

1. The 2015/16 Budgetary Review and Recommendation Report of the Portfolio Committee on Public Works on the performance of the national Department of Public Works, the Property Management Trading Entity, and entities reporting to the Minister of Public Works, dated 22 November 2016.

1. Introduction

The budgetary review and recommendation report (BRRR) is a key component of the oversight that this Portfolio Committee exercises over the national executive authority that is responsible for the national Department of Public Works (DPW), the Property Management Trading Entity (PMTE), and the entities that report to the Minister of Public Works.

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This report is focused on performance of the DPW and the mentioned entities over the completed financial year that stretches from 01 April 2015 to 31 March 2016 (referred to as the 2015/16 financial year).

The mandate of the Department of Public Works (DPW):

The Department's mandate is described in the Government Immovable Assets Management Act (2007).

The Department is responsible for the official accommodation of all national departments. It is mandated to provide construction, maintenance, and property management services to all client departments at national level. This includes the rendering of expert built environment services that are related to the planning, acquisition, management and disposal of immovable assets.

The Department is also mandated to provide strategic leadership of employment creation through the implementation of phase three of the Expanded Public Works Programme (EPWP III). The department plays a coordinating and capacity-enhancement role with provincial and local government counterparts to ensure the implementation of the EPWP III.

The Department is also responsible for the following entities:

- Agrément South Africa (ASA).
- Construction Industry Development Board (CIDB).¹
- Council for the Built Environment (CBE).²
- Independent Development Trust (IDT).

The role of the Portfolio Committee on Public Works:

Parliament, through its Committees, does oversight over the national executive authority, and how it uses the budgetary allocation to its

¹ Department of Public Works (2014), p. 43. The Department regulates the construction industry through the Construction Industry Development Board Act (No. 38 of 2000).

² The Department regulates and built environment through the Council for the Built Environment Act (No. 43 of 2000) and the six Professional Council Acts that regulate the six Built Environment Professions.

Department to fulfil its mandate. Committees of the National Assembly submit annual budgetary review and recommendation reports (BRRR) after the adoption of the Appropriation Bill, and prior to the adoption of the reports on the Medium Term Budget Policy Statement (MTBPS). Due to the late submission of the Annual Reports of the Department and the Property Management Trading Entity, this Committee could unfortunately not adhere to the requirements to adopt its BRRR for the 2015/16 financial year prior to the adoption of the MTBPS.

In doing oversight over the Department and how the national executive gave effect to its mandate, the Portfolio Committee on Public Works does oversight over whether, and to what extent, the DPW has done what it is mandated to do, using the allocated funds to perform its mandated functions.

2. Evidence that the Committee used

In performing its oversight duty, and following the procedure as set out in the Money Bills Amendment and Related Matters Act (2009) to assess the Department's performance, the Committee used the following evidence:

1. The Department's five-year Strategic Plan, Annual Performance Plan, the Medium Term Expenditure Framework, and the Annual Report;
2. The Strategic Plans and the Annual Reports of the entities that report to the Minister of Public Works;
3. Quarterly Expenditure reports as per Section 32 of the Public Finance Management Act (PFMA);
4. Financial statements in the 2015/16 Annual Report;
5. The oversight events of the Portfolio Committee on Public Works in the period under review;
6. The report to the Speaker of the National Assembly in response to the Budget Review and Recommendations Report of the Portfolio Committee on Public Works for the 2014/15 financial year, dated 16 October 2015;

7. The performance audit of the Auditor-General on the DPW's financial statements for the 2015/16 financial year;
8. The performance audit of the Auditor-General on the financial statements of the entities reporting to the Minister of Public Works for the 2015/16 financial year.

3. Structure of this report

This report consists of the following components:

- Matters related to the alignment between the stated objectives in the Strategic Plan, Annual Performance Plans, the Medium Term Expenditure Framework, and the Annual Reports of the DPW and the PMTE.
- Matters related to the Financial Statements in the DPW's 2015/16 Annual Report.
- Matters related to the performance of each programme as stated in the Annual Performance Plan of the DPW for 2015/16.
- Matters related to the Financial Statements of the PMTE's 2015/16 Annual Report.
- Matters related to the performance of each programme of the PMTE as stated in the Annual Performance Plan for 2015/16
- Matters that emerged from the performance audit performed by the Office of the Auditor-General on the Financial Statements in the DPW's Annual Report for the 2015/6 financial year.
- Matters related to the Annual Performance Reports of the entities reporting to the Minister of Public Works:
 - The Independent Development Trust (IDT);
 - The Council for the Built Environment (CBE);
 - The Construction Industry Development Board (cidb);
 - The Agrément South Africa (ASA).
- Recommendations.

4. The Committee's oversight over the alignment of the legal mandate, policy, and planned initiatives as stated in the Department's Strategic Plan, Annual Performance Plan, the Medium Term Expenditure Framework (MTEF), and the Annual Report

A comparison between the Strategic Plan, Annual Performance Plan (APP) and the Annual Report (AR) showed that there had been an effort to align the legal mandate, policy, and planned initiatives to give effect to them, as well as the priorities and outcomes of the National Development Plan.

The Strategic Plan of the Department of Public Works

i) The Constitutional mandate

The Constitutional mandate of the DPW is provided for in Schedule 4, Part A, of the Constitution of the Republic of South Africa stated as Functional Areas of Concurrent National and Provincial Legislative Competence.

ii) The legislative mandate

The following Acts provide the legal mandate:

- (a) Government Immovable Asset Management Act, 2007 (Act No. 19 of 2007);
- (b) Construction Industry Development Board Act, 2000 (Act No. 38 of 2000);
- (c) Council for the Built Environment Act, 2000 (Act No. 43 of 2000);
- (d) Professional Council Acts that regulate the six Built Environment Professions (BEPs);
- (e) The Agrément of South Africa Act, 2015 (Act No. 11 of 2015);
- (f) Public Finance Management Act, 1999 (Act No. 1 of 1999).

iii) The policy of the DPW

The policy is in part, outlined in the following policy texts:

- (a) White Paper: Public Works, Towards the 21st Century, 1997;
- (b) White Paper: Creating an Enabling Environment for Reconstruction, Growth and Development in the Construction Industry, 1999;

- (c) Construction Sector Transformation Charter, 2006;
- (d) Property Sector Transformation Charter, 2007;
- (e) DPW Broad-based Black Economic Empowerment Strategy, 2006;
- (f) Property Management Strategy on BBBEE, Job Creation and Poverty Alleviation, 2007;
- (g) Green Building Framework, 2011.

Strategic policy priorities in the Performance Agreement of the Minister of Public Works in the current MTEF, 2014 - 2019.

The following Government priorities form the basis of the Department's Strategic Plan informed by the Performance Agreement of the Minister of Public Works and the 2014-2019 Medium Term Strategic Framework:

- (a) Outcome 4 (Chapter 3 of the NDP) - Decent employment through inclusive economic growth. The Department designed Phase III of the Expanded Public Works Programme and reported to the Committee on a focus on funding training in projects. It also highlighted how this phase would, with the collaborative work across national and provincial spheres as well as with other Departments, address the attempt to provide job opportunities to ensure inclusive economic growth.
- (b) Outcome 5 (Chapter 9 of the NDP) - Skilled and capable workforce to support an inclusive growth path. The Department uses its allocated budget to roll out a combination of development programmes such as the young professionals programme, its internship programme, learnership programme, and artisan programme. Through these it attempts to achieve the stated policy objective of providing valuable on the job experience to young people who are in the preparation phase of entering the formal employment sector of the South African economy.

The effort to promote sustainable growth of the Built Environment Professions (BEPs) and transform the sector, is the mandate of the Council for the Built Environment. It initiated a Skills Development Programme with schools to support learners undertaking Mathematics and Science to assist them to pursue a career in the built environment.

- (c) Outcome 13 (Chapter 11 of the NDP) - “The provision of work opportunities is one of the best forms of social protection”, is aligned with the EPWP’s current primary objective of providing the unemployed with an opportunity to work, thus empowering vulnerable families in South African communities.

The DPW and PMTE Annual Performance Plan

Significantly, the Annual Performance Plan included the separation of the functions of the Property Management Trading Entity (PMTE) from that of the Department. This means that the regulatory and policy, quality norms and standard setting, and monitoring functions remain with the Department while the service delivery functions fall under the PMTE.

This separation of function is an outcome of the Turnaround Strategy (TAS) that is unfolding over the medium term expenditure framework period (MTEF). The TAS moved the DPW into a phase of stabilisation and resulted in the repositioning of the organisation to better discharge its responsibilities. This Turnaround Strategy was necessary to address the historically poor performance and the lack of adequate management and financial controls that the Department of Public Works had suffered from.

In its 2015-2020 Revised Strategic Plan, the Minister reported that the TAS has delivered results and that it was in a phase where it was ensuring “effective implementation through a focused plan with measurable deliverables against budgets and timeframes.”

The Turnaround Strategy includes the re-alignment of the Department to secure an improved focus on its mandate as custodian and portfolio manager of Government's immovable assets. Since the operationalisation of the PMTE in the 2015/16 financial year, the Department would be focused on improved oversight over policy formulation, coordination, regulation and oversight related to the provision of accommodation and expert built environment services to client Departments. The PMTE would be focused on the service delivery functions that used to fall under

the DPW, namely the planning, acquiring, managing and disposing of immovable assets which are.

For this reason, the Committee noted a substantial decrease in the financial and staff allocations of the programmes falling under the DPW, with a concomitant increase in that of the PMTE. This is evident in the financial and performance sections that follow later in the report.

5. Matters related to the Financial Statements in the DPW's 2015/16 Annual Report

Budget Allocations over the last two financial years:

	2015/16	2014/15
	R'000	R'000
Budget allocation	6 312 222	6 121 320
Actual Expenditure	6 281 147	6 022 038
Actual: Spent Budget %	99%	98%
Unspent funds	30 715	99 282
Actual: Unspent Budget %	1%	2%

Expenditure per programme for 2015/16

The spending for the period under review was R6.281 billion which represented 99.5% of the adjusted budget of R6.312 billion.

Programme	Final appropriated R`000	Allocation as %	Actual spent	Unspent
1: Administration	480 334	8%	179 150	1 184
2: Intergovernmental Coordination	46 015	1%	44 747	1 268
3: Expanded Public Works programme	1 953 369	31%	1 939 909	13 460

4: Property and Construction Industry Policy and Research	3 742 985	59%	3 735 387	7 598
5: Prestige Policy	89 519	1%	89 154	7 565
Total	6 312 222	100%	62 81 147	30 715

The table shows the final appropriated amounts per programme, the percentage of expenditure, and the unspent funds of each programme.

In its interactions with the DPW, the main concern for the Committee was that R3.7 billion was allocated to Programme 4: Property and Construction Industry Policy and Research. This is 59% of the total budget of the DPW that totalled R 6.3 billion. The concern related to the review of the White Papers, and eventual draft legislation that remained incomplete.

Through its oversight work since 2014, the Committee noted that the DPW's Strategic Plan and Annual Performance Plan consistently stated that Programme 4 would deliver a review of the policy texts. Unfortunately, over two financial years, in spite of the APP stating that it would be delivered, it did not materialise and this Committee could find no concrete output resulting in reviewed policy, and new draft policy. The Annual Report for the current financial year under review (pp. 70) referred to the draft Public Works White Paper that would be gazetted in the 2016/17 financial year. The Committee is concerned that given the pattern set over the last two financial years, would be repeated. This further impacts negatively on the performance target success rate, as well as on the alignment of the DPW's APP to its programmatic work and eventual impact in the built environment and construction sector.

Reasons given for the total unspent funds totalling R31 million fell into the following categories:

Compensation of employees

R19 million was unspent due to a delay in the filling of vacant positions for Programme 3: Expanded Public Works Programme

(R10 million), Programme 4: Property and Construction Industry Policy and Research (R5.5 million) as well as Programme 5: Prestige Policy (R3.5 million).

Goods and services

R6.3 million was unspent due to invoices received after the financial year ended and could not be processed.

Transfer and subsidies

Under spending of R600 000 related to withheld funds for EPWP Integrated Grant for Provinces (Northern Cape Provincial Department of Health) due to non-compliance to DORA requirements.

Household budgeted for leave gratuities under spent by R580 000 in Programme 2, 4 and 5. Spending for leave gratuities was linked to resignations and retirements.

Payments for capital assets

The department underspent R4.5 million due to funds that was committed for machinery and equipment but was not spent at the end of the financial year. The amount was disclosed under accruals in the financial statements.

6. Performance in achieving targets as set in the Annual Performance Plan for 2015/16

Programme 1: Administration

Function: To provide strategic leadership, management and support services, to the Department.

With regards to staffing matters, Programme 1 had 1 103 filled positions, with an added 804 posts filled additional to the establishment.³ The Programme had a vacancy rate of 54 out of a total of 1 157 posts.

Performance Targets Success Rate: Administration

Sub-programme: Management

- Investigated all reported allegations within 30 days.
- Reduced fraud and corruption risk levels by 38% instead of a targeted 50% in the Fourth Quarter.

³ Department of Public Works (2016), p. 126.

This sub-programme met one out of the stated two targets⁴ in the 2015/16 APP.

Sub-programme: Finance and Supply Chain Management

- Reduced irregular expenditure by 44% of a targeted 30% baseline.
- Awarded 78% of a targeted 50% bids within the stipulated 56 working days of closure of the bid's advertisement.
- Executed all contracts within the 10% variation.
- Purchased goods and services at 101% of 140% procurement cost (market price with preferential treatment).
- Managed to settle only 75% of its stated 100% target of compliant invoices within the stipulated 30-day period.

The sub-programme achieved four of its five stated targets in the 2015/16 APP.

Sub-programme: Corporate Services

- It filled 100% prioritised funded vacancies within four months of the date of advertisement:
 - 603 appointments.
 - 107 promotions.
- 1 294 of a targeted of 1 067 beneficiaries participated in the Department's Skills Development Programme, which consisted of:
 - 90 of a targeted 198 Young Professionals (shortfall of 108).
 - 700 of a targeted 463 Interns (an additional 237).
 - 319 of a targeted 177 Learnerships (an additional 142).
 - 52 of a targeted 29 Management Trainees (shortfall of 23).
 - 133 of a targeted 200 Artisan Trainees (shortfall of 67).
- Completed multi-tiered upgrade of information communication technology (ICT) hardware infrastructure for the Department and the PMTE.

⁴ Department of Public Works (2016), p. 58.
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- Installed Electronic Procurement System for the Department and the PMTE.
- Prevented 100% default judgements against the Department.
- Subjected all (seven out of seven reported fraud and corruption cases to disciplinary processes) of which:
 - four disciplinary processes were finalised.
 - three pending finalisation of disciplinary hearings.

The sub-programme met seven out of eight targets as stated in the 2015/16 APP. Note that one target was split into two parts and only one was achieved, but the Department reported it as one, thus having met all eight.⁵

Programme 2: Inter-Governmental Coordination

Function: To promote sound sectoral Inter-Governmental relations and strategic partnerships; coordinate with provinces on: Immovable Asset Registers; construction and property management; the implementation of the Government Immovable Management Act (No. 19 of 2007); and the reporting on performance information within the Public Works Sector.

With regards to staffing, 52 posts out of a total of 55 were filled. The Programme reported a vacancy of three posts, and 12 positions additional to the establishment were filled.⁶

Performance Targets Success Rate: Inter-Governmental Coordination

The Inter-Governmental Coordination Programme achieved the following targets:⁷

- Convened 14 of 12 Intergovernmental Forums.
- Developed a Diagnostic Report on the 2014/15 Sector Performance.
- Completed a Service Delivery Framework, for one identified service, namely, Construction.
- Management Practices scored an average of 2.9 of the targeted 2.7.

⁵ Department of Public Works (2016), pp. 61-2.

⁶ Department of Public Works (2016), p. 126.

⁷ Department of Public Works (2016), p. 62.

Programme 3: Expanded Public Works Programme (EPWP)

Function: To coordinate the implementation of the EPWP, which aims to create work opportunities; and provide training for unskilled, marginalised and unemployed people in South Africa.

The EPWP staff compliment totalled 335 (86.8%), and a vacancy of 51 (13.2%) positions out of a total of 386 available positions.⁸ A total of 130 (33.7%) positions were filled additional to the establishment.

Performance Targets Success Rate: Expanded Public Works Programme (EPWP)

The EPWP met four out of its six stated targets in the APP of 2015/16. The following targets were not achieved:⁹

- Created 742 179 of a targeted 1 127 186 work opportunities, (65.8% of the total number of work opportunities), a shortfall of 385 007.
- Created 695 811 of a targeted 700 000 work opportunities in rural Municipalities, (99.4% of the total number of work opportunities), a shortfall of 4 189.
- Only met 45.9% (340 854) of the designated 55% target for youth.
- Only achieved 1.68% (12 501) of the designated 2% target for People Living with Disabilities.

The EPWP programme met the following targets:¹⁰

- Achieved 68.5% (508 459) of the designated 55% target for Women.
- Disbursed 100% of targeted 95% EPWP performance-based allocations to all eligible public bodies across the sectors.
- Provided technical support to 278 Municipalities, reporting on EPWP targets.

⁸ Department of Public Works (2016), p. 126.

⁹ Department of Public Works (2016), p. 63.

¹⁰ Department of Public Works (2016), pp. 64.

- 353 of a targeted 13 Public Bodies submitted signed-off data reports due to it being done directly in the systems by the validated Public Bodies when they do reports.

Programme 4: Property and Construction Industry Policy and Research

Function: To promote the growth and transformation of the construction and property industries; and a standardised approach and best practice in construction and immovable asset management in the Public Sector.

The staff complement for this programme consisted of 5 517 positions of which 4 548 were filled and 969 were reported to be vacant; 597 posts were filled additional to the establishment.¹¹

It appears as if the Programme's staff complement still operates on both the DPW and the PMTE 'sides' of the public Works family; the restructured operational divide created with the operationalisation of the PMTE between itself and the main department needs to be kept fully operational in order to ensure effectiveness and efficiency. Staff appointed to perform the functions of Programme 4 needed to be properly appointed where they belong and not at certain times, in the PMTE. If this happened in any quarter of a financial year, it becomes imperative that this is reported to the Minister who should in turn, report this, and th financial impact, to the Portfolio Committee on Public Works.

Performance Target Success Rate: Property and Construction Industry Policy and Research

In spite of the Portfolio Committee on Public Works having consistently raised the incompleteness of the work of this Programme since 2014, it continues to underperform.

This is the case in spite of having received 59% (R3,7 billion out of the R6,3 billion) of the total budget appropriated for the Department of Public

¹¹ Department of Public Works (2016), p. 126.

Works, Programme 4 met none of the 7 targets stated in the APP for the 2015/16 financial year.

The programme's targets (which mainly relate to the finalisation of policies and legislation) were not completed or approved by 31 March 2016.¹²

The following targets stated in both the DPW Strategic Plan (2014-19 and the Annual Performance Plan for the period under review, remained incomplete for the 2015/16 financial year:

- Draft DPW White Paper was neither drafted nor gazetted for public comment.
- Developed IDT Business Case to establish it as an Institution of Government, but was not submitted to Cabinet for endorsement within the 2015/16 financial year that is under review.
- Developed the Draft Contractor Development Implementation Report, but was not submitted to the Minister for consideration.
- Developed the Final Draft of the DPW Property Management Empowerment Policy, to be submitted to the Minister for approval.
- First Draft Bill to amend the State Land Disposal Act was not developed.
- Revised Guidelines on User and Custodian Asset Management Plans were not submitted to the Minister for approval.

The Committee noted the explanations given in its interaction with the Department that much of the allocation in the 2015/16 financial year to this specific programme was for transfers to the PMTE, the CIDB, CBE, and ASA that also does research into construction industry related matters that have an impact on policy. Other explanations included delayed internal consultation processes; delays in receiving comments from the Office of the Chief State Law Advisor (OCSLA); and that the review process of the State Land Disposal Act was stalled due to non-participation by the Department of Rural Development and Land Reform (DRDLR).

¹² Department of Public Works (2016), pp. 65-6.
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Programme 5: Prestige Policy

Provides norms and standards for the Prestige Accommodation Portfolio and meet the protocol responsibilities for State functions.

Performance Target Success Rate: Prestige Policy

The Programme's staff complement consists of 53 positions of which 32 were filled and 21 vacant, (with 2 positions additional to the establishment).

Programme 5 achieved the following targets:¹³

- Developed Policy Guidelines on the installation, management and maintenance of security infrastructure at National Key Points¹⁴.
- Developed Policy Guidelines on the implementation of security measures for Members of the Judiciary.
- The Department signed a Service Level Agreement (SLA) with the Presidency.
- Supported 17 of a targeted 15 State events with movable infrastructure.
- Completed 4 Quarterly Reports on Infrastructure Expenditure.

The following targets were not achieved:

- Developed and completed Draft Prestige Norms and Standards for category III clients¹⁵, but was not submitted to Parliament for approval. The DPW reported this in its report to the Portfolio Committee on the first quarter of this financial year¹⁶.
- Final Draft Prestige Norms and Standards for Provincial Public Works were not adapted.
- The SLA between the Department and Parliament was not signed.
- Delivered 8 of requested 39 movable assets (office and residential) provided to Prestige Clients within 60 days of receiving the request.

¹³ Department of Public Works (2016), p. 67-8.

¹⁴ Department of Public Works (2016), slide 18

¹⁵ According to the DPW Prestige Policy, Members of Parliament are category III clients.

¹⁶ Ibid.

Human Resource matters and vacancies in critical occupations in the 2015/16 financial year

For the 2015/16 financial year, the Department had a total of 7 168 posts of which 6 070 were filled at the end of 2015/16 with another 1 545 filled positions additional to the establishment.¹⁷ During the year under review, the Department's vacancy was at 1 098.

The largest portion of the 1 098 vacancies falls under Programme 4: Property and Construction Industry Policy Research followed by Programme 1: Administration with a total of 969 and 54 vacancies respectively. The two programmes also have the largest portion of Filled Posts Additional to the Establishment: 804 and 597 for Programmes 2 and 1 respectively.

Vacancies in Critical Occupations, 31 March 2016¹⁸

473 positions on the establishment were in areas of critical occupations that included: Architects, Town and Traffic Planners; Chemical and Physical Science Technicians; Civil Engineering Technicians; Engineers and related professionals; Mechanical Engineering Technicians; and Quantity Surveyors.

The Department filled 328 of these critical positions (as well as an additional 43 posts additional to the establishment), but had a vacancy of 145.¹⁹ The Committee noted that out of 215 vacancies in the Engineers and related professionals field 139 were filled which left 76 vacant positions. Another 14 positions were filled additional to the establishment.

In Engineering Sciences 82 posts were filled out of 107 posts which left 25 vacant posts. An additional six positions were filled additional to the establishment.

¹⁷ Department of Public Works (2016), p. 126.

¹⁸ Department of Public Works (2016), p. 127.

¹⁹ Department of Public Works (2016), p. 127.

The Department filled all 17 positions in the Civil Engineering Technicians field, with another 9 additional to the establishment. The Mechanical Engineering Technicians field had the highest vacancy of 14 in terms of available positions 18, with only four positions filled and one additional to the establishment.

The Department reported employing 16 foreign workers for the period under review. This is an increase of 2 from the 14 employed by the Department in 2014/15.²⁰

Reasons why Staff resigned from the Department²¹

774 personnel left the Department for various reasons, with the highest number, 452 due to expiry of contracts; followed by 172 resignations; and 97 persons retiring.²² In addition, 37 people died; 4 were dismissed due to misconduct and 11 were discharged due to ill health. It is a concern that a total of 721 (or 93.2%) personnel left the Department due to contracts expiring; resignations and retirement. This is an increase of 75 persons, from the 646 (or 91.6%) in 2014/15.

Disciplinary Hearings

A total of 90 misconduct and disciplinary hearing were finalised during the year under review, a decline of two cases from the 92 reported in 2014/15.²³

The outcome of the disciplinary hearings included:

- 34 written warnings, a decline of 15 from the 49 in 2014/15.
- 21 final written warnings, an increase of five from the 16 in 2014/15.
- 12 verbal warnings, an increase of eight from the four in 2014/15.
- There were no cases recorded for corrective counselling or cases that were dismissed.

²⁰ Department of Public Works (2016), p. 137.

²¹ Department of Public Works (2016), p. 129.

²² Department of Public Works (2016), p. 139.

²³ Department of Public Works (2016), p. 139.

The reasons for the misconduct and disciplinary hearings included the following issues:²⁴

- three – Bribes or committed fraud, corruption and nepotism.
- two – Theft.
- 6 – Failure to comply with procurement procedures, unauthorised, irregular, fruitless and wasteful expenditure.
- one – Assault.
- 10 – Misuse, abuse or unauthorised use of State property.
- 18 – Negligence, dereliction of duty.
- one - Victimization of other employees.
-

The Department reported a total of 67 grievances that were logged for the period under review. Of this number, 51 were resolved, and 16 were still pending resolution.²⁵

Issues related to the DPW that was raised in the Report by the Auditor-General (AG) for 2015/16 Financial Year

The Department of Public Works (DPW) received an **Unqualified Audit Opinion** for the second year since the Turn Around Strategy was implemented.

The following emphasis of matters and additional matters were listed:

- The AG did not identify any material findings on the usefulness and reliability of the reported performance information for Programmes 2 Intergovernmental Coordination and 4 Property and Construction Industry Policy Regulations.²⁶
- The AG identified material misstatements in the annual performance of Programme 2: Intergovernmental Coordination; Programme 3: EPWP; and Programme 4: Property and Construction Industry Policy Regulations.

²⁴ Department of Public Works (2016), p. 139.

²⁵ Department of Public Works (2016), p. 140.

²⁶ Department of Public Works (2016), p. 146.

- Management only corrected some of the misstatements; therefore, the AG raised material findings on the reliability of the reported performance information.
- Financial statements were not fully prepared in accordance with the Modified Cash Standard prescribed by the National Treasury, as required by Section 40 (1) (b) of the PFMA and Treasury Regulation 18.2.
- The financial statements received an unqualified audit opinion following the subsequent correction of material misstatements disclosed in items identified by the auditors.
- *Expenditure Management:*²⁷
 - In certain instances, steps taken to prevent irregular expenditure were not always effective, as required by Section 38 (1) (c) (ii) of the Public Finance Management Act (No.1 of 1999) (PFMA) and Treasury Regulation 9.1.1.
- Management was not successful in addressing the high vacancy rate at senior management level.
- *Financial Performance Management:*
 - Proper record-keeping was not always implemented in a timely manner to ensure that complete, relevant and accurate information was accessible and available from public bodies to support performance reported by the Department.
 - Regular accurate and complete financial and performance reports were not always supported and evidenced by reliable information. The review and monitoring of compliance with applicable legislation were ineffective in certain instances.
- *Leadership must continue to focus on:*
 - Expanding capacity in the Risk Management and Internal Audit Units.
 - Ensure the optimal functioning of these units to address risk and internal control deficiencies across the Department.

²⁷ Department of Public Works (2016), p. 147.

- *Reports on Investigations:*
 - Numerous allegations, (mainly relating to transgressions with regard to supply chain management, potential fraud and financial misconduct), were still being investigated on an ongoing basis by the Special Investigating Unit and the Governance, Risk, and Compliance Unit of the Department.

7. The Property Management Trading Entity (PMTE) Background

The Property Management Trading Entity (PMTE) ²⁸ was established as a trading entity that operates within the administration of the Department of Public Works.

From the 2006/07 until 2014/15 financial year, the entity operated under Programme 2 of the DPW's main account. It was established in April 2006, as part of a long-term reform programme to provide improved property management services to Client Departments. National Treasury allocated a capitalisation amount of R450 million for the entity to address the maintenance backlog in the State's property portfolio.²⁹ The PMTE's prime focus was on executing all property management related functions such as maintenance of properties and property rate payments on behalf of the Department of Public Works. With its establishment, all accommodation-related costs were devolved to Client Departments, which meant that the Department issued invoices and collected user charges from Client Departments on a quarterly basis, based on amounts that were devolved to them.

In February 2014, the Department presented a progress report to the Portfolio Committee on Public Works regarding the operating procedures of the PMTE, as well as its improved functioning that was initiated by the implementation of the Turnaround Strategy (TAS) within the Department. The PMTE's existing structure at that time caused inefficiency, particularly as it lacked focused management of its core functions, and did not have the

²⁸ Previously known as the Augmentation of the Property Management Trading Entity.

²⁹ National Treasury (2007).

required skilled personnel in its staffing structure. At the meeting with the Portfolio Committee in February 2014, the Department indicated that some of the vacancies for specialist skills that were required by PMTE included Property Economists; Property Managers; Chartered Accountants; Property Lawyers and Property Evaluators. The lack of these specialist skills in the past meant that the Department operated at a disadvantage where the private sector was advantaged, as their negotiating teams, particularly when signing lease agreements with landlords, were often Property Managers, Lawyers and Evaluators. The Department further stated that these positions were being filled³⁰ so that the field of state property management would be more professional and focused on effectiveness and efficiency.

The current situation of the PMTE is therefore that it operates as a **Government Component** that:³¹

- “Ensures that the public estate remains within the Public Sector.
- Provides for independence and autonomy.
- Focused on the specific purpose of service delivery and regulation.
- Activities as ring-fenced.
- Designated Budget and Administrative Head.”

Main functions of the PMTE

“The main purpose of the PMTE is to manage properties under the custodianship of the Department. In the prior years, the PMTE incurred all the expenses and collected the revenue for the properties (which was recognised by the Department) and not by the PMTE prior to the transfer of functions. The PMTE was operationalised in the 2015/16 financial year, and the Department transferred certain property management functions, (including the related assets, liabilities and staff), to the PMTE to align the expenses and revenue to the underlying assets.”³²

The Committee noted that because the measurement initiatives were still in progress, the property values in the Annual Report, represent provisional

³⁰ Department of Public Works (2013).

³¹ Department of Public Works (2014), Slide 22.

³² Department of Public Works (2016), p. 325.

amounts. These values would be updated to comply with the GRAP Requirements³³ in the transitional period.

Overall Performance and Achievements for 2015/16

Programme 1: Administration

Function: To provide leadership, strategic management, governance and administrative support to the PMTE.

Performance target Success Rate: Programme 1: Administration

Programme 1 achieved the following targets under the 2 sub-programmes:

*Management and Operations Support Management:*³⁴

- Annual Performance Plan for 2016/17 developed and approved within the legislated time.
- The 4 Quarterly Performance Reports for 2015/16 approved.
- The 2014/15 Annual Performance Plan approved.
- Availability of 99% of the targeted 90%-time network for business.
- Availability of 99% of a targeted 90% ICT infrastructure for business use.
- Achieved 100% commitments of a targeted 60% ICT Server Level Agreements (SLA) for business application.
- Formulated 100% (790 contracts and hundred and 123 legal opinions) of a targeted 60% within five working days of request.
- Reduced vacancy rate by 15.3% (or 1 098) of a targeted 25%.
- A 1 294 of a targeted 1 067 beneficiaries participated in the Department's Skills Development Programme.

Finance and Supply Chain Management sub- programme:

- Collected 90% (R12.191 billion) of the R13.621 billion of invoices that are 60 days and older.
- Compiled, approved and submitted the Estimates of National Expenditure to National Treasury within the regulated timeframes.
- Purchased 97% procurement cost (market price with preferential premium) of Goods and Services.

³³ The PMTE had three years from the date of transfer to measure all assets and liabilities transferred in terms of Generally Recognised Accounting Practice (GRAP) 105 and Directive 2.

³⁴ Department of Public Works (2016), pp. 72 -3.

Targets that were not achieved:

- Paid 85% of a targeted hundred percent invoices within 30 days of receipt.
- Awarded 18% of the targeted 50% bids within 56 days of closure of tender.
- Executed 88% of a targeted 100% contracts within the 10% average variation.

Programme 2: Real Estate Investment Management

Function: To optimise, utilise and maximise the value of the State Property Portfolio.

Performance Success rate: Programme 2: Real Estate Investment Management

Programme 2 achieved the following targets:³⁵

- Completed 100% User Asset Management Plans (UAMP) for 42 User Departments.
- Completed 2 Precinct Development Proposal Reports for the Northern Gateway and Southern Gateway.
- Completed 2 Precinct Development Proposals Reports for Mmabatho and Mbombela.
- Completed 2 Precinct Development Proposals Reports for Mandeni and Mount Fletcher.
- Increased the percentage value of the immovable asset portfolio by 12% of a targeted 2%.
- Approved 100% (25 of 25 requests), of a targeted 75% preliminary investment decisions within three months from the date of request.
- Approved 100% (15 of 15 requests) of a targeted 75% of investment solutions for construction within 24 months from the date of request.
- Approved 100% (12 of 12 requests), of a targeted 75% investment solutions for refurbishments within six months from the date of request.
- Approved 100% investment solutions for leasehold and surplus freehold within one month from date of request. Approved 45 requests and 59 backlog investment decisions.

³⁵ Department of Public Works (2016), pp. 76 - 81.

- Approved 100% of a targeted 75% preliminary investment decisions within three months from date of request.
- Identified 100 vacant freehold properties for redevelopment by BBBEE developers.³⁶
- Approved 82% investment decisions to support Operation Phakisa projects.
- Approved investment decisions on proclaimed fishing harbours infrastructure relating to:
 - Dredging; removal of sunken vessels; repairs to slipways; shore crane replacement; repairs to jetties; security installations and operations and infrastructure repairs.
- Produced 3 Reports on the performance of identified buildings.
- Produced 2 Reports on the performance of 10 freehold and leasehold buildings as measured against industry standards.

Programme 3: Construction Project Management

Function: To provide effective and efficient delivery of accommodation needs for the Department of Public Works and Client Departments.

Performance Target Success Rate: Programme 3: Construction Project Management

Programme 3 achieved the following targets:³⁷

- Completed 125 of a targeted 62 projects within agreed construction period.
- Completed 109 of a targeted 77 projects within approved budget.
- Allocated 118% of the targeted 35% (23 of 65) construction contracts towards BBBEE. This constitutes an additional 54 contracts.

The following targets were not achieved:³⁸

- Created 11,126 of a targeted 15,000 work opportunities through construction and other EPWP projects.
- Cleared 128 of a targeted 271 projects in the current Works Control System (WCS). This is a shortfall of 143 projects. Reported delays

³⁶ Department of Public Works (2016), p. 80.

³⁷ Department of Public Works (2016), p. 82.

³⁸ Department of Public Works (2016), pp. 82 - 3.

within the construction value chain and updating of the system contributed to these backlogs.

- None of the 774 schools were completed within the planned construction period, due to challenges in receiving approval of Assessment Reports and Bills of Quantity from the Department of Basic Education.
- No work opportunities of a targeted 3,870 were created as no recruitment was undertaken of EPWP workers for School Beautification Programmes.

Programme 4: Real Estate Management

Function: To timeously provide and manage suitable accommodation in support of Client needs to meet their service delivery objectives.

Performance target Success Rate: Programme 4: Real Estate Management

Programme 4 achieved the following targets:³⁹

- Secured 849 of a targeted 100 vacant land (land parcels) towards Economic Development Initiatives.
- Reviewed 646 of the targeted 500 Lease Agreements according to the rental rate per square metre and escalations.
- Renewed 80.2% (518 of 646) of a targeted 75% leases before expiry date.

The following targets were not achieved:⁴⁰

- The National Target of 5% increased occupancy rate of partially occupied property was not reached. This was mainly due to measurements to determine the occupancy rate was not established as the Asset Register is being updated.
- Let out 46 of a targeted 100 surplus freehold office type properties for revenue generation.
- Let out 7 of a targeted 500 surplus freehold residential properties for revenue generation.

³⁹ Department of Public Works (2016), pp. 83 - 4.

⁴⁰ Department of Public Works (2016), pp. 83 - 5.

- The target of 50% Leased Accommodation (lease in) provided within agreed time frame was not met as the Leasing Procurement Policy was still being reviewed by National Treasury.

Programme 5: Real Estate Information and Registry Services

Function: To develop and manage a complete, accurate and compliant Immovable Asset Register to meet service delivery objectives for the State, Department and PMTE business requirements.

Performance Target Success Rate: Programme 5: Real Estate Information and Registry Services

Programme 5 achieved the following targets:⁴¹

- Verified 99.3% of a targeted 100% identified Real Estate Assets.
- Verified 91% (8 159) of a targeted 100% Real Estate Assets annually identified after December.
- Incorporated 1 Provincial Real Estate Asset Register into a single repository. Completed the bi-annual reconciliation of the Immovable Asset Register of the KwaZulu-Natal Provincial Public Works against the Deeds Records.

The following targets were not achieved:⁴²

- The targeted 60% conveyancing of properties within 180 days was not met.
- The mapping of 100% of the coastal reserves under the guardianship of the Department of Public Works was not met.

Programme 6: Facilities Management

Ensures that immovable assets used by Government Departments and the public, are optimally utilised and maintained in a safe, secure healthy and ergonomic environment while contributing to job creation, skills development and poverty alleviation.

⁴¹ Department of Public Works (2016), p. 85.

⁴² Department of Public Works (2016), p. 86.

Performance Target Success Rate: Programme 6: Facilities Management

Programme 6 achieved the following targets:⁴³

- Identified 718 of a targeted 300 buildings with Facilities Management Contracts.
- Reduced usage on energy consumption by 284 410 947 60 of a targeted 220 000 000 00 kilowatt-hour (kWh)
- Reduced usage on water consumption by 4 090 865 of a targeted 3 905 528 kilolitre (kl).
- Allocated 82% of a targeted 65% of Facilities Management Contracts towards Broad-Based Black Economic Empowerment (BBBEE).

The following targets were not achieved:

- Installed Building Management Systems (BMS) in 2 of 3 targeted buildings.
- Created 3 269 (65.4%) of a targeted 5 000 work opportunities through EPWP Maintenance Programmes, a shortfall of 1 731.

Issues related to the PMTE that was raised in the Report by the Auditor-General for the 2015/16 Financial Year

The Property Management Trading Entity (PMTE) received a **Qualified Audit Opinion** (including emphasis of matters and additional matters) from the Auditor-General (AG) for the 2015/16 financial year. It also received a **Qualified Audit Opinion** with the following emphasis of matters and additional matters in 2014/15. The basis for the qualified opinion for 2015/16 includes the following:

*Payables from Exchange Transactions*⁴⁴

The trading entity did not recognise all outstanding amounts meeting the definition of a liability in accordance with Generally Recognised Accounting Practice (GRAP) 1: due to a lack of adequate systems to maintain records of accruals for goods and services received but not yet paid for, payables were understated.

⁴³ Department of Public Works (2016), pp. 86-7.

⁴⁴ Department of Public Works (2016), p. 264.

The AG was unable to determine the full extent of the understatement of accrued expenses:

- Maintenance of R417.4 million was included in payables from exchange transactions stated at R2.6 billion, and property maintenance expenditures stated at R2.9 billion.

*Operating Expenses*⁴⁵

The AG was unable to determine whether any adjustments were necessary to property rates stated as R1.1 billion in the financial statements; the comparative amount for 2015 was R819.8 million. This was due to the following:

- The state of the accounting records provided insufficient appropriate audit evidence that property rates paid for the current year were valid.
- Ownership of properties for which property rates had been paid could not be confirmed. Property rates could not be confirmed by alternative means.

The AG highlighted the following emphasis of matters:

- Incurred material losses of R366.8 million due to an impairment of irrecoverable receivables from exchange transactions.
- Unrecoverable irregular expenditure of R27.3 billion was ratified as it was not practical to go through the prescribed process in terms of the Guideline on Irregular Expenditure issued by the National Treasury.⁴⁶ These transactions were identified long after the event had actually taken place and not in the year in which the irregularity had occurred.
- The AG identified the corresponding figures for 31 March 2015 (as disclosed in notes 36 and 37), were restated as a result of errors discovered during 2016 in the financial statements of the PMTE.

*Predetermined Objectives*⁴⁷

The AG performed procedures to obtain evidence about the usefulness and reliability of the performance information of the following select programmes:

⁴⁵ Department of Public Works (2016), p. 265.

⁴⁶ Department of Public Works (2016), p. 312. In note 31 on irregular expenditure the entity reported that preliminary investigations found that no instances of fraudulent activities had taken place, no loss/damage to the State was incurred, and there was evidence that the goods and/or services were actually delivered to the entity.

⁴⁷ Department of Public Works (2016), pp. 266-7.

- **Programme 3: Construction Project Management**

- Reasons provided for variances between planned targets and actual achievements were not reliable when compared to the source information.
- None of the indicators were well defined.
- The processes and systems that produce the indicator should be verifiable, as required by the Framework for Managing Programme Performance Information (FMPPI), however none were.
- The AG was unable to obtain information or explanations as to the reliability of reported performance information, due to the PMTE's inability to provide sufficient appropriate supporting evidence.

- **Programme 4: Real Estate Management**

- The AG could not determine the usefulness of reported performance information as the indicators were not well defined.
- The AG could not confirm the reliability of reported performance information as the reported achievement against planned targets of important indicators were not reliable when compared to the source information provided.

- **Programme 6: facilities Management**

- The AG could not determine the usefulness of reported performance information between planned targets and the actual achievements as these were not reliable when compared to the source information.
- The processes and systems that produce the indicator were not verifiable as required by the FMPPI.
- The AG could not determine the reliability of reported performance information as the PMTE could not provide sufficient appropriate evidence in support of the reported performance information.

The AG reported on the following additional matters:⁴⁸

⁴⁸ Department of Public Works (2016), pp. 267.

Adjustment of Material Misstatements

- Material misstatements were identified in the annual performance report submitted for auditing.
- The AG raised material findings on the usefulness and reliability of the reported performance information (due to management correcting only some of the misstatements) under the following programmes:
 - Programme 3: Construction Project Management.
 - Programme 4: Real Estate Management.
 - Programme 6: facilities Management.

Annual Financial Statements

- Material misstatements identified by the auditors in the financial statements (of current assets and liabilities) submitted for auditing was corrected.
- The PMTE did not comply with the requirements of section 40(1)(a) and (b) of the PFMA.
- Financial statements submitted for auditing were not prepared in all instances in accordance with the prescribed financial reporting framework.

Procurement and Contract Management

- Some contracts and quotations were awarded to bidders that did not submit a declaration on whether they are employed by the State (or connected to any person employed by the State) as prescribed by Treasury Regulation 16A 8.3.
- Some contracts were awarded to bidders that did not submit a declaration of past supply chain practices (such as fraud, abuse of supply chain management systems, and non-performance), as prescribed by Treasury Regulation 16A9.2.
- Employees of the trading entity failed to disclose close family members, partners or associates which had the private or business interest in contracts awarded by the trading entity, contrary to Treasury Regulation 16A 8.4.

Expenditure Management

- Steps taken to prevent irregular expenditure were not effective in certain instances, as required by Section 38(1)(c)(ii) of the PFMA and Treasury Regulation 9.1.1.
- Payments were made in advance of the receipt of services in certain instances in contravention of Treasury regulation 15.10.1.2.

Revenue Management

- Effective and appropriate steps were not taken to collect all money due as required by Section 38(1)(c)(i) of the PFMA in contravention of Treasury Regulations 11.2.1; 15.10.1.2(a) and 15.10.1.2(e).

*Leadership*⁴⁹

- Effective oversight responsibility regarding financial and performance reporting and compliance and related internal controls was not exercised by the leadership in all instances.
- Effective measures to ensure that incorrect payments to suppliers in respect of private leases were not instituted timeously or adequately resolved.
- Certain payments to suppliers in respect of private leases was not corrected as the matter was only addressed in the final quarter of the year under review.

*Financial and Performance Management*⁵⁰

- Complete, relevant and accurate information was not readily accessible and available to support performance reporting due to proper record keeping not always being implemented in a timely manner.
- Regular, accurate and complete performance reports supported by reliable information were not prepared throughout the financial year.
- The PMTE is in the process to enhance accurately collated report on performance as this is the first year that the entity prepared its own performance report.
- In certain instances, reviewing and monitoring of compliance with applicable laws and regulations were ineffective.

⁴⁹ Department of Public Works (2016), pp. 268.

⁵⁰ Department of Public Works (2016), p. 269.

Governance

- Focus should be placed on expanding capacity and optimal functioning in the Risk Management and Internal Audit Units, to address risks and internal control deficiencies within the Entity.

Other Reports: Investigations

- Numerous allegations, (mainly relating to transgressions with regard to supply chain management, potential fraud and financial misconduct), were still being investigated on an ongoing basis by the Special Investigating Unit (SIU) and the Governance, Risk, and Compliance Unit of the Department.

8. PMTE Financial Performance for 2015/16

The PMTE received an allocation of R3.6 billion for 2015/16 from the R3.3 billion of the previous year. This constitutes an increase of R267.5 million (or 8.06% in nominal terms) and 3.11% in real terms.

Statement of Financial Performance⁵¹

	2016 (R'000)	2015 (R'000)
Revenue	12 896 639	12 914 515
Revenue from exchange transactions	8 890 796	9 606 808
Revenue from non-exchange transactions	4 005 843	3 307 707
Expenditure	13 819 711	11 755 859
Surplus/ (deficit) for the year	(923 072)	1 158 656

The total **revenue** of the PMTE declined by R17.9 million to R12.89 billion in 2015/16 from R12.91 billion in 2014/15. This is mainly due to the decline of R716 million under revenue from exchange transactions from R9.6 billion in 2014/15 to R8.9 billion in 2015/16.

⁵¹ Department of Public Works (2016), p. 271.
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Revenue from exchange transactions is mainly generated from accommodation charges on leasehold intergovernmental; freehold private; management fees on municipal services; sundry revenue and interest revenue.⁵²

The PMTE's **interest expense** increased by R95.9 million (or 98.1%) to R96.6 million during the year under review, from the R721 in 2014/15.

This was mainly due to the following:⁵³

- Interest on overdue accounts increased by R752 000 in 2015/16 to R888 000 from R136 000 in 2014/15.
- Interest on municipal services and property rates increased by R94.8 million from R0 in 2014/15.
- Interest on finance leases increased by R341 000 to R942 000 in 2015/16 from R585 in 2014/15.

R94.8 million was allocated towards interest due on backlog municipal services and property rates that had not been paid, but was provided for. This was mainly due to the Department embarking on the Phase II Verification Project, to verify claims across all regions made by local municipalities on arear municipal debt.⁵⁴

Loss on disposal/transfer of assets declined by R14.6 million in 2015/16 to R5.2 million from R19.8 million in 2014/15.⁵⁵ This decline was mainly due to R0 expenditure on intangible assets during the year under review, from the R19.7 million spent in 2014/15.

Operating lease increased by R160.6 million to R4.08 billion in 2015/16 from R3.92 billion in 2014/15. This was mainly due to increase of:

- R102.6 million (from R3.90 billion to R4.01 billion in 2015/16) on operating leases – building and improvements.
- R45.5 million (from R0 to R42.5 million in 2015/16) on operating leases – vehicles, furniture and office equipment.

⁵² Department of Public Works (2016), p. 303.

⁵³ Department of Public Works (2016), p. 304. See note 16 of the financial statements.

⁵⁴ Department of Public Works (2016), p. 302.

⁵⁵ Department of Public Works (2016), p. 304.

Sundry operating expenses increased by R418.6 million to R1.33 billion in 2015/16 from R912.9 million in 2014/15. A select number of expenses will be noted below to highlight some of the increases.⁵⁶

- R29.8 million (from R0 in 2014/15) on Auditor's remuneration.
- R12.6 million (from R0 in 2014/15) on Communication expenses.
- R99.5 million (to R378.4 million in 2015/16 from R278.9 million in 201/15) on Municipal service expenses.
- R175.8 million (to R219.5 million in 2015/16 from R43.6 million in 201/15) on Consulting fees.

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The PMTE reported a **deficit** of R923.1 million, a reduced amount compared to the R1.2 billion surplus of 2014/15.⁵⁷

9. Matters that emerged related to the Annual Reports of the entities reporting to the Minister of Public Works

9.1. The Independent Development Trust (IDT)

The Independent Development Trust (IDT) was established in 1990 as an independent civil society, temporary grant-making agency with an initial endowment of R2-billion. The IDT is now an important part of the broader Public Works family, with a focus on providing programme and project management capacity, along with social facilitation, in the construction and maintenance of social infrastructure, including schools, clinics, magistrates' courts, and community centres. The IDT is currently a Schedule 2A Public Entity governed by a Deed of Trust. However, the IDT's institutional structure is inappropriate for its current critically required, developmental operations and activities.

The entity has a mandate to do this by delivering social infrastructure in provinces in dire need of facilities such as decent schools, health centres, libraries and the like, such that citizens will have access to social services.

⁵⁶ Department of Public Works (2016), p. 305.

⁵⁷ Department of Public Works (2016), p. 271.

It has over the last few years had a number of leadership challenges, and suffered key staff losses in especially the project management, accounts, and financial management units of the organisation. It should also be noted that in spite of an increase in projects, the staff losses in key areas of financial administration and management meant that the entity struggled to collect management fees for all the projects that it has been involved in, and experienced weaknesses in keeping records, managing contracts, and procuring services; these cumulating factors has led to the entity running at a financial loss. Over the last two financial years (2014/15 and 2015/16), it received adverse audit opinions from the Office of the Auditor-General (OAG). Most of these matters are dealt with below.

The areas of weakness that lead to the continued disclaimer by the Office of the Auditor-General (OAG)

- **The loss of key leadership and accounts and financial management staff** – the vacancies in key positions mean that the organisation cannot realistically be expected to do well with basic project, accounts and financial management. (It has vacancies in critical finance positions such as general Manager, Finance; Senior Manager, Financial Technical Specialists; Senior Manager: Financial Accounting; and Senior Manager: Project Accounting).
- **Inadequate document management systems** - there was no readily available supporting documentation and back-up system for critical transactions in the organisation.
- **Low capacity of the Internal Audit function** - lack of Internal Audit support in the organization; the IDT is therefore not ready to deal with the auditing process with the Office of the Auditor-General; it means it was not in control of its records and systems at the time the AG's auditing team arrived to audit its books for the financial year.
- **Poor record-keeping of externally contracted services** – this could lead to over and underpayments and an ad hoc management of projects (in the past the IDT struggled to collect management fees on projects and was running at a loss due to this).

Issues in the Annual Financial Statements

Instead of improving after the disclaimer of opinion in the 2014/15 financial year, the IDT has unfortunately received another disclaimer of opinion for the 2015/16 financial year.

Areas that required attention:

The IDT identified **procurement, project accounting and revenue management** as the areas that required specialised technical support to strengthen its financial management records. It also experienced challenges with its accounting systems which means that it may have to procure outside expertise to assist a turnaround in these areas.

Programme cash, cash equivalents, and programme reserves and liabilities

The matters referred to here were raised in the 2014/15 financial year, when the Auditor-General of South Africa (AGSA) was unable to audit the balances that were valued at R874 million due to supporting reconciliations being unavailable. The IDT's explanation was that it was the first time that it had to account for these balances.

During the financial year under review, the IDT attempted to reconcile these programmes dating back to the 2013/14 financial year. The IDT ensured that the reconciliations were automated and ready for presentation for audit purposes. In the 2013/14 financial year, due to a systems enhancement process, the financial management system contained significant data that had to be moved from the old to the new system. Unfortunately, this took longer than expected and could not be satisfactorily be completed before audit finalisation for the 2015/16 financial year. It would now be completed by the 2016/17 financial year.

Inaccurate recording of programme expenditure, management fees and trade receivables

This matter was raised in the previous audit in the 2014/15 financial year and it was identified as a material finding that gave rise to the disclaimer. The IDT put standard operating procedures in place and

rolled out in all regions, related to cut off procedures during the last quarter for the period under review, and the accruing of programme invoices not processed before the end of the financial year. Unfortunately, some exceptions were identified and resulted in material findings.

The IDT did not recognise revenue due to it from project management fees as required by International Accounting Standards. Programme expenditure forms the basis on which management fees is charged. The IDT may explain this in its presentation to the Committee as part of the legacy problem related to the migration of data from the old accounting information system (Great Plains (GP)), but it remains insufficient as it tends to recur across financial years.

Compliance with the Public Finance Management Act (PFMA)

Annual Financial Statements and Annual reports

The financial statements that were submitted for auditing were not prepared “in all material respects” in accordance with the prescribed financial reporting framework and supported by full and proper records as required by section 55⁵⁸ (1) (a) and (b) of the PFMA;

Certain material misstatements of current liabilities and disclosure items identified by the auditors in the submitted financial statements were corrected but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a disclaimer audit opinion.

⁵⁸ Section 51 deals with the general responsibilities of “the accounting authorities”. Section 49 describes the accounting authorities as the Board, the CEO or a board or other controlling body, or entity “if the entity does not have a controlling body, the chief executive officer or the other person in charge of the public entity is the accounting authority for that public entity unless specific legislation applicable to that public entity designates another person as the accounting authority”.

Procurement and contract management - contravention of the PFMA

- Goods, works or services were not always procured through a procurement process which is fair, equitable, transparent and competitive as required by the PFMA.

The procurement system and the resultant process did not always comply with a fair supply chain management (SCM) system as per section 51 (1) (a) (iii) of the PFMA, that states that “(1) *The accounting authority for a public entity must—*

(a) exercise the duty of utmost care to ensure reasonable protection of the assets and records of the public entity”.

- Persons in service of the entity or other SCM functionaries whose associates had private or business interests in contracts awarded by the entity participated in the process relating to that contract in contravention of section 50 (3) (b) of the PFMA:

“(3) A member of an accounting authority must -

(a) disclose to the accounting authority any direct or indirect personal or private business interest that that member or any spouse, partner or close family member may have in any matter before the accounting authority; and

(b) withdraw from the proceedings of the accounting authority when that matter is considered, unless the accounting authority decides that the member’s direct or indirect interest in the matter is trivial or irrelevant.”

Weak Expenditure Management - contravention of the PFMA resulted in the loss of R11,1 million

Effective steps were not taken to prevent irregular expenditure amounting to R6 million (note 14.2 in the financial statement (FS), and fruitless and wasteful expenditure amounting to R5,1 million

(note 14.1 in the FS). Section 51 (1) (b) (ii) PFMA states that the accounting authorities must “(ii) prevent irregular expenditure, fruitless and wasteful expenditure, losses resulting from criminal conduct, and expenditure not complying with the operational policies of the public entity;”

Revenue Management

The IDT did not take effective and appropriate steps to collect all money due to it from client departments as required in section 51 (1) (b) (i) of the PFMA: the accounting authority “*must take effective and appropriate steps to - (i) collect all revenue due to the public entity concerned;*”

The Committee is concerned that the growth of the IDT’s workload is having unintended, negative consequences. This relates to finalising the reconfiguration of the entity into government’s key project management agency for social development and social infrastructure projects.

The DPW’s Construction and Property Policy Regulation branch is in the process of developing a Business Case for the IDT to ensure its long-term viability and to help to consolidate it as a key State implementing arm in the construction and maintenance of social infrastructure.

9.2. The Council for the Built Environment (CBE)

The Council for the Built Environment (CBE) is a schedule 3A entity established by the Council for the Built Environment Act (No. 43 of 2000). The CBE oversees and coordinates the activities of the six professional councils, which are the engineering, architecture, quantity surveying, project and construction management, property valuation, and landscape architecture.

Build Indaba 2010 brought key role-players in the built environment professions together. They discussed the major challenges and drivers to transform the built environment industry. The gathering included built

environment firms, contractors that fall in the small and medium enterprise categories, and skills development stakeholders within and outside government. The proceedings of the Indaba revealed that there is agreement amongst all stakeholders that, given the need for infrastructure development and maintenance, the need to transform the built environment professions is serious and needs urgent action.

Overall Performance and Achievements for the 2015/16 financial year

The CBE received a total budget of R43.9 million for 2015/16 from the following sources:⁵⁹

- R41.99 million - Department of Public Works Grant.
- R 1.95 million - Levies received.

Areas of weakness noted from the report by the Auditor-General⁶⁰

The CBE received an unqualified audit opinion from the Auditor-General (AG) related to the following matters:

- The AG could not identify adequate, reliable corroborating evidence for the reported achievements against planned targets of significantly important indicators under Programme 2: Skills for Infrastructure Delivery.⁶¹
- The AG identified material misstatements in the annual performance report submitted for auditing on the reported performance information of Programme 2: Skills for Infrastructure Delivery.⁶²
- Some of the misstatements of Programme 2: Skills for Infrastructure Delivery were subsequently corrected by management; however, the AG identified material findings on the reliability of the reported performance information.
- The financial statements submitted for auditing were not fully prepared, as per the requirements of Section 55(1)(b) of the Public Finance Management Act (No. 1 of 1999) (PFMA).

⁵⁹ CBE (2016), p. 52.

⁶⁰ CBE (2016), pp. 86-9.

⁶¹ CBE (2016), p. 87.

⁶² CBE (2016), p. 88.

- The Entity had material misstatements of non-current assets, current liabilities and disclosure items identified by the auditors in the submitted financial statements.
- The above issues were subsequently corrected thereby resulting in the financial statements receiving an unqualified audit opinion.
- Effective steps were not taken to prevent irregular expenditure of R 2.3 million as required by Section 51 (1) (b) (ii) of the PFMA.⁶³

*Investigations*⁶⁴

- It is alleged that the CEO appointed a firm to conduct an investigation into the procurement practices of the entity against the instructions of the Council in the previous financial year. A disciplinary process is in progress against the CEO on charges identified by the Council. The matter was initiated in April 2015 and was not finalised at the time of reporting.
- A disciplinary process was instituted against the Supply Chain Practitioner on charges of financial misconduct related to the previous financial year. The official resigned during August 2015.

Financial Performance

Operating Expenses

The operating expenses for the CBE for the 2015/16 financial year equalled R15.9 million. This constitutes an increase of R2.7 million from the R13.3 million in 2014/15. A select number of financial performance indicators are included below:⁶⁵

- R2.2 million - Travel and Accommodation, an increase of R407 000 from the R1.8 million spent in 2014/15.
- R6.7 million – Consulting Fees, a decrease of R2.3 million from the R8.9 million spent in 2014/15.
- R3.9 million – Bursary Scheme (Bursaries), an increase of R2.3 million from the R1.6 million spent in 2014/15.
- R3 000 – Awareness and Publications, a decrease of R116 000 from the R119 000 spent in 2014/15.

⁶³ CBE (2016), p. 124. See Note 21 of the Annual Financial Statements.

⁶⁴ CBE (2016), p. 89.

⁶⁵ CBE (2016), p. 122.

- Other Expenses
- R85 000 – Events and Workshops, a decrease of R153 000 from the R238 000 spent in 2014/15.
- R862 000 – Legal Expenses from 0 expenditure in 2014/15.

Irregular Expenditure

The CBE reported irregular expenditure of R6.8 million, which increased by R2.3 million from the R4.5 million in 2014/15. The irregular expenditure of R2.3 million was incurred due to:⁶⁶

- R40 000 – Procurement was sourced from suppliers whose tax clearance certificate either expired or could not be found.
- R2.2 million - management did not advertise the bid 21 days before closing of the bid.

The CBE in both the 2014/15⁶⁷ and 2015/16 Annual Reports highlighted the issue of A Forensic Audit Report of the Supply Chain Management Section. The Report raised the issue of “non-compliance with a competitive bidding threshold”.⁶⁸ The CBE Council and Management are undertaking disciplinary procedures in this regard. Has the process been finalised and what was the outcome? What corrective measures have been instituted?

*Fruitless and Wasteful Expenditure*⁶⁹

A total of R383 000 in fruitless and wasteful expenditure was reported by the CBE in the 2015/16 financial year.

A total of R215 360 was incurred by the CBE due to the cancellation by the CBE Third Term Council of the CEOs recruitment process in the 2011/12 financial year. The process followed was explained as follows:

- A new service provider was sourced when the process was re-initiated.
- However, the previous service provider had been paid the total of R215 360 for work performed at the time of the cancellation of the contract.
- The CBE Fourth Term Council instituted an inquiry on the matter which was concluded at the end of the 2013/14 financial year. The CBE Council requested that the Minister of Public Works condone the amount, however this was refused.

⁶⁶ CBE (2016), p. 124.

⁶⁷ CBE (2015), p. 144.

⁶⁸ CBE (2016), p. 124.

⁶⁹ CBE (2016), p. 125.

Summary of the Activities of the six Built Environment Professional Councils

The six professional Councils are the following:

- South African Council for Architectural Professions (SACAP).
- Engineering Council of South Africa (ECSA).
- South African Council for the Project and Construction Management Professions (SACPCMP).
- South African Council for the Landscape Architectural Profession (SACLAP).
- South African Council for the Quantity Surveying Profession (SACQSP).
- South African Council for the Property Valuers Profession (SACPVP).

The number of females registered with the Built Environment Professional Councils increased marginally between 2014/15 and 2015/16. The Built Environment Professional Councils cite some of the following challenges contributing to the slow pace of transformation:⁷⁰

- Non-compliant registrations received for registration.
- Applicants do not respond to correspondence regarding the non-compliant applications.
- Some of the Built Environment Professional Councils have backlog in processing applications.
- Awareness programmes have contributed to unusually high volumes of applications.
- Implementing new processes to improve and make in-line registration more accessible.

*Voluntary Associations (VAs)*⁷¹

- Voluntary Associations (VAs) are member-based groupings.
- The role of the VAs is to:
 - Protect and enhance members' interests.
 - A Repository of professional-specific technical knowledge and its dissemination through Continuing Professional Development (CPD) courses and activities.

⁷⁰ CBE (2016), p. 142.

⁷¹ CBE (2016), p. 158.

- The Built Environment Professional Councils are encouraged to recognise as many of these VAs to ensure access to the scope and depth of the generated professional best-practice knowledge and its dissemination.
- Serve as members of Evaluation Committees for programme accreditation at Higher Education Institutions (HEIs) that offer Built Environment qualifications.

During the year under review, a total of 76 VAs were recognised, which is an increase of 4 VAs from the 72 reported in 2014/15.⁷²

Disciplinary Cases

During the year under review, the total number of new disciplinary cases per Built Environment Professional Council⁷³ declined by 17 cases to 196 from the 213 reported in 2014/15. Apart from SACLAP which reported 0 violations, SACAPs cases increased from 112 to 121.

Recognition of Prior Learning (RPL)⁷⁴

For the 2015/16 financial year a total of 58 Recognition of Prior Learning (RPL) applications were received, which is a decline of 143 applications from the 201 received in 2014/15.

The annual report revealed a poor uptake of potential candidates through RPL in the professional Councils. During the year under review, SACPVP and SACAP reported no candidates were taken in through RPL, which was the case in the two preceding years. The report gives no indication of the number of applications that were accepted by the Professional Councils. This is a very concerning matter as it shows a weak focus on transformation of the BEP industries.

Continuous Professional Development (CPD)⁷⁵

The purpose of the CPD is to ensure that Built Environment Professionals' knowledge and competencies are continuously developed to keep up-to-date

⁷² CBE (2016), p. 159.

⁷³ CBE (2015), p. 157.

⁷⁴ CBE (2016), p. 142.

⁷⁵ CBE (2016), p. 142.

of new developments in their fields. The CPD ensures that the skills of professionals are:

- Develop and expand expertise of members as markets and conditions change.
- Ensure the relevance and enhance the role and reputation of the professions, both within South Africa and within the international Built Environment community.
- Harness the expertise of members to inform public debate.

For the year under review, some of the challenges in implementing the CPD included:⁷⁶

- Dual registration of Built Environment Professionals with different CPD requirements.
- Funding issues such as course costs, impact on out-of-office time.
- Resourcing and funding of smaller Built Environment Professional Councils, such as SACLAP.

9.3. The Construction Industry Development Board (CIDB)

The Mandate of the Entity

The mandate of the cidb is to:⁷⁷

- **Provide strategic leadership** to the construction industry stakeholders to stimulate sustainable growth, reform and improvement of the construction sector;
- **Promote sustainable growth** of the construction industry and the participation of the emerging sector in the industry;
- **Determine, establish, promote improved performance and best practice** of public and private sector clients, contractors and other participants in the construction delivery process;
- **Promote** uniform application of policy throughout all spheres of government and promote uniform and ethical standards, construction procurement reform, and **improved procurement delivery management** – including a code of conduct;

⁷⁶ CBE (2016), p. 143.

⁷⁷ cidb, (2014), p. 8.

- **Develop** systematic methods for monitoring and regulating the performance of the industry and its stakeholders, including **the registration of projects and contractors.**

Matters that emerged from deliberations with the Members of the Committee on the cidb's Annual Report:

1. Responding to questions regarding gender representation, the presenters stated that of the thirteen (13) board members, five (5) were female.
2. On issues related to board Members' terms of office, presenters stated that board members could serve for 3 years, over a maximum of two terms; on the current board, three (3) board members completed two terms; this included the DPW representative, Ms Fatyela-Lindie.
3. Regarding the de-registration or downgrading of contractors at grades one to six, as a dis-incentive for unscrupulous activities, the presenters stated that the entity was aware that this threatened to dilute the power of the cidb to stop contractors that transgressed.
4. With regards to the grading of contractors it was established that grading could not continue to merely be used as a risk management tool. This would prevent development as a focus area that has been identified as crucial for a changed, high performance organisation. Giving effect to the core operational aspect of grading contractors, performance emerged as an important factor to consider in addition to the factors of turnover, largest contract, and available capital, that are currently being used.
5. With regards to the matter of the suspension of the former CEO, the stated that the matter had before the Commission for Conciliation, Mediation and Arbitration (CCMA), and had since been before the courts. It had reached a stage where legal

representatives of the cidb and of the suspended CEO have met to chart an away forward.

6. With regards to the slow rate of transformation, the presenters stated that the challenge remained for the cidb work out sustainable mechanisms to assist contractors from historically disadvantaged backgrounds who remained mostly in grades one to six, to advance to the higher grades.
7. Members of the Committee and the presenters discussed the importance of infrastructure spending, stating that the challenge remained that there was a lack of skill, experience and capacity to spend allocated funding so that the sector can deliver on infrastructure. This was discussed with reference to thirteen billion rands (R13 billion) having been returned to National Treasury in this financial year. The cidb identified the need for competence standards to be developed to assist infrastructure development partners across the spheres of government to ensure effective implementation of infrastructure delivery.

Achievements

The cidb reported the following achievements for the year under review:

- The cidb published the draft regulations on prompt payment in May 2015.
- In March 2015, the cidb charged 15 companies registered on the Register of Contractors for contravening the cidb Code of Conduct for involvement in construction procurement.⁷⁸ This action follows from the admission of guilt to the Completion Commission by construction companies of collusion in construction.
- Engaged the National Treasury to identify potential areas of integration between the Register of Contractors and the Central Supplier Database and improve efficiency in registration.⁷⁹
- During the year under review, the cidb improved its understanding of the challenges faced by Grade 1 contractors. This followed from a study

⁷⁸ cidb (2016), p. 18.

⁷⁹ cidb (2016), p. 20.

conducted into the profile of Grade 1 contractors and the factors that influence companies to enter into construction at this Grade.⁸⁰

- The cidb undertook a review of labour and work conditions in the South African Construction Industry, with specific reference to semi-skilled and unskilled workers.⁸¹
- Undertook a feasibility study on the export of contracting services. The study recommended that the Built Environment Professions Export Council to broaden its mandate and membership to include the contracting sector.⁸²
- In the latter part of 2015/16 financial year, the cidb commenced the rollout of the information technology (IT) bandwidth infrastructure, which seeks to improve the processing and turnaround times of registrations.⁸³
- To date, the stakeholders have endorsed the following best practices and standards:
 - cidb best practices for Professional Service Providers: Management Systems.
- The following best practice are under consultation:⁸⁴
 - cidb Best Practice: Membership of Voluntary Associations and the cidb Standard for Professional Service Provider Performance Reports for Professional Service in Engineering and Construction Works.
- The cidb has partnered with the Department of Higher Education and Training (DHET) to facilitate the development and subsequent registration of construction qualifications with the Quality Council for Trade and Occupations (QCTO).⁸⁵
- The qualification will be developed in partnership with industry and be submitted to the QCTO for registration against occupations registered on the National Organising Framework for Occupations.⁸⁶

⁸⁰ cidb (2016), p. 20.

⁸¹ cidb (2016), p. 29.

⁸² cidb (2016), p. 30.

⁸³ cidb (2016a) p 23.

⁸⁴ cidb (2016a) p 23.

⁸⁵ cidb (2016a) p 26.

⁸⁶ cidb (2016a) p 26.

Challenges

The cidb reported the following challenges for the year under review:

- A contractor (Madulidi CC) registered on the cidb Register of Contractors instituted a case in the High Court against the cidb challenging their grading in terms of the cidb registration criteria.⁸⁷
- According to an assessment of the Consulting Engineers South Africa's (CESA) membership data, only around 15% of consulting engineering companies have black ownership exceeding 50%.⁸⁸
- The CESA data highlighted that the percentage of black executives has increased moderately from 30% (2012: Q4) to 40% in the 2nd Quarter of 2015.
-

Grading of Contractors

The total number of contractors (from Grade 1 to 9) registered on the cidb Register of Contractors equals 148 690.⁸⁹ The highest number, 132 265 (88.9%) is found at Grade 1 level. This is followed by Grade 2, with 5 588 (3.8%) registered contractors.

There are 438 (0.3%) registered at Grade 8 and the least number of 204 (0.1%) contractors are registered at Grade 9 level.

The cidb reported that the General Building (GB) and Civil Engineering (CE) in the country in Grade 2 to 4 and Grade 7 to 8 are 95% and 70% black-owned.⁹⁰ However, black ownership is lower in mechanical, electrical and specialist engineering contractors and significantly lower in Grade 9 at around 25% to 30%. Despite a significantly lower black ownership in Grade 9, a steady increase has been experienced:⁹¹

- “Black ownership of Grade 9 both in CE and GB classes of work has improved from 25% to 33% and from 30% in GB to 40%.
- On average, 50% of all small general building and civil engineering contractors have women ownership exceeding 30%.

⁸⁷ cidb (2016), p. 20.

⁸⁸ cidb (2016), p. 24.

⁸⁹ cidb (2016), p. 29.

⁹⁰ cidb (2016), p. 24.

⁹¹ cidb (2016), p. 24.

- Only around 30% of medium to large contractors (Grade 7 and 8 are women-owned), this also includes a significantly lower percentage of women ownership at grade 9 at 7%.”

•
There are a total of 140 registered Grade 9 contractors across the 9 provinces. The largest number is concentrated in Gauteng with 93 head offices; however, it should be noted that these large firms conduct operations across all the provinces.

The second largest total 18 Grade 9 construction companies were situated in the Western Cape, followed by KwaZulu-Natal where there were 15.

The North West reported 1 Grade 9 construction company, while the Northern Cape reported none.

The above statistics indicates the slow pace of transformation in the construction industry. The Portfolio Committee on Public Works has noted this trend during its interactions with the cidb in the past.

Report on Revenue and Expenditure

The cidb's total income for the 2015/16 financial year totalled R150.4 million. This constitutes a decline of R1.1 million from the R151.6 million received in 2014/15. A total of R65.6 million was in the form of a grant from the Department of Public Works.⁹² The grant declined by R11.6 million from the R77.0 million received in 2014/15.

Finance Income increased by R2.2 million in 2015/16, from R7.2 million in 2014/15, to 9.3 million.

Other income declined by R711 660 to R45 731 during the year under review, from the R757 391 received in 2014/15.

Contractor fines increased significantly by R425 000 to R490 000 in 2015/16 from R65 000 in 2014/15.

Total expenditure for the same period amounted to R133.3 million and constitutes an increase of R3.2 million from the R130.1 million expended in

⁹² cidb (2016), p. 79.

2014/15. The entity's surplus for the year amounted to R16.2 million, and constitutes a decline of R4.9 million from the R21.2 million of 2014/15.

The cidb received R38.9 million in **Assessment Fees** during the year under review, which is an increase of R5.8 million from the R33.1 million received in 2014/15. The Annual Fees for 2015/16 equal R36.1 million, an increase by R2.9 million from R33.2 million in 2014/15.

The **operating expenses** of the cidb equal R50.1 million for 2015/16, which is an increase of R3.5 million from R46.6 million in 2014/15.

A total of 121 729 in bad debt was written-off during the year under review. This constitutes a decline of R86 355 from R208 084 that was written-off in 2014/15.

*Operating Expenses*⁹³

- R15.2 million on Consulting and Professional Fees, an increase of R1.6 million from R13.6 million spent in 2014/15.
- R5.9 million on Legal Fees, an increase of R4.8 million from the R1.1 million spent in 2014/15.
- R776 372 on Advertising, a decline of R1.5 million from R2.3 million spent in 2014/15.
- R5 951 in Audit Committee Remuneration, a decline of R138 976 from R144 927 spent in 2014/15.

Contingent Liabilities

The cidb reported the following contingent liabilities:⁹⁴

- R16.2 million in accumulated surplus was classified as a contingent liability as the cidb did not receive any approval from National Treasury to retain these funds. This is a decline of R17.9 million from R34.2 million reported in 2014/15.
 - In terms of Public Finance Management Act (No. 1 of 1999) (PFMA) Section 53 (3) entities are not allowed to accumulate surpluses unless approved by National Treasury.

⁹³ cidb (2016), p. 85.

⁹⁴ cidb (2016), p. 82.

- The cidb is obliged to repay to National Treasury any amount of the surplus not granted for retention.
- At the time of reporting, the cidb was engaging National Treasury regarding the surplus.
- R3 million Security Bond was pledged by the cidb related to a labour Court case which has not been finalised, as disclosed in the 2014/15 Annual Report.
 - The R3 million Security Bond, was necessitated as the contingent liability could not be fully estimated.
- R100 515 in unpaid invoices was disclosed in the 2014/15 financial year as a contingent liability.
 - The unpaid invoices were not paid by the cidb during the year under review and were not further disputed by the Service Provider.

Areas of weakness noted from the report by the Auditor-General⁹⁵

The cidb received an unqualified audit opinion from the Auditor-General with matters of emphasis.

The matters of emphasis included:

- The provision for the performance bonuses incorrectly raised in previous financial statements.

Expenditure Management

Effective steps were not taken to prevent irregular expenditure, amounting to R2 348 338, as disclosed in the note 29 of the Annual Financial Statements (AFS), as required by section 38(1)(c)(ii) of the PFMA and Treasury Regulation (TR) 9.1.1.

The following instances of irregular expenditure were noted where action was taken in some instances:⁹⁶

- R106 325 was incurred due to a lack of supporting documentation of SCM processes followed when the tender was awarded to a new Service Provider.
- R17 642 was incurred due to a lack of a contract.
- R6 515 was incurred due to an expired contract.

⁹⁵ cidb (2016) pp.92 – 93.

⁹⁶ cidb (2016) pp.52 – 53.

- R380 974 was incurred due to not following SCM processes in the deviation and extension of the scope of the contract.
- R764 041 was incurred due to inconsistency in the evaluation of functionality.

The following instances of irregular expenditure are under investigation:

- R49 290 was incurred due to a lack of SBD forms and Tax Clearance Certificate.
- R874 791 was incurred due to a lack of a valid Tax Clearance Certificate.
- R148 760 was incurred, due to not following SCM processes. The matter is currently under investigation.

Consequence Management

- Strengthen and enforce the cidb regulations to reduce construction risk, all forms of fraud and corruption in the sector.
- Build, capacitate and enhance compliance in the industry to deliver quality infrastructure in the country.

Internal Control

- There were significant internal control deficiencies that resulted in the findings on the Annual Performance Report and findings on non-compliance with legislation.

Financial and Performance Management

- Management did not adequately monitor adherence to the requirement of the Treasury Regulations relating to supply chain management (SCM) processes, resulting in irregular expenditure.

9.4. Agrément South Africa

Legislation

Since 1969, Agrément SA has been operating under Ministerial Delegation of the Minister of Public Works for the past 47 years

- During the year under review, the Agrément South Africa Act (No. 11 of 2015) was enacted in December 2015.⁹
- The Act allows Agrément SA to become a juristic persona, subject to the Public Finance Management Act (No. 1 of 1999).

- The Act further removes the challenge of the funding mechanism whereby the Entity's transfer came from Goods and Services. This funding method by the Department of Public Works was challenged by the Auditor-General.
- A Transitional Task Team (led by the Department of Public Works) will oversee the formation of the newly formed Public Entity.
- The Transitional Task Team include: representative from the Board and Management of Agrément SA, the Departments of Public Works and Science and Technology and the CSIR.

Achievements

During the year under review, Agrément South Africa highlighted some of its activities which had local and international impact. These included the following:

- Received an unqualified audit opinion from the Auditor-General for the 2015/16 financial year, consistent with previous' years audit outcomes.
- Approved un-plasticised polyvinyl chloride water pipes (replacing mild steel water pipes); pressed steel roofing tiles (used as an alternative to concrete roofing tiles); and innovative road pavement systems that offer enhanced performance over traditional road surfacing materials.⁹⁷
- Certified innovative weight-in-motion systems, to measure the weight of trucks in motion saving logistics companies' time as they do not need to stop at weighbridges.
- Approved access control doors which provide controlled and secure access in banks, offices, consulting rooms and other similar facilities.⁹⁸
- Some of the innovative construction technologies have the potential to fast track infrastructure development in rural areas.¹⁶
- The Department of Public Works piloted projects using innovative construction technologies.

Financial Statements of Agrément South Africa

Below is a breakdown of the financial statements by Agrément South Africa for the 2014/15 and 2015/16 financial years. The table indicates that

⁹⁷ Agrément SA (2016), p. 15.

⁹⁸ Agrément SA (2016), p. 16.

Agrément South Africa received its funding from a number of sources and these sources of income for the year under review, are presented below.

Operating Income increased by R2.22 million to R13.88 million from R11.66 million in 2014/15.

Total Operating Expenses increased by R2.04 million from R11.48 million in 2014/15 to R13.52 million in 2015/16.

Total Contract Income increased by R1.62 million from R1.98 million in 2014/15 to R3.60 million in 2015/16. The income of the three Sectors increased as follows:⁹⁹

- **Local Private Sector** contract income of R1.82 million in 2014/15 financial year increased by R1.50 million, to R3.33 million in 2015/16.
- **Local Public Sector** contract income increased significantly as it received R19 000 income in 2015/16 from the R0 it received in 2014/15.
- **International Sector** contract income increased by R93 974 from R160 196 in 2014/15 to R254 167 in 2015/16.

Employees' Remuneration¹⁰⁰ increased by R1.29 million, from R5.93 million in 2014/15, to R7.22 million in 2015/16.

Depreciation decreased significantly by R241 379 from R516 002 in the 2014/15 to R274 623 in the 2015/16 financial year.

Operating Expenses increased by R997 579, from R5.03 million in the 2014/15 to R6.03 million in the 2015/16 financial year.

Margin for the Year increased by R158 782 from a total of R367 242 in 2014/15 to R526 024 in the 2015/16 financial year.

Agrément South Africa Audit

Agrément South Africa is audited as part of the CSIR Built Environment Unit. The CSIR received an unqualified audit report for the past 12 years.

The Internal Audit Services (IAS) of the CSIR reported that as at 31 March 2016, management calculated interest to the amount of R162 267, which was allocated to Agrément SA based on the compound interest method.²³

⁹⁹ Agrément SA (2015), p. 16.

¹⁰⁰ Agrément SA reports Salaries as Employees Remuneration. ²³ Agrément SA (2016), p. 25.

The IAS performed the following audit procedures which were found to be satisfactory without any exceptions noted:²⁴

Supporting documents¹⁰¹ agreed with income.

- The labour hours were verified (on a sample per the accounting records), of the approved charge out rates.
- A random sample of selected running expenses corresponded to supporting documentation.
- Performed an annual review of key financial controls related to aspects of proper authorisation, validity/authenticity of transactions, proper records and did not yield any issues of concern.

Note of appreciation for engagement and responsiveness:

The Portfolio Committee commends the Minister and Deputy Minister of Public Works, the Department of Public Works, and the PMTE for the progress made in stabilising the Department and in operationalising the PMTE.

The Committee further notes the high level of cooperation of the Department, the PMTE, the IDT, CBE, CIDB, and ASA in its engagement, and reporting to the Committee.

The Portfolio Committee is specifically pleased that the Minister and DG responded to the recommendations that the Committee has made in meetings and specifically in the Budgetary Review and Recommendation Report of the 2014/15 financial year. This enabled the Committee to use the evidence provided in oversight meetings, visits, and preparatory work for the Budgetary Review and Recommendations Report reviewing the 2015/16 financial year.

10. Recommendations

The Portfolio Committee recommends that the Minister of Public Works:

- 10.1. Ensures that the Review of the Public Works White Papers is undertaken as per the Annual Performance Plan and Strategic Plan so

¹⁰¹ Agrément SA (2016), p. 24.

that the large amounts allocated to Programme 4 do not end up as a futile exercise.

- 10.2. Ensures that Programme 4, Property and Construction Industry Policy and Research complete the Revised Built Environment Professions (BEP) Policy by the second quarter of the 2016/17 financial year. The DPW should report on this matter to the Committee by the third quarter of the 2016/17 financial year on the status of this policy work, including on whether it was outsourced or not.
- 10.3. Ensures that the DPW reports to the Committee on the training it provides to the provinces and the municipalities on the verification of data, incentive grants, and compliance to the Division of Revenue Act (DoRA) to ensure that underspending is prevented in the 2016/17 financial year.
- 10.4. Ensures that the DPW reports to the Committee in the 2016/17 financial year on the reasons why it managed to settle only 75% of its stated 100% target of compliant invoices within the stipulated 30-day period.
- 10.5. Ensures that the DPW provide a comprehensive report to the Committee on the completion of the Immovable Asset Register as per the Government Immovable Asset Register's Act (GIAMA). The report should cover the following key aspects:
 - 10.5.1. The timeframe when the verified Immovable Asset Register will be submitted to Parliament;
 - 10.5.2. The intergovernmental relations challenges that arise out of the attempts to ensure government properties are properly maintained, and regularly assessed and valued so that optimal investment value can be extracted from these immovable assets;
 - 10.5.3. The process along which the verification of properties to ensure that government does not pay rates for buildings that do not belong to it has taken place across the three spheres of government.
- 10.6. Reports to the Committee on what the challenges were that prevented the DPW to sign the Service Level Agreement with Parliament in the 2016/17 financial year.

- 10.7. Reports to the Committee on reasons why the EPWP Programme failed to provide any employment opportunities in the School Beautification Project in the 2015/16 financial year.
- 10.8. Reports to the Committee on the training that is provided through the EPWP programme to provinces and municipalities to ensure that properly verified data is processed, that incentive grants targets are achieved, and grants to provincial departments do not have to be withheld as happened in the 2015/16 financial year.
- 10.9. Reports to the Committee by the 2016/17 financial year on the status of the draft CIDB amendment Bill.
- 10.10. Instructs the CBE to concretely address the challenges relating to the stability at top and senior management levels and report to the Committee by the 2016/17 financial year.
- 10.11. Instructs the CBE Board to put processes in place to ensure proper financial management and internal control systems for the early identification of weaknesses that give rise to fruitless and wasteful, and irregular expenditure.
- 10.12. Instructs the CBE to improve the manner in which it reports information in the Annual Report. From the budget allocations reported per programme, it appears as if a fraction of the budget is spent on the implementation of the programme's targets.
- 10.13. Instructs the CBE to provide a comprehensive report to the Committee on practical steps it has taken to address the transformation of the Built Environment Professional Environment to ensure that the throughput rate of specifically black and female graduates in the six built environment professions is vastly improved.
- 10.14. Instructs the IDT to report to the Committee before the end of the 2015/16 financial year (by March 2017) on the steps it has taken to address the leadership challenges, key staff losses in especially the project management, accounts, and financial management units of the organisation.
- 10.15. Instructs the IDT to report to the Committee on the concrete governance and administrative steps it has taken to deal with the

balances valued at R874 million that was a matter raised by the AG due to supporting reconciliations being unavailable.

10.16. Ensures that the PMTE addresses all matters raised by the AG in its emphasis of matter and report to the Committee before March 2017 on specifically:

10.16.1. The process the PMTE has undertaken to enhance accurately collated reports on financial and performance management;

10.16.2. Improving capacity and optimal functioning in the risk management and internal audit units to reduce risk and internal deficiencies within the entity;

10.16.3. Other steps it has undertaken to ensure that it gets a clean audit that is cleared of items referring to irregular expenditure, and fruitless and wasteful expenditure in the 2016/17 financial year.

Report to be considered.

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