Budgetary Review and Recommendation Report of the Portfolio Committee on Public Works on the performance of the national Department of Public Works, dated 10 October 2017

1. Introduction

The budgetary review and recommendation report (BRRR) is a key part of the oversight responsibility of this Portfolio Committee[1]. In this report, the Committee focuses on the policy imperatives that the Minister of Public Works (as executive authority[2]) put in place to guide government's leadership over the built environment and construction sector. The national Department of Public Works (DPW), the Property Management Trading Entity (PMTE), and the entities must translate these built environment and construction policies into funded programmes and ensure its implementation. While the Minister can be referred to as the policy arm, the department and entities can be viewed as the implementing arm of the public works sector.

This means that the implementing arm must submit Annual Performance Plans in which they state properly defined targets and timeframes for implementation. The policy leader and his or her office must in turn monitor and track[3] to ensure that implementation would take place with the allocated funds. This tracking takes place through regular meetings with and monthly reports from the Director-General (the accounting authority[4]) and top management to ensure that quarterly performance reports[5] show progress towards stated targets. The Minister further holds regular meetings with Members of Executive Councils (MECs) that function as provincial public works policy leaders as well as local government leaders. These important engagements have the objective to ensure that intergovernmental coordination take place and the implementation of programmes are possible.

The Minister as policy leader serves as the first level of oversight over the implementing arm. The oversight role may take varied forms. The policy leader keeps a check on how the implementing arm translates policy into implementable programmes. He or she also keeps a quarterly check[6] on how the DG as accounting officer and the senior management team uses the allocated budget to achieve predetermined targets that are stated in the five-year Strategic Plan and Annual Performance Plan.

The Committee serves as the second level of oversight. As already stated, the focus is on the Minister as policy leader in guiding the work of the implementing arm. Its oversight similarly to that of the Minister, keeps a check on the translation of policy into implementable programmes, the manner in which programmes are turned into well-defined targets over manageable timeframes, and how the allocated budget is spent to reach those predetermined targets over the period of expenditure[7].

The oversight that other structures, departments, and organisations[8] do over departments and entities are not ignored here. In fact, the information that they generate serve as resources and tools for oversight by the Minister as policy leader, and the Committee as parliamentary oversight structure.

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[1] The Money Bills Amendment and Related Matters Act (2009).
[2] The Public Finance Management Act (PFMA), section 1(a).
[3] The ownership roles and reporting responsibilities of Minister are specified in the PFMA sections 63, 64 and 65.
[4] The general management, financial control and reporting responsibilities of accounting officers are found in the entire sections 38 to 45 of the PFMA. The DG also has to provide monthly and annual reports in prescribed formats to the Treasury and the Minister on financial matters and system controls. This is described in S 40(4)(b) and (c).
[5] The PFMA S39
[6] The PFMA S63(1)(b)
[7] The PFMA S 40(1)(d),(e) and (f).
[8] We refer to the important work of the Department of Performance Monitoring and Evaluation in the Presidency, the Public Service Commission, the National Treasury, Statistics South Africa, the Auditor-General, the Development Bank of South Africa, and other Committees of Parliament, and national and international academic institutions.

As per stated legislation, this report is firmly focused on the responsibilities of the Minister to strengthen the performance of the DPW and the public works entities. The performances of the Department and entities that is reported in the Annual Reports over the 2016/17 financial year (01 April 2016 to 31 March 2017), is also a reflection on the oversight that the Minister and the Committee has done over this period.

The mandate of the DPW:

Schedule 4, Part A that describes the "Functional Areas of Concurrent National and Provincial Legislative Competence" in the Constitution of the Republic of South Africa describes the legal mandate of the DPW.

Further detail of the mandate as custodian of government's immovable properties is given in the Government Immovable Assets Management Act (GIAMA) (2007).

Under the policy leadership and guidance of the Minister, the Department provides the official accommodation of all national departments. It provides construction, maintenance, and property management services to all client departments at national level. It further provides expert built environment services related to the planning, acquisition, management and disposal of immovable assets to the government.

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). The department plays a coordinating and capacity-enhancement role with provincial and local government counterparts to ensure the implementation of the third phase of the EPWP.

Under the Minister's guidance, the Department is further responsible for the following built environment and construction entities:

- Agrément South Africa (ASA).
- Construction Industry Development Board (CIDB).[9]
- Council for the Built Environment (CBE).[10]
- 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 the Department that it leads, uses the budgetary allocation to translate policy into implementable programmes. Committees of the National Assembly submit annual budget 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)[11]. The Committee's oversight focus is on how the national executive authority developed, regulated and tracked the implementation of public works policy through the

Department's programmes. The Committee does this by monitoring how the department and entities as implementing arm used the allocated funds to perform its mandated functions to ensure socio economic improvement.

2. Evidence that the Committee used

The monitoring mentioned above takes place through weekly meetings with the Minister, the Department and the entities. The Committee also visits public works project sites and interact with project managers, workers, officials and beneficiaries.

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

[10] 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.

[11] The Money Bills Amendment and Related Matters Act (2009).

In performing its duty to assess the Annual reports and Annual Financial Statements, the Committee follows the procedure as set out in the Money Bills Amendment and Related Matters Act (2009).

To assess the performance of the Department and the public works entities, the Committee used the following evidence:

1. The Department's five-year Strategic Plan, Annual Performance Plan, 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[12] as per Section 32 of the Public Finance Management Act (PFMA);
4. Financial performance statements in the 2016/17 Annual Report;
5. The oversight events of the Portfolio Committee on Public Works in the period under review including the deliberations on the presentations on the Annual reports and annual financial statements;
6. The performance audit of the Auditor-General on the DPW's financial statements for the 2016/17 financial year;
7. The performance audit of the Auditor-General on the financial statements of the entities reporting to the Minister of Public Works for the 2016/17 financial year.

3. 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 a reasonable 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.

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

In his meeting with the Committee on 3 October 2017[13], the Minister of Public Works re-stated the following Government priorities as forming 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 (MTSF). The following outcomes as described in the National Development Plan (NDP) guides what the Minister emphasised:

(a) Outcome 4 - Decent employment through inclusive economic growth. The Department designed phase three 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 - 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 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.

[12] The Committee could use the Quarterly Performance Reports for the first and second quarters of the current financial year only. In spite of several communication to the DPW, the third and fourth quarter reports were not submitted to the Committee.
[13] In his presentation to the Committee on 3 October 2017, the Minister stressed the policy imperatives of the NDP as stated in government's MTSF.

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 6 - An Efficient Competitive and Responsive Economic Infrastructure Network: As the DPW is the custodian of all immovable assets, the policy leader stated a commitment to ensuring that the maintenance of these assets are effectively done. The Minister affirmed the leading policy role over the public works sector and that he would ensure that the DPW, PMTE and entities play the coordinating role with relevant infrastructure-related departments to ensure that there is no degradation of assets and infrastructure. The Minister would ensure that relevant implementable policy exist for the enforcement of maintenance instruments. As leader of the Department, he or she must ensure that the DG and top management use the allocated budget in manners that is effectively used for maintenance programmes. In addition, the Minister would work with the top management and Boards of entities to monitoring compliance with public works policy. The Government Immovable Asset Management Act (GIAMA) and the National Infrastructure Maintenance Strategy (NIMS) are government's tools to ensure that this outcome is reached. The DPW, PMTE and entities are the Minister's tools with which to reach outcome 6 in coordinating public works functions with other infrastructure delivery departments.

(d) Outcome 12 – An efficient, effective and development-oriented public service. This outcome is in line with the Constitution of the Republic of South Africa (1996) that envisages a public service that is professional, accountable and development-oriented. The NDP shows awareness that "there is unevenness in capacity that leads to uneven performance in the public service. This is caused by a complex set of factors, including tensions in the political-administrative interface, instability of administrative leadership, skills deficits, insufficient attention to the role of the state in reproducing the skills it needs, the erosion of accountability and authority, poor organizational design and low staff morale." Importantly, it states clearly that there have been "challenges in achieving constructive relations between departments and between the spheres of government, and a reluctance to manage the system on a day-to-day basis has created tension and instability. Steps are needed to strengthen skills, enhance morale, clarify lines of accountability and build an ethos of public service."[14]

(e) Outcome 13 - "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

Since the previous financial year (2015/16), the Annual Performance Plan included the separation of the functions of the 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."

[14] Medium Term Strategic Framework (MTSF) Appendix 12.

The Turnaround Strategy importantly, includes the re-alignment of the Department to secure a better 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.

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.

4. Overall Expenditure of the DPW for the 2016/17 financial year

We provide a brief summary of the expenditure of the Department of Public Works for the current financial year.

The Department of Public Works received a budget allocation of R6.51 billion for 2016/17 with which to accomplish the policy priorities established by the Minister of Public Works.

The Department reported on thirty-two targets for the 2016/17 financial year. Nineteen targets were achieved but thirteen were not achieved. The table below provides an overview of expenditure per programme for 2015/16 and 2016/17 respectively.

4.1. Expenditure Trend of Department for 2015/16 and 2016/17[15]

Programme	Final Appropriation 2015/16 (R' million)	Expenditure 2015/16 (R' million)	Final Appropriation 2016/17 (R' million)	Expenditure 2016/17 (R' million)
1: Administration	480,3	479,2	516,0	450,4
2. Intergovernmental Coordination	46,0	44,8	28,6	16,5
3. Expanded Public Works Programme	1 953,4	1 939,9	2 319,5	2 301,5
4. Property and Construction Industry Policy and Research	3 742,9	3 735,4	3 553,1	3547,1
5. Prestige Policy	89,5	81,9	95,6	87,9
Total	**6 312,2**	**6 281,2**	**6 512,8**	**6403,4**

The rate of expenditure for this financial year is reported as 98.3% which means that the DPW and PMTE did not use R109 million of the R6.5 billion that was allocated through the budget.

4.2. Matters that emerged

4.2.1. Underspending

The R109 million that the DPW and PMTE reported as underspent was supposed to have been spent on the following[16]:

Programme 1: Administration total underspending of R66 million

[15] Sourced from National Treasury Quarterly Reports (2016 and 2017)
[16] DPW Annual Report, 2016/17, p. 60

• **Compensation of employees - R13 million** as positions remained vacant during the financial year, and was not filled as the review of the organisational structure remained incomplete.
• **Goods and services - R45 million** due to lower municipal services costs due to the implementation of the energy and water efficiency programme as directed by National Treasury. In line with the improved audit outcomes in the previous financial years, departmental spending on audit fees decreased significantly due to the associated lower risk. Note that this is described here as an actual saving yet it was reported as underspending.
• **Machinery and equipment** - **R6.8 million** was not spent due to a delay in the planned acquisition of assets.

Programme 2: Intergovernmental Coordination total underspending R12 million

• **Compensation of employees** - **R6.3 million** due to the delay in capacitating the newly established Professional Services and Intergovernmental Coordination branches in line with the revised approved organisational structure.
• **Goods and services** - **R3.8 million** due to low spending on planned activities for the newly established branches resulting from delay in filling of vacant positions.
• **Machinery and equipment** - **R1.7 million** is due to delay in planned acquisition of assets resulting from unfilled vacant positions for the newly established branches.

Programme 3: Expanded Public Works Programme total underspending of R18 million
This mainly relates to goods and services. The underspending was due to a delay in the implementation of the *social, environment and culture projects*.

Programme 4: Property and Construction Industry Policy and Research - R5.8 million
Underspending of R5.8 million in Programme 4 was on compensation of employees due to vacant positions that were not filled during the financial year.

Programme 5: Prestige Policy - R7.6 million
Underspending in Programme 5 related to R5 million for compensation of employees due to vacant positions in the branch that were only filled in the latter part of the financial year. Machinery and equipment underspent by R2.6 million.

4.2.2. The need to strengthen Internal Control in the DPW

The main vote remains unqualified for the third year since the Turnaround Plan was initiated. There were however, no improvements on the following matters raised in the audit of the previous (2015/16) financial year:

- The AG did not identify any material findings on the usefulness and reliability of the reported performance information for Programme 2, Intergovernmental Coordination, and Programme 4, Property and Construction Industry Policy Regulations.[17]
- 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.
- 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*:[18]
    - o 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*:

[17] Department of Public Works (2016), p. 146.
[18] Department of Public Works (2016), p. 147.

    - 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 with 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.
- *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.

4.2.3. An urgent need for Leadership Stability, and Consistency in Financial Management Systems

In the Committee's Budget Review and Recommendation Report for the 2015/16 financial year, the Committee raised the following matters. These issues have re-emerged in deliberations with the DPW in the Committee's three-day meetings from 3 to 5 October 2017. It is clear that urgent attention is required to prevent future regression of the DPW:

1. The need for stable leadership:

The DPW and PMTE had several vacancies in leadership positions namely, the Director-General of the DPW and the Head of the PMTE. This was a return to the situation prior to the Turnaround Plan. It caused the DPW to fall into disarray in the past. The Committee warned that the Minister must give urgent attention to this matter.

The Committee further raised the need for the DPW leadership to ensure that it had an adequate Information and Communications Telecommunications (ICT) strategy and system in place. The annual financial statements showed expenditure on a number of software packages, yet there was a lack of record keeping and data management. The DPW further reported that it stopped the purchase of at least one software package due to the underperformance of the IT consultant. At leadership levels decisions on acquisitions were not properly executed, tracked and monitored. This required urgent attention in the future.

2. The need for a succession plan:

The key to ensure stability in leadership is to ensure that the operations and financial management systems have more than one tier of leadership. In this way, the policy leader is ensured of the development of a second tier of leaders who have in-depth knowledge of the DPW and the infrastructure and built environment sector. Especially since the recent departure of the DG and the Head of the PMTE, the Committee is very concerned that there was no evidence of a strategic intervention in this regard.

3. Financial and Performance Management:

There was a need for management to have regular meetings to review compliance with legislation and financial regulation. This is particularly concerning in the DPW where there were signs of inadequate attention to the key matters that are required to implement information technology controls.

5. The Property Management Trading Entity (PMTE)

5.1. Financial Performance for 2016/17

The PMTE received an allocation of R3.6 billion for 2016/17 from the R3.7 billion of the previous year, which constitutes a decrease of R189.9 million. The following table shows the comparative revenue, expenditure and surplus for the current financial year.[19]

	2017 (R'000)	**2016 (R'000)**
Revenue	**15 480 666**	**15 243 520**
Revenue from exchange transactions	10 723 790	10 979 654
Revenue from non-exchange transactions	4 502 349	4 007 578
Construction revenue	254 527	256 288
Expenditure	**14 500 053**	**14 840 645**
Construction expenditure	254 527	256 288
Depreciation, amortisation & impairments on assets	2 759 619	2 604 388
Employee benefit costs	1 500 867	1 310 136
Impairment loss on receivables	303 576	472 356
Interest expense	88 088	245 407
Loss on disposal/transfer of assets	356 928	5 186
Operating leases	4 181 195	4 078 024
Property maintenance	2 855 115	2 982 061
Property Rates	1 038 319	1 125 442
Sundry operating expenses	1 161 819	1 761 157
Surplus/ (deficit) for the year	**980 613**	**402 875**

This section provides an analysis of a select number of issues highlighted in the table above.

The total **revenue** of the PMTE increased by R237.2 million to R15.5 billion in 2016/17 from R10.2 billion in 2015/16. This is mainly due to the additional revenue of R494.8 million under non-exchange transactions from R4.0 billion in 2015/16 to R4.5 billion in 2016/17.

The **revenue from non-exchange transactions** are "transactions where the entity receives value from another entity without directly giving approximately equal value in exchange."[20]

The **revenue from exchange transactions** decreased by R255.9 million to R10.7 billion in 2016/17 from R10.9 billion in 2015/16.

Revenue from exchange transactions was mainly generated from accommodation charges on leasehold intergovernmental property; freehold private; management fees on municipal services; sundry revenue and interest revenue, for example.[21]

The PMTE's **interest expense** decreased by R157.3 million to R88.1 million during the year under review, from the R247.4 in 2015/16. This was mainly due to the following:[22]

[19] Department of Public Works (2017), p. 235.
[20] Department of Public Works (2017), p. 253.
[21] Department of Public Works (2017), p. 253.
[22] Department of Public Works (2017), p. 270 & p. 272. See note 16 of the financial statements.

- Interest on overdue accounts decreased by R782 000 in 2016/17 to R106 000 from R888 000 in 2015/16.
- Interest on municipal services and property rates decreased by R157.6 million to R85.9 million from R243.6 million in 2015/16.
- Interest on finance leases increased by R1.0 million to R1.991 million in 2016/17 from R942 000 in 2015/16.

The R106 000 is allocated towards interest due on backlog municipal services and property rates that has 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.[23]

Loss on disposal/transfer of assets increased by R351.7 million in 2016/17 to R356.9 million from R5.2 million in 2015/16.[24] This increase was mainly due to the disposal of property, plant and equipment amounting to R346 million, relating to the change in ownership of 249 land parcels in 2016/17. The matter is currently under investigation as the 249 land parcels of 266 identified properties on the Deeds download changed ownership with no formal disposal process followed.[25]

Operating lease increased by R103.2 million to R4.2 billion in 2016/17 from R4.1 billion in 2015/16. This was mainly due to an increase of:

- R112.7 million (from R4.0 billion to R4.1 billion in 2016/17) on operating leases – building and improvements.

Sundry operating expenses decreased by R599.5 million to R1.2 billion in 2016/17 from R1.8 billion in 2015/16. A select number of expenses will be noted below to highlight some of the decreases.[26]

- R12.8 million (to R1.9 million in 2016/17 from R14.7 million in 2015/16) on Bad debt written off.
- R1.4 million (to R37 000 in 2016/17 from R1.4 million in 2015/16) on Claims against the State.
- R550.9 million (to R258.9 million in 2016/17 from R809.8 million in 2015/16) on Municipal service expenses.
- R6.3 million (to R12.2 million in 2016/17 from R18.5 million in 2015/16) on Fleet expenses.
- R8.6 million (to R11.4 million in 2016/17 from R19.9 million in 2015/16) on Computer software-related expenses.
- R0 (from R187.2 million in 2015/16) on service-in-kind receivable derecognised.

The following select **Sundry operating expenses** also increased:

- R79.4 million (to R290.5 million in 2016/17 from R211 million in 2015/16) on Consulting fees.[27]
- R15.3 million (to R76.2 million in 2016/17 from R60.9 million in 2015/16) on Security.
- R16.1 million (to R21.4 million in 2016/17 from R5.4 million in 2015/16) on Service in-kind expenses.
- R10.4 million (to R12.2 million in 2016/17 from R1.7 million in 2015/16) on other goods and services.
- R109 000 (to R305 0000 in 2016/17 from R196 0000 in 2015/16) on Bank charges
- R4.1 million (from R0 million in 2015/16) on Bursaries.

The PMTE reported a bank overdraft of R1.93 billion for 2016/17. This is an increase of R463.6 million from the R1.47 billion in 2015/16.[28]

[23] Department of Public Works (2017), p. 270 & p. 258. See note 3, prepaid expenses of R1.3 billion under Non-financial assets.
[24] Department of Public Works (2017), p. 235.
[25] Department of Public Works (2017), p. 263.
[26] Department of Public Works (2017), p. 274.
[27] The Consulting fees includes an amount of R149 million paid to the Special Investigating Unit for investigation purposes and R29 million to the COEGA Development Corporation for business improvements and process reviews.
[28] Department of Public Works (2017), p. 260.

It also reported a **surplus** of R980.6 million, an increase of R577.7 million from the R402.9 million surplus in 2015/16.[29]

5.2. Matters that emerged:

5.2.1. The annual financial statements of the PMTE showed signs of regression:

The AG expressed an adverse opinion on the PMTE's annual financial statements. In 2015/16 it received a qualified opinion which means its situation had worsened.

As part of the auditing process, the entity was given time to correct errors and omissions in its financial statement that it submitted on 7 July 2017. There were no improvements in the quality of the financial statements and schedules that it subsequently submitted for auditing purposes.

5.2.2. Inadequate control caused a regression:

(a) Property, Plant and equipment (PPE):

The entity used the incorrect data to determine the value of assets in the Immovable Asset Register.

(b). Accrued expenses:

The entity did not have adequate systems to maintain its records.

The stated accrued expenses could therefore not be proved, as there was no supporting documentation to the effect.

(c) Receivables:

The PMTE did not have supporting documentation that was needed to prove the amounts that was recoverable from client departments.

(d) Unscheduled maintenance:

Due to the lack of systems to record and manage maintenance, the entity could not provide supporting documentation for scheduled maintenance to client departments.

5.2.3. Financial control and administration sections were under resourced:

In the oversight activities and engagements with the DPW and PMTE during meetings in this financial year, officials made statements that committed themselves to ensuring that daily activities would be imbued with solid risk management practices.

Unfortunately, the evidence in the annual financial statement and the audit performance report of the AG showed that this was not part and parcel of the daily practice of the PMTE.

The PMTE reported that its risk management function was under-resourced and that this was the main reason for several misstatements and omissions in its reports.

The PMTE was facing serious problems about the use of the budgetary allocation for human resources. This Committee raised this in several reports since the 2014/15 financial year and the consequences of not giving the requisite attention to this, was starting to show negative effects.

The rest of the report deals with matters that emerged during oversight over the public works entities that report to the Minister of Public Works.

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

[29] Department of Public Works (2017), p. 235.

6.1. The Independent Development Trust (IDT)

6.1.1. Background

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 sector that reports to the Minister of Public Works. The IDT is currently a Schedule 2A Public Entity governed by a Deed of Trust.

It provides programme and project management capacity, along with social facilitation, in the construction and maintenance of social infrastructure on behalf of government departments. This includes the construction and maintenance of schools, clinics, magistrates' courts, and community centres. Client departments pay the IDT for its services. The entity reported that due to fiscal constraints faced by client departments, payments were not always made on time for services rendered. This resulted in the IDT struggling with cash flow that was needed to pay contractors.

In spite of the important role of the entity, its institutional structure is inappropriate for its current developmental operations and activities. During the last financial years (2014/15 and 2015/16) the entity faced leadership challenges, and suffered key staff losses in especially the project management, accounts, and financial management units of the organisation. The entity reported that it continued struggling to collect management fees from projects that it managed for client departments. This was so in spite of an increase in projects. In order to ensure that the client departments paid management fees, National Treasury issued an instruction note to accounting officers of departments, accounting authorities of entities listed in schedules 2 and 3 of the PFMA, and head officials of provincial treasuries.[30]

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 managed. The entity 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 previous 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.

6.1.2. 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 meant that the organisation could not realistically be expected to do well with basic project, accounts and financial management. It had 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 was unable 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).

6.1.3. Issues in the Annual Financial Statements

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

[30] National Treasury Instruction No. 4 of 2014/15 as accessed from www.treasury.gov.za/

Areas that emerged for future oversight attention:

(a) **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 that means that it may have to procure outside expertise to assist a turnaround in these areas.

(b) Programme cash, cash equivalents, and programme reserves and liabilities

It must be noted that these matters came to light already 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 previous financial year, 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 completed before audit finalisation for the 2015/16 financial year.

In the previous financial year, the entity promised that it would have been completed in this 2016/17 financial year. In the IDT's report submitted and reported to Parliament this year, this promise remained unfulfilled.

(c) 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.

(d) Non-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 55[31] (1) (a) and (b) of the PFMA;

[31] 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".

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.

(e) Procurement and contract management - contravention of the PFMA

- Goods, works or services were not always procured through a procurement process that 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."*

(f) Weak Expenditure Management - contravention of the PFMA

Effective steps were not taken to prevent irregular expenditure as per the PFMA section 51 (1) (b)(ii)[32].The amount of R4.943 755 as in note 14 of the financial statement is a reduction from the R6 million that was stated in note 14.2 in the financial statement of the previous year. The IDT reported that it was pursuing the recovery of the prior year's fruitless and wasteful expenditure from responsible officials. R3.9 million was under litigation with one official while two others signed acknowledgments of debt to the values of R680 000 and R484 000 respectively.

(g) 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 was concerned that the growth of the IDT's workload was 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.

In the previous financial year (2015/16) the DPW's Construction and Property Policy Research Programme was in the process of developing a Business Case for the IDT to

[32] This sections state that the accounting authorities must "prevent irregular expenditure, fruitless and wasteful expenditure, losses resulting from criminal conduct, and expenditure not complying with the operational policies of the public entity".

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. During the Annual Report meetings with the Committee from 3 to 5 October 2017, the DPW and IDT could not report progress in this regard.

(h) Imbursements to the IDT

To ensure that it could continue operating as a going concern, DPW transferred the following amounts[33] to the IDT through Programme 4, Property and Construction Industry Policy and Research:

Year	**Amount**
2013/14	R50.8 million
2014/15	R100 million
2015/16	R50 million

For ease of reference we provide an extract from the 2016 Estimated National Expenditure published by National Treasury:

Expenditure trends and estimates

Table 11.9 Property and Construction Industry Policy and Research expenditure trends and estimates by subprogramme and economic classification

Subprogramme	Audited outcome			Adjusted appropriation	Average growth rate (%)	Expenditure/ Total: Average (%)	Medium-term expenditure estimate			Average growth rate (%)	Expenditure/ Total: Average (%)
R million	2012/13	2013/14	2014/15	2015/16	2012/13 - 2015/16		2016/17	2017/18	2018/19	2015/16 - 2018/19	
Construction Policy Development Programme	18.0	19.1	18.7	25.6	12.5%	0.5%	26.2	27.5	29.2	4.5%	0.7%
Property Policy Development Programme	8.9	13.7	12.6	11.4	8.4%	0.3%	12.7	14.0	14.9	9.4%	0.3%
Construction Industry Development Board	67.6	72.4	77.2	65.6	-1.0%	1.9%	52.1	75.0	75.2	4.6%	1.7%
Council for the Built Environment	28.1	38.0	41.6	42.0	14.3%	1.0%	43.4	48.6	51.4	7.0%	1.2%
Independent Development Trust	50.8	100.0	50.0	50.0	-0.5%	1.6%	–	–	–	-100.0%	0.3%
Construction Education and Training Authority	1.3	1.5	1.6	0.5	-27.8%	–	0.5	0.5	0.5	4.8%	–
Property Management Trading Entity	4 749.9	3 061.6	3 044.0	3 524.7	-9.5%	94.1%	3 405.4	3 872.6	4 108.5	5.2%	95.1%
Assistance to Organisations for the Preservation of National Memorials	15.4	17.6	22.5	23.3	14.7%	0.5%	24.8	26.0	27.5	5.8%	0.6%
Total	**4 940.0**	**3 323.7**	**3 268.3**	**3 743.0**	**-8.8%**	**100.0%**	**3 565.1**	**4 064.2**	**4 307.2**	**4.8%**	**100.0%**
Change to 2015 Budget estimate				(60.0)			(395.6)	(156.0)	(157.8)		

Including the above payments, this extract shows that the information that National Treasury had in 2016, meant that it estimated that no further payments would be made to the IDT over the Medium Term Expenditure Framework (2016/17 to 2018/19).

This situation seems to have changed. During the engagement with the Minister, the DPW and entities from 3 to 5 October 2017, the Committee heard that the IDT received an additional R111 million through negotiations with the National Treasury. Members were concerned that the Committee as oversight mechanism over the Executive Authority was not provided with the information that made Treasury change from what it stated in the 2016 ENE. The Committee made it clear that this matter required clarification in the near future.

6.2. The Council for the Built Environment (CBE)

6.2.1. Background

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.

[33] National Treasury, Estimate of National Expenditure, 2016

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 was agreement amongst all stakeholders that, given the need for infrastructure development and maintenance, the need to transform the built environment professions was serious and needed urgent action.

6.2.2. Overall Performance for the 2016/17 financial year

The CBE achieved 73% of its targets, while 27% were not achieved.

The entity received an unqualified audit opinion from the Auditor-General for the 2015/16 financial year. The Committee was impressed that this was continued in the 2016/17 financial year.

6.2.3. Matters that emerged:

(a) Dealing with Irregular Expenditure of 2015/16

In the 2015/16 financial year the CBE reported irregular expenditure of R6.8 million, which was an increase of R2.3 million from the R4.5 million that was reported in the 2014/15 financial year. The irregular expenditure of R2.3 million was incurred due to:[34]

- 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.

(b) Responsiveness of Internal Financial Administration and Management Controls
The Committee was pleased to hear that all the above identified irregular expenditure had been addressed in this financial year. The CBE's internal financial administration and management controls functioned optimally and no new instances of irregular expenditure was incurred during this financial year.

6.3. The Construction Industry Development Board (CIDB)

6.3.1. The Mandate of the Entity
The mandate of the CIDB is to:[35]

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

The CIDB Board established an Ad Hoc Committee that started a process of interrogating manners in which the entity could deliver more effectively on its stated mandate. The work of this Ad Hoc Committee, the CIDB Board could report that the following key areas required attention:

- Align the powers of the organisation with the intended outcomes of the

[34] CBE (2016), p. 124.
[35] CIDB, (2014), p. 8.

legislation that created it;

- Align the powers and functions of the CIDB with industry needs and expectations;
- Strengthen the entity's powers and authority to regulate the industry;
- Remove areas of ambiguity and vagueness in the roles and responsibilities of the CIDB; and
- Reconcile the seemingly conflicting and contradictory dual role of the CIDB to regulate and develop the construction industry.

These areas were extensively interrogated by working together with the CIDB management during the period under review. The Committee was established to interrogate CIDB legislation and its attendant Construction Industry Development Regulations, with the aim to provide a comprehensive and informed CIDB input to a Public Works initiative to have the CIDB Act reviewed.

6.3.2. Other matters that emerged from deliberations:

Opinion by the Auditor-General on the financial statements:

The CIDB received an unqualified audit with the following areas of attention:

- Reliability and accuracy of its financial statements were questioned due to evidence required in its portfolio of evidence (POE)
- R1 477 599 irregular expenditure disclosed in note 29 of the annual financial statement
- Management of vacancies
- Daily and monthly processing and reconciling of transactions
- Non-compliance related to monitoring.

These raised as matters that require future attention. If these matters were not given the necessary attention through a consequence management plan, the entity may regress in the following financial year.

The entity put plans in place to track and monitor action plans to ensure a clean audit report in the following financial year.

6.3.3. Using the Allocated Budget to reach Targets

The allocated budget was used to achieve 71% of outcomes were achieved - 29% were not achieved. The Annual Report showed evidence that the CIDB did not have adequate human resources to ensure that the target to provide an effective and efficient registration and manage the contractors' registers was constrained due to a lack of human resources. The Committee made it clear that it was not acceptable that the allocated budget for human resources was spent, yet the contractors register was not sufficiently managed. This required urgent future attention.

Similarly, concerning the target to provide an effective and efficient registration service, the necessary software solutions, and rolling out of planned software was halted but the allocated budget was spent.

The CIDB wanted to install an IT system that was required to check on Companies and Intellectual Properties Commission (CIPC) Annual Tax Returns for tax clearance. This would make registration easier and seamless. However, due to challenges this could not be rolled out but would be worked on in the future.

Concerning 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.

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.

Concerning the grading of contractors, it was established that grading could not continue to 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 was continued to be used as main criteria.

6.4. Agrément South Africa

6.4.1. Background:

- Agrément SA has been operating under Ministerial Delegation of the Minister of Public Works since 1969.
- 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 arrangement by the Department of Public Works caused negative opinions to be expressed on the DPW's financial statements by the Auditor-General.
- With the enactment of Act 11 of 2015, the Executive Authority ensured that the DPW's financial reporting and control was further stabilised.

6.4.2. Transitioning to a legal public entity

- The organisation was reported as being in its transitional phase to be a fully operational going concern on 1 April 2018;
- The Minister of Public Works as policy leader ensured that the DPW played a leading role in the Transitional Task Team that oversaw the formation of the newly formed public entity.
- The Transitional Task Team comprised of representatives from the Board and management of Agrément South Africa, the National Departments of Public Works and Science and Technology as well as the CSIR.
- The Transitional Task Team assisted in managing the transitional arrangements to ensure Agrément South Africa continued to operate as a going concern.
- The Transitional Task Team handed over the operational tasks of human capital, finance, legal, communications and facilities management to the management of the ASA.

6.4.3. Performance output

During the year under review, the ASA certified and met as follows:

	Actual 2016/17	**2010/11**	**2011/12**	**2012/13**	**2013/14**	**2014/15**	**2015/16**
Applications received:	35	29	36	33	33	33	28
Evaluation offers made:	32	24	33	30	30	33	22
Evaluation offers accepted:	32	19	16	24	24	25	20

Certificates issued	29	15	20	31	31	23	38
No. of Board meetings	4	3	4	4	4	4	4

6.4.4. Financial Statements of Agrément South Africa

The comparative financial performance of this financial year with previous years was reported as follows:

	2016/2017	2015/2016	2014/2015	2013/2014	2012/2013
Total Income	**15,140,296**	**13,883,126**	**11,660,485**	**11,056,266**	**9,947,491**
Grant Received	10,862,281	10,268,368	9,667,544	9,121,053	8,692,992
Contract Income	**4,274,881**	**3,600,093**	**1,983,429**	**1,930,963**	**1,240,329**
Local private sector	3,684,620	3,326,926	1,823,233	1,688,133	1,138,529
Local public sector	45,000	19,000	-	5,000	31,400
International sector	545,261	254,167	160,196	237,830	70,400
Other income	3,134	14,665	9,512	4,250	14,170
Total Expenses	**14,825,767**	**13,519,369**	**11,475,091**	**10,911,181**	**10,298,870**
Employee remuneration	7,866,386	7,215,711	5,927,633	5,624,813	5,411,237
Depreciation	236,590	274,623	516,002	278,171	439,947
Operating expenses (admin)	6,722,791	6,029,035	5,031,456	5,008,197	4,447,686
Margin before Finance income	**314,529**	**363,757**	**185,394**	**145,085**	**-351,379**
Finance income	260,575	162,267	181,848	162,442	185,755
Margin for the year	**575,104**	**526,024**	**367,242**	**307,527**	**-165,624**

6.4.5. Audit opinion of the AG on the Agrément South Africa annual financial statements

The Committee appreciated the role of the Minister and DPW senior management for the leading role it played in the transitioning of the ASA to a legal public entity of the public works sector.

It further congratulated the Board and management of the ASA on having received a clean audit for this financial year.

7. Portfolio Committee on Public Works - Note of appreciation for engagement and responsiveness:

The Portfolio Committee stated its appreciation to the Minister and Deputy Minister of Public Works, the Department of Public Works, the PMTE and the Boards and administration components of each of the entities for the fruitful engagements over the last financial year.

The Committee was specifically pleased at the willingness of the Department, the PMTE, the IDT, CBE, CIDB, and ASA to engage and report to the Committee at regular intervals. It was particularly pleasing that senior management accompanied the Committee on several oversight visits to projects.

The Portfolio Committee was however, concerned about the lack of reporting on the DPW and PMTE’s quarterly performance report during the financial year.

It was further important that the Minister and senior management had to find ways to strengthen its tracking of findings and recommendations that the Committee made in its meeting minutes and oversight reports.

8. Recommendations:

The Portfolio Committee recommends that the Minister of Public Works:

8.1. Ensures that the Review of the Public Works White Papers are undertaken as per the Annual Performance Plan and Strategic Plan so that the large amounts allocated to Programme 4 does not end up as a futile exercise. The review should include implementation guidelines for EPWP to address the systemic abuse of employment processes. The Committee requires a response in the first quarter of 2018.

8.2. Ensures that the DPW and the PMTE timeously report on its quarterly financial performance to this Committee.

8.3. Ensures that in addition to the quarterly financial performance reports, the PMTE reports to the Committee on a quarterly basis on specifically, the focused efforts to capacitate its financial controls and ICT systems to ensure proper management of government's immovable assets in the Immovable Asset Register.

8.4. Ensures that the DPW and IDT Board report to the Committee on the reconstitution and rescheduling of the entity, including the latest payments that were made to it.

8.5. Ensures that the intergovernmental coordination and data control, verification, and submission processes of the EPWP has properly capacitated staff and ICT systems to prevent future adverse opinions from the AG.

8.6. Guides the Agrément South Africa through regulation so that the marketing of fit-for-use built environment and construction systems and products are available for use by the public and other infrastructure departments of government.

8.7. Ensures that the DG and top management strictly complies with the financial control, administration and management as set out in the PFMA as it affects the handing over of completed projects to communities in rural areas as evidenced by the Committee's oversight visit to the community of Centuli in the Eastern Cape. A report on the 429 irregularly transferred properties (mentioned on page 12 of this report) must be submitted to this Committee within 6 months.

8.8. Ensures that the DPW and PMTE pay invoices and municipal debt on time to avert continuous litigation from service providers and stresses that were placed on municipal service delivery.

8.9. Takes urgent regulatory steps to ensure that the ethos of anti-corruption, financial control and accountability, and compliance to legal prescripts, encompassed in the phased turnaround strategy of 2012 permeates every single echelon and the daily practices of the DPW and the PMTE. In this way the stability that was gained and successes that were reached are sustained and become a permanent characteristic of the Department of Public Works.

Report to be considered.