

SCOPA Briefing

**Gauteng Department of Infrastructure
Development**

19 October 2023



2022 – 23 SCOPA Briefing document

Gauteng Department of Infrastructure development

October 2023



**AUDITOR-GENERAL
SOUTH AFRICA**

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SCOPA BRIEFING NOTE

1. Introduction

1.1. Mission 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. Vision of the Auditor-General of South Africa

To be recognised by all our stakeholders as a relevant supreme audit institution that enhances public sector accountability.

1.3. 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 related matters concerning the portfolio for the 2022/23 financial year.

1.4. Brief overview of the department

To develop and maintain a socio-economic infrastructure that allows all the province's people to have access to social services, this includes:

- Ensuring the implementation of all infrastructure programmes and projects reflected in the short-, medium- and long-term plans of the GPG.
- Managing the construction of GPG Capex projects like schools, hospitals, clinics, and recreation centres.
- Managing the provision of maintenance services for all GPG infrastructure.
- Managing the provincial property portfolio.
- Ensuring participation and involvement of communities through the implementation of the EPWP within GPG Capex projects and other departmental projects.
- Utilising the construction sector as a catalyst for the development of skills, the creation of jobs and the development of sustainable communities.








SCOPA BRIEFING NOTE

2. Audit opinion history

Gauteng Department of Infrastructure Development					
	2022-23	2021-22	2020-21	2019-20	2018-19
Audit opinions	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings

AUDIT OPINION INDEX

	CLEAN AUDIT OPINION: No findings on PDO and compliance
	UNQUALIFIED with findings on PDO and compliance
	QUALIFIED AUDIT OPINION (with/without findings)
	ADVERSE AUDIT OPINION
	DISCLAIMER AUDIT OPINION

2.1. Auditee: Gauteng Department of Infrastructure Development

The audit outcomes for the Gauteng Department of Infrastructure Development has remained stagnant with an unqualified audit opinion on the financial statements and material findings on non-compliance findings:

Gauteng Department of Infrastructure Development					
DESCRIPTION	2022-23	2021-22	2020-21	2019-20	2018-19
A: Report on the audit of the financial statements					
Audit opinions	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings
Emphasis of matter paragraphs					
• <i>Material uncertainty relating to contingencies/litigations</i>	X	X	X	X	X
• <i>Underspending of budget</i>	X	X	X	X	X
B: Report on predetermined objectives					
• <i>Adjustment of material misstatement</i>	X	X	X	X	X



Gauteng Department of Infrastructure Development					
DESCRIPTION	2022-23	2021-22	2020-21	2019-20	2018-19
A: Report on the audit of the financial statements					
Audit opinions	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings
C: Compliance with specific laws and regulations					
• <i>Procurement and contract management</i>	X	X	X	X	X
• <i>Expenditure management</i>	X	X	X	X	X

2.2. Uncertainty relating to the going concern and any other significant emphasis of matter

The **following emphasis of matter paragraphs** was included in the audit report of the department on their annual financial statements for the 2022-23 financial year-end that we would like to highlight to the committee.

Finding	Root cause	Recommendation
<p>Significant uncertainty relating to contingent liabilities</p> <p>With reference to note 16.1 to the financial statements, the department is the defendant in various lawsuits amounting to R317 579 000 (2022: R343 414 000). The ultimate outcome of the matters cannot presently be determined and no provision for any liability that may result has been made in the financial statements.</p>	<p>Contingent liabilities is mainly due to alleged bridge of contractual obligations by the department and contractors.</p>	<p>The accounting officer must ensure that the contracts with suppliers are clear set of deliverables. These deliverables should be communicated to the suppliers before contract is signed. Furthermore, the department needs to establish a sound system that measures the performance of the contractors. The system should form part of the contract to avoid any misinterpretation.</p>
<p>Underspending on the annual appropriation</p> <p>As disclosed in the appropriation statement, the department materially underspent the budget by R112 753 000.</p>	<p>Lack of adherence to department’s procurement plan to ensure that goods and services procured on timely basis.</p>	<p>The accounting officer must enhance mechanisms for better contract and budget management.</p>



2.3. Report on the audit of compliance with legislation

Finding	Root cause	Recommendation
<p>Expenditure management</p> <p>Effective and appropriate steps were not taken to prevent irregular expenditure amounting to R191 225 000, as disclosed in note 20.1 to the annual financial statements, as required by section 38(1) (c) (ii) of the PFMA and treasury regulation 9.1.1.</p> <p>Effective steps were not taken to prevent fruitless and wasteful expenditure amounting to R1 610 000, as disclosed in note 21.1 to the annual financial statements, as required by section 38(1) (c) (ii) of the PFMA and treasury regulation 9.1.1. The majority of the fruitless and wasteful expenditure was caused by interest paid to suppliers.</p>	<p>Non-compliance with legislation could have been prevented had compliance been properly reviewed and monitored. Various deficiencies identified on supply chain, procurement and expenditure management could have been avoided.</p>	<p>Management should develop system of internal control that will allow for effective monitoring of the budget and expenditure process. Additional checks on the payment approval process.</p>

SCOPA BRIEFING NOTE

2.4. Audit of pre-determined objectives

In terms of predetermined objectives, the auditees should address the audit findings on predetermined objectives by ensuring that internal controls pertaining to document management are effective.

We selected the following programmes for audit:

Programme 2 – public works

Programme 3 – expanded public works programme

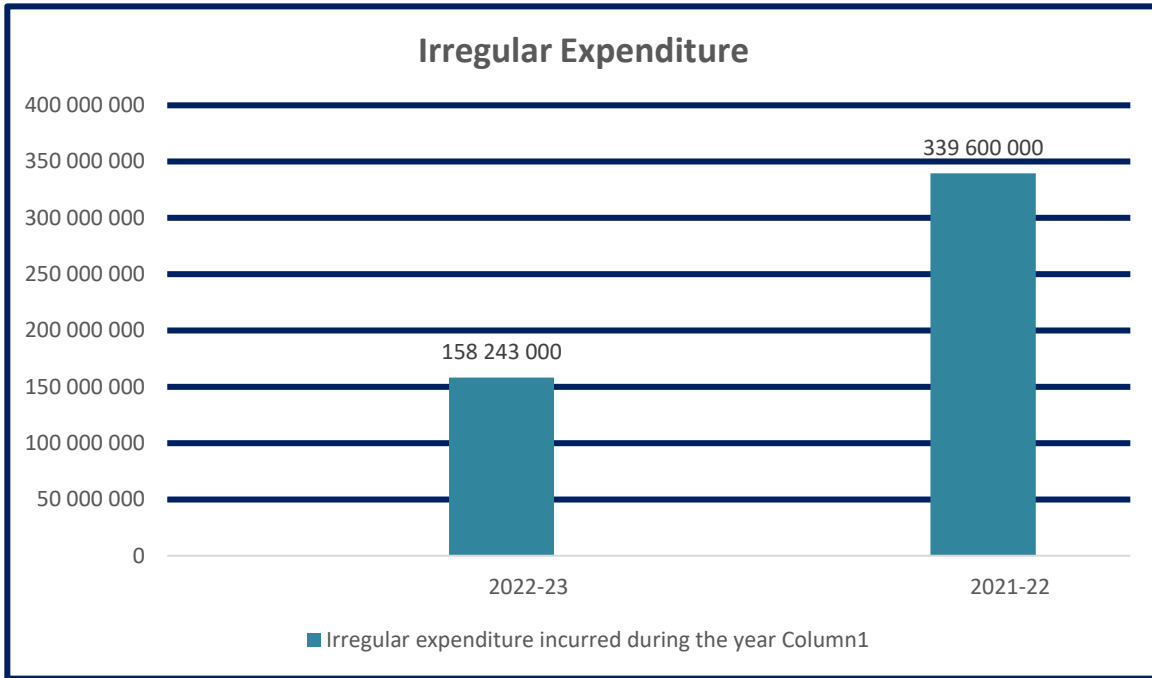
Programme	Number of indicators planned	Number of indicators not achieved	Reasons for non-achievement
Public works	20	6	Delays in SCM processes, delays in contractor appointments and delays in land acquisitions.
Expanded public works programme	7	2	This was due delays in awarding of tenders to service providers, leading to late recruitment of people in the public programme and late implementation.



2.5. Irregular expenditure, Fruitless and wasteful expenditure and consequence management:

The department has incurred the following irregular expenditure:

2.5.1. Irregular Expenditure



Nature of irregular expenditure: Breakdown

Nature	R000
Expired lease	126 000
Three quotations not sourced	5 700
tender procedures were not properly followed	26 300

What can be done to prevent and rectify IE?

- Monitor compliance with the Treasury regulations and SCM legislation to prevent material non-compliance.
- Upskilling and training of staff members involved in the procurement process including the bid committee members

2.5.2. Irregular expenditure and related consequence management:

The major contributors in the irregular expenditure in the current year is depicted below:

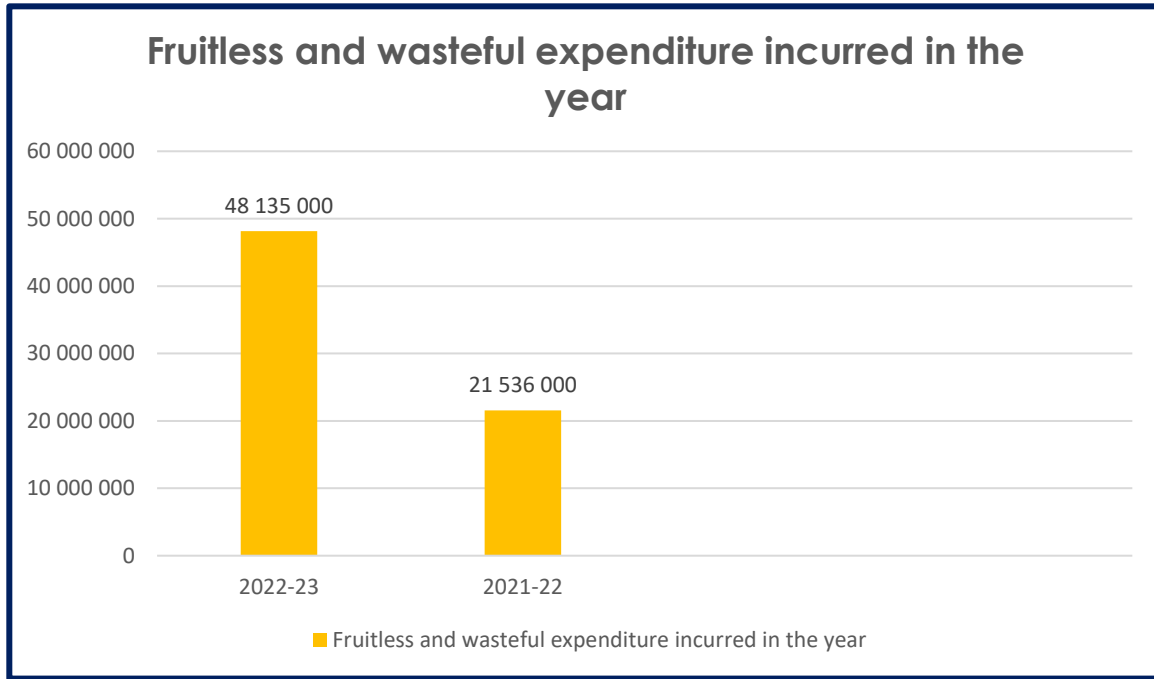
Award	Irregular expenditure				
	Movement	Amount R 2022/23	Amount R 2021/22	Root cause / Key internal control deficiency	Consequence management and status of investigations conducted
Expired leases	↓	126 274 982	131 134 000	Expired lease contracts. These transactions are linked to legacy expired lease contracts for which the non-compliance was raised in the previous financial periods.	Investigation has been conducted by the department. The investigation are currently in the process been finalised.
SCM processes not followed correctly	↓	24 182 997	125 343 000	Supply chain management (SCM) processes not being followed. These transaction are linked to legacy contracts for which the non-compliance was raised in the previous financial period.	Investigation has been conducted by the department. The investigation is currently in the process of been finalised.

The movement is assessed as follows:

↑	Increase
↓	Decrease
→	Unchanged

2.5.3. Fruitless and wasteful expenditure

The department has incurred the following fruitless and wasteful expenditure:



2.5.4. Fruitless and wasteful expenditure and related consequence management

The major contributors in the portfolio for the increase in fruitless and wasteful expenditure in the current year is depicted below:

Auditee	Fruitless and wasteful expenditure			Root cause / Key internal control deficiency	Consequence management and status of investigations conducted
	Movement	Amount 2022/23	Amount 2021/22		
Court order settlement	↑	48 135 000	21 53 000	Fruitless and wasteful expenditure was incurred by the department which consist of payments made as result of court order.	Investigation has been conducted by the department. The investigation is currently in the process of been finalised.

The movement is assessed as follows:

↑	Increase
↓	Decrease
→	Unchanged

2.6. Material irregularities

Implementation of material irregularity process

Material irregularity means any *non-compliance with, or contravention of, legislation, fraud, theft or a breach of a fiduciary duty identified during an audit performed under the Public Audit Act that resulted in or is likely to result in a material financial loss, the misuse or loss of a material public resource or substantial harm to a public sector institution or the general public*

If accounting officer/authority does not appropriately deal with material irregularities, our expanded mandate allows us to:



The audit teams identified the following material irregularities

No.	MI short description	Actual / likely Loss	Actions taken	Status of MI
1	<p>Refurbishment of Anglo Ashanti</p> <p>The department received an instruction from the department of health to refurbish the Anglo Ashanti mining hospital. The instruction was passed down from the president of South Africa during the COVID pandemic. A total amount of R494 541 374 was</p>	The non-compliance has resulted in a material financial loss.	<p>The accounting officer has taken the following actions to address the material irregularity:</p> <ul style="list-style-type: none"> Initiated the process of updating the property lease policy to only allow refurbishments to be 	Based on the response received from the accounting officer, the department is currently awaiting the outcome from the tribunal where it is

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No.	MI short description	Actual / likely Loss	Actions taken	Status of MI
	spent on the project from inception to date. At the date of this report, the hospital has not served its intended purpose and is currently abandoned.		<p>done on buildings owned by the Gauteng provincial government.</p> <ul style="list-style-type: none"> An official from the Department of Infrastructure Development who signed the lease agreement was placed on suspension in 2021-22 financial year. In addition, an official from the Department of Health who also signed the lease agreement resigned from the employment of the department in October 2020 	requesting the lease to be extended to 99 year lease at R0 rental.
2	Construction of Mayibuye clinic not completed	The non-compliance has resulted in a material financial loss.	<ul style="list-style-type: none"> The accounting officer plans to appoint a replacement contractor by March 2024. In addition, the accounting officer has initiated a process to appoint a service provider to conduct a root cause analysis and the report is expected to be finalised by November 2023. The accounting officer plans to take actions based on the outcome of the root cause analysis process. 	Appropriate actions - follow-up will be performed 31 March 2024
3	Construction of Nancefield school not completed The department has not taken appropriate steps to ensure that a replacement contractor is appointed to complete the construction of Nancefield primary school since the termination of the contractor's contract in December 2021. This has resulted in the deterioration of the existing infrastructure.	The non-compliance has resulted in a material financial loss.	<p>The accounting officer has taken the following actions to address the material irregularity:</p> <ul style="list-style-type: none"> Holds bilateral meetings with senior management on a biweekly basis to enhance oversight and support. This ensures speedy turnaround times on projects. Established panels of construction contractors from level 6 to 9 construction industry development board. This will enhance turnaround times on the appointment of contractors, in particular appointing replacement contractors where the contractor has failed. 	Appropriate actions - follow-up will be performed 31 March 2024



SCOPA BRIEFING NOTE

No.	MI short description	Actual / likely Loss	Actions taken	Status of MI
4	<p>Construction of Khutsong South Clinic not completed</p> <p>The department has not taken appropriate steps to ensure that a replacement contractor is appointed to complete the construction of Khutsong South clinic since the abandonment of the site by the contractor in July 2018. This has resulted in the deterioration of the existing infrastructure</p>	<p>The non-compliance has resulted in a material financial loss.</p>	<p>The accounting officer has taken the following actions to address the material irregularity:</p> <ul style="list-style-type: none"> • Holds bilateral meetings with senior management on a biweekly basis to enhance oversight and support. This ensures speedy turnaround times on projects. • Established panels of construction contractors from level 6 to 9 construction industry development board. This will enhance turnaround times on the appointment of contractors, in particular appointing replacement contractors where the contractor has failed. 	<p>Appropriate actions - follow-up will be performed 31 March 2024</p>
5	<p>Construction of Mayibuye Primary School not completed</p> <p>The department did not address concerns raised by the Gauteng Department of Education to ensure that a replacement contractor is appointed to complete the construction of Mayibuye Primary School between July 2020 and July 2023. This has resulted in the deterioration of the existing infrastructure.</p>	<p>The non-compliance has resulted in a material financial loss.</p>	<p>The accounting officer has taken the following action to address the material irregularity:</p> <ul style="list-style-type: none"> • Appointed a contractor in August 2023 to complete the project. The contractor is expected to finalise construction work in January 2024. • Holds bilateral meetings with senior management on a biweekly basis to enhance oversight and support. This ensures speedy turnaround times on projects. • Established panels of construction contractors from level 6 to 9 construction industry development board. This will enhance turnaround times on the appointment of contractors, in particular appointing replacement contractors where the contractor has failed. 	<p>Appropriate actions - follow-up will be performed 31 March 2024</p>



2.7. Key Projects

2.7.1. Key project name -Thusanong House

Mbali Industrial Solution was appointed for the Thusanong OHS: Upgrade of structural, Electrical, Mechanical, Wet Services, Fire Detection and Voice Evacuation at an award value of R35 081 245 (inclusive of VAT and contingencies) .The contractor was granted access to the site on the 18 February 2020 with an anticipated completion date of the 12 January 2021 and a contract duration of 12 months. The project was still under construction at the time of the audit on 3 May 2023.

Findings

Finding	Prior years reported	
	2022-23	2021-22
Contractor did not attain contractual completion	√	√
Compensation Events due to poor planning and delay in approvals	√	No findings
Value of penalties imposed not aligned to the contract	√	√

Impact: The cost of the project increased due to compensation events and extension of time claimed by the contractor, some the compensation events was due to poor planning and late approvals. The contractor claimed standing time for the restriction in the access of floors as per the construction programme. Other amounts claimed included standing time as the Consulting Engineers refusal to hold meetings with the contractor and provide the contractor with designs due to a payment dispute between the department and the Consulting Engineers.

The project was delayed for a period of 476 days at the time of the site visit. The value of penalties levied against the contract was not in accordance with the contract.

2.7.2. Key project name – Follow up on Corner House

The project was prioritised, as the building was no longer compliant with the National Building regulations due to the total failure of the HVAC System and the fire Protection Installation Including the fire detection and Voice Evacuation System.

The Health and Safety as per the OHS Act 83 of 1993, the building occupants was compromised and posed continued risk. The project was handed over to the contractor on 2 April 2014 and the contractor commenced construction on 7 April 2014, for a duration of 18 months and a completion date of 2 October 2015. The contract was awarded at a value of R 52 503 697(including vat). The scope of works included the supply, delivery installation, commissioning, and testing of mechanical, installation, renovation and upgrading of new Heating, Ventilation & Air-conditioning System. Findings was raised in the prior and a follow up audit was conducted to determine progress and corrective actions taken by the department thus far. The findings below details the re-occurrence of findings:



Findings

Finding	Prior years reported	
	2022-23	2021-22
Completion of the project delayed for a long period	√	√
No evidence of extension of time or penalties levied against the contractor	√	√

Impact: No evidence of a valid extension of time was provided for the period between October 2015 and 30 April 2021 and from 30 July 2021 to current date. No evidence was provided to confirm that penalties was levied against the contractor for not achieving the revised completion date and the implementation of consequence management. In the absence of an extension of time/revised contractual dates or the imposing of penalties, the contract management is not effectively implemented to monitor the performance of the contractor in accordance with deliverables

The practical completion date for the project was planned for 2 August 2015, at the time of the site visit on 4 May 2023, almost eight years later the project was still under construction and had not attained the practical completion.

2.8. Other matters (GR key message, APP reviews and achievements, turnaround strategy, and any other additional information)

The infrastructure development department coordinated the procurement and implementation of most infrastructure projects, in line with its mandate, and is thus a key role player when it comes to addressing provincial infrastructure concerns. As a result of poor project management and inadequate coordination, we notified the accounting officer of four infrastructure-related material irregularities relating to the Mayibuye Clinic, the Mayibuye Primary School, the Khutsong South Clinic and the Nancefield Primary School. We urge the accounting officer to implement action plans to address these material irregularities promptly. We also recommend that the province evaluate and, where needed, strengthen the infrastructure delivery model to fully address infrastructure requirements.

Furthermore, the department needs to continue to improve on achieving performance targets to deliver on its mandate.

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2.9. Status of internal controls

Drivers of internal control														
Entity	Leadership						Financial & performance management					Governance		
	Effective leadership culture	Oversight responsibility-monitoring	HR management	Policies and procedures	Action plans	IT governance	Proper record-keeping	Processing and reconciling controls	Reporting	Compliance	IT systems controls	Risk management	Audit committee	Internal audit
Gauteng Department of Infrastructure Development	Green	Green	Green	Green	Green	Yellow	Green	Green	Green	Yellow	Yellow	Green	Green	Green

LEGENDS:

Preventative or detective controls are in place and are functioning effectively
Progress was made with the implementation of controls, but further improvement is required where actions taken are not sustainable
Internal controls are not effective, and intervention is required to design and implement appropriate controls

2.10. Culture shift

The department core mandate is the delivery of social infrastructure projects. The department needs to put measures to ensure that the infrastructure projects are completed in time and within budget by holding the responsible officials more accountable. Furthermore, the department needs to improve the working relationships with client departments in the province.

2.11. Recommendation to the different role players

Gauteng department of infrastructure development	
What should be addressed by accounting officer	<ul style="list-style-type: none"> Adequate reviews of performance information to be implemented on a quarterly basis by senior management. Senior management must implement and monitor actions to prevent repeat findings
What should be addressed by the executive authority	<ul style="list-style-type: none"> The monitoring systems on adherence to SLA agreements by lessors Monitor the implementation of the department projects with a clear focus on impact on the citizens. Improve performance management system and swiftly implement the corrective actions to ensure improved achievement of key infrastructure targets Improve adherence to the Infrastructure Delivery Management System (IDMS) for infrastructure planning and delivery chain.



Gauteng department of infrastructure development	
What should be addressed by the SCOPA	<ul style="list-style-type: none"> To scrutinize reports on action taken by the accounting officer to prevent irregular expenditure as well as fruitless and wasteful expenditure. Request a regular report on the adherence to the IDMS. Request a report on the action taken by the accounting officer to resolve the material irregularity notifications issued by AGSA.

2.12. Key recommendations to the committee

We recommend that the committee consider the following actions to be implemented as part of their oversight role to facilitate an improvement on performance management, as well as the status of compliance of these entities to improve audit outcomes, thereby ensuring good governance and administration of public funds:

The committee should follow up with management on the timely and effective implementation of the audit action plans by requesting regular feedback on specific matters including achievement of performance targets, non-compliance matters and the consequence management regarding the UIFW balance.

The committee should actively follow-up on actions taken with regards to material irregularity (MI) raised during the audit process to ensure that accounting officer takes appropriate actions to resolve the MIs.

Continues follow-up with regards to progress of delayed infrastructure projects and holding management accountable where the progress is slow and adversely affecting the lives of the citizens.

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