

SCOPA Briefing

**Gauteng Department of Roads and Transport
and its entities.**

19 October 2023

PFMA 2022-23



**AUDITOR GENERAL
SOUTH AFRICA**

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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

The department obtained a financially unqualified with findings audit opinion in the current year. This is an improvement compared to the qualified opinion in the previous year. The improvement in the audit outcome was because management was able to correct material misstatements that were identified in the annual financial statements.

The quality of the financial statements remained unchanged when compared to the prior year due to the material findings identified in provisions for litigations, accrued departmental revenue, immovable assets, capital work in progress assets and irregular expenditure disclosure note however these were accurately corrected by management. Material non-compliances were identified on expenditure management, financial statements and strategic planning and performance management.

The quality of reported performance information remains good as no material misstatements were identified during the audit. Although the department continued to underspend on the budget, there is a significant increase on achievement of indicators. The department attained 73% achievement on planned indicators in the current year compared to the 46% from the prior year. The departments should pay attention to indicators without targets as these might result in material misstatements to performance information in the future, if not attended to. Except for the number of square metres of surfaced roads rehabilitated (maintenance) and indicators without targets the department achieved on all service delivery indicators.

Majority of the irregular expenditure incurred relate to the bus subsidy contracts that has ended on the 31 March 2023. The department continued to incur irregular expenditure on the K46 contract, the IE was R155 297 692. R1 663 940 of IE was uncovered during the audit



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process. There is a significant decrease on the fruitless and wasteful expenditure compared to the prior year due to the reduced number of court cases, this is an indication that the department is in progress in implementing the prior year recommendations around compliance monitoring and contract management.

Vacancies within the department in key senior positions remains a concern. The overall vacancy rate increased from 32% in the prior year to 35% in the current year. This had a negative impact on the department's turnaround time in submitting information requested for auditing, leading to various instances of the auditor's scope being limited. The vacancy rate within the finance unit is concerning at 28%, this is one of the root causes that lead to a stagnation in the quality of financial statements submitted for auditing.

The department needs to ensure the implementation and the monitoring of the action plan as early as possible to address all the matters of concerns on time. Internal controls should be monitored throughout the year and accountability should be enforced on all levels.



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
Audit opinion history

Gauteng Department of Roads and Transport					
	2022-23	2021-22	2020-21	2019-20	2018-19
Audit opinions	Unqualified with findings opinion	Qualified with findings opinion	Unqualified with findings opinion	Unqualified with findings opinion	Unqualified with findings opinion

g-Fleet Management					
	2022-23	2021-22	2020-21	2019-20	2018-19
Audit opinions	Unqualified with findings opinion	Qualified with findings opinion	Qualified with findings opinion	Unqualified with findings opinion	Unqualified with findings opinion

Gautrain Management Agency					
	2022-23	2021-22	2020-21	2019-20	2018-19
Audit opinions	Unqualified with no findings opinion	Unqualified with no findings opinion	Unqualified with no findings opinion	Unqualified with no findings opinion	Unqualified with no findings opinion

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



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Auditee: Gauteng Department of Roads and Transport

The audit outcomes for the Gauteng Department of Roads and Transport improved to an unqualified with non-compliance findings opinion compared to the prior year qualified with findings opinion:

Gauteng Department of Roads and Transport					
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 opinion	Qualified with findings opinion	Unqualified with findings opinion	Unqualified with findings opinion	Unqualified with findings opinion
Areas of qualification :					
• Provision		X			
• Departmental revenue		X			
• Immovable assets		X			
• Capital Work In Progress		X			
Emphasis of matters:					
• Significant subsequent events				X	
• Material uncertainties related to contingent liabilities	X	X	X	X	X
• Underspending of vote	X	X	X	X	X
B: Report on predetermined objectives					
• Reliability			X	X	
• Usefulness			X		
• Adjustment of material misstatement					X
• Presentation and disclosure: overall disclosure					
• Relevance: completeness of indicators					
C: Compliance with specific laws and regulations					
• Financial statements, performance report and annual report	X	X		X	



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Gauteng Department of Roads and Transport					
DESCRIPTION	2022-23	2021-22	2020-21	2019-20	2018-19
• Procurement and contract management		X	X		X
• Expenditure management	X	X			
• Strategic Planning	X			X	
• Utilisation of conditional grants				X	
• Asset management		X			

g-Fleet Management

The audit outcomes for the trading entity improved to an unqualified audit opinion on the financial statements with material findings on predetermined objectives and material non-compliance:

g-Fleet Management					
DESCRIPTION	2022-23	2021-22	2020-21	2019-20	2018-19
A: Report on the audit of the financial statements					
Audit opinions	Unqualified opinion	Qualified opinion	Qualified opinion	Unqualified opinion	Unqualified opinion
Areas of qualification : 2022					
• PPE - WIP			X		
• PPE – Vehicles		X	X		
• Prepaid expenses		X			
Emphasis of matters:					
• Restatement of corresponding figures	X	X			
B: Report on predetermined objectives					
• Reliability	X	X	X	X	X
• Usefulness	X	X	X	X	X



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g-Fleet Management

DESCRIPTION	2022-23	2021-22	2020-21	2019-20	2018-19
A: Report on the audit of the financial statements					
Audit opinions	Unqualified opinion	Qualified opinion	Qualified opinion	Unqualified opinion	Unqualified opinion
<ul style="list-style-type: none"> Adjustment of material misstatement 		X	X	X	
<ul style="list-style-type: none"> Presentation and disclosure: overall disclosure Relevance: completeness of indicators 					
C: Compliance with specific laws and regulations					
<ul style="list-style-type: none"> Financial statements, performance report and annual report 		X	X	X	
<ul style="list-style-type: none"> Procurement and contract management 			X	X	X
<ul style="list-style-type: none"> Expenditure management 	X	X	X	X	X
<ul style="list-style-type: none"> Consequence management 		X		X	

Gautrain Management Agency

The Gautrain Management Agency has maintained the unqualified audit opinion on the financial statements with no findings on predetermined objectives and compliance:

Gautrain Management Agency

DESCRIPTION	2022-23	2021-22	2020-21	2019-20	2018-19
A: Report on the audit of the financial statements					
Audit opinions	Unqualified with no findings opinion	Unqualified with no findings opinion	Unqualified with no findings opinion	Unqualified with no findings opinion	Unqualified with no findings opinion
Emphasis of matters:					
<i>Litigation and contingencies</i>	X	X	X	X	X
<i>Commitments</i>	X	X	X	X	X



Gautrain Management Agency

DESCRIPTION	2022-23	2021-22	2020-21	2019-20	2018-19
A: Report on the audit of the financial statements					
Audit opinions	Unqualified with no findings opinion	Unqualified with no findings opinion	Unqualified with no findings opinion	Unqualified with no findings opinion	Unqualified with no findings opinion
B: Report on predetermined objectives					
<ul style="list-style-type: none"> • Reliability • Usefulness • Adjustment of material misstatement • Presentation and disclosure: overall disclosure • Relevance: completeness of indicators 					
C: Compliance with specific laws and regulations					
<ul style="list-style-type: none"> • Financial statements, performance report and annual report • Procurement and contract management • Expenditure management • Strategic Planning • Consequence management • Revenue management • Asset management 					

-2.1. Areas of qualification

Not applicable for the department and its entities.



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

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

Gauteng Department of Roads and Transport (GDRT)

Emphasis of Matter

With reference to note 17.1 to the financial statements, the department is the defendant in various lawsuits. The ultimate outcome of the matters could not be determined and no provision for any liability that may result was made in the financial statements.

As disclosed in the appropriation statement, the department materially underspent the budget by R763 596 000 on the following programmes:

- programme 2 – transport infrastructure, underspending of R129 776 000
- programme 3 – transport operations, underspending of R572 984 000
- programme 4 – transport regulation, underspending of R60 836 000

g-Fleet Management:

Emphasis of Matter

As disclosed in note 2 to the financial statements, the corresponding figures for 31 March 2022 were restated as a result of an error in the financial statements of the trading entity at, and for the year ended, 31 March 2023.

Gautrain Management Agency:

Emphasis of Matter

With reference to **note 23.4** to the financial statements, the public entity is a defendant in land dispute claims raised by property owners on the valuation of their expropriated land. The ultimate outcomes of these matters could not be presently determined and no provision for any liability that may result was made in the financial statements.

With reference to **notes 10.2 and 23.1** to the financial statements, the public entity, in terms of the concession agreement, pays the operator, Bombela Concession Company, a patronage guarantee should actual revenue collected be below the minimum required total revenue as specified in the concession agreement. During the 2022-23 financial year, the public entity paid the operator **R2 371 508 000 (2021-22: R2 286 368 000)** in the form of a patronage guarantee due to the actual revenue and ridership being significantly below the minimum required total revenue projections.

2.3. Report on the audit of compliance with legislation

Finding	Root cause	Recommendation
<p><u>Annual Financial Statements</u> The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework, as required by section 40(1) (b) of the PFMA. Material misstatements of Immovable capital assets, capital work in progress assets, provision for litigations, capital commitments, accrued departmental revenue, irregular expenditure and fruitless and wasteful expenditure identified by the auditors in the submitted financial statements were corrected, resulting in the financial statements receiving an unqualified opinion.</p>	<p><u>GDRT:</u> Action plans developed to address audit findings of the prior year were not implemented on time and monitored. Lack of proper record keeping and reconciling controls to prepare accurate financial statements as a result there were material adjustments on immovable capital assets, capital work in progress assets, accrued departmental revenue, capital commitments and irregular expenditure on the submitted financial statements.</p>	<p><u>GDRT:</u> Top management must set an appropriate tone to ensure that all staff comply with established policies and procedures, as well as applicable accounting standards. Audit action plans must be actively driven by top management to ensure achievement of milestones and corrective action taken where milestones are not achieved. Management should review financial statements and performance reports to ensure they are accurate, complete and fairly present the state of affairs of the department and they are in line with the reporting framework MCS.</p>



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Finding	Root cause	Recommendation
<p><u>Expenditure Management</u> Effective steps were not taken to prevent fruitless and wasteful expenditure, as disclosed in note 23 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 payments of settlements on contract terminations.</p>	<p><u>GDRT:</u> Slow response to recommendations. Lack of compliance controls has led to the department paying a lot of money due to court orders and also lack of project management has resulted to money being paid in vain.</p>	<p><u>GDRT:</u> Management should put measures in place to monitor and track compliance with laws and regulation. There must be timely investigations of reported fruitless and wasteful expenditure and disciplinary actions are taken against staff transgressed procurement regulations.</p>
<p><u>Expenditure Management</u> Resources of the trading entity were not utilised economically, as required by section 38(1)(b) & 45(b) of the PFMA.</p>	<p><u>g-Fleet Management:</u> Management did not properly review payments made resulting in overpayment.</p>	<p><u>g-Fleet Management:</u> Management should improve expenditure management controls and ensure all payments are properly reviewed before finalisation.</p>
<p><u>Strategic planning and performance management</u> The annual performance plan did not include the targets of the programmes, as required by treasury regulation 5.2.3(d).</p>	<p><u>GDRT:</u> Management did not ensure that all performance indicators on the APP have set targets and that these are reported on a quarterly basis.</p>	<p><u>GDRT:</u> Management should implement preventative and detective controls to address non-compliance with laws and regulations, these should also be reviewed and monitored regularly. Management should ensure that performance targets are set for all the performance indicators in the APP, these should then be reported to be able to track service delivery as set out in the department's mandate.</p>

Gautrain Management Agency:

No material non-compliance.



2.4. Audit of pre-determined objectives

Auditee: Gauteng Department of Roads and Transport

We selected the following programmes:

- Programme 2: Transport Infrastructure
- Programme 3: Transport Operations

We commend the department for submitting the annual performance report which contained no material findings.

Programme	Number of indicators planned	Number of targets not achieved	Reasons for non-achievement
Transport Infrastructure	25(4 indicators with no targets)	6	Delays in SCM processes, delays in contractor appointments and delays in land acquisitions.
Transport Operations	8(3 indicators with no targets)	2	Delays in township planning and appointment of maintenance contractors.

Pro-active review of annual performance plan 2023/24

The audit team performed the proactive review of the annual performance plan (APP) of 2023-24 during February 2023.

We identified shortcomings in the draft annual performance plan for 2023-24, we noted the following:

- Performance indicators without targets:
 - Number of kilometres of gravel roads upgraded to surfaced roads.
 - Number of m2 of surfaced roads rehabilitated.
- The department has a new entity called the Transport Authority of Gauteng (TAG) which is not incorporated in the APP.

These shortcomings may have a negative impact on the operations of the department due to lack of accountability on the performance of key indicators to those charged to oversee the department.



g-Fleet Management:

We selected the following programmes for auditing:

- Operational management services
- Corporate and finance management

We identified material misstatements in the reported performance information in the annual performance report submitted for auditing:

Programme 1 – Operational management services

Indicator: Percentage of clients satisfied with g-Fleet services.

An achievement of 81,22% was reported against a target of 75%. However, the audit evidence did not support this achievement. Consequently, it is likely that the target was not achieved.

Gautrain Management Agency

We selected the following outcomes for auditing:

- Outcome 1: To ensure reliable, efficient, affordable and sustainable rail service through maintaining high level of service excellence in all performance related matters.
- Outcome 2: To assure that the obligations of the concessionaire are met and that the concession agreement is managed for the optimal benefit of Gauteng Province, its residents and visitors.
- Outcome 3: To ensure sound financial management of all GMA revenue sources and safeguards the assets of the Project. To ensure that the concessionaire meets its obligations regarding the maintenance of the system to the benefit of the project and the Gauteng Province.

We commend the entity for submitting an annual performance report which contained no material findings.

Pro-active review of annual performance plan 2023/24

We did not identify material shortcomings in the draft annual performance plan for 2023-24.

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

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

Auditee	Irregular expenditure				
	Movement	Amount R 2022/23	Amount R 2021/22	Root cause / Key internal control deficiency	Consequence management and status of investigations conducted
Gauteng Department of Roads and Transport	Increase	2 316 982 000	2 476 449 000	<ul style="list-style-type: none"> Non-compliance identified in the previous year's however irregular expenditure still continues to be incurred until the end of the contract. 	Consequence management processes were in progress.
g-Fleet Management	Increase	79 000	474 000	<ul style="list-style-type: none"> Non-compliance identified in the previous years, however, irregular expenditure still continues to be incurred until the end of the contract. 	Immaterial impact.
Gautrain Management Agency	None	0	0	<ul style="list-style-type: none"> Not applicable 	Not applicable



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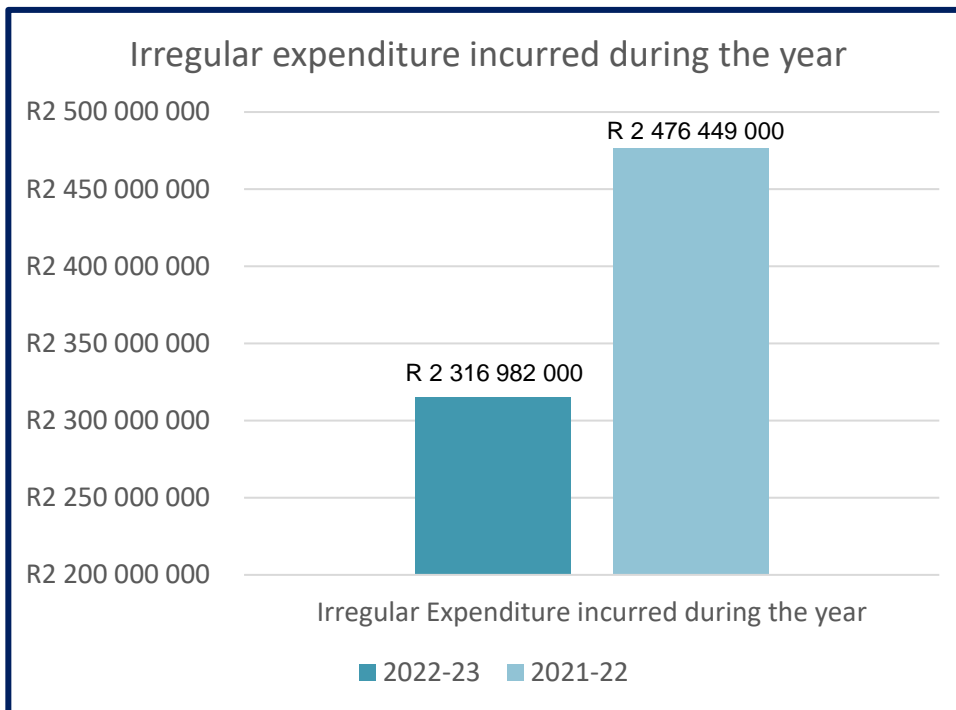
The major contributors in the fruitless and wasteful expenditure **in the current year** is depicted below:

Auditee	Fruitless and wasteful expenditure				
	Movement	Amount R million 2022/23	Amount R million 2021/22	Root cause / Key internal control deficiency	Consequence management and status of investigations conducted
Gauteng Department of Roads and Transport	Decreased	2 516 000	92 223 000	Termination of employment of an employee. Arbitration process rules in favor of an employee resulting in the department incurring fruitless and wasteful expenditure.	Consequence management were in progress.
g-Fleet Management	Increased	6 694 000	580 000	Slow response on consequence management processes.	Immaterial impact.
Gautrain Management Agency:	Not applicable	0	0	Not applicable	Not applicable



2.5.1. DRT - Irregular expenditure, Fruitless and wasteful expenditure

Irregular Expenditure



Nature of irregular expenditure: Breakdown

Nature	R000
Bus Subsidy contract Extension	2 160 019
Inconsistencies in the evaluation process roads construction award	155 298
Invites did to specify minimum threshold for local content	666
Incorrect number of points for BBBEE	998

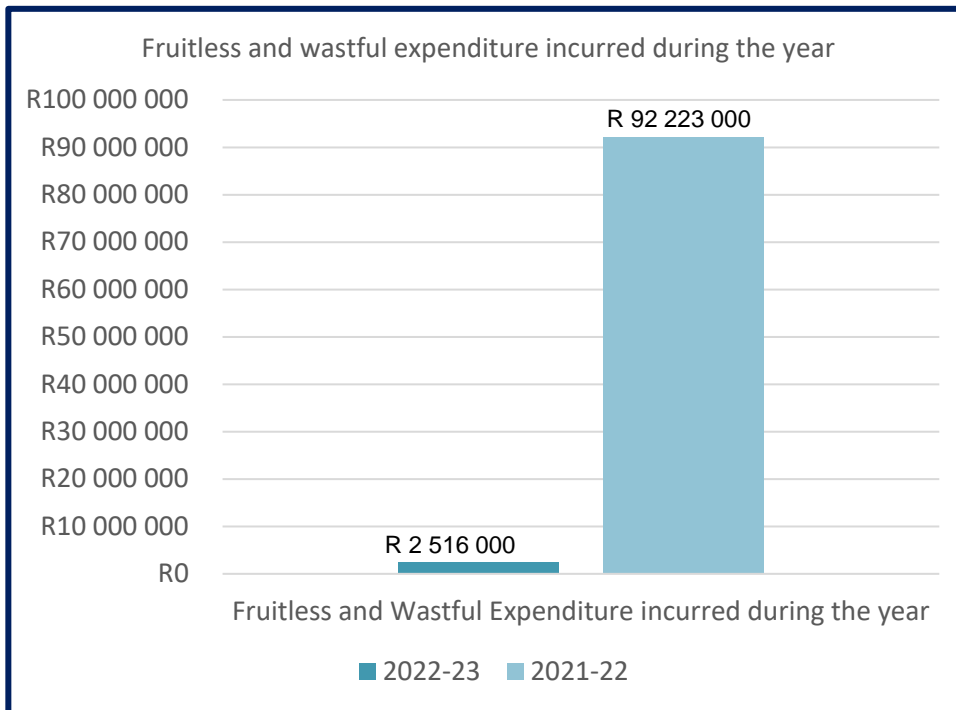
What can be done to prevent and rectify IE?

- Regularise the bus contracts.
- 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

Condonation: R2 160 020

Fruitless and Wasteful Expenditure

The department has incurred the following fruitless and wasteful expenditure:



Nature of fruitless and wasteful expenditure

Nature	R
Interest on late payments to suppliers	568 503
Court orders	1 947 828

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:



Refer material irregularities to relevant public bodies for further investigations



Recommend actions to resolve material irregularities in audit report
Take binding remedial action for failure to implement recommendations



Issue certificate of debt for failure to implement remedial action if financial loss was involved

The audit team identified the following material irregularities:

MI short description	Actual / likely Loss	Actions taken	Status of MI
Construction of the driver licence testing centre at Sebokeng not completed.	Likely loss	AO submitted actions taken to the engagement manager for assessment.	AO responses are still under assessment
Late appointment of a replacement contractor to complete construction of the K46 road.	Actual loss	AO submitted actions taken to the engagement manager for assessment.	AO responses are still under assessment

2.7. Key projects funded by grants

Key project name	Rand Value	Key Observations	Findings
Rehabilitation of provincial road D483 between Bapsfontein and D713 Cullinan	R92 000 000	<ul style="list-style-type: none"> The project site handover was on 11 October 2021 with the contract completion of 10 July 2022 for a duration of nine months. The contractor did not attain the initial completion date of 10 July 2022 or the revised of completion dates of 22 September 2022 and 30 June 2023. An amount of R15 113 768 was paid on the interim payment certificates 2 to 12 for a 9-month contract duration, no evidence on the BAC or approval of the Accounting Officer prior to payment 	<ul style="list-style-type: none"> Discrepancies on the application and approval of Contract Price Adjustments Penalties not imposed on the contractor

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

Gauteng Department of Roads and Transport (DRT)

The audit outcomes for the department improved in comparison to prior year from qualified with findings to unqualified with findings on compliance audit opinion. Although the roads and transport department has improved its contract management disciplines on infrastructure projects, the prolonged process for procuring contractors to continue and complete projects leads to roads and related infrastructure deteriorating and additional costs in some instances. For example, the department was late to appoint a replacement contractor for the K46 road in Diepsloot, and the construction of the Sebokeng drivers' licence testing station has not yet been completed. We notified the accounting officer of material irregularities for both instances and urged him to implement his committed actions promptly to resolve these material irregularities.

The department should ensure the implementation and the monitoring of the action plans as early as possible to address all the matters of concerns on time. Internal controls should be monitored throughout the year and accountability should be enforced on all levels.



g-Fleet Management:

The audit outcomes for the g-Fleet Management have improved to an unqualified with findings on compliance and performance information audit opinion. The trading entity filled some key vacancies during the year, resulting in improvements in the control environment and improved financial disciplines. There still remains some instances of non-compliance which resulted in material findings that should be fully addressed by management. We urge the accounting officer with the support of senior management to continue improving and maintaining a sound control environment to mitigate and eliminate any non-compliance going forward.

Gautrain Management Agency:

The entity has been able to sustain its clean audit outcome. The effectiveness of governance structures in providing oversight has assisted the entity in ensuring that the control environment functioned effectively throughout the year. A sustained clean audit outcome has a positive impact in the public entity's ability to appropriately manage the Gautrain project to ensure a delivery of service as per the citizen's aspirations.

2.9. Status of internal controls

Drivers of internal control														
Entity	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	Audit committee	Internal audit
Gauteng Department of Roads and Transport	Green	Yellow	Yellow	Yellow	Yellow	Green	Red	Red	Red	Red	Yellow	Green	Green	Green
g-Fleet Management	Green	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Red	Red	Yellow	Green	Green	Green
Gautrain Management Agency	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	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

Recommendation to the different role players

	<u>Gauteng Roads and Transport</u>	<u>g-Fleet Management:</u>	<u>Gautrain Management Agency:</u>
What should be addressed by accounting officer/ authority	<ul style="list-style-type: none"> Accounting officer should thoroughly review developed action plans to ensure they address root causes. The accounting officer should implement sound controls to monitor compliance with laws and regulations. The accounting officer should implement controls regarding review of financial statements and proper record keeping and reconciliation of records. 	<ul style="list-style-type: none"> Accounting officer should thoroughly review developed action plans to ensure addressing root causes. The accounting officer should exercise adequate oversight responsibility over performance reporting and compliance with applicable laws and regulations. 	<ul style="list-style-type: none"> Maintain good governance structures. Maintain good financial and performance management disciplines.
What should be addressed by the executive authority	<ul style="list-style-type: none"> Monitor designed action plans. Monitor the implementation of controls. Monitor compliance with laws and regulations. 	<ul style="list-style-type: none"> Follow up with entities that incurred irregular, fruitless and wasteful expenditure to ensure there is consequence management. Approve new structure and fill key vacancies. 	<ul style="list-style-type: none"> Ensure the public entity sustains the good practices.
What should be addressed by the SCOPA	<ul style="list-style-type: none"> Follow up with the department regarding the irregular, fruitless and wasteful expenditure to ensure there is consequence management where necessary. 	<ul style="list-style-type: none"> Follow up with the trading entity regarding the irregular, fruitless and wasteful expenditure balances to ensure there is consequence management where necessary. 	<ul style="list-style-type: none"> Continue exercising oversight role to prevent any regressions.

Key recommendations to the committee

We request and recommend that the SCOPA consider the following actions to be implemented as part of their oversight role to facilitate an improvement in the financial and 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 as raised by the external auditors, internal auditors and SCOPA.
- The committee should hold the accounting officer accountable in eradicating irregular expenditure and fruitless and wasteful expenditure in the environment.

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