Page no.	Finding	Classification					Rating			Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters		
Immovable assets											
	COFF 20 HO-Differences in deemed cost calculation multi-story building	X					X				In progress
	COFF 40 HO-Differences in land value as results of differences in land extend	X					X				In progress
	COFF 47 HO-Differences in deemed calculation(GIS&DOD)	X					X				In progress
	COFF11 HO-Meaningless or invalid MVR values allocated to properties	X					X				In progress
	COFF 39 HO-Duplicate AVL land parcels	X					X				In progress
	COFF 51 HO-Immovable assets differences identified during physical verification	X					X				In progress
	COFF 41 HO-Immovable assets rights and obligation	X					X				In progress
	COFF 55 HO-Immovable assets depreciation	X					X				In progress
	COFF 25 HO-Investment Property-Rights and Obligations (BI) management response	X						X			In progress
	COFF 28 HO-Heritage Assets - Assets not correctly classified (Classification)	X						X			In progress
	COFF 29 HO - Heritage Assets - (AUC) - Differences noted between schedule and disclosure note	X						X			In progress
Movable Assets											
	COFF 15 - Differences noted between FAR and AFS	X						X			In progress
Intangible assets											

Page no.	Finding	Classification					Rating			Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters		
	COFF 27 - Intangible Assets - Differences noted in commitment disclosed.	X						X			In progress
Assets under construction and Property maintenance											
	MMB COFF 07 -Incorrect classification	X					X				In progress
	MMB COFF 03 -Incorrect classification	X					X				In progress
	KBY COFF 01 -Incorrect classification	X					X				In progress
	JHB COFF 05 -Assets under construction	X					X				In progress
	COFF 36 HO- Assets Under Construction - Project completed not capitalised	X						X			In progress
Operating lease revenue and expenditure											
	COFF 60 HO-Operating lease expenditure and revenue	X					X				In progress
	COFF 45 HO-Operating lease assets and liability	X						X			In progress
	COFF 61 HO-Operating lease commitment	X						X			In progress
	COFF 23 HO-Prepaid lease misstatement	X						X			In progress
	COFF 59 HO-Lease contract month to month			X			X				In progress
	COFF 09 HO-Lease overpayment			X				X			In progress
	COFF 43 HO- Lease overpayment			X				X			In progress
	COFF 46 HO-Lease agreement not signed				X				X		In progress
Receivables from exchange transactions											
	COFF 57 HO-Impairment Provision – Municipal services	X						X			In progress
Provisions											

Page no.	Finding	Classification					Rating			Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters		
	COFF 30 HO-Overstatement of provision (Backlogs)	X						X			In progress
	PTA COFF 06; PE COFF 03 Overstatement of provisions	X						X			In progress
	MMB COFF 02-Overstatement of provision	X						X			In progress
	MTH COFF 06-Overstatement of provision	X						X			In progress
	NSP COFF 01-Overstatement of provision	X						X			In progress
Payable from exchange transaction											
	CPT COFF 10-Incorrect recording of accruals	X						X			In progress
	PTA COFF 09-Overstatement of accruals	X						X			In progress
	CPT COFF 13,JHB COFF 08-Duplicates on D2D	X						X			In progress
	JHB COFF 04-Overstatement of scheduled maintenance	X						X			In progress
	MMB COFF 05-Ovestatement of WSC accruals	X						X			In progress
	NSP COFF 03-Overstatement of day to day	X						X			In progress
	HO COFF 18-Duplicates of WCS accruals	X						X			In progress
Commitments											
	JHB COFF 06-Overstatement of commitment	X						X			In progress
	PE COFF 02-Overstatement of commitment	X						X			In progress
	PTA COFF 11-Understatement of commitment	X						X			In progress
	CPT COFF 11-Understatement of commitment	X						X			In progress

Page no.	Finding	Classification					Rating			Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters		
Bank overdraft											
	COFF 54 HO-PMTE bank in overdraft	X						X			In progress
Predetermined objective – Programme 03											
	COFF 13 HO-Method of calculation not aligned		X				X				In progress
	COFF 35 HO-Reported achievement not verifiable		X				X				In progress
	COFF 50 HO-Under reporting achievement		X				X				In progress
	COFF 49 HO-Over reporting achievement		X				X				In progress
	COFF 17 HO-Strategic objective not reported in 2019/20 annual performance report		X					X			In progress
	COFF 14 HO-Details per schedule does not agree to details per POE		X					X			In progress
Procurement and contract Management											
	COFF 38 HO-Irregularities Identified in Beitbridge Project.			X			X				In progress
	COFF 37 HO-Irregularities in Lindela House - Collated Response 23 September 2020			X			X				In progress
	JHB COFF10-Deficiencies in contract management at Leeuwkop			X			X				In progress
	JHB COFF 09 -Expenditure in excess of 20% of contract price			X			X				In progress
	CPT COFF 06-Incorrect procurement process followed-award to supplier that was supposed to be disqualified			X			X				In progress
	CPT COFF 07-Incorrect procurement process-Highest scoring bidder not awarded contract			X			X				In progress
	PTA COFF 07 PTA-Extension of time with financial impact			X			X				In progress
	PTA COFF 05 - CIDB requirements not met			X			X				In progress

Page no.	Finding	Classification: Misstatements in financial statements	Classification: Misstatements in annual performance report	Classification: Non-compliance with legislation	Classification: Internal control deficiency	Classification: Service delivery	Rating: Matters affecting the auditor's report	Rating: Other important matters	Rating: Administrative matters	Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
	DBN COFF 01 - Quotations pre-qualifying criteria			X			X				In progress
	PTA COFF 01 PTA; CPT COFF 04 - Possible splitting of Quotations			X			X				In progress
	JHB COFF 02, DBN COFF 02, COFF 03 HO Deviation not justifiable			X			X				In progress
	PTA COFF 03-Limitation of Scope - Procurement and contract management			X			X				In progress
	JHB COFF 03, PTA COFF 02 & BLM COFF 01 - Publish of awards on eTender Publication and Government Tender Bulletin			X				X			In progress
Expenditure Management											
	CPT COFF 02, CPT COFF 12, MTH COFF 04, HO COFF 08, COFF HO 53, JHB COFF 07, MMB COFF 06, NSP COFF 02, PLK COFF 02, PTA COFF 12 - Payment not made within 30 days			X				X			In progress
Irregular and Fruitless and wasteful Expenditure											
	COFF 21 HO-Irregular expenditure disclosure	X		X			X				In progress
	COFF 10 HO-Irregular, fruitless and wasteful expenditure disclosure	X		X				X			
	COFF 16 HO - C-Max follow up conclusion	X		X				X			In progress
	PTA COFF 08 -Fruitless and wasteful expenditure	X		X				X			In progress
	DBN COFF 06 - Duplicate payments made to suppliers			X				X			In progress
Other Important Matters											
Information systems – user access management											
	Inadequately designed user access management policies				X				X	1	In progress
	Inadequate implementation of user access controls on GIS				X				X	4	In progress
	Inadequate implementation of user access management controls on SAGE				X				X	4	In progress

Page no.	Finding	Classification					Rating			Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters		
	Inadequate implementation of user access management controls on PMIS				X				X	1	In progress
	Inadequate implementation of user access management controls on WCS				X				X	1	In progress
	Inadequate implementation of user access management controls on Archibus				X				X	1	In progress
	Inadequate implementation of user access management controls on WORX4U				X				X	1	In progress
Information systems – change management											
	Inadequate change management process				X				X	4	In progress
Information systems – information technology service continuity											
	Inadequate IT service continuity controls				X				X	4	In progress

DETAILED AUDIT FINDINGS: ANNEXURES A TO C

ANNEXURE A: MATTERS AFFECTING THE AUDITOR'S REPORT

Immovable assets

DETAILED AUDIT FINDING

Immovable assets: Differences in the deemed cost for multi-story buildings COFF 20 HO

Audit finding

Requirements

Section 40(a) and (b)of the Public Finance Management Act (PFMA) states that: *"The accounting officer for a department, trading entity or constitutional institution must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards; must prepare financial statements for each financial year in accordance with generally recognized accounting practice…"*

Generally, Recognised Accounting Practice (GRAP) 17 paragraph 38 states that*: "If there is no market-based evidence of fair value because of the specialised nature of the item of plant and equipment, an entity may need to estimate fair value using, for example, either reproduction cost or depreciated replacement cost. The depreciated replacement cost of an item of plant or equipment may be established by reference to the market buying price of components used to produce the asset or the indexed price for the same or a similar asset based on a price for a previous period. When the indexed price method is used, judgement is required to determine whether production technology has changed significantly over the period, and whether the capacity of the reference asset is the same as that of the asset being valued…."*

Directive 7 paragraph 6 states that: *"When an entity initially recognises or acquires an asset using the Standards of GRAP, it measures such assets using either cost or fair value (acquisition cost). Where the acquisition cost of an asset is not available on the adoption of the Standards of GRAP or on the transfer date or the merger date (initial acquisition), acquisition cost is measured using a surrogate value (deemed cost) at the date an entity adopts the Standards of GRAP or on the transfer date or the merger date (measurement date). Deemed cost is determined as the fair value of an asset at the measurement date…"*

Directive 7 paragraph 10(a) to (c) states that: *"If fair value at the measurement date cannot be determined for an item of property, plant and equipment, investment property or a heritage asset, an entity may estimate such fair value using depreciated replacement cost at the measurement date for an item of property, plant and equipment; depreciated replacement cost at the measurement date for an investment property, but only if the investment property is of such a specialised nature that there is no market-based evidence of fair value; and replacement cost at the measurement date for heritage assets…"*

Chapter 4.3.4(a) to (d) of the Model for applying municipal values, comparative municipal values/ sales and replacement costs as deemed cost of immovable assets of the Property Management Trading Entity (PMTE) as at 1 April 2013 outlines the process for Determining the Building Value states that*: "Building Cost information from reference sites such as **"AECOM – Africa Property and Construction handbook"** will be used in consultation with National DPW's Valuations unit. Calculate the building value using the building indices and DPW's 2014/15 physical verification information. From the building cost information sources obtain the rate per square meter of the type of improvement and multiply by the extent of the buildings to get the building value. Use the condition assessment from the DPW 2014/15 physical assessment rating to adjust the calculated replacement cost to determine the value of the building; Determine the building's extent through the use of GIS or another method where GIS is not considered appropriate…"*

Nature

During the audit of immovable assets, we noted that the deemed cost value included on the immovable asset register (IAR) did not agree to the recalculated deemed cost value done by auditors. The calculation was done based on the following assumptions:

The number of floors included on the IAR is correct. The accuracy of the number of floors will be confirmed during the physical verification. Refer to the table below.

Property plant and Equipment - Multi-Story Sample

Table A – Improvements

No	Building Id	Accommodation Type	Recalculated Deemed cost less components in Rands	Deemed cost as per IAR in Rands	Differences in Rands
1	200000079886	MAGISTRATES COURT	243 501 219	222 777 711	20 723 508
2	2109550219	MAGISTRATES COURT	66 942 720	58 574 880	8 367 840
3	200000029099	POLICE STATION	31 415 904	27 488 916	3 926 988
4	100000033808	MAGISTRATES COURT	21 779 752	19 758 951	2 020 802
5	200000061587	OFFICE	8 850 495	8 761 096	89 399
6	100000045562	WORKSHOP	3 562 104	3 489 408	72 696
7	200000089142	OFFICE	358 031 232	343 113 264	14 917 968
8	211050036	POLICE STATION	276 493 033	264 972 490	11 520 543
9	200000136389	OFFICE	221 180 037	214 339 417	6 840 620
10	218700037	POLICE STATION	255 340 566	206 445 564	48 895 002
11	200000089396	MAGISTRATES COURT	186 314 856	182 512 512	3 802 344
12	200000115105	MAGISTRATES COURT	160 382 040	151 940 880	8 441 160
13	200000037529	MAGISTRATES COURT	93 694 419	91 782 288	1 912 131
14	200000048861	MAGISTRATES COURT	88 506 939	87 612 929	894 009
15	100000040750	POLICE STATION	73 528 884	72 786 168	742 716
16	227500997	POLICE STATION	71 896 653	69 673 045	2 223 608
17	200000080666	MAGISTRATES COURT	59 931 493	59 326 125	605 369
18	219850921	POLICE STATION	56 035 688	54 302 625	1 733 063
19	200000084877	OFFICE	51 988 032	49 821 864	2 166 168
20	100000036142	RESIDENTIAL ACCOMMODATION	42 367 671	41 939 714	427 956
21	200000061724	POLICE STATION	32 588 365	32 259 190	329 175
22	200000032849	MAGISTRATES COURT	21 304 384	20 645 485	658 898

No	Building Id	Accommodation Type	Recalculated Deemed cost less components in Rands	Deemed cost as per IAR in Rands	Differences in Rands
Total			**2 425 636 484**	**2 284 324 521**	**141 311 963**

Table B – Components

No	Building Id	Component Description	Recalculated deemed cost (Components)	Component value as per IAR	Differences
1	200000079886	HVAC AIRCONDITIONING AND VENTILATION/ LIFTS / ELEVATORS/ ELECTRICALS – GENERATOR	15 542 631	18 133 070	(2 590 439)

Heritage assets - Multi-Story Sample

Table A – Improvements

No	Building Id	Accommodation Type	Recalculated Deemed cost less components in Rands	Deemed cost as per IAR in Rands	Differences in Rands
1	200000032321	MUSEUM	102 173 214	96 906 553	5 266 661
2	200000032310	MAGISTRATES COURT	109 287 360	95 626 440	13 660 920
3	100000024957	POLICE STATION	12 567 737	12 440 790	126 947
4	200000032299	MUSEUM	12 370 932	11 855 476	515 455
5	200000032300	MUSEUM	9 007 122	8 823 303	183 819
6	100000042524	PARKING	8 299 879	8 216 042	83 837
7	200000028353	MUSEUM	5 928 992	5 869 103	59 889
8	200000028509	MUSEUM	5 864 832	5 805 591	59 241
9	200000032308	MAGISTRATES COURT	5 893 793	5 157 069	736 724

10	208450804	MUSEUM	4 320 950	4 277 304	43 646
Total			**275 714 810**	**254 977 672**	**20 737 138**

Table B - Components

No	Building Id	Component Description	Recalculated deemed cost (Components)	Component value as per IAR	Differences
1	200000032321	Security/Access Control/ Lift / Elevator/ Generator	3 159 996	4 213 328	(1 053 332)

Impact

Based on the sample tested,

Property plant and equipment (Deemed cost) is understated by R 138 721 525.
Heritage assets (Deemed cost) is understated by R19 683 806.

However, management should revisit the whole population to determine the full impact of this finding.

Internal control deficiency

Financial and performance management

The entity did not implement a proper financial and reporting system to enable proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

Management didn’t properly review the deemed cost value recorded on the IAR to ensure that it was correctly calculated.

Recommendation

It is recommended that:

Management should review the deemed cost calculations where the replacement cost method was used to ensure that no errors have been made.

Management should revisit the whole population to determine the full impact of this finding and correct the population.

Management response

Management agrees with the finding.

Management to assess the impact of the finding and revisit the whole BI Population to ensure that all calculation is in line with the deemed cost position paper i.e. all components percentage allocation is applied correctly as per the deemed cost position paper.

Auditor’s conclusion

Management comment noted. The finding will remain on the management response.

Immovable assets: Differences on land value as a result of differences on the land extent COFF 40 HO

Audit finding

Requirements:

Section 40(a) and (b)of the Public Finance Management Act (PFMA) states that: "The accounting officer for a department, trading entity or constitutional institution must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards; must prepare financial statements for each financial year in accordance with generally recognized accounting practice…"

Generally, Recognised Accounting Practice (GRAP) 17 paragraph 38 states that: "If there is no market-based evidence of fair value because of the specialised nature of the item of plant and equipment, an entity may need to estimate fair value using, for example, either reproduction cost or depreciated replacement cost. The depreciated replacement cost of an item of plant or equipment may be established by reference to the market buying price of components used to produce the asset or the indexed price for the same or a similar asset based on a price for a previous period. When the indexed price method is used, judgement is required to determine whether production technology has changed significantly over the period, and whether the capacity of the reference asset is the same as that of the asset being valued…."

Directive 7 paragraph 6 states that: "When an entity initially recognises or acquires an asset using the Standards of GRAP, it measures such assets using either cost or fair value (acquisition cost). Where the acquisition cost of an asset is not available on the adoption of the Standards of GRAP or on the transfer date or the merger date (initial acquisition), acquisition cost is measured using a surrogate value (deemed cost) at the date an entity adopts the Standards of GRAP or on the transfer date or the merger date (measurement date). Deemed cost is determined as the fair value of an asset at the measurement date…"

Directive 7 paragraph 10 (a) to (c) states that: "If fair value at the measurement date cannot be determined for an item of property, plant and equipment, investment property or a heritage asset, an entity may estimate such fair value using depreciated replacement cost at the measurement date for an item of property, plant and equipment; depreciated replacement cost at the measurement date for an investment property, but only if the investment property is of such a specialized nature that there is no market-based evidence of fair value; and replacement cost at the measurement date for heritage assets…"

Chapter 4.3.3 (i) to (iv) of the Model for applying municipal values, comparative municipal values/ sales and replacement costs as deemed cost of immovable assets of the Property Management Trading Entity (PMTE) as at 1 April 2013 outlines the process for Determining the Land Value states that: "Land Value – use the comparable method to value the land – calculate average vacant land value per average extent for each town using the MVRs (vacant land value/ vacant land extent). Where there is no vacant land in a specific area, a similar area/ township with vacant land will be used to calculate the vacant land ratio. Distinguish the land between Erf's, Farms or Agricultural Holdings in obtaining the average vacant land rates. Apply the average vacant land to the actual extent in the IAR to calculate land value (average vacant land x actual IAR extent for the land parcel = land value)"

Nature

During the audit of immovable assets, we noted that land extent (in hectares) as disclosed in the immovable asset register (IAR) did not agree to the land extent as disclosed on the Aktex (Deeds report). This resulted to the following differences as shown in the table below:

Property Plant and Equipment: BI - GIS

No.	Unique Property Code	LPI Code (as per deeds aktex)	Land size in hectares (IAR)	Land size in hectares (Aktex)	Difference in land size (Formula driven)	Deemed cost as per (IAR)	Recalculated Deemed cost	Difference
1	200000062798	F02100020000061600000	0.10	1.71	1.62	146 717	8 218	138 499
2	200000062964	F00400020000051500000	0.04	1.67	1.63	63 290	8 022	55 268
3	DEEDS22272	C05300000000002100000	86 400.24	86 400.24	-	466 393 040	414 472 088	51 920 952
4	922701	C02700000000012500000	18 829.96	29 469.23	10 639.28	90 329 508	141 367 356	(51 037 848)
5	DD_31032017_18767	C09000000000005400000	4 760.40	66 205.66	61 445.26	22 836 205	317 596 323	(294 760 118)
6	DOD00050	F03100000000027700000	3 362.66	1.55	3 361.11	16 131 089	7 448	16 123 641
7	200000062683	F02600040000028100000	0.42	0.20	0.23	643 194	296 614	346 580
8	200000062209	C00700010000034900000	0.29	0.03	0.25	431 976	51 783	380 193
9	DEEDS94721	N0FT06710000057800000	0.11	0.10	0.02	193 747	167 703	26 044
Total						**597 168 766**	**873 975 555**	**(276 806 789)**

Heritage Assets: AVL

No.	Unique Property Code	LPI Code (as per deeds aktex)	Land size in hectares (IAR)	Land size in hectares (Aktex)	Difference in land size (Formula driven)	Deemed cost as per (IAR)	Recalculated Deemed cost	Differences

1	897801	C03900000000021800000	4 991,48	4 639,13	352,35	23 944 707	22 254 450	1 690 257
2	885311	C05400000000022000000	2 281,16	2 548,24	267,08	10 942 994	12 224 220	(1 281 226)
3	880101	C03900000000045000000	289,44	215,22	74,22	1 388 476	1 032 420	356 056
4	902151	C05100000000004900000	245,92	347,82	101,90	1 179 728	1 668 534	(488 806)
5	717571	C06100000000017500002	215.72	215.72	0	1 072 595	1 034 810	37 785
Total						**38 528 501**	**38 214 434**	**314 066**

Impact of the finding

Based on the sample tested,

Property plant and equipment (Deemed cost) is understated by R 276 806 789.
Heritage assets (Deemed cost) is overstated by R314 066.

However, management should revisit the whole population to determine the full impact of this finding.

Internal control deficiency

Financial and Performance Management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

Management didn’t properly review the land extent recorded on the IAR against the Aktex (Deeds support to ensure that all inputs have been correctly transferred to the IAR

Recommendation

It is recommended that adequate review process be implemented on the schedules and other information supporting the annual financial statement to ensure that the annual financial statements submitted are supported by accurate and complete schedules and information.

Furthermore, the land extent recorded on the IAR should be reviewed against the Aktex (Deeds support) to confirm that all inputs have been accurately transferred before finalizing immovable asset register.

Management should revisit the whole population to determine the full impact of this finding and correct the population.

Management response

Management partially agrees with the finding.

It should be noted that the extents as per the IAR were reviewed and adjusted to agree to the CSG (Chief Surveyor General) extents. AG has used the extents as per Deeds thus resulting in the discrepancies. Management will review the extents as per CSG against the extents as per Deeds.

Auditors Conclusion

Management response noted. In our view, management should have one approach on whether they rely on the deeds or the CSG (Chief Surveyor General) for the land extent rather than using these sources interchangeable. As per our understanding, management first rely on the deeds data for the extent, in the exceptional cases where the deeds don't provide reliable information, the CSG is used an as alternative source. Our audit approach followed this understanding. The finding will therefore remain.

Immovable assets – Differences in the deemed cost calculation COFF 47 HO

Audit Finding

Requirements

Section 40(a) and (b)of the Public Finance Management Act (PFMA) states that: "The accounting officer for a department, trading entity or constitutional institution must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards; must prepare financial statements for each financial year in accordance with generally recognized accounting practice…"

Generally, Recognised Accounting Practice (GRAP) 17 paragraph 38 states that: "If there is no market-based evidence of fair value because of the specialised nature of the item of plant and equipment, an entity may need to estimate fair value using, for example, either reproduction cost or depreciated replacement cost. The depreciated replacement cost of an item of plant or equipment may be established by reference to the market buying price of components used to produce the asset or the indexed price for the same or a similar asset based on a price for a previous period. When the indexed price method is used, judgement is required to determine whether production technology has changed significantly over the period, and whether the capacity of the reference asset is the same as that of the asset being valued…."

Directive 7 paragraph 6 states that: "When an entity initially recognises or acquires an asset using the Standards of GRAP, it measures such assets using either cost or fair value (acquisition cost). Where the acquisition cost of an asset is not available on the adoption of the Standards of GRAP or on the transfer date or the merger date (initial acquisition), acquisition cost is measured using a surrogate value (deemed cost) at the date an entity adopts the Standards of GRAP or on the transfer date or the merger date (measurement date). Deemed cost is determined as the fair value of an asset at the measurement date…"

Directive 7 paragraph 10(a) to (c) states that: "If fair value at the measurement date cannot be determined for an item of property, plant and equipment, investment property or a heritage asset, an entity may estimate such fair value using depreciated replacement cost at the measurement date for an item of property, plant and equipment; depreciated replacement cost at the measurement date for an investment property, but only if the investment property is of such a specialised nature that there is no market-based evidence of fair value; and replacement cost at the measurement date for heritage assets…"

*Chapter 4.3.4(a) to (d) of the Model for applying municipal values, comparative municipal values/ sales and replacement costs as deemed cost of immovable assets of the Property Management Trading Entity (PMTE) as at 1 April 2013 outlines the process for Determining the Building Value states that: "Building Cost information from reference sites such as **"AECOM – Africa Property and Construction handbook"** will be used in consultation with National DPW's Valuations unit. Calculate the building value using* *the building indices and DPW's 2014/15 physical verification information. From the building cost information sources obtain the rate per square meter of the type of improvement and multiply by the extent of the buildings to get the building value. Use the condition assessment from the DPW 2014/15 physical assessment rating to adjust the calculated replacement cost to determine the value of the building; Determine the building's extent through the use of GIS or another method where GIS is not considered appropriate…"*

Nature

During the audit of immovable assets, we noted that the extent of structure as disclosed on the immovable asset register (IAR) did not agree to the extent of structure as per GIS. Further, based on the recalculations performed we noted that there were differences between the recalculated depreciable replacement costs and the depreciable replacement cost as per immovable asset register. These differences were mainly due to the following:

- Incorrectly captured the extent of footprint on the IAR from GIS downloads. (*Refer to Table A*)
- Recalculation errors in the recalculated depreciable replacement cost. (*Refer to Table B & E*)

Furthermore, we noted that the condition assessment of DoD buildings disclosed on the immovable asset register (IAR) did not agree to the condition assessment as per DoD support. This resulted from Incorrectly capturing of the building's condition assessment on the IAR from DoD support. *(Refer to Table C)*

We have also noted that the DoD component value were noted deducted the deemed cost value included on the improvement register. This has resulted in the overstatement of the deemed cost value. (*Refer to Table D*)

PPE - BI (Table A)

No	Building Id	Site ID	Extent of footprint as per GIS Maps	Extent of structure as per IAR	Diff	Recalculated depreciable replacement cost excl component	Depreciable replacement cost excl component per asset register as per AIR	Difference
13	200000140312	100000048405	6 961	6 961	-	15 451 331	15 135 998	315 333
26	200000068744	100000048997	1 420	1 420	-	5 440 446	5 275 584	164 862

46	247650226	100000019328	146	146	-	440 920	697 880	(256 960)
53	242200676	200000070391	4 058	4 058	-	12 249 120	12 255 160	(6 040)
Total						**33 581 817**	**33 645 662**	**217 195**

PPE - BI (Table B)

No	Building Id	Site ID	Extent of footprint as per GIS Maps	Extent of structure as per IAR	Diff	Recalculated depreciable replacement cost excl component	Depreciable replacement cost excl component per asset register as per AIR	Difference
1	200000048172	100000018705	10 154	20 308	(10 154,00)	39 295 980	78 591 960	(39 295 980)
2	200000043649	100000047559	4 433	13 299	(8 866,00)	16 984 152	50 952 458	(33 968 305)
3	200000043650	100000047559	3 902	11 706	(7 804,00)	15 100 740	45 302 220	(30 201 480)
4	200000140319	100000048405	1 357	2 714	(1 357,00)	16 476 965	32 281 401	(15 804 436)
Total						**87 857 837**	**207 128 039**	**(119 270 201)**

Component

No	Building Id	Component Description	Recalculated deemed cost (Components)	Component value as per IAR	Differences in Rands
1	200000043649	Lift/Elevator	171 557	514 671	(343 114)

PPE – DoD (Table C)

IAR Number	Building Id	Site ID for FV pop	Unique prop code of land parcel/site	Average building condition as per IAR	Average building as per condition(round up)	Diff	Recalculated depreciable replacement cost excl component	Deemed cost as per IAR	Difference
109177	DODBLD12787	DODDB2648	2560151	60%	20%	40%	16 604 622	49 813 866	(33 209 244)
108932	DODBLD05586	DODDB2798	130739	60%	40%	20%	13 999 068	21 427 145	(7 428 076)
108117	DODBLD12790	DODDB2648	2560151	80%	20%	60%	4 998 289	14 994 866	(9 996 577)
1470127	DODBLD45032			60%	20%	40%	1 995 076	5 985 229	(3 990 152)
1470611	DODBLD44274			60%	20%	40%	1 112 847	3 338 542	(2 225 694)
1470338	DODBLD44781			60%	20%	40%	1 112 832	3 338 496	(2 225 664)
Total							**39 822 734**	**98 898 144**	**(59 075 407)**

Component

No	Building Id	Component Description	Recalculated deemed cost (Components)	Component value as per IAR	Differences in Rands
1	DODBLD05586	HVAC AIRCONDITIONING AND VENTILATION	285 695	21 148	264 547

PPE – DoD (Table D)

Building Id	Site ID	Site ID for FV pop	Unique prop code of land parcel/site	Average building condition as per IAR	Average building as per condition (round up)	Diff	Recalculated depreciable replacement cost excl component	Deemed cost as per IAR	Difference
DODBLD05553		DODDB2798	130739	60%	60%	0%	57 905 378	59 187 780	(1 282 401)

DODBLD09759	DODDB2561	DODDB2602		80%	80%	0%	36 835 948	37 208 028	(372 080)
DODBLD05941	DODDB1453	DODDB2798	130739	80%	80%	0%	36 447 288	37 191 110	(743 822)
DODBLD21381		DODDB1127		80%	80%	0%	30 908 592	31 220 800	(312 208)
DODBLD18796		DODDB0879	504451	80%	80%	0%	30 259 766	30 565 420	(305 654)
DODBLD34751	DODDB0260	DODDB0351	833913	80%	80%	0%	25 044 536	25 555 648	(511 112)
DODBLD05572	DODDB2496	DODDB2798	130739	60%	60%	0%	25 188 882	25 443 315	(254 433)
DODBLD05924		DODDB2798	130739	80%	80%	0%	20 984 519	21 412 774	(428 255)
DODBLD18795		DODDB0879	504451	80%	80%	0%	20 644 390	20 852 918	(208 529)
DODBLD31323		DODDB0252	777331	80%	80%	0%	11 754 249	11 872 979	(118 729)
DODBLD18737		DODDB0879	504451	80%	80%	0%	11 163 448	11 508 709	(345 261)
Total							**307 136 995**	**312 019 484**	**(4 882 488)**

Component

No	Building Id	Component Description	Recalculated deemed cost (Components)	Component value as per IAR	Differences in Rands
1	DODBLD05553	HVAC AIRCONDITIONING AND VENTILATION & ELECTRICAL – TRANSFORMER	1 282 401	137 465	1 144 936
2	DODBLD09759	LIFTS / ELEVATORS	372 080	22 190	349 891
3	DODBLD05941	HVAC HEATING/BOILERS/OIL	743 822	15 418	728 405
4	DODBLD18796	ELECTRICAL – TRANSFORMER	305 654	11 761	293 893
5	DODBLD34751	HVAC HEATING/BOILERS/OIL	511 113	22 570	488 543
6	DODBLD05572	LIFTS / ELEVATORS	254 433	10 574	243 859

7	DODBLD05924	HVAC HEATING/BOILERS/OIL	428 256	15 418	412 838
8	DODBLD18795	ELECTRICAL – TRANSFORMER	208 529	11 761	196 768
9	DODBLD31323	ELECTRICALS – GENERATOR	118 730	6 830	111 900
10	DODBLD18737	HVAC AIRCONDITIONING AND VENTILATION	345 261	129 373	215 888
Total			**4 570 280**	**383 359**	**4 186 920**

PPE – Measuring Wheel (Table E)

No	Building Id	Site ID	Extent of footprint as per measuring wheel	Extent of structure as per IAR	Recalculated depreciable replacement cost excl component	Depreciable replacement cost excl component per asset register as per AIR	Difference
1	240500181	100000046731	1 138	1 138	5 530 680	4 404 060	1 126 620
2	100000007219	100000037322	1 023	1 023	3 314 520	2 639 340	675 180
3	200000028035	100000031915	602	602	1 950 480	1 553 160	397 320
4	200000033985	100000048516	527	527	3 414 960	2 719 320	695 640
5	2000080024	100000036863	423	423	2 741 040	2 182 680	558 360
Total					**16 951 680**	**13 498 560**	**3 453 120**

Impact

Based on the sample tested, the property, plant and equipment (BI) depreciable replacement cost were overstated by R174 763 200, however management should revisit the whole population to determine the full impact of this finding.

Internal control deficiency

Financial and performance management

The entity did not implement a proper financial and reporting system to enable proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

Management didn't properly review the extent of structure recorded on the IAR against the GIS to ensure that all inputs have been correctly transferred to the IAR.

Recommendation

It is recommended that:

Management should ensure that immovable assets register (IAR) agrees to all supporting schedules before submission for audit. The extent of structure recorded to the IAR should be reviewed against the GIS to confirm that all inputs have been accurately transferred before finalising the register.

The buildings condition recorded on the IAR should be checked against the buildings conditional assessment as per the DoD supports to confirm that all inputs have been accurately transferred before finalising the register.

Management response

Management are in agreement with the finding

Auditor's conclusion

Management comment noted. The finding will be reported on the management report.

Immovable assets: Meaningless or Invalid MVR Values allocated to properties Coff 11 HO

Laws, rules and Regulations:

Section 40(a) and (b)of the Public Finance Management Act (PFMA) states that: "The accounting officer for a department, trading entity or constitutional institution must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards; must prepare financial statements for each financial year in accordance with generally recognized accounting practice…"

Generally, Recognised Accounting Practice (GRAP) 17 paragraph 38 states that: "If there is no market-based evidence of fair value because of the specialised nature of the item of plant and equipment, an entity may need to estimate fair value using, for example, either reproduction cost or depreciated replacement cost. The depreciated replacement cost of an item of plant or equipment may be established by reference to the market buying price of components used to produce the asset or the indexed price for the same or a similar asset based on a price for a previous period. When the indexed price method is used, judgement is required to determine whether production technology has changed significantly over the period, and whether the capacity of the reference asset is the same as that of the asset being valued…."

Directive 7 paragraph 6 states that: "When an entity initially recognises or acquires an asset using the Standards of GRAP, it measures such assets using either cost or fair value (acquisition cost). Where the acquisition cost of an asset is not available on the adoption of the Standards of GRAP or on the transfer date or the merger date (initial acquisition), acquisition cost is measured using a surrogate value (deemed cost) at the date an entity adopts the Standards of GRAP or on the transfer date or the merger date (measurement date). Deemed cost is determined as the fair value of an asset at the measurement date…"

*Chapter 4.1 (4.1.1) to (4.1.2) of the Model for applying municipal values, comparative municipal values/ sales and replacement costs as deemed cost of immovable assets of the Property Management Trading Entity (PMTE) as at 1 April 2013 outlines the process for determining the MVR Value state that: "Municipal Values are, in terms of legislation, required to be derived from accepted valuation methodologies (market approach, cost approach and income approach). They are conducted on a cyclical period of not more than four years. The value recorded in a valuation roll is the **combined value for both land and improvements**. The Municipal Property Rates Act 2004 requires municipalities to only use the services of **registered Professional Values or Professional Associated Values** in compiling valuation rolls for purposes of levying rates and taxes. According to the Municipal Property Rates Act, 2004, "the market value of a property is the amount the property would have realized if sold on the date of valuation in the open market by a willing seller to a willing buyer".*

Chapter 4.1 (4.1.8) to (4.4.10) of the deemed cost position paper state that "Where the Municipal Valuation Rolls (MVR) does not contain a value, www.lightstone.co.za5 will be used as a reference point to obtain a value. In the instances where the value cannot be obtained from municipal valuation rolls or www.lightstone.co.za, the comparison method or depreciated replacement cost method will be applied. Where the value on MVR or www.lightstone.co.za is meaningless / invalid or does not clearly reflect the market values i.e. a place holder for example R0, R1, the comparison method or replacement method will be applied."

Nature

Through inspection of the deemed cost position paper used as guidance to value PMTE properties we noted the following requirement applicable to the municipal valuation roll (MVR) method, *"Where the value on MVR or www.lightstone.co.za is meaningless / invalid or does not clearly reflect the market values i.e. a place holder for example R0, R1, the comparison method or replacement method will be applied."*

During the audit of the immovable assets register (IAR), we have identified properties that were valued using the MVR method where the municipal valuation rolls or light stone report contains meaningless or invalid value in comparison to the nature and the extent of the property being valued. The MVR value doesn't clearly reflect the market value of the property being valued. Refer to the list of properties below.

The following factors where considered to assess the reasonability of the property value allocated.

The facility type and the accommodation type as reflected on the IAR.
The number of buildings that forms part of the property.
The extent (size) of buildings.
The condition of the buildings as per the conditional assessment performed.
The extent of the land parcel.

Property 1

Property code					**2921732**
Land					
LPI Code (as per deeds aktex)	**Property Description**	**Extent of land parcels in hectres**	**Branch Unit of User Department occupying the property as per 1**	**Current use of asset**	**Deemed cost land value (R)**
N0ES0249000 0000100000	REMAINDER OF ERF 1 KOKSTAD	67.14	CORRECTIONAL SERVICES	PRISON	43 200
Improvement					
Facility/Group Name	**Facility Type as per physical verification**	**Number of buildings in the facility**	**Total extent of buildings in SQM**	**Average condition of the buildings**	**Deemed cost building value (R)**
PRISON	PRISON & STORAGES	88	38665	60%	4644
PROPERTY VALUE					**47 844**

Property 2

Property code					**974731**
Land					
LPI Code (as per deeds aktex)	**Property Description**	**Extent of land parcels in hectres**	**Branch Unit of User Department occupying the property as per 1**	**Current use of asset**	**Deemed cost land value (R)**

N0HT0367000005 8400000	ERF 584 VRYHEID	4.64	CORRECTIONAL SERVICES	PRISON	23 542
Improvement					
Facility/Group Name	**Facility Type as per physical verification**	**Number of buildings in the facility**	**Total extent of buildings in SQM**	**Average condition of the buildings**	**Deemed cost building value (R)**
PRISON	PRISON, STORAGES, RESIDENTIAL HOUSES & HALL	12	4980	60%	2 735
PROPERTY VALUE					**26 277**

Property 3

Property code					**1355851**
Land					
LPI Code (as per deeds aktex)	**Property Description**	**Extent of land parcels in hectres**	**Branch Unit of User Department occupying the property as per 1**	**Current use of asset**	**Deemed cost land value (R)**
T0KP0000000 0021700012	PORTION 12 OF FARM 217 DWAALBOOM KP	3.4261	SA POLICE SERVICES	POLICE STATION	1 599
Improvement					
Facility/Group Name	**Facility Type as per physical verification**	**Number of buildings in the facility**	**Total extent of buildings in SQM**	**Average condition of the buildings**	**Deemed cost land value (R)**
COMMUNITY SERVICE CENTRE	COMMUNTY SERVICE CENTRE, COMPLEX, STORE ROOM, CELL, ABLUTION 7 REGISEDUAL	7	1215	60%	14 400
PROPERTY VALUE					**15 999**

Impact

This will result in the understatement of the property plant and equipment. The property value used to estimate the deemed is very low and doesn't clearly reflect the market value of the property.

Internal control deficiency

Financial and performance management

The entity did not implement a proper financial and reporting system to enable proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

Management didn't review the property value to determine if they reflect the market value of the property being valued.

Recommendation

It is recommended that management assess the property value obtained from the light stone or MVR against the property being valued for reasonability. The property value used should reasonable reflect the market value of the property.

Where the MVR value obtained is meaningless, invalid or doesn't reflect the market value of the property, the alternative method e.g. comparable sales method or replacement method should be used to estimate the property value as required by the deemed cost position paper.

Management should assess the whole population of properties where the MVR was used to determine if the MVR value obtained from the MVR report or light stone report reasonable reflect the value of the property being valued

Management response

Management is not in agreement with the AGSA's finding. Management undertook an extensive exercise to determine the values of properties using Municipal Valuation Rolls (MVRs) as a cost effective means of determining deemed costs for the immovable assets under the custodianship of DPWI.

The primary reason for the use of the MVRs was the understanding that the values were determined by professional values in compliance with the Municipal Property Rates Act (MPRA) of 2004. In order to ensure that the MPRA had been complied with, management assessed the audit reports of the individual municipalities to confirm that there was no non-compliance reported as per the respective AGSA audits conducted. This was confirmed to be the case as when the valuation roll was utilized for the purpose of the audit of rates revenue, the municipalities were never qualified due to the valuation rolls being non-compliant with statutory requirements or due to incorrect values being determined. The qualifications were due to incorrect billing using the particular municipalities billing model. This served to confirm that the MVR values were obtained using professional values. Please see APPENDIX 1, 2, 3 and 4 attached (audit reports conducted using the valuation rolls that are used for the deemed cost and the respective valuation rolls).

Management therefore does not agree with the AGSA discrediting the work of professionals in the valuation field through a desktop exercise when the values have been signed off by the AGSA at the respective municipalities and the methodologies used conformed to requirements as set out in the MPRA of 2004.

The paragraph (4.1.10 of the Deemed Cost Position Paper) as highlighted by the AGSA relates to the avoidance of using placeholder values as municipalities do at times due to various reasons. The placeholders are always in the form of R1 or R0 values, which are not reflective of the market values thus resulting in a need to specifically exclude such values. The values identified by the AGSA are

R48 000, R27 000 and R16 000 as per the valuation rolls indicating that these are the valid and not meaningless values as they are not placeholders.

The purpose of the Para 4.1.10 was clearly outlined to the previous PMTE audit team (when the Position paper was initially rolled out) which accepted/approved the Deemed Cost Position Paper thus resulting in no MVR findings in the three previous audits. Management reviewed the population for the correctness of the MVR values used and confirmed this to be true. The AGSA tested this assertion and concluded the values were transferred correctly. This was performed in conjunction with AGSAs ICT audit support team.

Management seeks consistency in the interpretation of the deemed cost position paper and in particular Para 4.1.10 within the AGSA to avoid findings on matters that had been extensively engaged upon between management and previous audit teams.

Prior to not having any exceptions on the MVR valuation method, PMTE was qualified and potentially disclaimed for the 2015/16 financial year due to the shortcomings of MVRs identified by the AGSA. A workshop between AGSA and Management was held on 20 January 2017 to discuss the application of the Deemed Cost Model using MVRs more especially data obtained from Lightstone. For more information, please refer to appendix 5.

It is worth noting that AGSA representatives had a walkthrough at the Lightstone offices during the 2016/17 financial year. The main purpose of the walkthrough was to confirm that the original source of Lightstone data was the MVRs. Through applying the AGSAs recommendations, the MVR valuations have been free of any error for the past 3 years.

Management have assessed the entire population to ensure that properties have not changed from where the MVR was allocated to where the structures are located. In performing this task, it was identified that the Kokstad prison was linked to the remainder of the erf because the main land parcel was not yet registered either 2013 or 2014. The entire population was assessed and this was found to be an isolated incident.

Management shall place reliance on the values assigned to property 2 (Vryheid Correctional Services) and property 3 ((Dwaalboom police station), but shall adjust for the value of the Kokstad prison to the replacement cost.

Auditor’s conclusion

Management comments noted. However, based on the position paper which was agreed upon between management and auditors, the following exceptional cases where highlight by management where alternative method (comparative sales or building indices) will be used to address MVRs limitations:

Chapter 4.1 (4.1.8) to (4.4.10) of the deemed cost position paper state that “Where the Municipal Valuation Rolls (MVR) does not contain a value, www.lightstone.co.za5 will be used as a reference point to obtain a value. In the instances where the value cannot be obtained from municipal valuation rolls or www.lightstone.co.za, the comparison method or depreciated replacement cost method will be applied. Where the value on MVR or www.lightstone.co.za is meaningless / invalid or does not clearly reflect the market values i.e. a place holder for example R0, R1, the comparison method or replacement method will be applied.”

Chapter 4.9 (4.9.1) of the deemed cost position paper state that “Reasonability checks were performed on the significant MVR values obtained. If they were found to be unreasonable PMTE reverted to the next available method of application of deemed cost. i.e. an unreasonable MVR value will revert to sales comparison figures if available, and if the sales comparison appeared to be unreasonable the model would then revert to Building Indices and Average vacant land ratios.”

It is evident from the above that management anticipated that the use of MVR might have limitations in exceptional cases. The quoted paragraphs intend to address such limitations. We therefore took such limitations into account when auditing properties valued using the MVR method. Based on the assessment of the three properties identified from the audit (Vryheid Correctional Services, Dwaalboom police station and Kokstad prison) we noted that they fall within the scope of Paragraph 4.1.8 – 4.4.10. Management should have then considered this paragraph.

It is therefore recommended that management should review the whole Immovable assets register (IAR) to identify any other properties which fall within the scope of these limitations. Such properties will need to be addressed and indicated by the position paper. The finding remains.

Immovable assets – Duplicate land parcels on the Land register (IAR) COFF 39 HO

Audit Finding

Requirement:

Section 40 of the Public Finance Management Act (PFMA) states that: "The accounting officer for a department, trading entity or constitutional institution –

must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;
must prepare financial statements for each financial year in accordance with generally recognized accounting practice"

Section 41 furthermore states that "An accounting officer of a department, trading entity or constitutional institution must submit to the relevant Treasury or the Auditor-General such information, returns, documents, explanations and motivations as may be prescribed or as the relevant Treasury or the Auditor-General may require".

Nature

During the audit of immovable assets register (Land register), we have identified instances where properties were duplicated on the IAR. These properties shared the same LIP code and property description however they were disclosed as separate items. ***Refer to the Table below:***

Unique Property Code	Site ID	LPI Code (as per deeds aktex)	Property Description	Carrying value at 2019/20
200000064020	200000064020	T0JU00000000027100020	ERF 271 PORTION 00020 OF JU	7 203
200000064637	200000064637	T0JU00000000014200000	ERF 142 PORTION 00000 OF JU	156 408
200000064635	200000064635	T0JU00000000014200000	ERF 142 PORTION 00000 OF JU	140 812
200000064638	200000064638	T0JU00000000014200000	ERF 142 PORTION 00000 OF JU	118 101
200000064303	200000064303	T0JU00000000014200000	ERF 142 PORTION 00000 OF JU	103 414
200000064636	200000064636	T0JU00000000014200000	ERF 142 PORTION 00000 OF JU	365 506
200000064640	200000064640	T0JU00000000014200000	ERF 142 PORTION 00000 OF JU	279 808
200000064639	200000064639	T0JU00000000014200000	ERF 142 PORTION 00000 OF JU	241 794
200000064631	200000064631	T0JU00000000014200000	ERF 142 PORTION 00000 OF JU	241 794
200000064634	200000064634	T0JU00000000014200000	ERF 142 PORTION 00000 OF JU	241 794
200000064642	200000064642	T0JU00000000014200000	ERF 142 PORTION 00000 OF JU	205 010
200000064512	200000064512	T0JT00170000025500000	ERF 255 PORTION 00000 OF SONHEUWEL	168 066

Unique Property Code	Site ID	LPI Code (as per deeds aktex)	Property Description	Carrying value at 2019/20
200000064557	200000064557	T0JT00170000014700000	ERF 147 PORTION 00000 OF SONHEUWEL	181 845
200000064508	200000064508	T0JT00120000073000000	ERF 730 PORTION 00000 OF NELSPRUIT	238 018
SDF12859	200000064300	T0IR03880000058000000	ERF 580 PORTION 00000 OF LESLIE	171 549
200000062957	200000062957	F03900070000698200000	ERF 6982 PORTION 00000 OF WELKOM	212 581
200000062955	200000062955	F03900070000122000000	ERF 1220 PORTION 00000 OF WELKOM	182 299
200000062952	200000062952	F03500080000105400000	ERF 1054 PORTION 0 OF NAUDEVILLE	126 125
200000062393	200000062393	F03500010000199100000	ERF 1991 PORTION 00000 OF BRONVILLE	11 705
200000062697	200000062697	F01500000000192600116	ERF 1926 PORTION 116 OF PHUTHADITJHABA	101 748
200000062791	200000062791	F01200020000057700000	ERF 577 PORTION 00000 OF FICKSBURG	301 762
200000062433	200000062433	F00800010000063300000	ERF 633 PORTION 0 OF CLOCOLAN	167 763
200000062428	200000062428	F00500010000030100000	ERF 301 PORTION 00000 OF BOTHAVILLE	1 318 638
200000054661	200000054661	C03500020000026500000	ERF 265 PORTION 0 OF JANSENVILLE	308 121
Total				**5 591 866**

Impact

This impacted immovable assets in the following areas:

Carrying value of assets as at 31 March 2020 is overstated by R5 591 867.

Internal control deficiency

Financial and performance management

The entity did not implement a proper financial and reporting system to enable proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

The entity did not sufficiently review the supporting schedules and financial statements prior to submission for audit.

Recommendation

It is recommended that:

Management should ensure that financial statements and supporting schedules are adequately reviewed before submission for audit.

Management should ensure that all inputs and supporting schedules to the immovable asset register are adequately reviewed.

Management should perform a duplicate check on the immovable assets register to ensure that no asset has been duplicated resulting in an overstatement.

Management response

Management partially agrees to the finding.

Management identified unique property code S42_31032015_00870 as not a duplicate from the AG sample provided to the department. This has been discussed and agreed to with the AGSA thus the remaining finding relates to R5 591 867 of which management agrees.

Management will remove duplicating properties and remain with one property on the IAR.

Auditor's conclusion

Management comment noted. Confirmed that property with unique property code S42_31032015_00870 was not a duplicate. The remaining properties have been confirmed to be duplicate by management hence it will be reported on the management report.

Immovable assets: Differences in extents identified during physical verification Coff 51 HO

Audit finding

Requirements:

Section 40(a) and (b)of the Public Finance Management Act (PFMA) states that: *"The accounting officer for a department, trading entity or constitutional institution must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards; must prepare financial statements for each financial year in accordance with generally recognized accounting practice…"*

Generally, Recognised Accounting Practice (GRAP) 17 paragraph 38 states that: *"If there is no market-based evidence of fair value because of the specialised nature of the item of plant and equipment, an entity may need to estimate fair value using, for example, either reproduction cost or depreciated replacement cost. The depreciated replacement cost of an item of plant or equipment may be established by reference to the market buying price of components used to produce the asset or the indexed price for the same or a similar asset based on a price for a previous period. When the indexed price method is used, judgement is required to determine whether production technology has changed significantly over the period, and whether the capacity of the reference asset is the same as that of the asset being valued…."*

Directive 7 paragraph 6 states that: *"When an entity initially recognises or acquires an asset using the Standards of GRAP, it measures such assets using either cost or fair value (acquisition cost). Where the acquisition cost of an asset is not available on the adoption of the Standards of GRAP or on the transfer date or the merger date (initial acquisition), acquisition cost is measured using a surrogate value (deemed cost) at the date an entity adopts the Standards of GRAP or on the transfer date or the merger date (measurement date). Deemed cost is determined as the fair value of an asset at the measurement date…"*

Directive 7 paragraph 10 (a) to (c) states that*: "If fair value at the measurement date cannot be determined for an item of property, plant and equipment, investment property or a heritage asset, an entity may estimate such fair value using depreciated replacement cost at the measurement date for an item of property, plant and equipment; depreciated replacement cost at the measurement date for an investment property, but only if the investment property is of such a specialized nature that there is no market-based evidence of fair value; and replacement cost at the measurement date for heritage assets…"*

Nature

During the audit of immovable assets, we noted that the extent of footprint (in SQM) disclosed in the immovable asset register (IAR) does not agree to the extent of footprint measured by auditors using the measuring wheel during the physical verification process. ***Refer to Table A.***

Furthermore, we noted some inconsistencies in the number of floors included in the IAR compared to the number of floors physical verified by the auditors. We therefore couldn't confirm that the amount disclosed in the immovable assets register is accurate. ***Refer to Table B & C***

<u>PPE – Measuring Wheel: Table A</u>

No	Building Id	Site ID	Extent of footprint as per Measuring wheel	Extent of structure as per IAR	Diff	Recalculated depreciable replacement cost excl component	Depreciable replacement cost excl component per asset register as per AIR	Difference
1	200000138962	100000049008	4 514	4 628	114	10 224 346	10 482 420	(258 074)
2	200000138977	100000049008	763	1 046	283	3 005 836	4 120 822	(1 114 986)
3	200000143955	200000083120	1 839	1 012	(827)	2 978 613	1 305 480	1 673 133
4	230250124	200000055075	1 611	366	(1 245)	7 827 176	1 416 420	6 410 756
Total						**24 035 971**	**17 325 142**	**6 710 829**

Component

No	Building Id	Component Description	Recalculated deemed cost (Components)	Component value as per IAR	Differences in Rands
1	200000138977	Aircon	61 344	84 098	(22 755)

PPE – Multi-story: Table B

Building Id	Site ID	Extent Of Structure	Number Of Floors as per PMM	Number Of Floors as per physical verification	Deemed cost as per IAR	Reasonability comment
200000034710	100000049071	53 321	6	7	311 925 218	The PMM did not take into account the second basement (parking) in the building for which the size is different from the first basement. The number of floors used in the PMM calculation is therefore inaccurate.
200000119561	100000012931	46 554	6	7	272 343 474	The PMM did not take into account the second basement (parking) in the building for which the size is different from the first basement. The number of floors used in the PMM calculation is therefore inaccurate.
Total					**584 268 692**	

Heritage – Multi-story: Table C

Building Id	Site ID	Extent Of Structure	Number Of Floors as per PMM	Number Of Floors as per physical verification	Deemed cost as per IAR	Reasonability comment
2109550125	100 000 048 660	10797	8	7	104 951 117	PMM report disclosed the building to have 8 floors, however the number of floors did not include the basement, which the extent is relatively smaller than the structure of the other floors extents. The extent of the roof is not relatively the same as the structure of the building structure. As per the verification, the number of floors, including the basement were 7

214050513	PHYSICAL VERIFICATION REQUIRED	3952	4	3	28 810 080	PMM report included the basement that is situated in the other side of a building that has been accounted for separately from the main building. The main building was verified to have 3 floors instead of 4.
Total					**133 761 197**	

Impact of the finding

Based on the sample tested:

The property, plant and equipment (measured using the measuring wheel) have been understated by an amount of R6 688 074.

The property, plant and equipment (Multi-story) has been misstated. The value of misstatement cannot be quantified.
However, management should revisit the whole population to determine the full impact of this finding.

Internal control deficiency

Financial and Performance Management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

Management didn’t properly review the extent of the buildings measured through the measuring wheel recorded on the IAR to ensure extent measured is done accurately.

Recommendation

It is recommended that:

Adequate review process be implemented on the schedules and other information supporting the annual financial statement to ensure that the annual financial statements submitted are supported by accurate and complete schedules and information.

Furthermore, the extent of buildings measured using the measuring wheel may have to be properly reviewed and to confirm that all inputs have been accurately transferred before finalizing immovable asset register.

Management should ensure that an accurate number of floors is captured in the immovable assets register and correct number of floors is taken into account when estimating the deemed cost value**.**

Management response

PPE – Measuring Wheel: Table A

Management partially agrees with the finding: -

The property with building ID number 200000138962 was correctly measured as per the attached diagram and the difference between Auditors calculations and the departmental calculations is less than 2, 5 % and therefore such small margin is viewed by the department as an acceptable error.

The properties with the ID number 230250124, 200000143955, and 200000138977 were incorrectly measured by the department.

PPE – Multi-story: Table B

Management partially agreement with the finding: -

The property with building ID number 200000034710 has 6 floors (Department of Education), where the lowest level is used as a basement parking. This basement is sub-divided for more parking space that makes it to have upper basement level and lower basement level and these basements should have been accounted separately to indicate their extents per basement level and should have not been calculated as one level. The corrected report that shows upper basement level and lower basement extents has been attached.

The property with building ID number 200000119561 has 6 floor (Union Building), where the basement has a tunnel. A tunnel is a long or short passage which is usually made under the ground and this building has tunnels and therefore these tunnel cannot be regarded as a level of a floor but rather a passage. The picture of the scanned tunnel is attached on the report that has been provided by PMM. No other picture could be provided as service provider was not allowed to take pictures in this tunnel at Union Building for security purposes. The extent for the basement at this property has been accounted for.

Heritage – Multi-story: Table C

Management partially agrees with the finding: -

The scans indicate that the basement falls underneath the ground floor of both the buildings, the portion of the basement falling under 214050513 is the one that was disputed as not being part of the building however the building does consist of a portion of the basement. After rescanning the buildings, it can be confirmed that building 214050513 has 4 floors (3 floors plus basement) while building 2109550125 has 8 floors (small basement plus 6 flood plus small room on top) with the other basement being attached to it. The attached report from PMM provides images of scans for further clarity and 3D pictures. The corrected extent of this building is also attached.

Auditors Conclusion

Management comment noted. Obtained subsequent information submitted by management and confirmed that part of the finding is resolved. Under Table 1 – Measuring wheel we were able to resolved building ID no. 200000138962. We have also managed to resolved building ID no. 200000119561 under Table B and building id no 2109550125 for Table C. The remaining items will be reported in the management report.

Immovable property: Ownership of property could not be proven COFF 41

Audit finding

Requirements:

Section 40(a) and (b)of the Public Finance Management Act (PFMA) states that: "The accounting officer for a department, trading entity or constitutional institution must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards; must prepare financial statements for each financial year in accordance with generally recognized accounting practice…"

Section 41 furthermore states that: "An accounting officer of a department, trading entity or constitutional institution must submit to the relevant Treasury or the Auditor-General such information, returns, documents, explanations and motivations as may be prescribed or as the relevant Treasury or the Auditor-General may require…"

Paragraph 1: Custodian Framework for the state of immovable assets state that: "Custodianship is the equivalent of control or ownership of the assets from an accounting perspective. DPW must therefore, in terms of the relevant reporting framework, recognize/disclose as its own assets all immovable assets that it controls, whether it is through custodianship on behalf of the state, or direct ownership…"

Nature

During the audit of immovable assets, we noted that improvements situated on land parcels not owned by the PMTE, referred to as State Domestic Facilities were included on the immovable asset register. For improvements listed under tables below we are unable to confirm the custodianship based on what is deemed to belong to the Department of Public Works in terms of the Immovable Asset Guide. No permission to occupy the land or other supporting documentation were provided to proof ownership.

Furthermore, we noted that management included land parcels not owned by PMTE on the immovable assets register. Through inspection of Aktex / Deeds information the land parcels do not belong to the Entity.

PPE – GIS

Building Id	Site ID	Site ID for FV pop	Unique prop code of land parcel/site	Accommodation type	Carrying Value as at 31 March 2020
200000119415	100000040855	100000040855	715111	FACTORY- used by Agriculture – PMIS payments	4 785 794
238950531	200000072436	200000072436	987	STORAGE – Aktex attached RSA	4 166 130
228600309	200000060668	200000060668	200000060668	OFFICE- used by Department of Justice(Lehurutshe Magistrate Court) – see municipal resolution	3 334 908
200000171499	200000064666	200000064666	0	OFFICE Used by SAPS Tonga- see attached Aktex and PMIS report	2 554 587
200000175355	200000077498	200000077498	DEEDS31032015_0044980	OFFICE – Aktex attached	2 290 524
200000052950	200000070391	200000049042	2929991	HALL Used by SAPS Kwaggafontain – see attached Aktex and invoice	19 335 642
200000060962	200000047387	200000047387	1650052	RESIDENTIAL ACCOMMODATION – Aktex attached and PMIS report	99 113
200000043649	100000047559	100000047559	0	OFFICE – Head Office of the SAPS in the Eastern Cape- see pictures and PMIS report	39 063 552
200000043650	100000047559	100000047559	0	OFFICE -Head Office of the SAPS in the Eastern Cape- see pictures and PMIS report	34 731 702
200000026782	100000046705	100000046705	266518	OFFICE- Aktex- PMIS	3 328 057
Total					**113 690 009**

PPE - DoD

Building Id	Site ID	Site ID for FV pop	Unique prop code of land parcel/site	Accommodation type	Carrying Value as at 31 March 2020
DODBLD34399	N/A	N/A	N/A	HOUSE – Navy – Cable Hill Complex – PMIS transactions	6 222 413
DODBLD43962	N/A	N/A	N/A	FLAT- SANDF – Tek Base Complex – Invoice attached	5 104 323
DODBLD43998	N/A	N/A	N/A	HOUSE- SANDF- Periwinkle Garden Complex – Schedule of invoice payments attached	1 049 401

DODBLD44742	N/A	N/A	N/A	HOUSE- SANDF- Periwinkle Garden Complex – Schedule of invoice payments attached	1 007 600
DODBLD44792	N/A	N/A	N/A	HOUSE- Periwinkle Garden Complex – Schedule of invoice payments attached	940 943
DODBLD44883	N/A	N/A	N/A	HOUSE- Periwinkle Garden Complex – Schedule of invoice payments attached	938 888
DODBLD44897	N/A	N/A	N/A	OFFICE- Periwinkle Garden Complex – Schedule of invoice payments attached	936 953
Total					**16 200 521**

PPE – AVL

Unique Property Code	Site ID	LPI Code (as per deeds aktex)	Property Description	Property Ownership per tittle deeds office	Carrying Value as at 31 March 2020
DD30082014_051119	200000069893	F00100000000086700000	FARM 867 UNIONDALE	MASHININI THOBI DAVID	3 017 237
454401	200000049069	T0JT00000000015900000	FARM 159 MOUNT PROSPECT JT	PROVINCIAL GOVERNMENT OF MPUMALANGA	2 054 367
DEEDS94721	100000025109	N0FT06710000057800000	ERF 578 LOWER LANGE FONTEIN	NTULI LOYI WILSON	193 747
S42_31032015_00818	200000070092	C02000000000027600000	FARM 276 CLANWILLIAM	WINELANDS DC, CAPE TOWN	10 477 829
Total					**15 743 180**

Impact of the finding

The above will result in an

Overstatement of PPE: Buildings (carrying amount) by an amount of R129 890 530.
Overstatement of PPE: Land (carrying amount) by an amount of R15 743 180

Internal control deficiency

Financial and Performance Management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by complete information.

Recommendation

It is recommended that:

Management should ensure that financial statements and supporting schedules are adequately reviewed before submission for audit.

Management should perform an investigation on all improvements categorised as SDF to determine if they are maintaining the buildings or there is a permission to occupy the land. Where ownership cannot be confirmed, the whole SITE ID should be derecognised on the immovable asset register.

Management response

Management is not in agreement with the finding

The department is the custodian of these properties as supported by the attached documents

PPE – GIS

Building Id	Site ID	Site ID for FV pop	Unique prop code of land parcel/site	Accommodation type	Carrying Value as at 31 March 2020
200000119415	100000040855	100000040855	715111	FACTORY- used by Agriculture – PMIS payments attached	4 785 794
238950531	200000072436	200000072436	987	STORAGE – Aktex attached RSA	4 166 130
228600309	200000060668	200000060668	200000060668	OFFICE- used by Department of Justice(Lehurutshe Magistrate Court) – see attached municipal resolution	3 334 908
200000171499	200000064666	200000064666	0	OFFICE Used by SAPS Tonga- see attached Aktex and PMIS report	2 554 587
200000175355	200000077498	200000077498	DEEDS31032015_0044980	OFFICE – Aktex attached NGRSA	2 290 524
200000052950	200000070391	200000049042	2929991	HALL Used by SAPS Kwaggafontain – see attached Aktex and invoice	19 335 642
200000060962	200000047387	200000047387	1650052	RESIDENTIAL ACCOMMODATION – Aktex attached and PMIS report	99 113
200000043649	100000047559	100000047559	0	OFFICE – Head Office of the SAPS in the Eastern Cape- see pictures and PMIS report	39 063 552
200000043650	100000047559	100000047559	0	OFFICE -Head Office of the SAPS in the Eastern Cape- see pictures and PMIS report	34 731 702
200000026782	100000046705	100000046705	266518	OFFICE- Aktex- PMIS	3 328 057
Total					**113 690 009**

PPE - DoD

Building Id	Site ID	Site ID for FV pop	Unique prop code of land parcel/site	Accommodation type	Carrying Value as at 31 March 2020
DODBLD34399	N/A	N/A	N/A	HOUSE – Navy – Cable Hill Complex – PMIS transactions	6 222 413
DODBLD43962	N/A	N/A	N/A	FLAT- SANDF – Tek Base Complex – Invoice attached	5 104 323
DODBLD43998	N/A	N/A	N/A	HOUSE- SANDF- Periwinkle Garden Complex – Schedule of invoice payments attached	1 049 401
DODBLD44742	N/A	N/A	N/A	HOUSE- SANDF- Periwinkle Garden Complex – Schedule of invoice payments attached	1 007 600
DODBLD44792	N/A	N/A	N/A	HOUSE- Periwinkle Garden Complex – Schedule of invoice payments attached	940 943
DODBLD44883	N/A	N/A	N/A	HOUSE- Periwinkle Garden Complex – Schedule of invoice payments attached	938 888
DODBLD44897	N/A	N/A	N/A	OFFICE- Periwinkle Garden Complex – Schedule of invoice payments attached	936 953
Total					**16 200 521**

Auditors Conclusion

Management comment noted. We have inspected the subsequent information submitted by management and we were able to resolve some of the findings included in the table above. However, the following items were not resolved and they will be reported on the management report**.** The information submitted were not adequate to confirm the ownership of such properties.

GIS

Building Id	Site ID	Site ID for FV pop	Unique prop code of land parcel/site	Accommodation type	Carrying Value as at 31 March 2020
200000060962	200000047387	200000047387	1650052	RESIDENTIAL ACCOMMODATION – Aktex attached and PMIS report	99 113
200000026782	100000046705	100000046705	266518	OFFICE- Aktex- PMIS	3 328 057
Total					**3 427 170**

AVL

Unique Property Code	Site ID	LPI Code (as per deeds aktex)	Property Description	Property Ownership per tittle deeds office	Carrying Value as at 31 March 2020
DD30082014_051119	200000069893	F00100000000086700000	FARM 867 UNIONDALE	MASHININI THOBI DAVID	3 017 237
454401	200000049069	T0JT00000000015900000	FARM 159 MOUNT PROSPECT JT	PROVINCIAL GOVERNMENT OF MPUMALANGA	2 054 367
DEEDS94721	100000025109	N0FT06710000057800000	ERF 578 LOWER LANGE FONTEIN	NTULI LOYI WILSON	193 747
Total					**5 265 351**

Immovable assets – Depreciation differences COFF 55 HO

Audit Finding

Requirement

Section 40(3)(a) of the Public Finance Management Act states that: "The annual report and audited financial statements referred to subsection (1) (d) must fairly present the state of affairs of the department, trading entity or constitutional institution, its business, its financial results, its performance against predetermined objectives and its financial position as at the end of the financial year concerned…"

Standards of Generally Recognised Accounting Practice (GRAP) 1 paragraph 17 states that: "Financial statements shall present fairly the financial positions, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses. The application of Standards of GRAP with additional disclosures, when necessary, is presumed to result in financial statements that achieve a fair presentation…"

Generally Recognised Accounting Practice (GRAP) 17 paragraph 55 states that: "The depreciable amount of an asset shall be allocated on a systematic basis over it's useful life."

Nature

During the audit of Property plant and equipment, we noted differences between management calculations and auditor's recalculations on the current year depreciation values and accumulated depreciation as at 31 March 2020 as disclosed in the table below. These differences were mainly due to the following:

Differences in the recalculated deemed costs and the deemed costs as per immovable asset register.

Table A: Immovable Assets PPE

Building Id _2020	Accumulated depreciation as at 31 March 2019 as per IAR	Auditors recalculated accumulated depreciation as at 31 March 2019	Difference – Accumulated depreciation	Depreciation for the year ended 31 March 2020 as per IAR	Auditors recalculated depreciation for the year ended 31 March 2020	Difference – Accumulated depreciation
100000041078	5 674 858	5 790 671	- 115 813	810 694	827 239	- 16 545
200000140312	2 943 111	3 065 740	- 122 630	420 444	437 963	- 17 519
238950531	711 291	725 807	- 14 516	101 613	103 687	- 2 074
200000068744	1 123 504	1 224 689	- 101 185	122 120	125 609	- 3 489
247650226	122 129	77 161	44 968	17 447	11 023	6 424
242200676	1 787 211	1 786 330	881	255 316	255 190	126
200000052950	5 884 761	6 066 764	- 182 003	840 680	866 681	- 26 000
200000048172	18 338 124	9 169 062	9 169 062	2 619 732	1 309 866	1 309 866
200000043649	11 888 907	4 002 999	7 885 908	1 698 415	571 857	1 126 558
200000043650	10 570 518	3 523 506	7 047 012	1 510 074	503 358	1 006 716
200000050210	7 270 667	7 419 048	- 148 381	1 038 667	1 059 864	- 21 197
200000140319	7 532 327	3 923 087	3 609 240	1 076 047	560 441	515 606
200000079886	32 488 416	33 351 896	- 863 480	4 641 202	5 504 682	- 863 480
2109550219	6 406 628	6 598 992	- 192 364	915 233	1 107 597	- 192 364
200000029099	4 008 800	4 133 467	- 124 666	572 686	697 352	- 124 666

Building Id _2020	Accumulated depreciation as at 31 March 2019 as per IAR	Auditors recalculated accumulated depreciation as at 31 March 2019	Difference – Accumulated depreciation	Depreciation for the year ended 31 March 2020 as per IAR	Auditors recalculated depreciation for the year ended 31 March 2020	Difference – Accumulated depreciation
100000033808	4 610 422	4 722 689	- 112 267	658 632	770 898	- 112 267
200000061587	1 703 546	1 991 808	- 288 262	243 364	239 589	3 775
100000045562	381 654	384 161	- 2 507	54 522	57 029	- 2 507
200000089142	50 037 351	50 747 730	- 710 379	7 148 193	7 858 572	- 710 379
211050036	38 641 822	39 190 419	- 548 597	5 520 260	6 068 858	- 548 597
200000034711	22 945 263	23 017 583	- 72 320	3 277 895	3 350 214	- 72 320
200000136389	29 064 300	30 385 788	- 1 321 489	3 368 638	3 593 361	- 224 723
218700037	30 106 645	31 658 867	- 1 552 222	4 300 949	5 853 172	- 1 552 222
200000089396	19 962 306	20 093 421	- 131 115	2 851 758	2 982 873	- 131 115
200000115105	16 618 534	16 909 608	- 291 074	2 374 076	2 665 151	- 291 074
200000037529	13 384 917	13 475 971	- 91 054	1 912 131	2 003 185	- 91 054
200000048861	9 582 664	9 613 492	- 30 828	1 368 952	1 399 780	- 30 828
200000069377	12 589 668	12 675 312	- 85 644	1 798 524	1 884 168	- 85 644
200000145614	13 933 477	14 005 903	- 72 426	1 990 497	2 062 922	- 72 426
100000040750	10 614 650	10 650 017	- 35 367	1 516 379	1 551 746	- 35 367
227500997	10 160 652	10 266 538	- 105 886	1 451 522	1 557 408	- 105 886
200000080666	8 305 657	8 333 174	- 27 517	1 186 522	1 214 039	- 27 517
219850921	7 919 133	8 001 660	- 82 527	1 131 305	1 213 831	- 82 527
100000040756	12 199 953	12 267 331	- 67 378	1 742 850	1 810 229	- 67 378
100000040755	12 166 758	12 233 953	- 67 195	1 738 108	1 805 303	- 67 195
200000084877	8 718 826	8 846 248	- 127 422	1 245 547	1 372 968	- 127 422
100000036142	7 339 450	7 364 624	- 25 174	1 048 493	1 073 667	- 25 174
200000061724	24 289 171	7 643 041	16 646 129	1 138 574	3 610 643	- 2 472 069

Building Id _2020	Accumulated depreciation as at 31 March 2019 as per IAR	Auditors recalculated accumulated depreciation as at 31 March 2019	Difference – Accumulated depreciation	Depreciation for the year ended 31 March 2020 as per IAR	Auditors recalculated depreciation for the year ended 31 March 2020	Difference – Accumulated depreciation
226450018	6 262 061	7 177 740	- 915 679	827 065	797 527	29 538
214950590	6 200 664	7 107 365	- 906 701	818 956	789 707	29 248
219850923	6 900 907	6 913 354	- 12 448	985 844	998 291	- 12 448
100000045484	4 325 402	5 042 183	- 716 781	617 915	593 198	24 717
200000032849	3 612 960	3 651 719	- 38 759	516 137	554 896	- 38 759
200000138962	2 445 898	2 044 869	401 029	349 414	340 812	8 602
200000033382	958 770	976 860	- 18 090	126 630	122 108	4 523
240500181	1 027 614	1 106 136	- 78 522	146 802	184 356	- 37 554
200000138977	961 525	613 436	348 089	137 361	102 239	35 121
100000007219	923 769	994 356	- 70 587	131 967	165 726	- 33 759
200000143955	913 836	1 787 168	- 873 332	130 548	297 861	- 167 313
200000028035	543 606	585 144	- 41 538	77 658	97 524	- 19 866
221700364	196 198	200 075	- 3 877	14 734	14 291	443
200000033985	475 881	512 244	- 36 363	67 983	85 374	- 17 391
2000080024	381 969	411 156	- 29 187	54 567	68 526	- 13 959
100000008140	170 266	148 921	21 345	24 324	24 820	- 496
230250124	330 498	1 565 435	- 1 234 937	47 214	260 906	- 213 692
DODBLD12787	3 320 924	3 874 412	- 553 487	1 660 462	553 487	1 106 975
DODBLD05586	2 856 953	3 333 111	- 476 159	714 238	476 159	238 079
DODBLD12790	999 658	1 166 267	- 166 610	499 829	166 610	333 219
DODBLD45032	399 015	465 518	- 66 503	199 508	66 503	133 005
DODBLD44274	222 569	259 664	- 37 095	111 285	37 095	74 190
DODBLD44781	222 566	259 661	- 37 094	111 283	37 094	74 189

Building Id _2020	Accumulated depreciation as at 31 March 2019 as per IAR	Auditors recalculated accumulated depreciation as at 31 March 2019	Difference – Accumulated depreciation	Depreciation for the year ended 31 March 2020 as per IAR	Auditors recalculated depreciation for the year ended 31 March 2020	Difference – Accumulated depreciation
Total	**526 681 579**	**495 535 352**	**31 146 228**	**74 079 783**	**76 777 124**	**- 2 697 341**

Impact

Based on the sample tested,

Property, plant and equipment – accumulated depreciation opening balance is overstated by R31 146 228 and current year depreciation and accumulated depreciation is overstated by R2 697 341.
However, management should revisit the whole population to determine the full impact of this finding.

Internal control deficiency

Financial and performance management

The entity did not implement a proper financial and reporting system to enable proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

Management did not review annual financial statements before submission for audit.

Recommendation

It is recommended that:

Management should ensure that financial statements and supporting schedules are adequately reviewed before submission for audit.

Management response

Management are in agreement with the finding as the differences are due to differences in the initial cost as outlined in other COFFs raised.

Auditor’s conclusion

Management comment noted. We have evaluated the depreciation calculations based on all the findings resolved and the findings remaining. The remaining depreciation and the accumulated depreciation (As at 2018/2019) misstatements relating to the differences between the deemed cost as per IAR and the recalculated deemed cost has been summarised below:

The summarised impact:

The depreciation has been overstated by 2 448 316, the accumulated depreciation has been overstated by 12 114 779 and the overall impact on the property, plant and equipment results to an understatement of R14 563 095.

Building Id _2020	Accum depreciation as per IAR 2018/19	Auditors recalculated accum depreciation 2018/2019	Difference	Depreciation as per IAR	Recalculated depreciation using the recalculated opening balance	Difference
DODBLD05553	11 837 556	11 581 076	256 480	1 972 926	1 930 179	42 747
DODBLD12787	9 962 773	3 320 924	6 641 849	1 660 462	553 487	1 106 975
DODBLD09759	3 488 253	3 453 370	34 883	581 375	575 562	5 814
DODBLD05941	5 578 667	5 467 093	111 573	929 778	911 182	18 596
DODBLD21381	4 683 120	4 636 289	46 831	780 520	772 715	7 805
DODBLD18796	4 584 813	4 538 965	45 848	764 136	756 494	7 641
DODBLD34751	3 833 347	3 756 680	76 667	638 891	626 113	12 778
DODBLD05572	5 088 663	5 037 776	50 887	848 111	839 629	8 481
DODBLD05586	4 285 429	2 856 953	1 428 476	714 238	476 159	238 079

Building Id _2020	Accum depreciation as per IAR 2018/19	Auditors recalculated accum depreciation 2018/2019	Difference	Depreciation as per IAR	Recalculated depreciation using the recalculated opening balance	Difference
DODBLD05924	3 211 916	3 147 678	64 238	535 319	524 613	10 706
DODBLD18795	3 127 938	3 096 658	31 279	521 323	516 110	5 213
DODBLD12790	2 998 973	999 658	1 999 316	499 829	166 610	333 219
DODBLD31323	1 780 947	1 763 137	17 809	296 824	293 856	2 968
DODBLD18737	1 726 306	1 674 517	51 789	287 718	279 086	8 632
DODBLD35124	1 500 781	1 715 179	- 214 397	214 397	207 900	6 497
DODBLD45032	1 197 046	399 015	798 031	199 508	66 503	133 005
DODBLD44274	667 708	222 569	445 139	111 285	37 095	74 190
DODBLD44781	667 699	222 566	445 133	111 283	37 094	74 189
200000140312.00	2 522 666	2 575 222	- 2 556	420 444	429 204	- 8 759
200000068744.00	1 001 384	1 088 089	- 86 705	122 120	124 353	- 2 233
247650226.00	104 682	66 138	38 544	17 447	11 023	6 424
242200676.00	1 531 895	1 531 140	755	255 316	255 190	126
200000048172.00	15 718 392	7 859 196	7 859 196	2 619 732	1 309 866	1 309 866
200000043649.00	10 190 492	3 396 831	6 793 661	1 698 415	566 138	1 132 277
200000043650.00	9 060 444	3 020 148	6 040 296	1 510 074	503 358	1 006 716
200000140319.00	6 456 280	3 295 393	3 160 887	1 076 047	549 232	526 815

Building Id _2020	Accum depreciation as per IAR 2018/19	Auditors recalculated accum depreciation 2018/2019	Difference	Depreciation as per IAR	Recalculated depreciation using the recalculated opening balance	Difference
200000079886.00	27 847 214	30 437 652	- 2 590 439	4 641 202	5 072 942	- 431 740
2109550219.00	5 491 395	6 275 880	- 784 485	915 233	1 045 980	- 130 748
200000029099.00	3 436 115	3 926 988	- 490 874	572 686	654 498	- 81 812
100000033808.00	3 951 790	4 355 950	- 404 160	658 632	725 992	- 67 360
200000061587.00	1 460 183	1 770 099	- 309 916	243 364	236 013	7 351
100000045562.00	327 132	333 947	- 6 815	54 522	55 658	- 1 136
200000089142.00	42 889 158	44 753 904	- 1 864 746	7 148 193	7 458 984	- 310 791
200000034710.00	38 990 652	41 123 306	- 2 132 654	6 498 442	6 853 884	- 355 442
211050036.00	33 121 561	34 561 629	- 1 440 068	5 520 260	5 760 272	- 240 011
200000136389.00	25 695 661	27 647 505	- 1 951 843	3 368 638	3 455 938	- 87 300
218700037.00	25 805 696	31 917 571	- 6 111 875	4 300 949	5 319 595	- 1 018 646
200000089396.00	17 110 548	17 467 018	- 356 470	2 851 758	2 911 170	- 59 412

Building Id _2020	Accum depreciation as per IAR 2018/19	Auditors recalculated accum depreciation 2018/2019	Difference	Depreciation as per IAR	Recalculated depreciation using the recalculated opening balance	Difference
200000115105.00	14 244 458	15 035 816	- 791 359	2 374 076	2 505 969	- 131 893
200000037529.00	11 472 786	11 711 802	- 239 016	1 912 131	1 951 967	- 39 836
200000048861.00	8 213 712	8 297 525	- 83 813	1 368 952	1 382 921	- 13 969
100000040750.00	9 098 271	9 191 111	- 92 840	1 516 379	1 531 852	- 15 473
227500997.00	8 709 131	8 987 082	- 277 951	1 451 522	1 497 847	- 46 325
200000080666.00	7 119 135	7 191 779	- 72 644	1 186 522	1 198 630	- 12 107
219850921.00	6 787 828	7 004 461	- 216 633	1 131 305	1 167 410	- 36 105
200000084877.00	7 473 280	7 798 205	- 324 925	1 245 547	1 299 701	- 54 154
100000036142.00	6 290 957	6 355 151	- 64 193	1 048 493	1 059 192	- 10 699
200000032849.00	3 096 823	3 195 658	- 98 835	516 137	532 610	- 16 472
240500181.00	880 812	1 290 492	- 262 878	146 802	184 356	- 37 554
200000138977.00	824 164	701 362	260 163	137 361	100 195	37 166

Building Id _2020	Accum depreciation as per IAR 2018/19	Auditors recalculated accum depreciation 2018/2019	Difference	Depreciation as per IAR	Recalculated depreciation using the recalculated opening balance	Difference
100000007219.00	791 802	1 160 082	- 236 313	131 967	165 726	- 33 759
200000143955.00	783 288	2 085 029	- 1 171 193	130 548	297 861	- 167 313
200000028035.00	465 948	682 668	- 139 062	77 658	97 524	- 19 866
200000033985.00	407 898	597 618	- 121 737	67 983	85 374	- 17 391
2000080024.00	327 402	479 682	- 97 713	54 567	68 526	- 13 959
230250124.00	283 284	1 826 341	- 1 495 843	47 214	260 906	- 213 692
Total	**430 206 253.99**	**418 885 574.46**	**12 114 779.25**	**70 706 560.42**	**68 258 243.99**	**2 448 316.43**

Assets under construction

DETAILED AUDIT FINDING: Commitments, AUC and Completeness of Mogwase prison WCS no. 034781 COFF 07 MMB

Audit Finding

Requirements

Section 40 (a) and (b) of the Public Finance Management Act (PFMA) states that: *"The accounting officer for a trading entity must keep full and proper records of the financial affairs of the trading entity in accordance with any prescribed norms and standards and must prepare financial statements for each financial year in accordance with generally recognized accounting practice…"*

Section 4 of the Government Immovable Asset Management Act states that: "(1) The departments managed by the following executive organs of state within the national and provincial spheres of government are custodians: (a) The Minister, in relation to immovable assets that vest in the national government, except in cases where custodial functions were assigned to other Ministers by virtue of legislation before the commencement of this Act;

(b) subject to subsection (5), the Minister responsible for Land Affairs, in relation to immovable assets acquired for land reform, as well as immovable assets that vest in the national government and are situated within the former homelands, except in cases where custodial functions in respect of those areas were assigned to another Minister by virtue of specific legislation before the commencement of this Act; and

(2) A custodian— (a) acts as the caretaker in relation to an immovable asset of which it is the custodian…"

Paragraph 1: Custodian Framework for the state of immovable assets state that: "*Custodianship is the equivalent of control or ownership of the assets from an accounting perspective. DPW must therefore, in terms of the relevant reporting framework, recognize/disclose as its own assets all immovable assets that it controls, whether it is through custodianship on behalf of the state, or direct ownership…"*

Generally, Recognised Accounting Practice (GRAP) 1 par .17 states that *"Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses. The application of Standards of GRAP with additional disclosures, when necessary, is presumed to result in financial statements that achieve a fair presentation…"*

In accordance to PMTE accounting policy 1.6 property, plant and equipment and GRAP 17 par. 07 states that "*The cost of an item of property, plant and equipment is recognised as an asset when: it is probable that future economic benefits or service potential associated with the item will flow to the entity; and the cost of the item can be measured reliably…"*

GRAP 17 par.12 infrastructure assets states that "*Some assets are commonly described as "infrastructure assets". While there is no universally accepted definition of infrastructure assets, these assets usually display some or all of the following characteristics:*

(a) they are part of a system or network;

(b) they are specialised in nature and do not have alternative uses;

(c) they are immovable; and

(d) they may be subject to constraints on disposal.

Although ownership of infrastructure assets is not confined to entities in the public sector, significant infrastructure assets are frequently found in the public sector. Infrastructure assets meet the definition of property, plant and equipment and shall be accounted for in accordance with this Standard. Examples of infrastructure assets include road networks, sewer systems, water and power supply systems and communication networks…"

Nature

Mogwase Prison WCS 034781

Commitments

During the audit, we noted differences between CPAP expenditure as per commitment schedule and auditor's calculations (CPAP expenditure per progress payment certificate dated 11 December 2019). This resulted to the difference as outlined in the table below.

Supplier Name	Commitment Per schedule (CPAP EXPENDITURE)	CPAP expenditure per progress payment certificate	Difference
SEBUSHI SOMO CHUENE MATLALA JV	-	5 203 031.1	5 203 031.1

Asset Under Construction Classification

During the audit, we noted that a repair and upgrading of the entire centre at Mogwase Prison was conducted, however upon inspection of the AUC register, we noted that the project is classified as OPEX. Upon inspection of the scope of work [PG-01.2 (EC)] we noted that the scope included:

"*Repair and upgrading of the entire centre at the Mogwase Prison, renovations, waterproofing, tiling, concrete formwork and reinforcement, ceilings partitions access flooring, civil works (Roads and paving), security and access control installations. We noted that it was classified as Opex but from our assessment it should have been classified as Capex due to significant costs being capital in nature…"*

Furthermore, we inspected the bill of quantities per section to assess if expenditure incurred constitute an asset taking into account significant spending and if the work performed will increase the previously assessed service capacity or change the condition assessment of the building from poor (40% - Serious structural defects) to Fair (60% - Average condition) which result to an increase in the assessed useful life of the asset.

Components are significant parts of an asset that can be separated from the main asset and in determining the value of a component it is important to establish whether or not the value of the component is part of / included in the combined value of the facility. Detailed component schedule is noted on the entity's Position Paper.

The work performed on the entire centre at Mogwase Prison as per BoQ included:

Alterations removal of existing work such as taking down and removing roofs, floors, panelling, ceilings etc. on the entire facility 19100 m2.

Waterproofing to concrete 4mm thick guaranteed to remain watertight for a period of 10 years including protective paint.

Rebuilding of the roof including roof coverings, ceilings, partitions access flooring

Metal works on the entire facility including gates to external doors, solid door hung to steal fame, hot dipped galvanised steel windows (prison windows).

Replacing vinyl tiles with ceramic tiles on the entire facility including new wall tiles.

Fixing cracks on the wall, plastering and painting the whole facility as part of this major refurbishment.

Supply and erection of new fencing material. Surfacing of roads / paving's greater than 10 000 units and new storm water and storm water.

Erection of new parking carports at single quarters and installation of security management systems et.

Even though some of the works performed may be viewed as maintenance as it maintains the physical condition of the contract such as electrical infrastructure, changing of lights, doors etc.

Based on the physical verification previously conducted by auditors on assets under construction where the service is conducted on the entire facility, we have noted that such work improves the facility service potential.

Such work has resulted to condition assessment of the building changing from poor **[**40% - Serious structural defects (Fabric is badly damaged or weakened, appearance affected by cracking, staining, leakage, or wilful damage and breaches of waterproofing and finishes badly damaged and marked in need of replacement)**]** to Fair **[**60% - Average condition (Appearance not affected by minor cracking, staining, leakage, waterproofing as this may have been done during the refurbishment stage)**]** which result to an increase in the assessed useful life of the asset.

Based on the above, we have then concluded that the project is incorrectly classified as OPEX. The table below indicates the cost incurred by contractor and consultant.

Consultant Expenditure as at 31 March 2020	Contractor Expenditure 31 March 2020	Total
27 407 881	79 277 822	**106 685 703**

Completeness of immovable asset register

The facility Mogwase Prison is not included in the Immovable Asset Register (IAR) even though it vests with National Department of Public Works as per the Vesting Guidelines issued by the

Department of Rural Development and Land Reform to substantiate the application of section 239 of the Constitution of the Republic of South Africa Act.

Impact

This results to the following:

Commitment has been overstated by **R5 203 031.1**
Understatement of assets under construction by **R106 685 703** due to the costs classified as Opex whereas it should have been Capex.
Immovable Asset register is not complete and understated by an undeterminable amount.

Internal control deficiency

Financial and Performance Management

The entity did not implement a proper financial and reporting system to enable proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

Management did not review annual financial statements before submission for audit.

Recommendation

It is recommended that:

Management should must enhance the review of the financial statements prior to submission for audit purposes and ensure that all information that is included in the financial statements is complete and presented fairly.

Classification of projects are conducted regularly and in line with accounting policy

Management response:

Commitments

Management does not agree with the finding.

The total contractor expenditure of R79 277 821.78 incurred and paid to the contractor as at 31 March 2020 and is inclusive of CPAP expenditure. The commitment of R52 704 258 as disclosed at year end is accurate, i.e. Contractor authorization less contractor expenditure and retention, calculated as follows:

Commitment as at 31 March 2020

Contractor Authorisation	131 982 079.78
Contractor Expenditure	(79 277 821.78)
Contractor commitment	52 704 258.00

The commitment is thus not overstated; this is rather an internal control deficiency where CPAP expenditure was not allocated accordingly on WCS system.

Furthermore, the correct WCS number to this project is 037481 and not 034781.

Asset Under Construction Classification

Management does not agree with the audit find. Management attaches the following supporting documentation to support its assessment that the WCS 037481 project was opex in nature and not capex:

a) Decision sheet
b) Minutes of the Asset Committee meeting.

It should also be noted that it is normal practice to communicate with the project manager during the deliberations of the asset committee in cases where there is uncertainty, and communication with the PM strongly supports the assessment that the project was Opex in nature. It should also be noted that the Asset Committee members present included an official from the CPM branch who was able to accurately interpret the construction documentation presented to the Asset Committee.

It should also be noted that in terms of the AUC Position paper, where there is doubt, the project is classified as Capex, it is therefore safe to say that there was no uncertainty regarding this project.

8.1.1 Where a project is assessed in terms of the criteria and uncertainty exists due to the unavailability of information, or unclear project description, the project will default to Capex. This is based on the historical backlog of operations and maintenance resulting in refurbishments.

Immovable Asset Register.

Management is partially in agreement with the AG due to the isolated nature of this finding. Some of the State owned facilities which fall under the security cluster (police stations, magistrate courts and prisons) are affected by the complexity of the State land administration pre and post 1994 dispensations. Some of the State owned facilities are registered in the name of the municipalities due to the devolution of the R293 properties from the Provincial Government to the Local Government. Management has recognised and recorded most of these properties as State Domestic Facilities built on non-DPWI land in line with National Treasury's guidelines on immovable assets. Some of the State Owned Facilities are leased from the Municipalities, for example, Van Der Kloof police station in Kimberley and other facilities in Gauteng as per the attached Annexure A. It is worth noting that DPWI has a lease agreement for the Department of Correctional Services in Mogwase. Leased facilities are not recorded in the IAR as a principle in terms of addressing the Rights & Obligations assertion in spite of the fact that R293 properties belong to DPWI. Municipalities must pass a resolution to transfer R293 properties to DPWI.

In light of the above, it is evident that the exclusion of the Mogwase Correctional facility is an isolated incident taking into account the complexities of the R293 properties that were devolved to the municipalities as well as the leased facility in Mogwase.

Management have reviewed the entire population of security cluster and the reason this facility was missed, was that there was a correctional services office lease in the same area that caused the confusion. In the population reviewed there were no other such circumstances thus only an adjustment for this particular facility will be made.

Auditor's conclusion

Managements comments are noted and auditors respond as such:

Commitments

The finding is resolved after further inspection of the supporting documents provided.

Asset Under Construction Classification

The audit team inspected the whole bill of quantity and noted that management assessment of OPEX as a result of 20% of the BoQ costs attributable to CAPEX is not correct. The evaluation conducted by the audit team on a section by section of the BoQ gave an indication that the project is CAPEX, furthermore new structures were constructed on site.

Immovable Asset Register.

Management agrees with the finding; however, the matter is not considered to be isolated as communicated in COFF 62 communicated at head office.

Assets Under Construction: Incorrect classification of projects COFF 3 Mmabatho

Audit Finding

Requirements

Section 40(a) and (b) of the Public Finance Management Act (PFMA) states that: *"The accounting officer for a trading entity must keep full and proper records of the financial affairs of the trading entity in accordance with any prescribed norms and standards; must prepare financial statements for each financial year in accordance with generally recognized accounting practice…"*

In accordance to PMTE accounting policy 1.6 property, plant and equipment states that: "*The cost of an item of property, plant and equipment is recognised as an asset when: it is probable that future economic benefits or service potential associated with the item will flow to the entity; and the cost of the item can be measured reliably. Property, plant and equipment is initially measured at cost and subsequently at cost less accumulated depreciation and accumulated impairment losses, except for assets under construction*

Major spare parts and standby equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and standby equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment…"

Generally Recognised Accounting Practice (GRAP) 17 paragraph 6 states that: *"Useful life is the period over which an asset is expected to be available for use by an entity…"*

GRAP 17 paragraph 48 states that: *"Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately..."*
GRAP 17 paragraph 55 states that: *"The depreciable amount of an asset shall be allocated on a systematic basis over it's useful life…"*

GRAP 17 paragraph 68 states that: "*Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management…"*

Nature

During the completeness audit of assets under construction, we selected project file number WCS 054647 from the floor and noted that the project was for the installation of a backup generator at Mankwe Training College. Through inspection of the completion certificate we noted that project status is 6A, practical completion as at 23 December 2019.

However, the project was incorrectly classified as OPEX by management even though the generator is considered to be a standby equipment which is expected to be used for more than one financial period (25 years' useful life) as in line with the accounting policy 1.6 on property, plant and equipment.

Please refer to the below table.

WCS No	Project Description	Status	Project classification	Amount Paid
54647	Mankwe Training College: Installation and connection to a backup generator set to academy and provisioning of lightning conductors	6A	OPEX	1 585 827

Impact of the finding

Property, plant and equipment is understated by **R1 585 827** and property maintenance is overstated by the same amount.

Depreciation and accumulated depreciation is understated by **R15 858**

Revenue from exchange transactions is also understated by **R1 585 827**

Internal control deficiency

Financial and performance management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

Management did not review annual financial statements before submission for audit to ensure that projects are classified correctly.

Recommendation

It is recommended that:

Management should ensure that financial statements and supporting schedules are adequately reviewed before submission for audit.

Classification of projects are conducted regularly and in line with accounting policy

Management should revisit the whole population to access other significant components that were omitted or classified incorrectly.

Management Response

Management agrees with the audit finding.

Auditors Conclusion

Management comments are noted; the finding will be projected across the whole population.

Incorrect classification of projects COFF 01 Kimberly

Audit Finding

Laws, rules and Regulations:

Section 40 (a) and (b) of the Public Finance Management Act (PFMA) states that: "*The accounting officer for a trading entity must keep full and proper records of the financial affairs of the trading entity in accordance with any prescribed norms and standards and must prepare financial statements for each financial year in accordance with generally recognized accounting practice…*"

In accordance to PMTE accounting policy 1.6 property, plant and equipment states that: "*The cost of an item of property, plant and equipment is recognised as an asset when: it is probable that future economic benefits or service potential associated with the item will flow to the entity; and the cost of the item can be measured reliably. Property, plant and equipment is initially measured at cost and subsequently at cost less accumulated depreciation and accumulated impairment losses, except for assets under construction*

Major spare parts and standby equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and standby equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment…"

Generally Recognised Accounting Practice (GRAP) 17 paragraph 6 states that: *"Useful life is the period over which an asset is expected to be available for use by an entity…"*

GRAP 17 paragraph 48 states that: *"Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately..."*

GRAP 17 paragraph 55 states that: *"The depreciable amount of an asset shall be allocated on a systematic basis over it's useful life…"*

Nature of the finding

During the audit we noted that the projects listed below were incorrectly classified as Opex instead of Capex. The nature of the projects indicate that they should have been disclosed as Capex

WCS Number	**Project Description**	Status	Project classification	Amount paid
052867	INSTALLATION OF FACILITIES FOR PEOPLE WITH DISABILITIES	6A	Opex	55 449,60

052871	INSTALLATION OF FACILITIES FOR PEOPLE WITH DISABILITIES INTHE DE ARR PRISON	6A	Opex	253 509,54
053094	INSTALLATION OF FACILITIES FOR PEOPLE WITH DISABILITIES	6A	Opex	135 926,32
053129	INSTALLATION OF FACILITIES FOR PEOPLE WITH DISABILITIES ATTHE GALESHEWE BRANCH COURT: DOJ	6A	Opex	467 113,20
053121	INSTALLATION OF FACILITIES FOR PEOPLE WITH DISABILITIES:BUILDING 52	5B	Opex	56 069,93
				968 068,59

Impact of the finding

The finding will result in the following:

Property, plant and equipment is understated by R968 068.59

Internal control deficiency

Financial and performance management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information as the accruals amount was not reviewed.

Recommendation

It is recommended that:

Management should ensure that financial statements and supporting schedules are adequately reviewed before submission for audit.

Classification of projects are conducted regularly and in line with accounting policy

Management should revisit the whole population to access other significant components that were omitted or classified incorrectly.

Management response

Management agrees with audit finding

Auditor’s conclusion

Management response is noted and the finding will remain unresolved.

DETAILED AUDIT FINDING: Assets Under Construction Coff 05 JHB

Audit Finding

Requirements

Section 40(a) and (b)of the Public Finance Management Act (PFMA) states that: *"The accounting officer for a trading entity must keep full and proper records of the financial affairs of the trading entity in accordance with any prescribed norms and standards; must prepare financial statements for each financial year in accordance with generally recognized accounting practice…"*

Generally Recognised Accounting Practice (GRAP) 17 paragraph 6 states that: *"Useful life is the period over which an asset is expected to be available for use by an entity…"*

GRAP 17 paragraph 55 states that: *"The depreciable amount of an asset shall be allocated on a systematic basis over it's useful life…"*

GRAP 17 paragraph 68 states that: "*Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management…"*

Nature

WCS 046651

During the audit of assets under construction, we noted that two refurbishments and renovations work to be performed on two separate police stations (Barrage and VanderbijlPark) were created on one WCS number as well as the professional team of consultants, overseeing these two projects with regards to design, project management etc. A total cost paid to consultants as at 31 March 2020 amounted to **R6 101 060.**

However**,** the procurement process was conducted separately and awarded to two different contractors as per table below

Supplier Name	Contract Description	Tender Number	Tender Award Amount
ALF ZIM SEGABOKENG BLD CONTRACTORS	SAPS: BARRAGE: REFURBISHMENT OF CORRIDORS, INSTALLATION	JHB11/22	9 967 576,73
KWAGGA HOLDINGS (PTY) LTD	SAPS: VANDERBIJLPARKN: REFURBISHMENT OF CORRIDORS	JHB15/44	23 942 423,94

As per inspection of progress payment certificate, total payments made to ALF ZIM Segabokeng Bld Contractors amounted to **R10 374 020.** It was noted that the contractor has completed the refurbishment and renovations for SAPS: BARRAGE and supplied the entity with the practical completion certificate dated 11 September 2013.

The completed project was not transferred to deferred revenue and depreciated as per entity's accounting policy.

Impact of finding

Property, plant and equipment – accumulated depreciation opening balance is understated by an undeterminable amount and current year depreciation and accumulated depreciation is understated by an undeterminable amount.

The amount is undeterminable as a result of possible reassessment of useful lives based on change in condition assessment of the building. Cost incurred by consultants for the completed police station could not be separable to the total costs paid to date.

<u>WCS 046946: 46 BRIGADE: REPAIR AND RENOVATIONS TO MILITARY BASE</u>

During the audit of assets under construction, the following differences were noted between amounts recognized on the AUC register and auditor's recalculations as per table below.

	Recognise Accruals (R)	Recognise Retentions (R)
Amounts as per AUC register	310 607,28	1 951 166,65
Auditors Recalculations	842 672,22	4 311 472,77
Difference	**532 064,94**	**2 360 306,12**

Impact of finding

Assets under construction are understated by R2 892 370,52

Internal control deficiency

Financial and performance management

The entity did not implement a proper financial and reporting system to enable proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

Management did not review annual financial statements before submission for audit.

Recommendation

It is recommended that:

Management should ensure that financial statements and supporting schedules are adequately reviewed before submission for audit.

Management should allocate correct useful lives to assets as per asset management policy and accounting policy.

Management response

Management does not agree with the finding

In 2017/2018, Management prepared a position paper to address the deficiencies in the managing of the AUC Register which balances the limitations within the organizational systems against the need to accurately disclose the AUC and by implication the Immovable Asset Register. (see AUC position paper attached)

In terms of the position paper (see extract below), the project (which viewed as the WCS project as a whole) will be capitalized when the WCS project moves to Status 6A. As at 31 March 2020, this project is still in 5B as the status on WCS can only be moved to 6A on receipt of all practical completion certificates.

8.1.1 Capital expenditure is disclosed as AUC and is transferred to completed assets when the project reaches practical completion stage (i.e. status 6A).

It should be noted that the Position paper had previously been presented to the AGSA and projects have been being audited regarding compliance to the AUC position paper since 2018.

<u>Issue 2- WCS 046946: 46 BRIGADE: REPAIR AND RENOVATIONS TO MILITARY BASE</u>

Management partially agrees with the audit finding and respond as follows:

Recognized Accruals

An accrual was raised for an amount of R826 864.52 for work performed on the above project as at 31 March 2020, however the accrual raised was incorrectly captured for WCS 046956 instead of WCS 046946. Both project WCS 046956 and WCS 046946 are classified as PPE – Building and improvements (Capex) therefore the expenditure to date on both projects were included in the AUC, hence finding impact would not result in understatement of AUC however an internal control deficiency.

WCS	SAGE Item 2019	[redacted]	Account to debit	Status 31 March 2020	AUC GRAP Classification 31 March 2020
046956	01597057	[redacted]	PPE - BUILDING AND IMPROVEMENTS	5B	Capex

Row 46956 of classification register

WCS NO	SAGE Item 2019	AV	Account to debit	Status 31 March 2020	AUC GRAP Classification 31 March 2020
046956	01597057		PPE - BUILDING AND IMPROVEMENTS	5B	Capex

Retention recognized

The retention recognized is R1 951 166.65 (R1 696 666,65 plus VAT) and this agrees to the last progress certificate for the value of work performed to date which is also recorded as R1 696 666.65 therefore the retention and AUC recognized is not understated. Please refer to the attached last payment progress certificate for financial year end 2019-20 attached.

Auditor's conclusion

Management comments are noted and audit team responds as follows

<u>WCS 046651</u>

The project was completed and should be depreciated as required by GRAP. The misstatement of depreciation will be projected accordingly. This finding will be included in the management report.

<u>WCS 046946</u>

After inspection of supporting documents and response presented, the finding is resolved.

Operating lease and revenue

Overstatement of operating lease expenditure and revenue from exchange transaction COFF 60 HO

Audit Finding

Laws, rules and Regulations:

Section 38(1)(a)(i) of the Public Finance Management Act (PFMA) states that: "*The accounting officer for a department, trading entity or constitutional institution must ensure that that department, trading entity or constitutional institution has and maintains effective, efficient and transparent systems of financial and risk management and internal control...*"

Section 40(a) and (b) of the PFMA states that: "*The accounting officer for a department must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards; must prepare financial statements for each financial year in accordance with generally recognized accounting practice…*"

GRAP 1, paragraph 17 states that *"Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses."*

Nature

During the audit of operating lease expenditure, the following differences were identified between the amounts of the schedule supporting the annual financial statements (AFS) and the recalculated amount from the lease agreements.

No	Archibus Asset	Region	Operating lease expense amount as per the AFS	Recalculated operating lease expense amount	Difference
1	138 342	BFN	1 111 011,60	1 169 593,13	- 58 581,53
2	139 791	BFN	8 990 715,66	8 748 910,35	241 805,31
3	139 533	BFN	36 388,56	31 014,16	5 374,40
4	138 217	CPT	3 197,87	92 077,27	- 88 879,40
5	138 233	CPT	186 247,68	-	186 247,68
6	139 511	CPT	188 655,36	277 007,10	- 88 351,74
7	139 569	CPT	532 558,46	490 203,71	42 354,75
8	139 578	CPT	440 469,94	406 970,12	33 499,82
9	139 588	CPT	276 174,00	266 328,00	9 846,00
10	138 216	DBN	93 693,17	92 509,45	1 183,72

No	Archibus Asset	Region	Operating lease expense amount as per the AFS	Recalculated operating lease expense amount	Difference
11	138 585	DBN	2 250 044,06	1 905 637,92	344 406,14
12	140460	DBN	4 641 549,15	4 702 378,20	- 60 829,05
13	139 518	DBN	1 947 138,06	-	1 947 138,06
14	139 552	DBN	347 669,80	417 372,60	- 69 702,80
15	139 527	MTH	503 269,68	525 770,79	- 22 501,11
16	139 534	MTH	556 396,29	553 681,52	2 714,77
17	139 543	MTH	523 423,41	520 563,12	2 860,29
18	139 551	MTH	199 083,90	-	199 083,90
19	139 564	MTH	234 190,99	243 606,36	- 9 415,37
20	139 566	MTH	776 430,12	671 273,83	105 156,29
21	139 568	MTH	198 714,24	228 521,44	- 29 807,20
22	139 577	MTH	450 409,91	408 496,07	41 913,84
23	139 579	MTH	96 420,87	73 547,60	22 873,27
24	139 596	MTH	431 183,19	271 665,39	159 517,80
25	138173	KIM	447 894,36	445 703,10	2 191,26
26	139567	KIM	898 231,44	-	898 231,44
27	139601	KIM	616 812,29	-	616 812,29
28	137697	PTA	9 232 951,01	-	9 232 951,01
29	137698	PTA	51 397 852,46	-	51 397 852,46
30	137699	PTA	18 579 133,59	14 189 006,84	4 390 126,75
31	137700	PTA	9 001 517,66	-	9 001 517,66
32	137 701	PTA	61 883 605,60	-	61 883 605,60
33	137702	PTA	55 615 248,60	-	55 615 248,60
34	137708	PTA	571 924,11	-	571 924,11
35	137 709	PTA	350 658,00	-	350 658,00
36	137712	PTA	1 994 592,60	-	1 994 592,60
37	139741	PTA	875 954,02	655 545,42	220 408,60
38	138379	PTA	499 238,62	425 691,04	73 547,58
39	139901	PTA	10 394 757,56	8 033 120,84	2 361 636,72
40	137714	PTA	585 400,90	-	585 400,90
41	137715	PTA	9 777 767,17	-	9 777 767,17

No	Archibus Asset	Region	Operating lease expense amount as per the AFS	Recalculated operating lease expense amount	Difference
42	137716	PTA	34 082 095,74	-	34 082 095,74
43	137717	PTA	86 563 136,54	68 433 098,39	18 130 038,15
44	137718	PTA	15 510 926,58	14 928 532,50	582 394,08
45	137720	PTA	294 210,18	250 757,21	43 452,97
46	137721	PTA	1 097 664,84	-	1 097 664,84
47	137724	PTA	13 557 491,88	-	13 557 491,88
48	137725	PTA	58 808 082,66	-	58 808 082,66
49	137726	PTA	3 442 542,48	-	3 442 542,48
50	137727	PTA	36 538 822,40	22 379 379,56	14 159 442,84
51	137728	PTA	1 196 727,42	-	1 196 727,42
52	137729	PTA	2 661 496,80	-	2 661 496,80
53	137731	PTA	1 695 429,58	-	1 695 429,58
54	137732	PTA	14 420 217,30	13 984 855,39	435 361,91
55	137733	PTA	40 659 896,32	19 467 143,35	21 192 752,97
56	139548	PTA	1 546 278,09	-	1 546 278,09
57	139580	PTA	1 198 141,08	429 425,18	768 715,90
58	138177	JHB	718 522,54	607 593,50	110 929,04
59	138224	JHB	2 093 344,85	1 900 972,45	192 372,40
60	139499	JHB	3 289 932,60	3 046 364,12	243 568,48
61	139505	JHB	33 569,26	-	33 569,26
62	139512	JHB	11 385 702,03	-	11 385 702,03
63	139571	JHB	1 026 843,78	2 084 654,35	- 1 057 810,57
64	139581	JHB	2 044 593,60	2 084 654,35	- 40 060,75
65	139582	JHB	1 723 176,48	-	1 723 176,48
66	139583	JHB	327 439,35	139 538,04	187 901,31
67	139591	JHB	1 279 170,60	1 279 170,48	0,12
68	139598	JHB	1 929 765,12	1 941 799,60	- 12 034,48
69	137747	MMB	441 357,64	432 305,52	9 052,12
70	137765	MMB	628 922,64	-	628 922,64
71	137770	MMB	1 168 721,54	645 316,75	523 404,79
72	137771	MMB	3 557 855,40	1 872 758,55	1 685 096,85

No	Archibus Asset	Region	Operating lease expense amount as per the AFS	Recalculated operating lease expense amount	Difference
73	137772	MMB	3 779 797,84	1 245 568,64	2 534 229,20
74	137774	MMB	540 164,16	-	540 164,16
75	137780	MMB	406 526,61	98 661,38	307 865,24
76	137782	MMB	680 104,48	617 055,66	63 048,82
77	137785	MMB	250 182,62	-	250 182,62
78	137787	MMB	1 528 099,53	393 768,31	1 134 331,22
79	137789	MMB	1 851 191,88	1 501 727,00	349 464,88
80	137792	MMB	158 715,74	29 650,46	129 065,28
81	137795	MMB	39 145,02	76 934,40	- 37 789,38
82	138 954	MMB	955 830,56	284 991,93	670 838,63
83	138 834	MMB	285 465,84	284 063,45	1 402,39
84	138 106	MMB	1 494 258,83	-	1 494 258,83
85	140 124	MMB	4 586 044,96	5 554 830,52	- 968 785,56
86	140 277	MMB	1 880 232,96	1 039 713,09	840 519,87
87	137751	NEL	1 115 134,92	1 257 840,00	- 142 705,08
88	137 762	NEL	439 806,54	456 722,20	- 16 915,66
89	137764	NEL	2 440 893,96	2 436 801,09	4 092,87
90	137766	NEL	4 093 224,46	4 073 719,82	19 504,64
91	137767	NEL	4 894 651,47	3 230 953,52	1 663 697,95
92	137769	NEL	414 535,50	338 055,51	76 479,99
93	137773	NEL	1 149 636,10	690 163,53	459 472,57
94	137775	NEL	2 489 333,48	2 035 231,56	454 101,92
95	137786	NEL	3 450 503,88	3 485 106,97	- 34 603,09
96	137794	NEL	49 663,08	-	49 663,08
97	137796	NEL	96 051,30	100 312,92	- 4 261,62
98	138178	NEL	249 517,33	22 502,96	227 014,37
99	139503	NEL	1 248 476,04	428 770,71	819 705,33
100	140101	NEL	1 495 358,46	1 261 927,63	233 430,83
101	138179	PE	1 368 686,56	1 257 577,18	111 109,38
102	138227	PE	303 845,56	-	303 845,56
103	138229	PE	1 402 456,58	1 301 497,60	100 958,98

No	Archibus Asset	Region	Operating lease expense amount as per the AFS	Recalculated operating lease expense amount	Difference
104	139500	PE	-	-	-
105	139501	PE	-	-	-
106	139509	PE	194 832,22	-	194 832,22
107	139510	PE	1 119 941,33	-	1 119 941,33
108	139519	PE	838 869,96	-	838 869,96
109	139520	PE	381 787,82	351 445,03	30 342,79
110	139528	PE	1 241 664,56	-	1 241 664,56
111	139536	PE	3 374 772,66	3 860 422,19	- 485 649,53
112	139561	PE	-	-	-
113	139562	PE	295 716,28	280 982,21	14 734,07
114	139573	PE	825 663,30	754 572,50	71 090,80
115	139600	PE	-	-	-
116	139602	PE	-	-	-
117	137737	POL	698 151,60	477 991,44	220 160,16
118	137739	POL	78 106,14	20 591,62	57 514,52
119	137740	POL	69 111,69	48 779,94	20 331,75
120	137743	POL	395 728,77	102 960,65	292 768,12
121	137745	POL	1 693 205,48	666 342,76	1 026 862,72
122	137746	POL	2 350 046,04	2 350 045,91	0,13
123	137749	POL	1 293 248,52	870 040,22	423 208,30
124	137754	POL	1 809 888,24	1 799 088,32	10 799,92
125	137755	POL	961 591,20	2 884 773,60	- 1 923 182,40
126	137756	POL	154 584,36	-	154 584,36
127	137759	POL	1 996 883,72	1 354 486,38	642 397,34
128	137760	POL	568 860,00	377 722,97	191 137,03
129	137784	POL	531 807,88	455 367,16	76 440,72
130	137790	POL	992 090,89	908 179,83	83 911,06
131	137793	POL	1 035 363,96	544 845,28	490 518,68
132	139497	POL	334 390,99	195 519,94	138 871,05
133	139516	POL	5 171 909,74	4 933 172,25	238 737,49
134	139546	POL	25 707,96	-	25 707,96

No	Archibus Asset	Region	Operating lease expense amount as per the AFS	Recalculated operating lease expense amount	Difference
135	139547	POL	7 794,48	-	7 794,48
136	140147	KIM	1 121 256,12	345 950,65	775 305,47
137	138049	KIM	89 449,92	29 315,73	60 134,19
138	137885	MTH	79 851,08	43 350,70	36 500,38
139	138309	MTH	1 278 084,24	368 649,60	909 434,64
140	138721	MTH	1 006 776,00	1 000 526,53	6 249,47
141	139179	MTH	243 837,72	124 465,52	119 372,20
142	138484	MTH	-	27 659,83	- 27 659,83
143	137969	JHB	929 725,32	935 487,30	- 5 761,98
144	138140	JHB	2 031 841,37	2 040 642,27	- 8 800,90
Total			**848 324 303,33**	**379 925 536,49**	**468 398 766,84**

Impact of the finding

The above will result in the following:

Overstatement of operating lease expenditure and revenue from exchange transaction by R468 398 766.84

Project misstatement of operating lease of R2 865 366 000, 44

Projected misstatement of revenue from exchange transaction of R3 199 673 540, 95

Internal control deficiency

Financial and performance management

Lack of proper preparation of regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

Management did not ensure that proper controls are in place for the capturing of the lease details on the PMIS (Previously used) and Archibus (Currently being used).

Recommendation

Management should ensure that proper controls are in for the capturing and review of all leases loaded onto the system.

Management response

Management is not in agreement with the finding, the below table indicates the differences as recalculated by management:

No	Archibus Asset	Operating lease expense amount as per the AFS	Recalculated operating lease expense amount	Difference	Comment
32	137701	61 883 605.60	61 886 803.24	-3 197.64	Disagree
48	137725	58 808 082.66	58 826 483.32	-18 400.66	Disagree
33	137702	55 615 248.60	56 203 664.25	-588 415.65	Disagree
29	137698	51 397 852.46	51 397 852.54	-0.08	Disagree
42	137716	34 082 095.74	34 082 295.66	-199.92	Disagree
55	137733	40 659 896.32	21 067 492.85	19 592 403.47	Partially agree
43	137717	86 563 136.54	62 803 086.97	23 760 049.57	Partially agree
50	137727	36 538 822.40	36 704 283.51	-165 461.11	Disagree
47	137724	13 557 491.88	13 498 359.78	59 132.10	Disagree
62	139512	11 385 702.03	11 385 401.55	300.48	Disagree
41	137715	9 777 767.17	9 795 738.44	-17 971.27	Disagree
28	137697	9 232 951.01	9 285 776.79	-52 825.78	Disagree
31	137700	9 001 517.66	13 935 199.32	-4 933 681.66	Disagree
30	137699	18 579 133.59	18 579 133.04	0.55	Disagree
49	137726	3 442 542.48	3 546 590.03	-104 047.55	Disagree
52	137729	2 661 496.80	2 649 946.37	11 550.43	Disagree
73	137772	3 779 797.84	3 776 728.23	3 069.61	Disagree
39	139901	10 394 757.56	9 214 632.57	1 180 124.99	Disagree
36	137712	1 994 592.60	1 965 551.06	29 041.54	Disagree
13	139518	1 947 138.06	1 932 707.79	14 430.27	Disagree
65	139582	1 723 176.48	1 723 170.87	5.61	Disagree
53	137731	1 695 429.58	1 695 478.70	-49.12	Disagree
72	137771	3 557 855.40	3 364 135.74	193 719.66	Disagree
91	137767	4 894 651.47	4 719 043.81	175 607.66	Disagree
56	139548	1 546 278.09	954 467.66	591 810.43	Disagree
84	138106	1 494 258.83	1 674 087.35	-179 828.52	Disagree
110	139528	1 241 664.56	1 241 262.17	402.39	Disagree
51	137728	1 196 727.42	2 383 516.74	-1 186 789.32	Disagree
78	137787	1 528 099.53	1 680 614.11	-152 514.58	Disagree
107	139510	1 119 941.33		1 119 941.33	Accept
46	137721	1 097 664.84	1 097 673.89	-9.05	Disagree

121	137745	1 693 205.48	1 555 103.15	138 102.33	Disagree
139	138309	1 278 084.24	630 378.01	647 706.23	Disagree
26	139567	898 231.44	898 261.94	-30.50	Disagree
86	140277	1 880 232.96	1 879 719.43	513.53	Disagree
108	139519	838 869.96		838 869.96	Accept
99	139503	1 248 476.04	872 587.72	375 888.32	Disagree
136	140147	1 121 256.12	1 121 299.76	-43.64	Disagree
57	139580	1 198 141.08	906 172.53	291 968.55	Disagree
82	138954	955 830.56	935 470.43	20 360.13	Disagree
127	137759	1 996 883.72	2 034 279.27	-37 395.55	Disagree
70	137765	628 922.64		628 922.64	Accept
27	139601	616 812.29		616 812.29	Accept
40	137714	585 400.90		585 400.90	Accept
44	137718	15 510 926.58	15 510 926.35	0.23	Disagree
34	137708	571 924.11		571 924.11	Accept
74	137774	540 164.16		540 164.16	Accept
71	137770	1 168 721.54	988 160.40	180 561.14	Disagree
131	137793	1 035 363.96	1 035 364.02	-0.06	Disagree
93	137773	1 149 636.10	1 145 807.26	3 828.84	Disagree
94	137775	2 489 333.48	2 485 384.82	3 948.66	Disagree
54	137732	14 420 217.30	14 420 217.26	0.04	Disagree
123	137749	1 293 248.52	1 293 248.47	0.05	Disagree
35	137709	350 658.00		350 658.00	Accept
79	137789	1 851 191.88	1 851 191.89	-0.01	Disagree
11	138585	2 250 044.06	2 249 824.03	220.03	Disagree
75	137780	406 526.61	614 283.60	-207 756.99	Disagree
102	138227	303 845.56		303 845.56	Accept
120	137743	395 728.77	395 728.73	0.04	Disagree
77	137785	250 182.62		250 182.62	Accept
60	139499	3 289 932.60	3 289 932.61	-0.01	Disagree
2	139791	8 990 715.66	8 990 715.52	0.14	Disagree
133	139516	5 171 909.74	5 167 512.26	4 397.48	Disagree
100	140101	1 495 358.46	1 491 316.28	4 042.18	Disagree
98	138178	249 517.33	248 303.56	1 213.77	Disagree

37	139741	875 954.02	899 081.36	-23 127.34	Disagree
117	137737	698 151.60	698 146.39	5.21	Disagree
18	139551	199 083.90		199 083.90	Accept
106	139509	194 832.22		194 832.22	Accept
59	138224	2 093 344.85	2 091 672.02	1 672.83	Disagree
128	137760	568 860.00	568 860.04	-0.04	Disagree
66	139583	327 439.35	327 456.49	-17.14	Disagree
5	138233	186 247.68		186 247.68	Accept
24	139596	431 183.19	271 665.39	159 517.80	Agree
126	137756	154 584.36		154 584.36	Accept
132	139497	334 390.99	334 390.98	0.01	Disagree
80	137792	158 715.74	158 716.63	-0.89	Disagree
141	139179	243 837.72	125 214.37	118 623.35	Agree
101	138179	1 368 686.56		111 109.38	Accept
58	138177	718 522.54		110 929.04	Accept
20	139566	776 430.12	770 434.66	5 995.46	Disagree
103	138229	1 402 456.58	1 409 762.82	-7 306.24	Disagree
130	137790	992 090.89	992 090.80	0.09	Disagree
92	137769	414 535.50	330 021.63	84 513.87	Disagree
129	137784	531 807.88		76 440.72	Accept
38	138379	499 238.62		73 547.58	Accept
114	139573	825 663.30		71 090.80	Accept
76	137782	680 104.48		63 048.82	Accept
137	138049	89 449.92		60 134.19	Accept
118	137739	78 106.14		57 514.52	Accept
96	137794	49 663.08		49 663.08	Accept
45	137720	294 210.18		43 452.97	Accept
7	139569	532 558.46		42 354.75	Accept
22	139577	450 409.91		41 913.84	Accept
138	137885	79 851.08		36 500.38	Accept
61	139505	33 569.26		33 569.26	Accept
8	139578	440 469.94		33 499.82	Accept
109	139520	381 787.82		30 342.79	Accept
134	139546	25 707.96		25 707.96	Accept

23	139579	96 420.87		22 873.27	Accept
119	137740	69 111.69		20 331.75	Accept
90	137766	4 093 224.46		19 504.64	Accept
113	139562	295 716.28		14 734.07	Accept
124	137754	1 809 888.24	1 804 532.38	5 355.86	Disagree
9	139588	276 174.00		9 846.00	Accept
69	137747	441 357.64		9 052.12	Accept
135	139547	7 794.48		7 794.48	Accept
140	138721	1 006 776.00		6 249.47	Accept
3	139533	36 388.56		5 374.40	Accept
89	137764	2 440 893.96		4 092.87	Accept
17	139543	523 423.41		2 860.29	Accept
16	139534	556 396.29		2 714.77	Accept
25	138173	447 894.36		2 191.26	Accept
83	138834	285 465.84		1 402.39	Accept
10	138216	93 693.17		1 183.72	Accept
122	137746	2 350 046.04		0.13	Accept
67	139591	1 279 170.60		0.12	Accept
104	139500	0.00		0.00	Accept
105	139501	0.00		0.00	Accept
112	139561	0.00		0.00	Accept
115	139600	0.00		0.00	Accept
116	139602	0.00		0.00	Accept
97	137796	96 051.30		-4 261.62	Accept
143	137969	929 725.32		-5 761.98	Accept
144	138140	2 031 841.37		-8 800.90	Accept
19	139564	234 190.99		-9 415.37	Accept
68	139598	1 929 765.12		-12 034.48	Accept
88	137762	439 806.54		-16 915.66	Accept
15	139527	503 269.68		-22 501.11	Accept
142	138484	0.00		-27 659.83	Accept
21	139568	198 714.24		-29 807.20	Accept
95	137786	3 450 503.88		-34 603.09	Accept
81	137795	39 145.02		-37 789.38	Accept

64	139581	2 044 593.60		-40 060.75	Accept
1	138342	1 111 011.60		-58 581.53	Accept
12	140460	4 641 549.15		-60 829.05	Accept
14	139552	347 669.80		-69 702.80	Accept
6	139511	188 655.36		-88 351.74	Accept
4	138217	3 197.87		-88 879.40	Accept
87	137751	1 115 134.92		-142 705.08	Accept
111	139536	3 374 772.66	3 628 691.90	-253 919.24	Disagree
85	140124	4 586 044.96		-968 785.56	Accept
63	139571	1 026 843.78		-1 057 810.57	Accept
125	137755	961 591.20		-1 923 182.40	Accept
Total		**683 020 731.09**	**589 493 105.50**	**42 651 151.26**	

Lease 137733 was duplicate captured on Archibus, resulting in an overpayment to the landlord. Internal Audit was requested to run CAATs to identify all duplicates on the 2019-20 financial year Archibus download. 2984 potential duplicates were identified by IA. Management validated the potential duplicates and confirmed 385 duplicate records. All the duplicates have been corrected resulting in a reduction of R 39 251 654.34 contractual obligation (revenue and expense before straight-lining), and a reduction of R 3 022 459.80 straight-line adjustment and straight-lined asset/ liability.

The differences are as follow after the corrections of duplicates have been made:

No	**Archibus Asset**	**Operating lease expense amount as per the AFS**	**Recalculated operating lease expense amount**	**Difference**	**Difference**
32	137701	61 883 605.60	61 886 803.24	-3 197.64	Disagree
48	137725	58 808 082.66	58 826 483.32	-18 400.66	Disagree
33	137702	55 615 248.60	56 203 664.25	-588 415.65	Disagree
29	137698	51 397 852.46	51 397 852.54	-0.08	Disagree
42	137716	34 082 095.74	34 082 295.66	-199.92	Disagree
55	137733	21 192 752.91	21 067 492.85	125 260.06	Partially agree
43	137717	86 563 136.54	62 803 086.97	23 760 049.57	Partially agree
50	137727	36 538 822.40	36 704 283.51	-165 461.11	Disagree
47	137724	13 557 491.88	13 498 359.78	59 132.10	Disagree
62	139512	11 385 702.03	11 385 401.55	300.48	Disagree
41	137715	9 777 767.17	9 795 738.44	-17 971.27	Disagree

No	Archibus Asset	Operating lease expense amount as per the AFS	Recalculated operating lease expense amount	Difference	Difference
28	137697	9 232 951.01	9 285 776.79	-52 825.78	Disagree
31	137700	9 001 517.66	13 935 199.32	-4 933 681.66	Disagree
30	137699	18 579 133.59	18 579 133.04	0.55	Disagree
49	137726	3 442 542.48	3 546 590.03	-104 047.55	Disagree
52	137729	2 661 496.80	2 649 946.37	11 550.43	Disagree
73	137772	3 779 797.84	3 776 728.23	3 069.61	Disagree
39	139901	10 394 757.56	9 214 632.57	1 180 124.99	Disagree
36	137712	1 994 592.60	1 965 551.06	29 041.54	Disagree
13	139518	1 947 138.06	1 932 707.79	14 430.27	Disagree
65	139582	1 723 176.48	1 723 170.87	5.61	Disagree
53	137731	1 695 429.58	1 695 478.70	-49.12	Disagree
72	137771	3 268 746.43	3 364 135.74	-95 389.31	Disagree
91	137767	4 894 651.47	4 719 043.81	175 607.66	Disagree
56	139548	954 467.08	954 467.66	-0.58	Disagree
84	138106	1 494 258.83	1 674 087.35	-179 828.52	Disagree
110	139528	1 241 664.56	1 241 262.17	402.39	Disagree
51	137728	1 196 727.42	2 383 516.74	-1 186 789.32	Disagree
78	137787	1 528 099.53	1 680 614.11	-152 514.58	Disagree
107	139510	1 119 941.33	0.00	1 119 941.33	Accept
46	137721	1 097 664.84	1 097 673.89	-9.05	Disagree
121	137745	1 693 205.48	1 555 103.15	138 102.33	Disagree
139	138309	1 278 084.24	630 378.01	647 706.23	Disagree
26	139567	898 231.44	898 261.94	-30.50	Disagree
86	140277	1 880 232.96	1 879 719.43	513.53	Disagree
108	139519	838 869.96	0.00	838 869.96	Accept
99	139503	815 402.94	872 587.72	-57 184.78	Disagree
136	140147	1 121 256.12	1 121 299.76	-43.64	Disagree
57	139580	976 974.16	906 172.53	70 801.63	Disagree
82	138954	955 830.56	935 470.43	20 360.13	Disagree
127	137759	1 996 883.72	2 034 279.27	-37 395.55	Disagree
70	137765	628 922.64	0.00	628 922.64	Accept

No	Archibus Asset	Operating lease expense amount as per the AFS	Recalculated operating lease expense amount	Difference	Difference
27	139601	616 812.29	0.00	616 812.29	Accept
40	137714	585 400.90	0.00	585 400.90	Accept
44	137718	15 510 926.58	15 510 926.35	0.23	Disagree
34	137708	571 924.11	0.00	571 924.11	Accept
74	137774	540 164.16	0.00	540 164.16	Accept
71	137770	1 168 721.54	988 160.40	180 561.14	Disagree
131	137793	1 035 363.96	1 035 364.02	-0.06	Disagree
93	137773	1 149 636.10	1 145 807.26	3 828.84	Disagree
94	137775	2 489 333.48	2 485 384.82	3 948.66	Disagree
54	137732	14 420 217.30	14 420 217.26	0.04	Disagree
123	137749	1 293 248.52	1 293 248.47	0.05	Disagree
35	137709	350 658.00	0.00	350 658.00	Accept
79	137789	1 851 191.88	1 851 191.89	-0.01	Disagree
11	138585	2 250 044.06	2 249 824.03	220.03	Disagree
75	137780	406 526.61	614 283.60	-207 756.99	Disagree
102	138227	303 845.56	0.00	303 845.56	Accept
120	137743	395 728.77	395 728.73	0.04	Disagree
77	137785	250 182.62	0.00	250 182.62	Accept
60	139499	3 289 932.60	3 289 932.61	-0.01	Disagree
2	139791	8 990 715.66	8 990 715.52	0.14	Disagree
133	139516	5 171 909.74	5 167 512.26	4 397.48	Disagree
100	140101	1 495 358.46	1 491 316.28	4 042.18	Disagree
98	138178	249 517.33	248 303.56	1 213.77	Disagree
37	139741	875 954.02	899 081.36	-23 127.34	Disagree
117	137737	698 151.60	698 146.39	5.21	Disagree
18	139551	199 083.90	0.00	199 083.90	Accept
106	139509	194 832.22	0.00	194 832.22	Accept
59	138224	2 093 344.85	2 091 672.02	1 672.83	Disagree
128	137760	568 860.00	568 860.04	-0.04	Disagree
66	139583	327 439.35	327 456.49	-17.14	Disagree
5	138233	186 247.68	0.00	186 247.68	Accept

No	Archibus Asset	Operating lease expense amount as per the AFS	Recalculated operating lease expense amount	Difference	Difference
24	139596	431 183.19	271 665.39	159 517.80	Agree
126	137756	154 584.36	0.00	154 584.36	Accept
132	139497	334 390.99	334 390.98	0.01	Disagree
80	137792	158 715.74	158 716.63	-0.89	Disagree
141	139179	243 837.72	125 214.37	118 623.35	Agree
101	138179	1 368 686.56	0.00	111 109.38	Accept
58	138177	718 522.54	0.00	110 929.04	Accept
20	139566	776 430.12	770 434.66	5 995.46	Disagree
103	138229	1 402 456.58	1 409 762.82	-7 306.24	Disagree
130	137790	992 090.89	992 090.80	0.09	Disagree
92	137769	330 021.63	330 021.63	0.00	Disagree
129	137784	531 807.88	0.00	76 440.72	Accept
38	138379	499 238.62	0.00	73 547.58	Accept
114	139573	825 663.30	0.00	71 090.80	Accept
76	137782	680 104.48	0.00	63 048.82	Accept
137	138049	89 449.92	0.00	60 134.19	Accept
118	137739	78 106.14	0.00	57 514.52	Accept
96	137794	49 663.08	0.00	49 663.08	Accept
45	137720	294 210.18	0.00	43 452.97	Accept
7	139569	532 558.46	0.00	42 354.75	Accept
22	139577	450 409.91	0.00	41 913.84	Accept
138	137885	79 851.08	0.00	36 500.38	Accept
61	139505	33 569.26	0.00	33 569.26	Accept
8	139578	440 469.94	0.00	33 499.82	Accept
109	139520	381 787.82	0.00	30 342.79	Accept
134	139546	25 707.96	0.00	25 707.96	Accept
23	139579	96 420.87	0.00	22 873.27	Accept
119	137740	69 111.69	0.00	20 331.75	Accept
90	137766	4 093 224.46	0.00	19 504.64	Accept
113	139562	295 716.28	0.00	14 734.07	Accept
124	137754	1 809 888.24	1 804 532.38	5 355.86	Disagree

No	Archibus Asset	Operating lease expense amount as per the AFS	Recalculated operating lease expense amount	Difference	Difference
9	139588	276 174.00	0.00	9 846.00	Accept
69	137747	441 357.64	0.00	9 052.12	Accept
135	139547	7 794.48	0.00	7 794.48	Accept
140	138721	1 006 776.00	0.00	6 249.47	Accept
3	139533	36 388.56	0.00	5 374.40	Accept
89	137764	2 440 893.96	0.00	4 092.87	Accept
17	139543	523 423.41	0.00	2 860.29	Accept
16	139534	556 396.29	0.00	2 714.77	Accept
25	138173	447 894.36	0.00	2 191.26	Accept
83	138834	285 465.84	0.00	1 402.39	Accept
10	138216	93 693.17	0.00	1 183.72	Accept
122	137746	2 350 046.04	0.00	0.13	Accept
67	139591	1 279 170.60	0.00	0.12	Accept
104	139500	0.00	0.00	0.00	Accept
105	139501	0.00	0.00	0.00	Accept
112	139561	0.00	0.00	0.00	Accept
115	139600	0.00	0.00	0.00	Accept
116	139602	0.00	0.00	0.00	Accept
97	137796	96 051.30	0.00	-4 261.62	Accept
143	137969	929 725.32	0.00	-5 761.98	Accept
144	138140	2 031 841.37	0.00	-8 800.90	Accept
19	139564	234 190.99	0.00	-9 415.37	Accept
68	139598	1 929 765.12	0.00	-12 034.48	Accept
88	137762	439 806.54	0.00	-16 915.66	Accept
15	139527	503 269.68	0.00	-22 501.11	Accept
142	138484	0.00	0.00	-27 659.83	Accept
21	139568	198 714.24	0.00	-29 807.20	Accept
95	137786	3 450 503.88	0.00	-34 603.09	Accept
81	137795	39 145.02	0.00	-37 789.38	Accept
64	139581	2 044 593.60	0.00	-40 060.75	Accept
1	138342	1 111 011.60	0.00	-58 581.53	Accept

No	Archibus Asset	Operating lease expense amount as per the AFS	Recalculated operating lease expense amount	Difference	Difference
12	140460	4 641 549.15	0.00	-60 829.05	Accept
14	139552	347 669.80	0.00	-69 702.80	Accept
6	139511	188 655.36	0.00	-88 351.74	Accept
4	138217	3 197.87	0.00	-88 879.40	Accept
87	137751	1 115 134.92	0.00	-142 705.08	Accept
111	139536	3 374 772.66	3 628 691.90	-253 919.24	Disagree
85	140124	4 586 044.96	0.00	-968 785.56	Accept
63	139571	1 026 843.78	0.00	-1 057 810.57	Accept
125	137755	961 591.20	0.00	-1 923 182.40	Accept
Total				**21 564 333.98**	

Auditors Conclusion

Managements comment noted. Based on the supporting documentation provided by management, the auditors performed recalculations and noted the following;

No	Archibus Asset	Managements recalculated Difference	Managements Comment	Auditors recalculated difference based on subsequent supporting information provided.	Auditors comment
1	138342	-58581,53	Accept	-58581,53	Agree with Management
2	139791	0,14	Disagree	0,14	Agree with Management
3	139533	5374,40	Accept	5374,40	Agree with Management
4	138217	-88879,40	Accept	-88879,40	Agree with Management
5	138233	186247,68	Accept	0,00	Agree with Management
6	139511	-88351,74	Accept	-88351,74	Agree with Management
7	139569	42354,75	Accept	42354,75	Agree with Management
8	139578	33499,82	Accept	33499,82	Agree with Management
9	139588	9846,00	Accept	9846,00	Agree with Management
10	138216	1183,72	Accept	1183,72	Agree with Management
11	138585	220,03	Disagree	220,03	Agree with Management
12	140460	-60829,05	Accept	-60829,05	Agree with Management

13	139518	14430,27	Disagree	12065,52	Disagree with management-Different escalating % between management and the auditors(% as per contract is 6%)
14	139552	-69702,80	Accept	-69702,80	Agree with Management
15	139527	-22501,11	Accept	-22501,11	Agree with Management
16	139534	2714,77	Accept	2714,77	Agree with Management
17	139543	2860,29	Accept	2860,29	Agree with Management
18	139551	199083,90	Accept	199083,90	Agree with Management
19	139564	-9415,37	Accept	-9415,37	Agree with Management
20	139566	5995,46	Disagree	5995,46	Agree with Management
21	139568	-29807,20	Accept	-29807,20	Agree with Management
22	139577	41913,84	Accept	41913,84	Agree with Management
23	139579	22873,27	Accept	22873,27	Agree with Management
24	139596	159517,80	Agree	159517,80	Agree with Management
25	138173	2191,26	Accept	2191,26	Agree with Management
26	139567	-30,50	Disagree	244104,25	Disagree with management, Updated lease contract provided to auditors-different to managements contract.
27	139601	616812,29	Accept	616812,29	Agree with Management
28	137697	-52825,78	Disagree	-52825,78	Agree with Management
29	137698	-0,08	Disagree	-0,08	Agree with Management
30	137699	0,55	Disagree	0,55	Agree with Management
31	137700	-4933681,66	Disagree	-4933681,66	Agree with Management
32	137701	-3197,64	Disagree	-3197,64	Agree with Management
33	137702	-588415,65	Disagree	-588415,65	Agree with Management
34	137708	571924,11	Accept	571924,11	Agree with Management
35	137709	350658,00	Accept	350658,00	Agree with Management
36	137712	29041,54	Disagree	29041,54	Agree with Management
37	139741	-23127,34	Disagree	-23127,34	Agree with Management
38	138379	73547,58	Accept	73547,58	Agree with Management
39	139901	1180124,99	Disagree	1180124,99	Agree with Management
40	137714	585400,90	Accept	585400,90	Agree with Management

41	137715	-17971,27	Disagree	-17971,27	Agree with Management
42	137716	-199,92	Disagree	-199,92	Agree with Management
43	137717	23760049,57	Partially agree	23760049,57	Agree with Management
44	137718	0,23	Disagree	0,23	Agree with Management
45	137720	43452,97	Accept	43452,97	Agree with Management
46	137721	-9,05	Disagree	-9,05	Agree with Management
47	137724	59132,10	Disagree	59132,10	Agree with Management
48	137725	-18400,66	Disagree	-18400,66	Agree with Management
49	137726	-104047,55	Disagree	-104047,55	Agree with Management
50	137727	-165461,11	Disagree	-165461,11	Agree with Management
51	137728	-1186789,32	Disagree	-1186789,32	Agree with Management
52	137729	11550,43	Disagree	11550,43	Agree with Management
53	137731	-49,12	Disagree	-49,12	Agree with Management
54	137732	0,04	Disagree	0,04	Agree with Management
55	137733	19592403,47	Partially agree	19592403,47	Agree with Management
56	139548	591810,43	Disagree	591810,43	Agree with Management
57	139580	291968,55	Disagree	291968,55	Agree with Management
58	138177	110929,04	Accept	110929,04	Agree with Management
59	138224	1672,83	Disagree	1672,83	Agree with Management
60	139499	-0,01	Disagree	-0,01	Agree with Management
61	139505	33569,26	Accept	33569,26	Agree with Management
62	139512	300,48	Disagree	300,48	Agree with Management
63	139571	-1057810,57	Accept	-1057810,57	Agree with Management
64	139581	-40060,75	Accept	-40060,75	Agree with Management
65	139582	5,61	Disagree	5,61	Agree with Management
66	139583	-17,14	Disagree	-17,14	Agree with Management
67	139591	0,12	Accept	0,12	Agree with Management
68	139598	-12034,48	Accept	-12034,48	Agree with Management
69	137747	9052,12	Accept	9052,12	Agree with Management
70	137765	628922,64	Accept	628922,64	Agree with Management
71	137770	180561,14	Disagree	180561,14	Agree with Management
72	137771	193719,66	Disagree	194127,16	Minor disagreement
73	137772	3069,61	Disagree	3069,61	Agree with Management
74	137774	540164,16	Accept	540164,16	Agree with Management

75	137780	-207756,99	Disagree	-207756,99	Agree with Management
76	137782	63048,82	Accept	63048,82	Agree with Management
77	137785	250182,62	Accept	250182,62	Agree with Management
78	137787	-152514,58	Disagree	-152514,58	Agree with Management
79	137789	-0,01	Disagree	-0,01	Agree with Management
80	137792	-0,89	Disagree	-0,89	Agree with Management
81	137795	-37789,38	Accept	-37789,38	Agree with Management
82	138954	20360,13	Disagree	20360,13	Agree with Management
83	138834	1402,39	Accept	1402,39	Agree with Management
84	138106	-179828,52	Disagree	-179828,52	Agree with Management
85	140124	-968785,56	Accept	-968785,56	Agree with Management
86	140277	513,53	Disagree	513,53	Agree with Management
87	137751	-142705,08	Accept	-142705,08	Agree with Management
88	137762	-16915,66	Accept	-16915,66	Agree with Management
89	137764	4092,87	Accept	4092,87	Agree with Management
90	137766	19504,64	Accept	19504,64	Agree with Management
91	137767	175607,66	Disagree	175607,66	Agree with Management
92	137769	84513,87	Disagree	84513,87	Agree with Management
93	137773	3828,84	Disagree	3828,84	Agree with Management
94	137775	3948,66	Disagree	3948,66	Agree with Management
95	137786	-34603,09	Accept	-34603,09	Agree with Management
96	137794	49663,08	Accept	49663,08	Agree with Management
97	137796	-4261,62	Accept	-4261,62	Agree with Management
98	138178	1213,77	Disagree	1213,77	Agree with Management
99	139503	375888,32	Disagree	375888,32	Agree with Management
100	140101	4042,18	Disagree	4042,18	Agree with Management
101	138179	111109,38	Accept	111109,38	Agree with Management
102	138227	303845,56	Accept	303845,56	Agree with Management
103	138229	-7306,24	Disagree	-7306,24	Agree with Management
104	139500	0,00	Accept	0,00	Agree with Management
105	139501	0,00	Accept	0,00	Agree with Management
106	139509	194832,22	Accept	194832,22	Agree with Management
107	139510	1119941,33	Accept	1119941,33	Agree with Management
108	139519	838869,96	Accept	838869,96	Agree with Management

109	139520	30342,79	Accept	30342,79	Agree with Management
110	139528	402,39	Disagree	402,39	Agree with Management
111	139536	-253919,24	Disagree	-485649,53	Disagreement ,lease calculation as per lease details
112	139561	0,00	Accept	0,00	Agree with Management
113	139562	14734,07	Accept	14734,07	Agree with Management
114	139573	71090,80	Accept	71090,80	Agree with Management
115	139600	0,00	Accept	0,00	Agree with Management
116	139602	0,00	Accept	0,00	Agree with Management
117	137737	5,21	Disagree	5,21	Agree with Management
118	137739	57514,52	Accept	57514,52	Agree with Management
119	137740	20331,75	Accept	20331,75	Agree with Management
120	137743	0,04	Disagree	0,04	Agree with Management
121	137745	138102,33	Disagree	138102,33	Agree with Management
122	137746	0,13	Accept	0,13	Agree with Management
123	137749	0,05	Disagree	0,05	Agree with Management
124	137754	5355,86	Disagree	-4981,56	Disagreement
125	137755	-1923182,40	Accept	-1923182,40	Agree with Management
126	137756	154584,36	Accept	154584,36	Agree with Management
127	137759	-37395,55	Disagree	-37395,55	Agree with Management
128	137760	-0,04	Disagree	-0,04	Agree with Management
129	137784	76440,72	Accept	76440,72	Agree with Management
130	137790	0,09	Disagree	0,09	Agree with Management
131	137793	-0,06	Disagree	-0,06	Agree with Management
132	139497	0,01	Disagree	0,01	Agree with Management
133	139516	4397,48	Disagree	4397,48	Agree with Management
134	139546	25707,96	Accept	25707,96	Agree with Management
135	139547	7794,48	Accept	7794,48	Agree with Management
136	140147	-43,64	Disagree	-43,64	Agree with Management
137	138049	60134,19	Accept	60134,19	Agree with Management
138	137885	36500,38	Accept	36500,38	Agree with Management
139	138309	647706,23	Disagree	647706,23	Agree with Management
140	138721	6249,47	Accept	6249,47	Agree with Management

141	139179	118623,35	Agree	118623,35	Agree with Management
142	138484	-27659,83	Accept	-27659,83	Agree with Management
143	137969	-5761,98	Accept	-5761,98	Agree with Management
144	138140	-8800,90	Accept	-8800,90	Agree with Management
Auditors total difference				**R42 465 013,37**	

The above results in an;

Overstatement of operating lease expenditure and revenue from exchange transaction by R 42 465 013,37.

Project misstatement of operating lease expenditure of R 274 824 354,82.

Projected misstatement of revenue from exchange transaction of 318 004 540,35.

AUDIT OF PREDETERMINED OBJECTIVES

DETAILED AUDIT FINDING

Programme 3: Indicator 3.8 – Method of calculation not aligned to the reported achievement COFF 13 HO

Audit finding

Requirements

Section 40(3)(a) of the Public Finance Management Act states that: "The annual report and audited financial statements referred to subsection (1)(d) must fairly present the state of affairs of the department, trading entity or constitutional institution, its business, its financial results, its performance against predetermined objectives and its financial position as at the end of the financial year concerned…"

Paragraph 5.2 of the Framework for Managing Programme Performance Information: "requires auditee to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets..."

Chapter 3.3. of the Framework for Managing Programme Performance Information states that: "a useful set of criteria for selecting performance targets is the "SMART" criteria:

Specific: the nature and the required level of performance can be clearly identified
Measurable: the required performance can be measured
Achievable: the target is realistic given existing capacity
Relevant: the required performance is linked to the achievement of a goal
Time-bound: the time period or deadline for delivery is specified."

Nature

During the audit of performance information, Programme 3: Indicator 3.8 Percentage reduction of infrastructure projects backlog, we noted that the manner in which the entity had planned to calculate the achievement is not aligned to the description of the indicator as well as what the indicator aims to achieve. This is indicated in the Technical Indicator Description.

As per the Technical Indicator Description, the indicator is intended to report on the reduction in backlog of infrastructure projects where a project is on construction stage for a period exceeding 2 years of the planned construction period.

On the other hand, the method of calculation as per the Technical Indicator Description states that the achievement will be calculated as follows:
Subtract the number of infrastructure projects that have moved to practical completion from the total number of infrastructure backlogged projects in construction phase and express this as a percentage of the total number of infrastructure backlogged projects in construction.

In our assessment, the method of calculating the achievement aims to report the remaining infrastructure projects that are still in backlog expressed as a percentage as opposed to reporting the infrastructure projects that have moved to practical completion stage in the current year expressed as a percentage. As a result, this would not provide a true reflection of the performance of the entity and would result in the difference as indicated in the table below. Therefore, the reported achievement is correct, however the planned method of measuring the indicator is not aligned to purpose of the performance indicator. Furthermore, the performance indicator is not measurable to reflect the performance that the indicator desires to achieve, thus not it is not well defined.

Indicator description	Method of calculation per TID	Reported achievement per APR	Recalculated achievement using TID	Difference
Indicator: Percentage reduction of infrastructure projects backlog	(Total number of infrastructure backlogged projects in construction phase - number of infrastructure projects that have moved to practical completion)/ Total number of infrastructure backlogged projects in construction phase	8,50%	91,49%	-83%

Impact

The above may result in the following:

Non-compliance with the PFMA and Framework for Managing Programme Performance Information requirements.

Misrepresentation of the reported achievement to the users of the annual report.

The performance indicator is not well defined, thus having an impact on the usefulness criteria.

Internal control deficiency

Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls

Financial and performance management

Management did not adequately review the Annual Performance Plan.

Management did not adequately apply the FMPPI principles to ensure that the reported achievement will be correctly measured and aligned to the planned method of calculations. Therefore, the performance indicator being well defined.

Recommendation

It is recommended that strong review processes are implemented on the Annual Performance Plan to ensure that the manner in which management intends to measure performance is aligned to the performance indicator objective/purpose. Furthermore, the Annual Performance Plan for next financial year should also be reviewed and be adjusted to avoid similar finding being raised where applicable.

Management response

Management agrees that the formula that is intended to measure backlog reduction on the TID needs to be corrected and that it should show the performance achieved expressed in a percentage.

Management will consult with M&E to establish if there is room to effect the above change in the TID.

Auditor's conclusion

Management comments have been noted, and the finding will be reported in the final management report. Therefore, the finding remains unresolved.

Programme 3: Indicator 3.8 – Reported achievement not valid COFF 35 HO

Audit Finding

Requirements

Section 40(3)(a) of the Public Finance Management Act (PFMA) states that: *"The annual report and audited financial statements referred to subsection (1) (d) must fairly present the state of affairs of the department, trading entity or constitutional institution, its business, its financial results, its performance against predetermined objectives and its financial position as at the end of the financial year concerned…"*

Paragraph 5.2 of the Framework for Managing Programme Performance Information requires auditee to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets..."

Section 25(1)(e) of the Public Service Regulation states the following: An executive authority shall prepare a strategic plan for his or her department that enable the executive authority to monitor the progress made towards achieving those targets and core objectives…"

Nature

During the audit of performance information, Programme 3: Indicator 3.8 Percentage reduction of infrastructure projects backlog, the following deviation was noted:

As per the Technical Indicator Description, the indicator is intended to report on the reduction in backlog of infrastructure projects where a project is on construction stage for a period exceeding 2 years of the planned construction period. The backlog projects are identified during the annual planning of the annual performance plan, i.e. August 2018, to be included in the schedule for backlog projects, and that is also when the period of delay in the project is also determined.

1. The infrastructure projects as per the table below were reported as being on construction stage for a period exceeding 2 years of the planned construction period, however when assessed by the auditors, it was found that the projects have not been on construction stage for a period exceeding 2 years of the planned construction period. Thus, the projects should not have been reported in the achievement for backlog projects.

No.	WCS #	Planned delivery date	No. of months project on construction period post planned delivery date
1	014335	2016/11/03	21 months
2	054635	2016/12/31	20 months
3	048605	2017/02/17	18 months
4	040818	2017/03/12	17 months

2. The project as per the table below was reported as being on construction staged for a period exceeding 2 years of the planned construction period, however when assessed by the auditors, it was found that the project has reached stage of completion 8. Furthermore, it was also established that the project reach practical completion on 15 April 2008. Thus, the project should not have been reported in the achievement for backlog projects.

No.	WCS #	Project Description	Planned date of delivery	Status as per schedule	Status as per WCS
1	046021	Emergency work – Repair/replace leaking pipes, tiles, toilets and showers in blocks G, H, I, J & K	2008/04/15	5B	8

Impact

The above may result in the following:

Non-compliance with the PFMA and Framework for Managing Programme Performance Information requirements.

Misrepresentation of the reported achievement to the users of the annual report.

The performance indicator is not valid and accurate.

The denominator is overstated, consequently the reported achievement is understated.

Internal control deficiency

Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls

Financial and performance management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

Recommendation

It is recommended that strong review processes are implemented on the Annual Performance Report and supporting schedule to ensure that what is reported in the performance report is accurate and valid.

Management response

Management agrees that the above listed projects should not have formed the list of the backlogged projects as they were still under two years when the list was being developed in August 2018.

However, management disagrees with AGSA that these projects were listed as achievement under backlogged projects as they were only listed as planned for completion.

These projects are the only few ones wrongly listed on many schedules that have been submitted to AGSA. Management is therefore of the opinion that this is an isolated case, which will allow the PMTE to adjust if required

Auditor's conclusion

Management comment noted. It should be noted that the inclusion of such projects on the Number of infrastructure projects still in backlog schedule was incorrect which will than results in the incorrect calculation of the percentage reduction of infrastructure projects backlogs. The reported achievement of 8.5% is therefore incorrect since it is based on the incorrect denominator.

Management assertion that the identified projects that were incorrectly included on infrastructure projects still in backlog were the only one wrong cannot be confirmed. Management will need to revise their population and ensure that no other incorrect items were included on the schedule. This will need to be resubmitted to auditors as part of accept-reject testing before accepted by auditors. The finding will therefore remain.

Programme 3: Indicator 3.7 - Number of EPWP work opportunities created through infrastructure projects COFF 50

Audit Finding

Requirements

Section 40(3)(a) of the Public Finance Management Act (PFMA) states that: *"The annual report and audited financial statements referred to subsection (1) (d) must fairly present the state of affairs of the department, trading entity or constitutional institution, its business, its financial results, its performance against predetermined objectives and its financial position as at the end of the financial year concerned…"*

Paragraph 5.2 of the Framework for Managing Programme Performance Information requires auditee to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets..."

Section 25(1)(e) of the Public Service Regulation states the following: An executive authority shall prepare a strategic plan for his or her department that enable the executive authority to monitor the progress made towards achieving those targets and core objectives…"

Technical indicator description – method of calculation states that: *"A count of the aggregate work opportunities created/reported. Work opportunity is paid work created for an individual on an EPWP project for any period of time. The same person can be employed on different projects and each period of employment will be counted as work opportunity……*"

The ministerial determination 4: Expanded Public Works Programme dated 04 May 2012 paragraph 12(1)(a) to (e) and 12.2 – Keeping records it states that: *"Every employer must keep a written record of at least the worker's name and position; copy of an acceptable worker identification; in the case of task-rated worker, the number of tasks completed by the worker; in the case of a time-rated worker, the time worked by the worker; payments made to each worker. The employer must keep this record for a period of at least three years after completion of the EPWP..."*

Nature

During the audit of performance information, programme 3: indicator 3.7 relating to "Number of work opportunities created through infrastructure projects", the following deviations were identified:

a) For the projects as per the table below, participants were identified on the attendance register and/or proof of payment, but were not reported on the quarterly validated data submitted for audit purposes.

No	Name	Surname	ID	Project Code	Project Name	Sector
5	Gayiya	Nomazizi	9210110500085	94216-EPWP3N	Bathurst: Freestone Road	Infrastructure Sector
6	Bongile Isaac	Xali	9910266079087	94216-EPWP3N	Bathurst: Freestone Road	Infrastructure Sector
7	Thembakazi	Lukwe	9001140640086	94216-EPWP3N	Bathurst: Freestone Road	Infrastructure Sector
8	Thembinkosi Nicolson	Bakada	7710055635087	94216-EPWP3N	Bathurst: Freestone Road	Infrastructure Sector
9	Christopher Zwelinzima	Blou	8408105283086	94216-EPWP3N	Bathurst: Freestone Road	Infrastructure Sector
10	Lindile Isaac	Futa	670118536080	94216-EPWP3N	Bathurst: Freestone Road	Infrastructure Sector
11	Nandipa	Gaga	8611050753082	94216-EPWP3N	Bathurst: Freestone Road	Infrastructure Sector
12	Thembinkoso	Mafumana	8008055630086	94216-EPWP3N	Bathurst: Freestone Road	Infrastructure Sector
13	Thandile David	Mali	6708165806086	94216-EPWP3N	Bathurst: Freestone Road	Infrastructure Sector
14	Ntombovuyo	Mente	9804020917080	94216-EPWP3N	Bathurst: Freestone Road	Infrastructure Sector
15	Xolani	Mahlathi	7103285436088	94216-EPWP3N	Bathurst: Freestone Road	Infrastructure Sector
16	Mziyanda	Ntlokwana	9307185208089	94216-EPWP3N	Bathurst: Freestone Road	Infrastructure Sector
17	Mohanoe Victor	Lekhoaba	6309125640085	95782-EPWP3N	Nala Routine Maintance	Infrastructure Sector
18	Phillip Mahlaku	Mokhoenyane	8203055952081	95782-EPWP3N	Nala Routine Maintance	Infrastructure Sector
19	JJ	Funda	8709115347088	95782-EPWP3N	Nala Routine Maintance	Infrastructure Sector
25	Bongumenzi	Nkosi	8711205585080	2700-EPWPRS	Bulwer Rehabilitation of old prison.	Infrastructure Sector
26	Ntethelelo	Sosibo	9511035608089	2700-EPWPRS	Bulwer Rehabilitation of old prison	Infrastructure Sector

No	Name	Surname	ID	Project Code	Project Name	Sector
27	Sihle	Gumede	9109116092081	1090-EPWPRS	Umlazi Magistrate Office	Infrastructure Sector
28	Nokuphiwe	Zungu	8204041657081	4427-EPWPRS	Melmoth SAPS	Infrastructure Sector
29	Moshephe	Nkansi	19771127	80999-EPWP3N	Emahlathini and Bothashoop Ports of Entry	Infrastructure Sector
35	Ashton Auscar	Daniels	9808255325083	96701	Road Construction and pavements	Infrastructure Sector
36	Johnny	Jonkers	7210065822080	96701	Road Construction and pavements	Infrastructure Sector
37	Axola	Dyani	8908085899086	85725-EPWP3N	WO Caledon Prison	Infrastructure Sector
38	Alungile	Duli	Unknown	64927-EPWP3N	NCOP Building	Infrastructure Sector
39	Ayanda	Ginyigazi	Unknown	64927-EPWP3N	NCOP Building	Infrastructure Sector
40	Anelisa	Nginda	Unknown	64927-EPWP3N	NCOP Building	Infrastructure Sector
41	Anelwa	Stemela	Unknown	64927-EPWP3N	NCOP Building	Infrastructure Sector
42	Msimelelo	Ludaka	Unknown	64927-EPWP3N	NCOP Building	Infrastructure Sector
43	Khayalethu	Daliwe	6912185748084	19917 EPWP3N	WO Parliamentary Residential Accommodation	Infrastructure Sector
44	J.I	Lietzman	6304305201089	19917 EPWP3N	WO Parliamentary Residential Accommodation	Infrastructure Sector
45	Vukile	Mbele	7301235522088	19917 EPWP3N	WO Parliamentary Residential Accommodation	Infrastructure Sector
46	Phillip	Maliwa	7304215514087	19917 EPWP3N	WO Parliamentary Residential Accommodation	Infrastructure Sector
47	Xolile	Msingizana	8911235422086	19917 EPWP3N	WO Parliamentary Residential Accommodation	Infrastructure Sector
48	Natacia	Sasa	9306151092089	19917 EPWP3N	WO Parliamentary Residential Accommodation	Infrastructure Sector

No	Name	Surname	ID	Project Code	Project Name	Sector
49	Francois Virgil	January	8107095196080	19917 EPWP3N	WO Parliamentary Residential Accommodation	Infrastructure Sector
50	Zuko	Makhalima	7408166091080	19917 EPWP3N	WO Parliamentary Residential Accommodation	Infrastructure Sector
51	Maria	Pretorious	6706120097080	19917 EPWP3N	WO Parliamentary Residential Accommodation	Infrastructure Sector
52	Michael	Pretorious	6510305149082	19917 EPWP3N	WO Parliamentary Residential Accommodation	Infrastructure Sector
53	Briam Isaac	Butler	6906175232083	19917 EPWP3N	WO Parliamentary Residential Accommodation	Infrastructure Sector
54	Anita Monyeko	Masemola	9204300874087	80970-EPWP3N	Pretoria Bricklaying Apprenticeship Program	Infrastructure Sector
55	Oscar Kgadime	Mampuru	9407075749083	99121-EPWP3N	SAPS: Salvokop Radio Tech Unit	Infrastructure Sector
56	Murunwa	Mulaudzi	0102011246083	99121-EPWP3N	SAPS: Salvokop Radio Tech Unit.	Infrastructure Sector
57	Maqalaza	Ndala	4206015504086	2736-EPWPRS	NPA Pietermaritzburg Workshop.	Infrastructure Sector
58	Rosemary Nompilo	Jali	8906062551086	2736-EPWPRS	NPA Pietermaritzburg Workshop.	Infrastructure Sector
59	Vuyani Jackson	Pitani	6201015863085	65870-EPWP3N	Humewood Military Base Port Elizabeth	Infrastructure Sector
60	Abednego	Modise	9701056172087	90516-EPWP3N	Plooysburg Police Complex Repair of police station,Married Quarters and bach	Infrastructure Sector
61	Ashwssin	Prins	9401085265081	90516-EPWP3N	Plooysburg Police Complex Repair of police station,Married Quarters and bach	Infrastructure Sector
62	Roseline	Price	8607060025081	90517-EPWP3N	Grobleshoop Magistrate's Construction of additional Accommodation.	Infrastructure Sector
63	Magang	Liezel	8507310176082	90517-EPWP3N	Grobleshoop Magistrate's Construction of additional Accommodation	Infrastructure Sector
131	Elmarie	Hugo	9202080112082	93306-EPWP3N	Repair and Renovation Magistrate Court in Victoria West	Infrastructure Sector

No	Name	Surname	ID	Project Code	Project Name	Sector
132	Leonardo Jason	Erasmus	9208235129087	93306-EPWP3N	Repair and Renovation Magistrate Court in Victoria West.	Infrastructure Sector
133	Lester Dmetri	Jonker	8701275007081	93306-EPWP3N	Repair and Renovation Magistrate Court in Victoria West	Infrastructure Sector
134	Tebogo	Mashegoana	9004301029081	98789-EPWP3N	Telkom Towers	Infrastructure Sector
135	Reginald	Matlala	8803145343082	98789-EPWP3N	Telkom Towers	Infrastructure Sector
136	Lesego Sharon	Segale	9310080317088	98789-EPWP3N	Telkom Towers	Infrastructure Sector
137	Vannessa	Seanego	9903030825083	98789-EPWP3N	Telkom Towers	Infrastructure Sector
138	Tursia	Maphake	9901250791084	98789-EPWP3N	Telkom Towers	Infrastructure Sector

b) During the audit of EPWP projects at the Lepelle-Nkumpi Local Municipality, the under-mentioned project was not reported on the quarter 3 EPWP reporting system as at 31 December 2019.

Project code	Project name	No of beneficiaries listed on the municipal records	Sector
100645	Taring of internal streets zone S to Q access road	**5**	Infrastructure Sector
94774-EPWP3N	Queenstown SAPS (General Labour) Maziya General	189.	Infrastructure Sector

Impact

The above may result in the following:

- Non-compliance with the PFMA and Framework for Managing Programme Performance Information requirements.
- Misrepresentation of the reported achievement to the users of the annual report.
- The reported achievement may be understated.

Internal control deficiency

Financial and Performance Management

The department did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

Beneficiary lists and attendance registers are not regularly reviewed to ensure that participants as per the attendance registers agree to the beneficiary list reported on the EPWP reporting system.

Recommendation

It is recommended that:

The entity should perform frequent, adequate reviews of beneficiary lists and attendance registers from the public bodies to ensure that all participants are captured on EPWP reporting system.

Management should review all EPWP projects reported on the system against the attendance registers, to ensure that all work opportunities created are reported.

Management response

Management takes note of the findings and wishes to respond as thus:

The projects listed on Table 1, are not DPWI projects and thus management is unable to respond to the findings.

TABLE 1:

No	Name	Surname	ID	Project Code	Project Name	Sector
5	Gayiya	Nomazizi	9210110500085	94216-EPWP3N	Bathurst: Freestone Road	Infrastructure Sector
6	Bongile Isaac	Xali	9910266079087	94216-EPWP3N	Bathurst: Freestone Road	Infrastructure Sector
7	Thembakazi	Lukwe	9001140640086	94216-EPWP3N	Bathurst: Freestone Road	Infrastructure Sector
8	Thembinkosi Nicolson	Bakada	7710055635087	94216-EPWP3N	Bathurst: Freestone Road	Infrastructure Sector
9	Christopher	Blou	8408105283086	94216-EPWP3N	Bathurst: Freestone Road	Infrastructure Sector

No	Name	Surname	ID	Project Code	Project Name	Sector
	Zwelinzima					
10	Lindile Isaac	Futa	670118536080	94216-EPWP3N	Bathurst: Freestone Road	Infrastructure Sector
11	Nandipa	Gaga	8611050753082	94216-EPWP3N	Bathurst: Freestone Road	Infrastructure Sector
12	Thembinkoso	Mafumana	8008055630086	94216-EPWP3N	Bathurst: Freestone Road	Infrastructure Sector
13	Thandile David	Mali	6708165806086	94216-EPWP3N	Bathurst: Freestone Road	Infrastructure Sector
14	Ntombovuyo	Mente	9804020917080	94216-EPWP3N	Bathurst: Freestone Road	Infrastructure Sector
15	Xolani	Mahlathi	7103285436088	94216-EPWP3N	Bathurst: Freestone Road	Infrastructure Sector
16	Mziyanda	Ntlokwana	9307185208089	94216-EPWP3N	Bathurst: Freestone Road	Infrastructure Sector
17	Mohanoe Victor	Lekhoaba	6309125640085	95782-EPWP3N	Nala Routine Maintance	Infrastructure Sector
18	Phillip Mahlaku	Mokhoenyane	8203055952081	95782-EPWP3N	Nala Routine Maintance	Infrastructure Sector
19	JJ	Funda	8709115347088	95782-EPWP3N	Nala Routine Maintance	Infrastructure Sector

Management Response:

These projects are not being implemented by CPM Branch. A response to these finding on Table 2 have been responded to by EPWP on the 9th of September 2020 by Ms. Carmen-Joy Abrahams: Acting Deputy Director-General: Expanded Public Works Programme

2. TABLE 2:

No	Name	Surname	ID	Project Code	Project Name	Sector
132	Leonardo Jason	Erasmus	9208235129087	93306-EPWP3N	Repair and Renovation Magistrate Court in Victoria West. Tshepo	Infrastructure Sector

No	Name	Surname	ID	Project Code	Project Name	Sector
133	Lester Dmetri	Jonker	8701275007081	93306-EPWP3N	Repair and Renovation Magistrate Court in Victoria West Tshepo	Infrastructure Sector
134	Tebogo	Mashe goana	9004301029081	98789-EPWP3N	Telkom Towers FM	Infrastructure Sector
135	Reginald	Matlala	8803145343082	98789-EPWP3N	Telkom Towers	Infrastructure Sector
136	Lesego Sharon	Segale	9310080317088	98789-EPWP3N	Telkom Towers	Infrastructure Sector
137	Vannessa	Seane go	9903030825083	98789-EPWP3N	Telkom Towers	Infrastructure Sector
138	Tursia	Mapha ke	9901250791084	98789-EPWP3N	Telkom Towers	Infrastructure Sector
18	Oscar Kgadime	Mampu ru	9407075749083	99121-EPWP3N	SAPS: Salvokop Radio Tech Unit	Infrastructure Sector
19	Murunwa	Mulaud zi	0102011246083	99121-EPWP3N	SAPS: Salvokop Radio Tech Unit	Infrastructure Sector

Management Response:

The beneficiary in question for Humewood Military Base was reported and reflected on the system. There was a decision taken by Head Office EPWP for the system to exclude any beneficiary that earns more than a certain amount.

Please see attached attendance register for Mr VJ Pitana. Apparently Mr Pitana earned more than R500.00 per hence he was rejected by the system.

TABLE 3:

No	Name	Surname	ID	Project Code	Project Name	Sector
59	Vuyani Jackson	Pitani	6201015863085	65870-EPWP3N	Humewood Military Base Port Elizabeth	Infrastructure Sector

Management Response:

With regard to Repair and Renovation Magistrate Court in Victoria West: 93306-EPWP3N.

This project had several cases of underreporting and it was corrected. Elmarie Hugo 9202080112082, her case was amongst those corrected and her name reflects on the validated reports as attached.

Unfortunately, 2 learners' who despite reporting again didn't reflect on the validation remains unresolved (Leornado Jason Erasmus 9808235129087 & Lester Dmetri Jonker 870127 5007 081

TABLE 4:

No	Name	Surname	ID	Project Code	Project Name	Sector
59	Vuyani Jackson	Pitani	6201015863085	65870-EPWP3N	Humewood Military Base Port Elizabeth	Infrastructure Sector
131	Elmarie	Hugo	9202080112082	93306-EPWP3N	Repair and Renovation Magistrate Court in Victoria West	Infrastructure Sector
132	Leonardo Jason	Erasmus	9208235129087	93306-EPWP3N	Repair and Renovation Magistrate Court in Victoria West.	Infrastructure Sector
133	Lester Dmetri	Jonker	8701275007081	93306-EPWP3N	Repair and Renovation Magistrate Court in Victoria West	Infrastructure Sector

Management Response:

The projects listed under Table 5, are not CPM projects and thus management is unable to respond to the findings.

TABLE 5:

Project code	Project name	No of beneficiaries listed on the municipal records	Sector
100645	Taring of internal streets zone S to Q access road	5	Infrastructure Sector

Management Response:

This finding was raised with EPWP under COFF 8 or 9 sometime in August 2020 and it was responded to early September by EPWP Branch.

TABLE 6:

No	Name	Surname	ID	Project Code	Project Name	Sector
57	Maqalaza	Ndala	4206015504086	2736-EPWPRS	NPA Pietermaritzburg Workshop.	Infrastructure Sector
58	Rosemary Nompilo	Jali	8906062551086	2736-EPWPRS	NPA Pietermaritzburg Workshop.	Infrastructure Sector
25	Bongumenzi	Nkosi	8711205585080	2700-EPWPRS	Bulwer Rehabilitation of old prison.	Infrastructure Sector
26	Ntethelelo	Sosibo	9511035608089	2700-EPWPRS	Bulwer Rehabilitation of old prison	Infrastructure Sector
27	Sihle	Gumede	9109116092081	1090-EPWPRS	Umlazi Magistrate Office	Infrastructure Sector
28	Nokuphiwe	Zungu	8204041657081	4427-EPWPRS	Melmoth SAPS	Infrastructure Sector

Auditor's conclusion

Management comment noted. Please see below our comments in relation to the management response provided.

Table 1:

We have confirmed that project: 94216-EPWP3N & 95782-EPWP3N) do not belong to PMTE but they are municipal projects. The finding relating to these two projects is resolved.

Table 2:

Based on the conclusion raised at the DPW audit, the finding was never resolved hence it still remain as a finding that will be reported on the PMTE MR.

Table 3:

Management didn't provide any report or letter which authorises a decision that any person earning above R500 should not be reported. The information provided confirms that the beneficiary in question did work and was paid. The finding will remain.

Table 4:

The finding relating to Elmarie Hugo 9202080112082 has been resolved. We were able to confirm that the beneficiary was reported on the system.

The finding relating to Leornado Jason Erasmus 9808235129087 & Lester Dmetri Jonker 870127 5007 081 will remain unresolved. These beneficiaries couldn't be traced on the system.

Table 5:

We have confirmed that project: Taring of internal streets zone S to Q access road does not belong to PMTE but they are municipal projects. The finding relating to these two projects is resolved.

Table 6:

Based on the conclusion raised at the DPW audit, the finding was never resolved hence it still remain as a finding that will be reported on the PMTE MR.

Other projects

It should also be noted that management response didn't make any comments on the projects listed below. The findings raised relating to the beneficiaries who worked on these projects and not reported on the EPWP system will remain and reported on the management report.

- 80999-EPWP3N
- 85725-EPWP3N
- 64927-EPWP3N
- 80970-EPWP3N
- 90516-EPWP3N
- 90517-EPWP3N

The finding raised relating to beneficiaries listed under project:19917 EPWP3N have been resolved.

Programme 3: Indicator 3.7 - Number of EPWP work opportunities created through infrastructure projects COFF 49 HO

Audit Finding

Requirements

Section 40(3)(a) of the Public Finance Management Act (PFMA) states that: *"The annual report and audited financial statements referred to subsection (1) (d) must fairly present the state of affairs of the department, trading entity or constitutional institution, its business, its financial results, its performance against predetermined objectives and its financial position as at the end of the financial year concerned…"*

Paragraph 5.2 of the Framework for Managing Programme Performance Information requires auditee to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets..."

Section 25(1)(e) of the Public Service Regulation states the following: An executive authority shall prepare a strategic plan for his or her department that enable the executive authority to monitor the progress made towards achieving those targets and core objectives…"

Technical indicator description – method of calculation states that: *"A count of the aggregate work opportunities created/reported. Work opportunity is paid work created for an individual on an EPWP project for any period of time. The same person can be employed on different projects and each period of employment will be counted as work opportunity……*"

The ministerial determination 4: Expanded Public Works Programme dated 04 May 2012 paragraph 12(1)(a) to (e) and 12.2 – Keeping records it states that: *"Every employer must keep a written record of at least the worker's name and position; copy of an acceptable worker identification; in the case of task-rated worker, the number of tasks completed by the worker; in the case of a time-rated worker, the time worked by the worker; payments made to each worker. The employer must keep this record for a period of at least three years after completion of the EPWP..."*

Nature

During the audit of performance information, programme 3: indicator 3.7 relating to "Number of work opportunities created through construction projects", the following deviations were identified:

a) The beneficiaries listed below for the projects, were reported as beneficiaries on the EPWP reporting system including the number of days worked. However, during the audit of the project we noted that the beneficiaries did not work on the project as attendance register and proof of payment could not be obtained.

No	Name	Surname	ID	Project Code	Project Name	Sector
6	Nontobeko Preety	Shangase	9201090783080	5478-EPWPRS	Masonic Grove Building Refurbishment	Infrastructure Sector
7	Karel Marc	Vries	9804055150086	90517-EPWP3N	Grobleshoop Magistrate's Construction of additional Accommodation	Infrastructure Sector
8	Eulalia Hendroesha Simone	Ferris	0007010210081	90517-EPWP3N	Grobleshoop Magistrate's Construction of additional Accommodation.	Infrastructure Sector

Impact

The above may result in the following:

- Non-compliance with the PFMA and Framework for Managing Programme Performance Information requirements.
- Misrepresentation of the reported achievement to the users of the annual report.
- The reported achievement may be overstated.

Internal control deficiency

Financial and Performance Management

The department did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

Beneficiary lists and attendance registers are not regularly reviewed to ensure that participants as per the attendance registers agree to the beneficiary list reported on the EPWP reporting system.

Recommendation

The entity should follow up on all findings noted by the internal, external auditors and also findings from their visits to public bodies to ensure that corrective measures have been implemented.

The entity should perform frequent and adequate reviews of the beneficiary lists and attendance registers to ensure that the number days of beneficiaries worked and reported is accurate and valid.

Management response

Management takes note of the findings and wishes to respond as thus:

90517-EPWP3N: Groblershoop Magistrate's Construction of additional Accommodation:

The 2 learners (**Karel Marc Vries 9804055150086 & Eulalia Hendroesha Simone Ferries 0007010210081**) never attended classroom training nor did they attend any part of their 6 months training. They were recruited that is why their names appeared on the system but an attendance and payment register for them is N/A because they dropped immediately after being recruited.

5478-EPWPRS Masonic Grove Building Refurbishment

This finding was raised with EPWP under COFF 8 or 9 sometime in August 2020 and it was responded to early September by EPWP Branch.

Auditor's conclusion

Management comment noted. Please see below our comment.

90517-EPWP3N: Groblershoop Magistrate's Construction of additional Accommodation:

Based on the management comment it is evidenced that the 2 learners never attended their training. They shouldn't have been reported on the system. The finding will therefore remain.

5478-EPWPRS Masonic Grove Building Refurbishment

Based on the conclusion raised at the DPW audit, the finding was never resolved hence it still remain as a finding that will be reported on the PMTE MR.

PROCUREMENT AND CONTRACT MANAGEMENT

DETAILED AUDIT FINDING: Irregularities Identified in Beitbridge project COFF 38 HO

Audit finding

Requirements

Public Finance Management Act paragraph 38(1)(a)(i) and 38(1)(a)(ii) states that *"The accounting officer for a trading entity must ensure that the department has and maintains effective, efficient and transparent systems of financial and risk management and internal control and an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective…"*

Public Finance Management Act paragraph 38(1)(b) that's that "T*he accounting officer for a trading entity is responsible for the effective, efficient, economical and transparent use of the resources of the trading entity."*

Public Finance Management Act paragraph 38 (1)(c)(ii) states that *"The accounting officer for a, trading entity must take effective and appropriate steps to prevent unauthorized, irregular and fruitless and wasteful expenditure and losses resulting from criminal conduct*"

Public Finance Management Act paragraph 38 (1)(g) states that: *"The accounting officer must on discovery of fruitless and wasteful expenditure, immediately report, in writing, particulars of the expenditure to the relevant treasury;''*

Public Finance Management Act paragraph 38 (1)(h) states that: *"The accounting officer must take effective and appropriate disciplinary steps against any official in the service of the department or constitutional institution who makes or permits fruitless and wasteful expenditure''*

Public Finance Management Act paragraph 40 (3)(b) states that: "*The annual report and audited financial statements must include particulars of fruitless and wasteful expenditure that occurred during the financial year and any disciplinary steps taken as a result of such fruitless and wasteful expenditure.''*

Public Finance Management Act paragraph 45 (b)states that *“An official in a trading entity is responsible for the effective, efficient, economic and transparent use of financial and other resources within that official’s area of responsibility.”*

Public Finance Management Act paragraph 1 defines *“fruitless and wasteful expenditure' as “expenditure which was made in vain and would have been avoided had reasonable care been exercised”*

Treasury Regulation 8.1.1 state that *“The accounting officer of the institution must ensure that Internal procedures and internal control measures were in place for the approval and processing of payments. These controls provided reasonable assurance that all expenditure is necessary, is appropriate, is paid promptly and is adequately recorded and reported on.”*

Treasury Regulation 8.2.1 states that *“An official of an institution may not spend or commit public money except with the approval (Either in writing or duly authorised electronic means) of the accounting officer or a properly delegated or authorised officer.”*

Treasury Regulation 8.2.2 states *that “Before approving expenditure or incurring a commitment to spend, the delegated or authorised official must ensure compliance with any limitations or condition attached to the delegation or authorisation.”*

Treasury Regulation 9.1.1 state that *“The accounting officer of a trading entity must exercise all reasonable care to prevent and detect fruitless and wasteful expenditure and must, for this purpose, implement effective, efficient and transparent processes of financial and risk management.’’*

Treasury Regulation 16A3.1 state that *“The accounting officer or accounting authority of an institution to which these regulations apply must develop and implement an effective and efficient supply chain management system in his or her institution for the acquisition of goods and services…”*

Treasury Regulation 15.10.1.2(c) states that *“For the purpose of this regulation, sound cash management includes avoiding prepayments for goods and services (i.e. payments in advance of the receipts of the goods or services), unless required by the government’s contractual arrangements with the supplier.”*

Treasury Regulation 16A3.2(a) states that *“A supply chain management system referred to in paragraph 16.3.1 must be fair, equitable, transparent, competitive and cost effective”*

Treasury Regulation 16A6.4 state that *"If in a specific case it is impractical to invite competitive bids, the accounting officer or accounting authority may procure the required goods or services by other means, provided that the reasons for deviation from inviting competitive bids must be recorded and approved by the accounting officer or authority."*

Treasury Regulation 16A9.1(d) states that "*The accounting officer must reject any bid from a supplier who fails to provide written proof from the South African Revenue Service that the supplier either has no outstanding tax obligations or has made arrangement to meet outstanding tax obligations."*

Treasury Regulation 16A9.1(e) states that "*The accounting officer must reject a proposal for the award of a contract if the recommended bidder has committed a corrupt or fraudulent act in competing for the particular contract …"*

Treasury Regulation 16A9.2a(ii) states that "*The accounting officer may disregard the bid of any bidder if that bidder, or any of its directors have committed fraud or any other improper conduct in relation to such system …"*

National Treasury SCM instruction No. 3 of 2016-2017 paragraph 8.2 states that "*An emergency procurement may occur when there is a serious and unexpected situation that poses an immediate risk to health, life, property or environment which calls an agency to action and there is insufficient time to invite competitive bids."*

National Treasury SCM instruction No. 3 of 2016-2017 paragraph 8.4 states that *"The Accounting officer must invite as many suppliers as possible and select the preferred supplier using the competitive bid committee system"*

Nature

During the audit of procurement and contract management for the Beitbridge project (Tender No: H16/022), we have noted some irregularities in the procurement process. The contract was awarded through an emergency process where the deviation route was followed. The details of the project are stated below:

Project description: 40 km Borderline infrastructure and installation between RSA and Zimbabwe at Beitbridge Border post.

The project cost for both the contractor and the consultant amounted to R40 435 915 including vat and the payment made to date amounts to R23 662 883 including vat. *Refer to the table 1.*

Table 1

Suppliers details		Contract amount	Payment to date
Magwa Construction	Contractor	37 176 844	21 819 878
Profteam CC	Consultant	3 259 071	1 843 005
Total		**40 435 915**	**23 662 883**

The following irregularities have been identified during the procurement process:

Deviation:

Background

The contractor: Magwa Construction was appointed through the deviation process. Based on the inspection of the internal memorandum prepared by the Director: Special and Major Projects on the 17 March 2020 and approved by the Chairperson: NBAC on the 18 March 2020, the following reasons were cited in the internal memorandum:

"Due to the covid 19 pandemic there is a very high risk for loses of life (i.e. Death), negative health impact, negative economic impact and social impact in South Arica. The site visit held by DPWI and DOD Officials on the 17 March 2020 at the Beitbridge Land Port of Entry revealed pertinent issues as follows.

- *The borderline fence was surveyed and it was evident that there are hotspot areas with holes.*
- *The entire fence line is down and other parts are not structurally sound*
- *The focus area for the borderline infrastructure installation will be 40kms (20kms on either side of Beitbridge)*

- *Consideration of the exiting service provider who is appointed under the RAMP project."*

After receiving the request from the Minister invoking S27(2)(L) of the Disaster Management Act, no 57 of 2002, we approached the Caledon River Properties T/A Magwa Construction with the intention to issue a Variation order. We followed the variation order process whereby we requested the appointed consultant (WCS 052500 Beitbridge LPOE) for the Detailed Scope of Work and Priced Bills of Quantities to the tune of R37 176 843.50 as the rates are 4 years old…"

Auditors assessment

The deviation was assessed against National Treasury Instruction Note No 0.3 of 2016/17 paragraph 8.2 which state that *"An emergency procurement may occur when there is a serious and unexpected situation that poses an immediate risk to health, life, property or environment which calls an agency to action and there is insufficient time to invite competitive bids."*

Based on the reasons provided by management for deviation and the Covid-19 potential impact, the treatment of the project as a deviation is justifiable. However, management will still need to comply with para 8.4 of the National Treasury Instruction Note No 0.3 of 2016/17 stating that "*The accounting officer must invite as many suppliers as possible and select the preferred supplier using the competitive bid committee system"*. This will ensure that the process of fairness and competition is achieved.

Fairness and competition

Magwa's Construction appointment

Through inspection of the internal memo approved by the NBAC on the 18 March 2020 it states that "*We approached the Caledon River Properties T/A Magwa Construction with the intention to issue a Variation order. We followed the variation order whereby we requested the appointed consultant (WCS 052500 Beitbridge LPOE) for the detailed scope of work and Priced Bills of Quantities to the tune of R37 176 843.50 as the rates are 4 years old. It was later discovered that the above scope of work is not related to the current scope of work for successful completion of the project (WSC 052500 Beitbridge LPOE), hence this submission is referred to NBAC for approval. We therefore request the NBAC to condone/ratify the prior negotiation with the contractor as this was for Variation order purposed."*

Auditors Assessment

Through our assessment, it is evident that the entity had an intention of appointing Magwa Construction on the beitbridge project. The entity approached the contractor and communicated with them their intention of providing the Variation order. There is no evidence to support that the Director General or any delegated authority approved such negotiation to take place.

The NBAC then ratified the negotiation process on the 18 March 2020 after management have already communicated with the contractor. We inspected the minutes of meeting held on the 17 March 2020 which state that *“Based on the technical considerations (i.e. BOQ with items and schedule rates that fit the fence specification, a resolution was taken to consider the contractor currently working on the service and maintenance contract at the Beitbridge border post for the VO process as per the Ministerial directive”* This is evidence that the appointment of the contractor: Magwa Construction was concluded at this time. It should also be noted that management's intention was not to procure such services through the emergency procurement but through a variation order route. This intention was later changed once it was discovered that the variation order process will not be viable. The amount indicated on the BOQ of R37 176 843.50 is the same as the amount that was awarded to Magwa Construction.

Through inspection of the minutes of meeting dated 17 March 2020 and the attendance register, we have noted that management invited two contractors namely Hillsite Trading and Asatico. It is not clear what was management’s intention of inviting the contractors. We have noted that the contractors were not given a chance to submit their pricing to ensure competition between the contractors. This is an indicative of an unfair process followed which lacked competition between contractor’s. The fact that the consultant: Profteam cc worked on the project before the official appointment, shows that management had intended prior to considering other contractors to appoint Profteam cc as consultant. There is no further evidence that other consultants were given a chance to bid for this project.

Profteam Appointment

Profteam CC was appointed via the deviation process. Based on the internal memorandum prepared by the Project Manager: Special and Major on the 19 March 2020 and approved by the Chairperson: NBAC on the 19 March 2020, the reasons for deviation provided were the same as the one used to justify the appointment of the contractor. Furthermore, we have noted the following on the internal memo:

“After receiving the request from the Minister invoking S27(2)(L) of the Disaster Management Act, no 57 of 2002, we approached Profteam CC with the intention to issue a variation order to existing scope of RAMP project (WCS 052500). This was found not be a viable option as the contractor has been appointed on a new project by the NBAC, therefore the appointment of the consultant should follow the same route hence this submission is referred to NBAC for approval. The memo then requests the NBAC to Condon/ratify the prior negotiation with the consultant as this was for Variation order purposed….”

<u>Auditors Assessment</u>

It should also be noted that the consultant was appointed after the contractor has already appointed on the Beitbridge project. This is unusual since the consultant should be involved in the determination of the scope of work, design drawings and develop the bill of quantity (BOQ). These documents are then used to determine the actual work needed for the project. The BOQ is also included on the bid documents which are sent to contractors for pricing. Based on this unusual process followed, it is not evident that other consultants were given a chance to provide quotation or pricing for assessment by management to ensure fairness is met and para 8.4 has been complied with.

As per Treasury Regulation 16A3.2(a) which states that *"A supply chain management system referred to in paragraph 16.3.1 must be fair, equitable, transparent, competitive and cost effective*" It cannot be said that the entity was fair in the deviation process since the award was given to the Magwa Construction based on the variation order process which was later aborted. At the time of awarding the contract through the deviation process, management should have followed paragraph 8.4 and try to source BOQs from different suppliers to ensure that the contract price obtained for the installation of the Beitbridge fence is market related and fair.

Bid documents

We have noted that both the contractor's bid documents were submitted late. **The bid document for Magwa Construction was submitted on the 23 March 2020 while the contractor's appointment was approved on the 18 March 2020.** The appointment letter signed by the Director General was sent on the 18 March 2020. This is the indication that the contractor was appointed without the bid documents being presented at the NBAC. The following checks were not done to confirm if the appointed contractor complies with the SCM process:

- The tax matters of the appointed contractor are in order at the time of awarding the contract. [Non-compliance with Treasury regulation 16A9.1 (d))]
- No directors of the winning bidder are employed by the entity or the state. [Non-compliance to Treasury regulation TR16A6.3(a).]
- The winning bidder have not been under-performing in the previous contracts [Non-compliance with TA16A9.2 (ii).]
- No winning bidder have been found to be fraudulent or corrupt before. [non-compliance with Treasury regulation 16A.9.1 and TR16A9.2(a)(ii)]

Inspected the budget availability and confirmed that the budget for the project **was approved by the Infrastructure Budget Committee(IBU) on the 20 March 2020 after both contractor and consultant have already been appointed**. The procurement instruction was dated 24 March 2020. Furthermore, the project was handed over to the contractor on the 19 March 2020. The project was handed over before the procurement instruction and the budget availability was approved. This is very concerning.

It should also be noted that the consultant: Profteam cc worked on the project before their official appointment that was done on the 19 March 2020. Through inspection of the internal memo approved on the 18 March 2020 it states that *"We followed the variation order process whereby* ***we requested the appointed consultant (WCS 052500 Beitbridge LPOE) for the detailed Scope of Work Priced Bills of Quantities (BOQ) to the tune of R37 176 843.50…"***

This is also concerning that the BOQ prepared by the consultant already included the tender price. The consultant would have been conflicted in the process since their professional fees are based on the awarded contract value to the contractor.

<u>Uneconomic use of the resources</u>

We have requested evidence to determine if the feasibility study was done on the beitbridge project. From the RFI 01 Beibridge issued, management indicated that the feasibility study was not done. Through inspection of the minutes of meeting dated 17 March 2020 it states that *"The specification was decided on and agreed on by the meeting including DOD and DPWI representatives attending the meeting. The borderline fence was inspected and it was evident that the fence line is in a bad condition and parts are not structurally sound. The focus area for the borderline infrastructure installation will be 40kms (20kms on either side of Beitbridge LPOE)."* This provide evidence that management didn't do a due diligence on the beitbridge project in order to ensure that the fence constructed is sound and is based on the solid study conducted. We have also noted that the project was done without the site clearance. The provisional site clearance issued on the 11 March 2020 referred to the Repairs and maintenance contract (WCS 053 162) rather than the erection of the Beitbridge fence.

Site establishment cost

Inspected the internal memo approved on the 18 March 2020 and it states that *"The nominated company Caledon River Properties T/A Magwa Construction, is currently appointed closer to the Beitbridge borderline fence project. The human resources are being mobilised, the contractor is experienced and holds CIDB grading of 8CE. The contractor is already established on site and there will be no financial implication for site establishment."*

<u>Auditors Assessment</u>

We have inspected the bill of quantity (BOQs) that Magwa Construction was contracted on for the Beitbridge project and we noted that it includes site establishment cost of **R1 099 500**. As per the internal memo such costs should have not been incurred since the contractor was already on site under WSC: 52500 project. This amount will result in the financial loss for the trading entity since it should have been avoided as the contractor was already established on site. The contractor was appointed based on the presumption that no cost will be incurred for site establishment

Rates comparison 2020BOQ Vs 2016 BOQ

Inspected the internal memorandum approved on the 18 March 2020 which states that *"we approached the Caledon River Properties T/A Magwa Construction with the intention to issue a Variation order. The followed the variation order whereby we requested the appointed consultant (WCS 052500 Beitbridge LPOE) for the detailed scope of work and Priced Bills of Quantities to the tune of R37 176 843.50 as the rates are 4 years old…. "*

Investigation conducted by PMTE on Beitbridge

Management have performed the investigation to determine if there was a value for money on the beitbridge project and if there were any non-compliances that may results in the potential financial loss. The investigation was concluded and the investigation report dated 27 July 2020 was issued. We have inspected the management's investigation report and noted that the financial loss was estimated by management. We have quoted the following conclusions on the investigation report;

"*The Value for Money Assessment conducted by the PICC team of professionals indicated significant anomalies. The total project cost (which includes both construction and engineering fees) for the March 2020 Contract is R40 435 914.98, at R1 010 898 per kilometer. Using the 2016 Repairs and Maintenance Project (RAMP) Contract rates – at which this project was contracted, the overall total project cost should have amounted to R26 110 717.51 and was therefore overpriced by R14 325 197.47 (which amounts to R358 130 per kilometer), resulting in a cost of R652 768 per kilometer, on the assumption that materials quoted for and not visible were actually used on site."*

"A further assessment using an Independent BOQ (comprising materials actually used on site, calculated at the market related rates/prices and revised fees for engineering services) provides for a total project cost of R23 388 023.97, at R584 700 per kilometer. This indicates that project cost was exceeded by an amount of R17 047 891.01 (based on the contracted amount of R40 435 914.98). It is therefore apparent that a proper review of the BOQ's was not conducted by the DPWI, and consequently resulted in the contract price being inflated. This also reflects the real risk to the DPWI of having failed to test the market. The 2020 market

comparison also indicates that the 2016 rates were inflated at the time. However, this issue was not investigated and does not form part of this report."

Auditors Assessment

Based on the auditor's assessment of the investigation report and their conclusion, it was evidenced that PMTE have estimated potential financial loss of R26 110.717.51 using 2016 Repairs and Maintenance Project (RAMP) Contract rates. Furthermore, an assessment was made to determine if the Bill of Quantity (BOQs) used included market related prices. Through the management assessment it was confirmed that the project cost was exceeded by an amount of ***R17 047 891.01.*** The above results indicated a lack of proper review of the BOQs as well as the lack of fairness and competition on the project to ensure that the prices obtained are fair, reasonable and market related. The non-compliance not met will be Treasury Regulation 16A3.2(a) which states that *"A supply chain management system referred to in paragraph 16.3.1 must be fair, equitable, transparent, competitive and cost effective"*

Professional fees calculation

We have inspected the internal memorandum approved on the 19 March 2020 which states that *"The fees calculated for the professional services amounts to R3 259 071.48. these fees were calculated based on the 2016 NDPW - Scope of Engineering services and Tariff of Fees for persons Registered in terms of the Engineering Profession Act, 2000, (Act No.24 of 2000)."*

Investigation conducted by PMTE on Beitbridge

As part of the management assessment of the professional fees based on their investigation the following conclusion was made on the investigation report"

" Fees for Engineering services, according to the Engineering Professions Act of 2000:
*o The normal scope of services provided for in the **Fees for Normal Services** (in accordance with the Scope of Engineering Services and Tariff of Fees for Persons Registered in terms of the Engineering Profession Act 46 of 2000), would not be fully rendered by the Consulting Engineers for this project. The reasons for this include:*
- *this project is **not complex**,*
- *the **cost of the work is considered to be too high** for the type of services being offered,*
- *the **time duration of the project is short**,*
- *the **risk low**, and*
- ***expertise required** is not abnormal.*

*It is therefore the professional opinion of the Review Team that the appropriate professional fees should have been reduced accordingly and that the factor used to determine the fees payable should be in the range of **0.65 to 0.75** of the standard fees for such works. This is in accordance with Section 4.2.8 of the Act. The reasonable price for the PA considering the scope and risk of the project was determined to be reasonable at estimate of **R1 525 447.58** vs the **R3 259 071.486.98** for which the PA was contracted."*

Auditors Assessment

Based on the auditor's assessment of the investigation report, it was evidenced that the professional fees calculated and included on the appointment letter when Profteam was overpriced. This is based on the fact that the scope of work expected from them doesn't is not complex or high risk and it doesn't require too much expertise. Management investigation determined that the reasonable professional fees that should have been charged is estimated to R1 525 447.58. This will than indicate a potential estimated financial loss of ***R1 733 623.90***. Any payment(s) made or expected to be made by management that is above an amount of R1 525 447.58 will results to a non-compliance with Treasury Regulation 8.1.1 state that *"The accounting officer of the institution must ensure that Internal procedures and internal control measures were in place for the approval and processing of payments. These controls provided reasonable assurance that all expenditure is necessary, is appropriate, is paid promptly and is adequately recorded and reported on."*

Advance payments

We have Inspected the internal memorandum prepared by the Project Manager on the 24 March 2020 requesting the approval of the advance payment to Magwa and Profteam. The request for advance payment was supported by Chief Director: CPM on the 24 March 2020 and approved by the Acting CFO on the 25 March 2020.

The reasons for the advance payment were stated as follows;

- *"The borderline fence project is currently on site for a period on 4 weeks,*
- *During the site hand over meeting, it was agreed that appointed professional team will issue weekly payment, as advised by the Minister on 16 March 2020,*
- *Due to the fact that the president has declared 21 days lock down as from the 24 march 2020, therefore there will be skeleton staff for both project management and finance staff,*
- *Taking into account the above situation, DPWI staff will be working from home, it will be difficult to honour the weekly payment and thus will hamper the progress and cash flow for the contractor."*

Progress payment No.1 - Magwa Construction

The progress payment certificate No.01 indicated an amount of R21 819 878.28 and it was signed by the consultant: Profteam confirming that work of 65.2% was done. We have also noted that the same amount was reflected on the Magwa's invoice which was approved for payment on the 25 March 2020. Through inspection of the delivery note we have noted that the materials were delivered on site on the 26 March 2020.

Consultant fees payment: Profteam CC

An advance payment was made to Profteam CC on the 25 March 2020 for an amount of R1 843 004.92. The amount was calculated based on the 65.2% worked done on site as per the progress payment certificate No. 01.

Auditors assessment

As per the Treasury Regulation 15.10.1.2(c), no prepayments should be made for goods or services where there is no contractual agreement between the entity and the supplier. Based on the contract signed by Magwa Construction and PMTE, there is no clause included in the contract which provides for a payment to be made to the contractor in advance. According to the site hand over minute of meeting dated 19 March 2020 which states that *"The contractor must submit acceptable proof of ownership of material delivered on site before any payment advance may be given, including proof that VAT has been paid."* This is evidence that the advance payment was not allowed in this project since on the site hand over, it indicated that proof of ownership of materials delivered on site must be submitted before the payment is made to the contractor. The materials were delivered on site on the 26 March 2020 after the advance payment was already approved. The progress payment certificate which indicated that 65.2% of work done was completed was misleading and results to misrepresentation.

It should be noted that if management wanted to allow the advance payment to be made on Beitbridge project such terms would have needed to be incorporated on the contract or appointment letter sent to the contractor or/ consultant. Management had a chance to include such clause on the signed contract when both the contractor and the consultant were appointed. Management failed to include such terms on the contract or appointment letters hence no management didn't have any contractual obligations to do any advance payments.

Overall assessment against Irregular Expenditure

Based on the irregularities identified above on the process followed in the appointment of both the contractor and the consultant, the whole project has been concluded to be irregular. This will then result in the whole project costs being classified as irregular expenditure. The following non-compliances were identified;

- Treasury Regulation 16A3.2(a)
- Para 8.4 of the National Treasury Instruction Note No 0.3 of 2016/17
- Non-compliance with Treasury regulation 16A9.1 (d))
- Non-compliance to Treasury regulation TR16A6.3(a).
- Non-compliance with TA16A9.2 (ii).
- Non-compliance with Treasury regulation 16A.9.1 and TR16A9.2(a)(ii)
- Treasury Regulation 15.10.1.2(c)
- Treasury Regulation 8.1.1

Management will need to assess the impact of the above irregularities to determine if there were any financial losses incurred by PMTE.

Value for Money Assessment

We have performed an assessment of the Beitbridge project through physical verification process where we visited the border post to assess the fence constructed. The purpose of the visit was to determine if the fence constructed was able to address the deficiencies that were highlighted on the deviation memos approved.

Through the inspection of the internal memorandum approved on the 18 March 2020 which **outlined the purpose of erecting the Beitbridge fence** in order to avoid movement of people between the two countries (South Africa and Zimbabwe) The motivation for the project as per the memo stated that *"The borderline security fence is porous and in some areas removed. The borderline patrol roads are dilapidated and in some instances overgrown with vegetation and flora, which damages the SANDF petrol vehicles. The eco-residential facilities along the borderline are un-habitable. The operational facilities in most military bases supporting the SANDF operations at the borderline are dilapidated and in need of refurbishment and maintenance in the short to medium term, and redevelopment in the long term. This project addresses the short to medium term solution. Due to the covid 19 pandemic there is a very high risk for loss of life (i.e. Death), negative health impact, negative economic impact and social impact in South Africa.*

The site visit held by DPWI and DOD Officials on the 17 March 2020 at the Beitbridge Land Port of Entry revealed pertinent issues as follows.

- *The borderline fence was surveyed and it was evident that there are hotspot areas with holes.*
- *The entire fence line is down and other parts are not structurally sound*
- *The focus area for the borderline infrastructure installation will be 40kms (20kms on either side of Beitbridge)*
- *Consideration of the exiting service provider who is appointed under the RAMP project."*

Auditors Visit of the Beitbridge Fence

We have also conducted our verification of the Beitbridge fence on the 05 September 2020. Through our observation, the following issues were noted which are supported by the pictures taken on site;

- The fence was already damaged in other areas were holes were spotted. ***(Refer to frame 02, 04,05 & 07)***
- The fence is no longer balanced and its structure is already falling. ***(Refer to frame 01 & 08)***
- The fence had number of gates which were unlocked and left opened. There was no security guard on the gate.

- The fence was closer to the access road which is in the bad condition. ***(Refer to frame 03)***
- After the 20km run, we noted that there was no fence beyond that, this is concerning since anyone can easily use this part to travel between the two countries (South Africa and Zimbabwe without authorised access). ***(Refer to frame 06)***

<u>Auditors assessment</u>

Based on our observation on site which is supported by the pictures included in this report, we have noted that PMTE didn't achieve it purpose of preventing movement of people between countries during the covid 19 period. This is based on the conclusions reached below:

- Concerns raised on the old fence which include the issue of hotspot areas with holes were not addressed. The holes have also been identified on the new fence constructed.
- The erected fence is already down in some areas which indicate that it was not structurally sound.
- The fence has fallen and has been cut in some areas which indicate that the quality of the fence was not up to standard to enable the security of the country.
  Refer to the pictures below

Pictures taken on site by auditors on the 05 September 2020.

Frame 01

Frame 02

Frame 03

Frame 04

Frame 05

Frame 06

Frame 07

Frame 08

Impact

The identified irregularities will result in the following:

- Non-compliance with laws and regulations including treasury regulations and instruction notes.
- Non – compliance with PFMA sections 38(1)(a), 38(1)(b) and 38(1)(c).
- Non – compliance with Treasury Regulation paragraph 8.1.1, 15.10.2(c) and 16A3.2(a)
- The above non-compliances will result to the whole project cost of **R40 435 915** made up of R37 176 844 for the contractor and R3 259 071 for the consultant being classified as irregular expenditure.
- The amount paid to date of **R23 662 883** should be disclosed as irregular expenditure.
- Based on the assessment above, the likely financial loss to be incurred has been estimated at a total amount of **R17 047 891**.

Internal control deficiency

Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Financial and Performance Management

Management did not review and monitor compliance with applicable laws and regulations. As a result, non-compliances were identified.

Management didn't perform the feasibility study of the project before engaging in the procurement phase. The project was not economically assessed to ensure there is economic use of resources.

Management approved advance payment which was not allowed in the signed contract. This indicate a lack of Internal procedures and internal control measures in place for the approval and processing of payments.

Management didn't check the quality of fence erected on the ground against the agreed upon scope of work to ensure that the fence erected is of good quality and standard.

Recommendation

It is recommended that:

Management must determine the total financial losses which were suffered by the entity as a result of the above-mentioned irregularities. The workings must be submitted to the AGSA

The expenditure resulting from such irregularities must be included in the irregular expenditure register.

Management should assess and recover any financial loss incurred due to the contractor (Magwa Construction) failure to deliver the fence of good quality as per specification.

Management should also recover any financial loss incurred due to the consultant's (Profteam CC) approving of the fence which didn't meet the specification.

The financial loss should be recovered from the individuals who have caused such irregularities and the disciplinary process should be initiated.

Management must develop or enhance compliance procedures to ensure compliance with all prescribed laws and regulations. In addition, such procedures include enhancement of compliance checklists already developed.

Management response

Management takes note of the audit finding and wishes to respond as follows:

We have chosen to avoid making a response to each specific issue that the audit has raised since these are the same matters that the Departmental investigation into the Border Fence Project uncovered and are dealt with in that report as well as reported in broad terms as part of this response. When the Beitbridge Border Fence project was raised as a concern, the Minister commissioned an investigation into this Emergency Procurement and Implementation of the 40km borderline infrastructure project between the Republic of South Africa and Zimbabwe.

The investigation was finalised and a report dated the 27th of July 2020 was submitted to the Minister, Auditor General and the Special Investigation Unit. The investigation found a number of irregularities with respect to the appointment of service providers and thereafter with the management and implementation of the project. In this regard management is implementing the recommendations arising from the report. These include instituting disciplinary action against officials found to have committed acts of misconduct, criminal action against officials and service providers for fraud and misrepresentation related to advance payments effected and civil action against the contractor and consultant to declare their respective contracts invalid and to pursue a just and equitable settlement with them through the courts. The investigation also recommended that both service providers should be restricted from conducting business with government and that the department report their conduct to their respective professional bodies as a result of the adverse findings against them contained in the report.

The investigation report (draft and final) as well as annexures were submitted to the Office of the Auditor-General (AGSA) respectively in June and July 2020.

In essence, the departmental investigation concluded that the entire procurement process was irregular and that the Border Fence itself was unfit for purpose and therefore fruitless, and consequently, expenditure in this regard must be classified respectively as both irregular and fruitless. The subsequent findings of the OAG are broadly in alignment with those of the departmental/SIU investigation, with minor exceptions. We therefore concur with these findings.

Appropriate disclosure in the annual report/financial statements will be made in the new financial year since the relevant discovery was made in the new financial year after submission of the annual financial statements

Auditors Conclusion

We acknowledge the management response to the finding. Auditors agree to the management comment except for the issues detailed below.

Expenditure that has already been recognised as irregular cannot also be recognised as fruitless and wasteful, as this will lead to double accounting in the notes to the AFS. If the project has been concluded to be irregular expenditure and disclosed as such by the entity, the expenditure should not be disclosed again as fruitless and wasteful expenditure.

It should be noted that the non-compliances on the Beitbridge project took place before the year end (31 March 2020). The appointment of the contractor and the consultant occurred on the 18 March 2020 and 19 march 2020 respectively. Even though the investigation and the conclusion occurred after the year end, the finalization of the investigation confirmed the irregularities that occurred before year end. This should therefore be treated as an adjusting event after the reporting period.

Based on GRAP 14 "*Events after the reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:*

(a) those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and

(b) those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date). "

Through our analysis, we have determined that the investigation provided evidence of conditions that existed at the reporting date hence this should be treated as the adjusting event. The irregular expenditure identified on the project should be disclosed for the financial year ending 31 March 2020 provided that the goods or services has been incurred or paid.

In terms of irregular expenditure framework paragraph 17 Confirmation of irregular expenditure state that "*If a transaction has been processed in contravention of legislation and the same transaction has a financial implication (payment was made or a liability was recognised in the books), it must be recorded as irregular expenditure.*" Based on the advance payment of 23 662 883 made before 31 March 2020. This payment results from the transaction that has been concluded to be irregular hence the whole payment of R23 622 883 should be disclosed as irregular expenditure in the 2019/2020 financial statements.

DETAILED AUDIT FINDING: Irregularities Identified in Lindela Repatriation Centre Complex COFF 37 HO

Audit finding

Requirements

Public Finance Management Act paragraph 38(1)(a)(i) and 38(1)(a)(ii) states that *"The accounting officer for a trading entity must ensure that the department has and maintains effective, efficient and transparent systems of financial and risk management and internal control and an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective…"*

Public Finance Management Act paragraph 38(1)(b) states that "T*he accounting officer for a trading entity is responsible for the effective, efficient, economical and transparent use of the resources of the trading entity…"*

Public Finance Management Act paragraph 38 (1)(c)(ii) states that *"The accounting officer for a, trading entity must take effective and appropriate steps to prevent unauthorized, irregular and fruitless and wasteful expenditure and losses resulting from criminal conduct…*"

Public Finance Management Act paragraph 38 (1)(g) states that: *"The accounting officer must on discovery of fruitless and wasteful expenditure, immediately report, in writing, particulars of the expenditure to the relevant treasury…''*

Public Finance Management Act paragraph 38 (1)(h) states that: *"The accounting officer must take effective and appropriate disciplinary steps against any official in the service of the department or constitutional institution who makes or permits fruitless and wasteful expenditure…''*

Public Finance Management Act paragraph 40 (3)(b) states that: "*The annual report and audited financial statements must include particulars of fruitless and wasteful expenditure that occurred during the financial year and any disciplinary steps taken as a result of such fruitless and wasteful expenditure…''*

Public Finance Management Act paragraph 45 (b) states that *"An official in a trading entity is responsible for the effective, efficient, economic and transparent use of financial and other resources within that official's area of responsibility…"*

Treasury Regulation 8.1.1 state that *"The accounting officer of the institution must ensure that Internal procedures and internal control measures were in place for the approval and processing of payments. These controls provided reasonable assurance that all expenditure is necessary, is appropriate, is paid promptly and is adequately recorded and reported on…"*

Treasury Regulation 9.1.1 state that *"The accounting officer of a trading entity must exercise all reasonable care to prevent and detect fruitless and wasteful expenditure and must, for this purpose, implement effective, efficient and transparent processes of financial and risk management…''*

Treasury Regulation 16A3.2 (a) states that *"A supply chain management system referred to in paragraph 16.3.1 must be fair, equitable, transparent, competitive and cost effective…"*

Treasury Regulation 16A6.4 state that *"If in a specific case it is impractical to invite competitive bids, the accounting officer or accounting authority may procure the required goods or services by other means, provided that the reasons for deviation from inviting competitive bids must be recorded and approved by the accounting officer or authority…"*

Treasury Regulation 16A9.1(d) states that "*The accounting officer must reject any bid from a supplier who fails to provide written proof from the South African Revenue Service that the supplier either has no outstanding tax obligations or has made arrangement to meet outstanding tax obligations…"*

Nature

During the audit of supply chain and contract management, we noted that PMTE deviated from normal procurement processes in purchasing the Lindela Repatriation Centre "Lindela" from Leading Prospect Trading 111 (Pty) Ltd, which is currently in liquidation. The Lindela facility caters as a detention facility for illegal immigrants and had been leased out to the Department of Home Affairs (DHA) in prior years as the property has been adapted to suit accommodation requirements of DHA for a repatriation center and youth rehabilitation centre.

The following events took place with regards to inception and procurement of the subject property

No.	Details of events
1	**<u>DHA requested DPWI to procure the facility on 5 April 2019</u>** Reasons for such request was that: *The Lindela Facility has been made "purpose-fit" for the Department of Home Affairs, *The Department was under pressure to cancel the existing service level agreement within the next six months and to purchase the facility DPWI must enter into negotiations with the liquidators with a view to procure the facility for the State.

No.	Details of events
2	**<u>DHA requested the “First Right of Refusal” from the liquidators on 21 May 2019</u>** The Department of Home Affairs has requested that the government be given the right of first refusal to purchase the Lindela Facility.
3	**<u>Liquidators response on request by the DHA to grant the state “first right of refusal” on 03 June 2019</u>** The letter confirmed that the liquidators and the directors of Bosasa Properties (Pty) Ltd, agreed to grant the Government the first right of refusal to purchase the property at a reasonable market value.
4	**<u>Briefing memorandum to the Minister, Deputy Minister and the Director General on 04 September 2019</u>** The minister was appraised on the process that DPWI will follow in the attempt to aid DHA in obtaining a suitable facility for the illegal Immigrants. The Minister concurred with the Deputy Minister that “*There seems to be non-commitment approach against dumping of this facility (Lindela). Minister of DPWI and Minister of DHA must be engaged by both DGs in a meeting to clarify this request as it has gaps that need further explanations…”*
6	**<u>Decision by the Land Affairs Board on 24 October 2019</u>** The Land Affairs Board approved the DPWI fair market value of R158.1 million plus a 5% margin for negation purposes.
7	**<u>Request to National Treasury to approve deviation from normal SCM processes on 3 December 2019</u>** The letter was requesting approval of a negotiated procurement strategy (Deviation) to purchase the property prior the auction.
8	**<u>Approvals by SCM Committees on 04 December 2019</u>** The national bid adjudication committee approved the bid specifications and the negotiation team.
8	**<u>Meeting with the liquidators 04 December 2019</u>** The liquidator asked DPWI for the proposed price and DPWI proposed an amount of R23 million based on municipal valuation roll (MVR). The liquidator indicated that they have 3 values which are indicated below: • MVR – R23 million • Forced sale value – R23 million and • Minimum distressed value as estimated by auctioneer – R32 million
9	**<u>Letter to liquidators requesting right of refusal and offer price of R23 million on 04 December 2019</u>** The Department requested an inclusive offer to purchase the property at R23 million and requested to be granted the first right of refusal to purchase the subject property.
10	**<u>Meeting of Negotiation meeting between DPWI and liquidators on 04 December 2019</u>** The Negotiating team prepared discussed the value of property and the offer of R23 million for consideration. The team further prepared the offer document for the attention of the Director General.
11	**<u>Approval from the DGs and the Ministers for the acquisition of the property at a value of R23 million on 5 December 2019 before the auction</u>** An approval was noted from the DGs and Ministers of both DPWI and DHA to approach the Liquidators of Africa Global Operations. This approval was to put an offer to purchase the subject property for R23 million which is in line with.

No.	Details of events
12	**<u>Recording of the auction proceedings on 05 December 2019 (Date of auction)</u>** Indicated in the approved memorandum is that the negotiation team had the recordings of the auction proceedings on his cellular phone, however this recording was not submitted for audit purpose.
13	**<u>Letter from the Liquidators to DPWI on 09 December 2019</u>** Following the negotiation process as stated above, the liquidators stated that "*The department has been provided with the offer received at the auction and as such is afforded the opportunity to match the R60 million offer before close of business on Tuesday, 17/12/2019, failing which the offer received at the auction will be accepted…"*
14	**<u>Letter from DPWI to the Liquidators on 13 December 2019</u>** The Department stated that the Liquidators would be willing to sell the property at R23million. Authorization of the two relevant Ministers had already been obtained on the date of approval as stated above.
16	**<u>National Treasury approves the deviation from normal supply chain management processes on18 December 2019</u>** The letter of the approved deviation from competitive bidding process was obtained with the following emphasis *National Treasury will not object to the approach provided considering that all necessary procedures have been complied with in line with best interest of the state. *The department has an obligation to ensure that any contract is in accordance with the system that is fair, equitable, transparent, competitive and cost-effective.

<u>Auditors assessment</u>

<u>Fairness and cost-effectiveness of the procurement process</u>

It was Government's (DHA and DPWI) intention to procure the subject property as it has been purpose fit for its specification as a result two right of refusal were requested from the liquidator. The right of refusal was given to Government with a pre-emptive condition that the property must be purchased at a "reasonable market value".

As part of the negotiated price, the department on numerus occasions offered a price of R23 millions of which was equal to the municipal valuation roll (MVR). This amount was approved by the DG and minister of DPWI as an offer to purchase the subject property. MVR's are in terms of legislation derived from accepted valuation methodologies such as market approach, cost approach and income approach.

These values are conducted on a cyclical period of not more than four years and compiled by registered Professional Valuers or Professional Associated Valuers in line with Municipal Property Rates Act 2004. According to the Municipal Property Rates Act, 2004 "*The market value of a property is the amount the property would have realized if sold on the date of valuation in the open market by a willing seller to a willing buyer*".

As outlined above on the series of events the value indicated by liquidators ranged from R23 million to R32 million, however the property was subsequently purchased by the PMTE at an auction value of R60 million excluding auctioneer fees and value added tax.

As per inspection of the memo dated 13 December 2019 sent to the liquidators, we noted the following "*We were, however somewhat surprised at the suggestion that, despite our engagements on 04 December 2019, it is now your position that the government would have exercise its right at R60 million, rather than the R23 million on which we agreed with you on 04 December 2019 as the value at which government could exercise its right of first refusal. PMTE officials were invited to participate on the auction proceedings and also asked to make an opening bid of R10 million but PMTE declined as this will affect the right of refusal. Instead the bid started at R30 million well above the Government offer*…*"*

Based on the above it is concerning how the auction was conducted in determining the reasonable market value. Furthermore, as per inspection of the rules of auction and conditions of sale, we noted that no clause was stated about the Governments first right of refusal.

It is clear from the above that the intention of the liquidator was not to sell the property at the auction but to obtain the highest possible price at which the Government will accept as they have showed interest on the property despite the fact that the property market value was ranging between R23 million – R32 million. This is not in line with the rules of auction and conditions of sale as outlined in clause 1.17 and 1.18 below:

> 1.17 "*No bid may be withdrawn after the fall of the hammer until the expiry of the confirmation period that is provided in the Rules of Auction, during which time the offer shall be open for acceptance by the seller or his auctioneer…"*
>
> 1.18 *"The highest bidder ("the purchaser") shall on the fall of the hammer be deemed to have offered to purchase to the property for the amount of his or her bid on the terms and conditions contained herein and shall sign the Rules of the Auction immediately after the fall of the hammer…"*
>
> Clause 1.7 of the rules of auction and conditions of sale states that "*The bidders' records and the vendor roll will be made available for inspection at the offices of the auctioneer during normal business hours without the charge of a fee. The bidders' records will also be available for inspection at the auction…*"

The audit team could not obtain evidence to confirm whether or not the auction process was not used to inflate the price at which the property was to be purchased by PMTE. This is concerning as the highest bidder on the auction might be connected to the liquidator and the auction might have been used to inflate the price and this is not the best way of determining the reasonable market value.

Based on the evidence provided above, the audit team could not conclude that property values that were previously discussed with the liquidators were taken into account in determining the final value that the Government purchased the property at. Therefore, the lack of evidence (the recording) takes away the evidence that the whole process followed was transparent and fair to the State.

The DGs and minister's approvals were obtained before the auction process took place and the actual payment deviated from what was approved by the accounting officer. This approval was in line with the MVR value of R23 million, however the actual purchase of the property amounted to R60 million excluding auctioneer fees and value added tax without any clear basis.

Therefore, the way in which the resources were used when the range of the property value is varying between R23 million to R32 million but was purchased as R69 million (VAT inclusive), demonstrates that the resources of the State were not used cost-effectively in line with PFMA Act section 38 which states that the processes that are followed by the accounting officer should be transparent, fair and cost effective and that resources of the State should be used efficiently. National Treasury's approval conditions were that approval is based on the fact that the process that was followed would be fair to the State and would promote cost-effectiveness to ensure that resources are used fairly for the benefit of the State.

Based on the above assessment it is evidenced that the purchase price accepted by management was not economical and cost effective.

Impact

The identified irregularities will result in the following:

- Non-compliance Public Finance Management Act section 38 (1) (b)
- Non-compliance with Treasury Regulation 8.1.1 and 16A3.2 (a)
- Possible financial loss of R37 million (*R32 – R69 million*)
- As at 31 March 2020, the property hasn't been transferred/registered in the name of DPWI. Assets under construction are overstated by R69 million and receivables from exchange transactions are understated by same amount.
-

Internal control deficiency

Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Management didn't use the State resources effectively as the property was purchased well above the price initially approved by the accounting officer and minister.

Financial and performance management

Management did not review and monitor compliance with applicable laws and regulations.

Recommendation

It is recommended that

- Management must develop or enhance compliance procedures to ensure compliance with all prescribed laws and regulations. In addition, such procedures include enhancement of compliance checklists already developed.

- The accounting officer must investigate the reasons for purchasing the property well above the price range initially determined through engagement with the liquidator and approvals.
-
- Management must determine the total financial losses which were suffered by the department as a result of the above-mentioned irregularities. The workings must be submitted to the AGSA.

Management response

Management is **not** in agreement with the finding for the following reasons [and supply the following / attached information in support of this:

Perhaps it is quite apposite to provide historical context of the transaction and role of the Departments of Public Works & Infrastructure (DPWI) and the Department of Home Affairs (DHA), and how DPWI ended buying the subject project, to dispel some of the conjectures that the audit finding seeks to impugn.

DHA has been leasing the facility, which is purpose-built to cater to serves as a detention center for illegal immigrants awaiting deportation, at a cost of R15,695,134.62 per annum for the Lindela Repatriation Centre facility (buildings only). The Lindela Repatriation Centre is a portion within the larger complex of the subject property owned by Bosasa. The subject lease agreement has been in place from November 2002 (renewed and renegotiated 3 times) and will expire in November 2020.

Bosasa and its subsidiaries, which was mired in controversy and criminal allegation – is well documented and the companies went into liquidation where the Master of the Court appointed the Liquidating team.

The reputation risk associated with DHA and Government in general was huge and as such that DHA was pressured to terminate the lease agreement with Bosasa and its subsidiaries.

<u>With regard to the assessment of the auditors, the Department wishes to reply as thus with regard to each matter:</u>

<u>Fairness and cost-effectiveness of the procurement process</u>

"It was Government's (DHA and DPWI) intention to procure the subject property as it has been purpose fit for its specification. The Lindela Repatriation Centre is the only facility of its type in South Africa. DHA secured the "first right of refusal" from the liquidators, which was later extended to include DPWI as the custodian of immovable assets. The right of refusal was given to Government with a pre-emptive condition that the property must be purchased at a "reasonable market value". The "first right of refusal is a mechanism in a contract that affords the holder of such right the preference to buy a particular property, should the owner ever choose to sell it outright or on auction."

Management response:

The process in the Department is that all purchases of immovable properties is subject to valuation by the Land Affairs Board (LAB), which is an independent Board appointed by the Minister of Public Works & Infrastructure in terms of the Land Affairs Act 101 of 1987. It is currently placed under Property Policy and Legislative Analysis, a Directorate of the Policy Research and Regulation Branch. The Land Affairs Board's function as stipulated in the said Act is: Section 6 (1) subject to the directions of the Minister, the Board shall determine the amounts of compensation, purchase prices or rents payable in respect of immovable property which is expropriated, purchased or leased by the Department for public purposes, out of moneys appropriated by Parliament for that purpose; Provided that the Minister may in certain cases assign the power of decision regarding the determination of such rents to officers of the department Board Members.

Auditor's assessment

"As part of the negotiated price, the department on numerus occasions offered a price of R23 millions of which was equal to the municipal valuation roll (MVR). This amount was approved by the DG and minister of DPWI as an offer to purchase the subject property. MVR's are in terms of legislation derived from accepted valuation methodologies such as market approach, cost approach and income approach.

These values are conducted on a cyclical period of not more than four years and compiled by registered Professional Valuers or Professional Associated Valuers in line with Municipal Property Rates Act 2004. According to the Municipal Property Rates Act, 2004 "The market value of a property is the amount the property would have realized if sold on the date of valuation in the open market by a willing seller to a willing buyer".

Management response

The price to purchase of properties, as it is with other commodities unless they are regulated, is what a willing buyer is prepared pay to a willing seller, who is prepared to accept such a price on terms and conditions agreed between the two parties.

The Department was alerted about the auction of assets of Bosasa including the subject property and became aware of an impending auction on 2 December 2019. DPWI worked tirelessly to obtain the necessary approvals in order to engage with the liquidators. The first contact between DPWI and the liquidator, Mr Lutchman was on 4 December 2019.

Subsequent to the meeting, DPWI made an initial offer of R23 million for the subject property as presented to the liquidator's representative, Mr Lutchman, on 4 December 2019. This initial offer by DPWI of R23milliion coincided with the Municipal Value of 2018. The Municipal Value is based solely on the value of the land and did not include the improvements. The subject property is zoned for Agricultural Use.

The initial offer could have been anything up to R166million in line with market value as approved by LAB. This value is also the maximum mandated value to which DPWI could have purchased the subject property.

Auditor's assessment

"As outlined above on the series of events the value indicated by liquidators ranged from R23 million to R32 million, however the property was subsequently purchased by the PMTE at an auction value of R60 million excluding auctioneer fees and value added tax.

As per inspection of the memo dated 13 December 2019 sent to the liquidators, we noted the following "We were, however somewhat surprised at the suggestion that, despite our engagements on 04 December 2019, it is now your position that the government would have exercise its right at R60 million, rather than the R23 million on which we agreed with you on 04 December 2019 as the value at which government could exercise its right of first refusal. PMTE officials were invited to participate on the auction proceedings and also asked to make an opening bid of R10 million but PMTE (DPWI) declined as this will affect the right of refusal. Instead the bid started at R30 million well above the Government offer…"

Management response

DPWI could not participate in the auction since the necessary approvals from the NBAC and National Treasury have not been granted. Such an act would have been in transgression with applicable prescripts of procurement in Government. The auctioneer noted that it would cause concern in the public arena to exclude the subject property from auction since there has been much interest in the subject property since it has been listed for auctioning. The auctioneer noted that it is imperative to maintain transparent transaction procedures during the auction.

It is without any doubt it was the Department's intention to buy the subject property at R23 million even though we were aware that the true market value as approved by LAB is much higher. DPWI endeavoured to secure the lowest possible purchase price for the subject property.

The DPWI Market Value of R158,1million as well as the independent market valuation (on appointment by the owner) of 2018 valued at R185million is much higher than the actual purchase price of R60million.

The below definition in terms of the Regulations of the Consumer Protection Act:

"auction without reserve" means an auction at which -

a) goods are sold to the highest bidder without reserve;
b) the auction does not require a minimum bid;
c) the auction does not allow competing bids of any type by the seller or an agent of the seller; and
d) the seller of the goods cannot withdraw the goods from auction after the auction is opened and there is public solicitation or calling for bids;

Auditor's assessment

"It is clear from the above that the intention of the liquidator was not to sell the property at the auction but to obtain the highest possible price at which the Government will accept as they have showed interest on the property despite the fact that the property market value was ranging between R23 million – R32 million. This is not in line with the rules of auction and conditions of sale as outlined in clause 1.17 and 1.18 below:

> *1.17 "No bid may be withdrawn after the fall of the hammer until the expiry of the confirmation period that is provided in the Rules of Auction, during which time the offer shall be open for acceptance by the seller or his auctioneer…"*
>
> *1.18 "The highest bidder ("the purchaser") shall on the fall of the hammer be deemed to have offered to purchase to the property for the amount of his or her bid on the terms and conditions contained herein and shall sign the Rules of the Auction immediately after the fall of the hammer…"*
>
> *Clause 1.7 of the rules of auction and conditions of sale states that "The bidders' records and the vendor roll will be made available for inspection at the offices of the auctioneer during normal business hours without the charge of a fee. The bidders' records will also be available for inspection at the auction…"*

“The audit team could not obtain evidence to confirm whether or not the auction process was not used to inflate the price at which the property was to be purchased by PMTE. This is concerning as the highest bidder on the auction might be connected to the liquidator and the auction might have been used to inflate the price and this is not the best way of determining the reasonable market value.”

Management response

It is quite disconcerting how the auditor reached a conclusion that “the intention of the liquidators was not sell the property at the auction but to obtain the highest price at which Government will accept…” when the auction, not only of this property but of other assets, was widely published. As mentioned above, the initial offer value of R23million which coincides with the Municipal Value of 2018 is based only on the value of the land only excluding the improvements and relating to the subject property’s’ zoning for “agricultural use”.

The audit team is at liberty to use other methods available at its disposal to determine *“whether or not the auction process was not used to inflate the process at which the property was to be purchased by PMTE”* except that this was a widely publicised auction given the interest that the Bosasa-saga had generated in the country.

It must be noted by the audit team that simply because the Department had a “first right of refusal” does not mean that the Department had purchased the property. The Department cannot, and should not be expected to, provide a response on the conditions of the auction since it was neither conducting the auction nor registered to bid at the auction. However, the Department had a representative to observe proceedings like other spectators who attended the auction.

Auditor’s assessment

Based on the evidence provided above, the audit team could not conclude that property values that were previously discussed with the liquidators were taken into account in determining the final value that the Government purchased the property at. Therefore, the lack of evidence (the recording) takes away the evidence that the whole process followed was transparent and fair to the State.

The DGs and minister’s approvals were obtained before the auction process took place and the actual payment deviated from what was approved by the accounting officer. This approval was in line with the MVR value of R23 million, however the actual purchase of the property amounted to R60 million excluding auctioneer fees and value added tax without any clear basis.

Therefore, the way in which the resources were used when the range of the property value is varying between R23 million to R32 million but was purchased as R69 million (VAT inclusive), demonstrates that the resources of the State were not used cost-effectively in line with PFMA Act section 38 which states that the processes that are followed by the accounting officer should be transparent, fair and cost effective and that resources of the State should be used efficiently.

National Treasury's approval conditions were that approval is based on the fact that the process that was followed would be fair to the State and would promote cost-effectiveness to ensure that resources are used fairly for the benefit of the State.

Based on the above assessment it is evidenced that the purchase price accepted by management was not economical and cost effective.

Management response

The assertion and the conclusion by the audit that "the purchase price accepted by management was not economical and cost effective" is without merit and rejected by management as elucidated above. The values that were presented to the Liquidators, as already mentioned, were based on the Municipal Valuation. It is also worth noting that the land was zoned "Agricultural" by the municipality. The initial offer by DPWI of R23million was not formally accepted by the liquidators.

The "DGs and Minister's approvals" that the audit team refers was an undertaking to seek concurrence from top management in order to make the initial offer of R23million to the liquidators. The very same submission clearly states that the feasibility conducted by the LAB put the fair market value of the property at R158 million.

That it was the Department's intention to purchase the subject property at R23 million based on the Municipal Valuation does not mean that the willing seller was prepared to accept the offered price. An auction process, as it is with a tendering process, is an acceptable, open and transparent way to determine the true value of a property between willing buyers and willing sellers.

The Department would therefore like to extend an invitation to the audit to appoint their own independent Valuer to determine the Market Value of the subject property to avoid the inconsistent assertion and finding by the audit team that the price that was accepted by management was not economical and cost-effective.

Below is timeline of events leading to the procurement of the subject property:

Phase	Action	Date
	The Department of Public Works & Infrastructure (DPWI) received a request from the Department of Home Affairs (DHA) on the 5th of April 2019, requesting DPWI to enter into negotiations with the appointed liquidators with a view to procure the Lindela Repatriation Centre for the State.	5 April 2019

Inception	**Annexure A**	
	Internal meeting to discuss the letter received from DHA pertaining to the requests from DHA to purchase the subject property	9 April 2019
	Additional information was requested from DHA pertaining to the request to acquire the Lindela Repatriation Centre. **Annexure B**	15 April 2019
	Meeting with DHA to discuss the proposed acquisition and to request the information needed to conduct the Feasibility Study. Minutes are available. DHA was to supply required information by 3 May 2019	29 April 2019
	DHA requests the "First Right of Refusal" from the appointed Liquidators: Mr Ralph Lutchman. It should be noted that the lease contract was between DHA and Bosasa and therefore DHA as the contracting party requested the "first right of refusal" from the appointed liquidators. **Annexure C**	21 May 2019
	DPWI receives additional information as requested form DHA **Annexure D** • Approved Needs Assessment • Approved User Specification Form • Copies of Agreements • Copy of the Title Deed • Full background to the DHA entering into the contract for Lindela	31 May 2019
	Mr Ralph Lutchman responded on the request by DHA to grant the state the "first right of refusal" subject to the payment of Reasonable Market Value. **Annexure C**	3 June 2019
	DPWI could not approach the liquidators at this stage since due-diligence processes and certain approvals had to be to obtain first.	
Due Diligence	UDM send request for a Feasibility Study and Valuation to PPM	14 June 2019
	PPM request inputs form DPWI: Regional Office to determine if there are suitable vacant land and buildings available from Government stock that could be utilised by DHA for a Repatriation Centre. A deadline of 28 June 2019 was set. **Annexure E**	24 June 2019
	Courtesy briefing memorandum to the Minister, D/Minister and DG by KAM. Minister concurred with the DM that further explanation is required on 4 September 2019. **Annexure F**	5 August 2019
	Site Visit by Investment Analysis, Engineering Services, Valuation Services and Property Performance Management	24 July 2019
	Structural Condition Report received **Annexure G**	14 August 2019
	Electrical Condition Report received **Annexure H**	27 August 2019
	Response on briefing memo to the Minister, D/Minister and DG. Minister concurred with the DM that further explanation is required. A memo was prepared on 5 November 2019 when the due diligence in terms of the Preliminary Site Clearance, Feasibility Study, Confirmation of Land Claim and Legal Opinion was available.	4 September 2019
	UDM requests a DG to DG meeting to discuss the Feasibility Study. The response was suggested for a meeting of 25 September 2019. The meeting did not take place but there was communication between the DG's	10 September 2019
	Legal Opinion	11 September 2019
	Confirmation of Land Claim Status, dated 30 July 2019 but only received on 16 September 2019 **Annexure I**	16 September 2019

Due-Diligence	**<u>Dolomite Status</u>** **A Non-Dolomitic Status Certificate was issued by DPWI: Civil & Structural Engineering that the subject property is not underlain by dolomitic soil.** **Annexure J**	18 September 2019
	The DPWI Valuation is completed	19 September 2019
	Feasibility Study is completed **Annexure K**	27 September 2019
	Internal meeting on findings of the Feasibility Study – concerns about the legal aspects, land claim confirmation that is outstanding and town planning report that is outstanding. A presentation was prepared. **Annexure L**	1 October 2019
	Internal meeting to discuss way forward after comments from briefing meeting on 1 October 2019.	4 October 2019
	Further Legal Opinion **Annexure M**	21 October 2019
	The Land Affairs Board (LAB) approved the DPWI Market Value of R158,104,000.00 with a 5% up and 10% down margin for negation purposes. **Annexure N**	24 October 2019
	Town Planning Report and Provisional Site Clearance Certificate **Annexure O**	31 October 2019
	<u>Updated Feasibility Study adding:</u> **Annexure P** • Further Legal Opinion, • Land Affairs Board approved DPWI Valuation, and • Land Claim Status. The Feasibility Study noted that to purchase the subject property will be the most financially feasible option to satisfy the accommodation requirement of DHA for a Repatriation Centre, in line with the LAB approved valuation.	29 October 2019
	Memo (first draft) prepared by PPM to the Minister	5 November 2019
	DDG: REIS approves Feasibility Study	12 November 2019
	Memo prepared by PPM to the Minister **Annexure Q**	27 November 2019
	DPWI became aware that the appointed liquidators have advertised a public auction where the subject property is listed to be sold on 5 December 2019. After investigation it became apparent that the auction was advertised on various media platforms from 20 November 2019. **Annexure R**	2 December 2019
	Memo to UDM from PPM regarding the Feasibility Study Report	3 December 2019
Approval for negotiation	Request National Treasury to approve deviation from normal Supply Chain Management processes. **Annexure S**	3 December 2019
	Bid Specification Meeting **Annexure T**	3 December 2019
	Confirmation of funding for the Acquisition by DHA **Annexure U**	3 December 2019
	Procurement number issued to REMS by SCM - ADD_427 **Annexure V**	3 December 2019
	Procurement Instruction issued to REMS from UDM **Annexure W**	3 December 2019

	Request for approval of Negotiation Committee members from NBAC **Annexure X**	4 December 2019
	<u>Appointment of Negotiation Team by the NBAC</u> (PA25.1) **Annexure Y** Mr Solly Ncoane — REMS Lead Mr Vinodh Bedesi — REIS: Investment Analysis Ms Anja Williams — REIS: Investment Analysis Mr Herman Masha — SCM Supported by Mr Christopher Makgoba — Legal Services	4 December 2019
	Procurement Strategy PA-01 – Request for the approval of the Procurement Strategy for a Negotiated Procedure **Annexure Z**	4 December 2019
Meeting with the liquidator for the first time – 4 December 2019	**The first contact DPWI had with the appointed liquidators were on 4 December 2019 at 11:00am. Annexure AA**	4 December 2019
	<u>Meeting with Liquidator, Mr Ralph Lutchman at Concord Administration's Office at 270 Main Street in Brooklyn - Pretoria:</u> • Requested the liquidators to <u>exclude</u> the subject property from the auction that is scheduled for 5 December 2019, • Requested the costs associated should the property be excluded from the auction, • Place an initial offer for the subject property equal to the current municipal value of R23 million as an opening offer, and • Secured "first right of refusal" The DPWI Market Value of the subject property, was approved by the Land Affairs Board, on 24 October 2019, to a value of R158,1million with a price range for negotiation purposes of 10% below market value and 5% above. This was the approved and mandated value at which DPWI could purchase the subject property. The DPWI Market Value is based on the land value including the depreciated replacement value of the improvements, which is an appropriate valuation methodology for a specialised property such as the subject property. It is also well below the independent Market Valuation of R185million obtained in 2018 by the owner of the property. The Land Affairs Board (LAB) is an independent Board appointed by the Minister of Public Works & Infrastructure in terms of the Land Affairs Act 101 of 1987. It is currently placed under Property Policy and Legislative Analysis, a Directorate of the Policy Research and Regulation Branch. The Land Affairs Board's function as stipulated in the said Act is: Section 6 (1) subject to the directions of the Minister, the Board shall determine the amounts of compensation, purchase prices or rents payable in respect of immovable property which is expropriated, purchased or leased by the Department for public purposes, out of moneys appropriated by Parliament for that purpose;	4 December 2019 17:00 – 19:30

Meeting with the liquidator for the first time – 4 December 2019	Provided that the Minister may in certain cases assign the power of decision regarding the determination of such rents to officers of the department Board Members. During the meeting with Mr Lutchman, as an appointed liquidator, advised that the subject property's Municipal Value is R23million, the Forced Sale Value is also R23million and the Minimum Distressed Market Value is R32million (as determined by the Auctioneer). It should be noted that the liquidator suggested that DPWI make an offer for the subject property for the consideration by the liquidating team. The DPWI Negotiation team proposed an initial offer of R23million, which is equal to the municipal value of 2018. Of note, is that the Municipal Valuation is based solely on the value of the land and does not include the improvements. The subject property is zoned for Agricultural Use. The liquidator confirmed that the "first right of refusal" provided to DHA will be extended to DPWI. Also find attached negotiation preparation notes. **Annexure AB**	
	Letter to the Liquidators from DPWI: DG *"DPWI as the custodian of the immovable infrastructure of the State thus request the liquidators to consider an include offer to purchase the subject property at a value of R23million by DPWI."* **Annexure AC** The initial offer of R23million, which coincides with the Municipal Value of 2018, was presented to Mr Lutchman, as the liquidating team's representative, on 4 December 2019. This offer was not formally accepted or rejected by the liquidators prior to the auction.	4 December 2019 - 21:09 pm
ction – 5 December 2019	<u>Briefing meeting with the DG</u>. Attended by Mr Solly Ncoane, Mr Vinodh Bedesi & Ms Anja Williams – as representatives of the negotiation team, Mr Maselaelo Matladi from the DG's office and the DG: Adv. Sam Vukela. • The meeting held with the liquidator: Mr Lutchman on 4 December was discussed. • The DG gave instruction that members from the negotiation team must attend the auction to observe the proceedings. • The negotiation team members present, together with Mr Maselaelo Matladi was instructed to meet the Minister as well as the Minister and DG of Home Affairs at the Minister's house in order to brief the Ministers and DG on what transpired at the meeting with the liquidator on 4 December 2019 and to present a memorandum for their approval of the initial offer of R23million for the subject property in a bid to exclude the subject property from the auction. <u>It should be</u>	5 December 2019 8:15 am

	further noted that the DWPI Negotiation team were not mandated to make an offer to the liquidators. **Annexure AD**	
	Mr Solly Ncoane called Mr Ralph Lutchman to determine if the property was excluded from the auction. His response was to contact the Auctioneer, Mr Pieter Geldenhuys.	5 December 2019 8:40am
	Mr Solly Ncoane called the Auctioneer, Mr Pieter Geldenhuys who represented Park Village Auctions, to determine if the property was excluded from the auction. Mr Geldenhuys said that he has not been given instruction by the Liquidators to exclude the property form the auction.	5 December 2019 8:50am
	Negotiation Team (Mr Solly Ncoane, Mr Vinodh Bedesi & Ms Anja Williams) attended the auction to observe proceedings. Mr Geldenhuys noted that it would not be advisable to exclude the subject property form the auction since there is a lot of public interest in the property and that the process should remain transparent. The team was advised by the Auctioneer to participate in the proceedings, which was declined by the team since the Negotiation Team was not mandated to act accordingly.	5 December 2019 10:45am
	DPWI's "first right of refusal" was confirmed prior to the auction by the auctioneer through a public announcement. The "first right of refusal is a mechanism in a contract that affords the holder of such right the preference to buy a particular property, should the owner ever choose to sell it outright or on auction. The auction proceedings were recorded by DPWI. The subject property sold at auction for R60million, excluding 15% VAT and 6% Auctioneers fees. DPWI now had to decide if it wanted to exercise its "first right of refusal" by making an offer matching the R60million or to decline and have the property sold to the auction's winning bidder.	5 December 2019 11:00
	It should be noted that in terms of the Rules of Auction and Conditions of Sale (which was obtained by DPWI during the auction): *3. ACCEPTANCE AND CONFIRMATION.* *3.1 ………the Purchaser's offer shall remain open for acceptance by the Seller or by the Auctioneer on behalf of the Seller, until 16h00 on the **19th Day of December 2019** "confirmation period". The Purchaser and the Auctioneer acknowledge and agree that this provision are inserted and intended for the benefit of the Seller.* DPWI must thus exercise its "first right of refusal" within a 2 week from the date of the auction (19 December 2019 at 16:00) otherwise the subject property will be sold to the auction's winning bidder. **Annexure AE**	5 December 2019

First Right of Refusal	The DG was briefed on 6 December 2019 and a further briefing meeting was held with the Minister on 9 December 2019 to discuss the outcome of the auction and a way forward in terms of the "first right of refusal", noting the approved DPWI Market Valuation Value of R158.1million.	6 & 9 December 2019
	Letter to the Liquidators to express DPWI's "right of first refusal" at R23million. DPWI, under the guidance of the Minister's legal advisor, wrote a letter to the liquidators where the "first right of refusal" was sited. DPWI tried to exercise the "first right of refusal" at a value equal to the initial offer of R23million made to the liquidators on 4 December 2019. **Annexure AF**	9 December 2019
	Follow up telephonic conversations between DPWI: Mr Ncoane and Mr Lutchman to acknowledge receipt of letter and to request a response from the liquidators.	10-12 December 2019
	Response form Liquidators to acknowledge the "first right of refusal". The liquidators noted that DPWI must make a counter offer by 17 December 2019 matching or exceeding the auction value of R60 million in order to secure the subject property. **Annexure AG**	12 December 2019
	Letter from DPWI to the Liquidators in response to their letter of 12 December 2019 where DPWI, under the guidance of the Minister's legal advisor, once again made an offer of R23million to the liquidator. **Annexure AH**	13 December 2019
	The NBAC closes for 201.	13 December '19
	Response Letter from the Liquidators, reiterating that it was the liquidator's prerogative to accept or refuse the offer made on 4 December 2019. **Annexure AI**	17 December 2019
	Mr Solly Ncoane requests a meeting with the Liquidators for 17 December 2019 to conclude discussions. **Annexure AI**	17 December 2019
	The Liquidators respond to the request for a meeting by noting that a meeting is not necessary and that DPWI have till 18 December 2019 to exercise the "first right of refusal" (email). **Annexure AI**	17 December 2019
	After consultation with DPWI Legal Services, the Minister granted DPWI Legal Services, through her legal team, permission to exercise the "first right of refusal".	
Offer to Purchase – exercising "first right of refusal "	The documents for the registration on the Central Government Database was sent to the Liquidators along with comments on the proposed Deed of Sale Document / Counter Offer Document. **Annexure AJ**	17 December 2019
	National Treasury Approved the deviation from normal SCM processes for the Acquisition of the Lindela Repatriation Centre. *"National Treasury would not object to (DPWI's) approach provided that the Departments is of the view that all necessary procedures have been complied with; that this is in the best interest of the State and is based on the aforementioned "right of first refusal".* The information provided to National Treasury to support "value for money" was based on the LAB approved DPWI Market Valuation of R158,1million. The actual purchase price of R60million is far below the approved market value DPWI was mandated with to purchase the subject property. The affordability and value for money has been considered throughout the process. The Department is in the favourable position to have saved R98million, owing to the difference in the LAB approved market value of R158,1million and the actual purchase price of R60million. **Annexure AK & AP**	18 December 2019

	The liquidators provided details in terms of: • Deed of Sale • Conveyancing Attorneys (Robinson & Kruger Attorneys, Cordonia Avenue, Queenswood, Pretoria) • Supplier entity form for Bidders Choice duly appointed by the Provisional Liquidators as well as the CSD registration report • Invoice in respect to the deposit, commission and VAT payable on signing of the Deed of Sale.	18 December 2019
	The Liquidators noted that there will, in principle, not be any issues with regard to the proposed Adjustments to the Deed of Sale Document as requested by DPWI. **Annexure AL**	19 December 2019
	The DG signs the Deed of Sale Document. The signed copy was emailed to Mr Lutchman on 19 December 2019, within the stipulated "confirmation period". **Annexure AL**	19 December 2019
	The Deed of Sale Document is counter signed by Mr Pieter Geldenhuys as the appointed auctioneer from Bidders Choice and emailed to DPWI. **Annexure AL**	20 December 2019
	The Minister released a media statements on 19 & 20 December 2019, announcing that the subject property was purchased by the Department. **Annexure AM**	19 & 20 December 2019
	The Conveyancing Attorney, Magda Kets Attorneys, Russel Street, Rietaondale will invest the deposit in a Standard Bank account that will yield an interest of 3,3% per annum. The interest will be refunded to DPWI upon transfer of the subject property into the name of the State. **Annexure AN**	12 February 2020
	Submission to the NBAC to ratify the acquisition of the subject property. **Annexure AO**	24 February 2020
	The NBAC ratified the acquisition of the subject property to a value of R60million excluding 15% VAT, 6% Auctioneer Fee and Conveyancing Fees. **Annexure AP**	4 March 2020
	Duly appointed Liquidators by the Master of the High Court **Annexure AQ**	14 February 2019
Transfer to the State	There has been numerous court cases between the Watson Family members and the appointed liquidators to date. **Annexure AR** Liquidators appointed by the High Court on 14 February 2019. Park Village Auctions advertise the auction on 20 November 2019. Bidders Choice Auctioneers advertise the auction on 22 November 2019. Lindela sold for R60million on 5 December 2019 *"The department of home affairs is determining if it can match the R60-million bid by an unnamed investor from Limpopo to buy the Lindela repatriation centre at an auction last week. Its liquidators told the Mail & Guardian that they have received the offer but "it has not yet been confirmed". This is because the department of home affairs has agreed to try to exercise its right of first refusal on the property with the*	

	liquidators. ***This right affords the department first preference to buy the property, should the owner ever choose to sell it, or match the bid should the property be auctioned.*** *The department has been leasing the property since 2002, but its contract is ending in November next year. The contract with Environmongz Projects, which maintains Lindela, ends at the same time.* *The department of public works and infrastructure, as the custodian of immovable assets for the government, has also applied for the same right. Both the departments have 14 days to make a decision about the property.* *"The two departments are working together to ensure both that the property transaction is concluded with the best interest of the taxpayer in mind, and in a manner that ensures the confidence of the public that regulatory compliance and questions of value for money have been interrogated," said the department of public works and infrastructure's Zara Nicholson." Mail and Guardian 13 Dec 2019* 19 & 20 December 2019 – Media Statements by the Minister of DPWI
	The transfer of the property to the State has been halted due to a recent Court Judgment. The Court Judgment of 25 August 2020, ruled in favour of the applicant (Watson family), where the liquidators should not have sold the subject property as part of the auctioned items on 5 December 2019. The purchase price of R69million including VAT will revert back to DPWI with interest as it was paid into an interest bearing trust account of the conveyancing attorneys (Madga Kets), should the acquisition not proceed in line with Clause 13.1.1.2 of the signed deed of sale. **Annexure AL** The South Gauteng High Court ruled on 25 August 2020 that*: "any sale prior to date of this order, whether by auction or private treaty or otherwise, of assets of any of the six businesses rescue companies, sold whilst such company was in liquidation and without the written consent by resolutions of the board of directors of holdings, is declared to be unauthorized. The transfer and registration of immovable property to any prospective purchase of assets of any of the six business rescue companies, sold prior to date e of this order and whilst such company was in liquidation." IOL by Sihle Mavuso, 25 August 2020* The liquidators noted that they will appeal this judgment.
Financial Loss or Saving	There has been no financial loss to the Department. The Department is in the favourable position to have saved R98million, owing to the difference in the LAB approved market value of R158,1million and the actual purchase price of R60million. • Furthermore, there is no financial loss to date since the property has not been transferred and registered in the name of the State.

Auditors Conclusion

Fairness and cost-effectiveness of the procurement process

Management comments are noted, as section 6(1) of the Land Affairs Act 101 of 1987 states that "*Subject to the directions of the Minister, the Board shall determine the amounts of compensation, purchase prices or rents payable in respect of immovable property which is expropriated, purchased or leased by the Department for public purposes…"*

The memorandum dated 05 December 2019 addressed to the Minister of DPWI and DHA with reference to paragraph 3.5 stated that "*The Liquidators indicated that they are willing to sell the subject property at an amount of R23 million…*" and paragraph 3.6 states that "*DPWI in consultation with DHA resolved that the aforementioned purchase price is acceptable and that the offer should be facilitated urgently to secure the property from being auctioned. It is on this basis that DPWI requested to be granted the right of refusal to purchase the subject property in the sum of R23 million and also immediately prepare and make available formal offer to purchase for finalization…*"

Furthermore, paragraph 4 recommended that the Minister concurs with the acquisition process as outlined in paragraph 3 (**i.e. purchase subject property at R23 million**). It is on the above detailed basis that the Minister gave directions on 05 December 2019 before the auction as the approval was to put an offer to purchase the subject property for R23 million which is less than the amount approved by Land Affairs Board (LAB).

Audit team disagrees with management that the "*Municipal Value is based solely on the value of the land and did not include the improvements*" and "*The initial offer could have been anything up to R166 million in line with market value as approved by LAB. This value is also the maximum mandated value to which DPWI could have purchased the subject property".*

It should be noted that municipal value is a property value (Land and improvements) and the MVR value of R23 million is inclusive of the land and improvements. Furthermore, as stated above, the Minister gave direction of R23 million as a purchase price which is far below than the R69 million purchase price that Government acquired the subject property for.

As management probed, with regards to auditor's statement that "*the intention of the liquidators was not to sell the property at the auction but to obtain the highest price at which Government will accept…",* the audit team respond as such; in the memorandum compiled by management, to purchase the subject property, it was indicated that the property is "purpose-fit" for DHA specifications and as a result two right of refusal were requested from the liquidator by both DPWI and DHA.

The above statement suggests that management was willing to purchase the property as it is purpose-fit for DHA specifications, however the liquidators might have been in a strategic position to take advantage of the price, resulting in liquidators deriving a high value as they were aware that management was in need of the subject property.

The audit team further want to state that in absence of the auction recording (Limitation imposed by management) and auctioneers participant details (as outlined in clause 1.7 of the rules of auction and conditions of sale), the audit team was not able to conclude that the process was conducted fairly to the state and also taking into account the memo dated 13 December 2019 sent to the liquidators where the department raised their concerns with regards how the process was conducted in obtaining a value to be used by Government.

After taking management comments into account and section 6(1) of the Land Affairs Act, the audit team concludes that the purchase price accepted by management was not economical and cost effective. The financial loss as indicated above remains.

DETAILED AUDIT FINDING: Deficiencies in contract management at Leeuwkop Prison JHB COFF 10

Audit finding

Requirements

Public Finance Management Act (PFMA) paragraph 1 defines *"fruitless and wasteful expenditure' as expenditure which was made in vain and would have been avoided had reasonable care been exercised…"*

Public Finance Management Act paragraph 38(1)(a)(i) and 38(1)(a)(ii) states that *"The accounting officer for a trading entity must ensure that the department has and maintains effective, efficient and transparent systems of financial and risk management and internal control and an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective…"*

Public Finance Management Act paragraph 38 (1)(c)(ii) states that *"The accounting officer for a, trading entity must take effective and appropriate steps to prevent unauthorized, irregular and fruitless and wasteful expenditure and losses resulting from criminal conduct*"

Public Finance Management Act paragraph 38 (1)(g) states that: *"The accounting officer must on*

discovery of fruitless and wasteful expenditure, immediately report, in writing, particulars of the expenditure to the relevant treasury…''

Public Finance Management Act paragraph 38 (1)(h) states that: *"The accounting officer must take effective and appropriate disciplinary steps against any official in the service of the department or constitutional institution who makes or permits fruitless and wasteful expenditure…''*

Public Finance Management Act paragraph 40 (3)(b) states that: "*The annual report and audited financial statements must include particulars of fruitless and wasteful expenditure that occurred during the financial year and any disciplinary steps taken as a result of such fruitless and wasteful expenditure…''*

Treasury Regulation 8.1.1 state that *"The accounting officer of the institution must ensure that Internal procedures and internal control measures were in place for the approval and processing of payments. These controls provided reasonable assurance that all expenditure is necessary, is appropriate, is paid promptly and is adequately recorded and reported on..."*

Treasury Regulation 9.1.1 state that *"The accounting officer of a trading entity must exercise all reasonable care to prevent and detect fruitless and wasteful expenditure and must, for this purpose, implement effective, efficient and transparent processes of financial and risk management…"*

Nature

WCS: 047918

During the audit of the contract management, we noted the following:

Competitive bidding process was followed to appoint Phumi / Zwa Shu Trading JV ("PZS") for tender no. JHB11/32 Department of Correctional Services: Replacement and maintenance of boilers for a period of 24 months for an amount of **R18 824 992.66** with contract price adjustment provisions. The tender was accepted on 26 January 2012, the site handover took place on 8 February 2012 with an expected completion date of 07 February 2014.

The following events took place with regards to contractor's progress

Event No.	Reason for the delay as per the request for extension and Memos.
1	**Registered Mail dated 18 October 2013** A notice of default with regards to clause 12.2, 40.1 and 55.1.9 of the General Conditions of Contract (GCC) was sent to **PZS** for failing to revise the programme of works after failing to meet the deadline. The contractor failed to meet target given on the 8 October 2013 as per progress meeting to complete the Boiler house and Calorify house. The entity therefore put the contractor on Mora to rectify the slow progress within 14 days.
2	**Internal Memo approved by Director Projects on 19 November 2013** *"During the contraction when the contractor started with relocation of the underground services it was discovered that the underground services (Data and telephone cables) is more than what has been allowed on the Bill of Quantity and the delay them affects their program. The delays were **47 days**"*
3	**Internal memo approved by Director Projects 26 November 2013** *"During the civil bulk works the engineer has changed the levels to address the challenges of the coal delivery when the offloading coal into the bunkers. The revision was done to mitigate the operational challenges that would be presented to the coal delivery truck when offloading coal into the bunkers while standing on the truck turning platform and the truck that would be collecting ash from the boiler house. The delay was **60 days."***
4	**Letter form contractor's attorney** On the 12 December 2013, PMTE received a letter from the attorneys of the contractor stating the intension to cease work pending reimbursement of additional costs incurred during the construction and result of the changes in the scope of works.

Event No.	Reason for the delay as per the request for extension and Memos.
5	**<u>Communication from Department of Correctional Services</u>** Through engagement with project manager, we noted that, on the 08 January 2014, DCS notified PMTE that the contractor has abandoned the site without completing the work and requested immediate intervention as the boilers were left unattended thus disrupting the day-to-day operations of the prison.
6	**<u>Total payment</u>** Payments made to **PZS** from inception of contract until January 2014 amounted to **R12 650 296.44** as per progress payment certificate number 24 dated 24 January 2014. The payments were approved by principal agent (Quantity Surveyors) and authorized by the project manager. Total payments to the contract amounted to **67%** of the project cost. As per inspection of the final account statement, total payments amounted to **R13 464 954.68 (Inclusive of retention)**
7	**<u>Registered Mail dated 01 October 2015</u>** As per inspection of the registered mail, it was noted that the contract was cancelled on 01 October 2015.
8	**<u>DPW-05: (EC) Contract Data – (GCC 2004): 1st Edition: 2004</u>** The General Conditions of Contract for Construction Works (2004), published by the South African Institute of Civil Engineering, is applicable to this contract. The following contract specific data, amendments, additions, or omissions are applicable to this contract: Clause 43.1 – The penalty for failing to complete the works is **R2 500 per day**, or if the completion in portions is required.

After cancellation of **PZS** on 01 October 2015, the entity started a new procurement process to complete the work on site. A competitive process for tender no. JHB15/38 Department of Correctional Services: Replacement of boilers and maintenance of boilers for a period of 24 months for an amount of **R27 915 448.76** with contract price adjustment provisions was then awarded and accepted by Exilite 454 CC ("**Exilite**") on 06 May 2016.

The site handover was on 25 May 2016 and expected completion date was on 04 May 2018. The following events took place with regards to contractor's progress

Claim No.	Reason for the delay as per the request for extension and Memos.
1	**<u>Full assessment conducted by DNMZ Engineers on October 2016</u>** As per inspection of the report we noted that, the boiler room and Calorifier room are the only structures that are partially complete, however they were not constructed according to the design. The following defects were noted: • Misalignment of some columns as they were not properly aligned to the column on the top structure. • No foundation for brick walls as the columns did not have any strip footings as per design • Core drilling tests – 5 of the 6 columns tested had strengths ranging from 10 MPa to 22 MPa instead of 30 MPa as per design strength. • It was therefore recommended to demolish the top structure columns and the brick walls as the integrity of the structure is questionable. Cost estimated to for demolition of the top structure and reconstruction up to the same level was estimated to be **R562 020.**
2	**<u>Internal Memo approved by Director Projects on 17 May 2018 Claim 02 and 03</u>** <u>Claim No 02 Test and Demolitions</u> "*The project was advertised as a completion contract after the initially contractor #001 awarded to **PZS** was cancelled on the 1st of October 2015. The integrity of the existing structures where not satisfactory and as result construction work could not proceed before a full assessment was conducted. The contractor was instructed to open up some buried columns in order to carry out comprehensive strength tests. Some columns failed the test and had to be demolished and rebuilt. This led to the delay of the contract for a further **48 working days**…*" <u>Claim No 03 Rework on boiler house northern wall</u> "*Resulting from the assessment it was further discovered that the centre column had been wrongly set-out by the previous contractor. This resulted in a new wall being built out of position. The contractor was instructed to carry out remedial work on the boiler house northern wall. This led to the delay of the contract for a further **30 working days**…*"
3	**<u>Internal Memo approved by Director Projects on 26 November 2018 Claim 04</u>** <u>Recommended remedial work</u> The boilers have been on the site since inception of the contract, as a requirement they have to undergo a statutory test and this led to a delay to the project by fourteen days.

Claim No.	Reason for the delay as per the request for extension and Memos.
	<u>Refurbishment and Replacement of corroded and unusable boiler equipment</u> The boilers and ancillary equipment were subjected to adverse weather during construction since delivery in 2013. Critical equipment became corroded and unusable as a result they had to be refurbished and others needed to be replaced. <u>Positioning of Boilers and other equipment</u> There were deviations noted on the boiler house structure and these deviations resulted in the shifting of the boilers and modification of other equipment's position inside the boiler house to suit existing plinth positions. The delays were ***51 working days*** As per inspection of a letter dated 31 July 2018 addressed to principal agent with regards to condition of the boilers, the above conditions of the boilers were confirmed to be in the said condition. Furthermore, an estimated amount of **R2 140 908.31** was quoted by John Thompson and purchase order was done on the 20 June 2018.
4	<u>**Total payment**</u> Payments made to Exilite 454 CC amounted to **R25 058 651.91** as per progress payment certificate number 40 dated 26 August 2019. The payment was approved by principal agent (Quantity Surveyors) and authorized by the project manager. As at the date of this report, the project is still not complete and expenditure paid amounts to 90% of the contract value.
5	<u>**Meeting between AGSA, Project Manager and director finance on 01 September 2020**</u> On the meeting held to discuss the status of the project with regards to contract management and possible fruitless and wasteful expenditure, management indicated the following: "*Expenditure for contract 01 is a result of site establishment, excavations, building of foundations, columns and slabs for the boiler house and calorifiers room and purchasing of two boilers including associated components*…"

Auditor's findings

Based on the information detailed above, it is evident that the contract with the first contractor **PZS** was terminated due to non-performance in accordance with the contract. Furthermore, defects were noted on the work previously performed such as demolitions, rework of boiler house, boilers being left onsite unattended for a long period and structural defects. These deficiencies resulted in additional remedial work required to be done by the new contractor (Exilite).

It is a major concern that the new contract value is in excess of the total value of the initial contract, even after taking into account all the work performed by the initial contractor (67% was completed). While we acknowledge that inflation will cause costs to rise, the value of the new contract indicates that a significant portion of the work performed on the initial contract may be unusable, which is indicative of fruitless and wasteful expenditure.

Progress payment certificates for both contractors were approved by the same professional team comprising of B and L Quantity Surveyors, DNMZ Consulting Engineers and Tsepa Consulting CC (Principal agent). We therefore noted with concerns that the professional team and the then PMTE project manager didn't pick up defects from the previous contract yet payment certificates were authorized for work done.

The bill of quantity for both tenders were performed by the same professional team and an analysis of the bill of quantities for Exilite and PZS was conducted on the following sections:

Section #	**Main Summary**	**Exilite**	**PZS**
3	Security Fencing System	2 230 091	1 559 529
4	Structural and building elements	3 971 142	2 753 737
7	Steam and hot water generation and distribution	10 677 046	6 760 787
Total		**16 878 279**	**11 074 053**

The audit team noted that the two bill of quantities for Exilite and PZS were the same on description, unit and quantity of the work to be performed. This gave an indication that the significant portion of the work performed on the initial contract was unusable and the new contractor had to perform the very same work as indicated by the comparison of the two bill of quantities.

We have performed an assessment of the possible fruitless and wasteful expenditure on the work done on the initial contract which is deemed to be unusable and came up with an estimate of **R9 906 798**. (*Refer to Annexure A detailed calculation)*. An estimate was calculated after taking the following considerations into account:

- Site establishment constitute a significant portion of the Preliminary and General Items section of the bill of quantity. However, the contractor abandoned the site as stated above and therefore we will only take into account 33% of the amount when calculating possible fruitless and wasteful expenditure.

- Provisional sums, prime costs, employment and training of labour on the EPWP-NYS Infrastructure Projects follows the same analysis as above.
- Site clearance, removal large trees, removal of fences and services, demolitions etc. This expenditure in line with item no. 1.1 - 5.6 PZS Schedule 05 of BoQ (Civil infrastructure) is noted and excluded on the potential loss.
- As per inspection of PZS Schedule 01 of BoQ item no. 2002.10 (Supply and installation of new steam generation plant, complete with associated ancillary equipment and accessories), we noted that this section constitutes a significant portion and the boiler costs included installation which wasn't done as the boilers were left unattended.
- The full assessment conducted by DNMZ Engineers on October 2016 found that the boiler room and Calorifier room were the only structures that were partially complete, however they were not constructed according to the design as defects were noted with regards to misalignment of some columns, foundation for brick walls as the columns did not have any strip footings as per design and core drilling tests.
-
- This work was then demolished as the integrity of the structure was questionable. This resulted to Exilite having to re-perform the same work previously done by PZS.

Penalties

Through inspection of the General Conditions of Contract for Construction Works (2004), we noted that the entity is allowed to charge penalties where the contract was cancelled due to non-performance. We didn't obtain evidence to confirm that penalties were charged to **PZS** who was terminated due to non-performance in accordance with the contract. This resulted to a loss of revenue for the entity.

Professional team

It is apparent that the professional team didn't fulfill their duties as they failed to ensure that:

- The contractors are working at the required pace to complete the project by the specific date, achieving specified quality standards and paid for work correctly completed.
- Poor project management by consultants resulted in unsatisfactory performance not being timeously identified, rectified and addressed appropriately.
-

PMTE project managers

Based on the assessment above management:

- Failed to secure the project site against deterioration during the period when there were no project activities on site and this resulted in work previously completed to be re-performed.
- Poor project management by project managers resulted in unsatisfactory performance not being timeously identified, rectified and addressed appropriately.

- Failed to hold consultants accountable for approving work that was unsatisfactorily / not of quality standards.

Impact

- Non – compliance with Treasury Regulation paragraph 8.1.1
- A financial loss of **R562 020,** resulting from the expenditure incurred by the new contractor on demolitions as the integrity of the structure was questionable and the cost was reliably estimated by consultants.
- A financial loss of **R2 140 908,** resulting from the expenditure incurred by placing a purchase order with the boiler supplier in order to refurbish and replace critical equipment's that have eroded and unusable as they were exposed to adverse weather conditions.
- A possible financial loss of **R7 203 870** resulting from the expenditure incurred by the previous contractor which was required to be reperformed by the replacement contractor.
- Possible fruitless and wasteful expenditure due to the amounts paid in vain to the first contractor where work was not performed to the required quality, which could have been avoided had the professional team and project managers fulfilled their required duties adequately.
- The fruitless and wasteful expenditure amount disclosed in the annual financial statements is incomplete.
- Understatement of revenue from exchange transactions (Loss of revenue) as a result of not charging penalties as required in the contract.
- Property, plant and equipment (Assets under construction) are overstated by an undeterminable amount

Internal control deficiency

Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Poor project management by consultants and project managers resulted in unsatisfactory performance not being timeously identified, rectified and appropriately being addressed.

Financial and Performance Management

Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored.

Management has not taken the proactive steps to recover the financial loss from the contractor.

Recommendation

It is recommended that:

- The accounting officer should commission an investigation into the above mentioned project to determine the full extent of fruitless and wasteful expenditure incurred.
- Appropriate legal action should be taken against the first contractor to recover the amount paid for work not performed satisfactorily.
- Consequence management actions to be instituted against project managers that had to monitor deliverables of contractor in terms of the contract and that approved payment to the contractor for unsatisfactorily performance
- The roles of the consultants in failing to mitigate this risk should be investigated with a view to recover losses, where professional negligence is detected.
- Management must determine the total financial losses which were suffered by the department as a result of the above-mentioned irregularities. The workings must be submitted to the AGSA.

Management response

Management does not agree with the finding

We acknowledge and take note of the concerns raised by AGSA, below is the management response:

i. The Planning Instruction for the replacement of the boilers was issued June 2010.The Mechanical and Electrical Consultant was appointed through the roster system in July 2010.The Department awarded a contract to PZS on 26 January 2012 for the replacement of boilers and the site was handed over 08 February 2012. In July and September 2012 respectively the Quantity Surveyor and Civil and Structural Engineer were appointed for supervision and monitoring. The original contract completion date was 24 January 2014 and was extended to 05 June 2014. **See annexure A**

ii. The late appointment of the Quantity Surveyor and Civil and Structural Engineer in 2012 contributed to the delay of the project. The performance of the Contractor was flagged by the Professional Team in minutes 18 & 19, this resulted in the issuing of a Mora- letter for failure to complete the works in 13 October 2013. After reviewing of the performance on site the Contractor was afforded the chance to continue with the project. **See annexure B**

iii. In December 2013 we received a letter from the Contractors' Lawyers demanding payment for alleged additional work incurred by the Contractor and subsequent intension to cease work on site. The matter was then referred to our Legal Services for mitigation which delayed the termination of the contract. This was an endeavour of the department to intervene, which was subdued by the continuation of the legal dispute documented **see annexure C**.

The Department was left with no alternative but to formally terminate the contract on 01 October 2015. **See annexure D**

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iv. On the structure of the boiler house and calorifier house, PZS, submitted cube test results that depicted compliance to the design strength. It was therefore difficult to dispute them since they came from a reputable laboratory and thus payment was made. **See annexure E**

v. The purchase order from John Thompson was for the supply of boilers which only amounted to R7 264 738.00 (Excl. Vat). This excluded boiler valves, pipework on the boilers, erection on site, statutory test on the boilers, waste bins for ash collection, lagging and cladding, ductwork, water sample coolers, water connection to the boilers, data and software, hydraulic tests, specialist tests, all control cabling and civil works. **See annexure F**

vi. On the arrival of the boilers on site they were covered in a protective material from the manufacturer. Due to inevitable physical weather elements the boiler cover deteriorated resulting in the corrosion of some of the components of the boilers

vii. Penalties to the contractor were not be imposed as the extension of time was up to 05 June 2014 and the last payment was effected 29 January 2014.

viii. Delays in the awarding of contract 02 in May 2016 were attributed to the dispute lodged by the PZS against the Department for unpaid work in December 2013. This delay resulted in the corrosion of boiler components and subsequent deterioration of building structures. ***Refer to annexure c***

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ix. Contract 01 was estimated for **R19 152 000.00** with the award to PZS of **R18 824 992.66** and Contract 02 was estimated at **R30 945 300** and awarded to Exilite for **R27 915 448.76.** The contributing factor in the difference of the two amounts was a result of equipment that had been excluded in the supply of boilers under contract 01. It also allowed for statutory tests on the equipment that had not been installed and allowed for possible defective and unusable equipment. **See annexure G**

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x. Recovery of losses were not instituted immediately after cancellation. The recovery was revived in 2019 with Legal Services, however it was discovered that the matter had prescribed. ***Refer to email from Legal services***

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xi. All Corrective measures to address the challenges on site were enforced according to the contract to ensure compliance and communicated during inspections. The contractor's progress and performance was thus monitored closely until drastic measures were taken that resulted in the cancellation of the contract.

xii. Upon awarding of the contract 02 to Exilite in May 2016, it was discovered that there were defects that could not be foreseen since they were buried underneath the floor slab. Once these had been exposed, the integrity of the whole structure was now under question and the contractor was instructed to excavate a couple of columns up to foundation level and conduct core drilling tests in order to assess their strength. As a result, the current top structure was demolished such that new top structure columns with adequate strength can be constructed and aligned with the Sub-structure columns.

xiii. John Thompson's quotation for the replacement contractor, Exilite, was informed by a site inspection that was done by them and the findings of statutory inspections. The quotation of R2 140 908.31 (incl Vat) focused on boiler valves, pipework on the boilers, erection on site, statutory test on the boilers, waste bins for ash collection, lagging and cladding, ductwork, water sample coolers, water connection to the boilers, data and software, hydraulic tests, specialist tests, all control cabling and civil works which were excluded from the order made on 22 March 2012 by PZS and also included parts that were identified to be unusable due to their condition. **see annexure H**

xiv. The completion contract was supposed to be completed May 2018, the contract was extended to November 2018. A further application of extension of time could not be finalised due to outstanding assessment regarding defective parts on the boilers as a result of standing time which were exposed to weather elements and additional tests to be performed on the boilers such as statutory tests for boiler compliance. Currently the Contractor is compiling a cession application to allow a nominated sub-contractor to finalise specialised work and commissioning of the two boilers. Upon approval of the cession, it will take six month for project to be completed. **see annexure I**

Auditor's conclusion

Managements comments are noted and auditors respond as follows:

i – iii

This is the background of the initiation of the project up to termination of PZS and the information was already communicated in the COFF.

iv

Management agree that the integrity of the structure was questionable and had to be demolished. This is indication that the work conducted by PZS was of poor quality and the work needed to be re-done by Exilite. It is evident that fruitless and wasteful expenditure was incurred and the department suffered financial loss.

v

The purchase price included the components as outlines on page 3 (Scope of supply) of annexure F, therefore some components that management indicated to be excluded on the purchase are included as outlined on the scope of supply. The following components indicated by were specifically included on other sections of the BoQ (hydraulic tests, specialist tests, all control cabling and civil works). The audit team take note that the invoice excluded boiler house pipework and valves (page 11 of annexure F), however these components were separately included on other section of the BoQ – Schedule no. 4: Installation D – Structural and building elements (Plumbing and drainage).

We also take note of the total amount paid for the boilers and this will be factored in calculating possible financial loss i.e. amount paid inclusive of VAT.

vi – viii

Management gave background information and agree with auditors that boilers were in a bad state and required more work.

ix

Management will indicate which equipment's that were excluded from the initial scope that resulted to the contract to cost more than the initial contractor yet the project was a completion one. Management didn't take into consideration that the two bill of quantities for PZS and Exilite are the same as stated above which is an indication that majority of the work conducted by PZS was not usable.

X

Management instituted or revived the recovery from the contractor. This is an indication that management noted that there was financial loss incurred by the entity thus such process was initiated. This statement supports auditor's conclusion of financial loss.

xi - xii

Management agrees with auditors finding that some structures were demolished as a result of integrity of the structure.

Xiii

As stated above, this equipment's were included in the initial quote that PZS made. The expenditure was incurred for parts that were identified to be unusable due to their condition and this amount constitute financial loss.

Expenditure in excess of 20% of the contract price not approved by National Treasury JHB COFF 10

Audit finding

Requirements

Public Finance Management Act paragraph 38(1)(a)(i) and 38(1)(a)(ii) states that *"The accounting officer for a trading entity must ensure that the trading entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control and an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective…"*

Public Finance Management Act paragraph 38 (1)(c)(ii) states that *"The accounting officer for a, trading entity must take effective and appropriate steps to prevent unauthorized, irregular and fruitless and wasteful expenditure and losses resulting from criminal conduct…*"

Section 3.9.3 and 3.9.4 of the National Treasury (NT) instruction note 32 dated 31 May 2011 states:

"*3.9.3 In order to mitigate against such practices, accounting officers and authorities are directed that, from the date of this instruction note taking effect, **contracts** may be **expanded or varied by not more than 20% or R20 million** (including all applicable taxes) for construction related goods, works and/or services and 15% or R15 million (including all applicable taxes) for all other goods and/or services of the original value of the contract, **whichever is the lower amount**. The relevant treasuries may, however, decrease these thresholds for institutions reporting to them*

3.9.4 Any deviation in excess of these thresholds will only be allowed subject to the prior written approval of the relevant treasury. Whilst provision is made for deviations, it is imperative to note that requests for such deviations may only be submitted to the relevant treasury where good reasons exist."

On 24 April 2012 the National Treasury issued Supply Chain Management circular: Postponing implementation of sub-paragraph 3.9.4 of National Treasury instruction note 32 dated 31 May 2011. The circular stated that paragraph 3.9.4 is postponed for implementation pending the issuance of a revised instruction note. The circular however stated in paragraph 3.3, the following as an interim measure: *"Institutions are required to forward motivations for all expansions in excess of the thresholds to the relevant Treasuries and to the Auditor – General within 10 (ten) working days after the Accounting Officer has granted approval for the deviation"*

Section 9.1 and 9.2 of the National Treasury SCM instruction note 3 of 2016-17, which took effect on 1 May 2016, states:

> *"9.1 The Accounting Officer must ensure that contracts are not varied* ***by not more than 20% or R20 million*** *(including VAT) for construction related goods, works and/or services and 15% or R15 million (including VAT) for all other goods and/or services of the* ***original contract value.***
>
> *9.2 Any deviation in excess of the prescribed thresholds will only be allowed in exceptional cases subject to prior written approval from the relevant treasury."*

Nature

<u>WCS: 047918</u>

During the audit of the contract management, we noted that the professional team was appointed using a Nomination for a Routine Assignment (Rouster Appointments) for WCS 047918 Replacement and maintenance of boilers for a period of 24 months. The table below refers

No	Professional Team	Division	Appointment date	Contract fee
1	Tsepa Consulting CC	Mechanical Engineers / Principal Agents	14-Jul-10	580 900
2	B & L Quantity Surveyors	Quantity Surveyors	13-Aug-12	245 500
3	DNMZ Consulting Engineers	Civil Engineers	20-Sep-12	73 000

The initial expected completion date of the project was 07 February 2014, however delays were encountered and the project was further delayed. Poor performance and unsatisfactorily work were encountered from the contractor (Zwa Shu / Phumi Trading JV) as a result the PMTE terminated the contract on 01 October 2015.

As a new contractor (Exilite 454 CC) was appointed to complete the work previously done by Zwa Shu / Phumi Trading JV, a need for additional professional fees was required. An internal memorandum for the application to increase consultants' fees exceeding 18.5% was supported by the project manager and director projects on 22 September 2016. These funds were also approved to be recoverable by the department of Correctional Services Commissioner on the 18 October 2016.

In total an amount of R6 283 562 (Above the 20% threshold) was approved by the PMTE without the required approval by the relevant delegation, in this case being National Treasury in line with the practice note. This amount must be disclosed as irregular expenditure in the financial statements.

No	Professional Team	20% of contract amount (Rands)	Expenditure to date (Rands)	Expenditure above contract price plus 20% (Rands)	% increase
1	Tsepa Consulting CC	116 180	4 759 008	4 061 928	699%
2	B & L Quantity Surveyors	49 100	1 440 282	1 145 682	467%
3	DNMZ Consulting Engineers	14 600	1 163 552	1 075 952	1474%
Total				**6 283 562**	**2640%**

Impact

- Understatement of irregular expenditure disclosed in the annual financial statements of R6 283 562.
-

Internal control deficiency

Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Financial and Performance Management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored.

Recommendation

it is recommended that:

- Management should review and monitor compliance with applicable legislation.

- Furthermore, management is to provide the auditors proposed adjustments, should the differences be valid, for audit purposes

Management response

Management takes note of the finding and wishes to respond as thus:

-All consultants in the Department were previously appointed under a roster system (Nomination) using a project estimate.

Furthermore, all roster appointments were previously reported and disclosed as irregular expenditure and subsequently condoned in 2014/15 financial year. See attached condonation submission.

Auditor's conclusion

Management comments are noted. The entity didn't get approval on expenditure in excess of 20% from National Treasury and the finding is not resolved. The matter will be included in the management report.

COFF 06 CPT- Incorrect procurement process followed

Audit finding

Requirements

Section 38(1)(a)(i) and (iii) of the Public Finance Management Act states that: "The accounting officer for a department, trading entity or constitutional institution must ensure that the department, trading entity or constitutional institution has and maintains effective, efficient and transparent systems of financial and risk management and internal control; an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective…"

Furthermore, section 38(1)(c)(ii) states that: "The accounting officer for a department, trading entity or constitutional institution must take effective and appropriate steps to prevent unauthorized, irregular and fruitless and wasteful expenditure and losses resulting from criminal conduct…"

Preferential Procurement Regulation 2017 section 5(6) and 5(7) states that: "A tender that fails to obtain the minimum qualifying score for functionality as indicated in the tender documents is not an acceptable tender" and that, "each tender that obtained the minimum qualifying score for functionality must be evaluated in terms of price and preference point system and any objective criteria envisaged in regulation 11…"

Preferential Procurement Regulation 2011 paragraph 4.4 states that: "No tender must be regarded as an acceptable tender if it fails to achieve the minimum qualifying score for functionality as indicated in the tender invitation…"

National Treasury Instruction Note on the amended guidelines in respect of bids that include functionality as a criterion for evaluation paragraph 3.4.1 states that: "The assessment of functionality must be done in terms of the evaluation criteria and the minimum threshold referred to in paragraph 3.3 above. A bid must be disqualified if it fails to meet the minimum threshold for functionality as per the bid invitation…."

SCM Circular No. 6 of 2018 section 5.1 states that: "market analysis should be done at the demand management and planning stage of the tender prior to issuing the tender and will then be verified against the received tenders during evaluation…

Nature

<u>Issue 1</u>

During the audit of procurement and contract management, the Notice and Invitation to Tender for CPTYT 07/19 and CPTYT 08/19 stated that bids will be evaluated for quality as one of the criteria's for functionality and that bidders need to provide the following in order to be awarded points for quality:

- References listed on the DPW-09EC will be used to obtain the quality of work. Bidder must provide contactable references with the person's name and contact details/ Bidders must forward the standard template (attached in tender document) to the referees to complete and must attached to the document when submitting on closing date.

It further stated that bidders need to score in all three criteria's in order to qualify and that functionality will be applied as a prequalification criterion.
In our assessment, we noted that the winning bidder Superfecta Trading had not submitted the standard template completed by contactable references in order to be scored on quality. This is also stated in the RBAC minutes dated 15 November 2019 that the BEC was requested to re-evaluate the bid and that the quality assessment forms were not submitted. According to the functionality criteria as per the Notice and Invitation to Tender, Superfecta Trading was supposed to be disqualified for not scoring in all three criteria's and not submitting all the required documentation to be evaluated further.

Based on the above, Superfecta Trading should not have been considered to be evaluated further, and would thus make LJ Trading the only bidder that would have been evaluated further. However, management indicated that LJ Trading's bid is considered to not be market related. Therefore, the department should have re-advertised and started the procurement process again.

The details of the tender are as follows:

Tender number	Supplier	Description	Area	Total Amount
CPTYT 07/19	Superfecta Trading	Service, Maintenance and repairs of generators for Area	Area 2	R20 125 451,20
CPTYT 08/19	Superfecta Trading	Service, Maintenance and repairs of generators for Area	Area 3	R20 503 341,20
Total				**R40 628 792,40**

Issue 2

During the audit of tender CPTYT 07/19 and CPTYT 08/19 we noted that only two bidders being LJ Trading and Superfecta Trading were considered to be responsive. Additionally, LJ Trading with a bid for R 3 899 236 and R4 003 684,75 respectively, was the only supplier that was requested to confirm that the amounts quoted are correct and Superfecta Trading was not requested to confirm the quoted amount. Management further stated that LJ Trading's bid was considered to not be market related.

In our assessment the pre-estimate value for the tenders as per the procurement strategy and tender evaluation report was R4 000 000,00 for each area which is supported by the values in the approved 2019-20 Procurement Plan. The 2019-20 Procurement Plan indicates that the department planned 24-month term contracts for maintenance, service and repairs to generators for area 2,3 and 4 with an estimate of R4 000 000, R4 000 000 and R2 250 000 respectively and to be awarded separately. This indicates that a market analysis was performed at the demand management and planning stage of the tender prior to issuing the tender. Furthermore, LJ Trading's quoted amount for the two areas was close to the R4 000 000 pre-estimate.

Management could further not provide a basis to support what is considered to be market related, thus making it difficult to prove why LJ Trading was the only bidder that was requested to confirm the quoted price. Consequently, the procurement is also considered to not be reasonable and economical as the selected bidder's price is 412.58% above the estimate of R4 000 000,00 and no evidence was provided to confirm that budget is available for the higher amount.

The details are as follows:

Tender number	Supplier	Description	Pre-estimate Amount	Tendered Amount	Difference
CPTYT 07/19	Superfecta Trading	Service, Maintenance and repairs of generators	R4 000 000	R20 125 451,20	R16 125 451,20
CPTYT 08/19	Superfecta Trading	Service, Maintenance and repairs of generators	R4 000 000	R 20 503 341,20	R16 503 341,20
Total					**R32 628 792,40**

Impact

The above may result in the following:

Irregular expenditure of R40 628 792,40

Non-compliance with section 38 of the PFMA

Non-compliance with PPR regulations and NT Instruction Note

Internal control deficiency

Financial and Performance Management

Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored by management.

The current processes put in place over reviewing and monitoring the procurement process are not sufficient to prevent non-compliance with SCM regulations and managements assumption and judgements are not adequately documented to support the awarding of tenders where the market is not responsive.

Recommendation

It is recommended that management should have adequate measures in place to ensure that the entity complies with the relevant laws and regulations.

A more define tender evaluation process and market analysis of prices should be put in place which consists of utilizing the skills of professional such as QS, Engineers to assist in deriving at appropriate values for pre-estimates to reduce the risk of appointing bidders that do not offer economical prices to do the work.

Management should look at enhancing review and monitoring processes within the SCM unit to ensure that what is advertised in the invitation to bid is what the department requires the bidders to submit.

Management should also consider documenting the assumptions and other judgements made in the procurement process to ensure that they are in line with the SCM laws and regulations where the market is not responsive. Furthermore, this will also assist in the audit process and ensure that all regions are treated consistently.

Management response:

Issue 1

The department notes AG finding but is however not in agreement with this finding.

In the case of Superfecta, the Regional Bid Adjudication Committee and Bid Evaluation Committee are empowered to request any information that is of an administrative nature and to apply the Administrative Justice Act for reasonable fairness and that is not amending any financial status of a bidder. As per the aforementioned the information to be furnished as per the DPW 09 was requested to finalize the evaluation process taking into account that **this tender has been re-advertised for the past three years with no success**. The department wants to place on record that these areas were originally 4 with an estimate of R4 000 000 each and were later combined into two areas with an estimate of R16 000 000. The department is further not in agreement that the AG makes specific reference to a bidder that is non-compliant as they articulated that their price was incorrect and also not that this resulted in Irregular Expenditure as all due process were followed and complied with in accordance with SCM Policies and Regulations. Furthermore, LJ Trading was not even included in the application of the preference point system which forms the bases of passes over. The basis of estimates is always variable but the market is the determining factor. It must also be noted that before the procurement process is undertaken the budget is approved by the Property Budget Administration Unit.

Issue 2

The department notes AG finding but is however not in agreement with this finding.

When this matter was tabled in the Regional Bid Adjudication Committee the committee deliberated on the fact that the price quoted by LJ Trading was suspiciously low. The committee unanimously agreed that the Bid Evaluation Committee should confirm the authenticity of the rates quoted. The prospective bidder was contacted to confirm their Schedule 1 price rate and subsequent responded to the department by confirming that the rates were incorrect. Although the prospective bidder did provide corrected rates this is not allowed after bids have closed as per SCM Regulations (Please see attachment) and they were therefore declared administratively non-responsive based on the fact that they underquoted.

Auditor’s conclusion

Issue 1:

Management's response to the issue is noted, however the audit finding remains unresolved. The PA.04(EC) evidently indicates the requirements that bidders need to adhere to in order to be considered responsive, to be evaluated for functionality and how the scoring for functionality will be coordinated. Furthermore, it states that bidders need to score in all three criteria's in order to qualify and that functionality will be applied as a prequalification criterion. Therefore, the department cannot regard an essential document needed to evaluate and score a bidder on quality as an "administrative document", and which would also in terms of the PA.04 result in a bid to be non-responsive as it did not comply with the requirements as at the closing date of the tender. We also note that the tender has been re-advertise for the past three year with no success, however this does not have to take away compliance with the relevant SCM laws and regulations.

Issue 2:

Management's response to the issue is noted, however the audit finding remains unresolved.

The 2019-20 Procurement Plan indicates that the department planned 24-month term contracts for maintenance, service and repairs to generators for area 2,3 and 4 with an estimate of R4 000 000, R4 000 000 and R2 250 000 respectively, which results in a total amount of R10 250 000 and not R12 000 000 for the three areas when applying management's thought process as per the response. Management further states that before the procurement process is undertaken the budget is approved by the Property Budget Administration Unit, therefore confirming that a market analysis was performed at the planning stage of the tender prior to issuing the tender as required by the SCM policy and the department was expecting bids of similar/close to the pre-estimate amount.

Even though a budget was approved, the department was still in a position to award a tender that exceeds the budget by 412%, which in this cases raises the question of did the department not deliberate on the fact that Superfecta Trading's price could be suspiciously high.

There is still no basis to support as to what is considered to be market related, taking into consideration that the committee unanimously agreed that the LJ Trading's price is suspiciously low.

COFF 07 CPT- Incorrect procurement process followed
Audit finding

Requirements

Section 38(1)(a)(i) and (iii) of the Public Finance Management Act states that: "The accounting officer for a department, trading entity or constitutional institution must ensure that the department, trading entity or constitutional institution has and maintains effective, efficient and transparent systems of financial and risk management and internal control; an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective…"

Furthermore, section 38(1)(c)(ii) states that: "The accounting officer for a department, trading entity or constitutional institution must take effective and appropriate steps to prevent unauthorized, irregular and fruitless and wasteful expenditure and losses resulting from criminal conduct…"

Preferential Procurement Regulations 2017 section 6(8) states that, "Subject to sub regulation (9) and regulation 11, the contract must be awarded to the tender scoring the highest points…"

Nature

During the audit of procurement and contract management, the following was noted for tender no. CPTYT 19/19:

The Special Conditions of Contract (SCC) clause 6.5 states that: *"The department will not appoint the same service provider for more than two areas…"*

From auditing the tender evaluation documents, we noted that the first and second highest scoring bidders, being MN Engineering and Stainless Concepts Engineering respectively, were not awarded the tender for the reason as stipulated on the Special Conditions of Contract (SCC) clause 6.5. However, evidence could only be obtained that MN Engineering had been awarded a tender for two areas, and no evidence was obtained to confirm that Stainless Concepts Engineering had been awarded a tender for two areas. Furthermore, from the assessment of the register for tenders awarded in the current financial year, it was still not evident that Stainless Concepts Engineering had been awarded two areas.

Therefore, in our assessment the bid should have been awarded to Stainless Concepts Engineering for Area 4 for being the second highest scoring bidder taking into consideration SCC clause 6.5

Tender number	Description	Winning bidder	Mishoe Trading & Projects Bid	Stainless Concepts Bid	Difference
CPTYT 19/19	Service, Maintenance and repairs to industrial Equipment for Area 4 of Western Cape	Mishoe Trading & Projects	R4 460 217,50	R 4 135 28,005	R324 932,50

Impact

The above may result in the following:

Possible misstatement in irregular expenditure of an amount of R324 932,50

Non-compliance with section 38 of the PFMA

Non-compliance with PPR 2017 regulations

Internal control deficiency

Financial and Performance Management

Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored by management.

Management did not adequately ensure that proper controls are in place in order to assist the department to keep track of how many areas a service provider is allocated at the time of making awards.

Recommendation

It is recommended that management should have adequate measures in place to ensure that the entity complies with the relevant laws and regulations.

Furthermore, management should assess and provide evidence that the second scoring bidder was awarded two areas at the time of making this award.
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Management response

The department is not in agreement with the finding. As indicated to the AG colleagues, the process was followed properly by the Bid Evaluation Committee, with reference to clause number 6.5 stating "the Department will not appoint the same Service Provider for more than two areas per discipline. This will be done in the interest of spreading work to more Service Providers" close quote. I would like to confirm that the Bid Evaluation Committee followed exactly what the clause referred to. Please see attached proof that Stainless Concepts was awarded two areas i.e. Area 2 and Area 7. In the interest of spreading work Mishoe Trading was appointed as Stainless Concepts was the only Service Provider who submitted a bid for Area 7 and therefore they had no competition in that Area. Therefore, the guiding rules and regulations have been complied with.

Auditor's conclusion

Management comments are noted. Although we noted that management provided letter of appointment to the supplier for area 7 that is dated 12/05/2020 while the contract commenced on 19/12/2019 to Stainless Concepts Engineering – for Area 7. Therefore, in order to draw an

auditor’s conclusion with regards to the matter, the following additional information is required to appropriately draw an auditor’s conclusion
For tender CPTYT-22/19

Bid Evaluation Committee minutes
RBAC minutes
PA 21(EC): Tender Evaluation report to the Regional Bid Adjudication Committee

DETAILED AUDIT FINDING: Extension of time with financial impact COFF 7 PTA

Audit finding

Requirements

Public Finance Management Act paragraph 38(1)(a)(i) and 38(1)(a)(ii) states that *"The accounting officer for a trading entity must ensure that the department has and maintains effective, efficient and transparent systems of financial and risk management and internal control and an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective…"*

Public Finance Management Act paragraph 1 defines "fruitless and wasteful expenditure' as "expenditure which was made in vain and would have been avoided had reasonable care been exercised"

Public Finance Management Act paragraph 38 (1)(c)(ii) states that "The accounting officer for a, trading entity must take effective and appropriate steps to prevent unauthorized, irregular and fruitless and wasteful expenditure and losses resulting from criminal conduct"

Public Finance Management Act paragraph 38 (1)(g) states that: "The accounting officer must on

discovery of fruitless and wasteful expenditure, immediately report, in writing, particulars of the expenditure to the relevant treasury;"

Public Finance Management Act paragraph 38 (1)(h) states that: "The accounting officer must take effective and appropriate disciplinary steps against any official in the service of the department or constitutional institution who makes or permits fruitless and wasteful expenditure"

Public Finance Management Act paragraph 40 (3)(b) states that: "The annual report and audited financial statements must include particulars of fruitless and wasteful expenditure that occurred during the financial year and any disciplinary steps taken as a result of such fruitless and wasteful expenditure."

Treasury Regulation 8.1.1 state that "The accounting officer of the institution must ensure that Internal procedures and internal control measures were in place for the approval and processing of payments. These controls provided reasonable assurance that all expenditure is necessary, is appropriate, is paid promptly and is adequately recorded and reported on."

Treasury Regulation 8.2.1 states that "An official of an institution may not spend or commit public money except with the approval (Either in writing or duly authorised electronic means) of the accounting officer or a properly delegated or authorised officer."

Treasury Regulation 8.2.2 states that "Before approving expenditure or incurring a commitment to spend, the delegated or authorised official must ensure compliance with any limitations or condition attached to the delegation or authorisation."

Treasury Regulation 9.1.1 state that "The accounting officer of a trading entity must exercise all reasonable care to prevent and detect fruitless and wasteful expenditure and must, for this *purpose, implement effective, efficient and transparent processes of financial and risk management.''*

Nature

<u>WCS: 044028</u>

During the interim audit a finding was raised with respect to Construction of a new building Magistrate court (PMTE PTA COFF 04), wherein we noted weaknesses in the contract management processes.

Management partially agreed with the finding and provided us with the supporting documents.

The subsequent information provided together with the management response was considered and evaluated. We therefore decided to re-issue the COFF with more information that was obtained through inspection of the supporting documents provided.

During the audit of the contract management, we noted that the authorized amount on the project exceeded the original contract price for project WCS No: 044028: *Construction of a new building Magistrate Court*. The increase resulted from the penalties charged by the contractor to Property Management Trading Entity due to delays experienced on the project not caused by the contractor. The penalties were charged based on the JBCC 2000 PRINCIPAL BUILDING AGREEMENT.

The contractor charges the entity an amount of R24 283.26 per day on the approved extensions. We have inspected the request for extensions and the internal memorandums prepared by the entity which detail the reasons for the delays. Memorandums included the number of days requested by the contractor and the financial impact expected from the extension. Through the inspection of the internal memorandums and the application for extension of contract period (PRM 040), the following issues were identified:

- Two memorandums approved on different dates relating to one claim contain contradicting information. *(Refer to claim 1)*
- The reason for delay documented in the internal memorandum is not the same as the reasons captured on the application for extension of contract period (PRM 040) supported by the information from the contractor and the principal agent. *(Refer to claim 3).*

Through our assessment of the reasons for delays provided, the penalties charged by the contractor might result in the financial loss for the entity, as the entity does not get any value from the expenditure incurred. In addition, this expenditure could have been avoided had proper planning been done ("reasonable care"). The entity has approved 12 extensions of time to date with the financial impact of R 15 881 252. The number of days that the project has been extended is 654 days.

Through inspection of the JBCC Agreement clause 29.1. we further noted that contract state that *"The circumstances for which the contractor is entitled to a revised of the date for practical completion and for which revision the principal agent shall not adjust the contract value in terms of 32.12 are delays to practical completion caused by*

29.1.1 Increment weather

29.1.4 Vis major, civil commotion, riot, strike or lockout''

The reasons for extension on the memorandum provided included delays resulting from strikes, riots and lockout however the extension provided by the entity had a financial impact where the contract value was adjusted. This is not in line with the JBCC contract clause 29.1.

The reason for the delays as per the memorandums have been included on the table below broken down as follows:

Claim No.	Reason for the delay as per the request for extension and Memos.	No of days	Financial impact
1	**<u>Internal Memo approved: 25 August 2015 [Paragraph 2]</u>** *"The contractor signed the letter of appointment 28/12/2013 and the site was given to the contractor on the 19 June 2013, due to the delays of the municipality service not in place by Head office and we couldn't hand the site over to the contractor in time. The delays were **127 days**"* **<u>Internal memo compiled: 16 April 2019 [Item 9]</u>** *"The claim is based on clause 29.1.2 of the JBCC serious 2000 edition. the contractor was delayed due to community interferences and the contractor not allowed to enter the site due to civil unrest. the appointment of local Sub-contractors who work slowly and need to be also assisted with the execution of the work."* **<u>Application for extension of contract period: Claim 1 (PRM 040)</u>** **"***The applied for extension of contract time by **127 working days** is supported because the late site hand-over was imposed on the contractor. The notice of delay date was within the prescribed time and the actual claim was made within the 60 working day period prescribed in the JBCC"* **<u>Letter dated 08 September 2014 from Fikile Construction</u>** *"In terms of Clause 29.2.1 of the JBCC principal Building Agreement, March 2005, we hereby submit our claim for an extension of time to the project. Our claim is based on the Notification of delay 1(NOD), dated 24 December 2014. the delay was caused by failure to give possession of the site by the client.*	127	R3 083 974,02

Claim No.	Reason for the delay as per the request for extension and Memos.	No of days	Financial impact
	We claim a total an extension of time of 123 working days in terms of clause 29.6.3 of the JBCC Principal Building Agreement." **Auditors comment:** We have noted that the reasons given for the 127 working days claimed differs between the two internal memos. This raises concern since the claim relates to the same number of days and same time period. Furthermore, the handover of the site (erf 40820 Mamelodi Ext 31) to the contractor is within the control of DPW. The expenditure could have been avoided hence we have a potential fruitless and wasteful expenditure		
2	**<u>Internal memo approved: 25 August 2015 [Paragraph 2]</u>** *"The second delay was from the 25 June 2014 to the 20 August due to unsafe conditions and the community threaten the contractor that they will burn them if the process with work without appointing the CLO that they proposed. The community did want to recognise and the CLO that was recommended by the councillor and the CLO withdraw from the position as CLO because of fear for his live. The delay was **42 days."*** **<u>Application for extension of contract period: Claim 2 (PRM 040)</u>** *"The contractor's claim for a **42 working days'** extension is based on damage to facilities, theft and threats from surrounding community members. The claimed incidents were all confirmed but in our view, did not prevent from attending to some works off site. For this reason and also as no reports to the police is provided, **the number of working days lost is regarded as 21** which comes to half the time lost claimed."* **Auditors comment:** We have noted that the principal agent recommended 21 days for this claim and the entity decided to award 42 days as per the internal memorandum. ***Note**: Through inspection of the subsequent internal memos, we noted that the claim had **no financial impact** for the entity and it was not included on the internal memo complied on the 16 April 2016 and approved by the DDG: Construction management.*	0	0
3	**<u>Internal memo approved: 24 November 2015 [Paragraph 2]</u>** *"The third delay is from community that didn't want the workers to work and prevent the suppliers to deliver the material to the site. The days was claim was 66 days."*	66	R1 602 695,16

Claim No.	Reason for the delay as per the request for extension and Memos.	No of days	Financial impact
	The financial implications of the **66 days** were indicated in paragraph 3 as R22 971, 31 per day for the 66 delays which amounted to R1 504 226.46. **<u>Internal memo approved: 13 September 2016 [Paragraph 3.3]</u>** *"The CLO appointed for the project stop the work and instructed the workers to leave the site because they were unhappy with the rate paid to workers and for certain demands they want the contractor to adhere to. They chase the security from the site and locked the gates and took the keys with them. Any worker or Fikile staff (Contractor) that want to enter the site was chase away by the community and steering committee members from the ward 23.* *At the same time, it was the announcement by the ANC the Mayor they propose for the Tshwane and it courses a lot of riot and the workers could not enter the site. The delay courses the contractor another 66 working days as per 29.6.1 as per the JBBCC 2000 PRINCIPAL BUILDING AGREEMENT.* *It is therefore recommended that the **66 days** be grant as it was the CLO and the community that prevent the contractor from doing his work."* **<u>Application for extension of contract period: Claim 3 (PRM 040)</u>** *"The extension of the contract time by **66 working days** is supported because the late site hand over of the 2nd site was imposed on the Contractor. The notice of the delay date was within the prescribed time and the actual claim was within the 60 working"* **<u>Letter dated 06 October 2015 from Fikile Construction</u>** *"With regards to NOD 4 and NOD 11 these delays related to the handover of the second site which only occurred on 27 March 2015. this delay caused us to delay the completion of the sewer main running through this site. The second portion of the site was supposed to be handed over to us on 28 November 2013. It was only handed over to us on the 27 march 2015. This delay 301 working days. In light of being a grant of 169 working days in terms of claim 1 and 2, our claim for time in respect of this claim no. 03 is therefore 132 working days (301 – 169 = 132 days).* *Cognizance should be taken of the fact that 50% of this claim was paid. Thus only 66 days."*		

Claim No.	Reason for the delay as per the request for extension and Memos.	No of days	Financial impact
	<u>Letter dated 08 October 2015 from Principal agent: Lesedi *Remmers & Scheutte*</u> *"Although agreeing that it is within Fikile Construction's rights to claim 132 working days, it is seen not to have drastically affected the Contractor's critical path. Conceding that it did limit and constraint Fikile Construction's development options, building work on Erf 40820 could take place. Giving Fikile Construction the benefit of the doubt, it is regarded as reasonable that they be granted half the time they are claiming. This comes to 66 extra work days."* **Auditors comment:** Inspected the internal memo for the reasons for delay and compared it to the supporting documents from the contractor and the principal agent. Through inspection we have determined that the reasons from the memo doesn't correspond to the reasons provided by contractor. This raises concern since the claim relates to the same number of days and same time period. It was also noted that the contradicting internal memorandum and claim was signed by the same two officials from the department.		
4,5,6	**<u>Internal memo approved: 13 September 2016 [Paragraph 3.2]</u>** *"The community prevent the suppliers from entering the site to deliver the concrete for the slab to be cast. They also didn't allow the truck with the steel for the slabs to deliver and they threaten the drivers that they will burn their trucks if they try to enter the site. The contractor had to pay the suppliers for the deliveries which didn't get due to the community preventing them from entering the site. The contractor was delayed for a long period and they claim **82 working days** as per 29.1.2 as per JBBCC 2000 Principal Agreement.* *It is recommended that the 82working days be grant because it want the contractor that courses the delay but the community."* **<u>Application for extension of contract period: Claim 4 (PRM 040)</u>** *"The extension of the contract time by **33 working days** is supported because of a site lock-out. The notice of delay date was within the prescribed time and the actual claim was made within the 60 working day period prescribed in the JBCC."* **<u>Letter dated 21 July 2015, 25 August 2015 & 04 November 2015 from Fikile Construction</u>** *"We refer to NOD 20 & 21 - these delays were related to the strike on site from 21 July 2015 until 3 September 2015. We request for an extension of time of 33 working days. Work resume on 4 September 2015."*		

Claim No.	Reason for the delay as per the request for extension and Memos.	No of days	Financial impact
	"Notification of delay (ND20): Local community is interfering with deliveries, concrete truck full and Rebar delivery from Steeldale send back by community leaders. These acts are delaying the Project." *Notification of delay (ND21): Vis major, civil commotion, riot, strike or lockout."* **<u>Application for extension of contract period: Claim 5 (PRM 040)</u>** *"The extension of the contract time by **27 working days** is supported because of a strike by brick layers on site. The notice of delay date was within the prescribed time and the actual claim was made within the 60 working day period prescribed in the JBCC."* **<u>Letter dated 04 November 2015 from Fikile Construction</u>** *"We refer to NOD 22 - these delays were related to the strike by bricklayers on site. When we resumed work on 4 September 2015, all the bricklayers refused to work until we increased their rates. After lengthy negotiations we managed to reach a settlement on 12 October 2015. Work resumed on 13 October 2015. All brickwork was on the critical path of the project- delays to the surface bed and knock on effect of the formwork to slabs to the first floor were all affected. The work that actually took place on site during this period was not critical (brickwork was the critical path activity) and therefore we claim the entire period of delay from 4September 2015 until 12 October 2015. We request for an extension of time of 27 working days."* **<u>Application for extension of contract period: Claim 6 (PRM 040)</u>** *"The extension of the contract time by **22 working days** is supported because the added scope of work related to necessary backfilling in the bill of Quantities. The notice of delay date was within the prescribed time and the actual claim was made within the 60 working day period prescribed in the JBCC."* **<u>Letter dated 04 November 2015 from Fikile Construction</u>** *"We refer to NOD 13,14 and 19 - there were additional work added to our scope, these works included the following* *a) There was excessive backfilling required on the project to the retaining walls and under the surface beds. We are currently still busy with some sections of the backfilling. these has delays on the casting of surface beds and also the first floor slabs above;*	82	R1 991 227,32

Claim No.	Reason for the delay as per the request for extension and Memos.	No of days	Financial impact
	b) The introduction of blade walls to the project caused additional expense and time to the project. New formwork material had to be procured and we wait for the approval of the variation order on the project. We therefore request for an extension of time of 33 working days." **Auditors comment:** We have noted that internal memorandum doesn't include a detail reasons indicated in the contractors in relation to claim 5 and 6. Its only made reference to the strikes done by the community as per claim 3. This raises concern since the claim relates to the same number of days and same time period. **In relation to Claim 4 & 5** Through inspection of the reasons given for this claim, we have confirmed that it is due to strike by the community resulting in the civil unrest on site. Based on the JBCC Principal Agreement, any delays resulting from Vis major, civil commotion, riot, strike or lockout does not attract the Contract Price adjustments. We have noted the days claimed by the contractor resulted in the contract value being adjusted by the penalty charge per day which is not in line with JBCC Principal Building Agreement clause 29.1.4. This indicate a possible fruitless and wasteful expenditure. **In relation to Claim 6** The reason for delay is due to additional scope of work related to necessary backfilling not measured in the Bill of Quantities. The assessment will than had to be made to determine if the financial impact will be adjusted as part of the new VO for the additional work or as part of the re-measurement.		
7	**<u>Internal memo approved: 13 September 2016 [paragraph 3.1]</u>** "*The contractor sends a letter stating that the structural engineer must provide them with the new drawings for the beams that must be change and the contractor at that stage couldn't carry on with other work as the beams need to be cast before they could proceed with other work on site. The contractor was delayed with **42 working days** as per clause 29.4, of the JBCC 2000 Principal Building Agreement."* **<u>Application for extension of contract period: Claim 7 (PRM 040)</u>** *"The extension of the contract time by **42 working day**s is supported although the Contractor applied for 54 working days. With reference to NOD 23 they received late information on rebar for Mid-and first floor and the formwork has to be changed to new design as per e-mail instruction dated 30 September 2015 because*	42	R1 019 896.92

Claim No.	Reason for the delay as per the request for extension and Memos.	No of days	Financial impact
	of wrong information on the drawings, beams and beam steel ground floor." **Letter from the contractor dated 7 April 2016: Fikile Construction (Pty) Ltd (Paragraph 4.1 & 4.2)** *"Late issuing of construction information to commence and complete the re-enforcing in structural slabs, the contractor confirm that it requested the information well in advance of the actual date that it was required to be issued. The contractor confirms that the works on the ground floor slab was stopped on 30 September 2015 due to a discrepancy on the structural layout and re-enforcing schedules. The information for the ground floor slab was only received on 6 November 2015. The contractor confirms that the information relating to the mid and first floor slabs was required on 30 October 2015 for it not to delay the construction works, information was received in stages and that the final revision was received on 8 December 2015. It is important to note that the works has progressed to such a state where the works was ready to receive final levelling and concrete. These works had to be stopped, demolished and re-constructed."* *"As a result of the above, the Contractor has suffered delays associated with the completion of the project of 54 working days.* *In terms of clause 29.2, 29.5 and 29.6 of the Principal Building Agreement the Contractor therefore claims a revision to the Date for Practical completion of 54 working days, from 14 September 2016 to 1 December 2016."* **Auditors comment:** Through inspection of the reasons for the delay, it is evidenced that the contractor was not given all the necessary information by the structural engineer to continue with their work hence the recommended extra days to be given to the contractor were 42 days with the financial impact. PMTE as the project custodian has a responsibility to ensure that all the information necessary for the project are available to the contractor. Failure to do so result in the penalties charged by the contractor as per the JBCC Principal Agreement. Any penalty charged as a results of the management not making information available to the contractor might results in fruitless and wasteful expenditure. The entity has also the responsibility to assess if the penalty charged should be recouped from the structural engineer provided that through assessment it is concluded that they did not execute their duties as per their signed level agreement.		

Claim No.	Reason for the delay as per the request for extension and Memos.	No of days	Financial impact
8	**<u>Internal memo approved: 13 September 2016 [Paragraph 3.4]</u>** *"This is the second time the contractor wants cast the concrete for the first floor and again the community remove the workers from the site so that the contractor cannot cast the first floor. The concrete suppliers had to remove all the trucks that was on site as the community threaten that they will burn their trucks if don't leave the site. the contractor was busy to cast concrete and had to redo the whole first floor as they couldn't vibrate the concrete and also has to leave the site for the safety of the workers. The contractor claims 6 days but together with the PA we only allow **for 54 working days** as for the delay as per JBBCC 200 Principal Buildings Agreement clause 29.2, 29.5 and 29.6.* *It is therefore recommended that the 54 days be granted as it was not the contractor that delay the project but the community."* **<u>Application for extension of contract period: Claim 8 (PRM 040)</u>** *"The extension of the contact time by **20 working days** is supported because of the civil unrest in the Mamelodi township, refer to NOD 35, and as result thereof the concrete pour were brought to sudden halt and left incomplete. Remedial work to slab had to be done after instruction of structural engineer."* **<u>Letter from the contractor dated 23 June 2016: Fikile Construction (Pty) Ltd (Paragraph 4.1 & 4.2)</u>** *'Strike action in site closure and abandoning a concrete cast whilst in progress.* *The contractor confirms that the site was closed on 21 June 2016 due to civil unrest as alleged results of Thoko Didiza being nominated as the African National Congress's mayoral candidate for Tshwane. The contractor confirms that a concrete pour, was in the process of being concreted when the site was brought to a sudden halt. This in turn resulted that the works were left unfinished and such a state that it has to be surveyed and majority of the works has to be re-constructed. The contactor confirms that remedial works to the said re-enforced concrete slab commenced on 25 June and the slab was re-concreted on 18 July 2016."* *As a result of the above, the contractor has suffered delays associated with the completion of the project of 20 working days."* **Auditors comment:** Through inspection of the contractors request for the extension and the principal agent's recommendation, we	54	R1 311 296,04

Claim No.	Reason for the delay as per the request for extension and Memos.	No of days	Financial impact
	have noted that the delay was for 20 working days. However, on the internal memorandum approved by the entity, the number of delays awarded were 54 working days. This is concerning since the number of delays awarded exceeds the number of delays requested and recommended. The delay is due to civil unrest as alleged results of Thoko Didiza being nominated as the African National Congress's mayoral candidate for Tshwane. These delays result from Vis major, civil commotion, riot, strike or lockout. Delays from such actions doesn't attract the contract value adjustment as per the JBCC 2000 Principal Building Agreement clause 29.1.4. This indicate a possible fruitless and wasteful expenditure.		
9	**<u>Internal memo approved: 24 May 2017 [Circumstance E]</u>** *"The claim relates to **10 working days** lost between 16 August 2016, 23 August 2016 and 06 September 2016, which civil unrest occurred affecting works on site as follows:* *- For safety reasons site access closed on the 23 August 2016, 29 August 2016 and 06 September 2016.* *- Concrete for of 29 August 2016 postponed to 5 September 2016, and 5 September 2016 but could not due to delivery vehicles access being blocked.* *- Work could only re-commenced on the 9 September 2016.* *It is therefore recommended that the 10 days be granted as it was not the contractor that delay the project but the community that stop the delivery vehicles from delivery. The delay was course send calculated thereof as per JBBCC 2000 Principal Building Agreement in terms of cause 29.6.2."* **<u>Application for extension of contract period: Claim 9 &10 (PRM 040)</u>** *"The extension of the contract time by 75 working days is supported because of the civil unrest in Mamelodi township (**10 working days**) and the lack of information required from Consultant (65 working days). If approved, the date for practical completion will be 05 July 2017."* **<u>Letter from the contractor dated 21 October 2016: Fikile Construction (Pty) Ltd (Paragraph 4.1 & 4.2)</u>**	10	R242 832,60

Claim No.	Reason for the delay as per the request for extension and Memos.	No of days	Financial impact
	"Strike action resulting in site closure *The contractor confirms that the site was closed on 23 August 2016, 29 August 2016 and 6 September 2016 due to civil unrest in and around the Mamelodi area, compromising safety on site. The contractor confirms that a concrete pour was scheduled for the 31 of August 2016 and due to the fat that site had to be vacated pm 29 August 2016, the pour had to be re-scheduled. The only next available date for ready mix concrete was on 5 September 2016 of which the contractor could commence and complete the said pour. Furthermore, on 6 September the site was again vacated due to unrest and works only re-commenced on 9 September 2016.* *As a result of the above, the contractor has suffered delays associated with the completion of the project of 9 working days."* **Auditors comment:** The number of extra days recommended by the entity were 10 working days. The delay is due to Strike action resulting in site closure: Civil unrest in and around the Mamelodi area, compromising safety on site. These delays result from Vis major, civil commotion, riot, strike or lockout. Delays from such actions doesn't attract the contract value adjustment as per the JBCC 2000 Principal Building Agreement clause 29.1.4. This indicate a possible fruitless and wasteful expenditure.		
10	**Internal memo approved: 24 May 2017 [Circumstance F)** *"This claim is for **65 working days** for the time lost.* *> Due to discrepancies or lack of information on plans and consultants not promptly responding to forthcoming queries.* *> Civil engineer information shortfalls pointed out on numerous occasions but between not responding.* *> Work requiring rescheduling due to slow or no response by the civil engineers.* *> Short falls in Structural Engineer details on concrete and roof structure.* *> Prescriptions for finishes and fittings still being awaiting.* *All the above delays calculated to 65 working days which is also supported by the principal agent.* *It is therefore recommended that the 65 working days be approved as I wasn't the contractor that delay the project. the delay was course and calculated thereof as per JBCC 200 Principal Building Agreement in terms of clause 29.6.3."*	65	R1 578 411,90

Claim No.	Reason for the delay as per the request for extension and Memos.	No of days	Financial impact
	<u>Application for extension of contract period: Claim 9 &10 (PRM 040)</u> *"The extension of the contract time by 75 working days is supported because of the civil unrest in Mamelodi township (*10 working days*) and the lack of information required from Consultant (***65 working days***). If approved, the date for practical completion will be 05 July 2017."* **<u>Letter from the contractor dated 02 February 2017: Fikile Construction (Pty) Ltd (Paragraph 4.1 & 4.2)</u>** *"Non-issuing of drawings by the Civil Engineer* *The contractor confirms that it has written to the principal agent on 6 May 2016, 17 June 2016 and 10 January requesting for a contract instruction as to how to go about on resolving the civil works information that is not forthcoming. it was communicated to the contractor on or about 16 January 2017 that the appointed civil engineer has been reprimanded and that information will be forthcoming during the month of January 2017. the contractor confirms that at the time of this extension of time claim no information has been received on the civil engineer's scope of works and the claim is bases on anticipated dates that might change depending on the information flow.* *Taking the above into consideration the contractor has for the sake of the entitlement for this claim included an anticipated commencement date for the civil work of 13 February 2017. the contractor confirms should this date not be achievable the entitlement calculation will be revised.* *The critical path analysis as can be seen shows a negative variance of 65 working days resulting from outstanding information referred to above.* *As a result of the above, the contractor has suffered delays associated with the completion of the project of 65 working days."* **Auditors comment:** Through inspection of the reasons for the delay, it is evidenced that the contractor was not given civil information to be used to be used on the project. There was a lack of information and the consultants were not responding on numerous occasions. This delay resulted in the entity awarding 65 extra days to the contractor. PMTE as the project custodian has a responsibility to ensure that all the information necessary for the project are available to the contractor. Failure to do so result in the penalties charged by the contractor as per the JBCC Principal Agreement. Any penalty charged as a results of the management		

Claim No.	Reason for the delay as per the request for extension and Memos.	No of days	Financial impact
	not making information available to the contractor might results in fruitless and wasteful expenditure. The entity has also the responsibility to assess if the penalty charged should be recouped from the structural engineer/Civil engineer provided that through assessment it is concluded that they did not execute their duties as per their signed level agreement.		
11	**<u>Internal memo approved: 2 October 2017 [Circumstance G]</u>** *"This claim for 53 working days for time lost.* *> It is due to the support as the required additions impact on the extent and sequence of surrounding and related work as per clause 29.9, 29.6, 32, 29.1, 29.2.8 and 29.3."* **<u>Application for extension of contract period: Claim 11 (PRM 040)</u>** *"53 of the 108 working days claimed is supported as the required additions impacts on the extent and sequence of surrounding and related work. If approved, the date of practical completion will be 19 September 2017."* **<u>Letter dated 12 June 2017 from the Principal agent: Lesedi Remmers & Scheutte</u>** *"The contractor's revised claim 11 for practical completion on 26 May 2017 to the Department of Public Works, is referred to.* *Although LARS Architects was not formally called on to do so, the application is herewith responded to.* *The claim is for delays totalling 108 working days which Fikile Construction attributes to works by "Direct Contractors" being added to their main contract.* • *Site Security (CCTV & access Control)* • *Information Technology* • *Court Recording Equipment* *The original contract allowed for these works to be executed within the main contract period by direct contractors appointed by the DOJ and CD. Making it part of the main contract required:* • *Establishing the extent pre-requisites and times required.* • *Co-ordinating it with related services within the existing contract.* ***Recommendation:*** *The 108 working days' extension of time claim 11 has in terms of the JBCC correctly been compiled and submitted, but 65 working days falls within extension of time already granted,*	53	R1 287 012,78

Claim No.	Reason for the delay as per the request for extension and Memos.	No of days	Financial impact
	for this reason it is recommended that these days be deducted bringing the number of extra working days to 53. If this is granted Practical Completion will move to 19 September 2017." **Auditors comment:** This claim results from the additional work required to be executed by the main contractor which didn't form part of the initial scope of work. the contractor has than requested extra days with financial impact. The entity is therefore liable for the penalty charged due to the extension of time resulting from such additional work. management needs to assess if the penalties charged from such request will results from the fruitless and wasteful expenditure or not.		
12	**Internal memo approved: 2 October 2017 [Circumstance H]** *"This claim is for 155 working days for lost time. The contractor has been delayed due to the Civil Engineers drawings and the site development plans was not in order in terms clause 32.12, as per the JBCC 2000 Principal Agreement for the access road."* **Letter from the contractor dated 17 August 2017: Fikile Construction (Pty) Ltd (Paragraph 4.1 & 4.2)** *"Failure to commence and complete the access road to the building* *" The Contractor confirms that it submitted Notifications of days no. 39 (Refer to Annexure A) and no. 52 (Refer to Annexure B) information the employer that it required the Civil engineer's drawings and also approved site development plans, in order to commence and complete the access road. The contractor further confirms that the above mentioned information has still not been received, and that this interim claim has been prepared with assumed dates and durations. the contractor has prepared a cause and effect programme (Refer to Annexure C) to demonstrate the effect the delay has on the date for practical completion. As a results of the above, the contractor has and still is suffering delays associated with the completion of project of 155 working days."* **Auditors comment:** Through inspection of the reasons for the delay, it is evidenced that the civil engineer's drawings and the site development plans were not in order hence the contractor could not perform it duties in relation to the construction of road access. here was lack of information (drawings and site development plans) from the civil engineers hence extra 155 working days were requested with financial impact on the contract value. PMTE as the project custodian has a responsibility to ensure that all the information necessary for the project are available to the contractor. Failure to do so result in the penalties charged by the contractor as per the JBCC Principal Agreement. Any penalty charged as a results of the	155	R3 763 905,30

Claim No.	Reason for the delay as per the request for extension and Memos.	No of days	Financial impact
	management not making information available to the contractor might results in fruitless and wasteful expenditure. The entity has also the responsibility to assess if the penalty charged should be recouped from the Civil engineer provided that through assessment it is concluded that they did not execute their duties as per their signed level agreement.		
	TOTAL DELAYS	**654**	**R15 881 252.04**

Impact

Non – compliance with Treasury Regulation paragraph 8.1.1, 8.2.1 and 8.2.2 resulting in irregular expenditure.
The expenditure paid in vain which could have been avoided will result in fruitless and wasteful expenditure. Misstatements of fruitless and wasteful expenditure disclosed amount.
A possible financial loss of R15 881 252.04 resulting from the expenditure incurred due to the extension of time which had a financial impact.

Internal control deficiency

Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Financial and Performance Management

Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored.

Management didn’t monitor the projects appropriately in order to ensure that the project is completed within the agreed time frames.

All the necessary information required to execute the projects when not always submitted on time to the contractor to avoid delays which will results in the financial loss for the entity.

Management has not taken the proactive steps to recover the financial loss from the responsible person where the penalty was paid to the contractor resulting from the delays.

Recommendation

It is recommended that management should ensure the entity complies with all applicable laws and regulations.

It is recommended that management should ensure:

All projects are monitored regularly and all the necessary information and documents are provided to the supplier timeously to avoid delays.
The consultants work should be monitored by the project managers and all the reports/ drawings prepared by consultants should be checked for accuracy and be delivered to the contractor timeously.
Access to the construction sites should be organized before the construction commence.

It is recommended that management should assess the reasons for the delays against the JBCC 2000 PRINCIPAL BUILDING AGREEMENT in order to avoid making unnecessary payments were the delays are covered under JBCC contract clause 29.1.

It is recommended that management should conduct an investigation on all significantly delayed projects to determine the reasons for the delay as well as the financial loss incurred by the entity. The fruitless and wasteful expenditure assessment should be conducted to identify expenditures that could have been avoided by the entity.

Where the financial loss results from the consultant not performing as per the contract, the fruitless and wasteful amount should be recovered from them. If the financial loss is caused by the PMTE officials, the disciplinary processes should be followed to ensure that the money is recovered from the implicated individual.

Management response

Management is partially in agreement with the finding. The for the following need to be taken into account:

Introduction

Site deed of donation and registration by City of Tshwane

The Mamelodi sites where the Magistrate Court is being constructed was donated by City of Tshwane (CoT) to DPWI. There was a need to consolidate and register the sites into Asset Register. However, registration has not been finalized yet and this adversely affected the whole process.

Due to none consolidation and registration of sites to DPWI's Assets Register the CoT Municipality refused to accept any submissions of documents relating to the projects for approval or any request.

During the year 2014 CoT allowed DPWI to commence with construction on one site and subsequently the other.

Challenges during Construction due to Political Landscape in SA

The year 2014 was a very politically fragile where the local communities engaged on drive to force their participation on the project as labourers and sub-contractors. It was the case with the Mamelodi Magistrate Court after DPWI handover of the site the community quickly came and demanded participation on the project. This affected the specification of the project negatively as the project was planned as follows:

To appoint main contractor who will appoint his own domestic sub-contractors and labourers of his choice
To later on accommodate three specialist sub-contractors who will be appointed by Department of Justice and Constitutional development, of which to date they have not yet been appointed

As a result of community demands which were violent and endangering lives, we have to introduce the following in order for the project to proceed:

Appoint a Community Liaison Officer to facilitate communication with the community
Force the contractor to appoint local labourers and sub-contractors
Source materials and plant locally

The above came with challenges which affected the contractors tendered prices, where there was no agreement there was commotion which threatened damaging properties, plant and endangering lives of the project team members. The situation was very hostile until a new Councilor was appointed.

Response to queries raised by AG

Claim no 1

We agree with the finding

The Chief Construction Project Manager

Has erroneously recommended extension of contract with cost implications
Has wrongly captured the reason for awarding extension of contract when he consolidated previous approved extension of contract of the follow on applications leading to the highlighted contradiction on the two internal memorandums

The extension of time was granted correctly so due to the following reasons: the delay was beyond the contractors as DPWI failed to handover the site control

DPWI through its REMS and Town Planning section to date failed to consolidate the sites and register them as DPWI assets as a result CoT refused to grant us permission to occupy build on site till June 2024.Several meetings were facilitated between DPWI and Project team and to date no results has been achieved

Claim no 2

Management partially agree with AG Conclusion

The Principal agent recommended 21 days and the CCPM recommended 42 days, the contractor was delayed due to riot which lead to Lockout. No financial implications

Claim no 3

The reason why the claim was approved is DPWI failed to give possession of the second site due to failure to register the site as explained above under Introduction JBCC clauses 29.2 and 29.2.1)

We recommended and approved half of the applied delayed days as we were of the view that the contractor had other areas where he can work

The Chief Construction Project Manager

Has wrongly captured the reason for awarding extension of contract when he consolidated previous approved extension of contract of the follow on applications leading to the highlighted contradiction on the two internal memorandums

Claim no 4

Management partially agree with the finding in that the reasons were not captured correctly

Due to changes in contract arrangements where the following was introduced to hostile situation on the ground:

Appoint a Community Liaison Officer to facilitate communication with the community
Force the contractor to appoint local labourers and sub-contractors
Source materials and plant locally

The strike and riot referred to is not necessary external it was locally appointed sub-contractors who were working on the project who stopped working and demonstrated violently, this disrupted the programme hence financial implication was considered and approved (JBCC Clause 29.2.3), we are of the opinion cost implication is contractual. 27 working days were approved

Claim no 5

Management partially agree with the finding in that the reasons were not captured correctly

Due to changes in contract arrangements where the following was introduced to hostile situation on the ground:

Appoint a Community Liaison Officer to facilitate communication with the community
Force the contractor to appoint local labourers and sub-contractors
Source materials and plant locally
The strike and riot referred to is not necessary external it was locally appointed sub-contractors who were working on the project who stopped working and demonstrated violently, this disrupted the programme hence financial implication was considered and approved (JBCC Clause 29.2.3), we are of the opinion cost implication is contractual. 27 working days were approved

Claim no 6

Management does not agree with AG Conclusion

22 working days were approved due to additional work instructed by the Agent of The Employer (JBCC Clause 29.2.3), the cost implication is contractual

Claim no 7

Management partial agree with the AG as we have not fully investigated the duration which was reasonable for engineer to revise designs

42 days were approved with cost, there was a need for the design to be revised which lead to the delays as revised drawings were issued by the Structural Engineer after 42days, we will inspect RFI and check if it was possible for engineer to revise drawings within 42 days and issue. If we

find him wanting, we will recover the financial implications from the Structural Engineer. The contractor was delayed and financial implications are contractual

Claim 8

Management partially agree with AG on the difference between day recommended by Principal Agent and what the CCPM Recommended

As per introduction the strike was from community members appointed and involved in the project, this disruption occurred when concrete was being casted, all planned operations had to come to a standstill. This affected contractor

Delayed the planned programme
Damages and loss on unfinished work which had to be demolished later and re done with cost implication
Cost associated with concrete already bought, paid and lined to come to the site
Skilled and unskilled labourers lined for the whole operation

We are of the opinion that the contractor suffered financial losses which he had to be compensated and its contractual

The CCPM will have to account why he recommended 54 day as opposed to 20 days recommended by the Principal Agent

Claim no 9

Management partially agree with the finding in that the reasons were not captured correctly

As per introduction the strike was from community members appointed and involved in the project, this disruption occurred when concrete was being casted, all planned operations had to come to a standstill. This affected contractor

Delayed the planned programme
Cost associated with concrete already bought, paid and lined to come to the site
Skilled and unskilled labourers lined for the whole operation

We are of the opinion that the contractor suffered financial losses which he had to be compensated and its contractual

Claim no 10

Management partial agree with the AGSA as we have not investigated the conduct of the Civil Engineer at the time and possibly recover incurred cost due to their non-performance

65 days were approved with cost, DPW & I failed to provide contactor with information (JBCC Clause 29.2.4) The Civil engineer delayed issuing drawings as per RFI and caused a 65 delay.

We will fully investigate the conduct of the Civil Engineer and recover the financial implications from the Civil Engineer. The contractor was delayed and financial implications are contractual

Claim no 11

Management does not agree with AG

It is contractual for Principal Agent to from time to time issue site instruction which might have or not have financial implications during contract, if the instruction has financial implication the Principal Agent have to follow proper process to get financial implications approved. The delay was caused by the following instruction

To later on accommodate three specialist sub-contractors who will be a[appointed by Department of Justice and Constitutional development, of which to date they have not yet been appointed

The Department of Justice has delayed appointing this direct sub-contractor and has impacted negatively on certain work on site

We are of the opinion that the contractor was issued instruction to do additional work and it has caused delay and attracted need for application of additional tie, which was approved with its financial implications

JBCC Clause29.2.3 and 29.2.8

Claim no12

Management partially agree with AG, the reason for delay was not correctly captured

DPWI through its REMS and Town Planning section to date failed to consolidate the sites and register them as DPW & I asserts, as a result City of Tshwane refused to grant us permission to occupy
Due to the failure to register the site it took some time and persuasion from us to make City of Tshwane to finally agree to accept and consider application for way leave and approval of work on the access road from Municipal mail road. The late approval affected the panned initial construction programme, the contractor applied for extension of contract and 155 days were approved, the contractor was delayed due to reasons beyond their control (JBCC Clause 29.2.4). we are of the opinion that the financial implications are contract

Auditors Conclusion

Management response have been noted. See below the comments;

<u>Response to claim 1, claim 3 & claim 12</u>

The delays result from failure by the DPWI officials to consolidate the sites and register them as DPWI assets. The DPWI had control of such process. The penalties incurred due to such delays should be recorded as part of the fruitless and wasteful expenditure. Investigation needs to be initiated against the affected individuals. Management should ensure that the financial loss is recovered as per the fruitless and wasteful guidelines.

Response to claim 4. Claim 5, claim 8 & claim 9

The delays result from the strike, riots and lockout. As per the JBCC 2000 PRINCIPAL BUILDING AGREEMENT, any delays due to Vis major, civil commotion, riot, strike or lockout should not have a financial impact. Management should investigate whether the penalties charged due to such delays are supported by the JBCC contract or not.

In relation to claim 8, It was noted that the number of days awarded were 54 days instead of 20 days recommended by the principal agent. Management should investigate the reasons for such differences.

The financial loss incurred by the entity as a results of such delays should be recorded as part of fruitless and wasteful expenditure.

Response to claim 7 & claim 10

The delays result from management failure to hand over the drawings/ designs to the contractor on time. The penalties were than charged by the contractor resulting in the financial loss for the entity. Management should perform a full investigation to determine if the delays result from the DPWI officials or the consultants who didn't provide the drawings on time. Where the consultants were at fault, the financial loss should be recovered. The fruitless and wasteful expenditure register should be updated to include such financial losses.

Response to claim 6 & claim 11

The delays result from the additional work required to be completed by the contractor. This will affect the variation order process since any additional work required on the project should be approved by the VO committee. Management need to assess if the additional work will also result in the extension of time with financial impact.

In relation to claim 11, where the delays result from the Department of justice failure to appoint the direct sub-contractors, the investigation should be conducted to determine the reasons for such. The financial loss should than be recovered from the responsible persons.

The financial loss incurred by the entity as a results of such delays should be recorded as part of fruitless and wasteful expenditure

DETAILED AUDIT FINDING: Invitation of tender or expression of interest for construction works contracts COFF 05 PTA

Audit Finding

Requirements

Laws, rules and Regulations:

Public Finance Management Act paragraph 38(1)(a)(i) and 38(1)(a)(iii) states that "*The accounting officer for a department must ensure that the department has and maintains*

(i) *Effective, efficient and transparent systems of financial and risk management and internal control;*

(ii) *(iii) An appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective;*"

-

Public Finance Management Act paragraph 38 (1)(c)(ii) states that *"The accounting officer for a, trading entity must take effective and appropriate steps to prevent unauthorized, irregular and fruitless and wasteful expenditure and losses resulting from criminal conduct"*

CIDB regulation 25 (1) states that; *"Subject to sub regulation (1A), in soliciting a tender offer or an expression of interest for a construction works contract, a client or employer must stipulate that only submissions of tender offers or expressions of interest by contractors who are registered in the category of registration required in terms of sub regulation (3) or higher, may be evaluated in relation to that contract."*

Nature

During the audit of procurement: Tender no PT19/009 - maintenance of the lifts at various buildings in Pretoria and surrounding areas, it was noted that the grading of the selected contractor through the deviation process is not suitable for the value of contract.

Notice and Invitation to *Tender PA-04 (EC) stated that tenderers should have a CIDB contractor designation of 8SI or higher. However, it was noted that the winning contractor's CIDB designation is 7SI.*

Supplier Name: SIGMA LIFTS & ESCALATORS (PTY) LTD

Tender no	Contractor grade	Contract price	Expenditure to date
PT19/009	7SI	R 49 930 723	R 1 771 753

Impact of the finding

Non-Compliance with CIDB regulation 25 (1).

This will in turn result in irregular expenditure of R 1 771 753.

Internal control deficiency

Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Financial and performance management

Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored.

Recommendation

It is recommended that management should ensure that the entity complies with all applicable laws and regulations.

Management should perform a due diligence when evaluating tenders and ensure the appointed contractors comply with CIDB requirement. This will prevent appointing contractors who might deliver poor performance.

Management Response:

Management is in agreement with the finding. However, National Treasury (NT) was notified and approval for deviation sort and was subsequently approved prior to implementation. The approval meant that Regional Bid Adjudication Committee could embark on a negotiated procedure with lifts manufacturers. In terms of NT annexure “D” (attached) there is provision for this process. In addition, annexure “D3” is attached to support the reason(s) provided above.

Auditors Conclusion

Management comment noted. However, the tender specification drafted by management indicated the grading required as per CIDB requirements. In following the deviation process, management should have ensured that the service provider appointed complies with this CIDB requirements. The finding will remain and be reported in the management response.

COFF 01 DBN - Quotations pre-qualifying criteria

Audit finding

Requirements

Public Finance Management Act paragraph 38(1)(a)(i) and 38(1)(a)(iii) states that *"The accounting officer for a department must ensure that the department has and maintains*

(i) Effective, efficient and transparent systems of financial and risk management and internal control;

(ii) (iii) An appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective;"

Public Finance Management Act paragraph 38 (1)(c)(ii) states that *"The accounting officer for a, department must take effective and appropriate steps to prevent unauthorized, irregular and fruitless and wasteful expenditure and losses resulting from criminal conduct"*

Preferential Procurement Regulation 2017 paragraph 4 (1) (a) states that "*If an organ of state decides to apply pre-qualifying criteria to advance certain designated groups, that organ of state must advertise the tender with a specific tendering condition that only one or more of the following tenderers may respond-*

(a) a tenderer having a stipulated minimum B-BBEE status level of contributor"

It further states the following in terms of paragraph 4 (2): *"A tender that fails to meet any pre-qualifying criteria stipulated in the tender document is an unacceptable tender."*

Nature

During the audit of quotations, it was noted that the PA-32, Invitation to bid document for Quotation number Dur-0619/124623 was sent to suppliers with a pre-qualifying criterion that indicated that the tenderers should either be a level 1 or 2 B-BBEE level contributor. In performing the audit procedures, it was noted that the suppliers that were evaluated as listed in the table below did not submit any proof of their B-BBEE status level contributor as required by the pre-qualification criterion.

This was also evident as the sub regional bid adjudication committee awarded zero points for B-BBEE status level contributor on the PA-20.7 Scoring Model for all the suppliers listed in table below. The quotations should have not been evaluated further as they did not meet the pre-qualifying criteria.

No	RFQ #	COMMODITY / SHORT DESCRIPTION	SUPPLIER	AMOUNT
1	Dur-0619/124623	DCS Ekuseni Youth Prison: Service fire equipment	Senzokwakhe	R 197 359.00
2			Mahlangana Trading	R 195 970.00
3			Imimangaliso Technical Pty Ltd	R 191 886.40

Impact of the finding

Non-compliance with the Preferential Procurement Regulation, 2017

Misstatement of irregular expenditure for the amount incurred to date of R 191 886.40

Internal control deficiency

Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Financial and Performance Management

Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored.

Recommendation

It is recommended that management must develop or enhance compliance procedures to ensure compliance with all prescribed laws and regulations. In addition, such procedures include enhancement of compliance checklists already developed.

The accounting officer should investigate the reasons for the irregular expenditure and confirm if it was deliberate. All expenditure incurred in terms of the above quotations should be included in the irregular expenditure register.

Management response

I am not in agreement with the finding for the following reasons:

In the evaluation of this quotation SCM Directive no 05 signed 19/08/2015 was used. Paragraph 2 of this directive allows SCM to communicate with bidders on administrative matters during evaluation, this includes the submission of a valid BBBEE certificate where the department is not in possession of one.

This verification was done and it was discovered that the department was in possession of a valid BBBEE certificate for work done under DUR 0219/123038 paid by finance on 22 May 2019.

The PA 20.7 was erroneously not revised to include points for the recommended / appointed, however this had no financial implication on the final award.

Auditor's response

Management's comments are noted, however based on the Invitation to Bid: PA-32 for DUR 0219/123038, Part B: Terms and conditions for bidding point 1.3 states that; "*…**B-BBBEE Certificate or Sworn Affidavit for B-BBEE must be submitted to the bidding institution…***

Failure to provide any of the above particulars may render the bid invalid. An original or certified copy of the B-BBEE status level verification must be submitted in order to qualify for preference points"

Management has indicated that the SCM Directive no 05 signed 19/08/2015 was used of which Paragraph 2 of this directive allows SCM to communicate with bidders on administrative matters during evaluation.

As per Inspection of paragraph 2 of the said SCM Directive, it was noted that it states the following; "2 **Responsibility to engage with the service provider**

2.1 During the bid evaluation process SCM practitioners are best empowered to communicate with the bidders on administrative matters.

2.2 Administrative matters entail the following

2.2.1 Submission of Tax clearance certificate or BBBEE certificate that expired during the evaluation,

2.2.2 Clarity regarding information filled on the bid document,

2.2.3 Clarity/Information regarding any other documents /Certification that forms part of the bid response and bidding document."

The above extract of the directive does not indicate the narrative that has been mentioned and applied by management of Paragraph *2 of this directive allows SCM to communicate with bidders on administrative matters during evaluation, this includes the submission of a valid BBBEE certificate where the department is not in possession of one"* as per the requirements of paragraph 2.

Based on the above information documented, the finding and its impact still remain, Irregular Expenditure should be reported.

COFF 4 CPT and COFF 01 PTA - Possible splitting of quotations

Audit Finding

Requirements:

Section 38(1)(a)(i) and (iii) of the Public Finance Management Act states that: *“The accounting officer for a department must ensure that the department, trading entity or constitutional institution has and maintains effective, efficient and transparent systems of financial and risk management and internal control; an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective…”*

Furthermore, section 38 (1)(c)(ii) states that: *“The accounting officer for a, department must take effective and appropriate steps to prevent unauthorized, irregular and fruitless and wasteful expenditure and losses resulting from criminal conduct…”*

Treasury regulation 16A6.1 states that: *“Procurement of goods and services, either by way of quotations or through a bidding process, must be within the threshold values as determined by the National Treasury…”*

Practice Note 8 of 2007/08 paragraph 3.5 states that: *“Goods, works or services may not deliberately be split into parts or items of lesser value merely for the sake of procuring the goods, works or services otherwise than through the prescribed procurement process. When determining transaction values, a requirement for goods, works or services consisting of different parts or items must as far as possible be treated and dealt with as a single transaction…”*

Nature

Cape Town region

During the audit of procurement and contract management the following deviations were noted:

We noted that the department has procured security contracts for the areas/properties as mentioned in the table below which were for 2-month periods during the current financial year using a nominated procedure (deviation process), and in some instances awarded to the same service provider. Due to the nature of service, it is reasonable that the department goes on tender in order to obtain security services for a longer period as opposed to 2 months’ periods as there is no intention to vacate the premises in the near future. In our assessment some of the combined quoted amounts came slightly below the R500 000 competitive bidding threshold while the other combined awards are above the threshold, thus evidencing the possibility of deliberate split into parts of a lesser value merely to avoid following the competitive bidding process and this was further confirmed with management.

Based on this evidence and nature of the service, the department is able to make an assessment of how long they will require the security services in each respective property and as a result is able to acquire the service through competitive bidding instead of following the quotation process.

The table represents the 2-month security contracts awarded, indicating the total amount spent for each area/property.

No	Short Description of Services	Service provider	Amount (R)
1	24 Hour security services Customs House	BC Security Solutions	277 288,93
2	24 Hour security services Customs House	BC Security Solutions	246 527,68
3	24 Hour security services Customs House	Striving Mind Trading 519	313 356,80
		TOTAL	**837 173,41**
4	24 Hr Security: Hope Street parking	Silver Solutions 2616	306 397,37
5	Hope Street: 24 Hr Security	Imvula Quality Protection	174 155,58
		TOTAL	**480 552,95**
6	24 Hr Security: Nieumeester Parking	Mokato Security	440 466,87
7	24 Hr Security: Nieumeester Parking	Mokato Security	363 629,70
8	24 Hr Security: Nieumeester Parking	Bokwe Trading	150 094,76
		TOTAL	**954 191,33**
9	24 Hr Security: Parliament Towers	Capital Ship Trading 605	404 018,55
10	24 Hr Security: Parliament Towers	Mokato Security	313 024,75
11	24 Hr Security: Parliament Towers	Bokwe Trading	201 778,10
		TOTAL	**918 821,40**
12	24 Hrs Security Services: Drakenstein: Mandela House	Red Security	86 001,60
13	24 Hrs Security Services: Drakenstein: Mandela House	Striving Mind Trading 519	314 502,74
14	24 Hrs Security Services: Drakenstein: Mandela House	Greystone Trading 389	58 903,82
		TOTAL	**459 408,16**
15	Fernwood: 24 Hr Security	BC Security	261 350,13
16	24 Hr Security: Rondebosch Fernwood	Imvula Quality Protection	174 155,58
		TOTAL	**435 505,71**
TOTAL			**4 085 652,96**

For the contract mentioned in the table below we noted that the initial contract for facilities management was due to end on 31 March 2019 of which at the same time a request for approval of a nominated procedure was issued to appoint a service provider for desalination plant and mechanical services for Robben Island. The department opted to award a 6-month contract, and then later renewed the contract for another 6 months to the same service provider. In our assessment, the quoted amounts are slightly below the competitive bidding threshold amount of R500 000 with the contract being for 6 months and renewed for another 6 months, is an indication of possible splitting merely to avoid following competitive bidding process. Based on discussions with management, the department was in a position to assess the challenges it has in relation to the particular contract and rather procure the service following the tender process.

Furthermore prior to the initial contract ending in March 2019, there was no evidence that indicates that the department had started the procurement process in reasonable time as this proves to be a service that relates to the continued need of the department. Therefore, this in our assessment, indicates poor planning by the department.

Supplier	WCS number	Description	Period	Amount (R)
Hendrick Greeff (Pty) Ltd T/A AllFix Services	054104	Robben Island: Desalination Plant & Mechanical Services	Six (6) Months 01 April 2019 – 30 September 2019	499 000,00
			Six (6) Months 01 October 2019 – 31 March 2020	499 000,00
Total				**998 000,00**

Nature

Pretoria region

During the audit of the supply chain management processes, we identified three request for quotations (RFQs) relating to the service of the same nature being procurement from different suppliers through the quotation process. Both RFQs had the same description: Security services at old Telkom towers.

Through the audit of the quotation files we noted that PMTE have been procuring security services on the monthly basis for the Telkom tower property. Based on the discussion with management and inspection of the quotation register for the current and the prior year, we noted that management have been awarding quotations to service providers to protect Telkom towers through quotation process instead of entering into a contract.

The audit evidence obtained indicate that the service was split into items of lesser value in order to avoid the competitive bidding process thus resulting in the non-compliance with Treasury regulations.

Based on the nature of the service required, management are able to assess how long they will need the security service for Telkom tower's property. The service can easily be procured through the competitive bidding process and a service provider could be appointed on a long term contract.

Table A: RFQs based on the sample selected.

No.	Suppliers	Description	Amount (R)	Payment to date
1	Roshen Holdings	Security services at old Telkom towers.	499 675	499 675
2	Security24 Investment	Security services at old Telkom towers.	498 805	498 805
	Nkarabe Protection Service	Security services at old Telkom towers.	498 990	498 990
Total			**1 497470**	**1 497470**

Impact of the finding

Cape Town region

The above may result in the following:

Possible misstatement of irregular expenditure with amounts of R998 000,00 and R4 085 652,96

Non-compliance with section 38 of the PFMA

Non-compliance with TR 16A6.1

Non-compliance with PN 08 of 2007/08

Impact of the finding

Pretoria region

Non – compliance with laws and regulations.
Misstatement of irregular expenditure for the amount paid to date.

Internal control deficiency

Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Issue 1

Management did not ensure that contracts of services with a similar nature and of a continued need for the operations of the department are in place in order to comply with the relevant SCM laws and regulations.

Issue 2

Management did not communicate timeously with relevant client department and have adequate plans in place to obtain funding to continue with the facilities and maintenance contract as mandated by law.

Financial and Performance Management
Management did not review and monitor compliance with applicable laws and regulations.

Management did not implement procurement processes in a timely manner to ensure that SCM regulations are adhered to

Internal control deficiency

Pretoria region

Leadership
Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Financial and Performance Management
Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored.

Management didn't monitor the RFQs to ensure that they do not pertain to the same service where the competitive bidding process could be followed instead of quotation to avoid splitting of items.

Recommendation

It is recommended that management should ensure that the entity complies with all applicable laws and regulations.

RFQs should be reviewed regularly to identify goods/services of the same nature required on the monthly basis. The assessment should be made to determine the possibility of procuring goods/service through the competitive bidding instead of quotation process merely to avoid going on tender.

Timely monitoring and procurement process of contracts that are due to end should be implemented.

Management should perform further investigation to determine the extent of the non-compliance as well as the financial impact had the contract was entered with the service provider to provide services for longer period instead of shorter periods

The accounting officer should also investigate the reasons for the irregular expenditure and confirm if it was deliberate. The expenditure should be included in the irregular expenditure register.

Management response

Cape Town region

<u>Security Services Contracts.</u>

The finding is noted, however, the Department is not in agreement with the finding. Whenever Security Services are required the approval is granted by the Regional Bid Adjudication Committee (RBAC).

A Nominated Procedure for the procurement of Security Services for various State Owned Properties were followed upon approval for which the service providers were invited in terms of

SCM Prescripts. All quotations received were evaluated and adjudicated in terms of Preferential Procurement Policy Frame Work Act.

The Public Tender was initially advertised in the National Tender Bulletin in the past two years, and it was subsequently cancelled as a result of material irregularities. In terms of SCM Regulation 2017, if a tender is cancelled for the second time National Treasury should grant approval.

The request was sent to National Treasury seeking approval for the cancellation and a response from National Treasury was received on 06 August 2019, with two sites request being supported (Customs House and Mandela House), while the other two sites (Parliamentary Towers and Fernwood Estate) were not supported. The Department is awaiting these two response from National Treasury as two sites were not supported.

The Terms of Reference (TOR) has been drafted and are awaiting approval by the Regional Bid Adjudication Committee once National Treasury approval is received. Head Office has submitted the Departmental Procurement Plans to National Treasury for approval.

It is not feasible to leave State Owned Properties without security, hence, the Nominated Procedure is being followed.

Facilities Management Contracts

The department notes AG finding but is however not in agreement with this finding.

In 2012 Robben Island Museum took over the maintenance of Robben Island from the Department of Public Works. Due to capacity issues at the end of 2014 the Department of Public Works, Department of Arts and Culture and Robben Island Museum collaborated to get the facilities management function back on track in order for this World Heritage site to be preserved.

In May 2015, Coega Development Corporation (Pty) Ltd was appointed by the Department of Public Works for a period of 4 years to provide all the necessary services required in respect of the total facilities management for Robben Island. The desalination plant is one of the services under mechanical services.

The total facilities management with Coega Development Corporation (Pty) Ltd expired in April 2019. A request for extension of the facilities management contract was made to the National Bid Adjudication Committee but it was not approved. As in interim measure the Department entered into 6 months' term contracts through a nominated procedure which was supported and approved by the Regional Bid Adjudication Committee and Regional Manager on 28 March 2019. The term contracts were from 1 April 2019 - 30 September 2019, and a further extension was approved from 1 October 2019 until 31 March 2020. This was to ensure that the Department provides an un-interrupted essential service at Robben Island whilst looking at procuring the new facilities management contract.

To register a new facilities management contract, a submission was forwarded to Planned Maintenance Budget Committee for funding which was recommended on 13 June 2019. This submission served at the Infrastructure Budget Committee for final approval of funds and thereafter issuing of the Procurement Instruction. After numerous follow ups funds approval was eventually granted on 21 November 2019.

Upon approval of the funding this office was informed by Facilities Management in Head Office that they are busy with the appointment of an Implementing Agent to take over the facilities management at Robben Island. Follow ups on this process were made however it was indicated that the Memorandums of Understanding have not been finalized yet. In the meantime, it is crucial that the Department needed to keep the Island in a functional state in order not to lose momentum in terms of maintenance. It is therefore upon this premise that an extension on the negotiated procedure with the existing service provider was granted.

The current service provider, Hendrik Greef t/a Alifix Services, was new to the Department, however they needed more time to familiarize themselves with the Desalination Plant and with the scope of work over the past 6 months. They have proven to possess the capacity to manage this service given the unique environment of Robben Island. It must also be mentioned that due the difficult logistical arrangements in respect of Robben Island to initiate and operationalize these contracts, it will not be practical and cost effective to procure for new service providers. It is therefore upon this premise that extension was granted to the existing service provider. Desalination plant operation, sewer maintenance and mechanical services are a critical service that ensures uninterrupted provision of clean water and sewer on the Island as there are no municipal feed. Should these services not be operational, then there is no water in the Island.

Management response

Pretoria region

Management is not in agreement with the finding based on the following:

The Department purchased Telkom Towers with the purpose of selling / leasing the property to SAPS. The hand over by Telkom to NDPW was completed on the 09 September 2016.

A meeting was called on the same day (9 September 2016) with different stakeholders, it was then agreed that Pretoria Regional Office Security Management with assistance from management from both HO and Regional Office will take full responsibility in securing the building while wait for SAPS to take over.

The Department could not go out on tender because SAPS gave an indication that they will take over the building at any given moment.

Later in the year it became apparent that the handover process to SAPS will delay, the department then initiated the process of going out on Tender for Security Guarding services. The tender was advertised and closed on the 27 November 2018 (PT18/033) See attached documents. Annexure A and C.

During the process of evaluation, it was discovered that the Functionality Criteria had some loopholes and therefore we could not proceed with the process.

A new process was started in July 2019 and still in progress, see attached documents. **Annexure B**

Auditors Conclusion

Cape Town region

<u>Security Services contract</u>

Managements response to the finding is noted. However, the finding is not resolved for the following reason:

Management indicated that the department is awaiting approval from National Treasury as the tender was cancelled in the previous 2 years and it is not feasible to leave state owned properties with no security services, and the response is based on 4 properties and not the other 2 properties namely, Nieumeester Parking and Hope Street, that are also in question. Therefore, the response does not cover other properties. The department also indicates that the tender bulletin was cancelled twice as a result of material irregularities, which questions the current processes in place that would result in a tender being cancelled twice as a result of the stated irregularities. Since this is a continued need for the department to provide security services to state owned properties, it is also not certain that the procurement process was started in time i.e atleast 6 months prior to the previous security contract having ended.

Furthermore, management has not provided us with the period on which the prior year contract ended for us to assess reasonability of the period taken to appoint a service provider.

<u>Facilities Management Contracts</u>

Managements response to the finding is noted. However, the finding is not resolved for the following reason:

Based on managements' response it is apparent that management was conscious of the fact that the facilities contract with the Coega Development Corporation (Pty) Ltd was coming to an end and also the lengthy process involved in the procurement process of appointing a service provider to maintain Robben Island. This is an indication that management did not commence with their internal control processes in time, and as a result indicates poor planning from the department.

Auditors Conclusion

Cape Town
Management response not received. Therefore, finding remain and will be reported in the management report

Pretoria

We have read the response and inspected the documents submitted. The following was noted from the information given;

Telkom towers was handed over to PMTE on the 09 September 2016.
Later that year the department became aware that SAPS will delay to take occupation of the building hence they initiated the process of going out on a tender.

First tender process

Management has indicated that the first tender process was identified to have loopholes hence it couldn't process.

Inspected the bid adjudication committee minutes dated 31 July 2018 where the procurement strategy was approved for the first tender process. (Annexure A).

Through analysis of the information provided it is evidenced that it took management 1 year and 11 months from hand over date (6 September 2016) to have the procurement strategy approved for the tender.

The tender was than advertised on the 27 November 2018 (annexure C) and the request for approval of bid evaluation committee was approved on the 22 February 2019.

This tender process took very long and no reasons have been provided to explain such delays. It took almost two and a half years before it was cancelled.

Management have not provided any supporting documents to validate the reasons for the cancellation of the tender.

Second tender process

The second tender process was initiated in July 2019 and the procurement strategy relating to the tender was approved on the 30 October 2019. (Annexure B).

Management has not indicated the status of the second tender to date.

Through inspection of the supporting documents and the management response provided it is evidenced that this tender was not prioritized and the quotation process have been then followed throughout the years to ensure that security services are provided at the property.

COFF 02 JHB; COFF 02 DBN; COFF 03 HO- Deviation not justifiable

Audit finding

Requirements

Laws, rules and Regulations:

Public Finance Management Act paragraph 38(1)(a)(i) and 38(1)(a)(iii) states that *"The accounting officer for a department must ensure that the department has and maintains*

- *(i) Effective, efficient and transparent systems of financial and risk management and internal control;*
- *(ii) (iii) An appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective;"*

Public Finance Management Act paragraph 38 (1)(c)(ii) states that *"The accounting officer for a, department must take effective and appropriate steps to prevent unauthorized, irregular and fruitless and wasteful expenditure and losses resulting from criminal conduct"*

Treasury regulation 16A3.2 states that "*A supply chain management system must: be fair, equitable, transparent, competitive and cost effective*"

Treasury regulation 16A6.4 states that *"If in a specific case it is impractical to invite competitive bids, the accounting officer may procure the required goods or services by other means, provided that the reasons for deviating from inviting competitive bids must be recorded and approved by the accounting officer."*

Practice Note 3 of 2016/17 paragraph 8.1, 8.2 and 8.4 states that:
"8.1 The Accounting Officer must only deviate from inviting competitive bids in cases of emergency and sole supplier status.
8.2 An emergency procurement may occur when there is a serious and unexpected situation that poses an immediate risk to health, life, property or environment which calls an agency to action and there is insufficient time to invite competitive bids
8.4 The Accounting officer must invite as many suppliers as possible and select the preferred supplier using the competitive bid committee system."

Nature

Johannesburg region

During the audit of supply chain management (SCM), it was noted that **cleaning services** were procured from certain suppliers through a deviation process. The supporting memorandums provided were inspected to ascertain the reasons for deviation. According to our assessment the reasons provided for the deviations was not sufficient to support the deviations. The table below show the suppliers and the reasons provided in the memo.

1. Lebato Development Projects

Supplier Name	Ref. Number	Date Memo prepared	Date Memo approved and the official	Amount (R)
Lebato Development Projects	JHBE 19/192	04-Nov-19	28 November 2019, Advocate J. Monare (Regional Manager)	184 968

Reasons provided for the deviation per the memo:

In terms of the memo approved 28 November 2019, the following was stated:"

Cleaning services at Jeppe Magistrate Court has been outsourced to private service provider. The contract for 24 months JHB16/24 **expired on the 31 May 2019.**The contract was extended for a period of three months from 01 June to 31 August 2019.

The 24 months tender JHB19/16 rendering of cleaning for 24 Months was advertised on 31 May 2019, closed on 25 June 2019.On the 06 August 2019 the evaluation committee had the first meeting to evaluate received bids but the specialist was not available and the meeting was postponed. The evaluation committee held a second meeting on 22 and 23 August 2019.Evaluation were not completed and another meeting took place on 30 August 2019 to complete the evaluation.

Quotation for three months JHB19/05 was advertised on the 16 May 2019, briefing date was on the 21 May 2019 and closing date was on 31 May 2019.The project leader was informed by SCM that it was non-responsive only two bids were received.

Another quotation was started and confirmed and signed on 01 July 2019 and submitted to SCM for them to nominate and invite service providers to submit their quotations. Until now not been captured according to Supply chain management wanted to clear out security submission first.

On 04 November 2019 the project leader requested an emergency contract to be appointed for three (03) months from 03 December 2019 to 02 March 2020.The memo was approved on 28 November 2019.

It was noted on the memo that the process to start and finalise a quotation is approximately three months.

Reasons the deviation not appropriate as per the AGSA

In terms of the memo it appears that the deviation was due to limited timeframe and SCM's inability to source at least 3 (three) compliant quotations. However, based on our assessment, the entity had at least 6(six) months to finalise the quotation/tender process for cleaning services and failed to do so. In our opinion this was due to poor planning in sourcing three quotations as the project leader would have known beforehand that the Service Level Agreement was due to expire on the 31 May 2019 and the necessary steps would have been taken to source three quotations by informing Supply Chain Management timeously.

2. Immaculate Cleaning & Hygiene Services (PTY) Ltd

Supplier Name	Ref. Number	Date Memo prepared	Date Memo approved and the official	Amount (R)
Immaculate Cleaning & Hygiene Services (PTY) Ltd	JHBE 18/230	14-March-2019	14 March 2019, Advocate J. Monare (Regional Manager)	714 864

Reasons provided for the deviation per the memo:

In terms of the memo approved on 14 March 2019, the following was stated:"

Cleaning services at Randburg Magistrate Court has been outsourced to private service provider. The contract for 24 months cleaning **expired on the 15 December 2018.**The contract was extended for a period of three months from 16 December 2018 to 14 March 2019.

Tender (JHB 18/29) for 24 Months was advertised on 09 November 2018 and closed on 04 December 2018.SCM has not finalized pre-screening.

Request for quotation JHBQ 18/161 was submitted to Supply Chain Management on 31 October 2018. The briefing was held on 06 December 2018 with a closing date of 12 December 2018.SCM has informed the project leader that the project is awaiting security vetting.

On 14 March 2019, the project leader requested an emergency contract to be appointed in Family court to avoid unhygienic environment on site. The memo was approved on 14 March 2019

Reasons the deviation not appropriate as per the AGSA

In terms of the memo, it appears that the deviation was due to SCM not being able to finalise pre-screening of the tender bids and awaiting security vetting. However, the entity should be aware that the securing vetting process takes time and should have commenced the procurement process at least 6(six) months prior to the current contract ended.

In our opinion, the deviation was due to poor planning and therefore we deem the reason for deviation not sufficient.

3. Immaculate Cleaning & Hygiene Services (PTY) Ltd

Supplier Name	Ref. Number	Date Memo prepared	Date Memo approved and the official	Amount (R)
Immaculate Cleaning & Hygiene Services (PTY) Ltd	JHBE 19/056	21-May-19	24 May 2019, Advocate J. Monare (Regional Manager)	475 754

Reasons provided for the deviation per the memo:

In terms of the memo approved on 24 May 2019, the following was stated:"

Cleaning services at Family court has been outsourced to private service provider. The contract for 24 months **expired on the 28 February 2019.** The contract was extended for a period of three months from 01 March 2019 to 31 May 2019.

Tender (JHB 18/42) for Rendering Cleaning Services for 24 Months for Family court was advertised on 02 November 2018 and closed on 04 December 2018.

A compulsory site briefing meeting was held on 12 November 2018.The tender lapsed before it could be evaluated.

Quotation process JHBQ 18/193 to render Cleaning Services for three (03) months was submitted to Supply Chain Management on 25 January 2019 and the evaluation process is underway. Emergency contract for three months would be from 01 June 2019 to 31 August 2019 to ensure that there is continuity in service delivery.

On 21 May 2019 the project leader requested an emergency contract to be appointed in Family court to avoid unhygienic environment on site. The memo was approved on 24 May 2019.

It was noted on the memo that one of the officials commented that this emergency could have been avoided.

Reasons the deviation not appropriate as per the AGSA

In terms of the memo it appears that the deviation was due to limited timeframe and SCM's inability to evaluate tender number JHB18/42.However based on our assessment, the entity had at least 3(three) months to finalized the quotation/tender process for cleaning services and failed to do so. In our opinion this was due to poor planning in sourcing three quotations as the project leader would have known beforehand that the Service Level Agreement was due to expire on the 28 February 2019 and the necessary steps would have been taken to source three quotations by informing Supply Chain Management timeously.

4. Dinnys Business Enterprise

Supplier Name	Ref. Number	Date Memo prepared	Date Memo approved and the official	Amount (R)
Dinnys Business Enterprise	JHBE 18/178	18-Jan-19	18 Jan 2019, Advocate J. Monare (Regional Manager)	483 700

Reasons provided for the deviation per the memo:

In terms of the memo approved on 18 Jan 2019, the following was stated:"

Cleaning services at Johannesburg Magistrate Court has been outsourced to private service provider. The contract for 24 months JHB/16/21 **expired on the 18 October 2018.**The contract was extended for a period of three (03) months, from 19 October 2018 to 18 January 2019.

Tender (JHB 18/10) for rendering cleaning services for 24 Months was advertised on 29 June 2018 and closed on 24 July 2018.On the 27 August 2018 the evaluation committee had the first meeting to evaluate received bids. The evaluation committee after advised by SCM Specialist discovered that the tender had few mistakes in the responsiveness criteria, and a decision was taken to cancel the tender and start the process afresh.

The contract for the current service provider was therefore extended for a period of three months from 19 October 2018 to 18 January 2019 in order to allow project leader to start the process again.

Quotation for two months JHBQ/18/126 was advertised on the 18 October 2018 and Briefing date was 23 October 2018.The project leader was informed by SCM that it is non-responsive only two bids received.

Tender JHB18/39 was advertised on the 07 December 2018 for rendering cleaning services for 24 months and a compulsory site briefing meeting was supposed to be on 17 December 2018 due to a Public Holiday the meeting was cancelled and the process has to start again.

On 18 January 2019 the project leader requested an emergency contract to be appointed for three (03) months from 22 January 2019 to 21 April 2019. The memo was approved on 18 January 2019.

Reasons the deviation not appropriate as per the AGSA

In our opinion, the reasons above do not justify an emergency. Cleaning services is a continued need by the entity, management should have reasonably expected that the original contract was coming to an end. The process to appoint a new supplier should have commenced earlier in order to take over after the current contract ends. The situation that led to an "emergency" could have been avoided through adequate procurement planning.

Nature

Durban region

During the audit of quotations, it was noted that a deviation process was followed for ColdPoint Aircon Services for servicing and repair of seven (7) air conditioning at Scottburgh magistrate court. The reasons for the emergency & urgent procurement provided on OW415 ref: DUR/01000/122542 and PA-12 for the ratification of emergency processes approved by regional bid adjudication committee included the following:

The situation can pose a threat to general public health.
Persisting problem can lead to claims against the State.

Attached to the payment batch were communications between the client department representatives and PMTEs facilities management, it was noted that the client department logged several cases as disclosed in Table 1 below before the entity responded.

According to auditor's assessment the reasons provided for the deviations were not sufficient to support emergency & urgent procurement as it was not impractical for the entity to obtain responsive quotations considering the timeframes of cases logged by the client department. Should the entity have attended to the calls when first logged on 24 January 2018 (365 days from the date they acted to the last call logged for room 2 and room 21), it would have been possible to source three quotations.

Based on the above the deviation was due to poor planning of the entity in attending to calls logged by client departments and therefore we deem the reason for deviation not sufficient for emergency & urgent procurement.

Table 1

No	CASE NUMBER	DATE	REASON	DATE ON WHICH THE ENTITY ACTED TO THE CALL	DIFFERENCE IN DAYS (FROM DATE OF CALL LOGGED TO DATE ON WHICH THE ENTITY ACTED TO THE CALL)
1	DUR117995	24-Jan-18	SPP MS CHOWTHEE ROOM 2	24-Jan-19	365
3	DUR118006	24-Jan-18	CAPT FREEMNATLE ROOM 21	24-Jan-19	365
4	DUR121810	14-Nov-18	RC MAGISTRATE MFAYELA ROOM 21	24-Jan-19	71
2	DUR121939	22-Nov-18	SPP MS CHOWTHEE ROOM 2	24-Jan-19	63
5	DUR122250	18-Dec-18	ROOM 2 AND ROOM 21 COMBINED	24-Jan-19	37

Table 2

No	COMMODITY / SHORT DESCRIPTION	SUPPLIER	AMOUNT
1	Servicing and repair of seven (7) air conditioning	ColdPoint Aircon Services	494 407,02

Nature

Head office

During the audit of the supply chain management processes, we identified that a deviated process was followed twice for Ramatlabama, Koptfontein and Derdepoort ports of entry: Repair, maintenance and servicing of buildings, civil, mechanical, electrical infrastructure and installations.

The reason for the deviation provided were as follows:
That if maintenance is stopped as a result of no contractor on site, the said ports of entry will deteriorate in terms of their facilities and installations, which will result in an increase of the cost during the repair phase of the follow-on contract.

Water and sewer is monitored on a daily basis by the contractor and the ports could be closed if there is no water.

Septic tanks are cleaned periodically, if not, the ports could lead to environmental and health hazards.

Generators must be supplied with diesel, if not, the ports could be closed during a power outage. Furthermore, removing of solid waste and refuse off site is imperative to avoid health hazards.

The initial contract period was for a period of three years (36 months) starting from 23 June 2016 – 22 June 2019. An extension of contract for a period of four months starting from 23 June 2019 to 21 October 2019 for an amount of R1 428 196.50 was approved by the National Bid Adjudication Committee (NBAC). Further extension on the contract for a period of five months starting from 09 December 2019 to 09 May 2020 for an amount of R4 147 303.65 was approved by NBAC.

However, due to delays and weaknesses in the internal procurement process, a deviation process was followed to avoid interruption of critical services and continuity of services. The entity should have started the procurement process in reasonable time before the current supplier's contract came to an end. The awards were in effect an extension of a total of 9 months to the current supplier to allow for continued services to the land ports mentioned above. Therefore, it was not impractical and impossible to follow the proper procurement process if planned properly.

The details of the project are as follows:

Tender number	Supplier	Description	First Extension Amount (R)	Second Extension Amount (R)	Total Amount (R)
H15/044	Caledon River Properties cc T/A Magwa Construction	Ramatlabama, Koptfontein and Derdepoort ports of entry: Repair, maintenance and servicing of buildings, civil, mechanical, electrical infrastructure and installations	R1 428 197	R4 147 304	R5 575 500

Impact of finding

Johannesburg region

Non-compliance with the PFMA section 38 and National treasury instruction note 3 of 2016/2017. The amount paid of R1 859 289 on the above deviations will result in irregular expenditure

Impact of finding

Durban region

Non-compliance with the Preferential Procurement Regulation, 2017

Misstatement of irregular expenditure for the amount incurred to date of R494 407.2

Impact of finding

Head office

Non – compliance with laws and regulations.

Misstatement of irregular expenditure for the amount paid to date

Internal control deficiency

Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Financial and Performance Management

Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored.

Recommendation

It is recommended that management should:
Monitor all contracts with service providers and ensure that the SCM process is initiated early for all contracts that are coming to an end.

Procurement process should be initiated at least six (6) months prior to the end of the contract

Perform a thorough investigation and quantify the full extent of the irregular expenditure identified from unjustifiable deviations.

Management Response

Johannesburg region

We are not in agreement with the finding due to the following reasons:

Seeing that the AGSA perceive the root cause of acquiring the cleaning services under review through an emergency procurement strategy as lack of planning on the side of Management, it is imperative for Management to firstly give an overview of the context under which the services in question were acquired on an emergency basis. Thereafter, Management will then respond to each communication of Factual Finding (COFF).

Some of the factors which led to the acquisition of such cleaning services on an emergency basis are as explained below:

High volume of the previous year's tenders rolled over to the current financial year, 2019/2020

There was a large number of tenders and quotations which could not be awarded during the previous financial year, 2018/2019, and they were carried over to the current financial year, 2019/2020 and they had to be given the highest priority over the new tenders and quotations with a view to finalise their respective tendering process and award them. When prioritising this tendering process, Management had to take into consideration, the impact it would have over service delivery if not awarded within a reasonable time since their inception.

In planning as to how the rolled-over tenders and quotations are to be executed together with the ones included during the current financial year, 2019/2020, Management had to apply its mind and pay some due diligence in minimising or avoiding the risks it would come up with, if starting with the new tenders and quotations at the expense of the ones rolled-over from the previous financial year.

The logical thinking is that every reasonable and credible manager would prioritise finalising the rolled-over tenders and quotations over the new ones, unless the new ones are very much important and urgent to complete. Most of the rolled-over tenders were at the evaluation stage and could not just be abandoned in any way.

Re-prioritisation of the Regional Projects to be procured during the current year

When procuring the goods and services for the Regional Office (RO), including those of cleaning services, Management may deliberately do that in an integrated manner and not in silos.

For example, when there is a need for the RO to procure say, the service for R400 000 000 under Projects Branch and the one under Cleaning Services division for R2 500 000 at the same time, Management may strategically decide to priorities the acquisition of the R400 000 000 project first and delay the acquisition of the said cleaning services for R2 500 000 in favor of that of Projects due to various factors, such as a need to optimize the Projects spending of the budget allocated within the current financial year.

Such a decision will have been taken in the interest and for the benefit of the Department and service delivery at large, and not due to lack of planning or management oversight.

Project Managers, being the technical field workers who should prioritise their core business over the administrative work of the tendering and quotation process.

Most of the Bid Specification Committee (BSC) and Bid Evaluation Committee (BEC) members are Project Managers, Works Managers and / or Portfolio Managers, whose 90% of their respective core business is to do the field work, which takes precedent to the tendering process, in the name of enhancing service delivery. Management still ensure that the above-mentioned officials are made to strike a balance between the work they do for tendering/quotation process and that of their core business as technocrats when planning their Annual Performance (APP).

Departmental High rate of capacity constraints

Insofar as it is a general Departmental challenge to have the capacity constraints, the total positions for JHB Regional Office SCM Sub-Directorates which were permanently filled and vacant, their vacancy rate as at 31 October 2019 are enumerated as per the table below:

Sub-Directorate	Total	Filled	Vacant	Filled %	Vacancy Rate (%)

Acquisitions Management	9	6	3	67	33
Contract Management	3	1	2	33	67
Demand Management	5	2	3	40	60
Movable Assets	5	2	3	40	60
Provisioning & Logistical Management	22	13	9	59	41
Provisioning & Logistical Management (Other)	13	0	13	0	100
Deputy Director	1	0	1	0	100
Director	1	1	0	100	0
Total	**59**	**25**	**34**	**42**	**58**

As indicated on the table above, the total staff complement for Supply Chain Management Directorate as per the current Organisational Structure implemented as from November 2017 is 59. Out of 59 positions, only 25 posts, representing 42% of the staff complement were permanently filled as at 31 October 2019, whereas the remaining 34 posts, representing 58% of the staff complement were still vacant.

The staff complement is highly overloaded with work, mainly due to the high vacancy rate. The effect of the shortage of staff is mainly felt at the Acquisition, Demand and Contract Sub-Directorates, where tenders and quotations are being processed. Such vacancy rate is 33%, 67% and 60% respectively.

Such capacity constraints have led to a huge backlog on the processing of tenders and quotations, in that the existing staff complement is being overstretched and it is by far struggling to cope with the updating of the backlog in question, to the extent that most of them become fatigued and constantly get sick, with the resultant effect of exacerbating the problem.

The basis that AGSA based its audit opinion on in regarding the nature of the cleaning transactions as Irregular

The basis that AGSA relied on when expressing its audit opinion was the extract of the abridged background and reasons given on the payment batch. That information was not detailed and no other relevant supporting documentation was given because it was addressed to the Regional stakeholders concerned who had the background of what was happening on the said procurement needs.

In order for the Reginal Management to resolve this audit finding, it is imperative for Management to furnish the auditors with further explanations and /or other supporting documentation when necessary. Such explanations and/or further documentation will be furnished per each case as indicated below.

The legislation/ financial prescripts we used when procuring such cleaning services on emergency basis were as articulated below:

Management took into account section 38(1)(a)(ii) of the PFMA, where the procurement system used was inter alia, fair, transparent and cost effective.

We also took into account Treasury Regulation 16A6.4, par.8.1 and 8.2, in that Management only deviated from inviting competitive bids in the cases under review and used the emergency procurement process, as the prevailing situation then was serious and unexpected. That situation was going to pose an immediate risk to health, life, property or environment, which then called an urgency to action, and there was insufficient time to invite competitive bids, and not due to lack of time management or management oversight, as this will be demonstrated on the individual cases below.

The subsequent remedial action that Management considered in improving the procurement process

The following are some of the strategies that the Regional Office has employed with a view to update the backlog and at the same time to avoid recurrence of same in future:

Management has deployed the officials from Demand and Contract Management Sub-Directorates to assist with the tendering and quotation process.

Requested the Deputy Director: Financial Accounting to act as Director: Supply Chain Management in the absence of the current Director: SCM.

Requested the Assistant Director: SCM from Head Office to be acting as Deputy Director: Supply Chain Management from October 2019 until 31 March 2020.

Employment of overtime work as a performance strategy within the SCM environment.

To expedite the appointment of permanent staff members.

Management Responses to the individual Communication of Factual Findings
The reasons, timelines and summary of background for below-mentioned emergency deviation will be systematically outlined. Management will, in turn, provide the Management Response on the Communication of Factual Finding (COFF) for this cleaning service procurement.

Lebato Development Projects

Supplier Name	Ref. Number	Date Memo prepared	Date Memo approved and the official	Amount (R)
Lebato Development Projects	JHBE 19/192	04-Nov-19	28 November 2019, Advocate J. Monare (Regional Manager)	184 968

<u>Reasons, timelines and summary of background provided for the deviation by Management</u>

1. Cleaning services at Jeppe Magistrate Court has been outsourced to private service provider. The contract for 24 months JHB16/24 **expired on the 31 May 2019.**The contract was extended for a period of three months from 01 June to 31 August 2019.

2. The Bid Specification Committee (BSC) for the 24 months tender JHB19/16 for the rendering of cleaning services was approved by the Regional Manager on 30 January 2020. The BSC meeting took place on 05 March 2020. The Procurement Strategy was approved by the Regional Bid Adjudication Committee (RBAC) on 25 April 2019 as per **Annexure A**. The said tender was advertised on 31 May 2019 and closed on 25 June 2019.

3. Quotation for three months JHB19/05 was advertised on the 16 May 2019, briefing date was on the 21 May 2019 and closing date was on 31 May 2019.The Project Leader was informed by SCM that the quotation was non-responsive as only two (2) bids instead of a minimum of three (3) quotations were received.

4. Another quotation was started and confirmed and signed on 01 July 2019 and submitted to SCM for them to nominate and invite service providers to submit their quotations. That quotation process was also delayed by security vetting process, the documentation of which was submitted to SAPS and DPWI HO for further processing. Management does not have any control over the time it should the above-mentioned to finalise the security vetting process.

5. On 04 November 2019, the Project Leader requested an emergency contract to be appointed for three (03) months from 03 December 2019 to 02 March 2020.The memo was approved on 28 November 2019.

6. The intervals in between the activities are dependent on the availability of limited SCM Practitioners and /or Project Leaders who had to divide themselves amongst the many tenders which had to be prioritized according to, either the project amount or urgency of the project start date.

7. NB: It was noted on the memo that the process to start and finalise a quotation is approximately three months and that the starting period as recommended by AGSA is at least six (6) months before the expiry of the cleaning services contract.

Reasons the deviation not appropriate as per the AGSA

In terms of the memo it appears that the deviation was due to limited timeframe and SCM's inability to source at least 3 (three) compliant quotations. However, based on our assessment, the entity had at least 6(six) months to finalise the quotation/tender process for cleaning services and failed to do so. In our opinion this was due to poor planning in sourcing three quotations as the project leader would have known beforehand that the Service Level Agreement was due to expire on the 31 May 2019 and the necessary steps would have been taken to source three quotations by informing Supply Chain Management timeously.

Reasons the deviation was appropriate as per JHB RO Management

1. In terms of the reasons, timelines and summary of background provided by Management to finalise the tendering process for the 24-month contract, Management planned to take at least seven (7) months to finalise the tendering process staring from 30 January 2019 to 31 August 2019.

2. Management, further made a provision for a three (3) months quotation starting from 01 September 2019 to 30 November 2019. The combined planned period for the procurement of the 24 months' contract (JHB19/16) is ten (10) months, as opposed to at least six (6) months as recommended by AGSA. So Management started the procurement process four (4) months way before the recommended time.

3. The reason which led to the Regional Office appointing the cleaning services on an emergency basis in November 2019 was because only two (2) quotations were responsive, as opposed to a minimum of three (3) responsive quotations. As to after how many times the Regional Office should go out on quotation so as to receive at least three (3), is beyond Management's control.

4. So, Management still maintains that it did everything in its power to finalise its procurement process within its ten (10) months planned time and it followed the above-quoted legislations.

Management response

Durban region

I am not in agreement with the finding for the following reasons [and supply the following/attached information in support of this:

The calls that were logged on the 24, 14, 22, 18 in 2018 different months, normal process was followed to outsource 3 quotations and due to non-responsive from service providers these calls were outstanding. On the 18/01/2019, client logged a call with DUR-0119-122542 and included all those split air-conditioning units in offices that were still outstanding, Location of work to be done was; High Court, Regional Court no.5, Family Court, Magistrates Office room 15c, Room no 2b, Room no 21c, 15a and 1d with Description problem: Repair 8 air conditioners that are not working.

High Court, Regional Court and Family Court each court has its own Packaged Central Unit +/- 120000 btu. This was recommended as an Emergency due to the following reasons:

Court is a public space. People have different illnesses and they often faint due to heat inside.

Prisoners that are not clean which presents a health risk for staff representing DOJ personnel as well as court attendees

The Courts at Scottburgh Mag Court are within the building and they only rely on air-condition system to cool the place. It was in summer and heat was unbearable. In situations like these Judges/Magistrates often postpone cases. As a results DOJ has to incur costs to compensate witnesses who travelled to attend cases.

Management response:

Head office

The process of getting the follow on contract for this border post and the others started timeously as is demonstrated below.

1. The Close out reports were submitted to KAM on 5 September 2017 for a project that was scheduled to end in June 2019. The PI cannot be issued to the Branch without a close out report. (See Annexure 1)

2. The PI was received only on the 5th of September 2018. (1 Year delay). There was nothing that the Branch could do without an approved PI. (See Annexure 2)

3. The Project Managers were informed during the allocations meeting on 16 October 2018 that there was no funding for follow-on projects for the entire Land Ports of Entry. (See Annexure 3)

4. The procuring process resumed late in October 2018 when the projects were included in the Procurement Plan. (See Annexure 4 & 5)

Auditor's response

Johannesburg region

Auditors Conclusion

Based on the information provided by management it is clear that there was sufficient time to invite competitive bids and there were enough opportunities to award a winning bidder.

Timelines:

As per the original memorandum ,the original 24 month contract ended on 31 May 2019.Thereafter the contract underwent two extensions, the first one was from 01 June 2019 to 31 August 2019 (3 months) and the second one from 01 September 2019 to 31 November 2019 (3 months).Finally, for the period 01 December 2019 to 02 March 2020 it seems management had exhausted its reasons for extending the contract and therefore opted to deviate from normal procurement processes based on an emergency procurement which is technically still another extension on the original contract.

This demonstrates that management had sufficient time to invite competitive bids. It is good practice to not wait for the current contract to come to an end before management can decide on starting the procurement processes for a provision of continuous services

Reasons for not awarding:

1. "The 24 months tender JHB19/16 rendering of cleaning for 24 Months was advertised on 31 May 2019, closed on 25 June 2019.On the 06 August 2019 the evaluation committee had the first meeting to evaluate received bids but the specialist was not available and the meeting was postponed. The evaluation committee held a second meeting on 22 and 23 August 2019.Evaluation were not completed and another meeting took place on 30 August 2019 to complete the evaluation."

Based on the above comments, it shows that tender JHB19/16 was advertised, bids were received and the evaluation committee were able to sit on three (three) separate occasions It seems that management had enough time to start with the procurement process and appoint a service provider but did not, as a result the finding will remain unresolved.

2." Quotation for three months JHB19/05 was advertised on the 16 May 2019, briefing date was on the 21 May 2019 and closing date was on 31 May 2019.The project leader was informed by SCM that it was non-responsive only two bids were received."

.

Management should have proceeded with the procurement with the two responsive quotations. As per national treasury practice note 8 of 2007/08 par 3.3.3: "If it is not possible to obtain at least three (3) written price quotations, the reasons should be recorded and approved by the accounting officer / authority or his / her delegate."

Conclusion

The finding remains.

-

Auditors Conclusion

As per management's comments, a provision of at most **ten (10)** months was made to conclude the procurement process. The awarding is not successful due to a delayed security screening from SAPS and HO Security Services Management.

However, it can be reasonably known by management that security screening takes time and factored into the procurement process. Therefore, as much as blame can be put on the screening process, management through proper planning had control over the delay. In instances where security vetting is a major part of the specifications, management can approach national treasury to rather have a closed panel of vetted suppliers.

Furthermore, it is unsettling for us that the same supplier seems to be in service for the same service on a continued basis, which may indicate that the procurement process has still not been finalized as at 31 March 2020.

Auditors Conclusion

The 6(six) months recommendation is prescribed for at least 6 months prior to the end of the original contract not post expiry of the contract to allow for enough time for management to procure the service with minimal or no extension required. As per managements comments, knowing that the procurement process was going to take seven (7) month, the process should have started 7months prior to the expiry of the contract. Prioritizing high value contracts over smaller contracts such as cleaning services is an internal decision and should not infringe on national treasury regulations. Therefore, we disagree with management.

Auditors Conclusion

We disagree with management. The reasons mentioned by management do not meet the definition of an emergency procurement. We agree that on the date that the memorandum was sitting on the Regional Manager's desk for approval, the matter was urgent and posed a risk to health if she did not approve it; however, the situation was not unexpected and the was sufficient time to procure the services.

The above contracts when you look at them holistically point to inefficiencies in the procurement of cleaning services that resulted in induced emergencies.

Auditor's response

Durban region

Management comments are noted, however no sufficient evidence or documentation was provided by management to prove that normal SCM process was followed and bidders were non-responsive. Furthermore, High Court, Regional Court and Family Court air-conditioning split units were all included in the previous case numbers as indicated by managements comments under paragraph (i) of their response.

Poor planning and managements inability of attending to calls logged by client departments led to the deviation and therefore we deem the reason for deviation not sufficient for emergency & urgent procurement. The finding will be reported in the interim management report.

Auditor's response

Head office

Management's response has been noted. According to management's response the close out reports were submitted to KAM on 5 September 2017 for a project that was scheduled to end in June 2019 and the PI was received only on the 5th of September 2018, which caused a 1 Year delay, furthermore that there was nothing that the Branch could do without an approved PI.

However, according to the Procurement Instruction (noted as annexure 3), there was an initial procurement instruction (PI) dated 01 February 2018, which was issued to the Director: Special & Major Projects in February 2018 requesting her to initiate the procurement process for the appointment of service provider/s to implement the 36 months' facilities management contract at Ramatlabama, Bray, Makgobistad and Skilpadshek Land Ports. Thereafter, Chief Director Construction Management, Mr. W Hlabangwane requested verbally on the 10th May 2018 that the PI be re-issued to the DDG Projects via the Head of PMTE.

Therefore, management had the ability to liaise with the client department with regards to the urgency of the required PI needed to begin with the procurement process. However, through the information received at hand, there is no indication that management made any action to avoid "1-year delay" that was experienced. Which also led to the project being incorporated in the 2018/19 procurement plan after finalization of the procurement plan and impacted the procurement planning and process of the project

EXPENDITURE MANAGEMENT

Payments not made within 30 days, COFF 02 CPT, COFF 12 CPT, COFF 04 MTH, COFF 08 HO, COFF 53 HO, COFF 7 JHB, COFF 06 MMB, COFF 2 Nels, COFF 02 PLK,COFF 12 PTA

Audit Finding

Requirements:

Section 38(1)(a)(i) of the stipulates that: "The accounting officer for a department, trading entity or constitutional institution must maintain –effective, efficient and transparent systems of financial and risk management and internal control..."

Furthermore, section 38(1)(f) states that: "The accounting officer for a department, trading entity or constitutional institution must settle all contractual obligations and pay all money owing, including intergovernmental claims within the prescribed or agreed period…"

Treasury Regulation 8.2.3 stipulates: "Unless determined otherwise in a contract or other agreement, all payments due to creditors must be settled within 30 days from receipt of an invoice, or in a case of civil claims from the date of settlement or court judgement..."

Instruction note 34 of National Treasury dated 30 November 2011 states that:
"4.1 The accounting officer's responsibility [in terms of section 38(1)(f)] to settle all contractual obligations and to pay all money owing, including intergovernmental claims, within the prescribed (30 days) or agreed period is hereby re-iterated.
4.2 Within thirty days (30) days from the date of this Instruction Note, all departments are required to have in place systems (processes and procedures) that will enable the tracking of each invoice received from the various service providers."
4.3 The system referred to in paragraph 4.2 above may either be manual or electronic in nature and such a system must also be able to track progress with the processing of each invoice."
4.4 At any given time, such a system must be able to provide information related to the date on which an invoice was received, the date on which it was paid and the time period between the date of receipt and the date of payment, if the invoice was indeed paid.
4.6 The information required in paragraph 4.5 above must be submitted to the National Treasury within seven (7) days after the end of the preceding month in the format prescribed in the enclosed Annexure A."
4.7 The accuracy of information in paragraph 4.5 must be confirmed by signature of the department's accounting officer prior to its submission to the National Treasury.
4.11 If accounting officers of national and provincial departments delegate the power to confirm the accuracy of information in paragraph 4.5 to their respective department's chief financial officer or to any other functionary, the accounting officers are not divested of the responsibility concerning the exercising of the delegated power, as provided in section 44(1)(d) of the PFMA..."

Nature

Cape town

The following payments to suppliers relating to operating expenditure were not made within 30 days from date of receipt of invoice as required by the relevant laws and regulations.

No	Supplier	Batch No	Invoice No	Amount (R)	Date invoice was received	Date of payment	No of days lapsed
1.	City of Cape Town	ZAPNV1905S1003658200	SC35110	238 274,27	2019/04/15	2019/05/17	32
2	Witzenberg	ZAPNV1906S1003672015	SC34858	273 267,51	2019/04/15	2019/06/19	65
• **Total**				**511 541,78**			

Cape town

The following payments to suppliers relating to operating expenditure were not made within 30 days from date of receipt of invoice as required by the relevant laws and regulations.

No	Supplier	Invoice No	Amount (R)	Date invoice was received	Date of payment	No of days lapsed
1.	Neil Lyners and Associates (RF) (Pty) Ltd	INV0762/03	329 980,50	10-Feb-2020	26-June-2020	137
2.	LDM Quantity Surveyors (CT) (Pty) Ltd	INV10/02-05	224 757,85	18-March-2020	16-Jul-2020	120
3.	Afrister developers (Pty) Ltd	INV1	19 450	26-Sep-2019	21-Oct-2019	31
4.	Perspecto nineteen cc	504	477 306,27	27-Aug-2019	04-Oct-2019	38

Considerations relating to the above;

For invoice 2 (LDM Quantity Surveyors) we noted that:

The was an issue relating to the banking details on the entity form and CSD differing, however the supplier provided the correct documents as requested, on the 22nd April 2020 as per the email attached. The supplier was only then paid on the 16th July 2020, which in essence is still over and above 30 days.

The invoice was rightly received on the 18th March 2020, and issues regarding the invoice should have been corrected by the 22nd April and payment should have followed promptly, however the payment subsequently happened 85 days later.

Umtata

During the audit of expenditure, we noted that payments were made to suppliers after 30 days of the receipt of the invoice, however the supplier did not charge an interest to the Trading Entity. Below is a table that depicts the non-payment within 30 days.

No:	Supplier	WCS No:	Invoice No:	Date invoice received	Payment date	No. of days	Amount [R]
2	Khuma Engineering	159034	337	04 Feb 2020	26 June 2020	143	18 740

Head office

During the audit of other sundry expenditure, we noted that the following payment was not made within 30 days from receipt of invoice:

No:	Supplier	Batch number/FA number	Date invoice received	Payment date	No. of days	Amount [R]
1	Batsha IT Solutions	ZAPNV1908S1001 696174	06 July 2019	12 August 2019	37	R24 897.00

Head office

During the audit of Accrued expense assets, we noted that the following payment were not made within 30 days from receipt of invoice:

No:	Supplier	WCS no	Date invoice received	Payment date	No. of days	Amount [R]
1	RUBIQUANT CC	051840	2020/03/24	2020/05/12	49	419 278,26
2	DREWTT HUBBLE POKORNY INC	051840	2020/03/24	2020/05/12	49	303 995,69
3	MUSAN TRADING ENTERPRISE CC	041821	2020/03/25	2020/06/03	70	5 250 193

JHB

During the audit, we noted that the following payments were not made within 30 days from the date of receipt of the invoice as stamped by registry:

No	Supplier	Date invoice received by Registry	Payment date	No. of days	Amount [R]
1	QUANPRO	26-Mar-20	27-May-20	62	240 595,74
2	Kwagga Holdings	03-Jun-20	27-Jul-20	54	127 615,57
3	Jasair (Pty) Ltd	14-Nov-19	17-Dec-19	33	272 192,12

Mmabatho

During the audit, we noted that the following payments were not made within 30 days from the date of receipt of the invoice as stamped by registry:

No	Supplier	Date invoice received by Registry	Payment date	No. of days	Amount [R]
1	RELATE MORE TRADING	19 March 2020	9 July 2020	111 days	443 597.1

Nelspruit

The following payment was not made within 30 days from the date of receipt of the invoice:

No	Supplier name	Payment number	Amount	Date of receipt of invoice (Registry stamp)	Payment date	Number of day in which payment is made from receipt of invoice
1	MSUKALIGWA LOCAL MUNICIPALITY	ZAPNV2003S1008804260	74 697,00	21/01/2020	27/02/2020	37
2	Luthando-Nto	ZAPNV1912S1008764497	496 846,50	24/10/2019	05/12/2019	42

Polokwane

During the audit of Day to day accruals, we noted that the following payment was not made within 30 days from receipt of invoice:

No:	Supplier	WCS no	Date invoice received	Payment date	No. of days	Amount [R]
1	Rabenn projects	N/A	2020/05/28	2020/07/22	55	157 975.02
2	Rabenn projects	N/A	2020/05/28	2020/07/22	55	194 134.72

Pretoria

During the audit of Property Maintenance, we noted that the following payment was not made within 30 days from receipt of invoice:

No:	Supplier	Batch number/FA number	Date invoice received	Payment date	No. of days	Amount [R]
1	CHIBWE AFRITECTS SA INC	44684	14 February 2020	24 March 2020	36	581 029

Impact

The above may result in non-compliance with section 38 of the PFMA, TR8.2.3 and NT Instruction Note 34

Furthermore; payments to suppliers not made within 30 days may lead to interest charged on overdue accounts, thus resulting in the entity incurring fruitless and wasteful expenditure.

Internal control deficiency

Leadership

Management did not implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored

Due to shortage of staff noted in the finance section, there has been backlog of invoices from suppliers resulting in the entity not being able to make payments to suppliers within 30 days.

Financial and Performance Management

Management did not review and monitor compliance with applicable laws and regulations.

Management did not have sufficient controls to ensure that all payments were made within the required 30 days of receipt of the invoice,

Recommendation

It is recommended that the department reviews the current controls in place used to ensure and monitor that payments are made within 30 days from date of receipt.

Furthermore, it is also recommended that the department prioritizes the filling of vacant positions in the finance section to assist in smoothening the operations of the department.

Management response

Cape town

Kindly be advised that the names of the service providers listed in the table above (City of Cape Town & Witzenberg) is incorrect as the payment numbers relate to payments for Stainless Concepts who provides day-to-day maintenance services.

These Invoices could not be processed for payment within the stipulated 30 days due to the payments being closed ± a week before the end of March and the Property Management Information System used for the processing of payments will only open a few days after the beginning of the new financial year which resulted in the delay in these payments. Please refer to delay form on the scanned copies of the payments which reflects this matter.

Cape Town

The audit finding is acknowledged with the following reasons:

WCS 034767 - R329 980, 50

The consultants have not submitted invoices for a year and had to submit new banking details. They were requested a few times however the consultants delayed submitting the documentation and was eventually forwarded resulting in payment being made late.

WCS 046978 – R224 757, 85

The consultants initially issued two separate invoices for services rendered under contract 0001 and 0002. They were requested to issue one combined invoice; of which they later did. The consultant's banking details were however revoked and had to be updated. They later determined that their CSD banking details with the completed banking details form did not correspond and they had to update CSD. Whilst waiting for CSD to be updated, lockdown took place. The CSD took a bit longer to be updated hence the payment was delayed.

Payment no. 3 - R19 450

It is regretted that the payment was delayed between various units within the RO. Invoices are monitored on weekly basis to ensure that they are paid within 30 days.

Payment no. 4 - R477 306, 27

This transaction is mistakenly queried by AGSA, it should not be included on this COFF.

Umtata

I am in agreement with the finding: The invoice had to be scrutinized and when the invoice was to be processed it was noted that funds have to be requested on Project as they were not enough for payment of Njilo Njilo.

I am in agreement with the finding: The payment was delayed within the office as some supporting documents were outstanding from the contractor which were subsequently submitted during lockdown period. Hence there was confusion with the reasoning of paying after 30 days.

Head office

Management agrees with the finding. The non-payment within the stipulated period was due to delays in the certification of the invoice by the line manager/registration of the CSD by the supplier.

In order to ensure compliance by line managers with the applicable prescripts, Circular 71 of 2019, was introduced with effect of 5 August 2019. Also, follow-up with the line managers are done on a daily basis to ensure submission of invoices to the Accounts Payable (AP) sub-directorate for timeous and speedy processing as well as follow-ups with the regions by VC every Fridays by the Chief Financial Officer. Furthermore, all SMS members have now included the payment of invoices within thirty (30) days KRA in their Performance Agreements (PA) to ensure full compliance.

Head office

Management agrees with the finding. Supplier invoices are received centrally at registry as a point of entry, date stamped and captured on Rea Patala, which are accordingly aged on a daily basis. The invoices are in turn, distributed and submitted to the Project and/or Line managers for certification and then routed to Finance for the processing of payment as authorised by the Project and/or Line manages.

The payments in question were not ready to be paid within the stipulated period various reasons stated below:

RUBIQUANT CC – delays in the certification of work done;

DREWTT HUBBLE POKORNY INC – delays in the certification of work done and
MUSAN TRADING ENTERPRISE CC - Awaiting approval of funds by the client department.
All unpaid invoices are monitored, tracked and followed up with the relevant responsible officials to alert them of the impending thirty (30) day in line with the aging of the specific invoices as well as Video Conferencing (VC) which is held weekly with regions and head office officials to unblock challenges for the payment of invoices within 30 days of receipt.

In order to ensure compliance by line managers with the applicable prescripts, Circular 71 of 2019, was introduced with effect of 5 August 2019. Also, follow-up with the line managers are done on a daily basis to ensure submission of invoices to the Accounts Payable (AP) sub-directorate for timeous and speedy processing as well as follow-ups with the regions by VC every Fridays by the Chief Financial Officer. Furthermore, all SMS members have now included the payment of invoices within thirty (30) days KRA in their Performance Agreements (PA) to ensure full compliance.

JHB

We are in agreement that the payments were made after 30 days but with reasons:

Quanpro

The service provider in this case was a Consultant who was claiming for the payment of the service of which the Contractor whose service was already terminated. The Department needed more information so that we should be sure that the payment was not fruitless and wasteful expenditure. The main contractor was long gone and we had to be 100 % sure that the payment to be made was not something that was to be made after the termination of the service, as it was going to be difficult to recover such an overpayment.

Kwagga Holdings

The contractor was responsible for this payment which was made after 30 days, as they had changed their banking details for the payment to be made. The Department had to request for the new banking details from them, so that we could process payment. The payment was processed immediately after it was updated and none of the DPW official ever contributed to the delay of the payment.

Jasair

The Regional Office ran out of funds to pay the Day to Day invoices and requested Head Office to make funds available, so we can pay all the invoices on time. We were avoiding to process them, while we did not have any funding made available to the Regional Office, as such an overpayment was going to lead to an unauthorized expenditure.

The unfortunate part of the D2D Maintenance budget is that it is not easy to predict as to the magnitude of the repairs to made, especially when approaching the financial year end, where allocated funds tend to have been exhausted, and that Head Office has to locate funds from the possible savings to be made from other budget classifications.

As such, the delay was not attributable to any DPW official, but to the situation and process of getting funding.

Mmabatho

Management agrees with the Audit finding**,**

The reason being there was a National Lockdown from the 26th March 2020 and that caused the delay of supplier's payments.

In an effort to stem the cases of payments exceeding 30 days, management has established various methods and avenues to effectively communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes and responsibilities and ensure that creditors were paid within the required 30 days of receipt of the invoice.

These initiatives will be intensified for the 2020/2021 financial year

Nelspruit

Management is partially in agreement with the finding the delay to pay the supplier (Luthando-Nto) within 30 days, the supplier was not registered on our systems which the supplier must fill/submit registration forms thus beyond the control of the department see attached communication of when was the supplier registered.

Polokwane

Agree with finding

The payment not made within 30 days as invoices received in during level 4 lockdown.

The reasons for delay

Due to Covid 19 regulations the site visit verification of work done or certification of invoices was delayed as the office was operating with 1/3 rotation staff as per DPSA guideline

Employees over 60 and with comorbidities not allowed to return to work impacted negatively as their work was assigned to available officials which created additional workload.

Measures put in place during Management meeting held 13 June 2020

Affected sections such as SCM, FM and Finance reviewed rotational plans to ensure that it will no longer delay the payment of invoices. Each section must always have people in the office to deal with invoices. This must be aligned to other sections work schedules within the value chain. This will close the current gap caused by the 2-week rotational plan.

The recommendation of auditors is already implemented by monitoring reapatela system daily

Pretoria

Management is in agreement with the finding on Chibwe Afritects SA INC. However, with respect to Sigma lifts and escalators we are not in agreement. The sigma payment was received by registry on the 23 July 2019 and authorised on 1 August 2019, therefore it was paid within 30 days.

Auditor's conclusion

Management comment noted, and cognizance is taken of the fact that management agrees with the finding. The non-compliance will be reported in the final management report, and will be considered together with other similar findings identified to determine whether it constitutes a material non-compliance to be reported in the audit report.

OTHER COMPLIANCE MATTERS

Operating lease payments running on a month to month COFF 59 HO

Audit Finding

Requirements

Section 38(1) (b) of the Public Finance Management Act states that*: "The accounting officer for a department, trading entity or constitutional institution is responsible for the effective, efficient, economical and transparent use of the resources of the department, trading entity or constitutional institution"*

PFMA section 38(1)(c)(ii) states that "*The accounting officer for a department must take effective and appropriate steps to prevent unauthorised, irregular and fruitless and wasteful expenditure and losses resulting from criminal conduct."*

National Treasury instruction note on enhancing compliance monitoring and improving transparency and accountability in supply chain management, paragraph 3.9.3 and Treasury instruction note 3 of 2016 paragraph 9.1 states that *"the accounting officer must ensure that the contracts are not varied by more than 20% or R 20 million (Including VAT) for construction related goods, works and services and 15% or R 15 million (including VAT) for all other goods or services of the original contract value."*

Treasury Regulation 8.1.1 states that *"The accounting officer of an institution must ensure that internal procedures and internal control measures are in place for payment approval and processing. These internal controls should provide reasonable assurance that all expenditure is necessary, appropriate, paid promptly and is adequately recorded and reported."*

Nature

We have noted that the entity has a huge number of leases that are running on a month to month basis. There are leases that have been on a month to month for a period of more than five years, some even longer. Consequently, this has resulted in the trading entity spending amounts that exceed the set limit for extensions of contracts as required by Treasury Instruction note 3 of 2016 paragraph 9. For details of the impact refer to the table below:

No	Lease asset	Client department	Contract state date	Original expiry date	Oiginal contact amount (R)	Amount spent post expiry to date (R)	% of variation from initial contract
1	137697	South African Police Services	2007/01/01	2011/12/31	21 024 542,89	51 860 160,74	247%
2	137698	Water And Sanitation	2013/12/01	2018/11/30	184 094 650,38	98 123 172,98	53%
3	137700	Water And Sanitation	2014/04/01	2017/03/30	38 859 106,16	22 072 563,30	57%
4	137701	National Treasury	2014/06/01	2016/05/30	97 307 084,09	219 567 688,10	226%
5	137702	Correctional Services	2014/04/01	2017/03/31	121 217 703,26	175 652 365,10	145%
6	137708	Justice & Constitutional Developmen	2014/06/01	2017/05/31	1 513 560,82	1 631 292,19	108%
7	137709	Rural Development And Land Reform	2015/11/01	2016/10/31	304 920,00	1 193 761,80	392%
8	137712	South African Police Services	2006/10/01	2016/09/30	898 716,69	6 210 791,04	691%
9	137714	South African Police Services	2014/04/01	2017/03/31	6 367 521,16	1 661 748,58	26%
10	137715	Agriculture, Forestry And Fisheries	2014/04/01	2017/03/31	23 538 080,66	27 730 201,09	118%
11	137716	Human Settlements	2011/01/01	2018/12/31	142 546 906,04	42 435 599,58	30%
12	137720	South African Police Services	2014/04/01	2017/03/31	1 401 613,08	1 376 025,42	98%
13	137721	South African Police Services	2015/03/31	2017/03/31	1 710 920,66	3 115 735,56	182%
14	137724	South African Police Services	2016/05/01	2018/04/30	23 362 277,73	25 382 230,27	109%
15	137725	South African Police Services	2017/04/01	2019/03/31	62 117 734,32	58 808 082,66	95%
16	137726	South African Police Services	2008/09/01	2018/07/31	274 884 913,43	5 521 576,40	2%
17	137728	Defence	2014/03/01	2017/02/28	5 701 190,46	3 653 445,34	64%
18	137729	Home Affairs	2014/04/01	2017/03/31	6 367 521,16	7 576 178,16	119%
19	137731	South African Police Services	2014/04/01	2015/03/31	1 285 988,40	7 600 583,38	591%
20	139548	Sa Social Security Agency	2014/04/01	2017/03/31	2 293 447,35	5 020 558,59	219%
21	139505	Agriculture, Forestry And Fisheries	2014/04/01	2017/03/31	82 609,96	95 723,14	116%
22	139512	Rural Development And Land Reform	2014/11/01	2017/10/31	28 215 897,45	4 357 736,20	15%
23	139563	Justice & Constitutional Developmen	2007/11/01	2009/10/31	287 280,00	26 535 524,83	9237%
24	139582	Sa Social Security Agency	2014/08/01	2017/07/31	4 213 810,33	3 356 488,96	80%
26	137756	Defence	2015/10/01	2018/09/30	826 411,62	309 168,72	37%
27	139526	Parliament	2018/07/01	30/6/2019	590 281,21	45 406,17	8%
28	139546	South African Police Services	2014/04/01	2017/03/31	67 891,29	77 123,76	114%
29	139547	South African Police Services	2014/04/01	2017/03/31	20 584,48	23 383,56	114%
Total						**800 994 315,62**	

Furthermore, we have noted that the month to month payments have escalated from the initially expiry date by more than the average inflation rate of 6% or the recommended 5.5% by NT where there is no lease contract in place. Consequently, the trading entity did not use its resources cost effectively and efficiently as required by section 38(1)(b) of PFMA.

The table below shows the impact:

Lease asset	Client department	Original expiry date	Escalation Rate	Total amount spent after expiry of contract	What could have been spent if escalated at 6%	Amount lost
137716	Human Settlements	2018/12/31	8%	42 435 599,58	32210237,05	10 225 362,53
137726	South African Police Services	2018/07/31	6,50%	5521576,4	4 288 037,11	1 233 539,29
139547	South African Police Services	2017/03/31	9%	23383,56	16995,87	6 387,69
Total				**47 980 559,54**	**36 515 270,03**	**11 465 289,51**

In addition, through inquiry and auditing, we have confirmed that the lease details are edited for the period of expiry so that that Archibus can process the payments Despite the fact that there are no signed active agreements in place for these leases. This is not in line with TR8.1.1 which requires that there should be internal control systems to enable the processing and approval of payments. Furthermore, this means the information for leases as reflected in Archibus is not a true reflection of the financial performance and position of the trading entity and it is a misrepresentation and omission that fails to show the actual date in which the contracts for leases expired.

Impact:

Non-compliance with paragraph 3.9.3 of the National Treasury instruction note on enhancing compliance monitoring and improving transparency and accountability in supply chain management
Non-compliance with section 38(1)(b)(c)(ii) of the PFMA
Non-compliance with treasury regulates 8.1.1
Irregular expenditure amounting to R 800 994 315.62
Financial loss as a result of savings that could be obtained from renegotiated lease terms – R11 465 289.51

Internal control deficiency

Leadership

Leadership did not monitor the implementation of action plans developed to address internal control deficiencies.

The action plan developed to deviate from competitive bidding processes and enter into a re-negotiated/extended contract with the landlord as per the national treasury dispensations was not adhered to and to date the contract is still running on a month to month basis.

Financial and performance management
Management did not adequately review and monitor compliance with applicable laws and regulations.

Management did not comply with the dispensations approved by national treasury and the instruction note on enhancing compliance monitoring and improving transparency and accountability in supply chain management of 2011 and 2016.

Recommendation

Management should ensure that:

Contracts must be monitored, to identify when contracts are coming to an end and start the procurement process in sourcing a replacement for the service or re-negotiating the lease contract

Management must prioritise entering into a formal agreement with the landlord or source new accommodation. We also recommend that the entity test the market.

The irregular expenditure amount should be disclosed in the AFS

Management needs to investigate the whole population of all leases that are on a month to month to determine the full extent of irregular expenditure

Management response

Management disagrees with the audit finding and the conclusion by the audit team that:

Non-compliance with paragraph 3.9.3 of the National Treasury instruction note on enhancing compliance monitoring and improving transparency and accountability in supply chain management
Non-compliance with section 38(1)(b)(c)(ii) of the PFMA
Non-compliance with treasury regulates 8.1.1
Irregular expenditure amounting to R 800 994 315.62
Financial loss as a result of savings that could be obtained from renegotiated lease terms – R11 465 289.51

As a matter of principle, it should be appreciated that a lease, as defined, is *"an **agreement** whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time."* (my emphasis). Any other thing other than an agreement between the parties viz. a lessor and a lessee, will therefore lose its character and cannot be regarded as a lease for this purpose. The intention of the *Special Dispensation* was to dispense with the SCM process and engage the landlords directly in order to renew the leases. National Treasury then imposed certain conditions for the renewal of those leases. It is trite that some landlords flatly refused to accept those conditions. In such instances, since the decision to procure is made by client departments, the Department engage with those client departments for new procurement instructions.

The principle of renewing the leases in compliance to the National Treasury's directive on annual escalation of 5.5% and 6% was implemented by the Department hence many of the lease contracts were renewed accordingly. However, the listed ones in the table above could not be renewed for the following reasons;

User departments granted no mandate for DPWI to renew them. Therefore, DPWI had no mandate to proceed with lease renewal negotiations and conclusion of lease contracts.
Where approval was granted by user departments, negotiations with landlords prolonged and in some cases collapsed due to insistence on offers made by the landlords and insistence on longer term leases.
Process of sourcing alternative accommodation office accommodation is long (minimum 18 months' period) thereby creating a situation of prolonged stay in existing leased buildings.

Upon realising that the lease renewal for the listed leases has failed, User Demand Management Unit was requested to communicate with users to submit their needs which will inform initiation of the process of procuring alternative accommodation.

Some leases were under SIU investigation thus no eligible for lease renewal.
Therefore, the suggestion and inference by the audit team that rental paid based on the old lease agreement in instances where the leases could not be renewed in terms of the Special Dispensation is rejected as it has no foundation both in fact and in law. The assumption and the premise by the audit team as if the landlords had accepted offers from the Department in line with the Special Dispensation is materially flawed. There is simply no lease agreement entered into between the Department and the landlords of the properties mentioned in this finding. National Treasury merely provided parameter which the leases should be renewed and the Department was duty-bound to present same to the landlords. In turn, landlords were in fact not obliged to accept the conditions imposed. Those that accepted the conditions had their leases renewed.

Auditor's conclusion

Management in their response have highlighted reasons why they have not renewed the listed lease contracts above. However, these reasons do not negate that contracts have been varied by more than the national treasury threshold of 15% without obtaining approval from national treasury which is in contravention of Treasury regulations and has resulted in irregular expenditure being incurred by the entity. Therefore, the finding remains.

ANNEXURE B: OTHER IMPORTANT MATTERS

Investment Property & Heritage Assets: Rights and Obligations COFF 25 HO.

Audit finding

Requirements

Section 40(a) and (b)of the Public Finance Management Act (PFMA) states that: *"The accounting officer for a department, trading entity or constitutional institution must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards; must prepare financial statements for each financial year in accordance with generally recognized accounting practice…"*

Section 41 furthermore states that: *"An accounting officer of a department, trading entity or constitutional institution must submit to the relevant Treasury or the Auditor-General such information, returns, documents, explanations and motivations as may be prescribed or as the relevant Treasury or the Auditor-General may require…"*

Paragraph 1: Custodian Framework for the state of immovable assets state that: *"Custodianship is the equivalent of control or ownership of the assets from an accounting perspective. DPW must therefore, in terms of the relevant reporting framework, recognize/disclose as its own assets all immovable assets that it controls, whether it is through custodianship on behalf of the state, or direct ownership…"*

Nature

During the audit of immovable assets, we noted that improvements situated on land parcels not owned by the PMTE, referred to as State Domestic Facilities were included on the immovable asset register. For improvements listed under table A below we are unable to confirm the custodianship based on what is deemed to belong to the Department of Public Works in terms of the Immovable Asset Guide. No permission to occupy the land or other supporting documentation were provided to proof ownership.

Investment property - BI

No	Building ID	Site ID	Accommodation Type	Carrying Amount as at 2019/20 (R)
1	200000061849	100000047481	RESIDENTIAL ACCOMODATION	4 175 053
2	235750055	200000048478	RESIDENTIAL ACCOMODATION	1 214 837
Total				**5 389 890**

Impact of the finding

The above will result in the following:

Overstatement of investment property (carrying amount) by an amount of R5 389 890 based on the sample tested.

Internal control deficiency

Financial and Performance Management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

Recommendation

It is recommended that adequate review process be implemented on the schedules and other information supporting the annual financial statement to ensure that the annual financial statements submitted are supported by accurate and complete schedules and information.

Management is to also perform an investigation on all improvements categorised as SDF to determine if they have right to ownership of the property. Furthermore, management is to provide the auditors with supporting evidence to support the custodianship of the properties as listed.

Management response

Management is in agreement with the finding.

Auditors Conclusion

Management response noted. The finding will remain and will be reported on the management report.

Heritage Assets: Assets not correctly classified Coff 28 HO

Audit Finding

Requirements

Section 40(b) of the Public Finance Management Act (PFMA) states that: *"The accounting officer for a department, trading entity or constitutional institution must prepare financial statements for each financial year in accordance with generally recognized accounting practice"*

Paragraph 17 of GRAP 1 states that: *"Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses. The application of Standards of GRAP with additional disclosures, when necessary, is presumed to result in financial statements that achieve a fair presentation…"*

Paragraph 04 of GRAP 103 states that *"Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations"*

Paragraph 6 of GRAP 17 states that *"Property, plant and equipment are tangible non-current assets that are held for use in the production or supply of goods or services, rental to others, strategic or for administrative purposes, and are expected to be used during more than one period"*

Section 2.1 of the Heritage Immovable Assets Guideline defines significant as follows: *"Significant in relation to quantity means more than 50% of the building usage"*

Section 4.1 of the Heritage Immovable Assets Guideline states the following: *"Commonalities of the NHRA and GRAP 103: Both the NHRA and GRAP address the issue of significance and maintenance. Both documents take into consideration the different classifications of heritage assets. GRAP 103 Examples: Historical buildings that have a significance historical association"*

Section 10.2 Annexure 2 of the Heritage Immovable Assets Guideline states the following: "*Significant portion means more than 50% of the building usage"*

Nature

During the audit of heritage assets, the following assets were identified as having no cultural, environmental, historical, natural, scientific, technological, artistic significance nor a need to be held indefinitely for the benefit of present and future generations. Consequently, these assets are incorrectly classified as heritage assets.

Furthermore, it was noted that management utilised the name of the facility as per PMIS as a basis for classifying the buildings as heritage assets and not the "significant portion of the building usage" of the asset in accordance with section 2.1 and 10.2 of the Heritage Immovable Assets Guideline. Sec 4.1 of the guideline that deals with the commonalities of the NHRA and GRAP 103 addressing the issue of significance and maintenance of classifying heritage immovable assets was supposed to be applied to the individual buildings and not the facility as a whole.

Buildings

BI - Multi-Story

No	Building ID	Site ID	Property Description	Auditors reason for incorrect classification	Deemed Cost of Asset (R)
1	100000025011	100000022049	MUSEUM	The property mainly consists of office building that is intended for the use by officials who perform administrative duties and not for preservation	1 717 042

MVR

No	Building ID	Site ID	Property Description	Auditors reason for incorrect classification	Deemed Cost of Asset (R)
1	200000041800	200000087254	RESIDENTIAL	Property consists of only residential accommodation and there is no evidence of heritage value that needs preservation for current and future generations	20 515 385
2	200000114930	100000038761	HALL	Property consists of only residential accommodation and there is no evidence of heritage value that needs preservation for current and future generations	77 560
Total					**20 591 745**

Land

MVR

No	Building ID	Site ID	Property Description	Auditors reason for incorrect classification	Deemed Cost of Asset
2	N/A	2000000 87254	ERF 430 SAXONWOLD - RESIDENTIAL	Property consists of only residential accommodation and there is no evidence of heritage value that needs preservation for current and future generations	25 400 000
3	N/A	1000000 38761	REMAINDER OF PORTION 88 OF FARM 513 KAALFONTEIN JR - HALL	Property consists of only residential accommodation and there is no evidence of heritage value that needs preservation for current and future generations	4 100 036
Total					**29 500 036**

Impact

Based on the sample tested,

Heritage Assets have been overstated by R51 808 193 while the Property, plant and Equipment (PPE) has been understated by R51 808 193.
Depreciation and accumulated depreciation is understated by an unquantifiable amount.
However, management should revisit the whole population to determine the full impact of this finding.

Internal control deficiency

Financial and performance management

Management did not adequately apply the developed guidelines to ensure that assets are correctly classified in the annual financial statements.

Recommendation

It is recommended that management individually assess all properties to determine the significant portion of the building based on building usage in order to correctly classify assets. Furthermore, adequate reviews and oversight over the application of policies, guidelines and standards should be implemented to ensure the correctly classification of assets.

Management response

Management partially agrees with the finding.

The remainder of Farm 497, Waterval Gordonia Rd, is not a private property as stated by the auditors. The farm is under the custodianship of the National Department of Public Works and Infrastructure.

The basis of classifying the property as a heritage asset is the land parcel. The farm is situated within the Augrabies Falls National Park, a nature conservation and the Heritage Immovable Asset Guideline provides for conservation areas such as national parks to be classified as heritage assets.

Management will assess the impact of the finding and revisit the entire heritage assets population to determine the significant portion based on usage was applied correctly for classification.

Auditor's conclusion

Management response has been noted. Through our subsequent audit we have confirmed that the farm is situated within the Augrabies Falls National Park, a nature conservation. This will be removed from the finding. The remaining impact will be R51 808 193.

Heritage Assets: Assets not correctly classified COFF 29 HO

Audit Finding

Requirements

Section 40(b) of the Public Finance Management Act (PFMA) states that: "The accounting officer for a department, trading entity or constitutional institution must prepare financial statements for each financial year in accordance with generally recognized accounting practice"

Paragraph 17 of GRAP 1 states that: "Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses. The application of Standards of GRAP with additional disclosures, when necessary, is presumed to result in financial statements that achieve a fair presentation…"

Paragraph 04 of GRAP 103 states that "Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations"

Paragraph 6 of GRAP 17 states that "Property, plant and equipment are tangible non-current assets that are held for use in the production or supply of goods or services, rental to others, strategic or for administrative purposes, and are expected to be used during more than one period"

Section 2.1 of the Heritage Immovable Assets Guideline defines significant as follows: "Significant in relation to quantity means more than 50% of the building usage"

Section 4.1 of the Heritage Immovable Assets Guideline states the following: "Commonalities of the NHRA and GRAP 103: Both the NHRA and GRAP address the issue of significance and maintenance. Both documents take into consideration the different classifications of heritage assets. GRAP 103 Examples: Historical buildings that have a significance historical association"

Section 10.2 Annexure 2 of the Heritage Immovable Assets Guideline states the following: "Significant portion means more than 50% of the building usage"

Nature

During the audit of heritage assets, the following assets were identified as having no cultural, environmental, historical, natural, scientific, technological, artistic significance nor a need to be held indefinitely for the benefit of present and future generations. Consequently, these assets are incorrectly classified as heritage assets.

Furthermore, it was noted that management utilised the name of the facility as per PMIS as a basis for classifying the buildings as heritage assets and not the “significant portion of the building usage” of the asset in accordance with section 2.1 and 10.2 of the Heritage Immovable Assets Guideline. Sec 4.1 of the guideline that deals with the commonalities of the NHRA and GRAP 103 addressing the issue of significance and maintenance of classifying heritage immovable assets was supposed to be applied to the individual buildings and not the facility as a whole.

<u>Buildings</u>

BI - Multi-Story

No	Building ID	Site ID	Property Description	Auditors reason for incorrect classification	Deemed Cost of Asset (R)
1	100000025011	100000022049	MUSEUM	The property mainly consists of office building that is intended for the use by officials who perform administrative duties and not for preservation	1 717 042

MVR

No	Building ID	Site ID	Property Description	Auditors reason for incorrect classification	Deemed Cost of Asset (R)
1	200000041800	200000087254	RESIDENTIAL	Property consists of only residential accommodation and there is no evidence of heritage value that needs preservation for current and future generations	20 515 385
2	200000114930	100000038761	HALL	Property consists of only residential accommodation and there is no evidence of heritage value that needs preservation for current and future generations	77 560
Total					**20 591 745**

Land

MVR

No	Building ID	Site ID	Property Description	Auditors reason for incorrect classification	Deemed Cost of Asset
2	N/A	200000087254	ERF 430 SAXONWOLD - RESIDENTIAL	Property consists of only residential accommodation and there is no evidence of heritage value that needs preservation for current and future generations	25 400 000
3	N/A	100000038761	REMAINDER OF PORTION 88 OF FARM 513 KAALFONTEIN JR - HALL	Property consists of only residential accommodation and there is no evidence of heritage value that needs preservation for current and future generations	4 100 036
Total					**29 500 036**

Impact

Based on the sample tested,

Heritage Assets have been overstated by R51 808 193 while the Property, plant and Equipment (PPE) has been understated by R51 808 193.

Depreciation and accumulated depreciation is understated by an unquantifiable amount.

However, management should revisit the whole population to determine the full impact of this finding.

Internal control deficiency

Financial and performance management

Management did not adequately apply the developed guidelines to ensure that assets are correctly classified in the annual financial statements.

Recommendation

It is recommended that management individually assess all properties to determine the significant portion of the building based on building usage in order to correctly classify assets. Furthermore, adequate reviews and oversight over the application of policies, guidelines and standards should be implemented to ensure the correctly classification of assets.

Management response

Management partially agrees with the finding.

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The remainder of Farm 497, Waterval Gordonia Rd, is not a private property as stated by the auditors. The farm is under the custodianship of the National Department of Public Works and Infrastructure.

The basis of classifying the property as a heritage asset is the land parcel. The farm is situated within the Augrabies Falls National Park, a nature conservation and the Heritage Immovable Asset Guideline provides for conservation areas such as national parks to be classified as heritage assets.

Management will assess the impact of the finding and revisit the entire heritage assets population to determine the significant portion based on usage was applied correctly for classificati

Auditor's conclusion

Management response has been noted. Through our subsequent audit we have confirmed that the farm is situated within the Augrabies Falls National Park, a nature conservation. This will be removed from the finding. The remaining impact will be R51 808 193.

PPE – Movable Assets: Differences noted between FAR and AFS COFF 15 HO.

Audit Finding

Requirements:

Section 40(3)(a) of the Public Finance Management Act states that: "The annual report and audited financial statements referred to subsection (1) (d) must fairly present the state of affairs of the department, trading entity or constitutional institution, its business, its financial results, its performance against predetermined objectives and its financial position as at the end of the financial year concerned…"

Standards of Generally Recognised Accounting Practice (GRAP) 1 paragraph 17 states that: "Financial statements shall present fairly the financial positions, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses. The application of Standards of GRAP with additional disclosures, when necessary, is presumed to result in financial statements that achieve a fair presentation…"

Nature

The following differences were identified from the reconciliation of fixed assets register, general ledger and disclosure note in the annual financial statements for the Furniture and Office Equipment asset category.

No.	Furniture and Office Equipment	Amount per FAR (R)	Amount per GL/AFS(R)	Difference (R)
1	Opening balance CA	52 460 563,86	54 073 000,00	1 612 436,14
2	Additions	1 726 190,37	13 420 000,00	11 693 809,63
3	Transfer out	(24 873,37)	(1 332 000,00)	(1 307 126,39)
Total Difference				**11 999 119,38**

Impact of the finding

The above will result in the following:

Overstatement of PPE – Movable Assets by an amount of R11 999 119,38
Non-compliance with the requirements of GRAP 1 and PFMA.

Internal control deficiency

Financial and Performance Management

Management did not prepare accurate and complete financial reports/schedules to support the Annual Financial Statements.
Lack of proper review of financial statements submitted for audit to ensure that they are accurate.

Recommendation

It is recommended that proper reviews should be implemented on the annual financial statements and supporting schedules, to ensure that accurate and complete amounts are disclosed in the annual financial statements. Furthermore, management is to provide the auditors proposed adjustments, should the differences be valid, for audit purposes.

Management response

Management partially agrees with the audit finding.

Management was unable to reproduce the differences as represented above by the ASGA in relation to the 31 March 2020 AFS balance as compared to the Movable Asset Register.

Management has however attempted identify any differences between the AFS and the Movable Asset Register and has tabulated the findings. (see Annexure A).

Auditors Conclusion

Management comments have been noted and calculations for the differences have been assessed. The disclosure notes as per the final AFS will be assessed to confirm that note 7 has been updated accordingly as stated in the annexure.

Intangible Assets: Differences noted on commitment disclosed in the AFS COFF 27

Audit finding

Requirements:

Section 40(3)(a) of the Public Finance Management Act states that: *"The annual report and audited financial statements referred to subsection (1) (d) must fairly present the state of affairs of the department, trading entity or constitutional institution, its business, its financial results, its performance against predetermined objectives and its financial position as at the end of the financial year concerned…"*

Standards of Generally Recognised Accounting Practice (GRAP) 1 paragraph 17 states that: *"Financial statements shall present fairly the financial positions, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses. The application of Standards of GRAP with additional disclosures, when necessary, is presumed to result in financial statements that achieve a fair presentation…"*

Nature

During the audit of intangible assets disclosure note (Note 10), we have determined that the amount disclosed under contractual commitment for acquisition and maintenance of intangible assets relates to the interim period (6 months' period) instead of the financial year end period (12 months). We therefore agreed the amount disclosed on the intangible assets note to the intangible commitment schedule and we identified differences. Refer to the table below.

Capex

	CAPEX Commitment per schedule	CAPEX Commitment per AFS	Difference CAPEX
2020 Computer Software	19 067 581	20 591 000	1 523 419

Opex

	OPEX Commitment per schedule	OPEX Commitment per AFS	Difference OPEX
2020 Computer Software	1 275 710	4 264 000	2 988 291

Impact of the finding

The above will result in the following:

- Non-compliance with the requirements of GRAP 1 and PFMA resulting in misrepresentation of commitments to the users of the financial statements.

- Contractual commitments (Capex and Opex) are overstated by the net amount of R4 511 710

- Capex commitment have been overstated by R1 523 419.
- Opex commitment have been overstated by R2 988 291

Internal control deficiency

Financial and Performance Management

Management did not conduct adequate reviews on the annual financial statements and the supporting schedules.

Recommendation

It is recommended that adequate review processes be implemented on the review of the annual financial statements and supporting schedules to ensure that amounts disclosed in the annual financial statements are accurate and agree to the supporting schedules.

Management response

Management is in agreement with the finding for the following reasons. Interim figures for the Intangible Asset CAPEX and OPEX commitments where disclosed as final figures as at 31 March 2020.

Auditors Conclusion

Management comment noted. The finding will be reported on the management report. The final AFS will be inspected to confirm the adjustment.

DETAILED AUDIT FINDING:

Assets Under Construction – Project completed not capitalized COFF36 HO.

Audit finding

Requirements:

Section 40(3)(a) of the Public Finance Management Act states that: *"The annual report and audited financial statements referred to subsection (1) (d) must fairly present the state of affairs of the department, trading entity or constitutional institution, its business, its financial results, its performance against predetermined objectives and its financial position as at the end of the financial year concerned…"*

Standards of Generally Recognised Accounting Practice (GRAP) 1 paragraph 17 states that: *"Financial statements shall present fairly the financial positions, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses. The application of Standards of GRAP with additional disclosures, when necessary, is presumed to result in financial statements that achieve a fair presentation…"*

Nature

During the audit of Assets Under Construction, the following project was disclosed as being on stage 5B. However, upon physical verification of the project, it was noted that the project is complete. Furthermore, it was noted that the project has not been capitalized and transferred to the completed assets and recognised as ready for use.

No	WCS #	Project Description	Closing AUC balance	Date of completion per practical completion certificate.
1	052426	Installation of security measures at 287 Albert Street	R3 692 352,32	26 October 2018

Impact of the finding

The above will result in the following:

- Non-compliance with the requirements of GRAP 1 and PFMA resulting in misrepresentation of balances to the users of the financial statements.
- Depreciation and accumulated depreciation is understated by an undeterminable amount.
- Deferred revenue is overstated by R3 692 352,32 and revenue is understated by R3 696 352,32
- Cumulative expenditure relating to assets under construction disclosed under note 7 is overstated by R3 696 352,32

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Internal control deficiency

Financial and Performance Management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

Recommendation

It is recommended that adequate review processes be implemented on the review of the annual financial statements and supporting schedules to ensure the correctness and accuracy of the AFS.

Management response

Management acknowledge and agrees with the audit finding. Management would like to advise that this is the only finding where the project status was incorrect, resulting in the underlying asset to be disclosed as AUC, rather than being capitalized as a completed asset. Management is therefore of the opinion that this is an isolated, which will allow the PMTE to adjust if required.

Auditors Conclusion

Management comment noted. Through our testing of the AUC across different regions we were able to identify other misstatement on the AUC register. We therefore do not agree with management assertion that this is an isolated incident. The finding will remain on the management report and projected with other misstatements of similar nature.

LEASES

Misstatement of operating lease asset and liability COFF 45 HO

Audit finding

Requirements:

Section 38(1)(a)(i) of the Public Finance Management Act (PFMA) states that: *"The accounting officer for a department, trading entity or constitutional institution must ensure that that department, trading entity or constitutional institution has and maintains effective, efficient and transparent systems of financial and risk management and internal control..."*

Section 40(a) and (b) of the PFMA states that: *"The accounting officer for a department must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards; must prepare financial statements for each financial year in accordance with generally recognized accounting practice..."*

GRAP 1, paragraph 17 states that *"Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses…"*

Nature

During the audit of the operating lease asset and liability balance, the following differences were identified between amounts calculated in the client schedule supporting the Annual Financial Statements (AFS) and the amount recalculated from the lease agreements.

The recalculated operating lease liability is zero for item number two, six, nine and 12 is based on the expired lease contracts that we were provided with.

Issue 1: An overstatement for the operating lease liability balance based on the significant transactions was noted as follows;

Item No.	Archibus Asset	PC Code	Amount as per the AFS as at 31 March 2020	Recalculated operating lease Liability	Difference
1	137733	153	4 743 259,39	2 371 629,75	2 371 629,64
2	137700	35	2 392 177,04	0,00	2 392 177,04
3	139545	311054	1 213 468,15	114 492,01	1 098 976,14

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4	139584	311803	303 144,06	291 248,52	11 895,54
5	139598	311903	117 765,48	129 799,60	(12 034,12)
6	137712	78	115 029,48	0,00	115 029,48
7	137767	313	317 315,55	271 887,95	45 427,60
8	139580	311718	62 861,13	33 848,18	29 012,95
9	137724	123	61 846,69	0,00	61 846,69
10	139543	311048	54 403,24	58 833,00	(4 429,76)
11	137763	284	40 990,93	37 717,94	3 272,99
12	139548	311065	163 294,62	0,00	163 294,62
13	138173	161022	25 830,72	23 639,10	2 191,62
14	137771	335	23 054,04	630 377,97	(607 323,93)
15	137764	292	297367,18	296868,93	498,25
16	139568	311587	22 458,53	25 827,04	(3 368,51)
Total					5 668 087 ,02

Issue 2: Overstatement of Operating lease asset

Item No.	Arch. no	PC Code	Amount as per the AFS as at 31 March 2020	Recalculated operating lease Liability	Difference
1	137 718	100	4 403 926	4 510 314	(106 388)
2	137 699	23	8 446 692	3 342 390	5 104 302
3	137 732	139	6 527 966	3 166 089	3 361 877
4	139 499	310702	0	1 258 716	(1 258 716)
5	139 581	311750	(0)	624 641	(624 641)
6	137 772	339	61 261	60 254	1 008
7	137 787	407	14 287	(19 048)	33 335

8	139 496	310 621	(0)	55 301	(55 302)
9	139 527	310 945	(0)	(27 886)	27 885
10	137 780	381	4 893	-	4 893
11	139 506	310 748	(0)	(4 585)	4 585
12	137 762	277	12 430	(11 888)	24 318
13	137 792	442	1 434	(1 434)	2 869
14	137 769	326	8 965	(5 977)	14 941
15	139 521	310 901	14 961	3 102	11 860
16	139 588	311 845	603	-	603
17	138 178	162079	2 343	-	2 343
18	139 560	311291	0	116 405	(116 405)
19	139 510	310765	5 694	-	5 694
20	139 519	310892	4 296	-	4 296
21	139 528	310955	6 321	-	6 321
22	137 743	195	4 981	(2 450)	7 431
23	137 754	235	0	97 138	(97 137)
	Total				**6 359 971**

Impact of the finding

The above will result in:

The financial statements of the PMTE are not fairly represented resulting in non-compliance with the Standards of GRAP (generally recognised accounting practice for the PMTE).

Non-compliance with Section 38(1)(a)(i) and Section 40 (a) and (b) of the Public Finance Management Act as result of the financial statements are not prepared in accordance with generally recognised accounting practice(GRAP)

Overstatement of operating lease liability by R 5 668 087,02.
Projected misstatement of operating lease liability by R 296 863 695,61.
Understatement of operating lease asset by R 338 515,90.
Projected misstatement of operating lease asset by R 16 586 932,06.

Internal control deficiency

Financial and Performance Management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

Lack of proper review of financial statements submitted for audit to ensure that they are accurate and complete.

Recommendation

It is recommended that proper reviews should be implemented on the annual financial statements and supporting schedules to ensure that accurate and complete amounts are disclosed in the Annual Financial Statements.

M**anagement response**

I am not in agreement with the finding, the tables below indicate the differences according to management calculations:

Item No.	Archibus Asset	Amount as per the AFS as at 31 March 2020	Recalculated operating lease Liability	Difference	Comment
2	137700	2 392 177.04	1 653 549.80	738 627.24	Disagree
1	137733	4 743 259.39	2 356 369.64	2 386 889.75	Agree
3	139545	1 213 468.15	137 219.89	1 076 248.26	Agree
12	139548	163 294.62		163 294.62	Accept as not significant
6	137712	115 029.48		115 029.48	Accept as not significant
9	137724	61 846.69		61 846.69	Accept as not significant
7	137767	317 315.55		45 427.60	Accept as not significant
8	139580	62 861.13		29 012.95	Accept as not significant
4	139584	303 144.06		11 895.54	Accept as not significant
11	137763	40 990.93		3 272.99	Accept as not significant
13	138173	25 830.72		2 191.62	Accept as not significant
15	137764	297 367.18		498.25	Accept as not significant
16	139568	22 458.53		-3 368.51	Accept as not significant
10	139543	54 403.24		-4 429.76	Accept as not significant
5	139598	117 765.48		-12 034.12	Accept as not significant
14	137771	23 054.04		-607 323.93	Accept as not significant
	Total			**4 007 078.67**	

Item No.	Arch. no	Amount as per the AFS as at 31 March 2020	Recalculated operating lease Liability	Difference	Comment
2	137 699	8 446 692.00	8 446 691.35	0.65	Disagree
3	137 732	6 527 966.26	6 527 965.67	0.59	Disagree
7	137 787	14 286.93		33 335.00	Accept as not significant
9	139 527	-0.36		27 885.00	Accept as not significant
12	137 762	12 429.75		24 318.00	Accept as not significant
14	137 769	8 964.63		14 941.00	Accept as not significant
15	139 521	14 961.19		11 860.00	Accept as not significant
22	137 743	4 981.02		7 431.00	Accept as not significant
21	139 528	6 321.03		6 321.00	Accept as not significant
19	139 510	5 693.78		5 694.00	Accept as not significant
10	137 780	4 893.27		4 893.00	Accept as not significant
11	139 506	0.00		4 585.00	Accept as not significant
20	139 519	4 295.93		4 296.00	Accept as not significant
13	137 792	1 434.34		2 869.00	Accept as not significant
17	138 178	2 343.11		2 343.00	Accept as not significant
6	137 772	61 261.04		1 008.00	Accept as not significant
16	139 588	603.00		603.00	Accept as not significant
8	139 496	-0.20		-55 302.00	Accept as not significant
23	137 754	0.12		-97 137.00	Accept as not significant
1	137 718	4 403 926.00		-106 388.00	Accept as not significant
18	139 560	0.06		-116 405.00	Accept as not significant
5	139 581	-0.12		-624 641.00	Accept as not significant
4	139 499	0.18	0.01	0.17	Disagree
	Total			**-847 489.60**	

Auditors Conclusion

Issue 1

In agreement with management's response. Based on the supporting documentation provided by management for lease transaction 137700, the auditors performed recalculations and confirmed the difference as noted by management.

The updated overstatement amount for the operating lease liability balance is R 4 007 078,67 and the projected misstatement for the operating lease liability balance is R 210 259 713,64.

Issue 2

In agreement with management's response. Based on the supporting documentation provided by management, the auditors performed recalculations and confirmed the difference as noted by management.

The updated understatement amount for operating lease assets is R 847 489,60 and the projected misstatement for operating lease assets is R 28 029 018,15.

Lease prepayment – misstated COFF 23 HO

Audit finding

Requirements:

Public Finance Management Act paragraph 40(1)(b) states that "The accounting officer for a department, trading entity or constitutional institution must prepare financial statements for each financial year in accordance with generally recognized accounting practice''

Generally, Recognised Accounting Practice (GRAP) 1 paragraph 17 states that "Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses…"

Nature

expense – leases, we noted that the prepayment balance as at 31 March 2020 is misstated. Our recalculations based on the supporting documentation (lease contracts provided and the payment reports) indicated differences from management's balances.

Refer below for the differences that were noted on the audit:

No	Archibus Asset No.	PMIS code	Region	Prepayment balance as per AFS (R)	Auditors Recalculated prepayment (R)	Difference (R)
1	138395	277185	NEL	1 732 531	-	1 732 531
2	140051	318954	KIM	4 420 057	-	4 420 057
3	139517	310889	PE	1 973 874	-	1 973 874
4	137869	81160	PE	3 462 924	-	3 462 924
5	139509	310762	PE	5 160 299	-	5 160 299
6	138612	298907	PTA	3 467 547	-	3 467 547
7	139146	304445	PTA	24 090 835	18 336 617	5 754 218
8	138673	299728	JHB	5 021 430	114 575	4 906 855
9	138770	301203	JHB	2 493 664	-	2 505 979
10	138079	139713	CPT	18 657 255	14 570 714	4 086 541
11	139123	304319	CPT	1 658 177	3 018 143	- 1 359 967
12	139279	306399	CPT	6 031 865	3 248 197	2 783 668
13	139953	317985	DBN	103 677	-	1 466 754
Total				**78 274 134**	**39 288 246**	**40 361 280**

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Impact

The balance of the prepayment is overstated by R 40 361 280.

Internal control deficiency

Financial and performance management

Management did not design and implement formal controls over ARCHIBUS to ensure the reliability of the systems and the availability, accuracy and protection of information.

Management did not ensure that all the lease information that is at regional offices is accurately and completely loaded on ARCHIBUS. Therefore, the report used to compile the AFS, which was pulled from ARCHIBUS is not complete and is not an accurate reflection of the prepayment balance as at year-end.

Recommendation

It is recommended that:

Management should perform a thorough review of the information captured on ARCHIBUS and load all relevant information in-order to come to an accurate balance. Management should re-visit the entire population.

Management response:

Management is in agreement with finding and information captured on archibus system is therefore being review to ensure that accurate information is loaded on to the archibus system and will be corrected if correction/updates are required.

Auditor's conclusion

Management's comments have been noted from the various regional offices affected.

In most cases, management agrees with our finding and in cases where management does disagree with our finding, they have indicated that they also disagree with the amount disclosed on the AFS. We have further tested additional samples and have found instances where the prepayment amount is overstated. We have assessed the new schedule submitted by management and noted that the amounts were not updated, we therefore revert to our original misstatement. The impact is as follows:

Prepaid lease and income claimed in advance is overstated by R 17 931 194
The projected misstatement on prepaid leases is R 93 021 266,43
The projected misstatement on income received in advance is R 87 884 352,99
Therefore, the finding remains.

RECEIVABLES FROM EXCHANGE TRANSACTIONS

Misstatement of Municipal Services Receivables COFF 57 HO

Audit finding

Requirements:

Section 38(1)(a)(i) of the Public Finance Management Act (PFMA) states that: "The accounting officer for a department, trading entity or constitutional institution must ensure that department, trading entity or constitutional institution has and maintains effective, efficient and transparent systems of financial and risk management and internal control..."

Section 40(a) and (b) of the PFMA states that: "The accounting officer for a department must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards; must prepare financial statements for each financial year in accordance with generally recognized accounting practice..."

GRAP 1, paragraph 17 states that "Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses…"

GRAP 104, paragraph states that "An entity shall measure expected credit losses of a financial instrument in a way that reflects:

- *(a) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;*
- *(b) the time value of money; and*
- *(c) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions."*

Section 80 (1)(b) and (2) of the Public Finance Management Act (PFMA) states that "*The minister, by notice in the national Government Gazette, must determine –*

(b) a uniform interest rate applicable to all other debts which must be paid into a Revenue Fund.

(2) An interest rate determined in terms of subsection (1) (b) may differentiate between different categories of debt.

10% per annum with effect from 1 May 2018 GenN 208 in GG 41593 of 26 April 2018

PMTE Revenue and receivables policy effective April 2019 states that "

6.12.2 PMTE shall obtain client confirmations annually to ensure agreement on statements.

6.12.3 Differences between PMTE records and client department records will be identified and resolved with the client.

6.12.4 All disputes will be clearly documented giving details of each disagreement.

6.12.5 PMTE will follow up on disputes and resolve them with the client."

Nature

During the audit of the Municipal services(receivables), we noted differences between the impairment provision recognized and as result difference with the net accommodation recognized in the annual financial statements. In investigating the reasons for the differences where noted the following;

In calculation of the impairment provision, we noted the amount did not include evidence of being probability-weighted, where a range of possible outcomes have been evaluated. In addition, we noted that issues that may have triggered an impairment loss have not clearly been brought forward in the calculation of the impairment provision.

With regards to time value of money, we noted that interest rate used by management was 9.75%, however we find that 9.75% pa interest rate gazetted in Gazette no. 39568 dated 11 March 2016 was valid for debts from 1 January 2016 to 29 February 2016, where after the rate increased to 9.75%, 10.25%, 10.5%, 10.25% and currently sits at 10% since gazette no. 41593 dated 26 April 2018 effective from 1st May 2018 until further notice. It is our view that in order to consider the time value of money appropriately that management could have applied a more recent rate to the outstanding debt, in essence to approximate the accurate time value of money.

Further on the time value of money, the groups utilised by management, may distort the time value of money calculation as debtors are sorted not per year but groups of years for instance "debts outstanding from year 1 to 3". There are no objections on sorting of the debts into groups that are easier to manage, however we have noted that the entity is unable to apply the correct rate to outstanding debt from a specific year, reason being that the debts are grouped together.

In terms of having reasonable and supportable information that is available without undue cost or effort at reporting date. We noted that management did not comply with their own Revenue and Receivables policy that would have made this information available at the time of reporting and thus used.

The failure to adhere to the Revenue and Receivables policy make it difficult for the entity to have information about current conditions and forecasts of future economic conditions relating to their debtor's ability to pay the outstanding debts.

The tables below reflect differences noted from the sample tested.

Table 1; Impairment provision difference

Debtor	Provision for impairment		Difference
	PMTE	Auditor	
Agriculture, Forest and Fish	91 284 227	75 403 438	- 15 880 789
Arts and Culture	31 263 011	29 156 126	- 2 106 885
Communications	2 267 662	1 874 458	- 393 204
Coop govt and traditional affairs	1 371 350	2 997 114	1 625 764
Correctional Services	869 652 841	577 981 785	- 291 671 057
Defence	1 539 469 392	1 256 018 484	- 283 450 908
Environmental Affairs	26 002 621	25 985 583	- 17 038
Film & Publication Board	178 918	277 097	98 179
Financial and Fiscal Commission	3 132 980	3 316 164	183 184
Gender Equality Commission	1 116 046	940 724	- 175 322
Government Communications	209 879	189 804	- 20 075
Government Pension Fund Administration	657 935	705 545	47 610
Health	17 239 658	15 750 985	- 1 488 673
Higher Education	2 443 701	1 907 648	- 536 053
Human Rights Commission	68 993	49 681	- 19 311
Independent Police Investigative Directorate	655 642	404 155	- 251 488
Inter Relation and Coop (DIRCO)	5 188 659	4 765 216	- 423 443
Justice and Constitutional Dev	168 253 888	108 355 150	- 59 898 738
Military Vetarans	174 383	463 716	289 334
Minerals Resources	8 510 674	8 188 660	- 322 014
National Prosecuting Authorithy	1 002 553	681 239	- 321 314
National School of Government	472 873	350 141	- 122 732
National Treasury	33 994 942	32 584 345	- 1 410 597
Public Enterprises	138 331	95 498	- 42 833
Public Protector	147 733	72 823	- 74 910
Public Service and Administration	182 229	133 393	- 48 835
Public Service Commission	282 677	276 630	- 6 047
Public Works	930 743	-	- 930 743
Rural dev and land affairs	9 669 599	12 033 844	2 364 245
Agriculture reseach council	355 231	501 165	145 934
Total	2 816 319 370	2 161 460 611	**- 654 858 759**

Table 2; Municipal receivable differences

Debtor	Municipal services		Difference
	PMTE	Auditor	
Agriculture, Forest and Fish	39 112 442	23 231 653	- 15 880 789
Arts and Culture	22 132 018	20 025 134	- 2 106 885
Communications	1 088 666	695 462	- 393 204
Coop govt and traditional affairs	623 878	2 249 642	1 625 764
Correctional Services	380 470 982	88 799 925	- 291 671 057
Defence	475 072 655	191 621 746	- 283 450 908
Environmental Affairs	2 029 765	2 012 727	- 17 038
Film & Publication Board	198 680	296 859	98 179
Financial and Fiscal Commission	147 333	330 517	183 184
Gender Equality Commission	466 214	290 892	- 175 322
Government Communications	203 826	183 751	- 20 075
Government Pension Fund Administration	1 044 031	1 091 640	47 610
Health	5 369 550	3 880 877	- 1 488 673
Higher Education	1 425 468	889 415	- 536 053
Human Rights Commission	60 510	41 199	- 19 311
Independent Police Investigative Directorate	668 753	417 266	- 251 488
Inter Relation and Coop (DIRCO)	1 137 463	714 020	- 423 443
Justice and Constitutional Dev	117 425 018	57 526 281	- 59 898 738
Military Veterans	-	289 334	289 334
Minerals Resources	856 296	534 282	- 322 014
National Prosecuting Authority	854 601	533 287	- 321 314
National School of Government	326 352	203 621	- 122 732
National Treasury	3 751 046	2 340 449	- 1 410 597
Public Enterprises	113 902	71 069	- 42 833
Public Protector	199 200	124 290	- 74 910
Public Service and Administration	129 962	81 127	- 48 835
Public Service Commission	16 079	10 032	- 6 047
Public Works	2 475 024	1 544 281	- 930 743
Rural dev and land affairs	6 709 131	9 073 376	2 364 245
Agriculture research council	210 034	355 968	145 934
Total			- 654 858 759

Impact of the finding

The above will result in:

The financial statements of the PMTE are not fairly represented resulting in non-compliance with the Standards of GRAP (generally recognised accounting practice for the PMTE).

Non-compliance with Section 38(1)(a)(i) and Section 40 (a) and (b) of the Public Finance Management Act as result of the financial statements are not prepared in accordance with generally recognised accounting practice(GRAP)

Overstatement of the impairment provision by R 654 858 759.00

Understatement of municipal receivables by R 654 858 759.00

Internal control deficiency

Financial and Performance Management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

Lack of proper review of financial statements submitted for audit to ensure that they are accurate and complete.

Management did not comply with the revenue and receivables policy this resulting in them not having available information for consideration of the provision of impairment.

Management did not apply the prescripts of GRAP fully, resulting in differences with the impairment provisions.

Recommendation

It is recommended that proper reviews should be implemented on the annual financial statements and supporting schedules to ensure that accurate and complete amounts are disclosed in the Annual Financial Statements.

Management should comply with their Revenue and receivables policy, the necessary interventions should be implemented to ensure compliance with these policies in particular the provisions relation to the reconciliations and client balances confirmations.

Management should revisit their impairment provision model with the objective of strengthening it, in particular the time value of money, the evaluation of possible outcomes and information on past events. It is suggested that management create a model that will be able the correct interest rate for the correct debt in the correct year, secondly management should begin to factor in possible outcomes in terms of recovery of their debtors and probability weight them to strengthen their provision model.

Management should revisit the entire population of the impairment provision and assess and evaluate and correct if the similar findings are also applicable to those amounts.

Management response

I not in agreement with the finding for the following reasons hereunder extracted from the Revenue policy:

The PMTE uses the initial discount rate (see attached) as determined by the Minister of Finance in terms of 80 of the PFMA, is used to calculate the present value of expected cash flows and subtract that from the carrying amount of the receivable to calculate the impairment loss.

Individual significant debtors are identified as debtors with an outstanding balance of more than 5% of the total debtor's balance for, municipal services debtors (excluding debtors with credit balance). As a result of engagement with clients the PMTE is able to determine a more accurate expected cash flow for individually significant debtors.

The current year balance and the recovery rate for previous financial year is considered for the determination of the expected payment for the current year as part of calculation of present value of expected cash flows.

The average payment days for previous financial year is considered for the determination of date of the expected future payment as part of calculation of present value of expected cash flows.

Significant and non-significant clients are assessed separately for impairment on receivables.

If any amount is outstanding for longer than 30 days, then it is considered an indication that impairment might exist on the basis of breach of payment terms. We inspect the previous payment history of the client to identify long outstanding invoices (Invoices past due).

Future events are not considered e.g. the debtor will become insolvent or will possibly die in the future irrespective of likelihood.

Debt older than 12 months is usually deemed to be impaired unless confirmation exist from clients that the amount will be paid or subsequent receipts specifically relates to debt in this category. Where a specific allocation could not be made for client confirmations, allocation was first made to current debt (less than 12 months) and then to debt older than 12 months. This is because it is assumed that the budget will not be available to pay the debt owed to PMTE since the budget year has expired or if the client surrendered the budget to National Treasury.

Once a debt or a group of debtors has been written down as a result of an impairment loss, interest income is thereafter recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

All cash flow expected for non-significant clients is for invoices less than a year and less than 30 days for significant clients. There is no possibility to distort time value of money as all expected cash is for debtors less than a year only. The expected cash flow relating to significant clients is based on the 30 days' due date principle and not on the commitment by a client. Therefore, no commitment support by client is applicable.

Auditors Conclusion

Managements response is noted. As per the auditor's findings we stress on the fact that management have not implemented their policy consistently. We also find parts of the policy are not in line with GRAP 104, we have highlighted the following issues that have resulted in the differences.

Regarding managements use of subsequent receipts to determine an impairment, we highlight GRAP 104 par 5.18 which states that at reporting date, an entity shall measure the loss allowance for a financial instrument. We further include reference to GRAP 104 par 5.24 which adds that at each reporting date an entity shall assess whether the credit risk on financial instrument has increased significantly since initial recognition. We further make reference to GRAP 104 par 5.26 which states that if reasonable and supportable forward-looking, information is available it can be used in determining whether the credit risk has significantly increased since initial recognition, we stress the fact that forward looking information is information available at reporting date that informs details of events still occur. For a brief background, the basis of conclusion for GRAP 104 par BC83 states that "*IASB substantially changed the impairment approach from an "incurred loss model" in IAS 39 to an "expected credit loss model" in IFRS 9. The approach in IFRS 9 means that users have information available* ***earlier*** *about any anticipated credit losses on financial assets. Given the potential for improved information to users, the Board agreed to align the impairment approach in GRAP 104 with that in IFRS 9 as far as possible*."

From the above it is evident that management cannot use information available **after** reporting date (subsequent receipts), as the assessment should have been completed at reporting date which in this regard is 31 March 2020.

Management had committed to provide us with confirmation (supporting documentation) of client departments intention to pay debts, in order to for us to confirm the more accurate expected cash flow from significant clients.

From the information subsequently provided management, we noted invoice(s) for March and February 2020 for the following departments, South African Police Services, Correctional Services, Defence, Justice as support for differences noted. The invoices have been included in the balance audited and as a result have also been considered in the auditor's calculation of the impairment provision. Therefore, the support has already been factored into the work already performed and will not result in a different conclusion regarding the differences noted.

The revenue policy does not go into detail as to the process followed by management in terms of non-significant debtors. However, from engagement with management we noted that non-significant debtors are grouped as one financial asset and assessed as such. As per GRAP 104 par 5.32 an entity shall measure expected credit losses of a financial instrument, therefore it is our view that each individual debtor(receivable) is a financial asset with its own credit risk, requiring its own individual assessment, of which management have conceded to not doing for the non-significant debtors.

We have noted managements concern on the interest rate and confirm that the correct interest is indeed 9.75%. Furthermore, we have taken into account the 2018/19 recovery rate to arrive at our re-calculations. We have revised our calculations and make the following adjustments;

Overstatement of the impairment provision by R 387 186 239.71
Understatement of municipal receivables by R 387 186 239.71
Projected overstatement of the impairment provision by R 424 023 154.13.
Projected understatement of municipal receivables by R 424 023 154.13.

From the above, the finding has been updated and remains unresolved.

PROVISIONS

DETAILED AUDIT FINDING: Provisions - Municipal services and property rates (Backlog) COFF 30 HO

Audit finding

Requirements:

Section 40 (a) and (b) of the Public Finance Management Act (PFMA) states that: *"The accounting officer for a trading entity must keep full and proper records of the financial affairs of the trading entity in accordance with any prescribed norms and standards and must prepare financial statements for each financial year in accordance with generally recognized accounting practice…"*

Generally Recognized Accounting Practice 1 paragraph 05 states that "*Liabilities are present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential..."*

GRAP 1 par .17 states that *"Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses. The application of Standards of GRAP with additional disclosures, when necessary, is presumed to result in financial statements that achieve a fair presentation…"*

Generally Recognized Accounting Practice 19 paragraph 17 states that "*Liabilities are present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential. A provision is a liability of uncertain timing or amount..."*

Generally Recognized Accounting Practice 19 paragraph 43 states that "*The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the reporting date…"*

Nature

During the audit of provisions note 16 to the annual financial statements, municipal services and property rates (Backlog), we noted that "*PMTE embarked on Phase II Invoice Verification project to verify claims across all regions made by local municipalities on arrear municipal debts. The project involved detailed and extensive investigation and verification of claims with the local municipalities to ensure only confirmed and valid claims are settled..."*

As per inspection of the consolidated closeout report 27 March 2017 prepared by Regucom and Kano Solutions, we noted that the objective of the project was to verify and reconcile arrear debt, for municipal services and property rates pertaining to immovable assets owned, leased and used by National Government.

An obligating event is as a result of owning properties thus property rates are payable in line with Municipal Rates Act 2004 and utilising the municipal services such as waste refusal, electricity, sewerage etc. As the arrear debt is verified and reconciled this will result in an outflow from the entity's resources as the debt is settled***.***

In determining / assessing if the liability is of uncertain timing or amount (Provision) or the amount can be measured reliably (Payable) the below was noted:

<u>Management comments as per note 16 to the AFS</u>

"*The amount of this liability is not reliably measurable due to the uncertainty relating to municipal valuations, applicable rates chargeable, possible exemptions on state owned properties, subdivision of land parcels, timing of receipt of bills, possible changes in ownership and payment arrangements…"*

<u>Auditors assessment or determination</u>

In verifying the debt owed to/due from municipalities, the service provider obtained the municipal debtors age analysis, invoices or billing data, Municipal Valuation Rolls (MVR), suspense accounts, credit policies, rate tariffs and payments that have already been made to date by PMTE. Where such information was not available the service provider engaged the municipal systems service providers (BCX, Sebata, Munsoft, SAMRAS) to obtain the invoices and/or historical billing data.

The processes followed by the service provider amongst other things was to:

Compare details of properties on which municipal rates and taxes as well as services have or should have been paid to the municipalities to confirm that the claim is in relation to a valid property under the custodianship of the department.

Confirm such claims made or to be made by municipalities to relevant Municipal Valuation Rolls (MVR) and billing records at each municipality.

Confirm that payments made by the department have been allocated to the correct municipal account and the relevant suspense or unallocated receipts had to be reviewed at each municipality to ascertain whether claims have been made.

Compare the claims made by the municipalities underlying records such as the MVR and approved property tariff rates to ensure that the correct amount has been claimed by municipalities.

Obtain sign-off from each municipalities CFO and Head of Revenue Management to confirm that the schedule of claims is complete, accurate and valid.

The processes conducted confirms that the amount is measured reliability and further it was sign-off by each municipalities CFO and Head of Revenue Management to confirm that the schedule of claims is complete, accurate and valid.

The audit team have noted that were there was a debt owed to the municipality and PMTE also made overpayments, management accepted the amount and concluded that it is measured reliably. This is indicated in note 3 Receivables from exchange transactions Prepaid expenses - municipal services and property rates (backlog) where an asset was raised after taking into account total payments made to municipalities less signed-off debt.

Therefore, there is no uncertainty of amount and this balance should be disclosed as a payable not provision.

Furthermore, the following was noted with respect to the disclosure note "*As a result of this project, the PMTE has identified prepayments to municipalities amounting to R666 million included in the prepaid expenses in note 3…"* This amount is incorrect as the prepayment on note 3 is R465 628 000, therefore the disclosed amount is overstated R200 372 000.

Impact of finding

Provisions are overstated by R1 166 624 000 and payables from exchange transactions are understated by the same amount.

The narration on the disclosure note is overstated by R200 372 000.

Internal control deficiency

Financial and performance management

Management did not implement a proper financial and reporting system to enable proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

Lack of proper review of financial statements submitted for audit to ensure that transactions are classified correctly.

Recommendation

It is recommended that:

Management should ensure that financial statements and supporting schedules are adequately reviewed before submission for audit to ensure that they are classified in accordance to the applicable GRAP standards.

Management response

a) <u>Management agrees with finding: Provisions Overstated</u>
The following correction journal will be processed to de-recognize provision and recognise accrual:

<u>2019/20: Current year movement</u>

Dr. 100224:	Prov Backlog Municipal Debts	R79 156 204.63	
Cr. 36020:	Pay-Accrued-Backlog Municipal Debts		R79 156 204.63

2018/19: Opening Balance (Prior Year0

Dr. 100224: Prov Backlog Municipal Debts R1 087 468 234.92

Cr. 36020: Pay-Accrued-Backlog Municipal Debts R1 087 468 234.92

b) Management agrees with the finding: Disclosure Noted
Provision note 16 to the financial statements will be corrected as the prepayment amounting to R468 628 000 instead of R666 million.

The narration will be corrected as follows:

"As a result of this project, the PMTE has identified prepayments to municipalities amounting to R 469 million (March 2019: R 465 million) included in the prepaid expenses in note 3."

This was as a result of a different interpretation that management had with regard to these transactions emanating from the project.

Auditor's conclusion

Management comments noted. However, finding remains and adjustments will be audited after the submission of AFS with the all the adjustments.

DETAILED AUDIT FINDING: Overstatement of Provisions PE COFF 03 and PTA COFF 06

Audit finding

Requirements,

Public Finance Management Act paragraph 40(1)(a) states that "The accounting officer for a department, trading entity or constitutional institution must keep full and proper records of financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards"

Public Finance Management Act paragraph 40(1)(b) states that "The accounting officer for a department, trading entity or constitutional institution must prepare financial statements for each financial year in accordance with generally recognized accounting practice"

Nature

Port Elizabeth Region

During the audit of Provisions day to day we identified that there was a difference between the status of calls as per scheduled provided for audit as at 31 March 2020 and status of calls per schedule provided by the region.

REF NR	Call details	Status as per provision schedule provided for audit as at 31 March 2020	Status as per scheduled provided at region	Amount R'
PLZ-123696	Steam pot ,tilting pan and zip boiler are not working 	Job-Completed-WM	Cancelled	24 615,66
PLZ-114127	Check and repair a faulty sewerage pump.	Job-Completed-WM	Cancelled	24 615,66
PLZ-114271	Fire-Detection Alarm is Faulty, Keep On Beeping 	Job-Completed-WM	Cancelled	24 615,66
PLZ-114467	Service of fire extinguishers, last service was May 2016 	Job-Completed-WM	Cancelled	19 930,21
PLZ-114523	Servicing of fire extinguishers 	Job-Completed-WM	Cancelled	24 615,66
PLZ-114962	Request for replacement of Secondary tank no. 2 scum buffel arm	Job-Completed-WM	Cancelled	24 615,66
PLZ-116100	PLC controller for domestic water faulty	Job-Completed-WM	Cancelled	24 615,66
PLZ-116834	Electric gate faulty 	Job-Completed-WM	Cancelled	21 743,91

REF NR	Call details	Status as per provision schedule provided for audit as at 31 March 2020	Status as per scheduled provided at region	Amount R'
PLZ-117301	Replace the door of the pump station 9it fell down) 	Job-Completed-WM	Cancelled	26 673,39
PLZ-117572	Request for servicing of fire extinguishers. 	Job-Completed-WM	Cancelled	24 615,66
PLZ-118786	The PLC Controller for domestic water pump is faulty/missing and faulty dostic water pump 	Job-Completed-WM	Cancelled	24 615,66
PLZ-119134	Service all fire extinguishers and all fire hydrants	Job-Completed-WM	Cancelled	24 615,66
PLZ-120846	Check and repair disable lift that is not working 	Job-Completed-WM	Cancelled	24 615,66
PLZ-125749	Repair burst water pipe inside the ceiling 	Job-Completed-WM	Cancelled	26 673,39
PLZ-129150	 Installation of power analyser	Job-Completed-WM	Cancelled	24 615,66
PLZ-129113	 Servicing of lifts: November 2019; Lifts number: PEE1324 & PEE1325	Job-Completed-WM	Cancelled	24 615,66
TOTAL				**390 408,82**

Pretoria region

Nature

During the audit of Provisions day to day we identified that there was a different between the status of calls as per scheduled provided for audit as at 31 March 2020 and status of calls per Worx4u report. Refer to table below:

Call reference	Details of call	Status per schedule	Status per worx4U	Amount per provision estimate R'
PRE-134764	There is no water in the entire building	Job-Completed	Cancelled	26 673
PRE-134643	There is water flooding at Civitas Building Office 104 ground floor	Job-Completed	Cancelled	25 996
PRE-134666	Repair of sports lights are not working	Job-Completed	Cancelled	21 744

TOTAL				**74 413**

Impact

This results to the following:

Overstatement of Provisions

Internal control deficiency

Financial and Performance Management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information which resulted to overstatement of estimated amount of provisions.

Recommendation

It is recommended that management must enhance the review of the financial statements prior to submission for audit purposes and ensure that all information that is included in the financial statements is complete and presented fairly.

Management must ensure that the status of calls logged on the system is updated with accurate information so that the provision amount is fairly estimated.

Management response:

Port Elizabeth

Management is in agreement with the finding: At 31st March 2020, the calls were on completed status and was later changed to cancel after engaging the service providers to request the invoices and quotations. It was discovered that the service providers have no supporting documentation to support the invoices.

When the D2D workbook was submitted to Head Office it was indicated that these calls were to be cancelled on the system. Head Office however used the report directly obtained from the Worx4U system on 2 April 2020 on which these specific calls had a status of “Complete” and not “Cancelled” to calculate the general provision (Approach 2). As there were no values allocated to these calls on the submitted workbook, Head Office included these calls when they used Approach 2 to calculate a general accrual for all calls for which the relevant supporting documentation was not available as per the documented process to calculate the total provisions.

Head Office has taken note of this error in their approach and has built in an additional step going forward in which they will eliminate all calls which were identified as “Cancelled” on submitted workbooks before finalising the calculation of the general provisions calculation.

There were a total of 16 calls for which this error was made, leading to an overstatement of R390,408.80 in provisions. Management regards this as a once-off error and does not regard this value as material.

In summary, management therefore agree that these calls did not exist at 31 March 2020 and that according to the existence assertion, provisions were overstated by R390,408.80.

Pretoria Region

Management is not in agreement with the finding. The three calls were cancelled due to the reason that quotations were not received from the suppliers for a period of over 180 days. All unclaimed quotations are cancelled on the system and reopened when the service provider submits the quotation.

Auditor's conclusion

Port Elizabeth

Management comments noted. However, finding remains and will be reported in the management report.

Pretoria

Management comment noted. However, the finding still remains as there is no supporting information that indicate that calls over 180 days are to be cancelled on the system if quotation is not received from the supplier.

DETAILED AUDIT FINDING: Overstatement of Provisions MMB COFF 02

Audit finding

Requirements,

Section 40(a) and (b) of the Public Finance Management Act (PFMA) states that: "The accounting officer for a department must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards; must prepare financial statements for each financial year in accordance with generally recognized accounting practice…"

Generally Recognised Accounting Practice (GRAP) 19 paragraph 17 states that "Liabilities are present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential. A provision is a liability of uncertain timing or amount..."

GRAP 19 paragraph 18 states that "Provisions can be distinguished from other liabilities such as payables and accruals because there is uncertainty about the timing or amount of the future expenditure required in settlement. By contrast:

(a) payables are liabilities to pay for goods or services that have been received or supplied and have been invoiced or formally agreed with the supplier (and include payments in respect of social benefits where formal agreements for specified amounts exist); and

(b) accruals are liabilities to pay for goods or services that have been received or supplied but have not been paid, invoiced or formally agreed with the supplier, including amounts due to employees (for example, amounts relating to accrued vacation pay). Although it is sometimes necessary to estimate the amount or timing of accruals, the uncertainty is generally much less than for provisions.

Accruals are often reported as part of accounts payable, whereas provisions are reported separately…"

Nature

During the audit of provisions day to day, we noted that the following transaction was classified as a provision rather than an accrual. The entity was provided with both the quotation and job card prior year end, therefore the degree of uncertainty is very low, as value of the worx4u call can be reliably estimated as at 31 March 2020. Refer to table below:

Call reference	Details of call	Job card date	Quotation date	Amount per provision estimate (Rands)
MMA-115430	Revival Anointing M Projects	2019/12/20	30/10/2019	28 553

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Impact

This results to the following:

Overstatement of Provisions by R28 553
Understatement of accruals by R28 553

Internal control deficiency

Financial and Performance Management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information as the provisions information on schedule does not agree to supporting information.

Recommendation

It is recommended that:

Management must enhance the review of the financial statements prior to submission for audit purposes and ensure that all information that is included in the financial statements is complete and presented fairly.

Management response:

Management is in agreement with the finding.

The transaction in question was not included as accruals and should have been included in the population as it relates to the current period under review's expenditure. The omissions and errors resulted from the RBAC Ratification process which only took place on the 8th of July 2020 for the approval expenditure. The PA12 was only approved after the cut-off of the accruals listing on the 24th of June 2020. Subsequent payment tests and controls were effective as the invoice was paid on the 5th of August 2020 after the compilation of the Annual Financial Statements for the period under review.

Management will engage amongst the various branches to ensure that effective controls are in place that invoices are not omitted prior to the preparation of the accruals.

Regional Finance will continuously update head office on all potential adjusting subsequent events / transactions.

The impact will be assessed by head office in consultation with the AGSA prior to the finalization of the statutory audit to assess the materiality thereof, which will determine if there is a need to adjust the financial statements.

Management will be able to demonstrate the process followed and any required adjustments will be made in consultation with the AGSA.

Auditor's conclusion

Management comments are noted; the finding will be included in the management report.

DETAILED AUDIT FINDING: Overstatement of Provisions COFF 06 Mthata

Audit finding

Requirements,

Public Finance Management Act paragraph 40(1)(a) states that "The accounting officer for a department, trading entity or constitutional institution must keep full and proper records of financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards''

Public Finance Management Act paragraph 40(1)(b) states that "The accounting officer for a department, trading entity or constitutional institution must prepare financial statements for each financial year in accordance with generally recognized accounting practice''

Nature

During the audit of Provisions: Day-to-Day Maintenance we identified that there was a difference between the amount per provision estimate and the amount per the provision schedule. *Refer to table below:*

Call reference	Details of call	Amount per provision estimate	Amount per provision schedule	Difference
MTH-108888	Desludging of septic tanks at Tina SAPS	8 190	30 00	**21 810**

Impact

This results in an overstatement of Provisions by R21 810

Internal control deficiency

Financial and Performance Management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information because the provisions amount on the schedule does not agree to the supporting information.

Recommendation

It is recommended that management must enhance the review of the financial statements prior to submission for audit purposes and ensure that all information that is included in the financial statements is complete and presented fairly.

Management response:

I am in agreement with the finding for the following reason, on reporting the estimated value of work to be completed was at R30 000.On further verification it was later established that

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the value was over-estimated and the invoice subsequently received amounted to R8 190.00. The matter was an isolation, the remaining population was not affected.

Auditor's conclusion

Management comment noted. Management have agreed with the finding. There is no evidence that suggest that this is an isolation issue. The finding will remain and be aggregated with other provision misstatement and be projected to the whole population of provisions to determine if it material or not.

DETAILED AUDIT FINDING: Overstatement of Provisions COFF 01 Nelspruit

Audit finding

Requirements

Public Finance Management Act paragraph 40(1)(a) states that "The accounting officer for a department, trading entity or constitutional institution must keep full and proper records of financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards''

Public Finance Management Act paragraph 40(1)(b) states that "The accounting officer for a department, trading entity or constitutional institution must prepare financial statements for each financial year in accordance with generally recognized accounting practice''

Nature

During the audit of Provisions day to day we identified that there were differences identified between the amount per schedule and supporting documentation provided by the auditee:

No	Supplier Name	Quotation number	Amount per schedule	Amount per quotation	Differences
1	Dilikela trading and Projects	ID-9554	181 786,00	18 177,86	163 608,14
TOTAL					**163 608,14**

Impact

This results to the following:

Overstatement of Provisions amounting to R163 608,14.

Internal control deficiency

Financial and Performance Management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information because the provisions information on schedule does not agree to supporting information.

Recommendation

It is recommended that management must enhance the review of the financial statements prior to submission for audit purposes and ensure that all information that is included in the financial statements is complete and presented fairly.

Management response:

Management is in agreement with the finding.

An error was made when the supporting documents were captured on the workbook. In the process of typing in the amount, the capturer neglected to put in a comma to indicate the cents, leading to this typing error being made. Management has reviewed this error and are of the opinion that in isolation it is not a material misstatement.

The nature of this error has not been repeated at all regional offices and should accordingly be limited to the Nelspruit region.

Management will consider the impact of this finding together with that of other findings brought forward the AG and make necessary adjustments if it is regarded as material collectively.

Auditor's conclusion

Management agrees with finding, finding remains unresolved and will be included in the management report.

PAYABLES FROM EXCHANGE TRANSACTIONS

Accruals are recorded at the incorrect amount COFF 10 CPT

Audit Finding

Requirements:

Section 40(1) (b) of the Public Finance Management Act states that: "The accounting officer for a department, trading entity or constitutional institution must prepare financial statements for each financial year in accordance with generally recognized accounting practice."

GRAP 01, paragraph 17 states that: "Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses."

Nature

Issue 1:

During the audit of accruals, we noted an accrual for TRIPONZA TRADING 98 CC (payment batch number 852433) for an amount of R 211 567, 75 has been incorrectly captured as R 21 156, 75 on the accruals listing schedule.

Details per the accrual listing:

WCS Number	Invoice date	Client Department	Name of Service Provider	Supplier code	Final Accrual Value
50712	2020/02/28	ENVIRONMENTAL AFFAIRS	TRIPONZA TRADING 98 CC 2001/005383/23	WP02723	R 21 156,75

This resulted in an understatement of R 190 411 for accruals balance.

Issue 2:

Duplicates on the accrual listing was noted. These two transactions have the same WCS number, supplier, supplier code, invoice date, amount, etc.

	Goods/Service information	General Information			
No.	WCS Number	Client Department	Name of Service Provider	Supplier code	Accrual Value
1	46978	JUSTICE	LDM QS	WP00911	R 224 757,85

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2	46978	JUSTICE	LDM QS	WP00911	R 224 757,85

Therefore, R 224757, 85, overstates the accruals balance.

Impact of the finding

The above may result in the following:

Accruals are overstated by R 34 346.85(net effect)

Non-compliance with section 40 of the PFMA and GRAP 01

Internal control deficiency

Financial and Performance Management

Management did not implement controls over daily and monthly processing and reconciling of transactions

Management did not perform a reconciliation in order to ensure that all transactions are recorded accurately and there are no duplicates in the accruals listing.

Recommendation

It is recommended that management should implement controls over daily and monthly processing and reconciling of transactions.

Management should reconcile the accrual listing at year end to ensure that it is accurate and complete.

The necessary adjustments should be made on the listing and the AFS disclosure to ensure it is accurate.

Management response

I am in agreement with the finding for the following reasons:

Issue 1

This was a typing error where one digit was missed when capturing the amount on the workbook.

Issue 2

This was on oversight where the estimated amount as well as the actual invoice were captured on the workbook. More emphasis will be applied on verification of completeness and accuracy of the workbooks.

Auditors Conclusion

Management comment noted. The finding will remain on the management report.

Overstatement of WCS Accruals PTA COFF 09

Audit Finding

Requirements

Public Finance Management Act paragraph 40(1)(a) states that "The accounting officer for a department, trading entity or constitutional institution must keep full and proper records of financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards"

Public Finance Management Act paragraph 40(1)(b) states that "The accounting officer for a department, trading entity or constitutional institution must prepare financial statements for each financial year in accordance with generally recognized accounting practice"

Nature

During the performance of accrual audit we identified that the following transaction was rendered after year end and was paid after year end however the amount was included on the accrual listing as at 31 March 2020.Refer to table below:

Supplier name	Date when goods and service received	Payment date	Amount as per payment batch R	Amount as per accrual listing R
Zidlaphi Kgomo and associates cc	2020/06/09	2020/06/24	1 711 340,31	1 711 340,31

Impact

This results to the following:

Overstatement of accrued expense assets

Internal control deficiency

Financial and Performance Management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information because the invoice was accrued for when it was already paid for.

Recommendation

It is recommended that management must enhance the review of the financial statements prior to submission for audit purposes and ensure that all information that is included in the financial statements is complete and presented fairly.

Management response:

Management partially agrees with the audit finding.

The correct service period for work performed is 20 March to 9 June 2020 for amount of R1 711 340.31, therefore accrual value for yearend should have been R 250 440.05 and not R1 711 340.31.

Auditor's conclusion

Management comments noted. The valuation date as per the progress payment certificate that was provided for audit was 2020/06/09 which is after year end. The evidence of March 20 was not provided in the response of the communication of finding. Therefore, finding remains and will be reported in the management report.

DETAILED AUDIT FINDING: Duplicate identified on D2D Worx4U COFF 13 CPT COFF 08 JHB

Audit Finding

Requirements

Section 40 (a) and (b) of the Public Finance Management Act (PFMA) states that: "The accounting officer for a trading entity must keep full and proper records of the financial affairs of the trading entity in accordance with any prescribed norms and standards and must prepare financial statements for each financial year in accordance with generally recognized accounting practice…"

GRAP 1 par .17 states that "Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses. The application of Standards of GRAP with additional disclosures, when necessary, is presumed to result in financial statements that achieve a fair presentation…"

Generally Recognized Accounting Practice 19 paragraph 17 states that "Liabilities are present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential. A provision is a liability of uncertain timing or amount..."

Generally Recognized Accounting Practice 19 paragraph 18 (b) states that: "Accruals are liabilities to pay for goods or services that have been received or supplied but have not been paid, invoiced or formally agreed with the supplier, including amounts due to employees (for example, amounts relating to accrued vacation pay) …"

Nature

During the performance of our audit, we identified instances where day to day worx4U accruals transactions were duplicated on the accrual listing. These transactions have the same call reference #, summary of events, supplier, date completion of service, order # and amount. The table below refers

Cape town Region

No	Number of items identified duplicated on the Accrual schedule	Final value of accruals	Duplicated amount
1	46	1 347 750	673 875

JHB Region

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No	Number of items identified duplicated on the Accrual schedule	Final value of accruals	Duplicated amount
1	178	1 520 820	760 410

Impact of finding

Cape town

Accruals day to day worx4U is overstated by R673 875

Jhb region

Accruals day to day worx4U is overstated by R760 410

Internal control deficiency

Financial and performance management

The entity did not implement a proper financial and reporting system to enable proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

The entity did not sufficiently review the supporting schedules and financial statements prior to submission for audit.

Recommendation

It is recommended that:

Management should ensure that financial statements and supporting schedules are adequately reviewed before submission for audit.

Management should ensure that all inputs and supporting schedules to the accruals listings are adequately reviewed.

Management should perform a duplicate check on the accruals listings to ensure that no transactions has been duplicated resulting in an overstatement.

Management response

Cape town

Management agrees with the audit finding. It was an oversight that these duplicates were not identified although the workbooks are thoroughly checked for correctness.

JHB REGION

Management agrees with the finding

The workbooks are reviewed before submission to head office for financial statement preparation purposes, but due the vast number of transactions, the risk remains that not all errors would be identified in time. When the workbooks were completed, the initial transactions were listed based on their quotations, and when they were then listed again based on the invoices received later on, without removing the initial transactions listed based on the quotes. PMTE is still relying on manual processes to identify and review all accruals. Although the implementation of new systems will not completely remove the risk of inaccurate accruals, this will greatly be reduced.

Auditor's conclusion

Management comments are noted. The finding will be reported in the management report.

Accrued expense: Overstatement of scheduled maintenance COFF 04 JHB

Audit Finding

Requirements

Section 40 (a) and (b) of the Public Finance Management Act (PFMA) states that: "The accounting officer for a trading entity must keep full and proper records of the financial affairs of the trading entity in accordance with any prescribed norms and standards and must prepare financial statements for each financial year in accordance with generally recognized accounting practice…"

Generally Recognized Accounting Practice 19 paragraph 17 states that "Liabilities are present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential. A provision is a liability of uncertain timing or amount..."

Generally Recognized Accounting Practice 19 paragraph 18 (b) states that: "Accruals are liabilities to pay for goods or services that have been received or supplied but have not been paid, invoiced or formally agreed with the supplier, including amounts due to employees (for example, amounts relating to accrued vacation pay) …"

Property Management Trading Entity Payables Management Systems 6.9.2 states "The accrued goods and services received prior to the reporting date need to be accounted in the current financial year.
6.9 Apportionment of accruals
6.9.4 The process to be followed to accurately apportion accruals includes:

- *Obtain all the supporting documentation relating to the particular payment; and*
- *Calculate the apportioned amount based on the total period covered by the service charge and the portion relating to the period under review…"*

Nature
During the performance of our audit we identified that the following transaction for accrued expenses were not accounted for accurately.

Supplier name	WCS number	Invoice amount	Amount per accrual listing	Amount per auditors recalculation	Difference between accrual listing amount and recalculation
Palesa and Associates	50524	80 500	-	57 244	57 244

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Impact of finding

The aforementioned finding results in the following:
Understatement of accrued expenses and payables from exchange transactions by R57 244

Internal control deficiency

Financial and performance management
Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

Recommendation
It is recommended that:

Management estimates should utilise a range of sources, and project managers should be consulted to determine whether estimates are reasonable.

Management should enhance the review of the financial statements prior to submission for audit purposes and ensure that all information that is included in the financial statements is complete and presented fairly.

Management response:

Management is in agreement with the finding, however the issue is understatement of accrual and not overstatement as stipulated on the finding heading.

Management would like to advise that we submit letters to all suppliers in March to request confirmation of work done before year end in order to prepare the accruals disclosure. In addition, Management tracks all subsequent payments in order to ensure that the payments have been accrued for. Management regularly assesses the materiality of the sum of all subsequent payments that have not been accrued for and will engage with the AGSA if the rand value is deemed to be material.

Auditor's conclusion

Management agrees with the finding and the matter will be reported in the management report.

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Accrued expense: Overstatement of scheduled maintenance COFF 05 MMB

Audit Finding

Requirement

Section 40 (a) and (b) of the Public Finance Management Act (PFMA) states that: "The accounting officer for a trading entity must keep full and proper records of the financial affairs of the trading entity in accordance with any prescribed norms and standards and must prepare financial statements for each financial year in accordance with generally recognized accounting practice…"

Generally Recognized Accounting Practice 19 paragraph 17 states that "Liabilities are present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential. A provision is a liability of uncertain timing or amount..."

Generally Recognized Accounting Practice 19 paragraph 18 (b) states that: "Accruals are liabilities to pay for goods or services that have been received or supplied but have not been paid, invoiced or formally agreed with the supplier, including amounts due to employees (for example, amounts relating to accrued vacation pay) …"

Property Management Trading Entity Payables Management Systems 6.9.2 states "The accrued goods and services received prior to the reporting date need to be accounted in the current financial year.
6.9 Apportionment of accruals
6.9.4 The process to be followed to accurately apportion accruals includes:

- *Obtain all the supporting documentation relating to the particular payment; and*
- *Calculate the apportioned amount based on the total period covered by the service charge and the portion relating to the period under review…"*

Nature

During the performance of our audit, we noted that the following transaction for accrued expenses were not accounted for accurately.

WCS Number	Supplier Name	Amount of liability as per accrual listing	Recalculated estimated accrual amount	Difference between accrual amount per listing and recalculated accrual amount
42500	Ramalephatso Industries cc	1 139 301.14	624 778.04	514 523.10

Impact of finding

The aforementioned finding results in the following:

Overstatement of accrued expenses and payables from exchange transactions by R514 523

Internal control deficiency

Financial and performance management
Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

Recommendation

It is recommended that:

Management estimates should utilise a range of sources, and project managers should be consulted to determine whether estimates are reasonable.

Management should enhance the review of the financial statements prior to submission for audit purposes and ensure that all information that is included in the financial statements is complete and presented fairly.

Management response:

Management agrees with audit finding.

Auditor's conclusion

Management agrees with the finding and will be reported in the management report.

Overstatement of Day to day accruals COFF 03 Nelspruit

Audit finding

Requirements

Public Finance Management Act paragraph 40(1)(a) states that "The accounting officer for a department, trading entity or constitutional institution must keep full and proper records of financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards''

Public Finance Management Act paragraph 40(1)(b) states that "The accounting officer for a department, trading entity or constitutional institution must prepare financial statements for each financial year in accordance with generally recognized accounting practice''

Nature

During the audit of Day to day accruals we identified that there were differences identified between the amount per schedule and supporting documentation provided by the auditee:

No	Supplier Name	Invoice number	Amount per schedule	Amount per invoice	Differences
1	Mavovemvula Trading CC	2020/002	1 407 715.00	14 077,15	1 393 637,85
TOTAL					**1 393 637,85**

Impact

This results to the following:

Overstatement of day to day accruals by R1 393 637,85.

Internal control deficiency

Financial and Performance Management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information because the provisions information on schedule does not agree to supporting information.

Recommendation

It is recommended that management must enhance the review of the financial statements prior to submission for audit purposes and ensure that all information that is included in the financial statements is complete and presented fairly.

Management response:

Management is in agreement with the finding.

An error was made when the supporting documents were captured on the workbook. In the process of typing in the amount, the capturer neglected to put in a comma to indicate the cents, leading to this typing error being made. Management has reviewed this error and are of the opinion that in isolation it is not a material misstatement.

The nature of this error has not been repeated at every other region and should accordingly be limited to the Nelspruit region.

Management will consider the impact of this finding together with that of other findings brought forward the AG and make necessary adjustments if it is regarded as material collectively.

Auditor's conclusion

Management agrees with finding, finding remains unresolved and will be included in the management report.

DETAILED AUDIT FINDING: Duplicate identified on WCS Accruals HO COFF 08

Audit finding

Requirements

Section 40 (a) and (b) of the Public Finance Management Act (PFMA) states that: *"The accounting officer for a trading entity must keep full and proper records of the financial affairs of the trading entity in accordance with any prescribed norms and standards and must prepare financial statements for each financial year in accordance with generally recognized accounting practice…"*

GRAP 1 par .17 states that "Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses. The application of Standards of GRAP with additional disclosures, when necessary, is presumed to result in financial statements that achieve a fair presentation…"

Generally Recognized Accounting Practice 19 paragraph 17 states that "Liabilities are present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential. A provision is a liability of uncertain timing or amount..."

Generally Recognized Accounting Practice 19 paragraph 18 (b) states that: "Accruals are liabilities to pay for goods or services that have been received or supplied but have not been paid, invoiced or formally agreed with the supplier, including amounts due to employees (for example, amounts relating to accrued vacation pay) …"

Nature

During the performance of our audit, we identified instances where day to day worx4U accruals transactions were duplicated on the accrual listing. These transactions have the same WCS number, supplier, supplier code, invoice date, amount, same reference to supporting documents in audit file etc. The table below refers

No	Number of items identified duplicated on the Accrual schedule	Final value of accruals	Duplicated amount
1	58	5 717 584	2 858 792

Impact of finding

WCS assets accruals are overstated by R2 858 792

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Internal control deficiency

Financial and performance management

The entity did not implement a proper financial and reporting system to enable proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

The entity did not sufficiently review the supporting schedules and financial statements prior to submission for audit.

Recommendation

It is recommended that:

Management should ensure that financial statements and supporting schedules are adequately reviewed before submission for audit.

Management should ensure that all inputs and supporting schedules to the accruals listings are adequately reviewed.

Management should perform a duplicate check on the accruals listings to ensure that no transactions has been duplicated resulting in an overstatement.

Management response

Management is in agreement with the finding and also take cognizance of the fact that the identified error is factual. Furthermore, we would like to bring to the attention of the auditors that the R2 858 792.00 reported above is inclusive of the R 244 757, 85 already reported on COFF 10 for Cape Town region.

Management has introduced additional fields to the subsequent payments testing procedures as well within the review procedures which will eliminate such duplications.

	Goods/Service information	General Information			
No.	WCS Number	Client Department	Name of Service Provider	Supplier code	Accrual Value
1	46978	JUSTICE	LDM QS	WP00911	R 224 757,85
2	46978	JUSTICE	LDM QS	WP00911	R 224 757,85

Auditor’s conclusion

Management comments are noted; the matter will be included in the management report.

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COMMITMENTS

Commitments – Overstatement of commitments COFF 06 JHB

Audit Finding

Requirements

Section 40 (a) and (b) of the Public Finance Management Act (PFMA) states that: "The accounting officer for a trading entity must keep full and proper records of the financial affairs of the trading entity in accordance with any prescribed norms and standards and must prepare financial statements for each financial year in accordance with generally recognized accounting practice…"

GRAP 1 par .17 states that "Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses. The application of Standards of GRAP with additional disclosures, when necessary, is presumed to result in financial statements that achieve a fair presentation…"

Nature of the finding

During the audit of commitments, the following was noted for WCS no: 055540: Acquisition of Lindela Repatriation Centre:

An authorized amount as per supporting documents (Purchase agreement signed by PMTE and Liquidators of Bosasa Masters ref number G161/19) was R73 498 726 which comprises of:

Cost	Cost including VAT
Purchase Price	69 000 000
6% Commission	4 140 000
Transfer Cost to Conveyancing Attorney	341 712
Total	**73 481 712**

From the authorized amount, total purchase price was paid to the transferring attorney and the remaining / committed expenditure amounted to R4 481 712. However, upon inspection of the commitment schedule we noted that the commitment schedule disclosed the R122 501 389.

Details as per commitment register				
WCS Number	**Project description**	**Consultant Authorisation**	**Consultant Expenditure**	**Final commitment**
55540	Acquisition of Lindela Repatriation Centre	191 501 389	69 000 000	122 501 389

This resulted to overstatement of commitment schedule by **R118 019 677** (R4 481 712 - 122 501 389)

Impact of the finding

The above may result in the following:

Overstatement of commitments by R118 019 677
Non-compliance with section 40 of the PFMA

Internal control deficiency

Financial and Performance Management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information

Recommendation

It is recommended that:

Management should enhance the review of the financial statements prior to submission for audit purposes and ensure that all information that is included in the financial statements is accurate and presented fairly

Management response:

Management agrees with the finding and wish to respond as follows:

Although the identified error relates to construction projects, however the auditor should take note that this was an isolated case where the department acquired property through public auction processes. Acquisitions through the public auction process is very uncommon method of acquisition of the DPWI. The transaction value was known at the conclusion of the auction, whilst the WCS system had an authorized value based on the DPWI assessed market value.

The DPWI is therefore of the opinion that this is an isolated event and will adjust the commitment value to reflect the auction value, which will not require the error to be extrapolated

Auditor's conclusion

Management comments noted. However, finding remains and will be reported in the management report

Overstatement of Commitment COFF 02 PE

Audit finding

Requirements

Public Finance Management Act paragraph 40(1)(a) states that "The accounting officer for a department, trading entity or constitutional institution must keep full and proper records of financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards"

Public Finance Management Act paragraph 40(1)(b) states that "The accounting officer for a department, trading entity or constitutional institution must prepare financial statements for each financial year in accordance with generally recognized accounting practice"

Nature

During the audit of Commitments, we identified that there was a commitment raised for a contract that was subsequently cancelled. From inspection of the Notice of Cancellation letter addressed to the contractor we noted that the contract was cancelled on the 2nd March 2020, and as a result the entity does not have commitment to the contractor as at 31st March 2020.

WCS Number	Supplier Name	Commitment Per schedule (Contractor Commitment) **R**	Contractor commitment due to cancellation. **R**	Difference **R**
037667	Maziya General Services/ Tshiya JV	90 485 710 .12	0	90 485 710.12

Impact

This results to the following:

Over-statement of Commitment by R 90 485 710.12

Internal control deficiency

Financial and Performance Management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

Management did not review the commitment schedule to ensure that information recorded is accurate and agree to the AFS.

Recommendation

It is recommended that management must enhance the review of the financial statements prior to submission for audit purposes and ensure that all information that is included in the financial statements is complete and presented fairly.

Management response:

Management is in agreement with the finding.

Management has assessed the full population of cancelled contracts and is in the process of correcting projects where the cancellation was not enacted on WCS. To this end, a revised population for WCS Commitments will be provided to the AGSA by 11 September 2020 for re-auditing.

Auditor’s conclusion

Management comments noted. The finding remains and will be reported in the management report.

Understatement of Commitment COFF 11 CPT

Audit finding

Requirements

Public Finance Management Act paragraph 40(1)(a) states that "The accounting officer for a department, trading entity or constitutional institution must keep full and proper records of financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards…"

Public Finance Management Act paragraph 40(1)(b) states that "The accounting officer for a department, trading entity or constitutional institution must prepare financial statements for each financial year in accordance with generally recognized accounting practice…"

GRAP 01, paragraph 17 states that: "Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses…"

Nature

During the audit of Commitments, we identified differences between what is recorded on the commitments schedule and what is on the progress payment certificate for the project.

Issue 1:

During the audit of commitments for project number, WCS 055141: Cape Town, Sanae 4: Annual Maintenance at the research base on Antarctica; it was noted that the authorised amount for the project was **R494 304.50.**

Expenditure incurred and included on the AUC and commitment register was R 104 454.40. Upon inspection of the progress payment certificate as at 25 March 2020, we noted that the full-authorised amount was spent.

This commitment balance is not valid as the full amount of the project has been spent and the entity has no further commitments towards the project.

Authorised amount	Expenditure per payment progress certificate	Expenditure per commitment schedule	Commitment per payment progress certificate	Commitment per the commitment schedule	Difference
R 494 304.5	R 494 304.5	R 104 454.4	0	R 389 850.1	**R 389 850.1**

Therefore, commitments are overstated by R 389 850 .1.

Issue 2:

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During the audit of commitments for project number, WCS 042528: Department of Arts and Culture: Iziko SA Museum: Courtyard Project; differences were noted between the details of the project per the progress payment certificate and the details as per the commitments schedule, this resulted in commitments being understated by R 5 070 885,79.

1. Authorised amount

Authorized amount per the commitment schedule	Authorized amount per the CPAP calculation confirmation	Difference
R 57 228 000	R 57 741 000	**R 513 000**

2. CPAP expenditure

CPAP expenditure amount per the commitment schedule	CPAP expenditure amount per the ppc	Difference
R 54 651 051,85	R 50 093 166,06	**R 4 557 885,79**

3. CPAP commitment

CPAP commitment per the commitment schedule	Auditor's recalculated CPAP commitment	Difference
R 2 576 948,15	R 7 647 833,94	**R 5 070 885,79**

Therefore, commitments are understated by R 5 070 885, 79.

Impact

This results to the following:

Understatement of Commitment balance by R 4 681 035.69

Internal control deficiency

Financial and Performance Management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information because the projects amounts on the schedule does not agree to the supporting information.

Recommendation

It is recommended that management must enhance the review of the financial statements prior to submission for audit purposes and ensure that all information that is included in the financial statements is complete and presented fairly.

Management response:

Issue 1

Management agrees with the audit finding. It was an oversight that this amount was disclosed as a commitment although payment was effected.

Issue 2

Management is not in agreement with the finding due to the following reasons:

CPAP Authorised amount

The CPAP authorisation document that auditor perused relates to January 2020.

The authorised amount of R 57 228 000.00 as per the schedule agrees to the financial reports attached hereto on 6 of 16 (Annexure A).

CPAP expenditure to date.

The amount of R 50 093 166, 06 noted by the auditor is not the actual CPAP expenditure. The correct amount is R47 864 484 (VAT excluded) and R54 651 052 (VAT inclusive), please refer to the attached payment progress certificate and details below (Annexure B).

VAT is added to the gross payment amount as per table below. *(Please note the average of the VAT over the project duration flows from 14%-15%)*

	Amount	VAT	Total
CPAP	R47 864 484	R6 786 568	R54 651 052

CPAP Commitment

CPAP commitment amount at year end is R2 576 948.00 (R 57 228 000- R54 651 052) which agrees to CPAP commitment reported in the annual financial statement.

Auditor's conclusion

Management comment are noted, however the authorized CPAP as at 31 March 2020 amounted to R 57 741 000 which should have been used in preparing the AFS. CPAP to date is noted and agreed with management comments. The finding will remain on the management report.

DETAILED AUDIT FINDING: Understatement of Commitment CPT COFF 11

Audit Finding

Requirements

Public Finance Management Act paragraph 40(1)(a) states that "The accounting officer for a department, trading entity or constitutional institution must keep full and proper records of financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards''

Public Finance Management Act paragraph 40(1)(b) states that "The accounting officer for a department, trading entity or constitutional institution must prepare financial statements for each financial year in accordance with generally recognized accounting practice''

Nature

During the audit of Commitment, we identified that there was a different between CPAP authorised amount as per Commitment schedule provided for audit as at 31 March 2020 and CPAP authorised amount per WCS report and supporting documentation.

WCS Number	Supplier Name	CPAP authorised amount Per schedule	CPAP authorised amount per wcs report and CPAP calculation	Difference R'
054496	La Natura (Pty) Ltd	0	315 171	315 171

Impact

This results to the following:

Understatement of Commitment

Internal control deficiency

Financial and Performance Management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information because the provisions information on schedule does not agree to supporting information.

Recommendation

It is recommended that management must enhance the review of the financial statements prior to submission for audit purposes and ensure that all information that is included in the financial statements is complete and presented fairly.

Management response:

La Natura:

Management does not agree with the finding. CPAP is not applicable to the project and the commitment schedule was therefore updated accordingly. The CPAP authorised amount as per the commitment is R0.00 as reported. Please refer to the document that was provided to PBA to adjust CPAP.

Auditor's conclusion

Issue 1 La Natura: Management comments noted, however the finding remains unresolved since the document supporting PBA to adjust CPAP was not provided.

AUDIT OF PREDETERMINED OBJECTIVES

Programme 3: Strategic objectives not reported in the 2019/20 Annual Performance Report COFF 17 HO

Audit Finding

Requirements

Section 40(3)(a) of the Public Finance Management Act states that: "The annual report and audited financial statements referred to subsection (1)(d) must fairly present the state of affairs of the department, trading entity or constitutional institution, its business, its financial results, its performance against predetermined objectives and its financial position as at the end of the financial year concerned…"

Section 25(1)(e) of the Public Service Regulation states the following: "An executive authority shall prepare a strategic plan for his or her department that enable the executive authority to monitor the progress made towards achieving those targets and core objectives…"

Section 31(1) of the Public Service Regulation states the following: "The head of department shall include in the department's annual report, referred to section 40(1)(d) of the Public Finance Management Act, such information pertaining to the public service as the Minister may direct, and in the format that the Minister may direct…"

Treasury Regulations 5.2.4 states that: "The strategic plan must form the basis for the annual reports of accounting officers as required by sections 40(1)(d) of the Act…"

Nature

During the audit of performance information, Programme 3: Construction Project Management, we noted that the strategic objectives as listed below were disclosed in the 2019/20 Annual Performance Plan, however were not reported in the 2019/20 Annual Performance Report.

Strategic objective: "To develop detailed construction plans that direct the execution of construction projects"

Strategic objective: "To ensure that construction programmes are implemented according to approved criteria"

Impact
The above may result in the following:
Non-compliance with the requirements of PFMA, Public Service Regulations and Treasury Regulations.

Inconsistent reporting in the annual performance report.

Reported strategic objectives are not complete when compared to the planned strategic objectives.

Internal control deficiency

Financial and performance management

Inadequate review processes by management and incorrect application of performance information principles to ensure that planning and reporting documents are consistent.

Recommendation

It is recommended that robust review processes be implemented to ensure consistency in the planning and reporting of performance information.

Furthermore, it is recommended that management include/report on the planned strategic objectives in the annual performance report for the 2019/20 period.

Management response

Performance against the Strategic objectives will be included in the APR

Auditor's conclusion

Management comments have been noted. The final APR will be assessed to confirm that the performance against the strategic objectives are included.

Programme 3 - Details per schedules do not agree to details as per POE COFF 14

Audit finding

Requirements

Section 40(3)(a) of the Public Finance Management Act states that: *"The annual report and audited financial statements referred to subsection (1)(d) must fairly present the state of affairs of the department, trading entity or constitutional institution, its business, its financial results, its performance against predetermined objectives and its financial position as at the end of the financial year concerned…"*

Paragraph 5.2 of the Framework for Managing Programme Performance Information: *"requires auditee to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets…"*

Section 25(1)(e) of the Public Service Regulation states the following: *"An executive authority shall prepare a strategic plan for his or her department that enable the executive authority to monitor the progress made towards achieving those targets and core objectives…"*

Nature

During the audit of performance information, the following differences between the schedule and portfolio of evidence were identified for the performance indicators indicated below:

Indicator 3.1: Number of approved infrastructure project designs

No.	WCS number	Region	Approval date	Project description as per schedule	Project description as per Certificate - PRM 16
1	050838	Kimberley	10/09/2019	Jan Kempdorp Magistrate's Office,Construction Of A New Building	Kimberley NPO: Addition to the aircondition system

Indicator 3.2: Number of approved infrastructure projects ready for tender:

No.	WCS number	Region	Approval date	Project description as per schedule	Project description as per PA 01/12
1	054753	Bloemfontein	17/03/2020	Heidedal Mangaung: Police Station , Upgrade Of Standby Generator	Bloemfontein Deeds office: assessment and implementation of remedial strategies of existing climatic control system

Indicator 3.3: Number of infrastructure sites handed over for construction

No.	WCS number	Region	Date site handed over	Project description as per schedule	Project description as per SHO
1	050719	Cape Town	13/11/2019	Ct: Langebaan: 4 Special Forces Regiment: Upgrading Of The Langebaan & Donkergat Mess Facility	Ysterplaat Air Force Base: Installation of fire detection system

Impact

The reported information may not be reliable due to the reported achievement not reported correctly.

Internal control deficiency

Financial and performance management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information:

Management did not ensure performance achievements were accurately captured in the schedules that support the annual performance report.

Recommendation

It is recommended that review processes be implemented at the various executing units to ensure accurate information is reported in the schedules that support the annual performance report.

Management response

Indicator 3.1: Number of approved infrastructure project designs

No.	WCS number	Region	Approval date	Project description as per schedule	Project description as per Certificate - PRM 16	Management Response
1	050838	Kimberley	10/09/2019	Jan Kempsdorp Magistrate's Office, Construction Of A New Building	Kimberley NPO: Addition to the air-condition system	Management does not agree with AGSA as the correct project description titled: "Kimberley NPO:

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						Addition to the air condition system" is what is reported on the schedule.

Indicator 3.2: Number of approved infrastructure projects ready for tender:

No.	WCS number	Region	Approval date	Project description as per schedule	Project description as per PA 01/12	Management Response
1	054753	Bloemfontein	17/03/2020	Heidedal Mangaung: Police Station , Upgrade Of Standby Generator	Bloemfontein Deeds office: assessment and implementation of remedial strategies of existing climatic control system	Management agrees with AGSA that the project description is incorrect though the WCS is correct and it corresponds with the PoE (PA 12). This is not material and does not affect performance report.

Indicator 3.3: Number of infrastructure sites handed over for construction

No.	WCS number	Region	Date site handed over	Project description as per schedule	Project description as per SHO	Management Response
1	050719	Cape Town	13/11/2019	Ct: Langebaan: 4 Special Forces Regiment: Upgrading Of The Langebaan & Donkergat Mess Facility	Ysterplaat Air Force Base: Installation of fire detection system	Management agrees with AGSA that the project description is incorrect though the WCS is correct and it corresponds with the PoE (Site Handover Certificate). This is not material and does not affect performance report.

Auditor's conclusion

Management comments have been noted. The results will be assessed against the whole population whether it is material or not. Therefore, the finding remains unresolved.

PROCUREMENT AND CONTRACT MANAGEMENT

Irregular, fruitless and wasteful expenditure – Disclosure notes not fairly presented and complete COFF 10 HO

Audit finding

Requirements

Public Finance Management Act paragraph 38(1)(a)(i) states that "The accounting officer for a trading entity must ensure that the trading entity has and maintains

(i) Effective, efficient and transparent systems of financial and risk management and internal control…"

Section 40 of the Public Finance Management Act (PFMA) states that: "The accounting officer for a trading entity – (a) must keep full and proper records of the financial affairs of the trading entity, in accordance with any prescribed norms and standards…"

Generally, Recognised Accounting Practice (GRAP) 1 paragraph 17 states that "Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses…"

Irregular expenditure framework para 16 states that "If a transaction has been processed in contravention of legislation and the same transaction has a financial implication (payment was made or a liability was recognised in the books), it must be recorded as irregular expenditure…".

Irregular expenditure framework para 82 states that "The accounting officer must ensure that only confirmed irregular expenditure is disclosed in the main note to the annual financial statements…"

Fruitless and wasteful expenditure framework para 60 states that ***"****The lead schedule of fruitless and wasteful expenditure must also serve as a lead for amounts of fruitless and wasteful expenditure to be disclosed in the note to the annual financial statements to ensure its accuracy and completeness…"*

Nature

During the audit process, we noted that investigations were conducted by the Anti-Corruption and Fraud Awareness Unit and concluded before 31 March 2020 and in some instances before 31 March 2019, as indicated in the table below.

No	Investigation ref #	Description of the report	DG approval date
1	PTA/FAI/03/2018-19	Investigation into allegation of irregularities relating to water efficiency management contracts awarded by the DPW	02-May-19
2	PTA/FAI/02/2017-18	Investigation into allegation of irregular, fruitless and wasteful expenditure incurred in respect of a project awarded by the Pretoria Regional Office.	14-Jun-18

These investigations confirmed allegations with regards to irregular expenditure, and fruitless and wasteful expenditure, and determination tests have been conducted and completed. Management did not update the following notes to the annual financial statements for the year ended 31 March 2020 to adequately reflect the outcomes of these processes:

Note 31 fruitless and wasteful expenditure and
Note 32 Irregular expenditure.

Impact

Non-compliance with section 40 of the Public Finance Management Act
Non-compliance with National Treasury Instruction No. 1 of 2018/19
Non-compliance with National Treasury Instruction No. 3 of 2019/20
Fruitless and wasteful expenditure as disclosed in Note 31 to the annual financial statements is incomplete
Irregular expenditure as disclosed in Note 32 to the annual financial statements is incomplete.

Internal control deficiency

Financial and performance management

Management did not implement a proper financial and reporting system to enable proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

Lack of proper review of financial statements submitted for audit to ensure that they are accurate and complete.

Recommendation

It is recommended that:

Management should conduct reviews on completed investigations and determined non-compliance resulting to irregular, fruitless and wasteful expenditure to ensure that the annual financial statements and supporting schedules (Irregular, fruitless and wasteful expenditure register) are updated with accurate and complete amounts.

Management must develop or enhance compliance procedures to ensure compliance with all prescribed laws and regulations. In addition, such procedures include enhancement of compliance checklists already developed.

Management response:

Management acknowledges the finding and wishes to respond as follows:

Item 1:

Management agrees with the finding. The case was not included in the register as the amount of irregular expenditure to be disclosed in the register was not indicated. To this end, management is still undergoing the process of quantifying the amount that should be disclosed as irregular expenditure. The quantification of irregular expenditure will be expedited and the necessary disclosures will be made upon its finalisation. Furthermore, a narrative note for the purpose of fair presentation will be made in the disclosure note should the quantification process not be finalised before the conclusion of the audit.

Item 2:

Management does not agree with the finding. An amount of R432,475.60 was disclosed as fruitless and wasteful expenditure as per the ACU report. Please refer to row 1215 on the fruitless & wasteful expenditure register.

Auditor's conclusion

Management comments are noted.

Item 1

The finding remains and adjustments / narrative will be audited after the submission of AFS.

Item 2

The amount was confirmed to have been disclosed as fruitless and wasteful expenditure and the finding is resolved.

DETAILED AUDIT FINDING: Fruitless and Wasteful Expenditure On Interest Charged COFF 08 PTA

Audit finding

Requirements

Public Finance Management Act paragraph 38(1)(a)(i) and 38(1)(a)(ii) states that "The accounting officer for a trading entity must ensure that the department has and maintains effective, efficient and transparent systems of financial and risk management and internal control and an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective…"

Public Finance Management Act paragraph 1 defines "fruitless and wasteful expenditure' as "expenditure which was made in vain and would have been avoided had reasonable care been exercised"

Public Finance Management Act paragraph 38 (1)(c)(ii) states that "The accounting officer for a, trading entity must take effective and appropriate steps to prevent unauthorized, irregular and fruitless and wasteful expenditure and losses resulting from criminal conduct"

Public Finance Management Act paragraph 38 (1)(g) states that: "The accounting officer must on

discovery of fruitless and wasteful expenditure, immediately report, in writing, particulars of the expenditure to the relevant treasury;''

Public Finance Management Act paragraph 38 (1)(h) states that: "The accounting officer must take effective and appropriate disciplinary steps against any official in the service of the department or constitutional institution who makes or permits fruitless and wasteful expenditure''

Public Finance Management Act paragraph 40 (3)(b) states that: "The annual report and audited financial statements must include particulars of fruitless and wasteful expenditure that occurred during the financial year and any disciplinary steps taken as a result of such fruitless and wasteful expenditure.''

Treasury Regulation 8.1.1 state that "The accounting officer of the institution must ensure that Internal procedures and internal control measures were in place for the approval and processing of payments. These controls provided reasonable assurance that all expenditure is necessary, is appropriate, is paid promptly and is adequately recorded and reported on."

Treasury Regulation 8.2.1 states that "An official of an institution may not spend or commit public money except with the approval (Either in writing or duly authorised electronic means) of the accounting officer or a properly delegated or authorised officer."

Treasury Regulation 8.2.2 states that "Before approving expenditure or incurring a commitment to spend, the delegated or authorised official must ensure compliance with any limitations or condition attached to the delegation or authorisation."

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Treasury Regulation 9.1.1 state that "The accounting officer of a trading entity must exercise all reasonable care to prevent and detect fruitless and wasteful expenditure and must, for this purpose, implement effective, efficient and transparent processes of financial and risk management."

Nature

During the audit of interest expense, we noted that the lease agreement was signed between the Momentum Property Investment (PTY) LTD and Department of Public Works and Infrastructure on behalf of Department of Science and Technology (Client department). The lease arrangement was disputed by the client department and the reasons for dispute were documented as follows on the Memorandum:

"The lease agreement was signed between the Landlord and Department of Public Works and Infrastructure on behalf of Department of Science and Technology whereby disputes has been encountered due to Tenant Installation which let to client not occupying the building and subsequently elevated to the Court due disagreements."

The judgement was granted in favour of the landlord on 20 February 2019 for capital amount of R3 3390 076.37 and interest of 10.25% was charged on the capital amount owned by the entity. The interest charged was calculated from the date of cancellation of the lease (1 November 2016) to the payment date as per the court judgement.

The payment of capital amount of R3 390 076.37 was made on 25 October 2019, however the payment of interest was only made later on 02 December 2019 for an amount of R1 260 329.16

The reasons for the delay in payment of interest was documented on the memo as follows: *"The reason for delay of payment is the issues of having to calculate interest and in line with the date of payment"*

The interest was charged due to a delay in the payment of the capital amount when the lease was cancelled. The interest expense could have been avoided by the entity. Through inspection of the court case judgement it was determined that the entity lose the case hence the interest was charged on capital amount from the date of cancellation to the payment date. Refer to the table below:

Case number	Receiver of payment	Amount R	Date of payment
77127/2016	Reaan Swanepool	1 260 329,00	2019/12/02

Impact

This results to the following:

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Non-compliance with treasury regulation 9.1.1.
Misstatement of the fruitless and wasteful expenditure disclosed on the AFS

Internal control deficiency

Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Financial and Performance Management

Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored.

Management didn't keep track of the fruitless and wasteful expenditure identified during the year as per the internal memorandums to ensure that they are updated in the register for completeness.

Recommendation

It is recommended that management should ensure that the entity complies with all applicable laws and regulations.

Management must ensure that payment is made within prescribed time to avoid interest charges

Management must report the fruitless and wasteful expenditure to the relevant treasury

Management must perform further investigation to determine the extent of these non-compliance as well as the financial impact.

The accounting officer must also investigate the reasons for fruitless and wasteful expenditure and confirm if it was deliberate**.**

The Interest expense incurred should be included in the fruitless and wasteful expenditure register**.**

Management response:

Management is not in agreement with the finding. The interest payment was part of the court order together with the capital amount payable emanating from lease cancellation due to dispute relating to TI. The dispute was beyond control of DPWI. As a consequence, and after serious reflection and engagement by management, the interest paid as a result of the court will be claimed from client department through Billing and Revenue Unit since the amount was incurred as a result of what cancellation of the lease owing to client department.

Auditor's conclusion

Management comments noted. However, the interest amount could have been avoided if the capital amount relating to cancellation of lease was paid on time. This is based on the fact that entity was taken to court by MMI group LTD in order to ensure that the entity pays the capital amount of R3 390 076.37 resulting from the early cancellation of the lease. The interest charged at 10.25% from the date of cancellation to the payment date results from the entity's failure to pay a capital amount. A delay in the payment of the capital amount will result in higher interest expenditure incurred. Even though the interest was enforced by the court judgment, this is not unusual as any late payment is expected to attract interest. It is our view that if the entity had paid the cancellation fee from the date that the lease was cancelled, the capital amount owed would haven't attracted any interest. The interest paid could have been avoided since no benefit was derived from such payment. The interest payment of R1 260 329,00 should therefore be recognized as fruitless and wasteful expenditure.

Follow up of infrastructure projects finding raised in prior audit

Audit finding

Regulations

Public Finance Management Act paragraph 38(1)(a)(i) states that "*The accounting officer for a department must ensure that the department has and maintains*

(iii) *Effective, efficient and transparent systems of financial and risk management and internal control*"

Section 38(1)(b)(i) of the Public Finance Management Act states that *"The accounting officer for a department is responsible for the effective, efficient, economical and transparent use of the resources of the department, trading entity or constitutional institution…"*

Public Finance Management Act paragraph 38(1)(c)(i) states that

Public Finance Management Act paragraph 38(1)(c) states that "*The accounting officer for a, trading entity must take effective and appropriate steps to*

(i) *collect all money due to the entity.*
(ii) *prevent unauthorized, irregular and fruitless and wasteful expenditure and losses resulting from criminal conduct*"

Treasury Regulation (TR) 8.1.1 states that *"The accounting officer of an institution must ensure that internal procedures and internal control measures are in place for payment approval and processing. These internal controls should provide reasonable assurance that all expenditure is necessary…"*

Treasury Regulation paragraph 8.2.1 states that *"An official of an institution may not spend or commit public money except with the approval (Either in writing or duly authorised electronic means) of the accounting officer or a properly delegated or authorised officer."*

Treasury Regulation 8.2.2 states *that "Before approving expenditure or incurring a commitment to spend, the delegated or authorised official must ensure compliance with any limitations or condition attached to the delegation or authorisation."*

Treasury Regulations 15.10.1.1 and 15.10.1.2 state the following:

"15.10.1.1. The accounting officer is responsible for establishing systems, procedures, processes and training and awareness programmes to ensure efficient and effective banking and cash management.

15.10.1.2 For purposes of this regulation, sound cash management includes –

(c) avoiding prepayments for goods or services (i.e. payments in advance of the receipt of the goods or services), unless required by the contractual arrangements with the supplier;"

Nature

During the 2016/17 financial period, findings were raised with respect to service delivery and contract management (COFF 67 of 2016/17), wherein we noted the following weaknesses in the contract management processes:

1.1 Fruitless and wasteful expenditure of R49 974 474 incurred on the amounts paid to the original contractor (Keren Kula Construction (KKC)). We also noted that the amount identified is not the full extent of fruitless and wasteful expenditure, but rather the amount that could be identified from the information we inspected as part of our audit procedures
1.2 Poor project management resulting in delays
1.3 Failure by the department to recover financial losses from the contractor's guarantor

These weaknesses resulted in fruitless and wasteful expenditure being incurred by the entity.

Management agreed with the findings, and committed to conducting an investigation into the role of the professional team they played in contributing to the department paying for such works and if found that they neglected their professional duties, recovery process must be effected through legal services.

The fruitless and wasteful expenditure was not disclosed in the annual financial statements due to the matter being under investigation.

During the follow up conducted in the prior period, management advised that the investigation was being finalised, and during interim audit in the current year, we noted that the investigation was finalised. We also noted that the investigation confirmed the matters initially identified by the auditors. The follow up audit work we performed confirmed the following discrepancies:

1. Payments to the amount of R2 328 336 were made subsequent to expiry of the contract.

2. An advance payment of R12 000 000 was made to the contractor:

-
    - This was not allowed in terms of the contract
    - The person who approved the advance did not have the required delegation (i.e. his delegation was limited to R10 000 000)
    - The payment was made after the end date of the contract
    - There was no sufficient and appropriate evidence to show that the advance was used for its intended purpose (i.e. there was no proof found of any goods or materials ordered or delivered to site.)
    - The department failed to recover financial losses from the contractor's guarantor to the amount of R6 548 273.23
-

3. The department failed to take appropriate steps to recover an additional negative progress payment certificate to the amount of R 9 073 147.43

4. According to the final account summary, the value of works certified for KKC (the initial contractor) is R82 248 529.68 however according to payment records from DPW an amount of R115 766 198.00 was paid to KKC, resulting in a difference of R 33 517 668.32.

5. Poor quality of work on a bridge resulting in the new contractor requiring to perform additional work to the value of R 493 022.18. Other fruitless and wasteful could not be quantified due to the project still being in progress.

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Impact

- Non – compliance with PFMA sections 38(1)(a), 38(1)(b) and 38(1)(c).
- Non – compliance with Treasury Regulation paragraph 8.1.1, 8.2.1, 8.2.2 and 15.10.1
- The non-compliances above resulted in the entity incurring irregular expenditure of R14 328 336
- The non-compliances above resulted in the entity incurring fruitless and wasteful expenditure of R34 010 691
- A financial loss of R49 632 112
- The irregular expenditure disclosed in the annual financial statements is incomplete
- The fruitless and wasteful expenditure disclosed in the annual financial statements is incomplete.

Internal control deficiency

Financial and performance management

Management did not review and monitor compliance with applicable laws and regulations. As a result, irregular and fruitless and wasteful expenditure was incurred.

Internal procedures and internal control measures in place for the approval and processing of payments were not adequate, or were not implemented.

Failure by the department to secure the project site against deterioration during the 18 months period when there was no project activities on site resulted in work that needs to re-performed.

Poor project management by consultants and project managers resulted in unsatisfactory performance not being timeously identified, rectified and appropriately being addressed.

Failure by the entity to timeously implement the recommendation of the DPW Legal Service and Contract Administration unit which recommended the termination of the contract after the first contractor failed to implement the agreed recovery plans. The termination was delayed by approximately 18 months after the recommendation was received from DPW Legal Service and Contract Administration unit.

Failure by DPW timeously exercise clause 36.3 of JBCC of 2000 contract agreement which state that “the employer may give notice of termination should the contractor remain in default for ten (10) working days after the date of receipt of such notice of default”.

Recommendation

It is recommended that:

Management must determine the total financial losses which were suffered by the department as a result of the above-mentioned irregularities. The workings must be submitted to the AGSA.

The expenditure must be included in the irregular expenditure register and fruitless and wasteful expenditure register, and the disclosed in the annual financial statements for the year ended 31 March 2020.

Management must quantify the full extent of fruitless and wasteful expenditure at the end of the contract. The workings must be submitted to the AGSA.

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Management must develop or enhance compliance procedures to ensure compliance with all prescribed laws and regulations. In addition, such procedures include enhancement of compliance checklists already developed.

Management response:

Management takes note of the findings and wishes to respond as thus:

Management instituted an investigation after the matter was picked by the audit team. The matter was investigated by Anti-Corruption Unit was allocated case number PTA/FAI/02/2017-18. The investigation was conducted to determine allegations of irregular and fruitless and wasteful expenditure with respect to this project. This response does not attempt to regurgitate the findings of the report since the audit team is in possession of the report save to highlight key salient issues of the report in response to the audit findings. From the investigation conducted, the following was found:

Appointment of Karen Kula Constructions (Pty) Ltd (KKC)

No irregularities were found on the appointment of KKC save for concerns that were raised by the Principal Agent with regard to CIDB grading that management had intended to use, and eventually used in the advertisement and awarding of the tender. Concerns were further raised that “KKC’s bid was 14.7% lower than the pre-tender and 9.32 lower than the average tender submitted and therefore the commercial risk remains that KCC may not be able to complete the work at the lowest tender offered”.

Poor performance/non-performance by and irregular advance payment to Karen Kula Construction (Pty) Ltd

The investigation further found that the contractor failed to perform in terms of the contract and eventually the contract was terminated after numerous notices issued to the contractor. This eventually led to an advance payment of R12 million paid to the contractors to assist with the recovery and lost ground on the project. The investigation found that Mr. J Bapela, as the Project Manager, and Mr. D Sewada, who was the Project Manager’s supervisor, collectively failed to discharged their responsibilities. The advance payment to the contractor was found to be irregular by the investigation. The advance payment was made against a guarantee issued by Refine, underwritten by Zurich for an amount of R12 million.

The investigation found that only R 6 548 273.23 was recovered while the audit team found that the “department failed to take appropriate steps to recover an additional negative progress payment certificate to the amount of R 9 073 147.43”. These “negative progress payments certificate" that the audit team said the department failed to recover are in actual fact amounts recovered from the progress payment certificates that were due and payable to the contractor. The total amount not recovered against the advance payment amounted to R2 926 852.57.

Site responsibility after cancellation of the contract

The report noted that the site remained vacant for a period of 18 months after the termination of KKC and the appointment of Raubex JV to complete the work on site.

It must be noted that according to the investigation report "upon site handover, an estimate of the works was done taking into account the period that the site was vacant and the works, at that stage, was estimated and valued at R82 248 529.68 and this was compared to the R 115 766 198.00 which was paid to KKC. This resulted in a loss of R33 517 668.32 (based on the draft final account) to the Department". The report further acknowledged that the "works suffered major damage due to adverse weather conditions, sabotage by unknown parties and theft in the period between 29 January 2015 and August 2016."

Appointment of Raubex and duplicated costs

The investigation could not find any irregularities in the procurement process followed during the awarding of the contract to Raubex. The investigation further acknowledged instances where KKC was paid fully for certain aspects of the project, yet such work required additional work by Raubex.

Below are the findings from the AGSA which requires further response/action by management and the response by management next to each:

Finding: Payments to the amount of R2 328 336 were made subsequent to expiry of the contract.

Management response: the payment made, despite the fact that it was made after expiry of the contact was made in line with the work that was done by the service provider. However, management acknowledges that the payment should have not have been released since in lieu of the advance payment that was made to the contractor.

Finding: An advance payment of R12 000 000 was made to the contractor:

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  - This was not allowed in terms of the contract
  - The person who approved the advance did not have the required delegation (i.e. his delegation was limited to R10 000 000)
  - The payment was made after the end date of the contract

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- There was no sufficient and appropriate evidence to show that the advance was used for its intended purpose (i.e. there was no proof found of any goods or materials ordered or delivered to site.)
- The department failed to recover financial losses from the contractor's guarantor to the amount of R6 548 273.23

Management response: The investigation found that only R 6 548 273.23 was recovered while the audit team found that the "department failed to take appropriate steps to recover an additional negative progress payment certificate to the amount of R 9 073 147.43". These "negative progress payments certificate" that the audit team said the department failed to recover are in actual fact amounts recovered from the progress payment certificates that were due and payable to the contractor. The total amount not recovered against the advance payment amounted to R2 926 852.57.

Finding: The department failed to take appropriate steps to recover an additional negative progress payment certificate to the amount of R 9 073 147.43

Management response: management disagrees with the finding or assertion that it failed to take appropriate steps to recover an additional negative progress payment certificate to the amount of R 9 073 143.43. The negative progress payment certificate that the audit team refers to is the amount that the Department recovered against the advance payment of R 12 million. There are such thing as "negative progress certificate" but rather payments that were due and payable to the service provider but were withheld against the advance payment.

Finding: According to the final account summary, the value of works certified for KKC (the initial contractor) is R82 248 529.68 however according to payment records from DPW an amount of R115 766 198.00 was paid to KKC, resulting in a difference of R 33 517 668.32.

Management response: the response provided by Management was thus, and it seems as if it was not taken into account with the latest, follow up finding:

*The amount of R33 517 668.32 is the difference between the certified value paid to the contractor and the DRAFT Final Account. It is important to note that the amount of R33 517 668.32 cannot be verified at this stage. However we can verify a variance of R30 051 004. The balance amounting to R 3 466 664 has not been certified through the contract valuations. Refer to attached documents as **ANNEXURE B**.*

*Please note that the draft final account (Refer to attached documents as **ANNEXURE F**) is not the final account in terms of the JBCC contract in this circumstances, but an estimation of works after 18 months period following the termination of the first contract taking into account all items reflected in the paragraph 1.1 above. The final account can only be concluded at the end of the completion contract as per the JBCC Clause 36.5.10. The value of works certified for payment was determined in accordance with JBCC Clause 31.4.1 and not in terms of the value stated in the original draft final account.*

Finding: Poor quality of work on a bridge resulting in the new contractor requiring to perform additional work to the value of R 493 022.18. Other fruitless and wasteful could not be quantified due to the project still being in progress.

Management response: Management agrees with the audit finding. The investigation conducted confirmed the fruitless and wasteful expenditure, after which management then issued a letter of demand against the consulting team. See attached copy. No further fruitless and wasteful expenditure has been identified.

Conclusion

In line with the recommendations of the investigation, disciplinary actions were instituted against officials whose actions were found to be inconsistent with various statues applicable to financial management and public servants. Sanctions imposed ranged from leave without pay for three (3) months and demotions. See attached sanction letters. As a result, management is of the firm view and belief that it acted accordingly in line with the recommendation of the investigations. Furthermore, civil claim is being pursued against the consultants, which resulted a letter of demand. The matter is being handled by Legal Services.

ANNEXURE B: OTHER IMPORTANT MATTERS

Cash and cash equivalent

Non-compliance with laws and regulation – PMTE Bank in overdraft COFF 54

Audit Finding

Laws, rules and Regulations

Treasury Regulation 19.2.3 states the following: "Trading entities allowed to open bank accounts may not borrow for bridging purposes and may not run overdrafts on their banking accounts…"

Nature of the finding

During the audit of cash and bank, it was noted that the PMTE Pay Master General account 8033 is operating on an overdraft. Furthermore, the matter was reported in the prior year audit

Description	Amount (R)	Decrease amount (R)
Balance as at 31 March 2019	2 683 976 000	(103 082 000)
Balance as at 31 March 2020	2 580 894 000	

Impact of finding

The finding may result in the following:

Non-compliance with TR 19.2.3

The bank overdraft may cast significant doubt on the entity's ability to continue as a going concern

Internal control deficiency

Financial and performance management

Management did not review and monitor compliance with applicable laws and regulations.

Recommendation

The following is recommended to management:
Monthly reconciliations need to be performed and action taken to ensure timeous recovery of current debts from client departments.

Management needs to review this overdraft on a monthly basis to ensure the overdraft does not continually increase.

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The entity should consider entering into agreements with the user departments to pay the PMTE upfront to alleviate the bank overdraft situation.

Management response

Management does not agree with the audit finding.

While management acknowledges that PMTE's Paymaster General Account (PMG Account No. 8033 298 6) shows a debit balance of R2,6 billion at the end of March 2020, this cannot be regarded as an overdraft in the true sense of bank overdraft, which is prohibited in terms of Treasury Regulations 19.2.3. The account that is held with the South African Reserve Bank (SARB) cannot be regarded as a bank account since it does not meet the definition of a bank account. While Treasury Regulations 19.2.3 does not go into detail to explain or offer reasons for prohibiting trading entities from borrowing for bridging purposes and not to run overdrafts on their banking, it would therefore not impugn logical reasoning that this was intended for trading entities not to commit the fiscus to interest payable occasioned with bank overdraft accounts. This is premised on the objective of the PFMA, which is financial management in national and provincial governments.

It is therefore incorrect of the audit team to conclude or suggest that the PMG account of PMTE held with the South African Reserve Bank (SARB) is an overdraft bank account since it does not meeting the definition of a bank account. Firstly, a bank is defined, in terms of the Banks Act, 1990, as: *"a public company registered as a bank in terms of this Act"*. While a bank account is not defined by both the Banks Act and Treasury Regulations, it can however be deduced from the Banks Act to mean an account that is held with a *"public company registered as a bank in terms of this Act"*. The ABSA accounts that the PMTE has meet this definition since ABSA is a *"public company registered as a bank"*.

Furthermore, the Banks Act defines "the business of a bank" as

a) *the acceptance of deposits from the general public (including persons in the employ of the person so accepting deposits) as a regular feature of the business in question;*
b) *the soliciting of or advertising for deposits;*
c) *the utilization of money, or of the interest or other income earned on money, accepted by way of deposit as contemplated in paragraph (a) –*
   - *(i) for the granting by any person, acting as lender in such person's own name or through the medium of a trust or a nominee, of loans to other persons;*
   - *(ii) for investment by any person, acting as investor in such person's own name or through the medium of a trust or a nominee; or*
   - *(iii) for the financing, wholly or to any material extent, by any person of any other business activity conducted by such person in his or her own name or through the medium of a trust or a nominee;*

d) *the obtaining, as a regular feature of the business in question of money through the sale of an asset, to any person other than a bank, subject to an agreement in terms of which the seller undertakes to purchase from the buyer at a future date the asset so sold or any other asset; or*

e) *any other activity which the Registrar has, after consultation with the Governor of the Reserve Bank, by notice in the Gazette declared to be the business of a bank,*

The South African Reserve Bank does not carry "the business of a bank" as defined in the Banks Act. In fact, Banks Act is quite explicit in section 2(i) that the provision of Banks Act *"shall not apply to – (i) the Reserve Bank."* As mentioned above, the ABSA bank account, as the primary bank account of the Entity, carries the business of a bank as defined in the Banks Act.

The PMTE has been allowed to operate a bank account (account number 40 6451-8843) which is held with ABSA bank, which operates as a bank, as defined in the Banks Act. As at year-ended 31 March 2020, the bank balance held with ABSA bank showed a favourable (credit) bank balance of R7,9 million. Had this account been overdrawn, the audit finding by the audit team would suffice since this would be a clear contravention with Treasury Regulations 19.2.3. See attached the Bank Statement from ABSA Bank issued on 31 March 2020. It is management's contention that the unfavourable balance of R2,6 billion held with the Reserve Bank cannot be regarded as a bank overdraft, and the PMTE has therefore not failed to comply with Treasury Regulations 19.2.3. It is precisely for this reason that the National Treasury, upon the establishment of the PMTE, instructed that the account that clients must use to reimburse the costs recovery of the PMTE must be the SA Reserve Bank's Exchequer (PMG) account, not ABSA's commercial bank account.

While the unfavourable bank balance, which is an Exchequer account, is shown as a bank overdraft for accounting purposes, such cannot be seen and concluded as non-compliance with laws and regulations, which is Treasury Regulations 19.2.3. The unfavourable balance on the Exchequer account should not been seen in isolation of the approval of the National Treasury, which allowed the PMTE to incur expenditure and claim it from client departments thereafter. This is more of a risk that the audit team is highlighting and management is taking this matter with the seriousness that it warrants, notwithstanding it not being a contravention of TR 19.2.3.

Management further takes note of the recommendations of the audit team. It should further be noted by the audit team that management has already implemented some of the recommendations made by the audit team. These initiatives include:

- charging interest to client department on overdue account;
- implementation of rates payments on a monthly basis;
- proposal to National Treasury to ring-fence the accommodation charges; and
- billing of client departments in advance in line with the lease agreements for private lease. This is in line with the industry norms to receive rental in advance.

The nature of the relationship between PMTE, Client departments and National Treasury, and the business model of the PMTE as approved by the National Treasury prior to April 2006 has resulted in unfavourable balance on this account, which management abhours and is addressing.

Auditors Conclusion

Management comments are noted however there is a still a concern on the going concern of the trading entity.

DETAILED AUDIT FINDING

Duplicate payments made to suppliers

Public Finance Management Act (PFMA) section 38(1)(c)(i) state that:

"The accounting officer for a department, trading entity or constitutional institution must take effective *and appropriate steps to;*

i) collect all money due to the department, trading entity or constitutional institution;

(ii) prevent unauthorised, irregular and fruitless and wasteful expenditure and losses resulting from criminal conduct; and

(iii) manage available working capital efficiently and economically;

Treasury Regulations Paragraph 8.1.1 states that:

"The accounting officer of an institution must ensure that internal procedures and internal measures are in place for payment approval and processing. These controls should provide reasonable assurance that all expenditure is necessary appropriate, paid promptly and is adequatley recorded"

Nature

The following issues were noted during the audit:

No	Journal Number	Payment trans	Date payment was made	Amount
1	256955	ZPW0000020573	2014/09/16	49 904,64
2	256961	ZPW0000014551	2014/09/16	4 070,49
3	256953	ZPW0000050120	2014/09/16	25 071,72
Total				**79 047,00**

During our audit of thefts and losses we noted that there were duplicate payments were made to suppliers when the entity moved from BAS to SAGE in the 2014/15 financial year.

During the change some of the payments that were made to suppliers were duplicated due to a system error. However, when and where these duplications were identified, the duplicate payments were recovered.

In the cases identified, the duplicate payments were only identified during 2019/20 financial year (5 years later) due to lack of adequate supplier reconciliations being done when the payments were initially made.

As it has been more than 3 years since the duplicate payment was made, these amounts cannot be recovered as the debt has prescribed, and transactions were therefore written off in the 2019/20 financial year under thefts and losses.

Impact

The aforementioned findings may result in:

(a) Non-compliance with Treasury Regulations 8.1.
(b) Non-compliance with Section 38 of the Public Finance Management Act
(c) Financial loss of R79 047.
(d) Possible understatement of fruitless and wasteful expenditure amounting R79 047.

Internal control deficiency

Financial and performance management

Management did not implement controls over daily and monthly processing and reconciling transactions to ensure that where duplications occurred when payments were made to suppliers, theses were timeously identified and recovered.

Recommendation

Management should ensure that supplier reconciliations are being done when payments are made.

Management response

Management disagrees with the audit finding. The transactions were discovered 2014/15 financial year at Head Office when SAGE was implemented, migrating from cash basis BAS. Head Office immediately implemented credit notes against all suppliers that were paid after the recall of the payments was unsuccessful. It is therefore incorrect of the audit team that the transactions were only discovered in 2019/20 financial year, which is a year they were written. As already mentioned, the recovery process was centralized at Head Office, after which it was decentralized to regional offices after recovery from suppliers that did not do business with the department afterwards since there were no payments made afterwards. The decision to cetralise the recovery of the amounts at Head Office was informed by the fact that the credit note functionality on SAGE was still new and there uncertainty as to whether regions would be able to successfully capture credit notes, and whether when captured at one region, it would successfully deduct against the supplier at another region.

Management of the regional office immediately sent the letters of demand to the affected service providers in November 2018 to recover the amounts. The registered letters of demand were returned unclaimed. In line with the finance delegations of 2017, these transactions were then referred to Legal Services for advice since all efforts to trace the service providers were unsuccessful. See attached copies. Legal Services recommended that the amounts must be written off since they had prescribed as there was no prospect of success to recover the amounts. The total amount written off was R79 047.00 against Theft and Losses and expensed in the current financial year.

Management further disagrees with the audit finding that this loss has resulted in fruitless and wasteful expenditure. No official of the department could be held accountable for the expenditure since this was purely a system failure during the implementation of SAGE. The implementation of any system, especially a financial one where various parties such National Treasury and SA Reserve Bank, is often susceptible to the risk of technical glitches, regardless of how much testing may have been done and how prepared the IT-background team may be. Majority of the amounts duplicated were recovered by Head Office.

Auditors Conclusion

Managements disagrees with the finding. The matter relating to the financial loss is resolved however the non-compliance will however remain unresolved and will be included in the management report.

DETAILED AUDIT FINDING: ADVERTISEMENT OF BIDS AND THE PUBLICATION OF AWARDS ON THE E-TENDER PUBLICATION PORTAL AND GOVERNMENT TENDER BULLETIN

Audit finding

Requirements

Public Auditing Act paragraph 15 of the states that: "*The Auditor-General has at all reasonable times full unrestricted access to:*

(a) Any document, book or written or electronic record or information of the auditee or which reflects or may elucidate the business, financial results, financial position or performance of the auditee;

(b) Any of the assets of or under the control of the auditee; or

(c) Any staff member or representative of the auditee."

Public Finance Management Act paragraph 38(1)(a)(i) and 38(1)(a)(iii) states that "*The accounting officer for a trading entity must ensure that the department has and maintains*

- *(i)* *Effective, efficient and transparent systems of financial and risk management and internal control;*
- (ii) *(iii) An appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective;*"

Public Finance Management Act paragraph 38 (1)(c)(ii) states that "*The accounting officer for a, trading entity must take effective and appropriate steps to prevent unauthorized, irregular and fruitless and wasteful expenditure and losses resulting from criminal conduct*"

Public Finance Management Act paragraph 40(a) and (b)of the) states that: *"The accounting officer for a trading entity must keep full and proper records of the financial affairs of the trading entity in accordance with any prescribed norms and standards; must prepare financial statements for each financial year in accordance with generally recognized accounting practice…"*

Treasury regulation 16A6.3 (d) states that *"awards are published in the Government Tender Bulletin and other media by which the bids were advertised."*

National Treasury Instruction No 1 of 2015/16 paragraph 4.1 and 4.2 states that:

"4.1 The Accounting Officers of PFMA compliant institutions must through the relevant treasury publish the awards of all advertised competitive bids on the eTender Publication Portal by taking cognisance of the requirements in paragraph 4.2

4.2 PFMA compliant institutions must submit the following information on successful bids to the relevant treasury's eTender Publication Administrator within seven (7) working days of awarding the bids:
a) Contract description and bid number

b) Names of the successful bidder(s) and preference pints claimed
c) Contract price(s), if possible and
d) contract period"

Nature

Johannesburg Region

During the audit of supply chain management, it was noted that the advertisement and awarding of the tenders as disclosed in Table 1 below were not published on the e-Tender Publication Portal.

Table 1

No	Tender number	Project Description	Supplier Name	Award Contract Value (R)
1	JHB 17/13	Krugersdorp Prison: Repair and Maintenance of Electrical and mechanical installation	Babak Steam Services (Pty) Ltd	67 967 270
2	JHB 17/15	Repair and Maintenance of Electrical and mechanical installation	Babak Steam Services (Pty) Ltd	67 526 916
3	JHB 18/28	DoD : Randfontein Military Base: Complete repairs and renovations to military base.	Temi Construction (Pty) Ltd	73 339 000
Total				**208 833 186**

Pretoria Region

During the audit of supply chain management, it was noted that the following contracts were awarded through a tender process, however these tenders were not advertised in the eTender Publication Portal as required by National Treasury Instruction No 1 of 2015/16.

Furthermore, we noted that awards were not published on the Government Tender Bulletin and the eTender Publication Portal as required by Treasury regulation 16A6.3 and National Treasury Instruction No 1 of 2015/16.

No	Tender number	Project Description	Supplier Name	Award Contract Value
1	PT18/034	Repairs and maintenance of roof and stabilizing of foundation for salvokop radio tech unit official quarters.	A AND O CIVIL JV PRISO PROJECTS	42 048 851
2	PT18/080	Office accommodation for Independent police investigation directorate (IPID)	Tlou Integrated Tech cc	122 550 710
Total				**164 599 561**

<u>Bloemfontein Region</u>

During the audit of procurement and contract management, it was noted that the below mentioned award was not published in the Government Tender Bulletin and other media where the bid was originally advertised.

Tender No	Winning Supplier	Tender Amount (R)
BL19/031	Bajadi Investments and Projects 133	3 844 088

Impact of the finding

Non-compliance with the Treasury regulation 16A6.3 (d) and National Treasury Instruction No 1 of 2015/16.

Internal control deficiency

Leadership

Management did not exercise oversight responsibility regarding financial, performance reporting, compliance, and related internal controls.

Financial and Performance Management

Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored.

Recommendation

It is recommended that management must develop or enhance compliance procedures to ensure compliance with all prescribed laws and regulations. In addition, such procedures include enhancement of compliance checklists already developed.

Management response

<u>Johannesburg Region</u>

No management response provided.

<u>Pretoria Region</u>

Management is in agreement with the finding.

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Bloemfontein Region

This office is in agreement with the finding as the Award was not published in the Government Tender Bulletin and other media by means of which the bids were advertised…"

The Regional Office does not have access to the Web facility and only submits the information to Head office. In this case no specific evidence could be traced that this tender information was submitted to Head Office.

The award will be published in the Government Tender Bulletin on 7 August 2020 and the information will also be forwarded to Head Office on 7 August 2020 for the advertising of the award information.

As an additional control measure the Head of SCM will monitor compliance on a monthly basis to ensure adherence, and to manage the risk.

The relevant supervisor will review the performance of the responsible officials and consideration will be given to consequence management processes if appropriate.

Auditor's conclusion

The finding remains, however the office have taken a decision to not scope in the requirement for the current year audit. Therefore, the impact will change from irregular expenditure to an internal control deficiency.

Information systems

1.1 Inadequately designed user access management policies

Audit finding

Nature
The following design deficiencies were noted in relation to the policies governing processes in the organisation:
The User Access Management Policy states on page 9, section 9 that "This policy shall be reviewed at least once a year and amended as and when the need for changes arises". However, it was noted that the User Access Management Policy had not been signed off to indicate when it had been approved for implementation. Furthermore, it was noted that the policy did not outline the process for the review of violation/exception reports within the organisation.

The User Access Management Policy outlines the password configurations for the organisation on page 6, section 7.7. However, the following design and implementation deficiencies were not outline in the policy:
Password history; and
Minimum password age.

The SAGE X3 User Administration Policy was approved on 6 June 2018 by the Director: IT Applications and it was noted that the policy does not outline a review cycle. Furthermore, it was noted that the policy does not outline the process for the review of log on violations.

The SAGE X3 User Administration Policy outlines on page 5, section 3.5 the minimum password configuration requirements for the application. However, it was noted that the policy did not outline the following password configurations:
account lockout duration.

Impact

Failure to ensure that the User Account Management Policy has been adequately approved for implementation in the organisation may lead to the inability to enforce processes and procedures that have been outlined in the policy and may also result in the inability to hold individual accountable in the event of deviations from the policy. This may result also result in inconsistencies in the application of processes and procedures outlined in the policy, which may result in control deficiencies within the organisation.

Failure to ensure that strong passwords are configured on the application systems may result in unauthorised access being gained through brute force and other cyber security attacks, which may result in financial information being compromised, degrading its confidentiality, integrity and availability.

Failure to ensure that the SAGE X3 User Administration Policy is frequently updated may result in outdated processes and procedures being applied in the user access management of SAGE. This may compromise the security of sensitive data through unauthorised access, degrading its confidentiality, integrity and availability.

Failure to ensure that strong passwords are configured on application systems may lead to the unauthorised access of sensitive data, compromising its confidentiality, availability and integrity.

Internal control deficiency

Financial and performance management: IT systems

Lack of adherence to the User Access Management Policy in ensuring that the policy is reviewed on an annual basis and is aligned to the current IT environment.

Recommendation

ICT management should ensure that:

The User Access Management has been adequately approved and that it includes the process for the review of log on violations.

Strong passwords are configured on the application systems, and are driven by the prescripts of the User Access Management and SAGE X3 User Administration Policies. Furthermore, the User Access Management Policy should be updated to cater for the deficiencies reported.

The SAGE X3 User Administration Policy is updated to include a review cycle as well as the process for the review of log on violations.

Management response

Management comment on audit findings: The SAGE X3 User Management Policy is a supplement of the main ICT policy. All other items not specifically stated on this policy will be inherited from the main policy. On page 6 of the SAGE X3 policy, it is stated that users are not allowed to use any previous password therefore minimum password age is zero (0) and the password expires every 30 days.		
Management comment on internal control deficiencies:		
Management comment on recommendations:		
Remedial actions:		
What actions will be taken:	• **By whom:**	• **By when:**

Auditor's conclusions

Management responses are noted; however, the corrective actions agreed upon by management will be followed-up in the next audit cycle.

1.2 Inadequate implementation of user access controls on GIS

User access controls ensures that only valid and authorised users are allowed access to initiate and approve transactions on the system and that user access is adequately segregated when transactions are captured and approved.

Audit finding

Nature
The following deficiencies were noted with regards to the administration of user access controls on the GIS system:
The User Access Management Policy outlines the process to be followed for the amendment of user access on the application systems on page 6, section 7.2. However, it was noted that the user access amendment forms for amendments performed on GIS could not be obtained. Furthermore, the user profiles for the amended users could not be obtained.

The User Access Management Policy outlines the process for password resets on page 6, section 7.3. However, a system generated list of password resets could not be obtained.

The User Account Management Policy states on page 7, section 7.4 that "As soon as an employee leaves the department, all his/her system logons must be revoked." However, it was noted user SM Maluleke (Resigned 31 December 2019) was still active on GIS.

The User Access Management Policy states on page 8, section 7.6 that "The ISO will institute a review of all user access rights at least twice a year, which is designed to positively confirm all users." However, it was noted that the review of user access was not performed on GIS.

The User Access Management Policy states on page 8, section 7.7 that "The best practice for access management will institute a review of system administrator/controller activities at least four times a year, for any seriously suspicious behaviour or critical events must be assessed and acted on." Although it was noted that the review of user access for system administrators had been performed, the review of system administrator activities had not been performed.

The password configurations on GIS could not be obtained to determine whether the following configurations have been adequately set:
Minimum password length;
Maximum password age;
Password complexity;
Lockout threshold;
Password history;
Minimum password age; and
Account lockout duration.

Impact

Failure to ensure that function amendments, user access terminations and password resets are approved prior to their creation on application systems may result in unauthorised users being granted access to the application systems and the sensitive data stored on these systems, compromising its confidentiality, integrity and availability.

Failure to ensure that user access rights are regularly reviewed may lead to the inability to detect users that have inappropriate access rights, which may lead to the performance of functions that are not commensurate with those user's job functions, which may lead to unauthorised transactions compromising the integrity and availability of financial information.

Failure to ensure that system administrator activities are regularly reviewed may lead to the inability to detect fraudulent activities performed by system administrators, which may compromise the integrity of financial information.

Failure to ensure that strong passwords are configured on the application systems may result in unauthorised access being gained through brute force and other cyber security attacks, which may result in financial information being compromised, degrading its confidentiality, integrity and availability.

Internal control deficiency

Financial and performance management: IT systems

GIS and its related controls was initially implemented by business prior to being handed over to IT, which has resulted in the inability to tighten controls on the system.

Recommendation

ICT management should ensure that:

Application systems log amendments to user access, and that all user access amendments are approved and adequately documented prior to implementation.

IT management, in collaboration with HR, should ensure that terminated user's access is timeously revoked from application systems once those terminated users have left the employment of the organisation.

Application system logs password resets, password reset requests, system administrator activities and user access rights on the application systems are reviewed and adequately documented.

IT management should ensure that strong passwords are configured on the application systems, and are driven by the prescripts of the User Access Management Policy. Furthermore, the User Access Management Policy should be updated to cater for the deficiencies reported.

Management response

Management comment on audit findings: Management agrees
Management comment on internal control deficiencies: GIS is a system that was initiated and implemented by business and was only handed over to ICT once the implementation was completed hence ICT user management procedures were not implemented as part of the solution. Currently amendments requests are received from RIERS through emails or phone. Going forward ICT will standardize the process whereby users will submit a user amendment form.

<table>
<tr><td colspan="3">The GIS system does not log the password reset requests. This will be corrected as part of enhancement or development of a new system.
ICT relies on line function to inform us when users leave the department so the user's account can be revoked on the system. In this case no information was received by ICT regarding Mr. Maluleke.

Going forward ICT will issue reminders to line function of their responsibility to constantly review and inform ICT when officials leave the department or leave the unit
The GIS system does not currently have the ability to log administrator activities. This will be corrected as part of enhancement or development of a new system.

The password configuration is not line with the departmental policy. This will be corrected as part of enhancement or development of a new system.</td></tr>
<tr><td colspan="3">Management comment on recommendations: Management agrees</td></tr>
<tr><td colspan="3">Remedial actions:</td></tr>
<tr><td>What actions will be taken:</td><td>By whom:</td><td>By when:</td></tr>
<tr><td>Application systems log amendments to user access, and that all user access amendments are approved and adequately documented prior to implementation.</td><td>Khathu Nekhumbe</td><td>01 August 2020</td></tr>
<tr><td>Management to issue periodic communications to line managers on the following: User Access Review and Official resignations.</td><td>Khathu Nekhumbe</td><td>01September 2020</td></tr>
<tr><td>Application system logs password resets, password reset requests, system administrator activities and user access rights on the application systems are reviewed and adequately documented.</td><td>Khathu Nekhumbe</td><td>01 April 2021</td></tr>
<tr><td>IT management to ensure that strong passwords are configured on the application systems, and are driven by the prescripts of the User Access Management Policy. Furthermore, the User Access Management Policy should be updated to cater for the deficiencies reported.</td><td>Khathu Nekhumbe</td><td>01 April 2021</td></tr>
</table>

Auditor's conclusions

Management responses are noted; however, the corrective actions agreed upon by management will be followed-up in the next audit cycle.

1.3 Inadequate implementation of user access management controls on SAGE

Audit finding

Nature
The following deficiencies were noted with regards to the administration of user access controls on the SAGE system:

The user access amendment form for Pheletso Sedibe had not been signed off by the system administrator. Furthermore, the profile of the user, indicating the user access amendments could not be obtained.

The SAGE X3 User Administration Policy states on page 5, section 3.5 that "In the case of resetting password requests, the users must submit the SAGE X3 form to the system controller."

However, it was noted that the password reset forms for the following users could not be obtained:

Reset by	Admin user code	Date reset	Time reset	User code	Request
Thato Magolo	HO163	2020/01/17 11:22:28 AM	11:22	H106	New password
Thato Magolo	HO163	2019/10/07 03:05:44 PM	15:05	MMB22	New password
Thato Magolo	HO163	2019/11/27 12:32:34 PM	12:32	KMB20	New password
Asok Gudibandi	SYS9	2019/09/20 10:39:02 AM	10:39	HO185	New password
Asok Gudibandi	SYS9	2019/04/30 07:58:09 AM	07:58	PLK25	New password
Thathane Prudence	SYS19	2020/02/13 02:29:09 PM	14:29	UMT59	New password
Thathane Prudence	SYS19	2020/02/03 11:33:50 AM	11:33	HO189	New password
Mamabolo Kgaogelo Oarabile	Sys18	2020/01/24 09:54:46 AM	09:54	CPT34	New password
Makgate Dineo	SYS17	2020/02/05 11:25:57 AM	11:25	UMT52	New password
Josbeth Mogomotsi	SYS 3	2019/05/07 03:02:49 PM	15:02	UMT36	New password
Byrch Miemmie	BM	2019/06/10 11:32:09 AM	11:32	H086	New password

The SAGE X3 User Administration Policy states on page 5, section 5.5 that "If a user resigns or is transferred to another section, the user should submit the SAGE X3 form to the System Controller to de-activate the User ID on SAGE X3 with immediate effect."
However, it was noted that there were 5 terminated users that were still active on SAGE X3, moreover, it was further noted that 2 of the 5 terminated users had accessed the system after their termination date.

Name & Surname	User Code	Login / Persal Number	Last Login Date	RESIGNATION _DATE
Van Jaarsveld Wynand	H088	27568938	2019/06/28	20191122
Mpyana Mahlodi	JHB52	28818733	2019/10/23	00000000
Mpungose Lindani Samakhuba	JHB53	28851773	2020/03/13	20190731
Thokozani Mduduzi Zulu	JHB55	28860268	2019/08/29	20190731
Mpho Maladzhi	JHB54	28860292	2019/09/26	20190731

Furthermore, the password configuration received did not outline the following:
Maximum password age;
Lockout threshold;
Password history;
Minimum password age; and
Account lockout duration
It was noted that there were 16 users that had more than one user account on SAGE X3, namely:

Name & Surname	User Code	Login / Persal Number
Galane Mmoroti Julius	PLK29	27958166
Galane Mmoroti Julius	PLK39	27819566
Jozela Babalwa Happiness	UMT12	27569837X
Jozela Babalwa Happiness	HO176	27569837
Khuzwayo Lucky	DBN46	27789977X
Khuzwayo Lucky	HO156	27789977
Legodi Katlego	PTA53	28294457
Legodi Katlego	H135	28294467
Mahlangu Sizakele	HO181	9506190263084XXX
Mahlangu Sizakele	PTA67	9506190263084X
Mdludlu Ayanda	PE32	28175816X
Mdludlu Ayanda	UMT53	...
Ndyolashe Nomzamo	H127	52038271
Ndyolashe Nomzamo	H143	52038170
Shibambu Tiyiselani Marvin	PLK27	27819574X
Shibambu Tiyiselani Marvin	HO155	27819574

Impact

Failure to ensure that user access amendments and password resets are adequately implemented, user access is timeously terminated and that strong passwords are configured on application systems may lead to the unauthorised access of sensitive data, compromising its confidentiality, availability and integrity.

Failure to ensure that each user is uniquely identifiable on the application systems may result in the inability to hold a user accountable for fraudulent transactions that may be performed, compromising financial information, and degrading its integrity.

Internal control deficiency

Financial and performance management: IT systems

Lack of adherence to the SAGE X3 User Management Policy in ensuring that user access management controls are adequately implemented.

Recommendation

IT management should ensure that:

User access amendments are approved prior to implementation on the application, password resets are approved and adequately documented, user access is timeously revoked for terminated users and that strong passwords are configured on application systems.

Each user has their own unique user ID and that users are not assigned more than one user account on the application.

Management response

Management comment on audit findings: Management does not agree.
Management comment on internal control deficiencies: The SAGE X3 User Management Policy is a supplement of the main ICT policy. All other items not specifically stated on this policy will be inherited from the main policy. The system generated list of users whose password was reset was submitted to AGSA as part of RFI 84, however this was part of the system administrator activity review list. ICT will be extracted the same and resubmit to the AGSA team. In our assessment Mr. Wynand van Jaarsveld should have been removed as part of the February 2020 user access review as received from business also in February 2019. However due to an error the system transaction instruction was not committed on the system during the deactivation process, this has since been resolved. As SAGE uses a two factor authentication process for users to gain access to the system, the first being that a user through terminal services logins to the server using Active Directory credentials and then followed by the SAGE specific credentials which were the ones still to be deactivated. We are happy to report that there were no transactions record by the account belong to Mr. van Jaarsveld. However, it must be noted that in terms of the Johannesburg regional office officials, ICT after having sent out a report of all active users on the SAGE system to line management at the JHB region, no response was received which would have then served as an instruction to ICT to deactivate the four (4) SAGE system accounts from the JHB region. On page 6 of the SAGE X3 policy, it is stated that users are not allowed to use any previous password therefore minimum password age is zero (0) and the password expires every 30 days. There are no duplicated users on the system. Some of the records that seem to be duplicated as shown on the list by AGSA are actually archived/deactivated records as the list provided by ICT included inactive accounts. ICT has separated active and inactive users and provided a report with two sheets showing the two categories of users.
Management comment on recommendations: User password reset logs are captured as part of the logged activities performed by System administrators. Users are terminated whenever a termination form is received from users. User access review is performed periodically through the user review process and this is mainly dependent on the responses received from line managers. SAGE X3 password is very strong, it forces for comply

to uppercase, lower case, numerals and special characters and minimum 8 characters as per the policy on item 3.5 of the policy. Users are only assigned one user id on SAGE X3		
Remedial actions:		
What actions will be taken: Merge SAGE X3 user management policy with the ICT User Management Policy to ensure one policy for user management	**What actions will be taken:** Merge SAGE X3 user management policy with the ICT User Management Policy to ensure one policy for user management	**What actions will be taken:** Merge SAGE X3 user management policy with the ICT User Management Policy to ensure one policy for user management

Auditor's conclusions

Management responses are noted; however, the corrective actions agreed upon by management will be followed-up in the next audit cycle.

Management comments for the following findings have been received, but do not align to the findings that were raised:
The user access form for Pheletso Sedibe had not been signed off. Furthermore, the user profile for Pheletso Sedibe could not be obtained.
Password reset forms for the sampled users could not be obtained.
Inadequate password configurations on SAGE.
Duplicate users (Following assessment of the supplementary evidence provided, it was noted that there were still duplicate users on the system)

1.4 Inadequate implementation of user access management controls on PMIS

Audit finding

Nature
The following deficiencies were noted with regards to the administration of user access controls on the PMIS system:

The User Access Management Policy outlines the process to be followed for the amendment of user access on the application systems on page 6, section 7.2. However, a system generated list of user amendments could not be obtained.

The User Access Management Policy outlines the process for password resets on page 6, section 7.3.
However, password reset forms for the following users could not be obtained:

Name	Surname	Password reset date
Martha	Ramafalo	15/08/2019
Dimakatso	Shai	04/02/2020
Refilwe	Masemola	10/10/2019
Bathmanathen	Moodley	09/12/2019
Tebogo	Phiri	10/07/2019
Refilwe	Masemola	14/10/2019
Sonto	Sambo	22/08/2019
Cebo	Ndlovu	25/07/2019
Gordon	Thakanyane	22/01/2020
Nompumelelo	Manzezulu	06/03/2020
Nishi	Sharma	11/03/2020

The User Account Management Policy outlines on page 7, section 7.4 the process for revoking user access on applications. However, a comparison between the active user list and the HR terminations could not be performed as the active user list did not have a standard naming convention for users on the system.

The User Access Management Policy outlines on page 8, section 7.6 the process for the review of user access rights. However, it was noted that the review of user access was not performed on PMIS.

The User Access Management Policy outlines on page 8, section 7.7 the process for the review of system administrator activities. However, the review of system administrator activities had not been performed.

The following password configurations could not be obtained to ascertain whether the PMIS system was adequately configured:
Minimum password length;
Maximum password age;
Password complexity;
Lockout threshold;
Password history;
Minimum password age; and

Account lockout duration.

Impact

Failure to ensure that function amendments, password resets and user terminations are approved prior to their creation on application systems may result in unauthorised users being granted access to the application systems and the sensitive data stored on these systems, compromising its confidentiality, integrity and availability.

Failure to ensure that system administrator activities are regularly reviewed may lead to the inability to detect fraudulent activities performed by system administrators, which may compromise the integrity of financial information.

Failure to ensure that strong passwords are configured on the application systems may result in unauthorised access being gained through brute force and other cyber security attacks, which may result in financial information being compromised, degrading its confidentiality, integrity and availability.

Internal control deficiency

Financial and performance management: IT systems

Lack of adherence to the User Access Management Policy in ensuring that user access management controls are adequately implemented.

Recommendation

IT management should ensure that:

Function amendments, password resets and user terminations are adequately approved and documented.

System administrator activities are regularly reviewed and adequately documented.

Strong passwords are configured on the application systems, and are driven by the prescripts of the User Access Management Policy.

Management response

Management comment on audit findings: Management disagrees with all the findings except for the finding on PMIS administrator activities review and user access reviews
Management comment on internal control deficiencies: The user list from the PMIS system was provided to AGSA with the user profile included as well as part of the report. ICT provided the forms as ICT understood the request as to provide the forms provided by the users. The list could not be immediately provided after receiving clarification from AGSA team for ICT to provide a report extracted from PMIS. This is a repetition from the SAGE request above on item 1.2.

The forms are received with the information as captured and approved by line managers where officials captured their names in the manner as captured on the system. The lack of the access review for PMIS users can be contributed to the task not correctly assigned to the new official due to the hand over process where one of the activities assigned should have been to also perform a user access review for PMIS system as well. PMIS Password configurations are solely managed by SITA as part of all the mainframe systems password configuration and/or policy. This includes systems such as WCS, PERSAL, etc.		
Management comment on recommendations: Function amendments, password resets, user access and user access are only performed through an approved user profile amendment form. User terminations must be communicated by line function to ICT for immediate execution. System administrator activities to be regularly reviewed and adequately documented on the ICT User management policy. For PMIS and all mainframe systems this process can only be managed by SITA. The DPWI ICT User Management Policy must be adequately documented to specify the same		
Remedial actions:		
What actions will be taken:	**What actions will be taken:**	**What actions will be taken:**

Auditor's conclusions

Management responses are noted; however, the corrective actions agreed upon by management will be followed-up in the next audit cycle.

1.5 Inadequate implementation of user access management controls on WCS

Audit finding

Nature

The following deficiencies were noted with regards to the administration of user access controls on the WCS system:

The User Access Management Policy outlines the process for the creation of new users on applications systems on page 5, section 7.1. It was noted that there were 38 new users that had been created on WCS, however, the new user access form for William Lebudi could not be obtained. Furthermore, it was noted that the new user access forms for Patrick Nesangani and Mvelisi Mnyaka did not outline the access to be granted to the users.

The User Access Management Policy outlines the process to be followed for the amendment of user access on the application systems on page 6, section 7.2. However, the user amendment form for Valencia van Deventer had been approved to grant the user access to the Key Account Administration function, however, the user was granted access to the Project Budget Administration function.

The User Access Management Policy outlines the process for password resets on page 6, section 7.3 however, password reset forms for users that had reset their passwords could not be obtained.

The User Account Management Policy states on page 7, section 7.4 that "As soon as an employee leaves the department, all his/her system logons must be revoked."
The following terminated users still had access to WCS, furthermore, 1 of the 5 terminated users had accessed the system after their termination date.

First Name	Surname	Persal-No	Last Transaction	RESIGNATION_DATE	Comment
SIPHESIHLE	DIDISHE	25577603	20161206	20191231	Did not process transaction after termination
KIDWELL	MOKADI	27158659	20180510	20191231	Did not process transaction after termination
BOIPELO VERONICA	MOABI	27785866	20160513	20191231	Did not process transaction after termination
MAILE GEOFREY	KGATLA	28126653	20161025	20191231	Did not process transaction after termination
MPHO	MALADZHI	28860292	20190808	20190731	Processed transaction after termination

The User Access Management Policy states on page 8, section 7.7 that "The best practice for access management will institute a review of system administrator/controller activities at least four times a year, for any seriously suspicious behaviour or critical events must be assessed and acted on." Although it was noted that the review of user access for system administrators had been performed, the review of system administrator activities had not been performed.

Furthermore, the password configuration received from the WCS system did not outline the following:
Maximum password age;
Lockout threshold;
Minimum password age; and
Account lockout duration.
It was further noted that the minimum password length (6 characters) had not been configured in line with the ICT Business Systems User Access Management Policy (8 characters).

The User Access Management Policy states on page 5, section 7.1 that "Each user is identified by a unique user ID so that users can be linked to and made responsible for their actions.".
However, it was noted that there were 4 users that had duplicate user ID's on WCS, namely:

User-Id	First Name	Surname	Initials
OPW000	CHARLOTTE	DU TOIT	C
OPW000	DIMITRI	GEORGEADES	D.
OPW001	MALEFETSANE	MOSIA	MP
OPW001	NAMHLA	MAYEKISO	N.N.M.

Furthermore, there were 10 users that had duplicate ID numbers on WCS, namely:

User-Id	First Name	Surname	ID_NO
OPW001	MALEFETSANE	MOSIA	101010000000
OPW002	THABO	MOSIA	101010000000
OPWAOF	KATHLEEN	SWANEPOEL	5903100169085
OPWBAZ	KATHLEEN	SWANEPOEL	5903100169085
OPW790	JINNY	FROST	6408105084080
OPWACH	JIMMY	FROST	6408105084080
OPW743	ANELEEZ	SWANEPOEL	7008030012088
OPW970	ANELEEZ	SWANEPOEL	7008030012088
OPW017	PM	PROJECT MANAGER	7409110027089
OPW060	RENAY	THERON	7409110027089

Risk

Failure to ensure that new users, user access amendments, password resets and user access terminations are approved prior to their creation on application systems, may result in unauthorised users being granted access to the application systems and the sensitive data stored on these systems, compromising its confidentiality, integrity and availability.

Failure to ensure that system administrator activities are regularly reviewed may lead to the inability to detect fraudulent activities performed by system administrators, which may compromise the integrity of financial information.

Failure to ensure that strong passwords are configured on the application systems may result in unauthorised access being gained through brute force and other cyber security attacks, which may result in financial information being compromised, degrading its confidentiality, integrity and availability.

Failure to ensure that each user is uniquely identifiable on the application systems may result in the inability to hold a user accountable for fraudulent transactions that may be performed, compromising financial information, and degrading its integrity.

Internal control deficiency

Financial and performance management: IT systems

Lack of adherence to the User Access Management Policy in ensuring that user access management controls are adequately implemented.

Recommendation

IT management should ensure that:

ICT management should ensure that the process for the approval of access for new users, user access amendments, password resets and user access terminations are performed adequately.

IT management should ensure that system administrator activities are regularly reviewed and adequately documented.

IT management should ensure that strong passwords are configured on the application systems, and are driven by the prescripts of the User Access Management Policy.

IT management should ensure that each user has their own unique user ID and that users are not assigned more than one user account on the application.

Management response

Management comment on audit findings: Management disagrees with all the findings except for the finding on WCS admin access review
Management comment on internal control deficiencies: Provided list of 11 sampled users with profiles Provided list of 11 sampled users with amended profiles No user password reset forms were requested under WCS, hence none were provided. This is a repetition from the SAGE request above on item 1.2. Please see attached user access review Report does not currently exist on the system. PMIS Password configurations are solely managed by SITA as part of all the mainframe systems password configuration and/or policy. This includes systems such as WCS, PERSAL, etc.

As this is a main frame system, user accounts are created and deactivated at SITA.		
Management comment on recommendations:		
Remedial actions:		
What actions will be taken:	**By whom:**	**By when:**
Perform regular review of system administrator activities	Khathu Nekhumbe	01 October 2020
Ensure user account end dates are updated on WCS	Khathu Nekhumbe	01 October 2020

Auditor’s conclusions

Management responses are noted; however, the corrective actions agreed upon by management will be followed-up in the next audit cycle.

Management comments for the following findings have been received, but do not align to the findings that were raised:
The new user access form for William Lebudi could not be obtained. Furthermore, it was noted that the new user access forms for Patrick Nesangani and Mvelisi Mnyaka did not outline the access to be granted to the users.
The user amendment form for Valencia van Deventer had been approved to grant the user access to the Key Account Administration function, however, the user was granted access to the Project Budget Administration function.
Password reset forms for users that had reset their passwords could not be obtained.
Password configurations were not outlined
There were 4 users that had duplicate user ID's on WCS. Furthermore, there were 10 users that had duplicate ID numbers.

1.6 Inadequate implementation of user access management controls on Archibus

Audit finding

Nature

The following deficiencies were noted with regards to the administration of user access controls on the Archibus system:

The User Access Management Policy outlines the process for the creation of new users on applications systems on page 5, section 7.1. However, it was noted that the user account for Odwa Nqwili had been created on 14 April 2019, whereas the user access form had been completed and approved on 12 December 2019.

The user account profiles on Archibus could not be obtained for the below new users. Furthermore, it was noted that there were 374 users that were created before 2015, when the reported implementation of Archibus was in August 2015.

Name and Surname	Date Created
MBALENTLE MANINGI	2019/08/02
KOKETSO MANOK	2019/04/17
ODWA NQWILI	2019/04/17
OBERT NKONWANA	2020/02/03
NTOKOZO KHOMO	2019/06/04
NONKCUBEKO SONGELWA	2019/04/17
NQABAKAZI MALAMLELA	2019/07/02
VHUTALI TSHIVHASE	2019/05/03
SIYABONGA KHUMALO	2019/04/03
HULISANI DZIALWA	2019/07/03
NTSIKELELO SMAYE	2019/11/07

The User Access Management Policy outlines the process to be followed for the amendment of user access on the application systems on page 6, section 7.2 However, the user amendment list received did not outline the changes that had been performed. Furthermore, user amendment forms for changes that had been made could not be obtained.

The User Account Management Policy states on page 7, section 7.4 that "As soon as an employee leaves the department, all his/her system logons must be revoked." It was noted that the below terminated users were active on Archibus: Moreover 4 of the 5 terminated users accessed the system after their termination date.

Name	Surname	Last Login Date	RESIGNATION_DATE	Comment
RAJA	GANGAVARAPU	2020/04/04	20191231	Accessed system after termination date
JACOB	MALELE	2020/04/03	20191231	Accessed system after termination date

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Name	Surname	Last Login Date	RESIGNATION_ DATE	Comment
NTOMBIFU THI	MBELE	2020/03/ 26	20191115	Accessed system after termination date
AYANDA	SEGONE	2020/04/ 04	20191231	Accessed system after termination date
WYNAND	VAN JAARSV ELD	2019/11/ 22	20191122	Did not access system after termination date

The User Access Management Policy states on page 8, section 7.6 that "The ISO will institute a review of all user access rights at least twice a year, which is designed to positively confirm all users." However, it was noted that the review of user access was not performed on Archibus.

The User Access Management Policy states on page 8, section 7.7 that "The best practice for access management will institute a review of system administrator/controller activities at least four times a year, for any seriously suspicious behaviour or critical events must be assessed and acted on." Although it was noted that the review of user access for system administrators had been performed, it had been noted that the review had not been performed on a quarterly basis as required by the User Access Management Policy.

Impact

Failure to ensure that new users, user access amendments, password resets and user terminations are approved prior to their creation on application systems may result in unauthorised users being granted access to the application systems and the sensitive data stored on these systems, compromising its confidentiality, integrity and availability.

Failure to ensure that user access rights are regularly reviewed may lead to the inability to detect users that have inappropriate access rights, which may lead to the performance of functions that are not commensurate with those user's job functions, which may lead to unauthorised transactions compromising the integrity and availability of financial information.

Failure to ensure that system administrator activities are regularly reviewed may lead to the inability to detect fraudulent activities performed by system administrators, which may compromise the integrity of financial information.

Failure to ensure that strong passwords are configured on the application systems may result in unauthorised access being gained through brute force and other cyber security attacks, which may result in financial information being compromised, degrading its confidentiality, integrity and availability.

Internal control deficiency

Financial and performance management: IT systems

Lack of adherence to the User Access Management Policy in ensuring that user access management controls are adequately implemented.

Recommendation

IT management should ensure that:
ICT management should ensure that the process for the approval of access for new users, user access amendments, password resets and user terminations are approved and implemented appropriately.

IT management should ensure that user access rights on the application systems are reviewed and adequately documented.

IT management should ensure that system administrator activities are regularly reviewed and adequately documented as required by the User Access Management Policy.

IT management should ensure that strong passwords are configured on the application systems, and are driven by the prescripts of the User Access Management Policy.

Management response

<table>
<tr><td colspan="3">Management comment on audit findings: Management does not agree</td></tr>
<tr><td colspan="3">Management comment on internal control deficiencies:
The following deficiencies were noted with regards to the administration of user access controls on the Archibus system:

The Account for Odwa Nqwili was approved on 12 September 2019 and registered on ARCHIBUS on 17 September 2019 as per our records on audit trail.

The user roles of sampled users as per the AGSA has been provided.

A list of sampled users was not provided to DPWI ICT where in return the list of amended users and roles could be listed.

This request is not applicable on for ARCHIBUS or any system that authenticates through Active Directory (AD). Password reset forms cannot be provided as ARCHIBUS authenticates through the departments Active Directory as a result user password reset are not done directly on ARCHIBUS.

Four (4) out of the five (5) users on the list are still active members of the department. Furthermore, whether a user is active or not is determined at AD level where the authentication happens as ARCHIBUS will only manage the profile of the user.

Since ARCHIBUS authenticates through AD, it would be duplication of effort if user access review is also implemented on ARCHIBUS as well. Furthermore, user access review remains the responsibility of line function and/or user to ensure a communication is sent to ICT through call centre to inform of changes in user's system access to effect the same on the system.

Since ARCHIBUS has only been live since August 2019, the review of access and activities could only be done once, the review report is submitted</td></tr>
<tr><td colspan="3">Management comment on recommendations:</td></tr>
<tr><td colspan="3">Remedial actions:</td></tr>
<tr><td>What actions will be taken:</td><td>What actions will be taken:</td><td>What actions will be taken:</td></tr>
</table>

Auditor's conclusions

Management responses are noted; however, the corrective actions agreed upon by management will be followed-up in the next audit cycle.

1.7 Inadequate implementation of user access management controls on WORX4U

Audit Finding

Nature

The following deficiencies were noted with regards to the administration of user access controls on the WORX4U system:

The User Access Management Policy outlines the process for the creation of new users on applications systems on page 5, section 7.1. It was noted that a system generated list of active users with creation dates could not be obtained.

The User Access Management Policy outlines the process to be followed for the amendment of user access on the application systems on page 6, section 7.2 System generated list of user amendments obtained did not indicate the date that the amendments had been implemented.

The User Access Management Policy outlines the process for password resets on page 6, section 7.3 However, a system generated list of password resets could not be obtained from WORX4U.

The User Account Management Policy states on page 7, section 7.4 that "As soon as an employee leaves the department, all his/her system logons must be revoked." It was noted that there were 38 terminated users that did not have their access revoked, namely:

Name	Surname	Comment
Bongeka	Dlamini	Termination
Lynn	Erasmus	Termination
Raja	Gangavarapu	Termination
Sithembile	Gcwensa	Termination
Zamo	Gumede	Termination
Maile	Kgatla	Termination
Phindile	Khoza	Termination
Nondumiso	Khuzwayo	Termination
Meisie	Letsoaka	Termination
Sandile	Mabaso	Termination
Musa	Mabuza	Termination
Johannah	Mahlangu	Termination
Sasabona	Makama	Termination
Prudence	makhubela	Termination
Mpho	Maladzhi	Termination
Lister	Mashaba	Termination
Zamambo	Mkhize	Termination
Zinhle	Mkhize	Termination

Boipelo	Moabi	Termination
Kagiso	Molala	Termination
Hyworth	Molefe	Termination
Mahlodi	Mpyana	Termination
Merriam	Mtsweni	Termination
Merriam MtsMerriam	Mtsweni	Termination
Tshinondiwa	Mulaudzi	Termination
Samkelo	Ngcobo	Termination
Nsovo	Nkanyani	Termination
Calvin	Nkgadime	Termination
Jupiter	Nkuna	Termination
Angelina	Phahlamohlaka	Termination
Cleopatra	Ramaru	Termination
Murendeni	Rasiluma	Termination
Onalenna	Segone	Termination
Buyisile	Shabalala	Termination
Nokuthula	Shabalala	Termination
Xitshembiso	Shirinda	Termination
Molebogeng	Sono	Termination
Khalipha	Xhanti	Termination

The User Access Management Policy states on page 8, section 7.6 that "The ISO will institute a review of all user access rights at least twice a year, which is designed to positively confirm all users." However, it was noted that the review of user access was not performed on WORX4U.

The User Access Management Policy states on page 8, section 7.7 that "The best practice for access management will institute a review of system administrator/controller activities at least four times a year, for any seriously suspicious behaviour or critical events must be assessed and acted on." Although it was noted that the review of user access for system administrators had been performed, the review of system administrator activities had not been performed.

Furthermore, the following password configurations could not be determined:
Minimum password length;
Maximum password age;
Password complexity;
Lockout threshold;
Password history;
Minimum password age; and
Account lockout duration.

Impact

Failure to ensure that new users, user access amendments, password resets and user access terminations are approved prior to their creation on application systems may result in unauthorised users being granted access to the application systems and the sensitive data stored on these systems, compromising its confidentiality, integrity and availability.

Failure to ensure that user access rights are regularly reviewed may lead to the inability to detect users that have inappropriate access rights, which may lead to the performance of functions that are not commensurate with those user's job functions, which may lead to unauthorised transactions compromising the integrity and availability of financial information.

Failure to ensure that system administrator activities are regularly reviewed may lead to the inability to detect fraudulent activities performed by system administrators, which may compromise the integrity of financial information.

Failure to ensure that strong passwords are configured on the application systems may result in unauthorised access being gained through brute force and other cyber security attacks, which may result in financial information being compromised, degrading its confidentiality, integrity and availability.

Internal control deficiency

Financial and performance management: IT systems

Lack of adherence to the User Access Management Policy in ensuring that user access management controls are adequately implemented.

Recommendation

IT management should ensure that:

ICT management should ensure that the process for the approval of access for new users, user access amendments, password resets and user access terminations are approved and are adequately performed.

IT management should ensure that user access rights on the application systems are reviewed and adequately documented.

IT management should ensure that system administrator activities are regularly reviewed and adequately documented.

IT management should ensure that strong passwords are configured on the application systems, and are driven by the prescripts of the User Access Management Policy.

Management response

Management comment on audit findings: Management agrees.
Management comment on internal control deficiencies: WORX4U system does not have record creation or update dates thus the requested additional information on the dates could not be extracted. User access review is a critical process that line function must always ensure that it is performed to ensure ICT is informed of any changes to a user's accessibility to the system. ICT together with business is in the process of migrating from this system to another system, ARCHIBUS.
Management comment on recommendations:

As user access reviews are implemented for the WORX4u system management will ensure all other recommendations are considered noting the fact that this system may not be used by business going forward.		
Remedial actions:		
What actions will be taken:	**What actions will be taken:**	**What actions will be taken:**

Auditor's conclusions

Management responses are noted; however, the corrective actions agreed upon by management will be followed-up in the next audit cycle.

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ANNEXURE C: ADMINISTRATIVE MATTERS

Information systems

1.8 Inadequate change management process

Program change management controls ensure that any proposed changes to an existing information systems environment would be coordinated, scheduled, authorised and tested to prevent unnecessary disruptions, erroneous changes and unauthorised and inappropriate access to programs.

Audit finding

Laws, rules and Regulations:

The ICT Policy states on page 12, section 1.4 that "This policy shall be reviewed at least once every three years and amended as and when the need for changes arises.". Furthermore, the ICT Policy states on page 64, section 7.4.3.1 that "Every change to the DPW ICT infrastructure component such as: operating systems, computing hardware, networks and applications is subject to the Change Management Policy and must follow the Change Management Procedures."

Nature
The following control deficiencies were noted:
The ICT Policy had not been approved for implementation in the organisation and did not outline the following:
Development of changes requested;
Testing of changes (QA and user acceptance test); and
Implementation of changes.

A system generated list of changes could not be obtained from the following applications in scope:
GIS;
SAGE;
PMIS;
Archibus;
WORX4U; and
WCS.

Impact

Failure to ensure that there is an approved ICT Policy that governs change management may result in the inability to enforce procedures within the organisation and to hold them accountable for transgressions of the policy.

Furthermore, failure to maintain a system generated list of changes on the application systems may lead to the inability to trace unauthorised changes that have been implemented on the applications systems, which may alter system functionality, compromising data integrity.

Internal control deficiency

Financial and performance management: IT Systems

Systems limitations on GIS, SAGE, PMIS, WORX4U and WCS resulted in the inability to extract a list of changes.

Recommendation

ICT management should ensure that the ICT Policy is approved. Furthermore, ICT management should ensure that system generated logs to track changes on application systems are maintained, and that changes that have been made on the applications have been approved and tested prior to implementation.

Management's response

Management agrees with the finding

Auditor's conclusion

Management comments are noted and corrective actions will be evaluated in next audit cycle.

1.9 Inadequate IT service continuity controls

Audit finding

Laws, rules and Regulations

Section 7.3.3.7. of the DPW Annual Performance Plan (APP) states that the lack of a disaster recovery plan (DRP) has been a recurring audit finding. The department has now finalised and signed off a DRP plan and is in the process of implementing it.

Nature

As previously reported, the following deficiencies were noted with regard to the management and implementation of IT Service Continuity/ Disaster Recovery processes at the department:

Although Disaster Recovery Plan (DRP) was developed and approved, it was noted that the DRP was not tested in the financial year under review.
There was no formal backup policy and procedure.
There was no performance of periodic restoration of backups.
These matters were reported in 2018-19 financial year.

Impact

Without a comprehensively documented, tested and regularly updated Disaster Recovery and Business Continuity Plan, it might not be possible to recover the key business operations, critical systems, applications, their supporting infrastructure or networking capability in the correct sequence and time, to ensure that the department's business operations could be sufficiently resumed at an alternative processing site without considerable loss to its financial well-being and negative impact of service delivery should a disaster occur.

Internal control deficiency

Financial and performance management: Formal controls over IT Systems

The non-implementation of the DRP was due to delay in the DR solution tender issued last year. Also Lack of consequence management for not resolving prior audit findings.

Recommendation

The Chief Information Officer should ensure that the DRP is periodically tested to ensure that the plan is practical with regard to its execution. During the testing process, the relevant role players in the disaster recovery process should receive the necessary training to ensure the success of the recovery process.

Furthermore, document and approve the backup policy to include the following:
Backup strategy
Roles and responsibilities
Backup frequency
Retention period
Backup window (time available each day to complete backups)
Back restoration process
On and off-site requirements
Archival requirements

Special media considerations

Management response

Management disagrees with the findings

Although Disaster Recovery Plan (DRP) was developed and approved, it was noted that the DRP was not tested in the financial year under review.
The primary site for DR is still under construction. The alternative site is available and running however in terms of replication of data there was a delay due to the procurement of software licenses.

There was no formal backup policy and procedure. - There is a formal backup policy and the procedure will be developed by Quarter 3.

There was no performance of periodic restoration of backups. - Periodic restorations of backups will be done after the implementation of the DR solution. At the moment restorations are done on request.

Auditor’s conclusions

Management comments are noted and acknowledged. The action plans will be followed up during the 2020/21 audit and the outcome of the assessment will be communicated at completion of the audit.

ANNEXURE F: ASSESSMENT OF INTERNAL CONTROLS[1]

Below is our assessment of implementing the drivers of internal control based on significant deficiencies identified during our audit of the financial statements, the [annual performance report/insert name of performance report] and compliance with legislation. Significant deficiencies occur when internal controls do not exist, are not appropriately designed to address the risk, or are not implemented. These either had caused, or could cause, the financial statements or the [annual performance report/insert name of performance report] to be materially misstated, and material instances of non-compliance with legislation to occur.

The internal controls were assessed as follows:

😊	The required preventative or detective controls were in place.
😐	Progress was made on implementing preventative or detective controls, but improvement is still required, or actions taken were not or have not been sustainable.
☹	Internal controls were either not in place, were not properly designed, were not implemented or were not operating effectively. Intervention is required to design and/or implement appropriate controls.

The movement in the status of the drivers from the previous year-end to the current year-end is indicated collectively for each of the three audit dimensions under the three fundamentals of internal control. The movement is assessed as follows:

⇧	Improved
⇔	Unchanged
⇩	Regressed

	Financial statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
Leadership						
Overall movement from previous assessment	⇩		⇩		⇩	
• Provide effective leadership based on a culture of honesty, ethical business practices and good governance, and protecting and enhancing the best interests of the entity	☹	😐	☹	😐	☹	😐

	Financial statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
• Exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls	☹	😐	☹	😐	☹	😐
• Implement effective human resource management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored	😐	😐	😐	😐	😐	😐
• Establish and communicate policies and procedures to enable and support the understanding and execution of internal control objectives, processes and responsibilities	😐	😐	😐	😐	😐	😐
• Develop and monitor the implementation of action plans to address internal control deficiencies	☹	☹	☹	☹	☹	☹
• Establish and implement an information technology governance framework that supports and enables the business, delivers value and improves performance	😐	😐	😐	😐	😐	😐
Financial and performance management						
Overall movement from previous assessment	⇔		⇔		⇔	
• Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting	☹	☹	☹	☹	☹	☹
• Implement controls over daily and monthly processing and reconciling transactions	☹	☹	☹	☹	☹	☹
• Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information	☹	☹	☹	☹	☹	☹
• Review and monitor compliance with applicable legislation	☹	☹	☹	☹	☹	☹
• Design and implement formal controls over information technology systems to ensure the reliability of the systems and the availability, accuracy and protection of information relating to user access	😐	☹	😐	☹	***N/A***	***N/A***

	Financial statements		Performance reporting		Compliance with legislation	
	Current year	**Prior year**	**Current year**	**Prior year**	**Current year**	**Prior year**
management, programme change control and IT service continuity						
Governance						
Overall movement from previous assessment	↔		↔		↔	
• Implement appropriate risk management activities to ensure that regular risk assessments, including the consideration of information technology risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored						
• Ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively						
• Ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and overseeing the effectiveness of the internal control environment, including financial and performance reporting and compliance with legislation						

[1] **Annexure F – Assessment of internal controls**

The assessment should be done at an overall level for each audit dimension. The table summarises the overall status of the drivers of internal control after the assessment of key controls for financial statements, performance information and compliance with legislation. The overall status presented in this table informs the information in the general report. The movement from the prior year-end to the current year-end should be included next to the heading *Overall movement from previous assessment* under each fundamental of internal control for each audit dimension.

The assessment should be obtained as follows, using the ASMIS report 129 – AO Listing – PFMA key drivers of audit outcomes – by ABU:

Leadership

Add all the “Overall” scores of the six areas under leadership per auditee.

By using the following formula for leadership, determine the total and percentage for:

(i) Green = COUNTIFS (Range, “10”)

(ii) Orange = COUNTIFS (Range, “>9”, Range, “<14”)

(iii) Red = COUNTIFS (Range, “>13”)

Financial and performance management

Add all the “Overall” scores of the five areas under financial and performance management per auditee.

By using the following formula for financial and performance management determine the total and percentage for:

(i) Green = COUNTIFS (Range, “<9”)

(ii) Orange = COUNTIFS (Range, “>8”, Range, “<13”)

(iii) Red = COUNTIFS (Range, “>12”)

Governance

Add all the “Overall” scores of the three areas under governance per auditee.

By using the following formula for governance determine the total and percentage for:

(i) Green = COUNTIFS (Range, “<5”)

(ii) Orange = COUNTIFS (Range, “>4”, Range, “<7”)

(iii) Red = COUNTIFS (Range, “>6”)

Please note that the formula for each of the three areas (leadership, financial and performance management and governance) is different – do not copy the same formula for each of the areas.

The internal control table should be included even if there is nothing to report, because the auditor includes an icon in the cells next to each driver to indicate whether management had achieved the three fundamentals of internal control.

If material non-compliance with supply chain management legislation is reported in the auditor’s report and/or in part A of section 3 of the management report, the internal control table should reflect the applicable control deficiencies in the compliance with legislation column. Refer to chapter 5 for guidance on the typical control deficiencies.

When detailing the deficiencies below, reflect on the root cause of the deficiency (in other words, why it had occurred).

If a root cause is not clear, try asking questions that start with “why” until there are no more questions that can be asked. The answer to the last “why” is probably the root cause of the finding.

Because there may be many potential root causes, it is important to focus on the key causes. That is, the actions need to address the primary drivers of the findings, and not necessarily all of the potential, yet minor, causes.

Sometimes the root cause is quite simple or obvious (e.g. management simply did not think about doing something). The auditor should not assume that the root cause is an elaborate or complicated set of circumstances.

The root cause should be described in concise, direct language. It is typically necessary to share the root causes with the process owner who is typically looking for a brief explanation of why a finding is raised.

The table should be completed as follows in relation to work performed by information systems auditors:

Leadership – **IT governance framework:**

The cells relating to **financial, performance reporting and compliance with legislation** should be completed**.**

Governance – **IT risks**:

A separate assessment will not be done under governance. It should be dealt with as part of the IT governance framework.

Financial and performance management – **Formal controls over IT systems:**

The cells relating to the **financial** column should be completed for the general control audits performed. The cells relating to **performance objectives** and **compliance with legislation** should be marked as ***N/A***.

The **Performance reporting** cells should only be completed if IS audits on performance objectives have actually been performed.