

# Report of the auditor-general to Parliament on vote no 13: Department of Public Works and Infrastructure

## Report on the audit of the financial statements

### Opinion

1. I have audited the financial statements of the Department of Public Works and Infrastructure set out on pages ... to ..., which comprise the appropriation statement, statement of financial position as at 31 March 2022, the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Department of Public Works and Infrastructure as at 31 March 2022, and its financial performance and cash flows for the year then ended in accordance with the Modified Cash Standards (MCS) prescribed by the National Treasury (NT) and the requirements of the Public Finance Management Act 1 of 1999 (PFMA) and the Division of Revenue Act 09 of 2021 (Dora).

### Basis for Opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of my report.
4. I am independent of the department in accordance with the International Ethics Standards Board for Accountants' *International code of ethics for professional accountants (including International Independence Standards)* (IESBA code) as well as other ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### Emphasis of matters

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

### Impairment of Receivables

7. As disclosed in note 11.5 of the annual financial statements, Estimate of impairment of receivables amounting to R62 026 000 is disclosed as a result of long outstanding debts which may not be recovered. This represents 72% of total receivables.

## **Details of fruitless and wasteful expenditures under assessment (not included in the main note)**

8. As disclosed in note 25.2 of the annual financial statements, an amount of R54 541 470 which was spent on behalf of the Department of Basic Education (DBE) in relation to the school beautification programme has been referred for investigation subsequent to year end. This was as a result of a statement made by the DBE prior to year-end indicating that no school benefitted from this programme. Furthermore, DBE has indicated that it does not recognise any expenditure made by DPWI on its behalf in relation to the beautification of schools project and any amount referred to as outstanding debt.

## **Other matter**

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

## **Unaudited supplementary schedules**

10. 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 on them.

## **Responsibilities of the accounting officer for the financial statements**

11. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the MCS prescribed by NT and the requirements of the PFMA and 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.
12. In preparing the financial statements, the accounting officer is responsible for assessing the department's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the department's or to cease operations, or has no realistic alternative but to do so.

## **Auditor-general's responsibilities for the audit of the financial statements**

13. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
14. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

## Introduction and scope

15. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for selected programmes presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
16. My procedures address the usefulness and reliability of the reported performance information, which must be based on the department's approved performance planning documents. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures do not examine whether the actions taken by the department enabled service delivery. My procedures do not extend to any disclosures or assertions relating to the extent of achievements in the current year or planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
17. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected programmes presented in the department's annual performance report for the year ended 31 March 2022:

Programmes	Pages in the annual performance report
Programme 3 - Expanded Public Works Programme	x – x
Programme 8 - Construction Project Management	x – x

18. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

19. The material findings on the reliability of the performance information of the selected programmes are as follows:

### Programme 3 - Expanded Public Works Programme

#### Various Indicators

20. The achievements below were reported in the annual performance report for the listed indicators. However, some supporting evidence provided materially differed from the reported achievement, while in other instances I was unable to obtain sufficient appropriate audit evidence. This was due to a lack of accurate and complete records provided for audit. I was unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any further adjustments were required to these reported achievements.

Indicator number	Indicator description	Reported achievement
Indicator 3.1	Number of Work Opportunities Reported in EPWP-RS by the Public Bodies	1 016 646 work opportunities reported in EPWP-RS by Public Bodies (cumulative)
Indicator 3.2	Percentage EPWP participation amongst designated groups (Women, Youth and People With Disabilities) reported on the EPWP RS by the Public Bodies	69% Women 41% Youth 1% Persons With Disabilities

### Programme 8 - Construction Project Management

#### Various indicators

21. The achievements reported in the annual performance report materially differed from the supporting evidence provided for the indicators listed below:

Indicator number	Indicator description	Reported achievement
Indicator 8.1	No. of design solution completed for identified user departments	2
Indicator 8.5	No. of infrastructure projects completed	128

#### Other matter

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

#### Achievement of planned targets

23. Refer to the annual performance report on pages ... to ... for information on the achievement of planned targets for the year and management's explanations provided for the under/over

achievement of targets. This information should be considered in the context of the material findings on the reliability of the reported performance information in paragraph(s) x to x of this report.

### **Adjustment of material misstatements**

24. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of Programme 8: Construction Project Management. As management subsequently corrected only some of the misstatements, I raised material findings on the reliability of the reported performance information. Those that were not corrected are reported above.

## **Report on the audit of compliance with legislation**

### **Introduction and scope**

25. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the department's compliance with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
26. The material findings on compliance with specific matters in key legislation are as follows:

### **Annual financial statements, performance and annual report**

27. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework as required by section 40 (1) (b) of the PFMA.
28. Material misstatements of current assets identified by the auditors in the submitted financial statements were corrected, which resulted in the financial statements receiving an unqualified opinion.

### **Expenditure Management**

29. Effective and appropriate steps were not taken to prevent irregular expenditure amounting to R3 759 000, as disclosed in note 24 to the annual financial statements, as required by section 38(1) (c) (ii) of the PFMA and treasury regulation 9.1.1. The majority of the irregular expenditure was caused by salaries paid to officials that were appointed irregularly per the public services commission investigation report.

### **Consequence Management**

30. Disciplinary steps were not taken against some of the officials who had incurred or permitted irregular expenditure, as required by section 38(1)(h)(iii) of the PFMA
31. I was unable to obtain sufficient appropriate audit evidence that disciplinary steps were taken against officials who had incurred fruitless and wasteful expenditure as required by section 38(1)(h)(iii) of the PFMA. This was because investigations into fruitless and wasteful expenditure were not performed.

## Other information

32. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and those selected programmes presented in the annual performance report that have been specifically reported in this auditor's report.
33. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion on it.
34. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected programmes presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
35. I did not receive other information prior to the date of the auditor's report. When I do receive and read the information, if I concluded that there is a material misstatement therein, I am required to communicate the matter with those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue the amended report as appropriate. However, if it is corrected, this will not be necessary.

## Internal control deficiencies

36. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. 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.
37. Management did not adequately apply the MCS financial reporting framework in the preparation of the annual financial statements. In addition, the appropriate level of management did not monitor adherence to the developed audit action plans in order to prevent repeat findings and improve internal reporting processes. Consequently, material adjustments on the statement of financial position were made in order to ensure that the financial statements are fairly and accurately presented.
38. Consequence management in line with the recommendations of completed investigation reports was not implemented in certain instances. Consequently, this has resulted in some of the officials who caused instances of irregular expenditure not being held liable.
39. Lack of proper record keeping by public bodies responsible for uploading data into the EPWP-RS system and inadequate review of data captured on the system which has resulted in materially misstated reported performance information in relation to programme 3: EPWP. These controls would have ensured that supporting evidence for reported performance information is available in a timely manner to ensure that complete, relevant

and accurate information is accessible and available to support performance information. Furthermore, internal control processes to ensure smooth co-ordination of Projects unit and the Monitoring & Evaluation unit were not adhered to in order to ensure that material misstatements in relation to programme 8:Construction Project Management, were prevented and detected timeously.

## **Material irregularities**

40. In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities identified during the audit and on the status of the material irregularities reported in the previous year's auditor's report.

### **Status of previously reported material irregularities**

#### **Expenditure on state events exceeded contract amount**

41. The prices that were charged on the invoices for three state events that occurred from 6 July 2018 to 7 November 2018 were different from the prices that were quoted on the pricing schedule that was submitted by the supplier during the tender process and the non-compliance resulted into material financial loss of R825 832. The non-compliance was identified with Treasury Regulation 8.1.1 as the internal procedures and internal control measures did not identify or prevent the irregular payments mentioned above.
42. The Accounting Officer was notified of the MI on 03 September 2020 and the appropriate actions committed in response to the notification (Investigate the expenditure into state events, quantify the full quantum of the likely financial loss, identify responsible officials and initiate the process to recover the financial loss) have not been implemented within reasonable time based on the evidence of progress made per the communication received from the accounting officer dated 07 May 2021.
43. The following recommendations were included in the previous year's audit report (2020-21) which should have been implemented by 3 February 2022:
- The irregular expenditure should be investigated and the financial loss incurred quantified in accordance with the applicable instructions notes.
  - Appropriate action should be taken to recover the financial loss suffered by the department from the supplier
  - Effective and appropriate disciplinary steps should commence against any official that the investigation found to be responsible as required by section 38(1)(h) of the PFMA and in accordance with treasury regulation 9.1.3.
44. Follow-ups were done with the Acting Accounting Officer and responses with supporting evidence were received on 31 August 2021 and 04 February 2022 which indicated that the following steps were being taken:
- A draft policy framework for contract management was introduced to be approved by 01 April 2022.



- The department has implemented a manual system where officials from Prestige Unit and Provisioning will manually compare quotation prices against scheduled prices before purchase orders are issued.
- Director: Provision and Logistics has been mandated to review all invoices from Prestige Unit against pricing schedules and official order issued to identify any anomaly.
- Segregation of duties has been introduced with the Prestige Unit functions.
- Furthermore, the cost norms and standard document has been drafted and sent to the Presidency for inputs as part of the review state, Official and Provincial Official funeral policy manual.
- Management went through the payment batches to understand and identify who the responsible project Manager(s) was/were and the official who approved the expenditure
- Management has written to the responsible officials to begin disciplinary actions in line with the applicable prescripts on discipline.
- The Department has commenced with the processes of recovering the overpayment of R825 832 from Side Production (Pt) Ltd, via State Attorney.
- The department is embarking on buying its own infrastructure and develop internal capacity to implement by itself and also procure a panel of service providers that be managed on a quotation basis.

45. Based on the assessment of the response and evidence presented, I have determined that the Accounting Officer is taking appropriate steps to address the MI. I will follow up on the implementation of further actions taken, , including the recovery of the loss and the finalisation of the disciplinary actions, during my next audit.

#### **Price and quantity variances pertaining to the funeral related expenditure**

46. The prices that were charged on invoices for some of the state funderals that occurred between May 2018 and December 2018 were different form the prices that were quoted on the price schedule that was submitted by the supplier during the tender process. In other instances the invoices that was submitted by the supplier for payment purposes, included items that were not initially quoted on in the pricing schedule, which was submitted by the supplier during the tender process. In addition, the quantities on the invoices in some instances differed from the quantities agreed to on the quotation, with not evidence of the additional items being requested by the department. This resulted in a financial loss of R9 121 374. Non-compliance was identified with Treasury Regulation 8.1.1, as the internal procedures and internal control measures did not identify or prevent the irregular payments mentioned above.

47. The Accounting Officer was notified of the MI on 02 September 2020 and invited to make a written submission on the actions taken and that will be taken to address the matter. The appropriate actions committed in response to the notification provided on 7 May 2021 are being implemented based on the evidence of progress made per the communication received from the accounting officer dated 10 June 2022.



48. Management conducted its own investigation into the matter to establish the accuracy of the issues raised by the AGSA. The investigation was finalised on 29 March 2019, confirmed the AGSA's findings, and further identified additional irregularities with respect to each funeral.
49. The Department further opened a case with the SA Police Services for civil recovery against the supplier as recommended by the investigation report. The case number is CAS793/2020 opened at Pretoria Central Police Station. Furthermore, the investigation report recommended disciplinary actions against the responsible officials. The matter was further referred to the Special Investigating Unit (SIU) on 18 September 2020. SIU then decided to conduct their own investigation on the matter and indicated that they will be pursuing a civil claim against the supplier. However, the SIU has not availed their report to the Department.
50. The Department approached the State Attorney to appoint legal counsel to assist the Department with disciplinary proceedings against the three officials still in the employ of the department. The disciplinary proceedings are currently under way for the suspended Director-General and is being handled by The Presidency. The hearings for the other two officials implicated in the irregularity is being handled by the State Attorney. As at the date of this report, the disciplinary hearing had not been concluded against the officials.
51. A combined summons have been filed at the Gauteng high court(Pretoria) for case number 20987/22, in a matter between Minister of Public Works and Infrastructure(Plaintiff) and the supplier on 01 April 2022. The summons is in relation to payments made by DPWI in excess of the agreed pricing schedule provided by the paintiff during the tendering process stage by the supplier. This covers the two funerals in which the supplier was used to render services for the Mama Veronica Sobukwe funeral (R371 186) and the M Mtslali funeral (R124 315).The bulk amount of the outstanding financial loss to be recovered is being followed up by the SIU.
52. The accounting officer wrote to Treasury on 27 January 2022 requesting the supplier and its director to be restricted from doing business with the state due to fraudulent misrepresentation when submitting invoices for payment in respect of state funeral services. The application was referred back by NT on 31 Mar 2022 on the basis of the restriction being on PPR of 2017. The department is currently implementing the recommendations made in the response by NT.
53. The Accounting Officer approved the contract management policy on 11 April 2022, which sets out guidelines on contracts to enable effective delivery of goods, services and works in accordance with the terms and conditions of the contract.
54. I will follow up on the implementation and outcomes of the planned actions during my next audit.

## Other reports

55. In addition to the investigations relating to material irregularities, I draw attention to the following engagements conducted by various parties which had, or could have, an impact on the matters reported in the department's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports

did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

56. Investigation on Procurement Fraud and Irregular Payments' Allegations that were made to the transportation companies. The transport companies are responsible for the transportation of members of parliament and learners to and from the Parliamentary villages, parliament and schools. The investigation was concluded in the current financial year.
57. Investigation into allegation of project mismanagement leading to Department incurring Fruitless and wasteful expenditure. It was alleged that an amount of R6 689 725.96 was incurred as fruitless and wasteful expenditure for a project of repairing and maintenance at 1 Military Hospital. It was also alleged that electrical work was done at the first floor and was to be re-done during the upcoming project of refurbishment of the same first floor. This investigation was still ongoing as at year end.

*Auditor General*

Pretoria

31 July 2022



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

## **Annexure – Auditor-general’s responsibility for the audit**

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements and the procedures performed on reported performance information for selected programmes and on the department’s compliance with respect to the selected subject matters.

### **Financial statements**

2. In addition to my responsibility for the audit of the financial statements as described in this auditor’s report, I also:
  - identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control
  - obtain an understanding of internal control relevant to the audit 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 department’s internal control
  - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer.
  - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the Department of Public Works and Infrastructure to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor’s report. However, future events or conditions may cause a department to cease operating as a going concern.
  - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

### **Communication with those charged with governance**

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all

relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.