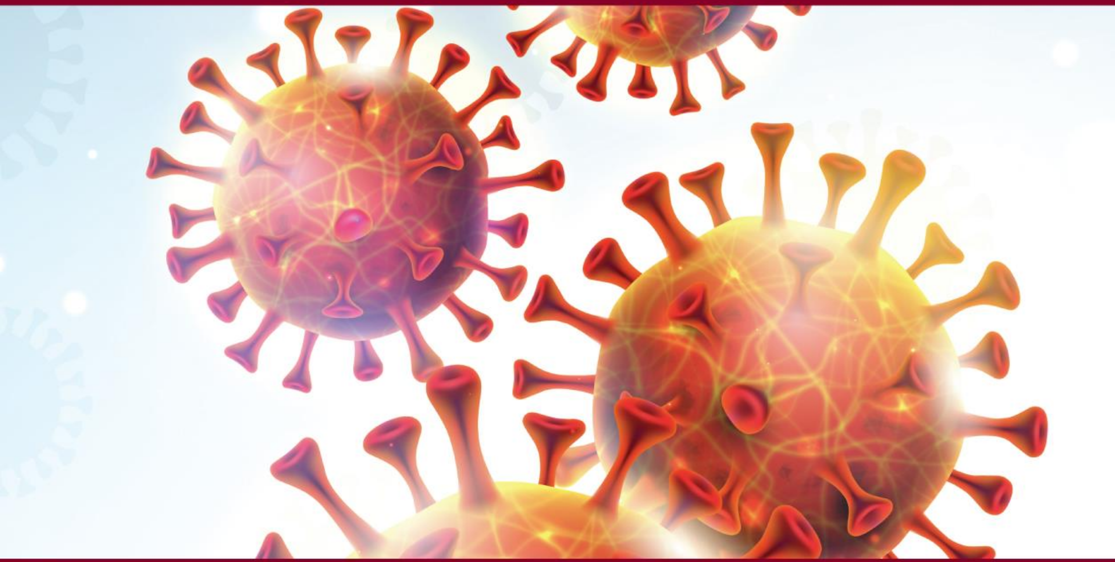


SECOND SPECIAL REPORT

on the financial management of government's covid-19 initiatives

AUDITOR-GENERAL
SOUTH AFRICA

CONTENTS

ACRONYMS AND ABBREVIATIONS

Asidi	Accelerated School Infrastructure Delivery Initiative
BAC	bid adjudication committee
B-BBEE	broad-based black economic empowerment
BEC	bid evaluation committee
CAATs	computer-assisted audit techniques
Casp	comprehensive agricultural support programme
CCTV	closed-circuit television
CDC	Centers for Disease Control and Prevention
CIDB	Construction Industry Development Board
CIPC	Companies and Intellectual Property Commission
Combud	computerised budget
CSD	central supplier database
csv	comma-separated values
DBE	national Department of Basic Education
DBSA	Development Bank of Southern Africa
DCS	Department of Correctional Services
DPW	Department of Public Works
DPWI	Department of Public Works and Infrastructure
DSAC	Department of Sport, Arts and Culture
DTIC	Department of Trade, Industry and Competition
EPWP	expanded public works programme
Fedhasa	Federated Hospitality Association of South Africa
FFP	filtering face piece
GBV	gender-based violence
GIS	Geographic Information System
GPS	global positioning system
GRC	governance, risk and compliance
IDC	Industrial Development Corporation
IDT	Independent Development Trust
MCS	Modified Cash Standard
MinMec	committee of the minister and the members of the executive council
MoA	memorandum of agreement
NCC	National Command Centre
NCC-CMC	National Command Centre – Change Management Centre

NDoH / DoH	(national) Department of Health
NEIMS	National Education Infrastructure Management System
NGO	non-governmental organisation
NHBRC	National Home Builders Registration Council
NHLS	National Health Laboratory Service
NICD	National Institute for Communicable Diseases
NPO	non-profit organisation
NSFAS	national student financial aid scheme
PAYE	pay as you earn
Persal	Personnel and Salary System
PMTE	Property Management Trading Entity
PPE	personal protective equipment
PSU	project support unit
RFQ	request for quotation
Safe	Sanitation Appropriate for Education
Sahpra	South African Health Products Regulatory Authority
Samhs	South African Military Health Service
SANDF	South African National Defence Force
Sars	South African Revenue Service
Sassa	South African Social Security Agency
SBD	standard bidding document
SCM	supply chain management
Sefa	Small Enterprise Finance Agency
SLA	service-level agreement
SMMEs	small, medium and micro enterprises
Socpen	Social Pension System
SOP	standard operating procedure
SRD	social relief of distress
SRD grant	special covid-19 social relief of distress grant of R350
Ters	temporary employee/employer relief scheme
TRU	temporary residential unit
UAT	user acceptance testing
UIF	Unemployment Insurance Fund
VAT	value-added tax
WHO	World Health Organization

MESSAGE FROM THE AUDITOR-GENERAL

'Even in the midst of a crisis, transparency and accountability for government spending to the benefit of citizens cannot take a backseat.'

These were the words of the late auditor-general, Kimi Makwetu, when he presented the first special report on the financial management of government's covid-19 initiatives in September 2020.

And while the response to our first special report was positive and the actions taken in response to our findings and observations were commendable, more could have been achieved if the funds and related initiatives had been better managed.

The follow-up information and insights presented in this report are intended to empower oversight structures and enable executive leaders to focus on implementing and strengthening controls that support his call for transparency and accountability.

We dedicate this report to the late auditor-general, Kimi Makwetu.

Were it not for his untimely passing on 11 November, this second special report on the financial management of government's covid-19 initiatives would have been the last audit report released under his tenure, before he left the auditor-general's office on 30 November 2020 at the end of his seven-year term. As such, it contains the final governance messages he wanted to share with the country.

NEXT >

MENU

In releasing this report today, we have become Auditor-General Makwetu's mouthpiece – conveying the final wisdom and patriotic counsel he left for our country.

Tsakani Maluleke
Auditor-General

EXECUTIVE SUMMARY

The multibillion-rand relief package for the covid-19 response enabled the provision of additional hospital beds, medical equipment, medicines and quarantine sites, as well as community screening, testing and awareness programmes. It also paid for personal protective equipment for health facilities, schools and frontline workers, and for the emergency supply of water to communities and schools. Millions of vulnerable households were supported through grants, and unemployed people and businesses that struggled to continue during the lockdown period received funding to keep them afloat. It is commendable that such outcomes were achieved in a period of uncertainty when quick decisions had to be made based on the best available information and when officials were working under difficult circumstances.

The intention behind the covid-19 audit is to report any audit findings and observations on the payments, procurement and delivery of the relief package to the accounting officer or authority to enable them to respond to shortcomings immediately. These lessons learned will empower them to tighten controls to prevent a recurrence in future transactions. The response to our first special report was very positive and it is commendable that most accounting officers and executive authorities took action to address our audit observations and findings, implement the recommendations and, in some cases, even took disciplinary steps. The impact of these actions will not be fully apparent in this report, as most of the transactions we are reporting on took place before they were implemented. We recognise that some of the fixes will take time to address the underlying root causes of what we reported on.

As reported in the first special report, the relief package was introduced into an already compromised control environment. We have been reporting for many years on poor control environments where the basics of financial management and record keeping are not in place. We have highlighted the impact of instability in leadership, a lack of consequences for transgressions and the non-compliance with legislation, and opportunities for abuse in, the supply chain management processes. We have reported on projects and programmes that have failed because of poor planning, execution without oversight and a lack of coordination across government, fuelled by poor intergovernmental relations.

In this report, we, once again highlight the significant deficiencies in the procurement and contract management processes, and report on the inadequate controls meant to ensure that payments are only made for goods and services that are delivered at the right time, price and quality. During a pandemic, the consequences of a supplier not delivering items such as PPE is severe. We are concerned about unfairness in the awarding of government business and that sufficient care is not taken to protect against overpricing, financial loss, fraud and abuse of the system.

In the first special report, we reported that the information technology systems, processes and controls used in government were not agile enough to respond to the changes required. In this report, we again identify that the lack of validation, integration and sharing of data across government platforms resulted in people (including government officials) receiving benefits and grants to which they were not entitled. Although entities such as the South African Social Security Agency and the Unemployment Insurance Fund took definitive steps to improve their processes and address the invalid payments already made, this issue cannot be solved at auditee level alone. Government will need to take a well-considered, coordinated and centralised approach to address the legacy issues in the public sector information and communication technology environment.

Some of the initiatives did not achieve the desired results and were even abandoned because of failed coordination, monitoring and relationships across the three spheres of government. Where implementing agents were involved, we found weaknesses in coordination and monitoring which compromised delivery, transparency and accountability. Even though command centres and other oversight structure were put in place, we often found that the information provided to them and to executive authorities on the performance of the initiatives was flawed.

The first special report highlighted irregularities, poor controls and systems, and indicators of potential fraud. This report does the same. We undertook to share our findings, risk indicators and data analyses with the fusion centre, which has the investigative and law-enforcement abilities needed to dig deeper. We have already shared the information from the first report with the centre and will also provide them with the information they need from this report.

NEXT >
MENU ☰
PREV <

For any endeavour to succeed, everyone involved should share a common goal and understand and embrace the role they play in achieving that goal. All these role players should diligently execute their responsibilities, abide by the applicable rules and take full accountability for their part.

We found the affected ministers and members of the executive councils to be committed and ready to do what is necessary for the covid-19 initiatives to succeed and to support the accounting officers and authorities to address the shortcomings we identified. We did not have an opportunity to brief all the portfolio and public accounts committees in Parliament and the provincial legislatures. We have, however, taken note of the actions these oversight structures have taken to call accounting officers and executive authorities to account for the management of the funds entrusted to them. As an example, the Department of Defence has already commissioned a more detailed investigation into the procurement of medicines that is described in this report. The feedback from the Department of Planning, Monitoring and Evaluation, dealing with longer term actions such as the strengthening of government's systems, reporting and coordination of efforts, was similarly constructive.

In delivering the covid-19 initiatives, we have observed that where officials, leaders, sectors, implementing agents and institutions do their part and actively partner to strengthen the delivery value chain, the effectiveness of the initiative is enhanced and the risk of losses and abuse is reduced.

The public sector requires longer term, more effective solutions to deal with the underlying causes of people, systems and processes not delivering optimally. The report provides an opportunity to learn from what played out and use it to strengthen government's service offerings to the citizens of the country in the longer run because more could have been achieved if the funds and initiatives had been better managed.

We will continue to audit the covid-19 funding and follow up on the progress made in addressing the audit findings and observations from this report as part of our normal annual audit. In the course of the normal annual audit, we will also identify material irregularities from this process and commence with the processes required to deal with these irregularities.

Our third special report will have a local government focus and is planned for mid-2021.

INTRODUCTION TO THE REPORT AND SUMMARY OF FINDINGS

Government responded to the outbreak of the novel coronavirus, commonly known as covid-19, by redirecting resources to fund a R500 billion package for the health response and the relief of social and economic distress caused by the drastic measures that had to be taken to contain the spread of the virus.

In May 2020, we began a real-time audit of 16 of the key covid-19 initiatives introduced by government and of the management of R148,06 billion of the funds made available, as detailed in the table of funding at the end of this section.

This audit is unique in its approach. We are auditing payments, procurement and delivery as they occur and are reporting any audit findings and observations to the accounting officer or authority to enable them to deal with any shortcomings immediately and tighten controls to prevent a recurrence. Audit findings are what we report when we identified non-compliance with legislation, financial losses, misstatements of information, overpayments, incorrect payments, payments made for goods and services not received, etc. Through our audit, we also identify weaknesses in controls and processes, which creates a risk of fraud, abuse or error, or that the initiative will not deliver as intended – we term these audit observations.

The audit is performed by multidisciplinary teams – made up of fraud, information technology and sector-specific experts – that support the financial auditors to dig deeper and provide relevant insights on auditees' risks and operations.

The reporting approach is also unique. We are reporting regularly on the outcome of our real-time audit to the oversight structures through special reports.

The first special report on the financial management of government's covid-19 initiatives was tabled on 2 September 2020.

NEXT >
MENU ☰
PREV <

RESPONSE TO THE FIRST SPECIAL REPORT

The first special report dealt with the implementation and funding of 16 key initiatives implemented by government to provide both social and economic relief and a health response to the pandemic. The report included detail on the significant risks created by introducing a multibillion-rand relief package and rapidly implementing initiatives into a compromised control environment. Processes, criteria, needs and controls were not well considered and, in the haste of implementation, mistakes were made and opportunities created for abuse. The report also included our recommendations to accounting officers and authorities on addressing our audit findings and observations, as well as the responses we received to these recommendations.

We called on oversight structures to use the first special report to direct their oversight actions – to call accounting officers and authorities and executive authorities to account for how they implemented the covid-19 initiatives and managed the funds entrusted to them. We undertook to collaborate with the newly established fusion centre that deals with investigations into fraud and corruption relating to covid-19 by sharing our findings, risk-indicators and data analyses with them. The centre includes, among others, the Special Investigating Unit, the Directorate for Priority Crime Investigation (Hawks) and the Financial Intelligence Centre.

We also urged all role players to shift their thinking towards prevention, which is a far better approach than having to deal with lengthy and costly investigations and a loss of resources and public confidence. Shortly after the tabling of our report, we launched a preventative control guide to help oversight and accounting officers in this regard.

The response to the first special report was very positive. The real-time audit approach we followed and our ability to report comprehensively on the use of covid-19 funds within four months after the fiscal relief package was announced were commented on and appreciated inside and outside of government.

The majority of accounting officers and authorities of auditees where we reported shortcomings in controls and processes or matters that required investigation resolved to take action. In total, 37% of these auditees implemented all the actions they committed to in the first special report, with the remainder at least partially implementing the commitments since we engaged them in August 2020. However, the impact of these actions will not yet be fully apparent in this report, as most of the transactions we are reporting on took place before the committed actions were implemented.

We engaged with all the affected ministers and members of the executive council on the findings and observations in the first report to which they should pay attention. We found them to be committed and ready to do what is necessary for the covid-19 initiatives to succeed and to support the accounting officers and authorities to address the identified shortcomings.

We did not have an opportunity to brief all the portfolio and public accounts committees in Parliament and provincial legislatures. We have, however, taken note of the actions these oversight structures have taken to call accounting officers and executive authorities to account for the management of the funds entrusted to them.

On 23 July 2020, President Cyril Ramaphosa announced the establishment of the fusion centre aimed at collaborating and coordinating the efforts of state law enforcement institutions to prevent, detect and respond to allegations of corruption or related activities in respect of the covid-19 pandemic.

The fusion centre includes the Financial Intelligence Centre, Independent Police Investigative Directorate, National Prosecuting Authority, South African Police Services – Crime Investigation division and Detective services, Directorate of Priority Crime investigations, South African Revenue Service, Special Investigating Unit, State Security Agency and National Intelligence Coordinating Committee.

We briefed the fusion centre within a week of tabling the first special report, providing findings, information and data. We also held workshops to support the centre's process of identifying exceptions and irregularities highlighted through the covid-19 audit that warrant criminal investigation and law-enforcement interventions.

SCOPE OF THE SECOND REPORT ON THE COVID-19 AUDIT

As detailed in our first special report, we are using a real-time audit approach to audit the scoped-in covid-19 initiatives and spending as they occur. This means that we continued our audit after the first report was tabled by integrating forensic auditors, information system auditors, data analysts, performance auditors and financial auditors in a coordinated effort.

During lockdown, access to documentation, systems and government officials was limited, which caused delays in the first few months of the audit. By the time we released the first report, we still had significant work to do on some of the initiatives that had been slow to get off the ground or where our efforts had been hindered by limitations. For this second report, we focused on completing the outstanding work and following up on the progress made by all role players in implementing the actions to which they had committed.

Over the same period, we were balancing the completion of the annual regularity audit of national and provincial government. We therefore decided to focus this second report on the initiatives executed in these spheres of government and have only recently commenced with the audit of the covid-19 funds made available to local government. We also focused our effort on those initiatives where there had been significant progress in implementation. This means that we performed limited audit work on the following initiatives and this report only includes an update on the expenditure and the actions taken in response to the first special report:

- Support to municipalities
- Loans through the Industrial Development Corporation
- Compensation for occupationally incurred covid-19
- Temporary residential units
- Support to small businesses.

We will continue to audit the covid-19 funding and follow up on the progress made in addressing the audit findings and observations from this report as part of our normal annual audit. We will also identify material irregularities from this process and commence with the processes required to deal with these irregularities.

Our third special report will have a local government focus and is planned for mid-2021.

WHAT WE HAVE FOUND

Overall, R95,84 billion (65%) of the R148,06 billion we are auditing had been spent by 30 September 2020, according to the accounting records of the auditees. Most initiatives had been completed or were close to completion, while some had been abandoned or redirected.

The graphic on the following pages provides an overview of the initiatives included in the covid-19 audit, the expenditure to date in accordance with the auditees' accounting records and, broadly, what has been delivered from the initiatives as reported by the auditees.

Thereafter, we summarise our view on the progress made by the different role players in addressing the matters raised in the first special report and the audit findings and observations based on the further audit work to date, which are described in more detail in the specific initiative sections of the report.

NOTES

Status of initiatives included in scope of covid-19 audit

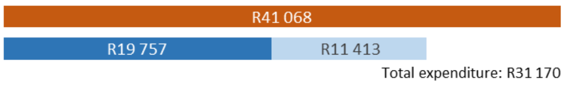
Social and economic relief

Support to vulnerable households

Payment of new social relief grants and top-up grants, as well as distribution of food parcels

South African Social Security Agency

An average of 5,26 million people received a special relief grant and 13,81 million received top-up grants. 146 936 food parcels were delivered

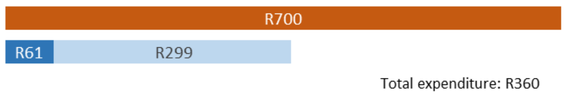


Farmers' relief

Support to qualifying financially distressed small-scale farmers

Department of Agriculture, Land Reform and Rural Development
Agricultural Land Holding Account

15 513 small-scale farmers received vouchers

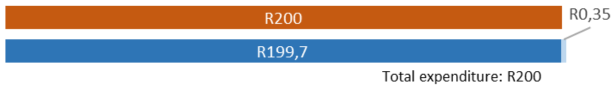


Tourism relief fund

Support to qualifying small, medium and micro enterprises in the tourism and hospitality sectors

Department of Tourism
South African Tourism

Relief was provided to 4 000 enterprises - initiative was concluded on 11 August 2020



Loans through the Industrial Development Corporation

Support to companies in distress due to covid-19

Industrial Development Corporation

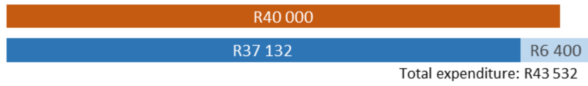
4 loans amounting to R160 million were approved by 30 September 2020

Wage protection

Payment of covid-19 temporary employee/employer relief scheme benefits to employees and employers who have closed operations, or part of operations, due to covid-19

Unemployment Insurance Fund

11,65 million claims were paid by 20 October 2020



Sport, arts and culture social relief fund

Support to qualifying artists, athletes and technical persons in the sports, arts and culture sectors

Department of Sport, Arts and Culture

Relief was provided to 4 169 artists, athletes and technical support persons

Support to small businesses

Support to qualifying small, medium and micro enterprises affected by covid-19

Department of Small Business Development
Small Enterprise Finance Agency
Small Enterprise Development Agency

Debt relief provided to 1 112 businesses and cards to 5 011 spaza shops

Compensation for occupationally incurred covid-19

Compensation for disability, illness and death resulting from occupational injuries and diseases incurred due to covid-19

Compensation Fund

251 claims were paid by 30 September 2020

Budget (R million) Expenditure up to 31 July (R million) Expenditure from 1 August to 30 September (R million)

Status of initiatives included in scope of covid-19 audit

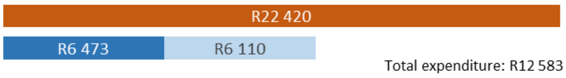
Health response and frontline services

Healthcare services

Support and treatment of those affected by covid-19 plus efforts to manage the spread of the virus

National and provincial departments of health
National Health Laboratory Services

Provide PPE to health facilities, NHLS laboratories conducted 1 657 557 covid-19 tests, 5 field hospitals were completed and commissioned across 8 provinces

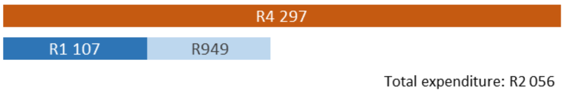


Defence frontline services

Deployment of soldiers, procurement of personal protective equipment, repatriation efforts, enforcement and implementation of health measures

Department of Defence

Deployed soldiers to help enforce law and order, repatriated SA citizens from Wuhan, procured PPE for frontline workers and medical equipment for health facilities, refurbished 1 Military hospital



Quarantine sites

Identification and provision of properties that can be used as quarantine sites and self-isolation sites by the public works sector

National and provincial departments of public works
Property Management Trading Entity

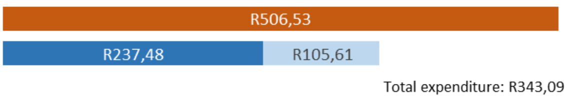
192 quarantine sites activated for use

Emergency supply of water to targeted communities

Provision of water tanks and water tankering services to communities

Department of Water and Sanitation
Rand Water
Other water boards

8 125 tanks were installed by 30 September 2020



Support to municipalities

Funding to municipalities for emergency water supply, sanitation, food and shelter for the homeless, basic services for indigents and community services

Local government (metros, district municipalities and local municipalities)

Achievement of initiative objectives to be determined

Basic education interventions

Provision of personal protective equipment to learners, educators and support staff as well as emergency supply of water and sanitation to selected public schools

National and provincial departments of education
Rand Water

R1 815 million was used to provide PPE to schools and R160 million spent on emergency supply of water and sanitation services – water tanks delivered to 2 624 schools

Expanded public works programme

Provision of job opportunities through utilising programme participants for screening, testing and educational campaigns

Department of Public Works and Infrastructure
Independent Development Trust

19 587 participants recruited by 30 September 2020

Temporary residential units

Provision of temporary residential units for resettlement of overcrowded settlements

National and provincial departments of human settlements
Local government (metros and local municipalities)
Housing Development Agency

Discontinued as part of covid-19 response – implementation of 95 re-blocking projects to continue as part of sector's normal upgrading of informal settlements programme

Budget (R million) | Expenditure up to 31 July (R million) | Expenditure from 1 August to 30 September (R million)

PAYMENT OF TEMPORARY EMPLOYEE/EMPLOYER RELIEF SCHEME BENEFITS

In the first special report, we reported on various incorrect temporary employee/employer payments made and flagged a high number of payments that required further investigation. These payments included payouts to people who are below the legal age of employment, deceased, working in government, receiving social grants, or receiving other Unemployment Insurance Fund benefits. The Unemployment Insurance Fund is using our first report as one of the critical tools to reflect on their overall control environment to identify areas for improvement. It is encouraging to note that, as of October 2020, the fund has recovered about R3,4 billion that had been paid out incorrectly.

The fund has made noticeable progress in implementing commitments made from our first report and continues to attend to the remaining deficiencies. Since most of these enhancements were made during September, we still identified payments that will need to be investigated, but there are far fewer.

As we reported in the first special report, the Unemployment Insurance Fund depends on the accuracy of the declarations and information submitted by the claimants (bargaining councils or employers), which exposes the fund to the risk of paying fraudulent claims. This risk was increased by the coverage of the temporary employee/employer relief scheme benefit being expanded to include employees who were not registered with the fund prior to the covid-19 pandemic. To respond to this exposure, the fund designed post-validation processes to verify the claims paid out. However, as at the time of auditing, this process, which includes the verification of employer and employee employment information, had not yet started.

We noted that the fund continued to process payments for national student financial aid scheme beneficiaries, individuals receiving grants from the South African Social Security Agency and non-South African citizens who were not previously registered with the fund. Our concern in this regard is not about legislative compliance, but rather about the elevated risk of fraudulent claims. We recommended that these claims be investigated as part of the post-validation processes.

PAYMENT OF THE R350 SOCIAL RELIEF OF DISTRESS GRANT AND TOP-UP GRANT

In the first special report, we reported that the South African Social Security Agency's outdated, limited databases and inadequate verification controls resulted in people who were not in distress receiving the social relief of distress grant, while those who were in distress were sometimes unfairly rejected. In response to the report, the agency stopped the payment of grants to the individuals we flagged who could also be receiving income from other sources until they can prove they are entitled to the grant.

The agency is also taking a conservative approach when evaluating applications for the grant - if a discrepancy is identified, the application is rejected and only if the applicant queries the rejection and provides proof of eligibility will the grant be activated or reinstated. On average, one third of the applications are rejected each month. We confirmed that by end of August, 0,92 million of the 2,95 million rejections had been approved and the beneficiaries had received the grants, backdated to the date from which they had been entitled thereto.

Although the agency embarked on a project to improve beneficiary validation, this has not yet borne fruit and we continued to identify beneficiaries that are potentially also receiving income from other sources. These sources include government pensions, social grants, Unemployment Insurance Fund payments, national student financial aid scheme bursaries and benefits from other covid-19 relief funds. By 31 August 2020, we had identified 67 770 beneficiaries who were potentially receiving income from these sources, which represents 0,32% of the approved applications. We also reported 1 513 beneficiaries who are directors of companies that have government contracts. According to the agency, all the flagged beneficiaries are currently being investigated and planning for an appropriate debt recovery process is underway.

The manual tasks for the top-up grants have been automated, and the change control procedures and guidelines have been amended to incorporate emergency processes. The implementation of these controls prevented the recurrence of the over- and underpayments made in May 2020.

RELIEF OF ECONOMIC AND SOCIAL DISTRESS

Farmers' relief

The Department of Agriculture, Land Reform and Rural Development provided relief for 15 513 financially distressed small-scale farmers in the form of vouchers for production input, with the last date to redeem the vouchers being extended to 31 December 2020.

In the first special report, we raised a number of concerns about the fairness of the application process and the selection of the suppliers used to redeem the vouchers, as well as inadequate record keeping and voucher reconciliation.

We find it encouraging that the department is re-evaluating all rejected applications based on the report. However, in some instances the commitments made to address the weaknesses we identified were not adequately and timeously implemented.

By comparing the beneficiary information against the databases of the agriculture portfolio and other public sector institutions, we flagged beneficiaries whose eligibility for the relief should be investigated. These include government employees, farmers who receive support from other agricultural support programmes and those who received other relief such as the temporary employee/employer relief scheme benefits and social grants payments. We were not able to obtain sufficient evidence that all the applications were received before the closing date and we identified some instances of beneficiaries not being scored correctly during the evaluation process, which we also reported in the first special report.

The provinces were inconsistent in how they determined the value of the vouchers, as the department did not provide clear guidelines. Through site visits in five of the provinces, we identified that officials did not perform the required inspections at some of the farms to verify the information provided by the farmers and how the vouchers were used. We also identified various control deficiencies in the payment, recording and reconciliation processes, and our audit efforts were delayed by information and documentation that was not provided on time.

Tourism relief fund

By 11 August 2020, the relief fund to support small, medium and micro enterprises in the tourism and hospitality industry had been paid out in full to 4 000 of the 7 291 applicants. In the first special report, we reported on the risks created by the amendments to the original criteria and process for determining which applicants qualify for relief, the inadequate review processes and the potential for human error. In auditing the application, approval and payment processes, we determined that these risks had materialised.

The original criteria comprised a scoring system, but this was changed to a first come, first served basis based on the order in which the applications were received. In the end, the applicants were approved based on the supporting documents they submitted, but, due to poor record keeping, the Department of Tourism could not provide us with the supporting documents for some of the approved applications. We also identified weaknesses in the verification of the validity of the supporting documents and in the review processes, as evidenced by expired tax certificates, some beneficiaries not being in business as per the Companies and Intellectual Property Commission, changes in banking information and a duplicate payment made to a beneficiary. The directors of some of the businesses that were beneficiaries of the fund are also state employees. However, the department maintained that such relationships would not disqualify an applicant from receiving funds.

Sport, arts and culture relief fund

Distribution from the relief fund remained slow, with only R80,1 million paid out (34% of the budgeted funds) to 4 169 beneficiaries by the end of September 2020. The payments went to assist artists, athletes and technical personnel affected by cancellation and postponement of sport and arts events, and to fund digital solutions that would allow artists and athletes to continue working during the lockdown.

In the first special report, we reported that the criteria used to evaluate applications were not specific enough to prevent payments to people with other sources of income, including relief from other funds. The criteria were subsequently clarified, but there were no mechanisms in place to prevent such payments being made. We identified 286 beneficiaries of the fund who potentially also benefitted from the temporary employee/employer relief scheme benefits, the social relief of distress grant and government pensions, or who were government employees.

Design deficiencies in the system used to capture applications resulted in duplicate payments being made to 72 beneficiaries and applications being processed with key information not being captured. Inadequate system validations and a lack of reconciliations further increased the likelihood of invalid or inaccurate payments being made.

In addition, we identified weaknesses in the procurement process for digital solution services and in the appointment and management of the payment agencies that support the implementation of the initiative.

Food parcels distributed by the South African Social Security Agency

The further audit work we performed amplified the concerns we raised in the first special report regarding the distribution of food parcels by the South African Social Security Agency. Inadequate planning, record keeping and guidelines resulted in inconsistencies in the delivery of food parcels, including people receiving food parcels multiple times, grant recipients also receiving food parcels and approved beneficiaries not receiving food parcels. The lack of documentation and reconciliations also exposed the scheme to the risk of abuse.

In the first special report, we reported that the distribution process could have been significantly cheaper if the agency had used the non-profit organisations used by the Department of Social Development instead of appointing service providers. Our audit of the procurement process to appoint these service providers identified a number of weaknesses, as well as indicators of collusive bidding, which the South African Social Security Agency undertook to investigate. The agency has since cancelled the appointment process and this method of relief will not continue in future.

PERSONAL PROTECTIVE EQUIPMENT (PPE)

The bulk of the government's procurement of PPE is taking place in the health and education sectors. A multidisciplinary team of financial auditors, forensic auditors, information technology auditors and health experts across all provinces and at our national office audited the entire PPE process - from determining the need for PPE to the procurement and payment process, as well as the recording, storage and distribution of PPE. We also paid attention to the quality of the PPE delivered. We did not audit all the PPE procured or visit all the sites where PPE was stored and delivered. Instead, we selected a sample of contracts and transactions, focusing on those that displayed certain risk indicators, and visited a representative selection of sites.

In the first special report, we shared the difficulties we faced in obtaining all the information we needed to audit PPE and that the audit had been plagued by delays. Despite this, we were already able to report on the worrying picture emerging on overpricing, unfair processes, potential fraud and sidestepping of supply chain management legislation. We also reported on delays in the delivery of PPE and on quality concerns that could have been avoided through better planning and management of suppliers.

Accounting officers across the country responded positively to our first report and have either already implemented the actions to which they committed or are in the process of doing so. It will also take time to correct the systemic and deeply rooted problems we have been reporting on for many years. Thus the impact of the improvements made will not yet be evident. For this report, we audited the procurement and payment process, which was completed before our first special report, and provinces and sites on which we did not previously report.

Although we were given more access to the information we required during this audit we still experienced difficulties in obtaining sufficient and appropriate documents to audit some of the procurement processes in the health sector as management prioritised the work in response to the pandemic and therefore did not respond in good time.

Our key findings and observations on PPE, which apply to both the health and education sectors, are as follows:

Procurement process

A competitive, fair and transparent procurement process is intended to enable government to obtain the best quality goods and services at the lowest prices and to give service providers equal access to government business. Although emergency procurement processes were allowed for procuring PPE, they were only intended to be applied in specific circumstances and did not provide a blanket deviation for all legislated requirements for a competitive and fair procurement process. In both sectors, we continued to find instances where competitive processes were not followed, resulting in contracts being awarded to a specific supplier or group of suppliers without the necessary motivation or approval for such deviations.

Through the National Treasury instruction notes, it was made clear that the standing requirement to favour local producers must be applied. We did not see this requirement applied consistently in all PPE procurement processes. The importance of ensuring that the tax affairs of suppliers are in order also fell by the wayside for many of the PPE contracts awarded, reducing the incentive for government suppliers to pay their dues.

Businesses that provide PPE across the country were not treated in a fair and equal manner, as some were disqualified because they did not comply with the requirements, such as tax clearance certificates, declarations of interest, registrations as companies and small businesses, and their status as local producers, while others were not. For some procurement processes, we could not obtain sufficient evidence to justify the decisions made to disqualify some bidders or to favour specific bidders.

Quality, price and delivery of PPE

The National Treasury determined the specifications and market-related prices for PPE items. Through instruction notes, the National Treasury made it a requirement for public sector institutions to purchase the specified PPE at or below these prices and provided for approval processes if there is no choice but to procure at a higher price.

In the first special report, we reported on instances of PPE being procured at prices that were higher than these market-related rates. Based on work we have done since the report, it is becoming apparent that such higher prices are prevalent in both the health and education sectors. Not only did the sectors potentially suffer financial losses as a result, this also demonstrates unfairness in the procurement processes as some suppliers that quoted at high prices were given contracts while others were not.

Some suppliers delivered PPE that did not meet the required specifications or was not what they had been contracted to deliver, or they under-delivered or delivered late. Despite this, most of the departments still paid the suppliers. Poor contract management and significant deficiencies in the order, delivery, receipt and payment processes further exposed the health and education sectors to financial loss and resulted in health workers and schools not always receiving the PPE they required.

Storage and distribution

In the health sector, PPE was stored at bulk storage facilities, such as medical depots, and at health facilities. In the education sector, it was mostly stored in district offices and schools. We identified ineffective stock management processes, inadequate storage facilities and poor storage practices in both sectors.

We acknowledge that the emergency procurement of PPE in bulk placed pressure on all aspects of storage and distribution, but the sectors' inability to respond to the challenges impacted the effectiveness of PPE distribution in some provinces and exposed the PPE to loss.

EMERGENCY SUPPLY OF WATER

The Department of Water and Sanitation and the Department of Basic Education identified the need for emergency water supplies to communities where there is unreliable or no water supply and to schools without water and sanitation facilities. The departments provided the funding, determined where emergency water was required and appointed Rand Water as an implementing agent.

We visited a selection of communities and schools to determine whether the water tanks and tankering services paid for were in place and to inspect the quality of the installations. We also considered the needs analyses performed and audited the procurement and payment processes for the suppliers of the water tanks and water tankering services.

Emergency water supply to communities

We could not reconcile some of the information on the registers of the water tanks with what we found at the sites. We also could not match the information on the registers of the water tanks to the original needs analyses performed. Some registers included information that was incomplete or inaccurate, or tanks that were not funded by the covid-19 initiative. The poor record keeping also affected the quality of the information reported to the National Water Disaster Command Centre.

We could not find some of the tanks at the locations specified in the registers and there are unconfirmed claims that the tanks were moved by the municipalities. At some of the sites we found tanks that were empty and tanks with poor-quality installations.

The shortcomings that we have often observed in the coordination, monitoring and oversight between the different role players in the water services sector – departments, water boards as implementing agents and municipalities – were again apparent.

Emergency water supply to schools

The analyses performed to determine which schools needed water tanks and the required capacity of the tanks were incorrect because the provincial departments provided unreliable data. As a result, a large proportion of the schools that received water tanks did not need them and some schools that received water tanks were not on the original project list. For the delivery of water to schools, Rand Water's registers of the water tanks were inadequate and inconsistent with what we observed on site visits. We also observed similar poor installations of water tanks to what we found in the communities.

We identified instances of non-compliance with legislation in the procurement processes followed by Rand Water, as well as indications of unfairness in the appointment processes. In addition, the payments made for some of the water tankering services were questionable because supporting documentation was inadequate, calculation errors were made and payments were made for water supplies to schools and other sites that were not part of this programme.

FRONTLINE SERVICES AND HEALTH RESPONSE TO COVID-19

Field hospitals

The provincial health departments were responsible for analysing the existing hospital capacity and establishing the additional number of beds needed. In Limpopo, North West and the Western Cape, the provincial health departments implemented the field hospital projects, while in Gauteng, KwaZulu-Natal, the Eastern Cape, Mpumalanga and the Free State, this was done by the provincial public works departments. As the numbers of positive cases stabilised, the projects that were in the procurement, planning or design phases were halted.

We identified non-compliance with legislation in the appointment process of some of the contractors and suppliers. This non-compliance included competitive procurement processes not being followed and all required declarations and bidding documentation not being requested and evaluated. The contracts were not always concluded and approved in the manner required and we raised concerns about how some of the contracts were managed and enforced. Sufficient control was not always exercised over the payment process, which resulted in instances of overpayment and payment for goods and services not received or outside the contract.

We visited eight of the field hospital sites and reported delays in the completion and commissioning of two sites (Free State and KwaZulu-Natal).

Quarantine sites

The original target of 6 123 quarantine sites was not pursued as the demand for such facilities has been relatively low - only the 192 sites already activated by the end of July continued to be used when the need arose. As almost all the sites are still active, the decommissioning phase will be a key focus of our ongoing audit. It is vital that the public works sector has a decommissioning plan or strategy in place to ensure that government assets will be transferred to other organs of state once quarantine sites are closed down.

Although an effort was made to develop appropriate controls to prevent the weaknesses reported in the first special report, these controls were not fully implemented and effective. This resulted in repeat findings on matters such as hotels charging rates above the allowable limits, overpayments and the use of sites that had not been approved by the Department of Health. The lack of coordination between, and accountability in, the public works and health sectors remained evident during our site visits. We were also unable to obtain the necessary evidence of approvals and to support payments made for the use of some quarantine sites.

Expanded public works programme

The expanded public works programme was announced in March 2020 to provide both frontline services and much-needed job opportunities. A targeted 25 000 workers were to be sourced to assist the Department of Health with screening, testing and educational campaigns. The scope of the project was recently amended to exclude the screening and testing initiatives and to provide for the redeployment of 1 658 participants to focus on initiatives in response to gender-based violence. As reported in the first special report, there were delays in deploying the participants. However, by the end of September 2020, the programme was operational across the country and 19 587 participants (78% of the targeted 25 000) had been recruited.

In response to the concerns raised in the first special report, a number of actions were taken, including the strengthening of the agreements between the Department of Public Works and Infrastructure, the Independent Development Trust and the non-profit organisations responsible for implementation. However, because of the limited timeframe for the effective implementation of these improved controls, we again identified that the participants did not receive adequate monitoring and training from the non-profit organisations, and that not all participants were provided with the PPE they required. We also identified delays in the payment of wages to participants by some non-profit organisations. For the programme to achieve its ultimate objective, leadership will need to commit to providing the oversight necessary to successfully implement all enhanced controls and eradicate the remaining identified shortcomings.

Defence frontline services

The Department of Defence repatriated South African citizens from China's Wuhan province in March 2020 and deployed soldiers to support the enforcement of law and order. As part of its covid-19 responses, the department also procured medical equipment, PPE and medicines, and refurbished One Military Hospital.

We identified a number of shortcomings in the planning, procurement, transportation, warehousing and recording of medicines - in particular the procurement and import of an unregistered medical drug from Cuba. Approximately 40% of the vials were exposed to temperature variations that could have compromised the integrity of the drug, which may result in these drugs not being useable and the money spent being wasted. The department has already commissioned an investigation into this matter. We also observed inadequate planning for the procurement of medical equipment and PPE.

The department's procurement processes for PPE displayed similar non-compliance and weaknesses to those observed in the health and education sectors, namely procurement at higher than market-related prices and attention not being paid to the tax status of bidders or to the need to give preference to local suppliers. The manual process used to manage the receipt, accounting and distribution of PPE exposed the department to losses and a case of theft of PPE from a main depot is currently being investigated.

CONTENT OF THE REMAINDER OF THE REPORT

The section that follows includes a table on the funding provided for the covid-19 initiatives and the expenditure to date, as well as detail on which parts of the funding we are auditing.

The rest of this report provides an overview of the status of implementation of the initiatives, the status of our audit and the progress made in addressing the matters reported in the first special report. For those initiatives we audited, we also include the key audit findings and observations reported to the accounting officers and authorities, together with the actions they have committed to take in response thereto. A combined chapter on all the initiatives on which we are not reporting in detail is also provided at the end of the report.

TABLE ON FUNDING AND EXPENDITURE

Allocation	Purpose of allocation	Budget (R million)	Included in audit (R million)	Funds expensed as at 31 July (R million)	Fund expensed as at 30 September (R million)	Remaining funds (R million)
R500 billion fiscal relief package						
Support to vulnerable households	Payment of temporary grants to relieve social distress through top-up grants for existing beneficiaries and a new special covid-19 grant of R350	40 891	40 891 (100%)	19 580 (48%)	30 993 (76%)	9 898 (24%)
Wage protection	Payment of covid-19 temporary employee/ employer relief scheme benefits to employees and employers who have closed operations, or part of operations, due to covid-19	40 000	40 000 (100%)	37 132 (93%)	43 532 (109%)	-3 532 (-9%)
Healthcare services	Support and treatment of those affected by covid-19 plus efforts to manage the spread of the virus	21 544	21 544 (100%)	6 473 (30%)	12 579,8 (58%)	8 964 (42%)
Support to municipalities	Funding to municipalities for emergency water supply, sanitation, food and shelter for the homeless, basic services for indigents, and community services	20 034	20 034 (100%)	0 (0%)	156 (1%)	19 878 (99%)
Defence frontline services	Deployment of soldiers, procurement of personal protective equipment, repatriation efforts, enforcement and implementation of health measures	4 297	4 297 (100%)	1 108 (26%)	2 056 (48%)	2 241 (52%)
Quarantine sites	Identification and provision of properties that can be used as quarantine and self-isolation sites by the public works sector	829	829 (100%)	48 (6%)	158 (19%)	671 (81%)
Basic education interventions	Provision of personal protective equipment to learners, educators and support staff, and emergency supply of water and sanitation to selected public schools	5 862	5 666 (97%)	1 389 (25%)	1 975 (34%)	3 691 (65%)
Support to small businesses	Support to qualifying small, medium and micro enterprises affected by covid-19	1 404	1 404 (100%)	91 (6%)	107 (8%)	1 297 (92%)

NEXT >
MENU
PREV <

Allocation	Purpose of allocation	Budget (R million)	Included in audit (R million)	Funds expensed as at 31 July (R million)	Fund expensed as at 30 September (R million)	Remaining funds (R million)
Farmers' relief	Support to qualifying financially distressed small-scale farmers	763,6	700 (92%)	61 (9%)	360 (51%)	340 (49%)
Expanded public works programme	Provision of job opportunities through using programme participants for screening, testing and educational campaigns	771	771 (100%)	35 (5%)	97 (13%)	674 (87%)
Sport, arts and culture social relief fund	Support to qualifying artists, athletes and technical persons in the sport, arts and culture sectors	235	235 (100%)	52,7 (22%)	80,1 (34%)	154,9 (66%)
Other allocations for support, job creation and protection of small and medium enterprises	Allocations to various departments to fund support to small businesses and job creation	3 123,4	Not included			
Support to public entities	Allocations to public entities where revenue has been affected by covid-19 (e.g. South African National Roads Agency, Passenger Rail Agency of South Africa and South African National Parks)	5 964	Not included			
Other covid-19 interventions	Allocations to various departments for other covid-19-related interventions	16 707	Not included			
Land Bank investment	An equity investment for the Land Bank	3 000	Not included			
Provisional allocation	A provisional general allocation for covid-19-related fiscal relief – specific allocations still to be made	19 575	Not included			
Measures of income support (tax relief)	Provision of temporary tax relief such as tax deferrals and postponement of some payments to the South African Revenue Service (e.g. employee tax)	70 000	Not included			
Credit guarantee scheme	A scheme to provide private bank loans, guaranteed by government, to eligible businesses	200 000	Not included			
Not appropriated	Funds that have not yet been appropriated	45 000	Not included			
Total	**R500 billion fiscal package**	**500 000**	**136 371 (27%)**	**65 970 (48%)**	**92 094 (68%)**	**44 277 (32%)**

Allocation	Purpose of allocation	Budget (R million)	Included in audit (R million)	Funds expensed as at 31 July (R million)	Fund expensed as at 30 September (R million)	Remaining funds (R million)
Other funds subject to auditing						
Healthcare services – additional funding	Disaster grants (personal protective equipment specifically) and US government donations	876	876 (100%)	0 (0%)	2,7 (<1%)	873,3 (100%)
Food parcels	Distribution of food parcels by the South African Social Security Agency	177	177 (100%)	177 (100%)	177 (100%)	0 (0%)
Repurposed grants to municipalities	Grants to municipalities prioritised for various covid-19-related initiatives	3 903	3 903 (100%)	1 936 (50%)	2 038 (52%)	1 865 (48%)
Compensation for occupationally incurred covid-19	Compensation for disability, illness and death resulting from occupational injuries and diseases incurred due to covid-19		No specific budget for covid-19 claims; R0,40 million had been paid out as part of normal budget by 31 July 2020. The expenditure incurred from 1 August to 30 September 2020 amounted to R1,09 million. The year to date expenditure as at 30 September is therefore R1,49 million.			
Tourism relief fund	Support to qualifying small, medium and micro enterprises in the tourism and hospitality sector	200	200 (100%)	199,7 (99,9%)	200 (100%)	0 (0%)
Quarantine sites – additional funding	Identification and provision of properties that can be used as quarantine and self-isolation sites by the public works sector, funded through additional funding from the sector departments	2 293	2 293 (100%)	533 (23%)	681 (30%)	1 612 (70%)
Additional support to small businesses	Support to small, medium and micro enterprises affected by covid-19, funded by the Department of Trade, Industry and Competition through the manufacturing competitiveness enhancement programme as well as savings and reprioritisation across the small business portfolio	360	360 (100%)	181 (50%)	202 (56%)	158 (44%)
Loans through the Industrial Development Corporation	Support to companies in distress due to covid-19	2 500	2 500 (100%)	0 (0%)	46,7 (2%)	2 453 (98%)
Emergency supply of water to targeted communities	Provision of water tanks and water tankering services to communities	506,53	506,53 (100%)	237,48 (47%)	343,09 (68%)	163 (32%)

Allocation	Purpose of allocation	Budget (R million)	Included in audit (R million)	Funds expensed as at 31 July (R million)	Fund expensed as at 30 September (R million)	Remaining funds (R million)
Temporary residential units*	Housing development grant used for provision of temporary residential units as part of the resettlement of informal settlements	872	872 (100%)	43 (5%)	59 (7%)	813 (93%)
Total	**Additional funds**	**11 688 (100%)**	**11 688 (100%)**	**3 307 (28%)**	**3 749 (32%)**	**7 938 (68%)**
Overall total		**511 688**	**148 059 (29%)**	**69 277 (47%)**	**95 843 (65%)**	**52 215 (35%)**

**Excludes funding of R554 million from urban settlement development grant which is included in repurposed grants to municipalities.*

Reconciliation between expenditure as indicated in first special report and 31 July expenditure is as follows

Details	Expenditure (R million)
Expenditure as per special report one	68 872
Add expenditure (where expenditure only reported until June)*	405
Expenditure as 31 July 2020	**69 277**

*** Breakdown of increase in expenditure from what was reported in special report one is represented as follows:**

Small business	41
Expanded public works programme	9
Sport, arts and culture social relief fund	14
Repurposed grants to municipalities	261
Additional support to small businesses	80

SUPPORT TO VULNERABLE HOUSEHOLDS

Purpose of initiative

Payment of new social relief grant and top-up grants as well as distribution of food parcels to support households most vulnerable to the impact of the pandemic

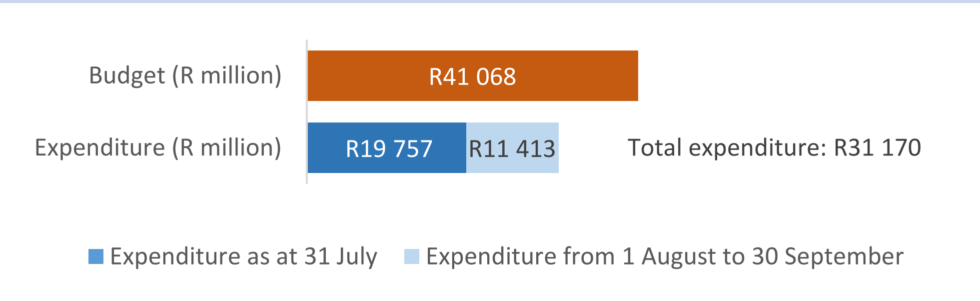
Auditees

- South African Social Security Agency
- Department of Social Development

Focus of our audit

- Payment of R350 social relief grant to distressed adults who are unemployed and not receiving any other form of income
- Payment of an additional R500 child grant and other top-up grants to elderly, war veterans, foster care and people with disabilities
- Distribution of food parcels

Budget and expenditure



NEXT
MENU
PREV

STATUS OF IMPLEMENTATION OF INITIATIVE

The relief for social distress initiative covers the use of funds made available for social and economic relief by the national Department of Social Development through the South African Social Security Agency (Sassa).

SPECIAL COVID-19 SOCIAL RELIEF OF DISTRESS GRANT OF R350

The special covid-19 social relief of distress grant of R350 (SRD grant) is still being validated against other databases. By 30 September 2020, Sassa had made payments for many of the approved applicants for May, June, July and August. The payment delays are due to Sassa's ongoing monthly validations against other databases and because some applicants have not yet provided correct banking details. On 15 October 2020, the president announced that the SRD grant would be extended for another three months, ending in January 2021. As per the medium-term budget policy statement and the finance minister's announcement, R6 800 million was redirected from the public employment programme allocation to the SRD grant. The available budget will be sufficient to cover the grants for the remaining months.

Rejections

Sassa has a conservative approach for dealing with rejections. Once a discrepancy is identified through verification against databases or based on our findings, the applicant is declined going forward and no further payments are made. Sassa only revisits the rejection to verify its validity after the applicant queries it.

We followed up on the grant applicants that were rejected to determine whether these rejections were valid. Based on our evaluation, we identified that applications were mainly rejected because of inaccurate and outdated databases or because the personal information provided by the applicants did not match their identification documentation. The average rejection rate is approximately 33% per month. Based on analysis we received from Sassa, the reasons for grant applications being rejected are: alternative income sources (24%), existing Sassa grants (23%), identity verification failures (16%), IRP 5 registered (20%), national student financial aid scheme (NSFAS) registered (5%), Unemployment Insurance Fund (UIF) registered (8%) and other databases (4%). From our analysis of the data as at 31 August 2020, we confirmed that out of the 2.95 million rejections, 0.92 million applicants have since been approved and have received the payments due to them. We also confirmed that applicants that had now been approved had received their grants from the date from which they were entitled to the grant. Sassa continues to evaluate the objections and/or rejections as and when new information is received because each applicant is verified on a monthly basis and could be approved one month and rejected in subsequent months if they are determined to be receiving income.

Status of application and payments made

The status of applications received and grant applications and payments made as at 30 September 2020 is indicated in the table below. The information is based on data obtained from the SRD grant system.

Status of applications

Month	Total applications per month (million)				Total applicants paid per month (million)						Funding (R million)		
	Received accumu-lated	Approved	Rejected	Not processed	May	Jun	Jul	Aug	Sep	Total	Total budget	Amount spent	Available balance
May 20 20	6,61	4,42	2,17	0,02	0,11	2,57	1,70	0,01	0,04	4,42		**1 547**	
Jun 20 20	7,52	5,06	2,45	0,01	-	-	3,96	0,63	0,15	4,74		**1 659**	
Jul 20 20	8,35	5,57	2,77	0,01	-	-	3,96	0,74	0,15	4,84	**11 782**	**1 694**	
Aug 20 20	8,96	5,98	2,95	0,03	-	-	-	-	2,83	2,83		**991**	
Sep 20 20	9,15	-	-	9,15	-	-	-	-	-	-		-	
TOTAL SPENT											**11 782**	**5 891**	**5 891**

By 30 September 2020, 100% of approved applications for May had been paid, as well as 94% of approved applications for June, 87% for July and 47% for August. There were delays in payment of the August and September approved applicants as the monthly validation process against other databases and banking accounts verifications was only completed by end of September and payments for those approved applicants not paid by end of September were made in October 2020.

TOP-UP GRANTS

The top-up grant consists of the child support grant for existing beneficiaries that was increased by R300 per child for May 2020 only and R500 per caregiver from June to October 2020. Old age, war veterans, disability, care dependency and foster child grants were increased by R250 per month from May to October 2020. There are approximately 7,1 million caregivers taking care of about 13 million children. This is the main reason for the reduction in the number of beneficiaries paid per month from May to June 2020 and thereafter.

Number of top-up grant beneficiaries and related payments.

Month	Total beneficiaries paid per month (million)	Total amount paid per month (R million)	Total budget for six months (R million)	Total expenditure until 30 September (R million)	Available balance (R million)
May 2020	18,57	5 293	**29 109**	**25 103**	**4 006**
June 2020	12,74	4 973			
July 2020	12,81	4 996			
August 2020	12,44	4 911			
September 2020	12,50	4 929			

For October 2020, approximately R4 953 million is expected to be paid to about 12,6 million beneficiaries, which could result in a shortfall of R946 million.

DISTRIBUTION OF FOOD PARCELS

The distribution of food parcels was a temporary initiative that was in place until the SRD grant was implemented. All new applications for social relief after 11 May 2020 were channelled to the SRD grant.

Food parcels were distributed after manual application forms had been completed and approved, as per the ministerial directions signed on 30 March 2020. Sassa has completed the distribution of food parcels as part of covid-19 relief response and is in the process of capturing all required information on the social pension system (Socpen) and resolving any anomalies identified. Once this has been completed, Sassa will reconcile the applications, orders and distributions. This reconciliation is necessary because a manual process was followed for the application for and distribution of food parcels during the pandemic.

The following table gives a summary of food parcels distributed according to the information we received from Sassa, which we are currently auditing.

Number and value of food parcels delivered

Entity	Number of food parcels distributed	Amount paid (R million)
Sassa	146 936*	177

**This is subject to the reconciliation of Socpen information*

AUDIT STATUS

SRD GRANT

Sassa implemented an SRD system in May 2020 to cater for the SRD grant. Our review focused on testing whether the successful applicants were entitled to the grant, meaning that they were indeed unemployed, did not receive any other form of income or support from government sources, and were in distress. We performed our verifications up to 31 August 2020 against various databases available to us. However, there may be additional applications that are not eligible for the grant as we cannot verify against all government databases.

We also reviewed the control environment and system-enabled controls. Based on our analysis of the data obtained from the SRD system, we confirmed the number of approved applications and that no applicants were paid a grant amount that is higher than R350 or were paid for more months than were approved, showing that payments made were in line with the regulations. At the date of this report, we are continuing with our audit and conducting detailed testing on applications against the qualifying criteria and the payments made.

As part of our risk assessment process, we actively scanned the media and whistle-blowing reports and obtained an understanding of the processes and control environment associated with the SRD grant to identify possible fraud risks.

In the first special report, we reported on possible fraud risks to which management should pay attention. Subsequently, we focused our efforts on identifying the control weaknesses that could give rise to these reported fraud risks and communicated these control weaknesses to management. We identified control weaknesses in the registration and payment processes and in the limited use of proactive measures to prevent collusion, which increases the risk of fraud in the payment of beneficiaries if it is not addressed. We also assessed whether management has improved the identified control weaknesses to mitigate the reported fraud risks.

Management committed to address the control weaknesses and has started to improve the control environment by implementing additional controls. Some of the control weaknesses have not yet been fully addressed.

TOP-UP GRANTS

Our review focused on verifying the validity and accuracy of the top-up grants. We have audited the top-up payments up to 30 September 2020. We did not identify any findings on the top-up grants during this period. We will continue to verify the validity and accuracy of the top-up grants for October 2020 and will also ensure that the November grant payments exclude the top-up portion for each grant type.

In the first special report, we followed a similar risk assessment process for the top-up grants and reported on the possible fraud risks. We subsequently focused on identifying control weaknesses that could give rise to the fraud risks and communicated these control weaknesses to management. We identified control weaknesses predominantly in the registration and payment processes. We also followed up on whether management has improved the control weaknesses identified to mitigate the reported fraud risks.

Management has not yet addressed the identified control weaknesses relating to the application and payment processes and to the limited use of proactive measures to prevent collusion, which increases the risk of fraud or abuse in the payment of beneficiaries if it is not addressed.

DISTRIBUTION OF FOOD PARCELS

As part of our audit process, we completed the audit work on the monitoring and reporting on the food parcel distribution by all nine Sassa regional offices and did a detailed document review. For the capturing of manual information on Socpen, we were unable to complete the audit on the reconciliation of food parcels procured, delivered and distributed because Sassa was still finalising its reconciliation of the information. The food parcel distribution was completed and Sassa needs to prioritise finalising the Socpen capturing to be able to reconcile all applications, orders and distributions. We will continue to audit once the Socpen information has been captured and Sassa has completed its reconciliations.

As part of our fraud risk identification processes, we reported in the first special report on potential fraud risks to which management should pay attention. We subsequently focused on identifying control weaknesses that could give rise to these fraud risks and communicated these control weaknesses to management.

We identified control weaknesses in the procurement processes relating to the planning and extension of expired contracts and to the adequate bid evaluation processes. Other processes affected by the identified control weaknesses relate to the monitoring controls for determining the quantity of food parcels to be procured as well as the distribution and reconciliation of food parcels to the beneficiaries receiving the food parcels. The impact of these control weaknesses is covered under the key audit findings and observations section in the distribution of food parcels section of this report.

ACTION TAKEN IN RESPONSE TO PREVIOUS REPORT

Sassa has implemented the commitments made by the chief executive officer (CEO) in response to the first special report. The social development minister, the director-general of the Department of Social Development and the Sassa CEO indicated their appreciation of the first special report. They also committed to take all necessary actions to ensure that the recommendations highlighted in the first report are implemented and that payments are only made to beneficiaries who are entitled to the grants. The portfolio committee has not taken any specific actions as there have not been any engagements with the portfolio committee on the first special report.

SRD GRANT

Sassa has adopted a standard approach to apply all findings we report on validations for the SRD grant as a standard matter going forward and to consider all applicants for possible exclusion for payments in subsequent months. However, since Sassa expects the risk of including applicants not entitled to the grant to be greater than the risk of excluding them, the agency has decided to exclude those applicants identified in the previous month (exclusion testing) until they can prove they are entitled to the grant. The applicants must then lodge an objection and, depending on the applicant's feedback, Sassa will perform further validations through a reconsideration process before rectifying the payments for successful applicants. Sassa is evaluating and validating all applications against updated databases on a monthly basis. This includes evaluating applications that were previously approved or rejected to determine whether or not they are either entitled to the grant for that month.

In August 2020, Sassa implemented a means test with the assistance of various banks specifically for the reconsideration of applicants. Subsequent to this, on 28 September 2020, the social development minister and the department issued an instruction to suspend means testing because the process tracks funds going into bank accounts but cannot distinguish between income and donations from family members or other concerned citizens. Sassa could also only engage with six of the 24 registered banks to conduct the means test, which made the process inherently unfair as applicants who bank with any of the other banks would not be subject to the same rules. The cancellation of the means testing was gazetted in Government Gazette number 43777. Sassa's CEO has indicated that the agency has put processes in place to recover payments made to individuals not entitled to the grant and has committed to recovering these payments.

Management indicated that some of the potential fraud risks we communicated in our previous special report were already included in the Sassa risk register and that the agency will continue to implement adequate controls, especially preventative controls for fraud risks, to improve the SRD grant process. In line with this commitment, management has been regularly implementing and improving controls for the relatively new automated system that underpins the SRD grant. Some of these efforts relate to the negotiations to extend the number of available and updated databases used to verify beneficiaries and to improve the controls for the various payment options available to beneficiaries.

TOP-UP GRANTS

Sassa has implemented preventive controls to ensure that no overpayments or underpayments occur. The manual tasks that resulted in duplicate payments being made in May 2020 for the top-up grants have been automated, and the change control procedures and guidelines have been amended to incorporate emergency processes. By July 2020, Sassa had also developed a process to ensure additional segregation of duties is implemented where management needs to apply manual changes.

To further strengthen the control environment and to mitigate the fraud risks reported, Sassa committed to implement biometric authentication systems for both staff and beneficiaries. The system for Sassa staff will be implemented by 31 March 2021, while the agency will begin implementing the system for beneficiaries on 1 April 2021. For the original grant and the additional top-up grant, Sassa also committed to implement manual controls to ensure that South African citizens who could not provide legitimate identification documents at registration and refugees who did not have a valid refugee status did not receive more than six months' worth of payments.

We will test the effectiveness of the controls and initiatives once they have been implemented.

DISTRIBUTION OF FOOD PARCELS

Management indicated that it will not further improve the control weaknesses for the provisioning of food parcels, as more efficient and cost-effective ways of providing support must be found and implemented without delay. Consequently, the recently issued tender to supply and issue SRD relief parcels for a three-year period in all nine provinces was cancelled. The cancellation of the tender was due, in part to our proactive covid-19 audit, which identified possible fraud risks and associated control weaknesses, excessive administration costs and challenges in managing the distribution of food parcels, as well as Sassa's concern for the dignity of the beneficiaries. The National Treasury supported the tender cancellation.

Sassa is also finalising the specifications for the appointment of service provider/s to produce and issue SRD e-vouchers. Sassa has made progress in capturing the food parcel information on Socpen, but the capturing is not yet complete and the resultant reconciliation has not yet been done. Sassa has also not yet performed the data analytics procedures it committed to on the Socpen data to determine whether beneficiaries benefitted from the SRD food parcel while receiving other forms of grant.

SRD GRANT

KEY AUDIT FINDINGS AND OBSERVATIONS

1. Non-qualifying applicants approved and paid SRD grant

Sassa has embarked on a project to validate beneficiaries. A number of the beneficiaries we highlighted in the first special report have subsequently been declined and the agency followed up on the others to ensure that only valid beneficiaries are receiving the grant. We continued to provide information on beneficiaries who were potentially not eligible to receive the grant because they had other sources of income, including other social grants, a government pension, UIF payments, NSFAS bursaries and benefits from other relief funds such as the spaza shop support programme and the relief fund for small-scale farmers. By 31 August 2020, we had identified 67 770 approved applicants who had received the grant and were not entitled to it, including the 32 642 we reported previously. The 67 770 payments to applicants who are not entitled to the grant and that are under consideration by Sassa account for approximately 0,32% of all approved applications until the end of August 2020. Sassa should investigate and follow up on these 67 770 applications as this could result in a payment of R23.72 million to individuals who do not qualify for the grant.

We also checked the identity numbers of approved applicants against the directors of companies that do business with the state. We identified 1 513 approved applicants who are directors of companies that had received income from government contracts and there is a possibility that these directors are not in distress and should not have received the grant.

Recommendations

We recommend that every month, management validate the identity numbers of applicants against the most recent monthly data obtained from the Department of Home Affairs, UIF, NSFAS, the South African Revenue Service and other government institutions to strengthen the controls and prevent payments to invalid beneficiaries. Sassa should investigate and follow up on these exceptions and remove all confirmed non-eligible individuals from the beneficiary system before making payments for the next month. This will avoid further potential losses if the payments cannot be recovered. Sassa should also implement a process to recover funds from non-qualifying individuals.

Sassa should stop payment to directors of companies that received income from government and should investigate these to ensure that they are eligible to receive the grant.

Auditees' response

Sassa appreciates our efforts to help to identify possible citizens who should be included in, or excluded from, receiving the grant. Sassa also reconsiders beneficiaries on a monthly basis, and it is therefore possible that the difference between our numbers and Sassa's numbers is the time at which the databases were accessed and considered. Where Sassa has databases, or has obtained information from organisations, or when the beneficiaries' means change, Sassa's outcomes will differ from ours.

The Sassa head office grants team split the list with beneficiary contact details into provincial lists that were then provided to the respective Sassa provincial fraud managers for further investigation. The investigations are currently underway. In the meantime, Sassa has terminated payment to all beneficiaries who we identified as company directors.

Sassa has started planning for a debt recovery process that will be refined and then implemented for cases where double-dipping occurred. The identified cases will be split according to regions per category of finding (UIF, NSFAS, the Companies and Intellectual Property Commission, etc.). A sample of cases in the regions will be investigated to establish the validity of the findings. These details will be determined once the reconsideration has been completed as this may shed some light on the process. Although the debt will be raised in accordance with the debt management policy, Sassa will follow a shorter process using SMS notification as it is not practical or cost-efficient to follow the personal contact process for an amount of R350 for a one-time client. The process will be considered in more detail and final decisions taken once Sassa is aware of the full extent of the debt to be recovered.

2. IT general controls: developers' access to production environment and overreliance on service provider

We found that developers had been granted excessive access on the SRD system that allowed them to perform operational functions and payment job scheduling. They also had unrestricted access to the SRD database, which may result in unauthorised changes to the system or unauthorised access to the system data. Consequently, segregation of duties was not enforced. Service providers that are contracted to support the system have unrestricted access, which they require to perform their duties. However, this access was not monitored, which could result in unauthorised activities not being detected timeously. This access also allows audit trails to be deleted, eliminating any trace of activities carried out.

Recommendations

Sassa should restrict developers from having administrative access to production environment. If this is not possible, management should ensure that the activities performed by developers are adequately monitored and reviewed.

Auditees' response

Management disagreed with the finding. According to the access rights provided, the developers on the list provided only have access to the development environment and not to the production environment. There is only one developer with access to the production environment, and that is view-only access. If the access rights for the production environment are extended to processing, the individual with access will automatically form part of the list of users with production processing rights, which is monitored on a monthly basis as per the user account management process.

Auditors' response

Although Sassa disagreed with the finding, Sassa also confirmed that there is one developer with access to the production environment and this user is a service provider, which supports the finding. In addition, during our testing we confirmed that service provider user had access to the backend which allows direct access to the production. Therefore, we advise Sassa to have a proactive measure in place to monitor developer access to the SRD environment, irrespective of the type of access granted. We further advise Sassa to follow formal risk acceptance procedures until the monitoring or termination of developer access is implemented.

3. IT general controls: disaster recovery plan (DRP)

The disaster recovery (DR) site is operational and backups are being performed effectively in compliance with the approved backup policy. However, the covid-19 SRD system failover capability at the DR site has not been tested, and there is thus no evidence that the failover capability will be effective if a major incident occurs at the main centre.

Recommendations

Sassa should revise the Disaster Recovery Plan (DRP) and ensure that it meets the requirements of a high-impact availability system that is based on a formal business impact analysis. A schedule for testing the updated DRP should be developed, including all critical phases of the plan in accordance with the requirements for a high-impact system. The system's failover capability should also be tested at the alternate DR site. Sassa should endeavour to commit the necessary resources to test the system to ensure that the recovery can be accomplished swiftly and efficiently with minimal service disruption.

Auditees' response

Sassa will revise the DRP and test the plan over the December period when the agency has some downtime due to fewer users logging onto the network during this time.

Auditors' response

Sassa management comments are noted. We advise Sassa to follow formal risk acceptance procedures until it can test the DRP and system failover capability. In future, Sassa should put controls in place to improve the DR environment for the covid-19 SRD system. This will minimise the risk of the system being unavailable due to outages.

4. IT general controls: network security

We identified a number of network security-related control weaknesses that could compromise the integrity of its systems and data.

Recommendations

Due to the confidentiality and nature of the findings, we provided a detailed network security report to Sassa. Management should ensure that the recommendations provided on the detailed report are implemented.

Auditees' response

Sassa has agreed to address the reported observations and is working to implement the agreed actions by their respective due dates.

DISTRIBUTION OF FOOD PARCELS

KEY AUDIT FINDINGS AND OBSERVATIONS

5. Inadequate planning, guidance and record keeping

Inadequate planning, guidance and inadequate record keeping gave rise to the following deficiencies during the use of the manual process by the different regional offices:

Inadequate control over applications and distributions

The shortened application form was not designed to include a date of application and approval of the application. As a result, application dates were not recorded on the application form to enable review of the 11 May 2020 cut-off to provide covid-19 food support. Inadequate segregation of duties was also evident in instances as approvers were not all designated to approve the applications, or the same person both completed and approved the application.

More than one food parcel was ordered and/or distributed to the same beneficiary due to inadequate record keeping in the approval and distribution of food parcels.

More than 4 000 approved beneficiaries in the Northern Cape region did not receive their food parcels because the regional budget was depleted and the process was not sufficiently controlled to limit the number of applications to the budget available. Sassa also did not make a timely request for additional budget to provide food support to these approved beneficiaries, despite budget being available in the programme.

Inadequate control over replacements

Some initially approved beneficiaries were replaced because they could not be traced, they were deceased, etc. However, in most instances the reasons for the replacements were not documented and there was thus no audit trail available to support the change in beneficiaries.

Inadequate control over approval and rejections

Regions provided food parcels inconsistently because the standard operating procedure (SOP) did not specify the number of food parcels that could be distributed to a single beneficiary. This resulted in some beneficiaries only receiving one food parcel during the pandemic while others received more than one. The regions also interpreted the criteria included in the SOP differently when considering applications for approval. As such, some beneficiaries receiving a caregiver grant, child support grant and foster care grant also received a food parcel while others had their applications rejected.

Some beneficiaries received an old age or disability grant in April 2020 as well as a food parcel as part of covid-19 relief. This was not in agreement with the categories of clients to be assisted according to the SOP.

Applications were rejected without the reason for rejection being recorded on the application form, as required by the SOP.

Recommendations

The accounting authority should:

- provide sufficient and appropriate guidance and instructions, including an updated SOP, to facilitate consistent distribution of food parcels between regional offices

- in future, assess the risk associated with following a specific process before implement so that proper record keeping can be done in a timely manner to support complete, relevant and accurate available information for the planning and management of the SRD food distribution
- review applications to ensure they comply with the criteria and guidance before they are approved
- assess the need for each regional office and district before setting the budget to ensure consistent food parcel support is being provided
- implement control over daily processes to ensure that districts remain within their budget allocations
- prioritise finalising the Socpen capturing so that all applications, orders and distributions can be reconciled.

Auditees' response

Sassa's CEO agreed with the findings, except for inadequate planning, as the agency did not have time to plan for the pandemic. She further indicated that Sassa has learnt from this pandemic, which was the biggest the agency has ever faced and which affected both those providing support and those being assisted. Sassa noted the lessons learnt and will improve the legislation, policies, procedures, guidelines and systems so that it is better prepared to respond to a pandemic of this magnitude. The agency will also take the following additional corrective actions in future:

- Management has agreed that Sassa will use vouchers and cash transfers in future rather than providing food parcels to reduce the risks and close the gaps identified.
- Management will ensure that similar findings are avoided in future by reducing manual interventions as much as possible and implementing systems to track applicants to prevent duplicate assistance, which is not legislatively supported.
- The regions will receive assistance to further investigate the specific officials linked to identified anomalies and to institute consequence management, where indicated.

Auditors' response

Although the CEO disagreed that planning was inadequate, she also indicated that Sassa did not have time to plan, which supports the finding. As some elements of planning were found but not always documented, we concluded that the planning was inadequate.

6. Inadequate monitoring and reporting on food parcel distribution

We identified that monitoring activities were deficient in most regions as adequate information was not available to track the distribution of food parcels from request to distribution. We also found differences between the detail register and the information reported to the relevant structures as the reported information was not reviewed to ensure that it was accurate, valid and complete. This was because Sassa policy and guidance did not include defined monitoring processes to be undertaken specifically during the covid-19 food parcel distribution. By 27 May 2020, Sassa had not reported on approximately 50% of the food parcels that had already been distributed. Rejections were also not accurately reported, as some approved applications were reported as rejected.

This could have been prevented if management had implemented monitoring controls and reconciliations between approved beneficiaries, food parcels distributed and uncollected food parcels.

Recommendations

The accounting authority should provide sufficient and appropriate guidance and instructions to facilitate adequate monitoring and accurate reporting. Sassa should also institute proper and timely record keeping to support complete, relevant and accurate available information and reporting.

Auditees' response

Sassa agreed with the findings and indicated that it did the best it could under very difficult circumstances, using a manual system and having a limited staff complement available. The agency committed to revise the policy to include pandemics as big as covid-19. Sassa also indicated that it will prioritise capturing and reconciling Socpen and manual data by the end of October 2020.

7. SRD relief parcels ordered not supported by detailed beneficiary lists

We identified from the Limpopo region's list of SRD procurement that the region procured 29 250 SRD relief parcels at a total cost of R35.1 million by 11 May 2020.

SRD relief parcels for the Limpopo region were ordered in round quantities, without exception. Because SRD relief parcels have to be ordered based on an approved list of beneficiaries, we requested supporting documentation for a sample of payments to service providers. However, no beneficiary lists were provided to support the requisitions.

From the supporting documentation provided, it appears that the Limpopo region ordered SRD relief parcels when the previous stock had been depleted. This practice contradicts the requirements of the SOP, which states that SRD relief parcels should only be ordered based on an approved list of beneficiaries.

Not ordering the SRD relief parcels based on an approved list of beneficiaries raised a risk of fraud because the need for the SRD relief parcels could have been inflated. This could have been prevented if management had enforced the existing controls to procure food parcels based on approved beneficiary lists.

By enforcing the existing controls set out in the SOP, management could have prevented food parcels from being procured in bulk instead of being ordered based on the approved list of beneficiaries.

Recommendations

Sassa should introduce strict measures to ensure compliance with the SRD SOP and to monitor this compliance.

Auditees' response

Sassa agreed with the audit finding.

The region operated with minimal staff because of the lockdown announced by the president in March 2020. The region also received applications for SRD from a number of different platforms, including the Department of Social Development, municipalities, non-governmental organisations, faith-based organisations, telephone, etc. Based on the high volume of applications received at that time, management opted not to wait until everyone on the list had been screened and verified, but to rather order 1 000 parcels based on the weekly applications from the districts that had been received at the time.

The reason for this decision was to:

- efficiently provide SRD food parcels to qualifying beneficiaries
- ensure that undue hardship was addressed as soon as possible
- avoid large volumes of food parcels being delivered to offices at once (storage and security of goods)
- address staff shortages in administration, transportation and distribution of food parcels.

The region managed purchases so that all foods purchased were distributed to eligible beneficiaries once their applications had been approved and arranged deliveries so that food parcels were distributed immediately and not stored. Proper acknowledgement of receipt from beneficiaries was retained as and when food parcels were delivered.

Since the introduction of the SRD grant, the region is no longer issuing food parcels.

Sassa is currently using the normal SRD procedure for qualifying beneficiaries.

Sassa did, however, commit to investigate the anomalies we identified in the food parcel distribution process.

8. Other forms of SRD procured

The North West region procured other forms of SRD (vanity packs) and not only food parcels as was stipulated in the SOP. The total value of such procurement was R134 300.

This practice contradicts the requirements of the SOP, which states that SRD assistance must be limited to food parcels.

By procuring vanity packs instead of food parcels, the region did not use the SRD budget allocated for the covid-19 period for its intended purpose. By implementing effective monitoring controls, management would have been able to detect that the SOP requirement to use the allocated budgeted funds for their intended purpose was not adhere to.

Recommendations

Sassa should introduce strict measures to ensure compliance with the SRD SOP and to monitor this compliance.

Auditees' response

Sassa agreed with the finding as it reflects non-compliance with the SOP issued for the response to the disaster. However, particularly in the initial stages of lockdown, there was confusion about the role of the Department of Social Development (both nationally and provincially) in supporting emergency shelters, which had been set up to house the homeless in an effort to limit the spread of the virus. Sassa did procure some items other than food parcels to assist with basics, which was out of the SOP for the Sassa intervention. This was because the sector was trying to respond to the abnormal situation and providing this assistance was in line with the SRD policy that applies under normal circumstances.

Purchasing other items did not cause the region to run short of funds or prevent it from distributing food parcels.

Sassa indicated that district staff will be trained on related SRD policies, including all deviations as directed, so that it will remain compliant at all times.

9. Procurement of food parcels: poor planning of the procurement process

The bid process for the supply and issuing of SRD relief parcels in six regions was initiated in 2019 as the previous three-year contracts were due to expire. The bid process was subsequently cancelled due to challenges experienced. This led to a late request for the bid validity period to be extended. Following approval from the National Treasury on 31 January 2020 to deviate from the competitive bidding process in the interim, on 13 March 2020 Sassa entered into a quotation process and requested quotations from the suppliers that passed functionality during evaluation of the cancelled bid to ensure continuity of services. Suppliers were subsequently appointed between 30 March 2020 and 6 April 2020 to supply and issue SRD relief parcels in six regions until 30 June 2020.

We identified several indicators of poor planning in the initial competitive bidding process:

- Bid 08/19/GA closed on 5 July 2019. The bid evaluation committee (BEC) only began their evaluation on 5 August 2019, which resulted in a one-month delay in evaluating the bids. Since 2 708 bids had to be evaluated, Sassa should reasonably have foreseen that delaying the evaluation process by a month may have resulted in the bid validity period needing to be extended.
- From the SRD project plan indicating the planned activities between the closing date of the bid and date the BEC began their evaluation, we noted activities that could have been finalised before the closing of the bid.
- According to the SRD project plan, it was envisaged that the BEC would have presented their evaluation reports to the bid adjudication committee (BAC) a week before the bid validity period expired. The SRD project plan therefore did not provide adequate time for the BEC to address potential issues that could have been raised by the BAC.
- Sassa did not correctly calculate the bid validity period of 90 days. By the time the bidders were requested to extend their bid validity period, this period had already expired.

- Bidders were only given a day to extend their bid validity periods. The request was also sent on a Friday after 18:00, and bidders were expected to respond on the Saturday. Only 825 bidders responded in time, which should have been expected as bidders were not given enough time to respond.

Based on the indicators mentioned above, it is evident that management did not take into account the period required for the bids to be evaluated. This poor planning led to the bid validity period needing to be extended and, ultimately, to the bid being cancelled. This, in turn, resulted in Sassa having to enter into a quotation process to ensure continuity of services.

The deviation, or quotation process, that was followed for the appointment of service providers to supply and issue SRD parcels for the Eastern Cape, Gauteng, Mpumalanga, Limpopo, the Western Cape and KwaZulu-Natal was a result of the poor planning of the competitive bidding process.

The poor planning of the procurement process led to the supply chain management (SCM) system being exploited and is in contravention of procurement prescripts.

This could have been prevented if controls had been implemented to support proper planning for the tender process, taking into account the required timelines to complete the procurement process.

Recommendations

The accounting authority should ensure that proper planning is done for competitive bidding processes and that BEC evaluations start as soon as possible after the closing date of the bids so that bid can be evaluated well before the end of the 90-day validity period.

The accounting authority should take all reasonable steps to prevent the SCM system being exploited.

Auditees' response

Sassa disagreed with the factual findings. The agency's response included the following: 'The [SRD] was part of the 2019-20 demand plan, Sassa did not start with a request for deviation. A due SCM process was undertaken and a bid for this service was advertised twice but later cancelled based on legitimate circumstances. The evaluation was undertaken and completed during the validity period however the management of extension of bid validity period was a result of misunderstanding around roles and responsibilities between [BEC] and other staff within Supply Chain Management department, a matter management is correcting. This cannot be classified as poor planning'.

Auditors' response

We maintain that, based on the various issues identified above, the competitive bidding process undertaken by Sassa was poorly planned, which exploited the SCM system and necessitated a deviation.

10. Procurement of food parcels: possible collusive bidding

As indicated above, Sassa entered into a quotation process and requested quotations from those suppliers that had passed functionality during evaluation of the cancelled bid. We identified five possible restrictive horizontal relationships between bidders that had already tendered for the competitive bidding process. Seven suppliers participating in four of these identified horizontal relationships were subsequently invited to also submit a quotation as they had passed functionality during evaluation of the competitive bidding process.

It appears that the bidders made a misrepresentation on the SBD 9 form submitted for the competitive bidding process, as they declared that they arrived at their accompanying bid independently and without consultation, communication, agreement or arrangement with any competitor regarding the quality, quantity, specifications, and conditions or delivery particulars of the products or services to which the bid invitation relates.

Two of the bidders that appeared to have been in the same restrictive horizontal relationship went on to be appointed in the same region when the quotation process was finalised. Furthermore, three bidders that possibly participated in such a restrictive practice, but that were not necessarily in a horizontal relationship with one another, were also appointed in various other regions.

This could have been prevented if controls had been implemented to identify possible collusive bidding practices during the bid evaluation process.

Recommendations

The BEC members should be aware of the risk indicators for collusive bidding.

The accounting authority should take all reasonable steps to prevent abuse of the SCM system.

Sassa should investigate the potential collusive bidding and report it to the Competition Commission.

Auditees' response

SCM is a highly regulated environment that requires all parties to guard against conflicts of interest. As the custodian of the laws regulating this environment (Public Finance Management Act, Preferential Procurement Policy Framework Act, their regulations and implementation guides; instruction notes), The National Treasury has put in place controls to prevent such challenges. These controls include SBD 4 (declaration of interest to determine conflict of interest), SBD 6.1 (disclosure of subcontracting), SBD 8 (history of the service provider) and SBD 9 (collusion detection). These forms are compulsory forms that must be completed in full and submitted before any award of the bid.

Sassa noted the finding and will investigate all findings relating to possible collusion and take action, including reporting to the Competition Commission and blacklisting companies.

11. Procurement of food parcels: unfair evaluation during quotation process

We noted one instance where a bidder was unfairly invited to quote for the supply and issue of SRD, one instance where a bidder was unfairly excluded from the invite to quote for the supply and issue of SRD, and one instance where a bidder was not appointed because price and preference were unfairly evaluated. This could have been prevented if the existing controls within the SCM environment regarding bid invitation and evaluation were applied in a fair and consistent manner.

Recommendations

The BEC should ensure that evaluations and scoring are accurate, fair and consistent.

The BAC should adjudicate bids to ensure that the evaluation and scoring is fair, consistent and correctly calculated and applied.

Auditees' response

Management disagreed with the finding that Sassa unfairly invited a bidder to quote for the supply and issue of SRD. The bidder's capacity and capability were evaluated and confirmed during evaluation of the competitive bidding process, which was not awarded but cancelled. The procurement strategy option selected was to consider service providers whose capacity and capability had already been established.

Sassa disagreed with the finding that a bidder was unfairly excluded from the invitation to quote for the supply and issue of SRD for a period of six months. Such a period will allow the open bidding process to be initiated and finalised. The quest was to have a database from which quotes could be sourced. The number and allocation of service providers remained Sassa's decision. Therefore, not requesting a quote from a particular bidder cannot be regarded as a non-compliance. Sassa could have used fewer or more suppliers per region as long as the service providers invited to quote were included in the list of service providers reflected in the BEC report for the competitive bidding process and had passed functionality.

Sassa disagreed with the finding that a bidder missed out on being appointed because price and preference were unfairly evaluated. The service provider should have been disqualified for not quoting according to specification (note that the implication of this is irregularity as well) and cannot change the total offer at the time of confirming if the price is still valid. The service provider also cannot revise the quotation in its favour at the time of concluding the evaluation process.

Auditors' response

Because the procurement process for sourcing quotations piggy-backed on the evaluation process of the cancelled bid, the quotation process cannot be seen as independent from the bid process. By not complying with paragraph 17.2 of the terms of reference, the specific bidder should not have been considered for functionality evaluation, as bidders were disqualified for not meeting this special condition. The bidder was therefore unfairly evaluated for functionality and should not have been invited to submit a quotation.

Sassa took an inconsistent approach to inviting all bidders that passed functionality on the bid to quote, and there is no valid reason for excluding one bidder from the invitation, as the bidder passed functionality.

The BEC sent the requests for clarification of prices by bidders to all bidders when clarity was required. There was an inconsistent approach to the prices used during the evaluation of different bidders' quotations, and it appears that paragraph 4.10 of the SCM guide for accounting officers/authorities was not applied in a fair and consistent manner.

OVERALL CONCLUSION

The SRD grant is being paid to approved applicants, taking into account the challenges of finalising the monthly validations in a timely manner for each approved applicant every month. Some payments to approved applicants were delayed because the applicants did not provide accurate banking details. Once Sassa has completed all its validation processed, it should ensure that payments are made to all approved beneficiaries that have not yet been paid for the months for which they have been approved as well as for forthcoming months. Sassa should also determine the full extent of the applicants who were paid but were not entitled to the grant and should start the process to recover these payments. Sassa is continuously considering the objections received from rejected applications and will only pay the applicant once they have provided sufficient evidence that they are entitled to the grant. Sassa should follow formal risk acceptance procedures until the monitoring or termination of developer access to the SRD system is implemented.

Management successfully implemented the payment of the top-up grants and resolved the finding we identified in the first special report on overpayments and underpayment.

Sassa has completed the food parcels distribution and must now prioritise finalising the Socpen capturing so that it can reconcile all applications, orders and distribution. The agency will investigate possible collusion in the food parcel tender processes and take appropriate action.

NOTES

WAGE PROTECTION

Purpose of initiative

Payment of covid-19 temporary employee/employer relief scheme benefits for relief to employees and employers who have closed their operations, or part thereof, as a result of covid-19

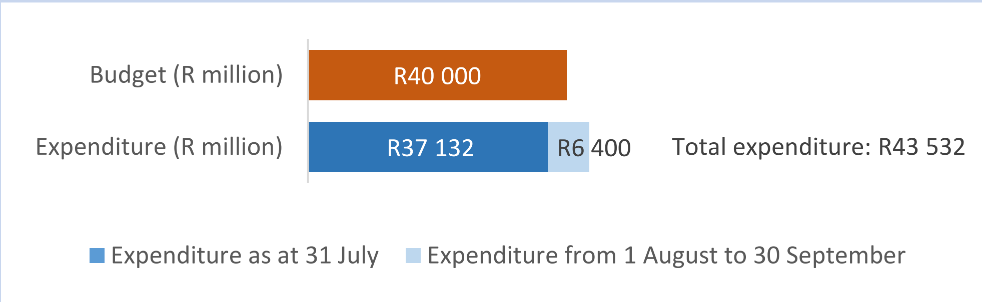
Auditee

Unemployment Insurance Fund

Focus of our audit

- Temporary employee/employer relief scheme benefit expenditure
- Procurement and contract management

Budget and expenditure



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STATUS OF IMPLEMENTATION OF INITIATIVE

The covid-19 temporary employee/employer relief scheme (Ters) benefit is an intervention by the Department of Employment and Labour through the Unemployment Insurance Fund (UIF) to compensate employees who find themselves temporarily unemployed during the lockdown period due to the national disaster caused by covid-19. Employers that have had to close their operations, or part thereof, because of the pandemic qualify for the covid-19 temporary relief benefit.

The fund continued to process and pay claims during the period under review, as the demands from the beneficiaries continued to put pressure on the fund. The intervention has been extended to include all claims submitted by 15 October 2020, although payments will continue until December 2020.

The fund is using our first report as a critical tool to reflect on its overall control environment to identify areas for improvement. The fund has made noticeable progress in implementing commitments made from our first report and continues to attend to the remaining deficiencies. One of the key risks that remains is the possibility of misrepresentation by employers, which should be mitigated by the post-validation processes, which had yet to commence as at the time of auditing.

UIF TERS RECOVERED

It is encouraging to note that, as at October 2020, the fund has recovered about R3,4 billion of the funds that may have been disbursed incorrectly. The reasons for these incorrect payments vary and in many instances resemble the deficiencies we reported in the first special report. These include:

- paid for more days than the period of inactivity
- claimed for incorrect period
- company indicated incorrect salaries on the application
- employee(s) received partial salaries during lockdown
- employee(s) received full salaries during lockdown
- employee(s) received maternity or sick benefits
- employee has a passport and was paid twice
- claimed for employees who are no longer employed by the company
- duplicate payments for the same period.

Summary of recoveries (as reflected by UIF records)

Month	Value (R)
May 2020	159 406 374,61
June 2020	426 230 452,14
July 2020	293 606 026,33
August 2020	1 101 502 960,52
September 2020	1 423 186 487,93
October 2020	88 899 715,61
Total	**3 492 832 017,14**

ANALYSIS OF REJECTIONS

We performed an analysis of the claim rejections for the Ters benefit applications and identified a total of 718 684 rejections based on reasons that include:

- employees that received a full salary during the lockdown period
- no identity number on application
- incorrect identity format on application
- applicant has an active claim with the UIF, deceased employee, invalid branch code.

The majority of the rejections (302 644, or 42%) were for employees who applied for the Ters benefit despite receiving full remuneration from their employers during the lockdown period. There were also 117 563 rejections for applications that did not include identity numbers and 81 325 rejections for applications with identity numbers that were incorrectly formatted. The remainder of the rejected applications were mainly those with fraud risks indicators, such as deceased individuals and inmates. We audited selected rejections to confirm their validity and identified no unjustified rejections. On further engagements with management, we noted that the onus is on the applicant to check the status of their application on the system. Where the claim has been rejected, the applicant is expected to respond to the matters raised. We noted the delay in the call centre response rate, which resulted in a delayed resolution of queries.

AGING OF CLAIMS (27 MARCH 2020 – 20 OCTOBER 2020)

We analysed the fund's payment data to determine the turnaround time for finalising and approving claims from the date on which the claim is submitted. The table below shows an analysis of the number of claims at different application stages, as well as the corresponding amounts paid. The application date refers to the date on which the application was captured on the claims system and the payment date refers to the date on which the claim was finalised and paid to the claimant.

Number of claims by application stage and amounts paid

Description	Number of claims	Amount paid (R)
Application within 30 days	11 320 296	49 355 332 771,42
Application 30 – 60 days old	46 977	197 269 950,33
Application 60 – 90 days old	21	92 011,15
Application date after payment date*	2 433	4 311 217,79
Application date same as payment date	275 275	1 194 470 324,38
Total	**11 645 002**	**50 751 476 275,07**

**We identified from analysis of the payment data that, as at 20 October 2020, there were 2 433 claims for which the application date was after the date of payment to the claimant.*

At the date of this report, the investigations relating to the findings raised in the first special report were still in progress.

AUDIT STATUS

AUDIT PROGRESS

The UIF had to suspend payment of the Ters benefit to improve the operating systems. Our audit had to take this process into account and was therefore delayed. The UIF had developed an action plan to facilitate the required improvements relating to the Ters payments and we have considered the progress made against this action plan. For the audit for this report, we focused mainly on following up on the commitments made by the UIF in response to the deficiencies we identified and reported in the first special report.

The fund submitted on its progress on the audit action plan on 23 September 2020 and we once again reviewed the adequacy of the control environment and system-enabled controls. We also used computer-assisted audit techniques (CAATs) on payments made from 10 July 2020 up to 20 October 2020. However, we know that some of these transactions would have been processed before management implemented the control activities or planned actions and we identified similar findings to those we reported in the first report. We continued to perform employer verifications at selected companies across the country and our key observations from the visits are contained in this report.

As we reported in the first special report, in making payments, the UIF depends on the accuracy of the declarations and information submitted by the claimants (bargaining councils or employers), which exposes the fund to the risk of paying fraudulent claims. This risk was increased by the coverage of the Ters benefit being expanded to include employees who were not registered with the UIF prior to the covid-19 pandemic. To respond to this exposure, the fund designed post-validation processes to verify the claims paid out. However, as at the date of this report, this process, which includes the verification of employer and employee employment information, had not yet started. We will follow up on the progress made in implementing management's commitment in the normal annual audit.

AUDIT OBSERVATIONS

1. Inadequate verification of employer details

Progress on previous commitment as indicated by management

We reported in the first special report that the fund used only the UIF reference number to verify the registration status of employers, which posed a high risk of manipulation of the application process and exposed the UIF to financial loss. We recommended that the fund also use other unique details, such as the employer's Companies Intellectual Property Commission (CIPC) number, telephone number and email address, to authenticate the employer.

The fund indicated that it had improved the controls for the covid-19 Ters benefit and that the verification process now includes validation of the following key elements:

- Enterprise number
- CK or CIPC number
- Identity number (non-profit organisations)
- Trade name.

The fund also indicated that bank verifications are conducted daily and the results are posted on the application portal, which was implemented on 27 July 2020.

Audit observations on follow up

The system development was tested and launched on the live system on 6 September 2020. The fund strengthened the control environment by implementing a functionality that requires employers or bargaining councils to capture additional information (i.e. enterprise number, CK or CIPC number, identity or passport number for non-profit organisations or trade name). This additional information is used to verify employers and banking details. Although this enhancement is effective for employers that are registered with CIPC, this control was not sufficient for bargaining councils or employers that were not registered with CIPC, as there was no validation performed against other external sources, such as the Department of Social Development for non-profit organisations, to confirm the existence and validity of these entities. Therefore, the risk that remains relates to those employers that are not registered with CIPC.

Response by management

For bargaining councils, and for employers with no CIPC numbers, the fund conducted manual bank confirmations with all the banks. For trade names, specifically, the fund will pursue an automated process with the Department of Social Development and will conclude this process by 30 November 2020.

Auditors' response

Management's proposed solution will respond to the risk of employers registered with the Department of Social Development, However, management should investigate further solutions that will cover the employers that are not registered with the department. In relation to the process of verification for bargaining councils, we recommend that the fund integrate its information with the database held by the Department of Labour and Employment.

2. Lack of verification of applicant representing employers

Progress on previous commitment as indicated by management

We reported in the first special report that the application system did not prohibit a single applicant from representing and submitting claims on behalf of multiple employers or bargaining councils. The fund also did not corroborate whether these representatives were duly authorised to represent the employers or bargaining councils they purport to represent.

The fund indicated that in instances where a claim was made by the representative, the system only allows for the identity number of the representative to be captured and an authorisation letter to be uploaded for the number of claims lodged by the representative. Payment of the Ters claims is also only released to the employer, employee or bargaining council's banking details after bank verification using the following controls:

- CK number
- Identity number
- Foreign national – passport number
- Trade name.

Therefore, no payments will be processed to company representatives. The solution went live on 12 July 2020.

Audit observations on follow up

At the time of testing on 26 and 27 October 2020, we identified that the system for uploading applications for the Ters benefit did not have the functionality that allows an authorisation letter to be uploaded. Therefore, the enhanced functionality that management referred to does not address the weakness reported and the control deficiency remains.

Response by management

On 4 November 2020, the fund deployed a functionality that allows applicants to capture personal details and upload signed letters of authority. The fund planned to send bulk email letters to employers on 8 November 2020 to inform them that they needed to attach the letter of authority on the online platform.

Auditors' response

We noted management's responses and will assess the implementation of the corrective actions as part of the normal annual audit.

3. Inadequate system functionality for bank confirmation of uploaded documents

Progress on previous commitment as indicated by management

We reported in the first special report that the system used to receive Ters benefit applications did not check the banking details of employers or bargaining councils against the bank confirmations that applicants submit upon registration.

The fund indicated that it had automated the bank verification process for employers and employees and that the verification process is conducted daily and the results posted on the application portal.

Audit observations on follow up

We identified that the system functionality to verify uploaded bank confirmation letters had not been implemented. However, the fund introduced a secondary control in the form of bank verification. We tested the secondary control and found that while it was sufficient for verifying bank account numbers for employers registered with CIPC, it was not adequate for verifying the account numbers for bargaining councils and employers not registered with CIPC.

Response by management

For bargaining councils, the fund conducted manual bank confirmations with all the banks for employers with no CIPC numbers. For trade names, specifically, an automated process will be pursued with the Department of Social Department and the fund will conclude this process by 30 November 2020.

It is not feasible for the fund to implement Adobe at this point in time, but its mitigating control is the bank verification process with Absa.

Auditors' response

Without an adequate process to verify all employers (not just limited to those that are registered with CIPC) and bargaining councils, it is critical that the fund implement a functionality to validate the bank confirmation letter against the details of the employers and bargaining councils.

4. Lack of verification of employee salaries submitted during benefit claims

Progress on previous commitment as indicated by management

We reported in the first special report that the system used to receive Ters benefit applications did not validate employees' salary amounts declared on the Ters application against the employees' salary amounts declared to the UIF prior to the covid-19 pandemic.

The fund indicated that it had completed and implemented the change request for salary verification for lockdown level 4. The solution was tested and went live during the application process for lockdown levels 4 and 5.

Audit observations on follow up

We confirmed that management has implemented the functionality to verify the salaries for the employees registered with the fund prior to the covid-19 pandemic. However, management should further enhance the preventative controls relating to employees who were not previously registered with the fund.

Response by management

Consideration was only given to employee salaries that were already declared with the fund, since salaries declared with the South African Revenue Service (Sars) are not considered as contributory salary as per Sars guideline document. Further checks and balances will be performed through the follow-the-money process. Sars verifies all salaries declared by the employers registered for PAYE.

Auditors' response

Follow up audit work will be performed on the outcome of the verification to be conducted by the fund as part of the follow-the-money process. However, it should be noted that the fund had not provided the commencement date for this process at the time of auditing.

5. Lack of consideration of salary portion paid by employer in the calculation of payout for initial lockdown period

Progress on previous commitment as indicated by management

We reported in the first special report that the Ters system did not consider the salary portion paid by employers to employees for the initial lockdown period, (27 March 2020 to 30 April 2020) when calculating the benefit due to the claimant.

Management indicated that the change implementation date for the control enhancement was 22 August 2020.

Audit observations on follow up

Based on the work we performed on application controls on 26 and 27 October 2020, we confirmed that the system has been improved to deduct the portion of salary paid by an employer to an employee during the initial lockdown period when calculating a claimant's payout.

6. Incorrect system calculations of the Ters benefit payment for the initial lockdown period

Progress on previous commitment as indicated by management

We reported in the first special report that, for payments made between 27 March and 30 April 2020, the system used a standard lockdown period of 35 days to calculate the benefit amount even when the employer's indicated period of inactivity was less than 35 days.

The fund indicated that it developed a process to identify discrepancies between the amounts due and paid to claimants to verify the salary and the lockdown period declared by the applicant on the system.

Audit observations on follow up

We tested the system configuration for calculating the claimant lockdown period and confirmed that it worked correctly. We also noted that the fund is in the process of recovering overpayments from employers.

7. Applicants that are below the legal age of employment

Progress on previous commitment as indicated by management:

In the first special report, we identified individuals who were paid the Ters benefit but were below the legal employment age of 15 years.

Management indicated that the matter was reported to the departmental inspectorate, the UIF reference numbers for the affected employers were blocked on the application system and a formal letter requesting confirmation of the minors was sent to the South African Social Security Agency (Sassa). Management also indicated that the matters identified would be investigated through the fund's internal processes.

Audit observations on follow up

We identified that a functionality had been introduced to block all employees identified in relation to claims for individuals below the legal employment age of 15. We also noted that the enhanced functionality detects and prevent persons younger than 15 years from claiming or receiving Ters benefits. The system generates an error for transactions relating to those below employment age and prevents such users from proceeding with their applications.

Management indicated that the change implementation date for this control was 21 August 2020.

We identified 30 claims amounting to R107 160 that were paid between 10 July 2020 and prior to the control implementation date and no exceptions after the control was implemented.

Response by management

The claims referenced were all paid prior to the implementation of system controls on 21 August 2020, showing that adequate controls were implemented. These cases will be referred to the Inspection and Enforcement Service unit at the Department of Labour and Employment for further investigation.

Auditors' response

According to management's response, the fund implemented the control to detect and prevent payments to individuals below the legal employment age on 11 August 2020. However, the manual log register of system enhancements shows the implementation date as 21 August 2020. The fund should investigate the claims paid prior to the control implementation date of 21 August 2020.

8. Deceased individuals were paid Ters benefits

Progress on previous commitment as indicated by management

We reported in the first special report that individuals who were indicated as deceased in the home affairs database were paid the Ters benefit.

In response, the fund indicated that it had submitted a copy of the covid-19 Ters database to home affairs to verify and update the dates for deceased individuals and to validate identity numbers. The feedback received from home affairs indicates that a script was run on the covid-19 Ters database to identify any applications for employees who were deceased prior to and during the lockdown period. The fund also submitted the results to the Risk and Fraud Management unit for further investigation and for the profiles to be blocked on the system.

Audit observations on follow up

We identified that a change request was also implemented and all affected employees were blocked on the covid-19 Ters system until all investigations have been finalised by the Risk and Fraud Management unit. The investigation is in progress and a case has been opened with the South African Police Service. All claim processing and payments for all the lockdown periods were put on hold until the recommended system controls were implemented. The system functionality has been enhanced to detect and prevent claims for Ters benefits being submitted for deceased individuals.

Management indicated that the change implementation date for this control was 21 August 2020. We identified 15 054 claims amounting to R65 331 997 that were paid prior to the implementation date.

In addition, we identified 87 claims amounting to R347 982 that were paid after the implementation date.

Response by management

The fund blocked all affected identity numbers on the Ters system while it investigates these exceptions. On 21 September 2020, the fund also implemented controls to prevent this from recurring in future.

The payment dates of the deceased identity numbers were before the implementation date of the system controls and the fund has not paid any Ters benefits to deceased individuals after 21 September 2020.

Auditors' response

We noted management's responses. However, according to the log register of system enhancements submitted for audit, the fund confirmed that this control was implemented on 21 August 2020 and we identified exceptions both before and after the control implementation date. The fund should therefore investigate the effectiveness of the control to prevent this from recurring in future.

9. Individuals with invalid identity numbers

Progress on previous commitment as indicated by management:

We reported in the first special report that individuals who had invalid identity numbers when checked against the home affairs database were paid the Ters benefit.

In response, the fund indicated that it had submitted a copy of the covid-19 Ters database to the Department of Home Affairs for verification purposes. As a long-term solution, the fund will develop a direct/live link with home affairs for immediate verification of applicants' identity numbers and passport numbers. The fund also implemented a change request and all claims processing and payments for all the lockdown periods were put on hold until the recommended system controls have been effected.

Audit observations on follow up

We identified that the identity number field is a mandatory field and certain reasonability tests are configured on the field to check that, for example, the field has exactly 13 characters that are digits. The fund has also implemented validation against the home affairs database before payments are made to test the validity of identity numbers, whether identity numbers belong to deceased individuals, etc. The home affairs database is updated daily. The system functionality has been enhanced to detect and prevent individuals with invalid identity numbers from claiming Ters benefits. Management did not provide the change implementation date for this control. The CAATs testing we performed between 10 July 2020 and 22 October 2020 identified that 1 607 claims amounting to R7 504 021 were paid to individuals with invalid identity numbers.

Response by management

The fund blocked all affected identity numbers on the Ters system while investigating these exceptions. On 21 September 2020, the fund also implemented controls to prevent this from recurring in future. Of the total exceptions we identified, we found 102 of the employees who were paid were in the fund's citizen table, which means that their identity numbers had been validated by the Department of Home Affairs. These employees have been declared by their employers and have declarations to validate them. A further two employees who were paid have been verified by Sars/u-filing and are also in the citizen table. From our analysis, we identified no identity numbers for employees who had been paid but were not in the citizen table.

Auditors' response

As per management's response, the fund implemented the control on 21 September 2020. However, we identified exceptions both before and after the control implementation date. The fund should investigate the effectiveness of the control to prevent this from recurring in future.

10. Individuals who are imprisoned were paid Ters benefit

Progress on previous commitment as indicated by management

We reported in the first special report that individuals who were indicated as being in prison according to the Department of Correctional Services (DCS) database were paid the Ters benefit.

In response, the fund indicated that it had submitted the covid-19 Ters data to DCS for verification and received feedback confirming inmates' status on the covid-19 Ters database. The feedback received from DCS indicates that a script was run to identify applicants who were active during and prior to the periods, using the admission and release dates. Those applicants that were found to be active were referred to the Risk and Fraud Management unit for further investigation.

Audit observations on follow up

We identified that the fund had implemented a change request and all affected identity numbers were blocked on the covid-19 Ters system until all investigations have been finalised by the Risk and Fraud Management unit. The fund also implemented a functionality on the covid-19 Ters admin portal to verify identity numbers and check the prisoner's release date. No application is considered prior to the release date.

The fund put all claim processing and payments for all the lockdown periods on hold until the recommended system controls were implemented. The fund has sourced data from DCS (inmate data up to 15 September 2020) and has implemented a new control to validate claims against the database before payments are made. Matched applicants are rejected and blocked from receiving further payment.

Management indicated that the change implementation date for this control was 18 September 2020. However, the CAATs testing we performed identified 18 exceptions amounting to R82 303 that were paid prior to the enhanced control implementation date

We also identified that 11 claims amounting to R38 092 were paid after the implementation date.

Response by management

Management had searched for the highlighted identity numbers in the data set received from DCS and was unable to find them. A screenshot was provided to support that none of these identity numbers formed part of the list received from DCS on 15 September 2020. As the payments only went up to 15 September 2020, these inmates were not yet incarcerated or not yet on the DCS database. It is possible that these identity numbers belong to individuals who were detained after the fund received the file. The fund is dependent on the integrity of the data received from DCS.

Auditors' response

The fund has implemented a control to detect individuals who were incarcerated during the lockdown period to prevent payments being made to such individuals. However, as per the work we performed on application controls and the results of the CAATs testing, the control was not effective. The fund should investigate the lack of effectiveness of the control to prevent this from recurring in future.

11. Identity number same as that of a UIF employee

Progress on previous commitment as indicated by management

We reported in the first special report that a claim was paid to an individual who had the same identity number as a UIF employee.

In response, the fund indicated that the matter was being investigated.

Audit observations on follow up

We noted that the fund had investigated the matter and the company had confirmed that the employee had previously worked there but had resigned on 19 December 2019. The fund employee did not receive the money. The employer refunded an amount of R4 027 that was paid for the employee to the UIF. The fund also developed a business rule to block all UIF employee identity numbers from applying for the Ters benefit. The system generates an error for transactions relating to fund employees and prevents the user from proceeding with the application. Management indicated that the change implementation date for this control was 18 September 2020. The CAATs testing we performed identified that six claims amounting to R48 504 were paid prior to the enhanced control implementation date. However, no exceptions were identified after the control implementation date.

12. Banking details same as those of UIF employees

Progress on previous commitment as indicated by management

We reported in the first special report that four applicants who had the same banking details as UIF employees were paid the Ters benefit.

In response, the fund indicated that it had conducted a post-verification process on these UIF officials and confirmed that they are registered as domestic employers. The fund also conducted a compliance check of the affected reference numbers and all UIF employees complied with the Unemployment Insurance Contributions Act.

Audit observations on follow up

We noted that the fund did not implement any automated controls on the Ters system as UIF employees can apply on behalf of their employees in their capacity as domestic employers. Claims are verified manually before payments are made. The CAATs testing we performed identified that two claims amounting to R7 594 were paid to an individual with the same banking details as those of a UIF employee.

Response by management

The fund implemented a business rule to block all UIF employees. The matter will be referred for internal investigation.

Auditors' response

We tested the application control and noted that the system functionality has been enhanced to detect and prevent UIF employees from claiming the Ters benefit. However, the functionality was not adequate as it did not detect payments to some applicants that share banking details with UIF employees. The fund should investigate the lack of effectiveness of the control to prevent this from recurring in future.

13. Double-dipping within UIF

Action taken in response to previous report

We reported in the first special report that there were individuals who were paid both normal and Ters benefits by the fund.

In response, the fund indicated that it had implemented a functionality to block double-dipping of UIF benefits and will raise overpayments to all applicants found to have been double-dipping. The fund's fraud investigators have also started with the data analytics for the investigation and the process was at the execution stage.

Audit observations on follow up

We noted that the fund had implemented validation controls against the fund's normal Siyaya claims system. Applications are tested against the claims system before payments are made and matched applicants are rejected and blocked for further payment with an error message that the employee is already receiving another UIF benefit. Management indicated that the change implementation date for this control was 26 August 2020 and the CAATs testing we performed did not identify any exceptions.

14. Individuals sharing banking details

Progress on previous commitment as indicated by management

We reported in the first special report that 12 individuals who shared the same banking details were paid the Ters benefit.

In response, the fund indicated that it had automated the bank verification process for employers and employees. The bank verifications are conducted daily and the results are posted on the application portal.

Audit observations on follow up

We noted that the system generates an error message for instances where individuals are sharing banking details and withhold the application. A message is sent to the applicant to indicate that the claimant has been blocked on the system. The applicant can lodge a dispute with the fund to confirm and provide further details, for example, spouses who are married in community of property and share bank accounts. A compensating control exists in that bank accounts are validated against owners through the banks. Management indicated that the change implementation date for this control was 21 August 2020. However, the CAATs testing we performed identified that 15 claims amounting to R65 506 were paid prior to the implementation date.

We also identified that four claims amounting to R13 159 were paid after the implementation date.

Response by management

The system rule blocks all payments to employees made into the same bank account if all employees with same account information are part of same batch payment. All the highlighted identity numbers are paid into same account, but the batches are different. A global restriction was not put in place due to employers changing their preferred mode of payments as and when required. A solution to proactively block all duplicate payments will be implemented by 14 November 2020 to take care of all such occurrences.

Auditors' response

Based on the outcome of the work we performed on application controls and the results of the CAATs testing, we recommend that the fund investigate the lack of effectiveness of the control to prevent this from recurring in future.

15. Calculation-related observations (above maximum threshold and over-/underpayments)

Progress on previous commitment as indicated by management

We reported in the first special report that the fund had paid out incorrect amounts for reasons including payments above the maximum threshold, overpayments and underpayments.

In response, the fund indicated that it had started conducting a data analytics exercise on the system. The debt collection process is also in place and the fund is in the process of collecting excess payments made as from 1 September 2020 through the UIF debt collection process.

Audit observations on follow up

We noted that the fund is in the process of collecting the excess payments made and has already collected more than R3,4 billion, as indicated earlier in the report. We also analysed the payments made to identify any excess payments during the period under review and identified a further 842 claims amounting to R6 261 051 where payments were made above the maximum threshold.

Response by management

The fund placed all cases on hold from August 2020 and raised the overpayment to all affected employers. It has already started with the recovery process.

Auditors' response

Based on the work we completed on application controls and the results of the CAATs testing we performed, no application control was implemented to prevent payments above the maximum threshold being made.

16. Unsubstantiated transactions

Progress on previous commitment as indicated by management

We reported in the first special report that some transactions paid could not be reconciled back to the applications on the Ters system. We also identified transactions on the application system with no invoices.

In response, the fund indicated that the reconciliation between the application and payment systems is performed daily. The testing is at a point in time and has confirmed that each transaction must have a date stamp. Management indicated during our meeting that this was not necessarily the case during the initial phase of the system roll-out.

Audit observations on follow up

We could not identify implemented controls to prevent unsubstantiated transactions. The CAATs testing we performed identified eight claims amounting to R491 655 that had been paid and could not be reconciled to the applications system. We also identified two claims amounting to R11 749 that were paid without invoices.

In addition, we identified 1 619 transactions amounting to R265 760 332 that had different amounts on Computron and the Ters system, which resulted in over- and underpayments. Lastly, we identified 15 756 transactions amounting to R825 892 638 that were indicated as paid but were subsequently cancelled.

Response by management

The missing invoices in the Ters system are due to unknown connectivity issues with the writer process. The error was corrected and all eight missing transactions are now traceable on the Ters system. Management indicated that the controls were implemented as from 21 September 2020.

For the two claims that were paid without invoices, we reviewed the transactions in the system and identified the invoice numbers for these transactions in the tables. The reconciliation process does match and pick up any payment information not in the payment table from Computron.

For the unreconciled transactions between Computron and the Ters system, we noted that, for the 1 620 total exceptions, there were 1 582 distinct invoice numbers. The difference arises from the vouchers that were sent for payment after the bank cut-off time and were subsequently voided and reissued the following day. There were no duplicate payments and this is a normal process followed by the fund.

Lastly, cancelled transactions represent payments that failed to upload on the banking system or were rejected by the bank as the bank accounts failed bank validation rules. The transactions had already been recorded as paid in the cashbook, but the cashbook payment had to be voided because of the bank's rejection.

Auditors' response

Based on the work we completed on application controls and the results of the CAATs testing we performed, the fund has not implemented a control to prevent unsubstantiated transactions. The fund could also not provide us with a reconciliation between Computron and the Ters system or explain how such transactions are dealt with.

17. Claims with an application date after payment date

Progress on previous commitment as indicated by management

We reported in the first special report that there were claims that had application dates that were after the payment date.

In response, management indicated that it has introduced a process to track applications and users, including dates of activity. Identified cases will be referred to the Risk and Fraud Management unit within the UIF for further investigation.

Audit observations on follow up

We completed testing at a point in time and confirmed that each transaction is required to have a date stamp. The fund indicated that this requirement did not exist during the initial phase of the system roll-out. The CAATs testing we performed identified 746 claims amounting to R1 199 106 that were paid before the application date. All 746 cases occurred before the control was implemented.

Response by management

The fund has blocked all the identity numbers on the Ters system. The control was implemented on 21 September 2020.

18. SCM-related findings

Progress on previous commitment as indicated by management

We reported in the first special report various non-compliances with supply chain management legislation in the awarding of contracts within the UIF.

In response, the fund indicated that it introduced a probity review process as part of the supply chain management processes to ensure compliance with the procurement prescripts and that the Special Investigating Unit officials started the investigation on 7 September 2020. The fund also plans to revise its supply chain management policy to include details of the probity process, which would then be approved for implementation. In addition, a checklist of post-award activities will be developed to ensure compliance with the prescripts of the law. Lastly, the matters will be referred to the Special Investigating Unit for further investigation.

Audit observations on follow up

We noted that the fund has initiated a probity review process whereby all procurement is subjected to a comprehensive review on compliance with all supply chain management prescripts. The supply chain management policy is still in the draft phase and has not yet been approved by the relevant authority. However, we found no reference to the probity review process in the draft supply chain management policy. The investigation is currently underway.

ADDITIONAL AUDIT OBSERVATIONS

19. Employer site visits

We reported in the first special report that we had started a process to visit the premises of employers and bargaining councils to obtain reassurance about the existence and validity of employees and related payments received from the UIF for the covid-19 Ters benefit. Our audit entailed verifying whether Ters benefits were paid to legitimate beneficiaries.

In response, the fund indicated that the employer will be prioritised during the follow-the-money process and that the matter was subject to investigation.

Our observations are as follows:

- For several of the employers, we could not verify (telephonically or in person) employees who were paid the Ters benefit. Some employers were also unable to provide employee contracts or appointment letters, payslips, identity documents, IRP 5s, bank statements, etc.
- In some instances, employers could not provide us with evidence that the Ters benefits had been paid to the employees or that they had refunded the UIF for the overpayments.
- We noted differences between the recalculated Ters benefit and the benefit paid out by the fund, and between the benefit paid by UIF to the employer and the benefit paid by the employer to the employees. In some instances, employees were paid Ters benefits below the R3 500 minimum wage threshold.
- We noted that some employers made employee deductions on the Ters benefit payments, including maintenance, transport, UIF contributions and medical aid. As a result, the employees were paid a reduced amount.

However, we noted that the fund had not yet commenced with the post-validation process at the time of auditing to verify the accuracy of the salary information submitted by the employers or bargaining councils as well as the existence of the affected employees. The risk relating to the validity of the claims made by the employers, especially those not previously registered with the fund, remains significant until the post-verification exercise has been performed.

Response by management

Management indicated that it will prioritise the selected employers during the follow-the-employer post-verification process, termed 'follow-the-money'. The fund has appointed eight service providers to perform this process.

20. Double-dipping

We reported in the first special report that the fund paid applicants who also received benefits from other state institutions, namely the national student financial aid scheme (NSFAS), the South African National Defence Force (SANDF), the Personnel and Salary System (Persal) and Sassa. We are specifically highlighting these payments as they are risk indicators and must therefore be followed up by the fund to validate the information submitted as part of these specific claims. This is particularly important given that the fund has not yet started the detailed validation processes.

20.1. NSFAS

Progress on previous commitment as indicated by management

The fund sent a letter to NSFAS to confirm the status of the identity numbers and beneficiary information. In the response received from NSFAS on 7 September 2020, the scheme indicated that it was not aware of any restrictions that prohibit a NSFAS-funded student from claiming the Ters benefit. The fund will therefore proceed with the payments in spite of the claimants receiving student funding.

Audit observations on follow up

The fund continued processing and paying claims from NSFAS beneficiaries. We analysed the Ters payment data and identified that 1 632 NSFAS students who received stipends were paid Ters benefit claims totalling R6 508 204. The risks relating to these claims remain significant until the post-verification processes have been performed to confirm the validity of the information submitted by the employers.

Response by management

Management disagreed with the finding. NSFAS formally confirmed that there is no requirement for NSFAS-funded students not to receive the Ters benefit and that supporting evidence was submitted for the audit.

Auditors' response

We noted management's response. However, the risks relating to these claims remain significant until the post-verification processes have been performed to confirm the validity of the information submitted by the employers. Therefore, the finding remains.

20.2. Persal & SANDF

Progress on previous commitment as indicated by management

The fund also sent a letter to the SANDF to confirm the status of the identity numbers and beneficiary information, and requested a business rule and requirement for SANDF beneficiaries. The fund submitted covid-19 Ters data to the Department of Public Service and Administration for verification so that it could avoid double-dipping by blocking applicants and employers who were/are active during the lockdown period (27 March 2020 to date).

Audit observations on follow up

We identified that the fund had sourced data from the Department of Public Service and Administration (Persal data up to 15 September 2020) for public sector employees (including UIF). The fund implemented a new control to validate claims against the database before payments are made; matched applicants are rejected and blocked for further payment. However, we identified that the functionality introduced was not adequate as it still does not detect or prevent Persal (including SANDF) employees from claiming for Ters benefits. Management indicated that the change implementation date for this control was 21 September 2020. However, the CAATs testing we performed identified that 113 claims amounting to R602 983 for SANDF and 1 253 claims amounting to R6 069 228 for Persal were paid after the implementation date.

We also identified 392 claims amounting to R1 821 444 for SANDF and 9 246 claims amounting to R42 655 239 for Persal that were paid prior to the enhanced control implementation date.

Response by management

Despite numerous communications from the fund to the secretary of defence, the SANDF was only willing to validate the UIF data of already identified SANDF members as it is of the view that validating the entire UIF data set would breach national security. The fund thus decided that it would accept the risk of paying SANDF members and recover the money once they are identified as such during the forensic audits.

For the 1 324 identity numbers identified, management ran the data against the Ters rule and found four identity numbers that had payments made after 21 September 2020.

The rule failed to stop these payments because each of the four identity numbers has two statuses:

- Resigned
- Active

This means that an employee resigned at one department to cash out their pension and was then appointed in another department as a new employee. The Ters system holds the old status and therefore considered the employee to have resigned. The integrity of the data is the responsibility of the DPSA and the fund has no control that it can implement to ensure that the data provided is correct.

Auditors' response

Based on the work we performed on applications controls and the results of the CAATs testing, the fund has not implemented a control to prevent SANDF members from claiming for Ters benefits. We also identified that the current control to detect employees paid via Persal was not effective as it did not detect all Persal employees.

20.3. Sassa

Progress on previous commitment as indicated by management

The UIF sent a letter to Sassa to confirm the status of identity numbers. Sassa confirmed that an individual can work receiving Sassa grants. The fund will therefore continue with payments of the Ters benefits and provide Sassa with the extract of the covid-19 Ters database to determine further eligibility for the grant.

Audit observations on follow up

Management indicated that the change implementation date for the control on the old age grant was 18 September 2020. We tested the control on 2 October 2020 and confirmed that the system functionality had been enhanced to detect and flag individuals of pensionable age. The system generated an error for transactions relating to individuals of pensionable age and prevented the user from proceeding with the application.

We analysed the Ters payment data and identified 43 668 disability grant recipients who were paid Ters benefit claims amounting to R158 601 116.

Response by management

The Department of Social Development indicated that it does not restrict grant beneficiaries from employment, which qualifies them for UIF benefits. According to the rules of Sassa grants, a recipient of any grant should pass the Sassa means test to qualify for a grant. Sassa has requested, and was provided with, the UIF database to manage this process. Since South Africa has no legislated retirement age, according to the rules, any person who is part of an employer-employee relationship can access the Ters benefit.

Auditors' response

The risks relating to these claims remain significant until the post-verification processes have been performed to confirm the validity of the information submitted by the employers.

21. Payments to non-South African citizens

Progress on previous commitment as indicated by management

We reported in the first special report that payments were made to non-South African citizens whose employers had not paid contributions for them for the past 12 months. The fund did not confirm whether these non-South African citizens were possibly refugees or had valid work permits.

In response, the fund indicated that the directive issued on 25 May 2020 defined who qualified as a worker and the initiative was implemented based on this definition. These payments were made in line with the directive, which was also retrospective.

Audit observations on follow up

We could not identify implemented controls to verify the status of non- South African citizens applying for the Ters benefit. The CAATs testing we performed also identified 290 411 claims amounting to R1 167 827 225 that were paid. The risks relating to these claims remain significant until the post-verification processes have been performed to confirm the validity of the information submitted by the employers.

Response by management

In terms of the directive dated 25 May 2020, employees should not be penalised because of employers' non-compliance. Thus payment was authorised and the compliance unit is dealing with these cases. Payments to non-South African citizens have also been placed on hold since 22 October 2020, pending confirmation from home affairs.

Auditors' response

Based on the work we completed on application controls, the fund had not implemented any control to verify the status of non-South African citizens who have been paid the Ters benefit and have not contributed to UIF for the past 12 months. Therefore, as indicated above, the risks relating to these claims remain significant until the post-verification processes have been performed to confirm the validity of the information submitted by the employers.

22. General control environment

22.1. Weaknesses pertaining to the Ters general control environment

We found the general control environment hosting the Ters system to be inadequate due to the following control weaknesses:

- The process followed to manage changes to the system was ineffective, which may result in unauthorised changes being effected in the production environment.
- Segregation of duties for IT users was not enforced, which may lead to users who perform unauthorised activities on the system not being detected.
- User authentication was not adequate, which makes it easy for unauthorised people to gain access to the system.

Response by management

Management agreed with the findings and indicated that the time constraints made it impossible for the fund to adhere to defined and/or adopted practices. Management further indicated that the fund's database environment was in the process of being upgraded, which will include an upgrade of the Ters system environment.

Audit observations on follow up

We noted management's comments and urged management to ensure that systems are managed in terms of defined processes as these procedures do cater for emergencies. We will perform an assessment of corrective actions during the normal annual audit.

22.2. Weaknesses pertaining to the Ters system implementation

The controls applied during Ters system implementation were inadequate as they did not follow a defined system development process. Specifically, we identified the following control weaknesses:

- Project governance structures were not appropriate to ensure proper oversight of the project deliverable
- Changes to the system were not managed effectively to ensure that the system is designed in accordance with the defined business requirements

- System testing was not effective to ensure that the system is functioning as intended, without defects or errors.

Response by management

Management agreed with the findings and indicated that the time constraints made it impossible for the fund to adhere to defined and/or adopted practices.

Audit observations on follow up

We noted management's comments and urged management to ensure that systems are managed in terms of defined processes as these procedures do cater for emergencies.

OVERALL CONCLUSION

UIF management has made progress in addressing the weaknesses identified during the audit of automated controls as some of the enhancements were found to be adequate. Most of these enhancements were performed during September and, in most instances, limited claims were processed after the implementation of the enhanced control. Therefore, we urge management to continue to monitor the effectiveness of the enhanced controls and to implement corrective actions where further weaknesses are identified.

The overall results of our CAATs testing revealed that, in most instances, fewer exceptions were identified after controls were implemented. This supports our overall assessment of the application controls as having improved.

We urge management and oversight to focus on the following going forward:

- Continuously strengthen the systems by implementing preventative controls to prevent errors and possible fraud
- Intensify monitoring and supervision of the enhanced controls to ensure effectiveness throughout the payment period
- Fast-track the investigation of the observations noted in the special reports to ensure that, where applicable, appropriate steps are taken to recover the funds due to the UIF.
- Implement the post-verification processes as initially committed to, as this will go a long way to responding to the significant risks relating to the claims made by the employers, especially where the employees or employers were previously not registered with the fund.

FARMERS' RELIEF

Purpose of initiative

Support to qualifying financially distressed small-scale farmers

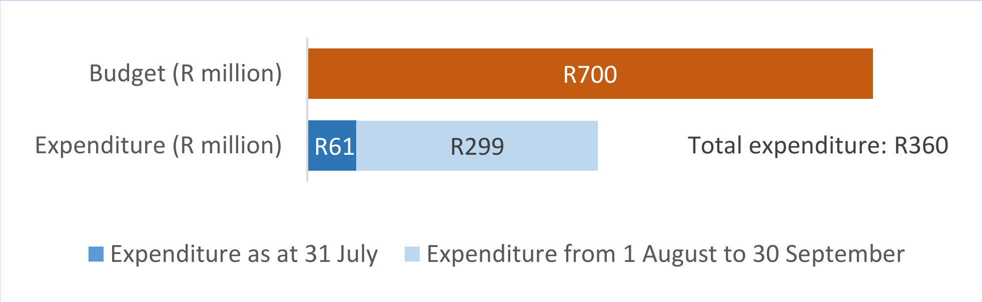
Auditees

- Department of Agriculture, Land Reform and Rural Development
- Agricultural Land Holding Account

Focus of our audit

- Application process to access relief funds
- Distribution, redemption and settlement of vouchers
- Procurement and contract management for appointing service providers to redeem vouchers and distribute hygiene products to farmers

Budget and expenditure



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PREV <

STATUS OF IMPLEMENTATION OF INITIATIVE

The Department of Agriculture, Land Reform and Rural Development implemented a relief scheme for financially distressed small-scale farmers in the form of vouchers for production input. By 22 July 2020, the department had approved 14 589 voucher applications worth R517 million and distributed 13 662 vouchers. We identified inadequate record keeping and reconciliations for vouchers approved, distributed and redeemed, which increased the risk of unreliable reporting by the department and possible undetected fraud or error. We raised concerns with the department about the inadequate process followed to select the suppliers used to redeem the vouchers and about beneficiaries who might not be eligible for the vouchers. The department is investigating these concerns.

R680 MILLION ALLOCATED TO SMALL-SCALE AND COMMUNAL FARMERS

The goal of the initiative is to provide relief of up to R50 000 per applicant for small-scale and communal farmers in the form of vouchers for production inputs in farming activities. The department is still busy implementing this initiative. In the first special report, we highlighted some control weakness in the initiative's approval and distribution process. This was one of the factors that prompted the department to revisit all disqualified and incorrectly omitted applications to validate whether they were appropriately disqualified and to consider them for approval should it be necessary.

One of the key prioritised areas was farmers who produce winter field crops. Because of the delay in distributing the vouchers, the beneficiaries could not redeem the vouchers meant for winter crops in time.

Most of the approved applicants only redeemed their vouchers after winter, and likely used them for summer crops. However, some applicants were not considered because they produce summer crops and therefore would not have applied for these vouchers. The department should assess the best way to ensure the process is comprehensive so that it caters to all small-scale and communal farmers as the covid-19 pandemic continues to impact South Africa's economy.

The minister initially extended the validity period for vouchers to be redeemed to 30 September 2020 and subsequently further extended the deadline to 31 December 2020.

By 31 July 2020, the department had already paid suppliers R41,16 million for redeemed vouchers. A further R299 million had been redeemed and paid by 30 September 2020.

R20 MILLION ALLOCATED FOR HYGIENE PRODUCTS

The department procured, paid for, received and distributed 400 000 face masks, 200 000 cloth face masks, and 400 000 soaps to farm workers across the country at a total cost of R19,8 million. According to the department's report, this initiative has been completed.

AUDIT STATUS

This report focuses on following up on the progress made in implementing the actions to address previously reported findings, as well as auditing the vouchers redeemed by farmers and the payments made to suppliers. Our audit plan also included conducting site visits to selected farmers across the country. However, we were unable to visit all the selected sites because the department could not provide us with information for four of the provinces and so we only visited sites in the Western Cape, the Free State, North West, Limpopo and KwaZulu-Natal.

We followed up on the delivery of the hygiene products to confirm if the intended beneficiaries had received these products as indicated in the first special report.

We will continue testing the transactions relating to voucher redemption and payments to suppliers, and to perform site visits. The audit team included a team data analytics experts as well as fraud specialists, which enabled us to detect anomalies and analyse trends in the data the department provided.

As part of our risk assessment process, we obtained an understanding of the processes and control environment to identify possible fraud risks that could materialise. We identified control weaknesses in the application, allocation, distribution, redemption, and settlement processes. Management agreed to these control weaknesses and is currently considering and developing response plans to address them.

ACTION TAKEN IN RESPONSE TO PREVIOUS REPORT

In response to the findings we reported in the first special report, the accounting officer made commitments to implement actions to address the findings and prevent them from recurring. One of the key commitments the accounting officer made was to prepare and reconcile accurate and complete records of approved, distributed, redeemed and paid vouchers. The department is still addressing this commitment as it revisits all the applications that were either approved or rejected.

We find it encouraging that after we reported that a significant number of applicants had been incorrectly rejected for reasons that included errors in the evaluation process, the department decided to revisit and re-evaluate all rejected applications. This will ensure that qualifying applicants are not unduly disadvantaged and prevented from receiving the relief. By 13 August 2020 the department had approved an additional 924 applications valued at R39 million. This increased the number of approved applications from the initial 14 589, valued at R517 million, to 15 513, valued at R556 million. However, management confirmed that the department has not yet finalised this process.

In instances where the department had approved applicants who had invalid identity numbers or who did not meet the criteria, the department resubmitted updated listings of approved beneficiaries. However, these listings were not reliable as we identified discrepancies during the follow-up audit and some vouchers had already been redeemed and paid for. The department indicated that it is still verifying identity numbers against the databases of the Department of Home Affairs, the South African Revenue Service and the Department of Public Service and Administration.

The department also committed to investigate why and how an inadequate supplier selection process was followed for redeeming the vouchers. The investigation determined that a process had been initiated to evaluate potential suppliers, but this process, or the results thereof, was not adequately implemented because of inadequate integration and oversight between the national and provincial offices. The department has since tasked the provincial offices with assessing suppliers for any non-compliance.

Management is also still standardising the price lists for commodities. Once these lists have been finalised, they will be disseminated to all provinces, beneficiaries and suppliers and used to identify anomalous prices charged by suppliers. This process is unlikely to succeed as vouchers are still being redeemed and settled despite the process not being finalised.

The deviation that was previously not reported to the National Treasury for the procurement of personal protective equipment has since been reported.

We have engaged the executive authority on the findings in both the first special report and this report. We have also provided the executive authority with updates on the progress on the implementation of matters reported in the first special report.

APPLICATION PROCESS TO ACCESS RELIEF FUNDS

The initiative includes an application process through which applicants had to apply for relief by 22 April 2020. This process, which involved evaluating all the received applications against the criteria published by the executive authority, was evaluated by various committees at district and provincial level and approved at national level. After we reported findings on approved and rejected applications in the first special report, management provided updated approval and rejection information. We used computer-assisted audit techniques (CAATs) to compare the updated approved beneficiary listings to different databases to assess any anomalies, exceptions and indicators of fraud. Any matters that we noted are reported below as part of our key audit findings and observations.

KEY AUDIT FINDINGS AND OBSERVATIONS

1. Approved applicants also employed by an organ of state

According to the department's advert for the relief, qualifying applicants should not be government employees. The application form for farmers' relief also requires all applicants to declare that they are not employed by any organ of state. We identified 113 applicants who were approved for the farmers' relief but are employed by an organ of the state.

Recommendations

The department should investigate all approved applicants who are employed by an organ of state and ensure that they qualify for the relief provided. If they do not qualify, the department should cancel or withdraw any vouchers that have already been issued and recover any monies for vouchers that have already been redeemed, taking into account the legal implications.

Auditees' response

Management has accepted the finding and indicated that this deficiency was due to a manual process and limited timeframe. Management has also started following up on these exceptions. In instances where public servants have already redeemed the vouchers, the department is in the process of creating debt accounts and facilitating collection from the affected public servants through the accounting officers of those departments or organs of state.

2. Approved applicants also receiving support from other government programmes

We identified 1 832 applicants who were approved for the farmers' relief but were also receiving support through other government programmes despite the department's own circular stating that applicants receiving support through other government programmes may not participate in the initiative. We are specifically highlighting these beneficiaries as they are risk indicators and therefore need to be followed up to ensure that they are not double-dipping.

The type of support these beneficiaries are receiving in addition to farmers' relief is as follows:

- 10 beneficiaries received support from the Department of Small Business Development's spaza shop support programme
- 5 beneficiaries received support from the Small Enterprise Finance Agency's debt relief finance scheme
- 668 beneficiaries received support from the Unemployment Insurance Fund temporary employee/employer relief scheme (Ters)
- 1 149 beneficiaries received support from the South African Social Security Agency's R350 social relief of distress grant.

Recommendations

The department should investigate all approved beneficiaries also receiving support through other government programmes and ensure that they comply with departmental Circular No. 30 of 2020. The department should implement measures to recover the value of the support provided from applicants who have already redeemed their vouchers and to withdraw vouchers that have already been issued, taking into account the legal implications.

Auditees' response

Management disagreed with the audit observation on the basis that Circular no. 30 of 2020 excluded applicants who are currently receiving comprehensive agricultural support through programmes run by the government and its entities, which in this case refers to the department and its related entities.

Auditors' response

We noted management's response. However, the results of our testing show that these beneficiaries of the farmers' relief programme are receiving support from other government programmes that are not within the department. Circular 30 of 2020 is specific in addressing the issue of applicants receiving support from other government entities and therefore management's comment contradicts this. Management must follow up on these specific beneficiaries and ensure the risk of double-dipping is adequately responded to.

3. Approved applicants also receiving support from other departmental programmes

We identified that beneficiaries approved for farmers' relief were also receiving support through other programmes within the department and entities within its portfolio as follows:

- 132 farmers received support from the department's programme 3: food security, land reform and restitution
- 16 farmers received support from the department's comprehensive agricultural support programme (Casp) projects.

Recommendations

We recommend that management ensures compliance with departmental Circular no. 30 of 2020, which states that applicants who are currently receiving support through other government programmes, which includes programmes by the department and its entities, are excluded.

The department should implement measures to recover the value of the support provided from beneficiaries who have already redeemed their vouchers and to withdraw vouchers that have already been issued.

Auditees' response

Management partially agreed with the finding. The department has indicated that it does not have a system that is linked to other departments within its portfolio and does not have access to provincial departments that will detect whether applicants receive other farming support from other departments. Some provinces only excluded farmers receiving support from Land Development Support, while farmers receiving support from Casp projects and other initiatives were not excluded. The department has committed to conduct further investigation into valid cases of double-dipping.

Auditors' response

Although the department highlights the lack of linked databases, we believe that because these databases are within the same portfolio, management should have implemented a control measure to circumvent the double-dipping to comply with its own circular. The department should set clear timelines for when the investigation into valid cases of double-dipping will be performed and finalised.

4. No evidence that applications were received before closing dates

The department did not implement clear cut-off dates by which potential beneficiaries had to submit their applications and the forms we inspected did not indicate on which date they were submitted. As a result, we cannot confirm if the applications were submitted on or before the closing date of 22 April 2020.

Recommendations

When evaluating applications, the department should consider whether the application was submitted before the stipulated closing date and reject any applications received after the closing date. Where a late application was approved and voucher issued, the department should consider investigating the approval and taking appropriate steps.

Auditees' response

Management disagreed with the finding. Although the dates were not indicated on the actual applications, the applications were received before the closing date. The department maintained manual registers to record the date on which the applications were received, or the application forms indicated the date on which the applications were received.

Auditors' response

Because we did not receive all of the manual registers from management, we cannot conclude that the control was implemented throughout the department's offices where applications were received.

5. Incorrect applicant scoring (repeat finding)

In addition to the beneficiaries we reported in the first special report who were approved but did not meet the criteria, we identified another 82 applicants who were scored incorrectly. The applicants did not obtain the minimum score, but were approved and included as beneficiaries to receive the relief.

Recommendations

We recommend that management review all applications and ensure that they comply with the set criteria. The department should investigate payments that were made to applicants who do not qualify for the grant and explore the possibility of recovering the money paid, taking into account the legal implications.

Auditees' response

The department partially disagreed with the finding because some of the documents to support the applied scoring were provided. However, a lack of clear guidelines meant that the provinces did not always apply the criteria consistently. The Western Cape automatically provided a score for the proof of access to land criteria without the farmer providing the necessary proof. The province also used the computerised budget system to calculate annual turnover and did not obtain financial records from the farmer. Other provinces did not score farmers for the proof of access to land or proof of turnover criteria, which resulted in some farmers not being approved. The department also accepted inadequate evidence, such as affidavits, for proof of access to land and proof of annual turnover.

Auditors' response

We evaluated the supporting documents provided to support the scoring and found them to be inadequate. Management's response does not indicate what corrective action will be taken to address the identified deficiencies. We recommend that the department develop and implement clear corrective action plans with timelines.

6. Inconsistent method or process used to calculate assistance to farmers

On 6 May 2020, the department issued the National Covid-19 Intervention Plan Standard Operating Procedures to provide an overview of the step-by-step activities to be followed. This document did not include guidelines to calculate the assistance to farmers and as a result, the assistance provided was not applied consistently between the different provinces. Provinces used the computerised budget (Combud) system differently to calculate the support for specific production inputs for the key agricultural commodities. We received information that could be used for the comparison for the Eastern Cape, the Free State, the Western Cape and the Northern Cape. Based on the discussions held and information obtained, we noted the following inconsistencies:

6.1. Period for which support was provided

Provinces provided support for different lengths of time. The table below shows examples of support periods ranging from three to 12 months.

Inconsistent periods used to calculate support

Province	Support period (months)
Eastern Cape	3
Free State	6
Western Cape	6
Northern Cape	12

6.2. Method for calculating support

Provinces used different methods to calculate the support provided. Although all provinces used the Combud system, they made different assumptions and included or excluded certain factors from the calculation. The examples below show different assumptions used to calculate assistance for livestock farmers in the Western Cape and Northern Cape:

- The Western Cape calculated the cost per day to feed different types of animals (for example, cattle = R20 per day for 180 days = R3 600 for six months)

- The Northern Cape calculated the cost to feed one large stock unit for a year (365 days) to be R1 200.

With this example, a farmer in the Western Cape would receive R3 600 for six months while a farmer in the Northern Cape would receive R600 for the same period.

6.3. Calculations used for purchasing medicine

The department was not always able to provide the calculation used for purchasing medicine for a beneficiary. The audit team was not in a position to recalculate the financial assistance and determine how consistent the calculations were between provinces for the same type of farming activity.

The different provinces determined different maximums that would be paid for medicine for farming activity related to livestock. The table below reflects the inconsistent support for purchasing medicine, ranging from a high of R15 000 to a low of R3 000.

Examples of maximum amounts of support per province

Province	Maximum amount payable for medicine for livestock (R)	Maximum medicine allocation from R50 000 (%)
Free State	6 350	13
KwaZulu-Natal	7 000	14
Northern Cape	13 500	27
Western Cape*	3 000	6
Western Cape#	15 000	30

**West Coast, Cape Metro, Overberg and Cape Winelands districts*
#Garden route (Eden) and Central Karoo districts

We are aware that the environment, climate, and circumstances differ between provinces and regions. However, the department should have decided on a consistent approach for calculating farmer support at the start of the process to ensure consistency and fairness.

Recommendations

The department should communicate clear guidelines to all provinces in a timely manner to ensure calculations are consistently applied for assistance to small-scale and communal farmers when similar support programmes are implemented in future.

The department should investigate the method of calculations and the assumptions each province used to ensure that a fair and consistent approach was used for the support provided to small-scale and communal farmers throughout the country. If some farmers were disadvantaged by the process, the department should follow up and rectify this.

Auditees' response

The department agreed with the finding that calculations for assistance to small-scale and communal farmers were not standardised to ensure that they were consistently applied. The provinces had used Combud systems differently and applied inconsistent methods.

Auditors' response

Management's comment does not indicate the corrective action to be implemented to address the inconsistencies identified. We recommend that the department develop and implement clear corrective action plans with timelines.

VOUCHER DISTRIBUTION, REDEMPTION AND SETTLEMENT

Once applicants have been approved to receive the relief through the voucher programme, the vouchers are printed and distributed. The beneficiaries then redeem the vouchers with the relevant suppliers, who present invoices for settlement.

KEY AUDIT FINDINGS AND OBSERVATIONS

7. Payments not verified at national office

The Agricultural Land Holding Account national finance office is required, as per paragraph 5.5.5.1 of Circular no. 30 of 2020, to verify vouchers and invoices submitted by provincial offices for payment against approved application registers, specimen signatures and goods received notes, amongst others.

We could not confirm that the national finance office performed this verification before payments were made because the payment batches and supporting checklists were only signed off by provincial officials as evidence that the checks were performed.

Recommendations

We recommend that national finance officials verify and sign payment batches from provincial offices before payments are released to prevent invalid or fraudulent payments from being made. The department should implement a record management and reconciliation process that would enable adequate tracking and control of the payments in the system. Without an adequate record management system and reconciliation process, there is a risk that invalid, fraudulent or duplicate payments might be made.

Auditees' response

Management disagreed with the finding. Payments are reviewed against the commitment register that records all approvals and for compliance before payment is made. Provincial offices complete a checklist that is verified against the documents inside the payment parcels.

Auditors' response

We requested the commitment register so that we could validate management's response that the payment batches are first reviewed against the commitment register. However, management indicated that the registers are still being reviewed and could not be submitted in time for us to verify this comment.

We inspected the final checklists, which were completed by the provincial office, but we could not verify the key control relating to the validations that head office should perform.

8. Paid transactions not recorded in accounting system

We identified that vouchers and invoices paid up to 31 July 2020 were not recorded in the relevant accounting system, thus the general ledger of the Agricultural Land Holding Account was not updated with covid-19 paid invoices. Payments are made based on manual payment batches and released through the bank account. However, the batches were not separately recorded in the accounting records.

The bank reconciliations were also not performed because the accounting records were not updated. The Agricultural Land Holding Account will not be able to determine the amount that still has to be paid for a beneficiary or supplier at any given time. This could lead to duplicate payments being made, or to payment delays. The completeness of covid-19 expenditure as reported by the department and Agricultural Land Holding Account is unreliable.

Recommendations

The Agricultural Land Holding Account should record transactions in the accounting system in a timely manner and update the general ledger accordingly. This will allow for timely reconciliation of the paid-for transactions with the bank statement. Any reconciling items, whether errors or potential fraud, can then be followed up and attended to.

Auditees' response

Management disagreed with the finding. The Agricultural Land Holding Account does all covid-19 reconciliations on the commitment register and checks the payments against the register, keeping a detailed schedule of all the invoices for uploading on Accpac.

Auditors' response

The Agricultural Land Holding Account should record the transactions on Accpac when payment is processed and not at a later stage. Management could not provide evidence that the transactions were recorded on the accounting system. Management also cannot show how the payables and ageing are monitored to enable accurate financial reporting.

We requested the commitment register to validate management's response, but it was not available in time for our audit. Management indicated that the registers are still being reviewed, so we could not confirm that all reconciliations have been performed and are readily available and being reviewed.

9. Payments made to suppliers without detailed invoices

Suppliers presented invoices for payment that were not adequately supported. The invoices provided only indicated the redemption of vouchers with the total voucher amount and did not include a detailed breakdown of the items the farmer redeemed and their unit price per item.

Management could therefore not have assessed the reasonability of the prices charged by the suppliers when processing the invoices for payment. Taking into account that there was an inadequate supplier selection process, this further increases the risk that suppliers might be charging exorbitant prices on redemption of the vouchers.

The suppliers submitted goods received notes that did not have adequate details and prices of items procured. Without a detailed goods received note and supporting invoice issued to the farmer, we were unable to confirm the reasonability of the prices paid for the items.

Recommendations

The Agricultural Land Holding Account should review the invoices received to ensure that they provide the details of the commodities redeemed by the farmers and should be assess the prices charged for reasonability. For all the invoices where payment has already been made, the department should ask suppliers to provide detailed invoices or receipts that include the relevant commodity descriptions and prices.

Auditees' response

Management disagreed with the finding. The first point of entry of the transaction is for the farmer to sign the voucher if they have agreed on the items to be delivered. The farmers sign the vouchers to indicate that they have received the items and delivery notes are attached as proof that the delivery was made as agreed. The Agricultural Land Holding Account has also agreed to bulk invoicing, not individual invoicing.

Auditors' response

Without the detailed invoices, the Agricultural Land Holding Account cannot confirm which items the farmer redeemed and whether they are in line with what was approved.

Without the prices per item, the Agricultural Land Holding Account cannot assess the reasonability of the prices charged per item. A signed voucher and delivery note are not adequate to confirm the details of the items redeemed by the farmer.

10. Inadequate oversight by department officials

We had planned to visit all nine provinces, but we only received information for five provinces, namely the Western Cape, the Free State, North West, Limpopo and KwaZulu-Natal. We conducted site visits in these five provinces to verify that;

- the farm and the farming activity existed
- the voucher had been redeemed and commodities were being used in the farming process.

The site visits had the following outcome:

- The department did not provide site visit reports as evidence that departmental officials had visited the farms to verify the farming activities, the size of the land and/or the number of animals before granting and approving assistance for four of the five provinces, i.e. North West, Limpopo, KwaZulu-Natal and the Western Cape.
- At two of the four farms the audit team visited in the Western Cape and two farms in the North West, departmental officials did not visit the farms after the commodities or goods were received. The department could therefore not ensure that the vouchers were redeemed and verify that the inputs or commodities were received and used in the approved farming activities.
- At one of the farms the audit team visited in the Western Cape, the application form for assistance indicated half a hectare of land for vegetable farming and half a hectare for winter crops. The department approved R36 150 as assistance to the farmer for seeds (R15 000), seedlings (R15 150) and fertiliser (R6 000). We observed that the farm area used for vegetable farming consisted of three pieces of land measuring approximately 1 100 square metres. This was approximately 8 900square metres less than indicated on the farmer's application form. The calculation for assistance was therefore based on the incorrect land size, which could have resulted in the farmer receiving more assistance than he would have qualified for had the correct size been used.

Recommendations

The department should perform adequate site visits to verify the accuracy of information on the application form, such as the type of farming activities, the size of the land, the number of livestock, etc. This will ensure that the commodities were received and used for approved farming activities, which will result in the objectives of this initiative being achieved.

Auditees' response

Management has indicated that the department assisted with verifying applications through the producer farmer register. Where farmers were not on the register, the department followed up to formalise their details on the register. The district agreed that farms were not visited as the country was under lockdown level 5 at the time. Under normal circumstances the department conducts site visits prior to funding.

Auditors' response

While we noted management's responses, a site visit to the farm is the only way to verify the farming activity and other factors that impact the value of the assistance provided. As indicated above, we identified that the information on the size of the land available for farming was not accurately reflected on the application form. The level 5 lockdown was lifted in May 2020 and there was sufficient opportunity for the department to visit the farming sites. We recommend that the department develop and implement clear corrective action plans with timelines to perform the necessary site visits.

11. Commodities bought unrelated to farming activities approved

In the Free State, we visited two farmers who indicated that they owned cattle, goats and sheep and did not mention pigs. In both site visits the farmers did not receive all the items that were purchased. The delivery notes for their goods stated that each beneficiary had received 20 bags of molasses; however, only 25 bags V2 meal for pigs were delivered to be shared among four farmers. The beneficiaries accepted the V2 meal for pigs despite not having pigs because they said that other members of the community had pigs and they would give the meal to them. This shows that farmers were able to redeem the vouchers for commodities that are not related to their farming activities.

Recommendations

Management should perform oversight to ensure that the necessary farm visits are conducted to verify the information indicated on the application form, such as the type of farming activities and the size of the land.

Auditees' response

Management agreed with the finding and that oversight was not performed to ensure that farm visits were conducted to verify the information indicated on the application form.

Auditors' response

Management's response does not indicate what corrective action will be taken to address deficiencies identified. We recommend that clear corrective action plans with timelines be developed and implemented to verify the site visits.

12. Suppliers' tax compliance status not confirmed

We identified that the department did not confirm the suppliers' tax compliance status before including them to the database.

Recommendations

Management should develop a compliance checklist to be completed for every procurement. The department should not be doing business with suppliers that are not in good standing with the South African Revenue Service.

Auditees' response

Management has specified that when the expression of interest was advertised, the central supplier database printouts to verify tax compliance status was not part of the requirements. The suppliers have all been advised to attend to their tax matters in line with National Treasury guidelines. The department has stressed that it must be noted that tax compliance status is not static and changes frequently based on supplier conduct. The lockdown also affected the process. The department submitted printouts of the central supplier database indicating the tax status for some of the suppliers for inspection.

Auditors' response

We evaluated the portfolio of evidence provided for some of the suppliers and verified that some of the service providers are tax compliant. However, because not all provinces submitted the supporting documents and we were unable to verify the tax standing of all suppliers, the finding remains. Some suppliers who were not tax compliant were paid.

13. Limitation of scope

We requested information from management on the farmer register as required by the Circular no. 30 eligibility criteria for the relief fund. Management did not provide the information and we were thus unable to confirm whether the approved applicants were registered on the farmer register as per the qualifying criteria.

We requested information on payment batches and related application forms for August 2020, but we have not received most of the requested documents. It is concerning that supporting documents are not readily available for payment batches that have already been made.

Recommendations

Management should ensure that there are adequate controls in place to collect, track and provide the information requested; keep open communication where information is not available; and commit to a reasonable date to provide the information

Auditees' response

Management agreed that information was not submitted. Management committed to improve record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting. All provinces are currently busy scanning in all the documents.

DISTRIBUTION OF HYGIENE PRODUCTS TO FARMERS

The 400 000 face masks, including 200 000 cloth face masks, and 400 000 soaps that were procured needed to be distributed to rural farmers.

KEY AUDIT FINDINGS AND OBSERVATIONS

14. Inadequate distribution of cloth face masks and hygiene soaps

We could not verify that all the soaps and cloth face masks procured were received or delivered to the intended beneficiaries. Management provided information in the form of registers, letters and spreadsheets for all the provinces detailing the personal protective equipment items that were issued to the beneficiaries. However, based on the information we received, the registers, letters and spreadsheets did not record all of the items issued to the beneficiaries. We also note that there was no consistency or uniformity in how the information was collated for each province.

Recommendations

Management should follow up to ensure that all goods and services paid for are received and provided to the intended beneficiaries.

Management should also implement a document management system for each directorate to ensure that information and documents are filed in an easily retrievable manner and can be submitted for audit without significant delays.

Auditees' response

Management agreed that information was not submitted on time, Management committed to improve record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting. All provinces are currently busy scanning in all the documents.

OVERALL CONCLUSION

The department has not appropriately implemented the commitments made in the first special report. The department experienced challenges around the data integrity of the approved and rejected applications. This process is manually driven and without adequate controls. As a result, the department has not been able to maintain accurate and complete records of vouchers approved, distributed, redeemed and paid for.

The main objective of the initiative was to offer relief to small-scale and communal farmers who rely on agricultural produce as an economic activity. It is vital that the department further performs a comprehensive analysis of the process followed while reflecting on the objectives of this initiative to ensure that all deficiencies identified are fully responded to.

SPORT, ARTS AND CULTURE SOCIAL RELIEF FUND

Purpose of initiative

Support to qualifying artists, athletes and technical persons in the sport, arts and culture sectors

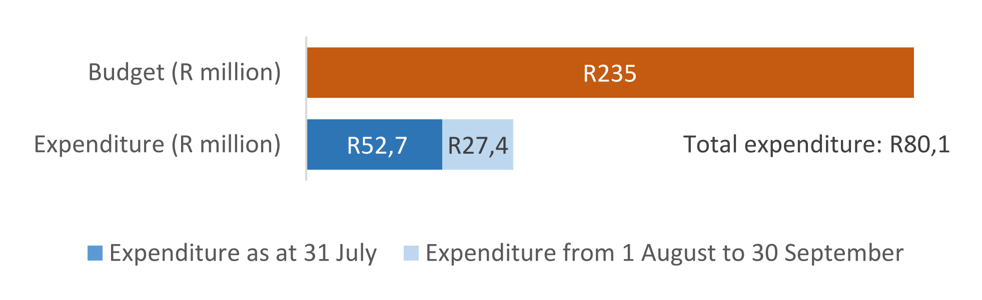
Auditee

Department of Sport, Arts and Culture

Focus of our audit

- Assessment of applications received:
  - Adjudication process and payments made against departmental framework for sport, arts and culture relief fund for cancelled and postponed events
  - Adjudication process and payments made for digital solution proposals
- Review of supply chain management process followed for appointing payment agencies and digital solution providers

Budget and expenditure



NEXT >
MENU ☰
PREV <

STATUS OF IMPLEMENTATION OF INITIATIVE

The Department of Sport, Arts and Culture opened applications for the sport, arts and culture relief fund to the public on 29 March 2020, with a closing date of 6 April 2020. The purpose of the fund was to provide relief funding and assist artists, athletes, and technical people within the sport, arts and culture sector. Funds were also earmarked for digital proposals to allow artists and athletes to continue working during the national lockdown using various digital platforms to display their talents.

The department appointed four agencies to disburse these funds to the beneficiaries and set a maximum amount payable of R20 000 per applicant for arts and sport relief funding and R75 000 for digital solution proposals.

The status of applications is detailed in the table below based on management records. However, the figures reported by management did not agree with the underlying records for arts relief funding and digital proposals. The root causes of the deficiencies identified in this regard are included in the key audit findings and observations section of this report.

Status of ALL applications as per management records (unaudited figures)

Description	Applications					
	(A) Received	(B) Recommended for payment	(C) Rejected	D= A-(B+C) Unreconciled records	Paid to date (30 September 2020)	Amount paid (R million)
Arts relief	4 509*	4 034*	1 330	-855	3 567	57,94
Digital proposals	638	417	164	57	283	15,78
Sport relief	513	314	199	0	319	6,38
Total	**5 660**	**4 765**	**1 737**	**-798**	**4 169**	**80, 10**

**Includes duplicated applications captured*

The total number of applications received according to the department's records did not reconcile with the numbers it presented for audit purposes. We identified duplicate applications in their records and were therefore unable to fully rely on the information management provided. The duplicates are also reflected in the total number of recommended and rejected applications because of the deficiencies identified in sections of our key audit findings and observations. Some of the numbers presented were not supported by adequate evidence, i.e. listings of the applications.

More payments were made for sport relief than was recommended. We provide more detail in the key audit findings and observations section on overpayments. We identified similar duplications for the arts and digital proposals applications, details of which are included under the key audit findings and observations.

Detailed breakdown of appealed applications per management records, as at 30 September 2020 (unaudited figures)

Description	Number of appeals applications					Amount paid (R' million)
	Appeals reviewed	Recommended for payment	Rejected	Unreconciled records	Paid to date (30 September 2020)	
Arts relief appeals	1 039*	923* (2 145 beneficiaries)	72*	44	2 145	42,90
Sport relief appeals	16	9	7	0	9	0,18
Total	**1 055**	**932**	**79**	**44**	**2 154**	**43,08**

**No listings supporting the figure*

Some of the applications that were approved during the appeals process included those for companies or businesses that applied on behalf of their employees. As a result, 901 appeals were received but 2 145 beneficiaries were paid an estimated R42,9 million.

In the first special report, the number of appeals we reported for the sport relief funding was greater than what has been reported based on the table above. This was because some applications were referred back to the adjudication committee for further evaluation.

The initial adjudication panel had a high rejection rate for applications, as reported in the first special report, because most of the applicants had submitted supporting evidence for events that had been postponed and not cancelled, which did not meet the communicated criteria. As we reported in the first special report, postponed events were not part of the initial criteria but were subsequently considered, which resulted in these applications being considered and approved through the appeal process.

Another reason for the high initial rejection rate was that applicants did provide adequate evidence to support loss of income, proof of contracts or proof of cancellations.

AUDIT STATUS

At the time of the first special report, our audit work was still in progress, specifically as it related to the verification of the application processes, but has since been completed. We completed the following audit work for payments made by the sector as at 30 September 2020:

- Assessment of key controls and systems implementation in disbursing funds
- Review of the validity of applications and rejected applications by performing computer-assisted audit techniques (CAATs) analysis on beneficiary data
- Procurement testing of service providers for digital solutions and appointment process of payment agencies.

When requesting information from the department, we experienced similar challenges to those we reported in the first special report, which was mainly due to the extensive manual process that management had been using to receive applications and pay beneficiaries. From our audit, we observed that most of the information was captured through spreadsheets that required many manual reconciliations, which exposed the information to quality and integrity risks. The department performed additional work to attempt to mitigate these risks, which resulted in significant delays in the submission of requested information.

There were, therefore, no effective reconciliation controls between the department and its appointed payment agencies throughout the period of in which the funds were paid out. This increased the risk of inaccurate reporting by management.

We still have to test payments made after 30 September 2020, which will include the occurrence of digital solution proposals and payment of the last portion of the relief fund. Testing of applications and disbursement of the sport relief fund at the provinces has not commenced. By 30 September 2020, no payments had yet been made to the suppliers appointed to assist in implementing digital solution proposals and, therefore, they were not tested for this report.

ACTION TAKEN IN RESPONSE TO PREVIOUS REPORT

The accounting officer committed to clarify the criteria for eligibility for the relief fund. On 3 August 2020, the minister announced a second round of new applications and the issues raised with the criteria were clarified. The portfolio committee on sport, arts and culture continues to receive updates from the department on the progress of disbursing the sport, arts and culture relief fund.

In the first special report, management agreed to provide evidence that written assurance was obtained from the payment agencies to confirm that these entities had implemented effective, efficient and transparent financial management and internal control systems prior to the department transferring funds to them. We have since confirmed that the department did obtain written assurance from the four payment agencies, as these confirmations were subsequently provided by the department.

Management also agreed to amend the unclear criteria: relief fund payments could be made to invalid beneficiaries and the criteria were not clear to specifically exclude applicants who benefitted from other social relief funds and had other sources of income. Changes were also made to the criteria, which were not communicated to the public and could therefore unfairly exclude other eligible applicants. The department subsequently made payments to non-South African citizens because they met the criteria initially set. Further payments were made to applicants approved during the appeals process. The minister clarified that preference will be given to South African citizens when disbursing the funds. Management indicated that it does not have mechanisms to detect applicants who are benefitting from funds received from other state institutions; however, the criteria for the next round of applications have been amended to clarify and explicitly state that the initiative excludes those who are benefitting from other relief funds.

KEY AUDIT FINDINGS AND OBSERVATIONS

1. Deficiencies identified on the application system (app) used to capture and adjudicate applications

Mandatory and/or required fields on the app not enforced

Certain fields relating to the capturing of applicant information had been labelled as 'required' fields to ensure completeness of the applicant's information. However, we identified that the app allowed applications to be submitted for adjudication and further processing without capturing the applicant's details in the required and/or mandatory fields.

App not configured to detect duplicate applications

The system should have been configured to detect and/or flag any duplicate transactions. However, we identified that the app allows the capturing of previously captured applications (i.e. does not detect duplicates, hence allows duplicate processing). Instead, duplicate applications were detected at different stages of the application process by the respective officials, such as at data capturing (by data capturers), adjudication (by the adjudication team) and response (by the response team). This manual process resulted in significant time delays and undue exposure to duplicate payments.

No audit trail on the app

The audit trail is not enabled, i.e. the admin user can add and delete a user from the app without this being logged or captured by the app. An end user can also delete an application from the app without leaving an audit trail of the deletion.

Recommendations

Management should engage with the developer of the app to ensure that:

- the mandatory fields are enforced, i.e. the application should not be submitted to the next process if the mandatory fields are not populated
- duplicate applications are flagged at capturing and any further processing is denied
- the cut-off date for the submission of applications is configured on the app
- an audit trail is enabled to log or capture the applications and/or transactions deleted from the app.

Auditee's response

Management agreed with all the findings. The department will consider all the issues experienced with the app during the first wave of applications, and improve them when the second wave of applications, which commenced in September 2020, is received and assessed.

Auditors' response

The risk as identified in the finding materialised, as reported in the finding below. The inability to report accurate numbers of beneficiaries paid, as highlighted in the tables above, is the result of these deficiencies.

2. Inaccurate applications captured incorrectly in the portal, resulting in duplications and incomplete information

Applications were received through a designated email address. The department had created a portal where applications for the arts relief fund and digital solution proposals would be captured and adjudicated. Due to inadequate system design, we identified the following deficiencies that had affected the process:

- A total of 144 applications were duplicated, which resulted in duplicate payments. This resulted in overpayments of R1,5 million to beneficiaries.

- Inaccurate identity numbers were captured on the system, which could lead to invalid applications being approved and paid out. We identified 50 duplicate applications of individuals, 43 of which had already been recommended for payment. We further identified that 23 companies applied on behalf of individuals with inaccurate identity numbers.
- Not all information submitted by the applicants was captured; therefore, there was a risk that applications were processed without complete information. We identified the following missing information:

Information missing for applications

Number of applications	Missing information	Estimated value (R million)	Actual paid (R million)
59 recommended	No citizenship stated	2,88	0,015
273 recommended	No identity numbers	13,6	0,27
1 543 recommended	No bank confirmation	48	5,4
214 recommended	No proposals documents received(digital proposals)	16,3	0,006

We could not confirm what the approvals were based on because, from our assessment, it was clear that the minimum information that was required in the call to apply was not submitted.

Recommendations

We recommend that a detailed review and reconciliation be performed to ensure that accurate and valid information is captured on the system. Any gaps should be followed up by management and potential losses as a result of these deficiencies should be quantified for proper recording and disclosure.

Responses to finding

Management agreed that there were possible overpayments to 72 individuals. Management is investigating these overpayments and instituting a process to recover the funds, if applicable.

Management partially agreed with the findings relating to inaccurate data on the app as there were problems in capturing and processing information on the app. Management stated that even though there were inaccuracies, the app/portal was mainly used for the adjudication process and not to verify the information submitted by the applicants. Before the payment is processed, the management team had to do bank confirmations and verify copies of identity cards/books submitted.

Auditors' response

The criteria set in the call for applications required applicants to submit mandatory documents, including confirmation of bank details and copies of identity cards/books. We could not verify if all these documents had been received on time and considered when evaluating the applications. Therefore, we disagree with management that the adjudicators were not required to evaluate the information submitted by the applicants.

3. Regular reconciliations not performed by the department

Email and app reconciliations not performed

The initial call to the public requested all potential applications to be submitted to the department via a designated email address. The department subsequently created an app/portal to capture these applications to ensure progression of the adjudication process, which occurred during the initial lockdown period.

Management could not provide the reconciliation performed between the applications retrieved from the designated email address and the applications captured on the app, when requested.

This posed the risk that information captured on the app/portal could be incomplete or inaccurate, and that the app/portal could contain invalid applications when compared to information captured on the email system.

Reconciliations between approved applications, instruction to pay and confirmed paid applications not performed

Management did not perform the following checks and balances during the disbursement of the relief funds:

- The department did not maintain a reconciliation between which applications had been recommended for payment and which had been paid to date.
- We requested a reconciliation between the applications submitted to the payment agencies for payment by the department and the applications paid by the payment agencies to actual beneficiaries, and found that there is no proper and complete reconciliation indicating what had been paid by payment agencies. Information submitted for auditing was captured in one document and did not contain sufficient detail to determine whether this step had been properly performed.
- It has proven to be impossible to obtain statistics on the status of the implementation of the relief fund at any given point in time.

Recommendations

Management should perform detailed reconciliations at least weekly to ensure the accuracy, validity and completeness of payments. This will also help management to identify any discrepancies or errors, and implement corrective action, in a timely manner.

Auditee's response

For email and app reconciliations, the audit team was taken through the process, which showed how the applications were retrieved and then captured on the app. Teams were constituted and apportioned according to the applications downloaded, and divided according to relief and digital applications. This information can be seen on the system. Management assigned an official to take us through the process and no further request was reported.

Management disagreed with the findings as finance has been performing regular reconciliations between the batches submitted to the entities for payment and the proof of payment to ensure that all beneficiaries were paid as per the request or instruction sent.

Auditors' response

We agree that the audit team was taken through the process of capturing on the app, but management did not maintain a record and a reconciliation from the time the department started the process. This resulted in invalid, duplicate and inaccurate information being captured on the app.

The reconciliations that management subsequently performed on the financial information and statistics were not effective, as indicated by inaccurate numbers and figures management submitted during the audit. The audit team had to undergo a vigorous process to verify management figures and amounts due to this.

4. Beneficiaries who benefitted from the relief fund and other government relief funds (double-dipping)

In the first special report, we reported that the criteria set by the department were not clear to exclude applicants who benefitted from other social relief funds implemented by government.

We identified 286 applicants who were recommended to benefit from the sport, arts and culture relief fund who also benefitted from other social relief funding and received other salaries from the government. The department had paid a total of R4,57 million to those beneficiaries.

The CAATs we performed identified the following:

- The department paid R3,40 million to 213 beneficiaries who had also received the Unemployment Insurance Fund's temporary employee/employer relief scheme.
- The department paid R0,37 million to 24 beneficiaries who were also receiving salaries and pension from other government departments.
- The department paid R0,80 million to 49 beneficiaries who also received the R350 social relief of distress grant from the South African Social Security Agency.

Recommendations

The department has already clarified the criteria for the second wave of applications, which commenced in September 2020 for new applications. The department should also implement a mechanism where verifications could be done with other organs of state to identify individuals who are double-dipping.

Auditee's response

Management agreed with the finding and indicated that it does not have a system in place to identify these individuals. The accounting officer will communicate with other heads of departments to try find a solution for the problem of systems or information that is not shared between these organisations.

5. A competitive bidding process was not followed for the appointment of payment agencies (proper deviation process was not followed to appoint payment agencies)

The department appointed non-profit organisations (NPOs) as payment agencies to facilitate the payment of covid-19 relief funds to the department's approved beneficiaries.

Apart from the National Treasury letters requesting to increase the transfer amount to the payment agencies, we could not obtain any evidence that a competitive bidding process was followed during the appointment process of two of the payment agencies, and we were not provided with any evidence that a deviation process had been followed in line with the Treasury Regulations.

This will result in irregular expenditure on payments related to service fees to agents, and we recommend that the department further reviews this matter and follows the steps outlined by the National Treasury framework on irregular expenditure in this regard.

Recommendations

The appointment of payment agencies should be made through a competitive bidding process or through a deviation in accordance with the requirements of treasury regulation 16A6.4 to ensure compliance with the Treasury Regulations.

Auditee's response

Management disagreed with the finding, stating that the amounts to be paid by the payment agencies are transfers and therefore a fair procurement process is not required. For example, the normal transfers that the department administers contain a management fee component and do not require the department to follow a procurement process. Management further stated that because the four payment agencies also receive annual grants from the department, for their appointment, management only requested an increase in their transfers from the National Treasury.

Auditors' response

Although the payment agencies are NPOs that work with the department, the payment of covid-19 relief funds was an additional service they provided. It was also not clear why these specific entities had been selected as these services could have been provided by any other entity or NPO.

The department also indicated in the memorandum of agreement (MoA) that it would be paying management fees to the agencies, thereby reinforcing the principle that a competitive bidding process or deviation from a competitive process should have been followed to appoint them. The management fee component is classified as goods and services because a service is rendered by these agencies on behalf of the department.

The department has many other NPOs on its database who perform functions similar to those of the four selected to disburse the funds. A fair and competitive selection process should have been followed to afford the other organisations the opportunity to indicate if they could provide the service.

6. Department did not differentiate between management fee payable to the payment agency and amount of transfer payment to beneficiaries

There is no evidence that the department made a distinction between transfers, normal transfers to the companies to fund the companies' operations and specific projects, and transfers at a fee to distribute to beneficiaries on behalf of the department.

This additional transfer to beneficiaries on behalf of the department was a service the agencies rendered for a service fee, as indicated in the MoA clauses. Payment as per the general ledger dated 30 September 2020 reflected transfer amounts as follows:

- National Film and Video Foundation: R18 million
- National Arts Council: R20 million
- Business Arts South Africa: R27 million
- Sports Trust: R9,4 million.

To date, no payment agencies have submitted any invoices or evidence of the management fee claimed from the arrangement; therefore, these fees could not be verified.

Recommendations

Management should ensure that there are clear specifications and proper allocation for the amounts to be paid for the services rendered by any agency it appoints, and that these are included in the service-level agreements.

Auditee's response

Management disagreed with the finding and stated the following:

- The payment was classified as a transfer in line with the Standard Chart of Accounts. The department cannot split the transfer amount into different line items to be incurred by the entities. The department was not charged management fees for disbursing the covid-19 relief funds to the beneficiaries, but the agencies would recover their operational costs, such as bank charges and overtime worked by officials who were dealing with the project.
- The department has not made a separate transfer payment for the management fees to the National Film and Video Foundation, Business Arts South Africa, the Sport Trust and the National Arts Council. The practice is that the transfer payment made to the agency will also cover these operational costs/management fees, as stated in the MoA; there will not be a separate payment specifically for the 10% management fee.

Auditors' response

The MoA for one of the payment agencies specifically states that the agency is entitled to a management fee of 10% of the total transfer; therefore, this fee cannot be regarded as a transfer.

The MoAs of the other payment agencies state that they will claim staff costs relating to payment of the funds and bank charges. These payments do not meet the definition of transfers and cannot be classified as such.

7. Documents on the procurement process were not available when awarding a contract for the appointment of companies to provide services relating to the digital solutions social relief fund

We could not confirm if the correct calculation of preferential points was applied.

We were not provided with some of the information on the appointment of companies to provide various services relating to the digital solutions social relief fund. Details of the information that was not submitted and its impact are as follows:

- Points were awarded for the B-BBEE certificate of the winning bidder, but there is no proof that the department had the certificate when awarding the points.
- The winning bidder indicated that it would subcontract 39% of the work, where preferential procurement regulation (6)(5) requires that where a bidder will be subcontracting, points should not be awarded to the bidder if the subcontractor is a B-BBEE level contributor that is lower than the main bidder. The B-BBEE certificate of the subcontractor was not presented when the points were awarded and, therefore, awarding was based on incorrectly calculated points, which will result in irregular expenditure, estimated at R1,9 million.

Recommendations

Management should ensure that the supporting information for bids is reviewed in detail and that it considers any outstanding information in terms of the impact this information has on the fairness, transparency and validity of the process followed.

Management should ensure that it implements checklists that will prompt it to ensure that it has all the required documents during its evaluation and awarding processes, so that it complies with the supply chain management prescripts.

Auditee's response

Management disagreed with the finding and stated that the B-BBEE certificate of the winning bidder will be submitted for assessment.

Management acknowledged that, at the time of awarding of points, the subcontractor's B-BBEE certificate was not in the department's possession and points were still awarded, but it disagreed that the award was to the incorrect bidder.

Auditors' response

The winning bidder's B-BBEE certificate had still not been submitted at the time of our audit and therefore we concluded that the finding is factually correct.

When we assessed management's interpretation of the regulation, management agreed with our comments and the finding was therefore correct and will be reported as non-compliance that will result in irregular expenditure of R1,9 million. Management has not demonstrated how the bidder was still the correct one to be awarded the contract.

8. Declined applications did not have evidence supporting the outcome

From our sample of 20 rejected applications tested, we could find no evidence to substantiate the reason for declining three of these applications (5% of the sample tested).

These applications were declined on the basis that applicants have other sources of income, but no evidence could be provided that these applicants did have other sources of income. It is therefore not clear from the documentation provided how the department confirmed that these applicants have other sources of income.

This resulted in the applicants being unfairly rejected.

Recommendations

Management should review and monitor the performance of the adjudication panel members to ensure all decisions made during the evaluation of applications were substantiated.

Auditee's response

Management agreed with the finding and indicated that the department did not have the means or mechanism to determine whether an applicant has other sources of income.

Auditors' response

Management agreed that it does not have a mechanism to identify whether beneficiaries received other funding. Therefore, we cannot validate that management had such evidence when rejecting the applications.

OVERALL CONCLUSION

Although management followed through on its committed to adjust the criteria for the second wave of applications, which commenced on 1 September 2020, the criteria relating to eligibility of non-South-African applicants was clarified for this round of applications.

The R80,1 million, which constitutes 34% of the R235 million budget as per management records, was paid to beneficiaries who applied for the sport, arts and culture relief fund disbursed by the department. A further R58 million (25%) earmarked for the sport relief fund for the provinces was transferred by the national department. No accurate and complete records were submitted by the provinces on the progress of disbursing the allocated amount to the beneficiaries. The department has initiated a second application process, which will assist in disbursing further committed funds to beneficiaries.

Overall, from our audit observation, the deficiencies we identified in the manual and automated processes used to record and adjudicate applications and make payments to the beneficiaries still posed a significant risk to the success of the initiative. The disbursement of the relief fund to its intended beneficiaries has also not been done timeously, and we therefore question its relevance and intended impact.

TOURISM RELIEF FUND

Purpose of initiative

Support to qualifying small, medium and micro enterprises in the tourism and hospitality sectors

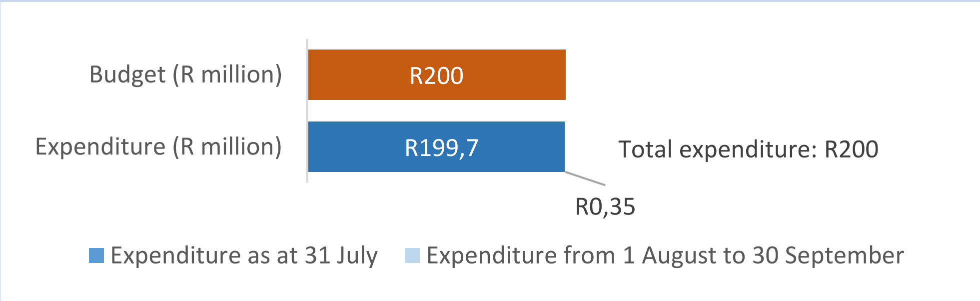
Auditees

- Department of Tourism
- South African Tourism

Focus of our audit

- Assessment of qualifying criteria applied by department
- Adherence of applications to qualifying criteria for relief funding and payments to approved and valid beneficiaries

Budget and expenditure



NEXT

MENU

PREV

STATUS OF IMPLEMENTATION OF INITIATIVE

Support through the tourism relief fund came to a conclusion on 11 August 2020 when South African Tourism made the last payment to a beneficiary. A total of 7 291 applications were received by the closing date of 31 May 2020 and R200,05 million was paid to 4 000 approved beneficiaries. The tourism minister published the list of beneficiaries on the website of the Department of Tourism on 4 August 2020.

AUDIT STATUS

Our audit of the fund that started in May 2020 has now been completed, with all findings having been reported and management comments received. We will still follow up and evaluate the implementation of the commitments made by the accounting officer to address the findings in this report.

Our risk-assessment process includes actively scanning the media and whistle-blowing reports and obtaining an understanding of the processes and control environment associated with the fund to identify possible fraud risks. We identified control weaknesses in the application, evaluation, approval and payment processes, as well as the limited use of proactive measures to prevent collusion. If not addressed, these could increase the risk of fraud and abuse in the payments to beneficiaries. We communicated these control weaknesses to management.

As the initiative was a one-off, management responses to the control weaknesses were received after the applications had been approved and payments to beneficiaries finalised. The impact of these control weaknesses is covered under the key audit findings and observations below.

ACTION TAKEN IN RESPONSE TO PREVIOUS REPORT

In response to the findings raised during the audit and reported in the first special report, the leadership of the department and the tourism minister met to identify controls that would mitigate the risks relating to the amendment of criteria, human error and lack of comprehensive review. Subsequently controls were implemented, including segregation of duties, quality assurance and adequate capacity to process applications.

The risks relating to the amendment of the evaluation criteria to qualify for relief funding and internal control deficiencies reported in the first special report materialised during our detailed testing of the fund. We report key audit findings and observations in this regard under *Assessment of qualifying criteria*. The risk of human error and lack of comprehensive review processes also materialised and key audit findings and observations in this regard are reported under *Adherence to qualifying criteria*.

We indicated in the first special report that we would still test the recruitment of the graduate interns who were brought in to assist in evaluating applications. We did not identify any material audit findings during our testing in this regard.

ASSESSMENT OF QUALIFYING CRITERIA

We assessed the qualifying criteria to determine if it was adequate and consistently applied for the purposes of disbursing the relief fund to distressed small, medium and micro enterprises in the tourism and hospitality industry.

KEY AUDIT FINDINGS AND OBSERVATIONS

1. Amendment of qualifying criteria

We indicated in the first special report that the criteria to evaluate beneficiaries were changed due to inefficiencies in the automated system used by the department, which resulted in the slow turnaround of fund payments. The amended criteria were approved by the accounting officer and the minister.

The score matrix that the department used before the change was based on points allocated per criterion, with a maximum of 100 points. The criteria included whether the applicants submitted a valid company registration, tax clearance certificate, proof of minimum wage, Unemployment Insurance Fund details, industry operating certificate, broad-based black economic empowerment certificate, information on job creation and financial viability as well as proof that the relief is required as a result of the impact of covid-19.

The department changed the score matrix to a compliance checklist and prioritised applications that complied with the checklist on a first come, first served basis. The department used the unique fund number allocated by the system in sequence to each applicant who had completed an electronic application. In addition, the department checked if the applicant had a completed application form, supported by a Companies and Intellectual Property Commission (CIPC) registration certificate, certified copies of directors' identity documents, broad-based black economic empowerment certificate or affidavit as well as whether they had an annual turnover of less than R5 million and were tax compliant.

We identified that the fund sequence was not used to determine which applicants would be assessed first to mitigate the risk of preferential treatment when evaluating the applicants; instead applicants were assessed based on the completed supporting documents submitted. This change in process was contrary to the approved amended criteria. Applicants were informed of outstanding documents through system-generated and official emails, and were afforded 72 hours to provide supporting documents in order for them to be processed.

Due to the poor status of records, we were unable to test the follow-up to applicants to provide outstanding supporting documents. This was regarded as a change in evaluation process.

Poor record management also resulted in supporting documents such as tax clearance certificates, bank statements and CIPC registration certificates of some applicants who received payments not being available for audit, as detailed under Adherence to qualifying criteria below. We were thus unable to determine that the criteria used to evaluate all applications were consistently applied and that no preferential treatment of applications occurred.

Furthermore, some applicants who were classified as meeting the criteria were rejected due to depleted funds. However, we identified that some of these either did not meet the criteria because they did not provide all supporting documents, or did not meet the set criteria upon evaluation of the submitted information. This could have been prevented had management implemented a fund serial number system for processing applications on a first come, first served basis and restricted verifiers and quality assurance staff from proceeding applications through the various stages of approval if all the required information from the previous stage had not been submitted.

Recommendations

Management should investigate whether evaluation criteria and processes were applied consistently and determine if instances of preferential treatment of applicants occurred. Where such instances are identified, the necessary steps should be taken to recover the funding.

Auditees' response

Management indicated that the amendments applied uniformly to all the businesses that had applied and already had a fund number allocated. All the businesses were contacted if they did not have a complete set of relevant information to duly submit such. No applicant with a fund number was disadvantaged or advantaged by the changes and this was by design. The amendments dealt with challenges such as the fact that there are various forms of businesses in the country, such as sole proprietorship that does not require CIPC registration. The key principles of the scheme remained unchanged. Applications were processed in accordance with the criteria to prevent preferential treatment. Management also identified that most of the applications did not have a complete set of documents as required. An assistive rather than a punitive approach was followed, thereby requesting each of the businesses to provide the outstanding documents. Those whose documents came through were processed through the evaluation and approval processes. Those with continued outstanding documents could not be allowed to prevent those with a complete set of documents to go through to the next stages. Thus management identified and mitigated this risk.

Management indicated that the 72 hours' rule was introduced when the system received information and identified that some information was outstanding. All the applications that were rejected by the system due to insufficient documentation were given equal opportunity to submit the documents and to benefit from the fund if they qualified. No one was rejected completely on the basis of the 72 hours if they subsequently submitted their documents.

Auditors' response

Management's response regarding how the implementation of the process was applied was considered. However, there were findings relating to the consistency of applications where some beneficiaries were approved without the complete set of supporting documents. We also considered management's confirmation that the fund sequence number was not used as a determining factor for ranking applicants but rather that companies that provided complete documents were given preference. We could not determine if all applicants, including those rejected, were afforded the same opportunity to provide supporting documentation. The poor status of records did not enable us to check if all these applicants did indeed receive follow-up communication.

ADHERENCE TO QUALIFYING CRITERIA

We tested adherence to the qualifying criteria to determine if beneficiaries met these by providing all the required supporting documents.

KEY AUDIT FINDINGS AND OBSERVATIONS

2. Beneficiaries did not meet set criteria

2.1. Beneficiaries did not submit all supporting documents

The department developed criteria for the fund and each applicant who received the funding should have submitted the required documents. However, some beneficiaries did not submit all of the required supporting documents, such as a valid tax clearance certificate, three months' bank statements to indicate their financial position, and the bank account into which payment should be made. These beneficiaries therefore did not meet the criteria. Additionally, some beneficiaries received payment even though their tax clearance certificates had expired, which the review process did not pick up.

2.2. Beneficiaries not in business as per CIPC website

We carried out third-party confirmations on a sample of beneficiaries to determine if the business was registered with the CIPC and was still operating at the time of the applications being evaluated. Some beneficiaries were classified as 'not in business' according to the CIPC. There was no evidence that management had followed up whether the business was operating before covid-19 and at the time of the fund and would still be in existence for the next 12 months. Management did not cross-reference businesses to other information sources (e.g. South African Revenue Service information to confirm tax compliance, or CIPC information to ensure that the company exists and is still active); and also did not restrict verifiers and quality assurance staff from proceeding applications through the various stages of approval if all the required information from the previous stage had not been submitted.

Recommendations

Management should recover the payments made to beneficiaries who did not meet the criteria. Management should also re-evaluate the entire population rather than a selected sample, determine the full extent of the non-adherence, and take appropriate action based on the outcome of the investigation.

Auditees' response

2.1. Beneficiaries did not submit all supporting documents

Management indicated that the relevant supporting documents for the identified payments were not available, due to the verifiers and quality assurers working from home and not uploading the information, but confirmed that all documentation had been received. The migration from one system to another necessitated more time to ensure proper record management of such additional documents received through multiple emails. All documents are contained on various storage computers that still have to be fully reconciled.

Management stated that these applicants had submitted tax clearance certificates. However, management suspects that such submissions were emailed to the verification officers and would now be difficult to locate due to the manual allocation of files.

Management further indicated that due to the impact of the national lockdown, applicants whose tax certificate had expired between January 2020 and March 2020 were not penalised. Management accepted the expired documents as proof of compliance.

2.2. Beneficiaries not in business as per CIPC website

Management stated that the verification officers worked from home with limited online access and did not have the capacity to do online checks with the CIPC. Documents were thus verified based on the validity of submitted physical copies at the time of verification.

Auditors' response

Due to the poor record management system, we could not verify management's responses. As our audit was conducted in real time, the information should have been readily available. We could not perform alternative procedures, as the nature of the criteria was documentation-driven where applicants had to submit the required documents for them to meet the criteria. The lack of submission of information and the department's inability to locate the supporting information led to the conclusion that some beneficiaries did not meet the set criteria.

VALIDITY OF PAYMENTS TO APPROVED AND VALID BENEFICIARIES

We assessed payments to beneficiaries by testing their details against third-party data such as that of the CIPC and a database of companies whose directors or members are employed by the state as well as testing whether the beneficiaries are in the tourism sector.

KEY AUDIT FINDINGS AND OBSERVATIONS

3. Beneficiaries incorrectly approved

3.1. Employees in the service of the state

The department did not have preventative controls to ensure that beneficiaries declared if they are in the service of the state or if someone in the service of the state has an interest in the beneficiary's company. We identified instances of employees in national and provincial departments with an interest in beneficiaries that received relief funding. This could have been prevented had management introduced a system interface between the online application process details, the Personnel and Salary System and CIPC systems to identify employees in the service of the state with an interest in companies that received the fund benefit.

3.2. Bank account detail on supporting documents does not correspond with account number where payment was made

To ensure that the assistance reached qualifying beneficiaries, we compared the bank account details on the electronic document management system to the bank statements / confirmations submitted by beneficiaries. We identified certain instances where bank details on the system and the supporting bank statements on the system differed. No further evidence that payments had been made to the correct bank accounts was submitted and we were unable to conclude that those payments did in fact reach the intended beneficiaries. Management did not implement an independent review process of the work performed by the verifiers who captured and approved banking details, as well as to verify the accuracy of the bank account details submitted as part of a claim.

3.3. Duplicate payment to beneficiary

A duplicate payment was made to a beneficiary, as the department allocated two different fund numbers to the beneficiary and this was not picked up during the payment process. This resulted in the fund exceeding its allocated budget by R50 000. This could have been prevented had controls been implemented to detect multiple payments to the same bank account.

Recommendations

Management should investigate the above instances and take appropriate action. Management should also improve the control environment to detect whether persons in the service of the state are related to applicants or have in interest in businesses that claimed from the fund. Management should recover the overpayment from the beneficiary.

Auditees' response

3.1. Employees in the service of the state

Management stated that the fund guidelines are silent on this issue and that it is not the case that these companies are doing business with government as per procurement guidelines. The current requirements are that state employees may not do business with government, which means that the state may not buy goods or services from such employees or their businesses, which was not the case in this regard. This is a relief grant and the conditions are not the same as that of procurement with regard to declarations required. The processing of applications only looked at the legal standing of the business and not the relationship of the directors with the state. This may have been an oversight by the department but the department was not in contravention of the fund guidelines.

3.2. Bank account detail on supporting documents does not correspond with account number where payment was made

Management indicated that some beneficiaries had their bank accounts closed as a result of inactivity during lockdown and thus had to provide alternative bank account details.

3.3. Duplicate payment to beneficiary

Management indicated that the cause of the duplicate payment was not the difference in fund number but a human error. The name of the business was the same and the account number was the same. The controls were adequate to prevent system duplication, but human decisions led to the duplicate payment. The matter has been followed up to enable consequence management and the recovery of the overpayment.

Auditors' response

The preventative control relating to declarations of interest by employees in the service of the state should have been implemented. As substantiating evidence of the correct banking details was not provided, we could not establish the payment to valid bank accounts of qualifying beneficiaries. We will follow up with management if recovery and consequence management did take place.

OVERALL CONCLUSION

The fund met its objective of timeous payments to beneficiaries in the tourism industry which were negatively affected by the lockdown due to inactivity. However, we identified areas of concern during the audit such as the amendment of the criteria. The change in criteria to a compliance checklist to determine if the applicant submitted all the required supporting documents was found to be inadequate. The criteria did not make use of a ranking system either by the score applicants received or by virtue of when they applied, and we could not determine if the assessment of applicants was fair, equitable and transparent. Additionally, the criteria were not applied consistently, as some applications were approved even though there were no supporting documents to prove that all evaluation criteria had been met. We could not perform alternative procedures when supporting documents were not available. This made it difficult to conclude whether all rejections were justifiable and whether payments to approved applicants were valid due to the limitations imposed by the department's poor record management.

Although a declaration of interest was not a prerequisite for application for assistance, the lack of this preventative control resulted in employees in the service of the state receiving relief funding.

The accounting officer should investigate the non-adherence to the qualifying criteria as well as the lack of supporting documentation. The accounting officer should also follow up on the employees of the state who received relief funding. Lastly, South African Tourism and the department should take the necessary steps to recover the duplicate payment from the beneficiary concerned.

HEALTHCARE SERVICES

Purpose of initiative

Support to and treatment of those affected by covid-19 as well as efforts to manage the spread of the virus

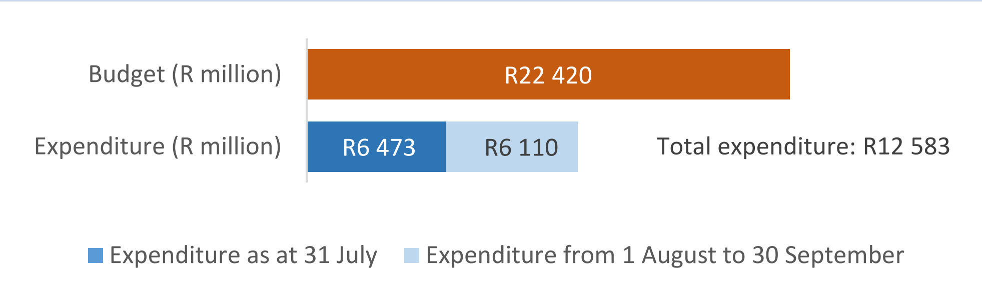
Auditees

- National and provincial departments of health
- National Health Laboratory Services

Focus of our audit

- Purchase and distribution of personal protective equipment
- Community screening and testing (purchase of test machines and kits, and case management solution)
- Capacitation of hospital beds through erection of field hospitals / temporary structures

Budget and expenditure



The expenditure above includes the expenditure incurred at the National Health Laboratory Services.

NEXT >
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STATUS OF IMPLEMENTATION OF INITIATIVE

This report includes three focus areas, which were mainly implemented at the provincial departments of health (DoHs) and the National Health Laboratory Services (NHLS). These focus areas are the purchasing and distribution of personal protective equipment (PPE), community testing (purchasing of test machines and kits as well as case management solution), and increasing hospital beds through the erection of field hospitals / temporary structures. The status of these initiatives is as follows:

The sector continued to purchase and distribute PPE to ensure that healthcare workers did not experience significant shortages. PPE was mainly managed and stored in bulk at the existing medical depots in the Eastern Cape, Free State, Gauteng, Limpopo, Mpumalanga and North West, while in KwaZulu-Natal, the Northern Cape and the Western Cape, it was centrally managed and stored at temporary bulk storage facilities. As the demand for PPE increased, some provincial DoHs required additional storage capacity to carry the increased volumes of PPE. Some district offices, a call centre, an old hospital and other available storage facilities in the provinces were then also used to temporarily store PPE in bulk. PPE was distributed from the bulk storage facilities to the healthcare facilities where it was subsequently provided to healthcare workers.

Based on a projected demand for covid-19 testing over the 2020-21 period, the NHLS needed to rapidly increase its capacity to perform the required diagnostic tests for SARS-CoV-2 (the virus that causes the disease). A detailed planning process was undertaken by the NHLS, which involved a review of the available testing methodologies and an analysis of existing resources within the entity, to determine the additional resources that would be required to meet the demand. The required additional resources included human resources, vehicles (functioning as mobile screening and testing units), equipment, sampling kits (swabs), laboratory reagents and the necessary PPE for staff members.

In obtaining the required resources for covid-19 testing, the NHLS moved away from its normally decentralised procurement approach for goods and services and decided to manage all transactions related to covid-19 testing from the central corporate office. As the demand for testing increased with the progression of the pandemic, the NHLS purchased goods and services through emergency procurement processes.

To ensure effective warehousing and distribution of the large volumes of diagnostic supplies and PPE required for community screening and laboratory testing, the NHLS acquired the services of a private logistics service provider, who assisted with the management of stock and the distribution thereof to the relevant laboratories. The number of NHLS laboratories that performed covid-19 tests increased from six in March 2020 to 28 located across all nine provinces by 30 September 2020.

The number of NHLS laboratories that performed covid-19 tests increased from six in March 2020 to 28 located across all nine provinces by 30 September 2020. The NHLS made use of more than eight different equipment platforms in an effort to limit the impact of global shortages of laboratory reagents on the testing capability of its laboratories. The National Institute for Communicable Diseases (NICD) reported that these public sector laboratories conducted 1 657 557 covid-19 tests from 1 March 2020 to 26 September 2020, with 16,3% of the samples testing positive . The peak demand for testing occurred during July 2020 when the number of tests performed per week ranged between 74 000 and 108 000 in public sector laboratories and the overall turnaround time reached 7,2 days. As at 26 September 2020, the mean turnaround time reported for the public sector laboratories had decreased to 1,7 days.

The NHLS continued planning for and obtaining the required resources to conduct the diagnostic covid-19 tests in public health facilities. As at 30 September 2020, the NHLS had spent R2 771,00 million on acquiring mostly testing kits, equipment, mobile units, PPE, and consumables. From 9 June 2020, the NHLS commenced invoicing all the provincial DoHs for the tests performed on their behalf, and had invoiced R648,20 million as at 15 October 2020.

The sector initially continued to erect temporary structures and rent buildings for field hospitals to increase hospital bed capacity; however, as the number of positive cases decreased, the focus shifted to refurbishing or upgrading existing hospitals to increase bed capacity. The provincial DoHs were responsible for conducting an analysis of the existing capacity and establishing the number of beds needed in addition to the existing capacity. The provincial DoHs and the provincial public works departments (DPW) had to identify centres and existing hospitals that could be converted to field hospitals through refurbishing or renovating, or by building temporary structures. In certain provinces, the provincial DPWs implemented the field hospital projects on behalf of the provincial DoHs, while in other provinces, the provincial DoHs implemented the projects in-house. A few temporary structures that had already been erected have been decommissioned.

In response to the covid-19 pandemic, the national Department of Health (NDoH) embarked on a project to make use of technology in an effort to strengthen covid-19 laboratory- and hospital-based reporting. This solution consisted of the following systems:

- Surveillance and case management system intended to collate laboratory results from all private and public laboratories in the country, and to format and give the data to the NDoH for a period of six months from April 2020 at a cost of R18,9 million, with approximately R15 million paid to date.
- The NDoH also sourced a service provider to assist with the mobile contact tracing once the laboratory information had been received, at a cost of R0,94 million per month for the duration of the declared pandemic.
- The NICD developed a system that tracked covid-19 cases in hospitals and enhanced its systems to collate and format nationwide laboratory results.

AUDIT STATUS

The first special report included four focus areas, namely purchase and distribution of PPE, purchase and distribution of ventilation devices, community screening and testing, and capacitation of hospital beds through erection of field hospitals / temporary structures.

Our previous focus regarding PPE was mainly on obtaining PPE items from suppliers. The audit focus for this report was to determine whether the PPE procured was accounted for, stored and distributed in an efficient and effective manner in line with good stock management practices.

The executive council in the Free State had taken a resolution to centralise the procurement of PPE for all departments in the province through the provincial treasury. The outcomes of the audit work performed at the provincial treasury have been included in this report.

The Limpopo DoH had procured on behalf of, or supplied PPE to, other departments only in exceptional cases. This resulted in slightly higher quantities of PPE being procured by the department than normal.

We also conducted work on the needs analysis performed at the NHLS, the acquisition of resources and the distribution of these resources to capacitate laboratories for efficient covid-19 testing.

We did not report many findings for field hospitals in the first special report as the audit was still in progress. The initial plan was to erect temporary structures and lease buildings for field hospitals to increase hospital bed capacity; however, as the numbers of positive cases stabilised, all work on field hospitals that were in the planning, design and procurement phases was halted. With the resurgence of the pandemic, the government may decide to continue with the construction of field hospitals. We recommend that a decommissioning strategy be developed to ensure that all resources are adequately accounted for. This decommissioning strategy will assist the departments when the field hospitals are eventually decommissioned.

The audit of this focus area progressed well even though we experienced some challenges with the submission of information. We reviewed the planning, implementation and commissioning processes followed by the relevant departments and also performed site visits for the selected sites below.

Site visits performed for field hospitals

Province	Facility name	Status at 15 October 2020
Gauteng	Nasrec	Completed and commissioned
Western Cape	Brackengate	Completed and commissioned
KwaZulu-Natal	Clairwood Temporary Field Hospital	Still under construction
Eastern Cape	VW	Completed and commissioned
Northern Cape	West End Hospital	Construction not started
Free State	Bloemfontein Show Grounds	Completed but not commissioned; resourcing of facility not yet done
North West	Maseve Field Hospital	Completed and commissioned
Mpumalanga	Tonga Field Hospital – upgraded facility for covid-19	Completed and commissioned

We continued to review the case management solution, which focused on general computer controls hosting the systems, automated controls that ensure the integrity of information and data processed by the system, information technology (IT) project and system implementation controls, and data analytics. We also followed up on management's actions on findings raised in the first special report based on the initial work performed on these systems.

The work highlighted above was conducted at seven medical depots, 10 temporary bulk storage facilities, 36 healthcare facilities and eight field hospitals. We also tested 523 awards at the national and provincial departments and the NHLS, with a total award value of R4 403,19 million. The findings in the sections below reflect the internal control deficiencies identified when conducting the audits on the implementation of the initiatives. The testing of the awards and related expenditure will continue as the sector continues to procure goods and services.

As part of our risk assessment process, we actively scanned, among others, the media and whistle-blowing reports to identify fraud risks. For this, we obtained an understanding of the processes and control environment of the NDoH and the Gauteng, Limpopo, KwaZulu-Natal and Eastern Cape DoHs. In the first special report, we reported on the possible fraud risks that management should pay attention to at these provincial departments. Subsequently, we focused our efforts on identifying the control weaknesses that could give rise to these reported fraud risks.

The control weaknesses identified and communicated to management are primarily associated with supply chain management (SCM) processes for covid-19 procurement in respect of needs analysis, emergency procurement procedures, pricing of PPE in line with National Treasury instruction notes, bid evaluation in respect of conflict of interest prior to awarding contracts, the experience of suppliers appointed, tax compliance and sourcing sufficient quotations, and maintenance of updated policies and standard operating procedures. Other processes in which control weaknesses were identified are payments for goods received, record keeping of inventory and assets, allocation of expenditure, access to / security of data, and appointment of staff.

Despite various follow-up actions on outstanding management responses, we only received management responses to some of the control weaknesses communicated to the Limpopo DoH. The accounting officer of the NDoH also indicated that management responses to the potential fraud risks and control weaknesses will only be provided after they had been discussed between the auditors and the NDoH, but due to the unavailability of the accounting officer for the requested meeting we have not yet received any management responses. In the absence of the said management responses, we could not follow up on whether management had improved the control weaknesses identified to mitigate the possible fraud risks.

We did not audit the purchase and distribution of ventilation devices as planned due to delays in the delivery of the ordered ventilators. Healthcare facilities opted for alternative ways to provide the service to patients. Therefore, we do not cover this focus area in this special report. The community screening focus area was also postponed to the 2020-21 normal annual audit and has therefore not been included either.

The impact of these control weaknesses is further documented under the key audit findings under PPE, community testing and field hospitals later on in this section.

ACTION TAKEN IN RESPONSE TO PREVIOUS REPORT

The accounting officers were in the process of implementing most of their committed actions to address the findings reported in the first special report. The members of the executive council and the minister committed to support the accounting officers during the implementation of these corrective actions. Some corrective actions were not yet fully implemented because there was not enough time between the release of the first report and the continued audit work that was performed, which resulted in repeat findings. The following details are highlighted per province, in terms of the implementation:

STATUS OF COMMITMENTS IMPLEMENTED

- The Eastern Cape DoH established a provincial contract specifically for covid-19 PPE to ensure that PPE was ordered at prices regarded by the National Treasury as market related. Long-outstanding orders with suppliers were cancelled and more recent orders were followed up frequently to ensure timely delivery. A provincial pharmaceutical procurement unit was being established to, among others, centrally manage the procurement of PPE. The department did not agree with all the identified control weaknesses in relation to the possible fraud risks, but has started improving some controls. In some instances, the control weaknesses led to actual transactions; therefore, the chief financial officer instructed that manual orders may no longer be used. The completeness and accuracy of the asset register, as well as the appropriate classification of covid-19 expenditure, will be audited as part of the normal 2020-21 annual audit.

- The Free State DoH followed up on outstanding PPE orders on a weekly basis. If the delivery had been outstanding for more than 60 days, the orders placed with the suppliers were cancelled.
- The Gauteng DoH charged the procurement committees with ensuring compliance with the National Treasury instruction notes. The supplier appointment letters were updated to reflect the agreed delivery dates. The accounting officer committed to institute disciplinary actions against implicated officials, which resulted in the suspension of the chief director: SCM and the acting chief director: SCM shortly afterwards. The accounting officer also subsequently tendered his resignation after being suspended by the premier of the province. The disciplinary cases against the implicated officials are ongoing, pending the finalisation of the investigations report by the Special Investigating Unit. The acting head of department requested an extension to the end of November 2020 to provide commitments in addressing the issues noted. The accounting officer indicated that the department agreed with the control weaknesses identified in relation to the possible fraud risks reported, and is in the process of developing a response plan to address the control weaknesses. The plan will be made available to the auditors by the end of November 2020, after which the adequacy and effectiveness of the control improvements can be evaluated.
- The KwaZulu-Natal DoH ordered PPE from suppliers with existing contracts as far as possible, to ensure that PPE was ordered at prices regarded by the National Treasury as market related. To avoid extended lead times, the department also made it mandatory for suppliers to confirm that they had PPE stock on hand when they submitted quotations. The accounting officer indicated that potential fraud risks to the department's operations are viewed in a serious light and that detailed improvement plans will be developed by the end November 2020, after which the adequacy and effectiveness of the control improvements can be evaluated.
- We did not raise any findings in the first special report for the Limpopo DoH in terms of the pricing of PPE. Where a supplier could not deliver the required PPE within the agreed lead time, the order was automatically cancelled unless extension of the delivery period was specifically granted.
- The Mpumalanga and Western Cape DoHs continued to ensure compliance with the National Treasury instruction notes and also continued to follow up on long-outstanding orders with suppliers.
- The Northern Cape DoH committed to ensure compliance with the National Treasury instruction notes and its system relating to the management of PPE orders was strengthened.
- The North West DoH ordered PPE, as far as possible, by using existing contracts to ensure that PPE was ordered at prices regarded by the National Treasury as market related. The department also reported suppliers that charged inflated prices and those who were defaulting in terms of lead times to the provincial treasury. The department further followed up on long-outstanding orders and classified some suppliers as dormant once they did not supply PPE on time. Although the department's risk register was updated to include covid-19-specific risks, preventative controls were still not monitored. This, coupled with the late payment of suppliers, resulted in some repeat findings in a number of areas, as reported later on in this section. Therefore, we assessed the commitments received as being partially implemented.
- The first special report did not include management commitments from the NDoH. The findings from the review of the service-level agreement were followed up, which revealed that the cost associated with software licences beyond 30 September 2020 was not clearly defined. Communication between the department and the service provider confirmed that although the service provider's services were extended beyond 30 September 2020, this was done at no extra cost to the department and did thus not result in any additional system implementation costs.

PERSONAL PROTECTIVE EQUIPMENT

Summary of key audit findings and observations for PPE

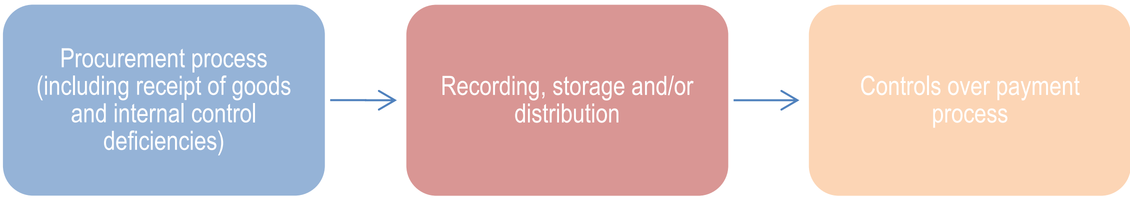
Finding	Description of finding	Repeat finding	Province
Procurement and contract management			
1.1.	Reasons for deviation not recorded and approved as per approved delegation of authority	Yes	Eastern Cape, Gauteng, Limpopo, Northern Cape, North West
1.2.	Non-declaration of interest by winning bidders	No	Gauteng, KwaZulu-Natal
1.3.	Goods procured at prices higher than prescribed by National Treasury instruction notes	Yes	Gauteng, KwaZulu-Natal, North West, Western Cape
1.4.	Non-compliance with local content requirements	No	KwaZulu-Natal, Mpumalanga, Northern Cape
1.5.	Specifications not indicated on quotations and submissions	Yes	Eastern Cape, Gauteng, KwaZulu-Natal
1.6.	Discrepancies in the RFQs sent to suppliers resulting in unfair procurement practices	No	Limpopo, KwaZulu-Natal
1.7.	Items procured not in accordance with required NDoH and WHO specifications	No	KwaZulu-Natal
1.8.	Transactions entered into with suppliers who are not tax compliant at award date	Yes	Eastern Cape, KwaZulu-Natal
1.9.	Limitation of scope – Procurement information requested not submitted for audit	No	Free State, Gauteng, KwaZulu-Natal, Mpumalanga
Other observations related to procurement			
2.1.	Award granted to a supplier who had to be part of a joint venture, supplier not bona fide PPE supplier and CIPC returns not up to date	No	Northern Cape
2.2.	Award granted to a supplier who was in the process of being deregistered with the CIPC	No	Northern Cape
Internal control deficiencies			
3.1.	Award made to supplier who did not submit tender documents	No	Free state PT
3.2.	Insufficient controls over receipt of goods and services	Yes	Free State PT, Limpopo
Recording, storage and/or distribution of PPE			
4.1.	Systems and/or controls to account for PPE not in place or not effectively used at bulk storage and healthcare facilities	No	Eastern Cape, KwaZulu-Natal, Mpumalanga, Northern Cape, North West
4.2.	PPE not distributed in complete and/or timely manner to healthcare facilities	No	Eastern Cape, Free State, Gauteng, KwaZulu-Natal, Limpopo, North West
4.3.	Poor storage practices at bulk storage and healthcare facilities	No	Eastern Cape, Free State, Gauteng, KwaZulu-Natal, Limpopo, Mpumalanga, Northern Cape, North West
4.4.	Limited security controls at bulk storage facilities	No	Eastern Cape, Free State, Northern Cape, North West

4.5.	Ineffective quality assurances over PPE during receipt	No	Eastern Cape, Free State, Gauteng, KwaZulu-Natal, Mpumalanga, Northern Cape, North West
Payment processes			
5.	Payments made for goods and services with no evidence of delivery and/or contract arrangement	No	Gauteng

During the pandemic, the DoHs procured PPE from suppliers to ensure that enough PPE was continuously available at healthcare facilities and provided to healthcare workers to protect them against the virus while treating patients. The National Treasury prescribed the minimum SCM process to be followed by the departments when procuring items of PPE.

KEY AUDIT FINDINGS AND OBSERVATIONS

Key audit findings are presented according to the process flow of transactions:



1. Procurement and contract management

1.1. Reasons for deviation not recorded and approved as per approved delegation of authority (repeat finding) (EC, GP, LP, NC, NW)

In 25 instances in Gauteng and one in the Eastern Cape, the reasons for deviations were not recorded and/or approved by the accounting officer, as required by treasury regulation 16A6.4. The total value of the awards was R1 048,41 million in Gauteng and R0,59 million in the Eastern Cape.

On 13 April 2020, the accounting officer in Limpopo approved a request to appoint service providers, on an emergency procurement basis, for the supply and delivery of 100 000 units of 350 ml hand sanitiser rubs at R29,90 per unit. However, the department awarded the contract to a supplier for the supply and delivery of 300 000 units; 200 000 above the quantity approved by the accounting officer, resulting in a difference of R5,98 million.

Furthermore, in the North West and Northern Cape, the departments deviated from normal procurement procedures (emergency) for 13 payments amounting to R9,48 million in North West and one transaction to procure goods to the value of R8,04 million in the Northern Cape. We could not obtain evidence that these deviations had been approved by the accounting officer. The Northern Cape department had made a payment of R1,97 million to the supplier on 15 June 2020.

Also in the Northern Cape, the accounting officer had signed off a generic deviation on 24 March 2020 that did not specify any time period and was not considered per specific transaction, as required. The deviation therefore did not justify the matter of emergency for the four suppliers to the value of R60,73 million.

By implementing effective monitoring controls, management would have been able to detect that deviations were not approved in line with the approved delegation of authority, the relevant procurement policies and the National Treasury instruction notes.

Recommendations

Management should implement controls to ensure compliance with the instruction notes and relevant SCM prescripts to prevent the misuse/exploitation of emergency procurement legislation.

Management should implement a review process and improve the effectiveness of controls in place over the process of approving deviations to ensure that a properly delegated official approves the deviation as per the SCM delegation of authority policy and enable compliance with section 44(1) of the Public Finance Management Act.

Management should implement consequence management processes against officials contravening laws and regulations.

Auditees' response

The Eastern Cape management disagreed with the finding.

The North West DoH agreed with the finding. The department committed to enforce compliance with all National Treasury instruction notes through regular reporting by programme managers and indicated that it has reverted back to the normal procurement processes. The action date is 30 October 2020.

The Northern Cape management disagreed with the finding. This procurement transaction was made in line with the deviation approved by the accounting officer.

The Gauteng management agreed with the finding and committed to improve the effectiveness of controls in place over the process of approving deviations to ensure that a properly delegated official approves the deviation as per the SCM delegation of authority policy. The implementation date has been set at 31 October 2020.

The Limpopo management agreed with the audit finding, and the department intended to award the 350 ml sanitiser hand rubs from the outset. The error was not identified by management when concluding the process.

The Northern Cape management indicated that the deviation did not contain a time period because the situation was of such a nature that the department was unsure how long the shortage of PPE would prevail. The lockdown situation also did not allow for the normal procurement process of inviting bids, was highlighted in National Treasury Instruction Note No. 8 of 2019-20.

Suppliers from the transversal contracts were engaged and had orders issued to them. Management will provide proof that when the suppliers failed to deliver, the orders were cancelled.

Auditors' response

The approved deviation in the Northern Cape that was attached to the payment batches submitted to the auditors was not specific to each transaction and each supplier, it was generic and, therefore, will not be accepted for goods procured from these suppliers. National treasury Instruction Note No. 8 indicated that the covid-19 pandemic will be regarded as an emergency and, therefore, the approved deviation should be specific to a supplier and a single transaction of procuring covid-19 goods from the supplier at hand. The response from management also does not cover the definition of an emergency as defined per National Treasury Instruction Note No. 5 of 2020/21. No proof for the cancelled orders with suppliers from the transversal contracts was provided at the date of this report.

In the Eastern Cape, the internal memorandum that was submitted to advertise the bid for five days was not approved by the accounting officer, but by the general manager. Therefore, the finding will remain and all payments made on this bid will be regarded as irregular expenditure.

The approved deviation was not attached to the payment batch submitted to the auditors for the Northern Cape. Additionally, the approved deviation by the accounting officer used for other suppliers was a generic approval and did not specifically mention the suppliers and will thus not be accepted for goods procured from this service provider. Therefore, the finding on non-compliance remains.

1.2. Non-declaration of interest by winning bidders (GP, KZN)

In Gauteng, we identified 27 instances where the winning bidders did not declare their interests as there were no signed SBD 4 forms, as required by National Treasury Practice Note No. 7 of 2009-10. The total value of these awards was R1 049,21 million.

In KwaZulu-Natal, there were two instances where the winning bidders did not declare their interests on the completed SBD 4 forms. The total value of these awards was R13,11 million.

Therefore, adequate controls had not been implemented to verify that information and business interests declared by suppliers are accurate, complete and do not pose a conflict of interest between suppliers and departmental employees before a contract is awarded to the supplier.

Recommendations

Management should improve the effectiveness of internal controls over the SCM process to ensure that winning bidders declare their interests and ensure compliance with SCM prescripts and applicable legislation.

Management should disclose expenditure relating to these contracts as irregular expenditure in the financial statements.

Management should also introduce procedures to enable the SCM unit to identify false, incorrect or incomplete declarations in SBD documents. Where improper conduct of suppliers is noted, suppliers should be registered on the default list at the National Treasury.

Auditees' response

The Gauteng management agreed with the finding and committed to improve the effectiveness of internal controls over the SCM process to ensure that winning bidders declare their interests, and ensure compliance with SCM prescripts and applicable legislation. The implementation date has been set at 30 November 2020.

The KwaZulu-Natal management advised that it does not have access to any system that permits the vetting of suppliers and matching them to any other company that does business with the department. The process to register suppliers on the tender-defaulters register requires an investigation to be conducted and the suppliers be given an opportunity to respond to any accusations levelled against them. The department will thus seek the assistance of the provincial treasury with these processes.

1.3. Goods procured at prices higher than prescribed by National Treasury instruction notes (repeat finding) (GP, KZN, NW, WC)

As also reported in the first special report, departments did not always adhere to the instruction notes issued by the National Treasury, as they continued to order PPE items at prices in excess of the maximum prices prescribed by the National Treasury.

We identified 18 instances in Gauteng, three in KwaZulu-Natal, eight in North West and two in the Western Cape where the departments had entered into transactions at prices in excess of those determined for the specific items in annexure A to National Treasury Instruction Notes No. 8 of 2019-20 and No. 5 of 2020-21.

The total estimated possible losses were R231,24 million in Gauteng, R10,23 million in KwaZulu-Natal, R2,79 million in North West and R0,04 million in the Western Cape. In the Western Cape, the initial order for 1,5 million units was cancelled as the supplier could only deliver 63 000 units.

We also identified eight instances where Gauteng procured PPE from other suppliers at higher prices, instead of utilising existing transversal contracts with agreed prices to procure PPE, as required by the National Treasury instruction notes. The total estimated possible loss was R90,17 million.

Based on the above instances, it is clear that insufficient controls were in place to ensure that prices of PPE procured were within the price range stipulated in the National Treasury instruction notes.

Recommendations

Management should implement a formal process to monitor compliance with the instruction notes issued by the National Treasury before the orders for PPE items are placed with suppliers and payment is made.

For all amounts paid in excess of the prices stipulated in annexure A, management should investigate and report the losses incurred accordingly.

In cases where departments order PPE items at prices in excess of 10% of the prices in the instruction notes, the department should obtain the required approvals from the accounting officer prior to finalising the orders.

In instances where management has evidence of excessive pricing and stockpiling by suppliers, especially suppliers on transversal contracts, relevant public bodies such as the Competition Commission should be notified to enable further investigation.

Excess prices paid should be disclosed as irregular expenditure.

The accounting officer should investigate the discrepancies that resulted in the potential material losses to identify the circumstances that led to the inconsistencies. The results of the investigation should be made available to the auditors.

Auditees' response

The Gauteng management agreed with the findings and committed to stop emergency procurement and resume normal procurement processes for PPE. The implementation date has been set at 1 October 2020. Management also agreed to strengthen its current processes to ensure that goods are adequately specified and recorded as required in terms of the National Treasury instruction notes. It was decided that the lower of the quoted price or the price per National Treasury Instruction Note No. 8 of 2019-20 will be paid going forward.

The KwaZulu-Natal, North West and Western Cape management agreed with the finding. North West committed to enforce National Treasury instruction notes from 21 October 2020 through regular reporting by programme managers and to revert back to normal procurement practices. The Western Cape committed to obtain approval for future deviations where emergency situations exist for the safety of healthcare workers.

Furthermore, in KwaZulu-Natal management disagreed as the contracted supplier of the product had written to the department to inform them that due to the exceptional circumstances of the pandemic, prices had increased exponentially for these items and therefore they would not be able to supply these products. They requested the department to grant them a market-related price increase only for the duration of the pandemic, as it had distorted the pricing in the market.

The department considered this request and given that the last published price for this item by the National Treasury in National Treasury Instruction Note No. 3 of 2020/21 was listed at R278,00 per box in annexure A, it was decided that the requested price revision to R178,00 was well within this range. It was on this basis that the market-related temporary increase request was granted to the supplier.

The department firmly believes that this was done within the parameters of the emergency situation and that no financial loss was incurred, as the prices were market related and within the last National Treasury-approved price listings.

Auditors' response

The KwaZulu-Natal department did not comply with the prescripts of National Treasury Instruction Note No. 5 of 2020-21, and procured the above products at prices higher than the allowable contracted value and regulated tariffs, resulting in a loss being incurred.

The matter remains and will be reported accordingly. In addition, the potential loss will be followed up to ensure that consequence management and recovery take place.

1.4. Non-compliance with local content requirements (KZN, MP, NC)

We assessed that for four awards in KwaZulu-Natal amounting to R4,28 million and one award in the Northern Cape amounting to R0,35 million, the advert did not explicitly indicate the minimum threshold for local content as required. The winning service providers also did not submit a declaration on local content.

Similarly, in Mpumalanga, we identified that 41 suppliers with procurement valued at R84,16 million did not provide the required SBD 6.2 documents. In addition, it could not be confirmed whether the percentage of local content was complied with by 27 suppliers with procurement valued at R56,26 million.

Paying these service providers will result in irregular expenditure.

Recommendations

The SCM unit should strengthen controls over compliance with legislation for local content provisions to ensure that sufficient declarations are submitted and processes performed to ensure that goods for designated sectors adhere to the minimum threshold requirements for local content procurement.

The accounting officer should ensure proper record keeping to support financial and performance reporting.

Auditees' response

The management of KwaZulu-Natal and Mpumalanga agreed with the finding. The Mpumalanga management further committed to ensure that all requests for quotation (RFQs) for designated goods and services will include the stipulated minimum threshold percentage for local production and content as required in terms of the amendments to National Treasury Instruction Note No. 5 of 2020-21.

1.5. Specifications not indicated on quotations and submissions (repeat finding) (EC, GP, KZN)

Our assessment of quotations and delivery notes in relation to goods delivered relating to 28 awards amounting to R92,90 million in KwaZulu-Natal, identified that no mention was made of the actual specifications of the goods that are to be delivered, as required by various National Treasury instruction notes. Similar instances were noted in Gauteng and the Eastern Cape, with the awards valued at R0,25 million and R6,10 million, respectively.

The absence of the explicit inclusion of specifications in the RFQs and controls over the receiving of goods to ensure that goods received comply with the required specifications, could result in departments receiving and paying for goods that are of inferior quality. By implementing effective monitoring controls, management would have been able to detect that all RFQs did not clearly indicate the specifications of the PPE/goods required.

Recommendations

The SCM unit should improve processes for the requesting of goods and services relating to covid-19 to ensure that all RFQs are accompanied by suitable specifications that have been confirmed to be in line with the required standards established by the NDoH and the World Health Organization (WHO).

Controls over the receiving of goods should also be improved to include a specific and explicit requirement for testing the goods to ensure that they are in line with the required quality standards.

Auditees' response

The finding was accepted by the KwaZulu-Natal management. Since the beginning of June 2020, the KwaZulu-Natal department has included the detailed specifications in all RFQs.

The Gauteng management agreed with the finding and will continue to strengthen its current processes to ensure that the specifications of goods are adequately specified and recorded as required in terms of the National Treasury instruction notes. Suppliers were invited to the war room where samples were quality-checked before a commitment letter or purchase order was issued; unfortunately, it was informally done and no minutes are available. It was decided that the lower of the quoted price or the price per National Treasury Instruction Note No. 8 of 2019-20 will be paid going forward.

The Eastern Cape management disagreed with the finding, stating that there was no control deficiency on the side of the department. The hierarchy of procurement for covid-19 started with available contracts (RT or provincial). Procurement was done through existing contract SCMU3-18/19-0184-HO, which was awarded through a competitive bidding process. The full details of the specifications (as per the awarded contract and indicated on the bid document submitted) and an extract of the specification of the awarded bid were provided to the auditors. The referenced isolation gowns (R113,40 each) and surgical gowns (R135 each) reflected in annexure A are disposable and the specifications are different.

Auditors' response

Taking into account the item specification list subsequently provided by the Eastern Cape department, we were unable to establish if the prices charged were consistent with the tendered prices, as the supplier's item specification list did not contain prices and certain items procured could not be matched per item.

1.6. Discrepancies in the RFQs sent to suppliers resulting in unfair procurement practices (KZN, LP)

In Limpopo, as per the table below, suppliers 1, 3 and 4 did not quote for manual dispensers; however, they were evaluated on that product. Furthermore, the submission indicated that suppliers 3 and 4 were disqualified as they failed to bid according to specifications.

Suppliers evaluated for compliance with specifications

Supplier number	Items quoted			Conclusion
	Manual dispenser	Automated dispenser	70% alcohol sanitisers	
Supplier 1	No	Yes	70%	Complied
Supplier 2	Yes	Yes	70%	Complied
Supplier 3	No	Yes	60%	Not complied
Supplier 4	No	Yes	70%	Not complied

Supplier 3 was disqualified for providing a quote for 60% alcohol instead of 70% alcohol, and supplier 4 was disqualified for providing a quote for 800 ml hand sanitiser instead of 1 litre.

In that regard, the criteria used to evaluate and ultimately disqualify the suppliers were not indicated in the bid document (i.e. manual dispensers and litres required for hand-sanitiser liquid). Therefore, the evaluation was not conducted fairly, competitively and with transparency as only supplier 2 was requested to quote for the manual dispensers.

The procurement of sanitisers from suppliers 1 and 2 is potentially irregular and so is the total expenditure amounting to R71,64 million (R63,60 million for supplier 1 and R8,04 for supplier 2).

In addition, the department also issued two suppliers with different RFQs via email. Amendments to the specifications were made without issuing an addendum or revised RFQ to the suppliers. The details are as follows:

Details of suppliers issued with different RFQs

RFQ date and time	Supplier number	Details of RFQ
16 March 2020 at 10:34	Supplier 1	The department indicated that it required a quote for the supply, delivery, installation and maintenance of 5 000 automated hand sanitisers
16 March 2020 at 21:37	Supplier 2	The department indicated that it required a quote for the supply, delivery, installation and maintenance of: • 3 000 automated hand-sanitiser dispensers • 30 000 x 1 litre sanitisers • 7 non-automated hand-sanitiser dispensers

Paragraph 4 of the RFQs completed by the suppliers indicated the scope of work as follows:

- Alcohol-based hand disinfectant (chlorexhidine gluconate 0.5% m/v and alcohol 70% v/v) with emollient for the automated touchless dispenser
- Automated touchless dispenser for alcohol based-hand disinfectant

The award letter issued to one supplier, dated 18 March 2020, differed from the RFQ. This is contrary to the RFQ specifications and the scope of work as per the bid document, which provided for automatic dispensers. Letters of award to the two suppliers were signed by the accounting officer on 17 and 18 March 2020 to the value of R8,04 million and R63,60 million, respectively.

In KwaZulu-Natal, the contract for one supplier appeared to have been awarded before the date of advertisement of the RFQ. The amount of this award was R5,10 million.

Recommendations

The accounting officer should maintain a system of procurement that is fair, equitable, transparent, competitive and cost-effective by ensuring the following:

- The same RFQ is issued to suppliers during the procurement of the same goods or services.
- Specifications of the RFQ are not amended without informing all suppliers who had quoted.
- Suppliers are evaluated based on criteria that are clearly stipulated in the RFQ document.
- The internal controls established for the procurement and provisioning systems are adhered to.
- An investigation is conducted into the cause of the irregular expenditure amounting to R71,64 million and effective and appropriate corrective action is taken against any official who caused the potentially irregular expenditure.

Auditees' response

The Limpopo management disagreed with the audit finding for the following reasons:

- In responding to the finding above, it is worthwhile to provide a background to the issue raised by the auditors (at the onset of the announcement of covid-19 as a pandemic by the WHO, the department already had shortages of hand sanitisers stemming from a previous short supply by the RT contractor). It was then decided that an emergency procurement process was the only route to satisfy the need.
- Due to the volatile market at the time of this procurement, the department sourced hand sanitisers and dispensers on a per unit basis and according to the units the suppliers could provide. Furthermore, the department received requests to source PPE for other departments, which necessitated the increase in quantities and the change of specifications from automated dispensers to manual (which was more cost-effective according to the department).
- In this regard, the needs analysis pointed out that 900 000 litres of hand sanitiser would be required to satisfy the need. Reputable service providers were requested to submit quotations on a per item basis. When sourcing quotations, especially in emergency situations, the normal process is that you make a call to service providers asking them various questions related to the need (e.g. quantities available). Based on shortages of stock on the market, service providers indicated what was available at the time of a call. It is worth mentioning that this was a very frustrating time for the buyers; for example, many service providers visited the department with samples of their sanitisers but the ingredients or specifications were not correct.
- A decision was taken that service providers should quote on a rate basis, despite the indicated available quantities. The indicated numbers in the emails were for immediate delivery as per the confirmation of the service provider.

In conclusion, the specifications sent out to all service providers were never changed or amended.

Regarding the issue of non-automated dispensers, the pandemic was a scare to everyone, and the idea was to have a touchless dispenser within the department. However, these items were not available on the market, and when available, the price would be unaffordable. The department negotiated with the two remaining successful bidders for sanitisers to also supply the manual dispensers fitting the 1 litre sanitiser bottle being offered.

Management disagreed with the audit finding.

Supplier 4 did not comply with the specifications and was disqualified due to the following:

- Quoting for a 5 litre steri-spray for sanitiser instead of chlorexhidine gluconate 0.5% m/v and alcohol 70% v/v with emollient.

- The steri-spray ingredients are benzyndamine topical and chlorhexidine gluconate topical, as opposed to chlorexhidine gluconate 0.5% m/v and alcohol 70% v/v with emollient.
- Hand-sanitiser refill is 800 ml instead of 1 litre.

All bidders quoted on the same specification as follows:

- Alcohol-based hand disinfectant (chlorexhidine gluconate 0.5% m/v and alcohol 70% v/v) with emollient for the automated touchless dispenser.
- Automated touchless dispenser for alcohol-based hand disinfectant.

The RFQ (bid document containing the above specification) sent to all invited bidders was never amended, which is why all bidders quoted the same. No bidder quoted for the manual dispensers; even supplier 1 did not quote for the manual dispensers despite the body of the email sent to them referring to automated and manual dispersers.

The issue of manual dispensers was raised during negotiations with the two remaining suppliers to minimise costs and achieve more with the available budget. If the department had not negotiated with the suppliers, it could have spent more on automated dispensers.

Auditors' response

Management asserted that no supplier had submitted a quote for manual dispensers. However, we identified on the evaluation report compiled by the department that supplier 2 did submit a quote for manual dispensers even though they were required to quote for automated dispensers only.

Management further asserted that the issue of manual dispensers arose during negotiations; however, the RFQ issued to supplier 2 included both automated and manual dispensers. This suggests that it was management's intention to procure both automated and manual dispensers, but only supplier 1 was requested to submit a quote for both.

On both the RFQ and the bid documents, the description of the items requested from the suppliers did not indicate the size in terms of litres the suppliers were supposed to quote for. Therefore, supplier 4 should not have been disqualified on the basis of quoting for 800 ml instead of 1 litre.

Based on the above, the finding has not been resolved and will be reported.

Management asserted that the service providers were contacted telephonically and that the RFQs subsequently issued to them were based on available quantities. Such communication with the service providers is not recorded anywhere on the trail of communication with the suppliers and, therefore, cannot be verified. Furthermore, management did not explain why the suppliers were then evaluated on goods they were not required to quote for (i.e. manual dispensers), as they would have indicated the stock available in the alleged telephonic conversations.

Management further asserted that a needs assessment was conducted; however, none was provided to the auditors despite requesting it on numerous occasions.

Although management asserted that it had made use of the emergency procurement process to satisfy the needs, we were unable to follow the audit trail to come to the same conclusion.

Management also asserted that the suppliers were then required to quote on the basis of 'rate per item'; however, the emails that serve as RFQs do not indicate this.

1.7. Items procured not in accordance with required NDoH and WHO specifications (KZN)

National Treasury Instruction Note No. 8 of 2019-20 indicates in paragraph 3.7.6 that institutions may approach any supplier, other than suppliers noted in annexure A, to obtain quotes on condition that the items are to the specifications as determined by the NDoH.

The department procured 100 000 units of filtering face piece grade 1 masks at a cost of R4 per mask and a total cost of R4 million. According to the WHO, these masks may not meet the minimum filtration requirements, resulting in less protection against airborne particles. This exposed the department to the risk of infections due to poor-quality PPE used.

Recommendations

The SCM unit should strengthen controls over the processes implemented to ensure that all procurement is done in accordance with the standards required by the NDoH and the WHO.

The accounting officer should investigate the procurement of the filtering face piece grade 1 masks and whether these were suitable for the use for which they were procured. Consequence management should be implemented depending on the outcome of the investigation. The results of the investigation should also be made available to the auditors.

Auditees' response

Management agreed with and noted the finding. In the absence of (or lack of availability of) FFP2 masks, staff who were operating in non-clinical settings could use the FFP1 masks in the executing their duties. Cloth face masks would not be suitable in such an environment as these staff members cannot be expected to take masks home to wash – even though they are not in a clinical environment, they are exposed to risky clinical substances and need disposable face masks.

1.8. Transactions entered into with suppliers who are not tax compliant at award date (repeat finding) (EC, KZN)

By checking the supplier compliance history for suppliers on the central supplier database (CSD), we identified that, as at the date of the order, some suppliers had a non-compliant tax status, indicating that their tax affairs were not in order.

This was the case for nine orders totalling R29,37 million in KwaZulu-Natal and resulted in irregular expenditure.

Similarly, we identified one instance in the Eastern Cape where an award was made to a supplier whose tax certificate had expired at the date of the award. The contract was awarded on a rate base.

This could have been prevented had management implemented controls to ensure that only suppliers that are tax compliant at the time of the award are appointed.

Recommendations

The SCM unit should strengthen all processes over compliance checks to ensure that assessments are performed on compliance affairs of suppliers at all relevant stages of the procurement process.

A comprehensive checklist should be implemented, which should be attached to all procurement and should cover all of the required checks to be performed on covid-19 transactions.

Auditees' response

The Eastern Cape and KwaZulu-Natal management agreed with the finding. KwaZulu-Natal further committed to make appropriate disclosures. The Eastern Cape stated that supplier details were not resolved within the timeline provided. No purchase order has been issued and therefore no irregular expenditure will be incurred.

1.9. Limitation of scope – information not submitted for audit (FS, GP, KZN, MP)

We could not perform, or could only partially perform, the audit of the procurement of PPE for four awards to the value of R3,6 million in the Free State, six awards to the value of R169,10 million in Gauteng, and 15 awards to the value of R32,26 million in Mpumalanga. This was due to limitations placed on the scope of the audit, as management was unable to provide sufficient and appropriate documentation.

On assessment of the quotation processes in KwaZulu-Natal for the covid-19 PPE awards, the processes followed to advertise the required goods in a manner that ensures fairness and transparency were not evident. The following were not evident, which would allow for the verification of processes followed in requesting quotations:

- Evidence of actual adverts placed on the KwaZulu-Natal health portal or requests sent to service providers requesting them to submit quotations.
- Evidence of receipt of quotations, together with applicable quotation opening registers, on the closing date of adverts, indicating all suppliers that submitted quotations. This affected 45 quotations amounting to R184,46 million and resulted in non-compliance with SCM prescripts. It could also result in possible irregular expenditure.

Recommendations

Management should provide corroborating evidence so that these transactions can be audited. In addition, the cause of this internal failure should be investigated and remedial steps taken to prevent a repeat thereof.

Auditees' response

The Free State management agreed with the finding and reported that the two documents might have been misplaced. At the date of this report, management was still searching for them.

The Gauteng management agreed with the finding and committed to provide all the information requested. The implementation date has been set at 31 October 2021.

The Mpumalanga management indicated that the information had subsequently been submitted to and reconciled with the auditors.

The KwaZulu-Natal management disagreed with the finding. The very definition of 'emergency' and 'not able to follow normal SCM processes' allowed the departments to adequately respond to the sudden requirements of the pandemic. This is captured in section 3.7.6 of the very first instruction note (No. 8 of 2019-20), which allowed departments to 'directly approach any other supplier to obtain quotes and may place orders on condition that the specifications meet the requirements of WHO; prices are equal or lower than prices in Annexure A; and that the supplier is registered on CSD'.

Auditors' response

The supporting evidence was not subsequently submitted for the outstanding information requested.

The KwaZulu-Natal management should note that without adequate inclusion of adverts or other evidence such as emails sent to suppliers requesting quotations, it cannot be concluded from the audit that a fair, transparent, cost-effective and competitive process had been followed. The ability of the department to directly approach suppliers does not preclude them from demonstrating this; therefore, the finding remains.

2. Other procurement-related matters

2.1. Award granted to supplier who had to be part of joint venture, who was not bona fide PPE supplier and whose CIPC returns were not up to date (NC)

The department ordered PPE from a joint venture on 4 June 2020. The invoice addressed to the department was in the name of an individual company, not that of the joint venture. A payment of R13,92 million was made into the account of the individual company and not that of the joint venture. The supplier was also not a bona fide supplier of PPE as they specialise in accommodation and food services. Furthermore, according to the CIPC certificate of the supplier, its annual CIPC returns were not up to date as at 15 October 2019.

No evidence was attached to the supporting documentation that the department had accepted the quote of the joint venture.

Recommendations

Management should ensure that laws and regulations are complied with when procuring goods and services to prevent an increase in irregular expenditure.

Auditees' response

The department raised some non-compliance issues with the joint venture setup, including its registration status. It was then agreed that the order will be issued only to one party of the joint venture. The auditors' recommendation was noted and will be implemented.

2.2. Award granted to a supplier who was in the process of being deregistered with the CIPC (NC)

The department made an award to two suppliers to the value of R43,87 million. However, we identified through a CIPC search that the suppliers were in the process of being deregistered as they had not submitted annual returns for the previous years. This indicates that the department granted awards to suppliers who were not actively in business.

Recommendations

Management should ensure that laws and regulations are complied with when procuring goods and services to prevent an increase in irregular expenditure.

Auditees' response

Management agreed with the finding. The department relied on the CSD when engaging the services of the service providers.

3. Internal control deficiencies

3.1. Award made to supplier who did not submit tender documents (FS provincial treasury)

The provincial treasury awarded a tender to the value of R1,57 million to a supplier without a procurement process having been initiated.

Recommendations

The SCM unit should strengthen controls over the procurement processes implemented to ensure that the department's process are fair, equitable, transparent, cost-effective and economical.

Auditees' response

The Free State management agreed with the finding. The commitment letter was erroneously issued to the supplier on 6 July 2020 and was subsequently withdrawn and cancelled through a letter issued on 16 October 2020.

3.2. Insufficient controls over receipt of goods and services (repeat finding) (FS provincial treasury, LP)

3.2.1. Control deficiencies in ordering and receiving goods (FS provincial treasury)

In addition, the department received more items (to the value of R2,35 million) than it had ordered, and no information was provided to indicate what the nature of these items was. No payments have yet been made, but if any payments are made for this stock, the payment would be irregular.

No evidence could be obtained that the PPE procured had been inspected by the official of the provincial treasury to confirm whether the quantity of the goods delivered was in line with the orders or specifications. Surgical gowns were incorrectly packaged and not marked as non-sterilised or sterilised. The value was R35,52 million.

3.2.2. Inventory invoice from depot did not agree with goods received note from institution (LP)

PPE delivered to a health institution did not agree with the goods received note and evidence could not be provided to confirm whether the institution had communicated with the medical depot on the differences between the goods received note and the invoice.

In some instances, the quantity on the invoice was more than the quantity on the goods received note, or vice versa.

Recommendations

The SCM unit should reassess all controls over the receiving of goods to confirm that sufficient processes are in place and are correctly implemented to ensure that all goods received are in line with goods ordered and that all documentation required to accompany the goods purchased has been submitted. This will ensure that payments are made for only valid goods ordered, delivered and received.

Auditees' response

The Free State provincial treasury management disagreed with the finding and stated that it had experienced challenges with delivery notes not being consistently submitted by suppliers on delivery. The first mitigating effort was to utilise the previous delivery notes where goods were partially delivered, add the quantities delivered on the day onto this delivery note, and sign off with the correct date next to the relevant quantities.

The Limpopo management agreed with the finding and committed to reconcile the records. It further indicated that systems were put in place to manage the receiving, warehousing and distribution of large volumes of PPE; however, due to the extent of the disaster and the pressure it placed on an already overstrained health system, quantities distributed versus sizes must be reconciled.

Auditors' response

The Free State delivery notes were altered or pre-populated and signed before the receipt of the actual goods.

4. Recording, storage and/or distribution of PPE

4.1. Systems and/or controls to account for PPE not in place or not effectively used at bulk storage and healthcare facilities (EC, KZN, MP, NC, NW)

We identified that, at nine bulk storage facilities and nine healthcare facilities in five of the nine provinces, systems and/or controls to account for PPE were not in place or, where they were in place, were not used effectively based on the requirements of the respective departments. The table below shows the number of bulk storage and healthcare facilities selected for audit per province as well as the number of facilities where audit findings were raised:

Number of facilities selected for audit and number of facilities where audit findings were raised, per province

Province	Bulk storage facilities		Healthcare facilities	
	Number of facilities audited	Number of facilities with audit findings	Number of facilities audited	Number of facilities with audit findings
Eastern Cape	2	1	4	0
Free State	1	0	4	0
Gauteng	2	0	4	0
KwaZulu-Natal	3	2	4	3
Limpopo	1	0	4	0
Mpumalanga	2	1	4	1
Northern Cape	4	4	4	3
North West	1	1	4	2
Western Cape	1	0	4	0
Total	**17**	**9**	**36**	**9**

Systems and/or controls to account for PPE were not in place at some of the bulk storage and healthcare facilities. At others, electronic stock management systems or stock cards were used to account for PPE, but these were not updated timeously to ensure that the stock items on the system and the actual PPE on hand agreed.

We noted the following with regard to the lack, or ineffective use, of systems and/or controls to account for PPE:

- At the Mpumalanga and North West medical depots, electronic stock management systems were in place but these were not always updated timeously with the receipts of PPE from the suppliers and the distribution of the PPE to the healthcare facilities. Therefore, differences existed between the actual stock items on hand and the quantities captured on the electronic systems.
- At seven of the temporary bulk storage facilities in the Eastern Cape, KwaZulu-Natal and the Northern Cape neither electronic stock management systems nor stock cards were used to account for PPE. Spreadsheets were compiled indicating the PPE items received from the suppliers or other bulk storage facilities, and the distribution of PPE items to healthcare facilities. However, these spreadsheets were not always updated timeously, reconciled with the actual stock on hand and/or reviewed for accuracy and completeness.
- At nine healthcare facilities, mainly primary healthcare facilities in KwaZulu-Natal, Mpumalanga, the Northern Cape and North West, stock cards were not used to account for stock or stock cards were used but not updated timeously. As some of the PPE items did not have stock cards and as the information on the stock cards for others was not accurate and complete at all times, staff were not aware of the type of PPE and/or the exact quantities on hand to inform the re-ordering of PPE to avoid stock-outs or low stock levels.

Recommendations

To improve record keeping, the departments should institute measures to ensure that staff at the bulk storage and healthcare facilities comply with the prescripts relating to good stock management practices. If required, staff members should also be trained in good stock management practices.

Auditees' response

The accounting officers indicated that the following corrective actions will be implemented:

- The Eastern Cape DoH will continue to use the spreadsheets for the receiving and distribution of stock and will also report the stock on hand on the stock visibility system on a weekly basis to strengthen the stock management system.
- The KwaZulu-Natal DoH will ensure that the stock cards at the healthcare facilities are updated when PPE stock is received from the temporary bulk storage facilities and issued to staff. Also, random spot checks will be done on the accuracy and completeness of these stock cards.
- The Mpumalanga DoH will advertise some of the pharmacy assistant posts to assist with stock management at the healthcare facilities. The department will also consider the possibility of upgrading the current electronic stock management system at the medical depot.
- The Northern Cape and North West DoHs will implement the prescripts that relate to good stock management practices at the temporary bulk storage facilities and/or healthcare facilities and, where required, train staff in the use thereof. Stock cards will be used to account for stock and will be updated timeously.

4.2. PPE not distributed in complete and/or timely manner to healthcare facilities (EC, FS, GP, KZN, LP, NW)

Ten of the bulk storage facilities in eight of the nine provinces (excluding the Western Cape) fulfilled some of the requests for PPE from the healthcare facilities in reduced quantities or not at all. In addition, at 17 of the healthcare facilities in six of the nine provinces, the healthcare facilities' requests for PPE were not always fulfilled in a complete and/or timely manner. The table below shows the number of bulk storage and healthcare facilities selected for audit per province as well as the number of facilities where audit findings were raised:

Number of facilities selected for audit and number of facilities where audit findings were raised, per province

Province	Bulk storage facilities		Healthcare facilities	
	Number of facilities audited	Number of facilities with audit findings	Number of facilities audited	Number of facilities with audit findings
Eastern Cape	2	1	4	4
Free State	1	1	4	3
Gauteng	2	2	4	3
KwaZulu-Natal	3	1	4	2
Limpopo	1	1	4	3
Mpumalanga	2	1	4	0
Northern Cape	1	1	4	2
North West	4	2	4	0
Western Cape	1	0	4	0
Total	**17**	**10**	**36**	**17**

The bulk storage facilities could not always provide the requested PPE in a complete and/or timely manner to the healthcare facilities because of stock-outs or low stock levels. This was mainly due to suppliers' extended lead times to deliver during the pandemic. As a result, the bulk storage facilities had to ration the quantities issued to the healthcare facilities based on the amount of PPE on hand. This was to ensure that all healthcare facilities had some PPE.

As PPE was not always distributed in a complete and/or timely manner, some healthcare facilities experienced stock-outs or low stock levels of certain PPE items at times. To ensure continuous service delivery, the healthcare facilities had to borrow, share or exchange PPE among themselves. In some instances, alternative PPE was used by healthcare workers or PPE was purchased directly from the suppliers.

Recommendations

Departments should regularly follow up on long-outstanding orders. Where suppliers repeatedly fail to deliver orders within a reasonable time and without justifiable reasons, departments should consider not placing orders with these suppliers in future.

Auditees' response

The accounting officers indicated that the following corrective actions will be implemented:

- The Eastern Cape DoH will assign staff at the medical depot to regularly follow up on long-outstanding orders and monitor the suppliers' performance.
- The healthcare facilities in Gauteng will continue to use the available PPE stock and, if necessary, order additional PPE directly from suppliers.
- The KwaZulu-Natal DoH will continue to follow a fair distribution process, whereby PPE will be prioritised for healthcare facilities in 'hot spots' and the remainder will be rationed across the province. The lead times of orders will also be monitored.
- The Limpopo medical depot distributed PPE to healthcare facilities based on its own demand calculations as an emergency intervention during the pandemic, but the distribution of PPE is in the process of returning back to the practice whereby healthcare facilities request PPE from the medical depot based on their need.

- The Free State, Mpumalanga and North West medical depots will continue to follow up on long-outstanding orders with suppliers. Furthermore, communication between the medical depots and the healthcare facilities regarding their PPE needs will be strengthened. The North West DoH provided approval to the healthcare facilities in September 2020 to procure PPE directly from suppliers if the medical depot cannot supply the required PPE in time.
- The Northern Cape DoH strengthened its processes relating to the management of PPE orders.

4.3. Poor storage practices at bulk storage and healthcare facilities (EC, FS, GP, KZN, LP, MP, NW, NC)

PPE stock was not always stored according to the respective departments' requirements to ensure efficient and effective storage. We found poor storage practices at 12 bulk storage facilities and 23 healthcare facilities in eight of the nine provinces. The table below shows the number of bulk storage and healthcare facilities selected for audit per province as well as the number of facilities where audit findings were raised:

Number of facilities selected for audit and number of facilities where audit findings were raised, per province

Province	Bulk storage facilities		Healthcare facilities	
	Number of facilities audited	Number of facilities with audit findings	Number of facilities audited	Number of facilities with audit findings
Eastern Cape	2	2	4	3
Free State	1	1	4	3
Gauteng	2	0	4	4
KwaZulu-Natal	3	3	4	3
Limpopo	1	1	4	3
Mpumalanga	2	1	4	1
Northern Cape	1	1	4	3
North West	4	3	4	3
Western Cape	1	0	4	0
Total	**17**	**12**	**36**	**23**

The following practices hampered the optimal storage of PPE at some of these bulk storage and healthcare facilities:

- Facilities did not have enough space and/or shelving to store the PPE stock on hand. The PPE was then stored in the walkways, passages, against the walls on top of each other, in open areas, on the floor, outside the boxes and/or stacked to the ceilings. At some of the medical depots, there was limited or no room for forklifts to upload and move the PPE stock in the medical depots and the staff responsible for picking, packing and/or issuing the PPE items had restricted access to such stock. At the healthcare facilities, some PPE was stored in offices, boardrooms, kitchens, an electrical switch room and/or cleaning material rooms. Storage practices like this made it difficult for staff to record and account for all the PPE stock on hand. Picture 1 shows an example of poor storage practices at a facility.

Poorly stored and damaged PPE

Picture 1: PPE stored in the walkways, outside the boxes and on top of each other in a disorderly manner.

Picture 2: PPE damaged by water

Picture 3: Sanitisers stored outside and exposed to sun and rain

- PPE stock was stored at a temporary bulk storage facility and some healthcare facilities where the infrastructure was not well maintained and therefore in a poor condition. Instances were identified where the ceilings were not in a good condition due to water damage. Some of the PPE was damaged by water as indicated in picture 2.
- Some PPE stock was stored outside a temporary bulk storage facility. Picture 3 shows sanitisers that were stored outside the facility that were exposed to the sun and rain. As some of these items were damaged due to exposure to direct sunlight, its integrity/quality was compromised.

The following contributed to the poor storage practices of PPE at the bulk storage and healthcare facilities:

- The facilities or the areas within the facilities used to store PPE were not always sufficient and/or suitable for the storage of PPE. During the pandemic, some of these facilities had to accommodate high volumes of PPE stock in addition to their normal pharmaceutical stock. In some provinces, PPE for a number of government institutions in the province was stored at the DoH's facilities.
- Even though the workload in terms of stock management increased, the workforce did not increase accordingly. The staff responsible for stock management at the facilities or administrative duties at some of the temporary bulk storage facilities were now also responsible for managing the high levels of PPE stock.
- Even though prescripts in the form of policies and procedures that include the minimum requirements for good storage practices were in place at the departments, the implementation thereof by staff was not always enforced.

Recommendations

To improve the storage practices, departments should institute measures to ensure that the staff responsible for stock management at the bulk storage and healthcare facilities, as far as possible under the circumstances, comply with the prescripts relating to good storage practices. Compliance with these prescripts should be monitored regularly and any non-adherence addressed.

Departments should consider assessing the bulk storage and healthcare facilities to determine the best areas in these facilities where PPE can be stored, thereby using the available space in an optimal manner. If the existing facilities are still not suitable, the departments should consider increasing their storage capacity by identifying alternative but suitable facilities for the storage of PPE during the pandemic.

Auditees' response

The accounting officers indicated that the following corrective actions will be implemented:

- The Eastern Cape DoH is in the process of rearranging the stock at the existing medical depots to allow for the proper storage of PPE. The PPE stock stored at the temporary bulk storage facility is being transferred to the Port Elizabeth medical depot. The department will also identify an alternative, more suitable space to store PPE.
- The Free State DoH is in the process of rearranging the consumables in the medical depot to allow for the more orderly storage. The PPE of other government institutions will be removed from the medical depot. Dedicated staff have been

identified to be responsible for the control of PPE stock and monitoring adherence to the prescripts of good storage practices. Additional staff will also be sourced to assist with the handling of PPE.

- The Gauteng DoH will repack the PPE stored at the healthcare facilities as per the prescripts. If required, other suitable spaces will be identified within the healthcare facilities to store the PPE.
- The KwaZulu-Natal DoH commenced with a refurbishment project at the temporary bulk storage facility prior to the pandemic. During the lockdown, an emergency project was launched for the replacement of the facility's roof and the associated work for the storage of the PPE. At some of the healthcare facilities, alternative suitable spaces will be identified within the facilities; PPE will then be sorted and stored in accordance with the prescripts. A formal submission will also be made, requesting the reassessment of the staff establishment to support the creation of additional posts.
- The Limpopo DoH issued a tender to source an additional bulk storage facility. At the healthcare facilities, alternative suitable spaces will be identified within the facilities to store PPE in line with the prescripts.
- The Mpumalanga DoH will ensure adherence to the prescripts of good storage practices and will identify alternative suitable storage areas/facilities to relieve the pressure on some healthcare facilities.
- The medical depot in North West is in the process of clearing the passages and packing PPE in the correct bin locations. The North West DoH will also train staff in the prescripts of good storage practices and a pharmacist will be allocated to regularly monitor adherence thereto.
- The Northern Cape DoH will allocate staff with the requisite knowledge of stock management practices and skills to manage the PPE stock stored in the temporary bulk storage facilities. Furthermore, measures will be put in place to ensure adherence to the prescripts of good storage practices.

4.4. Limited security controls at bulk storage facilities (EC, FS, NW, NC)

At seven of the bulk storage facilities in four of the nine provinces, PPE stock was not always stored securely.

The following practices hampered the secure storage of PPE at some of the facilities:

- At a medical depot in the Eastern Cape, CCTV cameras were functional but the access control systems were not yet activated.
- At the Free State and North West medical depots, CCTV cameras were installed but were not functional throughout the pandemic. However, guards were deployed at both medical depots to secure the premises.
- At four of the temporary bulk storage facilities in the Eastern Cape and Northern Cape, security measures were not put in place to safeguard the PPE stock. This was mainly because the intention was to only temporarily use these facilities.

This exposes the departments to potential financial loss as a result of the potential loss of PPE.

Recommendations

The CCTV cameras that were not working should be repaired and put into operation to mitigate the risk of theft at the bulk storage facilities. Once the cameras have been repaired, security officials should monitor these closely.

Departments should put security measures, such as CCTV cameras, security gates, fencing and/or security guards, in place to safeguard the PPE stock stored in the temporary bulk storage facilities.

Auditees' response

The accounting officers indicated that the following corrective actions will be implemented:

- The Eastern Cape DoH has a contract with a service provider to ensure that the access control system at the medical depot is activated. In terms of the temporary storage facility, the PPE stock is in the process of being transferred to the Port Elizabeth medical depot as the centre will no longer be used as a bulk storage facility.
- The Free State DoH is busy appointing a service provider to upgrade the CCTV cameras' software.
- The Northern Cape DoH will conduct a security risk analysis and based on the outcomes thereof, security measures will be put in place to safeguard the PPE stock stored in the temporary bulk storage facilities.

- The North West DoH assessed the security installation at the medical depot. The medical depot's staff will continue to engage with the security services directorate in the DoH to repair the CCTV cameras.

4.5. Ineffective quality assurance over PPE during receipt (EC, FS, GP, KZN, MP, NC, NW)

Some items of PPE received by the healthcare facilities in seven of the nine provinces did not meet the minimum required standards and/or specifications. Even though the departments in all these provinces, except the Northern Cape, had processes in place at the bulk storage facilities to conduct quality spot checks and identify substandard PPE before distributing it to the healthcare facilities, the following complaints were raised by the healthcare workers:

- Some coveralls and overshoes were made of poor-quality material as it fell apart when putting them on (Free State, Northern Cape and North West).
- Some surgical masks did not have two ear loops, while the ear loops of others detached easily. Some of the masks also retained moisture while others had excessive fluff that resulted in the healthcare workers coughing and sneezing (Free State, KwaZulu-Natal and Mpumalanga).
- Even though N95 masks were requested from the bulk storage facilities, KN95 masks were provided. Some of these masks did not fit properly due to ear-loop design flaws. These masks also did not seal over the face and air leakages were experienced from the top and sides of the masks.
- Some masks did not have nose bars and the ear loops detached easily (Gauteng, Mpumalanga, Northern Cape and North West).
- Some isolation gowns/aprons were too short, tore easily or had a bad odour (Eastern Cape, Northern Cape and North West).
- The sponge part of some face shields/visors separated from the plastic and the elastic bands detached easily. The plastic was also not cut straight at the bottom to offer healthcare workers the required protection (Free State and Mpumalanga).

Recommendations

The quality assurance processes at the bulk storage facilities should be enhanced to identify PPE items that do not meet the required specifications and/or standards in a timely manner. The suppliers of the PPE should be notified immediately and the PPE returned to them. Going forward, the departments should also consider not procuring from suppliers who provided substandard PPE.

Auditees' response

The accounting officers indicated that the following corrective actions will be implemented:

- The Eastern Cape DoH will ensure that the PPE specifications are included in the RFQs. The bulk storage facilities will also continue to engage with the healthcare workers to obtain feedback on the quality of the PPE they receive.
- The Free State DoH will encourage the healthcare workers to check the quality of the PPE and report substandard PPE to the Free State medical depot.
- The Gauteng DoH will deploy staff at the medical depots to check whether the PPE delivered is in line with the specifications on the orders placed with the suppliers.
- The KwaZulu-Natal DoH established a technical evaluation committee in June 2020. This committee will evaluate samples of PPE before procurement. The department will also continue to use the formal PPE complaints process in place.
- The Mpumalanga medical depot will strengthen its existing quality assurance process.
- The Northern Cape DoH established a quality control committee. The committee will be responsible for evaluating the quality of PPE before orders are placed with suppliers. A formal PPE complaints process has also been implemented.

5. Payments made for goods and services with no evidence of delivery and/ or contract arrangement (GP)

We identified 11 instances where payments were made for PPE but no evidence was provided to indicate that these goods had been delivered. Furthermore, there was no contractual agreement for such arrangement with the supplier. The total value of the potential prepayments was R140,99 million.

Recommendations

All controls in place over the receiving of goods should be re-evaluated to ensure that sufficient processes have been implemented to make sure that the goods received are what had been ordered and that all documentation required to accompany the goods purchased has been submitted.

Management should strengthen controls over the payment and receipt of goods to ensure that goods paid for have been delivered and that any prepayments are in line with a contract.

Auditees' response

The Gauteng management disagreed with finding 5.1 and indicated that the goods received notes were removed from the department by another state investigative body and not yet returned to the department.

With this particular batch, the under-payment was noticed even before authorisation – at 14:10, while the provincial treasury made the payment at 14:30. However, to the supplier had already made numerous enquiries and one invoice had already been rejected by the bank. Therefore, the batch was authorised to allow at least some payment to be made to the supplier. The batch was then rectified after disbursement and another batch compiled to pay the difference of R1 million, attaching the previous batch as reference of the amount paid.

CONCLUSION

The audit, which focused on the procurement, recording, storage and distribution of PPE, progressed well despite the challenges encountered regarding delays in the submission of information as well as responses to the findings issued.

The accounting officers across the sector indicated that they implemented most of the actions they had committed to in the first special report. Since that report, the DoHs have also strengthened their controls in an attempt to ensure compliance with the National Treasury instruction notes, as well as the timely delivery of PPE by suppliers. It should be noted that the newly registered suppliers on the CSD in 2020 increased the risk of possible preferential treatment as, in many instances, management was not able to demonstrate how these suppliers had been specifically identified.

Despite the implementation of these internal controls, the sector had a number of repeat findings as well as new findings in the area of procurement and expenditure management. This continued to expose departments to incurring significant amounts of irregular expenditure. While we appreciate that management may have been focusing on managing the pandemic, this was unfortunately an indication that the implementation of the internal controls was not effective. The sector should also continue to investigate the transgressions to ensure that consequence management is enforced and that processes are instituted to recover the funds where money was lost.

We further identified that PPE was not always procured in terms of the Treasury Regulations and accounted for, stored and distributed in an efficient and effective manner in line with good stock management practices. The accounting officers provided us with corrective actions and made commitments to improve the stock management systems at bulk storage and healthcare facilities, where possible. In all the provinces, the departments had already started implementing their corrective actions.

COMMUNITY TESTING

TESTING AT LABORATORIES

The audit focused on determining whether the scoped-in testing kits, equipment and PPE items were obtained at market-related prices during the covid-19 pandemic and delivered by the suppliers within the required lead times, to ensure continuous service delivery.

Key audit findings and observations

6. PPE procured at prices higher than prescribed by National Treasury instruction notes

The NHLS procured some PPE items at prices in excess of the prices regarded by the National Treasury as market related (examples of these are included in the table below). This was mainly due to local and global demand and supply challenges. The NHLS took a decision that the safety of staff was paramount and therefore the delivery times of PPE would take preference over the prices. The NHLS did obtain the required approval from the chief executive officer to exceed the maximum allowable prices for PPE.

Examples of PPE items procured by NHLS at prices above those prescribed by National Treasury

Order number	Item description	Quantity ordered	Single unit price (R)	National Treasury unit price (R)	Total in excess of prescribed price (R)	Percentage in excess of prescribed price (%)
1488548 ⑧	Hand sanitisers (500ml)	2 000	159,00	103,50	111 000	54
1493203 ⑧	Hand sanitisers (500ml)	50 000	163,88	103,50	3 019 000	58
1493191 ⑧	Disposable plastic aprons	500 000	1,61	0,32	645 000	403
1503297 ⑤	Examination gloves (latex, non-sterile)	1 000 000	2,40	0,46	1 940 000	422
1506922 ⑤ ⓐ	Examination gloves (latex, non-sterile)	2 000 000	2,90	0,90	4 000 000	222

⑧ National Treasury Instruction Note No. 8 of 2019-20 is applicable for this order
⑤ National Treasury Instruction Note No. 5 of 2020-21 is applicable for this order
⑤ⓐ Amendment to National Treasury Instruction Note No. 5 of 2020-21 is applicable for this order

Recommendations

Management should implement a formal process to monitor compliance with the instruction notes issued by the National Treasury before the orders for PPE items are placed with suppliers and payment is made.

Management should investigate all amounts paid in excess of the prices stipulated in annexure A, and report any losses incurred accordingly.

Auditees' response

In instances where the price paid for PPE was regarded by the NHLS as excessive, the NHLS had initiated its own investigations and had also reported the relevant companies to the Competition Commission.

CASE MANAGEMENT SOLUTION

The primary objectives of the review of the case management solution were to assess whether the systems implemented operated as intended and to determine the effectiveness of system controls in ensuring the completeness and accuracy of covid-19 data transferred through the various application systems.

Based on the work performed, control environments hosting the various applications varied with regard to the implementation of IT controls, with control deficiencies noted around system implementation, the system used to capture laboratory results at the NHLS, the NDoH's database, and, to a lesser extent, the track and trace system and the NICD's systems.

Key audit findings and observations

7. Lack of IT project management governance and system implementation controls deficiencies resulted in incomplete and inaccurate data

We identified control deficiencies in the processes followed to implement covid-19 laboratory surveillance solutions, resulting in it being likely that the solution had not been implemented and was not operating as intended. Some of the key control deficiencies include the following:

- Systems were implemented without clearly defined business and functional requirements.
- We were not provided with any evidence that some form of systems testing was performed before systems went live.
- Project governance was not adequate for overall oversight and monitoring, including managing risks as they arose.

We could not confirm the completeness and accuracy of data due to the following control deficiencies identified:

- Changes were not logged, reviewed and documented; and therefore did not prohibit the implementation of unauthorised changes that may have an adverse impact on system functionality and data integrity.
- Access to data was not adequately restricted; for example, there were weak password controls and inadequate controls for granting, amending and terminating users' access. Therefore, unauthorised access and changes to data were not prohibited.
- Data transferred from the laboratories to the contact-tracing functionality through the various platforms was incomplete for the purposes of contact tracing and therefore required numerous follow-ups and manual interventions.
- As backup controls were not clearly defined and backup tapes were not tested, the availability of data in the event of a major incident could not be confirmed.

Recommendations

Management should ensure that with any system implementation within the department, accountability of the system is established by determining different roles within the project team, including those of project sponsor, project owner/leader and project manager. These should ensure that user requirements are defined and documented, and that systems are tested before going live to ensure that such systems operate as intended.

When systems are implemented, preventative controls should be implemented to prevent unauthorised changes and access to the systems.

Management should ensure that backups and recovery are tested on a regular basis.

Management should ensure that data is complete and accurate from point of capture by implementing the necessary automated controls.

Auditees' response

Management agreed with the findings. Corrective actions taking into consideration the recommendations above will be implemented going forward.

CONCLUSION

The first special report focused on the general computer control environment hosting the solution and the IT project and system implementation for some of the application systems. Findings were raised but management actions were not received. Subsequently, management actions for the work performed in the first special report have been received. Management agreed with the findings and corrective action will be implemented going forward.

We performed further work on the remainder of the application systems, focusing on the general computer control environment hosting the solution, automated controls testing, project and system implementation, and data analytics.

The implementation of controls was inconsistent across the various systems involved in the overall implementation of the case management solution, with some systems having better controls than others. The lack of controls over system implementation, access to data, changes to systems and information captured, rendered the systems unreliable. This resulted in management relying on manual interventions, which compensated for the system deficiencies.

Management should ensure that it implements proper governance processes over systems procured and implemented. These governance processes should also ensure that the systems procured meet the business requirements, are properly tested and are adequately monitored.

FIELD HOSPITALS

Summary of key audit findings reported for field hospitals

Finding	Description of finding	Repeat finding	Province
Procurement and contract management			
8.1.	Standard bid documentation was not included in procurement documents provided	No	DoH: KwaZulu-Natal DPW: Gauteng, KwaZulu-Natal
8.2.	Unfair procurement processes as bids were not invited, bid committee system not applied and/ or no evidence provided for bid committee system in the approval of deviations	No	DoH: KwaZulu-Natal, Limpopo DPW: Gauteng
8.3.	Total payments made under the contract exceeded the contract price	No	DoH: KwaZulu-Natal
Implementation and commissioning			
9.1.	Free State: Bloemfontein Show Grounds Field Hospital	No	Free State
9.2.	KwaZulu-Natal: Clairwood Temporary Field Hospital	No	KwaZulu-Natal

KEY AUDIT FINDINGS AND OBSERVATIONS

Key audit findings are presented according to the process flow of transactions:

8. Procurement and contract management

8.1. Standard bid documentation was not included in procurement documents provided (KZN DoH, KZN DPW, GP DPW)

Treasury regulation 16A6.3(a) requires the accounting officer to ensure that all bid documentation and general contract conditions are adhered to. Various documents were not provided for the following awards:

- Nine awards for nine projects for the KwaZulu-Natal DoH, amounting to R472,54 million
- Five contracts totalling R244,20 million for the KwaZulu-Natal DPW.

The following bid documents were not included in the standard bidding packs:

- The required declarations of interest (SBD 4).
- Documentation to support that the awarded suppliers had not failed to perform in any previous contracts (SBD 8).
- Documents indicating whether the awarded suppliers committed corruption or fraud in competing for any previous awards (SBD 9).

Similarly, in the DPW in Gauteng, emergency procurement awards totalling R584,14 million were made to suppliers who did not submit declaration of interest forms when submitting quotations, contrary to treasury regulation 16A6.3(a)(i).

The use of emergency deviations does not preclude departments from obtaining the required declarations and further information on the performance of suppliers.

Recommendations

The accounting officer and the SCM unit should strengthen controls over document maintenance and inclusion in the procurement files to ensure that all the necessary supporting evidence for the procurement processes is maintained.

Stringent reviews by senior SCM personnel should be implemented over the checklist used and all procurement files to ensure that all the necessary documentation relating to the procurement is maintained.

Management should ensure that the awards are made to suppliers who submitted completed and signed declarations of interest before an award is made.

Auditees' response

The KwaZulu-Natal DoH management agreed and acknowledged that the declaration of bidders' SCM practices (SBD 8) was not used to determine that all reasonable steps had been taken to combat the abuse of the SCM system by the respective service providers/suppliers.

The department uses the standardised documentation for the invitation of all bids and quotations. In this regard, the SBD 8 was omitted due to quotations being requested as only the standard documentation for quotations was used. Consequently, the SCM documentation pack did not contain the SBD 8 document as reported by the auditors.

Controls over document management and the maintenance thereof have been implemented within the SCM unit.

The department's SCM unit has addressed the matter by ensuring that sufficient evidence is maintained in the procurement files to verify that the department has complied with the Treasury Regulations when procuring goods and services, including the inclusion of all of the required declarations. In this regard, all subsequent RFQs now contain the SBD 4, SBD 8 and SBD 9 documents that prospective bidders are requested to complete as part of their offer.

Further to the above, a checklist that validates the submission of all required documents was developed and implemented in 2019. This control measure is being used to confirm and certify that all necessary information has been submitted.

The KwaZulu-Natal DPW agreed with the finding. The contractors appointed by the department on these projects were already on sites with contracts for which the SBD 4 and SBD 8 forms had previously been completed, but such forms were resubmitted. The auditors' recommendations were noted and will be implemented.

The Gauteng DPW management disagreed with the finding. SBD forms are part of departmental tender documents and bidders are required to complete and sign declarations before awards. Management acknowledged that the declaration of interest was completed and signed during the contracting stage due to the nature of procurement, which was an emergency procurement.

Auditors' response

We inspected the declaration of interest forms for the Gauteng DPW and identified that declarations were made after awards, which constitutes non-compliance with the Treasury Regulations. For a certain supplier, the declaration of interest was not submitted and for another two suppliers, the declaration was damaged. As a result, the finding is valid and will be reported.

8.2. Unfair procurement processes as bids were not invited, bid committee system not applied and/or no evidence provided for bid committee system in the approval of deviations (KZN DoH, GP DPW, LP DPW)

In KwaZulu-Natal, on assessment of the procurement documents for nine infrastructure projects, valued at R472,54 million, no evidence was provided to indicate that the bid committee system had been applied in making the awards, as required by National Treasury Instruction Note No. 8 of 2019-20. The non-approval of the awards by the relevant committee resulted in non-compliance with legislative requirements and in irregular expenditure.

No evidence was provided that the Gauteng DPW had invited as many suppliers as possible to bid and then selected the preferred suppliers using the competitive bid committee system, as required by paragraph 8.4 of National Treasury Instruction Note No. 3 of 2016-17. The total value of the awards amounted to R809,26 million.

The Gauteng DPW failed to comply with SCM processes when it procured Nasrec as a field hospital because as many suppliers as possible were not invited to bid and there was no prior approval from the relevant treasury for the emergency procurement, as required by treasury regulation 16A6.4 and paragraphs 8.4 and 8.5 of National Treasury Instruction Note No. 3 of 2016-17.

The lease agreement entered into between the supplier and the department, which was based on a rate-based payment system of R770 per patient per day, was thus irregular. The total amount paid up to September 2020 was R138,00 million.

The Limpopo DPW did not give contractors within the same panel an equal opportunity to quote as only one supplier was afforded the opportunity to do so. This therefore did not adhere to the requirements of fair, equitable, transparent, competitive and cost-effective procurement, and resulted in irregular expenditure of R38,37 million.

Recommendations

The accounting officer and the SCM unit should strengthen controls over the approval of awards to ensure that all the required legislative prescripts are adhered to and that sufficient documents are included in the procurement files to indicate this.

Management should ensure that emergency procurement complies with instruction notes to prevent and combat the abuse of the SCM system.

Management should also ensure that, even when procurement is done through a deviation, as many suppliers as possible are invited to bid, that the selection of the winning bidder is done through the competitive bid committee system, and that the award is made to a supplier with experience and proficiency relating to the goods or services required to avoid suppliers not producing high-quality work.

Auditees' response

The KwaZulu-Natal DoH disagreed with the finding. On 19 March 2020, the National Treasury issued Instruction Note No. 8 of 2019-20, which referred to the declaration of the state of disaster and then spelt out the conditions under which procurement for essential emergency items is to be conducted. The instruction note provided a clear instruction to avoid all physical interactions during procurement (section 4 of the instruction note), which would include the convening of bid committees, which are multi-disciplined in nature and include members from various sections across the department.

The lockdown regulations also prescribed that only 30% of the workforce could be at the workplace at any given time. This situation prevented bid committees from meeting during this period. It was against this backdrop that the head of health delegated the authority to award bids to the chief director: SCM, specifically for covid-19-related procurement.

Furthermore, all covid-19 procurement, except for the few items bought on contract, forms part of the weekly mandatory covid-19 deviation list that is submitted to the provincial treasury.

The Gauteng DPW management disagreed with the finding, and felt that the auditors misinterpreted the requirement of National Treasury Instruction Note No. 3 of 2016-17. Management therefore believed that the deviation was valid as the situation constituted an emergency (declared national state disaster), was life threatening and time restricted. Permission to deviate was also granted by the accounting officer in the form of requests through a submission to deviate from the normal procurement process.

The Gauteng DPW management also disagreed with the finding on the . Management argued that the department had complied with the requirements of the Treasury Regulations as it procured the services of the Nasrec Field Hospital as the sole supplier through a negotiation procedure. In this regard, management argued that all relevant Treasury Regulations had been complied with.

Management disagreed with the finding, as the auditors failed to recognise part 2 of how the panel of contractors is utilised. This was explained to the auditors as follows:

- 'The department developed a wide scope of specifications on all known works applicable to all accredited specialties, e.g. general building; electrical engineering, civil engineering, etc. department. A closed bidding process was done, and the rates were then established. After the rates were established, the department then allocated sites to all panellists.
- It should be stressed that the rates were standardized (meaning same rates per category of works and Construction Industry Development Board grading). This means that when there's works at a site only a service provider allocated to such a site is expected to submit the quote for the works to be done utilizing the approved rates.'

Auditors' response

We acknowledge that covid-19 disrupted what was considered to be normal procedures for conducting processes. However, procurement for infrastructure projects falls within the ambit of normal emergency procedures and the nature of the procurement does not preclude the department from following a bid committee system as required, together with inviting as many suppliers as possible – neither of which was evident.

Section 4 of National Treasury Instruction Note No. 8 of 2019-20 relates to tender briefings and also recommends the use of teleconferencing, Microsoft Teams, Zoom and similar enablers for such briefings, which the department could have used to avoid physical interactions.

It is evident that management did not take appropriate measures to ensure that the bid committee system was utilised and, therefore, transparency and fairness in the processes applied cannot be demonstrated. The non-compliance raised is thus valid and the irregular expenditure in respect of the above contracts is required to be disclosed.

In the Gauteng DPW, we acknowledge that the procurement was due to an emergency, hence no finding was raised for not complying with paragraph 8.2 of National Treasury Instruction Note No. 3 of 2016-17. However, management did not obtain as many quotations as possible and selected the preferred supplier using the competitive committee bid system, as required by paragraph 8.4 of National Treasury Instruction Note No. 3 of 2016-17. As a result, the finding is valid and will be reported.

The evidence provided by Gauteng DPW management was not sufficient to indicate compliance with the relevant treasury regulation prescripts for SCM. The department failed to comply with National Treasury Instruction Note No. 3 of 2016-17, as it did not indicate what factors had been taken into account to determine that Nasrec was the sole supplier.

We perused the memorandum provided the Limpopo DPW management and noted the following:

- Paragraph 2 indicates the type of service to be provided by the service provider; however, it does not allocate a specific service provider to a specific institution, as was not the case in evaluation and adjudication.
- Paragraph 3.1(c) states that the institution's SCM unit must then send an RFQ from the panel of contractors, depending on capacity and Construction Industry Development Board registration and grading.
- On the last page, it is stated that 'all bidders within each category must be afforded an opportunity to quote'.

8.3. Total payments made under contract exceeded contract price (KZN)

The department entered into a contract with a service provider at a price that exceeded the price quoted by the service provider. The contract value was R10,36 million but payments of R24,28 million had already been made by 30 September 2020 without any evidence provided to justify the overpayment. This resulted in possible irregular expenditure.

Recommendations

The SCM unit should implement sufficient processes to ensure effective contract and expenditure management to enable management to track the expenditure incurred under a contract.

The accounting officer should investigate the reasons for payments above the contracted price without a suitable amendment/variation against the price and should make sure that the department did not suffer any losses due to the overpayment. The results of the investigation and supporting documents should be provided to the auditors.

Auditees' response

The department indicated that cognisance must be taken of the fact that the adjudication for the project was concluded on the markup percentage, 'preliminaries and general' as well as the construction period. The estimated quoted amount was not used to evaluate the tender.

In addition, upon receipt of the tender estimated quoted amounts, it was discovered to be far lower than the estimated amount. The chief quantity surveyor advised that the department's estimated amount (as approved by the head of department) should be used for the order to avoid the need for unnecessary variation orders that could have delayed the execution of the works.

The NEC 3 ECC is a cost-plus contract and therefore the contractor's competitiveness is based on markup percentage and 'preliminaries and general'.

Auditors' response

Based on inspection of the submission approved by the head of department on 14 April 2020 and the purchase order dated 14 April 2020, it was noted that the budgeted estimate of the project was R28 959 984,27 and the purchase order was issued on this amount.

On inspection of the submission, it was noted that the head of department was requested to approve the offer of R10 363 885,67 to Siyaxhasana, which agrees to the quotation and the contract, signed by the head of department, entered into with the contractor.

No evidence was attached to confirm that the quotation of the contractor and construction work to be done had been revised and approved accordingly. The non-compliance raised is therefore valid.

9. Implementation and commissioning

9.1. Free State: Bloemfontein Show Grounds Field Hospital

9.1.1. Delay in completion of field hospital

During our site visit on 31 July 2020, the Bloemfontein Show Grounds Field Hospital was still in the early construction stages, although it should have been ready the previous day (30 July 2020). The work on the site only commenced on 27 July 2020 with an anticipated completion date of 31 August 2020.

Progress on Bloemfontein Show Grounds Field Hospital as at 31 July 2020

Drywall installation in progress

Hall preparation still in early stages

When we revisited the field hospital on 15 September 2020, it was still under construction. The progress onsite was estimated to be 95% complete. All the infrastructure components were complete except for the heating, ventilation and air conditioning system and no moveable assets had been procured. The provincial DoH's advisors indicated that the facility would probably be used for the second wave of covid-19 infections expected in approximately eight weeks' time from that date. The DoH confirmed that it had incurred no expenditure up to 10 September 2020. The provincial DPW indicated that R27,53 million was now payable, which formed part of claims of R68,65 million received. Refer to the pictures below for progress as at 15 September 2020.

Progress on Bloemfontein Show Grounds Field Hospital as at 15 September 2020

Bathroom basins

Progress on hall preparation

The hospital was originally expected to be completed and commissioned on 1 August 2020. However, on 15 September 2020 when the auditors visited the site, the hospital was still not completed and commissioned.

9.1.2. Lease agreement

The provincial government entered into a lease agreement with the show grounds' management. The monthly rental payable was R0,53 million. The lease stipulated that the monthly rental and administration fee for August 2020 would be payable before occupation of the premises on 13 July 2020. Monthly rental of R1,06 million was incurred for August and September 2020, while the facility was not yet operational and ready for use.

Recommendations

The department should re-negotiate the terms of the contract with the management of the show grounds to avoid expenditure being incurred in vain.

For future projects, the department should ensure improved coordination and project management for the timeous commencement of projects and completion in time to address the identified needs.

The department should re-perform a needs analysis on the number of beds needed as the cases of covid-19 have declined around the province.

A decommissioning plan should be compiled, indicating how the facility will be decommissioned and where components will be stored or re-used.

Auditees' response

9.1.1. Delay in completion of field hospital

The Free State DoH responded as follows:

- At approval of the project, the projected and planned date of readiness/commissioning of the Bloemfontein Show Grounds Field Hospital, as a specific surge site, was set at 31 August 2020 and not 30 June 2020.
- The reasoning for the acceptability of a later commissioning date for this specific surge facility (field hospital) was linked to the expected dynamic surge peaks for the province.
- The field hospital consists of six functional covid-19 wards.
- Four of the six wards are 100% complete in terms of total infrastructure readiness.
- The overall site completion (of all sick wards and support structures) currently stands at 98%.

9.1.2. Lease agreement

The Free State DoH responded as follows:

- The monthly rental payment legitimises handover and occupation of the site, in any form, which includes occupation by contractors and consultants, as well as continued construction and storage for that specific month. The rental payment is not a 'commissioned use' fee.
- The decision to fully decommission and vacate the site/facility (rendering further monthly rental payment unnecessary) is the prerogative of the highest decision-making body in the province (i.e. provincial exco) or the national government.

Auditors' response

The letter issued by the head of department clearly specified that the Free State should have 4 000 hospital beds ready and available by 1 August 2020 for admission of covid-19 patients. These 4 000 beds included 1 993 at the field hospital.

The hospital was expected to be completed and commissioned on 1 August 2020, but was still not complete on 15 September 2020 when the auditors visited the site.

The rental amount is set for a four-month period with the option of two months' extension. The department is still incurring the expenditure in the form of rentals and the hospital has never been commissioned.

9.2. KwaZulu-Natal: Clairwood Temporary Field Hospital

On 22 April 2020, the KwaZulu-Natal DoH requested the KwaZulu-Natal DPW to urgently facilitate the leasing of temporary accommodation to be used as an isolation/field hospital on the Clairwood Hospital site, providing 228 beds to cater for the covid-19 pandemic. A service provider started on 18 June 2020 and the site was handed over on the same day. The service provider had to design, build, deliver and install the temporary structure, with the purpose of leasing 228 beds as erected on the site adjacent to the Clairwood Hospital for a period of six months at a total cost of R47,20 million (including VAT).

9.2.1. No evidence provided of approval and breakdown of project costs

Neither department could provide the detailed scope of work, including drawings and detailed breakdown, to support the estimated project cost of R41,54 million. Only a quote (10 June 2020) was provided by the service provider of the rental of R41,04 million (R47,20 million including VAT) for a period of six months. There was no evidence of the KwaZulu-Natal DoH formally approving the quote, or of the amount available for the project and we were thus unable to determine the reasonability of the costs.

Recommendations

Management should develop clear guidelines to enforce efficient and effective project management. It should also source as many proposals as possible to inform decisions based on cost benefits and ensure that contractual arrangements are complete and clear.

The existing service-level agreement should be revised/replaced as it has been in place since 2 August 2010 and extended thereafter. It should also include the aforementioned recommendations.

Auditees' response

This is a leased facility where the cost was determined in terms of the emergency procurement guidelines where three quotations were sourced. The department does not approve estimates to the DPW for leased facilities but makes the budget available once the tender is awarded.

Auditors' response

The department should demonstrate through its monitoring and approval processes, substantiated with documentation, that the rental was affordable and within its budget allocation. The department making the budget available once the tender is awarded, does advocate for the legislative principles mentioned, but does not allow the department the flexibility to assess its options in using its scarce resources.

9.2.2. Request for proposals invited from limited number of suppliers

The proposal to lease temporary field hospitals was sourced by the KwaZulu-Natal DPW from three service providers for three hospitals (including Clairwood), which is contrary to National Treasury Instruction Note No. 3 of 2016-17 as used by the department, requiring that the accounting officer must invite as many suppliers as possible. The SCM directorate of the KwaZulu-Natal DPW could not substantially justify, with documentary proof, the basis for obtaining proposals from only three service providers, as well as setting the monthly rental at R1 000 per bed per night (equating to R34 500 per bed per month).

The contract concluded included other additional cost implications, namely a site establishment cost of 10% of the rental and earthworks of 12% markup on cost. These claims had been received but were sent back for review. The said documents and approvals must be submitted for audit once they have been finalised for payment by both departments.

Recommendations

Management should ensure that as many proposals as possible are sourced for projects to inform decisions based on cost benefits.

Auditees' response

The KwaZulu-Natal DoH requested the auditors to refer the finding to the DPW.

The KwaZulu-Natal DPW responded that there was no time to invite as many service providers as possible, as advertisements could not be placed to do so. The only service providers invited were the ones known to the department at the time. It must further be noted that this was an emergency and therefore urgent action needed to be taken. As far as the rental costs are concerned, negotiations had to be undertaken with the service providers as their rates were high and the department had to find a strategy to lower them, hence it was decided that a rental amount of R34 500 should be laid down across the board. In so far as the earthworks are concerned, these were not known and therefore it was agreed that they would be on a cost-plus-basis method over and above the rental.

Auditors' response

The KwaZulu-Natal DoH should be in a position to substantiate a lease arrangement and other financial implications for its budget. Furthermore, National Treasury Instruction Note No. 3 of 2016-17 requires the invitation of proposals from many suppliers, with there being no requirement of advertising, thus allowing for many quotes to be sourced to enable a proper cost-benefit analysis to inform decisions.

Apart from the rental estimate, there was no mention of the site establishment and earthwork cost implications. The earthworks were known at the date on which the contract was signed (29 July 2020), as approximately 30% of the installation had been erected by 13 July 2020, at which time the costs would already have been incurred and therefore known.

9.2.3. Project delay

The construction period of the temporary hospital was initially three weeks from 18 June to 13 July 2020. On our second site visit on 1 September 2020, a further three weeks were still required to upgrade the air conditioning. The delay thus equated to at least 10 weeks.

The KwaZulu-Natal DoH was informed that minimum ventilation air-flow requirements would be required and a mechanical engineering report was sent to the department's mechanical engineer for comment and approval. It took the KwaZulu-Natal DoH approximately six weeks to approve an upgrade to the air-conditioning requirement for a project planned for completion within three weeks (13 July 2020 being the completion date). The upgrade as approved by the KwaZulu-Natal DoH contributed to part of the project delay of approximately 10 weeks.

The timelines per the service provider's programme were not met. In terms of the agreement, a penalty of 1% of the monthly rental per day should be deducted for each day of delay, due to the service provider's failure to meet the timelines, until actual performance. The project leader advised that no penalties were applicable yet, as the three extensions of time are currently being assessed. These related to a freight strike delay, a change in the scope of works, and the delay due to the signing of the lease. As the approvals of the extensions of time had not been finalised at the date of the audit, the issue of penalties should be tracked and periods not covered by the approved extensions of time should be investigated.

Recommendations

To effectively meet the desired infrastructure objectives and to ensure the realisation of projected value outcomes, management should ensure that clear internal guidelines are developed on project management methods and approaches to assist in project implementation. Management should also ensure the effective monitoring and efficient correction of any deviations.

Documents on penalties raised, if any, should still be submitted to the auditors.

Auditees' response

The management of the KwaZulu-Natal DoH agreed with the finding and stated that the DPW indicated that the lease agreement was delayed because it had attempted to ensure that there were no other fixed costs that would be encountered due to this being a lease agreement; therefore, the contractor had to re-measure to ensure that all fixed costs and expenses were included.

The KwaZulu-Natal DoH disagreed with the finding. In this regard, the following should be noted:

A natural ventilation option was considered but not chosen because the internal partitioning layout of the field hospital did not allow for natural air circulation. At the inception of the pandemic, the department established the covid-19 air-conditioning specification, which was used on all covid-19 infrastructure projects. The design principles and layout for this 'field hospital' were no different from those of a normal hospital; therefore, there was no engineering rationale to change from the established air-conditioning specification; hence the upgraded requirement (mechanical ventilation option) was specified for the field hospital.

The DPW forwarded the communication to the department requesting confirmation of the specification to be used for payment in an email dated 22 June 2020. A response specifying the upgraded specification was given on 23 June 2020 by the department's chief mechanical engineer.

Considering the above, it is not true that it took the KwaZulu-Natal DoH approximately six weeks to approve an upgrade to the air-conditioning requirement, which contributed to part of the project delay of approximately 10 weeks.

It was only on 30 July 2020 that the DPW communicated the cost implication of the upgrade. The head of health approved the funding on 4 August 2020. Thus, there was never a delay from the department on the approval of the changes.

To be consistent with the department's air changes policy, the decision was taken to procure the entire air-conditioning system (instead of leasing it) with the view to re-using it as part of the replacement programme (60% of the upgrade cost recoverable, i.e. R2,53 million of R4,24 million). These materials are cost reimbursable.

Auditors' response

The substance of our finding is that there was a delay in commissioning the site, which is still not in use. It is clear that the KwaZulu-Natal DPW was still seeking confirmation in raising the issue of the high cost of the change and the suggested reconsideration of the specification indicated by the KwaZulu-Natal DoH. The approval of the scope change is inextricably linked to the funding, and both could only be approved by the head of department, which was only done on 4 August 2020 (six weeks later) and contributed to the delay in the project timeline.

As the change in scope was initiated by departmental official/s, their conduct in managing this process should be evaluated, as this was an urgent project that required the requisite control measures and urgent actions to avoid delays. Delays by the KwaZulu-Natal DPW, if any, should be addressed in terms of the service-level agreement.

The approval of the KwaZulu-Natal DoH for the upgrade in the ventilation requirements is required for the audit, together with the department's strategy going forward regarding the use of this site (this being a six-month contract) as well as a cost-benefit analysis and a cost comparison of the service providers' quote for the upgrade to market prices to justify incurring additional costs of approximately R4,5 million for a temporary facility with a six-month lease period.

9.2.4. Project snags/ poor project quality

In addition to the air-conditioning upgrade still to be done, there were additional snags, such as leaks, that required the attention of the contractor. Furthermore, the following were identified during inspection:

- Bed trolleys were flimsy/unstable and would present a hazard to the users.
- There was no hot water in the facility.
- The nurse call devices did not work.
- The walls needed to be raised in the medical equipment room, sluice room, medical waste storage room and dirty linen rooms.
- There were no ablution facilities accessible to people with disabilities.
- There were no floodlights around the perimeter fence to improve the safety and security of the facility.

Recommendations

To effectively meet the desired infrastructure objectives, as well as to ensure the realisation of projected value outcomes, management should ensure that all snags are addressed timeously.

Auditees' response

The KwaZulu-Natal DoH indicated that the snags had been brought to the attention of the contractor. Practical completion on the project has not been taken and will not be taken until all snags have been attended to successfully by the contractor.

Furthermore, the following should be noted:

- The bed trolleys are not part of the revised specification or the lease agreement. The service provider intends to donate the bed trolleys; however, the intention to donate has not been received.
- The hot water system has not yet been commissioned.
- The nurse call devices form part of the snag list.
- The walls are currently being raised in the entire facility.
- The lack of ablution facilities accessible to people with disabilities will be addressed between the DPW and the service provider.
- There are no flood lights as this is a temporary facility, but the perimeter lighting for the entire hospital forms part of a separate security upgrade project.

CONCLUSION

We did not report many findings on this focus area in the first special report as the audit was still in progress. The audit progressed well even though some challenges were experienced with the submission of information. Management was committed to maintaining the controls with regard to complying with the National Treasury instruction notes relating to procuring the relevant goods and services.

The provincial departments of health and public works had failed to ensure that field hospitals were initiated and commissioned on time in the Free State and KwaZulu-Natal. In KwaZulu-Natal, officials of neither department kept stringent oversight of key deliverables and timelines of an emergency project. Although management disagreements are noted, the findings still remain valid. This requires oversight structures to ensure that corrective actions are implemented.

OVERALL CONCLUSION

Overall, the audit of the initiative progressed well, despite the continued challenges relating to the availability of key staff due to lockdown regulations and the deployment of staff to deal with the pandemic.

We identified several control weaknesses and related findings throughout the health sector that materially affected the quality and value for money of the services or products delivered, and communicated these to management. These raised questions regarding whether the funds allocated had actually been spent for the intended purpose by the institutions involved.

Of concern is that a number of these findings had also been reported in the first special report. These repeat findings were as a result of the slow response by management to implement the recommendations and commitments previously made. The new findings further add to this concern – most of these stem from audit work that had been in progress at the time of tabling the first report.

The accounting officers committed to implement a number of internal controls to address the significant deficiencies identified, with most accounting officers committing to suspending emergency procurement and reverting back to normal procurement processes, as well as ensuring that matters reported are followed up. These follow-up actions would include investigations and consequence management, where applicable, for transgressions.

DEFENCE FRONTLINE SERVICES

Purpose of initiative

Deployment of soldiers, procurement of personal protective equipment, repatriation efforts, enforcement and implementation of health measures

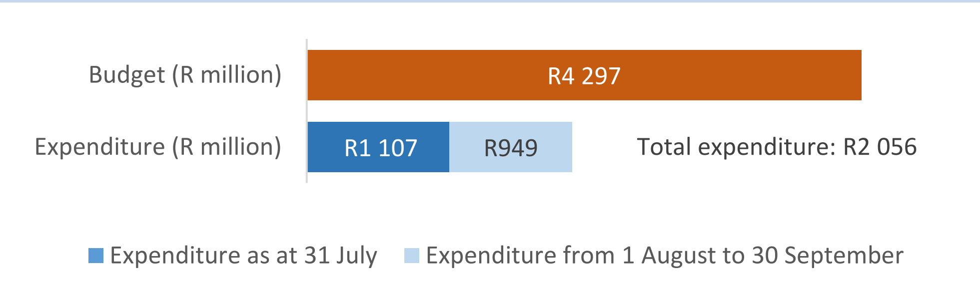
Auditee

Department of Defence

Focus of our audit

- Deployment of soldiers to various provinces to assist with enforcing law and order
- Implementation of additional health measures, including establishing quarantine sites, laboratories and field hospitals with necessary equipment
- Procurement of personal protective equipment
- Repatriation of South African citizens from Wuhan

Budget and expenditure



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STATUS OF IMPLEMENTATION OF INITIATIVE

The Department of Defence began deploying soldiers in March 2020 to help enforce law and order during the lockdown that was declared in response to the covid-19 pandemic. The deployment, which was approved in line with section 18(1)(a) of the Defence Act and section 201(2) of the Constitution, ended on 30 September 2020. As part of enforcing law and order, the deployed soldiers conducted road blocks and patrols and guarded the borders. They also provided health and humanitarian assistance in the form of covid-19 awareness education, scanning and screening, distribution of food parcels and water purification.

With Operation Notlela (the department's response to the covid-19 pandemic), the department prioritised procuring medicine for frontline workers – health workers, VIPs, vulnerable groups with comorbidities, and dependants – to support other government departments in the fight against covid-19. The department compiled a covid-19 management protocol, which includes a formal list of medicine for covid-19 treatment. The protocol also deliberated on candidate drugs undergoing investigation, including the unregistered medical drug Heberon® Alfa R (Heberon), which contains the active ingredient interferon alpha 2b. The department procured 970 895 vials of Heberon (three million international units per vial) from a Cuban supplier at a cost of US$15 048 872,50 (approximately R260,59 million), as per the invoices and importation packing lists up to 17 August 2020. Of this amount, only R34,86 million has been paid to the supplier as at 30 September 2020.

The department determined there was a need for medical equipment and estimated what equipment would be needed. The estimate was based on the expected number of patients to be treated over a 90-day period in the defence community via the various military hospitals, sickbays, isolation facilities, field hospital and response and tracer teams. The department planned to procure 22 686 medical equipment items at a budgeted cost of R411 million, and is currently sourcing these items. The decision to source the medical equipment was approved on 26 March 2020 and the process is expected to be completed by 31 March 2021.

The initial plan also included establishing field hospitals and quarantine sites as part of the efforts to fight the virus within the department and the broader community. However, this plan was later changed and the procurement of these facilities was stopped because of budget constraints and a change in needs. The department opted to refurbish One Military Hospital to provide capacity for quarantine and isolation facilities, and appointed a service provider to plan, build and deliver 40 ICU beds and 60 isolation beds at a total cost of R151 million. The entire project, which began on 18 August 2020, was planned to be completed in five weeks, by 23 September 2020. We noted that the project has been completed, with the clinical readiness completion and handover of the project taking place on 12 October 2020.

In its efforts to protect frontline workers and general staff, the department procured various medical and non-medical personal protective equipment (PPE) items, including three-ply surgical masks, gloves, sanitisers and gowns. Most of these PPE items were procured by two procurement service centres and distributed from the warehouses and regional depots to various military facilities.

The department also successfully repatriated South African citizens from China's Wuhan province in March 2020, at the beginning of the lockdown.

Funding and expenditure as at 30 September 2020 (according to department expenditure records)

Description	Budget (R million)	Actual spending (R million)	Remaining budget (R million)
Deployment-related expenditure			
Wages and allowances	763,42	700,58	62,84
Expenditure – other related costs (including rations, fuel and fleet services)	521,47	112,34	408,94
Subtotal	**1 284,90**	**813,92**	**471,78**
Support facilities, medical equipment, PPE and other expenditure			
PPE	1 018,14	849,73	168,41
Medicine	65,90	4,61*	61,29
Facilities and medical equipment	1 313,45	181,50	1131,96
Other related frontline services	614,61	207,33	407,29
Subtotal	3 012,10	1 243,16	1 768,94
Total	**4 297,00**	**2 056,28**	**2 240,72**

**As indicated in audit finding 2.4, this amount is not complete because of a misclassification of R34,86 million that had not yet been corrected at the date of compiling this report.*

AUDIT STATUS

This audit was performed by a multidisciplinary team consisting of financial auditors, performance auditors and fraud experts. The status of the audit for each focus area is provided below. We will continue to report on the outcome of the work that is still to be performed as well as the progress made by the accounting officer in implementing the commitments made in this report.

DEPLOYMENT OF SOLDIERS TO ENFORCE LAW AND ORDER

The audit focused on verifying the allowances paid to the deployed forces (regular and reserve members) as well as the salaries of reserve force members for the period 1 April to 31 July 2020. Our purpose was to confirm whether the department complied with the Defence Act and its regulations, as well as with internal human resource policies for the recruitment and payment of salaries and allowances to deployed members. We did not identify any discrepancies in this regard for the period under review.

We will further test the deployment of soldiers for the period 1 August 2020 to 30 September 2020 and report on our findings.

ADDITIONAL HEALTH MEASURES

Covid-19-related medicine

The audit on covid-19-related medicine covered the planning to procure medicine for the period from 23 March to 30 September 2020 and focused on the procurement, transportation, warehousing and recording related to the medical drug Heberon.

Medical equipment and support facilities

The audit focused on reviewing demand management for covid-19-related medical equipment, as the procurement process was not yet completed. We are still busy with our audit of the procurement process, the use of medical equipment and the refurbishment of One Military Hospital.

During the audit, we became aware of a procurement process for the supply and delivery of mass isolation and quarantine sites that was cancelled at an advanced stage. Although this tender was cancelled, we reviewed it and identified weaknesses in preventive controls during key procurement stages of the tender. We communicated these weaknesses with the accounting officer and they are included in this report.

PERSONAL PROTECTIVE EQUIPMENT

The audit of PPE focused on the planning, procurement, warehousing and recording of expenditure and stock for the period from 1 April to 31 August 2020. Although we focused on expenditure recording for PPE, we also confirmed the accuracy and classification of other expenditure items that were procured as part of frontline services in the fight against covid-19. These items include medical drugs, as well as quarantine costs for medical specialists and their salaries. We have finalised our audit in this area and our findings are included in this report. We are still busy with our audit of PPE stock management and the use thereof.

WUHAN REPATRIATION MISSION

The audit of the Wuhan repatriation mission focused on reviewing the procurement process for the flight and the recording of the related costs in the department's books. We have completed our review and identified no significant findings.

ADDITIONAL HEALTH MEASURES

COVID-19-RELATED MEDICINE

The audit revealed a number of weaknesses and non-compliance with relevant legislation in the process of planning, procuring, transporting, warehousing and recording certain medicines. Our findings are listed in the section below.

Key audit findings and observations

1. Inadequate needs analysis to support required levels of covid-19-related medicine

The department did not submit the planning parameters, including the rationale and assumptions used to estimate the number of covid-19 patients and medicine required, for audit purposes. It was also not clear from the medicine planning documentation provided how the department determined the required quantities of medicine for the treatment of, and clinical trials for, covid-19.

Recommendations

The accounting officer should ensure that medicine is procured based on a defined needs assessment to limit the over-procurement and excessive stockpiling of medicine. The need should also be continuously updated as the pandemic unfolds to reflect the changes in the initial assumptions.

Auditee's response

The accounting officer noted the auditors' observation and explained that the department decided to protect its soldiers by boosting their immune system during their deployment. The accounting officer also stated that the high demand for Heberon worldwide informed the department's decision to procure as much Heberon as was practically available.

Auditors' response

The department did not submit any supporting evidence to refute the finding or to support the accounting officer's claim of high demand worldwide. The World Health Organization also did not recommend the use of Interferon, the active ingredient of Heberon, in the clinical management of covid-19.

2. Deficiencies with procurement of, and accounting for, Heberon

2.1. Approval process not followed prior to the procurement of Heberon

The department did not provide evidence that it had adhered to the import regulations for unregistered medicine by obtaining authorisation from the South African Health Products Regulatory Authority (Sahpra) before importing the Heberon.

On 5 October 2020, Sahpra reauthorised the department's application to import and use 10 vials of Heberon on a single patient. The original application that should have accompanied the reauthorisation letter was not submitted for audit purposes. As at 4 November 2020, the department had approval to use 10 vials only, as Sahpra rejected the department's bulk stock application on 21 October 2020 and no further clinical trial application was submitted. The 10 vials equate to 0,001% of the 970 895 vials the department had already imported by 17 August 2020.

2.2. Shortcomings in the procurement process

The department has an overarching international contract with a Cuban supplier to provide technical services, which provides for further supplements to the contract. An additional supplement was entered into to allow for the procurement of Heberon. However, this supplement was signed on 28 April 2020, while the first consignment of Heberon was received at the warehouse on 27 April 2020. In addition, the supplement did not stipulate the total quantities or value of Heberon to be procured.

The department did not submit all evidence supporting the international procurement transactions, i.e. orders, airway bills, customs tax clearance certificates, packing lists and commercial invoices, for audit purposes. As such, we could not inspect and conclude on the procurement transactions, including the possible incurrence of penalties for delayed payments.

2.3. Insufficient record keeping for the transportation and warehousing of Heberon

We could not determine whether the shipments of Heberon were safely and appropriately transported from the port of entry to the warehouse, as the department did not submit supporting evidence for audit purposes.

None of the 970 895 vials of Heberon was accounted for on the department's inventory system and bin numbers were not allocated for the shelved stock. This, together with the non-accounting of the stock, contributed to the staff being unable to corroborate precise delivery dates.

2.4. Incorrect classification of expenditure

The department did not correctly classify payments for some of the covid-19 expenditure items in accordance with the accounting rules (Standard Chart of Accounts) for recording transactions and accounting classification. Medication worth R34,86 million was classified as agency and outsourced services instead of inventory: medicine in the department's books.

Recommendations

The accounting officer should:

- ensure that all requested information is readily available and submitted for audit purposes when requested
- institute a formal process to monitor compliance with legislation before and during medicine procurement
- put measures in place to ensure that accounting transactions are classified in accordance with their nature and characteristics
- implement a monitoring control to assess the correct classification of covid-19-related transactions and apply the classification principles as detailed in the Standard Chart of Accounts guidance.

Auditee's response

The accounting officer indicated that:

- all requested information is not readily available and everything practical is being done to locate the required information
- the department has not been charged possible penalties for not paying the supplier on time
- the department is in the process of improving the inventory recording system
- she agreed with the finding on the misclassification of covid-19-related transactions. A new financial authority of R34 859 500,00 will be captured under the correct classification to correct the error.

3. Post-importation testing procedures for Heberon not performed as required

The department did not perform post-importation testing procedures to confirm the integrity of the product upon arrival and prior to release into the country. The testing would have included checking whether the drug was transported and stored at the required temperature (2 – 8 °C) as per the product specifications. The department also did not apply to Sahpra for an exemption. As such, Sahpra did not confirm the safety, effectiveness and quality of the drug before it was released for use into the country, which may pose a risk to patients receiving the drug.

The department did not monitor and evaluate the transportation of the shipments according to Sahpra's post-importation guidelines despite an internationally recognised temperature monitoring device being attached to batches of the medication shipped from Cuba to South Africa. The department also did not submit stability data on the integrity of the product to Sahpra, as required by the post-importation guidelines.

As a result, approximately 387 000 (39,8%) of the 970 895 vials were exposed to temperatures outside of the required range (temperature as well as duration) during transportation and/or warehousing. The department did not detect and investigate this breach in the cold chain to determine the effect on the drug's integrity and whether the shipment should have been accepted where the cold chain was compromised before the department received the Heberon.

The audit revealed that, where breaches occurred, the drugs were, in most instances, exposed to temperatures above 8°C for more than 20 hours. Device measurements showed that some vials were exposed for up to 94 hours and 23 minutes.

Recommendations

The accounting officer should:

- institute a formal process to monitor compliance with legislation before, during and after medicine is procured
- monitor and measure temperature-related events relating to the cold chain transportation and storage of Heberon and other medicine. Where cold chains are compromised, the impact on the drug's effectiveness and integrity should be investigated and documented
- institute consequence management in instances where officials have not adequately safeguarded medicine.

Auditee's response

The accounting officer's response did not include a response on this finding.

Conclusion

The accounting officer took note of the shortcomings and committed to locate the outstanding information and improve the inventory recording system. However, she did not indicate any timelines for the implementation of remedial actions or possible consequence management. Because of the unavailability of some of the key information relating to the Sahpra approval and procurement of this unregistered medicine, we were unable to conclude on whether the department adhered to the required processes. Furthermore, the accounting officer did not provide a response to the non-compliance with Sahpra requirements in relation to post-importation testing procedures. This is concerning because the effect of the compromised cold chain on the drug's integrity must be investigated before it can be used in the clinical management of covid-19. Ultimately, this may result in a large portion of the drugs not being used and the money spent being wasted.

The minister has since decided to appoint an external task team to investigate, among other matters, the findings included in this report to ensure that any wrongdoing uncovered, whether of a criminal or disciplinary nature, would be addressed. According to the draft terms of reference for the establishment and functioning of the task team, the investigation will run from 4 January 2021 to 6 April 2021.

MEDICAL EQUIPMENT AND SUPPORT FACILITIES

The audit revealed shortcomings in the planning process to procure medical equipment. These shortcomings are listed below.

Key audit findings and observations

4. Inadequate planning to justify required levels of medical equipment

The department's planning did not include a situation analysis of pre-covid-19 equipment levels that indicated current quantities and whether the equipment was still usable. This analysis would reflect current equipment shortages and inform the procurement need to treat the expected number of covid-19 patients based on treatment statistics at medical facilities. The planning also did not consider whether the medical facilities would be able to accommodate and use the proposed additional equipment.

Recommendations

The accounting officer should ensure that medical equipment is procured according to planned hospitalisation numbers that are frequently updated with historical information and insights to limit the risk of possible over-procurement of medical equipment for covid-19 treatment.

Auditee's response

The accounting officer indicated that the department considered the current functionality and quantities of medical equipment in a situation analysis while compiling the required list of equipment, but this was not documented.

The department is currently conducting an after-action review to execute the debrief and forecasting of the first wave of covid-19, which includes assessing the initial planning parameters. The quantities of required medical equipment are being adjusted as the process unfolds.

5. Internal control weaknesses on procurement process

As part of this review, we analysed the procurement process for the supply and delivery of mass isolation and quarantine sites with an estimated cost of R738,50 million, which was cancelled at an advanced stage. Our review identified the following internal control weaknesses:

- The department did not do a proper demand and needs assessment to determine its exact requirements before moving to the next stage of the process. The submissions show that the specifications were only improved and completed after a briefing session was held with one of the prospective service providers on 21 April 2020.
- The bidders had 48 hours to respond for a requirement relating to the supply and delivery of mass isolation and quarantine sites, which does not seem to be a reasonable amount of time for a requirement of this magnitude. This also favoured the supplier that presented the specification to management and put the three other suppliers that were invited to bid at a disadvantage.
- We identified that the supplier that presented the specification document to management was the same supplier that submitted bid documents within 48 hours. The company was formed within the two months prior to the suppliers being invited to bid.
- The department did not record or approve the reasons for the emergency procurement for the supply and delivery of mass isolation and quarantine sites. There was also no evidence on file in the form of a memorandum or submission to the accounting officer to approve the emergency procurement, as required by National Treasury Instruction Note No. 5 of 2020-21 and treasury regulation 16A6.4.

Recommendations

The department should:

- document the reasons for emergency procurement, which must be approved by the accounting officer, to ensure compliance with legislation
- have the Departmental Commercial Procurement Board approve the specifications and evaluation criteria before the requirements are advertised and must ensure that the suppliers that are evaluated were not involved in drafting the specification document
- put measures in place to ensure that the timeframes for submitting bids are reasonable so that the process is fair to all prospective bidders
- investigate the reasons for the control weaknesses, particularly the unfair advantage given to one supplier, in terms of treasury regulation 16A9.1(b) and take action against the officials involved in terms of treasury regulation 16.A9.1(b)(i)
- take appropriate action to manage the fraud risk.

Auditee's response

The accounting officer indicated that all the matters addressed in the correspondence were receiving due attention from an oversight point of view. The bid was cancelled once it became evident that this requirement was not processed according to the procedures, practices and control parameters set out for emergency procurement. The requirement was subsequently re-advertised with the consent of the then accounting officer, but was not awarded. The department has noted our recommendations for measures to improve its preventative controls.

The department is in the process of improving all facets of the procurement process to ensure that adequate checklists have been completed to ensure consistency in progressing qualifying companies, which are further evaluated in terms of procurement prescripts, before the contract is awarded.

The recommendations will be discussed with the chief of the South African National Defence Force (SANDF) and the chief of logistics to agree on an integrated approach and determine the way forward, including:

- assessing the current preventative controls to determine the gaps to be addressed and ways to optimise the effective controls
- ensuring a culture of integrity, adherence to ethical values and dedicated competence
- improving capacity and skills as well as process standardisation for procurement
- ensuring that optimal measures to guard against conflicts of interest are implemented
- implementing enhanced consequence management system to deter non-compliance.

Conclusion

The department has acknowledged the shortcomings in the demand forecast for medical equipment and is currently reassessing the demand forecast with available covid-19 information before it procures the required medical equipment.

The accounting officer has committed to assess the current preventative controls to determine gaps to be addressed and ways of optimising the effective controls. Although the tender was subsequently cancelled, the fraud risks and internal control deficiencies needed to be brought to the attention of the accounting officer for further action. We will follow up on the actions taken in this regard during our next audit.

PERSONAL PROTECTIVE EQUIPMENT

The audit revealed a number of weaknesses and non-compliance with relevant legislation in the process of planning and procuring PPE. The findings are listed in the section below:

KEY AUDIT FINDINGS AND OBSERVATIONS

6. Inadequate planning and subsequent procurement not aligned to planning

6.1. Planning did not include all relevant members for the forecasted period

The department's forecast plan for face masks for March 2020 to June 2020 did not include all SANDF and department staff members. In June 2020, the department adopted a more integrated approach and the forecast for July 2020 to 31 January 2021 included the need for all SANDF and department staff.

6.2. More surgical masks procured than required according to adjusted demand forecast

We calculated the adjusted demand forecast for surgical masks over the period from March 2020 to January 2021 using the same assumptions applied by the department to compare the actual procurement to the adjusted needs for surgical masks. By 31 August 2020 the department had procured approximately 6,707 million more surgical masks than the adjusted forecast for the period March 2020 to January 2021, at an estimated cost of R76 million.

Recommendations

The accounting officer should ensure that PPE is procured based on a defined needs assessment to limit the over-procurement and excessive stockpiling of PPE. The need should also be continuously updated as the pandemic unfolds to reflect the current PPE demand requirements.

Auditee's response

Management agreed with the finding and indicated that at the start of the pandemic, the South African Military Health Service (Samhs) had planned for medical practitioners, other Samhs staff members and patients, but not for the entire SANDF and department staff complement. In June 2020 the department adopted a more integrated approach and the logistics division had to procure PPE for the entire department, including Samhs. The department halted PPE procurement until it can confirm the updated demand forecast for PPE.

7. PPE not always procured at market-related prices

From March until July 2020, the department procured PPE items from various suppliers at prices that were above the specified prices as determined by the National Treasury through various instruction notes. The accounting officer was also required to approve the deviation of prices that were more than 10% higher than the stipulated prices if there was no choice but to procure at higher prices. However, such approval was not in place. This resulted in the department paying R14 million more than the threshold set by the National Treasury.

Recommendations

The accounting officer should:

- put measures in place to ensure that PPE items are procured at prices as prescribed in the National Treasury instruction notes and obtain prior approval from the accounting officer for any variation that is more than 10% higher than the stipulated prices
- monitor the payments for the related awards to ensure that payments are disclosed as irregular expenditure
- take effective and appropriate steps against officials who permitted the irregular expenditure, as required by the Public Finance Management Act and Treasury Regulations.

Auditee's response

The department agreed with the finding that PPE was not procured at market-related prices. The high demand for, and scarcity of, PPE at the time of procurement led to a volatile market with higher baseline prices for PPE than what was prescribed by the National Treasury.

8. Local content and production threshold requirements not applied when procuring three-ply surgical masks

On 2 July 2020, the department procured surgical masks worth R235,606 million from various suppliers without stipulating the local content and production threshold requirements, as required by annexures to the National Treasury instruction notes. We could not obtain evidence that the department had stipulated a minimum threshold percentage (100%) for local content and production, as required by the National Treasury.

Recommendations

The accounting officer should:

- put measures in place to ensure that PPE items specified in annexure C of the amended National Treasury Instruction Note No. 5 of 2020-21 are only procured from suppliers or manufacturers that meet the stipulated minimum threshold percentage for local production and content
- monitor the related payments for inclusion in the register for irregular expenditure
- take effective and appropriate steps against officials who permitted the irregular expenditure, as required by the Public Finance Management Act and Treasury Regulations.

Auditee's response

Management disagreed with the finding and indicated that paragraph 3.2 of the National Treasury instruction note dated 16 June 2012 only stated the subsectors as Standard Industry Classification (SIC) code and description. The actual listing of the subsectors was not issued as part of this instruction note. The classification for PPE commodities was not listed as per the Department of Trade and Industry or the National Treasury. What the National Treasury prescribed is produced in China and imported to South Africa. Amendments to annexure C(1) of the National Treasury Instruction Note No. 5 of 2020-21, dated 20 May 2020, which designated that PPE commodities had to adhere to the local content and production threshold, thus contradicts the National Treasury's original instruction about classification of subsectors. The directorate for procurement management will forward a dispute to the National Treasury and require a resolution for the contradicting instructions issued.

The central procurement service centre will invite quotations with local content for all mask-related requirements.

Auditors' response

While we have considered management's comments, we still believe that the finding is valid as the department should have advertised and procured surgical masks from suppliers or manufacturer on condition that the items meet the stipulated minimum threshold percentage for local production and content for the textiles, clothing, leather and footwear sector, in line with the amended instruction notes. The relevant thresholds were not specified in the bidding documents to show that the department had attempted to comply with the requirements but could not find suppliers with the required local production and content.

9. Transactions with tax-related deficiencies

The department awarded PPE contracts worth R2,25 million to various suppliers whose tax matters were not in order at the time of the award, in contravention of the prescripts and the standard operating procedures (SOPs) on emergency procurement.

We also identified that VAT of R202 500 was paid to a supplier who is not a registered VAT vendor.

Recommendations

The accounting officer should:

- put measures in place to ensure that awards are only made to suppliers or bidders whose tax matters are in order at the time of the award and that VAT is only paid to suppliers that are VAT vendors
- monitor payments for the related awards to ensure that the irregular expenditure register is correctly updated and disclosed in the 2020-21 annual financial statements
- take effective and appropriate steps against officials who permitted the irregular expenditure, as required by the Public Finance Management Act and Treasury Regulations.

Auditee's response

Management initially disagreed with the finding, indicating that suppliers were given seven days to fix their tax matters which was done prior to the supplier delivery of consignment and printing of the government orders. However, according to the letters provided by management, we noted that two of the suppliers were given up to 14 days instead of seven days to fix their tax matters and therefore the finding remains valid as it relates to those suppliers. During subsequent engagements on the matter, management did acknowledge the non-compliance for the two suppliers mentioned above.

10. Inadequate controls in manual stock control process at main and regional depots

The department used a manual stock management system instead of the implemented automated system at most of their main and regional depots during covid-19 to receive, account for and distribute PPE. The department did not submit written approval for this manual process for audit purposes. The department also did not compile additional guidance focusing on the preventative controls to be instituted for the manual process to receive, account for, distribute, store and safeguard PPE at these depots.

We identified the following control deficiencies with the accounting of PPE stock at warehouses and regional depots:

- Selected regional depots received fewer PPE items than were issued by the main depot. The department did not investigate these stock discrepancies to determine the reasons for the short delivery of PPE and to identify possible fraud and theft as a result of the losses. In addition, we identified excessive delays of up to one month in the distribution process, which increases the risk of stock losses and theft.
- Selected regional depots did not have a system to record and safeguard the documentation for PPE items received from the main depot, and the department did not do any reconciliations to ensure the records were complete. Because of incomplete recordkeeping, we could not confirm whether the selected regional depots received all the PPE stock issued by the main depot.
- The department did not account for the initial receipt of PPE items from a donor on an inventory system, and did not declare the donation so that it could be monitored and reported on. These items were subsequently moved to another regional depot without any documentation.
- Some regional depots did not perform any stock takes or inventory checks to confirm the availability of PPE and detect possible losses. One of the regional depots also did not have an inventory system in place for covid-19 PPE stock.
- The regional depots did not adequately store and safeguard PPE items, which were placed together with other stock, such as pharmaceuticals, making them susceptible to possible loss. The PPE items was also stored on the floor instead of being shelved with appropriate bin allocations. Boxes of surgical masks and gloves were not separated from sanitisers to prevent losses from possible spillage or leakage.

The control weaknesses in the stock control environment may have had a direct impact on a case where it was reported that a department official was found with PPE in his possession under suspicious circumstances. PPE appears to have been stolen from the main depot and resold to suppliers who, in turn, sold it to unsuspecting buyers, including the department. The alleged theft is currently an active case with the Military Police and evidence of the PPE in question is in the care of relevant authorities. The extent of the theft is not yet known; however, the suspect was found in possession of PPE worth approximately R478 000. The matter was referred to the Pretoria Regional Court on 3 August 2020, and has been postponed for further investigation. We will continue to follow up and report on the status of the investigation.

Recommendations

The accounting officer should:

- ensure that officials in the department are responsible for the effective, efficient, economical and transparent use of financial and other resources within their areas of responsibility
- institute measures to ensure that current PPE stock items are adequately accounted for in a timely manner to allow PPE items to be managed and controlled
- ensure that PPE is stored and safeguarded against possible losses, including implementing appropriate measures to prevent and detect fraud and theft, and urgently investigate identified potential PPE stock losses
- establish SOPs for the accounting, receiving, distribution and safekeeping of covid-19-related PPE items on the manual system
- institute plans and guidelines to direct regular stocktakes of PPE.

Auditee's response

The accounting officer agreed with the finding that the manual stock accounting process was not adequately executed. Although the department did perform inventory checks, supporting documents was not maintained. Incidents of PPE stock discrepancies were identified and reported to the Military Police who are busy with an ongoing investigation.

The department has separated and stored stock in selected rows and bins at the main depot and will update manual stock receipt and issuance records by 30 November 2020 to correct stock discrepancies. The department is in the process of accounting for the stock in the automated stock management system, which will be used for all future stock procurement.

The department will compile an SOP for managing PPE during disasters by 15 November 2020. The SOP will also address manual accounting processes and stock control of PPE during a disaster.

The accounting officer disagreed with the finding that receipt of PPE items from a donor was not accounted for because the donation was for the Department of Health and was only stored at the regional depot.

Auditors' response

Management's disagreement about the receipt of PPE from a donor is noted. However, since we confirmed that certain PPE items forming part of the donated stock had already been moved to another location for distribution within the department, the finding remains valid.

CONCLUSION

We have identified several non-compliances and control weaknesses relating to the planning, procurement and warehousing of PPE. We have also provided recommendations to the accounting officer on actions to take to prevent irregular expenditure and on implementing consequence management for officials who were responsible for the non-compliance. The procurement of PPE items at prices that are higher than those prescribed could lead to financial losses. The accounting officer disagreed with the non-compliance finding relating to local content, but could not provide evidence to dispute this finding. We therefore concluded that the department did not comply with the relevant legislation.

OVERALL CONCLUSION

For the second special report, our audit focused on four main areas: the deployment of soldiers to help enforce law and order; the implementation of additional health measures, including procuring covid-19-related medicine and medical equipment; the procurement of PPE; and the repatriation of South African citizens from Wuhan.

The department helped to enforce law and order by deploying SANDF members. The deployed members also assisted with various activities needed to fight the pandemic, including health and humanitarian assistance in the form of covid-19 awareness education, scanning and screening, distribution of food parcels and water purification.

The department was still procuring support facilities and medical equipment during our audit. We identified some shortcomings related to the planning for procuring medical equipment as well deficiencies in the procurement process for facilities. The accounting officer has committed to address these deficiencies going forward by investigating instances of non-compliance and holding responsible officials accountable to support consequence management.

Most of the department's spending went to procure the PPE needed to protect deployed members, support staff and medical personnel who were providing essential services. We identified deficiencies and compliance matters during our review of PPE spending and planning. The department indicated that it will implement the necessary preventative control measures to ensure that, in future, PPE will be procured and stock will be managed as economically and efficiently as possible.

The department successfully carried out the mission to repatriate South African citizens from China's Wuhan province.

We will do further work and report on the progress made for all commitments made by the accounting officer.

NOTES

BASIC EDUCATION INTERVENTIONS

Purpose of initiative

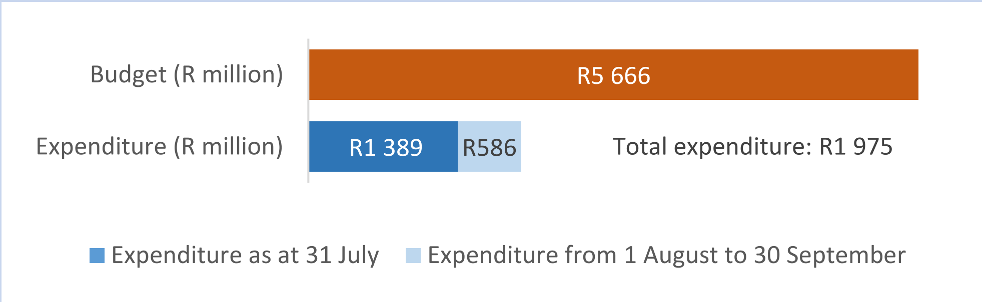
Provision of personal protective equipment to learners, educators and support staff as well as emergency supply of water and sanitation to selected public schools

Auditees

- National and provincial departments of basic education
- Rand Water (implementing agent)
- Development Bank of Southern Africa (implementing agent)
- Mpumalanga Regional Training Trust (implementing agent)

Focus of our audit

- Provision of personal protective equipment
- Emergency supply of water and sanitation services to selected public schools



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STATUS OF IMPLEMENTATION OF INITIATIVE

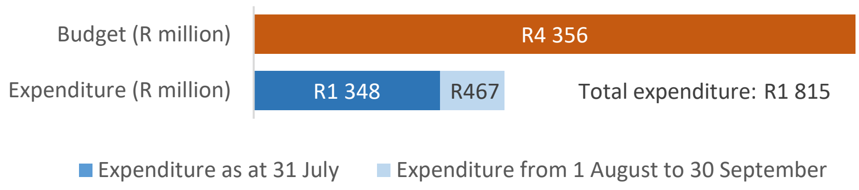
PROVISION OF PERSONAL PROTECTIVE EQUIPMENT (PPE)

Provincial education departments are required to ensure the safety of learners, educators and non-teaching officials at public schools by ensuring that learners, school officials (teachers and administrative staff) and volunteers (school governing body and parents) use appropriate PPE. This includes gloves, face masks, face shields, sanitisers and disinfectants. Now that all grades have returned to school, the provincial education departments, through their suppliers, will continue to deliver PPE stock such as sanitisers, soaps and disinfectant to schools and education districts.

PPE budget and expenditure

The national Department of Basic Education (DBE) made available a R4 356 million relief package from the conditional education infrastructure grant and equitable share to supply schools with PPE.

PPE budget and expenditure



EMERGENCY SUPPLY OF WATER AND SANITATION SERVICES

As we reported in the first special report, the DBE appointed Rand Water as the implementing agent to implement this initiative. The DBE transferred the first payment of R200 million to Rand Water on 26 May 2020 and the second portion of R22,275 million on 21 July 2020 for a total amount of R222,275 million against the budget of R610 million.

In response to the basic education minister's announcement that schools would reopen on 1 June 2020 for grades 7 and 12, it was agreed that temporary installations of at least one water tank per school would be supplied and delivered to 2 624 schools as phase one of the initiative. At the date of this report, phase two, which involves installing permanent stands for the water tanks, had not yet commenced.

On 31 August 2020, Rand Water demobilised all tankering services in line with the resolutions of the meeting held between the DBE (led by the director-general) and Rand Water (led by the chief executive) on 16 July 2020. This meant that the provincial education departments needed to take over supplying potable water to public schools in their provinces.

Rand Water is still making payments for goods and services received. Once all service providers have been paid in full, a complete reconciliation of all project-related expenses will be done and all savings will be declared back to the DBE. The process of reconciling and consolidating the project expenditure is still underway.

As we reported in the first special report, on 4 June 2020, the National Treasury supported the expansion of the contracts with the Development Bank of South Africa (DBSA) and the Mvula Trust to include covid-19 emergency sanitation for the Limpopo and Eastern Cape provinces. On 5 July 2020, the DBE reported that the emergency sanitation roll-out had been completed and that toilets are being regularly serviced. All the mobile toilets are rented on a month-to-month basis from the nearest available local suppliers. These suppliers were sourced through an emergency request for quotation (RFQ) process, which compared the number of units the supplier had available on short notice to the number of units the districts required.

In addition to the above national department initiatives, various provincial departments also implemented separate water and sanitation initiatives to respond to the pandemic. The KwaZulu-Natal education department, together with the district offices, initiated the programme to provide water tanks. This measure was instituted to curb the spread of covid-19 at schools by creating a constant supply of water for frequent handwashing. The needs identification methodology involved the district offices identifying schools within their districts that urgently need to have water provided. The list of identified schools was then submitted to the infrastructure unit to provide water storage tanks. The department thus provided 3 400 water tanks at 1 611 schools in addition to the 1 125 tanks that the DBE provided to 1 125 schools in the province, and appointed three implementing agents to implement this initiative.

The KwaZulu-Natal education department also received a request for mechanisms to improve hygiene conditions and curb the spread of covid-19 at schools through frequent handwashing. This prompted the department to provide and install handwashing stations at the schools based on the following methodology:

- Quintiles 1 – 3: all schools
- Quintiles 4 – 5: schools benefitting from the feed programme.

This resulted in the KwaZulu-Natal department providing and installing a total of 23 282 handwashing stations at 5 278 schools across the province's 12 districts. Our audit approach was to verify the existence and quality of the water tanks and handwashing stations at schools, focusing specifically on the Pinetown and uMgungundlovu districts as hot spots for covid-19 infection in KwaZulu-Natal. The audit covers the period 27 May 2020 to 14 September 2020 and excludes supply chain management (SCM) processes.

The Mpumalanga education department appointed the Mpumalanga Regional Training Trust (MRTT) as an implementing agent to provide handwashing basins and water fountains to 124 selected schools and to provide biodegradable chemicals to 249 schools. The programme budget of R17,6 million is paid to MRTT through a grant. Since all the work was completed before the children returned to school, the department transferred the full amount due to MRTT, which used the full budget. The department also appointed the provincial public works department as an implementing agent for the repair and maintenance of sanitation facilities and to upgrade pit toilets at 366 schools.

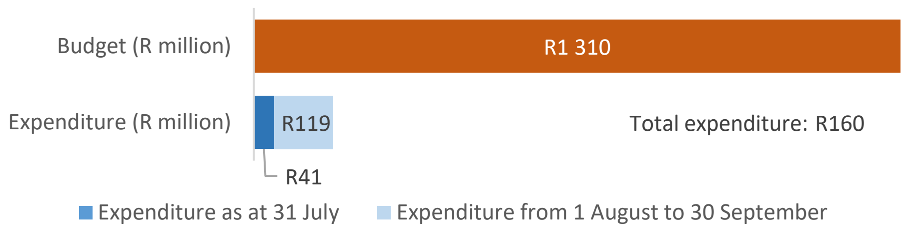
The Gauteng education department followed a quotation process to appoint regional service providers. The department appointed four companies (one per region) to provide water to schools, which were authorised to order water if their tanks fell below 50% capacity or as and when needed. The initiative began before phase one of the school reopening to ensure the infrastructure was in place and service providers were available to service the identified schools. The department has reprioritised R37,7 million from its own funds through an adjustment budget to fund the identified water and sanitation needs. Water supply to 67 schools started on 4 June 2020, and by the end of August 2020, the department had already paid some of the services providers.

Emergency water and basic sanitation services budget and expenditure

The DBE made available a R610 million relief package from the conditional schools' backlog infrastructure grant to provide emergency water supply to selected public schools in six provinces (KwaZulu-Natal, Eastern Cape, Mpumalanga, Limpopo, North West and Free State) and a R50 million relief package from the conditional education infrastructure grant to provide emergency sanitation to selected public schools.

Seven provinces (Gauteng, Free State, Mpumalanga, Northern Cape, Eastern Cape, KwaZulu-Natal and North West) also reprioritised a total of R650,032 million from the conditional education infrastructure grant and equitable share.

Emergency water and basic sanitation services budget and expenditure



AUDIT STATUS

PROVISION OF PPE

The purpose of the current covid-19 special audit was to determine whether provincial education departments have ensured that learners and educators are provided timeously with good quality PPE. This required the education districts and school management to implement effective PPE stock management. The process of stock management ensures that where defective and damaged PPE stock is delivered, education districts, schools or provincial storage facility officials can identify such stock and that the affected supplier replaces or refunds the cost of the damaged or defective PPE items.

We conducted the audit at all nine provincial education departments, complementing the work we reported in the first special report. We also carried out site inspections at selected schools, education districts and the PPE storage facilities for provincial education departments.

We have evaluated the procurement and contract management for PPE as well as the payment processes for the period ended 31 August 2020. We had also completed all site visits to the selected schools, education districts and storage facilities by 30 September 2020.

EMERGENCY SUPPLY OF WATER AND SANITATION SERVICES

After the first special report, we finalised the testing of selected procurement awards and payment transactions for the emergency supply of water and sanitation services. We also completed our assessment of the needs analysis and visited all locations selected for audit purposes across the country, including selected locations where mobile toilets have been rolled out.

For the KwaZulu-Natal education department, our audit approach was to verify the existence and quality of the water tanks at schools, focusing specifically on the Pinetown and uMgungundlovu districts as hot spots for covid-19 infection in KwaZulu-Natal. The audit covers the period 27 May 2020 to 14 September 2020 and excluded SCM processes.

At the Mpumalanga education department, we performed procedures on the expenditure related to providing emergency water and sanitation to ensure that it is accurate, that the department had received the goods and services, and that the correct vote was used to finance the transactions.

At the Gauteng education department, we finalised the audit of the procurement and contract management processes and performed school site visits to verify the support provided to schools that required water to be provided.

ACTION TAKEN IN RESPONSE TO PREVIOUS REPORT

In response to the findings captured in the first special report, the DBE leadership committed to implement actions to address the identified deficiencies. The portfolio committee engaged with the provincial education departments on the impact of covid-19 lockdown on schooling, including the key findings from our first special report. The minister noted the findings and committed to support the accounting officers to address the identified deficiencies.

Overall, we noted that the department was still in the process of implementing our recommendations to improve the internal control environment, as per the accounting officers' commitments.

Status of commitments implemented

National / province	Director-general / head of department
Department of Basic Education	Implemented
Eastern Cape	Partially implemented
Free State	Partially implemented
KwaZulu-Natal	Partially implemented
Mpumalanga	Partially implemented
North West	Partially implemented
Northern Cape	Not applicable*
Western Cape	Not applicable*
Gauteng	Not applicable*
Limpopo	Not applicable*

**No significant matters reported in first special report*

PROVISION OF PPE

Use of available systems to determine PPE demand and needs that informed procurement and supply

Both the Free State and Mpumalanga education departments have started using information from the South African School Administration and Management System to inform the PPE needs analysis and procure the correct quantities of PPE for learners and educators in the provinces. The departments have also used the Personnel and Salary System (Persal) to determine the needs for non-teaching staff. To address inconsistent and insufficient supply, the Mpumalanga education department has conducted a review of distribution inconsistencies and used the updated database (by using the South African School Administration and Management System) to determine procurement and distribution of PPE to schools. The department is still in the process of procuring and distributing the additional PPE.

The North West education department instituted an internal investigation to determine the frequency of stock shortages at district and school level and to look into stock record-keeping procedures. By 3 September 2020, this investigation had not yet been finalised. The department indicated that this was because of the volume of data, certificates and site visits that had to be investigated before logical conclusions could be drawn.

Substandard quality of PPE supplied to schools

The Free State education department reported the matter of substandard PPE quality to the Free State provincial treasury, which was responsible for procuring the initial consignment of PPE. The department has issued a tender for the procurement of PPE, which is expected to have been finalised by the end of October 2020.

The Mpumalanga education department indicated that it will issue a circular for PPE needs analysis to ensure that education districts and schools do not experience PPE shortage. The department also indicated that it plans to establish a system to ensure that PPE consignments are checked against the agreed specification on receipt and that non-compliant PPE stock is rejected. However, since we could not confirm whether the circular had been issued and the systems implemented, we identified a repeat finding during our site visits.

The North West education department indicated that it will investigate the quality of the face masks received from suppliers. The Institutional Governance Management Support unit has been assigned to verify the quality of the PPE provided. The department has also consulted the DBE regarding norms and standards for PPE, but these norms and standards have not yet been rolled out to all schools.

Procurement and contract management: non-compliance with general SCM legislation

The Mpumalanga education department is in the process of identifying all the products that were procured outside the SCM processes. Once this has been done, the results will be recorded in the irregular expenditure register and will then be investigated. We also identified a repeat finding on this non-compliance in the second reporting phase, which is included in the key audit findings and observations section of this report.

For the KwaZulu-Natal education department, we reported various non-compliances on emergency procurement and quotation processes. The status of implementing commitments made is as follows:

- On 9 May 2020 the department changed its procurement model from an open bidding process to a quotation-based process for all future PPE items required by the department.
- The department made bidders' registration with the central supplier database (CSD) a compulsory part of the bid evaluation criteria on the emergency procurement process undertaken from 9 May 2020 onwards. We identified no recurrence of similar findings during the audit for this report.
- We found no verifiable evidence to confirm that the internal controls had been strengthened to prevent a recurrence of the finding for awards made to suppliers that were not tax compliant. We identified similar incidences during the audit for this report.
- The accounting officer has instituted an internal enquiry into possible cover quoting. Senior SCM officials have been suspended and the enquiry is in progress. We did not identify any similar incidence during the audit for this report.
- The department has ensured that the legislative prescripts for the submission of B-BBEE certification or sworn affidavits are more stringently applied as for future emergency procurement. We did not identify any similar incidence during the audit for this report.

For the North West education department, the investigations relating to the non-declaration of interests and non-compliance with supply chain laws and regulations, including the National Treasury disaster management instruction note, are ongoing. The department indicated that it will take the necessary steps against those responsible for non-compliance with supply chain laws and regulations. The department was in the process of establishing a supplier database for each district to improve suppliers' responsiveness while allowing sufficient time to ensure that all preventative controls were adhered to.

Non-compliance with National Treasury disaster management instruction notes

The DBE negotiated with the private party to the public-private partnership agreement on the pricing of PPE and the party has indicated its willingness to procure, where possible, within the current pricing thresholds. Where it is not possible to keep within the pricing threshold, the National Treasury will be notified to determine a way forward. Based on a request from the accounting officer, the internal audit function also reviewed PPE procured through the private party and issued a report recommending that controls be improved.

The Mpumalanga education department notified the service provider of the overpayment and instructed them to repay the excess paid, and a receivable was recognised. All prices have subsequently been confirmed with the National Treasury price list based on the commitment to review the order process before an order is processed and we have not identified a recurrence during the audit for this report. The department has not yet taken action to ensure that local suppliers register with the Department of Small Business Development and to include, for future procurements, the local content in the bid specifications, including attaching the local content declaration, when it procures items that fall within the list of designated sectors.

The KwaZulu-Natal education department indicated that its SCM unit had an internal debriefing session with all members of the bid committee on 9 May 2020 on National Treasury Instruction Notes No. 3 and 5 of 2020-21 to ensure that set pricing limits are understood and applied during the evaluation process for the next batch of PPE items. However, we could not verify this against the quotations evaluation committee meeting minutes provided. We also identified a similar instance during the audit for this report.

Internal control weakness in the ordering, delivery, invoicing and payment processes

Both commitments made by the Eastern Cape education department in relation to overpayment of suppliers due to invoice quantities not agreeing to delivery notes and short supply have been partially implemented. The department only contacted suppliers that had submitted incorrect invoices to request the corrected invoices and suppliers that had undersupplied to request that they supply the shortfall, as it has only followed up on the suppliers identified through the audit process. The department was still in the process of following up on all the suppliers.

The KwaZulu-Natal education department followed up on the shortfall of ordered items from the service provider and the service provider delivered the required items on 17 August 2020 at no additional cost.

EMERGENCY SUPPLY OF WATER AND SANITATION SERVICES

In the first special report, we reported a weakness in that the implementation of the protocol agreement required Rand Water to provide the DBE with formal weekly progress reports, together with an analysis of expenses and spending, and that this did not consistently take place. This matter has since been resolved and the reports have been provided weekly, as required by the protocol agreement.

SUPPLY OF PPE

PPE MANAGEMENT AT EDUCATION FACILITIES

Key audit findings and observations

1. Ineffective stock management processes resulting in shortages of PPE items at education districts and schools (FS, GP, LP, MP, NC, NW, WC)

Effective stock management processes are required at provincial education departments, education districts and school storage facilities to ensure that the education facilities account for what they have received and distributed. This also helps to prevent theft and ensure that when damaged PPE stock is identified at any level, the supplier is identified so that they can replace the damaged stock or refund the provincial education departments.

We identified the following deficiencies during our site inspections at education districts and schools:

- Shortages of certain PPE stock at selected education districts in North West, the Free State and Mpumalanga. These shortages affected schools that were expecting to receive the items as grades were phased in, and some schools had to spend their budget to buy PPE for their staff and learners.

Examples of PPE items that were out of stock at the education districts

Education district	PPE description	Quantity of shortages
Dr Kenneth Kaunda (North West)	Hand soap (bottles)	30 x 25L
	Cloth face masks	35 370
Thabo Mofutsanyana (Free State)	Hand sanitiser (bottles)	20 x 25L
Nkangala (Mpumalanga)	Liquid soap (bottles)	2 X 25L
	Disinfectant (bottles)	2 X 25L
	Hand sanitiser (bottles)	263 X 1L

- In the Northern Cape, we observed that the provincial department officials did not label each product according to supplier before packing or storing the product in the facility. Internal controls were also inadequate to confirm whether the goods received were in good working order. Because PPE stock was not labelled by supplier, similar types of PPE from different suppliers were stored together, making it impossible to link damaged or non-functioning items to a particular supplier. This makes it difficult for the provincial department to ensure that suppliers that delivered defective PPE items replace or refund the department when those items are identified at school level.
- In the Western Cape, we observed that none of the schools visited maintained a PPE register indicating the type of PPE received, issued and used. As a result, the schools could not indicate the number of PPE items on hand. We also saw no evidence that the schools monitored the use of PPE consumables (liquid soap, hand sanitiser, bleach, etc.). At one of the secondary schools visited, we observed that PPE items that were signed for on the delivery note as having been received were not always delivered in full. For example, one delivery note indicated that 206 25-litre containers of multipurpose disinfectant had been delivered even though the school only received 10 containers. We also observed that not all of the schools visited signed and dated the delivery notes for PPE received or kept copies of delivery notes. One of the four schools visited had no controls in place for issuing face masks. According to the principal, the school did not deem it necessary to keep a record of face masks issued because there was only one class per grade and the educators knew which learners had received face masks.
- In Gauteng, we identified that some schools did not adequately manage and monitor the issuing and availability of PPE. We found that the districts and the province did not issue any guidance to schools on recording and managing the allocated PPE. Some schools visited did not have policies or standard operating procedures on managing PPE stock, while others did not maintain records detailing PPE received, stock on hand, defective PPE and the required PPE for the next phase of grades being phased in. They also did not compile reports on PPE delivered and used and on the projected PPE required for phased-in grades to ensure PPE remained available.
- We also identified other stock management deficiencies related to the late delivery of PPE at education districts. For example, in Mpumalanga 3 004 face masks for learners in five schools were delivered late, which affected learners' return to school. Mpumalanga's district offices did not always deliver PPE stock in a timely manner, which put pressure on school officials who could not do proper verifications, resulting in PPE stock quality deficiencies not being identified. In four of the schools we audited in Mpumalanga, PPE was delivered either on the day learners returned to school or after they had returned.
- In North West and the Free State, the education districts we visited indicated that they received stock of PPE items that needed to be delivered to schools on the next school day late in the evening or even on weekends. This put district management under extreme pressure and led to them not being able to verify the number of PPE items supplied and check the quality before distributing to schools.
- In the Free State, the education districts' management indicated that the reason for the shortages was that the department ordered the same number of soaps and sanitisers irrespective of the number of learners per school. For example, each school gets one 25-litre bottle of sanitiser regardless of whether it has 500 or 1 200 learners. Consequently, schools with more learners and staff run out of soap and sanitisers before their next supply.

- In Limpopo, PPE for learners in Alf Makaleng Primary School, Hoërskool Nooderland, Mafetsatsubela Primary School and Magale Secondary School (four selected schools visited) was delivered up to a week after the gazetted dates for learners return to school.

The late delivery of PPE stock negatively affected schools' ability to adhere to the covid-19 health and safety requirements to limit the negative impact on:

- the schools' compliance with regulations, which increases the risk of infections
- the schools running out of PPE stock – some education districts reprioritised their budgets to procure soaps and hand sanitisers
- the payment of service providers – the lack of controls for delivery notes and quality checks will impact the payment process, possibly resulting in overpayment.

For example, because of the delay in suppliers delivering face masks, the Dr Kenneth Kaunda education district had to reprioritise its budget to procure 8 000 face masks from local suppliers at a cost of R148 000. Schools in this district also used additional budget to buy PPE stock due to shortages. Two of the schools we visited in North West had to use more than R23 000 of the school governing body budget for each school to buy PPE, including sanitiser that was not delivered by the education district.

Recommendations

The provincial education departments should exercise oversight to:

- ensure that districts plan properly and that suppliers are held accountable for delivering PPE in time and doing quality checks
- ensure that districts and schools effectively manage and oversee stock so that they can identify low levels of stock and ensure they order and receive stock in time
- monitor PPE delivered by suppliers to prevent payment being made for incorrect quantities or for goods of substandard quality.

Auditees' response

The Limpopo education department agreed with the finding and indicated that officials with approved scheme B vehicles will assist district coordinators with the collection and distribution of PPE to minimise the risk of late deliveries.

The Free State department indicated that sufficient items were delivered to district offices.

In the Western Cape Northern Cape, Mpumalanga, Gauteng and North West education departments, management acknowledged the finding and plans to implement remedial action for future PPE delivery, including:

- providing schools with guidelines on how to inspect and conduct quality checks on PPE when it is delivered
- providing guidelines, including processes and controls to be put in place, for monitoring the issuing and tracking the use of PPE, as well as on safely and securely storing PPE to prevent loss due to damage and theft
- making secure and guarded space available to store PPE and ensuring that as soon as PPE is received, it is distributed to different schools
- providing a checklist for reporting on poor-quality items and establishing communication protocols between head office, the districts and schools to ensure prompt reporting of items with suspected poor quality
- establishing proper systems to ensure correct needs analysis is done before PPE is procured.

Auditors' response

We noted the disagreement with the finding from the Free State education department. However, during our audit visits to the district offices, they confirmed that they had experienced shortages of PPE items.

2. PPE delivered to provincial education facilities did not meet required standards / specifications (repeat findings for the sector) (EC, FS, GP, KZN, MP, NC, NW, WC)

We continued our visits to schools to evaluate the quality of PPE provided.

The Department of Trade, Industry and Competition (DTIC) issued guidelines and recommendations for the South African clothing and textile industry when making face masks for use by the general public, which include:

- face masks must be made from breathable material
- all components should be durable and maintain their integrity during the full expected life span of the product or components
- face masks should be made of at least two layers of material considered sufficient for balancing performance and comfort.

Through our site inspections at schools, education districts and provincial storage facilities, we identified deficiencies in the form of poor-quality and non-functioning PPE stock in eight provinces (Eastern Cape, North West, Mpumalanga, Free State, Northern Cape, Gauteng, KwaZulu-Natal and Western Cape).

Cloth face masks

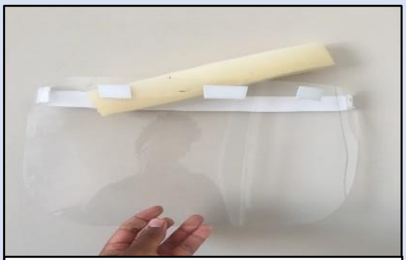
North West

In the Bojanala and Dr Kenneth Kaunda education districts, suppliers delivered poor-quality PPE that did not meet the required standards. The Dr Kenneth Kaunda district received 2 200 damaged face masks and 144 damaged face shields, while the Bojanala district received 2 623 damaged face masks.

Poor-quality and/or damaged PPE delivered by suppliers

Poor-quality face mask

Damaged face mask



Damaged face shield

Mpumalanga

One of the schools we visited received face masks for grade 9 learners that were too small, uncomfortable and painful to wear. The school notified the education district, but the face masks were not replaced and the learners continue to wear these face masks because they have no alternatives. The school principal indicated that the school does not have enough budget to procure other face masks for these learners.

Masks too small for grade 9 learners

Face mask too small – elastic pulls learners' ears forward

Face mask too tight – cloth in the front too tight

Free State

Education district offices delivered PPE stock to schools that did not meet the required standards / specifications as some face masks were too big. The schools did not return the face masks because they were distributed to learners who were already at schools.

Western Cape

The provincial education department did not determine detailed specifications for performance requirements, design, type of material and dimensions. For example, some face masks had space for a filter while others did not. During our visits to selected schools, we identified that:

- in some instances, schools had received face masks with filters, but issued the face masks to learners without these filters
- in some instances, filters were provided for face masks did not have space for a filter
- in some instances, face masks had space for a filter but the schools did not receive filters for these face masks
- some face masks showed poor workmanship with inconsistent dimensions across the mask and untidy finishing
- at three of the four (75%) schools we visited, principals and/or educators indicated that the face masks provided by the department did not fit the learners well, some were too big or too small
- in some instances, the material used for the back of some mask was hard, irritating learners' skin, which led to the learners not wearing the face masks provided by the department but rather buying their own face masks.

Poorly made face masks

Inconsistent dimensions on face mask


Face mask made of hard material

KwaZulu-Natal

One of the schools we visited received three different styles of mask, but the school management team indicated that the first batch of face masks supplied was substandard, with poor-quality elastic that tore very easily for all three styles. At another school, the school management team indicated that the face masks it received were poor quality, with material that deteriorated when washed.

Substandard face masks


Face mask made with poor-quality elastic


Face mask made of poor-quality material

Gauteng

We identified quality issues at the schools we visited where face masks did not comply with PPE guidance as they were made with only one layer of material while the inside of the mask contained non-reusable material that was not durable. The material used was also not breathable.

Poor-quality face masks that did not comply with PPE guidance

Face mask made with only one layer of material

Face mask made with non-reusable material

Eastern Cape

At selected schools, face masks provided for educators were not fit for purpose because the type of material used made breathing difficult. The face masks were not usable, which led to the school using its budget to buy additional face masks.

Thermometers

Schools in multiple provinces received non-functioning thermometers:

- In North West, the education districts received 92 damaged thermometers that were either not working or not reliable.
- In the Free State, the education district received seven damaged thermometers.
- In the Western Cape, the department ordered 7 113 infrared thermometers at a cost of R8 384 448,75 on 14 May 2020 through an emergency procurement process. Three of the four (75%) schools we visited indicated that the thermometers the department had provided were of a poor quality as readings were not reliable. We also identified inconsistencies in consecutive temperature readings for the same person and instances where temperature readings were below 35 degrees Celsius. Staff at one of the schools indicated that learners' temperatures had to be taken several times because of inaccurate readings, which was very time consuming.

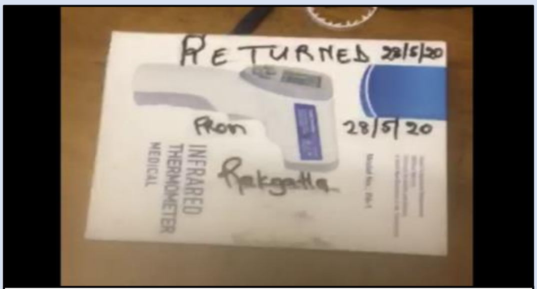
Examples of inconsistent temperature readings observed during schools visited

	Temperature reading			
	Thermometer 1	Thermometer 2	Thermometer 3	Thermometer 4
School A	28,6	29,2	36	36
School B	34,4	26,7	32,8	29,3
School C	36,4	37,6	39,4	36,6

- In the Northern Cape and North West, we identified returned thermometers in the provincial office, some of which management indicated were not functioning.

Non-functioning thermometers returned to provincial offices

Non-functioning thermometer



Non-functioning thermometer

Recommendations

Schools should inspect all PPE delivered before accepting delivery to ensure that it is of an acceptable quality and that the correct quantities have been delivered.

The provincial education departments should ask schools about the quality of PPE received. Where there are issues and poor quality, the departments should follow this up with the supplier.

The quality assurance process at the district office should be enhanced to identify PPE items of poor quality. Poor-quality PPE should immediately be returned to the suppliers and they should process a credit or refund for these items.

The provincial education departments should implement a process to identify suppliers that provide PPE items that do not comply with the required standards / specifications and, when substandard PPE stock is received, notify these suppliers that they must replace or refund the PPE items.

Auditees' response

In the KwaZulu-Natal, Western Cape, Eastern Cape, Free State, Northern Cape, Mpumalanga, Gauteng and North West education departments, management acknowledged the finding and plans to implement remedial action, including:

- investigating the matter further and conducting scientific examinations on the specifications of the face mask
- providing schools with guidelines on how to inspect and conduct quality checks on PPE delivered to the school
- providing a checklist for reporting on poor-quality items and establishing communication protocols between head office, the districts and schools to ensure prompt reporting on item with suspected quality.

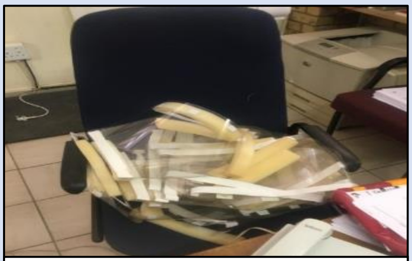
3. Inappropriate storage facilities used for PPE stock (EC, FS, GP, KZN, NW, WC)

PPE stock must be properly stored to ensure safety, prevent theft risk and minimise damage. The United States Centers for Disease Control and Prevention (CDC) states that sanitisers and disinfectants that contain alcohol may evaporate when exposed to sunlight, which will impact the products' effectiveness. The CDC also states that because of the fire risk when handling alcohol-based sanitisers, it is essential that these products are safely stored. We identified the following deficiencies during our site visits to education facilities:

North West

In both the Dr Kenneth Kaunda and Bojanala education districts, PPE items were not properly stored to enable stock record management. Although the Bojanala education district used a strong room to store PPE, the items were not arranged in an orderly manner. Some PPE was packed in an office walkway and on an office bench due to a lack of proper storage space. The pictures below show poor storage practices that we identified at the North West education districts' main storage facilities.

Stock not stored correctly



Face shields placed on chair

Face masks placed on bench

PPE stored in reception area

Western Cape

We identified storage deficiencies at two of the schools we visited. PPE stock was not stored in a secure location and/or in a safe manner and PPE consumables were not always neatly packed. At one primary school the PPE consumables were stored in various locations, including the staff room and a classroom with uncontrolled access. This could result in PPE being easily damaged or stolen. At one high school, PPE stock was stored in a computer room. There is a risk that containers could leak and be accidently knocked over computer equipment by trying to access PPE consumables, which could spark fire.

PPE not stored safely and securely

Sanitisers stored in computer room

Sanitisers stored in kitchen

Sanitisers stored in classroom

KwaZulu-Natal

At one of the primary schools we visited, the school management team stored open boxes of sanitisers at the entrance to the school and in the kitchen where the sanitisers can be easily stolen or damaged. Flammable sanitisers and disinfectants were also stored in the kitchen area in direct sunlight, close to gas cylinders and a stove. Food is prepared in the same room, next to flammable material and items such as cardboard boxes and plastic ware. Together with the sanitisers, disinfectant and gas cylinders, this poses a high risk of a fire hazard. At another high school we visited, we identified that some of the PPE supplied to the school was stored in a passageway and some was exposed to sunlight.

Sanitiser not stored safely and securely, creating a fire hazard

Sanitisers stored in passageway

Sanitisers stored in offices and exposed to sunlight

Sanitisers stored in kitchen

Sanitisers stored in offices and exposed to sunlight

Gauteng

Some schools did not store PPE stock in an orderly manner.

Stock not stored correctly

Sanitisers stored with food in storeroom

Face masks and face shields thrown on floor

Eastern Cape

At one of the schools we visited, we identified discrepancies in PPE storage as the items were stored at a nearby house without a security gate because of a recent break-in during alert level 5 when the storeroom was vandalised.

Vandalised storeroom during alert level 5

Vandalised storeroom

Vandalised storeroom

Free State

During our site visit, we identified that access control was not enforced at the main entrance of the district office. The auditor was allowed access without completing the entrance register. We also identified shortcomings in security, as CCTV cameras were not installed at the storage facility, the storage security gates were not manned and the main storage facility portion was also used as parking for district employees.

Access control not enforced at district office main entrance

Access to PPE storage area not monitored

PPE stored in the parking area

Recommendations

Schools should ensure that PPE is stored in a secure location and in a safe manner to prevent loss of PPE due to damage and theft.

The provincial education departments should guide education districts and schools to designate suitable room as PPE storage facilities with controlled access and stock management register.

The provincial education departments should also develop and use standard operating procedures to ensure PPE is properly stored and safeguarded to mitigate the risk of fire, as per the CDC guidelines.

Auditees' response

In the KwaZulu-Natal, Western Cape, Eastern Cape, Free State, Northern Cape, Mpumalanga, Gauteng and North West education departments, management acknowledged the finding and plans to implement remedial action for future PPE delivery, including:

- providing guidelines, including processes and controls to be put in place, on monitoring the issuing and tracking the use of PPE, as well as on safely and securely storing PPE to prevent loss due to damage or theft
- making secure and guarded space available to store PPE and ensuring that as soon as PPE is received, it is distributed to different schools
- developing a standard operating procedure to ensure proper storage and safeguarding of PPE.

PROCUREMENT AND CONTRACT MANAGEMENT

Key audit findings and observations

4. Non-compliance with general SCM legislation (repeat findings for the sector) (EC, KZN, MP, NW)

The process to select suppliers should be fair and transparent. The process for inviting bids, evaluating received bids and awarding bids is explained in legislation and the instruction notes issued by the National Treasury, but weaknesses arise when the prescribed procurement process is not followed or when deviations processes are misused. This points to the inappropriate use of management discretion in the procurement process, which could not prevent the following non-compliance with SCM from occurring:

Invitation and evaluation of bids

We identified the following matters at the KwaZulu-Natal education department relating to invitation of bids:

1. We could not obtain any verifiable evidence to confirm that the request for proposals reached out to as many potential service providers as possible for 20 selected procurement transactions for various PPE items with a total order amount of R363 141 733,99. This contravenes the principles of treasury regulation 16A3.2, which requires an SCM system to be fair, equitable, transparent, competitive and cost-effective.
2. To ensure equitability, the department decided to spread the award of PPE contracts across the suppliers that were compliant and had confirmed they had stock available. However, in instances where multiple service providers had stock available at different prices, the department did not follow a verifiable systematic process to determine which service providers would supply these PPE items. This contravenes the principles of treasury regulation 16A3.2, which requires an SCM system to be fair, equitable, transparent, competitive and cost-effective.
3. We could not obtain sufficient audit evidence to confirm the fairness and transparency in the supplier selection process for the RFQ, the response to the request for proposals, the evaluation of proposals and supplier selection for 11 service providers contracted to supply various PPE items with a total order value of R52 236 125, as required by treasury regulation 16A3.2. On 28 May 2020, the department approved a further submission dated 22 May 2020 requesting the procurement of covid-19 items and PPE to facilitate the reopening of schools. The submission stated that quotations would be sourced and awarded within shortened timeframes to ensure that deliveries commenced on 3 June 2020.
4. The department awarded contracts to two suppliers that had not submitted some or most of the required tender documents, such as some of the standard bidding documents and bid returnable documents. In addition, the quotation form was signed on 19 May 2020, 10 days after the closing date of 9 May 2020.
5. We identified that the person signing the bid documentation as a director was not a director at the supplier at the time the contract was awarded. We also identified that the supplier's registration number on the invoice belonged to another supplier, according to the Companies and Intellectual Property Commission (CIPC) confirmation.
6. The department sourced quotations for an order for the supply of 25-litre liquid sanitisers from two related entities, whose individual sole directors are both directors of a third entity. Although the shared directorship does not relate to one of entities through which these individuals submitted quotations to the department, it is evidence of an existing relationship between the two directors and is indicative of possible cover quoting.
7. The department did not disqualify suppliers that did not meet the minimum required functionality score from further evaluation for contracts with a total value of R8 993 843,20, which contravenes the requirements of preferential procurement regulation 5(6). The expenditure on these contracts is deemed to be irregular.

At the North West education department, we identified an instance where there was no evidence that points had been allocated or calculated, as per the requirements of the Preferential Procurement Policy Framework Act. This was for the procurement of face masks for grades 7 and 12 to the value of R898 000. We also identified that the department did not allocate any B-BBEE points for two suppliers even though the suppliers provided evidence of their B-BBEE level, which contravenes preferential procurement regulation 6(6).

Tax compliance

At the KwaZulu-Natal department, contracts with a total value of R83 741 200 were awarded to suppliers that were not tax compliant at the time of the award, in contravention of treasury regulation 16A9.1(d), read in conjunction with paragraphs 4.1 to 4.3 of National Treasury Instruction Note No. 7 of 2017-18.

Participation in the contract of another organ of state (repeat finding)

The KwaZulu-Natal education department participated in a contract of another organ of state, as allowed for by treasury regulation 16A6.6. The scope of the original contract was for powder chlorine disinfectant (hypochloride disinfectant). However, the department procured liquid surface and hand disinfectants and sanitisers with a total value of R30 713 500 from the supplier. As these goods procured were not within the scope of the original contract, treasury regulation 16A6.6 had been contravened and the expenditure is deemed to be irregular.

The Mpumalanga education department continued to procure PPE items through the health department contract in which it participated, as previously reported. In the first special report, we reported that the department deviated from the procurement process and participated in the health department contract to procure certain PPE supplies, as allowed for by treasury regulation 16A6.6. However, the department procured additional PPE items to the value of R23 193 830 from the same supplier through an invalid deviation process, as these items were not included in the scope of the original contract with the health department. As treasury regulation 16A6.6 had been contravened, the expenditure is deemed to be irregular.

Remunerative work without approval

At the Eastern Cape education department, 13 employee companies traded with other state institutions for an amount of R147 million without obtaining approval for additional remunerative work. This included general workers, teachers, admin clerks and principals.

Recommendations

The education departments should strengthen their internal controls by using compliance checklists that must be completed for every award to ensure compliance with all SCM prescripts relevant to the various stages in the procurement and contract administration process. In addition, the education departments should strengthen supplier due diligence and verification controls and enforce strict adherence to signed contractual obligations.

The education departments should follow up on the reported irregularities in the procurement process and take corrective action against any wrongdoing identified. This should include investigating irregular expenditure.

Auditees' response

Invitation and evaluation of bids

1. The KwaZulu-Natal education department indicated that the approved submission was for sourcing quotations and that the process of sourcing suppliers was fair and transparent and included:
   - service providers that are contracted with the health department
   - service providers that were registered on the CSD
   - service providers that had available stock
   - service providers that had shown interest in the request for proposals.

   Based on the responses received, the department accepted offers of immediately available stock. The department indicated that future requests for proposals will be advertised via the e-Tender portal.
2. The department indicated that the allocation to service providers was guided by the quality of samples submitted, the capacity to deliver and equitable distribution. Due to the magnitude and urgency of the project, it was recommended by the accounting officer that all compliant suppliers that had proven they could deliver at short notice be awarded, subject to their prices being below the recommended maximum unit prices stipulated by National Treasury Instruction Note No. 5 of 2020-21.
3. The department stated that it did not advertise the request for proposals; the initial procurement for schools was done through quotations and three companies were sourced through this process. Eight companies were sourced after the department reviewed deliveries on 21 May 2020 and it was clear that there were items that were not adequately delivered to districts to allow schools to open on 25 May 2020. This process did not follow the quotation process and the department engaged suppliers that had stock available. These suppliers were then provided with quotation documents and requested to deliver the items. While some companies were sourced from the pool that had shown interest in the initial request for proposals, other companies were sourced through referrals. For the further submission that was approved, the department responded as follows:
   - Four suppliers were sourced from referrals and suppliers that had shown interest in the request for proposals. There was a high failure rate for these suppliers and the department decided to secure stock. While the submission was in transit, some orders were issued to ensure that stock was secured. One supplier was part of

the companies that were awarded from the pool that had quoted on the request for proposals. The quotations were evaluated and approved by the relevant committees.

- When the national contracts were considered, many of the companies had displayed long lead times, which were contrary to the department's service delivery timeframes.

4. The department responded that the documents could have been missed when the copies were made. However, the SBD 7.1 (contract form – purchase of goods/work) was not completed because the procurement was a once-off supply. The department indicated that it will include the instruction to initial documents in future and that the service-level agreement will be witnessed accordingly.
5. The department indicated that it did check on the registration documents, but that the changes took place over a short period. It will refer the matter to legal services for their input. The department also indicated that the procurement took place under extremely trying circumstances and the focus was on securing stock items to allow schools to reopen.
6. The department responded that it could not determine any connection between the entities as they did not declare such at the time.
7. The department agreed with the finding on functionality evaluation, indicating that the minimum score was incorrectly placed at 50% instead of 60%. The error has been corrected in the subsequent items.

The North West education department agreed with the finding on the preferential points allocation. It also indicated that various internal and special investigations are in progress around the non-compliance with supply chain laws and regulations, and that the identified matter will be included in the scope of these investigations.

Tax compliance

The KwaZulu-Natal education department agreed with the finding on tax matters. However, the department's opinion is that this does not constitute irregular expenditure because the suppliers were only paid once their tax matters were in order. The department ensured that all service providers were verified for tax compliance before any payments were made. When orders were issued, the department was chasing stock availability and delivery. There was also a limited number of staff to do all verifications before delivery as this was during alert level 5 of the national state of disaster. Going forward, the CSD status will be checked before the order is issued.

Participation in the contract of another organ of state

The KwaZulu-Natal education department indicated that it had conducted due diligence in the form of a desktop research exercise to establish whether the product could be used for surfaces and for washing hands, and it was satisfied with the results. The department also specifically requested that it be provided with a diluted product in five-litre containers. This request was not made erroneously or as an afterthought, but was based on due consideration of hazardous materials, the portability of the product during delivery and the product being ready for schools to use. The department therefore maintains that it complied with the requirements of treasury regulation 16A6.6 and that the procurement was not irregular.

The Mpumalanga education department disagreed with the finding and indicated that it had adhered to paragraph 3.4 of National Treasury Instruction Note No. 5 of 2020-21, which allows treasury regulation 16A6.4 to be used instead of price quotations. The department also indicated that appropriate reasons were provided in the relevant deviation report.

Remunerative work without approval

The Eastern Cape education department indicated that the list of employees has been submitted to Human Resource Management for verification. Once this verification process is complete, Risk Management will embark on an extensive investigation and make a recommendation to Labour Relations to institute disciplinary action.

Auditors' response

We noted the education departments' responses above and will follow up on the remedial actions taken. Below we include our auditors' responses for disagreement findings:

Invitation and evaluation of bids

In response to the KwaZulu-Natal education department, we inspected the approved internal submission, dated 7 May 2020 and addressed to the head of department, requesting approval to purchase covid-19 essential items and PPE. We confirmed that paragraph 4 detailed the procurement process as follows: 'The model that addresses the challenges of capacity is the issuing of proposals to different companies sourced from the CSD and those that have displayed capacity in the initial provision of covid-19 essentials'. The approved submission document did not provide sufficient evidence to confirm that the department advertised the request for proposals to call upon all potential covid-19 PPE suppliers to come forward with offers of the PPE items they had in stock and be considered by the department in an emergency procurement process. The department did not provide any further verifiable evidence to confirm how the CSD was used to reach out to potential PPE suppliers. Furthermore, the department provided no verifiable evidence to confirm that it had considered using transversal contracts and supplier lists provided as part of the National Treasury instruction notes before reaching out to any other potential suppliers. The finding remains valid as a significant internal control deficiency in the procurement model for covid-19 PPE used by the department.

Tax compliance

We noted the KwaZulu-Natal education department's response. However, the department's opinion that this does not constitute irregular expenditure because the suppliers were only paid when their tax matters were in order is not relevant, as it is a misinterpretation of the relevant legislation.

Participation in the contract of another organ of state

We acknowledge the KwaZulu-Natal management's response. We note that the department agreed that the product procured by the health department was a powder, and that it asked for the product to be diluted. We agree that the product procured by the KwaZulu-Natal health department was also a disinfectant. However, the specifications and products were not the exactly the same (e.g. 75% alcohol content was not reflected on the specification for the KwaZulu-Natal health department's powder chlorine disinfectant). The contents of hypochloride disinfectant as provided by management response on the quotation information does not reflect 75% alcohol content. We therefore maintain that the procured goods were not the same. The health department procured powder chlorine disinfectant (hypochloride disinfectant) item number 40-02700 (packaging: 100 x 6-gram sachets) and not the surface and hand disinfectants or sanitisers, with the specifications provided on the education department's quotation.

Management of the Mpumalanga education department did not provide any audit evidence for the reasons for deviation at the time of this report. As it is a repeat finding, management is also reneging on their commitment to investigate irregular expenditure as it believes the deviation was valid.

5. Non-compliance with National Treasury disaster management instruction notes (repeat findings for the sector) (EC, FS, KZN, NW, WC)

The National Treasury issued instruction notes to facilitate emergency procurement for the covid-19 pandemic, which was declared a national state of disaster, so as to avoid abuse of the SCM system, specifically to manage uncompetitive and inflated prices. We identified the following deviations from the instruction notes:

Deviations from competitive bidding

The Western Cape education department selected a preferred supplier to procure 2,646 million cloth face masks to the value of R54 747 353 without inviting as many suppliers as possible to bid before awarding the contract. This contravenes National Treasury Instruction Note No. 5 of 2020-21 and resulted in irregular expenditure being incurred.

The Free State education department purchased 650 000 face masks at a unit price of R22,00 on 28 August 2020 by deviating from inviting competitive bids. Contrary to National Treasury Instruction Note No. 5 of 2020-21, the department did not invite as many suppliers as possible to bid before awarding the contract. We also identified that the reason given for the emergency procurement was that face masks were required to be delivered immediately, but the evidence provided during the audit indicated that this did not always occur, bringing into question the initial assessment of the procurement as an emergency.

Pricing of PPE

The Free State education department paid more than the maximum price of R25,00 including VAT, as set out in National Treasury Instruction Note No. 5 of 2020-21, for a three-ply cloth mask. One supplier charged the department R49,95 including VAT for each mask. The department bought 10 000 face masks from this supplier, which equates to an additional cost of R249 500 that may result in irregular expenditure. The department provided no proof that these face masks complied with the specifications set out by the national Department of Health, the World Health Organization and the DTIC. The department also failed to specify the local content requirements in the RFQ.

At the KwaZulu-Natal education department, the price charged per apron by one supplier was higher than the price recommended by annexure A of National Treasury Instruction Note No. 5 of 2020-21. This non-compliance resulted in possible irregular expenditure of approximately R87 600.

Price charged by supplier exceed National Treasury recommended price

Description	Invoice number	Quantity procured	Total units	Supplier unit price as invoiced (R)	Supplier total cost inclusive of VAT (R)	National Treasury price per unit (incl. VAT) (R)	Cost inclusive of VAT at National Treasury unit price (R)	Excess price (R)
Aprons	KAM1/2020	2 400 x 50	120 000	3,70	444 000	2,97	356 400	87 600

Local production and content, and small business development

The Preferential Procurement Regulations and National Treasury Instruction Note No. 5 of 2020-21 provide for promoting local production and content and using small enterprises to support government's socioeconomic transformation initiative. Across the education sector, we identified the following non-compliance matters when determining whether certain items were procured from local producers and small enterprises in accordance with the legislative requirements:

- At the KwaZulu-Natal education department, some suppliers that were not registered with Department of Small Business Development and had not submitted proof of their application to register were awarded contracts with a total value of R12 814 329,44 to supply reusable cloth face masks, which contravenes paragraph 4.6(d) of National Treasury Instruction Note No. 5 of 2020-21.
- At the Eastern Cape education department, there was no documentary evidence to confirm that the DTIC was notified of the successful bidders, the value of the contracts, the submission of copies of the contracts, and the local production and content declarations. This applied to all face masks procured as part of the department's total PPE spend.
- At the North West education department, for cases of a designated sector procurement, the invitation to tender did not include a specific condition requiring only locally produced or manufactured goods meeting the stipulated minimum threshold for local production and content.

Value of North West tender that did not stipulate local production and content

Description	Amount (R)
Supply and delivery of cloth face masks at Greater Taung district (B)	439 875
Supply and delivery of infrared non-contact digital electronic temperature at Tswaing in Ngaka Modiri Molema	980 000
Supply and delivery of face masks for Bojanala districts	990 000
Supply and delivery of 40 000 face masks in Bojanala	740 000
Purchase of face masks for grades 7 and 12	989 000

Recommendations

The education departments should implement and strengthen internal controls for all stages in the procurement process, including administrative processes requirements. This will ensure compliance with the requirements of all National Treasury instruction notes issued to facilitate emergency procurement for the covid-19 pandemic.

The education departments should also follow up on the identified non-compliances and take corrective action against any identified wrongdoing. This should include investigating irregular expenditure and taking the actions necessary to recover such expenditure, where applicable.

Auditees' response

Deviations from competitive bidding

The Western Cape education department disagreed with the finding and indicated that, given the urgency, nature and quantities required, it embarked on emergency procurement in terms of its own SCM limited bidding and emergency procurement policy. This was in line with the requirements as per paragraph 3.2 of Provincial Treasury Circular 11 of 2020 (dated 23 March 2020).

The Free State education department disagreed with the finding and indicated that it had to deliver 700 000 cloth face masks to the districts on 31 August 2020 and that a competitive bidding process would have taken too long. The department furthermore indicated that it submitted a letter to the provincial treasury on 25 August 2020 requesting participation in their covid-19 procurement contract, as per their invitation. However, the provincial treasury only responded on 28 August 2020, to say that it would not be able to assist with the quantity required by 31 August 2020. Based on the urgency of the matter, the department requested quotations from various suppliers and only considered those suppliers that had stock available immediately. These suppliers delivered the items on 28 and 31 August 2020.

Pricing of PPE

The Free State education department indicated that, based on market research performed (indicating prices from R32,00 to R36,00) it was determined that the price of R49,95 appeared reasonable and that the provincial health department assessed the face masks before the decision to procure. The department agreed that the SBD 6.2 (local content requirement) was not part of the RFQ and that local content requirements were not considered as part of the procurement process. The department also indicated that this will be corrected going forward so that local content information is captured and specified.

The KwaZulu-Natal education department indicated that the price for aprons in annexure A to National Treasury Instruction Note No. 5 of 2020-21 is for lightweight aprons that are for single use but could be reused with adequate decontamination. The department procured heavy-duty aprons for cleaners and food handlers, with the exception of 120 000 aprons that were sourced as an emergency when the industrial aprons proved difficult to source and that the supplier could deliver when the schools had opened. The rest of the aprons were as per the specification for industrial PVC aprons.

Local production and content, and small business development

- The KwaZulu-Natal education department noted the finding and after consulting the spreadsheet from the Department of Small Business Development, noted that it was not updated regularly. The department indicated that there was only one service provider that was registered with the CSD and that allocating more than two million face masks to one service provider was risky, particularly in the context of the short timeframes before schools reopened. The department consulted the provincial treasury, which was of the opinion that proof of application for registration was adequate. The department allowed the shortlisted service providers to give proof that they had applied for registration and made the awards accordingly. In future, the department will engage the Department of Small Business Development about the functionality of its database.
- The Eastern Cape education department indicated that the DTIC will be notified of the successful bidder and the value of the contract once the whole process has been finalised.

- The North West education department agreed with the finding and indicated that various internal and special investigations are in progress around the non-compliance with supply chain laws and regulations, and that the identified matter will be included in the scope of these investigations.

Auditors' response

We noted the education department response above and will follow up on the remedial actions taken. Below we include our auditors' responses for disagreement findings.

Deviations from competitive bidding

In response to the Western Cape education department's response to the finding, paragraph 8.4 of National Treasury Instruction Note No. 3 of 2016-17 requires the accounting officer to invite as many suppliers as possible and select the preferred supplier using the competitive bid committee system. Based on the above, the requirement was not met as no supplier other than the awarded supplier was approached after the award was made on 7 May 2020. Even though the supplier was an existing supplier of the department, there was no existing contract for the procurement of cloth face masks in place with this supplier. The department should thus have followed an emergency procurement process by obtaining quotations from as many suppliers as possibly, as required by National Treasury Instruction Note No. 5 of 2020-21, read in conjunction with National Treasury Instruction Note No. 3 of 2016-17.

In response to the Free State education department's response to the finding, the department stated that it could not follow a competitive bidding process, but management did not indicate why the prescripts of paragraph 8.4 of National Treasury Instruction Note No. 3 of 2016-17, which require as many suppliers as possible to be invited before a preferred supplier is selected, were not complied with. The department further procured the face masks on the basis that it was urgent and required immediate distribution to the schools by 31 August 2020. However, during a site visit conducted on 15 October 2020 (at the stores of the department at the SCM unit), we identified an estimated 180 000 face masks that had not yet been distributed and based on our understanding obtained during the visit, these face masks are only distributed as and when needed. The department did not provide proof of their correspondence with the provincial treasury.

Pricing of PPE

In response to the Free State education department's response to the finding, it was not evident how the department concluded that the price of R49,95 was reasonable when it is 38,75% above the highest price identified through the market research conducted.

In response to the KwaZulu-Natal education department's response to the finding, we noted the difference between the heavy-duty and lightweight aprons. The finding remains valid in relation to the 120 000 PVC aprons sourced and results in irregular expenditure of R87 600.

KEY INTERNAL CONTROLS

Key audit findings and observations

6. Internal control weaknesses (repeat findings for the sector) (EC, GP, KZN, LP, MP, NC)

Ordering, delivery, invoicing and payment processes

We identified weaknesses in the ordering, delivery, invoicing and payment processes for some of the departments in the sector.

At the Northern Cape education department, we identified that an order to the amount of R6 564 315 was supported by the responsible official as required by the SCM policy, but the date of support is unknown as it was not included with the signature. We also identified that the bid recommendation form had been incompletely and incorrectly completed as it was not dated and the approval of the supplier and expenditure was signed without the official's name and designation and signature date being clearly stated. The tender reference number included was also for a different award. We identified that some payments were not made within 30 days of receipt of invoice, as required by treasury regulation 8.2.3.

At the Gauteng education department, some of the schools did not reconcile the number of items delivered with the number of items stipulated on the invoices. As a result, we identified discrepancies in the number of PPE items delivered and invoiced. In addition, although the health department procured PPE on behalf of the education department, we identified that the department, districts and schools did not confirm whether the PPE products delivered met the specifications.

At the Mpumalanga education department, we identified a lack of segregation of duties relating to PPE as the acting head of department approved payments of R28,8 million for one contract as well as the certificate of responsibility for the contract. In addition, we identified that 20 delivery notes for PPE amounting to R74,7 million were signed as received, as we recommended in the first special report. However, we identified that no designation was stipulated, making it difficult for the department to follow up and assign accountability in instances where wrongdoing is identified.

At the Eastern Cape education department, we identified various internal control weaknesses in the delivery, invoicing and payment processes for PPE items, including:

- the quantities of PPE reflected on the invoices did not always agree with the quantities reflected on the delivery notes, which could lead to a financial loss of R0,38 million because there was an overall overpayment
- some invoices only reflected the quantities and total amount, with no specified prices per item
- in some instances, the CSD registration form was incomplete or not attached to the payment voucher.

At the KwaZulu-Natal education department, we identified the following internal control deficiencies:

- Two instances of purchases from suppliers without the required approval, or with approval only after the transaction occurred. In one instance, the accounting officer approved the procurement transactions for reusable gloves on 28 May 2020, after the PPE items were delivered on 25 May 2020. The delegated official also did not approve the procurement of reusable aprons for an order placed on 8 June 2020 and delivered on 15 June 2020.
- Delivery note information was incomplete. For an order for the supply and delivery of reusable PVC gloves, we identified that 12 separate deliveries were made to different locations. However, only one of the 12 delivery notes was signed and the date was not recorded. For two of the deliveries, the order number was not endorsed on the delivery note and the specification or description of the goods differed from the description of goods as endorsed on the purchase order. This related to 'yellow gloves' delivered to the Ilembe District on 5 June 2020 and to 'Dromex yellow gloves' delivered to the Ethekwini region and Pinetown district. No address was recorded for the latter two areas. The goods delivered to the Harry Gwala district office on 5 June 2020 were signed for by a department official, but the date was not captured.
- The department approved the requisition and authority to purchase infrared non-contact thermometers for an order amounting to R5 290 000 after the goods were delivered and the supplier invoice had been received, which contravenes treasury regulation 8.2.1.
- The approved committed amount of R1 800 000 for the supply of infrared non-contact thermometers differed from the actual award amount of R2 645 000, and there was no documented evidence to substantiate the variance of R845 000, in contravention of treasury regulation 8.2.1. We also noted that the recommendation and approval sections of the requisition and authority to purchase forms were signed before the completion of the requisition, which could result in the risk of the information being manipulated to the department's disadvantage.

Other

The Limpopo education department made awards to the value of R41 454 377 to suppliers that were not registered for VAT. As the value of these awards exceeded R1 million, these suppliers were legally required to register for VAT with the South African Revenue Service.

The Limpopo education department also awarded suppliers who registered on the CSD close to the date of the award. There is an inherent risk that not all suppliers who registered close to the date of the award will have the capacity to supply the required quantity of goods and services to the department on time, which could lead to delays in obtaining emergency covid-19-related PPE.

For the Gauteng education department, at some of the schools we visited, we identified deficiencies in the effectiveness of the established covid-19 committees for managing, monitoring and reporting covid-19 at schools. These included:

- Some schools did not have a covid-19 policy in place that had been approved by the principal and the chairperson of that school governing body and communicated with all stakeholders.
- Committee members at the selected schools had not been given roles and responsibilities for executing their duties.
- At the time of the audit, we identified that the committees had not yet held their first meeting since being established.
- The schools did not provide evidence on the committee's reporting and monitoring of the schools' capability to manage covid-19-related matters.

Recommendations

The education departments need to strengthen their internal procedures and the internal control measures they have in place for the approval and processing of payments, as required by treasury regulation 8.1.1. These controls will provide assurance that all expenditure is necessary, appropriate, paid promptly and adequately recorded and reported. This also means that proper monitoring controls should be in place before any payments are made, the required supporting evidence should be available and compliance requirements should be met. In addition, the departments should strengthen their internal controls to ensure that public money is only spent and/or committed with the approval of the accounting officer or a properly delegated officer. The departments should take appropriate action for losses that occurred in instances where unnecessary expenditure was incurred, as required by the Public Finance Management Act.

Auditees' response

Ordering, delivery, invoicing and payment processes

The Northern Cape education department agreed that payments were not made as required by treasury regulation 8.2.3. In addition, the department agreed with the audit finding on the order to the value of R6 564 315 and indicated that management's oversight was caused by the effects of the lockdown and the urgency with which the service was procured. The department also indicated that the emergency was in line with the national state of disaster and the risk posed to the lives of educators and learners. The department agreed with the finding on the bid documentation, but indicated that the bid recommendation form was signed by the accounting officer, not an unknown official. The department indicated that it will strengthen the signature and dating procedures, especially on key procurement forms and checklists.

The Gauteng education department responded to the findings raised as follows:

- The health department did the procurement on behalf of the education department, which was not part of and did not participate in any forum on specifications. The education department thus had no information on the specification guidelines set out during the procurement process that would have allowed it to verify quality. The health department was responsible for quality assurance and for assisting the education department in this regard. As a result, the education department indicated that it was not in a position to use official guidelines from the health department to verify quality. The health department should have done quality assurance as part of the procurement process whenever products were delivered, before they were distributed.
- The education department cannot implement self-developed templates to do quality verification without procurement guidelines and specifications, as indicated the management comments.

The Mpumalanga education department disagreed with the finding on segregation of duties and indicated that the accounting officer carries overall responsibility for transactions in the department, regardless of the delegated approval level. The department indicated that the project monitoring unit manages the function of ensuring that all goods are delivered and that, during lockdown, the accounting officer was the most senior person available to sign off the payments. The department indicated that this process did not compromise the office's internal controls during this extremely challenging period.

The department agreed with the finding that delivery notes were not properly signed and completed and has procured the use of a contractor to assist with the warehousing process as it does not have its own warehouse. The contractor then collects the goods from the supplier, where the truck drivers sign the delivery notes and deliver the goods at the warehouse. A department official verifies the stock received by the contractor. After the verification and stock count, the official signs and date stamps the delivery note using the departmental date stamp. Management indicated that corrective action has already been implemented.

The Eastern Cape education department agreed with the finding and indicated that it is in the process of auditing the whole population to correct the errors, contact the suppliers and correct any incorrect amounts paid or incorrect quantities delivered. This process has not yet been completed.

The KwaZulu-Natal education department provided the following responses to the matters raised:

- The department agreed with the finding that purchases were made from suppliers without the required approval or with approval obtained only after the transaction occurred. The department also indicated that additional items were required as non-negotiables from stakeholders for schools to reopen and were required to be delivered before the reopening. The department will prepare the approval of the deviation to appoint service providers prior to the final approval by the head of department for condonation.
- The department agreed with the finding that delivery note information was incomplete and indicated that the items were delivered and the department did not suffer prejudice.
- The department agreed with the finding that the requisition and authority to purchase infrared non-contact thermometers on the order amounting to R5 290 000 was approved after goods had already been delivered and the supplier invoice received. The department indicated that it was chasing stock availability to prepare for the reopening of schools and the suppliers were allowed to deliver while the documentation was being finalised. The accounting officer subsequently approved the submission authorising the process.
- The department agreed with the finding that the approved committed amount of R1 800 000 for the supply of infrared non-contact thermometers differed from the actual award amount of R2 645 000 and indicated there was no documented evidence to substantiate the variance of R845 000. The department also indicated that the amount on the requisition is only an estimate that is reviewed after the quotation has been received and that it will prepare the submission for the revision of the commitment for approval by the head of department.

Other

The Limpopo education department disagreed with the observation and indicated that, according to the SCM Legislative Framework, suppliers are not required to register for VAT before being awarded contracts with a value above R1 million. The requirement for VAT registration is based on annual turnover and not contracts that may be awarded. The obligation for VAT registration is enforceable on received income and not before contracts are awarded. The department awarded the contracts to suppliers based on the validation process for tax matters that are in order in terms of CSD reports, as required in terms of National Treasury Instruction Note No. 4A of 2016-17.

The Limpopo education department disagreed with our finding on CSD registration and indicated that, according to the SCM Legislative Framework, suppliers do not have to be registered with the CSD for a predetermined period before they can be awarded any contract. The department is only required to contract suppliers that are registered on the CSD and not to prescribe a waiting period before suppliers can be contracted. The department also indicated that suppliers' ability to deliver is not based on the date of registration on CSD and that this date can never justify suppliers' ability to deliver as it only shows the date on which they registered and not the date on which the company was established.

The Gauteng education department indicated that before the return of educators and learners, senior management teams were orientated on the establishment of covid-19 committees by the district offices. It appears that some schools may not have attended the sessions or did not get the necessary guidance on establishing these committees and their roles and functions. The department will conduct reorientation sessions with the identified schools.

Auditors' response

Ordering, delivery, invoicing and payment processes

We note the Mpumalanga education department's response. However, there is still a lack of segregation of duties. We will follow up on the actions taken to ensure proper controls are implemented to ensure segregation of duties for PPE and on the remedial actions taken.

We note the Gauteng education department's management comments on the procurement process followed. However, although procurement was conducted centrally through the health department, the payment for the PPE is the responsibility of the education department, and it therefore remains the education department's responsibility to ensure that the prescripts of the Public Finance Management Act are adhered to and that value for money is received for the items purchased. Although no information was provided to the department on the specification guidelines set out during the procurement process to allow the department to verify quality, various documentation, such as the DTIC's recommended guidelines, were available to assist the Gauteng education department in ensuring the quality of PPE was of an acceptable standard before it was distributed to schools. The payment for PPE that is not durable or that the schools cannot use wastes the department's funds and the onus is thus on the department to ensure that the PPE procured and distributed to schools is usable and durable and meets the intended objectives. Management's comments do not address the sufficiency and record management of PPE at the schools.

Other

We acknowledge the Limpopo education department's response. Both the audit observations were an indication of the preventative controls that management needs to put in place when procuring goods and services. It should also be noted that using newly registered suppliers on the CSD increases the risk of possible preferential treatment where capacity to supply the required quantity of goods and services to the department on time might not be considered.

Conclusion

The lack of effective stock management processes at different PPE storage facilities makes it difficult for the provincial education departments to identify defective PPE stock delivered by suppliers. As a result, the suppliers cannot be made to replace the damaged PPE items or refund the provincial departments for PPE stock that is either delivered late or not delivered at all, particularly where schools and education districts have spent funds from their budgets. Using storage facilities that do not meet the requirements for storing sensitive PPE items creates safety hazards that need to be avoided.

The accounting officers should follow processes to determine the full value of the poor-quality PPE that was procured and ensure that the suppliers replace the face masks or refund the department. If this is not done, or cannot be done, it should be disclosed as fruitless and wasteful expenditure and the accounting officers should institute the relevant consequence management.

When procuring PPE-related goods and services, the departments should implement controls to ensure that the items received are checked against what was ordered and that they comply with legislative prescripts. The sector must also reconcile the 2020 transactions for PPE in respect of ordered, delivered, invoiced and paid quantities - this will enable the sector to identify instances of overpayment and recover these amounts from suppliers before year-end.

The accounting officers should ensure that non-compliance findings are investigated to determine whether there was misconduct in the SCM processes and, where misconduct is confirmed, disciplinary hearings should be held.

The education sector should use the internal control deficiencies we reported in the first special report and above to put in place preventative controls that will close the identified gaps as they prepare for the 2021 academic year.

EMERGENCY SUPPLY OF WATER AND SANITATION SERVICES

NATIONAL DEPARTMENT: EMERGENCY SUPPLY OF WATER TO SELECTED PUBLIC SCHOOLS

Key audit findings and observations

7. Inadequate needs analysis (DBE, Rand Water)

The education sector did not have systems in place to produce reliable data on the current on-site storage tanks available and determine how many emergency water tanks were needed to respond to the pandemic. As a result, the DBE relied on the provincial education departments to provide listings of schools in need of water tanks and emergency water supply. Based on the listings supplied by the provinces, the DBE considered the following factors to determine the required water storage capacity (size of the water tank) to store water for at least a week:

- The number of learners, educators and support staff at the school
- The minimum required volume of five litres of water per learner, educator and support staff member per day.

The department used the project support unit (PSU) to verify the delivery and installation of the new water tanks by Rand Water. As part of this verification, the PSU also collected information on existing tanks at the schools visited. By 3 September 2020, the PSU had visited 1 081 of the 2 624 schools from the project list. Based on our analysis of the verification information on the existing tanks at these schools, we identified that the need for tanks was incorrectly identified because of unreliable data provided by the provincial education departments.

Of the 1 081 schools verified by the PSU, 707 schools already had sufficient water tank storage capacity from existing tanks, which represents a 65,4% water tank needs assessment error rate.

Breakdown and financial impact of the needs incorrectly identified for the 707 schools

Description	Number of items	Rate (R)	Financial impact (R)
5 000L water tanks (1)	454	4,500*	2 043 000
10 000L water tanks (2)	445	9,000*	4 005 000
Temporary installations (3)	899 (454+445)	3 158,31*	2 839 320,69
Permanent installations (4)	899	20 063,30*	18 036 906,70
Management fee (5)	Not applicable	5% of items 1 to 4	1 346 211,37
VAT	Not applicable	15% of items 1 to 5	4 240 565,81
Likely financial impact per school			**32 511 004,57 (45 984,45 per school)**

** Rand Water cost estimate (aspiration price) for the goods and services*

Based on the error rate above, this could potentially amount to unnecessary spending of R78 913 726,87 (2 624 schools' x 65,4% error rate x R45 984,45 cost per school) on resources that were not required.

During our site visits to verify the water tanks at schools, we identified that schools received tanks despite having sufficient existing tanks.

Water deliveries to schools not on the project list

During our testing of expenditure for delivering tanks and filling them with potable water, we identified various schools that had not been included in the original scope of the emergency water programme and were therefore not on the project list of 3 173 schools. This indicates that the needs identification was not properly done, as schools needing water were omitted.

Recommendations

The DBE should strengthen the process for determining needs and implement additional controls to verify inputs so that these can be used as a source for needs assessment rather than using multiple unverified and unreliable data sources. The DBE should also consider developing current systems, such as the National Education Infrastructure Management System, to include additional information that is not currently available on these systems.

The DBE, together with the provincial education departments, should consider conducting a verification of school infrastructure to obtain reliable data on the current status of existing infrastructure requirements and backlogs.

Auditees' response

The DBE agreed that it relied on data from the provincial education departments for listings of schools in need of water tanks and emergency water supply, and that it used the PSU to verify the delivery and installation of new tanks. The department also agreed that it could have avoided certain costs if there had been enough time for it to assess the schools before implementing the initiative. The department indicated that it will quantify the possible fruitless and wasteful expenditure and pursue recovery of these funds.

The DBE agreed with the observation that some schools did not receive water delivery from the tankers appointed by Rand Water and indicated that the purpose of the covid-19 emergency water supply programme was to ensure that schools could reopen after the lockdown. The department conducted daily meetings with the provinces to monitor whether there were any schools that could not open due to water shortages.

On the matter that water was delivered to schools that were not part of the emergency programme, the department agreed that Rand Water delivered water to schools that were not on the original project list of 3 173 schools. The department indicated that the initial list was compiled based on the input received from the provinces and that there have been several subsequent variations on the list. It also indicated that water deliveries by the municipality, water delivery under the Department of Water and Sanitation (DWS) programme and water delivery under the DBE programme ran in parallel. The efficiency of such delivery depended on the number of recipients along a particular route. Based on this principle, the following occurred:

- Some municipalities delivered water to schools on the initial project list because the schools were located along current municipal delivery routes
- Some DWS tankers delivered water to schools on the initial project list because the schools were located along current DWS delivery routes
- Some Rand Water tankers delivered water to schools not on the initial project list because they were located on the Rand Water delivery route
- Some Rand Water tankers also provided water to communities due to public demand.

The DBE indicated that it did not issue any instruction to Rand Water related to delivering water to schools not on the list. However, this matter will be dealt with during the reconciliation of the payment claims and signoff on payments will be based on reconciled lists. The department will prepare a variation order for approval by the director-general on the changes in the list of schools for tank installation and the list of schools for water delivery.

8. Water tanks not properly installed (DBE, Rand Water)

During our site visits in the Free State and Limpopo, we identified that some of the water tanks were not properly installed. The installations were also inconsistent as some of the water tanks had no vertical support, which was a safety and security risk, and some tanks were delivered but not installed.

Examples of deficiencies noted on site

Free State: two water tanks delivered but not installed

Free State: no vertical support

Limpopo: leaking outlet

Rand Water had to ensure that controls are in place to enable safeguarding of tanks that were purchased and delivered.

Recommendations

Rand Water management and the DBE should investigate the deficiencies identified and put in place corrective action.

Rand Water management should ensure that an effective process is in place to confirm and verify services before payments are made.

Auditees' response

Rand Water responded as follows:

- Free State – two water tanks delivered but not installed: All 180 tanks that were bought for phase one and two were delivered. The school is one of the schools that received tanks that were meant to be permanently installed as part of phase two and had thus not yet been installed. The department was aware of this fact.
- Free State – no vertical support: The service provider had not been paid because of the identified defects and incomplete installation. The service provider was notified and payment will only be made once this has been rectified.
- Limpopo – leaking outlet: The tank was not leaking when the installation was handed over. This is supported by the delivery note signed by the school representative certifying that a satisfactory product had been delivered according to specification.

The DBE noted the finding and Rand Water's response, and provided the following context:

- The internal control requires a nominated representative of each school to sign off on a 'happy letter' to confirm an installation at such school. Without this 'happy letter', the DBE will not recognise the installation.
- A programme manager was nominated as per clause 5.1.2 of the implementation protocol agreement to liaise with the provincial counterparts on a daily basis. The director-general was part of those daily meetings.
- The programme has not yet been concluded and the DBE has not signed off on any installation or payment.

With regard to the Free State province tank supply, specifically, the DBE agreed that tanks were installed at 87 schools in the province compared to the initial scope of work of 45 x 5 000-litre tanks plus 135 x 10 000-litre tanks. The scope of work was subsequently reduced to 1 x 5 000-litre tank per school, but Rand Water had already placed the orders and commenced with delivery. In terms of remedial action, the DBE indicated that it and the provincial education departments need to agree on finalisation of the covid-19 intervention and that 1) all tanks installed on temporary stands are to be upgraded to permanent stands and 2) all tanks delivered but not installed are to be moved to a central depot for use by the province.

Auditors' response

The department's response is noted. However, the finding will remain for follow up for the two water tanks delivered but not installed and the leaking outlet for the reasons below:

- To ensure that the water tanks do not remain uninstalled. There is a risk that the water tanks may be stolen as they are not secured.
- To ensure that when payment is made by Rand Water to the service provider, all rectifications were made.

With regards to the leaking outlet, management's response does not demonstrate any recourse or intention therein to investigate the reasons that led to the defect. At the time of the site visit the tank was leaking and it must also be noted that the project management plan states that the entire installation shall be subject to a three months' defect liability period.

9. Inventory listing from Rand Water and monitoring inconsistencies (DBE, Rand Water)

Inadequate inventory listing

On 21 October 2020, Rand Water provided the latest inventory list reconciling the tanks delivered to schools. We noted the following deficiencies on this list:

- There were no unique identification numbers allocated to each tank. The tanks on the ground were also not marked. We were therefore unable to test the completeness of the listing from the ground compared to the inventory listing.
- There were no invoice details, i.e. supplier details, amounts, invoice date.
- Not all delivery details were included on the list. For example, delivery dates were not included in all provinces.
- The list did not correspond to the latest progress monitoring report sent to the DBE (see table below).

Differences between Rand Water list and weekly progress report

Province	No. tanks per Rand Water list of 21 October 2020	No. tanks per weekly progress report dated 22 October 2020	Difference
Limpopo	547	522	25
North West	195	64	131
Mpumalanga	127	131	-4
Free State	180	180	0
KwaZulu-Natal	571	966	-395
Eastern Cape	768	777	-9
Total	**2 388**	**2 640**	**-252**

Monitoring inconsistencies

We noted that some schools that were verified by the DBE did not appear on the Rand Water list of tanks supplied and delivered to schools provided on 21 October 2020, including schools in KwaZulu-Natal (Ekulingeni JP – EMIS no. 500128760), the Eastern Cape (Andrew Moyake PS – EMIS no. 200100032), Limpopo (Sehlale PS – EMIS no. 923241313) and the Free State (Wongalethu SS – EMIS no. 440203105). This list of schools is not exhaustive.

We also identified that in some cases in the Free State, the capacity of tanks on the DBE verification list differed from the capacity on the Rand Water record of tanks and what was verified on site (see table below).

Differences between Rand Water record and site verification, and DBE verification list

Province	School	Rand Water inventory listing and on site	DBE project verification listing
Free State	Harrismith HS	10 000L; 5 000L	1 x 15 000L
	Tshepang SS	3 x 10 000L	1 x 10 000L
	Matwabeng PS	2 x 10 000L	1 x 10 000L

As a result of the above, we could not determine the accuracy and completeness of the tanks reported as purchased and delivered by Rand Water.

Recommendations

Management of Rand Water and the DBE should implement proper record keeping for the water tanks to support accurate, complete and valid financial and performance reporting.

Auditees' response

Rand Water indicated that the tanks do not have unique identification numbers and the agreed scope of work did not include unique numbering of tanks. Rand Water further indicated that the information was populated as per the template that was provided to Rand Water by the auditors with the request for information. The information we received in response to our request for information included the supplier details and amounts for all commodities. Invoice dates were not provided because they were not a requirement.

The DBE noted the finding and Rand Water's response and provided the following context:

- The payment schedule limits payment to the following items:
  - Supply, delivery and complete installation (including plinth, distribution and taps) of 5 000-litre tanks
  - Supply, delivery and complete installation (including plinth, distribution and taps) of 10 000-litre tanks
  - Delivery of water
  - Cost of potable water
  - Implementing agent fee
  - Development facilitation fee
  - Disbursements.
- All installation of, and water delivery to, tanks is subject to the signoff of school management. Without such signoff, the DBE will not recognise an installation or delivery.
- Rand Water's supplier delivery notes and inventories are not part of the DBE's internal control system.
- The internal control requires a nominated representative of each school to sign off on a 'happy letter' to confirm an installation at such school. Without this 'happy letter', the DBE will not recognise the installation.
- The DBE mobilised the PSU to conduct inspections.
- The programme has not been concluded and the DBE has not signed off on any installation or payment.

Auditors' response

We note that the agreed scope of work did not include the unique numbering of tanks. However, there is a risk that during the DBE's verification process, where schools have existing water tanks, some of the tanks may be incorrectly included as part of the covid-19 initiative. Rand Water should have maintained an inventory register that should have been updated as payments were made to service providers and when verification was conducted for purposes of payments. We received the listing of tanks supplied and delivered to schools on 21 October 2020 and have included the deficiencies we identified from the listing in the finding above.

10. Reasonableness of prices (DBE, Rand Water)

Rand Water was the implementing agent for both the DBE and the DWS for the provision of water tanks to address covid-19 needs. The DBE did not conduct a reasonability test to compare the prices for procured water tanks by Rand Water for both departments. We identified that the prices charged by one supplier were higher for the DBE than for the DWS.

Price difference for water tanks between DBE and DWS

Supplier	DWS (R)	DBE (R)	Difference (R)
Supplier 1 (5 000L)	3 375	5 250	1 875
Supplier 1 (10 000L)	8 100	10 800	2 700

In addition, the amounts per RFQ for permanent installation were higher for the DBE than for the DWS. The amounts charged for permanent installation at the DWS ranged from R4 000 to R11 000, while for the DBE they ranged from R14 900 to R23 273,43. The reason for the difference was unclear.

We identified that the water tanks for the DBE were temporarily installed by levelling the ground to prepare for permanent installation at a cost of R3 726 per tank, as per RFQ. There was no detail breakdown for the amount. Based on the work conducted by the service providers, we could not determine the reasonableness of the amount charged.

Recommendations

Management of Rand Water and the DBE should review the amounts charged for temporary and permanent installation to determine the reasonableness of the amounts.

Auditees' response

Rand Water disagreed with the finding and indicated that it is not clear what legislative requirement we were testing as it is impractical to respond when it is not clear what has been breached. Rand Water also indicated that it followed the emergency process for special interventions, which includes a reasonability test. Rand Water used a threshold of 20%, which sets the highest price it was willing to pay above the cost estimate. In both projects, the supplier prices were within the cost estimate + 20%. However, the supplier also qualified that their prices for the DWS could increase. From a sourcing perspective, reasonability was tested and the supplier's prices were within the aspiration prices.

The DBE noted the observation and provided the following context:

- Annexure E of the implementation protocol agreement clearly states that the pricing policy for the supply, delivery and installation of tanks was cost-reimbursable with a maximum average cost of R35 000 for installation for a 5 000-litre tank and R40 000 for installation of a 10 000-litre tank.
- We did not provide any evidence that the installation exceeded the agreed pricing schedule.
- Our observation is based on a comparison between the DWS programme and the DBE programme. Although the tanks for both programmes are similar, there is no clear comparison between installation details.
- The DWS programme exhausted the available stock of tanks, which resulted in a shortage in the market when the DBE implemented its programme.
- Rand Water followed the emergency process for special interventions, which includes a reasonability test.
- Rand Water set an aspiration price of R4 500 for a 5 000-litre tank and awarded within 20% of this price.

Auditors' response

We noted the management's response, but section 45(b) of the Public Finance Management Act states that an official in a department or entity is responsible for the effective, efficient, economical and transparent use of financial and other resources within that official's area of responsibility. This is the requirement that we applied on the finding about conducting a comparison between what was supplied to the DWS and the DBE since Rand Water was the implementing agent for both. In addition, it is not justified to assume that the implementing agent would agree to a price within the aspiration price even though a cheaper cost was available and was being used by the same implementing agent across government.

We acknowledge that permanent installations are still to be finalised. Rand Water should review the cost to ensure that the quotes received are reasonable prior to moving to phase 2 permanent installations.

11. General SCM legislation (DBE, Rand Water)

The process for inviting bids, evaluating received bids and awarding bids is explained in legislation and the instruction notes issued by the National Treasury, but weaknesses arise when the prescribed procurement process is not followed or when deviations processes are misused.

11.1. Emergency procurement process

- We identified that, for one of the appointed water tanker suppliers, the price negotiations were conducted on 29 May 2020 and the pro forma purchase order was issued on the same date, before the compilation of the evaluation report, which was signed off on 3 June 2020. This relates to the delivery of potable water and filling of water tanks at various schools in Mpumalanga for 16 000-litre water tankers.
- We identified that the previous directors of an appointed service provider for the supply of tanks, who resigned before the date of the RFQ, signed the documentation on behalf of service provider, instead of the current directors. There is therefore a possibility of misrepresentation of information to Rand Water. From a legal perspective the question is raised whether the contract entered into between Rand Water and the service provider is legally binding as the supplier was presented by individuals who were not directors of the supplier at the time of signing the contract. The above could raise legal issues if a dispute is entered into with the supplier and Rand Water regarding the awarding of the RFQ and items supplied in term of the contract.
- We identified an instance where, based on due diligence procedures conducted, we established that Rand Water appointed a service provider to supply and deliver water tanks at various schools may have been used as a front to allocate business to another service provider (service provider 2). The director of the appointed service provider was married to the director of service provider 2 and all correspondence on the RFQ, availability of stock and the final price negotiations was entered into with a representative of service provider 2. The service providers also shared a business address.
- We identified an instance where an invoice for the supply of water tanks was accepted and paid, but the actual service provided was the transportation of the water tanks. Three suppliers were among those appointed for services including the supply and delivery of water tanks to various districts in KwaZulu-Natal, but after the award, Rand Water needed to source additional transportation methods to address the distribution bottleneck experienced in the province. The National Command Centre - Change Management Centre (NCC-CMC) decided to reduce the number of tanks supplied by supplier A to accommodate the cost of transporting the tanks supplied by suppliers B and C. According to the NCC-CMC, this had no financial impact as the purchase order for supplier A will remain the same. However, this resulted in Rand Water paying additional transportation costs for the two suppliers as they had already quoted, invoiced and been paid for the transportation. The invoice, however, still referred to the supply of 28 water tanks and not to the transportation of tanks, as per the NCC-CMC resolution.
- Eight suppliers were appointed to provide social facilitation services. The email distributing the RFQ document indicated that 'the quotations will be evaluated on functionality and on the 80/20 preference point system'. The internal social facilitation procurement file review correspondence email also explicitly indicated 'Functionality was done – Yes'. However, the RFQ document did not include any functionality criteria, functionality points or minimum functionality threshold, contrary to the requirements of preferential procurement regulation 5. We have also not been provided with a functionality evaluation sheet.

11.2. Tax compliance

Clauses 2.2 and 4.1 of National Treasury Instruction Note No. 9 of 2017-18 state that suppliers conducting business with the state must have their tax matters in order. Three suppliers that Rand Water appointed for total order amounts of R3,745 million for the emergency water programme were not tax compliant at the date they were appointed and this non-compliance will result in irregular expenditure.

11.3. Preference points allocation

- We identified that during the bid evaluation two bidders for the supply and delivery of water tanks were incorrectly allocated 20 B-BBEE points for their levels of contribution instead of 18 points, contrary to the requirements of preferential procurement regulation 6(2).
- For all the emergency procurement done, we identified that no SBD 6.1 forms (preferential points claim form) for the Preferential Procurement Policy Framework Act were attached to the quotes that were submitted.

Recommendations

Rand Water should:

- ensure that the internal controls established for the procurement and provisioning systems are adhered to and comply with the regulations relevant to the SCM process
- investigate this transaction to establish whether the current directors of the supplier were aware of this transaction or whether this was a misrepresentation to Rand Water by the previous directors
- improve the control environment and institute stringent controls to ensure that all suppliers are properly vetted on appointment, that the directors of the supplier are known and that the correct representatives have signed off on the RFQ documents and contract entered into
- do proper due diligence during the procurement process to ensure that the company that presented the quotation is the company that will deliver on the assignment. This will assist in future if any disputes are declared between the organ of state and the supplier. Rand Water should also investigate the reported finding and should share the outcome of their investigation on the matter with the DBE
- investigate the reason why the evaluations were performed without all the supporting documentation
- ensure that it only does business with suppliers that have their tax matters in order, in line with clauses 2.2 and 4.1 of National Treasury Instruction Note No. 9 of 2017-18
- strengthen its internal controls and implement proper review processes over the bid evaluation process to ensure compliance with all applicable legislation.

Auditees' response

Rand Water provided the following responses to the findings:

11.1. Emergency procurement process

- Rand Water disagreed with the finding that the pro forma purchase order was issued and negotiations were done prior to evaluation, and indicated that in terms of Rand Water's emergency procedure for special interventions, the process to ensure all documentation is concluded is done prior to project closure. This is because obtaining suppliers was prioritised as a result of the emergency nature of the project. Rand Water has indicated that while the evaluation did take place prior to appointment of the supplier, the consolidation of all documentation, including signoffs, took place after the initial emergency situation was responded to in this instance. The DBE agreed with the finding.
- Rand Water disagreed with the finding and indicated that the CSD report of 3 June 2020 prior to the award indicated that the signatories (names removed) are owners of the entity. (Names removed) reflected as directors of the entity on the CSD. Management proceeded on the information as verified on the CSD.
- Rand Water disagreed with our statement that the service provider may have been used as a front to allocate business to another service provider, and indicated that it cannot provide a response to the matter above as it is not clear what the finding (non-compliance) is. Rand Water also indicated that the service provider is the company appointed in the DBE project and that it is a legal entity in terms of CIPC and registered on the CSD.
- Rand Water indicated that the order for the supplier was only to supply tanks. As stated on the NCC-CMC report, 28 tanks were used as the trade-off to compensate for transportation, which is why the rate is quoted as such on the invoice. However, the invoice clearly states that the amount paid was for transportation of tanks only. Therefore, this approach was adopted for transparency and alignment with the purchase order and SAP for the purpose of payment.

- Rand Water disagreed with the observations on non-compliance and irregularity for the appointment of the social facilitation service providers, and indicated that the audit has rightfully quoted the Preferential Procurement Regulations, which is the document that outlines how a particular transaction will be evaluated. Rand Water indicated that no functionality evaluation was conducted because the RFQ document in this instance did not include functionality evaluation.

11.2. Tax compliance

Although Rand Water acknowledged the non-compliant tax status, it disagreed with our observation on the basis of clauses 2.2 and 4.1 of National Treasury Instruction Note No. 9 of 2017-18 as these clauses state that persons conducting business with the state need to be tax compliant at the time of the awarding of 'price quotations' or 'competitive bids'. Rand Water indicated that because the sourcing process undertaken for this intervention to respond to the covid-19 pandemic was an emergency process, which is a deviation, and not a price quotation or competitive bid, there is no non-compliance. The DBE agreed with the finding and the non-compliance we raised on non-compliant tax status.

11.3. Preference points allocation

Rand Water noted the observation for incorrect allocation of B-BBEE point. Rand Water indicated that there is no irregularity due to the multi-award strategy adopted for the emergency programme. Management has updated the evaluation documents to prevent such errors going forward and also conducted a training session with SCM officials.

On the matter of the SBD 6.1 forms, Rand Water disagreed with our finding and indicated that the framework we referenced does not apply to Rand Water as a schedule 3B entity according to the Public Finance Management Act. The entity also indicated that the framework does not mention standard bidding documents and that we are writing something into the framework that is not there. Rand Water further indicated that the 2017 Preferential Procurement Regulations define 'proof of B-BBEE status level of contributor' and there is no requirement to use the SBD 6.1 form, and that we seem to be stating that a form can regulate itself outside of a regulation, i.e. because the form states that it must be included in a bidding document, there is a non-compliance if the form is not used.

For all of the above subheadings, the DBE noted the findings and Rand Water's response, and provided the following context:

- The DBE was explicitly excluded from all procurement processes
- The DBE management agreed with the recommendation in as far as it applies to Rand Water
- The following remedial actions will be implemented:
    - The DBE and Rand Water will reconcile all expenditure
    - All irregular expenditure will be accounted as such in the financial statements
    - All fruitless and wasteful expenditure will be accounted as such and recovered from the relevant parties.

Auditors' response

11.1. Emergency procurement process

- Our finding that the pro forma purchase order was issued on 29 May 2020 before the evaluation report had been compiled remains, based on the factors highlighted, which confirm that the evaluation report was signed after a pro forma purchase order was issued. There is also no evidence to substantiate that the service providers were properly evaluated prior to their appointment.
- On the finding that the directors who signed the document resigned before the RFQ, we inspected the CSD report of 3 June 2020 and noted that the signatories (names removed) are reflected as owners of the entity on page four of the report. (Names removed) are reflected as active directors of the entity on page six of the report. However, the vendor vetting report issued by Rand Water's internal forensic unit, the Integrity and Probity Assurance (IPA), dated 9 June 2020 clearly indicates that the signatories had resigned from the service provider and, as such, IPA advised Rand Water not to use the supplier. In view of this, our finding remains and we request that the accounting officer

investigate the reasons the vetting results were disregarded and institute disciplinary processes against the responsible officials.

- On the finding that a service provider may have been used as a front to allocate business to another service provider, after consulting with Rand Water management (operations) on 17 October 2020, it was agreed that Rand Water will investigate the reported finding and share the outcome of its investigation on the matter relating to the service providers. The finding therefore remains unresolved, subject to the outcome of the investigation.
- On the finding of transportation cost approved and paid using an invoice purported to be for the supply of water tanks that were never delivered, we acknowledge the response from Rand Water. However, we do not agree with Rand Water's approach to trading procured goods for transportation costs and our finding remains, especially considering that payments to the suppliers were not adjusted to exclude transportation costs, which were initially included in their quoted prices.
- We noted the management comment on the appointment of social facilitation service providers, but we are unable to conclude if a compliant procurement process was followed due to the inconsistencies between the internal documentation supporting the procurement process and the evidence provided for our audit.

11.2. Tax compliance

When an institution deviates from a normal procurement process due to an emergency, it still needs to ensure tax compliance status. An emergency is not a separate procurement method where an institution does not have to obtain price quotations. The only difference between a normal procurement process and an emergency is the limited timeframes in which quotes must be obtained from suppliers and goods must be procured to respond to the emergency. Therefore, the paragraphs from National Treasury Instruction Note No. 9 of 2017-18 also apply to emergency procurement. The above emergency procurement contracts awarded to suppliers that failed to comply with the instruction note should be classified as irregular expenditure.

11.3. Preference points allocation

Regulation 6.3(b) of the Regulations in terms of the Public Finance Management Act, 1999: Framework for Supply Chain Management, gazetted on 5 December 2003, states: 'Bid documentation include evaluation and adjudication criteria, including criteria prescribed in terms of the Preferential Procurement Policy Framework Act', which is the SBD 6.1 form. The form itself also clearly indicates in the first sentence that it must be included as part of the bid documentation to be submitted. The 2017 Preferential Procurement Regulations refers to the preference point system and B-BBEE (paragraph 6), but do not necessarily talk to the use of the SBD 6.1 form. However, the organ of state must demonstrate that these were considered during the tender process. In terms of Government Notice R. 501 of 8 June 2011, Rand Water falls within the ambit of the application of the regulation (paragraph 2). The finding therefore remains.

12. Inadequate documentation to support water tanker expenses (DBE, Rand Water)

The contracting strategy that was employed for tankering contracts was the payment of a daily rate. This rate applied regardless of day(s) not worked by tanker as long as the truck was available for work. Our observations from our testing of payments made for water tankers are as follows:

- We identified an instance where the water tanker supplier manipulated or falsified a weekly log sheet for a water tanker. The log sheet for the water tanker for week 1 (1 June 2020 to 7 June 2020) was manipulated and used again for week 3 (15 June 2020 to 21 June 2020). The dates on the week 3 log sheet had visibly been changed and all other the details on the week 3 log sheet were identical to those on the week 1 log sheet (scratching out of errors, similar delivery times to the minute for all five days). In addition, the authorisation date of the week 3 (21 June 2020) log sheet is reflected as 7 June 2020, which is the same as the date on the week 1 log sheet.
- We identified several instances where, according to the delivery notes or log sheets, water was delivered to schools that were not part of the programme scope or the project listing of 3 173 schools. We have elaborated on this finding under the key audit finding and observations on the adequacy of the needs assessment.

- We identified an instance where a tanker supplier was paid the daily rate for multiple deliveries on a day and not only the daily rate based on availability of the tanker, per the contracting strategy. This resulted in a total overpayment of R42 650 for the specific invoice tested (one day @ R4 000 = R4 000 for 10 000-litre tankers; three days @ R4 550 = R13 650 for 16 000-litre tankers; four days @R5 000 = R20 000 for 18 000-litre tankers; and one day @ R5 000 = R5 000 for a 20 000-litre tanker).
- We tested a payment of R608 998 (excluding VAT) to a water tanker service provider and identified that the full payment made and all the underlying proof of deliveries were for deliveries other than filling tanks at public schools. The proof of delivery documents for the tankers relating to this payment all indicate filling tanks for various communities, stadiums, hotels, police stations, hospitals and water works facilities. According to the implementation protocol agreement, the DBE is responsible for the cost of potable water and there is therefore a risk that the DBE could be charged for the cost of potable water relating to services not within the scope of the protocol agreement.

Recommendations

Rand Water needs to strengthen the internal procedures and internal control measures in place for the approval and processing of payments. These controls will provide reasonable assurance that all expenditure is necessary, appropriate, paid promptly, and adequately recorded and reported. This also implies that proper monitoring controls should be in place before payments are made to confirm and verify services rendered against reliable supporting evidence. Rand Water must take appropriate action against officials who permitted payments otherwise and to recover any overpayments that might have been made.

The DBE and Rand Water must reconcile all payment made against the supporting documentation to confirm whether all payment made were for services delivered in line with the contracting strategy.

Rand Water needs to investigate the identified fraud risk indicators and fraudulent activity for the identified supplier. If the investigation confirms the fraudulent activity, Rand Water must take appropriate action as required by the Public Finance Management Act and Treasury Regulations.

Auditees' response

Rand Water responded as follows:

- Rand Water validated all payments made guided by the contracting strategy, which was based on the daily rate. Therefore, payments were based on a tanker being available on a specific day in addition to the information on the log sheet. Although the log sheets received by Rand Water were not signed, they indicated that the trucks were available and Rand Water paid based on the contracted daily rate, as the service providers had their tankers either operating or available to provide service.
- The service providers' efforts to produce fully signed sheets were frustrated by school representatives not being available to sign the sheets. These frustrations were experienced both over weekends and on some weekdays (both during and after working hours). This applied to all provinces, and the matter was thus raised with all stakeholders at the daily meetings, as clause 5.1.2 of the implementation protocol agreement stipulates that it is the school's responsibility to provide access to the school and to sign off on the delivery of water.
- According to Rand Water, the manipulated log sheet presents an anomaly, which it takes very seriously and has referred it to IPA, for further investigation. Rand Water indicated that because the two log sheets were validated on different dates, the similarities were not picked up. Rand Water also indicated that even though the payment documents submitted only include tanker log sheets, there is additional supporting information in the background, including daily provincial meetings, National Command Centre daily meetings and reports, WhatsApp group communications and DWS reports amongst others.
- Rand Water disagreed with finding on overpayments. The tankers are paid based on their availability per day, not based on the number of schools serviced and thus there was no overpayment. Rand Water indicated that it has attempted to demonstrate this a number of times via various submissions and even supplied a letter signed by both the DWS and the provincial education department certifying that all the tankers were available for the full duration.

- Rand Water noted the findings on delivery of water to schools not on the programme, and to communities and facilities other than schools where tanks were filled. Schools that were not on the original list were provided with water at the behest, and on instruction, of the DBE and DWS as outlined below. Rand Water indicated that, in line with clause 5.2.2-4 of the implementation protocol agreement, which provides that the DWS must liaise with water boards, water services authorities and water services providers to identify and secure sources of water, the water services authorities were responsible for the delivery schedules that dictated in which areas the tankers would operate and which officials would accompany the tankers. Rand Water had raised this with the parties to this agreement, the DWS and the DBE, a number of times.

The DBE noted the findings and Rand Water's response. The department provided the following context, and indicated that its internal control on this programme is broadly summarised as follows:

- There is a specific list of schools. Any school not on this list will be treated as a variation in terms of clause 23.
- Expenditure is managed in terms of the pricing schedule, which is limited to the following items:
    - Supply, delivery and complete installation of 5 000-litre tank (including plinth, distribution pipework and taps) at cost, with a maximum average limit
    - Supply, delivery and complete installation of 10 000-litre tank (including plinth, distribution pipework and taps) at cost, with a maximum average limit
    - Delivery of water at cost
    - Potable water at cost
    - Implementing agent fee at %
    - Development facilitation fee at %
    - Disbursements at cost, with a maximum limit.
- The DBE agreed that Rand Water delivered water to schools that were not part of the original project list of 3 173 schools. However, this initial list was compiled based on the input from the provinces and there have since been several variations of the list.
- Any deviation from the defined scope of work will be treated as a variation in terms of clause 23.
- Rand Water has not yet submitted a payment certificate in terms of the payment schedule.
- Rand Water inventories, orders, invoices, payments and delivery notes are not part of the DBE's internal controls.
- Several municipalities deliver water to schools, via either piped reticulation or tanker delivery. Some schools may even have private arrangements for water delivery. At the time when the covid-19 emergency water supply programme was initiated, it was not possible to confirm all these arrangements.
- Water deliveries by the municipality, water delivery under the DWS programme and water delivery under the DBE programme ran in parallel. The efficiency of such delivery depends on the number of recipients along a particular route. Based on this principle, the following occurred:
    - Some municipalities delivered water to schools on the initial project list because they were located on current municipal delivery routes.
    - Some DWS tankers delivered water to schools on the initial project list because they were located on current DWS delivery routes.
    - Some Rand Water tankers delivered water to schools not on the initial project list because they were located on the Rand Water delivery route.
    - Some Rand Water tankers also provided water to communities due to public demand.
- All parties agreed that tankers would be rented on a R/day basis.
- In terms of clause 5.3.1(b) of the implementation protocol agreement, Rand Water is responsible for all procurement.
- In terms of clause 5.3.7(a) of the implementation protocol agreement, Rand Water is responsible for managing all funds efficiently and in compliance with regulation.
- In terms of clause 23 of the implementation protocol agreement, no agreement to vary shall be of any force or effect unless such variation is recorded in writing and signed on behalf of all parties.

Auditors' response

We noted the Rand Water comment about the overpayment. However, in further interactions with Rand Water we pointed out inaccuracies in the tankering report used as the basis for the payment when compared to the actual delivery notes. As a result, the overpayment did occur for the specific invoice tested. Using the correct vehicle registration numbers as per the underlying supporting delivery notes, we identified instances where the same tankers made more than one delivery on the same day and got paid twice the daily rate for those deliveries instead of only being paid the daily rate once, per the contracting strategy. This is contrary to the management response that the tankers were paid based on their availability per day and not based on the number of schools serviced. The finding is based on the actual invoice that was paid and tested, as well as the evidence supporting this invoice.

13. Internal control weakness (DBE, Rand Water)

We identified weaknesses in the ordering, delivery, invoicing and payment processes for the emergency water programme.

When the acknowledgement and receipt of goods are not diligently performed, this increases the risk of payment being made for goods not actually received. We identified two instances where the quantities of tanks delivered did not agree with the actual quantities signed for per the delivery notes:

- In one instance, the invoice showed that payment was made for 153 (5 000-litre) water tanks at R5 400 per tank. However, according to the acknowledged proof of delivery, 163 (5 000-litre) tanks were signed for as received. When we identified the discrepancy and engaged Rand Water, the entity provided a letter from the tank supplier stating that they had only supplied 153 (5 000-litre) tanks and the correct quantity was paid for.
- In one instance, the invoice showed that payment was made for 77 x 5 000-litre water tanks at R5 400 per tank. However, according to the acknowledged proof of delivery, 86 x 5 000-litre tanks were signed for as received. When we identified the discrepancy and engaged Rand Water, the entity indicated that the person on ground had spoken with the project manager who had, in turn, spoken with the service provider and they had agreed to only take delivery of 77 x 5 000-litre tanks, which had then been paid for. Rand Water indicated that it can provide a letter from the service provider to indicate that only the tanks on the invoice were delivered, as per the payment made.

We identified an instance where there was a variation to an order, but the change document only addressed the variation of quantities and not the variation of the rate. The tank supplier's original order called for the supply of 74 x 10 000-litre tanks at a price of R9 000 per tank. However, due to the shortage of 10 000-litre tanks in the market, the supplier could only supply 24x10 000-litre tanks. Rand Water agreed to accept 2 x 5 000-litre tanks in lieu of 1 x 10 000-litre tank to cover the shortfall. The supplier's price for a 5 000-litre tank was R4 250 and 2 x 5 000-litre tanks should have cost R8 500; however, a total of 91 x 5 000-litre tanks were supplied at the 10 000-litre tank cost of R9 000, resulting in an excess charge of R250 (excluding VAT) per 5 000-litre tank supplied.

We identified instances of inaccuracies in the prepared weekly financial exposure reports prepared by Rand Water and submitted to the DBE. For example, the finance report reflected a payment of R649 650 for one of the tank suppliers in KwaZulu-Natal. However, the actual supporting invoice paid for this supplier was R78 711,75. We also identified a payment for a tanker supplier of R367 335 that was allocated to the Limpopo province in the finance exposure report when the supplier was appointed for, and delivered services in, Mpumalanga.

Recommendations

Rand Water should implement proper record keeping for the water tanks to support accurate, complete and valid financial and performance reporting, and should ensure that an effective process is in place to confirm and verify services before payments are made.

The accounting officer should ensure that a proper reconciliation is carried out for the stock order and delivered.

The receivers of goods should be diligent in acknowledging and receiving goods to minimise the risk of possible overpayment for goods and services not received.

Rand Water should ensure that scope changes are properly documented for all aspects of the changes agreed (quantities and rates as applicable) and consider amending purchase orders, which is not a difficult task.

Rand Water should strengthen the controls over the preparation and review of the prepared weekly financial exposure reports to identify and correct inaccuracies.

Auditees' response

Rand Water responded as follows:

- For both instances where invoice quantities and acknowledged delivery note quantities did not reconcile, Rand Water paid the service provider the exact amount that was due in line the invoice and the actual received tanks on the ground.
- The discrepancy we noted in terms of the number of tanks provided results from the conversion of two 5 000-litre tanks being provided in the place of the one 10 000-litre tank that was ordered. There is change management approved report to support this change.
- The invoice amount that we quoted for the discrepancy in the financial exposure report was incorrect.

The DBE noted the findings and Rand Water's response. The department provided the following context, and indicated that its internal control on this programme is broadly summarised as follows:

- There is a specific list of schools. Any school not on this list will be treated as a variation in terms of clause 23.
- Expenditure is managed in terms of the pricing schedule that is limited to the following items:
  - Supply, delivery and complete installation of 5 000-litre tank (including plinth, distribution pipework and taps) at cost, with a maximum average limit
  - Supply, delivery and complete installation of 10 000-litre tank (including plinth, distribution pipework and taps) at cost, with a maximum average limit
  - Delivery of water at cost
  - Potable water at cost
  - Implementing agent fee at %
  - Development facilitation fee at %
  - Disbursements at cost, with a maximum limit.
- The installation of temporary stands will be treated as a variation in terms of clause 23.
- Any deviation from the defined scope of work (e.g. more than one tank per school, tank delivered but not installed) will be treated as variation in terms of clause 23.
- Rand Water has not yet submitted a payment certificate in terms of the payment schedule.
- Rand Water inventories, orders, invoices, payments and delivery notes are not part of the DBE's internal controls.

Auditors' response

We noted Rand Water's response that there was a change management document approved to support the change. However, the document only addressed the variation of quantities and not the variation of the rate. Rand Water subsequently provided a credit note from the supplier dated 20 October 2020 for the higher rate charged based on the conversion of the tanks.

The invoice amounts we quoted were taken from the Rand Water prepared financial exposure report, therefore the report contains inaccuracies.

14. Financial management and accounting (DBE, Rand Water)

Credible financial statements are crucial to enable accountability and transparency. Accounting for the transactions, assets and liabilities of departments using the public sector accounting frameworks is generally not complex. Below we include matters we identified as part of the audit for this report which have the potential for material misstatement of the interim and year-end financial statements if they are not given attention to prevent misstatements:

Cost of potable water

Per the Rand Water DBE weekly financial exposure report dated 2 October 2020, we identified that no expenditure had been incurred to date for cost of potable water. There was also no liability or commitments for the cost of potable water. In terms of the signed implementation protocol agreement between the DBE, the DWS and Rand Water, the cost of potable water is part of the scope of the project and will be charged at cost, in terms of the pricing annexure.

According to the implementation protocol agreement, the roles of the three parties to the agreement when it comes to covering the cost of potable water are as follows:

- The DBE will provide funding for implementing the mandate under the protocol in terms of the pricing schedule.
- The DWS will liaise with water boards, water services authorities and water services providers to identify suitable sources of potable water for the emergency water supply to public schools programme.
- Rand Water will be responsible for managing all funds made available by the DBE for the execution of the mandate efficiently and in compliance with regulation and must, in its weekly progress report, ensure that it reports on financial matters. This reporting must reflect funds received from the DBE, all expenditure made against such funds, supporting expenditure documents and the balance of funds remaining at each given time.

At the time of this report, there were no records of potable water cost (including water use and water quantities distributed by tanker suppliers appointed), which has a direct impact on the balance of funds advanced. The financial records are therefore inadequate on this area of goods and services supplied (potable water) and the liability amount is unknown. In addition, the potable water has been supplied since beginning June 2020, but suppliers have not yet been paid.

Recommendations

The three parties to the implementation protocol agreement, namely the DBE, the DWS and Rand Water, should:

- consider an addendum to the implementation protocol agreement to regulate the financial reporting aspects of the emergency programme that have a direct effect on the DBE's financial statements
- properly coordinate responsibilities for the supply of potable water that affects the funding advanced for the project
- compile accurate and complete financial records on the supply, delivery and use of potable water on the emergency water programme that will enable credible financial reporting
- implement adequate daily and monthly processing and reconciliation controls to manage the supply, delivery and use of potable water.

Auditees' response

Cost of potable water

Rand Water indicated that, according to clause 5.2.2 to 5.2.4 of the implementation protocol, the DWS was responsible for identifying water sources, Clause 5.2.7 also mandates the DWS to enter into agreements with the water authorities. From the agreements, Rand Water would have obtained the water rates that the water services authority would charge for water use. According to the implementation protocol agreement, Rand Water's role was to make payment once water services authorities had submitted their claims. Rand Water has not received any claims from water services authorities, and thus has not reflected or spent the allocation for potable water supply. Based on the reasons above, Rand Water did not have rates for the water that was used and it is therefore difficult for Rand Water to provide these financial records.

The DBE agreed with the finding and indicated that an allowance for the cost of water was included in the initial cost estimate of R610 million and that the pricing schedule allows for payment for potable water. Without a written agreement with water services authorities that the water was provided at no charge, a provision should have been made in the financial statements.

The remedial action includes getting the agreements to establish the contractual terms between the DWS and the water services authorities, to determine the water rates, to provide billing information to the water services authorities and to make payment.

PROVINCIAL DEPARTMENTS' INITIATIVES: EMERGENCY SUPPLY OF WATER TO SELECTED PUBLIC SCHOOLS

Key audit findings and observations

15. Site inspection observations – water tanks (KZN)

We compared the department's water storage tank specifications to the actual tanks installed at the school and identified various discrepancies.

Water storage tank platforms did not meet specifications

At 18 of the 26 schools we visited (69%), the platform for the water storage tanks did not comply with the detailed specification we were provided. We identified the following key issues:

- The platform on which the water storage tank is mounted did not include a 100mm concrete slab above brickwork, as per the specification.
- At 15 schools, steel lip channels were used as the base of the platform on which the water storage tank is mounted instead of the steel tubes, as per the specifications.
- At three schools, there was significant corrosion of the steel material of the platform on which the water storage tank was mounted.
- At one school, the steel platform on which water storage tank was mounted was not reinforced by of 50x50x5mm angle bar at the base of the water tank stand to provide the required support.

Water storage tank installed on existing platform

There was an instance where the service provider installed the water storage tank on an existing platform at the school as per the instruction of the school principal. Due to a limitation on the documentation provided for audit, we could not determine if the cost of the platform was included in the service provider's claim for payment, as the progress report submitted for audit reflected a cost of R23 693,75 and R27 849,53 for the two water storage tanks installed at the school.

Poor workmanship of water storage tank platforms

Poor workmanship was evident in 13 (50%) of the concrete stands constructed, and in some instances we identified that the tanks were not secured or the bases were uneven.

Concrete platforms for water tanks

Charles Memorial Combined Primary School

Elangabini Junior Primary School

The concrete platforms at Charles Memorial Combined Primary School and Elangabini Junior Primary School were not built in accordance with the specification provided by the department, as the platform did not include the 100mm concrete slab and the width of the brick work was 280mm instead of 500mm for both water storage tanks. Furthermore, the poor workmanship for the concrete platform at the Elangabini Junior Primary School was evident as the concrete was already starting to contain cracks.

Defective steel stands and concrete structure for water tanks

Steel stand for water tank at Asibemunye Secondary School corroded and not level. with wood used to stabilise (inset)

Steel stand for water tank at Jabula Combined School not level

Cracking on concrete structure at Elangabini Junior Primary School

There was significant corrosion of the steel stand for the water tank at the Asibemunye Secondary School and the concrete pillars installed to support the steel stand were not level, which resulted in a square piece of wood being used to stabilise the stand. At the Jabula Combined School, the steel stand for the water tank was not level due to the use of defective material. The concrete structure surrounding the stay for the water tank at Elangabini Junior Primary School showed cracking.

Recommendations

The department should conduct detailed inspections of the water storage tanks installed by the implementing agents at the school to assess whether the quality of work in accordance with the specifications before making payment. The department should submit a snag list for defects to the service provider and no payments should be made until the defects have been rectified.

The department should either hold the implementing agent accountable for having the defects rectified or recover the expenditure incurred. The department should review the actions of its officials and consider appropriate corrective measures.

Auditees' response

The KwaZulu-Natal education department responded that the change in specification was due to the steel shortage arising from the national lockdown restrictions. The department considered viable alternatives that served the situation to cater for the shortage of steel. Management commented that where corrosion is evident the contractors will be sent back to rectify the defects. The department also indicated that it will adjust the cost accordingly when it makes the final payment to the contractor.

Auditors' response

We noted the reasons management provided, but the change in specifications was not supported by written approval of the variation. For the response relating to the concrete platform, we acknowledge that the 100mm concrete could be compacted within the brickwork and thus not visible. However, management did not respond to all the issues relating to the deviation from the specification of this project, namely, brickwork above the ground should be 500mm in width but was only 280mm in width (see point 3, above). Management's comments also did not address the poor workmanship.

16. Upgrade to water facilities (MP)

At the Mpumalanga education department, we identified that suppliers overcharged the department for upgrades performed at two schools. One school bought two water tanks for R70 000 per tank while the other paid R52 000 each for two tanks, compared to a reasonable price of R29 000 per tank. This resulted in an overpayment of R128 000.

Recommendations

The education department should strengthen its controls around the review and processing of transactions for goods and services to ensure that the prices suppliers charge are reasonable and relevant to the scope of work performed. The overpayment to the suppliers must be recorded in the fruitless and wasteful expenditure register and be investigated.

Auditees' response

Management disagreed with the finding as the appointment was completed by the provincial public works department, which is the departmental implementing agent, while the education department approved the project cost and scope and not individual items. Thus the matter will be referred to the provincial public works department for investigation and handling, since payment was in line with the total approved project cost.

Auditors' response

We will follow up on the outcome of the investigation.

17. Challenges noted in the provision of water to schools (GP)

We visited selected schools across all Gauteng education districts to confirm that the department had installed water tanks. We also interviewed school principals to determine whether the schools had experienced any challenges around the supply of water and, if they had, whether the department had addressed the challenges to help curb the spread of covid-19. Based on these site visits and interviews, we determined that:

- one school did not receive water tanks from the department and hence did not receive a supply of water
- schools experienced various challenges around access to water, with one school not receiving any water from the department despite experiencing water challenges and frequent shortages, which the principal indicated affected learning and teaching. The school had to use its own funds to pay for water supplied by the nearest municipality
- at one school, the delivery note for water, dated 29 June 2020, did not indicate how many litres of water were delivered to the school, and we were therefore unable to confirm the department's invoicing and payment process.

Recommendations

The districts should implement monitoring and oversight for the appointment of service providers, and should monitor and manage the provision of water.

Auditees' response

The Gauteng education department disagreed with the finding and indicated that municipalities and other utility agents are the competent authorities for the provision of basic services in schools, including the provision of potable water. The department indicated that, since these services are not always provided or are not provided consistently, it had to make alternative arrangements to provide these services to ensure that the rights of school users were not infringed upon. The department thus provides water to schools that experience provision challenges by installing boreholes and delivering water trucks to schools. The department also indicated that since some school water provision challenges are temporary, the affected schools have to log a request for the water delivery to avoid the department sending water to schools when it is not needed.

On the specific findings, the department responded as follows:

- One school has no basic supply of potable water from the municipality and was supplied water through an installed borehole at the school. The borehole has subsequently run dry and the school arranged for the local municipality to provide water through truck deliveries, although there have been some challenges with consistent delivery. The last time the department received a request for water delivery at the school was on 17 January 2020, and the water was delivered based on the request.
- The school is being provided with water by the municipality. The area sometimes experiences low water pressure from Magalies Water. To address this issue, the school installed two water pressure pumps to increase water pressure. The department has not received any request for water delivery since June 2020.
- The department supplied us with a delivery note that was stamped and signed off by the school and that showed the amount of water that was delivered to the school.

Auditors' response

We selected the schools based on a list of the identified schools with water challenges that was provided by the department. We obtained the information through interviews with the principals of these schools and by inspecting the schools during our audit. During our interviews with the principals, the indicated the following:

- The school borehole has not been functional for over four years, and the school has made numerous attempts to communicate with the department. Based on the circumstances at the school, it is unrealistic and unfeasible for the school to write to the department frequently to request water. The principal indicated that it is known that the school does not have running water, and it should be continuously provided with water for its operations.
- At the time of the school visit and inspection, we noted that the water pumps were not functional. The principal indicted that the pumps had only worked for six months after installation and that the lack of water is a constant problem that it has communicated to the department without receiving any assistance.
- Based on the original evidence we collected at the school, not all delivery notes indicate the quantity of water delivered to the school.

Given that water is essential for sanitising during a pandemic, the department should have ensured that the identified schools were adequately prepared for reopening and solicited the schools' input on the severity of the issues surrounding their water supply, as well as the water supply required.

EMERGENCY SUPPLY OF BASIC SANITATION SERVICES TO SELECTED PUBLIC SCHOOLS

Key audit findings and observations

18. Emergency supply of sanitation site visit observations (DBE)

Between two and four mobile toilets were delivered to each of the schools on the emergency sanitation list.

Needs analysis

This did not meet the schools' needs because of the varying learner numbers. For example, at Nkadimeng Primary School (640 learners, 17 teachers and three support staff) and Dithamaga Secondary School (467 learners and 19 teachers) the four mobile toilets provided were not appropriate or sufficient when all learners need to attend school. The principals of both schools indicated that the toilets quickly reached capacity and one weekly service was not sufficient.

Supply and delivery

During our site visit, we identified that some of the mobile toilets had no vertical support, which is a safety and security risk. We made the following observations during our site visits:

- At Nkadimeng Primary School, the mobile toilets that the contractor initially provided to the school were not up to standard and new toilets were only delivered after complaints by the principal. Both the initial mobile toilets and the subsequently delivered toilets had no vertical support and there were instances where the toilets were blown over by the wind, making them unusable until they had been serviced and cleaned.
- At Dithamaga Secondary School, there was no vertical support for the mobile toilets delivered.

Toilets delivered to Nkadimeng Primary School and Dithamaga Secondary School

Initial mobile toilets delivered to Nkadimeng Primary School blown over by strong winds

No vertical support to mobile tanks delivered at Nkadimeng Primary School

No vertical support to mobile tanks delivered at Dithamaga Secondary School

Recommendations

The DBE should ensure that proper needs assessments that are responsive to the schools' needs are performed so that the response to the pandemic is sufficient and the desired objectives are met.

Where there are a lot of learners at a school, the DEB should evaluate whether cleaning the mobile toilets once a week is adequate. The department should also evaluate whether it is deriving value for money where mobile toilets fill too quickly and cannot be used until they have been serviced.

The DBE should inspect the initial delivery notes from the contractor to determine whether management was charged double for delivery of defective mobile toilets.

Auditees' response

The DBE indicated that it is the responsibility of the provincial education departments to ensure adequate sanitation. As an emergency measure, the DBE assisted with the provision of mobile toilets to ensure the initial reopening of one grade per school after the lockdown.

The DBE indicated that our observation that the number of mobile toilets does not meet the full sanitation requirement is true, but irrelevant in the context of the covid-19 emergency programme. It also indicated that the recommendation on the needs assessment and weekly cleaning does not apply as the covid-19 emergency sanitation initiative was never intended to serve the full complement of learners and educators.

The DBE issued a list of schools to the implementing agents with clear directions for the installation of mobile toilets. At each school, the installer had to obtain a 'happy letter' from the principal (or representative) to confirm acceptance of such installation.

All toilets that were delivered to schools but not secured do not meet the requirements agreed on.

The covid-19 emergency sanitation initiative was never intended to meet the sanitation needs of the schools in compliance with the school infrastructure norms and standards.

The covid-19 emergency sanitation initiative has not been concluded and final cash-up must still be concluded, and:

- any irregular expenses will be recorded as such in the financial statements
- any fruitless and wasteful expenses will be recorded in the financial statements and recovered from the contracted party or parties.

The department agreed with the recommendation on cashing up delivery notes and 'happy letters'.

Auditors' response

The emergency sanitation initiative was implemented because of the covid-19 pandemic outbreak and the announcement that schools would reopen on 8 June 2020. As part of the strategy to contain the covid-19 pandemic, proper water supply and sanitation were defined as essential services for the reopening of schools. If the response does not adequately address the need, then the initiative may not have completely met its objective. Although the provincial education departments are ultimately responsible for ensuring adequate sanitation in terms of the school infrastructure norms and standards, the DBE was responsible for the emergency sanitation initiative.

19. Site inspection observations – handwashing stations (KZN)

We conducted site verifications to verify the existence and quality of handwashing stations in accordance with the specifications submitted by the department. During our site verification, we identified a number of deficiencies, including the following key findings:

1. Although the district offices determined the needs of each school, there was an oversupply of a total of 12 handwashing stations across four of the 26 schools (15%) at a total cost of R70 716. This may result in payments being made for the oversupply or in some schools not receiving their allocation of handwashing stations. The department would need to perform a comprehensive reconciliation of handwashing stations supplied against the needs determination of each school before payments are made.
2. We verified 181 handwashing stations during our audit, 109 (60%) of which were not in use for various reasons. These include most schools having a piped water supply, although some schools have no water supply and, in some instances, handwashing station taps were broken. For the four schools that were oversupplied with handwashing stations, 23 of the 32 handwashing stations supplied were not used, while 116 (64%) of the soap dispensers were empty Of the 72 handwashing stations that were in use, 17 (24%) did not have soap in their soap dispenser. The handwashing stations are clearly not achieving their intended purpose, which is grounds for possible fruitless and wasteful expenditure since proper planning was not done, the needs determination was flawed and the requisite monitoring was also not done.
3. We identified the following problems that indicate that the specifications stipulated by the department were not complied with:
    - For 109 of the 181 handwashing stations (60%), the steel structure of the stand, which is relatively new (July 2020), showed evidence of rust or was not properly treated with oxide paint to prevent rust, which reduces the lifespan of the structure.
    - In 57 instances (31%), the dimensions of the stand material did not comply with the specifications, e.g. steel tubing was replaced with angle bar.
    - In 49 instances (27%), the steel stands were not properly secured, e.g. not bolted to the wall, bolts were loose, stands were not level, the legs of the stand were off the ground (in the air).
    - In 113 instances (62%), components were missing or not supplied by the service provider, as confirmed by the school, e.g. no taps and no buckets for the water outflow from the sink.
    - For 148 of the tanks (82%), the quality standard brand or logo was not evident.

- In 42 instances (23%), the handwashing stations sinks (basins) did not have outflow pipes to direct the water flow into the bucket or nearby drainage.

4. We identified poor workmanship in 23 instances (13%) where the taps, soap dispenser and the sink (basin) were not properly aligned in relation to each other, as well as 34 instances (19%) of leaking taps, tanks or soap dispensers.
5. Three schools (12%) did not have adequate security to protect the equipment provided by the department.

These findings clearly indicate that the implementing agent did not properly manage the project and department officials did not properly monitor it. The non-compliance with the specifications and the poor workmanship compromises the integrity and diminish the usefulness of the handwashing stations, in some instances creating a safety hazard for learners.

Handwashing stations

Elangabini Junior Primary School

Jabula Combined School

Cosmo Primary School

Isiqalo Junior Primary School

Eminyezaneni Secondary School

Mpophomeni High School

Elangabini Junior Primary School

The metal structures for the handwashing stations installed at the Elangabini Junior Primary School and Jabula Combined School were rusting. The structure used at the Elangabini Junior Primary also did not meet the specifications, as angle iron was used in the structure instead of square tubes.

The handwashing stations structures at Cosmo Primary School and Isiqalo Junior Primary School were not adequately secured as they were not affixed to permanent structures.

The handwashing station at Eminyezaneni Secondary School was missing a tap and soap dispenser. At Mpophomeni High School, the tank, basin and soap dispenser were removed from the handwashing station, which was not level, and kept in storage because the nozzle of the soap dispenser and water tank broke. The handwashing stand at Elangabini Junior Primary School was not secured to any fixed structure.

Recommendations

The department should conduct detailed inspections of the handwashing stations installed at the schools to assess the quality of work and ensure that it meets the specifications before making any payments. The department should submit a snag list of defects to the service provider and no payments should be made until the defects have been rectified.

A full reconciliation is required to determine the actual financial implication (overpayments, exceeding budget, recovery, penalties) and shortfall of handwashing stations at other needy schools.

The department should investigate the possible fruitless and wasteful expenditure.

The department should embark on proper holistic planning and needs determination

The department should either hold the implementing agent accountable for having the defects rectified or recover the expenditure incurred. The department should review the actions of its officials and consider appropriate corrective measures.

Auditees' response

We received the following responses from management:

1. The KwaZulu-Natal education department disagreed with the audit finding for the oversupply of handwashing stations. The implementing agent noted the duplication in the allocation of handwashing stations and instructed the contractors to remove the oversupplied handwashing stations. No payments have yet been made.
2. The department acknowledged the finding and also procured liquid soap and provided it to the district. The school needs to arrange with the district and the circuit to pick up the liquid soap and ensure that they regularly fill the liquid soap dispensers.
3. Management indicated that it is currently doing verifications and where defects are identified, it will notify the implementing agent to arrange for the contractor to effect repairs. No payment has been processed and payments will only be processed once these verifications have been concluded.
4. As part of the current verifications process, the department is notifying the implementing agent of the leakages and workmanship deficiencies as they are identified and implementing agent will instruct the contractor to rectify the defects.
5. As part of its school safety strategy, the department is installing security fences at schools to increase security.

Auditors' response

We note management's comments. However, management's disagreement with the indicated cost is not justified. The department should investigate the oversupply of handwashing stations to determine the reason and take appropriate action against the responsible party. Dick Ndvolu High School received 12 handwashing stations instead of six handwashing stations, and we confirmed during our verification that all 12 handwashing stations were severely vandalised and not in use. Thus, the handwashing stations are already impaired and additional costs would have to be incurred to return them to their original condition. This cost could easily equal the original estimated cost of the handwashing stations, depending of the severity of the damage. At other schools where the handwashing stations are in use, the school must have already placed the handwashing stations at strategic locations for learners and educators to use and removing the handwashing stations would result in the principals moving the existing handwashing stations to new locations. The department should reconsider its decision to remove the oversupplied handwashing stations from the schools and rather take appropriate action against the responsible party, being the contractor or implementing agent. This action should not incur additional cost by the department.

20. Non-compliance with SCM legislation (DBE, MRTT)

The process for inviting bids, evaluating received bids and awarding bids is explained in legislation and the instruction notes issued by the National Treasury, but weaknesses arise when the prescribed procurement process is not followed or when deviations processes are misused.

Tax compliance

At the DBE, we identified one quotation that was sourced and awarded to a mobile toilet supplier that was not tax compliant, which contravenes treasury regulation 16A9.1(d) and National Treasury Instruction Note No. 4A of 2016-17.

MRTT made an award of R345 276 to a supplier that was not verified to be tax compliant at the time of the award, contrary to treasury regulation 16A9.1(d) and National Treasury Instruction Note No. 4A of 2016-17.

Quotation process

The DBE awarded quotations to seven suppliers that did not submit a declaration of whether they were employed by the state or connected to any person employed by the state. CSD printouts to confirm CSD registration and tax compliance were also not available for these seven suppliers. We also noted that the SBD 4 forms were dated after the award date for five quotations sourced, which contravenes National Treasury Practice Note No. 7 of 2009-10 and National Treasury Instruction Note No. 4A of 2016-17.

For one contract amounting to R432 000, MRTT obtained only two quotations from potential suppliers instead of obtaining at least three quotations, which contravenes paragraph 3.3.3 of National Treasury Practice Note No. 8 of 2007-08. MRTT also did not document the reasons for not obtaining at least three quotations.

Approval of awards

At MRTT, four quotations to the value of R1,6 million were approved by the supply chain and administration manager and not by the chief executive officer who is delegated to approve financial matters above R300 000.

Recommendations

The DBE and MRTT should strengthen internal controls and implement proper review processes over the bid evaluation process to ensure compliance with all applicable legislation. Management should also implement controls to ensure that all awards to suppliers are approved by the appropriate level of responsibility.

Auditees' response

Tax compliance

The DBE agreed with the finding on non-compliant tax status and indicated that the supplier had since corrected their tax matters with the South African Revenue Service. However, MRTT management disagreed with the finding and noted that the service provider's tax status for VAT and PAYE was compliant however the income tax was not compliant and will submit the tax clearance that was used.

Quotation process

The DBE acknowledged the implementing agent's response and agreed with the audit findings. It was agreed by the implementing agent that the SBD 4 and CSD registration were not requirements when quotations were requested. This was an emergency situation, which was and still is unprecedented, and called for quick action as learners' and educators' health and safety, and by implication their lives, were at risk. The brief was to procure over 4 000 temporary sanitation facilities to over 1 000 schools throughout Limpopo and the Eastern Cape with literally a couple of days' notice. The intention was never to not comply with applicable laws; however, due to the emergency nature of the situation, there was not enough time. That being said, the DBE still took care to procure from local small, medium and micro-enterprises at competitive prices, taking into consideration the limited number of both suppliers and available sanitation units throughout the country.

The DBE agreed with the finding that the dates on the SDB 4 forms were dated after the appointment of the service providers. This was an unprecedented time and the nature and the urgency of the situation resulted in the SDB 4 forms and other administrative documents being finalised after the service providers were appointed.

The DBE indicated that the implementing agent's supplier CSD registrations will be confirmed for all suppliers prior to appointment. All future RFQs will include the required SBD forms in the specification document for respondents to complete prior to any appointments.

The DBE indicated that it will implement the following remedial action:

- The current implementing agent arrangement will be reviewed, as several audit findings resulted from the implementing agent's SCM processes.

- All irregular expenses will be recorded as such in the financial statements.

MRTT management disagreed with the finding as the service provider's RFQ, which shows amounts, quantities and description and which was signed by the service provider, was attached to the submission to the auditors. However, when we received the documents after they had been packaged and transported, the third quotation was not attached.

Approval of awards

MRTT management disagreed that some awards were not approved by the appropriate level of authority, as the entity's SCM policy states the delegation of authority very clearly.

Auditors' response

Tax compliance

In response to MRTT's management response, we had not received the outstanding tax clearance certificate for further evaluation at the time of this report.

Quotation processes

We had not received the outstanding quotation from MRTT for further evaluation at the time of this report.

Approval of awards

In response to MRTT's response, the SCM policy stated that all purchases shall be authorised and executed as per the delegated authority. We could not determine whether the SCM manager had been delegated the powers to approve quotations above R300 000 because management did not provide us with relevant evidence to support their response.

21. Mobile toilets delivered to closed or non-viable schools merged with other schools (DBE)

We identified deliveries of mobile toilets to schools that were closed, provisionally closed or already merged with other schools based on the process of mergers and rationalisation of small and non-viable schools.

Schools that were closed, provisionally closed or merged with other schools but had mobile toilets delivered

State of delivery	School	DoE status	Year closed	Comment
Delivered	Hlohlodi	Provisionally closed	o/s	Not provided
Delivered	Lekiting	Closed	2019	Merged with Mafifing; letter from MEC
Delivered	Malaka	Provisionally closed	o/s	Not provided
Delivered	Mmamafa	Provisionally closed	2020	Low enrolment; learners moved to various nearby schools
Delivered	Mosehleng	Provisionally closed	2020	Merged with Ambergate
Delivered	Tswelapele	Provisionally closed	2020	Merged with Reenpan and Heuningvlei; letter from circuit manager
Delivered	Manokwe	Provisionally closed	2020	Low enrolment; letter from circuit manager
Delivered	Mamrunyana	Closed	2018	Closed because of low enrolment
Delivered	Selwabosego	Provisionally closed	2020	Merged with Ggopedi; letter from circuit manager
Delivered	Hwibi	Closed	2019	Merged with Nong Modikwa; letter from MEC
Delivered	Dambavhusha	Provisionally closed	2020	Merged with Pfano; letter from circuit manager
Delivered	Hoopdal	Provisionally closed	2017	Not provided
Delivered	Thete	Provisionally closed	2020	Merged with Mohlaletse

Recommendations

The department should use resources carefully to avoid unnecessary waste, as required by sections 38(1)(b) and 45(b) of the Public Finance Management Act. Appropriate steps must be taken to recover payments that did not deliver value for money and to ensure that such expenditure is disclosed appropriately in the annual financial statements.

The department should ensure that internal procedures and internal control measures are in place for the approval and processing of payments. These controls should provide reasonable assurance that all expenditure is necessary, appropriate, paid promptly, and adequately recorded and reported on.

Auditees' response

The DBE identified 3 898 schools that depend on basic pit toilets. This list defined the scope of work for the sanitation appropriate for education (Safe) initiative. Several sanitation projects were being implemented by provincial education departments, donors, the accelerated school infrastructure delivery initiative (Asidi) and implementing agents appointed under the Safe initiative.

The 'unallocated' schools became the initial scope of work for the covid-19 emergency sanitation initiative.

The DBE acknowledged that there were some changes to the list due to new requests from provincial education departments.

The DBE issued a list of schools to the implementing agents with clear directions for installation of mobile toilets. At each school, the installer had to obtain a 'happy letter' from the principal (or representative) to confirm acceptance of such installation. If the implementing agent installed mobile toilets at closed schools, it would be impossible to obtain a 'happy letter'. The department is still in the process of following up with the implementing agents on these schools.

The covid-19 emergency sanitation initiative has also not been concluded and final cash-up must still be done, during which:

- any irregular expenses will be recorded as such in the financial statements
- any fruitless and wasteful expenses will be recorded in the financial statements and recovered from the contracted party or parties.

22. Internal control weaknesses (MRTT)

Proof of delivery of service

MRTT did not attach three delivery notes signed by the school principals to payment vouchers totalling R1,2 million. Consequently, we could not confirm if the service had been received by the respective schools.

Recommendations

Management should ensure that an effective process is in place to confirm and verify services before payments are made.

Auditees' response

MRTT management agreed with the finding that delivery notes were not attached to the payment voucher and will contact the service providers and the schools to obtain the delivery notes for services rendered,

Conclusion

The DBE needs to strengthen the needs determination process, as this is an important planning aspect that significantly impacts whether the initiative will achieve its objective. Our audit highlighted significant deficiencies for the emergency supply of water, which will result in significant unnecessary expenditure that could have been avoided because payments for goods and services received are still ongoing.

Although the project funds spent by Rand Water on the initiative are in the process of being verified by DBE, the department will need to satisfy itself that the funds have been spent in compliance with the terms of the Public Finance Management Act and that there are no irregularities, based on the internal control deficiencies and risks included in this report. To that effect, the department needs to reconcile and verify all supporting documents, including proof of actual delivery for funds spent and a complete and accurate inventory list.

With regard to basic sanitation services, our site visit observations indicated that there is still a dire need for safe and appropriate sanitation facilities at various schools. Although the initiatives alleviated the pressures on the school system for appropriate sanitation in response to the pandemic, it is not a sustainable solution for the sector. The education departments need to ensure that they prioritise and address the underlying root cause that resulted in the need for this initiative, which is the inappropriate sanitation backlogs at public schools compared to the requirements of the school infrastructure norms and standards.

The departments should also implement controls to ensure that all goods and services received are checked against orders and put in place an effective process to confirm and verify services before payments are made.

We have engaged the accounting officers on the findings, which they acknowledged with appreciation. The departments' senior management teams will take the necessary actions to attend to the matters raised.

We will follow up with the departments to assess the progress on the corrective actions taken.

OVERALL CONCLUSION

Overall, our findings on the provision of PPE and the emergency supply of potable water and basic sanitation to selected public schools indicated that sufficient preventative controls had not been implemented for the education sector initiatives,

These initiatives exposed weaknesses that had been in the system of the education sector for a long time, including a lack of planning, internal control shortcomings and a lack of proper monitoring and oversight. This significantly impacted the quality and value for money of the goods or services delivered in some instances.

The education sector, with the assistance of the internal audit functions, should use the internal control deficiencies reported in the first special report and above to put in place preventative controls to close the gaps as it prepares for the 2021 academic year.

The accounting officers should ensure that non-compliance findings are investigated to determine whether there was misconduct in the SCM processes. Where misconduct is confirmed, disciplinary hearings should be held. All actual and potential irregular, as well as fruitless and wasteful expenditure should also be timeously investigated to determine whether such expenditure should be recovered from the responsible officials.

The accounting officers should follow through on the commitments made to implement our recommendations for improving the internal control environment.

We are continuing our engagements with the accounting officers and will follow up on the planned actions in future reports.

QUARANTINE SITES

Purpose of initiative

Identification and provision of properties that can be used as quarantine sites and self-isolation sites by the public works sector

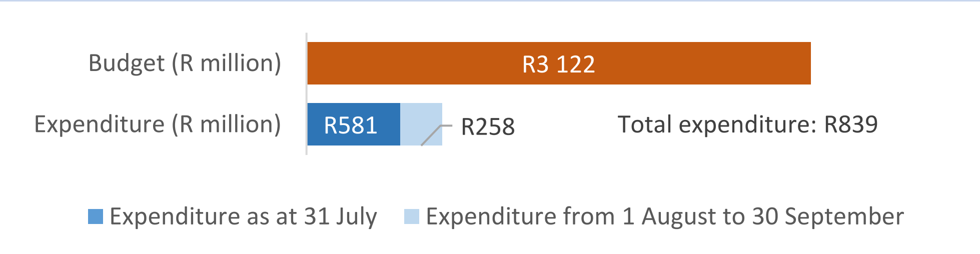
Auditees

- Department of Public Works and Infrastructure
- Provincial departments of public works
- Property Management Trading Entity
- National and provincial departments of health

Focus of our audit

- Spending of funds in accordance with intended purpose
- Procurement of goods and services, and contract management
- Adherence of properties to health department requirements
- Decommissioning plans for quarantine sites

Budget and expenditure



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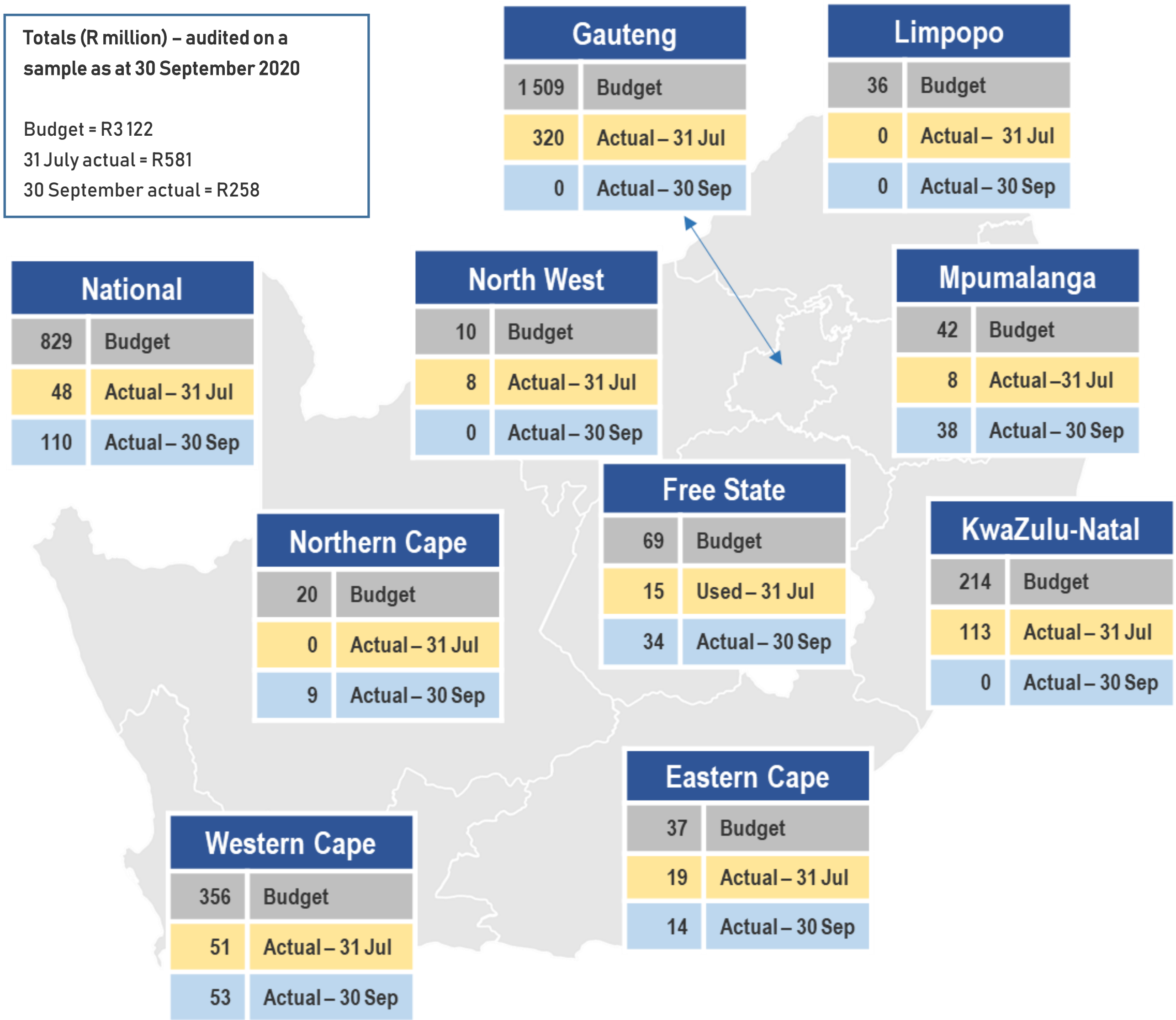
STATUS OF IMPLEMENTATION OF INITIATIVE

As at 31 July 2020, the National Department of Public Works and Infrastructure's (DPWI) sector's targeted number of quarantine sites was 6 123. Of this targeted number, the sector had provided 510 (8%) sites to the National Department of Health (DoH) for assessment, which resulted in 192 (38%) sites being activated for use. On 29 August 2020, the health minister reported that the recovery rate was 86% and given that the number of covid-19 cases has decreased, the need for the public works sector to identify and provide quarantine sites for assessment and activation by the DoH had significantly decreased. Therefore, considering the reduced uptake and that people mainly preferred to self-isolate in their homes, as well as the shift from quarantine sites to providing field hospitals, there was no need for the public works sector to avail new sites, and the192 sites that had already been activated continued to be used as and when the need arose.

With no new quarantine sites having been identified, the expenditure at the end of September 2020 had decreased by 56% compared to the expenditure reported at the end of July 2020. Forty-three per cent of the expenditure incurred after 31 July 2020 related to the Property Management Trading Entity (PMTE) for activation of quarantine sites in Gauteng, KwaZulu-Natal and North West, while the remaining 57% was split between the Western Cape, the Free State, Mpumalanga and the Eastern Cape. Limpopo remains the only province to date that had not spent its allocated budget since it was made available. The expenditure in Limpopo was incurred by the DoH at the beginning of the lockdown when South Africans were repatriated from Wuhan, China.

Spending variance from what was reported in the first special report to 30 September 2020, by province (R million)



In May 2020, the DPWI committed to develop a disposal strategy together with the DoH. This strategy is a decommissioning plan for state-owned quarantine sites, which would outline how the DPWI would dispose of assets, renovations, equipment and other health appliances it had purchased to the DoH after the pandemic. However, this commitment did not materialise due to the lack of monitoring and oversight by the leadership within the sector. There is no immediate need for a decommissioning plan due to the expected second surge in infections, but DPWI has indicated that it should still prioritise the strategy so that the disposal process could unfold seamlessly, which would allow the government to continue to use the assets procured for quarantine facilities. A decommissioning strategy is not needed where privately owned quarantine sites were used, as these facilities were provided to the government fully furnished with all the equipment needed to quarantine the occupants. These facilities incurred the expenditure to appropriately equip the sites and the government only paid for the actual duration of the people's stay.

FIELD HOSPITALS

As we reported in the first special report, the provincial health departments also tasked the public works departments with acting as implementing agents for field hospitals in the following six provinces: Mpumalanga, the Northern Cape, KwaZulu-Natal, the Western Cape, the Eastern Cape and Gauteng. However, similar to Limpopo, the Northern Cape did not experience a surge in the number of covid-19 cases and did not have any financial transactions relating to field hospitals. The Free State was one of the highly impacted provinces and subsequently enlisted the provincial public works departments to serve as implementing agents to assist with identifying and upgrading field hospitals or temporary structures.

The DoH is the budget holder for this initiative and is responsible for the record keeping, including tracking the number of field hospitals or temporary structures erected in response to the pandemic, the reporting of expenditure and the decommissioning plans. However, while it is the DoH's responsibility to monitor, report and account for field hospitals and temporary structures, these properties will be managed by the DPWI as the custodian of government properties. As implementing agents, the provincial public works departments are also responsible for related procurement activities. The leadership of the DPWI and the DoH should assess the impact of key findings raised in this area, which we will follow up as part of our audits going forward. The chapter on healthcare services in this report gives more details on the progress made with the implementation, spending against budget and findings on the field hospitals.

AUDIT STATUS

In response to the procurement and contract management-related fraud risks cited in the first special report, our fraud and investigation specialists performed fraud risk assessments and data analytics. The data analytics performed revealed the top 50 high-risk suppliers related to covid-19 spending in the public works sector. After the first special report, we provided this information to the fusion centre to consider and further investigate as they deem appropriate.

In all provinces except Limpopo and North West, where no expenditure was incurred, the top 50 suppliers identified by data analytics were considered for sampling and testing of emergency procurement. Our built environment specialists performed site visits in response to risks related to fictitious inclusion on the database of quarantine sites that may not have been properly assessed to be compliant. Some site visits for Mpumalanga and Limpopo could not be performed during the auditing for reporting in the first special report because of limitations caused by a lack of accountability between the national and provincial public works departments. However, we performed these visits after the necessary information was provided. In addition, in the five provinces where we had performed site visits, we subsequently obtained all the information from the DPWI and concluded further audit procedures related to confirming site assessment and activation.

We also reported that there were state-owned sites where the DPWI had spent funds on purchasing beds and furniture, and on renovating the sites. Therefore, we performed procedures to assess whether such assets were used and whether they could be transferred to the DoH or other organs of state for service delivery use after the pandemic. At the date of this report, the DPWI was still engaging the Department of Social Development to assess possible transfer of these assets for use in other facilities under its mandate, as the furniture and equipment are not fit for purpose to be transferred to the DoH because they are not specialised and therefore not of the prescribed standard for use in health facilities.

The post-pandemic use of assets purchased to resource quarantine sites was cited as one of the emerging risks in the first special report. We performed procedures to confirm the existence of decommissioning plans for state-owned quarantine sites and assessed the content of such plans where they did exist to confirm the type of assets covered in the plan and the use of such assets and equipment after the pandemic. Where quarantine sites were decommissioned, we evaluated the impact of equipment and assets that were acquired by DPWI and how these should be accounted for when transferred to the DoH or any other organ of state for further use after the pandemic. Except for the Western Cape, where quarantine sites were decommissioned, all other quarantine sites selected for this purpose were still active. However, the procedures for the decommissioning process will have to be followed up until all state-owned quarantine sites are no longer in use and all assets have been decommissioned and/or transferred to other organs of state. We will follow up on all provinces that made use of state-owned properties as quarantine sites in future reports.

We will follow up on the findings raised on the procurement process that have a monetary impact, such as possible irregular, fruitless and wasteful expenditure, during the normal annual audit for 2020-21 to confirm that they have been properly disclosed and that the corrective actions that management committed to under key findings have been taken.

ACTION TAKEN IN RESPONSE TO PREVIOUS REPORT

We performed follow-up work at the PMTE, the Eastern Cape and the Northern Cape, where we reported findings in the first special report, to determine the extent of implementation of commitments. We requested a formal response, together with substantiating evidence, from the accounting officers to establish the extent to which the commitments made were implemented.

The table below reflects the progress made by accounting officers and the executive authority within the public works sector on commitments made.

Status of commitments implemented

National/ province	Accounting officer	Executive authority
National – PMTE	Partially implemented	Implemented
Eastern Cape	Partially implemented	No action committed
Northern Cape	No action committed	No action committed

Four of the commitments made (66%) by the PMTE accounting officer were implemented, one (17%) was partially implemented, and one (17%) was not implemented. We commend the DPWI for implementing most of the commitments made. This, to some extent, gave effect to the objective of the real-time audit, which is to assist in early identification of issues to allow for corrective actions to be taken timeously and to prevent the flagged risks cited in the first special report from continuing or materialising.

We reported that controls were inadequate to maintain records for all quarantine-related transactions and prevent overpayments. Coordination and accountability at sector level also had to be enhanced. In response to the above, the accounting officer enhanced controls around record keeping, including tracking of covid-19 expenditure, maintaining DoH compliance certificates and improving security controls around data (i.e. integrity of Excel databases of quarantine sites). The accounting officer also incorporated a requirement for dietary needs and occupant identity numbers to be used during invoicing in the new service-level agreement (SLA) to prevent overpayments and non-adherence to prescribed rates.

While the accounting officers of the DPWI and the DoH committed to engage their respective sectors in an attempt to resolve the issues of a lack of accountability and oversight, this commitment was not implemented, which resulted in similar challenges as experienced during the first special report. We also noted with concern that documentary controls were not sufficient to prevent repeat findings on overpayments and that no corrective actions were taken to address the already identified overpayments. The timing of documentary controls might have had an impact on the effectiveness of controls; we will follow up on the effective implementation of these controls in future reports.

During our engagements, the public works and infrastructure minister concurred with the commitments made by the director-general of the DPWI and directed management to address all shortcomings identified before this special report. We commend the minister’s commitment to providing the necessary oversight to ensure implementation of preventative controls and timeous corrective actions.

The accounting officer of the Eastern Cape department committed to engage the National Treasury in an attempt to seek clarity on how the finding should be addressed. A letter was written to the National Treasury on this matter, but no response has been received as at the date of compiling the report. Hence, the commitment was rated as partially implemented and this finding recurred in the Eastern Cape. However, the member of the executive council did not make any commitment in relation to the first special report.

The accounting officer and the executive authority of the Northern Cape did not make any commitments, and there are no repeat findings.

After the first special report, the portfolio committee had no engagements relating to this initiative. As a result, the committee did not make any commitments concerning matters reported in the first special report.

KEY AUDIT FINDINGS AND OBSERVATIONS

1. Pricing above allowable limits per government gazette (repeat finding) (EC)

The provincial department was charged prices above the permitted prices for the use of quarantine sites as stipulated by the gazetted Federated Hospitality Association of South Africa (Fedhasa) rates. In addition, the rates charged were all for four-star hotels, but most of the hotels used were three-star establishments. This resulted in irregular expenditure and non-compliance with regulations. Based on the audit work performed, the irregular expenditure is estimated at R4,06 million.

Recommendations

The accounting officer should strengthen the review control activities to ensure covid-19-related expenditure is supported by appropriate evidence, thereby ensuring compliance with the applicable laws and regulations. The accounting officer should also investigate to determine the full extent of the overpayments, after which appropriate consequence management should be instituted, including the recovery of payments made in excess of the stipulated rates.

Auditees' response

The accounting officer disagreed with the audit finding and is of the view that the department is not obliged to comply with communication issued by the Fedhasa regarding applicable quarantine rates for hotels. Management indicated that it will escalate this matter to the provincial treasury.

Auditors' response

We noted the response by the accounting officer. However, based on the above government gazette, the department should have identified and contracted service providers, taking into account the quarantine hotel pricing issued by Fedhasa. Furthermore, processes should have been designed to prevent paying four-star rates for three-star accommodation. We will follow up on the outcome of the escalation of this matter in future audits.

2. Sufficient evidence not obtained to support the amount invoiced for the use of quarantine sites (DoH)

Payment made by the department for accommodation for South Africans who were repatriated from Wuhan, China, totalling R11,26 million was not supported by the list of occupants and a breakdown of the number of days and nights the facility was used. As a result, we were not able to determine whether the cost incurred was in line with the SLA and whether the department was charged the agreed-upon rates. Without further information, we cannot conclude whether the total payment made was reasonable.

Recommendations

The accounting officer of the DoH should ensure that invoices are supported by evidence that confirms the number of individuals, the services rendered, the duration and accuracy of the amount paid, as well as whether payment was made in line with the terms of the SLA. The accounting officer needs to follow up and ensure evidence is received for the full duration of the repatriates' stay at the facility and must implement corrective action, including the recovery of overpayments, if any anomalies are identified.

Auditees' response

The accounting officer agreed with the finding, but stated that the number of individuals accommodated at the Ranch Resort has been submitted subsequently. It was also noted that daily clinical assessments were undertaken to monitor the health status of all individuals in the quarantine site.

3. Occupancy levels per invoice not per the quote (NW health department)

Treasury Regulations and National Treasury Practice Note No. 8 require that payments made should not exceed the quotation price. While the SLA and the quotation for the use of this site in North West were for 50 occupants, the actual occupancy level ranged between 53 and 68 during April 2020. Due to the higher than agreed on occupancy level, the department paid R86 913 more than the quoted price. The higher number of occupants was not preapproved in line with supply chain management policies and the amount paid in excess thus constitutes irregular expenditure.

Recommendations

The accounting officer should ensure that internal procedures and internal control measures are in place for verifying the accuracy and occurrence of transactions before payments are approved and processed to ensure that correct amounts are paid to service providers. Corrective steps related to irregular expenditure incurred as well as consequence management should be implemented, including the recovery of identified overpayments, where appropriate.

Auditees' response

Management agreed with the finding and indicated that, when the quotations were initially requested, the department could not determine the exact number of persons to be admitted because the covid-19 pandemic was completely new and its progression could not be accurately projected. The number of rooms requested on the quotation was an estimate based on the prevailing state of the pandemic, but the actual number used ended up being more than the number on the quote.

4. No evidence to support the invoice and payment made to a lodge used as a quarantine site activated (PMTE)

As per the general ledger, the PMTE had paid R16,99 million as at 30 September 2020 for the use of a facility as a quarantine site. However, the invoices submitted for auditing only supported an amount of R12,24 million and we could not confirm the validity and accuracy of the amount paid.

Furthermore, the PMTE did not provide evidence to support the number of persons under investigation that were accommodated at the facility as per the billed invoices. As a result, we could not confirm whether the PMTE followed internal control measures in processing and approving the payment made to ensure that the expenditure related to the quarantine site was necessary and that it was for actual services received.

Recommendations

As part of the internal processes of approving payments, the PMTE should check invoices to confirm that they are supported by evidence confirming the number of individuals, the services rendered and the accuracy of the amount to be paid. This will enable the trading entity to only approve payments that are necessary. Without evidence supporting the payment made, the accounting officer should investigate the payment and implement appropriate corrective action, including the recovery of overpayments, if applicable.

Auditees' response

The accounting officer disagreed with the finding. The accounting system payment report of R16,99 million is made up of prepayments of R5,75 million, which are calculated at 50% of the full invoice amount, and rejected payments of R2,79 million. The amount paid of R12,82 million is reflected on the accounting system's payment report after adjustment for rejections (R2,79 million) and refunds on invoices (R1.39 million). The department attached further invoices to ensure completeness of invoices.

Auditors' response

The response from the accounting officer is noted; however, the invoices subsequently provided were still not supported by a schedule of occupants to confirm the number of occupants the PMTE was being invoiced for. In addition, management's response concerning prepayment, rejected payments and refunds was not substantiated by supporting evidence. Therefore, we could not confirm the validity of the payments made and that all payments made were necessary.

5. Duplications of occupants accommodated at the facility (repeat finding) (PMTE)

The PMTE paid R23,05 million for use of a facility as quarantine site, but the statement of account supporting the payment indicated a total amount of R15,37 million to be paid. In addition, the invoices submitted in support of the payment only amounted to R2,69 million. As a result, we could not confirm the accuracy and completeness of the transactions that took place between the PMTE and the service provider.

We also noted that invoices supporting the payment had duplicated occupants and that rates above the agreed-upon rates were charged.

There was no evidence that the department verified the invoices before payments were made. Therefore, we could not determine the validity of the invoices and the cost of the overpayment, because not all information was provided to support all transactions.

Recommendations

The accounting officer should investigate the reasons for duplications on the invoices, identify the root causes of the overpayment and recover the overpayment from the hotel, if necessary. The department should also assess whether the overpayment will constitute fruitless and wasteful or irregular expenditure and should quantify the full extent of the impact by revisiting all transactions of a similar nature. In addition, corrective actions should be taken to address the root causes of this finding and consequence management, including recovering amounts paid in excess, should be implemented.

Auditees' response

Management disagreed with the finding and indicated that the invoice for R23,046 million is not the total amount for the hotel. This is an amount that was consolidated for all hotels in Emperors Palace for the quarantine period. The DPWI has previously enquired about the duplication of occupants, and it was confirmed that these are not duplicate names but reflect guests that have been booked into family rooms. The main member of the family would come to the front desk and check in on behalf of the number of persons in the family. Hence, where the names of occupants are the same, that would be a family of more than two persons being accommodated, as hotel rooms could only accommodate a maximum of two persons.

In some instances, the hotel charged a single room rate where it should have charged a double room rate.

Where it was stated that the rate charged of R1 640 for single occupancy is greater than the approved Fedhasa rate, the hotel had previously confirmed that the invoice for this guest was correctly invoiced at the approved Fedhasa rate of R1 200. The error of reflecting R1 640 was on a spreadsheet that contained a synopsis of the batch of invoices for payment.

Auditors' response

We acknowledge the accounting officer's comments above. However, given that this is a repeat finding, the PMTE did not indicate the controls that were put in place after the matter had been identified and how the total population (transactions) was revisited to ensure that these were not duplicated transactions. In addition, the response from management was not supported by evidence to confirm their position that these are family members. Management should implement our recommendation to either confirm that there were no overpayments or to implement corrective actions.

6. A facility in Nelspruit did not meet the requirements for a quarantine site yet was assessed as activated (repeat finding) (PMTE)

An amount of R1,55 million was spent on a hotel for which evidence could not be provided that it had been assessed and found to be compliant by the DoH. Based on our site visit, the hotel is not isolated but is situated in an area where public access could not be easily restricted. This is non-adherence to the guidelines for quarantine and isolation and non-compliance with the disaster management regulations.

In addition, the PMTE activated this facility for use without a supporting DoH compliance certificate to confirm that the facility was qualified to be activated. Therefore, the PMTE incurred expenditure of R1,55 million on a facility that may not have complied with the guidelines.

Recommendations

The department should ensure that it obtains DoH compliance certificates before signing any SLAs to prevent instances where a site that cannot be confirmed to have been assessed as compliant is activated for use. In addition, the accounting officer should request and obtain the DoH compliance certificate as, without the certificate, the expenditure incurred for this facility is irregular. The full impact of this should be determined and the accounting officer should implement necessary consequence management.

Auditees' response

The PMTE management disagreed with the finding and indicated that any compliance assessment of the building for use by persons under investigation should be done by the DoH based on DoH-issued guidelines. Therefore, this finding can be made against the DoH.

The Mpumalanga health department agreed with the finding. However, the DPWI identified the hotel as guided by quarantine guidelines and a protocol agreement between the DoH and the DPWI. This site was one of the available sites in the urban area and was compliant in other areas.

Auditors' response

We noted the response of the accounting officer. As the facility did not meet the necessary requirements, it should not have been assessed as compliant, even though the PMTE had identified it. In addition, the PMTE should have only activated sites that are confirmed to be compliant through a DoH compliance certificate. As such, the expenditure the PMTE incurred on a non-compliant facility should be dealt with in line with the recommendation above.

7. Control deficiencies noted on the quarantine sites (MP)

Treasury Regulations require that before funds are committed or spent, the expenditure should be properly approved by the accounting officer. The department activated a site without a DoH compliance certificate to confirm that the site had been assessed and found compliant with quarantine sites and isolation guidelines. In addition, no SLA was signed with the owners of the activated facility. Furthermore, on 28 August 2020, the facility was occupied by people who needed to be isolated without any SLA or DoH compliance certificate in place. The SLA was only signed after the occupants left the facility on 14 September 2020. Although no payment had been made to the facility as at 30 September 2020, the above-noted deficiencies are concerning as they would imply that the occupancy level and the rate that would later be charged and invoiced to the department were not preapproved by the accounting officer before the facility was used.

The provincial department did not have a decommissioning plan in place for quarantine sites to determine what would happen to any equipment that was purchased for quarantine sites, or if it should be transferred to another entity, and the financial impact on the annual financial statements.

Recommendations

Facilities should only be occupied once all relevant parties have signed the SLA to ensure the agreed-upon terms and conditions are adhered to, e.g. price per person per night. The department should keep copies of the activation report to ensure the facilities are adequately activated.

In addition, the department should have a decommissioning plan for future use of the facilities, including equipment used for covid-19 initiatives. The plan should include what will happen to the equipment bought, whether it should be transferred to another entity as well as the financial impact of it on the annual financial statements.

Auditees' response

Management submitted the SLA even though it was signed after the occupation of the site. The acting head of department agreed with the finding and promised to deal with his officials internally.

8. Lack of coordination (repeat finding) (KZN/PMTE)

The regulations for the national state of disaster are clear that public works departments (national and provincial) are responsible for identifying and making available quarantine sites. We were not provided with key documents, such as the SLA and assessment documents, for our site visits to quarantine sites in KwaZulu-Natal because both the national and the provincial department refused accountability. There was no engagement protocol in place that clearly defined the roles and responsibilities of the different departments. As a result, there was a lack of coordination, accountability and sharing of key information and documents between the DPWI, the KwaZulu-Natal public works department, the DoH and the KwaZulu-Natal health department.

Recommendations

While we take note of the decrease in demand for the use of quarantine sites, it is still essential that roles and responsibilities between the role players are clarified to enable seamless decommissioning processes to take place on these quarantine sites, once it becomes necessary.

Auditees' response

It is acknowledged that, from inception to implementation, no engagement protocols were put in place that clearly defined the roles and responsibilities of the various departments. As a result, there was a lack of coordination, accountability and sharing of key information and documentation between the DPWI, the KwaZulu-Natal public works department, the DoH and the KwaZulu-Natal health department.

In determining the way forward to ascertain the engagement protocols, the provincial department has since sourced a copy of the agreement between the DPWI and the lodge from the service provider and will engage the DPWI in an attempt to address this finding.

9. Goods and services procured from service providers without compliant tax clearance certificates (FS)

The department made two awards to the value of R5,97 million to service providers that did not have tax clearance certificates to confirm that they were tax compliant with the South African Revenue Service, as required by supply chain management regulations. As a result, all payments made to date, to the value of R3,77 million, did not comply with supply chain management regulations, which resulted in all these payments being irregular.

Recommendations

The accounting officer should revisit all expenditure incurred in relation to quarantine sites to determine the full extent of the irregular expenditure and disclose the amount in the schedule of irregular expenditure.

Auditees' response

Management disagreed with the audit finding and maintained that the suppliers that rendered the services had been tax compliant. To corroborate this, it provided the report from the central supplier database (CSD) indicating the supplier's tax status at the time the quotation or bid was awarded.

The accounting officer noted our assessment of management's response and will investigate the matter further and report the outcome. Management is also committed to ensuring that the tax compliance status of companies is verified before appointment.

Auditors' response

The information contained in the CSD submitted by management was inspected and it was confirmed that the suppliers were not tax compliant at the time that their quotations and/or bids were accepted, as is required by supply chain management legislation. The expenditure incurred therefore constitutes irregular expenditure, which should be dealt with in terms of the Public Finance Management Act.

OVERALL CONCLUSION

Management's responsiveness was evident in certain instances where it developed and documented the appropriate preventative controls as soon as weaknesses were identified, while ensuring value was being derived from the real-time audit. However, the repeat findings above affected the implementation and effectiveness of these controls. We noted with concern that the recurrence of the findings could have been prevented had management been disciplined in monitoring and enforcing basic control activities, such as conducting adequate reviews and validating payments. Management needs to enhance the robustness of the preventative controls to substantially address the root causes of the repeat findings. There is also an opportunity for management to enhance the involvement of internal audit in strengthening the preventative controls and performing timely follow-up procedures to track the progress being made and advise the accounting officers on further actions for improvement.

There is uncertainty around the duration of the demand for quarantine sites, especially with the indication of increased infection rates and the predicted second wave of infections. We therefore recommend that the reporting channels within the sector, which should serve as an accountability instrument and which potentially could have assisted in commitments being implemented more effectively, should not be discontinued but rather re-enforced. Furthermore, for resources that have already been invested in quarantine sites, the sector has a responsibility to devise a decommissioning strategy and implementation plan, which should outline how government resources will be used and/or redirected towards alternative service delivery purposes after the pandemic.

The leadership should prioritise consequence management for any continuous non-adherence to basic internal control activities and give attention to addressing the root causes of the repeat findings to avoid a risk of government resources being misappropriated, which may result in financial losses to the sector.

EXPANDED PUBLIC WORKS PROGRAMME

Purpose of initiative

Provision of job opportunities through utilising programme participants for screening, testing and educational campaigns

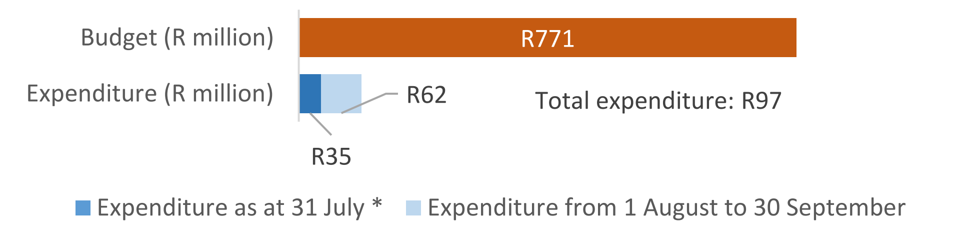
Auditees

- Department of Public Works and Infrastructure
- Independent Development Trust

Focus of our audit

- Spending of funds according to purpose and whether it reached the planned beneficiaries
- Validity of participants enrolled and payments made

Budget and expenditure



** In the first special report, we reported expenditure of R26 million as at 30 June 2020*

NEXT >

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PREV <

STATUS OF IMPLEMENTATION OF INITIATIVE

In the first special report, we reported that the Department of Public Works and Infrastructure (DPWI) tasked the Independent Development Trust (IDT) with the responsibility of implementing the expanded public works programme (EPWP) covid-19 response by using non-profit organisations (NPOs) already under contract with the IDT. These NPOs were initially contracted from 12 April 2020 to 12 July 2020, but the contracts were extended twice due to the extension of the national state of disaster. The original agreement entailed the sourcing of 25 000 EPWP workers to assist the Department of Health (DoH) in the implementation of mass screening and testing initiatives, combined with programmes aimed at educating communities on safety and prevention measures to combat the spread of covid-19 and to reduce exposure. Additionally, this programme intended to address concerns around job and income losses as a result of covid-19 in poor and marginalised communities.

The programme was earmarked to start in March 2020. However, the public works and infrastructure minister's announcement and directive found those responsible for implementing the programme unprepared. Due to the lack of planning, the DPWI and the DoH only started to coordinate the logistical aspects of the programme after the announcement. This lack of planning is evident in the fact that while the DPWI initiative was supposed to supplement the DoH resources, the programme could not start until the DoH had availed its already stretched resources to train EPWP workers. Further delays were caused by the time it took to finalise the selection of sites where EPWP participants would assist. As a result, EPWP participants only started working onsite in June 2020. Furthermore, the delayed start was aggravated by the lack of responsiveness and sense of urgency by the responsible officials and NPOs. In addition, the subsequent covid-19-related challenges including stop and start interruptions caused further disruptions to the programme. These shortcomings, combined with the lack of effective collaboration and coordination between the DoH and the DPWI, compromised the achievement of the programme's intended objectives.

Notwithstanding these challenges, the programme continued and the original agreement was extended until 15 August 2020. The project scope was amended to exclude the mass screening and testing initiatives, with the main focus being the public health education and awareness campaigns. A new focus area was also introduced through the addendum to the first agreement, according to which 1 658 participants (drawn from the original 25 000 targeted participants) were to be redeployed to perform preventative and reactive gender-based violence (GBV) services in communities.

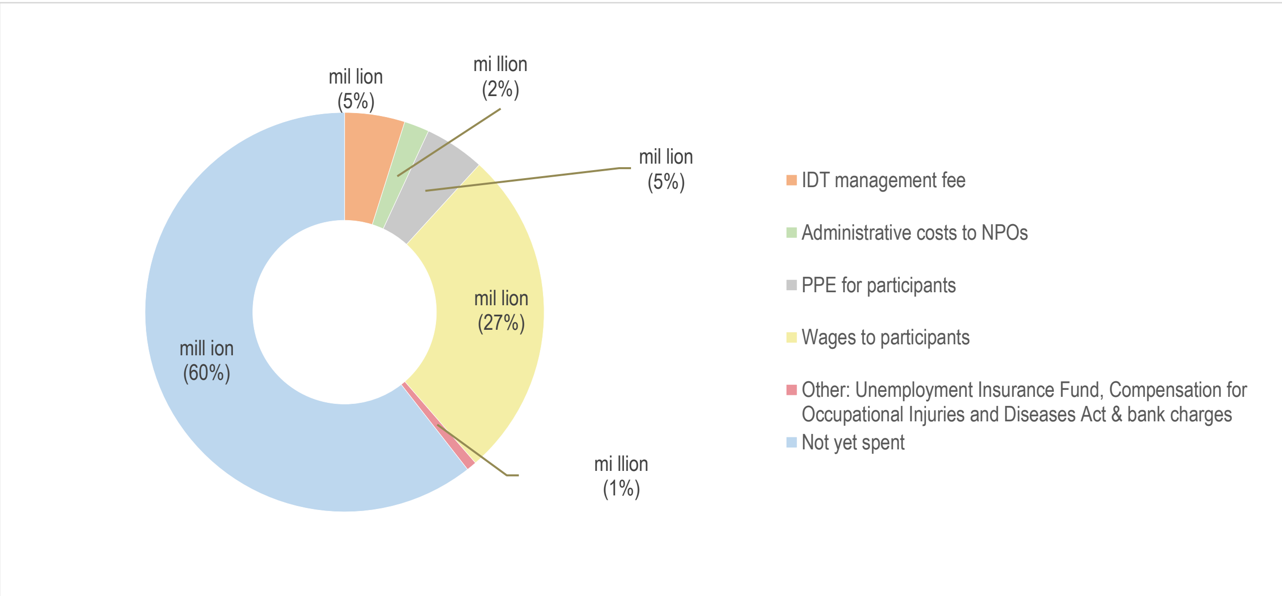
The ongoing national state of disaster had allowed for an extension of the programme, but when the findings reported in the first special report came to the attention of the minister and the leadership of the DPWI, the IDT first had to satisfy the minister that it had effected, and was committed to adhering to, the necessary changes in internal controls, before the programme was granted a second extension to 30 November 2020.

Although the programme was earmarked to start in March 2020, the average working days per participant amounted to only 28 days by the end of September 2020. The programme did therefore not optimally reduce income losses in communities most in need. Considering the likelihood of a second wave of covid-19, proactive steps must be considered to avoid prolonged delays in deploying and paying EPWP beneficiaries, should this programme continue.

SPENDING TO DATE AND PROGRESS IN IMPLEMENTATION AS AT 30 SEPTEMBER 2020

In the first special report, we reported that of the R771 million budget, the DPWI had transferred R234 million to the IDT as at 30 June 2020, based on unaudited information reported by the DPWI and the IDT. As it was not possible to obtain figures as at 31 July 2020 at the time of the first special report, we reflect on the events since the end of June in this report. The audited cumulative spending as at 31 July 2020 amounted to R35 million. At the end of September 2020, the total audited transfers to the IDT amounted to R246 million, including R11,73 million in management fees as reported by management. Of the R246 million, R97 million (39%) had been spent by 30 September 2020 as depicted in the graphic below.

Cumulative spending on programme as at 30 September 2020

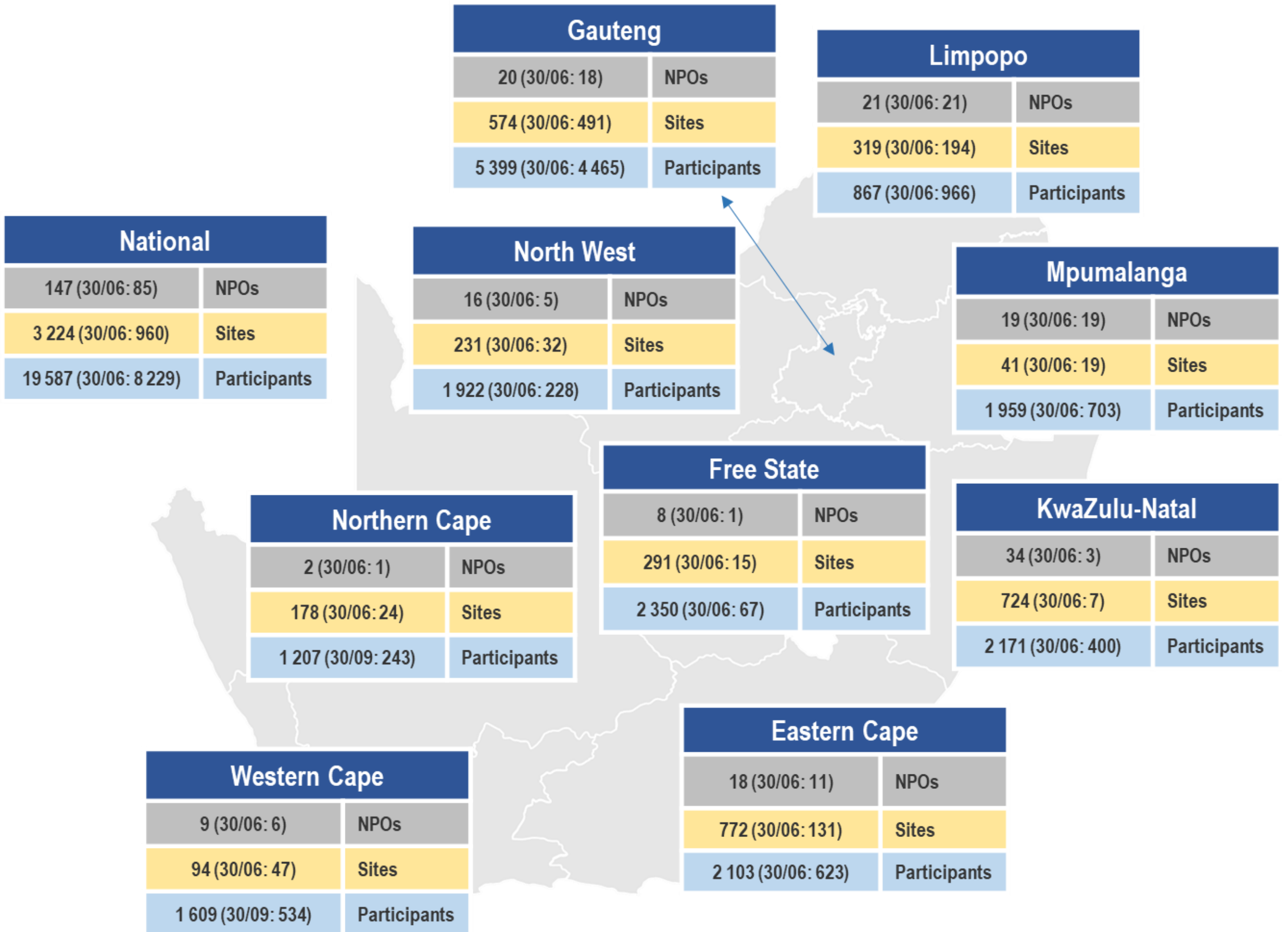


Most notably, R66 million was paid to EPWP beneficiaries between 1 July and 30 September 2020, addressing previous concerns that no participant had been paid up until 30 June 2020. However, in light of the initial late start and subsequent disruptions in programme activities as well as delays in payments to participants detected during the audit process, our continuing concern is that 60% of the money transferred to the IDT and 87% of the overall programme budget of R771 million remain unspent.

At the end of June 2020, only 8 229 (33%) of the targeted 25 000 participants had reportedly been recruited. As none of the individual participants had been captured on the EPWP reporting system, however, we were unable to audit the validity of these figures for purposes of the first special report. Subsequently, as at 30 September 2020, 19 587 participants (78%) had been recruited and captured on the EPWP reporting system and subjected to validation procedures by the DPWI as well as our audit procedures.

The provincial distribution of participants and resultant work opportunities, reflected in the graphic below, show a steady increase in most provinces except for Limpopo, where the number dropped by 10% after the DWPI's validation processes resulted in the correction of the previously overstated figure reported by management at the end of June 2020.

Movement in recruitment of participants from 30 June 2020 (as reported by management) to 30 September 2020



AUDIT STATUS

Due to the previously reported vulnerability of this programme to possible fraud and misappropriation, our fraud specialists assessed the internal control environment in detail to identify critical residual fraud risks, also taking into account the design and implementation of existing preventative controls. New comprehensively documented preventative controls were introduced in response to the weaknesses raised in the first special report. If effectively implemented and monitored, these controls should be able to prevent and detect the misappropriation of funds. However, the use of attendance registers signed by beneficiaries as primary evidence in support of payments made by NPOs to participants remains a concern, as attendance registers could easily be manipulated through the inclusion of falsified beneficiary signatures, which may remain undetected as assurance providers cannot always physically verify beneficiaries.

We also performed data analytics on expenditure incurred by the IDT, which informed the sample of payments by the IDT to NPOs that we subjected to detailed audit procedures to determine the validity and accuracy of the claims submitted by NPOs when compared to the underlying records of work performed by EPWP participants. Payments to NPOs cover wages paid to participants, administrative fees and other costs such as those relating to the Unemployment Insurance Fund and the Compensation for Occupational Injuries and Diseases Act. We did not identify any exceptions in the sample tested.

The computer-assisted audit techniques we performed on participants captured on the EPWP reporting system did also not identify any potential invalid/fictitious beneficiaries when compared to the Home Affairs database or people irregularly benefitting from being employed on the programme which are permanently employed by government.

In the first special report, we reported our inability to perform site visits in six provinces due to delays in the start of the programme at these sites. We have since been able to conduct site visits in all provinces to determine whether training, monitoring and reporting were taking place, as required per the agreements between the DPWI and the IDT, as well as whether prevailing health and safety regulations were being adhered to. The site visits further aimed to establish whether the corrective actions committed to by management had been effectively implemented following our previously reported findings. We raised a number of repeat findings, which management should attend to. We also physically inspected a sample of participants supposed to be onsite in line with signed attendance registers and, notwithstanding the potential risks associated with attendance registers, identified no exceptions.

Given that the GBV-specific target was only formally confirmed on 11 August 2020 with the signing of the addendum, the focus of our site visits for purposes of this report remained on the public health education and awareness campaigns. We will consider matters surrounding GBV in future reports.

Additionally, future audit work will focus on the effective implementation and monitoring of documented preventative controls, as well as whether or not appropriate consequence management has been applied in instances where continuous non-adherence to contractual requirements is identified. We will also follow up the implementation of commitments made by the leadership in response to the findings in this report. Lastly, data analytics and testing of payments will continue as part of tour normal annual audit.

ACTION TAKEN IN RESPONSE TO PREVIOUS REPORT

In the first special report, we reported that EPWP covid-19 relief activities may be exposed to previously reported weaknesses as well as fraud risks; and we made several observations and recommendations in this regard. In response to the findings reported, the leadership of the DPWI committed to implement actions to address the findings and prevent a recurrence thereof. We detail the status of these commitments below.

STATUS OF COMMITMENTS IMPLEMENTED

Actions committed to by the director-general of the DPWI were implemented. EPWP participants were captured on the EPWP reporting system and subjected to validation processes by the department. Furthermore, the programme has now been rolled out across the country in all provinces.

A number of new requirements were introduced in the latest addendum to the agreement between the DPWI and the IDT, which will enable the department to hold the IDT and NPOs accountable for keeping the required information as well as adhering to training requirements, minimum reporting standards, and health and safety protocols. However, due to the limited time available to effectively implement these new internal controls before the onset of this follow-up audit, we again identified shortcomings as evidenced by the repeat findings. The effective implementation and monitoring of these preventative controls - and where required, consequence management for persistent non-adherence – will thus form part of our focus in future reports.

During our engagements, the public works and infrastructure minister concurred with the commitments made by the director-general of the DPWI and indicated that all findings identified in the first special report should be addressed by management before this follow-up audit. Overall, we assessed the implementation of corrective action to be at the desired level. However, while previously lacking preventative controls have now been comprehensively documented, not all identified gaps have yet been closed from an implementation perspective. The DPWI should therefore continue to focus on the monitoring of the operational effectiveness of the controls, from an oversight perspective, to conclusively address the residual risks as identified in the first special report.

No engagements between the portfolio committee on public works and infrastructure and the DPWI or the IDT took place on the EPWP covid-19 response programme subsequent to the tabling of the first special report.

KEY AUDIT FINDINGS AND OBSERVATIONS

1. Internal control enhancements to be implemented on DPWI validation processes

The IDT is not required in terms of the main agreement with the DPWI, on the NPO programme in relation to the EPWP, to include site and payment information (such as attendance and payment registers) on the EPWP reporting system to enable the DPWI to verify the validity of work opportunities and payments captured. Additionally, the automated DPWI EPWP validation, monitoring and evaluation process only takes place quarterly. This might result in the possible misappropriation of funds and/or invalid work opportunities reported on the EPWP reporting system to go undetected.

Recommendations

The EPWP reporting system should be enhanced to enable the IDT to continuously upload critical supporting documentation, such as site and payment details, to enable the DPWI to independently verify the validity of captured work opportunities and payments to beneficiaries. The DPWI validation, monitoring and evaluation process should also be performed at least monthly to strengthen the ability of the department to detect any potential errors for immediate correction.

Auditees' response

NPO invoices are processed if accompanied by the prescribed documents from the NPOs, including an NPO bank statement indicating payment to participants. Controls include the uploading of certified copies of identity documents as well as verifying the existence of contracts, attendance registers and payment registers.

It is acknowledged that during the lockdown, insufficient monitoring through site visits weakened the controls. The DPWI is developing a monitoring system that involves the sourcing and centralised checking of sample information. A business plan for the further development of the EPWP reporting system to enable the uploading of contracts, attendance registers and payment registers will be finalised by November 2020 and tested for implementation in 2021-22. The introduction of a biometric system to prevent the payment of 'ghost' workers, if any, is also being considered.

2. Compulsory training not provided to all participants before deployment (repeat finding)

The main agreement between the DPWI and the IDT on the NPO programme in relation to the EPWP stipulates that participants should be trained before they start with their duties. We identified deficiencies concerning training in six of the nine provinces visited. We were unable to obtain relevant documentary evidence of training in the Western Cape and Limpopo, while not all participants in the Eastern Cape, Free State, North West and Mpumalanga received the required training on time based on the training registers we inspected. Insufficient training might inadvertently expose participants and others to contracting covid-19; and possibly result in incorrect information being passed on to members of the public through the covid-19 awareness initiative.

Recommendations

All prospective participants should be trained on covid-19 health and safety requirements as well as any other administrative aspects before being deployed. Attendance registers should be signed by participants and submitted by NPOs to the IDT as evidence that this requirement has been met.

Auditees' response

The IDT has instructed NPOs to ensure that all participants receive the requisite training before deployment. Some of the observations relate to participants who did not show up on the day of the training or who replaced initially trained participants who dropped out. These individuals have subsequently been trained.

Training is the responsibility of the DoH. The role of the IDT was to avail the numbers of participants required per site as per the DPWI requirements.

Auditors' response

The auditees disagreed with our finding, noting that training is ultimately the responsibility of NPOs and the DoH. While we recognise that both the NPOs and the DoH have a role to play, the IDT is equally responsible through its monitoring role for ensuring that participants are timeously trained. The DPWI should exercise oversight and enforce accountability in this regard going forward. We will follow up the provision of training prior to the deployment of participants in future audits.

3. Inadequate monitoring of EPWP participants by NPOs (repeat finding)

The latest addendum to the agreement between the DPWI and the IDT prescribes that monitoring reports on weekly site visits should be submitted by the NPO manager to the IDT, and by the IDT to the DPWI, until the end of the project. These reports should highlight the progress and challenges experienced in the covid-19 response project. We were unable to obtain any monitoring reports prepared by NPOs for sites visited in the Eastern Cape and North West. In Gauteng, monitoring reports lacked the requisite detail in terms of project sites which would enable efficient corrective action. Ineffective monitoring by NPOs might prevent the implementation of necessary, effective and timely corrective action where onsite challenges are being experienced.

Recommendations

The IDT should monitor the consistent weekly submission of monitoring reports by NPOs and the implementation of actions required as a result of matters noted in these reports. Both the IDT and NPOs should keep copies of such reports. The IDT should implement consequence management should an NPO continuously fail to adhere to this requirement.

Auditees' response

The IDT has controls in place for monitoring. The NPOs are guided on what to report using the templates provided by the IDT. One such report is the monthly narrative report that, among others, captures the number of participants the NPO deployed for the month. The number of participants and their demographic information must tally with the attendance register, which forms part of the monthly report pack.

Auditors' response

The response to the audit finding implies disagreement with the finding by listing the controls in place. We confirmed the existence of the mentioned template, however per the finding the template was in certain instances not/properly completed or not submitted upon request for auditing purposes. The IDT should monitor the effective implementation of this weekly control, as well as the subsequent implementation of corrective action by NPOs for any challenges identified.

4. Insufficient distribution of personal protective equipment (PPE) to participants (repeat finding)

In terms of the agreement between the DPWI and the IDT, the IDT is required to ensure that all NPOs are provided with PPE to distribute to all participants in the EPWP covid-19 response programme. The NPO, in turn, is expected to account for such PPE by recording the distribution to participants. Contrary to these requirements, only 22% of participants signed for the receipt of PPE at one NPO in the Eastern Cape and not all participants in the Free State received face masks and were required to provide their own face masks since August 2020 to wear during working hours. The inadequate distribution of PPE results in the unnecessary risk of potentially contracting covid-19 by both participants and the individuals they come into contact with. Additionally, EPWP workers not wearing face masks might compromise the awareness message of the necessity of wearing face masks in public to prevent the spread of covid-19.

Recommendations

NPOs should have processes in place to ensure that all EPWP covid-19 response programme participants are issued with PPE of the necessary quantity and quality, and that they sign a PPE distribution register. The IDT should monitor adherence to this requirement.

Auditees' response

The arrangement regarding PPE is as follows: the IDT procures PPE for all NPOs; the PPE is delivered directly to the DPWI's regional offices; the DWPI office distributes the PPE to the NPO manager or dedicated NPO official; and the NPO manager or supervisor distributes the PPE to participants. The finding relates to the duties of the NPO.

Auditors' response

The auditees disagreed with the finding, noting that the distribution of PPE is ultimately the responsibility of NPOs. While we take note of the arrangement described above, the IDT is responsible for overseeing the activities of the NPOs and must thus ensure that NPOs effectively and adequately distribute PPE to participants going forward; more so as NPO managers receive the required amount of PPE upfront as per the process highlighted in response to the audit finding.

5. Delays in the payment of wages to participants

None of the agreements between the DPWI, the IDT and NPOs are prescriptive with regard to the exact terms or timing of payments to participants by NPOs. The IDT, however, highlighted that NPOs are expected to adhere to labour law, which obliges an employer to pay remuneration within seven days after the completion of the period for which the remuneration is payable, which according to the IDT is at least monthly.

In the Northern Cape, participants had not been paid their July wages, due in August 2020, by 21 September 2020 when we visited the NPO. June wages were also only paid in August 2020. Furthermore, at one NPO in Gauteng, wages for July 2020 were only paid in September 2020. In the Free State, wages for June 2020 were only paid in September 2020 and wages for July and August 2020 had not yet been paid by 23 September 2020 when we visited the NPO.

The late payment of wages subjects participants to further personal financial challenges and possible obstacles in fulfilling their assigned EPWP duties.

Recommendations

A standardised clause should be inserted in the service-level agreements between the IDT and NPOs to ensure consistent payment terms between the NPO and participants across the programme. This requirement should clearly stipulate the dates for submission of invoices and supporting documentation by the NPO to the IDT. This would enable verification processes by the IDT and timely payment to the NPO, in turn facilitating the timeous payment of wages to EPWP beneficiaries by the NPO on a specific day of the month.

Auditees' response

The IDT pays the invoice, which is correct as per the payment procedures. If corrections are necessary, such invoices will not be paid until NPOs have made all the corrections. This is one of the factors that results in payment delays. Furthermore, the speed at which NPOs respond to the invoice queries raised by the IDT affects the time it takes to pay invoices.

As also highlighted in our overall conclusion below, the IDT should address the continuous late or non-submission of information through ongoing monitoring and appropriate consequence management.

OVERALL CONCLUSION

The EPWP covid-19 response programme had been operational for six months at the time of preparing this report. After the tabling of the first special report, there was a noticeable improvement in the commitment and responsiveness of the DPWI and IDT leadership to ensure the effective use of funds in the intended manner without any money being misappropriated. To this end, the documented preventative controls have been effectively enhanced and shared with all role players, specifically the NPOs.

Notwithstanding these improvements, NPOs' monitoring of the consistent adherence to these controls must be prioritised going forward to ensure the successful continuation of the programme. The involvement of the internal audit units of the DPWI and the IDT should also be considered to provide assurance in this regard. Furthermore, where continuous non-adherence to contractual requirements by NPOs is detected, consequences should be enforced immediately, such as the withholding of payments or even the termination of contracts, as previously alluded to by the director-general of the DPWI. The leadership should urgently address any remaining shortcomings, particularly regarding the timely payment of wages to EPWP beneficiaries.

In addition, we recommended in the first special report that the DPWI assess whether IDT delivered on and met its expected objectives as an implementing agent to justify the management fee paid. Failure to deliver on what was required should have resulted in the DPWI investigating the extent of non-delivery so that it could recover management fees from the IDT where services were not received. The DPWI did not assess whether it had received value for money and it is therefore still possible that the IDT received management fees without delivering all of the agreed services. The accounting officer resolved that IDT would receive no further management fees until the end of the programme and that the current model of paying the management fee in advance would be reassessed going forward. Our recommendation to investigate and validate the management fee paid, as also requested by the minister, should be implemented.

In summary, the ultimate achievement of the objectives of this programme, especially poverty alleviation for EPWP beneficiaries from disadvantaged communities, is dependent on the leadership's ongoing commitment to conclusively resolve remaining findings and provide the required level of oversight in terms of monitoring and consequence management.

EMERGENCY SUPPLY OF WATER TO TARGETED COMMUNITIES

Purpose of initiative

Provision of water tanks and water tankering services to communities

Auditees

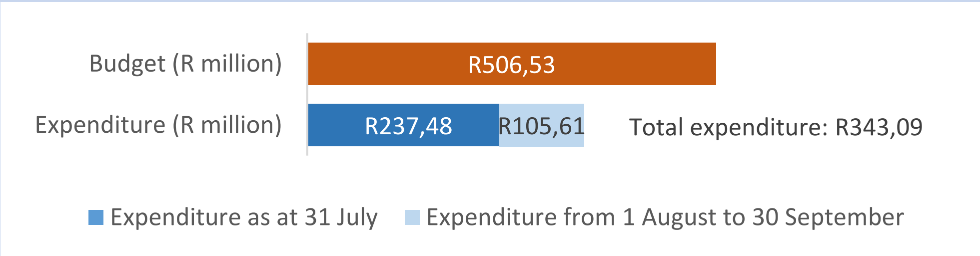
- Department of Water and Sanitation
- Rand Water (implementing agent)
- Other water boards (Rand Water's assignees in terms of assignment agreements for installations of tanks)

Focus of our audit

Budgeting, needs analysis and financial/expenditure processes related to:

- Procurement and distribution of water tanks and hiring of water tankers
- Procurement and distribution of sanitation packs (hygiene campaign)

Budget and expenditure



NEXT >
MENU
PREV <

STATUS OF IMPLEMENTATION OF INITIATIVE

The department originally set aside R306 million for this initiative as part of the 2019-20 budget with the intention of curbing the spread of covid-19. Due to the pandemic persisting longer than expected, the tankering services had to be extended for an additional period of 90 days, up to 31 August 2020, at an additional budget of R200 million, which the accounting officer made available for payment on 19 August 2020.

By 31 July 2020, the National Command Centre (NCC) reported that 6 107 (69%) tanks had been installed. By 30 September 2020, this had increased to 8 125 (91%) tanks installed. The number of tankers (306) remained the same. We also acknowledge that the activities required to implement this initiative were performed during the level 5 lock down period when there were few suppliers available.

On 31 August 2020, Rand Water stopped all tankering services. As at the reporting date, we have not yet received the information we requested to assess the strategic plan to determine the focus areas linked to the additional budget allocation of R408 million approved on 24 June 2020, as included in the schedule 6B regional bulk infrastructure grant allocation for 2020-21. The department still had to indicate how the provision of the water tanks will be demobilised by Rand Water, and how the tankering services will be sustained for the tanks already installed until a more permanent solution has been found.

AUDIT STATUS

WATER TANKS AND TANKERING SERVICE

The inventory list of tanks delivered and installed, which Rand Water provided at our formal request, did not contain sufficient details, such as unique identifiers and complete locations of installed tanks, to facilitate verification of the tanks, as neither Rand Water nor the department implemented adequate records management processes when this initiative was rolled out. Because there was no comprehensive list available, we used an alternative list from the department's Geographic Information System (GIS) that was submitted to us on 8 July 2020. Despite certain deficiencies we also identified on this list, we used it as a source of information to perform site visits in all nine provinces. We concluded our verification audit of the samples selected and our audit findings and observations are given below. We also conducted expenditure testing as well as additional procurement testing (including the audit of extensions) on tanks and tankering services, which included testing some of the work conducted by the suppliers appointed for tankering-specific monitoring and evaluation.

SANITATION PACKS

We conducted site visits to verify the sanitation packs that had been purchased but not distributed. We concluded our verification audit of these sanitation packs and our audit findings and observations are given below. We also conducted expenditure testing as well as additional procurement testing (including the audit of extensions) on this area.

OVERALL

The overall testing of expenditure was still in progress at the time of compiling this report and we have reviewed expenditure up to the end of August 2020. We are also engaged in the normal annual audits of the respective water boards, where we are reviewing the procurement of suppliers for constructing the stands, and we will report on the results through our normal annual audit.

As part of our risk assessment process, we actively scanned the media and whistle-blowing reports, and obtained an understanding of the processes to identify potential fraud risks that could materialise. In the first special report, we reported on the potential fraud risks that management should pay attention to. Subsequently, we focused our efforts on identifying the control weaknesses that could give rise to these reported fraud risks. These control weaknesses were communicated to management in several engagements and platforms.

We identified key control weaknesses in the processes associated with contracting for tankering service delivery requirements and with record keeping for both water tank inventory and management and implementation fees. We reviewed the internal control matrix provided to us to determine if these control weaknesses are being addressed. We also had follow-up discussions with the management of both the department and Rand Water to discuss the key control weaknesses we identified, but the management still disagrees with the identified control weaknesses. Because of this disagreement, the management feels that there is nothing to address and we could therefore not assess the improvement of the control environment in relation to the control weaknesses identified.

We identified instances where the key control weaknesses identified did indeed manifest. The impact of the manifestation of these control weaknesses is documented in the key audit findings and observations included below, and mainly relates to the procurement and distribution of water tanks and the hiring of water tankers.

We will test the controls relating to the prevention of possible double payments for credit card purchases during our normal annual audit.

ACTION TAKEN IN RESPONSE TO PREVIOUS REPORT

In response to the findings reported in the first special report, the leadership made commitments to implement actions to address those findings and prevent them from recurring.

MANAGEMENT AGREED TO PROVIDE FULL, DETAILED INVENTORY LIST TO CONFIRM AUDIT TRAIL FOR TANK DELIVERY

The process to reconcile, consolidate and complete the water tank inventory list, which is an internal control used to verify and monitor the existence of the tanks, was still in progress. We confirmed that the internal audit units of both the department and Rand Water were in the process of concluding their verification audits of the water tanks, which started on 25 August 2020. According to internal audit, the draft report was provided to Rand Water's management, and observations from the department were discussed with top management on 26 October 2020.

As committed, management did provide us with an inventory list after the first special report. However, upon review, we identified that the list provided was still not complete (refer to the finding raised below on the verification of tanks and the lack of unique identification numbers on the installed water tanks).

MANAGEMENT AGREED TO ADDRESS VERIFICATION SYSTEM DUE TO NO AUDIT RELIANCE

We confirmed that management had implemented additional controls (automated and manual) to address the risk associated with the lack of review by regional management to confirm the quality of captured information by data capturers, which is a crucial step required in verifying the completeness and accuracy of the information. The regional managers were now required to review and monitor monthly the tank information captured by the respective verification teams to ensure that the information reported on tanks, is accurate and complete.

To reduce the risk of manipulation, the reports are also now extracted from the GIS as comma-separated value (csv) files. Management put processes in place to verify these reports against the original data on the dashboard at national level to ensure that there have not been any unauthorised changes to data in regional csv files. The first verification was done during September 2020.

The user requirements document has since been updated to clearly reflect the requirements on mandatory fields in the mobile application.

We will assess the full implementation of these controls in the next financial year after management has made adjustments on the system. We also encourage management to standardise the review process for captured data, which is not done consistently by all the regions.

MANAGEMENT AGREED TO PROVIDE SUPPORTING DOCUMENTS TO CONFIRM THAT FAIR AND COMPETITIVE PROCUREMENT PROCESSES WERE FOLLOWED

Management indicated that as the covid-19 emergency project was still in progress, the ratification of supply chain documentation and processes had not yet taken place as at 31 July 2020. We evaluated the SBD 4 forms received subsequently and engaged further on the dates of requests for quotation (RFQs). We determined that these matters are administrative in nature and management should strengthen controls for this going forward to ensure compliance with the minimum procurement requirements during emergency interventions.

PROCUREMENT AND DISTRIBUTION OF WATER TANKS AND HIRING OF WATER TANKERS

This initiative included providing water by temporarily supplying water tanks (delivered and installed) and hiring tankers to ensure that the tanks are filled with water in an effort to help curb the spread of the covid-19 pandemic.

Rand Water was required to create a database of disaster needs by municipal area and to use this information when determining the procurement strategy to be used for sourcing and delivering tanks and water to such municipal areas. Rand Water was also responsible for coordinating and monitoring the provision of water (water tankers). These services had to be provided at a national level in all areas that were identified as being in need of these services for proper mitigation and avoidance of the spread of covid-19.

The implementation protocol agreement required Rand Water to arrange and facilitate regular performance evaluation of each project according to the requirements specified by the department. The agreement also indicated that the department should provide oversight and support in implementing the disaster management plan.

KEY AUDIT FINDINGS AND OBSERVATIONS

1. Verification audit of water tanks and service delivered by tankers

When we physically inspected the tanks in Limpopo, North West and Gauteng during July and August 2020, we identified that some of the tanks (16% of the sample) we verified were empty. We were unable to link this to specific log sheets submitted by the tankering services, as these log sheets were linked to areas and not villages (not specific).

In the Northern Cape, we physically inspected tanks to the value of R30 000 and were unable to verify 4% of the sample selected. We could not confirm that these tanks were those specified in the inventory register, despite an official from the department accompanying the audit team to the physical site inspection. The reason provided was that the municipality moved these tanks without providing evidence to confirm the delivery and the movement thereafter.

Forty-five per cent of the sample of tanks we audited in the Free State, Gauteng, North West, Mpumalanga and the Northern Cape did not have unique identification numbers to confirm that they were covid-19-related tanks.

Rand Water management brought to our attention that some of the tanks had been redeployed to other areas by the municipalities. However, without a unique number allocated to each tank, it was unclear how Rand Water verified or identified the tanks that had been moved to ensure completeness of the inventory list for water tanks purchased for this initiative. We were therefore unable to ensure that the inventory list was complete by comparing the tanks installed against those listed.

Ineffective monitoring controls on GIS.

Although the GIS has a field to identify whether the tanks purchased were for covid-19 or drought relief, we identified that some verified tanks in the Eastern Cape, KwaZulu-Natal, the Northern Cape and the Free State that were indicated on the GIS as being covid-19 related had been incorrectly included as such by the department and were actually related to the drought relief initiative. According to the department, the system has since been updated. We will assess these updates in the new financial year.

While a needs analysis was performed, we could not determine if it was comprehensive enough to determine the capacity of the water tanks required per village, compared to the needs of the community. From our subsequent engagement with the department, it was indicated that, due to the lack of available tanks during lockdown, the needs of communities had to be reassessed.

Recommendations

Management of the department should investigate whether payments were made to provinces for instances where there was an inconsistent supply of water and where we could not verify some of the tanks to determine if the department received value for money for the funds spent.

Management of the department should reconcile the GIS register with the Rand Water inventory register and include unique identification numbers (provided either by the department or the municipalities) to ensure that the inventory list is complete and agrees with the assets installed.

Management of Rand Water and the department should implement proper record keeping for the water tanks to support accurate, complete and valid financial and performance reporting that agrees with the assets used and installed.

Management of the department should review and adjust the inventory register for errors identified on the GIS to ensure the list is complete and accurate. This will also help management to determine whether all tanks have been delivered and whether there are any potential losses in this regard.

To determine the reasons for the shortcomings we identified with the incomprehensive needs analysis, the NCC should investigate the reasons for poor access to water and address any deficiencies identified. This would include investigating whether payments were made to provinces where there was inconsistent supply of water and where the auditors could not verify some of the tanks. Controls were also not implemented to ensure that the contracts with the tankering service suppliers stipulate the quantities of water to be delivered to the tanks in line with the needs analysis and to enable management to measure the adequacy of the service delivery.

Auditees' response

Management disagreed with the finding for the following reasons:

- Responses from regions varied, but it was mainly indicated that the vastness of the areas that had to be serviced made servicing these areas challenging. The tankers could only do one trip instead of two or more, or water supply was the responsibility of the municipality and Rand Water only supplied and installed the tanks. Some responses indicated that tanks are filled daily and are monitored by the municipality; however, in certain areas, the demand has increased exponentially and, according to the municipal official who was responsible for monitoring tankers, there have been reports of tanks being emptied overnight (water is 'stolen'). In some instances, it was indicated that the local municipality reallocated tank positions and, therefore, additional tank stands were constructed. These stands did not receive tanks, but management indicated that all tanks were delivered and accounted for.
- These tanks are not connected to a mainstream pipeline but are filled by the tankers on a schedule that may be servicing multiple areas or villages in one municipality. The delivery sheets or log sheets are signed off each day to show that water has been provided to the relevant municipality, which encompasses the many villages. Payment would not be made if these sheets, which are used as verification of service delivery, were not signed off. By signing off of the log sheets, the municipalities indicated that they played a critical role in ensuring service delivery.
- Rand Water indicated that it did not do one-to-one mapping to confirm the tanks, and confirmed that the total number of tanks delivered per area agrees with what is in the Rand Water inventory list per area.
- Rand Water also indicated that these assets were not owned by Rand Water but by the department, and would ultimately be transferred to the municipalities. It would have been premature for Rand Water to tag these tanks as it is up to the municipalities to tag them because each municipality would have its own numbering system. It would be too much of an administrative burden if Rand Water had used its own naming convention only for the municipalities to replace the tag with their own. This would have amounted to wasteful expenditure.
- The internal audit unit also undertook a verification audit of 1 664 tanks from 26 August 2020. The reporting of this audit was still in draft at the date of this report.

Auditors' response

We acknowledge management's responses and we are awaiting the final inventory list on which management had addressed all the shortcomings identified to ensure that installed tanks agree with the inventory list in all instances and that monitoring of water is taking place.

The Disaster Management Plan states that Rand Water will be responsible for providing water, including secondary activities in alignment to its core business. This suggests that Rand Water was responsible for ensuring provision of water as per the needs identified.

Provision of water was also the responsibility of the municipality as per the *Government Gazette* No. 43231 of 15 April 2020.

We physically identified that sufficient preventative controls at all spheres of government forming part of this initiative were not evident in all instances.

The implementation protocol agreement signed indicates that Rand Water, as the appointed implementing agent on behalf of the department, will lead and convene the NCC, and will do all things necessary to ensure that the mandate of the department is executed in terms of providing water and sanitation services throughout South Africa.

2. Deficiencies with the inventory register

We identified deficiencies on the Rand Water inventory register, which made the identification and verification of these tanks very difficult. These deficiencies included:

- the GPS coordinates were not included on the list with regard to all tanks
- some of the linked GPS coordinates from Rand Water did not correspond to that of the original GIS inventory list received
- the capacity of tanks on the GIS did not correspond to the actual tanks on site. In Gauteng and North West, we also identified that tank capacity differed between the invoices and delivery notes (Rand Water inventory register)
- the inventory register submitted did not agree with the reported information in the NCC's financial reports, and indicated an under-reporting of 986 tanks as at 31 August 2020. These NCC financial reports were used to brief the executive authority on the progress made with the implementation of the project by the management of both Rand Water and the department.

This could have been prevented had management implemented controls to monitor the accuracy and completeness of the record keeping of the daily activities pertaining to water tanks.

Recommendations

Management of Rand Water and the department should ensure proper record keeping for the water tanks to support accurate, complete and valid financial and performance reporting that agrees with the assets used on the ground.

Management of the department should review and adjust the inventory register so that it properly differentiates between tanks purchased for covid-19, those purchased and installed for drought relief, and those that are part of other normal water provision initiatives.

Current incorrect classification of tanks purchased and other errors identified on the GIS should be amended to ensure a complete and accurate list to support performance of the current initiative. This will also help management to determine whether all tanks have been delivered and whether there are any potential losses in this regard.

Auditees' response

Rand Water disagreed with the finding and indicated that the process of verifying tank installations and the associated coordinates is ongoing, and that the finance report was lagging behind the operations report and has been subsequently aligned accordingly.

The department has always been in charge of the primary repository for GPS coordinates that the auditors used to obtain the coordinates for site verification. The inventory list that Rand Water kept was primarily a financial and project progress reporting list, which is the initial submission that was made to the auditors and which the auditors rejected. The location information Rand Water supplied in the initial submission was at district and municipal level and gave an indication of the number of tanks that had been delivered and signed for by the municipalities and the department. After the auditors rejected this submission, Rand Water undertook to provide the best available information of location data.

Without any set requirements for an inventory list, Rand Water generated a list that was suited to record tank data.

Management maintains that proper record keeping was done throughout this project. The finance report was lagging behind the operations inventory report. This timing mismatch is to be expected based on the nature of the two reports. The financial exposure report reflects payment made for all commodities, while the inventory list captures information upon receipt of documentary evidence of receipt of service. It stands to reason that the financial report would have to be updated after the inventory list as there is a time lapse between the processes of receipt of goods and services and payment.

Auditors' response

We acknowledge management's responses and we are awaiting the final inventory list on which it has addressed all the shortcomings identified to ensure that installed tanks agree with the inventory list in all instances and water delivery is being monitored.

The implementation protocol agreement states that the implementing agent must keep proper records according to the department's ordinary business practice. The inventory register should have been updated as payments were made to service providers and when verification was done for purposes of payments and receiving of goods (detailing the barcodes, descriptions, etc.). As this process is still ongoing, we could not determine when it would be finalised.

3. Weakness identified in the quality installation of water tanks

We identified the following in relation to the quality of the tank installations:

- Rand Water was required to ensure that the services and goods to be procured were adequate and complied with the specifications of the implementation protocol agreement. However, based on our physical verification, some of the water tanks verified were not installed appropriately in Gauteng, North West, the Northern Cape, the Western Cape and Mpumalanga.
- The installation was also inconsistent, as some of the water tanks had no vertical support, which was a safety and security risk. In addition, it is unclear whether there was adequate monitoring during installation to ensure that the specifications were adhered to.

Examples of the lack of vertical support

Gauteng: City of Johannesburg - Freedom Charter Square

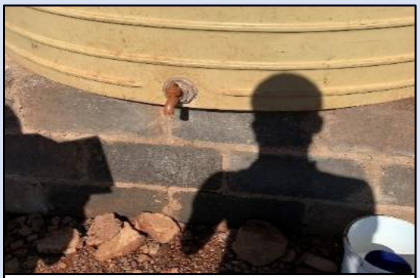
North West: Bojanala - Mothutlung

Western Cape: Nkqubela Informal Settlement

Examples of quality deficiencies

Gauteng: Boitumelo (no concrete slab)

North West: Bojanala - Letlhabile G (cracked platform)



Northern Cape: Postmasburg (leaking tap)

Recommendations

Management of the department should ensure that an effective process is in place to confirm and verify the adequacy of the services agreed to per the service-level agreements before payments are made. A process should be put in place to identify and correct deficiencies at no additional cost to the department.

Auditees' response

Rand Water partially agreed to the finding and indicated that because of the emergency nature of the project, quality such as the lack of vertical support, are not unexpected but are being addressed. Rand Water, together with the department and municipalities, monitored performance of service providers, and the Rand Water project team also conducted site visits.

Some vandalism or theft was expected and has occurred for the tanks deployed by the NCC. In terms of clause 6, sub-clause 2 of the water and sanitation emergency procurement covid-19 disaster response directions issued by the minister of Water and Sanitation, water services authorities were given the mandate to provide adequate security for the tanks and tankers against vandalism and theft, and to provide human resources for the monitoring of the continued availability of water in the water tanks and tankers. If any of this was not done, it must be reported to the director-general of the department in writing within 48 hours.

Rand Water will use the contractual recourse that it is entitled to in terms of the contract to ensure the contractors rectify defective work at the stands at their own cost.

There are no implications to this slight overhang, as the centre of the mass of the tank is within the footprint of the base.

Service providers were paid based on the size of the tanks supplied and the appropriate stand size to match. Tanks were received and signed for by the municipality and/or department, which gave assurance of work done or services delivered.

Rand Water is mindful of the legislative requirement that it has to ensure it always has capacity to perform its primary function in terms of section 30(1) of the Water Service Act. The minister was aware of this, hence the regulations and the implementation protocol agreement state that multiple entities will monitor performance. Rand Water executed its mandate in line with this.

The department provided oversight of the performance on the ground, which is evidenced by the delivery notes, log sheets and sign-offs.

The RFQ for stand installers contained the specifications. The auditors were provided with the payment packs containing supporting evidence for those contractors that have been paid, with proof that works were verified. The auditors were also informed of numerous instances where contractors were not paid when the work was found to be of poor quality.

Auditors' response

On the topic of monitoring and evaluation, the implementation protocol agreement between Rand Water and the department states that the implementing agent (Rand Water) must arrange and facilitate regular performance evaluation of each project according to the requirements specified by the department. Therefore, although Rand Water appointed service providers to monitor and evaluate, it is unclear how Rand Water, together with the department and respective water boards, had monitored that the services and goods installed were adequate and compliant with the specifications and deliverables before payment was made.

The contractual recourse is noted, but we were unable to determine whether all relevant parties had effectively monitored all deliverables, as we noted quality deficiencies and inconsistencies between installations.

4. Extensions of services made without prior approval

The implementation protocol agreement between the department and Rand Water allows for contracts to be extended subject to any additional budget being submitted to, and approved by, the department.

Rand Water's change management committee approved the extension of the period of water tankering services to a total amount of R198,61 million on 6 April 2020. However, the request for the additional funds for the extension of tankering services for the period of 90 days was made after the tankering services had been extended and it was only approved by the department on 14 May 2020.

National Treasury Instruction Note No. 5 of 2019-20, which came into effect on 29 April 2020, requires prior approval from the National Treasury for any extension above 25% of the original value. As the additional amount of R198,61 million constituted 392% of the initial contract values, prior approval from the National Treasury should have been obtained.

Recommendations

The department should disclose these transactions as irregular expenditure in the irregular expenditure register and the financial statements for 2020-21, and should initiate the process of consequence management.

Auditees' response

Rand Water disagreed with the finding and indicated that it held discussions with the department's representatives about additional funding on 31 March 2020 and shared an estimated budget for this purpose on 6 April 2020. It was concluded that all tankers would be extended by 90 days, as the additional budget had already been discussed with the department. Rand Water also relied on clause 8.1.7, (over-expenditure) in the implementation protocol agreement and its sub-clauses 8.1.7.1 to 8.1.7.4, which authorise Rand Water to commit its own funds while the department arranges for additional funds. (Rand Water advanced R50 million of its own funds to ensure that tankers could continue to operate in line with the approved extensions. Although the additional R200 million was approved in May 2020, the department only provided these funds on 27 August 2020.)

Therefore, Rand Water is of the opinion that the extensions are governed by National Treasury Instruction Note No. 8 of 2019-20 as the prevailing regulation at the time the variations were actioned, and Rand Water was legally empowered to make said extensions without National Treasury approval as it is not applicable to additional budget approval or variation, which is a matter between the principal (the department) and the implementing agent (Rand Water).

Rand Water and the department discussed and agreed on additional funding for the covid-19 projects to continue in view of the pandemic the country was (and still is) facing. The department had, at all material times, given Rand Water the approval to proceed with the funding available. Although the department concluded the administrative process at a later stage, this cannot be seen as the time of budget approval as the department agreed to extend the projects with the additional funding.

In addition to the above, the emergency circumstances prevailing at the time did not allow for rigid, formal (written) approval to be obtained within the times prescribed by the implementation protocol agreement.

Auditors' response

We have noted management's comments. However, Rand Water cannot rely on the clauses relating to over-expenditure in the implementation protocol agreement, as these extensions do not relate to expenditure incurred in excess of the pre-funded amount of R153 million stipulated in the agreement. The full budget for the initiative was advanced to Rand Water.

Therefore, Rand Water should have applied for these extensions in accordance with National Treasury Instruction Note No. 5 of 2020-21 after the department obtained formal confirmation for additional funding to expand the services of tankers for 90 days.

5. Suppliers were awarded work with non-compliance tax status

Six suppliers appointed by Rand Water to supply tanks or water tankers were not tax compliant at the date they were appointed. This non-compliance resulted in irregular expenditure of R17,72 million.

Recommendations

Rand Water needs to assess the control deficiencies that permitted the non-compliance and to strengthen the key controls in this regard. It should also strengthen processes and controls over the review and evaluation of RFQ documentation as part of the proposal evaluation process to ensure that there is compliance at the time of appointment.

Auditees' response

Rand Water disagreed with the finding and indicated that the situation warranted emergency procurement and that it is important to draw from the National Treasury's 2004 supply chain management guide for accounting officers/authorities what is intended with acquisition processes. The National Treasury categorised various acquisition processes in section 4.7 of the guide, which refers to the following three acquisition processes:

- Price quotations (section 4.7.4 and acquisition procedures for price quotations flowchart) (used when a minimum of three quotations should be obtained for transactions within a particular threshold)
- Competitive bidding (section 4.7.4 and acquisition procedures for price quotations and competitive bidding flowchart) (used when the price quotations threshold is exceeded)
- Urgent and emergency cases.

For acquisition processes other than price quotations and competitive bidding, the National Treasury used similar phrasing when addressing various matters in further instruction notes that were published after the supply chain management guide. So, when the terms 'price quotations' and 'competitive bidding' are used, they must be read in accordance with the understanding provided in the supply chain management guide, that they are two of various other acquisition processes.

National Treasure Instruction Note No. 9 of 2017-18, as applicable to 'price quotations' and 'competitive bidding', states that when a supplier is not tax compliant, the supplier must be given seven working days to remedy their tax matters. This is done when there is sufficient time to procure, meaning not in an emergency procurement process (National Treasury Instruction Note No. 3 of 2020-21). National Treasure Instruction Note No. 9 of 2017-18 intentionally omits any other acquisition process, including emergency procurement, and therefore this finding is not applicable in this instance.

Management therefore disagreed that there was non-compliance with procurement laws on the tax compliance matter, as the acquisition process used (emergency procurement) is not governed by National Treasury Instruction Note No. 9 of 2017-18.

Auditors' response

Guidance and national instruction notes clearly state that inviting competitive bids can only be deviated from in emergency cases and the entity then applies an acquisition process of going through a quotation process for emergency procurement. This does not imply that when going through an emergency process (deviation), a different acquisition process is used and that all compliance matters pertaining to procurement can be set aside. Therefore, National Treasury Instruction Note No. 9 of 2017-18 still applies, even when deviating from the bidding procurement process.

CONCLUSION

During the audit process and physical verification of the tanks, we found sites with no tanks and tanks without water, which indicates that the planned achievements of this initiative to supply water to communities in need may not have been met in all instances, as intended by the department. From our observation, the NCC may not have adequately coordinated and implemented measures to respond effectively to the covid-19 outbreak.

We could not validate whether the department effectively monitored all tanks purchased and delivered and could not determine the accuracy and completeness of the tanks purchased and delivered by Rand Water. Together with the related control weaknesses reported, this indicates that the reporting of achievement of the initiative may be inaccurate and unreliable.

Non-compliance with supply chain prescripts resulted in irregular expenditure for the department.

The accounting officer of the department is fully aware of all matters that formed part of these reports.

PROCUREMENT AND DISTRIBUTION OF SANITATION PACKS (HYGIENE CAMPAIGN)

The department procured and provided sanitation products to rural communities and departmental staff, as part of a hygiene campaign. These sanitation packs were distributed to several municipalities and communities.

KEY AUDIT FINDING AND OBSERVATIONS

6. Poor-quality face masks received and paid for

The department had intentionally not distributed 500 of the face masks as part of the sanitation packs purchased (5% of the number distributed from Rand Water to the department). Upon inquiry, we noted these face masks were not of the required standard ordered as they were perforated (see picture) and would not serve the required purpose. We could not confirm whether the supplier was contacted, whether these substandard face masks were returned to the supplier or whether Rand Water had asked the supplier for a refund.

Poor-quality face masks

Perforated face masks in sanitation pack

Recommendations

The department should determine the full value and number of substandard face masks received and request that the supplier replace the face masks with the correct quality three-ply face masks or refund the money. If this is not done, it should be disclosed as fruitless and wasteful expenditure, and consequence management should be instituted.

Auditees' response

The department agreed to the finding and indicated that it had established a working committee, together with Rand Water, to urgently address this matter.

OVERALL CONCLUSION

Our overall observation was that the department's implementation of this initiative lacked some key planning elements, such as a detailed inventory list linked to the needs analysis, which affected the successful implementation. Despite the initial engagements between officials from the department and Rand Water for the establishment of the National Water Disaster Command Centre aimed at ensuring effective implementation, governance, monitoring and reporting of the project, certain shortcomings were reported. However, we noted that management has implemented some improvements during the course of the audit after the first special report.

It was indicated that a thorough needs analysis had been conducted that informed the delivery of tanks. However, we identified some significant shortcomings in this needs analysis process. Upon inquiry, we were not provided with a verified list of tanks that supports the original needs analysis so that we could confirm if the intended communities received water as planned. We also found it difficult to determine if effective monitoring and oversight of this initiative were conducted between the different role players, and there was also a lack of coordination between the department and water service authorities (municipalities), which moved tanks without informing the department.

We were, therefore, unable to confirm whether the department had adequately engaged and monitored all the different role players, including Rand Water and the water service authorities, in the water value chain cycle. As a result, we could not confirm whether all the intended communities received continuous water supply, as intended.

Although a verification process of the tanks was being done by both internal audit units of the department and Rand Water to verify the internal controls implemented, management was still in the process of concluding on the complete and accurate inventory list, which is intended to be handed over to the water service authorities for future continuation of water supply and maintenance.

Our findings included above on the distribution of tanks and tankering services cast doubt on whether management had implemented sufficient preventative controls for this initiative. We further question whether management implemented and executed the required checks and balances to ensure that the department meets its planned delivery and installation of tanks and tankering services.

Except for the matter reported above regarding the sanitation packs, we did not identify any other material concerns regarding the procurement and delivery of the sanitation packs by Rand Water.

As some of these matters will affect the department's 2020-21 financial statements, the accounting officer will have to address these findings to ensure proper reporting on irregular expenditure and to prevent this from happening in future. Consequence management processes should also be initiated where applicable to ensure that the demobilisation process and sustainability of this project is effective to sustain water provisioning between the different role players.

OTHER INITIATIVES INCLUDED IN PREVIOUS REPORT

INTRODUCTION

This section provides a short update on the following five initiatives that were included in the first special report and have not been covered elsewhere in this report:

- Support to small businesses
- Compensation for occupationally incurred covid-19
- Loans through the Industrial Development Corporation
- Temporary residential units
- Support to municipalities

The update for each initiative includes the allocated budget and related expenditure as at 30 September 2020. It also includes information on the actions taken in response to the first special report and our plans for the further audit and reporting on the initiative.

SUPPORT TO SMALL BUSINESSES

Purpose of initiative

Support to qualifying small, medium and micro enterprises affected by covid-19

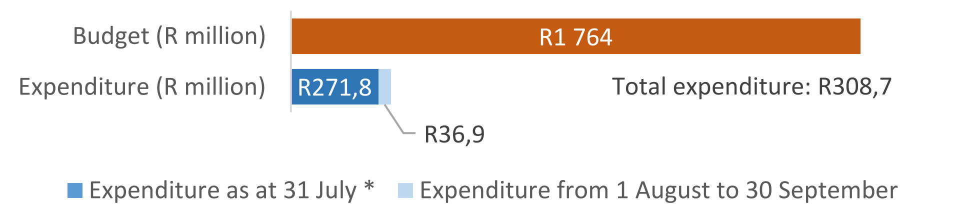
Auditees

- Department of Small Business Development
- Small Enterprise Finance Agency
- Small Enterprise Development Agency

Focus of our audit

- Debt relief finance scheme, spaza shop support programme and seven other planned initiatives
- Assessment of design and implementation of manual and system controls
- Testing of whether loans or support were provided to eligible beneficiaries

Budget and expenditure



** In the first special report, we reported expenditure of R151 million as at 30 June 2020*

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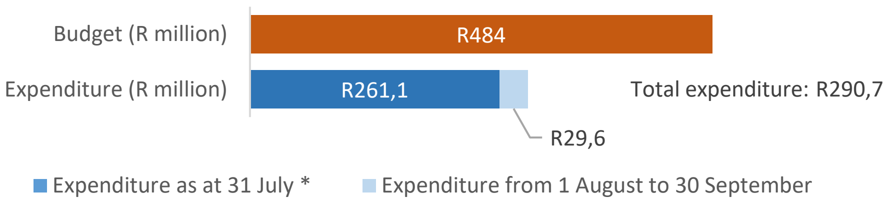
PREV

As initially planned, the debt relief finance scheme ran for a period of six months ending in September 2020. The budget and expenditure by 30 September 2020 are shown below.

Debt relief finance scheme



** In the first special report, we reported expenditure of R145 million as at 15 July 2020*

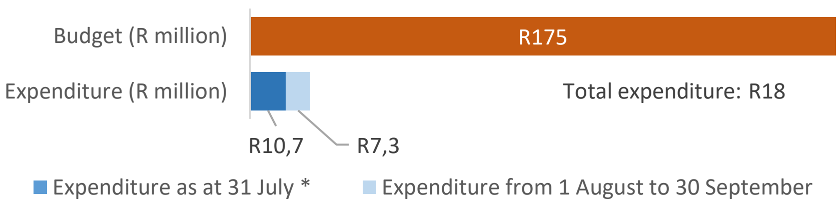
The disbursements increased from 715 applicants by 15 July 2020, as reported in the first special report, to 1 112 applicants by 30 September 2020.

In the first special report we did not report any concerns with this scheme and as a result no specific actions were required from the Department of Small Business Development.

After the debt relief finance scheme reached its objective and came to a close, the focus of the small business portfolio shifted to implementing its economic recovery initiatives, which were planned to roll out from August 2020. By 30 September 2020 all seven initiatives had been launched with an approved 2020-21 budget of R1 105 million. While no disbursements have yet been made, applications to the value of R22 million have been approved for disbursement across these initiatives. These seven initiatives focus primarily on post-lockdown recovery and growth. They are aligned to the ordinary business operations of the Small Enterprise Finance Agency (Sefa) and will be implemented over five years. As a result, the initiatives will be audited and reported on as part of the normal annual audit.

Spaza shop support programme

The spaza shop support programme was initiated in April 2020. We reported in the first special report, by 30 June 2020 the programme had received 5 001 applications and approved 1 697 of these. Sefa reported that the programme had received 9 122 applications by 30 September 2020. Of these, 5 011 were approved and had cards ordered. The budget and expenditure by 30 September 2020 are shown below.



** In the first special report, we reported expenditure of R6 million as at 30 June 2020*

In the first special report we reported weaknesses relating to the approval process. The director-general of the department committed to strengthening the approval process by implementing an online approval process and updating the operating procedures. While the revised online approval processes have since been implemented, the revision of the operating procedures has not yet been finalised.

We also noted in the report that the programme received significantly fewer applications than initially anticipated, and Sefa's chief executive officer committed to taking various actions to increase awareness of, and improve uptake for, the programme. The implemented actions included partnering with an additional major bank and, in collaboration with the bank, running various advertising campaigns to further increase the programme's exposure and accessibility. New wholesalers are added to the scheme as and when they agree to the terms and conditions applicable, some of these wholesalers have also promoted the scheme in the areas in which they operate.

We will continue to audit the approvals of applications and disbursements as part of our normal annual audit.

The portfolio committee has not engaged on the previous special report since it was tabled. However, as evident above, the accounting officers and authorities responded positively to the report and implemented the commitments made.

COMPENSATION FOR OCCUPATIONALLY INCURRED COVID-19

Purpose of initiative

Compensation for disability, illness and death resulting from occupational injuries and diseases due to covid-19

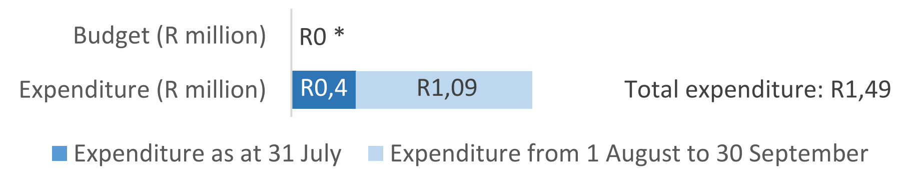
Auditee

Compensation Fund

Focus of our audit

Control environment, primarily around receiving and processing claims and testing application controls within CompEasy system

Budget and expenditure



** No specific funds allocated – expenditure for covid-19 will be funded as part of normal operating budget of R4,2 million.*

The Compensation Fund is continuing to process claims that meet the requirements of the Compensation for Occupational Injuries and Diseases Act and does not expect a significant increase in payouts. By 30 September 2020, the fund had received 413 claims and paid out 251.

The fund's leadership was receptive to the findings reported in the first special report, and made commitments to improve the control environment around claim adjudication and processing.

The commitment to improve the control environment around the automated controls of the SAP CompEasy system was partially implemented. The user access management policy for the SAP CompEasy claims system still has to be approved and adopted, and the processes are expected to be finalised in November 2020.

The fund has finalised implementation of the SAP CompEasy claims system governance, risk, and compliance (GRC) tool to manage user access and segregation of duties, and approved user acceptance testing (UAT) for the tool. However, it has not yet started implementing the SAP financial system GRC tool. Management has committed to implement the tool by March 2021. A system change was implemented to address the control weaknesses over processing of duplicate claims on the SAP CompEasy claim system, with the UAT being approved on 4 September 2020.

The commissioner made a commitment to ensure the provincial rapid adjudication panel does due diligence while evaluating the submitted claims before approval. The commissioner amended the terms of reference and communicated these to the panel of experts to ensure that the claims are evaluated in terms of the approved terms of reference and comply with the published criteria (No. CF/03/2020).

Although the fund is making progress in addressing the control weaknesses identified, the concern about the fund's overall control environment remains. We will continue to audit the compensation for occupationally incurred Covid-19 as part of our normal annual audit.

LOANS THROUGH THE INDUSTRIAL DEVELOPMENT CORPORATION

Purpose of initiative

Support to companies in distress due to covid-19

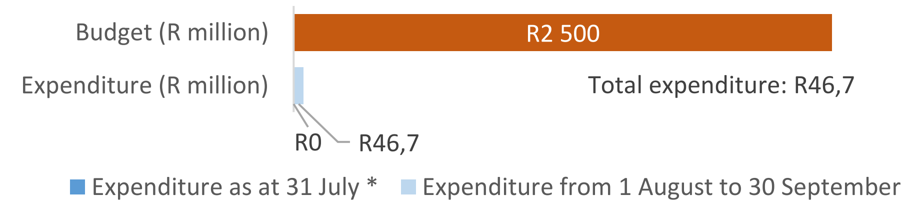
Auditee

Industrial Development Corporation

Focus of our audit

- Provision of funding to eligible companies in line with initiative objective
- Prevention from unduly benefitting from more than one support scheme
- Avoidance of conflicts of interest in awarding loans

Budget and expenditure



** In the first special report, we reported expenditure of R0 million as at 15 July 2020*

In the first special report, we raised concerns that the Industrial Development Corporation's (IDC) processes were not being performed with sufficient urgency and efficiency to approve loans in time to alleviate the financial distress of businesses that were negatively impacted by covid-19. We based these concerns on the fact that no applications had been approved by 15 July 2020 and thus there were no disbursements being processed from the allocated R2 500 million. In response to this, the IDC board, supported by the trade, industry and competition minister, committed to implement actions that would address the non-disbursement of the allocated funds and to revise the funding criteria to be more accessible to businesses within the IDC's mandate. As a result, on 7 September 2020, the IDC executive committee approved amendments to the original funding criteria.

The IDC has indicated that these changes have resulted in four approved applications amounting to R160 million, R47 million of which had been disbursed by 30 September 2020. We will continue to audit the reported approvals and disbursements as part of our normal annual audit.

The portfolio committee on trade and industry has not interacted on this matter since the tabling of our previous special report on 2 September 2020. Although only four transactions have been approved since our previous special report, we are encouraged by the IDC's response, which shows its intent to prioritise support and make available loans that will safeguard companies and jobs.

TEMPORARY RESIDENTIAL UNITS

Purpose of initiative

Provision of temporary residential units for resettlement of overcrowded settlements

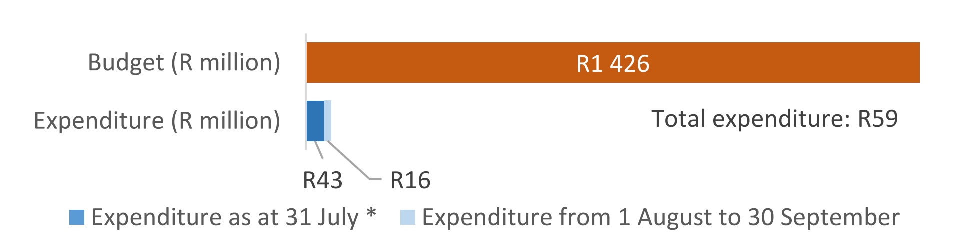
Auditees

- Department of Human Settlements
- Provincial departments of human settlements
- Local government – metros and local municipalities
- Housing Development Agency

Focus of our audit

- Procurement of goods and services
- Development of temporary residential units in line with approved unit price and at right quality
- Allocation of units to appropriate beneficiaries

Budget and expenditure



** In the first special report, we reported expenditure of R43 million as at 30 June 2020*

The temporary residential units initiative includes R554 million funded through urban settlement development grant provided as part of the support to municipalities/repurposed grants to municipalities.

In the first special report, we reported a lack of progress on this initiative as none of the temporary residential unit (TRU) projects that had been selected for audit had been completed by the planned date of 30 June 2020. We noted that this was because of weaknesses in the monitoring processes and ineffective coordination by the human settlements command centre, which was established to ensure swift cooperation across the three spheres of government (national, provincial and local) in response to the pandemic. The sector could not provide project-specific covid-19-related budgets and expenditure. We were unable to confirm the reliability of the expenditure information the sector did provide, as the information we received from the three spheres of government did not reconcile. In response to this, the accounting officer of the Department of Human Settlements committed to collaborate with the National Treasury to improve the credibility of the sector's expenditure and, where applicable, to ensure that it is aligned to the metros' direct submissions to the National Treasury. However, there is no evidence that this commitment was implemented, as the sector could still not provide credible expenditure across the three spheres of government.

The accounting officer also committed to investigate the details of the project approval and costing. The accounting officer has indicated that the department has since reviewed awards for the construction of TRUs for possible procurement-related irregularities and has directed the National Home Builders Registration Council (NHBRC) to undertake quality and compliance assessments of the TRUs. The committee of the minister and the members of the executive council (MinMec) has also directed the accounting officers in both provinces and metros to immediately take the necessary steps to ensure that the continuing TRU projects comply with minimum norms and standards as set out in the housing code. The accounting officers have also been tasked with ensuring the departments derive value for money from current contracts with service providers, and instituting accountability and consequence management measures against those who have been found to have transgressed. MinMec also directed the accounting officers for the provincial departments of human settlements and the metros to consult with the NHBRC on specifications for TRU bids going forward.

As we reported in the first special report, there were 95 re-blocking projects identified for reprioritising in response to covid-19 risks.

We have been advised by the accounting officer of the national department that, due to the lack of progress in the initiative and the reduction in new covid-19 infections, the sector is no longer implementing TRU projects as a response to covid-19 emergencies. However, the implementation is continuing as part of the sector's normal upgrading of informal settlements programme. Furthermore, since we were not able to audit budget and expenditure information, it is evident that we would not have been able to specifically audit this initiative without the commitment relating to the credibility of the expenditure being implemented.

The covid-19 audit is meant to focus on covid-19-specific initiatives; therefore, any remaining residual risks that were identified in the first special report, such as non-compliance with procurement regulations, poor quality of TRUs, incorrect pricing and incorrect allocation of TRUs, will be audited and reported on as part of our normal annual audits.

SUPPORT TO MUNICIPALITIES

Purpose of initiative

Funding to municipalities for emergency water supply, sanitation, food and shelter for the homeless, basic services for indigents and community services

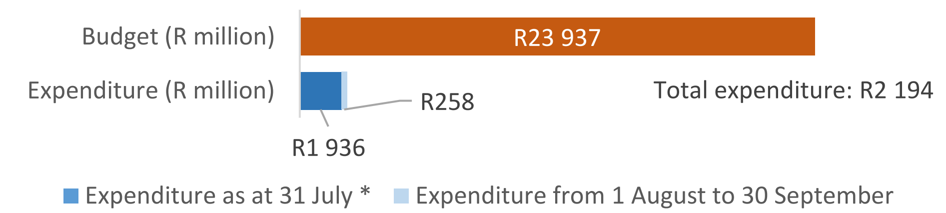
Auditee

Local government (metros, district municipalities and local municipalities)

Focus of our audit

Covid-19 municipal relief funding

Budget and expenditure



** In the first special report, we reported expenditure of R1 675 million as at 30 June 2020*

In the first special report, we reported on the funding made available to municipalities to support covid-19 relief efforts. We also shared information on the circular the National Treasury issued to municipalities on the need for controls to be implemented or strengthened to address the risk of fraud or abuse of the funds. According to the National Treasury, the municipal managers, internal auditors and government structures at the municipalities are responsible for monitoring compliance with the circular, as required by the MFMA.

Below is an update on the funding and expenditure of municipalities by 30 September 2020.

2019-20 and 2020-21 allocations and spending

Purpose of allocation	Budget (R million)	Funds expensed* (R million)	Remaining funds (R million)
Support to municipalities as included in R500 billion relief package			
Equitable share: for municipalities to provide basic services to additional households who lost their source of income and became indigent due to the covid-19 pandemic	11 000 (National Treasury plans the transfers for December 2020)	0	11 000 (100%)
Conditional grants: for municipalities to provide an emergency water supply, increase	9 034	156 (1,7%)	8 878 (98,3%)

Purpose of allocation	Budget (R million)	Funds expensed* (R million)	Remaining funds (R million)
sanitation of public transport and facilities, and provide food and shelter for the homeless	(R2 334 million was transferred by 30 September)		
Repurposed grants to municipalities			
Grants to municipalities prioritised for various covid-19-related initiatives	3 752	1 899 (51%)	1 853 (49%)
Municipal disaster relief fund released for various covid-19-related initiatives	151	139 (92%)	12 (8%)
Totals	**23 937**	**2 194 (9%)**	**21 743 (91%)**

**The expenditure excludes seven municipalities for which we could not obtain information because management did not respond to our request for information.*

We also reported that we were preparing for audit work on these funds to begin when the audit teams start their local government audit engagements. We have now selected the 43 municipalities where we will audit the funds as part of this real-time covid-19 audit, based on the extent of the funding received and the risk profile of the municipalities. We will audit the remaining 214 municipalities' use of the funds as part of the 2019-20 and 2020-21 normal annual audits.

We identified the key risks related to the use of the funds and developed audit procedures to:

- test whether the selected municipalities implemented preventative controls to address the risks and
- to determine whether the money provided was used for its intended purpose and in compliance with the relevant legislation.

We commenced with the audits in November 2020 and will report on the outcome in future special reports.

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RP431/2020 ISBN: 978-0-621-49013-8