

# 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 and set out on pages ... to ..., which comprise the appropriation statement, the statement of financial position as at 31 March 2019, 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 2019, and its financial performance and cash flows for the year then ended in accordance with Modified Cash Standard (MCS) prescribed by National Treasury and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA) and Division of Revenue Act of South Africa, 2017 (Act No. 3 of 2017) (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 this auditor's report.
4. I am independent of the department in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' Code of ethics for professional accountants (IESBA code), parts 1 and 3 of the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) and 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 codes.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### Emphasis of matter

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

#### Impairments of receivables

7. As disclosed in note 12.5 to the financial statements, material impairments to the amount of R64 033 000 were provided for as a result of irrecoverable receivables.

### Other matter

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

## 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

## Responsibilities of accounting officer for the financial statements

10. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with MCS 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.
11. In preparing the financial statements, the accounting officer is responsible for assessing the Department of Public Works'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 or to cease operations, or has no realistic alternative but to do so.

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

12. 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.
13. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

## Report on the audit of the annual performance report

### Introduction and scope

14. 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.
15. My procedures address the reported performance information, which must be based on the approved performance planning documents of the department. I have not evaluated the completeness and appropriateness of the performance indicators/ measures 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.

16. 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 2019

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

17. 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.
18. The material findings in respect of the usefulness and reliability of the selected programmes are as follows:

### Programme 3 – Expanded Public Works Programme

#### Various indicators

19. Sufficient appropriate audit evidence could not be provided in some instances while in other cases, the supporting evidence provided did not agree to the reported achievements in the annual performance report. Based on the supporting evidence provided, the achievement was different from those reported in the annual performance report, but I was unable to further confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any further adjustments were required to the reported achievements of the indicators listed below:

Indicator description	Actual performance per APR	Audited Value
Number of work opportunities reported in the EPWP-RS by public bodies	997 286 WO reported in the EPWP-RS by public bodies. (Cumulative)	1 204 089
Percentage EPWP participation amongst designated groups (Women, youth and persons with disability) reported on the EPWP-RS by public bodies	68% Women 43% Youth 1% People with disability	61% Women 38% Youth 0.79% People with disability

20. I did not raise any material findings on the usefulness and reliability of the reported performance information on the following programmes:

- Programme 4 – property and construction industry policy
- Programme 5 – prestige policy

## **Other matters**

21. I draw attention to the matters below.

### **Achievement of planned targets**

22. Refer to the annual performance report on pages ... to ... for information on the achievement of planned targets for the year and explanations provided for the under/ over achievement 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 [x to x] of this report.

### **Adjustment of material misstatements**

23. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of programme 3: expanded public works programme, programme 4: Property and construction industry policy and research and programme 5: prestige policy. As management subsequently corrected only some of the misstatements, we raised material findings on the usefulness and 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**

24. 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.

25. The material findings on compliance with specific matters in key legislations are as follows:

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

26. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework in certain instances, as required by section 40(1) (a) of the Public Finance Management Act. Material misstatements identified by the auditors in the submitted financial statement were corrected, resulting in the financial statements receiving an unqualified opinion.

### **Expenditure management**

27. Payments were not made within 30 days or an agreed period after receipt of an invoice in certain instances, as required by treasury regulation 8.2.3.

### **Contract management**

28. Some of the contracts were extended or modified without the approval of a properly delegated official as required by section 44 of the PFMA and treasury regulations 8.1 and 8.2

### Other information

29. 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 on in the auditor's report.
30. 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 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.
32. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to 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 an amended report as appropriate. However, if it is corrected this will not be necessary.

### Internal control deficiencies

33. 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 basis for the qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

### Leadership

34. Inadequate monitoring of action plans to address prior year findings resulting in similar findings on Programme 3: Expanded Public Works Programme in the current year.
35. The department was impacted by the vacancies in some senior management positions for the majority of the financial year.

### Financial and Performance Management

36. Material misstatements were identified with respect to commitments disclosed on the annual financial statements submitted for audit, which was due inadequate controls over manual registers used to track commitments. The disclosure was subsequently corrected, which resulted in the department receiving an unqualified audit outcome.

37. Regular, accurate and complete performance reports were not always supported and evidenced by reliable information. Sufficient and appropriate audit evidence was not provided in some instances to support the reported achievements included in the annual performance report.
38. Inadequate monitoring of contracts resulted in the department paying more for the service than required as per the contract. This resulted in irregular expenditure being incurred.

#### Other reports

39. I draw attention to the following engagements conducted by various parties that 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.
40. Numerous allegations, mainly relating to transgressions with regard to supply chain management, potential fraud, irregular appointments and financial misconduct, are still being investigated on an ongoing basis by the Special Investigating Unit, Public Service Commission and the Governance, Risk and Compliance unit of the department.

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Pretoria

31 July 2019



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 related to events or conditions that may cast significant doubt on the department’s 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 this auditor’s report. However, future events or conditions may cause a department to cease continuing 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, where applicable, related safeguards.