

SCOPA BRIEFING NOTE



PFMA audit outcomes of the 2017-18 financial year for

**Western Cape
Department of Transport and Public Works**

19 October 2018

*Issued under embargo until
SCOPA is briefed on the audit outcome*



**AUDITOR - GENERAL
SOUTH AFRICA**

Auditing to build public confidence

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Under embargo

1. Introduction

1.1 Reputation promise of the Auditor-General of South Africa

The Auditor-General of South Africa 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.

1.2 Purpose of document

The purpose of this document is to provide an executive summary of the audit outcomes of the financial audit, audit of performance information and compliance with key legislation of the Western Cape Department of Transport and Public Works for the 2017-18 financial year.

1.3 Overview

The Department of Transport and Public Works is responsible for the construction and maintenance of roads, educational and health facilities, and general buildings. It also increases growth and job opportunities through various programmes and increases access to safe and efficient transport.

The main aim of the department is to provide overall management and administrative support to the department's activities and processes; accommodation to client departments; property management services; professional and technical services, roads and building infrastructure; traffic management services; public transport services; and the co-ordination of the expanded public works programme as outlined in the descriptions of the main divisions of the vote.

As contemplated in Schedule 4 of the Constitution, read with other legislation, the department is concurrently responsible for:

- Public transport
- Public works, only in respect of the needs of provincial government departments in the discharge of their responsibilities to administer functions specifically assigned to them in terms of the Constitution or any other law
- Road traffic regulation

Likewise, the department is exclusively responsible for provincial roads and traffic as contemplated in Schedule 5 of the Constitution.

The department operates the Government Motor Transport Trading Entity within its administration. A separate annual report is published for this entity and therefore a separate briefing document is prepared for the Government Motor Transport Trading Entity.

1.4 Organisational structure

Designation	Incumbent
MEC	Minister D Grant
Head of department (accounting officer)	Ms J Gooch
Chief financial officer	Adv C Smith
Chief Director: Road Network Management	Mr L Fourie
Chief Director: Transport Management	Adv K Reinecke
Chief Director: Provincial Public Works	Mr G Kode
Chief Director: Strategy, Planning and Coordination	Mr G van Schalkwyk (Acting)

1.5 Funding

As disclosed on page 15 of the department's annual report, the Western Cape Department of Transport and Public Works spent R7,5 billion of a budget of R7,55 billion, resulting in an overall under-expenditure of R45,0 million or 0,6% (2016-17: 0,9% underspent).

As disclosed on page 13 of the department's annual report, the department's revenue budget of R1,5 billion was exceeded by R229,0 million or 15,3% (2016-17: 14,8% over-collected). An amount of R1,7 billion was collected during the 2017-18 financial year of which R1,6 billion was from motor vehicle license fees.

Detailed explanations for the underspending on the expenditure budget and over-collection on the revenue budget are set out on pages 13 to 16 of the department's annual report.

2. Audit opinion history

Details	2017-18	2016-17	2015-16
Audit opinion			
Findings on compliance with key legislation	No	No	No
<ul style="list-style-type: none"> Material misstatements in financial statements submitted 	No	No	No
<ul style="list-style-type: none"> Procurement and contract management 	No	No	No
<ul style="list-style-type: none"> Revenue management 	No	No	No
<ul style="list-style-type: none"> Expenditure management 	No	No	No
<ul style="list-style-type: none"> Utilisation of conditional grants 	No	No	No
<ul style="list-style-type: none"> Strategic plan and performance management 	No	No	No
<ul style="list-style-type: none"> Consequence management 	No	No	No
Findings on predetermined objectives	No	No	No
Internal control deficiencies	No	No	No

Audit opinions

	CLEAN AUDIT OPINION (no findings on PDO or compliance with laws & regulations)
	UNQUALIFIED with findings on PDO and/or compliance
	QUALIFIED AUDIT OPINION (with or without findings)
	DISCLAIMER/ADVERSE AUDIT OPINION

PDO = Predetermined objectives (audit of performance information/service delivery/annual performance report)

2.1 Significant emphasis of matter

Uncertainty relating to future outcome of litigation: The department is a defendant in road accidents and damages claims by private individuals as disclosed in note 17.1 to the financial statements, on page 311 of the department’s annual report. The outcome of these 49 open cases against the department cannot be presently determined and no provision for any liability that may result has been made in the financial statements.

2.2 Significant additional matters

Unaudited supplementary schedules: The supplementary information set out on pages 336 to 348 of the department’s annual report 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 – Achievement of planned targets: Refer to the annual performance report on pages 86 to 96, 102 to 106, and 129 of the department's annual report for information on the achievement of planned targets for the year and explanations provided for the under/overachievement of a significant number of targets.

3. Key focus areas

3.1 Compliance focus areas

No material findings were raised on any of the compliance focus areas indicated in paragraph 2 of this document.

3.2 Predetermined objectives

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 2018:

Programmes	Pages in the annual performance report
Programme 2 – public works infrastructure	86 to 96
Programme 3 – transport infrastructure	102 to 106
Programme 6 – community-based programmes	129

I did not raise any material findings on the usefulness and reliability of the reported performance information for these programmes.

Other matters relating to predetermined objectives

I draw attention to the following matters:

Achievement of planned targets: Refer to the annual performance report on pages 86 to 96, 102 to 106 and 129 of the department's annual report for information on the achievement of planned targets for the year and explanations provided for the under/overachievement of a significant number of targets.

3.3 Internal control deficiencies

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.

I did not identify any significant deficiencies in internal control.

4. SCOPA resolutions

Pages 168 to 173 of the department's annual report details feedback on the resolutions or matters of concern included/raised in the prior year's *Report of the Standing Committee on Public Accounts*.

5. Emerging risks

5.1 New pronouncements

Modified cash standards

Componentisation of assets: The department has identified assets to be componentised. In the absence of a standard, the department awaits formal guidance to the componentisation process. The effective date to componentise assets has also not been determined yet.

Inventory: The department will not develop an inventory management system as it is due to be included in the Integrated Financial Management System (IFMS). The effective date to disclose inventory has been postponed to a date still to be determined by the Accountant-General. As per the IMFS website, it is envisaged that the implementation of IFMS within national and provincial departments will be done in a phased roll-out over several years which will be concluded by 31 March 2021.

5.2 New legislation

National instruction notes: Instruction notes are issued by the National Treasury on a continuous basis in terms of section 76 of the PFMA. The arrangement in the Western Cape is that the Provincial Treasury reviews these instruction notes and re-issue them to the various departments and entities on a selective basis. The risk exists that material non-compliance could arise if certain national instruction notes are not complied with, where the necessary approval from the National Treasury to depart from them was not obtained as required by section 79 of the PFMA.

Treasury regulations: The treasury regulations are currently being revised, which may introduce a number of new requirements once effective.

5.3 Risks that require continuous monitoring

Local content: The compliance requirements of local content for commodities within designated sectors are applicable for all tenders. The term tender in terms of the Preferential Procurement Regulations of 2017 is attributed to all awards above R30 000.

B-BBEE Act: Paragraph 13G requires all spheres of government, public entities and organs of state to report on their compliance with broad-based black economic empowerment in their audited annual financial statements and annual reports required under the PFMA. Discussions are ongoing between the AGSA and B-BBEE Commission to scope this requirement into the audit for the 2018-19 financial year.