

**REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF VOTE NO. 5: NATIONAL DEPARTMENT OF PUBLIC WORKS FOR THE YEAR ENDED 31 MARCH 2009**

**AUDIT REPORT ON THE FINANCIAL STATEMENTS**

**Introduction**

1. I have audited the accompanying financial statements of the national Department of Public Works (DPW) which comprise the appropriation statement, the statement of financial position as at 31 March 2009, and the statement of financial performance and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 61 to 116.

**The accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting determined by the National Treasury, as set out in accounting policy note 1.1 to the financial statements and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) and Division of Revenue Act (Act No. 1 of 2007) (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.

**The Auditor-General's responsibility**

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

**Basis for qualified opinion**

**Moveable tangible capital assets and minor assets**

7. In terms of section 40(1)(a) of the PFMA and Treasury Regulation 10 and 17.2.3 the accounting officer must take full responsibility and ensure that proper control systems exist for the accounting of assets and the entity must maintain full and proper records in respect of these assets. I was unable to satisfy myself as to the existence, completeness and accuracy of moveable tangible capital assets amounting to R221,9 million at year-end as disclosed in note 30 to the financial statements and minor assets amounting to R26,8 million as disclosed in note 30.4 to the financial statements as a result of the following matters:
  - The balances as disclosed in note 30 to the annual financial statements could not be supported by a complete asset register.
  - The existence of minor assets (assets less than R5 000) as disclosed in note 4.1, purchased during the year under review and amounting to R13,4 million could not be confirmed due to the asset register being incomplete. The DPW's records did not permit the application of adequate alternative audit procedures to verify the existence of the current year additions.

**Immovable tangible assets**

8. With reference to note 32 to the financial statements, I could not verify the completeness, rights and obligation, and valuations of the immovable tangible assets amounting to R5,3 billion due to the following shortcomings:
  - Not all assets owned by the DPW were accounted for in the asset register that supports the financial statements.
  - Title deeds and stand numbers for some of the assets were not indicated on the asset register and therefore the DPW's rights and obligation to these properties could not be verified.
  - The DPW, in conjunction with the Department of Rural Development and Land Reform and all provincial departments' custodians, was tasked with leading a government-wide initiative to complete the vesting of ownership of state-owned land. This initiative is still in progress.

**Intangible assets**

9. The adjustment to the prior year balance of intangible assets as disclosed in note 31 to the annual financial statements consisted of software to the value of R40,3 million purchased and paid for in advance during the 2005-06 financial year. Up to the completion of this report the software was not yet utilised by the DPW. A project charter has been compiled after year-end to manage the project. As a result I could not verify existence of the software at year-end.

**Opinion**

10. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the DPW as at 31 March 2009 and its financial performance and its cash flows for the year then ended, in accordance with modified cash basis of accounting determined by the National Treasury, as set out in accounting policy note 1.1 to the financial statements and in the manner required by the PFMA and DoRA.

**Emphasis of matters**

I draw attention to the following matters on which I do not express a qualified opinion:

**Basis of accounting**

11. The department's policy is to prepare financial statements on modified cash basis of accounting determined by the National Treasury, as set out in accounting policy note 1.1 to the financial statements.

**Significant uncertainty**

12. At the bottom of annexure 2B, Statement of contingent liabilities, is a narrative referring to a potential liability regarding a conditional assessment of properties under the custodianship of the DPW by two service providers. The potential liability will only be determined after validation of the work performed.

**Other matters**

I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

**Non-compliance with legislation**

**13. Public Finance Management Act**

The accounting officer did not comply with the following legislative requirements:

- Section 38(1)(d) of the PFMA: that requires the management, safeguarding and maintenance of the assets.
- Section 38(1)(c)(i) of the PFMA: that requires management to take effective and appropriate steps to collect all money due to the DPW.
- Section 38(1)(g) of the PFMA: that requires a report in writing to the relevant treasury of particulars of any unauthorised, fruitless and wasteful expenditure.

**14. Treasury Regulations**

- The person in charge at the respective pay points did not certify on the date of payment that all persons listed on the payroll report are entitled to payment, as required by Treasury Regulation 8.3.4.
- Payments of invoices were not always made within 30 days of receipt of invoice, as required by Treasury Regulation 8.2.3.
- The letting of immovable state property (excluding state housing for officials and political office-bearers) is not always at market-related tariffs, as required by Treasury Regulation 16A7.4.
- The DPW could not provide me with evidence that they have applied appropriate measures to ensure that transfers and subsidies to entities were applied for the intended purposes, as required by Treasury Regulation 8.4.1.

**15. Public Service Regulations**

- Three cases were noted involving senior management positions where relevant positions were advertised and filled before the job evaluation was approved, contrary to the requirement of PSR, 2001, Part III F.
- A number of employees did not declare all their interests to the executive authority, as required by PSR, 2001 Chapter 3.

**16. Division of Revenue Act**

- The DPW did not evaluate the performance of programmes that are fully or partially funded by the schedule 4 conditional grants and submit such evaluation to the National Treasury within four months after the end of the financial year, as required by section 9(1) and 10(6) of the Division of Revenue Act.

**Governance framework**

17. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting officer and executive management and are reflected in the internal control deficiencies and other key governance requirements addressed below:

**Internal control deficiencies**

18. Section 38(1)(a)(i) of the PFMA states that the accounting officer must ensure that the department has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes that gave rise to the deficiencies in the system of internal control, which led to the qualified opinion. The root causes are categorised according to the five components of an effective system of internal control. (The number listed per component can be followed with the legend below the table.) In some instances deficiencies exist in more than one internal control compone.

Par. no.	Basis for qualified opinion	CE	RA	CA	IC	M
7.	Moveable tangible capital assets and minor asset					1
8.	Immovable tangible assets					1
9.	Intangible assets					1

19. Management did not implement processes to monitor and supervise the effectiveness of internal controls over financial reporting.

Legend	
CE = Control environment	
The organisational structure does not address areas of responsibility and lines of reporting to support effective control over financial reporting.	1
Management and staff are not assigned appropriate levels of authority and responsibility to facilitate control over financial reporting.	2
Human resource policies do not facilitate effective recruitment and training, disciplining and supervision of personnel.	3
Integrity and ethical values have not been developed and are not understood to set the standard for financial reporting.	4
The accounting officer/accounting authority does not exercise oversight responsibility over financial reporting and internal control.	5
Management's philosophy and operating style do not promote effective control over financial reporting.	6
The entity does not have individuals competent in financial reporting and related matters.	7
RA = Risk assessment	
Management has not specified financial reporting objectives to enable the identification of risks to reliable financial reporting.	1
The entity does not identify risks to the achievement of financial reporting objectives.	2
The entity does not analyse the likelihood and impact of the risks identified.	3
The entity does not determine a risk strategy/action plan to manage identified risks.	4
The potential for material misstatement due to fraud is not considered.	5
CA = Control activities	
There is inadequate segregation of duties to prevent fraudulent data and asset misappropriation.	1
General information technology controls have not been designed to maintain the integrity of the information system and the security of the data.	2
Manual or automated controls are not designed to ensure that the transactions have occurred, are authorised, and are completely and accurately processed.	3
Actions are not taken to address risks to the achievement of financial reporting objectives.	4
Control activities are not selected and developed to mitigate risks over financial reporting.	5
Policies and procedures related to financial reporting are not established and communicated.	6
Realistic targets are not set for financial performance measures, which are in turn not linked to an effective reward system.	7
IC = Information and communication	
Pertinent information is not identified and captured in a form and time frame to support financial reporting.	1
Information required to implement internal control is not available to personnel to enable internal control responsibilities.	2
Communications do not enable and support the understanding and execution of internal control processes and responsibilities by personnel.	3
M = Monitoring	
Ongoing monitoring and supervision are not undertaken to enable an assessment of the effectiveness of internal control over financial reporting.	1
Neither reviews by internal audit or the audit committee nor self -assessments are evident.	2
Internal control deficiencies are not identified and communicated in a timely manner to allow for corrective action to be taken.	3

**Key governance responsibilities**

20. The PFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of key governance responsibilities, which I have assessed as follows:

No.	Matter	Y	N
<b>Clear trail of supporting documentation that is easily available and provided in a timely manner</b>			
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.		✓
<b>Quality of financial statements and related management information</b>			
2.	The financial statements were not subject to any material amendments resulting from the audit.		✓
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.	✓	
<b>Timeliness of financial statements and management information</b>			
4.	The annual financial statements were submitted for auditing as per the legislated deadlines (section 40 of the PFMA).	✓	
<b>Availability of key officials during audit</b>			
5.	Key officials were available throughout the audit process.	✓	
<b>Development and compliance with risk management, effective internal control and governance practices</b>			
6.	Audit committee		
	• The department had an audit committee in operation throughout the financial year.		✓
	• The audit committee operates in accordance with approved, written terms of reference.	✓	
	• The audit committee substantially fulfilled its responsibilities for the year, as set out in section 77 of the PFMA and Treasury Regulation 3.1.10	✓	
7.	Internal audit		
	• The department had an internal audit function in operation throughout the financial year.	✓	
	• The internal audit function operates in terms of an approved internal audit plan.	✓	
	• The internal audit function substantially fulfilled its responsibilities for the year, as set out in Treasury Regulation 3.2.	✓	
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.		✓
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.		✓
10.	The information systems were appropriate to facilitate the preparation of the financial statements.	✓	
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in Treasury Regulation 3.2	✓	
12.	Powers and duties have been assigned, as set out in section 44 of the PFMA	✓	
<b>Follow-up of audit findings</b>			
13.	The prior year audit findings have been substantially addressed.		✓
14.	SCOPA resolutions have been substantially implemented.	✓	

No.	Matter	Y	N
<b>Issues relating to the reporting of performance information</b>			
15.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.		✓
16.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.		✓
17.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the National Department of Public Works against its mandate, predetermined objectives, outputs, indicators and targets. (Treasury Regulations 5.1, 5.2 and 6.1)	✓	
18.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.	✓	

21. The result of the assessment is indicative of the department's lack of adequate monitoring and governance processes to identify deficiencies and timeously implement corrective actions that will lead to reliable financial reporting, compliance with legislation and the availability of information.

**Investigations**

22. The following investigations were conducted:

- Investigation into the process followed by the DPW with the procurement of the SAS Business Intelligence Solution. This report was submitted to management.
- Investigations into the allegations of irregular appointments and management practices in the DPW. This report was submitted to management.
- Investigation into the process followed by the DPW with the appointment of service providers for the asset verification and condition assessment project. This report was submitted to management.
- Investigations into the allegations of unauthorised changes in service providers' bank details. These investigations were still ongoing at reporting date.

**REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS****Report on performance information**

23. I have reviewed the performance information as set out on pages 11 to 38.

**The accounting officer's responsibility for the performance information**

24. The accounting officer has additional responsibilities as required by section 40(3)(a) of the PFMA to ensure that the annual report and audited financial statements fairly present the performance against predetermined objectives of the department.

**The Auditor-General's responsibility**

25. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*.
26. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.
27. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.



**Findings on performance information****Non-compliance with regulatory requirements****Lack of effective, efficient and transparent systems and internal controls regarding performance management**

28. The accounting officer did not ensure that the DPW has and maintains an effective, efficient and transparent system and internal controls regarding performance management, which describe and represent how the institution's processes of performance planning, monitoring, measurement, review and reporting will be conducted, organised and managed, as required in terms of section 38(1)(a)(i) and (b) of the PFMA. This resulted in complicated and misaligned reports.

**Usefulness and reliability of reported performance information**

29. The following criteria were used to assess the usefulness and reliability of the information on the department's performance with respect to the objectives in its strategic plan:

- **Consistency:** Has the department reported on its performance with regard to its objectives, indicators and targets in its approved strategic plan?
- **Relevance:** Is the performance information as reflected in the indicators and targets clearly linked to the predetermined objectives and mandate. Is this specific and measurable, and is the time period or deadline for delivery specified?
- **Reliability:** Can the reported performance information be traced back to the source data or documentation and is the reported performance information accurate and complete in relation to the source data or documentation?

The following audit findings relate to the above criteria:

**Reported performance information not relevant**

30. The following targets with regard to the provision of land and accommodation, and national Public Works programmes were not:

- specific in clearly identifying the nature and the required level of performance
- measurable in identifying the required performance
- time bound in specifying the time period or deadline for delivery.

The following serve as example:

Sub-programmes	Pre-determined objective	Indicator	Target
Asset Management	Provide efficient and effective strategic asset management	List of identified assets (through amnesty, call centre and adverts)	Identify lost assets
	Additional activities undertaken by PP&M in alignment with GIAMA	100% complete	Asset data specification document
Operations Management	Improving service delivery	Timeous delivery of client accommodation	Ongoing
	Good corporate governance	Buildings that comply with OHASA	200 buildings
Inner City Regeneration (Re Kgabisa Tshwane)	Integrate the RKTP with the Inner-City Development Strategy and contribute to urban renewal	Project: 38 Church Square: Design and refurbishment	Completion of user requirements

Sub-programmes	Pre-determined objective	Indicator	Target
Expanded Public Works Programme	Job creation	Staff turnover	10%?
	Positive EPWP public profile	Net rand value of positive media coverage	20% increase in the geographic representivity of awareness
	EPWP performance evaluation and action plan to improve qualitative performance	Good quality evaluation studies completed in terms of M&E framework	As per framework
	Enhance provincial EPWP delivery capacity	No. of social sector facilities utilised	To be determined
Construction Industry Development Programme and Property Industry Development Programme(Reported under Policy, strategy, monitoring and evaluation)	Transformation and regulation of the property industries to ensure economic growth and development	Comprehensive analysis reflecting DPW interventions	Research reports accepted by management

**Reported performance information not reliable****Lack of source documentation**

31. Sufficient appropriate audit evidence in relation to the reported performance information of the programmes listed below could not be obtained, as the relevant source documentation could not be provided for audit purposes.

Programme	Objective	Actual performance
Provision of Land and Accommodation	Integrate the RKTP with the Inner-City Development Strategy and contribute to urban renewal	10 option analyses previously completed: GPW, GCIS, DME, STATSSA, SAPS, DAC, DOJ, NT, DHA & DOT
Provision of Land and Accommodation	Implementation of EPWP	Blmft = 79 beneficiaries recruited, CT = 147 beneficiaries appointed, Durban = 27 learners to Coastal FET, Jhb = 50 learners placed and 72 to FET colleges, Kimb = 5 projects awarded, Mmab = 137 placed and 99 went through life skills training, Mthatha = 117 beneficiaries, Nelspruit = 108 beneficiaries, Polokw = 113 artisans, PE = 855 beneficiaries +73 jobs through EPWP general, Pta = 189 beneficiaries received training
National Public Works Programme	Job creation	During the period under review approximately 8 993 000 people were reported as having heard of EPWP. This shows an improvement as compared to the statistics reported in March 2007 when, the figure amounted to 8 948 000. The variance amounts to 45 000
National Public Works Programme	Transformation and regulation of the property industries to ensure economic growth and development	LA Board is functioning well and there is no backlog of submissions. Three meetings were held and 37 submissions, pertaining to 65 properties, served before the board during Oct - Dec 2008
National Public Works Programme	Transformation and regulation of the property industries to ensure economic growth and development	Implementation reports submitted to PIP sub-technical committee

**Reported performance information changed during the printing process**

32. The format of the performance information presented for audit was changed during the printing process and as a result the reported performance information was not audited.

**APPRECIATION**

33. The assistance rendered by the staff of the national Department of Public Works during the audit is sincerely appreciated.

*Auditor - General*

**Pretoria**

**11 September 2009**



**AUDITOR - GENERAL  
SOUTH AFRICA**

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