

SCOPA BRIEFING NOTE



PFMA audit outcomes of the 2020-21

Western Cape Department Transport and Public Works

12 November 2021

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



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

CONTENTS

	Page
1. Introduction	1
Reputation promise of the Auditor-General of South Africa	1
Purpose of this document	1
Overview	1
Organisational structure	2
Funding	2
2. Audit opinion history	2
Emphasis of matters	3
Additional matter	3
3. Key focus areas	3
Compliance focus areas	3
Performance information	4
Internal control deficiencies	4
4. SCOPA resolutions	4
5. Emerging risks	4
New pronouncements	4
National Instruction notes	5
Local content	5
Red Ants Security Relocation and Eviction Services (PTY) Ltd.	5

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 this document

The purpose of this document is to provide an executive summary of the audit outcomes of the financial audit, the audit of performance information and the audit of compliance with key legislation of the Western Cape Department of Transport and Public Works for the 2020-21 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
Member of the Executive Committee (MEC)	Minister D Mitchell (Minister B Madikizela was the MEC for the 2020-21 financial year)
Head of department (accounting officer)	Ms J Gooch
Deputy Director General: Road Network Management	Mr L Fourie
Deputy Director General: Transport Management	Adv K Reinecke
Deputy Director General: Provincial Public Works	Mr G Kode
Deputy Director General: Strategy, Planning and Coordination	Mr G van Schalkwyk (Acting)
Deputy Director General: Finance (Chief Financial officer)	Ms C Smith

1.5 Funding

As disclosed on page 13 of the department's annual report, the Western Cape Department of Transport and Public Works spent R8,443 billion of a budget of R8,575 billion, resulting in an overall under-expenditure of R131,9 million or 1,5% (2019-20: R10,4 million or 0,1%).

As disclosed on page 11 of the department's annual report, the departmental receipts revenue budget of R1,8 billion was exceeded by R109,2 million or 5,7% (2019-20: R240, 6 million or 13,9%). Of an amount of R2,0 billion collected during the 2020-21 financial year, R1,8 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 11 to 14 of the department's annual report.

2. Audit opinion history

Details	2020-21	2019-20	2018-19	2017-18
Audit opinion				
Findings on compliance with key legislation:				
<ul style="list-style-type: none"> Material misstatements in financial statements submitted 	No	No	No	No

• Performance and annual reports	No	No	No	No
• Procurement and contract management	No	No	No	No
• Revenue management	No	No	No	No
• Expenditure management	No	No	No	No
• Utilisation of conditional grants	No	No	No	No
• Strategic planning and performance management	No	No	No	No
• Consequence management	No	No	No	No
Findings on predetermined objectives	No	No	No	No
Internal control deficiencies	No	No	No	No

Audit opinions

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

2.1 Emphasis of matters

Uncertainty relating to future outcome of litigation: With reference to note 17.1 to the financial statements, on page 301 of the department's annual report, there were claims against the department for road accidents and damages. The ultimate outcome of these matters could not be determined and no provision for any liability that may result was made in the financial statements.

Restatement of corresponding figures: As disclosed in note 33.1 to the financial statements, on page 321 of the annual report, the corresponding figures for 31 March 2020, were restated as a result of errors in the financial statements of the department at, and for the year ended, 31 March 2021.

2.2 Additional matter

Unaudited supplementary schedules: Supplementary information set out on pages 325 to 340 of the department's annual report, do not form part of the annual financial statements and is presented as additional information. We have not audited these schedules and we will not express an opinion on them.

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 Performance information

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 programme presented in the annual performance report of the department for the year ended 31 March 2021:

Programme	Pages in the annual report
Programme 2 – public works infrastructure	97 to 113

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 matter:

Achievement of planned targets: Refer to the annual performance report on pages 97 to 113 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 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 175 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

Componentisation of assets: Departments are encouraged to componentise assets in their asset registers, as detailed in Chapter 11: Capital Assets of the National Treasury Accounting Manual for Departments (dated December 2019), since 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 in a Treasury Instruction.

5.2 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 review 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.

5.3 Local content

Regulation 8(2) of the Preferential Procurement Regulations 2017 requires that *'An organ of state must, in the case of designated sector, advertise the invitation to tender with a specific condition that only locally produced goods or locally manufactured goods, meeting the stipulated minimum threshold for local production and content, will be considered.'*

The National Treasury issued an instruction, Instruction note no. 15 of 2016-17, where they have designated and provided minimum thresholds for steel products and components that are used for construction. This instruction is applicable when these products are purchased separately or used as part of a turnkey project and finds its basis in terms of paragraph 3.5 of the instruction.

It is acknowledged that we have not identified non-compliance with the mentioned instruction note, as it relates to turnkey projects, in previous audits, but that does not preclude the department from ensuring compliance to this instruction note. In the interest of fairness, we will limit the impact of the finding as an emerging risk to enable the department to amend the current processes and/or engage with the National Treasury. From 1 January 2022, for any construction projects or maintenance thereof, where steel products or components are used, full compliance with the mentioned instruction note is assumed. Any non-compliance detected after that date will be reported as a non-compliance finding in the management and/or audit report, and the resultant irregular expenditure would have to be disclosed in the financial statements.

5.4 Red Ants Security Relocation and Eviction Services (Pty) Ltd

During our audit at the Department of Human Settlements it was noted that a department made use of the services of the Red Ants Security Relocation and Eviction Services (Red Ants) based on a contract between Human Settlements and the Red Ants, but without following the process related to participating in a contract of another organ of state. Instead, Human Settlements paid the supplier and was reimbursed by the other departments.

Treasury Regulation 16A3.1(a) states : The accounting officer or authority of an institution to which these regulations apply must develop and implement an effective and efficient supply chain management system in his or her institution for –

- (a) the acquisition of goods and services.

Such participation and reimbursement will not comply with the requirements of TR 16A3.1 (a). Effectively the department received services from the service provider without following a procurement process.

Under embargo