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**CONSIDERATION OF THE AUDITOR-GENERAL'S REPORT ON THE DEPARTMENT OF PUBLIC WORKS FOR 2008/09**

12 October 2009

**1. Introduction**

The Department of Public Works reported on its financial statements as well as the Property Management Trading Entity (PMTE). This brief is a summary and analysis of the financials for the period under review. It takes note of the Auditor-General's reports on the financial positions of the Department of Public Works as well as the PMTE for the period of 2008/09.

The Department and the PMTE both received unqualified audit opinions with emphasis of matters for the 2007/08 financial year. The Auditor-General at that time pointed to issues of basic accounting systems as well as internal controls that needed to be addressed, for example. For the 2008/09 financial year the Department received a qualified audit opinion with matters of emphasis and other matters, while the PMTE received an adverse audit opinion with other matters (to be discussed below).

**2. Audit Report by the Auditor-General on the performance of the Department of Public Works for the year ended 31 March 2009**

The Department of Public Works received a **Qualified Audit Opinion** from the Auditor-General with emphasis of matters and other matters. The **Qualified Audit Opinion** was based mainly on the failure of systems within the Department, especially with regards to the audit procedures to be followed regarding Government's assets. According to the audit opinion the following were of concern:

*Movable tangible capital assets and minor assets*

It was noted that the existence, completeness and accuracy of movable tangible capital assets amounting to R221.9 million could not be verified at year end.<sup>1</sup> In addition that the balances disclosed could not be supported by a complete assets register.<sup>2</sup> These movable tangible capital assets are recorded under note 30 as heritage assets (R367 thousand) as well as machinery and equipment (R221.6 million).

It was also indicated that (assets less than R5 000) amounting to R13.4 million purchased during the year under review could not be confirmed due to the incompleteness of the asset register.<sup>3</sup>

<sup>1</sup> Department of Public Works (2009), p. 52.

<sup>2</sup> Department of Public Works (2009), p. 97. According to note 30 of the financial statements the machinery and equipment included the following (Transport assets R1.8 million; Computer equipment R76.7 million; Furniture and office equipment R120.7 million; and Other machinery and equipment R22.4 million).

<sup>3</sup> Department of Public Works (2009), p. 52.



### *Immovable tangible assets*

It was indicated that the Auditor-General was unable to verify the completeness, rights and obligations, and valuations of the immovable tangible assets amounting to R5.3 billion.<sup>4</sup> The report indicated that:

1. Not all assets owned by the Department of Public Works were accounted for in the assets register to support the financial statements.
2. Title deeds and stand numbers for some of the assets were not indicated in the assets register and therefore the Department of Public Works' rights and obligations to these properties could not be verified.
3. The Department in conjunction with the Department of Rural Development and Land Reform and all provincial departments' custodians, were tasked with leading a Government-wide initiative to complete the vesting of ownership of State-owned land. The above initiative is still in progress.

It was also noted that an amount of R291.7 million was erroneously disclosed in the 2007/08 financial year as goods and services under inventory and has been restated as capital expenditure for infrastructure projects.<sup>5</sup>

### *Intangible assets*

Adjustment to the prior year balance of intangible assets disclosed in note 31 consists of software to the value of R40.3 million purchased and paid for in advance during the 2005/06 financial year. The software had not been utilised by the Department up to completion of the audit report and therefore the existence of the software could not be verified.<sup>6</sup>

#### **Issues for consideration**

- What measures has the Department put in place to address the concerns raised by the Auditor-General with regard to the incompleteness of the Assets Register?
- Under note 4.1 relating to (assets less than R5 000) amounting to R13.4 million cannot be confirmed due to the incompleteness of the Assets Register, why was an alternative audit procedure not available to allow for these additions?
- What measures has the Department put in place to ensure that these assets can be verified?
- What was the reason for the Department purchasing computer software in advance amounting to R40.3 when it was not utilised?
- What was the reason for this software not being used and can it still be used at this point?

<sup>4</sup> Department of Public Works (2009), p. 52. See pp. 100-101 for the explanatory note related to the immovable tangible assets. It was noted that these assets relate to buildings and other fixed structures valued at R5.3 billion. They include the following: dwellings R589 million; non-residential buildings R4.7 billion; other fixed structures R101 thousand; heritage assets R2.7 million; and land R48 million.

<sup>5</sup> Department of Public Works (2009), p. 142.

<sup>6</sup> Department of Public Works (2009), p. 53. See p.99, it is unclear from this section what the reason was for not utilising the software as well as what appears to be additions of R142 thousand.



### *Emphasis of matters and other matters*

The Auditor-General drew attention to the following emphasis of matters and other matters:

Under the emphasis of matters it was noted that there was significant uncertainty in terms of settlements of contingencies and liabilities (bottom of Annexure 2B). It is believed that the narrative referring to a potential liability regarding a conditional assessment of properties by two service providers under the custodianship of the Department of Public Works.

In terms of other matters the Auditor-General noted that the accounting officer did not comply with the following legislative requirements in terms of the Public Finance Management Act:

- Section 38(1)(d) requires the management, safeguarding and maintenance of the assets.
- Section 38(1)(c)(i) requiring management to take effective and appropriate steps to collect all money due to the Department of Public Works.
- Section 38(1)(g) requiring a report in writing to the relevant treasury of particulars of any unauthorised, fruitless and wasteful expenditure.<sup>7</sup>

### *Irregular expenditure*

It is reported under note 25.1 reconciliation of irregular expenditure that an opening balance of R39 million existed. It is noted that the above amount included an amount of R35.5 million which was treated as unauthorised expenditure and occurred in two financial years: 1998/99 (R5 million); and 1999/00 (R30.5 million). Reported that R35.6 million was condoned and that R3.4 million of irregular expenditure still needs to be condoned.<sup>8</sup>

### *Fruitless and wasteful expenditure*

Note 26.1 indicated that an amount of R30.7 million awaited condonement. This amount stems from fruitless and wasteful expenditure amounting to R37.9 million from the 2007/08 financial year of which R7.2 million had been condoned.<sup>9</sup>

### *Public Service Regulations*

It was reported that cases were noted involving senior management positions that were advertised and filled before the job evaluation was approved contrary to the requirement of PSR 2001, Part III F. In addition according to PSR 2001 employees are required to declare all their interests, which were not followed by a number of employees.<sup>10</sup>

<sup>7</sup> Department of Public Works (2008)



#### Issues for consideration

- With reference to the significant uncertainty highlighted by the Auditor-General under the matters of emphasis, can the Department provide additional information?
- Do the two service providers refer to Intersite Property Management Services and Servcon Housing Solutions that were appointed by the Department in December 2007 to assist with the verification of information contained in the Assets Register and to compile condition reports of all state owned assets?<sup>11</sup>
- What is the current status of this verification process and when will it be concluded?
- What is the reason for these fruitless and wasteful expenditure? Why was procedure not followed with regard to this irregular and fruitless and wasteful expenditure as required by the PFMA?
- What was the reason for not following the Public Services Regulations in the advertising and appointment of staff to senior management positions?
- How many employees failed to declare all their interests, what do these consist of?
- What has the Department done to address the situation?

### 3. Audit Report by the Auditor-General on the performance of the Property Management Trading Entity of the Department of Public Works for the year ended 31 March 2009

The Auditor-General expressed an **Adverse Audit Opinion** in relation to the Property Management Trading Entity for the year under review.

The Auditor-General noted that the Property Management Trading Entity (PMTE) was granted conditional exemption from using Generally Accepted Accounting Practice (GAAP) and could apply the modified cash basis of accounting. However the PMTE did not comply with the regulations set out by National Treasury and thus the exemption no longer applies, meaning that the PMTE has to revert to standard accounting practices.

It is also noted that interdepartmental receivables disclosed in note 17 amounting to R419 million (31 March 2008: R48 million) owed by a number of national departments and entities has been outstanding for more than two years.<sup>12</sup>

The Auditor-General also noted some other matters including:

The accounting officer did not compliance with Treasury Regulation 8.2.3 in terms of payments of invoices within the required 30 days of receipt of invoices as well as Treasury Regulation 9.1.2 in terms of the required reporting of fruitless and wasteful expenditure on a monthly basis.<sup>13</sup>

<sup>11</sup> Department of Public Works (2008a), p. 45.

<sup>12</sup> Department of Public Works (2009), p. 117.

<sup>13</sup> Department of Public Works (2009), p. 118.





In terms of the entity's revenue the Auditor-General reported that the PMTE had various discrepancies in respect of the process of revenue collected from client departments, including lack of proper reconciliation and review, unauthorised manual journals, manual journal incorrectly completed, misallocation between the regions, manual PACE systems not agreeing to Basic Accounting System (BAS) and incorrect capturing of data.

It is further noted that the PMTE lacked proper internal controls to assess the effectiveness of financial reporting, which meant that there were weaknesses mainly due to a lack of ongoing monitoring and supervision.<sup>14</sup>

It is noted under governance matters that key audit findings of the previous year had not been followed-up.<sup>15</sup>

#### **Issues for consideration**

- What was the reason for the National Treasury conditions allowing the PMTE conditional exemption from GAAP not being followed?
- Why did the Department not attempt to recover the amount of R419 million owed to it especially as it appears to be a long-standing debt?
- The Auditor-General indicates that management did not attempt to recover the debt and neither did it assess its recoverability. What were the reasons for this?
- It is noted under governance matters that key audit findings of the previous year had not been followed-up. What was the reason for this not happening?

#### **4. Conclusion**

This was a brief summary of some of the issues highlighted by the Auditor-General in terms of the performance of the Department of Public Works as well as the Property Management Trading Entity. It should be noted that for the year under review the Auditor-General provides reasons for the qualified and adverse opinions received under the two reports.

It should also be noted that the Auditor-General again raised matters relating to internal controls as well as the effective implementation of monitoring and supervision systems by the accounting officer. The issue related to non-compliance with National Treasury Regulations (especially regarding payments within the required 30 days of receiving invoices) was again highlighted. It should also be noted that the matter related to recovering rental debts from client departments has been a challenge for the Department for some time.

Finally, the report (2008/09), p. 120.



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**Sources**

Department of Public Works (2008a) *Annual Report of the Department of Public Works for 2007/08*, Pretoria.

Department of Public Works (2009) *Annual Report of the Department of Public Works for 2008/09*, Pretoria.

Department of Public Works (2008b) *Strategic Plan of the Department of Public Works for 2008-2011*, Pretoria.