

SCOPA BRIEFING NOTE



PFMA audit outcomes of the 2017-18 financial year for

**Western Cape
Department of Human Settlements**

2 November 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 Human Settlements for the 2017-18 financial year.

1.3 Overview

The aim of the department is to provide settlements that offer good basic and socio-economic services, a range of rental and ownership options that respond to the varied needs and income of households and consistently improve settlements through joint citizen and government effort supported by private sector contributions.

1.4 Organisational structure

Designation	Incumbent
MEC	Mr Bonginkosi Madikizela
Head of department (accounting officer)	Mr Thando Mguli
Chief Director: Chief financial officer	Mr Francois De Wet
Chief Director: Human Settlement Planning	Ms Jacqueline Samson
Chief Director: Human Settlement Implementation	Ms Phila Mayisela
Director: Finance Management	Mr Melvin Stoffels
Director: Strategic Management Support	Mr Benjamin Nkosi

1.5 Funding

As disclosed on page 143 of the department's annual report, the Western Cape Department of Human Settlement spent R2,68 billion of a budget of R2,69 billion resulting in an overall under-expenditure of R10,5 million or 0,4% (2016-17: 0% underspent).

As disclosed in note 2 to the financial statements on page 173 of the department's annual report, the department's revenue budget of R60 million was exceeded by R32 million or 53,4% (2016-17: 187,2% over-collected).

The main explanations for the underspending on the expenditure budget and over-collection on the revenue budget are set out on pages 156 to 157 and pages 173 to 174, respectively, 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
• Material misstatements in financial statements submitted	No	No	No
• Procurement and contract management	No	No	No
• Expenditure management	No	No	No
• Revenue management	No	No	No
• Strategic planning and performance management	No	No	No
• Utilisation of conditional grants	No	No	No
• Consequence management	No	No	No
Findings on predetermined objectives	No	Yes	No
Internal control deficiencies	No	Yes	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 matters

Uncertainty relating to future outcome of litigation: With reference to note 18.1 to the financial statements on page 187 of the department’s annual report, the department was a defendant in a land-claim lawsuit of R87,2 million as at 31 March 2018, which the department was disputing. The ultimate outcome of this matter cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

Restatement of corresponding figures: As disclosed in note 30 to the financial statements on pages 202 and 203 of the department's annual report, the corresponding figures for 31 March 2017 have been restated as a result of errors discovered during the 2017-18 financial year, in the financial statements of the Western Cape Department of Human Settlement as at, and for the year ended 31 March 2018.

2.2 Significant other matter

Unaudited supplementary schedules: The supplementary information set out on pages 206 to 215 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.

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 3 – housing development	42 to 44

No material findings were raised on predetermined objections under the selected programmes as indicated in paragraph 2 of this document.

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 42 to 44 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.

Adjustment of material misstatements: I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance of housing development. As management subsequently corrected the, I did not raise any material findings on the usefulness and reliability of the reported performance information.

4. SCOPA resolutions

Pages 65 and 66 of the department's annual report, details feedback on the 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: Departments are encouraged to componentise assets in their asset registers as it will become a requirement in future. The effective date to componentise assets has not been determined yet.

Inventory: Departments are encouraged to develop their inventory management systems as the inventory disclosure note will become a requirement in future. The effective date to disclose inventory is still to be determined by the accountant-general.

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.