

# FIRST SPECIAL REPORT

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



AUDITOR - GENERAL  
SOUTH AFRICA



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## NOTES

## ACRONYMS AND ABBREVIATIONS

CAATs	computer-assisted audit techniques
CHWs	community health workers
CIPC	Companies and Intellectual Property Commission
CMRF	Covid-19 municipal relief funding
DBE	Department of Basic Education
DBSA	Development Bank of Southern Africa
DPWI	Department of Public Works and Infrastructure
DSBD	Department of Small Business Development
DSD	Department of Social Development
EPWP	expanded public works programme
GIS	Geographic Information System
HSCC	human settlements command centre
IDC	Industrial Development Corporation
IDT	Independent Development Trust
MCEP	manufacturing competitiveness enhancement programme
MECs	members of the executive council
MinMec	committee of the minister and the members of the executive council
NDoH / DoH	(national) Department of Health
NDWCC	national disaster water command centre
NHLS	National Health Laboratory Service
NPOs	non-profit organisations
NSFAS	national student financial aid scheme
PMTE	Property Management Trading Entity
PPE	personal protective equipment
RFQ	request for quotation

## ACRONYMS AND ABBREVIATIONS

SANDF	South African National Defence Force
Sars	South African Revenue Service
Sassa	South African Social Security Agency
Seda	Small Enterprise Development Agency
Sefa	Small Enterprise Finance Agency
Seta	Sector Education and Training Authority
Sita	State Information Technology Agency
SMMEs	small, medium and micro enterprises
Socpen	Social Pension System
SRD	social relief of distress
SSSP	spaza shops support programme
TERS	temporary employee/employer relief scheme
TRUs	temporary residential units
UIF	Unemployment Insurance Fund

## EXECUTIVE SUMMARY

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. The fiscal relief package is funded by reprioritising the 2020-21 budgets and by securing loans.

Emergency responses and quick actions are required to save lives and livelihoods, but the easing of controls and the streamlining of processes and procedures to respond to crises expose the government to the risks of the misuse or abuse of public resources. The multibillion rand relief package was introduced into a compromised control environment. We have been reporting on and warning about poor financial management controls, a disregard for supply chain management legislation, an inability to effectively manage projects and a lack of accountability in many of the government sectors that now need to lead or support government's efforts.

With the support of the President, we have undertaken a real-time audit of 16 of the key Covid-19 initiatives introduced by government and the management of R147,41 billion of the funds made available. This audit is unique in its approach. We started off by highlighting the importance of preventative controls to accounting officers and authorities to address the increased risks and significant changes in their operations, as such controls are by their nature a deterrent to abuse. We are auditing payments, procurement and delivery as they occur and are reporting any findings to the accounting officer or authority to enable them to deal with any shortcomings immediately and tighten the controls to prevent a recurrence. The Covid-19 audit is performed by multidisciplinary teams, made up of fraud, information technology and sector-specific experts, who support the financial auditors to dig deeper and provide relevant insights on auditees' risks and operations.

We are also reporting differently by regularly reporting on the outcome of our real-time audit to the oversight structures through special reports – this being the first such report.

Access to documentation, systems and government officials was limited in the lockdown period, which caused significant delays in our audit. We still have lots of work to do on some of the initiatives that have been slow to get off the ground or where our efforts have been hindered by limitations. However, we have progressed to a point where we can report on our first set of findings. Our second Covid-19 report is planned for November 2020.

The initiatives we focused on cover three broad categories: the payment of benefits and grants to relieve economic and social distress; the procurement of personal protective equipment; and the frontline initiatives to protect against and manage the impact of Covid-19. We found across all of these categories that the rapid implementation of the initiatives in already compromised control environments created significant risks that most auditees were not able to address. Processes, criteria, needs and controls were not well considered and in the haste of implementation, mistakes were made and opportunities created for abuse.

The information technology systems used in government were not agile enough to respond to the changes required. The lack of validation, integration and sharing of data across government platforms resulted in people (including government officials) receiving benefits and grants they were not entitled to and applicants being unfairly rejected as a result of outdated information.

The pre-existing deficiencies in the supply chain processes of government were amplified by the introduction of the emergency procurement processes allowed for personal protective equipment. Based on what we have audited to date, there are clear signs of overpricing, unfair processes, potential fraud as well as supply chain management legislation being sidestepped. In addition, delays in the delivery of personal protective equipment and quality concerns could have been avoided through better planning and management of suppliers.

Poor record keeping is a common feature across many of the initiatives, which means that auditees do not always have updated or reliable information on the goods and services delivered and the implementation of initiatives, which also made it difficult for us to audit these matters.

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Large amounts were allocated to fund important frontline work and projects, but some initiatives were slow to get off the ground. The pre-existing inability to coordinate and oversee efforts where multiple departments, agencies and spheres of government are involved, continues to plague these projects.

We are concerned about the increased indicators of potential fraud and abuse we observed – not only in the areas that we were able to audit but also where information for auditing was not forthcoming, which could be a deliberate tactic to frustrate our audit efforts. This report can serve as a guide of the main areas of risk to be focused on by the agencies that have been tasked by the President to investigate allegations and indicators of abuse of the Covid-19 funds.

In this regard we are collaborating with the newly established fusion centre that deals with investigations into fraud and corruption relating to Covid-19, through sharing our findings and data analyses with them. The centre includes the Special Investigating Unit, Directorate for Priority Crime Investigation (Hawks) and Financial Intelligence Centre. We have also been liaising with the Competition Commission and the Public Protector by sharing information for their further investigation.

Accounting officers and authorities have been supportive of the audit. Most were appreciative of the matters we reported to them and committed to specific actions to prevent any recurrence and deal appropriately with what has already transpired. However, some disagreed with our findings and others required more time to consider the actions they needed to take. We will report on the steps they took and whether it had a positive impact on the continuing implementation of the initiatives in our next special report.

We have also engaged with executive authorities to ensure that they are aware of the status of the Covid-19 initiatives for which they are responsible and any risks and concerns they should pay attention to.

We call on oversight structures to use this report to direct their oversight actions and call accounting officers and authorities as well as executive authorities to account for the implementation of the Covid-19 initiatives and the management of the funds entrusted to them. This report should become the baseline for oversight's interrogation of how the multibillion rand made available for the Covid-19 response was used. Our upcoming reports will also be a useful tool to monitor whether the control weaknesses that open up the funds to abuse are being closed and whether instances where abuse had already happened, were appropriately dealt with.

We also urge all role players to heed our call for a shift in thinking towards prevention. Designing and implementing controls that prevent fraud, errors and abuse is an investment that pays off when an institution is called upon to deal with a crisis as we are now experiencing. It is by far a better approach than having to deal with lengthy and costly investigations and a loss of resources and public confidence.



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

  
Kimi Makwetu  
Auditor-General



## INTRODUCTION TO THE COVID-19 AUDIT AND SUMMARY OF FINDINGS

With the outbreak of Covid-19, the world is facing an unprecedented economic and health crisis. South Africa is no exception – having to deal with a pandemic for the first time in 100 years required an extraordinary response. Government reacted swiftly to protect the health of citizens and limit the consequences of the drastic measures that had to be taken to respond to the outbreak of the virus.

### GOVERNMENT FUNDING AND PROCUREMENT RESPONSE

The President announced a **R500 billion fiscal support package** in April 2020 to redirect resources to fund the health response to Covid-19; provide direct support to households and individuals for the relief of hunger and social distress through increases in social grants; and provide assistance to companies in distress and protect jobs by supporting workers' wages.

When announced, the R500 billion package described in broad terms the initiatives and earmarked funds of government. At that stage, R310 billion in funding was available for tax relief, the credit guarantee scheme and wage protection, but the remaining R190 billion of the package required appropriation through a supplementary budget process. On 24 June 2020, the finance minister tabled the **first supplementary budget to the value of R145 billion**. The remaining R45 billion will be phased in through upcoming budget announcements. Given the urgency of the Covid-19 response, the spending on Covid-19 initiatives by government departments, public entities and municipalities began before the approval of the supplementary budget.

The fiscal relief package is **funded through the reprioritisation of the 2020–21 budget and by loans from funders**, including the African Development Bank, the New Development Bank and the International Monetary Fund. The funds provided through these loans do not mean that additional funds are made available for initiatives – the borrowed funds are to finance the portion of the announced fiscal package that cannot be funded through the reprioritisation of budgets.

**Additional initiatives, not included in the R500 billion fiscal support package, were also undertaken** across all spheres of government to support government's overall objectives. These initiatives are funded mostly through reprioritising budgets and grants.

The table at the end of this section provides information on some of the initiatives funded by the R500 billion fiscal support package and other sources of funding as well as the spending on these initiatives up to 31 July 2020.

The need for **emergency procurement processes** for personal protective equipment and other Covid-19-related items was evident from the outbreak of the virus. The National Treasury responded by providing instructions on how such procurement should be administered to ensure fairness and value for money. Three instruction notes were issued – each one repealing the previous instruction as the procurement processes continued to be amended. The last instruction note was issued on 28 April 2020 but an erratum and two further amendments to the instruction were issued up to 3 July 2020. On 5 August 2020, the finance minister announced the intention to amend the instruction for emergency procurement processes again to safeguard these processes against abuse. Based on the audit work performed to date, we found no evidence that adherence to the new provisions in the instruction note had been monitored diligently.

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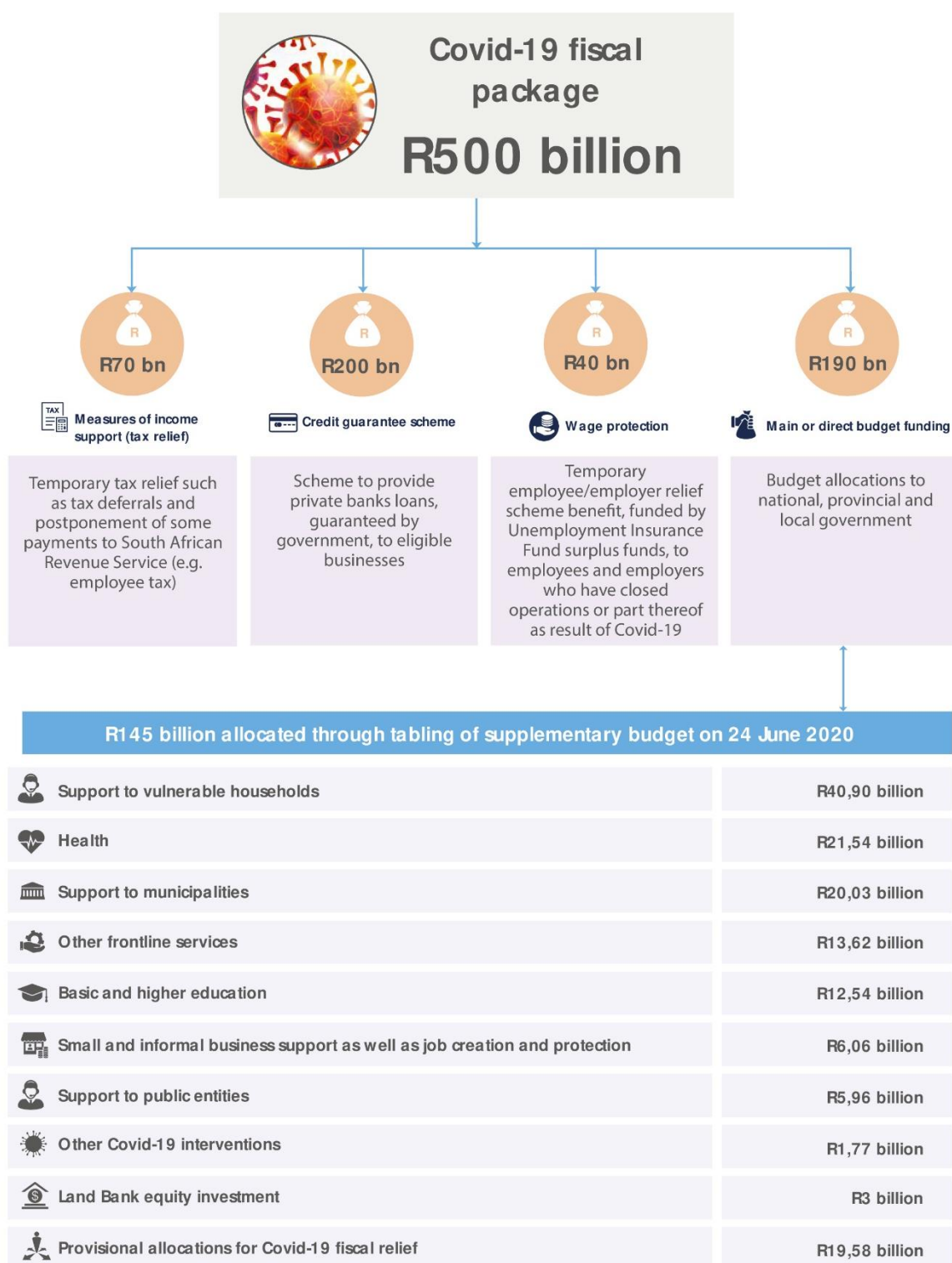
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## COMPOSITION OF THE R500 BILLION RELIEF PACKAGE



## THE ROLE OF THE AUDITOR-GENERAL OF SOUTH AFRICA

In times of crises, the agility and robustness of public finance management systems are truly tested. Experience both internationally and locally shows that these types of circumstances create **opportunities for integrity violations** – most notably fraud and corruption – which could seriously weaken the effectiveness of government actions. The easing or refocusing of controls and the streamlining of processes and procedures to respond to the crises may unintentionally expose the government to the **risk of public resources being misused or abused**.

We have been reporting on and warning about **poor financial management controls and systems** in many of the government sectors that now need to lead or support government efforts. Our audits have also shown that sectors such as local government, health and water not only struggle with managing finances but are plagued by non-delivery, fraud, a lack of accountability and the inability to effectively manage key projects and programmes. Increased demand on the already compromised and strained information technology systems and delivery processes of auditees at the frontline of government's response is a further cause for concern.

With the support of the President, we have undertaken a **comprehensive, multifaceted and risk-based audit of the key initiatives** introduced by government and the management of the multibillion rand in funds made available. Our objective with this Covid-19 audit is to promote accountability and transparency for the spending of the funds.

## THE COVID-19 AUDIT APPROACH

Given the substantial funding made available to respond to the Covid-19 pandemic, the pace of government's response and the risk of mismanagement and corruption, we are following a **different approach** in performing the Covid-19 audit than our normal annual audits. We are auditing the Covid-19 initiatives and spending as these occur through a **real-time audit approach**.

This report carries insight into the expenditure for the period up to 31 July 2020. It was made possible by integrating forensic auditors, information system auditors, data analysts, performance auditors and financial auditors in a coordinated effort.

We started engagements with the accounting officers and authorities as well as different levels of management as early as possible in our audit to highlight the importance of prevention, as preventative controls are by their nature a deterrent to abuse. We advised upfront that accounting officers and authorities should implement or strengthen existing preventative controls to address the increased risks and significant changes in their operations. We talked to them about the importance of ensuring that sufficient review, approval and monitoring controls are in place to mitigate the risks posed by implementing emergency procurement and distribution processes in an environment where segregation of duties and supervisory controls have been severely affected by the lockdown.

We also reminded them of the importance of building checks and balances into the processes used to determine the eligibility of a person or party for social and economic relief funds and the payment of those funds. In particular, we highlighted the importance of checks between the different information technology systems in government to ensure that a person or party does not receive money from more than one relief fund (so-called double dipping) or does not receive such funding if they are employed. It is difficult to quantify the impact of our awareness initiatives and what could have been the effect if we had not done this, but we trust that it did play a positive role in highlighting the importance of preventative controls.

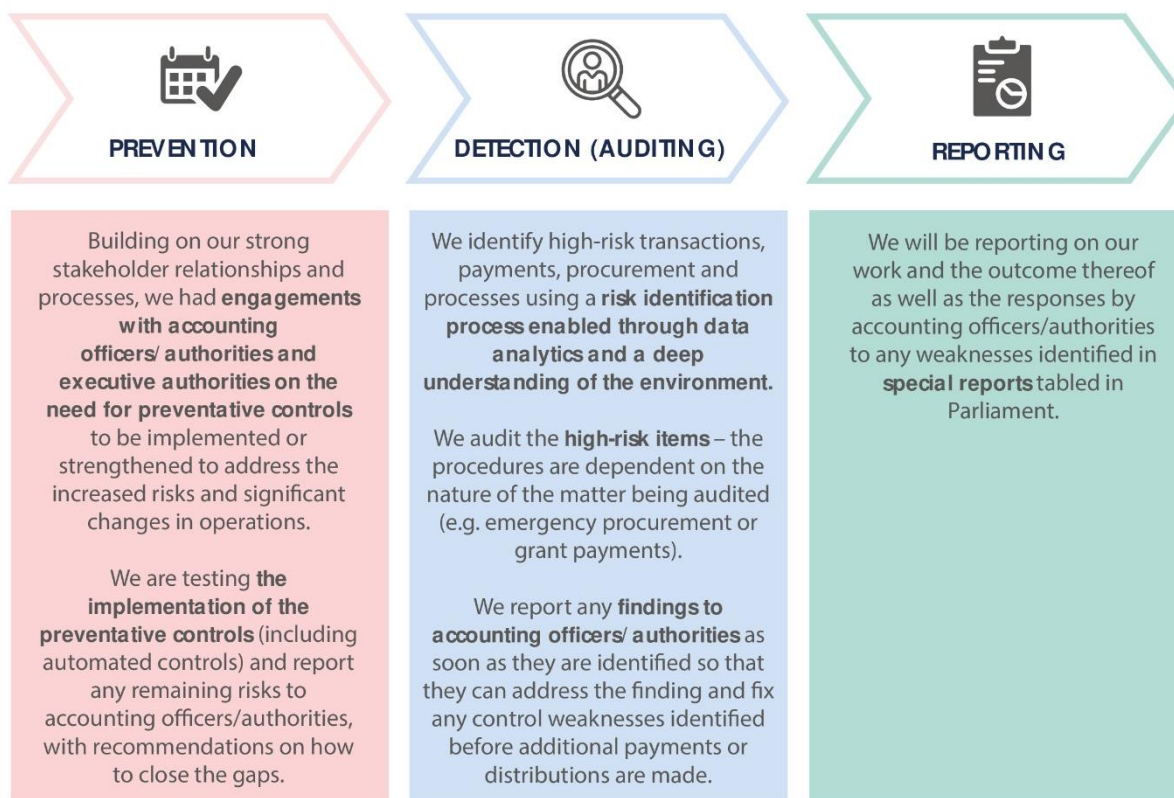
Raising awareness through engagements was an important element of the audit approach, but we also needed to get on the ground and test the strength of controls in real time.

This means that we are auditing things like payments, procurement and delivery as they occur and report any findings to the accounting officer or authority without delay. This will then enable them to deal with any shortcomings immediately and

tighten the controls to prevent a recurrence. We further test the strength of auditees' controls to prevent and detect fraud, errors, wastage and non-compliance to alert accounting officers and authorities of gaps that need to be addressed.

We are also **reporting differently** by regularly reporting on the outcome of our real-time audits to oversight through **special reports** – this being the first such report.

Below we show the **three components of our real-time audits**:



The Covid-19 audit is performed by **multidisciplinary teams**, made up of fraud, information technology and sector-specific experts, who support the financial auditors to dig deeper and provide relevant insights on auditees' risks and operations. These experts include the following:

- Supply chain audit specialists to analyse payments to suppliers delivering Covid-19-related goods and services and evaluate specific high-risk contracts.
- Fraud experts to assess the adequacy of auditees' control environment and the effectiveness of their fraud risk responses.
- Data and fraud data specialists to interrogate grant applications and payment data by identifying patterns and trends that elevate areas of concerns.
- Information technology professionals to assess whether application systems used by auditees to process grant applications and payments can be relied upon or not.
- Cybersecurity specialists to assess the vulnerability of auditees' information technology environments to cyberattacks and cybercrime.
- Health professionals to unpack risks and challenges around the delivery of personal protective equipment and ventilators as well as the construction of quarantine sites and temporary health facilities.

This approach is helping us to comprehensively address the following elements of our audit:

- Most **disbursements to beneficiaries** are made through automated processes and are dependent on complete and validated databases of beneficiaries. We use information technology auditors to test the robustness of the controls built into the systems and databases. We also make extensive use of data analysts to interrogate the beneficiary and payment data with a strong forensic focus. By comparing different databases, these analysts can identify various discrepancies, such as invalid payments, potential fraudulent payments and double dipping for further investigation.
- Auditing **procurement processes** is a key element of our approach – specifically for personal protective equipment and other Covid-19-related goods and services. Our financial auditors are supported by fraud experts and supply chain management specialists to deal with the increased risks and complexities presented by the emergency procurement processes.
- **Poor-quality** personal protective equipment, medical supplies, food and construction do not only jeopardise the success of the Covid-19 initiatives but can also have a detrimental impact on the health and well-being of citizens. The same can be said of inadequate and poorly informed **needs analyses** for the delivery of government assistance. We use our performance auditors to audit the needs analyses processes and the delivery of goods and services. The range of their expertise across the medical, education and infrastructure fields makes them uniquely equipped to assess these risks.
- **Accountability for the funds used and the performance of programmes** remains a key focus – a pandemic does not reduce the responsibility of accounting officers and authorities in this regard. Our financial auditors are skilled and experienced to audit financial management controls, financial records and reconciliations, compliance with financial management legislation, and the quality of financial and performance reporting.

We have taken extraordinary **steps to respond to the increased risk of fraud**. Covid-19 has had a significant impact on the working and control environment of our auditees, which also affects the susceptibility of our auditees to fraud.

The **fraud triangle**, as depicted below, is a framework commonly used to explain the motivation behind an individual's decision to commit fraud. We are observing that all three components that contribute to the increased risk of fraud are common in this new environment.





The presumed risks of fraud on which we focus as part of our normal audits are significantly heightened under the Covid-19 conditions. These include the risk of fraud in procurement and contract management processes and the allocation of grants and benefits, specifically relating to the approval and payment thereof. We therefore perform a fraud risk assessment on all the initiatives included in the Covid-19 audit to identify fraud schemes, irregularities, possible implicated service providers and other fraud risk indicators. The procedures include the following:

- Actively scanning the media, whistle-blowing reports as well as reports from civil society organisations.
- Obtaining an understanding of the specific processes implemented and followed by auditees in relation to Covid-19 spending, with respect to both the procurement of goods or services and the payment of grants.
- Performing a walk-through of the specific process and the controls associated with that process, discussing it with management, and assessing internal audit work.

In addition, we are actively collaborating with the Special Investigating Unit and the Public Protector on areas of common interest as we proceed with the audit. The collaboration of our efforts aims to ensure that we focus our auditing on the high fraud risk areas and eliminate any duplication of efforts.

## SCOPE OF THE COVID-19 AUDIT

Government implemented a **wide range of initiatives** to respond to the impact of the pandemic. These initiatives are funded through the R500 billion relief package, donor funding as well as the reprioritisation of budgets and grants across national, provincial and local government.

The initiatives we included in the scope of our real-time Covid-19 audit were based on their importance or impact on the overall relief efforts of government and the level of risk for the mismanagement of funds.

We discuss the initiatives and our audit focus for each of them in the remainder of the report.

In total, we are auditing R147,41 billion of the funds made available for the Covid-19 response through the real-time audit. It covers R135,92 billion of the R500 billion fiscal relief package and a further R11,49 billion in other funds not included in the relief package. The table at the end of this section provides detailed funding information.

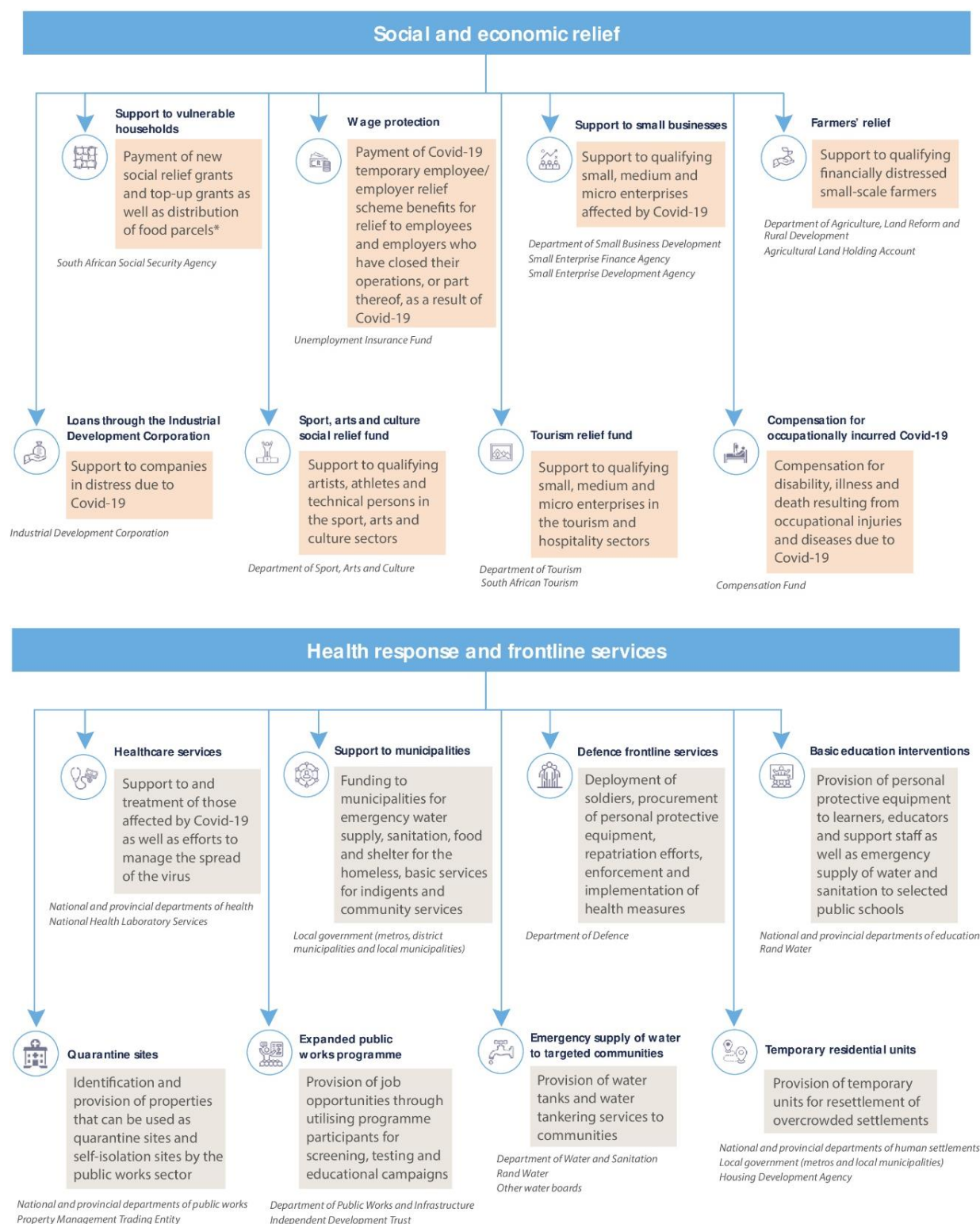
## HOW WE CARRIED OUT OUR WORK TO DATE

**Planning for the Covid-19 audit began in May 2020** – we spent time to understand the various initiatives being undertaken and the funding allocated to appropriately scope the audit. The only remaining planning work to be completed relates to the local government initiative, which we will do when the allocation of funds to municipalities has been concluded.

Our main and most urgent objective was to impress on the accounting officers and authorities the **importance of designing and implementing preventative controls** to safeguard the funds and ensure that the outcome of the Covid-19 initiatives is achieved. Our teams engaged with all the accounting officers and authorities of the auditees included in the Covid-19 audit on the need for preventative controls, which was well received at both national and provincial level. We also engaged on the planned Covid-19 audit with most of the executive authorities of auditees, who all expressed support for the audit.

Most of our **fieldwork started in June 2020**. We were met with **numerous challenges** as a result of the limitations created by auditing while under lockdown and the need for us and our auditees to always put the safety of staff first. Offices of auditees were often closed as a result of Covid-19 outbreaks, which affected the flow of information between auditees and auditors. Many of the officials we work with are also on the frontline of the fight against the virus, which made it difficult for them to respond to and support the audit in a timely manner. Access to documentation, systems and officials was limited, but we partnered with auditees in putting protocols in place for sharing hard-copy documentation. We are also using technology to overcome some of these challenges – many a meeting was held online and we found ways to share data and documents electronically. These challenges are further unpacked when we discuss the individual initiatives later in this report.

## INITIATIVES INCLUDED IN THE SCOPE OF THE COVID-19 AUDIT



\* Many organisations distributed food parcels – our audit focused on only the food parcels delivered by the South African Social Security Agency



Despite these challenges, we could already begin with auditing the controls, transactions, payments, procurement processes and delivery of a number of initiatives. We **reported any risks identified (including fraud risks), weaknesses in internal controls, non-compliance with legislation and any problems related to the financial management of funds and delivery on initiatives** to the accounting officers and authorities for action.

In response to the fraud risks identified through our risk assessment procedures, we designed data analytic tests to flag high-risk suppliers of Covid-19-related goods and services based on specific indicators. These indicators included the following:

- Exorbitant spending against suppliers when compared to their pre-Covid-19 spending
- Suppliers used for the first time during the Covid-19 period
- Bank account numbers that were different from the details on the Central Supplier Database system
- Payments processed through sundry payments
- Large round payments made to suppliers

The suppliers flagged in the data analytic results were risk-rated based on the amount and number of indicators identified through the analytic tests. We typically consider a supplier risk rating of 40 and higher as being of significant risk. The results of our analytics reflected various suppliers with a rating of 40 and higher. This further indicates the high-risk environment in which procurement is taking place during this time. The results of the data analytics then informed our selection of suppliers where we would test the appointment process in detail. The results of our media scanning also directed our selection of the suppliers and the provinces on which to focus our efforts.

## WHAT WE HAVE FOUND

Some of the government initiatives have been **slow to get off the ground** as not all of the required funds have been allocated yet or it needed to be ensured that controls, processes and policies are in place before distributing funds and other services. **Overall, R68,87 billion of the R147,41 billion we audit had been spent** – the table at the end of this section outlines the spending as per the accounting records of the auditees and the spending dates, most being 31 July 2020. The National Treasury provided departments and municipalities with the codes to be used to allocate all Covid-19-related transactions, but during the audit we came across some misallocations, which auditees will need to correct to ensure that the accounting records reflect the full extent of expenditure.

Below we summarise our key observations and findings based on the audit work to date, which are described in more detail in the specific initiative sections of the report.

### ***PAYMENT OF TEMPORARY EMPLOYEE/EMPLOYER RELIEF SCHEME BENEFITS AND SOCIAL GRANTS***

The temporary employee/employer relief scheme benefit, the social distress grant and the top-up of existing social grants were introduced to provide economic relief to the vulnerable and assist employers to protect jobs. By 31 July 2020, the Unemployment Insurance Fund had paid just over R37 billion in temporary employee/employer relief scheme benefits and the South African Social Security Agency had paid R19,6 billion in social grants.

The information technology systems across government carry data on almost everyone in the country; for example, there is information on the Home Affairs databases on identity numbers and deceased people, the South African Revenue Service databases include information on the earnings of people, the details of grant recipients are on the social pension systems, and the salary systems of public sector entities carry information on government employees. But this rich **data is not integrated, shared across government or effectively used** by the Unemployment Insurance Fund and the South African Social Security Agency (and similar entities) to check if people applying for benefits and grants qualify for these.

In addition, the Unemployment Insurance Fund and the South African Social Security Agency had to make significant changes in their processes and systems within a very short period to enable these payouts, without ensuring that good preventative controls are in place.

All of this increased the risk of payments to beneficiaries that are not eligible, overpayments, underpayments, the invalid rejection of beneficiaries, fraud and double dipping.

Our **key findings on the payment of temporary employee/employer relief scheme benefits** are:

- A new system implemented for this relief scheme incorrectly calculated the benefits for the first lockdown period (27 March to 30 April 2020) by not taking into account the actual period of inactivity and the portion of the salary paid by employers, resulting in significant overpayments.
- Through analysing the payment data and checking the beneficiary information against other government databases, we flagged a high number of payments that require investigation – work to verify these is continuing. These payments include payouts to people that are below the legal age of employment, deceased, working in government, receiving social grants, or students funded by the national student financial aid scheme.
- Recalculations of claims and reconciliations with payment data identified overpayments, underpayments, duplicate payments and discrepancies such as payment approval before date of application.
- Poor input and validation controls on the new system and a manual claim submission process used in the first two weeks of implementation further heightened the risk of invalid or manipulated claim information.

The Unemployment Insurance Fund is implementing actions to address what we have reported. We further selected payments to employers and bargaining councils to verify that the eligible beneficiaries had been paid. The observations in this regard will be included in the next report.

Our **key findings on the payment of social grants** are:

- There is a risk that the R350 social relief grant is being paid to people who are not in distress. The application process includes very limited verification to determine if the applicant is receiving other income and provides opportunities for people such as students or scholars older than 18 to also get access to the grant.
- The South African Social Security Agency used some government databases to check if applicants have alternate sources of income which would disqualify them for the social relief grant. The databases they have access to are not sufficient, as our data analytics still flagged payments to over 30 000 beneficiaries that required further investigation. These include payments to beneficiaries employed in government or that received other sources of income such as other social grants, government pension, Unemployment Insurance Fund payments and benefits from other relief funds. The databases they used are also outdated and could have led to the rejection of applicants that should have received the grant. We will be auditing the validity of the rejections for the next report.
- Changes to the information technology system to enable the payment of top-up grants could not be completed in time for the May 2020 grant payment and a manual workaround was used with little controls to prevent mistakes. This resulted in duplicate payments and some beneficiaries not receiving their grants – these issues were subsequently corrected.

## ***RELIEF OF ECONOMIC AND SOCIAL DISTRESS***

In addition to the temporary employee/employer relief scheme benefits and social grants, government identified various initiatives to ease the hardship experienced by individuals, households and businesses. We selected a number of these key initiatives on which to focus – most of the audit work is in an early stage and will be reported on more comprehensively in upcoming reports. Some of **our key observations** at this stage are:

## *Support to small business*

The Department of Small Business Development aims to implement 10 initiatives to the value of R1,8 billion to support small, micro and medium enterprises to remain in business during the pandemic. We focused first on the debt relief finance scheme and the spaza shop support scheme, as these initiatives have progressed quite well. The debt relief finance scheme provides access to low-interest loans for small, micro and medium enterprises and will end in September 2020. In total, R145 million had been disbursed up to 15 July 2020 and we have not identified any concerns at this stage of the audit. The uptake on the spaza shop support scheme has been below the department's expectations – only 1 697 owners had received the grant (in total R5,9 million) by 30 June 2020. We identified a control weakness in the approval process, which the department is attending to.

## *Farmers' relief*

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, 14 589 applications for vouchers had been approved with a value of R517 million, and 13 662 had already been distributed. We identified inadequate record keeping and reconciliations of vouchers approved, distributed and redeemed, which increased the risk of unreliable reporting by the department and undetected fraud or error. Concerns were raised with the department on the inadequate and unfair process followed to select the suppliers utilised for the redemption of vouchers and beneficiaries who might not be eligible for the vouchers. The department is investigating these concerns.

## *Tourism relief fund*

A tourism relief fund of R200 million was made available by the Department of Tourism to support qualifying small, micro and medium enterprises in the tourism and hospitality sector. In total, 4 000 applications had been approved to each receive a R50 000 relief payment. By 31 July 2020, 3 994 had been paid. Our audit to date focused on the identification of risks and controls in the application process. We reported to the accounting officer the risks created by amendments to the original process and criteria as well as inadequate review and segregation of duties. The accounting officer was comfortable that the risks identified have been sufficiently mitigated.

## *Sport, arts and culture relief fund*

The Department of Sport, Arts and Culture established a R235 million relief fund to assist artists, athletes and technical personnel affected by cancellations of sport and arts events and to fund digital solutions. The progress of distributing the funds has been slow with large numbers of the applications being rejected originally and now being re-evaluated. By 3 July 2020, only R39 million had been paid out. Our audit to date focused on the overall controls in place. We identified that the original criteria used to evaluate applications were not specific enough to prevent double dipping and that subsequent amendments thereto could have resulted in an unfair process.

## *Loans through the Industrial Development Corporation*

The Industrial Development Corporation ring-fenced R2,5 billion in funds to provide as loans to their clients and other businesses operating in sectors within its mandate. We determined that specific criteria for the provision of the loans were established and sufficient preventative controls were in place. By 15 July 2020, no loans in respect of debt relief had been approved yet as the businesses did not comply with the qualifying criteria.

## *Food parcels distributed by the South African Social Security Agency*

Before the R350 social relief grant was activated, the South African Social Security Agency used part of its budget to purchase and distribute food parcels to people in need. By 11 May 2020 when this initiative ended, 146 936 food parcels had been distributed. We determined that the distribution process could have been significantly cheaper had the South African Social Security Agency used the existing non-profit organisations utilised by the Department of Social Development instead of appointing service providers. The controls over the distribution of the food parcels were also not always effective, which increased the time from application to distribution, incidents of damaged and poorly packaged food parcels, and beneficiaries receiving more food parcels than they were entitled to.

## *Compensation for occupationally incurred Covid-19*

People contracting Covid-19 in the workplace can claim compensation from the Compensation Fund. The fund operates in a compromised internal control environment and is busy implementing a new system, which prompted us to pay attention to the ability of the fund to effectively deal with the expected increase in claims relating to Covid-19. We identified control weaknesses in the new system and in the receipt and adjudication of claims. The accounting officer should pay closer attention to these weaknesses and prioritise strong preventative controls.

## ***PROCUREMENT OF PERSONAL PROTECTIVE EQUIPMENT (PPE)***

We have so far focused our audit of PPE procurement on the health and education sectors; in particular on the processes undertaken to identify the need for PPE, the procurement process, payments made and PPE delivered. The audit is in different stages of completion – in some provinces we have audited a lot of the procurement while in others audit work must still begin. We were not able to consistently obtain all the information we need for auditing PPE and the audit has been plagued by delays. Nonetheless, we are already seeing a worrying picture emerging – thus far our **key findings on PPE** are:

### *There are delays in the delivery of PPE*

- In the education sector, this was one of the main factors contributing to the delay in the re-opening of schools. In determining the need for PPE at schools, some provinces used unreliable methods for determining the number of employees and learners at schools and not the management information systems of the education departments available to them. The needs analyses did not always consider that support staff in schools (such as cleaners and administrative personnel) also require PPE and some schools did not receive sufficient masks and face shields for learners and teachers. Most of the affected schools had to use their own funds to purchase PPE to address the shortages, leaving schools that are in financial difficulty in a vulnerable position.
- The purchasing of large volumes of PPE for the health sector already started in March 2020, but some health facilities experienced shortages of certain PPE items during the pandemic. This is mainly due to significant delays in delivery by suppliers. We will do further work to determine whether the reasons for the delays extend beyond low availability of certain PPE items in the market.

### *PPE is not always procured at market-related prices*

- 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 these prices or less and provided for approval processes if there is no choice but to procure at a higher price.

- Contrary to these instructions, our analyses of orders placed by health departments identified that some items were priced at more than double and even five times the prescribed price. We identified similar instances in the procurement of PPE in the education sector where the national and provincial departments are not procuring PPE at market-related prices.

### *There are deficiencies and non-compliance in PPE procurement processes*

- Although emergency procurement processes were allowed for procuring PPE, it does not mean that all supply chain management requirements as defined in legislation were relaxed. We are still busy auditing the procurement processes, but are identifying matters such as suppliers not having valid tax clearance certificates, quotation and competitive bidding processes not being correctly applied, inadequate or inaccurate specifications and evaluation criteria and the incorrect application thereof, conflicts of interest, and the awarding of a contract in the health sector to a supplier with no previous history of supplying or delivering PPE.

### *There are insufficient controls to ensure the receipt and payment of PPE at the levels of quality and price ordered*

- The problem with the quality of PPE purchased is most evident in a few schools we visited where the masks provided were not to specification and often one-size-fits-all (whether for a child or an adult). We also found instances where specified PPE items ordered by a health department were substituted by the supplier with items of a lower specification, which the department accepted and even paid for at the higher price of the originally ordered item. In addition, poor controls were evident at auditees that received and paid for goods that had not been ordered.

The procurement of PPE remains a key focus of our audit and we endeavour to complete most of the outstanding audit work within the next two months, which will allow us to provide a more comprehensive picture in the next report. There are clear indicators of fraudulent activities in the procurement processes which we will further investigate and share with the newly established fusion centre and other investigating agencies.

## **EMERGENCY SUPPLY OF WATER**

The washing of hands is a crucial component of protection against the virus, but there are communities and schools that do not have easy access to water. The Department of Water Affairs and Sanitation and the Department of Education identified the need for emergency water supplies to communities where there is no or an unreliable water supply and to schools without water and sanitation facilities. The departments provided the funding and determined where emergency water is required. Rand Water was appointed as an implementing agent to procure water tanks and tankering services.

The water supply initiative is behind schedule – the planned installation date for tanks across 3 401 informal settlements was the first week of May 2020 but by 31 July 2020 only 69% were reported to have been installed. The Department of Education only transferred the first funds to Rand Water by 26 May 2020, which delayed the start of the emergency response. The delayed start and pressure due to the re-opening of schools resulted in corners being cut in the installation of water tanks and the design specifications for foundations and hydraulics not always being followed.

Our audit of the needs analysis, procurement and distribution processes is still in its early stages but we highlight the following **key findings on the emergency water supply** to communities at this time:

- The Department of Water Affairs and Sanitation could not provide a reliable listing of all water tanks delivered and their location, which makes it difficult for us to audit whether the water tanks paid for have been received. It also calls into question the effectiveness of the controls implemented by the department and the reliability of the reporting on the implementation of the initiative.

- In some instances, Rand Water did not comply with the required procurement processes to appoint suppliers for water tanks and tankering services.

## ***FRONTLINE SERVICES AND HEALTH RESPONSE TO COVID-19***

In addition to the procurement of personal protective equipment and the supply of water, our audit of selected frontline and health response initiatives is in an early stage and will be reported on more comprehensively in upcoming reports. Some of our **key observations** at this stage are:

### ***Ventilators***

The R410 million pledged by the United States government for South Africa's health response has not been received yet and of the 1 000 ventilators pledged, only 150 had been received by 6 July 2020. The availability of ventilators in the market remains a problem – 1 144 ventilators were ordered for the health sector and by 31 July 2020 only 58 could be delivered.

### ***Quarantine sites***

In planning the health response, it was expected that a high number of people would require facilities for quarantine and self-isolation. In total, 6 123 quarantine sites were initially targeted but by 31 July 2020 only 510 sites had been identified by the Department of Public Works and Infrastructure, and only 192 had been activated for use by the Department of Health. The slow progress is partly as a result of poor coordination between the two departments, which also resulted in accountability for the sites being unclear and our audit efforts being hampered. Our audit identified control weaknesses, overpayments, money spent on sites not yet activated (approved) by the Department of Health, and state-owned properties upgraded for use as quarantine sites not being utilised. It is unlikely that government will pursue the original target for quarantine sites as the demand for such facilities has been relatively low.

### ***Field hospitals***

In total, R4,8 billion was made available for field hospitals. For this purpose, 66 projects were identified across the country – the money would be used either to upgrade current hospitals or build/use a temporary structure to increase hospital beds. By 30 June 2020, only 20 of these projects had been completed. The audit of the procurement processes for appointing contractors only recently started as a result of delays in providing us with requested information and documentation, but we have already identified non-compliance with legislation in the processes followed. This is another area in which there is a need for closer cooperation between the health and public works departments to monitor the demand for additional beds and the implementation of the initiative.

### ***Temporary residential units***

A resettlement programme for informal settlements was initiated in response to the increased risk of contracting Covid-19 in overcrowded and dense settlements. This would be done by fast-tracking the move of residents to already completed permanent structures and to temporary residential units. Our audit focuses on 31 571 temporary residential units planned for completion through 95 projects across the country. The progress with these projects has been slow and we raised our concerns about inadequate coordination across the human settlements sector. In this early stage of the audit, we are observing discrepancies in pricing and the allocation of units to beneficiaries, which we will pursue further as the audit continues.

## *Expanded public works programme*

The expanded public works programme was mobilised to provide frontline services and at the same time much-needed job opportunities. The Department of Public Works and Infrastructure was tasked to urgently source 25 000 additional workers to assist the Department of Health with screening, testing and educational campaigns – funding of R771 million was allocated for this purpose. By 30 June 2020, only 8 229 workers had been recruited and R26 million spent on management and administrative expenses and personal protective equipment for participants. No payments had been made to workers yet, as the start of the initiative was delayed. The Independent Development Trust is the implementing agent for the expanded public works programme and also for this initiative. We already see the same poor record keeping and potential fraud risks emerging than what we have been reporting on for a number of years with regard to the programme.

Our audit also focuses on **community screening and testing in the health sector, frontline services by the Department of Defence** and the utilisation of over R23,9 billion in funding made available to **local government** to respond to the pandemic. Audit work in these areas only started recently and we will be reporting our observations in upcoming special reports.

## **CONTENT OF THE REMAINDER OF THE REPORT**

Apart from the matters specifically mentioned earlier on, the rest of this report provides an overview of each individual initiative and the status of its implementation as well as our experiences in auditing the initiatives. We further include any key audit observations reported to accounting officers and authorities, together with the actions they have committed to in response to our findings.



## NOTES

## TABLE ON FUNDING AND EXPENDITURE

Allocation	Purpose of allocation	Budget (R million)	Included in audit (R million)	Funds expended (R million)	Remaining funds (R million)
<b>R500 billion fiscal relief package</b>					
<b>Support to vulnerable households</b>	Payment of temporary grants to relief 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%) (by 31 July)	21 311 (52%)
<b>Wage protection</b>	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%) (by 31 July)	2 868 (7%)
<b>Healthcare services</b>	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%) (by 31 July)	15 071 (70%)
<b>Support to municipalities</b>	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%)	20 034 (100%)
<b>Defence frontline services</b>	Deployment of soldiers, procurement of personal protective equipment, repatriation efforts, enforcement and implementation of health measures	4 297	4 297 (100%)	1 108 (26%) (by 31 July)	3 189 (74%)
<b>Quarantine sites</b>	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%) (by 31 July)	781 (94%)
<b>Basic education interventions</b>	Provision of personal protective equipment to learners, educators and support staff, and emergency supply of water and sanitation to selected public schools	5 408	5 212 (96%)	1 389 (27%) (by 31 July)	3 823 (73%)
<b>Support to small businesses</b>	Support to qualifying small, medium and micro enterprises affected by Covid-19	1 404	1 404 (100%)	50 (4%) (by 30 June)	1 354 (96%)
<b>Farmers' relief</b>	Support to qualifying financially distressed small-scale farmers	763,6	700 (92%)	61 (9%) (by 31 July)	639 (91%)
<b>Expanded public works programme</b>	Provision of job opportunities through using programme participants for screening, testing and educational campaigns	771	771 (100%)	26 (3%) (by 30 June)	745 (97%)
<b>Sport, arts and culture social relief fund</b>	Support to qualifying artists, athletes and technical persons in the sport, arts and culture sectors	235	235 (100%)	39 (17%) (by 3 July)	196 (83%)
<b>Other allocations for support, job creation and protection of small and medium enterprises</b>	Allocations to various departments to fund support to small businesses and job creation	3 123,4	Not included		
<b>Support to public entities</b>	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		
<b>Other Covid-19 interventions</b>	Allocations to various departments for other Covid-19-related interventions	17 161	Not included		

Allocation	Purpose of allocation	Budget (R million)	Included in audit (R million)	Funds expended (R million)	Remaining funds (R million)
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 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 been appropriated yet	45 000	Not included		
<b>Total</b>	<b>R500 billion fiscal package</b>	<b>500 000</b>	<b>135 917 (27%)</b>	<b>65 906 (48%)</b>	<b>70 011 (52%)</b>
<b>Other funds subject to auditing</b>					
Healthcare services – additional funding	Disaster grants (personal protective equipment specifically) and US government donations (not yet received by 30 June)	876	876 (100%)	0 (0%)	876 (100%)
Food parcels	Distribution of food parcels by South African Social Security Agency	177	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%)	1 675 (43%) (by 30 June)	2 228 (57%)
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			
Tourism relief fund	Support to qualifying small, medium and micro enterprises in the tourism and hospitality sector	200	200 (100%)	199.7 (99%) (by 31 July)	0.3 (1%)
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%) (by 31 July)	1 760 (77%)
Additional support to small businesses	Support to small, medium and micro enterprises affected by Covid-19, funded by 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%)	101 (28%) (by 30 June)	259 (72%)
Loans through the Industrial Development Corporation	Support to companies in distress due to Covid-19	2 500	2 500 (100%)	0 (0%) (by 15 July)	2 500 (100%)
Emergency supply of water to targeted communities	Provision of water tanks and water tankering services to communities	306.5	306.5 (100%)	237.5 (77%) (by 31 July)	69 (23%)
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%) (by 30 June)	829 (95%)
<b>Total</b>	<b>Additional funds</b>	<b>11 488 (100%)</b>	<b>11 488 (100%)</b>	<b>2 966 (26%)</b>	<b>8 522 (74%)</b>
<b>Overall total</b>		<b>511 488</b>	<b>147 405 (29%)</b>	<b>68 872 (47%)</b>	<b>78 533 (53%)</b>

## NOTES



## SUPPORT TO VULNERABLE HOUSEHOLDS

### OVERVIEW OF INITIATIVE

Purpose	
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
Funds subject to audit	<b>R41 068 million</b>
	Social grant R40 891 million – relief package Food parcels R177 million – own reprioritised funding (from social relief of distress programme)
Expenditure as at 31 July 2020	<b>R19 757 million</b>

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### STATUS OF IMPLEMENTATION OF INITIATIVE

The status of implementation of the main elements of this initiative is as follows:

#### ***SPECIAL COVID-19 SOCIAL RELIEF FOR DISTRESS GRANT OF R350***

The purpose of the grant was to provide social relief to people in distress which had been exacerbated by the Covid-19 pandemic. As announced by the President on 21 April 2020, this grant was going to be paid for a period of six months starting in May 2020 and ending in October 2020. As per the regulations gazetted, a special Covid-19 social relief of distress grant of R350 per month may be provided for the period indicated in the regulations to distressed individuals who are:

South African citizens, permanent residents or refugees registered on the Home Affairs database

- currently residing within the borders of the Republic of South Africa
- above the age of 18
- unemployed
- not receiving any form of income
- not receiving any social grant
- not receiving an unemployment insurance benefit and not qualifying to receive an unemployment insurance benefit
- not receiving a stipend from the national student financial aid scheme and other financial aid
- not receiving any other government Covid-19 response support
- not a resident in a government-funded or -subsidised institution.

The above necessitated the South African Social Security Agency (Sassa) to implement a comprehensive system to facilitate these grants consisting of various application channels, the actual payment engine and disbursement channels. Due to the urgency of the matter, Sassa decided to extend the existing contract they had with the current service provider for the development and maintenance of the social relief of distress application and payment processing solution.

The processes and systems that had to be set up to receive applications had led to delays in the initial phase. Once these processes had been set up, there were further delays in the processing of applications and the payment thereof. These delays were due to the late verification of banking details and delays that Sassa experienced in obtaining the correct databases from other state organisations for verification purposes. After receiving more reliable databases, Sassa had to reconsider applications that had been declined previously. They started making payments on 26 May 2020 and monthly validations are done against various databases that are available before payments are made.

The status of applications received as obtained from the social relief of distress (SRD) Covid-19 grant system and of grant applications and payments made as at 31 July 2020 (which are in the process of being audited) is indicated in the table below:

#### *Status of applications*

Month	Applications (million)				Applicants paid per month (million)				Budget and expenditure		
	Total received	Total approved	Total rejected	Total not processed (million)					Total budget (R million)	Amount spent (R million)	Available balance (R million)
					May	June	July	Total			
May 2020	6,61	4,42	2,17	0,77	0,12	2,60	1,70	4,42	11 847	1546	
June 2020	0,91	0,64	0,28		Nil	Nil	3,96	3,96		1386	
July 2020	0,76				Nil	Nil	3,96	3,96		1386	
Totals (end July)	8,28	5,06	2,45	0,77					11 847	4 318	7 529

A total of 4,42 million successful applicants for May 2020 were paid over the three month period of May, June and July. At the end of July 2020, there were approximately 5,06 million successful applicants, including those from May 2020. Only 3,96 million applicants were paid R700 in July 2020, and this payment was for the June and July period.

The decrease in the number of applicants in June and July was due to a change in how beneficiaries received their payments. In May 2020, beneficiaries who asked to be paid via CashSend were paid through a Postbank account. This was subsequently changed to minimise visits to the post office, and beneficiaries were able to receive their cash through their selected banks. As there was a delay in finalising the agreement with the banks at the end of July 2020, the CashSend applicants had not yet been paid for the months of June and July. There were also delays in receiving correct banking details from some beneficiaries. Sassa was further still busy with the monthly validations for the new applications received in June and July.

The total estimated payments based on 5,06 million beneficiaries from August 2020 to the end of October 2020 would amount to approximately R5 355 million. This will be within the available budget provided that all the rejected applications are valid. Sassa is in the process of validating the rejections.

Based on the preliminary work completed, the rejections were due to inaccuracies in databases provided to Sassa for verification.

## TOP-UP GRANTS FOR EXISTING BENEFICIARIES

The payment of top-up grants was implemented in May following the President's announcement of 21 April 2020. The top-up grant consists of the child support grant for existing beneficiaries that was increased by R300 per child in May 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. The top-up grant will only be payable for the period May to end of October 2020.

Due to the urgency to implement this decision, Sassa experienced internal control challenges in May because of the introduction of a manual process to expedite the extraction of data for the May payment, which resulted in some beneficiaries being overpaid and others not being paid. The error of the overpayments and non-payment of grants was due to the delay in the implementation of the changes to the system used to process the splitting of payment dates as well as top-up grant increments.

We analysed the information from the payment and beneficiary data to determine the total number of payments to beneficiaries and the rand values. The summary of payments made verified to the Social Pension System (Socpen) against the allocated budget until July 2020 is as follows (grant payments per grant type are done on various dates at the beginning of each month):

### Number of payments with amounts

Month	Total beneficiaries paid per month*	Total amount paid per month	Total budget for six months	Available balance
May 2020	18,57 million**	R5 293 million	R29 109 million	R13 847 million
June 2020	12,74 million	R4 973 million		
July 2020	12,81 million	R4 996 million		

\*The total beneficiaries paid per month includes the old age, war veterans, disability, care dependency, foster care and child support grants.

\*\*The child support grant was paid at R300 per child for May only and thereafter was replaced at R500 per caregiver from June until October. There are approximately 7,1 million caregivers compared to a total number of about 13 million children that are being taken care of by these caregivers. This is the main reason for the reduction in the number of beneficiaries paid per month from May to June.

It is anticipated that approximately R5 000 million per month would be paid for the remaining months to about 12,3 million beneficiaries and this could result in a shortfall of about R1 108 million on the available balance.

## DISTRIBUTION OF FOOD PARCELS

Sassa reprioritised its existing SRD programme's funding to respond to the increased need for food assistance. People in need of food assistance made requests through various channels and these were screened by Sassa officials to ensure that people requesting assistance do not receive any other grant. Sassa officials called the screened applicants to complete manual applications as the ministerial directions signed on 30 March 2020 mandated Sassa to accept telephonic applications.

From our analysis of the information provided by Sassa, the food parcel applications received up to the instructed cut-off date of 11 May 2020 were finalised. The said relief was delivered at the different Sassa local offices in all nine provinces. These food parcels were then distributed to approved beneficiaries by the Sassa officials. All new applications for SRD from 11 May 2020 had to be channelled to the special Covid-19 social relief of distress grant of R350. The distribution of food parcels was a temporary initiative that was utilised until the implementation of the social distress grant of R350.



The following table gives a summary of food parcels distributed according to the information received from Sassa (which is in the process of being audited):

***Number of food parcels distributed***

Entity	Number of food parcels distributed	Amount paid R' million	Status
Sassa	146 936*	R176,63	Covid-19 distributions completed

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

## AUDIT EXPERIENCE

The audit was conducted by a multi-disciplinary team with the necessary skills and experience to respond to the risks and give rich insights and value to assist with evaluating the adequacy of preventative controls.

Our audit of the focus areas examined the application systems supporting the grants application and payment processes, and we analysed grant application and payment data to identify possible areas where controls might have been bypassed or ineffective. During the planning phase, we had meetings with the accounting officer of the Department of Social Development (DSD) and the chief executive officer of Sassa to obtain an understanding of the processes to be followed in distributing the grants and food parcels. During these engagements, the leadership gave their support for the proactive audit and continued to make themselves available to engage on audit matters. We also engaged with the minister on the risk and preventative controls in the focus areas and she confirmed her support for the proactive audit.

During the execution phase, we encountered delays in obtaining the requested information, partially due to a change in working method due to the national lockdown and office closures as a result of Covid-19 infections. These delays were escalated to the leadership who has since assisted in improving the flow of information.

### ***SPECIAL COVID-19 SOCIAL RELIEF FOR DISTRESS GRANTS OF R350***

#### ***Status of audit***

Sassa has implemented an SRD system in May 2020 to cater for the special Covid-19 SRD grant of R350. Our review has 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/support from government sources and are in distress. We performed our verifications up to 14 July 2020 against various databases, which included the Government Employees' Pension Fund (GEPF); Personnel and Salary System; Department of Agriculture, Rural Development and Land Reform vouchers; Industrial Development Corporation (IDC) debt relief; national student financial aid scheme (NSFAS), Unemployment Insurance Fund (UIF); UIF temporary employee/employer relief scheme (TERS); Social Pension System (Socpen); *Personeel en Soldy* System; admission and release of inmates database; farmers' assistance proactive land acquisition strategy; sports support applicants; spaza support; and internships at Sector Education and Training Authority (Seta).

The testing environment for the special Covid-19 R350 SRD system was not set up at the time we started the audit and, therefore, it delayed the auditors' testing of the system-enabled controls. Consequently, the auditor's findings relating to systems controls will be included in the second report.

We are still in the process of verifying the validity of the rejections against the criteria set out in the regulations and any outcomes will be included in the future reports. We have done the verification of the double dipping against various databases until 14 July 2020. We audited the total expenditure up until 30 June 2020 to the Basic Accounting System. Based

on our analysis of the data obtained from the SRD Covid-19 grant system, we confirmed the beneficiary numbers and that no applicants were paid a grant amount that is higher than R350, thus payments made were in line with the regulations

At the date of this report, the audit was still in progress with detailed testing being conducted on applications against the qualifying criteria and the payments made.

### *Key audit observations: risk and control*

#### **Fraud risks that management should pay attention to**

As part of our risk assessment process, we obtained an understanding of the grant processes and of the processes and controls in place to identify possible fraud risks that could materialise during the execution of the processes. Our risk assessment procedures included an active scanning of the environment to identify possible irregularities reported on or allegations of possible fraud schemes associated with the payment of these types of grants.

Our procedures highlighted the following key fraud risks that management should pay attention to:

- Submission of fraudulent applications, which can include individuals who do not comply with the criteria to receive the grant but who provide false information in order to do so; individuals submitting fictitious applications or employees loading fictitious beneficiaries; and individuals including incorrect information on the application to fraudulently benefit from the grant.
- Social grant being approved for beneficiaries who receive other government grants and did not declare this, i.e. double dipping.
- Possible collusion between various government departments (Sassa, DSD, DHA staff members), post office staff members (contractors), beneficiaries and/or syndicates.
- Unauthorised changes to beneficiary bank account details, resulting in legitimate beneficiaries not receiving the grant payments.

#### **Recommendations**

We recommended to management to consider the above fraud risks identified and develop a response to these fraud risks. We further requested that management responses should include preventative controls.

#### **Response to audit observation**

Sassa has considered the possible fraud risk in the social relief of distress grants identified by us as part of the current annual audit. They also indicated that some of these risks were already in the risk register of Sassa and that they will continue to ensure that adequate controls are implemented to improve the social grant process, especially preventative controls in respect of fraud risks.

#### **Preventative controls to evaluate eligibility of applicants**

At the beginning of the audit, we communicated key risks and preventative control measures to be put in place to ensure that payments of this special grant are made only to those qualifying beneficiaries as per the criteria. We identified a number of applicants who may apply for this grant and could meet all the requirements, but are not yet in distress (e.g. scholars aged 18 years and older who reside with their parents, university students who are self-funded or who have bursaries/loans from the private sector, persons who are fully supported by their spouses, sole proprietors/self-employed individuals who are not registered with the South African Revenue Service (Sars)).

Sassa only uses a few databases (UIF, Sars and NSFAS) to do validation checks and we identified a risk that individuals who earn other income might not be detected. This could have a significant impact on the total amount to be paid and would put additional strain on the already limited budget for this new distress grant.

## Recommendations

We recommended that Sassa explore the possibility of also using other data available in the public and private sectors for validation tests to ensure that only those eligible are paid the grant. We also recommended that both Sassa and the DSD perform a comprehensive risk assessment and implement preventative controls to manage the risk, including the risk of fraud.

## Response to audit observation

Sassa acknowledged the preventative controls we recommended and confirmed that some had already been implemented.

The chief executive officer of Sassa will continue to explore and implement any feasible mechanisms to identify and access any available and legitimate database within law, and these will be included as part of monthly validation controls before subsequent monthly payments are processed.

However, with regard to the further validations to ensure compliance with the qualifying criteria and that the individual is indeed under distress, Sassa indicated that the grant is meant to be for immediate relief, and the application process had to be accessible to the most vulnerable people and communities with limited resources for transport, airtime, data and document scanning. The chief executive officer of Sassa further stated that the notion that Sassa should devise further validation processes to interrogate their financial circumstances is a process that must be carefully considered and addressed objectively.

## *Key audit observations: eligibility of applicants*

### Non-qualifying applicants approved and paid the special Covid-19 SRD grant of R350

Our tests of the payments of R1 400 million made as at 14 July 2020 identified 32 642 beneficiaries who were not eligible to receive the grant as they were employed in government or received income from other sources. These sources included 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. We performed our tests by checking the identity numbers of the beneficiaries against the various databases as listed above. Sassa should investigate and follow up on all these exceptions as this could result in a payment of R11,42 million per month to individuals who do not qualify for the grant. This payment of grants to non-eligible applicants was due to Sassa not having access to various databases to adequately conduct their verification process.

## Recommendations

We recommended that the management should obtain the most recent and updated data from Home Affairs, UIF, NSFAS, Sars and other government institutions to strengthen the controls and prevent payments to invalid beneficiaries. The management should further remove all confirmed non-eligible individuals from the beneficiary system before making payments for the next month to avoid further potential losses if the payments cannot be recovered. A process to recover funds from non-qualifying individuals should also be implemented.

## Response to audit observation

The chief executive officer of Sassa had acknowledged the preventative controls we had recommended and confirmed that some had already been implemented, but some remained a challenge to implement. This was because Sassa had established immediate mandatory databases as listed above in compliance with the President's announcement and the directions as gazetted by the social development minister. However, these databases can only be used once negotiations and agreements are concluded with relevant entities, because the other institutions were slow to respond and reluctant to make the data available, which led to delays in obtaining databases from them.

The chief executive officer of Sassa has indicated that Sassa will continue to do the validations against various databases as soon as they are made available and will continuously negotiate with various role players to obtain these databases.

The chief executive officer of Sassa did not commit to any action to recover payments from individuals who were not entitled to the grant.

## *Conclusion*

Until Sassa has obtained access to all the relevant databases with accurate, updated information and implemented some additional manual controls, it is likely that payments may be made to individuals who do not qualify for the grant. Sassa did not provide any specific timeframes for when they will implement our recommendations. We will continue to monitor whether Sassa implements these validation checks and we will continue to do further validations of successful applicants against databases to ensure that only valid applicants who are in distress receive the grants. Any non-qualifying individuals we identified in this regard will be communicated to Sassa for follow-up.

## **TOP-UP GRANTS**

### *Status of audit*

Sassa has implemented the payment of the top-up grants as per the regulations. Our review focused on the verification of the validity and accuracy of the top-up grants. Currently, we have audited the top-up payments up to July. The grant payments per grant type are made on various dates at the beginning of each month. The payments for July were made from 3 to 6 July 2020. We will re-perform the verification to confirm validity and accuracy of the top-up grants on the remainder of the months

### *Key audit observations: risk and control*

#### **Fraud risks that management should pay attention to**

As part of our risk assessment process, we obtained an understanding of the grant processes and of the processes and controls in place to identify possible fraud risks that could materialise during the execution of the processes. Our risk assessment procedures included an active scanning of the environment to identify possible irregularities reported on or allegations of possible fraud schemes associated with the payment of these types of grants.

Our procedures highlighted the following key fraud risks that management should pay attention to:

- Submission of fraudulent applications, which can include individuals who do not comply with the criteria to receive the grant but who provide false information in order to do so; individuals submitting fictitious applications or employees loading fictitious beneficiaries; individuals including incorrect information on the application form to fraudulently benefit from the grant; and individuals submitting duplicate applications between different regions and within the same family.
- Social grant being approved for beneficiaries who receive other government grants and did not declare this, i.e. double dipping.
- Possible collusion between various government departments (Sassa, DSD, DHA staff members), post office staff members (contractors), beneficiaries and/or syndicates.
- Unauthorised changes to beneficiary bank account details resulting in legitimate beneficiary not receiving the grant payments.
- Excessive grant payments in relation to set criteria/calculation of the grant amounts.

#### **Recommendations**

We recommended to management to consider the above fraud risks identified and develop a response to these fraud risks. We further requested that management responses should include preventative controls.

### **Response to audit observation**

Sassa has considered the possible fraud risk in the social relief of distress grants identified by us as part of the current annual audit. They also indicated that some of these risks were already in the risk register of Sassa and that they will continue to ensure that adequate controls are implemented to improve the social grant process, especially preventative controls in respect of fraud risks.

### **Duplicate payments and non-payment not detected**

During the first month of implementation, duplicate payments were made and, in some instances, beneficiaries did not receive their grant for May. Our assessment of the processes and the reports from the State Information Technology Agency (Sita) and Sassa's internal auditors indicated that the manual process used to expedite the extraction of data for the May 2020 payment resulted in the over- and underpayments. This was because the large number of system change requests required to implement the splitting of payment dates and top-up grants increments left Sassa with insufficient time to complete the automation process that would have prevented errors. This could be attributed to a lack of adequate reviews, oversight, quality assurance, validation and reconciliation done to ensure that the payment extraction files were accurate before final payment was made.

### **Recommendations**

It was recommended that the chief executive officer of Sassa should confirm that all systems and controls are in place and have been tested before any payments are made. There should be adequate segregation of duties to ensure that proper reviews are performed before payments are made. Sassa should obtain all the necessary figures from the banks (including successful and unsuccessful reversals of duplicated payments) to determine the financial implication of the errors. Adequate reconciliations must be performed once the information is obtained and the loss or amount to be recovered should be determined and appropriate action taken to recover the loss.

### **Response to audit observation**

The chief executive officer of Sassa indicated that Sassa had implemented the following preventive controls to prevent similar incidents being repeated in future:

- The manual month-end tasks that resulted in the error have been automated. These tasks are being monitored through extra quality assurance of the files before they are sent for processing; this includes a review of raw payment data before payment file processing.
- In future, the implementation of big changes will be allotted sufficient time for comprehensive development, automation and quality assurance prior to application. The change control process has been amended to incorporate emergency processes and the use of a business impact analysis for major changes.

Sassa used the system error correction process to reverse the erroneous file before payment. This resulted in the recovery of 70% of the possible financial loss. The remaining 30% was recovered through internal processes as the beneficiaries that withdrew the duplicate payments were not extracted for the June payment.

## **Conclusion**

Sassa committed to resolve these risks and implement all necessary preventative controls measures to ensure that payments are made timeously and accurately. All the overpayments have already been recovered. We will continue to test the effectiveness of the controls on a monthly basis.

## ***DISTRIBUTION OF FOOD PARCELS***

### ***Status of audit***

To enhance our risk assessment process, we used the insights/concerns as per the information received from the civil society organisations. As part of our audit process, we completed the audit work on the reasonability of the food parcel prices, overall planning and needs assessment of Sassa. We also observed the last three food parcel distributions in Cape Town, Soweto and QwaQwa. The audit was limited to these three site visits due to the late response by Sassa to our request regarding food parcel distributions. Due to the limited site visits, we are currently reviewing additional documentation to ensure that:

- only eligible beneficiaries received food parcels and the rejected applications met the criteria as stipulated in the standard operating procedures of Sassa
- beneficiaries did not receive more food parcels than entitled to
- all applications were made on or before 11 May 2020
- adequate segregation of duties existed between the person who completed the application and the person who approved the application.

In addition, we are executing audit procedures on the monitoring and reporting by all nine Sassa regional offices. With regard to the capturing of the manual information on Socpen, we are evaluating the progress made by Sassa to enable them to perform the necessary reconciliations between food parcels procured, delivered and distributed. We would then evaluate the said reconciliation process.

### ***Key audit observations: risk and control***

#### **Fraud risks that management should pay attention to**

As part of our risk assessment process, we obtained an understanding of the food parcel procurement and distribution processes, and of the processes and controls in place to identify possible fraud risks that could materialise during the execution of the processes. Our risk assessment procedures included an active scanning of the environment to identify possible irregularities reported on or allegations of possible fraud schemes associated with the distribution of food parcels.

Our procedures highlighted the following key fraud risks that management should pay attention to:

- Submission of fraudulent applications, which can include individuals who do not comply with the criteria to receive food parcels; submission of fictitious applications or employees loading fictitious beneficiaries; individuals including incorrect information on the application form to fraudulently benefit from the food parcels; and individuals submitting duplicate applications between different regions and within the same family, i.e. one person or household receives multiple food parcels.
- Social relief being approved for beneficiaries who receive other government grants and did not declare this, i.e. double dipping.
- Collusion between Sassa, DSD staff and service provider/community members in respect of distribution of food parcels.
- Food parcels being delivered to beneficiaries who do not qualify for it, e.g. council members and possible favouritism in the distribution thereof.
- Preferential treatment in the appointment of food parcel service providers.
- Overpricing in relation to the procurement of goods for the food parcels/excessive pricing for the delivery of food parcels.
- Payment for goods (food parcels) not received or of an inferior quality.

- Food parcels ordered and received subsequent to the date on which the R350 grant was introduced, which replaced the food parcel distribution.
- Excessive amounts spent on the procurement of food parcels.
- The need for personal protective equipment could have been inflated, resulting in excessive procurement from service providers.
- Possible procurement of non-essential goods/services using the re-prioritised funds for the incorrect purposes.

### **Recommendations**

We recommended to the management to consider the above fraud risks identified and develop a response to these fraud risks. We further requested that management responses should include preventative controls.

### **Response to audit observation**

Sassa has considered the possible fraud risk in the social relief of distress grants identified by us as part of the current annual audit. They have also indicated that some of these risks were already in the risk register of Sassa and that they will continue to ensure that adequate controls are implemented to improve the social grant process, especially preventative controls in respect of fraud risks.

### **Inadequate planning and coordination by Sassa regarding cost of provisioning of food parcels**

Our assessment of costs incurred in the provisioning of food parcels indicated that Sassa had not consulted adequately with the DSD to ensure that the most efficient and economical provisioning process was followed to maximise the number of beneficiaries that could benefit from this social relief initiative.

The DSD used the services of existing non-profit organisations (NPOs) to provide food parcels at an operating cost of approximately 5,8% of the cost of items included in the food parcels. In contrast to this practice, the overhead costs of the service providers utilised by Sassa averaged 35% of the cost of items included in the food parcels. The model utilised by Sassa resulted in the uneconomical, inefficient and ineffective provisioning of food parcels. Due to the differences in the costing models used by the entities, a direct comparison is not possible. This is because the DSD made use of existing infrastructure that was not included in the overhead costs for the distribution of the DSD food parcels.

### **Recommendations**

It is recommended that Sassa improve their consultation and coordination effort for similar processes with the DSD. This will enable the portfolio to streamline the process and minimise the costs of distribution.

### **Response to audit observation**

The chief executive officer of Sassa did not agree with the finding as they indicated that appropriate supply chain management processes had been followed in this procurement. They pointed out that the distribution of food parcels in this regard has been suspended and replaced by the R350 SRD grant. Sassa also indicated that they are already working with the DSD on a system that will ensure the delivery of e-vouchers to applicants who, in future, will be approved for food support as part of their normal SRD programme. These e-vouchers will be easier to deliver, will ensure that the full value of the support is received by the approved applicant and will be more responsive in terms of time frames for the support to reach the most vulnerable. Furthermore, it was indicated that a full tracking system will be in place to ensure that the vouchers reach the approved beneficiary. Note that the special Covid-19 SRD grant of R350 is only a temporary grant for six months.



### **Inadequate controls over the distribution of food parcels**

It was observed during the distribution of the food parcels that the beneficiaries had received their food parcels more than 50 days after their application. Furthermore, the food parcels distributed did not always agree with the SRD content list in terms of quantity and specified items.

Upon inspection of the food parcels, it was noted that some items were damaged or poorly packaged, which resulted in spillages and further damage to other items in the food parcels. In addition, food parcels that were not distributed were poorly handled and stored, resulting in further damages. Most items included in the food parcels were not marked “not for resale”; if food parcels were marked “not for resale”, the subsequent selling of items through unwarranted practices could have been limited. However, this was not a specific requirement as part of the provisioning process controls instituted by Sassa.

### **Recommendations**

It is recommended that Sassa:

- streamline their processes to provide the food to beneficiaries on time
- implement effective controls to monitor the distribution of food items. This would include thorough inspection of food items to ensure it is in accordance with the SRD content list and to identify shortages and damaged items on delivery
- implement effective controls to safeguard food parcels once they have been delivered by the supplier to ensure beneficiaries receive food parcels of the required content and quality
- implement controls to minimise the abuse of food parcel distribution; for example, marking of items as “not for resale” to limit the risk of food parcel items being sold by beneficiaries afterwards.

### **Response to audit observation**

The chief executive officer of Sassa accepted most of our recommendations and indicated the planned action to include the following:

- The usage of e-vouchers in future, which will make the process of providing food support easier.
- The non-delivery of certain items in the food parcels will be referred to the fraud and compliance unit at head office for further investigation.
- Sassa’s head office will take the issue of broken or damaged items up with all regions to ensure that staff accepting goods from any service provider check these for completeness and compliance before signing any delivery note. Incomplete and/or damaged food parcels must not be accepted but returned to the service provider for replacement. Non-compliance with the service-level agreement must be dealt with in line with the provision made.
- Sassa would include “not for resale” as a requirement in subsequent awards and service-level agreements entered into with service providers as it does bring in an added control measure.

### **Inadequate controls in the manual process followed to provide Covid-19 SRD food parcels**

During the Covid-19 lockdown, a manual recording and verification process was implemented to accept, approve and record the SRD food parcel applications at regional level. This was implemented as most of the regional staff did not have production access to Socpen (the e-system to manage grants).

Most of the regions recorded the food parcel allocations and orders on Excel only after distribution to the beneficiaries. This could allow a beneficiary to receive more than one food parcel per month. Sassa’s standing operating procedures did not make provision for the performance of such a preventative manual control which is deemed necessary when food parcel applications are not directly captured on Socpen.

This manual capturing led to instances of food parcels being ordered for the same beneficiary more than once in one month, ultimately resulting in some beneficiaries receiving more food parcels from Sassa than they were entitled to. The full

extent of distribution of food parcels to beneficiaries who did not qualify can only be determined once all distributions are captured on Socpen and management reconciliations done and verified.

As at 31 July 2020, Sassa had not reconciled the number of food parcels approved with those ordered, received and distributed as 7% of the distributions had not been captured on Socpen yet.

### **Recommendations**

It is recommended that Sassa prioritise the capturing of information on Socpen to determine the extent of ineligible beneficiaries receiving food parcels and take the necessary action where appropriate.

### **Response to audit observation**

Sassa agreed with the finding and indicated that the reconciliation of the orders issued and the capturing of the applications on Socpen are being prioritised.

## *Conclusion*

Sassa gave their commitment to resolve these risks and implement all the necessary preventative control measures to ensure that future provision of support is done in the most economical, efficient and effective manner.

## **OVERALL CONCLUSION**

The rest of the audit will focus on:

- evaluation of the adequacy of information technology-related controls (general and application controls) surrounding Socpen and the special Covid-19 SRD grant system as well as the cybersecurity review
- verification of applications against the qualifying criteria for the special Covid-19 SRD grant of R350 to ensure that valid approvals and payments are made to eligible beneficiaries
- auditing of the process followed for the procurement and contract management of service providers that were utilised for the distribution of food parcels and the appointments of service providers for the special Covid-19 SRD grant of R350
- verification of the validity and accuracy of the top-up grants for the remaining period.

We completed the supply chain management reviews of contracts entered into for the provision and distribution of food parcels. We have identified significant findings in this regard and are discussing the outcome of these reviews with management and obtaining management responses thereon. The outcome arising from these findings will be included in the second report.

As Sassa has not yet obtained access to all the relevant databases to validate the applicants' information, it is likely that payments will be made to individuals who do not qualify for the special Covid-19 SRD grant of R350. Therefore, we recommend that appropriate action be taken to ensure the implementation of all our recommendations as articulated in this report, including ensuring that all relevant entities provide accurate and correct data to Sassa to do the validations.

We are also engaging with the fusion centre and will share the findings and data with them for immediate follow-up and investigation.



## WAGE PROTECTION

### OVERVIEW OF INITIATIVE

Purpose	
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	
Auditees	Unemployment Insurance Fund
Focus of our audit	Temporary employee/employer relief scheme benefit expenditure
Funds subject to audit	R40 000 million
	Relief package
Expenditure as at 31 July 2020	R37 132 million

### STATUS OF IMPLEMENTATION OF INITIATIVE

#### COMMENCEMENT 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 that 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 temporarily as a result of the Covid-19 pandemic and have suffered financial distress, qualify for the Covid-19 temporarily relief benefit.

Employers or bargaining councils of affected employees are eligible to make applications on behalf of their employees to the UIF and further distribute the money received to the relevant employees. The benefit will only cover the salary of employees during the temporary closure of operations. Employees are also eligible to claim directly from the UIF should the employer or bargaining council not submit such claim on their behalf.

The salary will be capped at R17 712 per month per employee and paid in terms of the income replacement rate sliding scale of 38% – 60% as per the Unemployment Insurance Act. Should an employee's income determined in this way be below R3 500, the employee will be paid a replacement income equal to that amount.

The intervention was planned to end by 30 June 2020 but was subsequently extended to 15 August 2020.

#### PROGRESS IN ACHIEVING PURPOSE OR OBJECTIVE

At the start of the lockdown, the UIF implemented a process for the submission of claims via a dedicated email address. The payments for the first period, mainly April, were therefore facilitated through this process. There was extreme pressure not only to process the claims quicker but to also accommodate high volumes of claims as the number of employers finding it difficult to sustain their businesses increased. Subsequently, the UIF enhanced its system to particularly enable quicker processing of TERS benefit claims.

One of the key risks remains the possibility of the benefit not reaching the intended employees, therefore trapped at the level of employer or bargaining council. To mitigate this risk, the UIF publishes a list of employers who have received payments so that employees can follow up and submit queries. Furthermore, with effect from May 2020 the UIF introduced direct payments to employee bank accounts although the claim application would still need to be submitted by the

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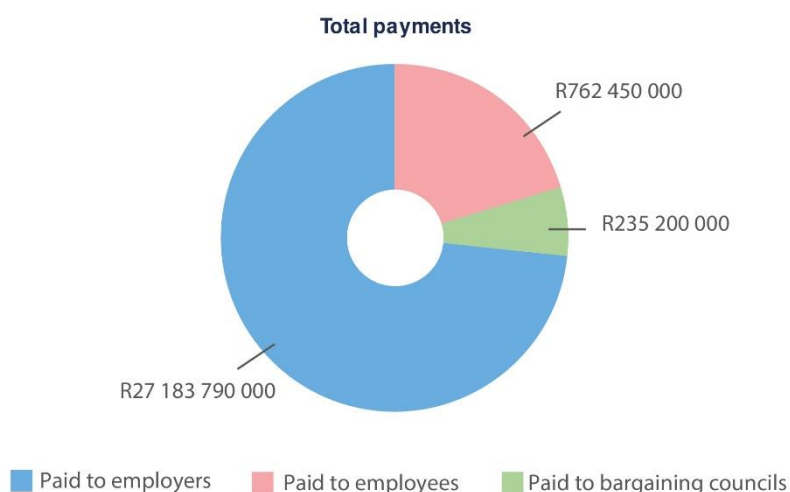
employer. For April and May 2020, the UIF did not process any claims directly made by employees without applications going through their employers. Although the UIF had published its intention to open direct applications from the affected employees, they were struggling to verify the existence of employer–employee relationships.

The UIF expanded the coverage to include employees who were not registered with the UIF before the Covid-19 pandemic. This further elevated the risk exposure for the UIF to pay fraudulent claims. To respond to this exposure, the UIF designed post-validation processes to verify claims paid out. As at 31 July 2020, however, the process of validation – including the verification of employer and employee employment information – had not yet been implemented. As part of the audit process, we will visit selected employers and bargaining councils to verify the information submitted to the UIF in order to claim for the Covid-19 TERS benefit; the outcome of these visits will be included in our next special report.

## FINANCIAL MATTERS

Based on an unaudited UIF progress report, total TERS payments made as at 31 July 2020 amounted to R37 132 443 225. However, only R28,18 billion paid as at 9 July 2020 was subjected to the audit for this report covering the claims for April and May 2020.

### Amounts paid as at 9 July 2020



Source: Unaudited UIF progress report as at 31 July 2020

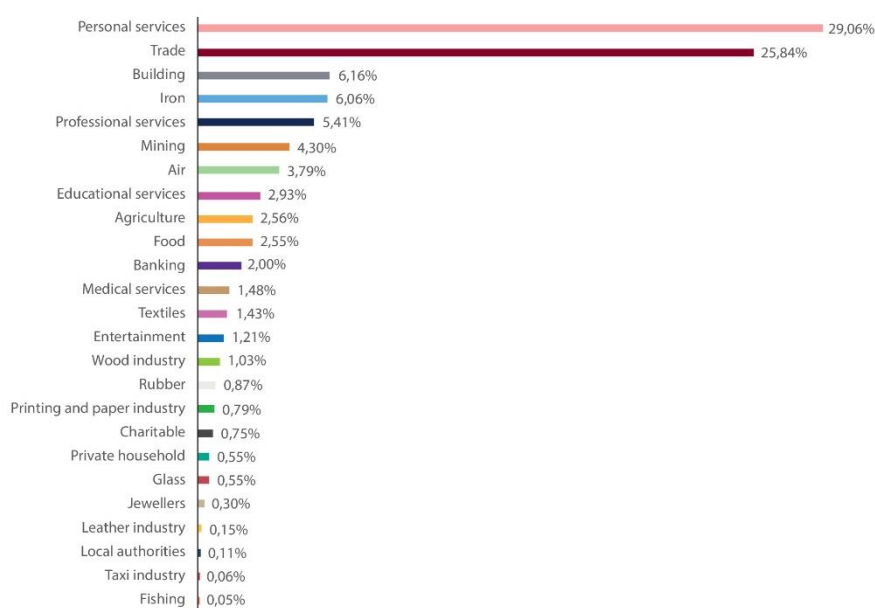
The above graphic shows that the payments can be broken down as follows:

- Payments to employers amounting to **R27,18 billion**, accounting for 96,45% of the total claims paid.
- Payments directly to employees amounting to **R762,45 million**, accounting for 2,72% of the total claims paid.
- Direct payments to bargaining councils amounting to approximately **R235,20 million**, accounting for 0,83% of the total claims paid.

Below is an analysis of the payments made to South African citizens and foreign nationals:

- Payments to South African citizens amounted to approximately **R27 449 069 205**, accounting for **97,4%** of the total payments.
- Payments to foreign nationals amounted to **R715 209 840**, accounting for **2,5%** of the total payments.

### Benefit claims received by the UIF per sector



Source: Classification based on UIF data

### Number of claims at different application stages and corresponding amounts paid

Description	Number of claims	Amount paid
Application < 30 days old	6 095 558	R26 953 492 030
Application between 30 and 60 days old	11 009	R51 940 557
Application date* after payment date*	15 297	R28 287 145
Application date* same as payment date*	202 311	R1192 846 962
No payment made	6 421	R0

\*Application date refers to date on which application was captured on claims system; and payment date to date on which claim was finalised and paid to claimant

As can be seen above, the application date of 15 297 claims was after the payment date to the claimant.

## FINANCIAL VIABILITY

Currently the UIF finances this initiative through the disposal of investments and the utilisation of reserves. The estimated budget is R40 000 million.

As at 1 April 2020, the UIF had estimated assets of R146 000 million, mainly comprised of investments held through the Public Investment Corporation. Due to the Covid-19 pandemic, the UIF is expecting that the market value of these investments will decline by R23 500 million in 2020-21.

According to UIF records, the UIF has liquidated R24 200 million of its investments managed by the Public Investment Corporation. These disposals were made at market value and comprised inflation-linked bonds of R6 200 million and conventional bonds of R18 000 million. In addition, the UIF received income as a result of maturing money market investments in the form of fixed deposits.

It is expected that the number of TERS claims will rise as more employers experience financial difficulties – more so for sectors that were closed for a prolonged period– while the UIF still has to pay normal benefits that are also expected to increase due to anticipated job losses. The investment value is likely to decrease under the current challenging economic circumstances. This will threaten the viability of the UIF and its ability to effectively carry out its mandate going forward.

## AUDIT EXPERIENCE

The audit was significantly delayed as initial engagements with management took longer than expected and the required information was submitted late. Furthermore, the temporary closure of office premises due to positive cases of Covid-19 negatively affected the progress of the audit.

Other challenges experienced during the audit process include:

- Complex operational environment – the environment at the UIF is continuously changing and keeping track of all changes that have an impact on the payment process is critical. The business processes and risk assessment need to be updated continuously.
- Uniform understanding of some aspects of the business process – we have undertaken discussions with management to establish a comprehensive understanding of the business processes as a result of the frequent changes in the regulations.
- Limited availability of staff during operational hours – we are using alternative means of engagement via online platforms to engage with staff where feasible, due to the lockdown regulations limiting physical contact.

Although challenges were experienced in some instances, management has indicated that the urgency to implement the benefit scheme did not afford them adequate time to identify and implement all possible preventative controls. Management has been receptive to the control deficiencies identified and are keen to implement improvements.

We are continuously engaging the accounting officer of the department and the accounting authority of the UIF. Overall the leadership of the UIF has expressed their support for the audit.

The audit findings included in this report have been discussed with the accounting officer and the accounting authority and they have made commitments to address the weaknesses identified and take appropriate action (where applicable). We also communicated these matters to the executive authorities.

## STATUS OF AUDIT

### *Tests on application controls*

We tested key application controls and communicated our observations to the accounting authority. However, the UIF is continually improving the application controls to address gaps in the payment process and we will perform further tests on the controls as these changes are implemented.

### *Use of computer-assisted audit techniques (CAATs) for data analysis*

We have a multidisciplinary team auditing the UIF, which includes information system auditors who are using computer-assisted audit techniques. We have analysed claims made for April and May 2020 and communicated key observations to the accounting authority. Further work will be performed to verify payments made to entities, including visiting the selected employers to verify that the payments were made to valid employees and that the companies that received the TERS benefit exists.

## *Key audit observations: inadequate preventative controls*

The UIF implemented a new system to aid the processing of TERS claims. The TERS process was found to have the following control weaknesses:

### **(a) Lack of verification of applicant representing employers**

The system did not prohibit a single applicant from representing and submitting claims on behalf of multiple employers or bargaining councils. The UIF does not corroborate whether these representatives are duly authorised to represent the employers or bargaining councils they purport to be representing.

There were also no appropriate system validations of the input data submitted by employers and bargaining councils as the basis of claims payment to prevent the processing of non-eligible and invalid claims.

### **(b) Incorrect system calculations of TERS benefit payment in first lockdown period**

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. As a result, the UIF overpaid some of the claims processed during this period.

### **(c) Inadequate verification of employer details**

The UIF used only the UIF reference number to verify the registration status of employers. However, this poses a high risk of manipulation of the application process and exposes the UIF to financial loss. Other unique details such as the employer's Companies and Intellectual Property Commission (CIPC) number, telephone number and email address should also be used to authenticate the employer.

### **(d) Inadequate system functionality for bank confirmation of uploaded documents**

The system used to receive TERS benefit applications does not check the banking details of employers or bargaining councils against the bank confirmations submitted by applicants upon registration.

### **(e) Lack of consideration of salary portion paid by employer in calculation of payout in first lockdown period**

The system verifications for the calculation of the claimant lockdown period from 27 March to 30 April 2020 were incorrect. In calculating the benefit amount, the portion of the salary paid by the employer was not taken into account in reducing the amount to be paid by the UIF as a benefit to the employee.

### **(f) Lack of verification of employee salaries submitted during benefit claims**

The system used to receive TERS benefit applications does not validate employees' salary amounts declared on the TERS application to the employees' salary amounts declared to the UIF prior to the Covid-19 pandemic.

### **Impact**

The incorrect configuration of the payout calculation has resulted in overpayments of benefits and financial losses that may not be possible to recoup.

The inadequate verification of employers may result in a fictitious employer using a valid UIF reference number and pass validation to make a claim.

The lack of verification of individuals making applications on behalf of employers and bargaining councils may result in financial loss from unauthorised applications.

The lack of preventative controls to verify banking details before payment may lead to claims being paid to an incorrect beneficiary.

The lack of verification of salary information used in calculating the TERS benefit may result in overpayments due to inflated salaries.

## Recommendations

The UIF should review the calculation to determine its correctness in line with the gazetted regulations. In the event that the system was incorrectly configured, the UIF should ensure that all payouts to date are investigated to determine the magnitude of the error and implement corrective actions. Where the UIF is found to have incurred financial loss due to incorrectly applying the instruction, the UIF must implement actions to recoup funds from those who incorrectly benefitted as a result of the error.

The UIF should ensure that the controls to verify the existence of an employer are enhanced to include employer-specific details such as trade number, CIPC number and email address, amongst other details.

The UIF should implement preventative controls that will allow for confirming banking details when employers and bargaining councils are the recipients of claims. Management should implement a control to check the banking details captured against the bank confirmation document submitted by applicants before a payment is processed.

The UIF should verify salary data and ensure that a process is initiated to recoup all overpayments.

## Response to audit observation

The UIF has recognised the deficiencies in the current control environment and is continuously implementing changes in an effort to strengthen preventative controls in and around the TERS system. The UIF has also initiated a post-payment validation process, as part of which site visits will be undertaken to confirm and validate the information that employers provided when seeking relief.

For verification purposes, the application system of the UIF requires the following mandatory documents to be uploaded before the claim can be accepted:

- Letter of undertaking, wherein the employer is authorised by an employee to apply on their behalf.
- Memorandum of agreement, which contains the terms and conditions accepted by the applicant on the system.

The UIF can further detect the IP address of the applicant. However, management has indicated that further controls will be developed to introduce the verification of the authorised/delegated representative of the employee.

A process of identifying discrepancies between the amount due and paid to claimants was developed for every employer to verify the salary and lockdown period declared by the applicant on the system. Directive number 3 was issued on 16 April 2020 to rectify the matter. For May 2020 applications, all claims went through the automated verification process to determine over- or underpayments and these were subsequently corrected by the UIF.

The controls on the system were enhanced and the verification process now includes validations against the enterprise number and company registration or CIPC number for employers. For unregistered companies, the identity number and trade name will be used for validation. Management will further perform data analytic procedures to verify the existence and accuracy of employer details by mid-September 2020.

The UIF has automated the bank verification process for employers and employees. Each payment is verified against the identity number for employees; company registration or CIPC number for registered companies; and trade name or identity number for unregistered companies.

Directive number 3, issued on 12 April 2020, removed the requirements of section 12(1)(b) of the Unemployment Insurance Act, which considered the salary when calculating the benefit amount. All claims submitted for the first lockdown period was re-calculated and the short payments were disbursed. The salary portion submitted was verified and confirmed with the employer. Underpayments were also processed and paid to employers.

Verifications were performed against the declarations submitted by applicants and the database of the South African Revenue Service. For the July and August 2020 claims, the UIF will verify the salary declared by applicants against the salaries declared with the UIF for the six months preceding the application date. Change requests on business rules for further enhancements to the system will be submitted and are planned for deployment before the start of the next payment iteration.



## Conclusion

Management has indicated that enhancements have been made to the application system in order to address the internal control weaknesses. The process of validating the system enhancements for effectiveness is yet to be confirmed.

### Key audit observations: data analytics

We analysed the TERS payments made by verifying the details of the employers, bargaining councils and employees against various existing government databases such as those of Home Affairs, the South African Revenue Service and the CIPC to confirm the eligibility of the beneficiaries, identify double dipping, and so forth. We found the following with regard to payments made up to 30 June 2020:

#### (a) Applicants below the legal age of employment

Individuals below the legal age of employment of 15 years were paid by the UIF. A total amount of R224 677 was paid for 53 applications.

#### (b) Identity number same as that of UIF employee

A claim of R4 027 was paid to an individual who has the same identity number as a UIF employee.

#### (c) Deceased individuals paid TERS benefit

Individuals who were indicated as deceased per the Home Affairs database received TERS benefits totalling R441 144.

#### (d) Imprisoned individuals paid TERS benefit

A total amount of R169 900 was paid to individuals who were indicated as being in prison according to the Department of Correctional Services database.

#### (e) Individuals with invalid identity numbers

A total of 4 161 payments amounting to R30 071 248 were made to individuals with invalid identity numbers when checked against the Department of Home Affairs database.

#### (f) Payments to foreign nationals

Payments amounting to R685 846 671 were made for 166 619 applications relating to foreign nationals whose employers had not paid contributions for them for the past 12 months. The UIF did not confirm whether these non-South African citizens were possibly refugees or had valid work permits.

#### (g) Double dipping

The UIF paid R140 556 822 to 35 043 applicants who received benefits from other state institutions (including remuneration in some instances), as follows:

- National student financial aid scheme students that received stipends, were paid TERS benefit claims of R10 335 344.
- Beneficiaries paid by the South African National Defence Force received TERS benefit claims of R327 638.
- Employees paid through the Personnel and Salary System were paid TERS benefit claims of R41 009 737.
- Disability grant recipients were paid TERS benefit claims of R69 419.
- Old-age grant recipients were paid TERS benefit claims of R88 814 684.

#### (h) Banking details same as those of UIF employees

Four applicants who had the same banking details as UIF employees were paid R14 614.

#### (i) Individuals sharing banking details

Twelve individuals who shared the same banking details were paid R53 971.

#### **(j) Double dipping within UIF**

Some individuals were indicated to have received payments on claims submitted for both normal benefits and TERS benefits. A total amount of R14 210 866 was paid for TERS benefits in this regard.

#### **Recommendations**

Payments to individuals sharing banking details should be investigated and the funds paid to illegitimate beneficiaries should be recovered.

The UIF should collaborate with other state organs in the intelligence and police services and institute investigations into overpayments as well as payments to deceased persons, UIF employees and inmates. In addition, the matters should be referred to the newly established fusion centre for further investigation.

Management should further implement consequence management if any official is found guilty of misconduct.

#### **Response to audit observation**

- (a) Management has indicated that the matter was reported to the departmental inspectorate. The UIF reference numbers for the affected employers are blocked on the application system. A formal letter requesting confirmation of the minors was sent to the South African Social Security Agency. Matters identified will be subjected to investigation through the UIF's internal processes.
- (b) A letter was issued to the employee to confirm whether she had received the money. The matter will be investigated to determine possible fraud. The payment made to the affected employee has been paid back to the UIF.
- (c) A letter has been sent to the Department of Home Affairs to confirm the status of the owners of the identified identity numbers. The UIF will test the integration link of data between the UIF and Home Affairs. A change of business rule has been requested to block affected employers and the payment of June and July claims has been put on hold. Matters identified will be subjected to investigation through the UIF's internal processes.
- (d) A letter has been sent to the Department of Correctional Services to confirm the status of identity numbers. A change of business rule has been requested to block affected employers and the payment of June and July claims has been put on hold. Matters identified will be subjected to investigation through the UIF's internal processes.
- (e) A letter has been sent to the Department of Home Affairs to confirm the status of identity numbers. The UIF will re-test the integration link of data between the UIF and Home Affairs. A change of business rule has been requested to block affected employers and the payment of June and July claims has been put on hold. Matters identified will be subjected to investigation through the UIF's internal processes.
- (f) Management has indicated that for the TERS benefit to be paid out, there should be an employer-employee relationship. Secondly, the employer and the employee should be registered on the UIF database. Foreign nationals met the above rules. Directive number 6, issued on 25 May 2020, provides a clear definition of a worker.
- (g) Letters have been sent to the South African Social Security Agency and the national student financial aid scheme to confirm the status of identity numbers. A change of business rule to block beneficiaries of these programmes will be initiated on the system. The UIF will further put a hold on payments for June and July claims. Matters identified will be subjected to investigation through the UIF's internal processes.
- (h) Preliminary analysis performed by management revealed that these employees are domestic employers who registered for UIF. A change of business rule on the system has been implemented to block affected employers. A post-verification process has started and the matters identified will be subjected to investigation through the UIF's internal processes.
- (i) The UIF has automated the bank verification process for employers and employees. Each payment is verified against the identity number for employees; company registration or CIPC number for registered companies; and trade name or identity number for unregistered companies.

- (j) A business rule to identify applicants who are currently receiving normal benefits from the UIF has been introduced in July 2020. A change of business rule to block affected employers will be initiated. The UIF will further put a hold on payments for June and July claims. Matters identified will be subjected to investigation through the UIF's internal processes.

### **Incorrect amounts paid by the UIF**

We further analysed payments to beneficiaries up to 30 June 2020, and the following observations were made:

- (a) TERS claims were paid in excess of the claims amount due, resulting in overpayments of R84 228 713 to 1 183 applicants.
- (b) The UIF used the incorrect number of days to calculate payments to 723 applicants amounting to R10 215 765.
- (c) Some claimants were paid less than the claims amount due based on the information on the system, totalling underpayments of R250 919 657 for 1 700 applicants.
- (d) An employer was paid three times for the same application. A total amount of R597 456 was paid in this regard.

### **Recommendations**

Management should:

- reconcile the transactions paid to the applications made by claimants
- scrutinise the entire population of payments to date to identify the extent of overpayments / underpayments and take necessary action
- further enhance the system to avoid recurrences.

### **Response to audit observation**

- (a) A process of identifying discrepancies between the amount due and paid to claimants was developed for every employer to verify the salary and lockdown period declared by the applicant on the system. Directive number 3 was issued on 16 April 2020 to rectify the matter. For May applications, all claims went through the automated verification process to determine over- or underpayments and these were subsequently corrected by the UIF.
- (b) Management will perform data analytic procedures to verify the existence and accuracy of employer details. A change of business rule on the system will be requested to block affected employers. The reported matters will be subjected to an investigation and an overpayment recognised against the affected employers.
- (c) Directive number 3, issued on 12 April 2020, removed the requirements of section 12(1)(b) of the Unemployment Insurance Act, which considered the salary when calculating the benefit amount. All claims submitted for the first lockdown period was re-calculated and the short payments were disbursed. The salary portion submitted was verified and confirmed with the employer. Underpayments were also processed and paid to employers.
- (d) Management has indicated that the application is reconciled against the payment system, which is a two-way matching verification process that will enable the UIF to identify duplicate payments.

#### **Unsubstantiated payments made**

Some transactions paid, could not be reconciled back to the applications on the system. These transactions totalled R483 911 for seven applications.

#### **Recommendations**

Management should investigate this matter and take appropriate action; the underlying control deficiencies should also be addressed.

#### **Response to audit observation**

Management indicated that invoices on the application system were referenced with a specific prefix that could be linked to the payment. Furthermore, applications are reconciled against the payment system, which is a two-way matching verification process. Having noted management comments, we still could not reconcile all invoices paid back to the applications received.

#### **Unsubstantiated applications made**

Transactions were identified on the application system with no invoices, yet were indicated as paid. These transactions totalled R1 374 154 248 for 235 710 applicants.

#### **Recommendations**

Management should investigate this matter and take appropriate action; the underlying control deficiencies should also be addressed.

#### **Response to audit observation**

Management indicated that invoices on the application system were referenced with a specific prefix that could be linked to the payment. Furthermore, applications are reconciled against the payment system, which is a two-way matching verification process. Having noted management comments, we still could not reconcile all invoices paid back to the applications received.

#### **Claims with an application date after payment date**

A total of 15 297 transactions amounting to R28 287 145 were paid; however, the application date as per the TERS system was after the payment date of the claim.

#### **Recommendations**

Management should investigate this matter and take appropriate action; the underlying control deficiencies should also be addressed.

#### **Response to audit observation**

Management has indicated that a process to track applications and users, including dates of activity, has been introduced. Identified cases will be referred to the fraud and investigation unit within the UIF for further investigation.

### ***Conclusion***

Management has committed to investigate the matters reported through the UIF's risk and compliance processes. We will follow up the outcome of these processes during the audit process.

## *Key audit observations: procurement and contract management*

We reviewed the appointment of service providers through deviations to assist with a campaign to create awareness of the UIF Covid-19 TERS initiative, and noted the following:

### **Non-compliance with instruction note**

When securing media houses to assist with the awareness campaign, the service providers were procured as sole providers. However, the UIF did not provide evidence to justify the selected service providers as sole providers.

### **Discrepancies relating to appointment of service providers**

In some instances, specifications that had not been a requirement in the approved bid specifications, were used to motivate the appointment of a service provider to the bid adjudication committee.

### **Unfair awarding of contract**

A contract was awarded to a service provider that achieved the second position on price and preference points, but no evidence to support the deviation was provided, contrary to section 51 of the Public Finance Management Act and the Preferential Procurement Regulations.

### **Recommendations**

Management should improve the control environment to enhance the prevention and detection of non-compliance with laws and regulations to ensure that:

- supply chain management prescripts are fully complied with during the procurement process
- the reason for using a service provider as a sole service provider is clear before approving and awarding the contract
- specifications are transparent and the criteria for evaluation on functionality are clear and known to each service provider.

In addition, all payments relating to the above awards should be disclosed as irregular expenditure due to the non-compliance with supply chain management prescripts.

### **Response to audit observation**

Management has introduced a process whereby all tenders are subjected to scrutiny in every step of the procurement process. The process has been introduced for all tenders above R5 million and will be extended to tenders below R5 million once the reviewed policy has been approved. The matter has been referred to the UIF's fraud and investigation unit.

## *Conclusion*

Management has indicated that enhancements have been made to the application system to address the internal control weaknesses. The process of validating the system enhancements for effectiveness is yet to be confirmed.

## *Key audit observations: risk and control*

We identified the following additional fraud risks in the TERS application process. We have reported these and the related control weaknesses to the accounting authority.

### **Manipulation of data**

During the initial phase of the initiative (27 March to 14 April 2020), applications were received via a dedicated email box from the employer or bargaining council (manual process), which posed the following risks:

- No independent review or reconciliation was performed to ensure that all emails and applications received had been dealt with appropriately and there was no process in place to ensure that none of these had been deleted.

- Employee details such as bank account details and payroll information in the files or spreadsheets submitted by employers or bargaining councils could be changed and there were no clear controls in place to ensure that these details had not been amended before the application/evaluation process continued.

There was a lack of segregation of duties with regard to the review, processing and approval of claims, which may lead to fraudulent claims or errors on claims remaining undetected.

#### **Impact**

The files or spreadsheets as submitted by the employers or bargaining councils could be amended or manipulated.

Employers or bargaining councils may manipulate and/or inflate their payroll schedule in order to claim an increased amount from the natural disaster benefit from the UIF.

The lack of segregation of duties may lead to management override of controls, resulting in the manipulation of data.

#### **Recommendations**

Management should consider the fraud risks and related control weaknesses and develop a response for each in order to improve the control environment. These responses should consist of preventative and detective controls, and should be implemented to address the control weaknesses.

#### **Response to audit observation**

The manual process, owing to serious formatting errors of the spreadsheets and csv files, was subsequently replaced with an automated application process that the UIF currently applies through the submission of claims via the web portal.

#### **Employer site visits**

We started a process to visit the premises of employers and bargaining councils to obtain reassurance regarding the validity and existence of employees and related payments received from the UIF for the Covid-19 TERS benefit. The audit entails verifying whether TERS benefits were paid to legitimate beneficiaries. To date, site visits to various employers and bargaining councils in Gauteng, North West and the Western Cape have taken place.

Although most of the verifications were still in progress, the following are some of the observations thus far:

- Auditors were denied entry to premises and officials cited that the company was not sufficiently prepared to accommodate and assist the auditors in providing the required information.
- Upon arrival at the address provided to the UIF as part of a specific application, the premises of the employer had been vacated and hence the audit could not be performed.

#### **Impact**

Non-compliance with section 54(1) of the Public Finance Management Act, as the accounting authority for a public entity must submit to the relevant treasury or the auditor-general such information, returns, documents, explanations and motivations as may be prescribed or as the relevant treasury or the auditor-general may require.

#### **Recommendations**

The legal status and activities of companies should be verified.

It should be verified that companies are still operational and not liquidated or dormant.

The contribution status of companies from the date of registration should be verified and all outstanding contributions should be recovered if the company is found to be non-compliant.

Investigations and legal action should be instituted relating to the instances of possible fraud to recoup all money paid from the Covid-19 TERS benefit, depending on the outcome of the investigation.

### Response to audit observation

The manual process was only implemented for 14 days and management has indicated that a fraud risk assessment was conducted, which necessitated the conversion to an online process which went live on 14 April 2020. Management will therefore subject the claims paid during the manual process to additional independent verification processes within the UIF.

Management has indicated that the reported employers will be specifically selected to be visited as part of the UIF post-validation process. Additionally, the matter will be referred for further investigation.

### Conclusion

Management has indicated that the UIF developed the online web portal platform to mitigate the risk of fraud, which was identified during the process of submitting claims via a dedicated email address by applicants.

Management deviated from the supply chain prescripts and consequences for the contravention have not yet been implemented by the UIF.

## OVERALL CONCLUSION

The UIF is still in the process of paying the TERS benefits for the duration of the lockdown. Management has acknowledged the internal control deficiencies and instances of non-compliance identified as part of the audit process.

The introduction of the system has improved the speed at which claims are processed and the related turnaround time in instances where information is provided in the manner required by the UIF. The area that remains a challenge is the adequacy of the preventative controls that are required to confirm the validity and accuracy of employee information as well as those of the employer or bargaining council.

Management has made a commitment to implement our recommendations to improve the internal control environment.

The scope of the audit for purposes of our second special report will include:

- Compliance with key legislation applicable to Covid-19-related transactions, funds and processes
- Analysis of the fraud risks
- Assessment of the internal control environment
- Data analytics
- Conducting site visits to employers and bargaining councils to verify information submitted to the UIF in applications for the TERS benefit

We are also engaging with the fusion centre and will share the findings with them for immediate follow-up and investigation.

## NOTES





## HEALTHCARE SERVICES

### OVERVIEW OF INITIATIVE

Purpose	
Support to and treatment of those affected by Covid-19 as well as efforts to manage the spread of the virus	
Auditees	National Department of Health Provincial departments of health National Health Laboratory Services
Focus of our audit	Purchase and distribution of personal protective equipment Purchase, distribution and maintenance of ventilation devices Community screening and testing Capacitation of hospital beds through erection of field hospitals / temporary structures
Funds subject to audit	<b>R22 420 million</b>
	R21 544 million – relief package R466 million – disaster grants R410 million – United States government donations
Expenditure as at 31 July 2020	<b>R6 473 million</b>

NEXT



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### STATUS OF IMPLEMENTATION OF INITIATIVE

#### ***BUDGET AND EXPENDITURE***

The overall budget and spending for the sector as at 31 July are illustrated below. The breakdown of the budget indicates how the R21 544 million from reprioritisation and the R466 million from the disaster management grant were allocated within the sector.

Although the health sector had not received the funds from the R410 million pledged by the United States (US) government, various provinces received some donated ventilators, as outlined later in the ventilators section of this part of the report. The provinces have also been utilising voted funds while waiting for final approval of the allocated amounts.

The total spending as per the Covid-19 expenditure reports submitted by the departments, was significantly different in some provinces from what was reflected on the Basic Accounting System. The total spending has not yet been audited for accuracy and completeness:

### ***Budget and expenditure as per Covid-19 expenditure reports and Basic Accounting System***

Province	Covid-19 allocated budget	Total spent as per expenditure reports	Total spent as per Basic Accounting System
Eastern Cape	R2 535,46 million	R235,68 million	R219,99 million
Free State	R991,27 million	R45,83 million	R8,73 million
Gauteng	R5 568,62 million	R1942,77 million	R1 943,68 million
KwaZulu-Natal	R6 329,29 million	R873,93 million	R757,97million
Limpopo	R2 469,7 million	R563,21 million	R560,23 million
Mpumalanga	R1 522,59 million	R400,92 million	R407,49 million
Northern Cape	R177,86 million	R16,87 million	R6,32 million
North West	R1 285,49 million	R104,40 million	R42,46 million
Western Cape	R2 014,42 million	R709,07 million	R708,97 million
NDoH	R411,03 million	R91,12 million	R70,24 million
Total departments	R22 524,70 million	R4 983,80 million	R4 726,08 million
NHLS	R96,70 million	R1 746,87 million	**
<b>Total</b>	<b>R22 621,40 million*</b>	<b>R6 730,67 million</b>	<b>R4 726,08 million</b>

\*Irreconcilable difference to the allocation of R22 010,00 million.

\*\* At the date of this report we have not received the information as the audit is delayed.

It is not clear how the health departments compiled the expenditure reports submitted. We have not made enquiries in this regard or attempted to reconcile the differences.

From the analysis above, the Covid-19-related spending for the Free State appears low and was performed mainly through journals. Our understanding is that the Free State Provincial Treasury centrally performs all Covid-19 procurement for the Free State province. It is also important to note that the Limpopo and Gauteng departments of health procured on behalf of the entire province.

### ***PPE FOR HEALTHCARE WORKERS***

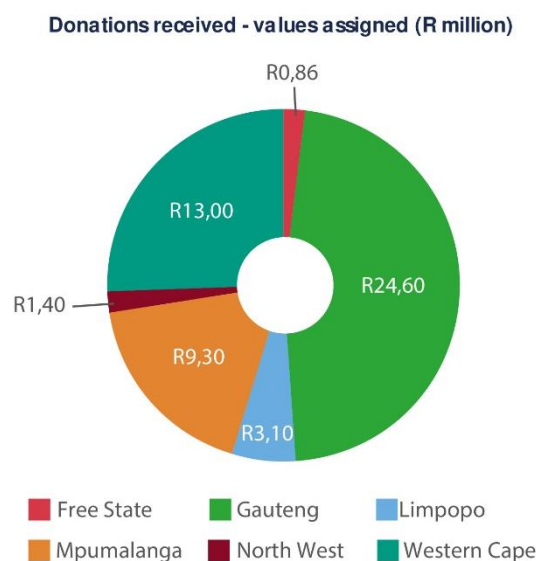
PPE is a normal expense item for departments and entities in the health sector. Because of the worldwide pandemic most countries experienced severe PPE shortages and an increase in prices because of disrupted supply chains and increased demand. The sector started with bulk acquisition of PPE in March. PPE was mainly acquired in the following ways:

#### ***Donations from various stakeholders***

Local and international stakeholders are pledging to donate PPE items to the healthcare sector, either through the NDoH or directly to the provincial departments. Not all donated PPE had an estimated value assigned. As at 21 July 2020, the NDoH had received PPE worth approximately R1 062 million, for those items that had values assigned. The NDoH distributed this PPE to the provincial departments and port health offices.

Donations worth R52,6 million were also made directly to the provincial departments. At the date of this report, the testing of these donations was still in progress.

### Value of PPE per provincial department



A significant portion of the items donated to the Eastern Cape had no values assigned  
Donations in KwaZulu-Natal and Northern Cape were distributed from the NDoH

### Procurement through normal and emergency processes

To minimise supply chain irregularities, the National Treasury set specific prices for departments and entities to follow when procuring PPE (instruction notes 8 of 2019-20 and 3 and 5 of 2020-21). Procurement was done either through transversal contracts issued by the National Treasury, provincial contracts or emergency procurement processes from new suppliers.

### VENTILATION DEVICES FOR HEALTHCARE FACILITIES

Some Covid-19 patients become critically ill and require admission to healthcare facilities with access to oxygen and respiratory support in the form of ventilation. As at 30 June 2020, the public health sector did not have enough ventilators for the patients who needed them. According to the NDoH, there were 5 401 ventilators available in both the public and private sectors. The health sector commenced acquisition of ventilators in March 2020. Ventilation was mainly acquired by means of:

#### Donations from various stakeholders

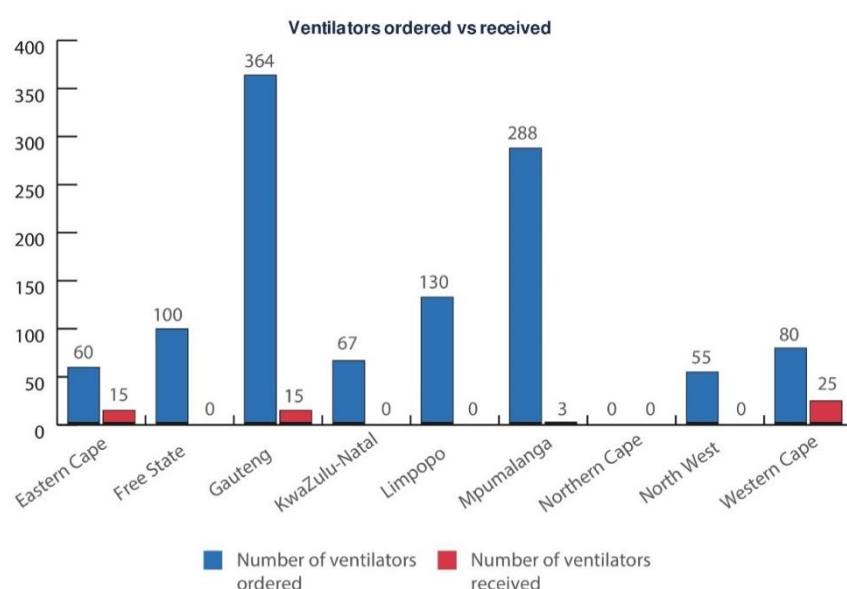
The following significant donations of ventilators were noted in the records:

- The US government, through the US Agency for International Development (USAID), pledged to donate 1 000 ventilators that support both invasive and non-invasive application to South Africa to fight the pandemic. As of 6 July 2020, only 150 of these ventilators had arrived in South Africa. The first 50 ventilators with an approximate value of R25 million were distributed to five hospitals in Gauteng, the Eastern Cape and the Western Cape. The remaining 100 ventilators were in the process of being cleared.
- Jack Ma pledged 14 non-invasive ventilators but at 31 July 2020, they had not yet been received.
- Similarly, 10 ventilation devices worth R550 000 and two ventilation devices worth R243 442 had been donated directly to Gauteng and the Western Cape, respectively. No other donations were noted in the other auditees in the sector.

## Procurement through normal processes

Some provinces had ordered ventilators, but due to the high demand, only a limited number could be supplied. The figure below indicates the number of ventilators ordered and received by the provinces as at 31 July 2020. This information was still being audited at the date of this report.

### *Ventilators ordered and received as at 31 July 2020*



Overall, the sector had ordered 1 144 ventilators, but only 58 were received because there was not enough stock due to the high demand. Producing nations also prioritised their own countries first.

Due to the delays in delivery as supported by the numbers illustrated in the table above, some healthcare facilities started to use other non-invasive ventilation devices, such as high-flow nasal oxygen devices, to provide respiratory support to Covid-19 patients.

## Department of Trade, Industry and Competition ventilator project

In April 2020, the Department of Trade, Industry and Competition, supported by the Solidarity Fund, launched the national ventilator project which aimed to produce 10 000 non-invasive ventilators for to manage the pandemic. The Council for Scientific and Industrial Research (CSIR) completed work on a locally produced ventilator and during August 2020 will distribute the first 250 to public healthcare facilities that do not have the equipment they need to deal with the pandemic.

## COMMUNITY SCREENING AND TESTING

South Africa had reached the stage of widespread community transmission of SARS-CoV-2 (the coronavirus that causes Covid-19), and hotspots and cluster outbreaks have been identified in some areas. Community screening and testing are aimed at stopping transmission of the virus by quickly identifying and isolating infected people, and by tracing and referring or quarantining those who were in contact with infected people. This intervention focused on the following areas:

## Community screening

Expanded screening commenced in April 2020 in areas where people live, starting with high-density and high-risk areas, and the sector had to appoint additional community health workers (CHWs) to assist with this. CHWs were also appointed to assist with home-based care. In a briefing on 23 June 2020, the health minister of said that more than 50 000 CHWs had been deployed and had successfully screened almost 20 million people in vulnerable communities. These CHWs were appointed either directly by the provincial departments or through non-governmental organisations.

The table below depicts the number of **additional** CHWs appointed by the provincial departments as at 30 June 2020, according to the Personnel and Salary System reports:

### *Additional CHWs appointed as at 30 June 2020*

Province	Number of additional CHWs appointed
Eastern Cape	1 190
Free State***	632
Gauteng***	282
KwaZulu-Natal*	0
Limpopo*	0
Mpumalanga	412
Northern Cape*	0
North West	1 508
Western Cape**	0
<b>Total</b>	<b>2 587</b>

\* No additional CHWs were appointed. The department utilised existing CHWs for screening

\*\* CHW appointed through NPOs. An additional amount of R24 million was budgeted for, but only R1,9 million was paid to the NPOs in July 2020 for the purpose of screening the community.

\*\*\* These employees were not appointed as CHWs, but as additional healthcare workers that were employed on a contract basis to assist with community screening

## Testing

By 20 June 2020, the National Health Laboratory Services (NHLS) had increased their number of laboratories performing Covid-19 tests from six to 17. They had also deployed 67 mobile testing units across the country to assist with screening, specimen collection and testing.

The National Institute of Communicable Diseases indicated that the shortage of testing kits contributed to the testing backlogs, and by 31 May 2020, the mean turnaround time for testing (time from taking the sample until the result is available) was 12 days. However, more testing kits and a change in testing strategies reduced the backlog, and by 27 June 2020, the mean turnaround time was down to five days.

The NHLS had used R250 million from the Solidarity Fund to cover the cost of testing for provincial departments until 9 June 2020. The NHLS requested that the billing of the departments be backdated to 9 June 2020, and the DG of Health approved the request. As at 31 July 2020, the NHLS had spent R1 746,87 million on the acquisition of testing kits, equipment, mobile units, PPE, consumables, etc.

The audit focus was to determine 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. However, the NHLS was slow to submit the key information necessary for audit purposes. They have since provided the information to the auditors on 11 August 2020 and any findings will be included in future reports.

### *Case management system and contact tracing*

On 16 April 2020, the NDoH appointed a service provider to provide a national Covid-19 surveillance and case management system, which was intended to strengthen Covid-19 laboratory- and hospital-based reporting. The total value of the six-month contract was R18,19 million, with R8,9 million already paid to the service provider at 30 June 2020.

The service provider initially provided a lab surveillance solution to the government. The national Covid-19 surveillance and case management system was an extension of the above solution with addition of the following services:

- Individual case management (location, symptoms, progress, hospitalisation, ICU admission, ventilator requirements and outcomes, mortality)
- Contact management
- Hospital bed capacity and utilisation at all facilities accepting Covid-19 patients
- National ventilator capacity and utilisation
- National hospital healthcare worker health monitoring

The above are achieved by implementing specific system modules at hospitals to enable monitoring of hospital capacity and individual case management, as well as the pathology laboratory surveillance application programming interfaces that facilitate documentation of all positive results from all private and public laboratories in real time.

The communication and contact support of positive cases was performed via text messaging using a Track and trace system procured on 1 April 2020, only for the duration of the declared pandemic. At the date of this report, the testing of these two systems was still in progress

## **TEMPORARY QUARANTINE SITES AND FIELD HOSPITALS**

This intervention can be divided into two main categories, namely quarantine sites and field hospitals.

### *Quarantine sites*

Quarantine is for people or groups who are asymptomatic, but who may be infected with Covid-19. Quarantine keeps these people away from others so that they do not unknowingly infect anyone else. The provincial departments of health assess potential quarantine sites, both state owned and privately owned, that have been identified by the Department of Public Works and Infrastructure (DPWI) to see if they meet the necessary criteria.

The DPWI bears the cost of the quarantine sites, except in the NW and KZN, where the provincial health department is carrying the cost of some sites and has spent R3,10 million and R38,79 million, respectively, as at 31 July 2020. The implementation of the initiative and our audit observations are detailed in the section on quarantine sites.

### *Field hospitals (temporary facilities)*

Field hospitals (temporary facilities) are set up by either converting existing infrastructure or buildings into a temporary structure or erecting new temporary facilities to increase available beds. According to the NDoH guidelines for quarantine and isolation in relation to Covid-19 exposure and infection, there are several options to provide temporary healthcare facilities to cater for surge capacity for Covid-19 patients which include:

- using existing hospital capacity – CURRENT BEDS requiring SYNCHRONISED DECANTING
- repurposing areas within the hospital to accommodate the pre-calculated surge capacity

- community facility repurposing – convert existing buildings into temporary facilities. This can include using existing structures for mass care centres
- using schools and university residences, conference centres and stadiums
- erecting new temporary facilities on a site within a hospital's grounds or on a separate site.

To date, the main operating field hospitals were in the Eastern Cape, Gauteng, KwaZulu-Natal and the Western Cape. Most of the temporary facilities are for utilisation and repurposing of existing areas in hospitals.

#### *Status of temporary facilities as at 31 July 2020*

Province	Number of hospitals identified for temporary facility / structure	Number of facilities / structures used
Eastern Cape	9	1
Free State	1	0
Gauteng	2	1
KwaZulu-Natal	18	4
Mpumalanga	15	6
Limpopo	10	1
Northern Cape	1	0
North West	4	4
Western Cape*	6	3
<b>Total</b>	<b>66</b>	<b>20</b>

\* One of the field hospitals was funded by MSF (Medécins Sans Frontières/Doctors Without Borders)

#### *Department of Defence: quarantine sites and field hospitals*

The department planned to establish medical facilities to assist the government to respond to the pandemic. These facilities would have been implemented once the impact of the pandemic had been assessed and only if the NDoH needed the support. As a result, there was no specific timeframe for this intervention. The implementation of the initiative and our audit observations are detailed in the section on Defence frontline services.

Overall, the health sector was rolling out the above initiative, but were experiencing some challenges with this because they were in the forefront of managing the pandemic. This has filtered through to the audit process and resulted in significant delays of the auditing of these initiatives in the various provinces.

## AUDIT EXPERIENCE

The audit teams have engaged extensively with management, accounting officers, national and provincial executive authorities, and the chief executive officer and chairperson of the NHLS board to identify key significant risks and discuss the need to design and implement preventative controls.



### *Organisations with which we are engaging*

Organisation	Contribution in Covid-19	Type of engagement
Civil society organisations	Community-based organisation that advocates for the rights of the citizen	To identify additional risks in these areas. These risks were incorporated into the audit process, and procedures were developed to address these risks
Special Investigating Unit	Investigation of alleged fraud and corruption	To identify additional risks and possible areas of collaboration when testing supply chain management
Office of the Health Standard Compliance	Inspection of field hospitals to ensure they comply with the norms and standards as gazetted	To identify additional risks and possible areas of collaboration when testing field hospitals

The health sector is at the forefront of dealing with the Covid-19 pandemic, which has caused some significant audit challenges, including the following:

- The department's staff members were redeployed to assist where necessary, which affected their availability to assist with the audit process.
- Due to the increase in positive cases of the departments' staff, a number of key employees were temporarily unavailable as they had to self-isolate or were in quarantine.
- Buildings were often temporarily closed when the positive cases were reported, which resulted in staff being unavailable and increased the turnaround time for key information requested as the departments operated on skeleton staff.
- Slow response to requested information across the sector negatively impacted the progress on the various audits.
- When requested information was subsequently submitted, it was significantly incomplete. Significant delays were experienced in obtaining all the relevant information to perform the audit of the procurement processes.
- For the community screening initiative, delays were extensive to the extent that information was received after a month of it having been requested in certain provinces.

Therefore, the audit was taking much longer than expected. We had communicated these delays to the accounting officers and executive authorities throughout the health sector. To date, we have not received formal responses from them in this regard, but we have noticed a slow increase in the submission of outstanding information.

### ***PREVENTATIVE CONTROLS***

Our previous sector reports noted that the departments of health in the provinces were historically plagued by high volumes of irregular expenditure, poor maintenance of equipment and poor workmanship for infrastructure projects. The pandemic required these departments to spend significant additional amounts of money to curb the impact of the pandemic. The implementation of preventative controls for the sector was therefore of the utmost importance. Our initial planning engagements with the accounting officers included a discussion and confirmation of preventative controls implemented by management to ensure the effective, efficient, economic, transparent and fair spending of Covid-19 funds.

Only the following entities in the sector noted the following controls they had implemented to assist them:

### *Controls implemented by entities in healthcare sector*

Province	Preventative controls implemented
Eastern Cape	All transactions relating to Covid-19 must be approved by the chief financial officer. This control was in place from July 2020
Western Cape	<ul style="list-style-type: none"><li>• Centralising the procurement function for all bulk PPE purchases</li><li>• Centralising all PPE distribution</li><li>• Monitoring of Covid-19-related expenditure via dedicated Scoa codes</li><li>• The Western Cape Provincial Treasury established a central procurement advisory committee with the core purpose of providing provincial treasury oversight over all Covid-19-related expenditure above R5 million</li><li>• A special Covid-19 departmental bid adjudication committee and special Covid-19 quality control was established. Internal control specialists were redeployed to the central PPE warehouse to verify batches.</li><li>• Segregation of duties was enhanced by splitting the sourcing (quotations), governance (placing orders) and delivery (receipt of goods) functions</li></ul>
NHLS	Procurement has been centralised
Limpopo	Procurement has been centralised

The strength of the preventative controls implemented and the impact of not implementing adequate controls will be the focus for this and future reports.

## ***RISK ASSESSMENT***

Through our risk assessments of the health sector, we identified various risks relating to the procurement of the Covid-19-related goods and services which management should pay attention to. Our risk assessment procedures included an active scanning of the market to identify possible irregularities reported on or allegations of possible fraud schemes.

The assessment highlighted the following risks in the procurement processes followed in Eastern Cape, KwaZulu-Natal and Limpopo which we communicated the accounting officers to highlight the need for controls to prevent the risks from materialising:

- Very high prices charged or pricing that exceeds the Covid-19 PPE price thresholds set by the National Treasury
- Procurement of goods and services not following relevant legislation and policy
- Possible conflict of interest between suppliers/third parties and employees, which could result in preferential treatment of specific suppliers
- Goods procured from service providers with no proven track record
- Goods procured from suppliers who are not listed on National Treasury's Central Supplier Database
- Poor quality of PPE equipment procured or not meeting required standards
- Suppliers paid without proof of delivery
- Duplicate payments to suppliers
- Contracts awarded to suppliers whose tax matters had not been declared by the South African Revenue Service to be in order or without verifiable banking details
- Orders placed without the necessary purchase orders being issued
- Misappropriation of (earmarked) funds and insufficient control over donated resources (PPE/inventory)
- Lack of segregation of duties (skeleton staff), leading to a weakened procurement system

We performed similar risk assessments in Gauteng and the NDoH but the results have not yet been communicated to the auditee and will be included in future reports.

## ***Data analytics and supply chain management reviews currently in process***

In response to the risk areas identified through the risk assessments, we designed various data analytic tests to flag high-risk suppliers.

Our data analytic tests included the following:

- Exorbitant spending against suppliers when compared to their pre-Covid-19 spending
- Suppliers used for the first time during the Covid-19 period
- Bank account numbers that were different from the details on the CSD system
- Payments processed through sundry payments
- Large round payments

The suppliers flagged in the data analytics results were risk rated based on the amount and number of exceptions identified through the analytic tests. We typically consider a supplier risk rating of 40 and higher as being of significant risk. The results of our analytics reflected various suppliers that obtained a rating of 40 and higher. This further indicates the high-risk environment that the health sector has been operating in during this time. The results of the data analytics then informed the suppliers we have selected for testing of the appointment process in detail. The results of our media scanning also directed our selection of the suppliers and the provinces on which to focus our efforts. This is in line with the provinces flagged by the payment analysis.

To date, we have selected 21 specific contracts on the flagged provinces, as follows:

- Gauteng – 10 contracts
- Limpopo – 2 contracts
- Eastern Cape – 2 contracts
- Kwa-Zulu Natal – 7 contracts

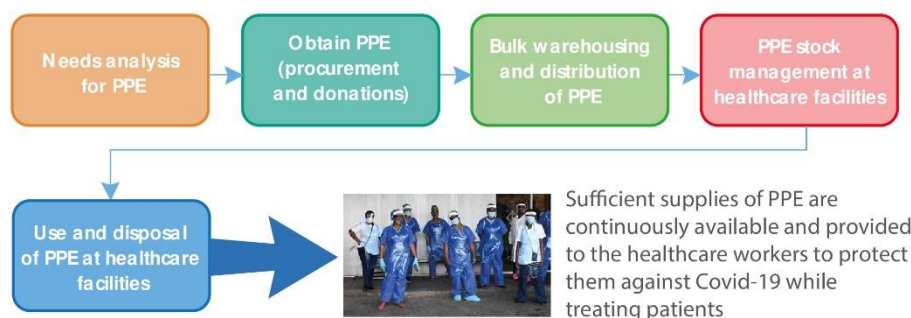
As part of the audit process, the different audit teams selected additional contracts for testing. We have commenced with procurement and contract management testing. The above 21 contracts are included in the 116 reflected in finding 3 below. Some of the risks identified above have already materialised as findings as noted the sections below. We will focus on the appointment processes followed in cases where suppliers were awarded contracts and paid amounts for possible inflated prices on PPE items and poor quality of PPE items delivered.

## ***PPE FOR HEALTHCARE WORKERS***

### ***Status of audit***

The ideal value chain should ensure an uninterrupted supply of PPE items to healthcare workers. The value chain below depicts the ideal chain of events from when the healthcare sector determines the need for PPE during the pandemic up to the time when sufficient supplies of PPE are continuously available at healthcare facilities and provided to healthcare workers to protect them against the coronavirus while treating patients.

#### ***PPE value chain***



We expect to conduct audit work at the provincial departments of health on all the areas included in the value chain above. However, for purposes of this report, our focus was mainly on needs analysis and obtaining PPE items from suppliers.

Relating to obtaining PPE from suppliers, the audit focus was to determine whether:

- the procurement process followed complied with relevant National Treasury Regulations
- the PPE items were obtained at prices regarded by the National Treasury as market related during the Covid-19 pandemic
- the suppliers delivered the PPE within the required lead times to ensure an uninterrupted supply of PPE to the healthcare facilities
- payments made to suppliers were for PPE actually received.

This audit was performed by a multi-disciplinary team consisting of individuals from regularity audit, performance audit, investigation, and information systems audit units.

## Analysis of PPE expenditure

### PPE procured from voted funds

PPE is a normal expense item for departments and entities in the health sector. The delay in creating the Covid-19 fund code and reprioritising budgets resulted in departments buying PPE with voted funds. This resulted in difficulties in obtaining the total Covid-19 PPE-related expenditure for the healthcare sector.

#### Total spending on PPE from the Scoa items in NT classification circular accounts as at 31 July 2020 \*

Province	Total spent as per the Basic Accounting System
Eastern Cape	R71,57 million
Free State	R7,63 million
Gauteng	R1 370,74 million
KwaZulu-Natal	R282,24 million
Limpopo	R0,11 million
Mpumalanga	R301,43 million
Northern Cape	-
North West	R6,57 million
Western Cape	R83,07 million
National department	R5,44 million
<b>Total</b>	<b>R2 128,82 million</b>

\* Unaudited figures

### Key audit observations: obtaining items of PPE

The figure on the right indicates the minimum types of PPE that healthcare workers had to use during the Covid-19 pandemic, according to the World Health Organization and NDoH's classifications. For audit findings 1 and 2 below, only these PPE items were included in our scope of work, even though the healthcare sector regards biohazard and body bags, digital thermometers, disinfectants and sanitisers as PPE. However, audit finding 3 under this section and onwards includes some of these PPE items.



## 1. PPE items not ordered at prices regarded by the National Treasury as market related

### Background

Instruction notes 8 of 2019–20, 3 and 5 of 2020–21 issued by the National Treasury, indicate the maximum prices regarded by the National Treasury as realistic and market related during the Covid-19 pandemic, to be paid by the departments for selected PPE items. The departments could order PPE items from existing contracts or any other supplier, but the prices at which the departments ordered the PPE items had to be equal to or lower than the prices in these Instruction Notes.

At provincial level, either the medical depots<sup>1</sup> and/or the departments' supply chain management directorates<sup>2</sup> ordered PPE from suppliers. At commencement of the audit, some of the departments had ordered a number of PPE items but payments have not yet been made for these orders because some of the suppliers were not able to deliver some of the ordered items within the applicable lead times. As these payments had not yet been made, the PPE ordering information was extracted from the stock management systems maintained by the medical depots and/or the stock reports, ordering registers, schedules, or spreadsheets maintained by the departments' supply chain management directorates.

We analysed the information to determine whether the prices at which the departments ordered the PPE items were equal to or lower than the prices prescribed by the National Treasury.

### Detail of audit finding

Seven of the nine provinces ordered PPE items from suppliers at prices in excess of the maximum prices prescribed by National Treasury. The table below includes examples of orders that were placed for gloves, aprons, gowns, face-piece respirators and medical/surgical face masks at prices in excess of the maximum prices prescribed by National Treasury.

### Examples of orders placed at prices above those prescribed by National Treasury

Province	Stock management systems, ordering registers, spreadsheets and/or stock reports used in the province				National Treasury unit price (R)	Total in excess of prescribed price (R)	Percentage in excess of prescribed price
	Order number	Item description	Quantity ordered	Single unit price (R)			
Eastern Cape	508565 ⑧	Surgical gloves	150 000	3,22	1,48	261 000	118%
	508569 ⑧	Surgical gloves	150 000	3,16	1,48	252 375	114%
Gauteng	4250902880 ⑤	Face piece respirators	500 000	55,51	37,80	8 855 000	47%
	4250901797 ⑤	Medical/surgical face masks (type I)	400 000	68,00	10,22	23 112 000	565%
KwaZulu-Natal	E0258612 ⑤a	Examination gloves	2 500 000	1,83	0,90	2 325 000	103%
	E0258616 ⑤	Aprons	3 000	15,51	2,97	37 620	422%
Mpumalanga	MP/20/7679 ⑧	Examination gloves	2 000 000	1,15	0,96	380 000	20%
	MP/20/8453 ⑧	Examination gloves	300 000	1,15	0,96	57 000	20%
North West	8667201 ⑤	Examination gloves	300 000	2,77	0,46	693 000	502%
	8679901 ⑤	Examination gloves	300 000	1,60	0,46	342 000	248%
Northern Cape	HP-009177 ⑧	Examination gloves	400 000	1,08	0,96	48 000	12%
	HP-009337 ⑤a	Disposable gowns	100 000	127,50	113,40	1 410 000	12%
Western Cape	751823 ⑤	Examination gloves	328 000	1,90	0,46	472 320	313%
	751840 ⑤a	Examination gloves	2 600 000	1,94	0,90	2 704 000	116%

⑧ National Treasury instruction note 8 of 2019–20 is applicable for this order

⑤ National Treasury instruction note 5 of 2020–21 is applicable for this order

⑤a Amendment to the National Treasury instruction note 5 of 2020–21 is applicable for this order

<sup>1</sup> The bulk of the PPE in the Eastern Cape, Mpumalanga and North West provinces is procured by the medical depots

<sup>2</sup> In Gauteng, KwaZulu-Natal, Limpopo, Northern Cape and Western Cape, the departments of health's supply chain management directorates procure the PPE. For the Free State the procurement was mainly done by the provincial treasury.

Instruction notes 8 of 2019–2020 and 3 of 2020–21 did not provide guidance in terms of the approval required where departments ordered PPE items at prices in excess of the prices prescribed by the National Treasury. This was only addressed on 28 April 2020, when instruction note 5 of 2020–21 was issued which prescribes in paragraph 4.9 that a price variance of up to 10% of prices in the Instruction Note will be allowed. Any deviation to this provision had to be approved by the accounting officer, based on a justifiable reason.

All the provinces included in the table above, except Mpumalanga and Limpopo, ordered PPE items at prices exceeding the 10% threshold during the period 28 April 2020 (when instruction note 5 became effective) and 30 June 2020. We noticed the following regarding the approvals of these orders that were placed during this period:

- The Eastern Cape did not confirm whether they obtained the required approvals for the orders in excess of the maximum allowable thresholds.
- For Gauteng, no deviations were presented to the accounting officer for approval.
- Kwa-Zulu Natal obtained the required approvals for most of the orders that were placed.
- North West obtained the required approvals for some of the orders placed. The accounting officer signed the approval letter on 14 May 2020, but some orders were placed prior to this approval.
- The Northern Cape did not obtain the required approval from the accounting officer for the order that exceeded the maximum allowable threshold.
- The Western Cape obtained the required approvals from the accounting officer for all these orders placed. One order was also approved by the provincial treasury's central procurement advisory committee.

During the conversations, we also noticed that even though some suppliers were not able to provide the required PPE at the prescribed prices, the departments chose to order the PPE from these suppliers to ensure a continued supply to protect their healthcare workers.

#### *Potential loss per province*

Seven of the nine departments placed orders for PPE items at prices in excess of the prices regarded by the National Treasury as market related and, in some instances, these departments had already paid the suppliers for these orders. The risk therefore exists that departments could also be required to pay suppliers accordingly in future.

To find the extent of this, we conducted high-level audit work on the PPE ordering information which they extracted from the stock management systems maintained by the medical depots and some ordering registers, stock reports and/or spreadsheets maintained by the departments supply chain management directorates. Based on this information, between February and 30 June 2020, the departments placed 973 orders for gloves, medical/surgical face masks, protective eyewear, face shields/visors, gowns, coveralls, aprons, overshoes and face piece respirators.

The outcome of the high-level audit work indicated that at least 83 of these orders (9% of the total orders) included PPE items that might have been ordered at prices in excess of the maximum prices prescribed by the National Treasury and the suppliers could possibly be paid accordingly. For these orders, the departments might have ordered PPE items worth at least R142 568 754 in excess of the maximum prices prescribed by the National Treasury. The table below depicts the number, rand value and percentage of the orders that might have been ordered at prices in excess of the prescribed prices.

**Number, value and percentage of orders potentially ordered above prescribed prices**

Province	Orders placed with suppliers as at 30 June 2020		Orders with PPE items possibly ordered at prices in excess of the prescribed prices that might be paid		
	Number	Rand Value	Number	% of orders placed	Rand value in excess of prescribed prices
Eastern Cape	98	R72 557 897	16	16%	R2 074 729
Free State	19	R21 223 203	0	0%	R0
Gauteng	120	R2 789 635 588	10 (refer to paragraph below)		R113 271 816
KwaZulu-Natal	70	R190 130 930	4	6%	R5 152 620
Limpopo	281	R570 737 911	0	0%	R0
Mpumalanga	139	R254 965 242	9	6%	R1147 243
North West	173	R114 317 888	39	23%	R6 700 026
Northern Cape	6	R51 055 885	2	33%	R1 458 000
Western Cape	67	R342 359 212	3	4%	R12 764 320
<b>Total</b>	<b>973</b>	<b>R4 406 983 756</b>	<b>83</b>	<b>9%</b>	<b>R142 568 754</b>

For Gauteng, the stock report containing the orders placed that was provided by the department, did not include the dates on which the 120 orders had been placed. Therefore, we could not determine which of the National Treasury Instruction Notes were applicable to these orders to compare the order prices to the maximum prices prescribed by the National Treasury at the time. However, we selected 10 orders and traced it back to the purchase order documentation. All 10 orders were placed at prices in excess of the maximum prices prescribed by the National Treasury. The rand value in excess of the prescribed prices for the 10 orders was R113 271 816.

Although the provincial treasury was mainly responsible for the bulk procurement of PPE in the Free State, during the audit, we were provided with a list of 19 orders placed by the Free State department of health for PPE. Therefore, audit work was conducted on the 19 orders, and none of those were ordered at prices in excess of the prices prescribed by the National Treasury.

The number of orders placed with suppliers as per the table above excluded the cancelled orders as at 30 June 2020. However, it is possible that some of these orders could have been cancelled during July or August. Sometimes, orders were cancelled if the suppliers could not deliver the PPE items within the applicable lead times.

### Recommendations

The departments must 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 before payment is made.

It is important that the departments should investigate these matters to determine the reasons for non-compliance with the applicable Instruction Notes and take appropriate corrective actions or refer it to the relevant public body for further investigation.

### Response to audit observation

The accounting officers indicated that the following corrective actions will be implemented:

- The Eastern Cape department of health established a provincial contract specifically for Covid-19 PPE which will be managed by the department's supply chain management directorate. A provincial pharmaceutical procurement unit will also be established to manage all pharmaceutical procurement, including the procurement of PPE.
- The Gauteng department of health will ensure that all future orders placed for PPE items will be done in line with the Instruction Notes issued by the National Treasury. The accounting officer also established a procurement committee to oversee the procurement process and to ensure that the Instruction Notes issued by the National Treasury are



adhered to. If any non-compliance with the prescripts is identified, investigations and consequence management will be undertaken by the accounting officer.

- The KwaZulu-Natal department of health did not provide corrective actions.
- The North West department of health will, as far as possible, procure PPE by using the available transversal and provincial contracts, thereby limiting procurement on a quotation basis. The department indicated that they are in the process of reporting those suppliers that charged highly inflated prices to the Competition Commission.
- The Mpumalanga and Western Cape departments of health will take the prices prescribed by the National Treasury into account prior to placing PPE-related orders and will continue to obtain approval from the accounting officers if order prices exceed the prices prescribed by the National Treasury.

Despite several attempts to obtain management responses, none had been provided by the Northern Cape department of health, at the time when this report was concluded.

## 2. Extended lead times to deliver PPE

In all the provinces, some PPE items ordered had not been delivered within the applicable lead times. The delivery lead times for transversal contract suppliers usually vary between 14 and 21 days and the delivery lead times for procurement via quotations are usually 21 or 22 days.

As at 30 June, 278 of the 973 (29%) orders placed for PPE for the Covid-19 pandemic included some PPE items that had not been delivered timeously. The table below includes examples of orders with delivery lead times of up to 106 days:

### Examples of orders with extended lead times

Province	Order number	Item description	Order date	Delivery date	Delivery lead time
Eastern Cape	508540	Gowns	24 March 2020	30 June 2020	98
	508543	Medical/surgical masks	24 March 2020	30 June 2020	98
Free State	HH-042602	Coveralls	26 March 2020	30 June 2020	96
	HH042599	Gowns	26 March 2020	30 June 2020	96
KwaZulu-Natal	E0283258	Gowns	16 March 2020	30 June 2020	106
	E0283407	Face piece respirators	30 March 2020	30 June 2020	92
Mpumalanga	MP/20/7616	Aprons	26 March 2020	4 June 2020	70
	MP/20/7730	Face shields/visors	31 March 2020	10 June 2020	71
North West	8435901	Surgical gloves	19 March 2020	30 June 2020	103
	8449801	Surgical gloves	20 March 2020	30 June 2020	102
Western Cape	751942	Coveralls	9 April 2020	30 June 2020	82
	751580	Face piece respirators	27 March 2020	30 June 2020	95

These are the actual delivery dates. For the remainder, the entire or a part of the order has not been delivered as at 30 June 2020.

Some of these orders could have been cancelled since 30 June 2020.

Gauteng did not provide us with the detailed information per order to enable us to determine whether specific orders were delivered by suppliers in a timely manner. However, it was determined through the consolidated stock report that as at 30 June 2020, 37 orders placed by the Gauteng department of health valued at R1 092 million, had not been delivered on time.

For Northern Cape, even though the department indicated that all the orders placed for PPE had been delivered, the delivery notes for orders to the value of R9 343 836 were either not provided to us to confirm that these were delivered by the suppliers, or the delivery notes were not signed by an official from the department.

In Limpopo, the department issued orders that included the agreed lead times to the suppliers. In an event where a supplier could not deliver the required PPE within the agreed lead time, the order was automatically terminated unless extension of the delivery period was specifically granted. As a result, there were no examples of orders with extended lead times.

One of the reasons why the suppliers did not deliver some PPE items to the departments within the applicable lead times is mainly because they did not have enough stock of certain PPE items for long periods during the pandemic. The departments cited the extended lead times to deliver PPE items as the main reason for the low availability of certain PPE items at some healthcare facilities in the respective provinces. We will do more work during the next part of the audit to unpack the reasons and root causes for the lead times.

### **Recommendations**

The departments should communicate instances where the transversal contract suppliers failed to deliver the PPE items within the agreed lead times to the National Treasury. According to the National Treasury's instruction note 8 of 2019-20, "the National Treasury has engaged with transversal contract suppliers of these items and has put measures in place to ensure continuity of supplies" during the Covid-19 pandemic. Also, where appropriate, the departments could consider imposing penalties for late delivery by the suppliers.

The departments should also regularly follow up on these long outstanding orders and in cases where certain suppliers repeatedly failed to deliver orders within a reasonable timeframe and without justifiable reasons, the departments should consider not placing orders with these suppliers in future.

### **Response to audit observation**

The accounting officers indicated that the following corrective actions will be implemented:

- The Eastern Cape department of health started a process of cancelling long outstanding orders with suppliers. More recent orders are being followed up and suppliers are either revising their delivery date or requesting cancellation. The pharmaceutical procurement unit that will be established will have a dedicated section to deal with contract management and the monitoring of suppliers' performance.
- The Free State department of health has dedicated officials to monitor all PPE-related procurement. Monitoring and reporting are done on a weekly basis.
- The Gauteng department of health updated the supplier appointment letters to reflect the agreed delivery dates.
- The KwaZulu-Natal department of health did not provide corrective actions.
- The Mpumalanga department of health will continue to follow up on long outstanding orders. Partial deliveries are also accepted from suppliers to avoid any stock-outs of certain PPE items.
- The North West department of health will continue to follow up on long outstanding orders. The department is already classifying some suppliers as dormant once they do not supply on time or do not respond to requests for quotations. Dormant suppliers are not invited to quote for new needs of the department. The department will also communicate instances where the transversal contract suppliers failed to deliver the PPE items ordered within the agreed lead times to the National Treasury. Also, in future, the medical depot will take action against defaulting suppliers.
- The Western Cape department of health will continue to follow up on long outstanding orders.

Similarly, despite several attempts to obtain management responses for this observation from the Northern Cape department of health, none had been provided at the time when this report was concluded.

## **3. Procurement and contract management: non-compliance with supply chain management prescripts**

### *Background and summary of audit status*

Procurement of PPE was tested against the current Treasury Regulations. At the date of this report, 116 contracts with a contract value of R2 214 million had been selected for testing across the sector. A total of R1 676 million had been paid on these awards as at 30 June 2020.

From the extent of testing as at 30 June 2020, the following supply chain management non-compliance audit findings have been reported to the accounting officers of the respective health departments for audits where the audit work was on track:

*1. Specifications not indicated on awards and submissions (KZN, GP)*

The Instruction Notes issued by the National Treasury included procedures to be followed with regard to specifications of items procured from suppliers other than those listed in the annexure of the National Treasury instruction note 8 of 2019-20 paragraph 3.7.6.

When we assessed the awards, submissions and delivery notes in relation to goods delivered, we noticed that no mention was made of the actual specifications that had to be complied with for the goods to be delivered, as required by instruction note 8 of 2019-20 paragraph 3.7.6.

This was noted in 20 awards to the value of R95,2 million for KZN and in 23 awards to the value of R862,5 million for GP.

Furthermore, it was noted that for three quotations to the value of R21,7 million for KZN, the actual specifications that had to be complied with for the goods ordered, as required by the subsequently issued instruction note 5 of 2020-21 paragraph 4.6, were not indicated.

*2. Insufficient controls over receiving of goods (KZN)*

We found discrepancies in the controls relating to the receiving of goods associated with Covid-19 transactions. The department had implemented a goods received notebook which was supposed to be signed on delivery of goods, as well as a requirement for the supplier goods delivery note to be signed by a department official. The following discrepancies were noted relating to these controls:

- The supplier delivery note and the department's goods received notebook were signed by two different people for at least seven individual deliveries for items of PPE.
- Five delivery notes were not signed for at least seven deliveries of items of PPE.
- One goods received notebook was not provided for the delivery of 6 274 protective cover suits.
- Goods were delivered by a supplier (overseas-based main contractor) other than the supplier who had been awarded the quotation (local-based agent) for an order of 100 000 N-95 masks.

*3. Goods received and accepted other than those ordered (KZN, GP)*

Detail of audit finding (1) – PPE of inferior quality accepted other than those ordered and paid for (KZN)

The department in KZN ordered 200 000 N95 or equivalent FFP2 at a price of R49/unit. The delivery note from the service provider indicated that the 100 000 N96/FFP2 masks had been delivered. The invoice, however, included a note that the price and quantities were adjusted to accommodate FFP1s, which were mistakenly delivered and accepted by the department.

On the invoice, the supplier indicated the supply of 14 980 FFP1 masks at R40 and the balance of 85 020 N95/FFP2 masks at R49/unit, while evidence available suggested that the number of FFP1 masks actually delivered was 30 835 units.

Despite the partial adjustment to the unit pricing, acceptance of these units resulted in possible financial losses of R1 215 400 (30 385 inferior quality units that should have been rejected at R40/unit).

This was also in contravention of the minimum acceptable standard for masks that have to be procured through the Instruction Notes covering PPE units, which are prescribed by the WHO standards.

Detail of audit finding (2) – same price paid for smaller units delivered and accepted than those ordered (KZN)

We established that the department in KZN had placed an order for 30 000 units of 500 ml sanitisers on 27 March 2020 at a unit price of R95.

The invoices and delivery notes indicated that of the 30 000 units delivered, 25 000 were 400 ml units and not 500 ml. Therefore, only 5 000 units were of the required specifications ordered of 500 ml.

Furthermore, the department paid the same price of R95 per unit for the 400ml units which resulted in a potential overpayment of R475 000.

Detail of audit finding (3) – items delivered, accepted and paid for other than those ordered (GP)

Goods were received and paid for by the department that were not the same as the ones specified in the original order documents. The department ordered the following:

- Surgical masks x 3 000 000
- N95 Face mask x 300 000
- FFP2 Face mask x 100 000
- Jumpsuits x 250 000

However, the supplier delivered 300 000 disposable aprons at a cost of R255 000, which were accepted and paid for by the department.

*4. Transactions noted with tax-related discrepancies (GP, KZN)*

Detail of audit finding (1) – transactions entered into with suppliers who are not tax compliant at order date (KZN)

Some contracts were awarded to suppliers whose tax matters had not been declared by the South African Revenue Service to be in order, as required by treasury regulation 16A9.1(d).

On assessment of the central supplier database's supplier compliance history, it was noted that as at the date of the order, four suppliers had a non-compliant tax status indicating that the tax affairs were not in order.

Awarded contracts to the value of R9,6 million, of which R8,2 million had already been paid to the suppliers as at 30 June.

Detail of audit finding (2) – transactions entered into with suppliers who are not tax compliant at order date (GP)

We could not obtain sufficient appropriate audit evidence that contracts had been awarded to suppliers whose tax matters have been declared by the South African Revenue Service to be in order, as required by as required by treasury regulations 16A9.1(d). This was due to the procurement documents submitted for 23 contracts not containing the relevant CSD reports.

These contracts had a value of R862 545 338.

*5. Other items of PPE: pricing-related discrepancies (GP, KZN, NW)*

The departments did not always adhere to the Instruction Notes issued by the National Treasury, as they ordered PPE items at prices in excess of the maximum prices prescribed by the National Treasury.

Detail of audit finding (1) – payment for goods delivered at prices higher than prices in National Treasury Instruction Note annexure A (KZN)

The department ordered 162 000 units of 500 ml sanitisers from four suppliers during March and April 2020 at varying unit prices of R93,18; R95,00 and R105,80.

As instruction note 8 of 2019–20 was still applicable until 14 April 2020, the maximum permitted price for 500 ml sanitisers was R103,50. The department received and paid for a total of 32 000 units for from two suppliers at a unit price of R105,80 during this period, resulting in a potential financial loss of R73 600.

The department ordered 50 000 units of 1 L hand sanitisers on 15 April 2020 at R195,50 per unit. Specific prices of R110,40 per unit were included for the 1 L variant of hand sanitiser in annexure A to instruction note 8 of 2019–20.

By not keeping to the maximum permissible price per unit per the Instruction Note, the department incurred an estimated loss of R4 255 000.

Detail of audit finding (2) – payment for goods delivered at prices higher than the National Treasury Instruction Note annexure A (GP, NW)

Although annexure A to Instruction Note 8 of 2019–20 does not contain specific prices for the 5 L variant of hand sanitiser, the GP department ordered 444 units of 5 L sanitisers from one supplier during March and April 2020 at a unit price of R650,00, whereas the maximum calculated permitted price was R552 per unit.

This resulted in an estimated loss of R43 512 for the GP department.

Similarly, the NW department ordered 1 000 units of 5 L hand sanitisers from one supplier during March and April 2020 at a unit price of R758,00, whereas the maximum calculated permitted price was R552 per unit.

This resulted in an estimated loss of R206 000 for the NW department.

*6. No evidence submitted to support deviations due to emergency procurement (GP, NW)*

We noticed that for the procurement of certain PPE items, the departments had deviated from competitive bidding processes as allowed by instruction note 8 for 23 contracts in GP and one in NW; however, no evidence was provided that the departments had invited as many suppliers as possible to bid and thus selected the preferred suppliers using the competitive bid committee system.

The relevant contracts amounted to R862 545 338 in GP and R758 000 in NW.

*7. The department did not report procurement of items not listed in annexure A to instruction note 8 of 2019–20 to provincial treasury within 30 days (GP)*

Four instances of items procured as emergency in terms of paragraph 3.5 of instruction note 8 of 2019–20 were not reported to the provincial treasury within 30 days. The total emergency procurement not reported amounted R6 969 550.

*8. Emergency procurement commitment letters were awarded but no system-generated orders had been placed as at 30 June 2020 (GP)*

Instances were noted where 27 contracts had been awarded as commitment letters to the value of R275 028 665 were issued to suppliers during March, April and May 2020 through the emergency procurement process in response to the Covid-19 pandemic. However, as at 30 June 2020, no orders had been placed for these contracts.

These instances expose the department to possible circumvention of the supply chain processes and to incurring high commitments.

*9. Contracts awarded to service providers with no known history and capacity of supplying PPE (GP)*

The department awarded a contract to the value of R125 750 000 for certain PPE items to a service provider with no previous history of supplying or delivering PPE. Similar instances were identified, for which engagements with management were in progress.

Furthermore, no background check was run to determine the capacity and capability of the service providers to fulfil the obligations of the contract.

## **Recommendations**

The accounting officers of the respective departments, must ensure that:

- all requests for awards (quotations and tenders) clearly stipulate the suitable specifications as required by the relevant National Treasury Instruction Notes, which are in line with the required standards established by the NDoH and the World Health Organization
- all controls in place over the receiving of goods are re-evaluated to ensure that sufficient processes are in place and implemented to ensure that all goods received are in line with goods ordered and all documentation required to accompany the goods purchased has been submitted
- instances of irregularities should be fully investigated and the amounts identified as losses incurred should be reported accordingly

- controls are implemented to ensure compliance with the Instruction Notes and relevant supply chain management prescripts to prevent misuse/exploitation of emergency procurement legislation.

#### **Response to audit observation**

The department in KZN has since implemented the following internal control processes:

- A complete bid specification was distributed with the request for quotations (RFQ) to prospective suppliers.
- On return of the RFQs, the qualifying companies must provide samples that are evaluated by a multi-disciplinary technical evaluation committee (TEC) to ensure full compliance with the specifications.
- The purchase orders are only generated once the requisite processes have been complied with.

The KZN department has since committed to implement or has implemented the following key controls over this good receiving process:

- The goods received note (GRN) is updated immediately on receipt of all stock.
- Departments' supply chain management units have been performing regular/consistent follow-ups on outstanding orders and on undelivered items, and detailed notes are maintained for record purposes.
- All orders have since been finalised.
- All deliveries are being recorded on the goods receipt note immediately, rather than transcribing the information that was recorded on the delivery note.
- The department will conduct an investigation into the reported findings and should there be any losses incurred, disciplinary processes will be instituted and the loss recovered accordingly.

The supply chain management unit has strengthened all processes to ensure that at all relevant stages of the procurement process and assessments are performed to ensure that suppliers comply relating to their tax status. This step of validating the tax status is required prior to awarding the contract.

It should also be mentioned that the deficiency was identified by the KZN department after the order had been issued. The process was subsequently reviewed and the supplier's tax status confirmed and validated prior to the department processing the payment.

The NW department will consolidate all emergency procurement transactions not yet reported to the relevant treasury and make a submission by 14 August 2020. Management will also ensure compliance with the Instruction Note in future.

The accounting officer of GP has since implemented the following actions:

- Provided clear directives that all prescripts must be followed.
- Finance and supply chain management committees workstream and Covid-19 procurement committee were put in place to ensure compliance.
- Disciplinary action will be implemented.
- A forensic investigation is in progress that will inform the action to be taken.

### **Conclusion**

These findings did not come as a surprise as the sector historically incurred significant irregular expenditure as a result of poor internal controls, lack of investigations and lack of accountability.

Serious intervention is required by the leadership to ensure that these matters are addressed. Accounting officers, with full appreciation that their focus is on their core responsibility to manage the pandemic, must focus on the implementation of robust preventative controls. These preventative controls must be enforced and there should be zero tolerance for transgressions.

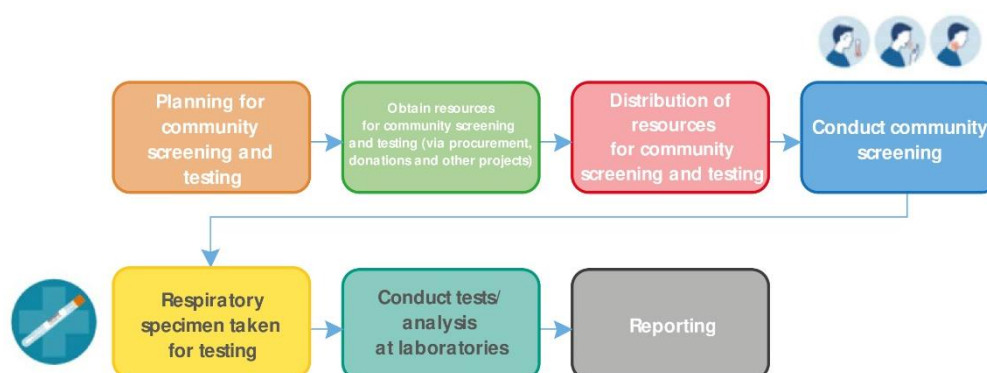
Departments must investigate unjustifiable awards of contracts fully and hold transgressors accountable. They should also fully disclose such instances as it relates to irregular expenditure and recover potential losses.

## COMMUNITY SCREENING AND TESTING

### Status of audit

We performed audits of community screening and testing at the respective departments of health and the NHLS. These audits focused on identifying inefficiencies during the appointment of healthcare workers to conduct screening, planning of community testing and capacitating of the mobile testing units and laboratories with the required resources to enable efficient community testing. The diagram below summarises the process flow we had planned to focus on:

### Process flow for community screening and testing



### Community screening

The planning of community screening, the appointment and deployment of CHWs and conducting the community screening are the responsibility of the provincial departments of health. To meet the urgent demand to conduct screening, provincial departments deviated from the normal appointment processes.

At the date of this report, the audit of the processes was under way. The outcome of this audit process will be reported in the next special report.

### Testing

It is the NHLS' responsibility to obtain the required resources for testing and conducting the individual tests in public health facilities.

The audit of the procurement of NHLS healthcare services had been scheduled to commence in June, but only commenced in August 2020 because of delays experienced with the submission of the updated Covid-19 expenditure registers by NHLS.

The initial registers submitted did not include all the relevant information required to select the samples to be tested. Therefore, we could not apply our planned tests of computer-assisted audit techniques and other performance information to community testing.

The main reasons for the delays were that the auditee was struggling to manage the Covid-19 pandemic, the demand for the tests was very high and employees were not always available because they contracted Covid-19. Management indicated that they were attending to our requests for information and would provide information as soon as possible. The reporting will be included in the next special audit report.



## Case management system and contact tracing

### Case management

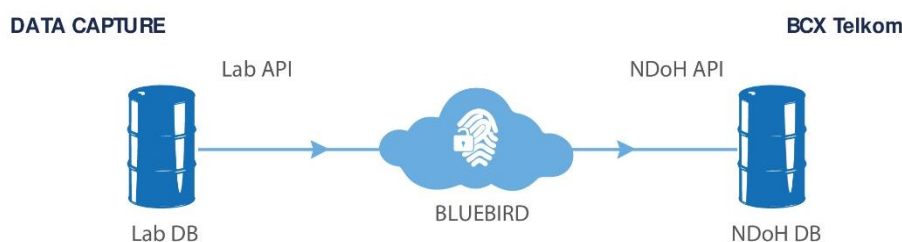
The services were procured through an emergency procurement process. The total value of the six-month contract was R18,19 million, with R8,9 million already paid to the service provider as at 30 June 2020. The testing of the procurement process of the service provider is in progress.

The audit team experienced significant challenges with obtaining requested information and gaining an understanding of the system to enable detailed testing. There was no clear project owner for the overall solution, which consisted of laboratory surveillance, communication of test results and contact tracing, and hospital management.

However, general computer controls, application controls and system development life cycle were being tested on the laboratory surveillance, and the communication of test results and contact tracing components, referred to as the national Covid-19 surveillance and case management system, and the Covid-connect systems, respectively. Findings were raised on completed focus areas and management had not yet responded to these findings.

Testing of the above continues, but testing of the hospital management module could not commence because the information was not submitted. We collaborated with the National Health Laboratory Services (NHLS) auditors for the testing of the system at the point of capture to ensure accuracy, completeness and reliability at the point of input.

### Point of capture to point of input



Source: Bluebird July 2020

## Key audit observations

### 1. Cost of potential future software licence fees unknown

The proposal prepared for the NDoH states on page 2: "Intelligent Medical Systems (Pty) Ltd (IMS), the company is prepared to provide the NDoH with the use of the case management software for 6 months without licencing charges". "Furthermore, after that 6 months' period we would be prepared to negotiate a reasonable market related fee if the NDoH wished to continue using the software".

The service-level agreement between the NDoH and service provider states on page 5: "subject to clause 12, continue for a period of 6 months. Thereafter, if the NDoH determines that it wishes to further extend the agreement, the parties will negotiate in good faith to implement the extension".

It was noticed that the quantifiable cost of software licences and the basis of calculation of charges should the department wish to continue using the system, were not indicated in the proposal and service-level agreement.



### **Recommendation**

Executive management should attempt to obtain an estimate of possible future costs prior to the commencement of the project. The basis of the calculation of charges after the six-month period should be explicitly stated and agreed upon by parties to the agreement.

### **Response to audit observation**

We communicated the observation to management, but have not received a response at the time of this report.

## **2. No provision for data backup management process in the service-level agreement**

The service provider was responsible for backup management. However, upon inspection of the service-level agreement between the NDoH and the service provider IMS, it was noticed that the responsibility for backup management had not been outlined in the service-level agreement.

### **Recommendation**

Executive management should ensure that adequate provision is made for the management of backups to ensure ongoing availability and readability of data.

### **Response to audit observation**

We communicated the observation to management, but have not yet received a response after the expected turnaround time for responses has lapsed.

## **3. No provision for change management process in the service-level agreement**

Change management was the responsibility of the NDoH and the service provider. However, upon inspection of the service-level agreement between the NDoH and the service provider IMS, it was noted that the provision for the change management process had not been addressed in the service-level agreement.

Furthermore, the change management policy and change log for the NDoH's Data Lake was not submitted for auditing and, therefore, we could not confirm whether any changes were made and that the following change management controls had been implemented:

- Whether changes had been requested and approved and appropriate levels
- Impact analysis and risk assessment had been performed by relevant parties
- Changes had been appropriately tested and signed off by the designated official prior to implementation
- Adequate segregation of duties existed during the life cycle of changes
- Fall-back plans were in place

### **Recommendation**

Executive management should ensure that the formal change management process in place is adequately designed and implemented to ensure that only assessed, authorised and tested changes can be made to the live environment.

### **Response to audit observation**

We communicated the observation to management, but have not received a response after the expected turnaround time for responses has lapsed.

### *Contact tracing*

The communication and contact support of positive cases was performed via text messaging using a Track and Trace system procured on the 1st of April 2020, only for the duration of the declared pandemic.

It was further noticed that only NW had entered into a service-level agreement with a service provider to assist with manual contact tracing. This service provider was appointed on the 1st of April 2020. As at 30 June 2020, 299 CHWs had been appointed by the service provider and a total of R3,4 million was paid.

At the date of this report, audit work on contact tracing was in progress.

## Conclusion

We experienced significant delays in the submission of information and responses to findings, which severely impacted the progress of the audit. Overall, we identified several control weaknesses relating to governance and contract management of the case management system and communicated these to management.

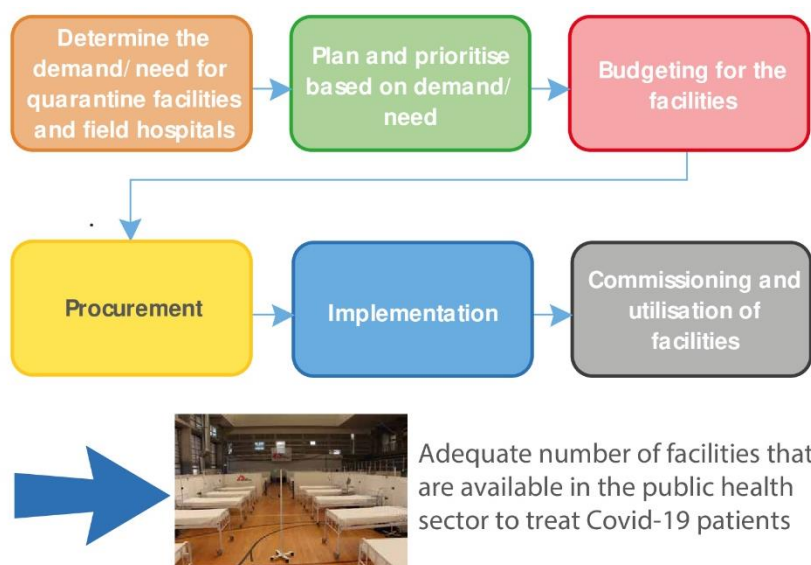
The engagements with the management is continuing and the planned actions from management will be reported in the next special report.

## TEMPORARY QUARANTINE SITES AND FIELD HOSPITALS

### Status of audit

The value chain includes the ideal chain of events from when the public sector determines the needs for temporary quarantine facilities and field hospitals during the Covid-19 pandemic up to utilisation of these facilities.

#### Value chain for temporary quarantine facilities and field hospitals



The audit objective was to determine whether:

- temporary quarantine facilities and field hospitals were established based on the real need/demand
- the required services (water, sanitation, healthcare workers, food, blankets, etc.) are available at the temporary quarantine facilities and field hospitals
- the temporary quarantine facilities and field hospitals were procured in line with supply chain management legislation
- they comply with the applicable standards in terms of the structure.

The audit also included testing of expenditure incurred on these Covid-19 initiatives. We conducted site visits at various quarantine sites and field hospitals. Audit procedures incorporated the following:

- The evaluation of compliance with the applicable regulations and guidelines that had to be adhered to.
- Observation of the structural soundness of these facilities.
- Observation of services rendered to maximise the efficiency of the facilities.
- Observation of access controls that were in place.

The status of the site visits of the quarantine facilities and field hospitals selected for auditing was as follows:

#### Quarantine sites

These site visits are for quarantine sites that were procured by the health departments. The Limpopo quarantine site was procured by the NDoH for individuals repatriated from China:

##### *Site visits for quarantine sites procured by health departments*

Province	Facility name	Site visit date
NW	Orion Safari Lodge	20 July 2020
LP	Protea Hotel by Marriott Polokwane Ranch Resort	Not done

#### Field hospitals

##### *Site visits for field hospitals procured by health departments*

Province	Facility name	Site visit date
GP	Nasrec Field Hospital	21 July 2020
WC	Brackengate Field Hospital	2 July 2020
KZN	Clairwood Temporary Field Hospital	13 July 2020
EC	VW Field Hospital	13 July 2020
NC	West End Field Hospital	Not done
FS	Bloemfontein Show Ground	31 July 2020
NW	Maseve Field Hospital	20 July 2020
LP	Upgrade facility to be confirmed	N/A
MP	Tonga Field Hospital	Not done

At the date of this report, we were busy with the audits of both the above audit objectives. Outcomes from the work performed will be included in future reports. Key observations identified to date are discussed below.

### *Key audit observations: risk and control*

#### **Lack of coordination and accountability for quarantine sites**

Although a protocol document that had been approved by the public works minister was provided for audit purposes, there was no evidence of agreement between the different role players because it was not counter-signed by the national and provincial departments of health. As a result, there was a lack of accountability and coordination between the provincial departments of health and the departments of public works (both national and provincial).

Certain documentation was not provided on time in FS, NW, KZN, NC and site visits were conducted without key supporting documents being available. This led to a significant delay in the audit process. Furthermore, in LP, GP and MP, site visits could not be performed, as neither national and provincial departments of health and public works claimed responsibility for these sites.

#### **Recommendation**

The DPWI, together with the NDoH, should ensure that an agreement is entered into for the implementation of the protocol document to ensure accountability, coordination and consistency by the provincial health and public works departments. This agreement should be signed by all role players as evidence of accepting accountability for their respective roles.

The process of monitoring progress with the status of implementation, linked to spending, should be clearly stipulated in the agreement.

#### **Response to audit observation**

The accounting officer of the DPWI committed to engage the accounting officer of the NDoH to streamline the implementation of a protocol document that would resolve issues related to a lack of accountability.

The DPWI audit team committed to engage with the accounting officers of the DoH and the DPWI in a coordinated effort to prevent the current challenges related to a lack of accountability by role players. The DPWI audit team have since communicated with the two accounting officers in writing in attempt to see this commitment fulfilled. The accounting officers have not yet responded. A status update will be reported in the next special report.

### ***Key audit observations: procurement and contract management***

#### **Quarantine sites**

Procurement of quarantine sites was tested against the current Treasury Regulations. At the date of this report, six contracts with a total contract value of R168,45 million were selected for KZN, NW and the NDoH. A total of R48,6 million had been paid on these contracts as at 30 June 2020.

The DPWI is responsible for procuring quarantine sites for the rest of the provinces not indicated in the table above.

#### **Field hospitals**

We tested the procurement of field hospitals against the current Treasury Regulations. At the date of this report, 37 contracts with a contract value of R2 221,99 million was selected for the sector. A total of R814,23 million had been paid on these contracts as at 30 June 2020.

From the advanced testing above, the following supply chain management non-compliance and control deficiencies audit findings have been communicated to management in the various health departments:

#### **1. Needs assessments and evaluation of major capital projects not performed (KZN)**

The audit of procurement relating to Covid-19 infrastructure projects revealed that a proper needs assessment, including a proper evaluation of major capital projects prior to a final decision, was not performed on nine projects with a contract value of R472 million. Evidence submitted indicates that the projects commenced before the finalisation of the designs and elementary bill of quantities.

Furthermore, no evidence was provided to indicate that the developed designs and the summary of work were reviewed and approved by the department to ensure that the work to be done will be in accordance with the health requirements and standards for the intended use.

The evidence provided does not substantiate that the project was properly evaluated prior to a final decision. The total amount spent to date on these projects was R239 million.

## **2. Declaration of interest (SBD 4 form) not included in procurement documents (KZN)**

The declaration of interest forms for 10 suppliers with a total contract value of R483 million were not included in the procurement documents, resulting in a limitation in the testing of compliance with National Treasury Practice Notes. The total amount spent on these contracts as at 30 June was R256 million and could result in possible irregular expenditure being incurred.

## **3. The awarded supplier was not tax compliant at the date of the award (KZN)**

A supplier whose tax matters had not been declared by the South African Revenue Service to be in order, was awarded a contract of R30 million. An amount of R23 million had been paid to the supplier as at 30 June 2020.

### **Recommendations**

The supply chain management unit should strengthen controls over document maintenance and inclusion in the bid files to ensure that all the necessary supporting evidence for the procurement processes is maintained.

The supply chain management unit should ensure that all deviation requests for capital projects are accompanied by a sufficient assessment of the need for the project, including a specification accompanied by sufficient evaluation of all of the anticipated costs of the project.

The accounting officer should ensure that, prior to approval of emergency deviations, the supply chain management unit requesting the deviation has sufficiently identified and accounted for a need for the project and has made a sufficient assessment of the response, including all the anticipated costs of the proposed projects.

### **Response to audit observation**

The departments have since implemented the following internal control processes:

- The requisite declarations will be sourced from the respective suppliers and will be made available for auditing once this is received.
- Controls over document management and the maintenance thereof have been implemented within the supply chain management unit.
- 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 the necessary information has been submitted.

## **Conclusion**

The delays as a result of the lack of the accountability adversely impacted the audit progress. These facilities were noted to already be in operation and the opportunity to value inputs that could have been provided, could be missed, exposing the departments to risks where the facilities do not meet the minimum guidelines or were procured inappropriately.

## **OTHER EXPENDITURE**

An analysis of the expenditure type revealed that significant amounts are also spent on other types of expenditure besides those under the four focus areas selected. Procurement processes of some of those transactions were then tested against the Treasury Regulations.

At the date of this report, 25 contracts with a contract value of R75,21 million were selected for EC, NW and the NDoH and a total of R10,50 million had been paid on these contracts as at 30 June 2020. The audit work performed was in the early stages for most provinces except those noted below:

## *Key audit observations: procurement and contract management*

### **Procurement of items (advertisement) not listed on annexure A of instruction note 8 of 2019–20 was not reported by department to provincial treasury within 30 days (NW)**

Two instances of items procured as emergency in terms of paragraph 3.5 of instruction note 8 of 2019–20, were not reported to the provincial treasury within 30 days. The total emergency procurement not reported amounted R1 million.

#### **Recommendation**

Management should ensure that procurement of items not included on annexure A are reported to provincial treasury within 30 days.

#### **Response to audit observation**

The department will consolidate all emergency procurement transactions not yet reported to the relevant treasury and submit it by 14 August 2020. Management will ensure compliance with the Instruction note going forth.

## **OVERALL CONCLUSION**

Overall, we have identified several control weaknesses and related findings throughout the health sector that could materially impact the quality and value for money of the services or products delivered and communicated these to management. This had a significant impact on whether the funds have actually been spent for its intended purpose by the departments and entities involved.

The report indicated that risks highlighted by the health minister during our engagement on 17 June 2020 relating to inflated PPE prices had also materialised widely across the sector. These cases should be duly investigated and transgressors held accountable. Monies should also be recovered and the sector should not lose sight of the dire need to implement corrective measures as it will still incur significant spending on procuring PPE in the near future. The expected increase in expenditure, in conjunction with the increase in the pandemic as the numbers rise, exposes the sector to more risks.

We are actively engaging with the Special Investigating Unit as we proceed with the audit of the health sector. Our collaborated efforts aim to ensure that we focus our audit efforts on high-risk areas and eliminate duplication of effort. We are also engaging with the fusion centre and will share our findings with them for immediate follow-up and investigation.

The audit team is engaging and will continue to engage with the accounting officers on the findings noted above, and assess the impact of these findings on the outcomes of the sector. This will be included in the next special report.



## SUPPORT TO MUNICIPALITIES

### OVERVIEW OF INITIATIVE

Purpose	
Funding to municipalities for emergency water supply, sanitation, food and shelter for the homeless, basic services for indigents and community services	
Auditees	Local government (metros, district municipalities and local municipalities)
Focus of our audit	Covid-19 municipal relief funding
Funds subject to audit	<b>R23 937 million</b>
	R20 034 million – relief package (from 2020–21 budget)
	R3 903 million – reprioritised grants
Expenditure as at 31 July 2020	<b>R1 675 million</b>

### STATUS OF IMPLEMENTATION OF INITIATIVE

According to a statement by the National Treasury on 12 May 2020, the national government made available an estimated R5 billion from the 2019–20 national budget to be reprioritised towards supporting municipalities to respond to the Covid-19 pandemic. This assistance will provide additional access to basic services for vulnerable communities during the lockdown and be used to sanitise public transport facilities as the economy undergoes phased reopening. The amount had been made available through the reallocation of conditional grant funds already allocated and paid to municipalities in March 2020. The municipalities had to apply to the National Treasury for approval of the reprioritisation to use these funds for expenditure related to Covid-19, after which R3,752 billion was ultimately approved. The approvals by the National Treasury were inspected, but we did not audit the payment and receipt of these funds to municipalities.

In a letter from the National Treasury to the director-general of the Department of Cooperative Governance, dated 29 April 2020, a further R151 million was approved for release from the municipal disaster relief grant to support non-metropolitan municipalities with the cost of sanitation as well as the increased provision of other municipal services. This grant is different from other grants as it is a reserve grant that is not allocated with the other conditional grants, but rather kept and only allocated in the case of an emergency. The relief grant was paid to municipalities on 8 May 2020 for spending on expenditure relating to Covid-19. We have not yet audited the payment and receipt of these funds to municipalities.

In addition, the finance minister announced during the supplementary budget speech on 24 June 2020 that R20 billion will be made available to support local government as part of government's R500 billion social relief and economic support package. The R20 billion is made up as follows:

- R11 billion (54%) through municipalities' equitable share allocation (additional allocation)
- R9,4 billion (46%) through the reprioritisation of conditional grants

The R20 billion is to support municipalities in providing emergency water supply, increasing sanitisation of public transport and facilities as well as supplying food and shelter to the homeless. This support could provide 1,4 million additional households, who have lost their source of income and became indigent, with basic services. Assistance with community services relating to areas such as municipal health as well as cemeteries and crematories will be provided at municipalities, specifically to poor and rural communities. Existing conditional grants were used as the vehicle to get funds to municipalities for spending on Covid-19-related matters. The spending arrangements/limits per conditional grant were included in the local government grant framework.

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Based on this framework, our preliminary analysis showed that an estimated R1,893 billion pertaining to the R20 billion allocation had been paid to municipalities in July 2020 through scheduled conditional grant payments, as approved in the 2020 Division of Revenue Act. According to the National Treasury, the funds paid in July only relate to conditional grant funding. These amounts will still be subjected to the audit process.

The 2020 supplementary budget of the R11 billion equitable share was approved by Parliament on 29 July 2020. The municipalities must now include the allocation in their adjustment budgets to be approved by their municipal councils before spending can take place. According to the National Treasury, the expected payment dates of the equitable share to municipalities are December 2020 and March 2021. The National Treasury is currently considering an earlier transfer date.

The payment portion relating to the Covid-19 municipal relief funding (CMRF) initiative was determined by using the guidelines as per the grant frameworks gazetted on 3 July 2020. The grant frameworks also provide clarity on how a portion of the various grants may be used for Covid-19-related purposes, as the municipalities must still comply with the conditions set by national and provincial departments.

The funding of the CMRF initiative started in March 2020 and we were able to obtain information relating to how the various allocations had been approved, distributed and paid to municipalities with the assistance of the National Treasury.

We obtained information on actual spending relating to the CMRF from municipalities (up to 30 June 2020 for the 2019-20 allocations and 27 July 2020 for the 2020-21 allocations) from the National Treasury, but since we did not audit this information, we are unable to confirm the accuracy of the amounts spent included in this report. It should also be noted that 15 of the 257 municipalities did not submit spending information, affecting the completeness of the information reported.

#### 2019-20 and 2020-21 allocations and spending

Allocation	Purpose of allocation	Budget	Included in Covid-19 audit	Funds expended	Remaining funds
<b>R20 billion CMRF</b>					
Support to municipalities	Equitable share: For municipalities to provide basic services to additional households who lost their source of income and became indigent due to Covid-19 as well as community services	R11 000 million	R11 000 million (100%)	R0 (Grants not paid yet)	R11 000 million (100%)
	Conditional grants: For municipalities to provide emergency water supply, increased sanitisation of public transport and facilities as well as food and shelter for the homeless	R9 034 million*	R9 034 million (100%)	R0 (Expenses not incurred yet)	R9 034 million (100%)
<b>Total</b>	<b>R20 billion CMRF</b>	<b>R20 034 million</b>	<b>R20 034 million (100%)</b>	<b>R0 (0%)</b>	<b>R20 034 million (100%)</b>
<b>Other funds subject to auditing</b>					
Repurposed grants to municipalities	Grants to municipalities prioritised for various Covid-19-related initiatives	R3 752 million*	R3 752 million (100%)	R1 570 million (42%) (by 30 June 2020)	R2 182 million (58%)
	Municipal disaster relief fund released for various Covid-19-related initiatives	R151 million	R151 million (100%)	R105 million (70%) (by 30 June 2020)	R46 million (30%)
<b>Total</b>	<b>Other Covid-19 municipal relief funding</b>	<b>R3 903 million</b>	<b>R3 903 million (100%)</b>	<b>R1 675 million (43%)</b>	<b>R2 228 million (57%)</b>
As we have not yet started auditing these funds, we have not obtained reasons for the underspending by municipalities but this will form part of the audit process and will be reported on in future reports					

\*Excluding allocations of R715 million (R306 million relating to the 2019-20 financial year and R409 million relating to the 2020-21 financial year) earmarked for the provision of water that will not be spent by municipalities, but directly by the Department of Water and Sanitation as an indirect conditional grant



The National Treasury issued Circular 103 on 27 May 2020 in response to the Covid-19 pandemic that resulted in the national state of disaster with the aim to:

- (a) provide for preventative measures as a result of Covid-19 emergencies and the need to be responsive and flexible, while ensuring value for money and minimising the risk of fraud, corruption, negligence, error, and incapacity
- (b) ensure that the internal control systems of a municipality consider aspects such as:
  - the change in operating activities of the existing control environment
  - revisiting risk assessment processes
  - designing and/or amending control activities to address new or elevated risks
  - identifying information required to support the effectiveness and efficiency of new and existing controls
  - reassessing internal and external communications
  - identifying any additional internal control monitoring activities.

Our audit procedures will focus on, amongst others, determining whether municipalities are complying with the controls proposed by the above circular as well as adhering to the reporting guidelines of the Municipal Standard Chart of Accounts and the monitoring controls implemented by the National Treasury to ensure compliance by municipalities.

## OVERALL CONCLUSION

We started preliminary analysis and research work on the CMRF initiative in June 2020, which gained traction after the finance minister's supplementary budget speech. We are preparing for audit work to begin in October 2020 when audit teams start their local government audit engagements.

The audit process will cover procedures to determine whether the money provided was used for its intended purpose and in compliance with the relevant legislation. As indicated earlier, the National Treasury is still considering payment dates for the equitable share portion of the grant. In this regard, our audit process will track the flow of funds and actual spending by municipalities of both the conditional grants and the equitable share. We will be reporting findings emanating from this audit process in the relevant special reports following the audit process.

## NOTES



### OVERVIEW OF INITIATIVE

Purpose	
Deployment of soldiers, procurement of personal protective equipment, repatriation efforts, enforcement and implementation of health measures	
Auditees	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
Funds subject to audit	<b>R4 297 million</b>
	Relief package
Expenditure as at 31 July 2020	<b>R1 108 million</b>

### STATUS OF IMPLEMENTATION OF INITIATIVE

During March 2020, the President announced that members of the South African National Defence Force (SANDF) would be deployed as part of the response to deal with the Covid-19 pandemic. On 22 April 2020, the Department of Defence presented an overall plan to the Joint Standing Committee on Defence on measures to be implemented in response to Covid-19. The status of implementation of the measures are as follows:

#### **DEPLOYMENT OF SOLDIERS TO ENFORCE LAW AND ORDER**

In the initial stages of Covid-19, the department's most notable contribution was deploying members of the SANDF to help law enforcement enforce the lockdown regulations across the country. The deployment was approved by the President in line with the Constitution. The number of regular and reserve force members deployed has varied over the lockdown period. In March 2020, 2 820 members were deployed. On 21 April 2020, this was increased by 73 180 members, which put all SANDF members on standby. From 27 June 2020, the number of deployed members was reduced to 20 000. It is important to note that the deployment figure is not necessarily the number of SANDF members on the ground, as the actual numbers vary depending on the demand and the number is managed daily. For instance, on 15 July 2020, there were 8 198 reserve and regular forces deployed on the ground.

The SANDF members have helped to conduct roadblocks and patrols, and to guard the borders. They have also helped communities by providing and purifying water, scanning and screening for Covid-19, and providing primary health support, particularly in the Eastern Cape.

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## ***SUPPORT FACILITIES, MEDICAL EQUIPMENT AND PERSONAL PROTECTIVE EQUIPMENT (PPE)***

The plan was for the department to establish medical facilities to help government respond to the pandemic. The facilities would have been implemented once the impact of the pandemic had been assessed and only if the Department of Health needed the support. As a result, there was no specific timeframe set for this intervention.

The department is in the process of placing orders to procure medical equipment, additional PPE and items needed for field hospitals. To date, most of the funds spent on this focus area went to procuring PPE, which has been delivered to units across the country for both medical and non-medical use.

## ***WUHAN REPATRIATION MISSION***

The department was tasked with repatriating South African citizens from China's Wuhan province. This was in response to a plea from citizens who could not leave Wuhan because the province was locked down in March 2020 to curb the spread of Covid-19. The department coordinated with the Department of International Relations and Cooperation to fly the citizens back into South Africa and keep them under quarantine for 14 days. The R13,89 million spent on flight costs is included in other frontline services, as indicated below, and is also currently being audited.

### ***Funding and expenditure as at 31 July 2020***

Description	Budget (R million)	Actual spending (R million)	Remaining budget (R million)
<b>Deployment-related expenditure</b>			
Wages and allowances	763,42	405,64*	357,78
Expenditure – other related costs (including rations, fuel and fleet services)	521,47	42,76*	478,72
Sub-total	1 284,90	448,40	836,50
<b>Support facilities, medical equipment and PPE</b>			
PPE	1 018,14	494,42*	523,73
Medicine	65,90	3,08*	62,83
Facilities and medical equipment	1 313,45	20,67*	1 292,78
Other related frontline services	614,61	140,98*	473,63
Sub-total	3 012,10	659,15*	2 352,96
<b>Total</b>	<b>4 297,00</b>	<b>1 107,55*</b>	<b>3 189,45</b>

*\*These figures are from the department's records and are currently being audited*

## **AUDIT EXPERIENCE**

The audit plan was completed in June 2020. However, the start of the audit was delayed because the department's leadership is participating in key structures dealing with the response to the pandemic and was therefore unavailable. Some of the procurement processes for field hospitals and medical equipment have only recently started. On 17 July 2020, we met with the department leadership to discuss the plan for this audit. The leadership of both the secretariat and the SANDF pledged their support for the audit and committed to assist with the process to ensure that the objectives are met.

## ***STATUS OF AUDIT***

We have concluded the planning phase of the audit, which includes the preliminary evaluation of preventative controls that must be implemented to ensure that the funding is used for the intended purposes and in compliance with relevant legislation. We have made recommendations to the accounting officer on preventative controls that must be strengthened, and we are waiting for the accounting officer's response. We are currently auditing the amount spent so far, as well as the procurement processes followed, and we have requested the information required for the audit from the department. The audit team has already received and begun evaluating some of this information.

## **OVERALL CONCLUSION**

While the department has already contributed significantly to this initiative, the audit was delayed for the reasons explained above. Our key focus in the next few months will be on verifying deployment-related costs and on the procurement of field hospitals and medical equipment and PPE. Detailed outcomes will be included in our next special report.

## NOTES



## BASIC EDUCATION INTERVENTIONS

### OVERVIEW OF INITIATIVE

Purpose	
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	Department of Basic Education Provincial education departments Rand Water (acting as implementing agent on behalf of national department)
Focus of our audit	Provision of personal protective equipment Emergency supply of water and sanitation services to selected public schools
Funds subject to audit	<b>R5 212 million</b> <b>Provision of personal protective equipment</b> R4 344 million – relief package (from conditional education infrastructure grant and equitable share) <b>Emergency supply of water and sanitation services</b> R610 million – relief package from conditional schools backlog infrastructure grant by national department to provide emergency water supply to selected public schools in six provinces (KwaZulu-Natal, Eastern Cape, Mpumalanga, Limpopo, North West and Free State) R258 million – relief package from conditional education infrastructure grant and equitable share by five provinces (Gauteng, Free State, Mpumalanga, Northern Cape and North West)
Expenditure as at 31 July 2020	<b>R1 389 million</b>

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### PROVISION OF PERSONAL PROTECTIVE EQUIPMENT (PPE)

#### STATUS OF IMPLEMENTATION OF INITIATIVE

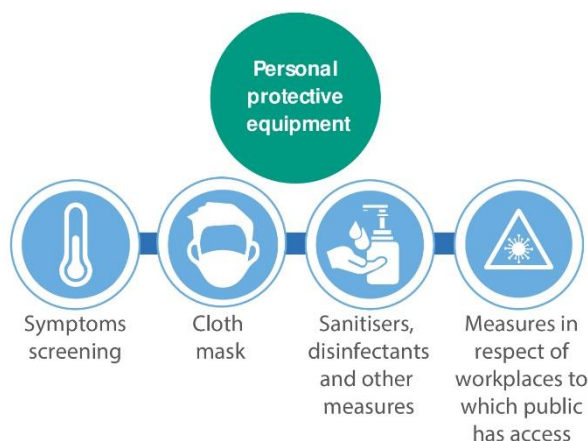
Using PPE helps to prevent the coronavirus from spreading and protect individuals from being exposed to bodily fluids, droplets or airborne pathogens. Provincial education departments are required to supply PPE, including gloves, face masks, face shields, sanitisers and disinfectants, to learners, school officials (teachers and administrative staff) and volunteers (school governing body and parents) at public schools.

## Commencement of initiative

The department had to procure PPE to ensure that it was available when teachers and learners returned to school. This was done in two phases:

- Phase 1 (1 June 2020): grades 7 and 12
- Phase 2 (6 July 2020): grades R, 1, 2, 3, 6, 10 and 11

### PPE items



The first phase of school reopening, for grades 7 and 12, was initially planned for 1 June 2020. In all provinces except for the Western Cape, which opened on 1 June 2020 as planned, this was postponed to 8 June 2020. One of the reasons for the postponement was the delay in supplying PPE for learners and other school officials.

The second phase of school reopening, planned for 6 July 2020, was for primary schools (grades R to 3) and secondary schools (grades 10 and 11).

On 23 July 2020, the President announced that schools would be closed from 27 July 2020, with grades 7 and 12 starting up again on 3 and 10 August 2020, respectively, while other grades would reopen on 24 August 2020.

## Progress in achieving purpose or objective

The provincial education departments are responsible for procuring PPE. However, the initial procurement was handled by the provincial health departments in Gauteng and Limpopo and by the provincial treasury in the Free State. The provincial education departments only took on the responsibility for procuring PPE in later phases.

The departments are continuing with this initiative while also preparing to supply PPE for the grades that still have to resume classes.

The sector's biggest challenge is getting all the key stakeholders to agree on whether or not schools should continue reopening under the current circumstances. Progress has also been held up because there was no proper needs assessment done and the purchase and delivery of some PPE items was delayed. As a result, most provinces have not spent much on procuring PPE, except for the Western Cape, the Eastern Cape, Mpumalanga and KwaZulu-Natal.

There is a high risk of fraud, mainly due to the emergency procurement processes and made worse by weak internal controls.

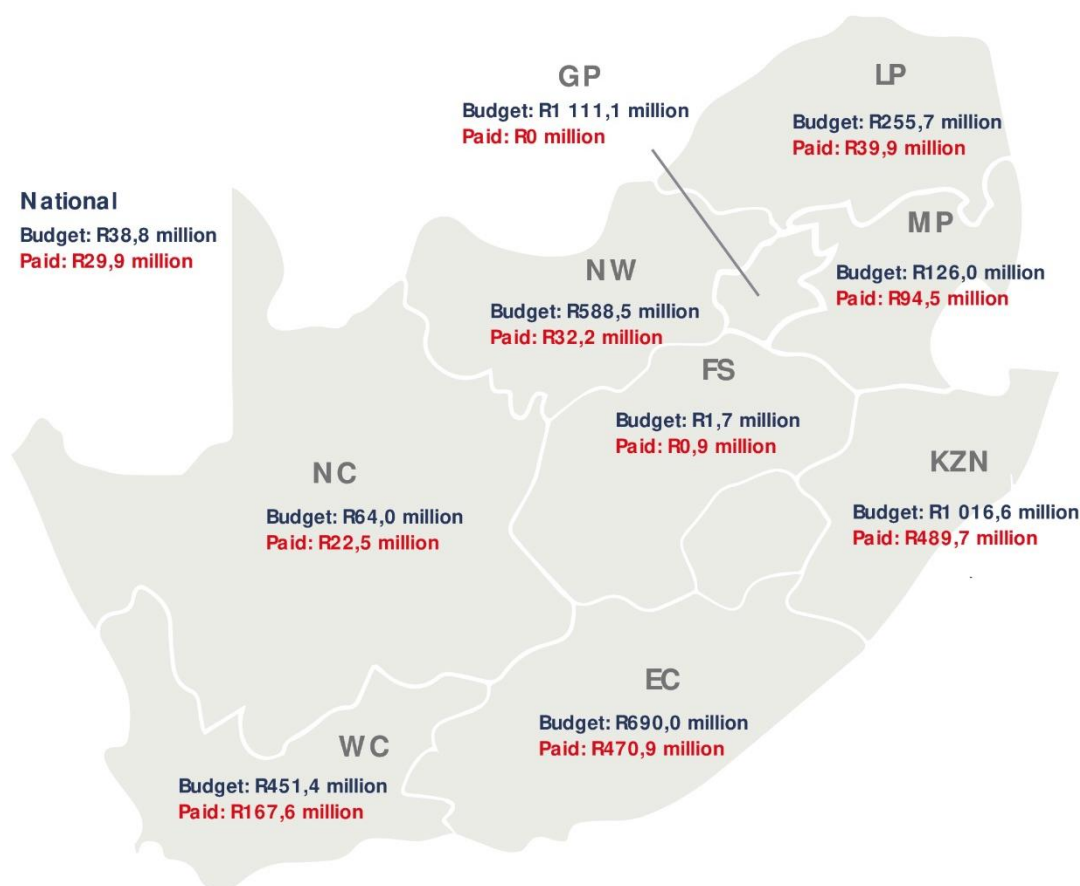


## Financial matters

Most of the PPE funding came from reprioritising the education infrastructure grant and equitable share. The national Department of Basic Education (DBE), together with the National Treasury, amended the grant framework conditions for specific grants to allow spending for the Covid-19 pandemic and to procure PPE. Private donors have also helped schools to prepare for reopening by, for example, deep cleaning and disinfecting school buildings and classrooms.

According to the departments' records, by 31 July 2020, the education sector had paid R1,348 billion to suppliers for PPE. Below is a breakdown per province as well as nationally (please note that these figures have not yet been audited).

### Payments to suppliers of PPE



*Note: For GP and LP the initial PPE procurement was performed through the provincial health department and for FS through the provincial treasury*

## AUDIT EXPERIENCE

Overall, leadership across the education sector, including the director-general of the DBE, has supported the Covid-19 audit initiative. During the planning phase, we obtained a detail understanding of interventions, funds and role players, completed the business process descriptions, and assessed risk and key controls.

Although the leadership has expressed their support, many of our audits are being delayed by the slow flow of audit information. This was mainly because the departments were not ready for the audit, and because offices had to be

temporarily due to confirmed Covid-19 cases. The audit teams regularly discuss these challenges with the accounting officers and, in some cases, the executive authorities.

We have a multidisciplinary team auditing the education sector, including performance auditors and information system auditors who are using computer-assisted audit techniques (CAATs). We are currently evaluating the procurement and contract management processes and visiting schools to verify allocation processes.

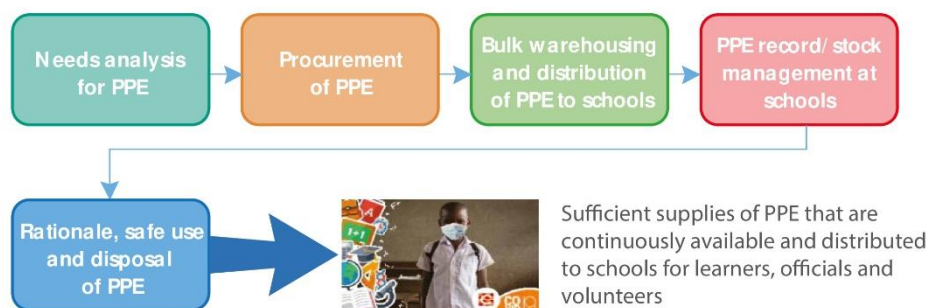
Below is the progress we have made on the audit:

- We are still auditing the procurement and contract management and payments processes for all provincial education departments, and this report therefore only includes the findings that were finalised by 31 July 2020. We experienced significant delays in obtaining all the relevant information to perform the audit on the procurement processes.
- The site visits we are currently conducting in the Eastern Cape, Gauteng, KwaZulu-Natal, Limpopo and the Western Cape will be included in our future reports.
- We have completed our site visits in North West, Mpumalanga and the Free State, and matters identified are included in this report. We still need to visit one school in Mpumalanga and one school in North West. We have completed our Northern Cape site visits, but the matters identified have not yet been finalised and will be included in our next special report.

We have discussed the audit findings included in this report with the accounting officers and executive authorities, and they have committed to address the identified weaknesses and take appropriate action, where applicable.

## *Key audit observations: PPE*

### *Audit focus for supply of PPE*



For this special audit, we focused on how the demand and need for PPE were assessed and on how the PPE was procured. We selected three schools per province for physical visits to confirm the accuracy of the needs assessments, and the delivery and quality of the PPE to the schools. We are currently busy with the physical verification process for Gauteng, the Western Cape and KwaZulu-Natal, which was delayed by the closure of schools.

The next phase will focus on warehousing, stock management and rational use and disposal of PPE.

## *Key audit observations: demand and needs assessment*

### **Use of available systems to determine demand and need for PPE**

We noted from the responses that provincial education departments used different processes to determine the PPE needs at schools.

Some provincial education departments did not use the available systems, such as the South African School Administration and Management System and Education Management Information Systems, to determine how much PPE was needed for the schools based on the actual numbers of registered employees and learners.

The Mpumalanga and North West departments used unreliable processes to determine the quantities of PPE required and, as a result, did not provide schools with enough PPE. The Free State department used Education Management Information Systems to determine the PPE needs of learners and educators; however, non-teaching officials were excluded.

### **Recommendations**

Management should ensure that systems such as the two mentioned above are regularly updated so that they can be used as a source for needs assessments rather than using multiple data sources or contracting people to provide this information.

### **Response to audit observation**

The North West education department will investigate matters reported at the two schools we visited and extend this to other schools. The department is waiting for signed reports from all principals on the Covid-19 materials received, which will be categorised according to grades, teachers and non-teaching staff.

The Free State education department is currently concluding a tender for the supply of PPE and will consider our recommendations.

The Mpumalanga education department has indicated that, going forward, it will use the South African School Administration and Management System database to determine need when procuring and distributing PPE for schools.

### **Inconsistent supply of PPE to schools by provinces resulting in insufficient PPE being distributed to schools**

PPE was not distributed consistently to provinces, education districts and schools. The North West, Free State and Mpumalanga education departments did not procure PPE for non-teaching personnel, such as school administration staff, cleaners, security, general staff and food handlers. The schools had to use their own budgets to buy PPE for additional staff and volunteers. For example:

- In North West, Leolane and Ramoshie schools had to use their operational budget to buy additional PPE for all school officials other than educators, as well as for learners and volunteers.
- In Mpumalanga, the department inconsistently supplied PPE for school officials and educators. Lethabong Secondary School received face shields for staff and other school officials, while KwaMhlanga Secondary School had to spend R2 400,00 to buy 32 face shields for 26 teachers and six non-teaching staff.
- In the Free State, learners and teachers at Leratswana Secondary School were given two face masks each. At Tutuboloha Intermediate School, all teachers and most learners were given two face masks each. However, 11 learners were only given one face mask each because the school did not have enough masks and the education district had not yet delivered the shortfall by 21 July 2020. In all three Free State schools we visited, face shields had not been provided for teachers, other school officials or volunteers. Leratswana Secondary School spent R5 000,00 on face shields for 15 teachers and six non-teaching staff. Tutuboloha Intermediate School spent R16 000,00 to buy face shields and other PPE for 26 teachers and six non-teaching staff, Matwabeng Primary School spent R25 000,00 to buy face shields for 22 teachers and six non-teaching staff and other school officials.

While some schools may be able to afford to buy PPE for other staff such as cleaners, security officers, administrators and food handlers, schools that are struggling financially may not be able to purchase such PPE. This will compromise the safety of everyone involved in those schools, including educators and learners.

### **Recommendations**

Management of the provincial education departments should follow-up with schools to identify which schools are struggling financially and help them procure PPE for non-teaching staff and volunteers, and to cover PPE shortages such

as face shields for educators. The departments should also identify schools that have PPE shortages and provide accordingly.

#### **Response to audit observation**

The Free State education department agreed with the finding and indicated that education districts did not have enough face shields for educators. The department instructed that face shields be provided to all identified officials.

The Mpumalanga education department has reviewed inconsistencies in distribution and will use the updated database to determine procurement and distribution of PPE for schools.

The North West education department noted the issues raised and indicated that it will issue guidelines for education districts to use when receiving PPE (face masks).

#### **Substandard quality of PPE supplied to schools**

For North West, the face masks that Leolane Secondary School received were not fit for purpose because the inside of the mask is made of plastic material, which made it difficult for wearers to breathe comfortably. Educators did not wear these face masks, although some of them did buy their own masks.

Some of the masks delivered to Ramoshie Primary School did not give proper protection because the strings used to tie the masks were uneven. As a result, learners could not tie the masks properly, which left them vulnerable.

In Mpumalanga, grade 12 learners at KwaMhlanga Secondary School received face masks that did not fit because of oversize elastic, and some learners' masks were falling off their faces. The provincial education department also supplied learners with masks that were not tailored to fit properly, specifically around the nose, which increased their risk of infection as they constantly had to adjust the mask to properly cover their face. This goes against the Department of Health's warning to avoid constantly touching your face as it increases the risk of Covid-19 infection. If the department does not ensure that the supplier replaces these faulty masks, it could result in fruitless and wasteful expenditure.

In the Free State, learners and teachers at Leratswana Secondary School received one-size-fits-all masks that were sometimes too tight and uncomfortable to wear, while learners at Matwabeng Primary School received masks that were too big.

#### **Recommendations**

The provincial education departments should follow up on the suppliers that delivered defective PPE and implement corrective measures.

Management of the provincial education departments should develop and provide guidelines for education districts and schools to quickly verify product quality so that the departments can implement corrective measures to address quality defects in good time.

#### **Response to audit observation**

The Mpumalanga education department acknowledged the quality defects identified and indicated that they will physically verify the masks to ensure that they meet the quality standards.

The North West education department will issue guidelines for education districts to use when receiving masks to ensure that the masks meet the required specifications.

The Free State education department will consider our recommendations for the bid it is currently concluding for the supply of PPE.

*Face masks with plastic material inside received by Leolane Secondary School (left) and face masks with uneven strings received by Ramoshie Primary School (right)*



*Poorly fitting face masks (left) and face masks with loose elastic (right) received by KwaMhlanga Secondary School*



### **Key audit observations: procurement and contract management**

The findings below exclude findings for Gauteng, Limpopo and the Free State where other departments were responsible for the PPE procurement process. We were also still auditing the supply chain management process for most provinces at the date of this report.

#### **Non-compliance with general supply chain management legislation**

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 allowed the following non-compliance to supply chain management to occur:

#### **Participation in contracts of another organ of state**

The Mpumalanga education department deviated from the procurement process and participated in the Department of Health contract to procure certain PPE supplies, as allowed for by treasury regulation 16A6.6. However, the department procured additional PPE items from the same supplier through an invalid deviation process, as these were not included in

the scope of the original contract with the Department of Health. As a result of the non-compliance, there is a possible irregular expenditure impact of R21 937 805.

### **Price quotations**

The following matters were identified at the KwaZulu-Natal education department:

- Only two written price quotations were obtained instead of three when procuring latex hand gloves to the value of R160 770. There was no recorded approved deviation, which goes against paragraph 16A6.1 of the Treasury Regulations and paragraphs 3.3.1 and 3.3.3 of National Treasury practice note 8 of 2007-08, and is deemed to be irregular expenditure.
- Quotations were obtained and evaluated from three service providers, two of whom were not registered on the central supplier database for the procurement of hand sanitizers to the value of R45 627, contrary to paragraph 3.1.2 of instruction note 4A of 2016-17 and is deemed to be irregular expenditure.
- Contracts totalling R521 867 were awarded to two service providers who were not tax compliant at the time of the award, which goes against paragraph 16A9.1(d) of the Treasury Regulations and paragraphs 4.1 to 4.3 of instruction note 7 of 2017-18 and is deemed to be irregular expenditure.
- Quotations totalling R491 625 were received from two related suppliers, one of which was awarded the contract. These suppliers have the same addresses and are owned by the same person, which shows possible cover quoting and goes against paragraph 16A8.3(d) of the Treasury Regulations.
- 20 B-BBEE points were allocated to one service provider who was awarded two contracts totalling R550 119. However, there was no B-BBEE certificate to confirm the level in the information submitted for audit. This is contrary to regulations 3 and 4 of the Preferential Procurement Regulations of 2017 and is deemed to be an irregular expenditure.

### **Conflict of interest**

At the North West education department, we identified that some teachers had a conflict of interest for PPE suppliers added to the suppliers' database, which could result in irregular expenditure.

### **Recommendations**

The provincial departments should investigate all instances of possible irregular expenditure, as required by the Public Finance Management Act.

Each provincial department should ensure that all goods purchased fall within the scope of the contract of the other organ of state with which it is participating. The department must further start the process of identifying other suppliers that may be able to supply them with the goods that falls outside the scope of the contract to avoid reoccurrence of the irregular expenditure.

The provincial departments should strengthen their pre-approval review and monitoring controls to ensure all applicable legislation has been complied with and that timely corrective action is taken on any non-compliance identified.

The provincial departments should complete a compliance checklist for every award to ensure compliance with supply chain management prescripts.

The provincial departments should follow up on indicators of bid rigging to establish whether there was any possible bid rigging in the procurement process, and take corrective action against any identified wrongdoing.

### **Response to audit observation**

The Mpumalanga education department is in the process of identifying all the products that were procured outside the supply chain management processes. The amount will be recorded in the irregular expenditure register and will then be investigated.



The KwaZulu-Natal education department has committed to:

- strengthen the separation of functions to allow for more oversight and monitoring to ensure that emergency procurement guidelines are followed as per the instruction notes
- strengthen internal controls by requiring the central supplier database number and tax pin to be submitted as part of the SBD 3.1 form to ensure second-level verification
- strengthen internal controls on adequate review and monitoring by management to ensure non-compliant suppliers are not evaluated
- engage the legal services unit to determine if the affected companies can be blacklisted from doing any further business with the department
- strengthen internal controls on adequate review and monitoring by management to ensure B-BBEE points are only allocated to suppliers who have provided valid B-BBEE certificates.

The North West education department accounting officer will further investigate the identified conflicts of interest.

### *Key audit observations: non-compliance with disaster management instruction notes*

#### **Pricing of PPE items**

National Treasury issued instruction notes to facilitate emergency procurement for the Covid-19 pandemic, which was declared a national state of disaster, to avoid abuse of the supply chain management system, specifically to manage uncompetitive and inflated prices. We identified the following deviations from the instruction notes:

- The Mpumalanga education department paid more than the maximum of R25, including VAT, for a three-ply cloth face mask. One supplier charged the department R25 excluding VAT (or R28,75 including VAT) for each mask. The department bought 15 946 face masks from this supplier, which comes to an additional R59 797,50. This additional cost may result in irregular expenditure.
- The KwaZulu-Natal education department procured some PPE items at prices higher than those recommended in paragraph 3.7.6 of instruction note 8 of 2019-20, which states that the institutions may procure from other suppliers as long as the prices are equal to or lower than the prices in the annexure. This resulted in a possible irregular expenditure of approximately R316 990.

#### ***Procured items included in the R316 990***

Item description	Date of award	Unit price (annexure A table 1 – transversal contract)	Minimum & maximum price per unit (annexure A table 2 – non-transversal contract)	Supplier invoice price per unit	Difference between supplier price and maximum price	Quantity purchased	Excess price
Hand sanitiser 500ml	25 March 2020	R40,37	R60,75 to R103,50	R135,00	R31,50	1 500	R47 250,00
Latex hand gloves (100 in a box)	31 March 2020	R42,00 to R49,53 per box	None	R230,00	R180,47	699 boxes	R126 148,53
Gloves (10 in a pack)	01 April 2020	R42,00 to R49,53	None	R340,80	R291,27	250	R72 817,50

The DBE procured PPE items at prices higher than those prescribed in the instruction notes to an amount of R219 829,60 through its private party as part of the public-private partnership contract. The table below includes some examples of items procured included in the R219 829,60:

**Procured items included in the R219 829,60**

Description	Units	Cost	Price per unit (excl. VAT)	Price per unit (Incl. VAT)	Prescribed prices	Excess price
Medtex nitrile gloves, 100 per box	40	R6 360,00	R159,00	R182,85	R46,44 per box of 100	R5 456,40
3-ply surgical face masks with ear loops, each	2 000	R50 000,00	R25,00	R28,75	R10,22 per mask	R37 060,00
Hand sanitiser - 70% alcohol, 500ml	2 000	R300 000,00	R150,00	R172,50 for 500 ml = R345,00 per litre	R186,60 per litre	R158 400,00
Powder-free gloves 100/box	20	R5 000,00	R250,00	R287,50	R46,44 per box of 100	R4 821,20
Powder-free gloves 100/box	50	R11 000,00	R220,00	R253,00	R46,44 per box of 100	R10 328,00
FFP2 face masks	20	R1100,00	R55,00	R63,25	R37,80 per mask	R509,00

**Local production and content, and small business development**

The Preferential Procurement Regulations and instruction note 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:

- The invitation to tender did not always include the minimum threshold for local production and content as part of the evaluation criteria. As a result, it was not specifically required that only locally produced goods or locally manufactured goods meeting this threshold would be considered. As the departments did not always comply with the requirements, there is a likely irregular expenditure impact of R2 260 000 at the North West education department and R7 584 185 at the Mpumalanga education department.
- The departments did not ensure that all appointed suppliers were registered on the Department of Small Business Development database. At the Mpumalanga education department, there is a likely irregular expenditure impact of R6 371 121 as a result of this non-compliance. Similarly, at the North West education department, 90 000 face masks at a cost of R2 260 000 were purchased from two suppliers that were not registered as required.

**Recommendations**

The departments should strengthen daily controls and monitoring controls to ensure that the prescripts of the instruction notes for emergency procurement in response to the national state of disaster are adhered to when procuring PPE.

The DBE should engage the private party, in consultation with National Treasury, to minimise the pricing risk associated with sourcing PPE goods for managing the building through the private party.

The departments should follow up on the over-pricing and take the necessary action to recover amounts.

The departments must ensure keep up to date with the legislation amendments from the National Treasury to ensure compliance. They should also implement dedicated preventative and detective controls to ensure compliance with supply chain management regulations, particularly local content requirements and new developments.

**Response to audit observation**

The Mpumalanga education department wrote a letter to the relevant service provider informing them about the overpayment. The letter instructed the service provider to repay the money overpaid to them. Going forward, the



department has committed to review the order process before an order is printed, and to review the prices and ensure that they comply with the National Treasury pricelist.

The Mpumalanga education department will instruct all their local suppliers to register with the Department of Small Business Development. When the department procures other items relating to Covid-19, it will check the suppliers against the database for small business development and only procure from registered suppliers.

The DBE indicated that they are willing to negotiate with the private party for future PPE procurement with the assistance of National Treasury so as to not change the payment model of the PPP agreement.

The Mpumalanga education department will include the local content requirement in future bid specifications when it procures items from the list of designated sectors. The department will also attach the declaration for local production content to the bid documents and all contractors will have to sign this declaration to certify that their goods meet the local content requirement.

The KwaZulu-Natal education department has committed to hold training and workshops on future treasury instructions before it does any procurement. It will also use regular reviews and monitoring to ensure strict compliance to the instructions.

The North West education department committed to investigate non-compliances with the regulations and ensure compliance going forward.

### *Key audit observations: risk and control*

#### **Internal control weakness in the ordering, delivery, invoicing and payment processes**

Although we are still testing processes, there were clear control deficiencies. We identified weaknesses in the ordering, delivery, invoicing and payment processes for some departments in the sector, which resulted in the following:

- The Eastern Cape education department overpaid suppliers because the invoiced quantities of PPEs did not always match the quantities delivered to schools as per the delivery notes.
- The quantities of PPE ordered, invoiced and paid for by the KwaZulu-Natal education department did not match the quantities delivered by the supplier, which is likely to result in a total estimated loss of R61 813. When we followed up, the department indicated that the supplier had agreed to deliver the shortfall at no additional cost to the department.

#### **Recommendations**

The departments should strengthen payment processing controls and daily review controls, and should match and reconcile the delivery notes with invoices before making any payments.

The departments should reconcile PPE items ordered, delivered and distributed to detect and correct discrepancies.

#### **Response to audit observation**

The Eastern Cape education department indicated that it will request that additional PPE is delivered to the school where there were discrepancies. The Internal Control Unit will reconcile all invoices for Covid-19 suppliers and follow up on all differences by 30 August 2020

The KwaZulu-Natal education department committed to approach the service provider to demand that the outstanding quantities are delivered.

### *Conclusion*

Our audit is still in progress. We will focus on completing the audit areas we are currently working on and will include additional insights in our next special report. We will also follow up on the responses management has committed to.

# EMERGENCY SUPPLY OF WATER AND SANITATION TO PUBLIC SCHOOLS

## *STATUS OF IMPLEMENTATION OF INITIATIVE*

The DBE intervened and assisted to provide water to selected schools in six provinces. Gauteng, the Western Cape and the Northern Cape did not take part in the national program and continued to provide water themselves to the schools in their respective provinces. The DBE appointed Rand Water as an implementing agent to provide water and enlisted the services of the Development Bank of Southern Africa (DBSA) and the Mvula Trust as implementing agents to provide sanitation services by expanding the current scope of work for both entities under the sanitation appropriate for education and the accelerated school infrastructure delivery initiative programmes.

An initial assessment indicated that 3 898 schools still depend on basic pit toilets and do not have any other types of toilet. However, after need verification, this number was reduced to about 3 000 schools since some of these toilets have been upgraded by provincial education departments and private donors.

Based on the *Norms and standards for school infrastructure*, an estimated 70 000 toilets were required at the 3 000 schools. Under disaster conditions, and bearing in mind the temporary nature of this intervention, the DBE proposed a reduced number of four chemical toilets per schools.

Five provinces also reprioritised a total of R258,232 million from the conditional education infrastructure grant and equitable share (Gauteng: R37,7 million, Free State: R30 million, Mpumalanga: R124 million, Northern Cape: R52,5 million and North West: R14 million).

We were still testing the procurement and contract management processes followed when this report was finalised. We will include the results of the audit work performed in our next special report.

## *Emergency supply of water to selected public schools*

### **Commencement of initiative**

In terms of the implementation protocol agreement, Rand Water will not commence with any portion of the service until the DBE has provided sufficient funds for them to be executed. The first payment of R200 million was only transferred to Rand Water on 26 May 2020, which delayed the start of the emergency response to supply potable water to selected public schools. A further R22,275 million was transferred on 21 July 2020, for a total amount of R222,275 million as at 31 July 2020 against the budget of R610 million.

Although the implementation protocol agreement was signed on 13 May 2020, it was effective from the date on which the appointment letter was issued to Rand Water (7 May 2020).

### **Progress in achieving purpose or objective**

The initiative was delayed because not all schools identified for potable emergency water supply had water tanks installed by 31 July 2020.

**Status of emergency water supply initiative as reported to the national command centre on 31 July 2020\***

Province	Schools identified to need emergency water supply	Schools with existing tanks, only need water delivered	Schools without tanks, need new tanks and water delivered	Schools where Rand Water has delivered tanks	Schools where Rand Water has installed tanks	Schools where Rand Water has filled new tanks	Schools where installed tanks still need to be filled	Total tanks required - phase 1	Total tanks required - phase 2
EC	756	10	746	743	746	742	4	746	930
FS	87	0	87	87	71	71	0	87	180
KZN	1125	0	1125	933	799	770	29	1125	1843
LP	522	47	475	482	436	415	21	475	861
MP	435	308	127	129	131	131	0	127	535
NW	248	184	64	64	64	64	0	64	283
	<b>3173</b>	<b>549</b>	<b>2 624</b>	<b>2 438</b>	<b>2 247</b>	<b>2193</b>	<b>54</b>	<b>2 624</b>	<b>4 632</b>

\* Unaudited figures

All foundations and bases, retaining plinths (brick and mortar or structural steel), concrete works and hydraulic design of water distribution had to be completed according to the approved design documentation. However, because the start of the emergency initiative was delayed, and because of pressure with school reopening essentials, the DBE decided to use a 'quick and dirty' approach to more quickly supply schools with potable water.

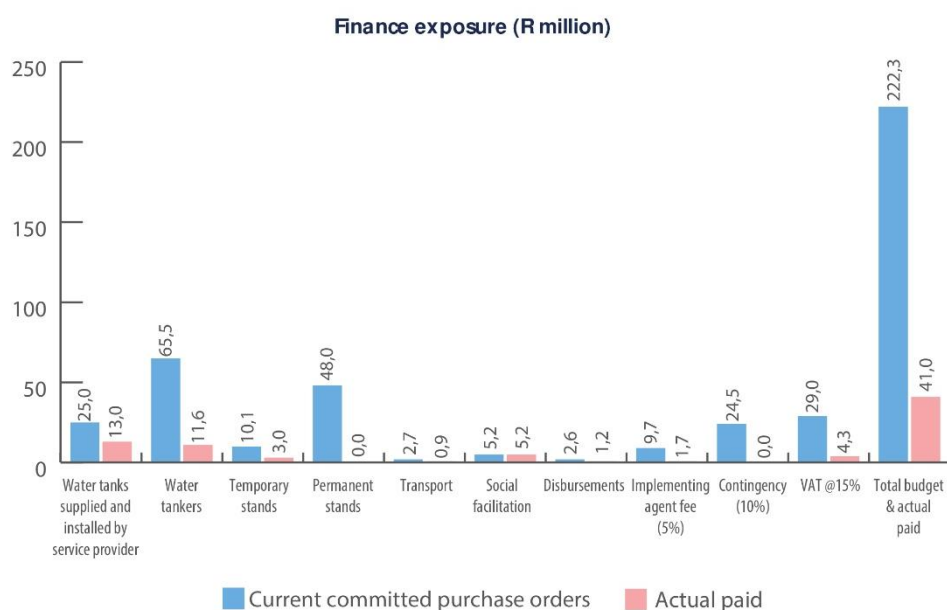
**Water tanks at Dedangifunde High School, KZN (left) and Hope High School, KZN (right)**



**Financial matters**

The DBE will provide Rand Water with a total of R610 million in funding to carry out the Covid-19 projects. By 31 July 2020, the DBE had paid R222,275 million to Rand Water in two payments – R200 million on 26 May 2020 and R22,275 million on 21 July 2020.

## Project commitments and payments as at 31 July 2020



Source: Unaudited figures from Rand Water report

## Emergency supply of sanitation to public schools

### Commencement of initiative

On 2 June 2020, the DBE initiated discussions with National Treasury to approve an expansion exceeding 20%: Covid-19 emergency sanitation (mobile toilets) to selected public schools, and followed up with a formal written request submitted on the same day.

On 4 June 2020, National Treasury responded supporting the expansion of DBSA and Mvula Trust contracts to include Covid-19 emergency sanitation for the Limpopo and Eastern Cape provinces. It said that the reason is justifiable as part of the strategy to contain the Covid-19 pandemic because proper water supply and sanitation have been defined as essential services required for schools to reopen.

### Progress in achieving purpose or objective

On 5 July 2020, DBE reported that the emergency sanitation roll-out had been completed and that toilets are being regularly serviced.

### Toilets provided to public schools\*

Target	1363
Eastern Cape	910
Limpopo	453
<b>Total delivered</b>	<b>100%</b>

\* Unaudited figures

## Financial matters

The estimated value of the expansion, based on a maximum of four mobile toilets to be delivered and installed for a three-month period, are as follows:

- DBSA R20 million
- The Mvula Trust R30 million

All the mobile toilets are rented on a month-to-month basis from the nearest available local suppliers. These suppliers were sourced for the provisioning of mobile toilets through an emergency request for quotation process, which compared the number of units the supplier had available on short notice to the number of units in the districts required.

### *High-level analysis of rented mobile toilets from sampled quotations*

Description	Mvula Trust (7 suppliers)	DBSA (5 suppliers)
Average delivery and collection: once-off cost per unit / transportation	R1 943	R7,08 per km
Average hiring cost per unit per month	R2 236	R2 652
Average servicing cost per unit per week	R346	R455

## AUDIT EXPERIENCE

We are still busy with the audit, which is progressing slowly because the implementing agent was not ready for audit and because offices were temporarily closed due to multiple positive Covid-19 cases. We have escalated these challenges to the DBE leadership.

### *Key audit observations*

#### **Non-compliance with the implementation protocol agreement**

We identified weaknesses in the implementation of the protocol agreement with Rand water. The agreement requires the implementing agent to provide the DBE with formal weekly progress reports, together with an analysis of expenses and spending. Rand Water has not consistently provided these reports and analyses. The accounting officer has committed to follow up with Rand Water and enforce compliance with the agreement.

#### **Recommendations**

The DBE should strengthen monitoring controls over requirements in the implementation protocol agreement to enable and ensure compliance with those provisions.

#### **Response to audit observation**

The DBE issued a letter signed by the director-general to Rand Water asking them to supply the required information and reports, and requesting an addendum to the protocol agreement to enforce compliance.

### *Conclusion*

We will continue to assess the adequacy and effectiveness of the controls that have been implemented and to highlight matters of concern to the accounting officer so that they can take appropriate action.

We are currently conducting site visits and finalising our testing of remaining procurement and contract management. We will also focus on expenditure management and payment processes at the implementing agent.

Once more work has been done, we will also share our findings with the fusion centre for their follow-up and investigation.

## OVERALL CONCLUSION

The planned initiatives are progressing well despite the challenges that the sector and the country are facing due to the pandemic.

We will continue to engage with the accounting officers on key findings noted and assess the impact of these findings on the sector's outcomes. We will also share the procurement findings with the fusion centre for immediate follow-up and investigation.

The agreed-upon responses should be implemented and monitored to prevent the identified shortcomings from recurring.

In the next phase of our audit we will focus on following up on implementation of the responses to audit observations and on Covid-19 expenditure for the period after this report was finalised. We will also continue to audit procurement and contract management, and will finalise our school verification visits for the supply of PPE and emergency water and sanitation.



## QUARANTINE SITES

### OVERVIEW OF INITIATIVE

Purpose	
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
Focus of our audit	Spending of funds in accordance with intended purpose Procurement of goods and services Adherence of properties to health department requirements
Funds subject to audit	<b>R3 122 million</b>
	R829 million – relief package (national department)
	R2 293 million – own reprioritised funding (provincial departments)
Expenditure as at 31 July 2020	<b>R581 million</b>

### STATUS OF IMPLEMENTATION OF INITIATIVE

When the President announced the national state of disaster on 15 March 2020, the ultimate goal was to give government time to gather resources and prepare for the anticipated exponential increase in people infected with Covid-19. In response, the regulations required the public works minister, the members of the executive council (MECs) responsible for provincial public works and the municipal accounting officers to identify and provide sites that could be used as isolation and quarantine facilities if needed.

Government had to put measures in place to combat the spread of the pandemic in densely populated communities and townships, such as Gugulethu in the Western Cape or Alexandra in Johannesburg. This included identifying and providing properties that would enable any citizen infected by the virus to recover in an isolated area. The process for this intervention is as follows: as the custodian of state immovable properties in South Africa, the provincial public works departments submit the list of identified sites to the Department of Health (DoH) for assessment and grant approval. The approved site list is then sent to the provincial public works departments, which issue commitment letters to the establishments based on the need. These commitments must be in line with the negotiated rates and tariffs issued by National Treasury. The DoH activates the facility, dispatching the necessary personal protective equipment (PPE), and medical and security services. The provincial public works departments sign the service-level agreement with the identified establishments and, once the site is activated, the DoH admits people for quarantine. Once the quarantine site has been used, the provincial public works departments receive and process the invoices, and facilitate payments sourced from their own reprioritised budgets. These funds will later be recovered from the DoH.

Increased screening and testing confirmed that more patients needed to be admitted to hospitals. So, in addition to providing isolation and quarantine facilities, the DoH and Department of Public Works and Infrastructure (DPWI) were asked to identify centres and existing hospitals that could be converted to field hospitals through refurbishing or renovating, or by building temporary structures. While this was not initially included in the Disaster Management Act regulations, government decided that it was necessary to ease pressure on the health system.



## FRAUD RISK CONSIDERATIONS

The fraud risk is informed by the fact that DPWI does not have sufficient controls to ensure that daily records are kept and that Covid-19 expenses are reconciled against the set budget. It is heightened by the lack of coordination within the public works sector, and by the fact that the DoH has to coordinate and oversee the sector's provision of quarantine sites.

Procurement of quarantine sites and field hospitals remains an area of our audit interest as we conduct these audits since it is susceptible to abuse and manipulation. As long as the number of cases and fatalities remains relatively high, hospitals may struggle to cope with Covid-19 cases and face increasing shortages of beds, ventilators and other equipment. The suppliers and service providers may become opportunistic, knowing that government has little choice but to pay, and may then extort government by charging higher rates or prices. Similarly, officials may find ways to take advantage of already weak procurement processes using compromised or overlooked monitoring controls, which makes it easy for funds to be misappropriated. These activities may translate to possible collusion and inclusion of fictitious quarantine sites that have been rated as compliant but have not been assessed. Some private quarantine site owners have already charged inflated rates and made duplicate charges, as can be seen in some of the findings.

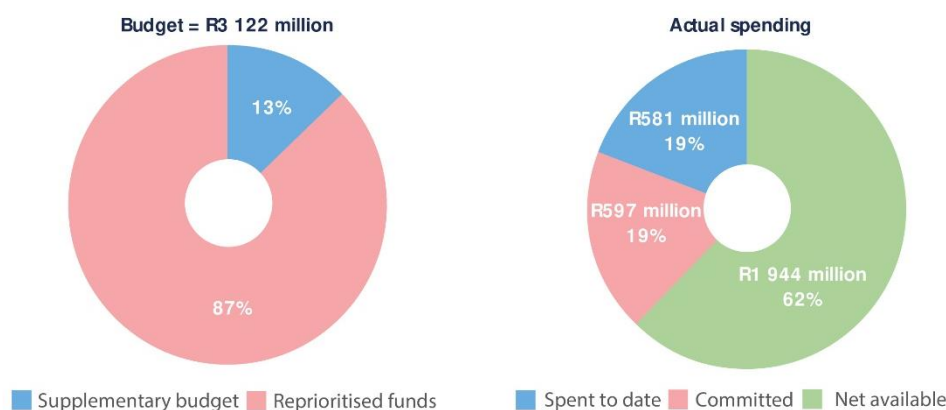
## NATURE AND SCOPE OF AUDIT

This audit aimed to establish if funds earmarked for quarantine sites have been spent on the intended purpose. This report focuses on our assessment of the effectiveness of the preventative controls and our risk assessment on the funding of quarantine sites. We will test compliance with the instruction notes on emergency procurement issued by National Treasury and with the relevant supply chain management legislation will be tested. We planned site visits at 18 quarantine sites across all provinces to confirm that these properties are adhering to the health requirements for spacing standards and other safety measures.

## QUARANTINE SITES

The sector had to identify and provide 6 123 properties across all provinces to accommodate patients who were expected to need to self-isolate or quarantine. The first step in the quarantine process was the directives from the public works minister. Following this, the department finalised a protocol document on the roles of key stakeholders and standard operating procedures. The extent of funding for the quarantine sites largely depends on whether the sites are state owned or privately owned. State-owned sites need spending on renovation and furnishing before they can be used, which will benefit the government in the long run. However, for privately owned sites, which are mainly hotels, the DPWI needs to pay daily accommodation rates when the sites are occupied and there is no long term benefit.

### Source of funds and spending

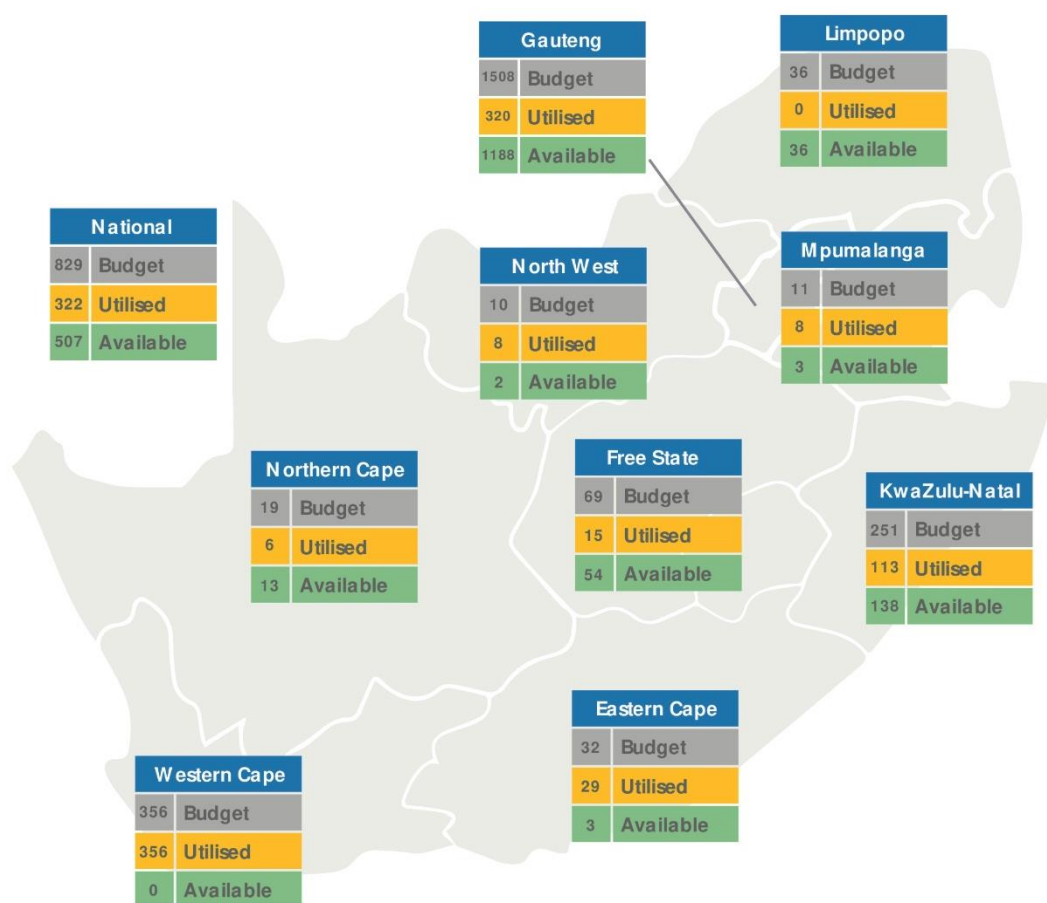




In line with the DPWI's mandate and the existing funding model, the provincial public works departments receive and process invoices and make payments with the intention of recovering these expenses from the DoH, as the budget holder. In some provinces, the DoH identified quarantine sites because the provinces or municipalities had not done so. In certain instances, sites were identified by both the DPWI and the provincial public works departments. This poses the risk of possible duplications and of some sites being paid for but left off of the lists of quarantine sites. There is also a risk of spending funds on sites that are not DoH compliant. This issue was noted in private quarantine sites. There is therefore a need for reconciliations to be done before any payments relating to quarantine sites are made.

The figure below shows how the overall budget of R3 122 million for providing quarantine sites was distributed across the provinces and how much each province has spent, or committed to spend, resulting in the net available balance of R1,944 million as at 31 July 2020. As noted above, we have not tested the accuracy or validity of the budget split or of the related spending across the provinces, and these are therefore unaudited figures.

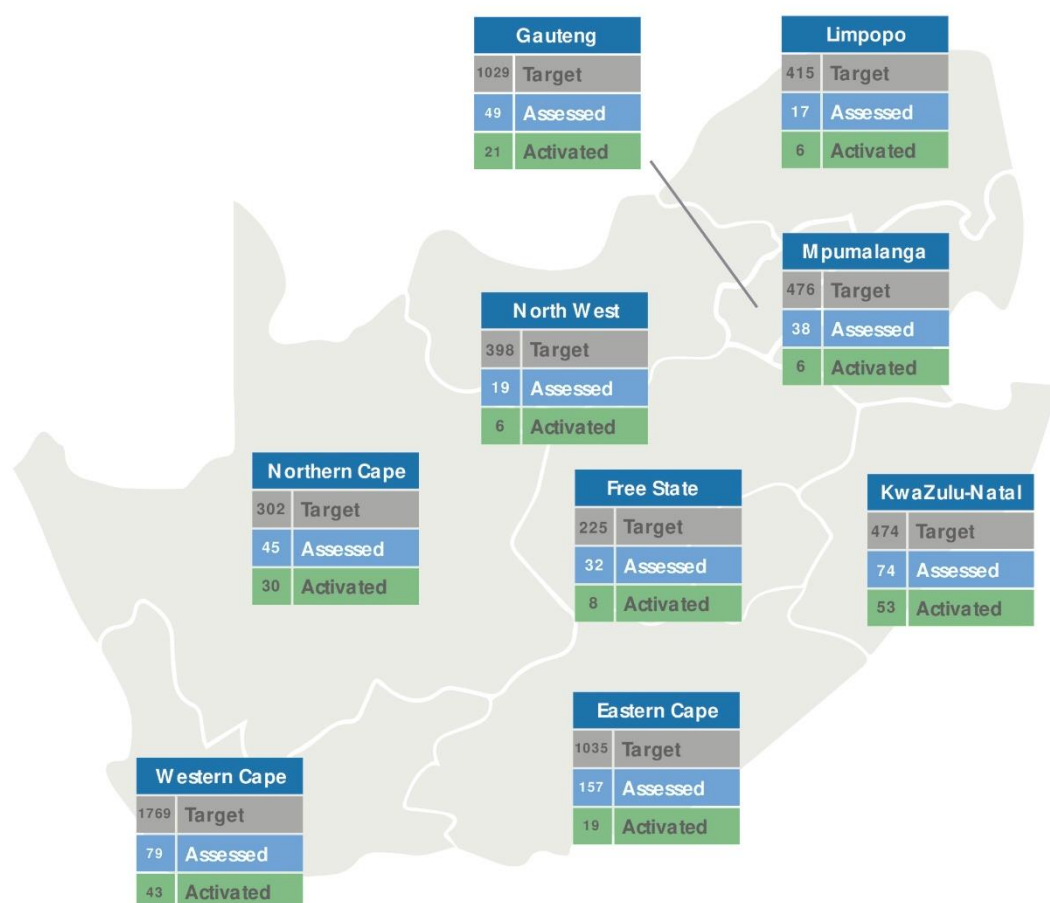
***Spending on quarantine sites as at 31 July 2020 (R million)***



Although quarantine sites have been identified, assessed and activated in all nine provinces, Limpopo has not spent any of its allocated budget. The slow progress made by some provinces has led to the national DPWI sourcing and providing sites. The unintended consequence of this is that the related provinces are not accountable or responsible for this initiative. During our visits to Limpopo's sites, we were informed that the national DPWI has identified, assessed and activated all the sites without the province's involvement.

The figure below shows how many of the targeted quarantine sites had been provided as at 31 July 2020. This information was obtained from management and has not been audited. We are reporting the information as received to reflect the progress that has been made.

#### *Number of targeted quarantine sites provided as at 31 July 2020*



The DPWI only provided 510 of the 6 123 targeted quarantine sites (8,3%) for the DoH to assess. Across the country, only 192 of these 510 sites (37,6%) complied with the requirements and have been activated for use. This slow progress is partly due to poor coordination, which has led to some sites being identified late. However, this might have worked in favour of the department as not all the activated quarantine sites have been used. When planning the response, government expected that a relatively high number of people would need to isolate or quarantine. In reality, however, people have required specialised hospital beds rather than quarantine sites, and have preferred to quarantine in their homes rather than at a state-provided facility.

#### *Audit observations and status*

Most provincial public works departments did not customise their standard operating procedures to include emergency procurement provisions that would allow quicker turnaround times. Because spending is not being monitored against the contracts signed with the owners of quarantine sites, the sector is being charged higher prices than those agreed upon in the contracts.

The departments do not obtain actual compliance certificates from the DoH before activating the sites. Instead, they rely on the DoH database, which has insufficient access controls. This may lead to sites being incorrectly classified as compliant and payments being made based on fictitious sites added to the database.

There is a risk that, due to misalignment, the respective role players may continue to spend limited financial resources on identifying, availing and preparing quarantine sites that are not needed.

### *Outstanding audit work and emerging risks*

We established that, while the regulations for Disaster Management Act clearly define the DPWI's role, there are instances where the department bought beds and other medical appliances that are within the scope of the DoH to use in quarantine sites. This has not been audited for this report, but will be audited and reported on in our next special report.

We have presented maps above that show how the budget was spread out across the provinces. However, we have not tested the validity and accuracy of this split. This will be audited and reported on in future reports. We will also perform site visits and audit the procurement procedures for Mpumalanga and Limpopo, as we were unable to visit or audit sites in these provinces due to the lack of coordination and accountability between the public works and health sectors. We will also conduct additional site visits in the other provinces, except for the Eastern Cape and the Western Cape, to obtain documentation that was not available during our initial visit.

The information on the budget and the split across the provinces is presented as received from management to give further insight on how the provinces have progressed with implementing the quarantine sites focus area.

The details of the findings raised during the audit, the actions planned by management to respond to the control weaknesses and the related impact of the findings are reflected below. We will follow up and report on the accounting officer's proposed corrective actions to attend to and strengthen the control environment in our next special report.

### *Key audit observations*

#### **Processes were not adequate to monitor funds spent on quarantine sites in line with budget (PMTE)**

The DPWI does not have sufficient controls to ensure that daily records are kept and that Covid-19 expenses are reconciled against the set budget. Although there are systems in place to capture Covid-19 expenses as and when they occur, the transactions are prepared on manual registers. This means that Covid-19 expenses have also not been tracked on the system so that management can monitor spending (PMTE).

#### **Recommendations**

The DPWI systems and processes should be enhanced to enable timeous tracking and reconciliation of expenditure related to Covid-19 against the reprioritised budget.

#### **Response to audit observation**

Management has created a unique code that the regions must use to capture spending related to Covid-19, and will report to the accounting officer biweekly on spending versus the reprioritised budget.

#### **DPWI does not keep DoH compliance certificates to confirm that all sites listed as activated in the database have actually been activated (PMTE)**

The DPWI does not get reports from the DoH certifying that a property has complied with health protocols in line with the guidelines published by the director-general of health. Instead, DPWI relies on the DoH daily consolidated database or Masterfile listing, which is kept in Excel format. If the necessary security or change controls are not in place, unauthorised people could manipulate the listing to include unverified or non-compliant service providers.

If quarantine sites are not assessed before they are activated, this affects all departments in the sector, as all provinces rely on the DoH to activate sites.

#### **Recommendations**

The information compiled in Excel should be secured through password protection to prevent unauthorised changes being made. The DPWI should also keep DoH certificates of compliance for all properties that they have activated.

#### **Response to audit observation**

In response to this finding, the DPWI engaged the DoH and implemented controls, including password protection, to prevent changes being made to the Masterfile. The DPWI also committed to obtain compliance certificates from the DoH for all activated sites, and to include this in the standard operating procedures.

#### **Sector did not adequately review and monitor invoices from quarantine sites to confirm that amounts charged are in line with rates agreed upon in service-level agreement (Eastern Cape / PMTE)**

The DPWI did not adequately monitor all spending on privately owned sites to confirm that the amounts charged are in line with the terms agreed in the signed agreement or contract. As a result, the DPWI sometimes paid higher rates than agreed in the contract (e.g. for meals with special dietary requirements). In some instances, the department also paid for duplicate rooms, i.e. paid for the same person staying in multiple rooms at the same time. Overall, the DPWI paid R241 800 more than it should have. Management will have to review all invoices relating to spending on quarantine sites to determine the full extent of overpayment (PMTE / Eastern Cape).

#### **Recommendations**

The accounting officer should determine the extent of the instances in which the rates charged were not in line with the service-level agreement signed and of duplicate payments. If there is no supporting evidence to validate payments, corrective action should be taken to prevent such an instance from happening again and/or to recover overpayments.

#### **Response to audit observation**

The accounting officer committed to include special dietary requirement surcharges in future agreements to prevent differences between signed agreements and actual charges. Expenses will be monitored against the rates agreed on in the signed service-level agreement before payments is approved and released.

The accounting officer also committed to determine the extent of the impact of the finding relating to payments for duplicate rooms, and to obtain evidence to confirm that payments were made for family members using more than one room. If such evidence cannot be obtained, the necessary consequence management and corrective actions, such as recovering payments made, will be implemented.

We will follow up and audit these actions to determine if the same findings are recurring, and the progress made will be reflected in future reports.

#### **DPWI spent funds on quarantine sites that DoH had not assessed or activated for use (PMTE / Northern Cape)**

The DPWI spent about R1 million on three sites that the DoH had not assessed for compliance and that were not included in the list of assessed and activated sites. This spending resulted in non-compliance, which may result in irregularities. The site may also not meet the required standard, and the DoH may refuse to pay.

#### **Recommendations**

The accounting officer should obtain DoH compliance certificates for all sites assessed and activated, and improve supply chain processes to ensure that no service-level agreement is approved before the DoH confirms that it has assessed the site as compliant.

### **Response to audit observation**

The accounting officers committed to work with the national DoH to update the database and reconcile which sites the DoH has confirmed as assessed and which have not been assessed.

### **National DPWI did not coordinate or oversee sector's provision of quarantine sites**

The regulations gazetted on 18 March 2020 clearly outline the responsibilities of the public works minister, the MECs responsible for provincial public works, and the municipal accounting officers when it comes to identifying and providing quarantine sites. However, there was a serious lack of coordination between the various role players (i.e. the public works sector and the DoH) during the implementation process. As a result, we had difficulty visiting sites and obtaining supporting documents for health compliance (all provinces except for Western Cape and Eastern Cape).

### **Recommendations**

The DPWI accounting officer should engage the DoH accounting officer to streamline standard operating processes through a protocol document. This document would be used by all role players to increase accountability by all parties entrusted with the responsibility of identifying and making available quarantine sites.

### **Response to audit observation**

The DPWI accounting officer has committed to work with the DoH accounting officer to efficiently implement the protocol document that will resolve issues related to lack of accountability.

## ***Key recommendations***

In addition to the specific recommendations, the national DPWI should coordinate and oversee the process of identifying and providing quarantine sites so that all role players in the sector are accountable for implementing this initiative. Management needs to reassess both the budget and the need for quarantine sites so that the department can avoid spending on sites that may no longer be required.

Stringent preventative controls should be introduced for the list of assessed properties, including password protecting the Masterfile and creating a consolidated database to prevent unauthorised modifications. The internal audit function should also be expanded to include proactively strengthening the monitoring and review controls to prevent unnecessary overpayments.

## ***FIELD HOSPITALS***

The Disaster Management Act regulations do not deal with the responsibilities for providing field hospitals. Field hospitals were also not initially planned as a response to fight the spread of Covid-19. However, as cases increased, so did the risk that hospitals would not have the capacity to deal with all the patients. Therefore, the need for additional specialised beds and other health facilities had to be addressed to prevent the health system from being overwhelmed. Provincial public works departments, in their capacity as implementing agents, needed to help the DoH respond to this demand by refurbishing or building temporary structures to use as field hospitals. The DPWI is responsible for assisting the DoH, as implementing agents, in six provinces (Gauteng, Northern Cape, Western Cape, Mpumalanga, KwaZulu-Natal and Eastern Cape). The field hospitals in the remaining three provinces will be managed by the DoH.

Although these properties will be used by the client departments, the DoH, when completed, they will be managed by the DPWI as the custodian of government properties. It is therefore important that DPWI keeps sight of these properties.

### *Detailed audit consideration and observations*

Most of the costs of erecting or refurbishing these field hospitals are the DoH's responsibility, although the provincial public works departments are also responsible for some of the costs.

The public works sector has thus been funding these field hospitals as part of its Covid-19 operational activities without keeping separate records or monitoring budgets. For the purposes of this report, we have not yet audited the spending for the six provinces for which the DPWI is responsible as an implementing agent.

Since the role of the DPWI is limited to implementing agent responsibilities, and all the reporting and spending happens at the DoH, we will only do further audit work at DPWI to the extent that the respective provincial public works departments are involved in the procurement activities.

As reported under the health section of this report, by 30 June 2020, a total of R598 million had been spent on field hospitals. For detailed audit consideration and observations, refer to the healthcare services section of this report.

## OVERALL CONCLUSION

Poor coordination and accountability led to delays in implementing this intervention as well as in our audit. The DPWI's protocol document clearly sets out each role player's responsibilities for achieving the targets, and will be critical for coordinating these deliverables. The accounting officers of both the DoH and the DPWI have committed to work with all role players to implement the protocol document to resolve this issue.

Because more patients are needing to be hospitalised, the sector is shifting focus from preparing quarantine sites to providing field hospitals to prevent any possible collapse of the health system. This will be the main focus of our next special report, which will also cover the remaining budget and spending.



## SUPPORT TO SMALL BUSINESSES

### OVERVIEW OF INITIATIVE

Purpose	
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
Funds subject to audit	<b>R1 764 million</b>
	R1154 million – relief package
	R250 million – relief package (from Department of Trade, Industry and Competition)
	R360 million – own reprioritised funding and savings across portfolio
Expenditure as at 30 June 2020	<b>R151 million</b>

### STATUS OF IMPLEMENTATION OF INITIATIVE

The small business portfolio aims to implement 10 initiatives with a total budget of R1 834 million during the 2020–21 financial year. Seven initiatives with a total budget of R1 105 million aim to help small businesses operating in various economic sectors to recover from the effects of the pandemic. These initiatives are planned to be rolled out from August 2020.

The remaining three initiatives have a combined allocated budget of R729 million and were rolled out during April 2020. This report focuses on two of these initiatives, namely the debt relief finance scheme and the spaza shop support programme (SSSP) initiative, which have a combined allocated budget of R659 million. These initiatives aim to assist small, medium and micro enterprises (SMMEs) remain in business during the pandemic. The third initiative is the business growth and resilience facility initiative, which aims to support SMMEs involved in manufacturing or supplying products required during the Covid-19 pandemic and had an initially allocated budget of R70 million. Due to the Small Enterprise Finance Agency's (Sefa) strong internal control environment, the department identified Sefa as the best vehicle for implementing these initiatives.

The application window for the third initiative relating to the business growth and resilience facility closed on 18 April 2020 because of the large number of applications received and because Sefa did not have the funding or capacity needed to manage it. By 15 July 2020, Sefa had paid out R2 million for applications received before this initiative was closed for applications, and there is no intent to reinstate this initiative. Sefa processed all received applications and shared the outcomes of the evaluation process directly with beneficiaries. The payouts will be audited and reported on through the annual regulatory audit.

[NEXT](#)[MENU](#)[PREV](#)



## NATURE AND SCOPE OF AUDIT

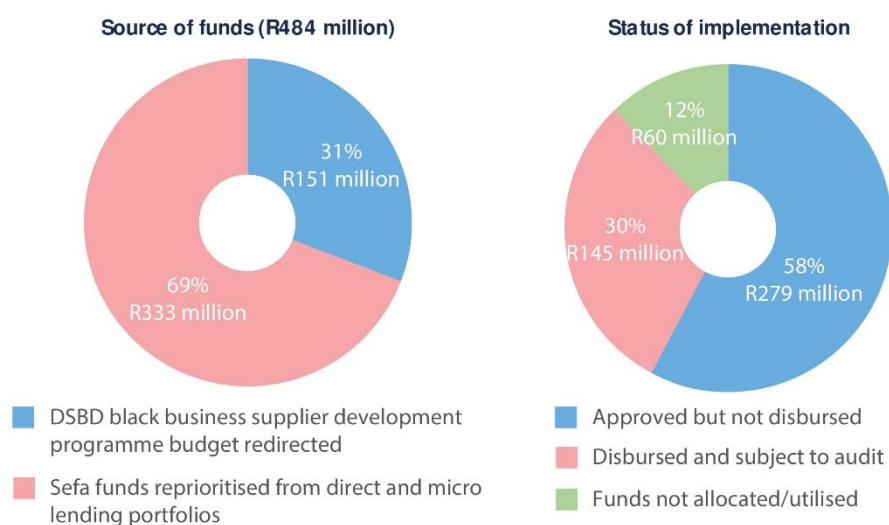
The audit focused on the debt relief finance scheme and the SSSP because they were the only two initiatives that had been implemented to a significant extent. We assessed the design and implementation of both the manual and system controls for ensuring that allocated funds reached the intended recipients. We also tested the operating effectiveness of controls in the pre-screening, approval and disbursement phases of a sample of the initial payments against the documented operating procedures. Given the limited resources available to support SMMEs, it is crucial that funds go to the most deserving applicants. We thus focused specifically on providing management with value-adding insights into how many individuals were 'double dipping', i.e. were employed by the state or had received funding from other government initiatives and were also approved for these schemes. We obtained these insights using CAATs.

In our future reports we will also look at the implementation, progress and spending patterns of the economic recovery initiatives planned for the rest of this financial year. Sefa will also manage these seven initiatives, set to begin in August 2020, given their experience in administering the debt relief finance scheme and the sound internal control environment, as previously mentioned. Our audit procedures for these initiatives will thus be consistent with those we performed on the first two initiatives.

### DEBT RELIEF FINANCE SCHEME

The scheme gives businesses access to 'soft loans' (loans with interest below market rate) of up to R500 000 per SMME at an interest rate of prime minus 5%. The funding is intended to preserve jobs by helping businesses stay afloat.

#### *Source of funding and status of payouts from allocated budget as at 15 July 2020*



The programme was scheduled to run for six months from 2 April 2020 to September 2020. Due to the high number of applications, the allocated budget was increased from R200 million to R484 million. The application window was closed on 23 May 2020, when the Department of Small Business Development (DSBD) reported that Sefa had received 35 865 applications since opening the scheme. Of these, 1 497 applications, with an estimated value of R513 million, were initially approved. However, the exact amount to be paid to each applicant was not final at the time of approval, and this estimate has since been reduced to R423,6 million. As a result of the scheme funds being fully allocated, the additional 21 421 applications considered and assessed as incomplete were referred to the Small Enterprise Development Agency (Seda) for assistance in obtaining the required documents. A further 12 954 completed applications were declined.



The easing of lockdown regulations and the return to partial economic activities meant that recipients could only get two monthly tranche payments, even if they had previously been estimated to need funding for more than two months. Based on this, management expects the total payouts will be less than R350 million. By 15 July, R145 million of the allocated budget (30%) had been paid out to 715 approved SMME applicants (48%). The rest of the payments should be made by the end of August 2020.

As DSBD did not have sufficient funds to assist all applicants, the department is working with the Unemployment Insurance Fund (UIF) to cover SMMEs that did not qualify for the temporary employee/employer relief scheme (TERS) due to non-compliance with the conditions of the scheme, provided the businesses acknowledge their debt and agree to payment terms with the UIF. Progress made in this regard will be reflected upon in our next special report.

## **AUDIT EXPERIENCE**

### *Status of audit*

We assessed the documented business processes for the debt relief finance scheme to determine whether the built-in preventative controls had been properly designed and were functioning effectively. The area of concern was that management was unable to give us a complete list of applications received due to the lack of processes to consolidate applications. We were therefore unable to perform a transparent and efficient audit of all applications.

We also tested the operating effectiveness of controls in the pre-screening, approval and disbursements of a sample of the initial payments against the documented operating procedures. We could only perform planned CAATs procedures for applications that have already had funds paid out because these transactions were captured on the Sefa Loan Administration System.

Some approvals required applicants to get their tax affairs in order or to resolve judgements on their credit status, and this did not always happen. Therefore, not all the applicants who were approved for loan funding received funds. Some applicants who were approved also decided not to accept the loan.

### *Outstanding audit work and emerging risks*

Based on the planned work, we were only able to perform CAATs procedures on 903 of the 1 497 of approved debt relief applicants because the complete list of applications received was not available. Management has since provided the full manual list of approved beneficiaries, and our future reports will include our analysis of the remaining applicants once they have been captured in the financial system.

We will also test how effective the key controls are, and whether payouts are made to the correct beneficiaries and accurately recorded in the financial systems. Information technology experts will audit the Sefa Loan Administration System to check that the access controls are operating effectively. Since Sefa does not have an information technology system to manage the pre-screening of applications, PwC was brought in to manually assist with pre-screening for the debt relief scheme on a pro-bono basis, as previously noted. We will review the PwC agreement to confirm that it complies with the requirements of applicable procurement and contract management legislation.

Debt relief loans are paid out in portions, or tranches. Any tranche after the first is only paid out if the money received in previous tranches was used for the purpose stated in the approved application. For this report, we could only test initial tranche payouts. In our future reports, we will assess how effectively this documented preventative control works for later payouts. We will use sampling to test the evidence the SMME gives as proof that it used the first tranche for the purpose given in the application, which makes the business eligible for the second tranche.

## Value-add recommendations

According to the published qualifying criteria for the social relief of distress grant, people who have received debt relief funding are not eligible for the grant. During our audit, we identified 425 people who had received both the R350 social grant from the South African Social Security Agency (Sassa) and payouts from either the debt relief finance scheme or the SSSP. These payments came to R148 750 per month. We have reported the matter to Sassa.

While this double payment does not go against the department's regulations, management may want to consider adding a section to the application forms for people to declare any other government funding they have applied for or received. This would help to ensure that government's limited resources reach as many deserving recipients as possible. The department may also want to collaborate with other role players (e.g. the South African Revenue Service, the departments of home affairs and social development) to identify cases where one person may have applied to multiple institutions and initiatives.

We have noted the department's commitment to transparency and that it has published the names of approved applicants on its website. However, we also noted that the statistics published are based on Sefa's initial estimated payouts, which are significantly higher than the actual amounts paid out. The department should ensure that the published statistics are regularly updated to reflect the current status.

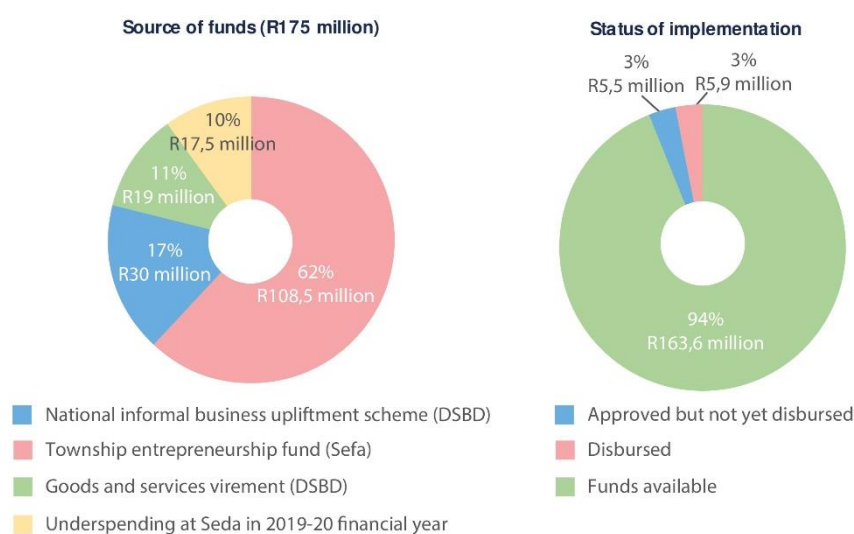
## SPAZA SHOP SUPPORT PROGRAMME (SSSP)

The SSSP aims to provide spaza shops with both financial and non-financial support by helping them obtain legal compliance, networking purchasing power, working capital and credit facilities. It also offers support and assistance with business management to ensure that the shops adhere to health and safety standards.

The SSSP is managed by Khula Credit Guarantee, a subsidiary of Sefa. Khula Credit Guarantee has partnered with Nedbank to issue spaza shops with bankcards so that they can purchase necessities from the approved wholesalers listed on the DSBD website. Spaza shops are entitled to a total of R7 000, either as a R3 500 grant and R3 500 credit facility, or as a R7 000 credit facility. The R3 500 and R7 000 credit facilities have not yet been implemented, and only the R3 500 grant has been approved and paid out.

Seda is a DSBD entity with the mandate to support, develop and promote small businesses. Seda provides the SSSP's non-financial business support as part of its established programmes. While those who receive funding are encouraged to participate in Seda programmes, this is not a condition of the scheme and recipients are not compelled to register.

### Source of funding and status of payouts from allocated budget as at 30 June 2020



The SSSP was officially opened on 18 April 2020 with an initial target of 25 000 beneficiaries. On 22 April 2020, the first applicants were approved to receive bankcards. By 30 June 2020, 5 001 applications had been received and 3 644 (73%) had been assessed, with 90% (3 263) being approved to receive bankcards. A total of 1 697 cards, with a value of R5,94 million (3% of budget), had been ordered. One application had been referred to Seda for further assistance and 380 applications (10% of applications assessed) had been declined, in most cases because they did not have the required municipal trading permit or the permit they submitted was not for a spaza shop. This was verified through the audit process.

The DSBD received fewer applications than expected, probably because most spaza shop owners do not have all the necessary documents and are located in the rural areas and townships. Management plans to implement the following initiatives to reach the intended beneficiaries:

- As lockdown restrictions ease, Seda offices will open for walk-in applications
- The department is rolling out an online application process so that applicants can apply remotely
- New participating wholesalers are being introduced every week
- Financial institutions are promoting the scheme on their platforms
- Wholesalers are promoting the scheme in areas where they operate
- The department and its agencies are using the media (print, digital and radio) to promote the scheme

However, since these initiatives depend on spaza shop owners having internet access and being close to approved wholesalers, they may not be very successful. If the department wants to reach more beneficiaries and build confidence in the relief effort, it must let people know about the different kinds of relief that are available and how to access them.

## **AUDIT EXPERIENCE**

### *Status of audit*

The controls that have been designed to ensure only applicants who meet the published qualifying criteria benefit from the programme are mostly appropriate. The weakness relating to non-adherence to the approval process is detailed in the finding below.

The audit at the DSBD has progressed fairly well and we can report against the planned scope. We assessed the SSSP's preventative controls, the effectiveness of the approval processes, the extent of double dipping in government-funded initiatives, and conflicts of interest by applicants to the scheme.

Below is the detailed finding and a reflection on the responses received from the DSBD's accounting officer.

### *Key audit observations*

#### **Weakness noted in implementation of approval processes**

No verification forms were submitted for audit so we have limited evidence that DSBD officials sign off on individual applications. The department's operating procedures explain that verification forms are intended to ensure that all required documents are received and assessed. If the form is not used, there is very little evidence that individual applications are reviewed and there is no one held accountable if funds are incorrectly paid out. We tested a sample of 29 applications and identified six cases where application packs did not contain all the required documents. Five of these applications were approved, which resulted in R17 500 being paid out in the form of R3 500 cash injections. If these weaknesses in the approvals process are not dealt with, the scheme may approve applicants who do not meet the qualifying criteria.

#### **Recommendations**

The DSBD and the financial institutions should consider changing the application forms to allow the application to be properly evaluated at the bank before it is submitted to the department. The same application form could also leave space

for the results of the department's assessment process and for the signatures of the responsible officials. These measures will increase the level of accountability across all role players. The DSBD should also use the checklist included in their operating procedures and have a delegated official sign off on it as evidence that the application has been reviewed and approved.

#### **Response to audit observation**

The DSBD accounting officer has indicated that they will amend and implement the documented operating procedures as soon as they have cleared the initial backlog and all manual applications. Moving forward, both the department and Seda will assess the applications online.

We will report on how these responses have been implemented in our next special report.

## **OVERALL CONCLUSION**

Since the debt relief scheme is only scheduled to run for the six months from April 2020 to September 2020, the R261 million paid out by 31 July is in line with the expected progress. Sefa management does not plan to extend the debt relief application period. We will test all payouts made from the scheme from July to September 2020 and include the results in our next special report. We will also test whether all payouts from the start of the scheme are correctly recorded in the financial systems. The funds have been specifically sourced and ring-fenced for Covid-19 relief initiatives for a three-year period. Future reports will also focus on any additional windows for the debt relief scheme or any replacement initiative that Sefa rolls out.

While the control environment is sound, it could be improved through the value-adding recommendations included in this report. The portfolio should also consider using the various Seda offices to help perform post-funding site visits, based on risk, when implementing the remaining initiatives.

Fewer people than expected have applied for the SSSP. We will monitor the impact of the measures Sefa plans to implement to address this. We identified some weaknesses in the preventative controls for the scheme's approval process. Our future reports will assess the implementation and effectiveness of the corrective actions management plans to take.

Our future reports will also focus on the seven initiatives for economic recovery that are planned to be rolled out from August 2020. Given the scarce resources available to government, we will mainly use CAATs to identify applicants who have conflicts of interest and who have previously benefitted from government initiatives.



## OVERVIEW OF INITIATIVE

Purpose	
Support to qualifying financially distressed small-scale farmers	
Auditees	Department of Agriculture, Rural Development and Land Reform 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
Funds subject to audit	<b>R700 million</b>
	Small-scale and communal farmers
	R680 million – relief package
	Distribution of hygiene products to farmers
Expenditure as at 31 July 2020	<b>R61 million</b>

## R680 MILLION ALLOCATED TO SMALL-SCALE AND COMMUNAL FARMERS

### STATUS OF IMPLEMENTATION OF INITIATIVE

#### Commencement of initiative

The goal of the initiative is to provide relief of up to R50 000 per applicant for small and communal farmers in the form of vouchers for production inputs in farming activities. The relief programme has identified the production inputs for key commodities, which will be prioritised:

- Poultry: day-old chicks, point-of-lay chickens, feed, medication and sawdust
- Vegetables: seedlings, fertilisers, pesticides, herbicides and soil correction
- Fruits: chemicals for final spray in preparation for harvest
- Other livestock: feed and medication
- Winter field crops: soil correction, fertilisers, seeds, herbicides and pesticides

The application process ran from 8 to 22 April 2020, and the initiative was meant to be completed by 30 June 2020, or as soon as the allocated funds had been used. Once the beneficiaries of the relief funds were approved, they were given vouchers that they could redeem at various suppliers across the country to obtain production inputs that would support their farming activities. The Department of Agriculture, Land Reform and Rural Development did not implement an electronic system, and the vouchers are issued and redeemed manually at regional offices. This information is sent to head office for consolidation and reporting.

The applicants needed to meet specific criteria to qualify for the funds. These requirements are laid out in circular 30 of 2020, issued by the minister on 7 April 2020.

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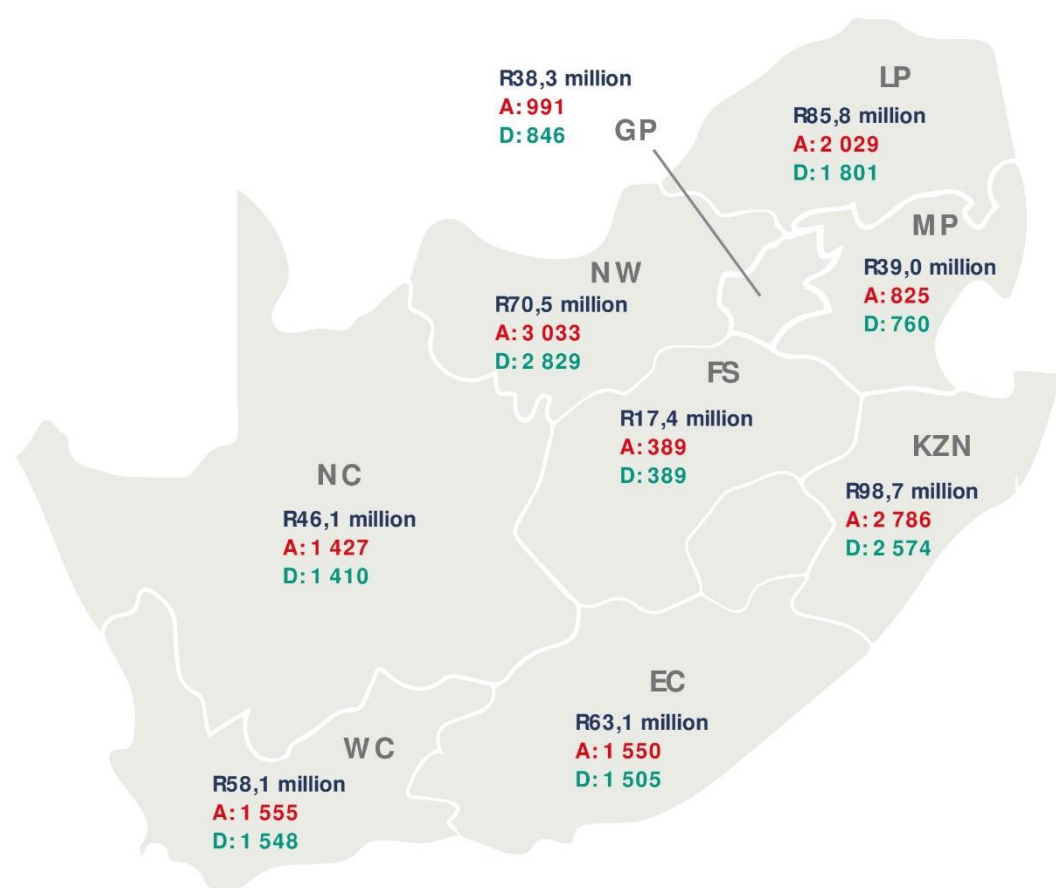
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## Progress in achieving purpose or objective

The department indicated that there were difficulties in finalising the approved beneficiaries on the vouchers programmes because they had identified duplicate applications, applicants who were employed by the state and applicants whose farming operations could not be physically verified, among other matters. These difficulties caused a delay in vouchers being distributed and redeemed.

The department reported that by 22 July 2020 it had approved 14 589 voucher support applications at a value of R517 million, and 13 662 vouchers had already been distributed to the relevant beneficiaries. The department has not determined the value of the distributed vouchers because the process is manual and the information has not yet been consolidated. It also had a number of Covid-19 cases, which contributed to the delays. The department is still investigating the 927 vouchers that had been approved but not dispensed to confirm whether the beneficiaries were valid. All vouchers were initially supposed to be redeemed by 30 June 2020, this was later extended to 30 September 2020. Suppliers have started submitting their invoices to the department and we expect management's efforts to focus on validating and processing these invoices for payment. By 31 July 2020, R41,16 million had already been paid to suppliers. We are in the process of auditing the reported approved, distributed and paid vouchers.

### Approved and distributed vouchers for relief benefit per province



■ Approved value of vouchers ■ Approved number of vouchers ■ Distributed number of vouchers

## AUDIT EXPERIENCE

The audit process has been delayed because of the extension given to distribute and redeem vouchers for the R680 million fund. The audit team included regulatory auditors and specialists in information technology, investigations and performance auditing. We have audited the procurement process for the invitation of suppliers to express interest and development of the database by the department. The process was audited in terms of compliance with procurement laws and regulations. We are still busy auditing the application, distribution, redemption and payment of vouchers.

The key challenge we face is obtaining the information for this initiative that is kept at provincial offices, mainly because the entire process was administered manually. This was exacerbated by the department's Pretoria head office having to be closed due to confirmed Covid-19 cases in July 2020, which delayed our receipt of the hardcopy information. We are currently testing the information we have received on the progress that has been made so far.

Our engagements with the accounting officer have shown that there were historical deficiencies (invoices were submitted for payment without supporting documents) in the internal control environment. The department has committed to tightening the internal controls by, for example, validating invoices before processing payment. We are encouraged by leadership's pledge to support the audit process.

The audit findings included in this report have been discussed with the accounting officer, who committed to address the identified weakness and take appropriate action, where applicable. We also engaged the executive authority on these matters.

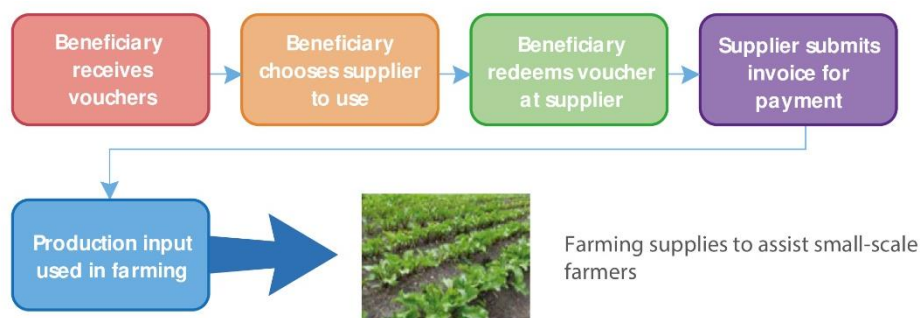
The focus areas for the initiative included the following:

- The application process for the relief grant, including the approved and rejected applications
- The distribution, redemption and settlement of the vouchers
- The procurement and contract management for appointing service providers for the redemption of vouchers

### Application process flow



### Process for redeeming vouchers





### Procurement process for selecting suppliers



### Key audit observations: risk and control

#### Inadequate supplier selection process

We identified internal control deficiencies and non-compliance with legislation in the process for developing the supplier database that the applicants would use to redeem their vouchers. The department did not evaluate the suppliers that expressed interest in participating in the programme, e.g. analysing prices, verifying tax compliance, checking for conflict of interest, etc. Because of this lack of verification, the process may not be fair and equitable if suppliers who do not qualify are included on the database. The department also did not ensure that the suppliers would be charging regulated prices, which could lead to suppliers charging farmers more than the goods are worth.

The invitation for bidders to participate in the programme was only advertised on the department's website. This severely limited the potential suppliers, especially those in rural areas or disadvantaged communities that may not have access to the internet. Advertising the programme using platforms such as radio, television, national and local newspapers, etc. would have made the process fairer and more transparent.

#### Recommendations

Management should ensure that the department complies with the other procurement regulations even when it deviates from the competitive bidding process.

The department should investigate whether the prices charged by the various service providers are reasonable and should deal with any excessive pricing before the vouchers are redeemed.

The department should verify the tax compliance status of the suppliers that will submit invoices for redemption against the central supplier database before settling the invoices.

#### Response to audit observation

Management committed to refer this matter for further investigation.

#### Approved applicants with invalid identity numbers

The approval listing of farmers contained 673 approved applicants whose identity numbers were invalid. This may result in vouchers being issued to farmers who do not exist, or who would not have qualified to receive the voucher.

#### Recommendations

The department should investigate all approved applicants with invalid identity numbers and ensure that vouchers were only issued to South African citizens with valid identity numbers, in line with the qualifying criteria. In instances where vouchers have been issued to applicants with invalid identity numbers, the department should investigate possible



fraudulent activities while also cancelling vouchers not yet issued and recovering funds for vouchers that have already been redeemed.

#### **Response to audit observation**

Management stated that the identity numbers were manually captured on the listings. This process was prone to human error, including spacing and typographical errors. To mitigate the risk, the department implemented the following controls before the final issuing of the vouchers:

- To prevent duplicate vouchers being handed over, applicants' identity numbers were checked against their identity documents before vouchers were issued to the beneficiaries
- If there was a discrepancy, the voucher was scrapped and a new voucher with the correct details was issued
- Identity documents were also scanned into the Survey 123 system

We will evaluate the effectiveness of these mitigations in the next phase of the audit.

#### **Approved applicants not meeting the criteria**

We identified 861 applicants who did not meet the minimum scoring criteria but were approved. For 847 of these applicants, there was no evidence of farming activity.

We identified 521 applicants who met the minimum scoring criteria but were rejected.

#### **Recommendations**

All the approved and issued vouchers should be checked against the minimum criteria to ensure that vouchers were only issued to qualifying applicants. Vouchers that were issued to non-qualifying applicants should be withdrawn taking in to account the legal implications.

All the rejected applicants should be revisited to confirm that the reasons for the rejections were valid. In instances where the rejections were invalid, the department should consider evaluating these applications for approval to ensure that the approval process is fair.

#### **Response to audit observation**

The accounting officer stated that some of the applicants were not able to submit the required proof when they submitted their applications due to the level of Covid-19 lockdown. They also stated that the verification processes were performed before the final issuing of vouchers. Given the nature of the observations and how they have been addressed to date, the accounting officer committed that the matters identified will be further analysed and investigated.

#### **No adequate list of distributed vouchers**

The department could not properly track and control the vouchers in the system because there were no adequate listings, and because there was no reconciliation of vouchers distributed and redeemed. As a result, the department may not be able to implement internal controls to adequately monitor and report on voucher distribution and redemption, or on the farmers supported during Covid-19. Reconciliations and supporting documents are also important for detecting and preventing fraud and error.

#### **Recommendations**

Management should implement an adequate record management system and reconciliation process to track and control the vouchers in the system. This will reduce the risk of duplicate payments being made on the vouchers.

### **Response to audit observation**

The accounting officer committed to ensure that reconciliations are reviewed and the process around the governing of record management is revised to enhance controls over the recording and tracking of the vouchers.

### **Vouchers distributed not marked redeemed**

We noted that vouchers that are processed for payment are not marked *Processed* or *Paid* to prevent duplicate payments being made on the same voucher. Vouchers are redeemed manually rather than electronically, and the supplier then submits the physical documents to the department's regional offices for payment. Because it can take days before the department knows that a voucher has been used, the department could pay more than once for the same voucher and exceed the budget allocated for farmer support.

### **Recommendations**

Management should implement adequate payment processing controls to cancel the original vouchers when they are redeemed. The suppliers should also be asked to cancel all the vouchers that they have redeemed.

### **Response to audit observation**

The payment process governing the voucher scheme will be reviewed and revised (where necessary) to improve controls. Suppliers will also be informed that they are required to cancel the vouchers they have redeemed.

## **Conclusion**

In our engagement with the accounting officer, it was indicated that the department will investigate the matters identified relating to the approval, distribution and payment of vouchers with the aim of strengthening the internal controls to ensure that only valid, eligible applicants benefit from the relief programme.

## **R20 MILLION ALLOCATED FOR HYGIENE PRODUCTS**

### **STATUS OF IMPLEMENTATION OF INITIATIVE**

#### **Commencement of initiative**

The aim of this initiative was to procure and distribute hygiene products, such as masks and soaps, to rural communities. The hygiene products were procured during April and May 2020.

#### **Progress in achieving purpose or objective**

The procured hygiene products were received and paid for. A total of 400 000 face masks, including 200 000 cloth masks, and 400 000 soaps were procured and distributed to farm workers across the country at a total cost of R19,8 million.

### **AUDIT EXPERIENCE**

There were delays in our receipt of all the supporting documents for the hygiene products, including personal protective equipment (PPE). Management explained that this was because their offices were closed due to confirmed Covid-19 cases. As a result, we could not validate whether all the beneficiaries had indeed received the reported support from the department.

## *Key audit observations: supply chain management for PPE*

### **Deviation in procurement of PPE not reported to National Treasury**

The Covid-19 PPE supplies were procured on an emergency basis due to the need to respond rapidly to the pandemic. The department followed a deviation process and not the full bid tender process when procuring the hygiene products and identifying suppliers for the production inputs.

The deviation of the procurement of the PPE was not reported to National Treasury as required by the National Treasury transcripts.

### **Recommendations**

Management should ensure that the department complies with procurement regulations even when it deviates from the competitive bidding process. Deviations must be reported to the National Treasury.

### **Response to audit observation**

Management is in the process of reporting the procurement deviation to the National Treasury, and the matter will also be referred for investigation.

## *Conclusion*

We observed that the deviation of the PPE procurement had not been reported to the National Treasury or to us at the time of this report. The accounting officer has committed to ensure that the deviation is reported as required.

## **OVERALL CONCLUSION**

The department is currently supporting small-scale and communal farmers. In our engagements with the accounting officer, we clarified the internal control deficiencies identified and he agreed to provide additional commitments to address the identified deficiencies. We have recommended that preventative controls be implemented, and that internal audit assesses the adequacy of these controls. From our observations, it is clear that the manual farmer support process has a high risk of fraud and error.

Finally, in driving this initiative forward, the department should consider how seasonal changes will affect this initiative given that farming operations are also dependent on seasons. The department and its supporting entities must ensure that those vouchers that have not yet been redeemed are for farming activities that can still be used for the intended season. The key audit focus going forward will be to continue testing the transactions relating to voucher redemption and payments to suppliers, and to perform additional procedures to follow the money and confirm that the farmers both received the production inputs and used these in their farming activities. We will also follow through to ensure that the hygiene products were delivered to the beneficiaries.

## NOTES



## EXPANDED PUBLIC WORKS PROGRAMME

### OVERVIEW OF INITIATIVE

Purpose	
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
Funds subject to audit	<b>R771 million</b>
	Relief package
Expenditure as at 30 June 2020	<b>R26 million</b>

### STATUS OF IMPLEMENTATION OF INITIATIVE

The expanded public works programme (EPWP) covers all spheres of government and creates work opportunities in the infrastructure, non-state, environmental, cultural and social sectors. On average, approximately 900 000 such work opportunities are created annually, of which the duration varies.

When the country was placed on level 5 lockdown, all projects were suspended to adhere to government regulations. This posed a risk that the many participants who depend solely on these work opportunities would be severely affected by the loss of income. In response, the public works and infrastructure minister issued a directive in March 2020 that all participants who were already enrolled in projects would continue to receive their wages for the duration of the lockdown. This expenditure falls within the scope of the normal EPWP, which we audit as part of the annual regulatory audit, and as such will not be focused on in this report.

The outbreak of the Covid-19 pandemic necessitated government to urgently implement mass screening and testing initiatives combined with programmes aimed at educating communities on safety and prevention measures to combat the spread of the disease and reduce exposure. The DPWI was tasked with urgently sourcing 25 000 additional EPWP workers to assist the Department of Health with these initiatives, which would then also address concerns surrounding job and income losses as a result of Covid-19 in poor and marginalised communities.

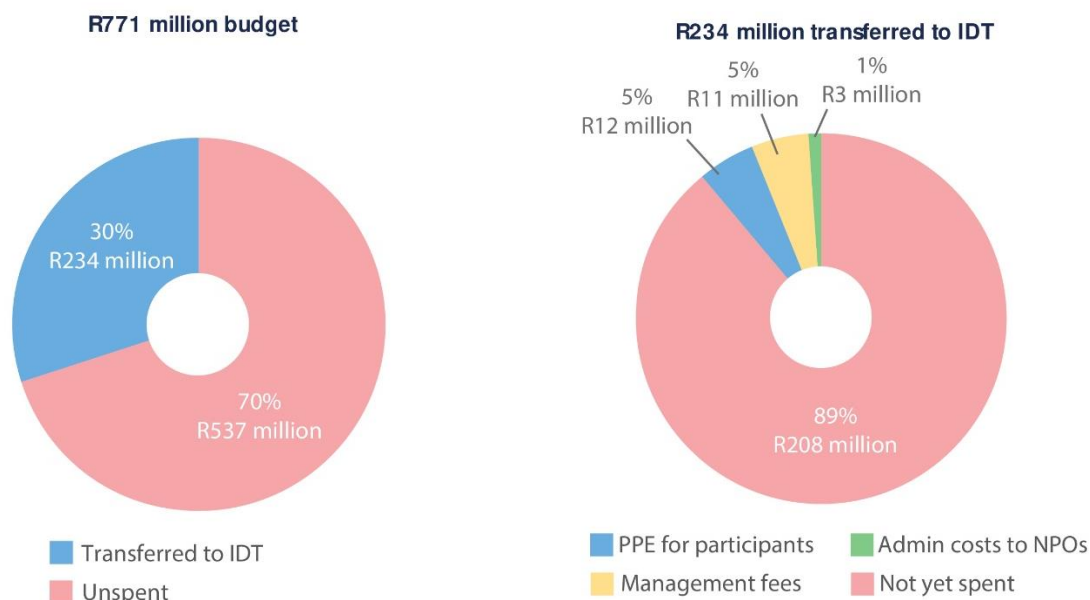
The DPWI allocated the responsibility of implementing the Covid-19-related initiatives to the Independent Development Trust (IDT). The IDT is one of the public entities under the control of the DPWI and is ordinarily responsible for managing and coordinating the EPWP non-state sector segment. The idea was that the utilisation of non-profit organisations (NPOs), already under contract with the IDT, would speed up the implementation of these initiatives. This meant that the IDT would source and recruit the 25 000 participants, train them and provide them with personal protective equipment to enable the programme to commence in a compliant manner. In addition, the IDT would capture the details of all participants on the DPWI's EPWP reporting system and ensure that NPOs kept the required supporting documentation.

The IDT has historically failed to appropriately account for the number of EPWP work opportunities created and continues to grapple with significant internal control weaknesses. In this regard, we have reported in the past on the recurring

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weaknesses in the IDT's environment relating to processes, systems and control deficiencies. There is therefore a risk that the EPWP Covid-19 relief activities will be exposed to these weaknesses as well.

### *Funding, spending to date and progress made in implementation*



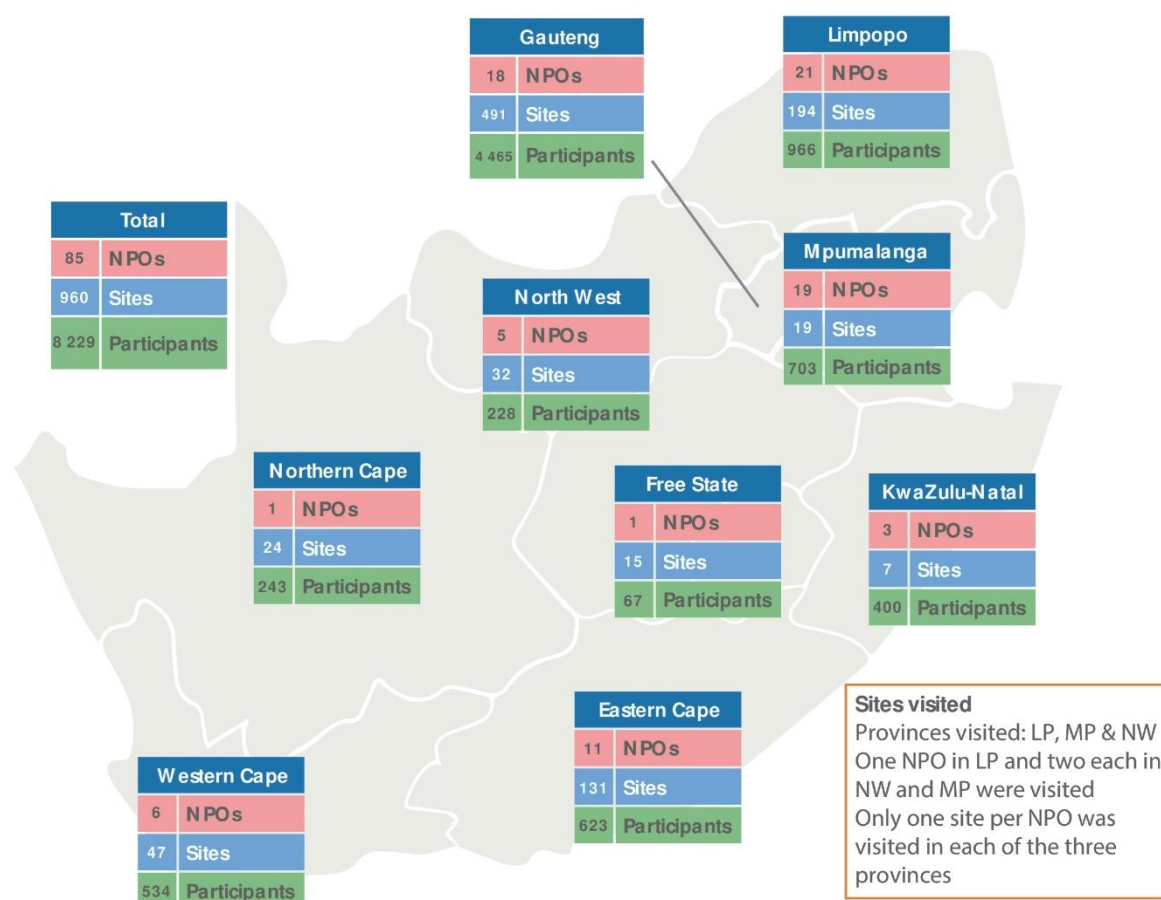
The figures reflected in the graphics above are based on information reported by the DPWI and the IDT, and we have not audited these amounts. Of the R771 million budget, the DPWI transferred R234 million to the IDT in March 2020 to implement the programme. As at 30 June 2020, only R26 million had been spent. Therefore, very little has been achieved by this programme when compared to its intended purpose. This is evidenced by the fact that no EPWP participant had been paid, as the R3 million paid to NPOs only covered their administrative expenses as opposed to fast-tracking payments to participants.

Although we had planned to perform site visits in all provinces, we could visit only three provinces where we verified five sites. Please note that the findings reported later on relate to only Limpopo as those relating to North West and Mpumalanga had not yet been finalised at the time of this report and will still be reported on.

We did not audit the accuracy of the numbers reflected below and in the map on the next page, as no detailed participant information had been captured on the system. The information is included here to provide a holistic view of the reported progress made by the sector as at 30 June 2020.

At the end of June 2020, only 8 229 (33%) of the targeted 25 000 participants had been recruited. While the numbers of participants are increasing across the country, none of the individual participants have been captured on the EPWP reporting system. In addition, records were not kept at the sites visited for all activities being rolled out to participants, further pointing to a lack of monitoring by the IDT.

## Progress made in recruiting EPWP participants across the country



## FRAUD RISK CONSIDERATIONS

Control environment deficiencies, instability in key positions, uncertainty about its ability to continue operating and poor reporting systems at the IDT have led to the DPWI consistently struggling to produce credible reports on the number of work opportunities created over the past six years. Therefore, it would have been critical, prior to any transfer of funds, for the DPWI to insist on addressing the existing weaknesses in the standard operating procedures and system challenges of the IDT. This would have prompted the DPWI to make an informed decision on whether the IDT should have been entrusted with the implementation of this initiative.

The absence of modified processes to better respond to the Covid-19 interventions would increase the risk of funds being misappropriated and not used for its intended purpose. Additionally, it would compromise record keeping and monitoring controls, further increasing the fraud risk. The customisation of standard operating procedures to enable daily record keeping would have empowered the sector to account reliably for this initiative, while at the same time preventing the mismanagement of funds and the inability to deliver on the initiative.

The unavailability of participant information and internal control weaknesses around record keeping and monitoring create an opportunity and incentive for possible fraudulent transactions or activities. In this regard, the DPWI has consistently failed to respond to repeated audit recommendations requiring them to properly record and account for the actual number of work opportunities created. Furthermore, the instability in key positions at the IDT is affecting the segregation of duties, while the lack of governance structures may create opportunities that would otherwise not exist, such as less direct supervision or weaknesses in oversight structures that further expose the funds entrusted to the IDT to misappropriation.

## ***NATURE AND SCOPE OF AUDIT***

The audit sought to establish if funds earmarked for job creation are being spent for that purpose, reached the planned beneficiaries, and responded to the crisis with the requisite urgency. This report therefore focuses on the sourcing of the additional 25 000 beneficiaries to assist the Department of Health. For this initiative, we planned to obtain an understanding of the presence and effectiveness of preventative controls; assess whether the programme is being implemented by performing site visits across all provinces; and verify that the participants being reported on are actually valid people and that they are indeed enrolled and participating in the programme by auditing information captured on the system against details of the participants enrolled.

## **AUDIT EXPERIENCE**

### ***STATUS OF AUDIT***

With regard to preventative controls, the tone from the DPWI's senior management has been that although it is not business as usual, the same processes will be used to implement Covid-19 initiatives. As a result, little time and effort were invested in strengthening the preventative controls to ensure that this programme delivered as intended. Participant information has not been captured timeously by NPOs in any of the provinces. Furthermore, we could perform site visits at only five of the selected NPOs and we found that reporting and monitoring at some NPOs were inadequate.

### ***OUTSTANDING AUDIT WORK AND EMERGING RISKS***

We could not perform site visits in six provinces due to delays in the start of the programme at the sites located in these provinces.

Due to participant details not being timeously captured on the system and validated, information was not available to audit the utilisation of the R234 million transferred to the IDT. Based on the vulnerability of this programme to possible fraud and misappropriation, we will also involve fraud specialists to respond to the fraud risks noted above. The amount paid to participants and all other expenditure related to the programme will only be confirmed once this information has been captured.

These matters will be included in the scope of upcoming audit work and we will report thereon in our next special report.

## ***AUDIT FINDINGS***

Below we detail the findings raised during our audit. We will follow up the corrective actions implemented to strengthen the control environment and reflect thereon in the next special report.

### ***Key audit observations: risk and control***

#### **Beneficiaries not timeously captured on the system (all provinces)**

Although the programme was initiated in March 2020, none of the beneficiaries have been captured on the system for the DPWI to know how many participants have been enrolled in the programme. The lack of updated information may result in weaknesses, such as payments made to invalid or fictitious participants, only being identified after such events took place.

Information is also not readily available for our real-time auditing and, more importantly, is not available for timely decision-making by the DPWI to ensure that the initiative is effectively executed and adds value to government's efforts to combat the pandemic and create jobs.



Furthermore, EPWP participants may be ineffectively deployed in areas where the infection rate is not that high and could have been better used in other areas.

#### **Recommendations**

All participants' information and record of working hours should be captured and verified at the start of the programme and as work is performed to prevent invalid participants or payments being detected only at the end of the quarter after payments have been made.

#### **Response to audit observation**

The accounting officer has advised the IDT to speed up the capturing and payment of participants on the EPWP reporting system to enable verification, validation and inclusion in the DPWI report.

#### **Reporting not comprehensive enough to enable oversight (Limpopo)**

The monthly NPO reports submitted to the DPWI focus only on the work activities performed by EPWP participants. The reports do not include all the requirements of the signed service-level agreement (i.e. they do not indicate any shortcomings or concerns in programme implementation and measures to address such shortcomings, where applicable). For example, the reports should include whether or not the EPWP participants were provided with personal protective equipment and trained to use such equipment in line with Covid-19 health and safety protocols.

#### **Recommendations**

The reporting and monitoring tools by NPOs should be enhanced to indicate all activities in line with the requirements of the service-level agreement signed.

#### **Response to audit observation**

The accounting officer has committed to engage the IDT and hold them accountable for the information required to be kept. NPO managers will be instructed to include shortcomings in their monthly reports and ensure reporting on adherence of EPWP participants to health and safety protocols.

### ***Key audit observations: audit findings***

#### **Delays in start of programme (all provinces)**

The DPWI transferred R234 million to the IDT in March 2020 but the implementation of the initiative only commenced in June 2020. Only R3 million had been paid to NPOs to initiate the programme by 30 June 2020.

These delays adversely affected the Department of Health who relied on the effective functioning of this initiative to implement comprehensive Covid-19 screening and testing throughout the country. EPWP participants could also have been more effectively utilised (e.g. those with nursing experience could have provided patient care).

Ultimately, EPWP participants continued to be unemployed and in financial distress.

#### **Recommendations**

The DPWI should hold the IDT or any implementing agent to account on progress being made on the implementation of the programme on a weekly basis in order for the DPWI to timeously resolve challenges causing programme delays.

#### **Response to audit observation**

As confirmed by the accounting officer, the programme has now been fully implemented with training having been provided to participants. It is thus expected that the work will move with the necessary speed going forward to offset the impact of the initial delays.

### **Training and induction not provided to all participants by NPOs (Limpopo)**

The service-level agreement signed between the DPWI, IDT and NPOs stipulated that all participants must attend technical training as well as induction related to work activities in which they were going to be involved. NPOs would provide induction while technical training would be provided by the Department of Health through local health authorities at no cost.

At least 31% of the participants (8 of the 26) at the site visited did not attend training on Covid-19 health awareness, which should incorporate instructions on the use of masks and other personal protective equipment before the start of the programme.

In addition, the NPO sites visited in Limpopo did not have records to confirm that EPWP participants had been inducted before starting their Covid-19-related duties. Evidence could also not be presented that participants had been provided with masks prior to participating in the programme.

These weaknesses can adversely affect the safety of the participants as well as the communities where these participants will be working.

### **Recommendations**

In line with the service-level agreement, all participants who are enrolled in the programme should be inducted and trained prior to deployment to sites.

NPOs should keep record of all training and induction sessions rolled out.

### **Response to audit observation**

The accounting officer indicated that the reason for inconsistencies in training was due to some participants dropping out and having to be replaced. As evidence could not be provided to this effect, the accounting officer committed to obtain and provide evidence that all participants are being trained and inducted. This evidence as well as continued adherence to service-level agreement requirements to confirm that additional participants subsequently enrolled are being trained and inducted, will be assessed and reported on in our future reports.

### **Inadequate monitoring of projects by NPOs (Limpopo)**

As none of the NPOs visited kept record of the monitoring of participants, some participants who have enrolled might not be attending the programme. Consequently, we are unable to confirm that the information to be captured at the end of the month on the EPWP reporting system will be supported by evidence of actual activities on site, affecting the payment of beneficiaries and the credibility of information reported.

We had previously raised this concern as part of our regularity audit but the NPOs continued to use normal EPWP processes for Covid-19-related initiatives.

### **Recommendations**

The IDT should play its role by monitoring that NPOs are adhering to the terms and conditions of implementation of the programme as outlined in the signed service-level agreement, which include keeping record of all activities and attendance by participants on site to support the credibility of the number of work opportunities captured on the system.

### **Response to audit observation**

The accounting officer indicated that the monitoring of NPOs has started, and serves as a mechanism for identifying deficiencies and the correction thereof. NPOs are paid on the basis of performance reporting and compliance. Where these are not up to standard, payments will be withheld and contracts may be terminated where the non-compliance persists.

## *Key recommendations*

The management fee paid to the IDT by the DPWI should be based on progress reports and evidence furnished by the IDT demonstrating progress on the implementation of the initiative; in other words, it should not be paid in advance. The DPWI should call the IDT, as its implementing agent, to account on why the programme that was meant to start in March 2020 only took off in June 2020. Furthermore, failure to deliver on what was required should result in the DPWI investigating the extent of non-delivery to recover management fees from the IDT where services were not received.

The DPWI should insist on ongoing capturing and reviewing of captured information by the IDT to enable management to exercise continuous oversight to ensure that the initiative achieves its intended purpose.

## OVERALL CONCLUSION

The projects started slow despite the plan to utilise NPOs who have existing contracts with the IDT with the intention to mitigate this risk. Only a portion of participants (33%) have been enrolled on the programme to date as opposed to the anticipated 25 000 participants who ought to have benefitted. While the NPOs were paid administration fees to enable them to successfully implement the programme, the programme is not being implemented in line with the requirements as outlined in the service-level agreement between the DPWI and IDT.

Due consideration should be given to whether or not the IDT is the most suitable vehicle to implement this initiative going forward. This is particularly important given the severe challenges being faced by the entity, including that the IDT is presently functioning without an accounting authority, after the last remaining member of the board of trustees resigned in June, as well as the discussions and deliberations led by the DPWI that are underway to consider the current format and status of the entity. Given the lack of timely reporting and resultant lack of oversight and accountability, there is a significant risk of funds not reaching the intended beneficiaries and the initiative not achieving its intended purpose.

## NOTES



## SPORT, ARTS AND CULTURE SOCIAL RELIEF FUND

### OVERVIEW OF INITIATIVE

Purpose	
Support to qualifying artists, athletes and technical persons in the sport, arts and culture sectors	
Auditees	Department of Sport, Arts and Culture
Focus of our audit	Assessment of applications received: <ul style="list-style-type: none"> <li>• Adjudication process and payments made against departmental framework for sport, arts and culture relief fund for cancelled and postponed events</li> <li>• Adjudication process and payments made for digital solution proposals</li> </ul> Review of supply chain management process followed for appointing payment agencies and digital solution providers
Funds subject to audit	<b>R235 million</b>
	Relief package
Expenditure as at 3 July 2020	<b>R39 million</b>

### STATUS OF IMPLEMENTATION OF INITIATIVE

On 25 March 2020, the sport, arts and culture minister committed an amount of R150 million to assist artists, athletes, technical personnel and the core ecosystem of the sector to soften the economic impact of sport and arts events that were cancelled due to lockdown regulations prohibiting mass gatherings.

The department established a framework to cater for cancelled sport and arts events between 16 March and 30 June 2020, which has since been extended to 15 September 2020. A call to the public for applications was issued on 29 March 2020, with a closing date of 6 April 2020. The process required applicants to submit their applications via email.

The purpose of the fund is as follows:

- Relief funding to artists whose events were cancelled.
- Relief funding to national athletes whose events were cancelled as well as to their technical personnel.
- Funding to athletes, artists and technical personnel to continue working during the national lockdown using various digital platforms to showcase their talents – assistance is provided for acquiring the necessary resources and to implement the proposal.

The department appointed four payment agencies to disburse the funds to beneficiaries, being:

- Sports Trust: sport relief fund
- National Arts Council: arts relief fund
- Business and Arts South Africa: arts relief fund
- National Film and Video Foundation: digital solution proposals

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## ADJUDICATION PROCESS

The criteria against which the beneficiaries were to be evaluated, were set out in the call for applications. An adjudication panel was appointed to evaluate all applications received and to recommend approval of payments against the approved departmental framework to the director-general.

Adjudication took place over two rounds: the first round applied to applications received before the closing date; while the department allowed applicants who were rejected in the first round to appeal their rejection during the second round. The first and second adjudication panels consisted of different members, with the second one specifically dealing with the initially rejected applications.

After the first round of adjudication, the department identified other applications that had been received before the closing date but were diverted to the designated spam email folder of the department. The department confirmed that these applications were initially not considered, but have now been included in the second round of adjudication to be considered in line with the approved processes and criteria.

## PROGRESS ON APPLICATIONS AND DISBURSEMENT OF FUNDS

The department set a maximum of R20 000 to be payable to each applicant for arts and sport relief funding and R75 000 for digital solution proposals.

The information on payments made and appeals provided in the tables below was presented by the department to the portfolio committee on sport, arts and culture on 7 July 2020. The information is unaudited due to challenges in obtaining information from the department as outlined later in the report.

### Status of payments as at 3 July 2020 as presented to the portfolio committee

Description	Applications received	Recommended for payment	Rejected application	Applications in process of adjudication	Number of application payments made up to 3 July 2020	Amount paid (R)	Average payment per beneficiary (R)
Arts relief	3 621	1 496	2 081	44	1 278	21 503 794	16 826
Digital proposals	502	338	152	12	90	2 915 591	32 395
Sport relief	500	296	174	30	296	5 924 946	20 016
<b>Total</b>	<b>4 623</b>	<b>2 130</b>	<b>2 407</b>	<b>86</b>	<b>1 664</b>	<b>30 344 332</b>	

### Status of payment appeals as at 3 July 2020 as presented to the portfolio committee

Description	Appeal applications received	Recommended for payment	Rejected applications	Applications in process of adjudication	Payment made up to 3 July 2020	Amount paid (R)	Average payment per beneficiary (R)
Arts appeals	1 009	951	58	-	597	8 179 847	13 701
Sport appeals	40	18	9	13	15	300 000	20 000
<b>Total</b>	<b>1 049</b>	<b>969</b>	<b>67</b>	<b>13</b>	<b>612</b>	<b>8 479 847</b>	

We can see the following from the above two tables:

- A total of 4 623 applications (which included 'spam' applications noted at that date) had been received, of which 2 130 (46%) had been recommended for payment.
- Of the 4 623 applications received, 2 407 (52%) were rejected initially.
- From these rejected applications, 1 049 (44%) had lodged an appeal and were reassessed by the second adjudication panel – 969 (92%) of these appeals were recommended for payment.
- Overall, 99 (86 initial and 13 appeal) applications were still in the process of adjudication at the cut-off date of 3 July 2020.
- Of the 3 099 total applications recommended for approval, 2 276 (73%) had been paid at an amount of R38 824 179. This represented only 26% of the original allocated funds as at 3 July 2020 (as presented to the portfolio committee by the department) of the initial allocation of R150 million, due to:
  - 1 358 (29%) of the initial applicants not continuing with an appeals process for their rejected applications
  - 823 (27%) of the applications still being in the process of being paid
  - some of the applications being assessed later as a result of the diversions to the spam email folder.

On 3 August 2020, the sport, arts and culture minister announced further plans to accept new applications and proposals that will be funded through the Covid-19 fund as well as plans for the provinces to set aside some funding at provincial level to assist the sector. Our initial assessment of the funds reprioritised by the provincial departments indicated that these amounts were not individually significant at a provincial level. We also noted that most of the provinces had not disbursed large portions of these amounts at the cut-off date.

Initially the department had reprioritised R150 million from its budget toward the relief fund. Following the adjustment budget in June 2020, an additional R85 million was prioritised for Covid-19 programmes, of which R58 million has been earmarked for the provinces to supplement their relief initiatives as outlined above.

The provinces will continue to monitor these allocations and we will consider all the additional funding for auditing and report thereon in our next special report.

## AUDIT EXPERIENCE

### *STATUS OF AUDIT*

Our planned scope of work included assessing a sample of applications and confirming whether they had been awarded against the department's approved framework. This included taking into account the verification of the adjudication of applications approved and rejected by the adjudication panel. The audit work on the review of the applications was still in progress and had not been finalised due to challenges experienced in the submission of requested information.

We received good initial commitment and support to progress with the audit through early interactions with the director-general and minister. However, we have since experienced challenges in receiving requested key information. Information on preventive controls took time to be submitted and since then a slow response in providing requested information and responses to communications of findings delayed the progress of the audit.

The process of reconciling information was highly manual, which resulted in certain challenges to efficiently reconcile the payment instructions issued by the department to the payment agencies to make the required payments, and the confirmations from the payment agencies of the payments made to beneficiaries. The verification of these reconciliations is still in progress.

Delays were also experienced as key staff of the department involved in the arts and culture relief fund and the digital solution initiative were not always available to assist in the audit, mainly due to illness. This further hampered progress on the audit.

### Audit progress on payments made as at 30 June 2020

Focus area	Work done to date	Work in progress	Remaining risks identified and still to be reviewed
Sport, arts and culture relief fund and digital solution proposals	<p>Appointment process of payment agencies</p> <p>Using computer-assisted audit techniques to analyse beneficiary data and criteria</p> <p>Reviewing daily and regular reporting and reconciliations</p> <p>Appointment process of adjudication committee</p>	<p>Assessing key controls and systems implemented in the disbursement of funds by payment agencies</p> <p>Detailed testing of the application process, adjudication process, and payment process</p> <p>Reviewing daily and regular reporting and reconciliations</p> <p>Assessing payments made against the set criteria</p> <p>Using computer-assisted audit techniques to analyse payment data</p> <p>Analysing the actual payments approved to determine payment trends per the criteria and per region or province, which are highly dependent on the submission of sufficiently detailed payment information by the department</p>	<p>Some applicants may have incorrectly benefitted or some applications may have been incorrectly rejected due to the incorrect application of the framework</p> <p>The risk of incomplete processing of applications was highlighted to management, for which the department needed to revert to its application process to confirm that all applications received as at the cut-off date of 3 July 2020, were duly considered – we will be confirming this in time for the next report</p>
Supply chain management process		<p>Testing compliance against procurement legislation and any directive on emergency procurement</p> <p>As some supply chain management information was outstanding, we have not been able to finalise this section yet</p>	<p>Any possible non-compliance with applicable legislation that could expose the department to financial loss</p>

### Key audit observations: risk and control

#### Memoranda of agreement with payment agencies did not address confirmation of effective and efficient key controls at agencies

No evidence was provided that prior written assurance had been obtained from the payment agencies that entities had implemented effective, efficient and transparent financial management and internal control systems. Based on the review of the memoranda of agreement submitted for auditing, we could not confirm if this requirement of section 38(1(j)) of the Public Finance Management Act had been satisfied before concluding and implementing the agreements with the payment agencies. This might result in payment agencies not having nor implementing effective controls over payments to beneficiaries.

#### Recommendations

The accounting officer should ensure that written assurance is obtained from payment agencies prior to the memoranda of agreement being signed. This will then serve as confirmation that the receiving entity has the required effective, efficient and transparent financial management and related internal controls.

#### Response to audit observation

The accounting officer took note of the audit observation and has committed to provide the required information. Therefore, this will be evaluated and reported on in future reports.

#### Criteria set to evaluate applications for funding not clear and fair

The department did not specify nor amend the criteria of the requirements for relief funding, exposing the department to the following risks:



#### *Unclear criteria: payments could be made to unintended beneficiaries*

This has resulted in non-South African applicants being recommended by the adjudication panel. However, payments have not yet been made due to the consultative process undertaken by the department on the matter. This matter has exposed the department to potential litigation due to non-payment.

#### *Risk of beneficiaries unduly benefitting*

Individuals or organisations who had benefitted from other government relief initiatives were not explicitly excluded from this relief funding. This could result in double dipping if beneficiaries unduly benefitted from different government relief funds, such as the Unemployment Insurance Fund, small business relief funding or social grants.

#### *Changes made to criteria without proper communication*

Changes were made to the criteria to include postponed events as an additional criterion that had not been included in the initially advertised and communicated criteria, but was then only applied to applications already received in the system by 6 April 2020. This was unfair to other eligible applicants who did not initially submit applications, due to the initially advertised criteria having been limited to cancelled events only.

### **Recommendations**

Criteria to be applied to the applications must be clear, transparent and address any shortcomings the department experienced during the first round of applications. This should be informed by a proper understanding of the sector, which should allow for proper criteria determination.

Where the criteria are subsequently amended, it should be communicated timeously to the public or sector through the same means as initially used, to ensure fairness and transparency in the process.

### **Response to audit observation**

The accounting officer agrees with the finding. The criteria for the next round of applications have been clarified to exclude people who are benefitting from other funds.

The department has subsequently made payments to non-South Africans on the basis of meeting the criteria initially set as well as the approvals that stemmed from the appeals process. The criteria remained unchanged in this regard, but the minister indicated that preference should be given to South Africa citizens.

## **OVERALL CONCLUSION**

The fund relief framework had certain internal control deficiencies that could negatively affect the overall effectiveness of the department's relief efforts, which could result in the department not achieving the intended objective of providing relief funding to deserving beneficiaries in the sport, arts and culture sector.

The department had paid out R38,8 million as at 3 July 2020, constituting 26% of the original R150 million in allocated funds. Subsequently, the department has reprioritised an additional R85 million, bringing the total allocated specifically for relief funding to R235 million. Of this R235 million, R58 million will be transferred to provinces to implement Covid-19 relief initiatives, which will require proper coordination from the sector (national and provincial departments) to ensure that the risks of double dipping as well as payments to invalid beneficiaries are duly managed.

Overall, the director-general and the minister have been positive towards our recommendations thus far in ensuring that preventative controls are implemented over relief funding. This was evident based on the fact that the department has established a framework to follow in disbursing these funds. We are still busy auditing the implemented process (framework) and will report thereon in more detail in our future reports.

## NOTES



## COMPENSATION FOR OCCUPATIONALLY INCURRED COVID-19

### OVERVIEW OF INITIATIVE

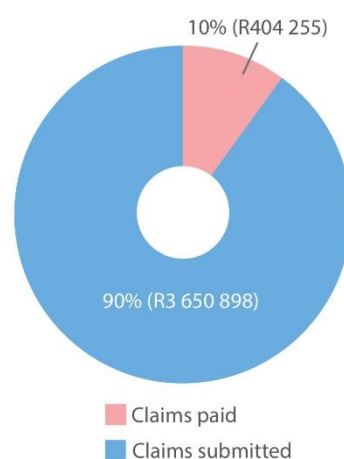
Purpose	
Compensation for disability, illness and death resulting from occupational injuries and diseases due to Covid-19	
Auditees	Compensation Fund
Focus of our audit	Control environment, primarily around receiving and processing claims and testing application controls within CompEasy system
Funds subject to audit	R0
	No specific funds allocated – expenditure for Covid-19 will be funded as part of normal operating budget of R4,2 billion
Expenditure as at 31 July 2020	R0,4 million

### STATUS OF IMPLEMENTATION OF INITIATIVE

On 20 March 2020, the compensation commissioner issued a notice on compensation for occupationally acquired novel coronavirus disease (Covid-19) under the Compensation for Occupational Injuries and Diseases Act (COIDA). The notice came into effect on the day it was published (20 March 2020).

On 23 March 2020, a notice was published in the *Government Gazette* confirming that Covid-19 contracted in the workplace will be treated as an occupational disease for the purpose of compensation.

#### *Types of claims that can be paid (left) and claims submitted and paid as at 31 July 2020 (right)*



Source: Unaudited figures from Compensation Fund records

Since no specific funds have been dedicated for the Covid-19 claims, if such claims become significant, some of the Compensation Fund's investments may need to be liquidated to make payments.

The fund is experiencing delays in processing claims due to a backlog of claims that were registered and not paid on the new CompEasy system. Although the system went live on 10 October 2019, implementation was slow.

The fund has licensed two mutual associations, Rand Mutual Association and Federated Employers Mutual, to pay out claims on its behalf for mining and construction employees. This report does not consider the payments made by these mutual associations as the fund did not provide the information. The mutual associations are required to comply fully with the COIDA legislation, including any amendments. We will therefore ensure that our next special report includes the reported number of claims paid by these associations as a result of occupationally incurred Covid-19.

## AUDIT EXPERIENCE

### *STATUS OF AUDIT*

The accounting officer and compensation commissioner have responded well to the audit, and the accounting officer has committed to supporting the assurance we will be providing on the proactive audit of the Covid-19 transactions. The audit has progressed slowly, mainly because the fund is still implementing the new CompEasy system, which replaced the previous Umehluko system.

The CompEasy system had to address various internal control deficiencies in the Umehluko system to ensure that only valid claims are paid and to reduce fraudulent activities identified in previous years. This audit focuses on ensuring that the new system has addressed these deficiencies. We have therefore reviewed the general control environment, primarily around the receiving and processing of claims. We have also tested application controls within the CompEasy system and the findings from these tests are included in this report. Further audit work will continue in the next phase, which will focus on the validity and accuracy of claims. The observations and findings of the audit work will be included in our next special report.

We have a multi-disciplinary team auditing the fund, including information system auditors who are using computer-assisted audit techniques (CAATs) to identify anomalies or inconsistencies in the population.

Although management has committed to support our audit, their response to requests for information is generally very slow. We have discussed this issue with the compensation commissioner, who has committed to improve the response time.

The audit findings included in this report have been discussed with the accounting officers, who have made commitments to address the identified weaknesses and take appropriate action, where applicable. We have also engaged the executive authorities on these matters.

### *Key audit observations: risk and control*

For years, the Compensation Fund has operated with compromised internal controls, including inadequate financial and performance reporting processes, and poor record management, which hinders credible reporting and monitoring. This has led to the fund's financial statement receiving a disclaimer of opinion in previous years. The fund is currently investigating various alleged fraudulent transactions caused by controls being overridden and employees colluding with medical practitioners. We can see from the lack of properly developed action plans for addressing the internal control deficiencies that these deficiencies still exist in the environment.

During the 2019-20 audit, we identified deficiencies in the procurement process for the new CompEasy system, mainly for the needs analysis and for project implementation and monitoring. This led to a delay implementing ("going live" with) the system. Because of these delays, the fund has gone back to manually processing some claims.

We identified control weaknesses in the CompEasy environment and the processing of claims, as detailed below.

### **Inadequate access controls**

Our assessment of the CompEasy control environment identified weaknesses relating to the lack of user access controls and reviews, as well as a lack of segregation of duty within the system. There was no evidence for user acceptance sign-off to substantiate that testing was done on some of the changes made to the CompEasy system. In addition, system changes are not always approved by the Change Advisory Board. These deficiencies may result in inappropriate access to the system, e.g. hackers, or misuse of access rights, which may negatively affect the integrity of the fund's data. Inadequate access controls also allow fraudulent transactions to be processed without being prevented or detected.

### **Recommendations**

Management should consider implementation of the Governance, Risk, and Compliance tool to manage user access and segregation of duties. Management should ensure that the information technology section and business process owners comply with the approved policy, and that reviews are performed timeously by the appropriate business process owners in conjunction with the information technology section. Evidence of the review should be retained by management for audit evidence.

Management should consider reviewing and amending the policy to cater for different processes to deal with different types of change, but must also ensure that key risks are still addressed by the different processes.

### **Response to audit observation**

Management has agreed to the recommendations above; further engagements will be held with management to discuss timelines for implementing the recommendations.

### **Inadequate application controls to prevent duplicate claims being processed**

There are no preventative automated controls to restrict duplicate claims from being registered and processed on the CompEasy system. The system cannot prevent a user from registering a claim more than once; after a claim is submitted, it can be resubmitted.

### **Recommendations**

The system design should be improved to prevent duplicate claims being registered and processed. The CompEasy system gives the end user (claim handler) the option to continue creating a new claim even if the same details have been entered previously.

### **Response to audit observation**

Management has committed to update the controls to ensure that the system can completely block a duplicate claim from being created on the CompEasy system. Management has committed to run a report on the CompEasy system to determine if there are duplicate claims, and to deactivate any duplicate claims found.

### **Inadequate controls over receiving and adjudicating claims**

We identified a lack of controls over receiving claims. Claims are received electronically, but there are no controls to ensure that all claims are registered before they are sent for further processing. This may also lead to claims being processed more than once, and to fraudulent claims being processed.

The entity utilises an approved panel of expert to adjudicate claims; however, we noted that some claims were not adjudicated by the approved experts, as required by the policy.

### **Recommendations**

The fund must ensure that the policy is communicated to all provincial offices. The compensation commissioner must enforce consequences if management does not stick to the panel requirements.

### **Response to audit observation**

We are holding further discussions with the compensation commissioner on the lack of policy implementation for claims. Management has committed to ensure the terms of reference as per the policy are updated when changes occur.

## **OVERALL CONCLUSION**

The number of Covid-19 cases is increasing every day. As the country opens up its economy and more citizens return to work, we expect the number of cases submitted to the Compensation Fund to increase. The control weaknesses we identified indicate the fund is not ready to deal with the high volumes of transactions anticipated. It is vital for the fund to implement preventative controls to address the control weaknesses identified above, specifically those in the CompEasy system.

We are progressing with the audit even though the fund had to temporarily close its office because of positive Covid-19 cases. We have shared our findings and recommendations for improving the control environment with the compensation commissioner. Our next special report will focus on the validity and accuracy of benefit payments made.



### OVERVIEW OF INITIATIVE

Purpose	
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
Funds subject to audit	<b>R200 million</b>
	Own reprioritised funding
Expenditure as at 31 July 2020	<b>R199,7 million</b>

### STATUS OF IMPLEMENTATION OF INITIATIVE

The national Department of Tourism and its entity, South African Tourism (SAT), have collaborated in implementing the application, evaluation and administration process as well as the payment system for the tourism relief fund. The role of the department is to administer the online application process while the SAT is responsible for making payments to approved applicants.

A total of R200 million was set aside and deposited in a separate bank account by the SAT to be equally distributed at R50 000 per entity. The information on the status of implementation of the initiative that follows is in accordance with the records of the department and is unaudited.

The initiative started on 7 April 2020 and a total of 7 291 applications were received by the closing date of 31 May 2020. The department had designed and started implementing a fully automated system where the applicants would go through an evaluation, adjudication and approval process electronically. As a result of information technology system challenges at the department and human resource challenges such as officials working from home, only a limited number of applicants had been paid by the end of May 2020. It was therefore decided to change the automated process to a manual process for the evaluation of the applications. The applications were manually evaluated against the amended criteria and were submitted for approval by the deputy director-general and then to the SAT for payment. Only 205 payments were made through the automated process before moving to the new process.

As at 31 July 2020, 4 000 applications had been approved by the department and sent to the SAT for payment. By this date, the SAT had disbursed 3 994 successful applications amounting to R199,70 million. The six outstanding payments were rejected by the bank due to either incorrect banking details or inactive bank accounts. The rejected payments had been sent back to the department for investigation at the date of this report.

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### *Approved applications per province and business type*

Province	Total applications received	Total approved applications	Accommodation (hotels)	Hospitality and related services (restaurants)	Travel and related services (vehicle hire, bus companies)	Other (event organisers)
Eastern Cape	746	457 (11%)	255	111	62	29
Free State	285	133 (3,3%)	65	43	18	7
Gauteng	1752	1 017 (25,4%)	246	257	439	75
KwaZulu-Natal	1149	610 (15,3%)	233	176	155	46
Limpopo	529	294 (7,4%)	123	74	76	21
Mpumalanga	434	238 (6,0%)	119	56	48	15
North West	298	161 (4,0%)	90	29	25	17
Northern Cape	222	124 (3,1%)	77	24	12	11
Western Cape	1 876	966 (24,2%)	352	179	348	87
<b>Total</b>	<b>7 291</b>	<b>4 000</b>	<b>1 560</b>	<b>949</b>	<b>1 183</b>	<b>308</b>

## AUDIT EXPERIENCE

### *STATUS OF AUDIT*

Our audit began in May 2020 with obtaining knowledge of the automated process, after which an audit approach was determined. The change to a manual process resulted in us having to revisit our audit approach, which caused a delay in the audit.

Engagements were held with the tourism minister and the director-general of the department as well as the chief executive officer of the SAT. The minister appreciated our interaction and is very supportive of the audit process. We received similar support at management level.

The change in work methods imposed by the national lockdown on both our office and the department made it difficult to obtain requested information for the audit timeously as agreed. However, we overcame these challenges and the audit, at present, is progressing as intended.

The scope of the audit includes:

- assessing the qualifying criteria applied by the department and the adherence of applications to these qualifying criteria before payments were made
- assessing whether the qualifying criteria were consistently applied to all applicants, including evaluating whether the unsuccessful applicants from the automated system were included in the manual process and were evaluated in terms of the amended criteria
- testing the sequence of the applications to determine the eligibility of the criteria and whether unsuccessful applications did in fact not meet the qualifying criteria.

We have completed the risk identification and preventative control testing, including the evaluation of the assessment criteria utilised. At the date of this report, we were still testing the application of the qualifying criteria and the payments made in detail, on which we will report in our next special report.

Due to capacity constraints, the department recruited interns to assist in evaluating applications. We are busy testing the recruitment and training process of these interns.



## *Key audit observations: risk and control*

The key observations relate to the department and they were discussed with the accounting officer during the presentation of the preventative controls.

### **Amendment of evaluation process to qualify for relief funding**

The criteria to evaluate the beneficiaries were changed from a score matrix to a compliance checklist, which also ranked successful applicants on a first come, first served basis. This was due to inefficiencies in the automated system used by the department, which resulted in the slow turnaround of 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 criteria, with a maximum of 100 points. This criteria awarded points to applicants based on whether they 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 this score matrix to a compliance checklist based only on confirmation of submitted information, and prioritised applications that complied with the compliance checklist on a first come, first served basis. The department used a unique 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 registration certificate, certified copies of directors' identity documents, broad-based black economic empowerment certificate or affidavit as well as whether applicants had a turnover of less than R5 million and were tax compliant.

### **Recommendations**

When the criteria were amended, we recommended that the department engage their legal section regarding the change in criteria and consider the possible risks due to the change.

### **Response to audit observation**

The accounting officer did not implement the recommendations, and indicated that the changes were as a result of inefficiencies of the fully automated system, which required a lot of documentation from applicants. Their legal section had subsequently also been consulted on the matter.

### **Risk of human error**

The verification and assessment processes are manual in nature and could be prone to human error. Stringent daily targets have been set for the officials to complete their work, further increasing the risk of human error. The human error risk is significant as applications not meeting the qualifying criteria could be approved, resulting in payments to beneficiaries who do not meet the criteria.

### **Recommendations**

We recommended that a review process be implemented to ensure that the work performed during the verification and assessment processes was complete and accurate and to detect possible human errors.

### **Response to audit observation**

The accounting officer did not implement the recommendations, as management indicated that the compensating controls in place were sufficient, such as that an audit trail of all changes made to the application was available for review. Two officials checked the work completed by the verifiers, and the process manager performed duplication checks as well. Hence no action was planned by management.

### **Lack of comprehensive review process**

Twenty quality assessors need to evaluate 50 applications per day per person, by using a checklist, to determine if the applicant meets the qualifying criteria, and two reviewers check the work completed. Due to the volume of work, the reviews are not comprehensive and could result in fraudulent applications being approved. This poses a significant risk as payments could be made to beneficiaries who do not meet the criteria.

### **Recommendations**

The quality assessor should perform checks against third-party databases. In addition, a review process should be implemented to ensure that the checklist is completed accurately.

### **Response to audit observation**

There was no commitment to this risk, but management indicated that reviews take place by qualified individuals to ensure the accuracy of the information. They believe this control to be sufficient and do not intend to take further action.

### **Lack of segregation of duties in capturing and verifying banking details on system**

Employees who capture banking details also had access to verify the banking details, and vice versa. Furthermore, employees who had access to verify banking details were able to amend the banking details. In addition, employees with access to capture the banking details had an option to submit banking details, which meant that the banking details submitted would not go through the verification process as no workflow had been configured.

This lack of segregation of duties could lead to omissions and errors not being identified, resulting in payments to incorrect applicants or incorrect bank account numbers, which could ultimately give rise to financial losses.

Due to time constraints, the SharePoint system was not configured to ensure that capturers only had access to capture and amend applicant banking details and that verifiers only had access to verify applicant banking details. The risk is significant as invalid payments can be made due to the lack of segregation of duties.

### **Recommendations**

Information and communication technology management should ensure that the SharePoint system is role-based and configured to restrict the capturing of banking details to capturers only and the verification of banking details to verifiers only.

### **Response to audit observation**

The accounting officer did not implement the recommendations, as management indicated that training was provided and employees were only trained on their specific role. The system keeps an audit trail and thus any change will be logged on the system. There was segregation of duties between the capturing of banking details and the verification process. Additionally, no amendments can be made at the approval stage of the process.

## **OVERALL CONCLUSION**

The control weaknesses and the risks communicated to the accounting officer are significant and could result in invalid payments and payments to beneficiaries who do not meet the criteria.

The payments from the fund are in its final stage as all 4 000 applications have been approved and outstanding payments are being processed and released at the SAT. Engagements regarding the risk and preventative controls were held with relevant stakeholders. The change to the system and evaluation criteria has heightened the risk on the audit. The accounting officer believes that the department has consulted on the legal impact of the change in evaluation criteria and

the impact it might have on future litigation. Additionally, management has indicated that there are sufficient controls in place to mitigate the risks of unauthorised access to the application, evaluation and payment system and of fraudulent payments being made. We recommend that the accounting officer scrutinise the payments made and confirm that the beneficiaries approved actually met the criteria before payment was made.

The remainder of our audit will focus on the following, on which we will report in our future reports:

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

## NOTES



## LOANS THROUGH THE INDUSTRIAL DEVELOPMENT CORPORATION

### OVERVIEW OF INITIATIVE

Purpose	
Support to companies in distress due to Covid-19	
Auditees	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
Funds subject to audit	R2 500 million
	Own reprioritised funding
Expenditure as at 15 July 2020	R0

### STATUS OF IMPLEMENTATION OF INITIATIVE

In response to the magnitude and severity of the Covid-19 pandemic, government considered and extended comprehensive support initiatives, including economic support packages. The Industrial Development Corporation (IDC), which is a national development finance institution under the supervision of the Department of Trade, Industry and Competition set up to promote economic growth and industrial development, had a critical role to play in this regard. It was envisaged therefore that the IDC would respond in a timely manner by providing funding from their Covid-19 relief initiatives to distressed businesses.

The IDC created a manufacturing competitiveness enhancement programme (MCEP) Covid-19 fund as well as a Covid-19 essential supplies fund to provide funding to qualifying companies to manufacture essential products on an urgent basis to combat the Covid-19 pandemic. The MCEP Covid-19 fund amounts to R300 million received from the Department of Trade, Industry and Competition, whereas the Covid-19 essential supplies fund consists of R500 million of the IDC's own funds ring-fenced for this purpose.

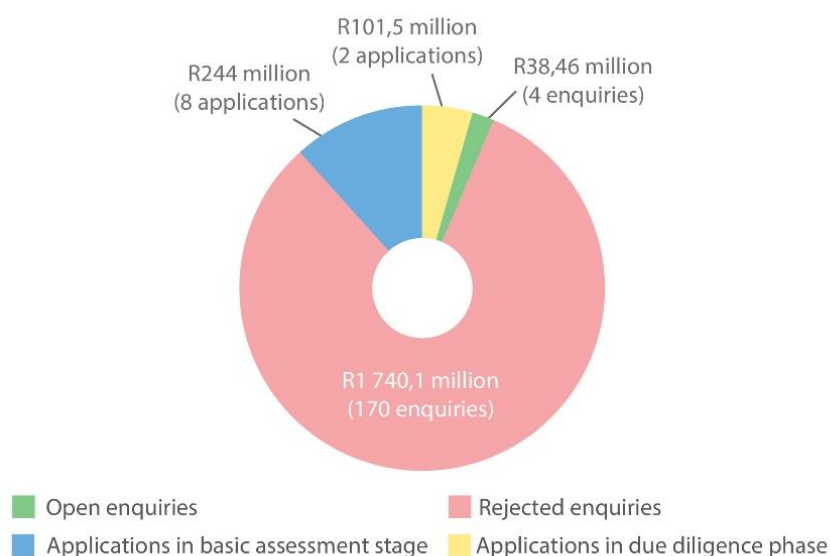
The IDC prioritised disbursements from these two funds to expedite companies' ability to manufacture and procure products critical to the treatment and curtailment of the spread of the disease. To this end, the IDC reported that nine companies received a cumulative amount of R372,72 million up until 15 July 2020. This constitutes 47% of the available funding from these two initiatives, respectively made up of R108,6 million from the MCEP Covid-19 fund and R264,12 million from the Covid-19 essential supplies fund.

As a result of the IDC's sound control environment evidenced by effective preventative controls demonstrated over a number of years, which significantly reduced the risk of misappropriation, and the extent of spending that had already taken place by the time our audit began, we did not focus on these two funds for purposes of this special report. However, these initiatives will still be subjected to auditing as part of our normal annual audit, and any findings will be reported through that process.

During April 2020, the IDC also ring-fenced a further R2 500 million from the budget ordinarily available for companies in distress, specifically to assist companies in financial difficulty as a result of Covid-19.

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**IDC Covid-19 relief fund for distressed businesses: activity from 2 April to 15 July 2020**



Source: Unaudited information as received from the IDC

**IDC Covid-19 relief fund for distressed businesses: monthly activity since fund was established\***

Monthly activity since establishment of fund	April 2020	May 2020	June 2020	July 2020	Total
Enquiries received – still open at 15 July 2020	2	-	1	1	4
Rejected enquiries – month of receipt of enquiry	109	38	14	9	170
Rejected enquiries – month enquiry closed	96	45	18	11	170
Applications in basic assessment stage – month of receipt of application	2	-	3	3	8
Applications in due diligence phase – month due diligence commenced	-	1	-	1	2

\* Unaudited figures

As depicted above, the applications received totalled 184. Most of these applications, i.e. 170 (92%), were rejected at the enquiry stage, with 88% being rejected within the month of receipt. The delays in finalising the assessment and due diligence processes are evident in that no disbursements had been made since the start of the pandemic. This resulted in slow progress to get financial support approved and paid to qualifying applicants.

It is noteworthy that the IDC, as a development finance institution, was not unaffected by the economic challenges experienced in the country. The deteriorating economic conditions have adversely affected the financial viability of enterprises, including businesses operating in sectors within the IDC's mandate. As reported in the financial year ended 31 March 2019, the IDC experienced increased impairments in their debtors' book which were further exacerbated by the onset of the Covid-19 pandemic. With the pandemic causing further economic distress, it has resulted in the IDC being more prudent in disbursing its debt relief funding as intended and as evidenced above.

## NATURE AND SCOPE OF THE AUDIT

In line with the real-time nature of the work being performed to produce this special report, we are focusing on the R2 500 million relief fund (76% of the IDC's budget for Covid-19 initiatives) to allow for quick and responsive changes to the processes and preventative controls to enable enhancements and necessary corrective actions by management.

For purposes of this report, we obtained a detailed understanding of the documented business processes in relation to this initiative. We then critically assessed these processes to determine whether the embedded preventative controls were appropriately designed and are functioning effectively to ensure that:

- funding is only provided to eligible companies (in line with the objective of the initiative)
- companies are prevented from unduly benefitting from more than one support scheme (so-called double dipping)
- any conflicts of interest are avoided in the awarding of these loans.

### *AUDIT OBSERVATIONS AND STATUS*

The IDC has historically demonstrated a commitment to maintaining an internal control environment conducive to proper financial management. Notwithstanding this, we looked at whether relevant financial processes, and the control environment itself, were appropriately defined and adjusted in line with government's response relating to the pandemic.

In addition to existing funding evaluation criteria, the IDC had to establish criteria for purposes of relief fund disbursements. This they did through a basic assessment of applicants' most recent financial statements and a subsequent due diligence assessment to determine whether:

- the cash-flow challenges of applicants are as a result of Covid-19 and not due to deeper structural issues, mismanagement or operating deficiencies
- the applicant's business demonstrated strong fundamentals before the pandemic and has reasonable prospects of recovery
- the company's financial needs are in excess of assistance from the Unemployment Insurance Fund, Compensation Fund, the IDC's ordinary funding or any other support schemes (meaning that funding from this initiative would cater only for any shortfall).

Seven of the 170 enquiries to the value of R89 million were rejected at basic assessment stage and a further application for R20 million was rejected after the due diligence process. Additionally, four enquiries amounting to R2,15 million – falling outside the IDC's mandate but complying with that of the Small Enterprise Finance Agency – were referred to the agency for further consideration. The remaining 158 enquiries amounting to R1,629 million were unsuccessful at the onset due to businesses not complying with the pre-qualification criteria.

Enquiries were primarily rejected for the following reasons:

- Businesses not operating in sectors within the IDC's mandate.
- Businesses that were already distressed before the onset of Covid-19.
- Companies with limited prospects of recovery after the pandemic.
- Businesses failing to submit required information to enable further processing of applications.

According to the process, it was confirmed that the defined assessment process had been implemented as indicated by management and that applicants were informed of the rejection as well as the reason for rejection. Based on audit work performed on a sample of transactions, the reasons for rejection were valid and in line with the provisions of the fund.

It is accepted that the transparent criteria and the rigour for selecting beneficiaries are necessary and that equally transparent approval and reporting processes should be followed. However, it is a concern that the required due diligence processes are not performed with the requisite urgency and efficiency to facilitate the timely approval of loans to alleviate financial distress. Another concern is that as part of the IDC's criteria, funding is not available to businesses that had shown

signs of distress before the onset of the Covid-19 pandemic, but might still have had a prospect of returning to sustainability and profitability within a reasonable period if provided with much-needed support.

In this regard, concerns were raised with the leadership of the IDC regarding the fact that none of the allocated R2 500 million has been disbursed since the approval of the scheme in April 2020. Leadership, when providing reasons for this, in the main cited that the MCEP and essential supplies funds were prioritised; and indicated that capital repayment deferment relief amounting to R701,65 million was made available.

## ***OUTSTANDING AUDIT WORK AND EMERGING RISKS***

As at 15 July 2020, the IDC had not yet approved any applications and consequently no disbursements were made from the R2 500 million to companies in financial distress. Consequently, we have not been able to audit any approved applications and related disbursements. This also had an impact on our ability to use computer-assisted audit techniques to test conflicts of interest and companies receiving benefits from more than one financial assistance scheme. To the extent that there will be approvals and disbursements within the cut-off date for our next special report, we will focus on testing the transactions relating to those approvals and disbursements, including any rejections not yet audited.

### ***Key recommendations***

To deliver services swiftly to the affected companies in financial distress, it would have been expected that the processes were adjusted to include sufficient flexibility to accommodate the advent of the pandemic. The processes should also have built-in mechanisms to detect bottlenecks and make adjustments during implementation.

Whilst the preventative controls were appropriately designed and are operating effectively, the IDC is urged to speed up the processing of disbursements, within the allowable fund criteria and the parameters of its mandate, to give greater effect to government's intention of assisting companies in financial distress due to Covid-19. A quicker disbursement time will demonstrate an appreciation by the IDC's leadership of the urgency required to effectively minimise the devastating consequences brought about by the pandemic.

## **OVERALL CONCLUSION**

In the disaster situation in which we find ourselves, one would expect government entities such as the IDC to ensure that the criteria for funding and related support are tailored to provide easy access to loans by affected companies in time. The priority should be placed on support, which should be given promptly to save companies and jobs. Therefore, the effectiveness of the response should be evident in the urgency of the action taken. The next phase of our audit will focus on actual disbursements from the IDC Covid-19 relief fund.





## EMERGENCY SUPPLY OF WATER TO TARGETED COMMUNITIES

### OVERVIEW OF INITIATIVE

Purpose	
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: <ul style="list-style-type: none"> <li>Procurement and distribution of water tanks and hiring of water tankers</li> <li>Procurement and distribution of sanitation packs (hygiene campaign)</li> </ul>
Funds subject to audit	<b>R306,5 million</b>
	Own reprioritised funding from regional bulk infrastructure grant
Expenditure as at 31 July 2020	<b>R237,5 million</b>

### STATUS OF IMPLEMENTATION OF INITIATIVE

The Department of Water and Sanitation (DWS) established the national disaster water command centre (NDWCC) at Rand Water (implementing agent), which developed a plan to provide water to the predetermined congested areas. The DWS immediately paid the reprioritised funds over to Rand Water as an advance.

This initiative included the provisioning of water through the temporary solution of supplying water tanks (delivered and installed) and hiring tankers to ensure that the water tanks are filled, in an effort to assist in the drive to curb the spreading of the Covid-19 pandemic.

The process also included a hygiene campaign where sanitation products were procured and provided, including to the departmental staff. The allocation of the R306 million funds among the provinces is depicted in the map on the following page.

The information we provide on the status of implementation and expenditure is based on unaudited reports of the NDWCC. Due to time limitations experienced as reflected later in the report, we have not yet been able to audit the information presented; however, this will be reported on in future reports.

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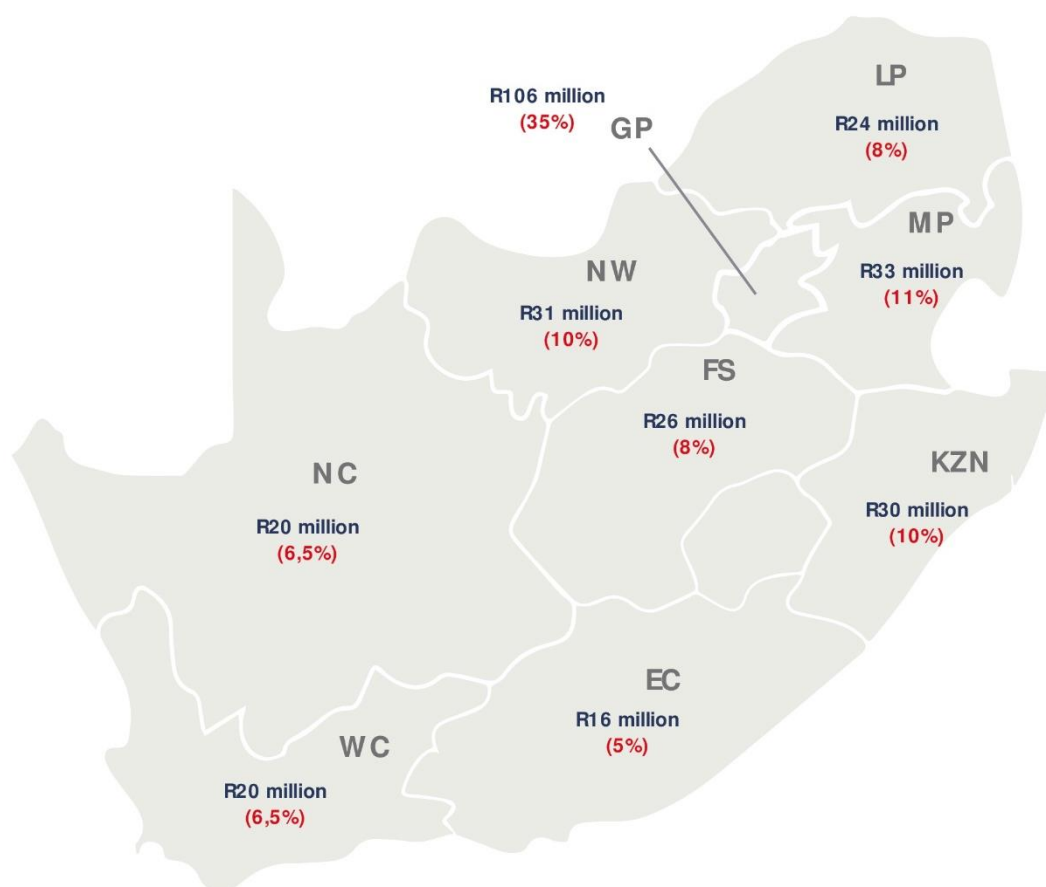
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### Application of funds received



By 31 July 2020, the NDWCC report indicated that R237,49 million, which comprised 77% of the R306 million allocation, had been spent. The breakdown per category is as follows:

### Breakdown of funds spent

Expenditure item	Budget	Expenditure as at 31 July 2020	Percentage spent
Sanitation packs	R44,14 million	R44,23 million	100%
Water tanks	R94,79 million	R57,8 million	61%
Water tankers	R76,52 million	R100,86 million	132%
Monitoring and evaluation	R28,79 million	R12,87 million	45%
Installation of tanks by other water boards	R43,14 million	R4,59 million	11%
Disbursements	R3,07 million	R5,81 million	190%
Implementing agent fee, including project management fee	R16,08 million	R11,31 million	70%
<b>Total</b>	<b>R306,53 million</b>	<b>R237,49 million</b>	<b>77%</b>

The implementation plan's expected deadline for the installation of tanks had been the first week of May, which means that the water supply initiative is behind schedule due to challenges experienced during the lockdown. The table below

indicates the progress with the delivery of tanks and hiring of tankers as reported by the NDWCC – the information is unaudited:

#### *Delivery of tanks and hiring of tankers*

Focus area	Planned numbers	Actual number from 29 April to 31 July 2020
Tanks delivered and installed	<b>8 882</b> tanks servicing 3 401 informal settlements as per the exposure reports	6 107 (69%)
Tanker hired	<b>347</b> to service the tanks	306 (88%)

## **PROCUREMENT PROCESSES**

Rand Water initiated a centralised supply chain management process on 16 March 2020, which was concluded on 13 May 2020. A total of 68 suppliers were appointed to supply and install the water tanks, hire water tankers to ensure that the water tanks are filled and provide sanitation products for the hygiene campaign.

### *Procurement and distribution of water tanks*

The department determined the number of water tanks required and in which communities they were most needed. Rand Water procured the water tanks and arranged delivery to the relevant locations based on the department's needs analysis. Rand Water was responsible for delivery and installation of tanks in Gauteng and Mpumalanga. In the other provinces, the responsibility for delivery and installation varied based on the arrangements made through their water boards. The City of Cape Town and Mogale City were also used.

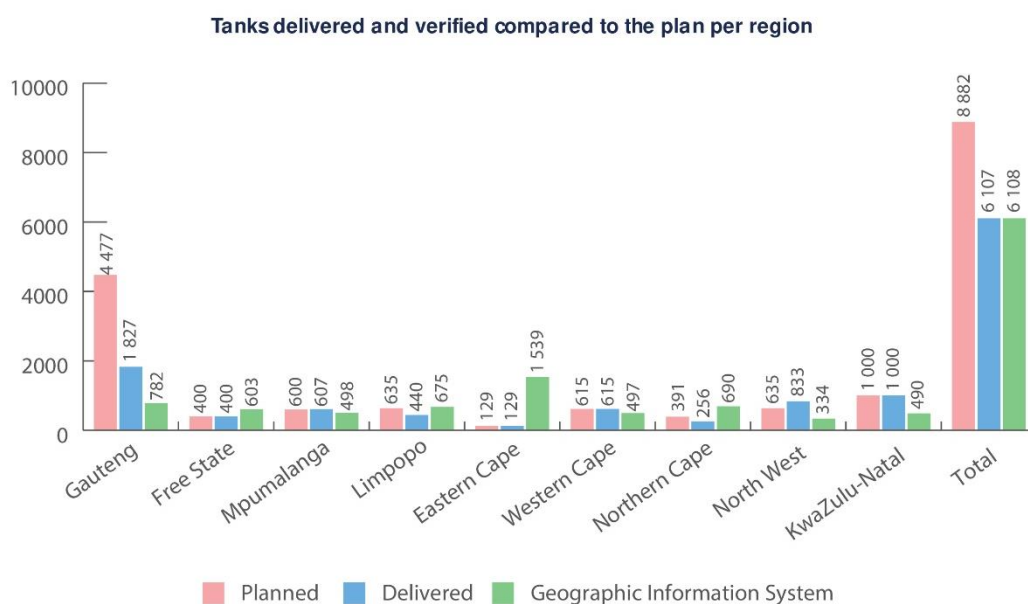
The NDWCC was responsible for implementing tracking and monitoring controls to confirm the physical location of the tanks delivered. Subsequent to the delivery of the tanks, the department implemented a process to confirm and reconcile what had actually been installed against what had been delivered and paid for. The number of tanks physically verified and its location are captured on the Geographic Information System (GIS).

The delivered water tanks do not have a unique tracking number or label, which imposed several challenges on the department in terms of:

- their ability to know the physical locations of the tanks
- matching the invoices paid to the actual installation of the tanks
- maintaining and monitoring the required water levels in these tanks.

According to the unaudited reports of the NDWCC the status of delivery and verification by 31 July 2020 per province was as follows:

## Status of delivery and verification



The department verified 6 108 tanks, which is one more than the records show as delivered. The number of reported tanks verified per the GIS was more than those reported to have been delivered for the Free State, Limpopo, Eastern Cape and Northern Cape, highlighting that there are challenges in the reporting and verification of these tanks. This also affected our audit as discussed later in this report.

The department indicated that there are areas where municipalities took receipt of some of the tanks, but opted not to put these tanks into use without the formal installation of stands being finalised by the respective water boards. The department's planned date for the completion of this process as well as the verification process was end of August 2020.

## Procurement and hiring of water tankers

The procurement process was based on the needs analysis conducted by the department, which was also used to determine where the tankers were needed to fill the water tanks.

Once Rand Water had procured the service, the NDWCC was responsible for confirming the delivery of the water in the identified areas of need and for the monitoring of the water levels in the tanks.

From the information provided by the department as at 31 July 2020, 88% of budgeted tankers had been hired compared to the 132% of the budget already spent.

## Procurement and distribution of sanitation packs

The department had to do the needs analysis for the quantity and where the sanitation packs for the hygiene campaign had to be delivered. This information was then provided to Rand Water for procurement.

Once Rand Water had procured the sanitation packs, they arranged the delivery and supply to the department's regional offices. The department was responsible for receiving and distributing the sanitation packs as part of their responsibility to ensure and confirm that the packs had been distributed to and received by the intended beneficiaries.

The information from the department indicated that the distribution of packs is still ongoing and is subjected to audit review, as 100% of the budget had been spent.

## ***PROVISION OF WATER TO SCHOOLS***

The Department of Basic Education initiated a project where R610 million was reprioritised from the education backlog infrastructure conditional grant to provide emergency water to selected public schools in six provinces (KwaZulu-Natal, Eastern Cape, Mpumalanga, Limpopo, North West and Free State). The Department of Basic Education, through the NDWCC, appointed Rand Water as the implementing agent for the Covid-19 emergency water supply programme for selected public schools.

The status of this project and audit observations is reported in the section of the report dealing with education.

As part of our audit risk assessment, environmental scanning of the media revealed certain allegations regarding the water tanks being purchased at different unit costs while using the same implementing agent. The risk as identified through the media reports has been factored into our audit approach and we will provide feedback in the next special report.

## **AUDIT EXPERIENCE**

The leadership's responses to the initial preventative control discussions during planning had been very positive. They provided detailed insights into the process undertaken and the preventative controls implemented, which includes the NDWCC reporting daily to the department and the minister.

Despite the good initial progress made through early engagement, obtaining an understanding of the processes and procedures and the planning of the audit, the audit progress in the subsequent weeks was very slow.

We experienced significant challenges with regard to obtaining key information requested, which was inconsistent with the processes management claimed to have in place. The information we requested should have been readily available as it purportedly formed the basis for the daily reporting to the minister.

Key information such as the needs analysis compiled by the DWS and used by Rand Water for the provisioning of tanks was provided late in the audit process and will still be audited.

As the department was at the forefront of the response to the pandemic, key officials were not always available for discussion and/or to provide requested information.

The department had to close its offices for an average of five working days on more than one occasion due to staff members testing positive for Covid-19, which also impacted on our audit.

The delays in obtaining information were escalated to the acting director-general of the department and the chief executive of Rand Water on 26 June and 17 July 2020, through formal correspondences. We met with the human settlements minister on 3 July 2020 where we shared some of these challenges with her. The minister noted her disappointment about the reported challenges and confirmed the department's commitment to the audit.

After the meeting, we received some documentation for the verification of tanks installed and filled, therefore the audit process in this regard only commenced on 20 July 2020 and was still in progress at the date of this report.

## ***STATUS OF AUDIT***

The audit covers assessment of the following for water tanks, tankers and sanitation packs:

- Budgetary process and determination of the needs analysis done by the department
- The procurement process followed by Rand Water
- The distribution and monitoring process

As part of our fraud risk assessment process, we actively scanned the media to identify potential fraud schemes, possible implicated service providers and other irregularity indicators. We used information from the media scanning and concerns

raised by civil society organisations to inform some of our samples and site visits. We factored the risks into our tank verification process and will report on it in the next special report.

We are in the execution phase of the audit.

### *Procurement and distribution of water tanks*

Due to the challenges experienced, the audit of the water tanks progressed slowly and therefore was still in progress. Some key observations have been noted during this process and are being discussed with management.

The NDWCC did not provide a full inventory lists for water tanks at the beginning of the audit process, containing a clear link between the amounts paid per the invoices, the goods delivered and clear descriptions of location per installed tank, and a unique tank number. This prevented the auditors from conducting the verification procedures of these reported installed tanks.

The department submitted an alternative list from the GIS on 8 July 2020 and we were able to perform some site visits in the following provinces:

- Northern Cape
- Free State
- Limpopo
- Western Cape
- Gauteng (portion)
- Eastern Cape
- KwaZulu-Natal

We still had to visit Gauteng (remaining portion), Mpumalanga and North West and therefore we had not yet communicated all observations in this regard to the management.

Despite the absence of the list and the alternative list used, we noted that the alternative list still contained insufficient details to perform our verification.

### *Procurement and hiring of water tankers*

It was a requirement that the NDWCC should have accurate location details of all supplied water tanks in order to fill them with water regularly.

Because we had not received the detailed inventory listings to conduct these visits, this process was hampered. Because of the outstanding and inaccurate list supplied and our inability to visit these water tanks, we could not determine if the related service had been rendered. The audit was in progress and we were liaising with management to find alternative ways to verify this service.

### *Procurement and distribution of sanitation packs*

The reconciliation of sanitation packs distributed to the respective users (water service authorities) with what had been procured also remained a challenge, although some audit work had been performed. The verification processes were in progress and any audit observations will be shared in future reports.

## Impact of challenges

The challenges and the slow progress noted above delayed the audit process in the following ways:

- We could not confirm the risks elevated by civil society organisations reports on the lack of service delivery.
- We could not ensure that various aspects of the process (expenditure, supply chain management and physical verification) could be linked to or reconciled to ensure that all risks have been addressed by the management, as we could not trace the amounts ordered to the amounts paid and to the actual tanks delivered and installed (three-way matching).

## Key audit observations

### Fraud risks that management should pay attention to

Through our risk assessments of departmental and Rand Water processes, we identified the following key fraud risks that the management of these auditees should pay attention to in the procurement processes for tanks and tankering services:

- Charging of excessive implementation or management fees, thus minimising the effectiveness of funds linked to the service delivery goal.
- The adequacy of the processes to verify the legitimacy of the annual interest declarations by employees and declarations of interest by suppliers.
- Possible collusion and preferential treatment of certain suppliers, which could lead to overpricing and possible kickbacks.
- The impact if the existence or location of tanks is unknown and the link between the expenses incurred, the installed tanks and the needs analysis is not evident. This could result in the abuse of the process for personal benefit.
- The ability to determine whether the required quantity of water has been delivered before payments are made for tankering services.

### Recommendations

The accounting officer should consider the above fraud risks and develop a response thereto, which should include at least preventative and also detective controls.

### Response to audit observation

At a meeting held with Rand Water and the department on 20 August 2020, it was highlighted that these fraud risks are inherent in the processes and are brought to management's attention, with engagements and assessment yet to be performed to understand the mitigating controls in place.

Rand Water submitted its internal control matrix on 20 August 2020, but we have not yet tested the adequacy of these controls.

### Lack of an audit trail for the delivery of tanks

The basic recording and accounting processes implemented at the inception of the initiative which are necessary to maintain a full register of all tanks purchased and delivered, were not implemented.

We were therefore unable to link our samples selected (alternative list from the GIS) to the lists received from the NDWCC and then to the respective invoices and delivery notes, as there was no unique or mutual/reference number on the different lists received. This resulted in an overall limitation of scope which delayed the audit of water tanks to confirm and verify the progress of the initiative.

### Recommendations

The accounting officer, with the NDWCC, should ensure that a full detailed inventory list is maintained and updated regularly.

Key information relating to detailed location data should be maintained and updated regularly from the point of purchase through to installation.

This listing should be maintained and be readily available for review, with sufficient detail to facilitate linking a specific barcoded tank or unique identifier, location, invoice to the delivery note it relates to.

### Response to audit observation

Management responded and initially disagreed with the finding, but upon review of the actual management response and submitted inventory lists, which form the basis of their disagreement, we confirmed that key location data, as requested in the finding, was still outstanding and we are still engaging the department further on this.

### Verification system (GIS): no audit reliance

The main contributor to the limitations experienced on the verification of tanks was the GIS not being designed to maintain a full inventory list, but to assist the department in their subsequent verification and monitoring process. The limitations relating to the system were as follows:

- The systems allowed the data capturers to capture, process and finalise the tank information without it being reviewed by regional management to verify the completeness and accuracy of the captured information.
- Files/reports that were extracted from the GIS were in a format that could be changed and therefore susceptible to possible data manipulation.
- These files/reports extracted from the system were not reconciled with the data that appeared on the dashboard of the system to ensure monitoring and review of the data.

This casts significant doubt on the accuracy, completeness and reliability of the GIS information since we have not been able to reconcile the tanks procured and installed by the NDWCC for the Covid-19 intervention to the physical verification done by the department.

This weakness in the preventative controls was due to the GIS only being updated with the relevant tank information after the department's officials had physically verified the tanks. This rendered the process reactive as the funds had already been disbursed when the verification was conducted.

### Recommendations

The management must implement procedures and processes, which should be communicated to all relevant officials, on the capturing, reviewing and approval of information on the system to ensure that information captured on the GIS is accurate and complete for monitoring and tracking purposes.

Furthermore, capturing of tanks on the GIS should be part of the goods receiving process before the payment are made. This will ensure that the verification is conducted at the point of delivery, thereby ensuring that payment is only made for the tanks actually delivered and captured on the appropriate systems. This would have also facilitated the process of having timely, readily available information on actual delivery that is complete, accurate and reliable for the management's own monitoring purposes.

### Response to audit observation

The management indicated that the application was primarily designed to allow the data capturers to capture, process and finalise tank information while in the field verifying/monitoring the tank. Some of these tanks are situated in very remote locations hundreds of kilometres from the regional office and the dashboard view was given to the regional management



as a tool to verify the information. It is the responsibility of the regional management to monitor and review the information that is captured by the verification team to ensure that it is accurate and complete.

Furthermore, the functionality relating to monitoring of tanks was primarily added subsequently based on the fluidness of the ongoing project and would allow the regions to monitor the condition of the tanks and report damages, theft, etc.

Continued monitoring will take place and where tanks that are captured as non-operational, they will have to be checked again to ensure that the municipality is doing regular maintenance on these tanks. Fully operational tanks will also be checked after permanent installations are done to ensure they remain operational.

### **Procurement processes not followed to ensure a fair and competitive process**

Findings were raised for management's attention, which included matters on the emergency procurement processes that were undertaken by the NDWCC in appointing all the service providers.

#### ***i) Management procured services without obtaining suppliers declared interest – signed SBD 4 forms not obtained***

The request for quotations (RFQ) states the list of returnable documents that must be returned by the suppliers with the RFQ, which includes the completed and signed SBD 4 – declaration of supplier interest form.

From our audit review, we could not confirm that suppliers used by Rand Water to the value of R40,9 million submitted their completed SDB 4 forms before appointment, as required above. Therefore, Rand Water is running the risk of hiring service providers that might have a conflict of interest in which some suppliers might benefit unfairly from Rand Water not following National Treasury supply chain legislation.

#### ***ii) RFQ sent to supplier after the RFQ closing date***

From our audit review, quotations to the value of R19,7 million were requested from suppliers after the closing date and this does not comply with the emergency process for special intervention used by Rand Water.

### **Recommendations**

Management must ensure that supply chain principles and policies are adhered to during the procurement processes conducted.

### **Response to audit observation**

With regard to SBD4s not yet received, management agrees with the finding but noted that in emergencies there is a process to consolidate all procurement-related documents prior to ratification. This emergency project is still in progress and thus ratification has not yet taken place as at 31 July 2020.

Regarding the RFQ finding, management disagrees with the finding by indicating that suppliers were engaged telephonically in line with Rand Water's emergency procedure for special interventions and it was an oversight not to change the respective RFQ dates.

## **Conclusion**

Due to the outstanding information, we were unable to confirm whether the reporting of the actual number of tanks delivered and installed, was indeed accurate and complete. Therefore, we cannot determine how the NDWCC ensured an efficient reporting process. This casts significant doubt on how the expenditure incurred was linked to the tanks procured and installed – ultimately raising a risk in terms of whether the services had been delivered.

## OVERALL CONCLUSION

We were still performing the audit and were awaiting management comments for various matters identified that required clarity specific to the lack of a detailed inventory list, procurement findings and certain matters relating to possible control deficiencies, etc.

In line with planned scope of the initiative, we will continue to focus on the verification of the tanks and tanker services to ensure that the water is provided. The verification of the accuracy and completeness of the NDWCC reports, which support whether the performance reporting and targets set by the NDWCC based on the needs were achieved on time and reported on accurately, will remain a focus area. The lack of a reliable detailed inventory list to support the initiative and the use of alternative lists on the GIS for auditing purposes, also impact our reliance on the process and hence the audit is still under way and more detailed reporting will be done in the next special report.

The reconciliation of sanitation packs distributed to the respective users (water service authorities) with what has been procured will be verified, as well as the physical verification of sanitation packs not yet distributed.

We will also pay attention to the process of transferring of these tanks, after installation, to the respective water service authorities, as the provisioning of water is their main responsibility.

However, overall, the time constraints experienced in the submission of information has placed a significant limitation on our assessment of the progress made by the department with this Covid-19 relief initiative.



## TEMPORARY RESIDENTIAL UNITS

### OVERVIEW OF INITIATIVE

Purpose	
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
Funds subject to audit	<b>R1 426 million</b>
	R872 million – human settlements development grant R554 million – urban settlement development grant provided as part of the support to municipalities
Expenditure as at 30 June 2020	<b>R43 million</b>

MENU



### STATUS OF IMPLEMENTATION OF THE INITIATIVE

PREV



Physical distancing through de-densification and re-blocking of overcrowded areas is critical in curbing the spread of Covid-19. Therefore, the resettlement initiative is aimed at re-blocking informal settlements through moving beneficiaries to TRUs and fast-tracking the move of beneficiaries to already completed permanent structures to minimise the spread of Covid-19. For informal settlements to be considered for the resettlement initiative, the following were considered:

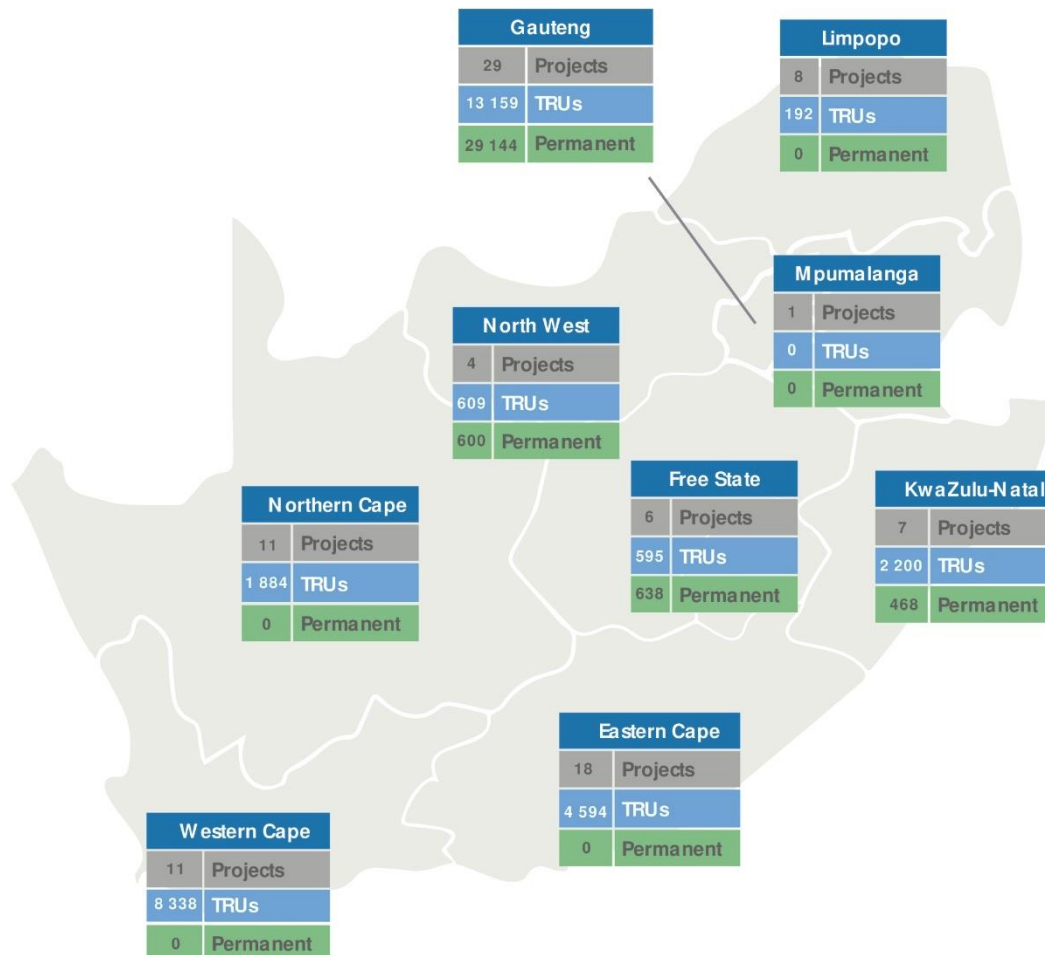
- Is the informal settlement over-crowded and does it pose continued health hazards owing to a lack of basic services provision and thus require de-congestion?
- Densities far above the functional threshold of liveable settlements and spaces (distance between units, accessibility, serviceability, safety and others).

The resettlement programme is the responsibility of all three spheres of government. The national Department of Human Settlements (department) plays a coordinating and oversight role and is responsible for making transfer payments to provincial and local government. The identification and subsequent implementation of projects, including the administration of budgets and payments, occur at provincial and local government level.

Based on the above considerations, the department initially identified 29 informal settlements across all nine provinces, and each informal settlement represents a project. The provincial departments and municipalities then performed their own risk assessments using the same criteria, after which the number of projects increased to 95. The initial 29 projects included four projects pertaining to permanent structures, whereas with the 95, there is a balance between the number of TRUs and permanent structures. Through this initiative, the sector is seeking to commence with the construction of 31 571 targeted TRUs and to accelerate the allocation of 30 850 permanent structures to beneficiaries across the country.

The map below shows the spread of the targeted number of projects, TRUs and permanent structures across the country. This information has been sourced from provincial departments and has not been audited.

### *Spread of targeted projects*



The cut-off date for audit work to be performed was 30 June 2020. Sources of funding for this initiative, as well as the related expenditure at this date, are illustrated below. We requested a complete list of projects from provincial departments, including the total budget and progress made on these projects against planned delivery dates and current expenditure. Of the total expenditure to date, R808 million was spent on augmenting basic services such as supplying water tankers, upgrading and extension of sewer services, disinfectants and cleaning services, buying of land, and others. Only R166 million has been spent on the construction of TRUs. Therefore, based on the information received, it seems that the total expenditure incurred thus far is not necessarily an indication of significant progress made with resettlement and availing of TRUs to residents of informal settlements. The budget and expenditure as indicated in the graphs have not been audited.

## Budget and expenditure information



The department developed the overall sector implementation plan for the Covid-19 impact mitigation programme, which had a project cycle timeline starting from 26 March 2020 and ending at the end of June 2020. However, the provincial and local government plans were not aligned to the overall sector implementation plan. As at 30 June 2020, none of the 17 projects selected for testing had been completed.

The department did not alter their monitoring processes in response to the emergency nature of this programme. This is despite the recurring weaknesses relating to a lack of uniform deliverables and the subsequent lack of reporting on some of the sector initiatives that had been previously raised through the audit process. These weaknesses related to the consolidation of provincial and municipal performance achievements. This raises reliability concerns relating to the similar information received and used to monitor the implementation of this initiative due to the already existing weaknesses in the processes.

In addition, the TRUs are administered through the Housing Subsidies System. As reported over a number of years, there are control weaknesses within the information technology general and application controls relating to user administration and segregation of roles on the system. As with the monitoring processes, this system continues to be used without any consideration to enhance known control deficiencies to prevent money from being spent on unworthy beneficiaries.

This initiative requires strong cooperation and coordination within all three spheres of government. The inter-governmental relations within the department is at the level of the committee of the minister and the members of the executive council (MinMec) and the committee of the director-general and the provincial heads of human settlements (technical MinMec). The MinMec established a human settlements command centre (HSCC) to coordinate the implementation of the initiative, in accordance with the inter-governmental relations framework. However, the progress to date shows fragmentation in the effectiveness of the HSCC structure.

## FRAUD RISK CONSIDERATIONS

The fraud risk is informed by the fact that there is weak coordination and accountability at sector level for the allocation of budgets and the tracking of expenditure incurred on this initiative. There is a need for provincial and local governments to provide the temporary accommodation urgently, which could result in officials feeling pressured to bypass existing controls and processes to respond to the pandemic. The expected urgency may create an opportunity for fraudulent activities as land parcels and structures may end up being procured at inflated prices. In addition, the sector may rationalise sub-standard work on the units constructed on the basis that there is a need to respond swiftly. The fraud risk

consideration is heightened by the absence of preventative controls such as weaknesses in project management and monitoring control activities relating to implementing agents

## NATURE AND SCOPE OF AUDIT

The sector is seeking to deliver the construction of TRUs and accelerating the allocation of permanent structures to beneficiaries. The acceleration of resettlement into existing units will be audited as part of the annual audit. Therefore, this audit is focused on TRUs. We selected 17 projects across eight provinces to test the implementation of the plan.

Mpumalanga was excluded as their projects were aimed at supplementing basic services.

For each project selected, we will audit compliance with instruction notes issued by the National Treasury on emergency procurement and the relevant supply chain management legislation in the appointment of service providers and, where applicable, the process followed to identify, acquire and release land parcels, evaluate whether the TRUs have been developed in line with the approved unit price and at the right quality, and confirm that appropriate beneficiaries were allocated to these units.

## AUDIT EXPERIENCE

For eight of the 17 (47%) projects selected for auditing with a budget allocation of R376 million, construction had started but not yet completed.

### Audit procedures performed

Focus area	Eastern Cape		Free state	Gauteng		Limpopo		North West
	Duncan Village	Ziphunzane	Linda Mkonto	Mamelodi	Khutsong & Kokosi	Talana	Burgersfort	Boitekong
Procurement	Yes	Yes	Yes*	No	Yes	No	No	Yes*
Pricing	Yes*	No	Yes*	Yes*	Yes	Yes*	Yes*	No
Quality	Yes	No	Yes	Yes	Yes	Yes*	Yes	No
Beneficiaries	No	No	No	No	No	Yes*	No	No
Yes	Related procedure was performed							
Yes*	Possible finding(s) identified							
No	Related procedure was not yet performed							

### Outstanding audit work and emerging risks

As at 30 June 2020, nine projects (53%) included as part of our sample, which related to the construction of TRUs with a total budget of about R46 million, had not yet commenced; therefore, we could not perform the audit. One of the reasons provided was that in the Western Cape, there were challenges with the land parcels identified. In the Northern Cape, it was indicated that there were insufficient funds for this initiative, and in KwaZulu-Natal, the awarding of a tender had not been finalised.

Based on the audit work performed to date, there are indicators of non-compliance with emergency procurement regulations, poor quality, incorrect pricing and incorrect allocations of TRUs. These are areas of concern where fraudulent activities may be committed and these emerging risks will be considered during the audit of the nine outstanding projects.

Based on the environmental scanning and the risk assessment, the work performed by implementing agents, including the Housing Development Agency, heightens the emerging risks. In this regard, the three projects in which procedures relating to supply chain management have not been performed are implemented by the Housing Development Agency on behalf of the provincial departments and the metro. Furthermore, all the projects with possible findings on pricing and quality, except for Linda Mkhonto in the Free State, are implemented by the Housing Development Agency. These outstanding matters and emerging risks will be confirmed and reported on in future reports.

We have also been made aware of a donation of 70 units to the estimated value of R3,9 million made by a private company to the Housing Development Agency. However, we do not have complete information relating to the potential risks that may be associated with the donation, if any.

Below are the details of the findings raised during the audit, including the actions planned by accounting officers to respond to the control weaknesses and related impact of the findings.

### *Key audit observations*

#### **Project implementation across the sector**

The sector coordination processes do not ensure that plans for projects that are meant to respond to an emergency are in line with the overall plan that had been designed. The HSCC did not ensure that the provincial and local governments are deliberate in ensuring that most of the identified residents in the informal settlements are resettled in areas wherein social distancing can be observed.

#### **Recommendations**

The HSCC should enhance their coordination and oversight processes, including aligning provincial plans to the sector timelines, thereby ensuring that the sector responds adequately to the “emergency” need for the resettlement of residents of informal settlements to combat the spread of Covid-19.

#### **Response to audit observation**

The accounting officer disagreed and highlighted that project implementation is an intricate and complicated process. It noted that one of the challenges is that projects are dependent on the availability of land, basic services, social facilitation processes and planning compliance requirements before implementation can start.

While the accounting officer’s response is noted, given that the factual issues raised are hindering the progress, we will continue to engage the department to ensure these concerns receive the necessary attention.

#### **Monitoring of pricing protocols**

The provincial departments and municipalities have contracted to build the TRUs for the maximum amount of the subsidy quantum of R64 441 for the shelters. However, included in the maximum amount is an amount for basic municipal engineering services of R6 019,03 that should not have been included in the shelter cost per unit. As a result, the sector will end up paying the maximum amount of R64 441 per unit for goods and services not received from different service providers.

#### **Recommendations**

The accounting officers should have a process in place to ensure that active oversight and monitoring occur to confirm that provinces adhere to the established protocols over pricing.

#### **Response to audit observation**

The national department will investigate the details of the project approval and costing. The accounting officer will then verify these details against the relevant programme and subsidy quantum guidelines.

We will further engage with the accounting officer regarding the feasibility of the sector to assess the impact of this concern across the sector and consider recovery, where necessary.

### **Beneficiaries of TRUs**

In some instances, contrary to the housing code, the occupants of the completed TRUs were families, whose names did not appear on the approved list per the Housing Subsidies System. The list submitted by management did not agree with the beneficiaries per the system as evidenced by the beneficiary name search, which was then rejected by the system. The completed TRUs have been occupied, prior to the official hand-over, by people who are not the intended beneficiaries and, as a result, the sector may be spending funds on beneficiaries who do not meet the criteria for occupying a temporary shelter. This is an indication of the weakness in the processes to identify individuals who should be allocated TRUs on the basis that they currently reside in a congested informal settlement.

### **Recommendations**

The process to review beneficiaries allocated TRUs should be enhanced to ensure that the completed units are officially handed over to families on the approved beneficiaries listing.

### **Response to audit observation**

The accounting officer is of the view that there are no issues with the beneficiary lists that were received from municipalities, as they verified the names against the Housing Subsidies System.

Notwithstanding the above comment, we will engage the accounting officer further on this as we could still not verify the beneficiaries from the lists provided in response to the finding.

## *Key recommendations*

The HSCC, as a MinMec structure, should be strengthened to ensure the overall responsiveness of this initiative to the Covid-19 pandemic. It should focus on reporting the budget and spending for the initiative to enable a consolidated overview and the requisite accountability. In this regard, the HSCC should review and discuss the Covid-19-related projects, follow up on provinces to get reasons for the late delivery of these projects and provide capacity support to improve the situation.

The sector, through the HSCC, should consider collaborating with the National Treasury in tracking the expenditure reported by the provincial and local government on a regular basis to ensure that the funds that have been earmarked for identified projects are spent for the intended purpose and can easily be accounted for.

The provincial departments and municipalities should identify and rectify possible delays as these could lead to possible overspending and non-achievement of project milestones.

## **OVERALL CONCLUSION**

In a disaster situation, national and provincial departments need to act swiftly. However, the speed at which the implementation of this initiative has progressed does not seem to have taken the requisite urgency into account. There are weaknesses in the effectiveness of preventative controls in the exercising of oversight to ensure performance and financial accountability, which is evidenced by the ineffectiveness of the sector in overseeing the implementation of the plan, coordination of the role players and addressing emerging challenges. Therefore, it remains a concern that most of the spending yet to occur is likely to be subjected to the same control environment.

Our future reports will focus on critical areas such as the emergency appointment of service providers and the identification of suitable land parcels. We will also continue with our work on costing and quality of the units as well as the identification and resettlement of beneficiaries. Lastly, we will follow up on the implementation of the recommendations on this report by assessing the implementation of preventative controls on expenditure.





