



AUDITOR-GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

# **Auditor's Report**

## **Department of Public Works**

31 March 2015

# **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, statement of financial position as at 31 March 2015, 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. 10 of 2014) (DoRA) and for such internal control as the accounting authority 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 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 2015 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.

## **Restatement of corresponding figures**

8. As disclosed in note 34 to the financial statements, the corresponding figures for 31 March 2014 have been restated as a result of errors discovered during the financial year ended 31 March 2015 in the financial statements of the Department of Public Works at, and for the year ended, 31 March 2014.

## **Material impairments**

9. As disclosed in note 12 to the financial statements, material impairments to the amount of R52 971 000 were provided for as a result of irrecoverable receivables.

## **Material underspending on the vote**

10. As disclosed in the appropriation statement, the department has materially underspent the budget on Programme 2: Immovable Asset Management, Sub-Programme 1 – Infrastructure (Public Works) – to the amount of R70 638 000. Consequently, certain planned infrastructure projects were not completed.

## **Additional matter**

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



## Unaudited supplementary schedules

12. 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

13. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected programmes presented in the annual performance report, non-compliance with legislation and 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

14. 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 2015:
- Programme 2: Immovable Asset Management on pages ... to ...
  - Programme 3: Expanded Public Works Programme (EPWP): on pages ... to ...
  - Programme 4: Property and Construction Industry Policy Regulation: on pages ... to ...
15. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
16. 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 programmes. 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).
17. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete
18. The material finding in respect of the selected programmes is as follows:

### **Programme 3: Expanded Public Works Programme (EPWP)**

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

19. The FMPPPI 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 26% 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 implementing bodies of the EPWP programme.
20. I did not identify any material findings on the usefulness and reliability of the reported performance information for Programme 2: Immovable Asset Management and Programme 4: Property and Construction Industry Policy Regulation.

#### **Additional matters**

I draw attention to the following matters:

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

21. Refer to the annual performance report on pages X to X for information on the achievement of planned targets for the year. This information should be considered in the context of the findings expressed on reliability of the reported performance information in paragraph 19 of this report.

#### **Adjustments of material misstatements**

23. We identified material misstatements in the annual performance report submitted for auditing on the reported performance information for Programme 2: Immovable Asset Management. As management subsequently corrected the misstatements, we did not identify any material findings on the usefulness and reliability of the reported performance information.

#### **Compliance with legislation**

22. 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 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**

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

24. Specific and appropriate information systems to enable the department to monitor the progress made towards achieving the goals, targets and core objectives as indicated in the strategic plan and annual performance plan were not implemented and operational as required by Public Service Regulation Part IIIB.1(f)(i)(ii).

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

25. The financial statements submitted for auditing were not fully prepared in accordance with the Modified Cash Standard prescribed by the National Treasury as required by section 40(1)(b) of the PFMA and Treasury Regulation 18.2. Material misstatements of disclosure items identified by the auditors in they submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

## **Internal audit**

26. 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.

## **Human resource management and compensation**

27. Funded vacant posts were not filled within 12 months after becoming vacant as prescribed by Public Service Regulation 1/VII/C.1A.2.

## **Expenditure management**

28. Steps 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, were in certain instances not effective.

## **Consequence management**

29. 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.

## **Internal control**

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

## **Leadership**

31. Leadership did not exercise effective oversight with regard to performance reporting and compliance as well as related internal controls.
32. Leadership was not successful in improving the high vacancy rate in the department, the human resource plan has been approved and implemented however the approval of the revised organisational structure, taking into account the transfer of functions from DPW to PMTE, is still pending.

## **Financial and performance management**

33. 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 performance reporting.
34. Regular, accurate and complete financial and performance reports that were supported and evidenced by reliable information were not prepared throughout the financial year.
35. The review and monitoring of compliance with applicable laws and regulations were ineffective in certain instances.

## **Governance**

36. 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**

## **Investigations**

37. 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.
38. 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.



39. Proclamation No. R. 59 of 2013 was approved on 20 December 2013 by the President for the Special Investigating Unit to probe allegations relating to the prestige project involving the security upgrading of the private residence of the President situated at Nkandla, KwaZulu-Natal. This report was concluded on 20 August 2014.

Auditor-General

Pretoria

31 July 2015



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