



AUDITOR - GENERAL
SOUTH AFRICA

The accounting officer
Department of Public Works
256 Madiba Street
Pretoria
0001

31 July 2017

Reference: 06581REG16/17PH

Dear Sir


Report of the Auditor-General on the financial statements and other legal and regulatory requirements of department for the year ended 31 March 2017

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa section 40(2) of the Public Finance Management Act of South Africa (PFMA)
2. In terms of section 40(1)(d) of the PFMA you are required to include the audit report in the department's annual report to be tabled.
3. Until the annual report is tabled as required by section 65 of the PFMA the audit report is not a public document and should therefore be treated as confidential.
4. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
 - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
 - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.
5. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.
6. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely

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Senior Manager: National A

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Report of the auditor-general to Parliament on vote no. 11: Department of Public Works

Report on the audit of the financial statements

Opinion

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 2017, and 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 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 as at 31 March 2017, and its financial performance and cash flows for the year then ended in accordance with the Modified Cash Standard prescribed by 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, 2016 (Act No. 3 of 2016) (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 national department in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) together with the 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 matter

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

Material losses/impairments – trade debtors

7. As disclosed in note 12.6 to the financial statements, the department incurred material impairments of R57 817 000,00 as a result of provision for irrecoverable receivables.

Other matters

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

Unaudited supplementary schedules

9. 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.

Predetermined objectives

10. For the current financial year, the department's Annual Performance Plan for 2016-17 did not include MTSF indicator for the "number of work opportunities created", which is an integral part of the department's mandate under programme 3: Expanded Public Works Programme

Responsibilities of 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 Modified Cash Standard as prescribed by the National Treasury 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 of Public Work'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 there is an intention either to liquidate the national department or to cease operations, or there is 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 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 the 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 the auditor's report.

Report on the audit of the annual performance report

Introduction and scope

15. 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 material findings on the reported performance information against predetermined objectives for selected programmes presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.

16. My procedures address the reported performance information, which must be based on the approved performance planning documents of the national department. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to 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 annual performance report of the department for the year ended 31 March 2017:

Programmes	Pages in the annual performance report
Programme 3 – Expanded Public Works Programme	x – x
Programme 4 – Property and Construction Industry Policy and Research	x – x
Programme 5 – Prestige Policy	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 in respect of the usefulness and reliability of the selected programmes are as follows:

Programme 3 – Expanded Public Works Programme

Indicator 4 – Number of public bodies provided with technical support

20. The reported achievement for the target on technical support provided to public bodies was misstated as the evidence provided indicated 190 technical support provided to public bodies and not 297 technical support provided to public bodies as reported

Programme 4 – Property and Construction Industry Policy and Research

21. I did not identify any material findings on the usefulness and reliability of the reported performance information.

Programme 5 – Prestige Policy

Indicator 2 – Number of working days taken to resolve mechanical breakdowns after logging of complaint

22. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of target number of working days taken to resolve mechanical breakdowns after logging complaint, as evidence provided did not agree to the recorded achievements. This was due to limitations placed on the scope of my work. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement of 7 736 mechanical breakdowns.

Indicator 3 – Number of working days taken to resolve emergency breakdowns after logging of complaint

23. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of target number of working days taken to resolve emergency breakdowns after logging complaint. This was due to limitations placed on the scope of my work. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement of 6 372 emergency breakdowns.

Other matters

24. I draw attention to the matters below.

Achievement of planned targets

25. Refer to the annual performance report on page(s) x to x; x to x for information on the achievement of planned targets for the year and explanations provided for the under/overachievement of a significant number of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 20; 22; 23 of this report.

Adjustments of material misstatements on annual performance report

26. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of programme 4 – property and construction industry policy and research. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

Report on audit of compliance with legislation

27. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the department with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
28. I did not identify any instances of material non-compliance with specific matters in key legislation as set out in the general notice issued in terms of the PAA.

Other information

29. The department and accounting officer is responsible for the other information. The other information comprises the information included in the annual report which includes the audit committee's report. The other information does not include the financial statements, the auditor's report thereon and those selected programmes presented in the annual performance report that have been specifically reported on in the auditor's report.
30. My opinion on the financial statements and findings on the reported performance information do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
31. 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. If, based on the work I have performed, I conclude that there is a material misstatement of this other information; I am required to report that fact. I have nothing to report in this regard.

Internal control deficiencies

32. 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 thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in, the findings on the annual performance report included in this report.

- **Leadership**

Inadequate monitoring of action plan to address prior year findings resulting in similar findings in the current year.

- **Performance management**

Regular, accurate and complete performance reports were not always supported and evidenced by reliable information

Other reports

33. I draw attention to the following engagements conducted by various parties that had, or 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

34. 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.

Auditor-General

Pretoria

31 July 2017



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 national 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 the 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 national 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 related to events or conditions that may cast significant doubt on the Department of Public Works ability 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 the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor's report. However, future events or conditions may cause a national department to cease to continue as a going concern.
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and 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 confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and here applicable, related safeguards.