

Report of the auditor-general to Parliament on vote no. 11: 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 2016, 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 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 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.

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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 2016 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 33 to the financial statements, the corresponding figures for 31 March 2015 have been restated as a result of errors discovered during the financial year 31 March 2016 in the annual financial statements of the Department of Public Works at, and for the year ended, 31 March 2015.

Additional 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 thereon

Report on other legal and regulatory requirements

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

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Predetermined objectives

12. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information of the following selected programmes presented in the annual performance report of the department for the year ended 31 March 2016:
 - Programme 2: Intergovernmental coordination 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.
13. 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).
14. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
15. The material findings in respect of the selected programmes are as follows:

Programme 3: Expanded public works programme

Reliability of reported performance information

16. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets. The reported performance information was not reliable when compared to the source information or evidence provided by public bodies.

Programme 2: Intergovernmental coordination and Programme 4: Property and construction industry policy regulation

17. I did not identify any material findings on the usefulness and reliability of the reported performance information for programme 2: Intergovernmental coordination, and programme 4: Property and construction industry policy regulation.

Additional matters

18. I draw attention to the following matters:

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Achievement of planned targets

19. 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 material findings on reliability of the reported performance information in paragraph 16 of this report.

Adjustment of material misstatements

20. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of programme 2: Intergovernmental coordination; programme 3: Expanded public works programme (EPWP); and programme 4: Property and construction industry policy regulation. As management subsequently corrected only some of the misstatements, we raised material findings on the reliability of the reported performance information

Unaudited supplementary schedules

21. The supplementary information set out on pages x to x does not form part of the annual performance report and is presented as additional information. I have not audited these schedules and, accordingly, I do not report on them.

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 material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Financial statements

23. 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 the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

24. Steps taken to prevent irregular expenditure, as required by section 38(1)(c)(ii) of the PFMA and treasury regulation 9.1.1, were in certain instances not effective.

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Internal control

25. 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

26. Leadership was not successful in addressing the high vacancy rate at senior management level.

Financial and performance management

27. Proper record keeping was not always implemented in a timely manner to ensure that complete, relevant and accurate information was accessible and available from public bodies to support performance reported by the department.
28. Regular, accurate and complete financial and performance reports were not always supported and evidenced by reliable information.
29. The review and monitoring of compliance with applicable legislation were ineffective in certain instances.

Governance

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

Other reports

31. I draw attention to the following engagements that could potentially impact on the department's financial, performance and compliance related matters. My opinion is not modified in respect of the engagements that are either in progress or have been completed.

Investigations

32. Numerous allegations, mainly relating to transgressions with regard to supply chain management, potential fraud and financial misconduct, are still being investigated on an ongoing basis by the Special Investigating Unit and the Governance, Risk and Compliance unit of the department

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Auditor-General

Pretoria

31 July 2016



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence