

**Public Works**

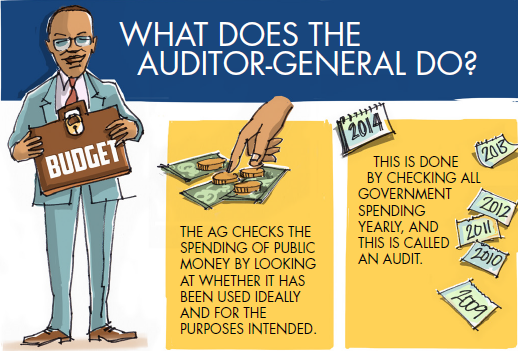
**Quarterly briefing document:   
3rd Quarter ended 31 December 2017**

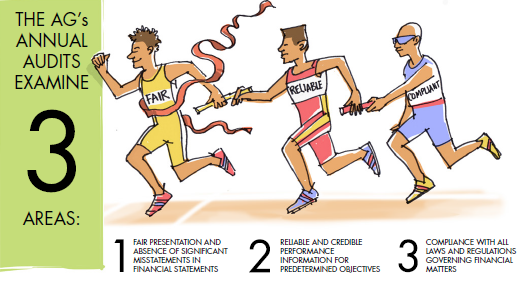
**Reputation promise of the Auditor General of South Africa**

“The Auditor-General **has a constitutional mandate** and, as the **Supreme Audit Institution** (SAI) of South Africa, it **exists to strengthen our country’s democracy** by **enabling oversight, accountability and governance** in the public sector through auditing, **thereby building public confidence.”**

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| 1. The Role of the Auditor-General of South Africa |





**2018**



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| 1. Audit definitions and outcomes |

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| **Audit outcome of financial statements** | **Definitions** |
| Clean Audit Outcome | The financial statements of the auditee are free from material misstatements (financially unqualified audit opinion) and there are no material findings on the report on performance against pre-determined objectives or compliance with key laws and regulations. |
| Financially unqualified audit opinion with findings  C:\Users\AntoniusV.AGSA\AppData\Local\Microsoft\Windows\Temporary Internet Files\Content.Outlook\Q9GDGQ4H\Unqualified with findings.jpg | The financial statements contain no material misstatements but there are material findings on the report on performance against pre-determined objectives and/or compliance with key laws and regulations. |
| C:\Users\AntoniusV.AGSA\AppData\Local\Microsoft\Windows\Temporary Internet Files\Content.Outlook\Q9GDGQ4H\Qualified audit.jpgQualified audit opinion | The financial statements contain material misstatements in specific amounts or there is insufficient evidence for the auditor to conclude that the specific amounts included in the financial statements are not material misstated. |
| Adverse audit opinion  C:\Users\AntoniusV.AGSA\AppData\Local\Microsoft\Windows\Temporary Internet Files\Content.Outlook\Q9GDGQ4H\Adverse audit.jpg | The financial statements contain misstatements that are not confined to specific amounts or the misstatements represent a substantial portion of the financial statements. |
| C:\Users\AntoniusV.AGSA\AppData\Local\Microsoft\Windows\Temporary Internet Files\Content.Outlook\Q9GDGQ4H\Disclaimer.jpgDisclaimer of audit opinion | There was insufficient appropriate evidence (documentation) on which the auditor could base an opinion concerning the items reported in the financial statements. The lack of sufficient evidence is not confined to specific amounts or represents a substantial portion of the information contained in the financial statements. |

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| 1. AGSA review of the draft 2018-19 Annual Performance Plan |





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| 1. Entities within the Public Works portfolio |

**Purpose:** Providing functional accommodation to national and provincial departments by letting government-owned properties and leasing private sector properties. The department also has custodianship of the majority of national government immovable assets.

Oversight, monitoring and support

The Department of Public Works (DPW) is mandated to:

* provide quality accommodation and related services to clients
* efficiently and effectively manage the immovable assets in the portfolio
* actively contribute to the national goals of job creation and poverty alleviation through the expanded public works programme (EPWP)
* provide expert built-environment advice to stakeholders
* provide strategic leadership to the South African construction and property industries.

**Entities within the portfolio**

In line with the responsibilities highlighted above, DPW’s mandate includes administration of the following entities:

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| --- | --- | --- |
| Acronym | Entity | Type of Entity |
| PMTE | Property management Trading Entity | Trading Entity |
| IDT | Independent Development Trust | PFMA Schedule 3B listed entity |
| CBE | Council for the Built Environment | PFMA Schedule 3A listed entity |
| CIDB | Construction Industry Development Board | PFMA Schedule 3A listed entity |
| ASA | Agrément South Africa | PFMA Schedule 3A listed entity |
| ECSA | Engineering Council of South Africa | Unlisted PFMA entity |

During 2006 a decision was taken that the national Department of Public Works would devolve accommodation-related costs to client departments, which ultimately resulted in the establishment of the Property Management Trading Entity (PMTE).

The following functions are performed by the PMTE on behalf of the national Department of Public Works:

* Custodian of immovable assets.
* Construction and planned maintenance, which include constructing new infrastructure, and refurbishing, upgrading and adding to existing infrastructure.
* Entering into lease agreements with private landlords on behalf of other departments in instances where state-owned properties cannot fulfil the needs of client departments.

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| 1. Audit progress |

**5.1 Department of Public Works**

Due to the close relationship between DPW and PMTE, these are audited side by side where possible to ensure more efficient use of resources. Due to the audit of PMTE in the prior period being delayed by late submission of Annual Financial Statements, the department requested that we commence the current year interim audit later to enable them to implement some of the recommendations that we made.

We have included some of the key matters that were raised in the prior period below. Further feedback will be provided to the department subsequent to the receipt of information and performance of our interim audit.

For DPW the status of key focus areas is as follows:

The legend applied is as follows:

|  |  |
| --- | --- |
| Good | The basics are in place as no concerns were identified. |
| Concerning | Concerns identified. |
| Intervention required | Level of concerns identified is an indicator that the AO needs to urgently intervene to prevent audit failure. |

Expanded Public Works Programme (EPWP)

* During the interim audit the focus was on EPWP to give management early warning signs. It was noted that the reported achievements for predetermined objectives included in the quarterly performance reports were not supported by appropriate audit evidence. Similar findings, as identified in the prior year have been raised in the interim period.
* Audit work was performed in the interim period, and issues similar to those previously identified were noted to have recurred in the current period, including *inter alia* the following:
* Work opportunities reported at these projects were not always supported by reliable supporting evidence, such as identity documents, attendance registers and proof of payments.
* Reported beneficiaries were in some cases deceased.
* The identity numbers of some beneficiaries were found to be invalid.
* Some beneficiaries were included on multiple projects when they worked on only one project
* Beneficiaries not listed on the beneficiary list of the project

The findings that were identified on monitoring of performance on the expanded public works programme indicate that it is not yet functioning optimally, and it cannot be concluded that the earmarked funds were in all instances spent in line with the intended purposes to reach the people as planned.

**The following is recommended**:

* The grant agreement signed between the public bodies receiving expanded public works programme funding and the department should be enhanced. This should clarify the evidence that should be maintained, require money received to be reconciled with money spent, and include the number of work opportunities created.
* Regular site visits should be conducted by the national department to the public bodies receiving grant funding, and improvements should be made to the expanded public works programme integrated grant template to ensure that proper records which support the reported job opportunities created are consistently maintained.

**5.2 Property Management Trading Entity**

The status of key controls is as follows:

The transitional provisions of the Accounting Standard Board Directive 2 expired during the 2016-17 financial period and the PMTE was therefore required to fully comply with the GRAP accounting requirements on immovable assets for the 2016-17 annual financial statements. To comply with this requirement, PMTE delayed the submission of their annual financial statements; however, this did not result in the desired improvement in the quality of the financial statements and supporting schedules submitted for auditing.

Immovable assets

Significant weaknesses were identified in the immovable assets register submitted for audit, which was the main contributor to the entity receiving a negative audit outcome. The weaknesses identified and the key root causes were as follows:

* 1. Material errors identified during the audit process in the assigning of values to assets in line with the required principles of GRAP. This was mainly due to the process of reviewing the work done by the fieldworkers for reasonableness and accuracy being inadequate.
  2. Projects relating to maintenance (operating expenditure) were erroneously recognised as additions to PPE, as the department responsible for making this determination did not correctly apply the principles of GRAP.

Accrued expenses

The entity could not provide supporting documentation for accrued expenses due to inadequate systems for maintaining records.

Project management on infrastructure projects

* Our audit included an assessment of service delivery to add additional value through our auditing. We focused on certain key projects which are related to the core mandate of the entity. Out of the four construction projects audited, none were completed within budget and on time.
* Weaknesses in the planning and monitoring of infrastructure projects resulted in fruitless and wasteful expenditure being incurred by the PMTE. Management has indicated that an extensive investigation will be performed to determine the full extent of the fruitless and wasteful expenditure incurred.
* In addition, two of the projects were completed six and seven years after the anticipated completion date respectively, with overspending on these projects being in excess of R180 million.

**The following is recommended**:

1. The immovable assets register should be thoroughly reviewed by management for validity and accuracy, and to ensure that all GRAP principles are fully adhered to when implementing the accounting policies related to immovable assets.
2. The full implementation of the accrual accounting and record management system should be expedited, in order to ensure regular, accurate and complete financial reporting.
3. Project management on infrastructure projects – PMTE

* Projects should be adequately planned, all affected stakeholder should be engaged prior to commencement of the project. Proper planning will minimise the risk of continues scope changes and over expenditure on project budgets.
* Consequence management actions to be instituted against project managers that had to monitor deliverables of contractor in terms of the contract and that approved payment to the contractor for unsatisfactorily performance.

**5.3 Independent Development Trust**

The status of key controls is as follows:

IDT is required to separately disclose programme liabilities rather than offsetting these amounts against other accounts, to enable the user of the financial statements to be able to clearly identify all applicable account balances and transactions per programme. Prior to 2015-16, IDT did not maintain the necessary records nor were critical reconciliations prepared to enable IDT to identify the transactions per region, per programme and per client department in order to separately report on programme expenditure, liabilities and receivables. Through the dedicated efforts of management, the IDT managed to identify and support transactions per programme and per client department during 2016-17.

Certificates confirming work performed were however not submitted on a monthly basis, neither was there a process to ensure that certificates are at least submitted at year end. Consequently expenditure was accounted for in incorrect financial periods and the audit process could not conclude on the accuracy of programme expenditure as at 31 March 2017 which resulted in a negative audit outcome.

Management is still in the process of addressing the deficiencies that resulted in the prior year misstatements, in particular to address the issue of cut-off. No information has been submitted to the auditors as yet for re-assessment.

Audit work performed to date again revealed cut-off findings and that progress certificates are not always collected on a monthly basis.

The implementation of National Treasury conditions for the bailout, including the process of restructuring the organisational structure, is underway and certain key staff members in divisions that integral to the audit process have exited the organisation.

The CEO has been on suspension for a period longer than six months and the CFO position is currently filled by an acting official.

Independent Development Trust is presently unable to pay their programme liabilities as they fall due, a problem that is compounded by large amounts being owed to IDT by client departments, in most instances outstanding for very long periods. The Department of Education is of particular concern – especially KZN.

There are strong indicators that IDT may not be able to function as a going concern in the foreseeable future and no bail out has been confirmed with National Treasury or DPW. The last trench of the prior year allocation was received in February.

**The following is recommended**:

1. Management must implement adequate controls to ensure that expenditure is recorded in the correct period as per progress certificates and these progress certificates should be collected monthly from the contractors and consultants. These efforts should be intensified at year end.
2. Proper record keeping in a timely manner to ensure that complete, accurate and relevant information is readily accessible and available to support reported financial and performance information.
3. Consequence management actions to be instituted against project managers that fail to maintain proper records.

**5.4 Council for the Built Environment**

The status of key focus areas is as follows:

CBE is commended for achieving its first clean audit outcome namely financially unqualified opinion with no material compliance or performance information findings in the 2016/17 financial period.

The following matters relate to performance management that were identified in the 2017/18 interim audit:

* Programme 2 indicators 2.2, 2.3 and 2.4 quarterly targets are not well defined
* Inconsistencies were noted for some indicators and targets of programmes 2,3 and 5 between the annual performance plan and quarterly reports
* Pre-approvals for travel not attached and available for audit.

**5.5 Construction Industry Development Board**

The status of key focus areas is as follows:

Incurrence of irregular expenditure has been one the key remaining areas which is preventing CIDB from obtaining a clean audit outcome. We assessed the progress made by management in investigating irregular expenditure that was reported in the previous year. The investigations into the reported irregular expenditure were not finalized as of the date of this report. In addition, a new instance of irregular expenditure was identified in the current year and has been disclosed in the irregular expenditure register.

We noted that the following senior positions are still vacant with acting incumbents occupying these positions:

* 1. Chief Executive Officer
  2. Chief Financial Officer

**5.6 Agrément South Africa**

ASA was previously a programme within CSIR, and this is the first full year in which they are a separate entity, and thus required to prepare their own annual financial statements and performance report. We are providing some guidance to management during this transitional period where required.

Due to the size of the entity, we intend to utilise our “small audit” methodology in performing this audit to minimise costs. The audit is still in the planning phase and further feedback will be provided when available.

**5.7 Engineering Council of South Africa**

The Engineering Council of South Africa was formed in 2000. Since inception, the Council has only complied with its enabling legislation as there was uncertainty regarding whether they were liable to comply with the PFMA. This matter was resolved by a legal opinion received from the chief State Law Adviser on 28 June 2017 which stated that the ECSA is a public entity and is required to comply with the PFMA.

As such, the annual financial statements and annual performance report will be prepared and audited in compliance with the PFMA for the first time in the 2017-18 financial periods. The ECSA submitted their request to be listed to National Treasury on 31 January 2017, and are currently an unlisted public entity.

PWC have been re-appointed as external auditors for the 2017-18 financial period to assist the entity during this transitional period; however the entity will be required to appoint a new auditor for the next financial period due to auditor rotation requirements.