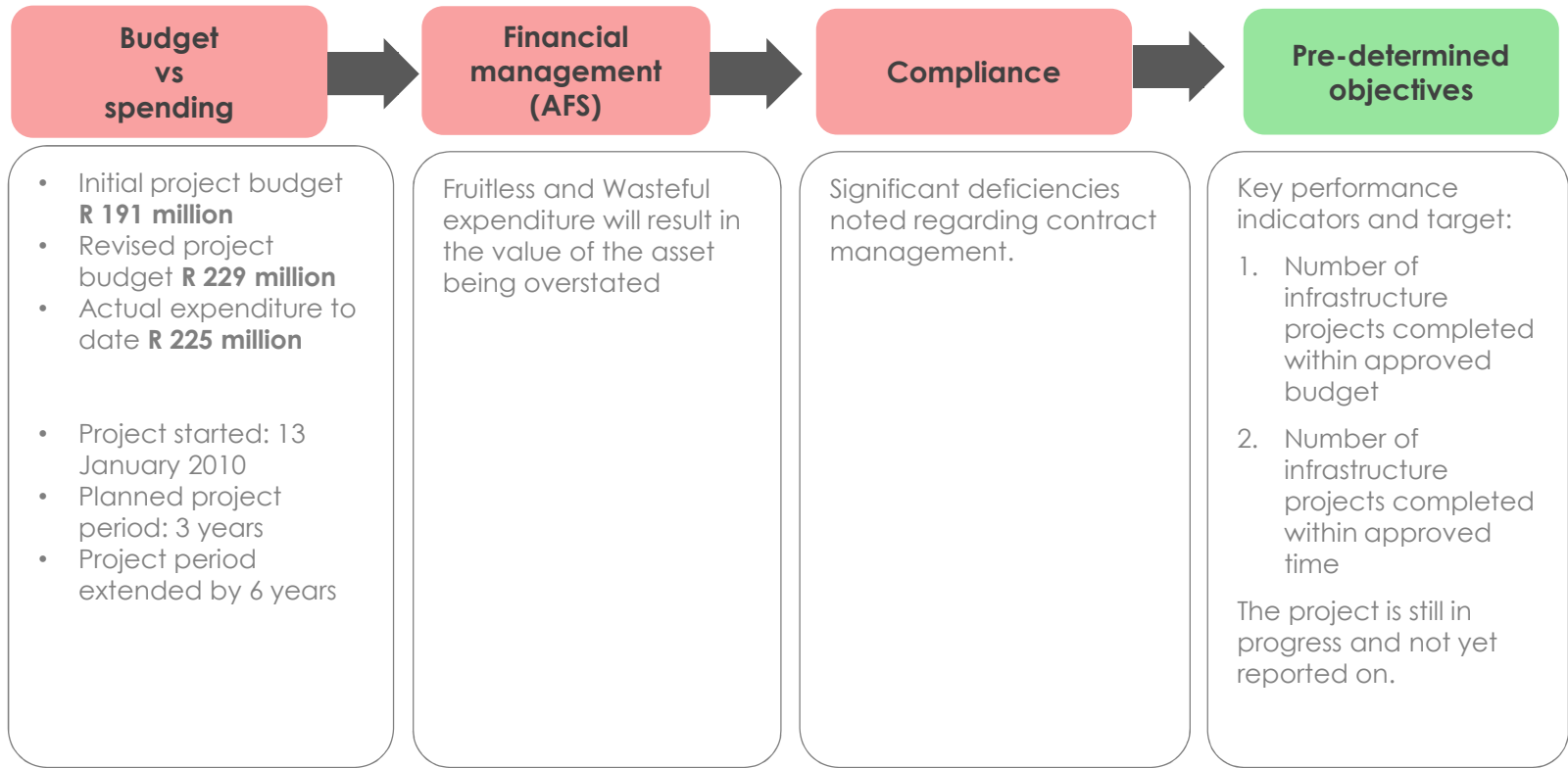
UE – Unauthorised expenditure IE – Irregular expenditure FWE – Fruitless and wasteful expenditure

 Good

 Of concern

 Intervention required

PMTE – Tzaneen Correctional facility (Limpopo)



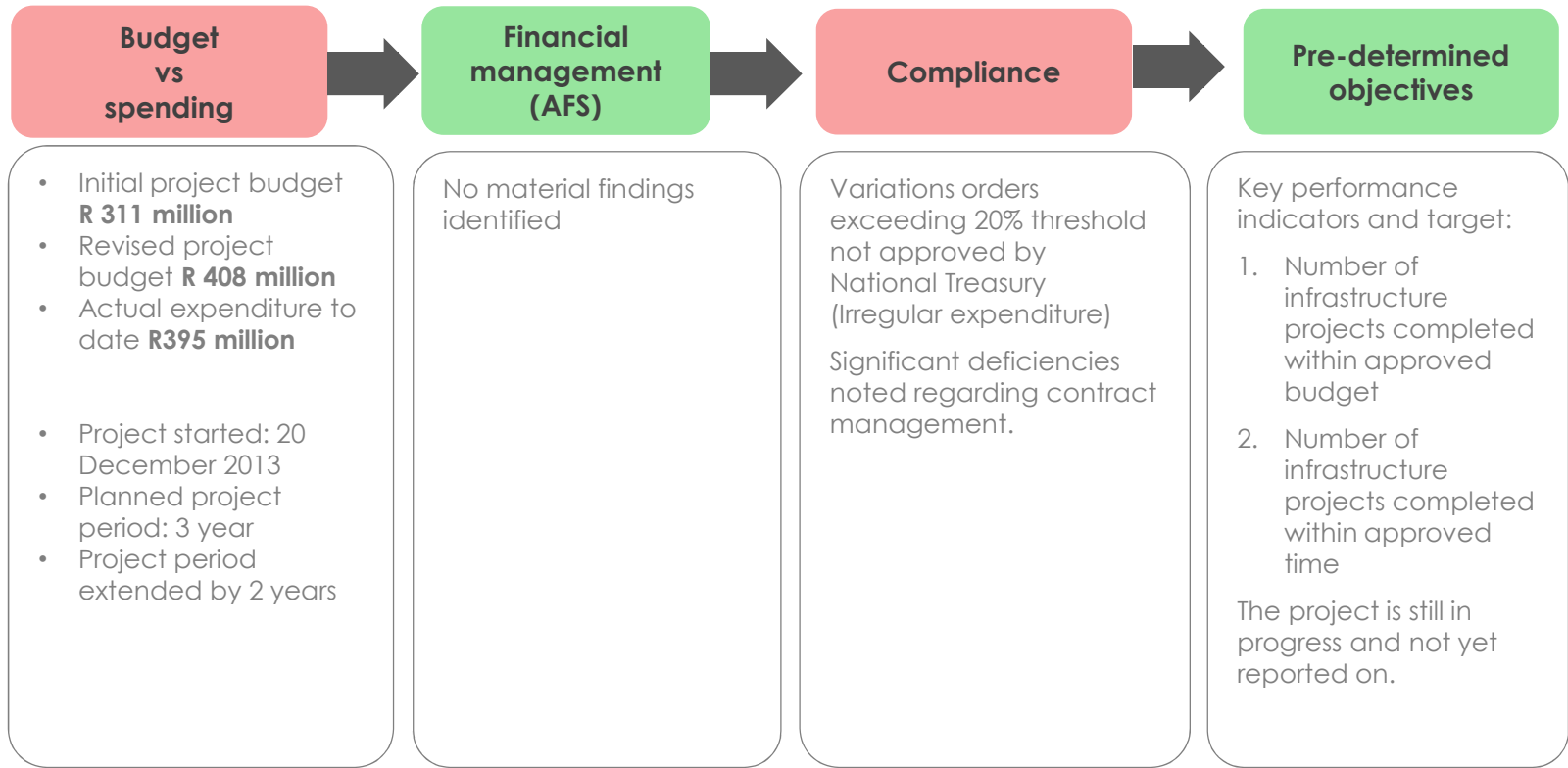
- Project started: **13 January 2010**
- Project initial completion date: **21 August 2012**
- Actual completion date: **in progress**

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 R7 million for Fruitless and Wasteful expenditure identified during the audit as a result of cost incurred to rectify the work of first contractor and to replace stolen and vandalised work/material.

The recommendation to the entity is to conduct a full investigation to determine the actual fruitless and wasteful expenditure on this project

PMTE – Standerton Correctional facility (Mpumalanga)

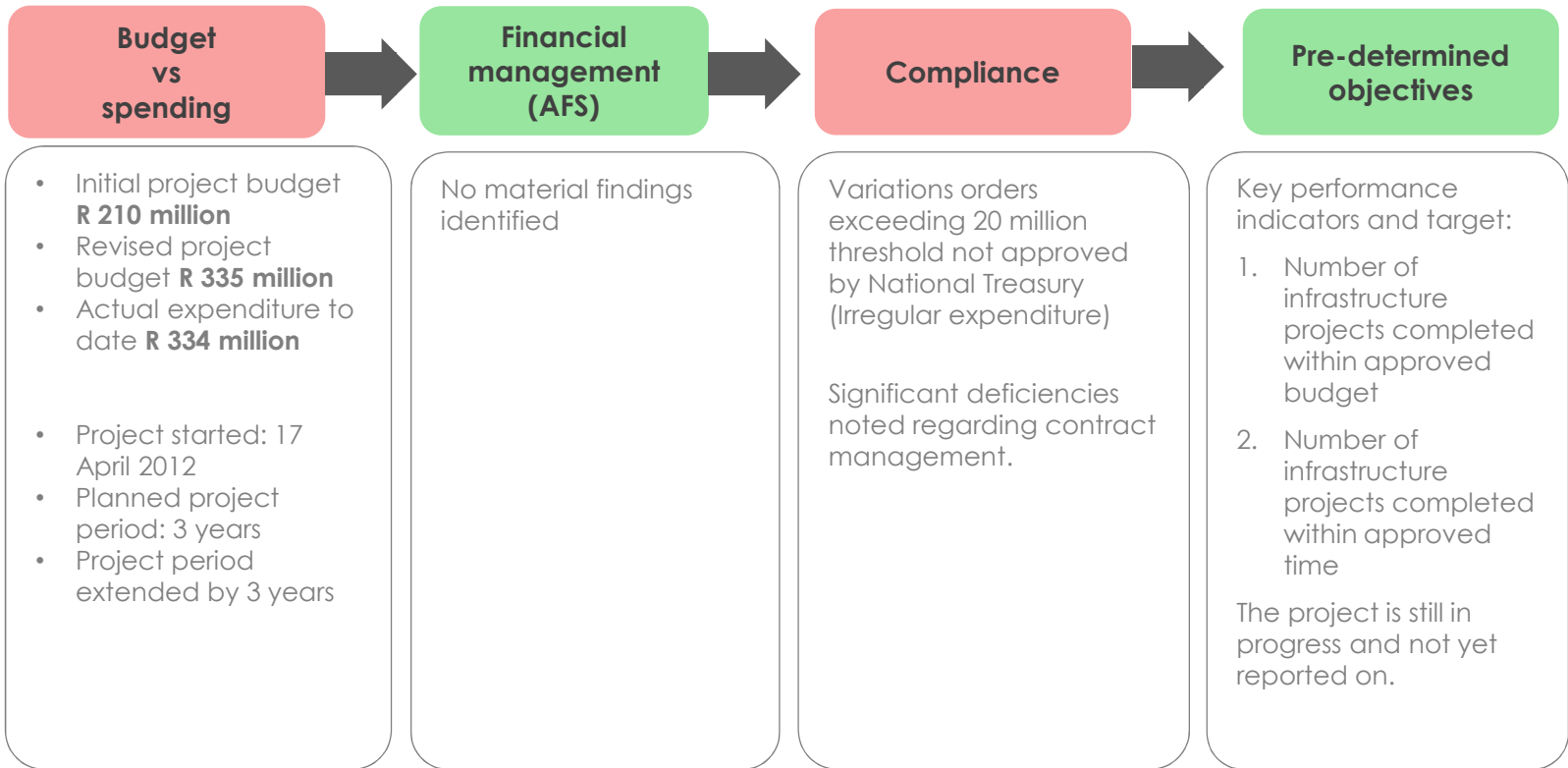


- Project started: **20 December 2013**
- Project initial completion date: **20 December 2016**
- Actual completion date: **in progress**

Value for money audit

As part of the audit, an assessment of the value for money received on this project was conducted. No material findings were identified on Fruitless and Wasteful expenditure during the audit.

PMTE – Estcourt Correctional Facility (KwaZulu-Natal)



- Project started: **17 April 2012**
- Project initial completion date: **16 April 2015**
- Project actual completion date: **in progress**

Value for money audit

As part of the audit, an assessment of the value for money received on this project was conducted. No material findings were identified on Fruitless and Wasteful expenditure during the audit.

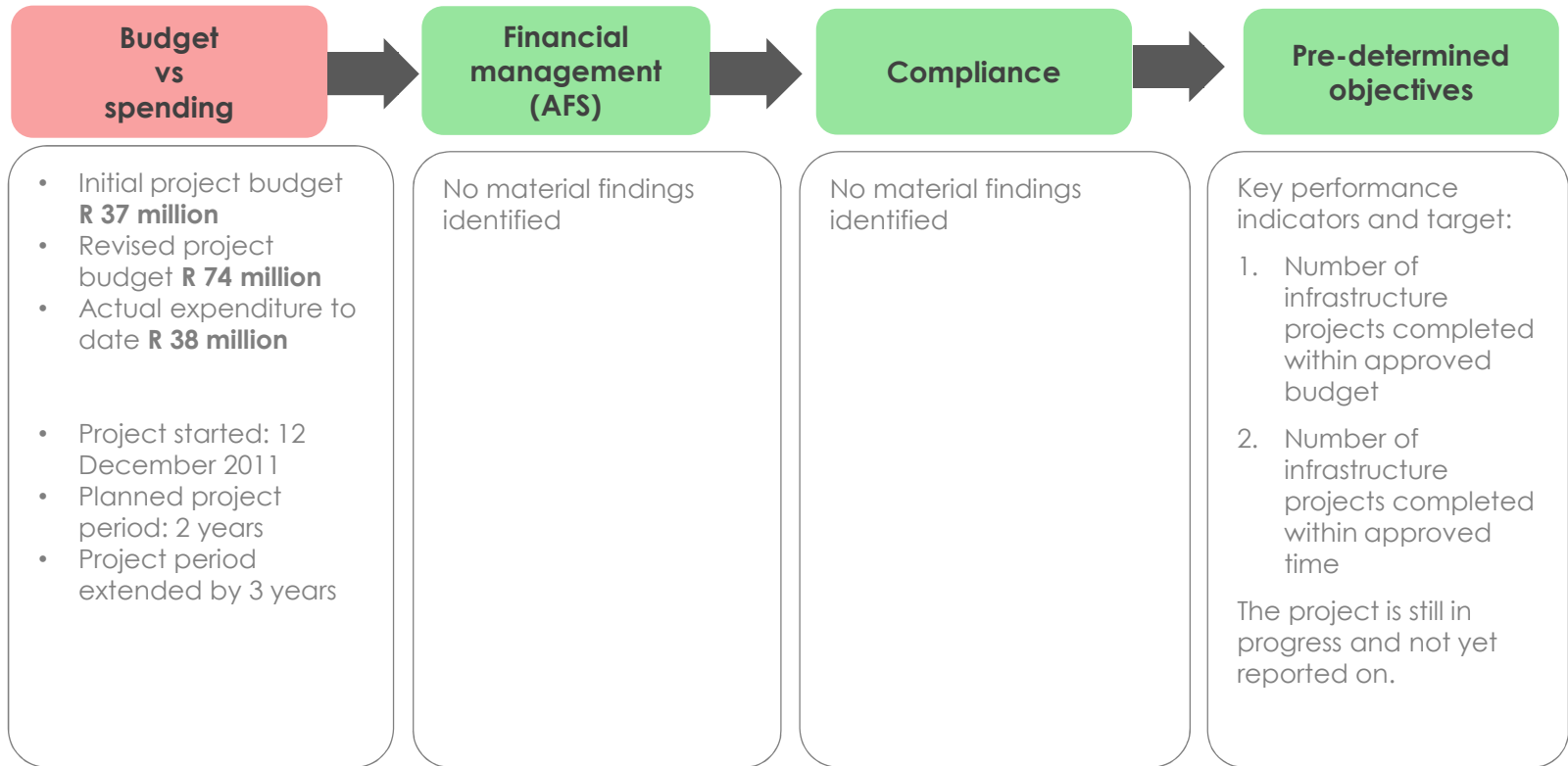


Material findings / concerns noted



No material findings / concerns noted

PMTE – Matatshe Correctional Facility (Limpopo)

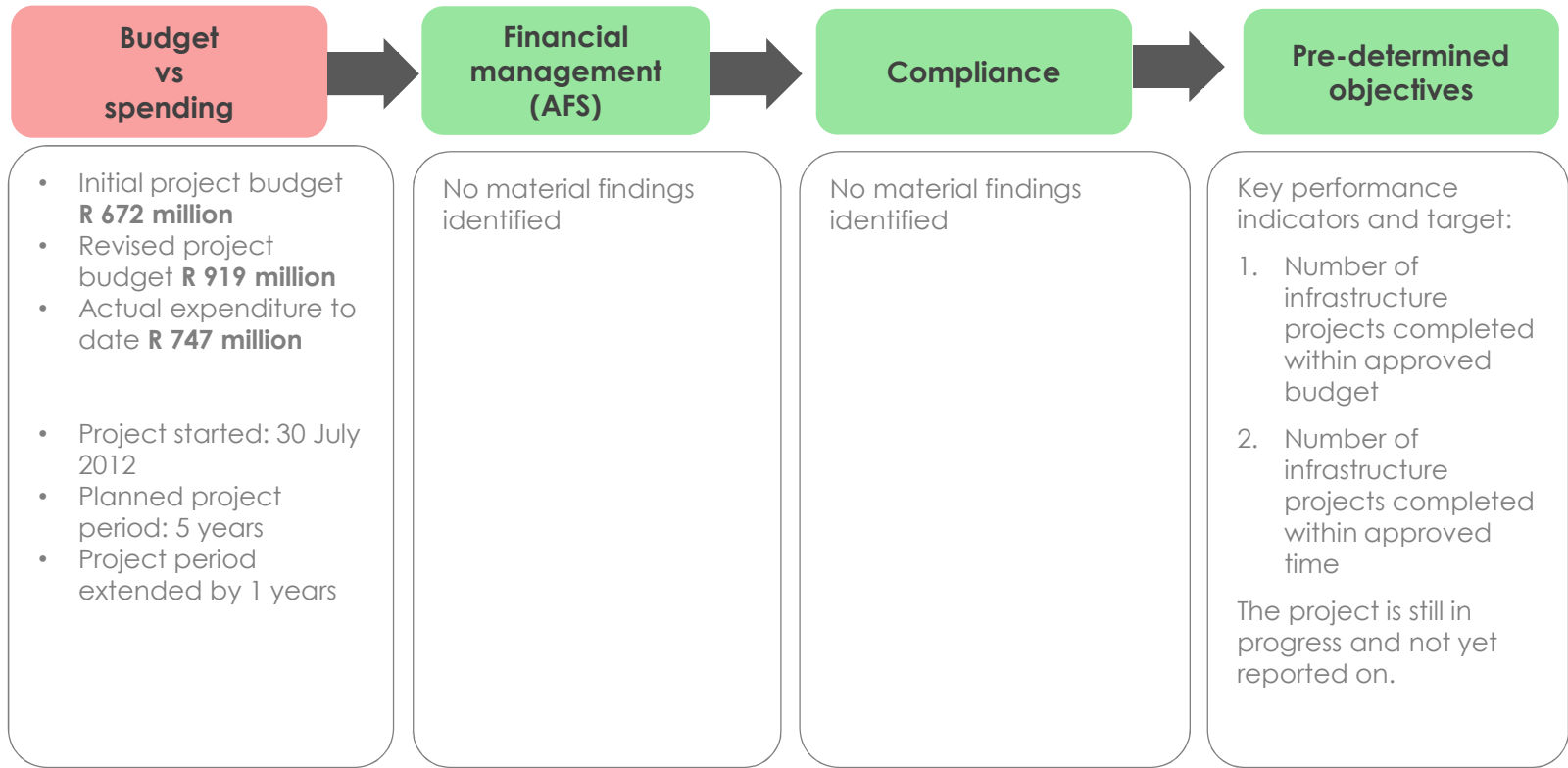


- Project started: **12 December 2011**
- Project initial completion date: **11 December 2013**
- Project actual completion date: *in progress*

Value for money audit

As part of the audit, an assessment of the value for money received on this project was conducted. No material findings were identified on Fruitless and Wasteful expenditure during the audit.

PMTE – 2 Military Hospital (Western Cape)



- Project started: **30 July 2012**
- Project initial completion date: **30 January 2017**
- Project actual completion date: *in progress*

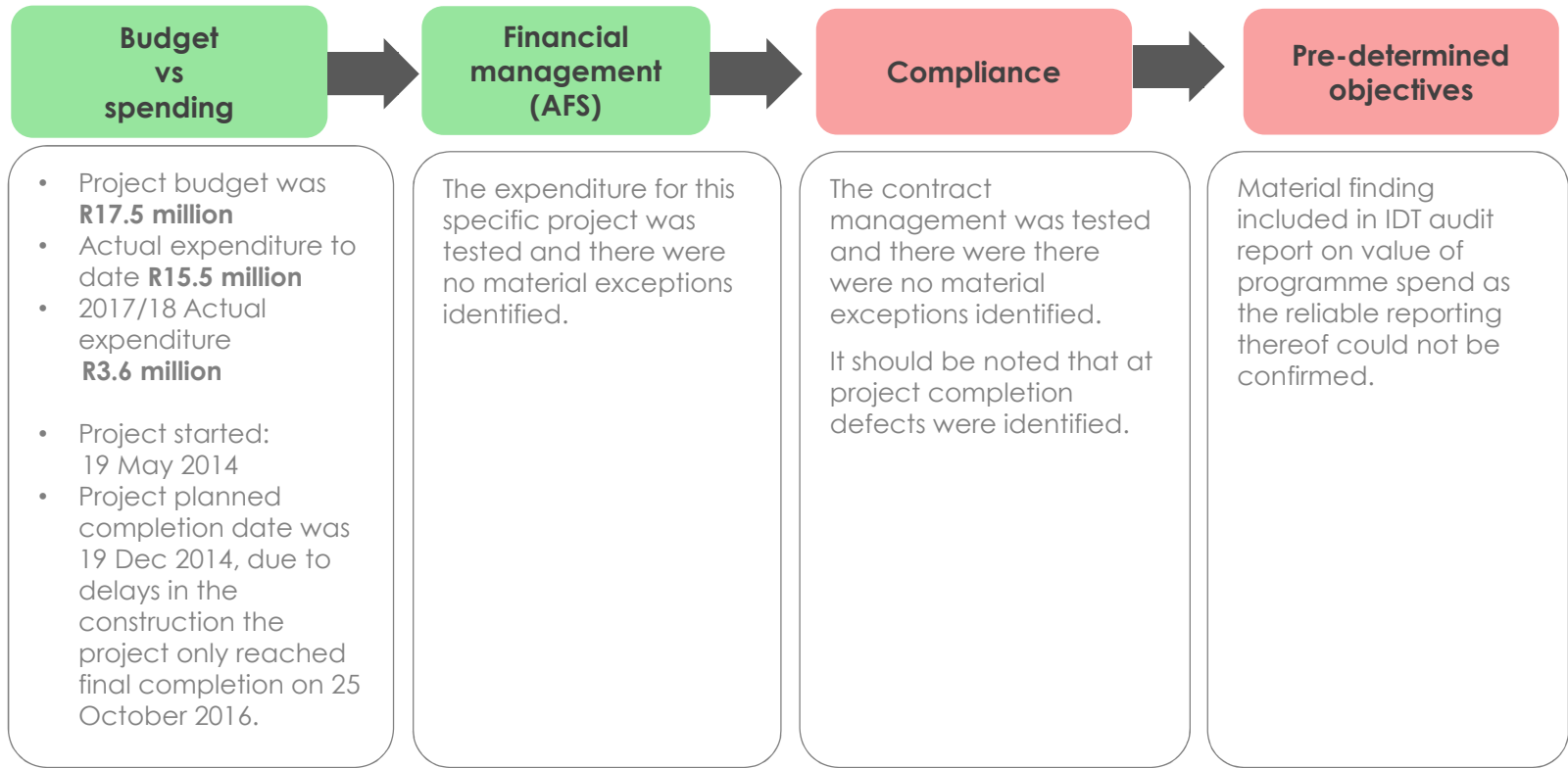
Value for money audit

As part of the audit, an assessment of the value for money received on this project was conducted. No material findings were identified on Fruitless and Wasteful expenditure during the audit.

IDT – Kwambonambi Primary School (KwaZulu-Natal)



Programme 1 – Integrated Service Delivery – Value of programme spend



- Project started: **19 May 2014**
- Project completion date: during **2016-17 financial year**

Value for money audit

As part of the audit an assessment of the value for money received on this project was conducted. Defects were identified on the project which have may decrease the value of the asset (school).

An investigation should be performed to determine whether the damage to the school was as a result from the recent storm or caused by poor quality work by the contractor.



Material findings / concerns noted

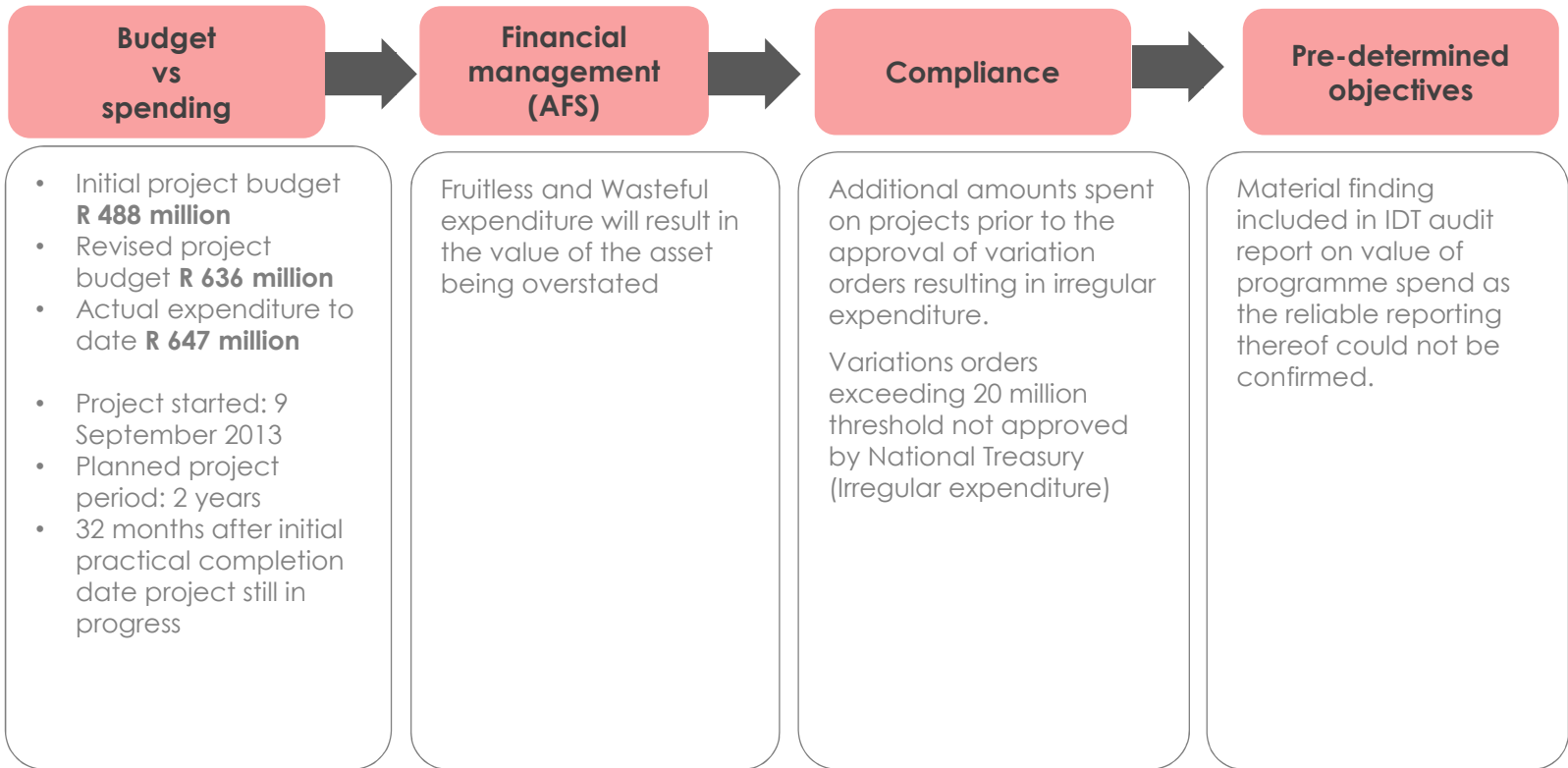


No material findings / concerns noted

IDT – Mpumalanga High Court (Mbombela)



Programme 1 – Integrated Service Delivery – Value of programme spend



- Project started: **9 September 2013**
- Project initial planned completion date: **10 September 2015**
- Project actual completion date: **In progress**

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 R80.7 million of Fruitless and Wasteful expenditure identified during the audit as a result of the following:

- Extension of time with cost implications (R28.4 million)
- Amounts claimed under CPA after the initial project duration had lapsed. (R 52.3 million)

The recommendation to the entity is to conduct a full investigation to determine the actual fruitless and wasteful expenditure on this project

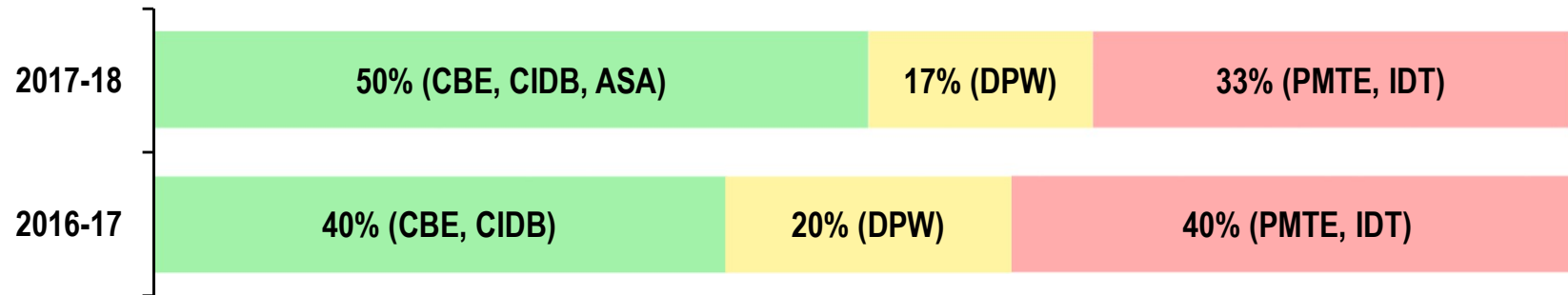
3

Financial health and financial management



Financial health

Unfavourable conditions exists for **33%** of auditees with respect to financial health.



Key concerns identified

- Management should enhance timely remedial action to improve the revenue management of the PMTE, particularly focusing on the debt collection period.
- Inability to perform a meaningful assessment of the financial health of the IDT due to disclaimed audit opinions received in the recent past.

- Two or less unfavourable indicators
- More than two unfavourable indicators
- Significant unfavourable conditions identified with respect to financial health and/or auditee received a disclaimed or adverse opinion, which meant that the financial statements were not reliable enough for analyses



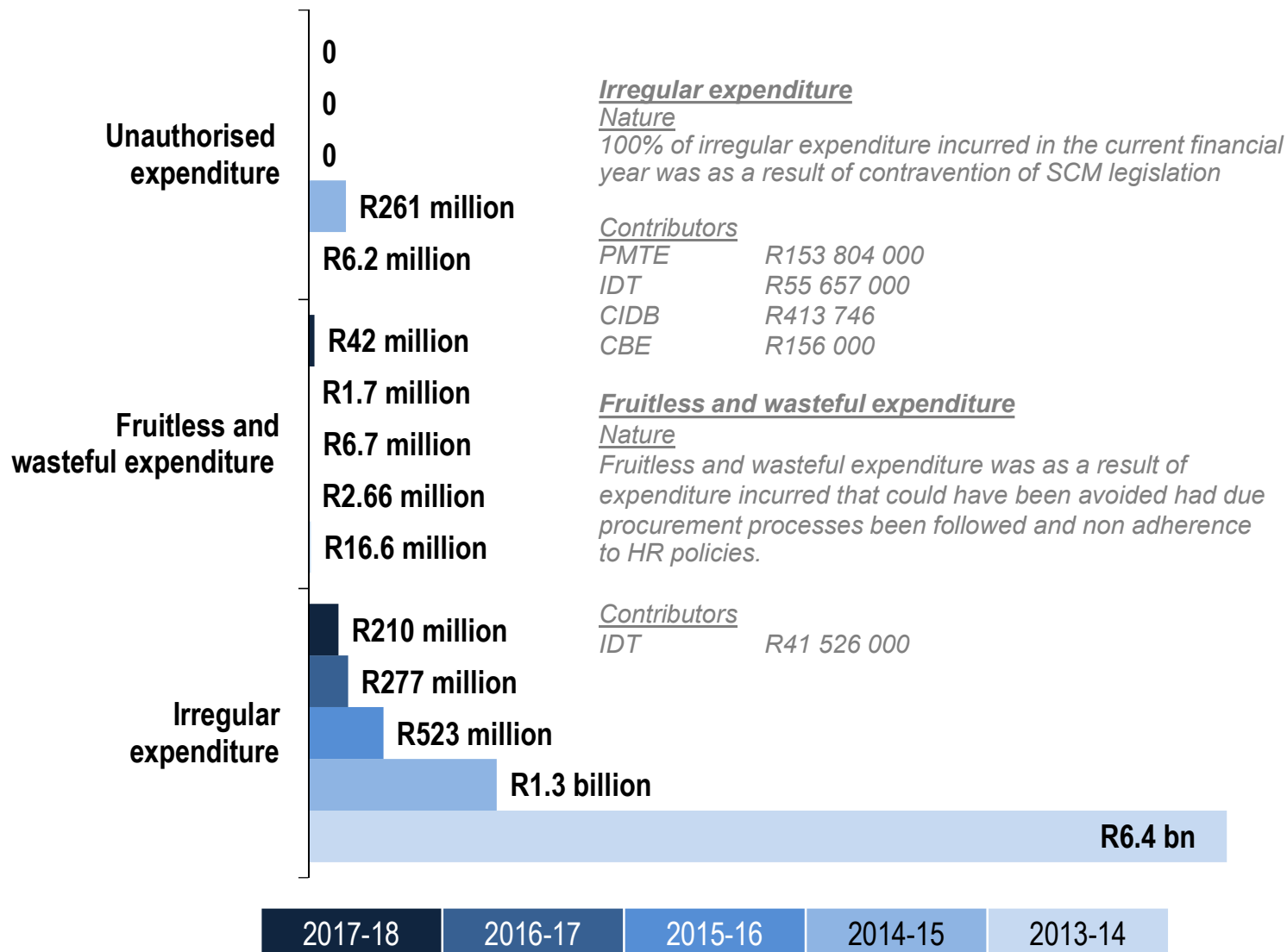
Unauthorised, irregular as well as fruitless and wasteful expenditure decrease over 5 years

Definition

Expenditure not in accordance with the budget vote/ overspending of budget or programme

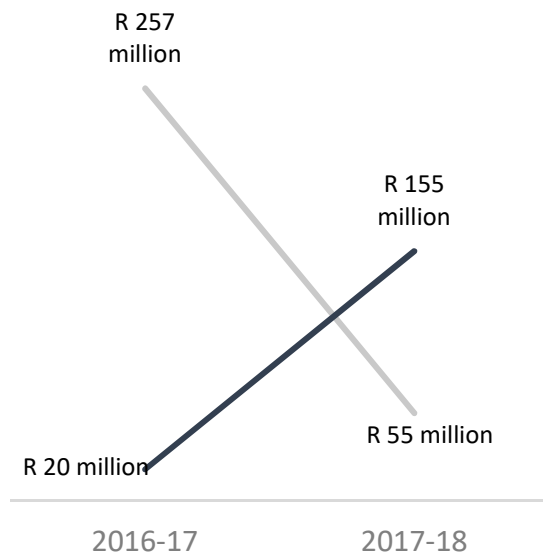
Expenditure incurred in vain and could have been avoided if reasonable steps had been taken. No value for money!

Expenditure incurred in contravention of key legislation; goods delivered but prescribed processes not followed



Irregular expenditure and supply chain management

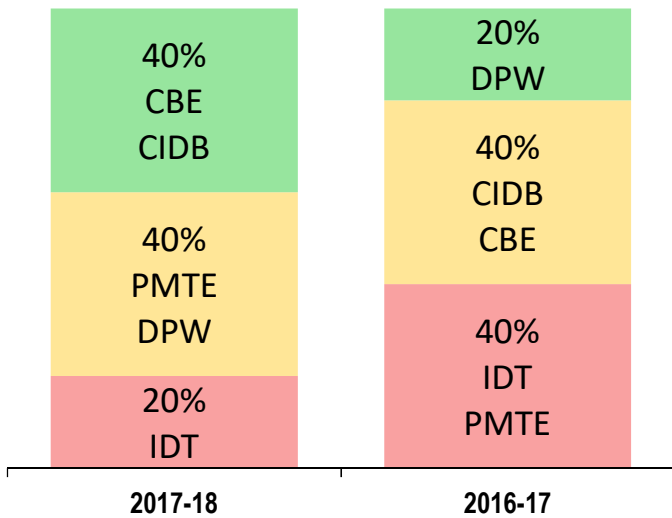
▲ Irregular expenditure decreased from R277 million to **R210 million (24% decrease)**



26% (R55 million) of the irregular expenditure was payments/expenses in previous years only uncovered and disclosed for the first time in 2017-18

69% (R145 million) of the irregular expenditure includes payments made on contracts irregularly awarded in a previous year - if the non-compliance is not investigated and condoned, the payments on multi-year contracts continue to be viewed and disclosed as irregular expenditure

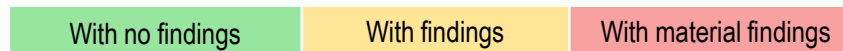
5% (R10 million) of the irregular expenditure incurred in the current year represents non-compliance in 2017-18



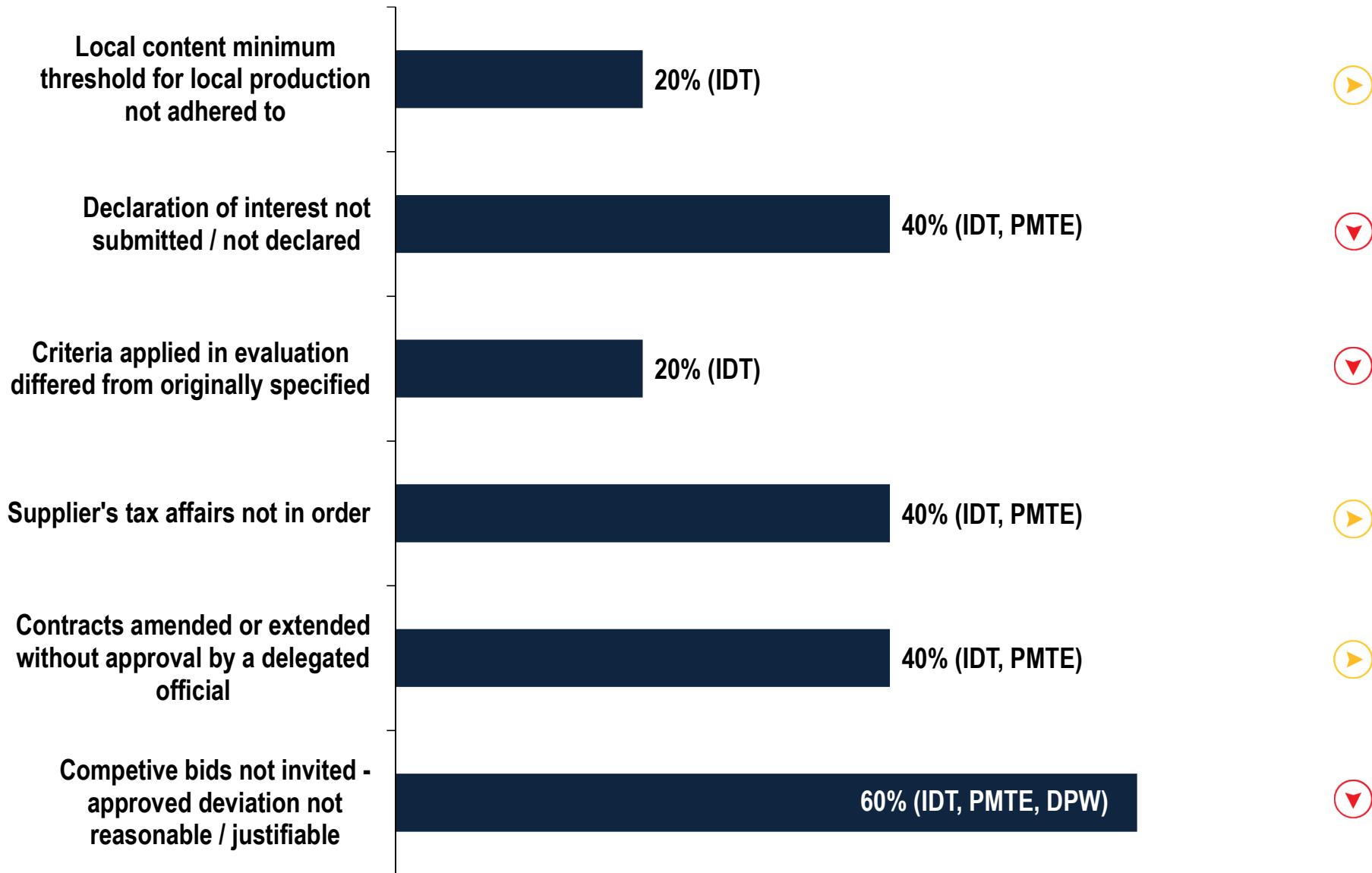
▲ Improvement in SCM compliance (2016-17: 20% with no findings)

False declarations of interest made by **10 suppliers**

Uncompetitive and unfair procurement processes at **20% of entities**



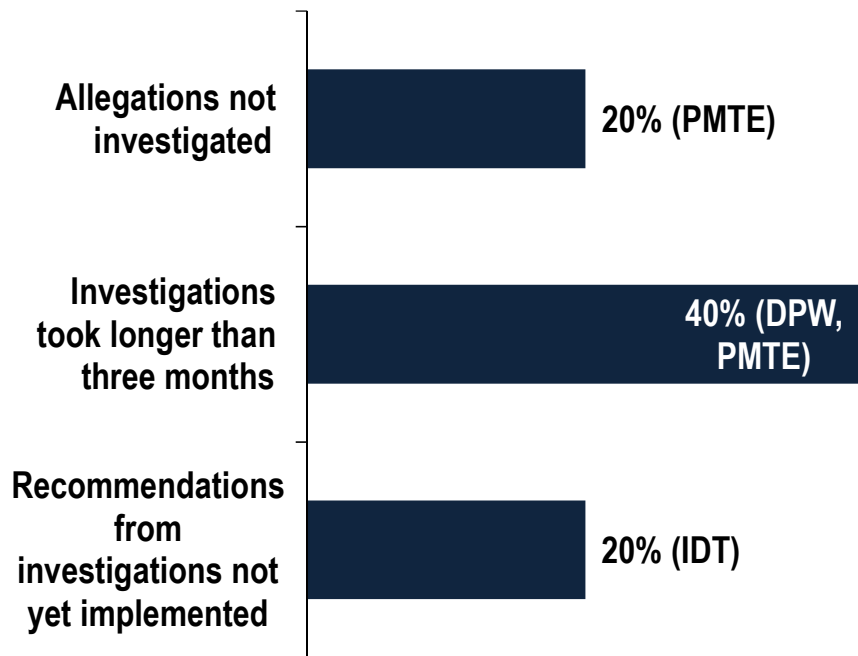
Most common findings on supply chain management



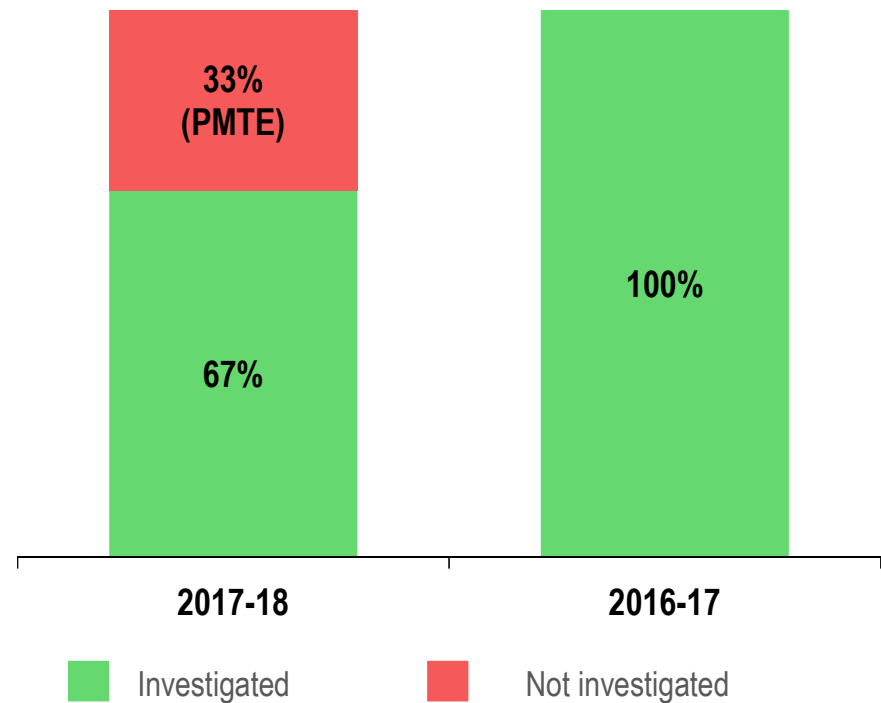
Fraud and consequence management

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

Allegations of financial and/or fraud and SCM misconduct

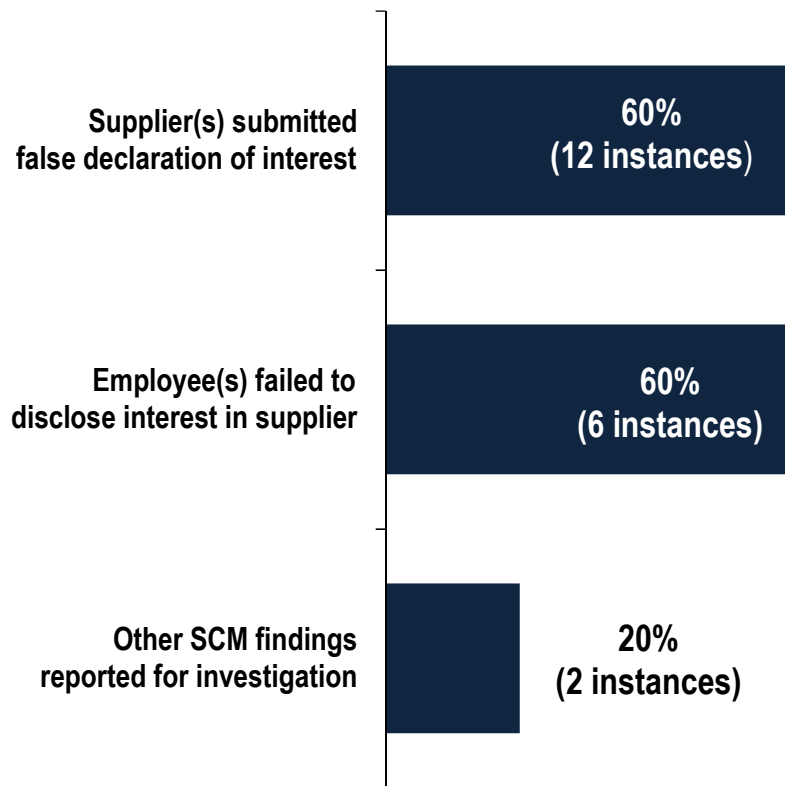


Previous year unauthorised, irregular and fruitless and wasteful expenditure reported for investigation



Supply chain management findings reported to management for investigation

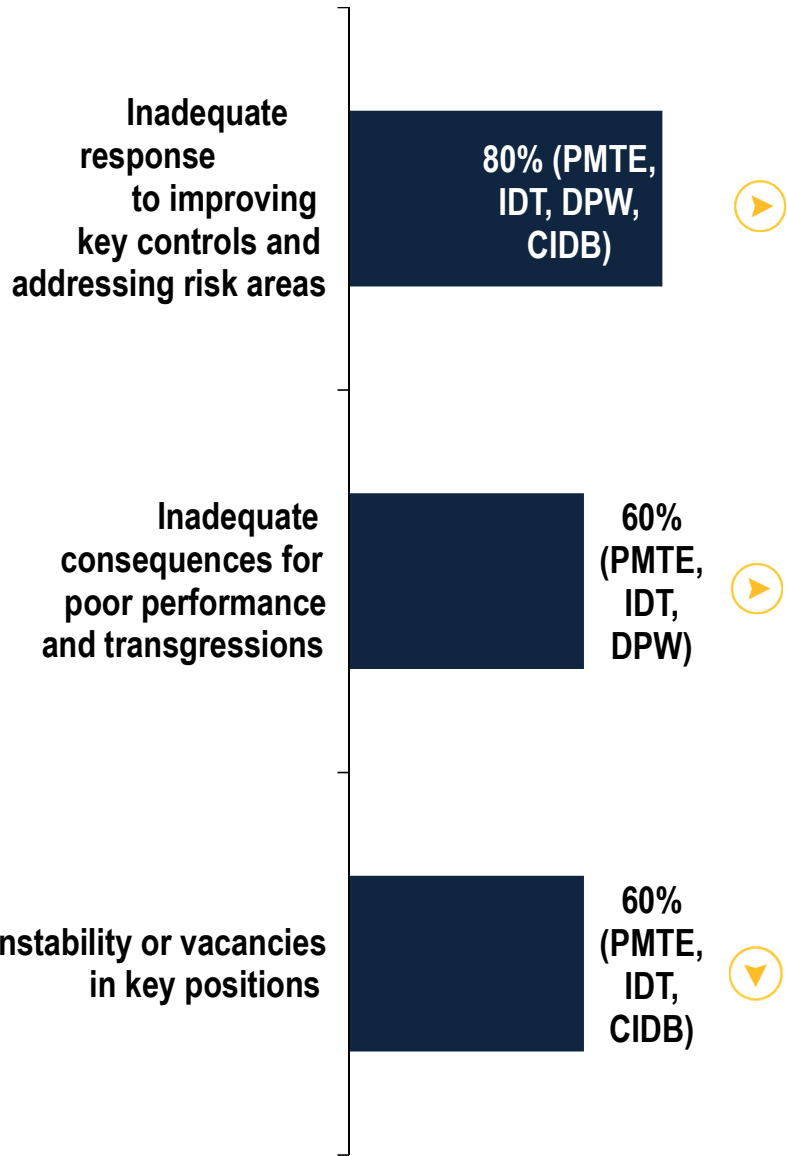
SCM findings reported for investigation during the 2017-18 audit process (all auditees)



Follow-up of the previous year's SCM findings reported for investigations



Root causes



Management (accounting officers and senior management), do not respond **with the required urgency** to our messages about **addressing risks and improving internal controls**.

Management (accounting officers and senior management), did not implement **consequence management** timeously in response to identified or confirmed transgressions.

Instabilities in key position were identified at PMTE, IDT and CIDB in the current year.



Status of commitments

In progress

The Minister committed to ensure that adequate human resources are appointed at PMTE in terms of both numbers and skills.

Capacitate regions with suitable financial and technical skills by the 31 December 2017 through the Organisation Development process that the IDT has embarked on

Not implemented

The Minister committed to the stabilisation and enhancement of leadership at the Department of Public Works and the Property Management Trading Entity.

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 2018.

The Minister committed to implementing policies governing prestige procurement at the Department of Public Works

The executive authority committed to address shortcomings in the leasing environment at the Property Management Trading Entity.



Status of records review

The following key issues that were discussed with senior management and accounting officers/authority during the status of records review process remained unresolved at year-end:

Department of Public Works

- The reported achievements for predetermined objectives (especially on EPWP and Prestige) included in the annual performance report were not supported by appropriate audit evidence.

Property Management Trading Entity

- The entity is unable to accurately account for the amounts owing to suppliers due to documentation relating to services rendered for maintenance not being readily available.
- The entity incorrectly utilised the source data in determining the value of immovable assets, especially with regards to extent.
- The entity did not institute effective measures to ensure that the issue of incorrect payments being made to suppliers in respect of private leases was adequately resolved.

Independent Development Trust

- The status of the accounting records/systems and processes surrounding submission of information in support of programme reserves & liabilities and programme receivables are not sufficient and appropriate.





CORRUPTION

C

=

M

+

D

-

A

MONOPOLY

DISCRETION

ACCOUNTABILITY



#AGSA

#AntiCorruption



Stay in touch with the AGSA



www.agsa.co.za



@AuditorGen_SA



Auditor-General of South Africa



Auditor-General of South Africa

