

**REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON VOTE NO. 7:  
DEPARTMENT OF PUBLIC WORKS**

**REPORT ON THE FINANCIAL STATEMENTS**

**Introduction**

1. I have audited the financial statements of the Department of Public Works set out on pages ... to ..., which comprise the appropriation statement, the statement of financial position as at 31 March 2014, the statement of financial performance, statement of changes in net assets, and cash flow statement for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

**Accounting Officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash standard prescribed by the National Treasury and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA) and the Division of Revenue Act of South Africa, 2013 (Act no. 2 of 2013) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor-general's responsibility**

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

**Opinion**

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Department of Public Works as at 31 March 2014 and its financial performance and cash flows for the year then ended, in accordance with the modified cash standard prescribed by the National Treasury and the requirements of the PFMA and DoRA.

**Emphasis of matters**

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### **Immovable assets**

8. As disclosed in notes 32 and 35 to the financial statements the prior year qualification on immovable assets was not resolved. All immovable assets were transferred to the Property Management Trading Entity with effect 1 April 2013, therefore the effects of the unresolved matter has no impact on the comparability of the current and corresponding figures.

### **Restatement of corresponding figures**

9. As disclosed in notes 4, 20, 23 and 25 to the financial statements, the corresponding figures for 31 March 2013 have been restated as a result of errors discovered during 2014, in the financial statements of the Department of Public Works at, and for the year ended, 31 March 2013.

### **Material impairments**

10. As disclosed in note 12 to the financial statements, material impairments to the amount of R51 453 000 were provided for as a result of irrecoverable receivables.

### **Material underspending of the vote**

11. As disclosed in the appropriation statement, the department has materially underspent the budget on programme 2, immovable asset management, to the amount of R104 981 000. As a consequence, the department's objectives of infrastructure delivery were not fully achieved.

### **Additional matter**

12. I draw attention to the matter below. My opinion is not modified in respect of this matter.

### **Unaudited supplementary schedules**

13. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

### **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

14. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for selected programmes presented in the annual performance report, non-compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

### **Predetermined objectives**

15. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected programmes presented in the annual performance report of the department for the year ended 31 March 2014:
  - Programme 2: Immovable Asset Management on pages x to x
  - Programme 3: Expanded Public Works Programme (EPWP) on pages x to x
  - Programme 4: Property and Construction Industry Policy Regulation on pages x to x
16. I evaluated the reported performance information against the overall criteria of usefulness and reliability.

17. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPi).
18. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
19. The material findings in respect of the selected programmes are as follows:

### **Programme 3: Expanded Public Works Programme**

#### **Reliability of reported performance information**

20. The FMPPi requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objective, indicators and targets. Adequate and reliable corroborating evidence could not be provided for 31% of the targets to assess the reliability of the reported performance information. This was due to the absence of guidelines on document retention and records management for the EPWP programme as well as a lack of oversight in ensuring that payments are only made to valid beneficiaries.
21. I did not raise any material findings on the usefulness of the reported performance information for selected programmes and reliability of the reported performance information for programme 2: Immovable Asset Management and programme 4: Property and Construction Industry Policy Regulation.

#### **Additional matters**

22. I draw attention to the following matters:

#### **Achievement of planned targets**

23. Refer to the annual performance report on pages 123 to 165 for information on the achievement of the planned targets for the year. This information should be considered in the context of the material finding on the reliability of the reported performance information for the selected programmes reported in paragraph 20 of this report.

#### **Adjustment of material misstatements**

24. I identified material misstatements in the annual performance report submitted for auditing on the reported performance information for programme 2: Immovable Asset Management, programme 3: EPWP and programme 4: Property and Construction Industry Policy Regulation. As management subsequently corrected only some of the misstatements, I raised a material finding on the reliability of the reported performance information.

#### **Compliance with legislation**

25. I performed procedures to obtain evidence that the department had complied with applicable legislation regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

### **Strategic planning and performance management**

26. Effective, efficient and transparent systems of risk management and internal control with respect to performance information and management was not in maintained as required by section 38(1)(a)(i) of the PFMA.

### **Financial statements, performance and annual reports**

27. The financial statements submitted for auditing were not fully prepared in accordance with generally recognised accounting practice as prescribed by National Treasury as required by section 40(1)(b) of the PFMA and Treasury Regulation 18.2.

### **Internal audit**

28. The operational procedure and monitoring mechanisms were not assessed over transfers in terms of the annual Division of Revenue Act as required by Treasury Regulation 3.2.8.

### **Procurement and contract management**

29. Goods and services with a transaction value below R500 000 were procured without obtaining the required price quotations, as required by Treasury Regulation 16A6.1.
30. A contract was awarded to a bidder who did not submit a declaration on whether it is employed by the state or connected to any person employed by the state, which is prescribed in order to comply with Treasury regulation 16A8.3.
31. Sufficient appropriate audit evidence could not be obtained that all contracts were awarded in accordance with the legislative requirements as the department did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information was accessible and available to evaluate compliance.

### **Human resource management and compensation**

32. Appointments were not only made in posts that were approved and funded as required by Public Service Regulation 1/III/F.1(a) and (d).
33. Funded vacant post were not filled within 12 months after becoming vacant as prescribed by Public Service Regulation 1/VII/C.1A.2.
34. Claims in candidates' applications for posts were not in all instances verified before appointment as required by Public Service Regulation 1/VII/D.8.
35. Human resource planning, based on the strategic plan for the department with a view to meeting the human resource needs, was not completed and approved for the year under review as the process was ongoing. Thus contravening Public Service Regulation 1/III/B.2(d).

### **Expenditure management**

36. Effective steps were not taken to prevent irregular expenditure, as required by section 38(1)(c)(ii) of the Public Finance Management Act and Treasury Regulation 9.1.1.

### **Consequence management**

37. Effective and appropriate disciplinary steps were not in certain instances taken against officials who made or permitted irregular expenditure as required by section 38(1)(h)(iii) of the PFMA and Treasury Regulation 9.1.3.
38. Some allegations of corruption, improper conduct or failure to comply with the SCM system were not yet investigated as required by Treasury Regulation 16A9.1(b).

## **Internal control**

39. I considered internal control relevant to my audit of the financial statements, the annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the finding on the annual performance report and the findings on non-compliance with legislation included in this report.

### **Leadership**

40. Leadership did not exercise effective oversight with regard to financial and performance reporting and compliance as well as related internal controls.
41. Leadership was not successful in improving the high vacancy rate in the department, the human resource plan and updated organisational structure stipulating the requisite capacity and skills were only finalised late in March 2014 to be effective in the financial year ending 31 March 2015.
42. Leadership did not in all instances approve and implement policies and procedures to enable and support the understanding and execution of internal objectives, processes and responsibilities.

### **Financial and performance management**

43. Proper record keeping was not always implemented in a timely manner to ensure that complete, relevant and accurate information was accessible and available to support financial and performance reporting.
44. Implemented controls over daily and monthly processing and reconciling of transactions were not effective in certain instances.
45. Regular, accurate and complete financial and performance reports that were supported and evidenced by reliable information were not prepared throughout the interim period.
46. The review and monitoring of compliance with applicable laws and regulations were ineffective.

### **Governance**

47. Leadership must continue to focus on expanding capacity in the risk management and internal audit units to ensure optimal functioning in terms of addressing of risks and internal control deficiencies across all locations within the department.

## **OTHER REPORTS**

### **Performance audits**

48. A performance audit was concluded on the Department of Public Works' readiness to fulfil its performance oversight roles and responsibilities. The report will be tabled in due course.

### **Investigations**

49. Numerous internal allegations, mainly relating to transgressions with respect to supply chain management, potential fraud and financial misconduct are being investigated on an ongoing basis.
50. An ongoing investigation is being conducted to probe the alleged abuse of urgent and emergency procurement as well the utilisation of sole suppliers. The investigation aims to establish whether there was collusion between officials and service providers and to determine any reckless spending of funds. The investigation is being conducted in phases, with 19 investigations underway of which 15 have been finalised and are in the reporting process. The department is instituting disciplinary action in respect of the finalised reports on an ongoing basis.

51. An investigation has been conducted by the Public Protector to probe allegations of the misappropriation of public funds by the Department of Public Works in respect of the installation and implementation of security measures at the President's private residence at Nkandla. The report was released on 19 March 2014.
52. In addition to the abovementioned, a proclamation - No. R. 59 of 2013 - was approved on 20 December 2013 by the president for the Special Investigating Unit to also probe the allegations relating to the prestige project involving the security upgrading of the private residence of the President situated at Nkandla, KwaZulu-Natal.

*Auditor-General*

Auditor-General

Pretoria

31 July 2014



AUDITOR - GENERAL  
SOUTH AFRICA

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