## SECTION 10: Summary of detailed audit findings

| **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** |
| **Operating leases** | | | | | | | | | | | |
|  | COFF 04 – Vacant leased buildings | X |  |  |  |  | X |  |  |  | In progress |
|  | COFF 09 -Operating leases - Overpayment made on leases | X |  |  |  |  | X |  |  |  | In progress |
|  | COFF 31 HO - Overstatement of operating lease expenditure | X |  |  |  |  | X |  |  |  | In progress |
|  | COFF 43 HO - Overpayments made in contravention of Treasury Regulations. | X |  |  |  |  | X |  |  |  | In progress |
|  | COFF 44 HO - Impairment of lease prepayments from active leases | X |  |  |  |  | X |  |  |  | In progress |
|  | COFF 45 HO - Misstatement of operating lease asset and liability | X |  |  |  |  | X |  |  |  | In progress |
|  | COFF 46 HO - Revenue from exchange transactions: Lease agreements not signed | X |  |  |  |  | X |  |  |  | In progress |
|  | COFF 54 HO Overstatement of operating lease expenditure and revenue from exchange transaction | X |  |  |  |  | X |  |  |  | In progress |
|  | COFF 55 HO Misstatement of the operating commitment | X |  |  |  |  | X |  |  |  | In progress |
|  | COFF 56 HO Misstatement of freehold intergovernmental receivables | X |  |  |  |  | X |  |  |  | In progress |
|  | COFF 57 HO Misstatement of the operating commitment | X |  |  |  |  | X |  |  |  | In progress |
|  | COFF 58 HO Misstatement of freehold intergovernmental receivables | X |  |  |  |  | X |  |  |  | In progress |
| **Financial assets** | | | | | | | | | | | |
|  | COFF 32 HO - Financial assets incorrectly classified as non-financial assets | X |  |  |  |  | X |  |  |  | In progress |
|  |  |  |  |  |  |  |  |  |  |  |  |
| **Prepaid leases** | | | | | | | | | | | |
|  | COFF 23 HO - Lease prepayment - misstated | X |  |  |  |  | X |  |  |  | In progress |
|  |  |  |  |  |  |  |  |  |  |  |  |
| **Immovable assets** | | | | | | | | | | | |
|  | COFF 11 HO - Meaningless or Invalid MVR Values allocated to properties | X |  |  |  |  | X |  |  |  | In progress |
|  | COFF 20 HO - Differences in the deemed cost for multi-story buildings | X |  |  |  |  | X |  |  |  | In progress |
|  | COFF 05 JHB - Assets Under Construction | X |  |  |  |  | X |  |  |  | In progress |
|  | COFF 03 MMB - Incorrect classification of projects | X |  | X= |  |  | X |  |  |  | In progress |
|  | COFF 24 HO – Limitation of scope – Investment property |  |  |  |  |  |  |  |  |  | In progress |
|  | COFF 25 HO - Investment Property & Heritage Assets: Rights and Obligations. | X |  |  |  |  | X |  |  |  | In progress |
|  | COFF 26 HO - Investment Property: Differences noted in deemed cost calculations. | X |  |  |  |  | X |  |  |  | In progress |
|  | COFF 27 HO - Intangible Assets: Differences noted on commitment disclosed in the AFS | X |  |  |  |  | X |  |  |  | In progress |
|  | COFF 28 HO - Heritage Assets: Assets not correctly classified | X |  |  |  |  | X |  |  |  | In progress |
|  | COFF 29 HO - Heritage Assets(AUC) – Differences noted between schedule and disclosure note | X |  |  |  |  | X |  |  |  | In progress |
|  | COFF 36 HO - Assets Under Construction – Project completed not capitalized | X |  |  |  |  | X |  |  |  | In progress |
|  | COFF 39 HO - Duplicate land parcels on the Land register (IAR) | X |  |  |  |  | X |  |  |  | In progress |
|  | COFF 40 HO - Differences in land value as a result of differences in land extent | X |  |  |  |  | X |  |  |  | In progress |
|  | COFF 41 HO - Ownership of property could not be proven | X |  |  |  |  | X |  |  |  | In progress |
|  | COFF 51 HO Immovable assets: Differences in extents identified during physical verification | X |  |  |  |  | X |  |  |  | In progress |
|  |  |  |  |  |  |  |  |  |  |  |  |
| **Movable assets** | | | | | | | | | | | |
|  | COFF 15 HO - PPE – Differences noted between FAR and AFS | X |  |  |  |  | X |  |  |  | In progress |
|  |  |  |  |  |  |  |  |  |  |  |  |
| **Procurement and Contract Management** | | | | | | | | | | | |
|  | COFF 03 HO - Competitive bidding process not followed. |  |  | X |  |  | X |  |  |  | In progress |
|  | COFF 06 CPT; Incorrect procurement process followed - Award to supplier that was supposed to be disqualified |  |  | X |  |  | X |  |  |  | In progress |
|  | COFF 07, 09 CPT - Incorrect procurement process -Highest scoring bidder not awarded contract |  |  | X |  |  | X |  |  |  | In progress |
|  | COFF 05 PTA - CIDB requirements not met |  |  | X |  |  | X |  |  |  | In progress |
|  | COFF 02 DBN, COFF 02 JHB - Deviation reasons not justifiable |  |  | X |  |  | X |  |  |  | In progress |
|  | COFF 05 CPT - Evaluation criteria applied in evaluating quotes not stipulated in the RFQ |  |  | X |  |  | X |  |  |  | In progress |
|  | COFF 01 DBN - Quotations pre-qualifying criteria |  |  | X |  |  | X |  |  |  | In progress |
|  | COFF 01 PTA; COFF 04 CPT - Possible splitting of Quotations |  |  | X |  |  | X |  |  |  | In progress |
|  | COFF 04 PTA – Extension of time with financial impact. |  |  | X |  |  | X |  |  |  | In progress |
|  | COFF 02 PTA, COFF 03 DBN, COFF 01 BLOEM - Publication of awards on the eTender publication portal and government tender bulletin |  |  | X |  |  | X |  |  |  | In progress |
|  | COFF 03 PTA - Limitation of Scope - Procurement and contract management |  |  | X |  |  | X |  |  |  | In progress |
|  | COFF 03 CPT - Partial information not submitted for audit purposes – Procurement and Contract Management |  |  | X |  |  | X |  |  |  | In progress |
|  | COFF 09 JHB - Expenditure in excess of 20% of the contract price not approved by National Treasury | X |  | X |  |  | X |  |  |  | In progress |
|  | COFF 4 MMB - Compliance with legislation |  |  | X |  |  | X |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
| **Irregular, fruitless and wasteful expenditure** | | | | | | | | | | | |
|  | COFF 10 HO - Disclosure notes not fairly presented and complete | X |  |  |  |  | X |  |  |  | In progress |
|  | COFF 12 HO – Prior year Coffs follow up on irregular expenditure | X |  | X |  |  | X |  |  |  | In progress |
|  | COFF 16 HO - Follow up of infrastructure projects finding raised in prior audit | X |  | X |  |  | X |  |  |  | In progress |
|  | COFF 19 HO - Fruitless and wasteful expenditure – Interim DBN COFF 04 follow up | X |  | X |  |  | X |  |  |  | In progress |
|  | COFF 08 PTA - Fruitless and Wasteful Expenditure On Interest Charged | X |  | X |  |  | X |  |  |  | In progress |
|  | COFF 21 HO - Disclosure note not fairly presented | X |  |  |  |  | X |  |  |  | In progress |
|  | COFF 06 DBN - Duplicate payments made to suppliers | X |  |  |  |  | X |  |  |  | In progress |
|  | COFF 03 MTH - Sundry Expenditure (Irregular Expenditure) | X |  |  |  |  | X |  |  |  | In progress |
|  | COFF 37 HO - Irregularities Identified in Lindela Repatriation Centre Complex |  |  | X |  |  | X |  |  |  | In progress |
|  | COFF 38 HP - Irregularities Identified in Beitbridge project | X |  | X |  |  | X |  |  |  | In progress |
|  | COFF 42 HO - Operating lease payments – Variation above 15% was not approved by National Treasury resulting in irregular expenditure | X |  | X |  |  | X |  |  |  | In progress |
|  | COFF 52 HO Irregular, fruitless and wasteful expenditure – Completed SIU investigations not fairly disclosed | X |  | X |  |  | X |  |  |  | In progress |
|  |  |  |  |  |  |  |  |  |  |  |  |
| **Operating Expenditure** | | | | | | | | | | | |
|  | COFF 02 CPT, COFF 08 - Operating Expenditure – Payments not made within 30 days |  |  | X |  |  | X |  |  |  | In progress |
|  | COFF 12 CPT - Operating Expenditure – Payments not made within 30 days |  |  | X |  |  | X |  |  |  | In progress |
|  | COFF 05 DBN - Payments not made within 30 days |  |  | X |  |  | X |  |  |  | In progress |
|  | COFF 06 DBN - Duplicate payments made to suppliers | X |  | X |  |  | X |  |  |  | In progress |
|  | COFF 07 JHB - Invoices not paid within 30 days |  |  | X |  |  | X |  |  |  | In progress |
|  | COFF 06 MMB - Invoices not paid within 30 days |  |  | X |  |  | X |  |  |  | In progress |
|  | COFF 33 HO - Municipal services and property rates (backlog) – irregular expenditure | X |  |  |  |  | X |  |  |  | In progress |
|  | COFF 60 HO - Misstatement of Municipal Services Receivables | X |  |  |  |  | X |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
| **Revenue from exchange transactions** | | | | | | | | | | | |
|  | COFF HO 34 - National treasury instruction on billing of accommodation services. | X |  |  |  |  | X |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
| **Payables from exchange** | | | | | | | | | | | |
|  | COFF 10 CPT - Accruals are recorded at the incorrect amount | X |  |  |  |  | X |  |  |  | In progress |
|  | COFF 18 HO - Duplicate identified on WCS Accruals | X |  |  |  |  | X |  |  |  | In progress |
|  | COFF 04 JHB - Overstatement of scheduled maintenance | X |  |  |  |  | X |  |  |  | In progress |
|  | COFF 10 PTA - Overstatement of Accruals | X |  |  |  |  | X |  |  |  | In progress |
|  | COFF 13 PTA – Limitation of scope |  |  | X |  |  | X |  |  |  | In progress |
|  |  |  |  |  |  |  |  |  |  |  |  |
| **Property maintenance** | | | | | | | | | | | |
|  | COFF 12 PTA - Payment not made within 30 days |  |  | X |  |  | X |  |  |  | In progress |
|  | COFF 04 MTH - Payment not made within 30 days |  |  | X |  |  | X |  |  |  | In progress |
|  | COFF 53 HO Payment not made within 30 days |  |  | X |  |  | X |  |  |  | In progress |
|  | COFF 05 MM - Overstatement of scheduled maintenance |  |  |  |  |  |  |  |  |  | In progress |
| **Commitments** | | | | | | | | | | | |
|  | COFF 11 CPT - Understatement of Commitment |  |  | X |  |  | X |  |  |  | In progress |
|  | COFF 06 JHB - Overstatement of commitments | X |  |  |  |  | X |  |  |  | In progress |
|  | COFF 08 JHB - Duplicate identified on D2D Worx4U | X |  |  |  |  | X |  |  |  | In progress |
|  | COFF 11 PTA - Understatement of Commitment | X |  |  |  |  | X |  |  |  | In progress |
|  | COFF 07 MMB - Commitments, AUC and Completeness of Mogwase prison WCS no. 034781 | X |  |  |  |  | X |  |  |  | In progress |
|  | COFF 02 PE - Overstatement of Commitment | X |  |  |  |  | X |  |  |  | In progress |
|  | COFF 09 PTA - Overstatement of Accruals | X |  |  |  |  | X |  |  |  | In progress |
| **Provisions** | | | | | | | | | | | |
|  | COFF 01 PE - Overstatement of Provisions | X |  |  |  |  | X |  |  |  | In progress |
|  | COFF 03 PE - Overstatement of Provisions | X |  |  |  |  | X |  |  |  | In progress |
|  | COFF 10 PTA Overstatement of Provisions | X |  |  |  |  | X |  |  |  | In progress |
|  | COFF 02 MMB - Overstatement of Provisions | X |  |  |  |  | X |  |  |  | In progress |
|  | COFF 06 MTH - Overstatement of Provisions | X |  |  |  |  | X |  |  |  | In progress |
|  | COFF 30 HO - Municipal services and property rates (Backlog) | X |  |  |  |  | X |  |  |  | In progress |
|  | COFF 59 HO Misstatement of Leasehold Intergovernmental receivables | X |  |  |  |  | X |  |  |  | In progress |
| **Performance information** | | | | | | | | | | | |
|  | COFF 07 HO Programme 03: Differences noted between quarterly reports, listing and POE |  | X |  |  |  | X |  |  |  | In progress |
|  | COFF 14 HO Programme 3: Indicator 3.8 – Method of calculation not aligned to the reported achievement |  | X |  |  |  | X |  |  |  | In progress |
|  | COFF 14 HO Programme 3: Details per schedules do not agree to details as per POE |  | X |  |  |  | X |  |  |  | In progress |
|  | COFF 17 HO - Programme 3:Strategic objectives not reported in the 2019/20 Annual Performance Report |  | X |  |  |  | X |  |  |  | In progress |
|  | COFF 35 HO - Programme 3: Indicator 3.8 – Reported achievement not valid |  | X |  |  |  | X |  |  |  | In progress |
|  | COFF 48 HO - Programme 3: Indicator 3.7 - Number of EPWP work opportunities created through infrastructure projects |  | X |  |  |  | X |  |  |  | In progress |
|  | COFF 49 HO - Programme 3: Indicator 3.7 - Number of EPWP work opportunities created through infrastructure projects |  | X |  |  |  | X |  |  |  | In progress |
|  | COFF 50 HO Programme 3: Indicator 3.7 - Number of EPWP work opportunities created through infrastructure projects |  | X |  |  |  | X |  |  |  | In progress |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
| **Internal controls** | | | | | | | | | | | |
|  | Financial Misconduct Policy not regularly updated. |  |  |  | X |  |  | X |  |  | In progress |
|  | COFF 54 HO Non-compliance with laws and regulation – PMTE Bank in overdraft |  |  |  | X |  |  | X |  |  | In progress |

## DETAILED AUDIT FINDINGS: ANNEXURES A TO C[[1]](#endnote-2)

### ANNEXURE A: MATTERS AFFECTING THE AUDITOR’S REPORT

#### Operating leases

COFF 09 HO- Operating Leases –Overpayment made

**Requirements**

*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**

PMTE Lease contracts require the trading entity to pay rent one month in advance. During the audit of operating leases, we noted that overpayments of leases were made. As illustrated below, lease prepayments were paid for more than the required one month in advance.

| **No** | **Archibus Asset No.** | **PMIS code** | **Prepayment balance as at 30 September 2019** | **Prepayment required per lease contract** | **Overpayment** |
| --- | --- | --- | --- | --- | --- |
| 1 | 139517 | 310889 | R 1 870 719,03 | R - | R 1 870 719,03 |
| 2 | 138673 | 299728 | R 5 008 664,48 | R 184 324,99 | R 4 824 339,49 |
| 3 | 138079 | 139713 | R 15 980 673,27 | R 6 500 303,45 | R 9 480 369,82 |
| 4 | 138823 | 301745 | R 6 949 557,92 | R 6 801 175,21 | R 148 382,71 |
| 5 | 138813 | 301670 | R 3 379 168,32 | R 1 959 042,56 | R 1 420 125,76 |
| 6 | 138612 | 298907 | R 123 850 721,64 | R 6 888 661,74 | R 116 962 059,90 |
| 7 | 139279 | 306399 | R 7 063 504,87 | R 2 071 044,87 | R 4 992 460,00 |
| 8 | 137705 | 44 | R 4 945 572,04 | R 4 914 734,69 | R 30 837,35 |
| 9 | 140389 | 323221 | R 1 630 925,16 | R 89 562,40 | R 1 541 362,76 |
| 10 | 137729 | 136 | R 1 428 549,84 | R 220 828,87 | R 1 207 720,97 |
| 11 | 137869 | 81160 | R 3 340 211,79 | R - | R 3 340 211,79 |
| 12 | 138395 | 277185 | R 1 734 254,68 | R - | R 1 734 254,68 |
| 13 | 139749 | 314683 | R 6 458 929,02 | R 1 749 145,99 | R 4 709 783,03 |
| 14 | 139459 | 309640 | R 6 750 303,98 | R 39 997,00 | R 6 710 306,98 |
| 15 | 137708 | 63 | R 8 403 990,47 | R 52 491,06 | R 8 351 499,41 |
| 16 | 139953 | 317985 | R 10 324 311,75 | R 13 804,57 | R 10 310 507,18 |
| 17 | 139788 | 315059 | R 3 415 417,66 | R - | R 3 415 417,66 |
| 18 | 139212 | 305710 | R 5 466 555,38 | R 316 153,70 | R 5 150 401,68 |
| 19 | 138691 | 300231 | R 33 211 778,43 | R 3 796 865,64 | R 29 414 912,79 |
| 20 | 139871 | 316935 | R 3 696 171,13 | R - | R 3 696 171,13 |
| 21 | 138770 | 301203 | R 2 425 918,47 | R 459 551,14 | R 2 289 328,08 |
| 22 | 139146 | 304445 | R 17 244 413,03 | R 5 494 140,97 | R 16 307 026,04 |
| 23 | 140280 | 322775 | R 9 384 332,82 | R 5 785 993,55 | R 8 420 000,56 |
| 24 | 140059 | 319044 | R 2 976 698,13 | R - | R 2 976 698,13 |
| 25 | 139270 | 306340 | R 5 100 205,95 | R - | R 5 100 205,95 |
| 26 | 139967 | 318087 | R 2 173 921,88 | R - | R 2 173 921,88 |
| 27 | 139509 | 310762 | R 4 898 540,40 | R 2 314 782,21 | R 4 707 575,58 |
| 28 | 139172 | 305358 | R 3 026 393,92 | R 1 303 681,90 | R 2 807 182,31 |
| 29 | 138816 | 301676 | R 2 879 233,66 | R 742 324,96 | R 2 765 493,63 |
| 30 | 139131 | 304375 | R 3 042 711,65 | R 1 528 316,37 | R 2 799 161,86 |
| 31 | 139123 | 304319 | R 2 306 519,49 | R - | R 2 306 519,49 |
| 32 | 139113 | 304152 | R 2 338 482,28 | R 853 293,19 | R 2 329 763,98 |
| 33 | 138916 | 302662 | R 10 544 670,12 | R - | R 10 544 670,12 |
| 34 | 139795 | 315298 | R 17 860 173,03 | R 1 512 350,74 | R 20 228 361,35 |
| 35 | 140051 | 318954 | R 17 781 201,76 | -R 2 587 612,13 | R 14 794 922,11 |
| 36 | 138863 | 301990 | R 3 230 888,69 | R - | R 3 230 888,69 |
| 37 | 138810 | 301660 | R 16 110 509,06 | R 703 625,56 | R 16 122 385,31 |
|  |  |  |  |  |  |
| **Total** | | | **R 378 234 795,20** | **R 53 708 585,20** | **R 339 215 949,20** |

**Impact**

The aforementioned finding result in the following:

Non-compliance with PFMA sec 38(1) (c) (i) and Treasury Regulation 15.10.1

Possible fruitless and wasteful expenditure if the overpayments cannot be recovered.

**Internal control deficiency**

*Leadership*

Management did not monitor implementation of action plans to address internal control deficiencies as the same finding was raised in the prior year.

**Recommendation**

Management need to take effective steps to fully address the process where the overpayments are made and enhance steps to do follow-ups with landlords.

Management should do their own investigations to identify other overpayments and take steps to recover the money from the landlords.

**Management response**

Management response was not received.

**Auditors conclusion**

Management response not received. Therefore, finding remain and will be reported on the management report

**COFF 04 - Vacant leased building**

**Requirements**

Section 1 of the Public Finance Management Act states that *“Fruitless and wasteful expenditure' means expenditure which was made in vain and would have been avoided had reasonable care been exercised…”*

Section 38(1)(a)(i) of the Public Finance Management Act 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...”*

Section 38 (1)(c)(ii) Public Finance Management Act 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…*”

Treasury Regulation 8.2.2 statesthat *“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.”*

Furthermore,section 9.1 stipulates that *“The accounting officer of an institution must exercise all reasonable care to prevent and detect unauthorized, irregular, fruitless and wasteful expenditure and must for this purpose implement effective and transparent process of financial and risk management...”*

**Nature**

During the performance of our audit, physical verification was conducted at the property listed in *table 1* below to confirm that client departments are occupying buildings as per lease agreement.

**Table 1**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Details as per lease schedules** | | | | |
| **No** | **Property description** | **Property File Reference** | **Landlord Name** | **Tenant Name** |
| 1 | 325 Pietermaritz Street, Pietermaritzburg | 6221/0272/000 | Logoprops 32 (Pty) Ltd | National Prosecuting Authority (NPA) |

Upon physical verification conducted on 11 March 2020, with the assistance of the Senior Administrative Officer: Acquisitions we noted that the building was vacant. Through inspection of the lease termination letter dated 11 October 2019 addressed to Logoprops 32 (Pty) Ltd (“the landlord”), a one calendar month notice (for the month of November 2019) was given as required by the initial lease agreement for termination effective 01 December 2019.

The reasons for the termination was that the National Prosecuting Authority (NPA) was moving to a state building on 1 December 2019. Furthermore, the Trading Entity stated clearly that they will not be liable for any monthly rentals and charges for consumption of utilities after 30th November 2019.

However, through inspection of SAGE payment report and Achibus, we noted there were additional payments made to the landlord after the termination of the lease contract. Payments made after the lease termination date until 1st May 2020 are indicated in *Table 2* below.

**Table 2**

|  |  |  |  |
| --- | --- | --- | --- |
| **Payment Details as per SAGE** | | | |
| **Date** | **Document no.** | **Line description** | **Amount** |
| 2019/12/01 | ZALSC1912S1004008516 | Invoice ZPW0000010940 | 126 390 |
| 2019/12/01 | ZALSC1912S1004008517 | Invoice ZPW0000010940 | 5 631 |
| 2019/12/01 | ZALSC1912S1004008518 | Invoice ZPW0000010940 | 126 390 |
| 2019/12/01 | ZALSC1912S1004008519 | Invoice ZPW0000010940 | 5 631 |
| 2019/12/01 | ZALSC1912S1004008520 | Invoice ZPW0000010940 | 133 342 |
| 2019/12/01 | ZALSC1912S1004008521 | Invoice ZPW0000010940 | 5 940 |
| 2019/12/01 | ZALSC1912S1004008522 | Invoice ZPW0000010940 | 265 009 |
| 2020/01/02 | ZALSC2001S1004011270 | Invoice ZPW0000010940 | 265 009 |
| 2020/02/04 | ZALSC2002S1004013871 | Invoice ZPW0000010940 | 125 727 |
| 2020/03/01 | ZALSC2003S1004016753 | Invoice ZPW0000010940 | 125 727 |
| **Payments relating to 2019/20 financial period** | | | **1 184 796** |
|  |  |  |  |
| 2020/04/01 | ZALSC2004S1004019687 | Invoice ZPW0000010940 | 125 727 |
| 2020/05/01 | ZALSC2005S1004022076 | Invoice ZPW0000010940 | 125 727 |
| **Payments relating to financial periods subsequent to 2019/20** | | | **251 454** |
| **Total payments made subsequent to cancellation of lease** | | | **1 436 251** |

**Impact**

* Payments made subsequent to cancellation of lease and vacating of the building amounting to R1 436 251, of which R1 184 796 relates to 2019/20 financial period will result in Fruitless and wasteful expenditure.
* Non-compliance with section 38 of the PFMA and TR 8.8.2 and 9.1.

**Internal control deficiency**

*Leadership*

Management did not exercise oversight responsibility regarding financial and compliance and related internal controls regarding the operating lease payments made. As a result, the there are possible fruitless and wasteful expenditure incurred from the operating lease payments expenditure.

*Financial and performance management*

Management did not implement controls over daily and monthly processing and reconciling transactions with regard to the operating lease payments.

**Recommendation**

It is recommended that management should:

* Ensure effectiveness of internal controls to prevent payments from being made to respective landlords, post the lease agreement termination by ensuring regular reviews of the payment schedules and remittance advice documents.
* The payment system should have controls to prevent payments being made on leases that have expired. Furthermore, exception reports on payments made on leases terminated should be drawn regularly and reviewed by management and followed up.
* Implement a payment checklist to ensure adequate review processes prior to processing and approving payments in order to minimize the risk of overpaying suppliers.
* Revisit the whole population of leases to determine that the extent to which payments are continuing for leases that have been terminated.
* An investigation should be conducted to determine who caused the entity to incur fruitless and wasteful expenditure.
* Recover the payments made to Logoprops 32 (Pty) Ltd for the period subsequent to lease termination.

**Management response**

There is disagreement with the audit finding in respect to:

1. The actual amount paid after expiry of lease
2. The finding that the amount paid amounts to fruitless and wastefull expenditure in terms of PMFA

The only amount paid to the Landlord after the termination of the lease is R125,727.28 and not R1 436 251 as indicated on the finding. It is noted that you have taken negative amounts as payments in arriving at the amount of R1 436 251.

Management has identified the incorrect payment and requested the supplier to re-imburse the PMTE, refer to attached letter. The transaction is disclosed as a receivable of R125 727.28 in the financial statements therefore not expensed. As the amount was not included in expenditure it cannot be disclosed as fruitless expenditure as it does not conform to the definition: *“Fruitless and wasteful expenditure' means* ***expenditure*** *which was made in vain and would have been avoided had reasonable care been exercised…”*

**Auditor’s conclusion**

Management comment received. We are currently evaluating the figures taking into account the management comment.

It should also be noted that the payment made to the landlord after the termination of the lease will be fruitless and wasteful expenditure regardless of the entity’s steps taken to try and recover the money. Management should investigate the root causes of such payment. The fruitless and wasteful expenditure should also be updated to reflect such transaction. The fact that the amount has been recorded as receivables doesn’t mean that the transaction was not fruitless and wasteful since the payment did go through and the entity is in the process of recovering it.

**COFF 31 HO -Overstatement of operating lease expenditure**

**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 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.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Item No.** | **Archibus Asset** | **Region** | **AFS Amount**  **(R)** | **Amount recalculated**  **(R)** | **Differences**  **(R)** |
| 1 | 139533 | BFN | 36 388,56 | 31 014,16 | 5 374,40 |
| 2 | 138233 | CPT | 186 247,68 | - | 186 247,68 |
| 3 | 139569 | CPT | 532 558,46 | 490 203,71 | 42 354,75 |
| 4 | 139578 | CPT | 440 469,94 | 406 970,12 | 33 499,82 |
| 5 | 139588 | CPT | 276 174,00 | 266 328,00 | 9 846,00 |
| 6 | 138173 | KIM | 447 894,36 | 445 703,10 | 2 191,26 |
| 7 | 139567 | KIM | 898 231,44 | 510 889,73 | 387 341,71 |
| 8 | 139601 | KIM | 616 812,29 | 441 767,75 | 175 044,54 |
| 9 | 137697 | PTA | 9 232 951,01 | 5 312 860,79 | 3 920 090,22 |
| 10 | 137698 | PTA | 51 397 852,46 | 40 868 347,27 | 10 529 505,19 |
| 11 | 137699 | PTA | 18 579 133,59 | 14 189 006,84 | 4 390 126,75 |
| 12 | 137701 | PTA | 61 883 605,60 | 55 921 260,62 | 5 962 344,98 |
| 13 | 137702 | PTA | 55 615 248,60 | 45 187 859,68 | 10 427 388,92 |
| 14 | 137708 | PTA | 571 924,11 | 564 229,25 | 7 694,86 |
| 15 | 137709 | PTA | 350 658,00 | 304 920,00 | 45 738,00 |
| 16 | 137712 | PTA | 1 994 592,60 | 769 857,32 | 1 224 735,28 |
| 17 | 137714 | PTA | 585 400,90 | 2 307 421,33 | (1 722 020,43) |
| 18 | 137715 | PTA | 9 777 767,17 | 8 529 567,27 | 1 248 199,90 |
| 19 | 137716 | PTA | 34 082 095,74 | 22 598 469,88 | 11 483 625,86 |
| 20 | 137721 | PTA | 1 097 664,84 | 929 323,99 | 168 340,85 |
| 21 | 137725 | PTA | 58 808 082,66 | 37 306 327,79 | 21 501 754,87 |
| 22 | 137727 | PTA | 36 538 822,40 | 22 379 379,56 | 14 159 442,84 |
| 23 | 137729 | PTA | 2 661 496,80 | 2 373 701,57 | 287 795,23 |
| 24 | 137731 | PTA | 1 695 429,58 | 1 518 732,80 | 176 696,78 |
| 25 | 137732 | PTA | 14 420 217,30 | 13 984 855,39 | 435 361,91 |
| 26 | 137733 | PTA | 40 659 896,32 | 21 236 883,65 | 19 423 012,67 |
| 27 | 139548 | PTA | 1 546 278,09 | 879 724,58 | 666 553,51 |
| 28 | 139580 | PTA | 1 198 141,08 | 515 310,21 | 682 830,87 |
| 29 | 139505 | JHB | 33 569,26 | 20 788,73 | 12 780,53 |
| 30 | 139512 | JHB | 11 385 702,03 | 8 284 630,12 | 3 101 071,91 |
| 31 | 139582 | JHB | 1 723 176,48 | 1 237 240,82 | 485 935,66 |
| 32 | 139598 | JHB | 1 929 765,12 | 1 941 799,60 | (12 034,48) |
| 33 | 137770 | MMB | 1 168 721,54 | 967 975,13 | 200 746,42 |
| 34 | 137771 | MMB | 3 557 855,40 | 2 247 310,26 | 1 310 545,14 |
| 35 | 137772 | MMB | 3 779 797,84 | 3 736 705,92 | 43 091,92 |
| 36 | 137780 | MMB | 406 526,61 | 394 645,50 | 11 881,11 |
| 37 | 137785 | MMB | 250 182,62 | 216 199,71 | 33 982,91 |
| **Total** | | | **430 367 332,48** | **319 318 212,16** | **111 049 120,32** |

**Impact of the finding**

The above will result in the following:

Overstatement of operating lease expenditure and revenue by R 111 049 120.32.

The Financial Statements are not fairly presented in accordance with GRAP 1, paragraph 17.

**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 response not due yet

**Auditors Conclusion**

Management response not due yet

**COFF 43 HO - Overpayments made in contravention of Treasury Regulations.**

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”*

Section 38(1)(c)(ii)of the Public Finance Management Act 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…”*

Treasury Regulations for departments, trading entities, constitutional institutions and public entities, paragraph *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.”*

*Paragraph 9.3 of DPWI’s standard lease agreement of 2010 states that: “Should the Lessor fail to comply with his obligations in respect of installations required by the Lessee, if any, or fail to repair the defect (s), the Lessee shall notify the Lessor of such failure and unless the Lessor so complies within fourteen (14) days, save in emergencies, the Lessee shall be entitled to rectify those matters at his own expense and to recover the costs thus incurred from the Lessor.”*

**Nature**

During the audit of operating leases, we noted the following:

On 14 April 2009, PMTE entered into a lease agreement with Majestic Silver trading 275 (Pty) Ltd for the leasing of City Forum Building situated at 114 Vermeulen Street, Pretoria central.

The lease contract was initially procured for the Department of Human Settlement but was later transferred to ICD (Independent Complaints Directorate) which later became IPID (Independent Police Investigative Directorate).The lease period was intended for a period of 9 years and 11 months commencing on 01 March 2009,with 31 January 2018 set as the termination date.

However, the building required fire installation, health ventilation and air-conditioning system before the tenant could move in.Therefore the rental for the premises only commenced from 07 July 2009 as this was that the date the certificate of occupancy was issued.

Ever since the IPID took occupation of the City Forum Building, it has been experiencing problems with the state of the building. Some of the issues experienced by IPID are:

* Occupation of the building by the landlord’s employees who are suspected of malicious acts in the building
* Lifts not operational and unsafe
* Air conditioners not working
* Electrical plugs never functioned in some offices
* Generator was not being serviced by the landlord
* Fire escape doors have their locks and handles broken
* Fire Extinguishers were not being serviced

On 07 February 2020, IPID was issued with a prohibition notice by the department of labour to cease using all lifts due to the poor state of the lifts. The Department of Public Works and infrastructure therefore notified the landlord that they would suspend lease payments until the matter is resolved.

**Issue 1**

We inspected the Procurement Instruction (PI) dated 18 September 2008 and noted that IPID only needed 3241.25 square metres and 50 parking bays. However, the Directorate was allocated a building with 7614 square meters and 102 parking bays. This is 57% more space than they required.

Therefore 57% of all the rental payments up to date are fruitless and wasteful expenditure. This is because IPID were paying for space that they were not using. Furthermore, the resources of the trading entity were not used in an *effective, efficient and economical* manner as required by section 38(1) (b) of the PFMA act.

Therefore, of the R 172 682 187, 34 paid to date; R 98 428 846, 78 is fruitless and wasteful expenditure.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Building space required as per (PI)** | **Space provided by DPWI** | **Excess space as a percentage (%)** | **Total expenditure to date** | **Wasteful expenditure (57%)** |
| 3241.25 square meters and  50 parking bays | 7614 square meters and  102 parking bays | 57% | R 172 682 187, 34 | R 98 428 846, 78 |

**Issue 2**

In June 2010, IPID indicated that the building was not in good condition and requested refurbishments repairs. The Regional Bid Committee approved the appointment of Bankuna Engineering and Construction for refurbishment repairs and Mafanywa/Mphage Quantity Surveyors for project management. These service providers were appointed through an emergency procurement process. Furthermore, in line with clause 9.3 of the lease agreement it was agreed that the costs would be set off against rental. The total cost of the refurbishment was R14 397 657.02.

During our audit, we have confirmed that the cost was never set-off against the rental. Furthermore; the amount is not disclosed as a receivable, which indicates that the entity does not intend to recover the money from the landlord. Therefore the R 14 397 657.02 is fruitless and wasteful expenditure.

**Issue 3**

The National Department of Public Works (“the applicant”), instituted an application in the High Court of South Africa, Gauteng Division, Pretoria under case number 55481/2012 to declare void ab intio the Standard Lease Agreement between applicant and Majestic Silver Trading 275 (Pty) Ltd (“the respondent”) for office accommodation relating to a property situated at 114 Vermeulen Street, Pretoria (“the premises”), purportedly concluded on 14 April 2009.

The parties agreed to settle the matter as follows:

1. The Standard Lease Agreement between the applicant and the respondent for office accommodation relating to the premises, purportedly concluded on 14 April 2009, is void ab initio (to be treated as invalid from the outset).
2. The applicant will vacate the premises and restore possession of the premises to the respondent by 31 December 2015 (or such date as may be mutually agreed).
3. Notwithstanding the declaration that the lease is void ab initio,the applicant will continue to pay the monthly rental and all other charges as stipulated in the lease agreement, and which the applicant currently pays, until the date upon which the applicant vacates and restores possession of the premises to the respondent.

However, it was noted that the parties ignored the settlement agreement and continued to give effect to the contract up to date.

Furthermore, as from the date that the court judgement declared the contract void (26 November 2015), all payments made thereafter are irregular expenditure due to the fact that they were made based on the contract that has been declared void. (R 85 403 859, 4).

**Issue 4**

During the audit of the lease payments made over the lease period, we noted that payments made against the lease were more than the agreed amount as per the lease contract. This resulted in cumulative overpayments of R 13 061 187, 21 as at 31 March 2020. As per management’s schedules, R 7 869 479, 19 has already been impaired.

|  |  |  |
| --- | --- | --- |
| **Rental payments required per the lease agreement** | **Actual rental expenditure to date** | **Overpayment** |
| 159 621 000,13 | 172 682 187,34 | 13 061 187,21 |

**Impact**

The impact of the issues stated above are:

* Irregular expenditure of R 85 403 859,40.
* Fruitless and wasteful expenditure of R 112 826 503.80
* A financial loss of R 13 061 187.21
* A possible financial loss of R 112 826 503, 8 if management does not recover the fruitless and wasteful expenditure relating to tenant installation cost(R 14 397 657.02) not recovered and the excess space rented(R 98 428 846, 78).

**Internal control deficiency**

*Leadership*

Provide effective leadership based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the interests of the entity.

Management did not take effective steps to protect the interests of the entity.

* Leadership did not ensure that the building procured on behalf of IPID is in a good working condition.
* Leadership procured a building that is too large for the needs of IPID.
* Leadership did not recover monies due from the landlord which were incurred to repair the building.
* Upon obtaining a settlement agreement from the courts, leadership did not move out of the building as per the agreement.
* Leadership failed to obtain alternative accommodation for IPID since the settlement agreement since 26 November 2015 up to date.

**Recommendation**

Leadership should:

* Seek alternative accommodation for IPID as a matter of urgency as indicated on the settlement order.
* Recover all monies overpaid to the landlord.
* Disclose the amount of irregular expenditure of R 85 403 859, 4.
* Disclose the amount of fruitless and wasteful expenditure of R 112 826 504.

**Management response**

Management response not yet due

**Auditor’s conclusion**

Management response not yet due

**COFF 44 HO - Impairment of lease prepayments from active leases**

Requirements:

Public Finance Management Act paragraph (PFMA) 38(1)(a) (i) 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…”*

Public Finance Management Act paragraph (PFMA) 38(1)(c) (i) and (ii) state that “*The accounting officer for a trading entity must take effective and appropriate steps to (i)- collect all money due to the trading entity ; and (ii) prevent unauthorised, irregular and fruitless and wasteful expenditure and losses resulting from criminal conduct…”*

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."*Furthermore, paragraph 15.10.1.2 (c) states *that: “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;”*

GRAP 21 par .18D states that *“Non-cash-generating assets are assets that are not used with the objective to generate a commercial return. Instead they are used to deliver services.”*

**Nature**

During the audit of Prepaid expenses-leases we noted that there were leases that have been paid over and above the contractual value of the contract. This being the sum of money due per month for the entirety of the lease contract. Furthermore, we find that in instances where the excess amount has been paid to lessors, the department has categorized these amounts as non-financial assets. We also find that the non-financial asset is also a non-cash generating asset, whereby the PMTE does not intend on using the excess payments made to lessors to generate a commercial return but instead intends to enjoy the service benefit remaining in the building without paying any further rentals on it.

We found the following issues with regards to this treatment.

* We noted that there are cases in which the PMTE claim to have a service benefit in the form of the non – financial assets where it is expected that they will benefit by enjoying the service from the lessor however continues to make payments to such lessors. This in effect nullifies the benefit of staying in the property without paying any further rentals. The PMTE should recover these amount from the respective lessors, however they have not.
* In addition, and as indicated above where PMTE still have active contracts, such financial assets(Overpayments) should not be impaired because PMTE can still benefit by using the service of the lessor by staying in the property without paying. However, we have noted that such active contracts where overpayments have been made which resulted in such being classified as non-financial assets, PMTE has impaired these overpayments.

Below is the extract of active contracts where overpayments where made and management impaired the financial assets prior to utilizing the property without paying until the overpayment is exhausted:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Archibus** | **Lease Status** | **Opening balance of pre -payments as at 31 March 2019** | **Additional Payments made on the lease during 2019/20** | **Prepayment balance as at 31 March 2020** | **Impairment recognized in 2020** |
| 137700 | Active | (1 741 722,15) | 13 448 707,30 | (8 581 089,19) | 2 392 177,40 |
| 137723 | Active | (1 531 706,00) | 9 255 632,21 | (3 713 982,61) | 2 471 729,40 |
| 139571 | Active | (2 335 269,24) | 869 992,84 | (2 266 090,99) | 87 672,69 |
| 139534 | Active | (597 696,13) | 538 768,21 | (592 777,91) | 12 709,86 |
| 137766 | Active | (395 460,13) | 3 838 728,51 | (524 633,98) | 383 669,80 |
| 137749 | Active | (362 433,52) | 1 111 855,80 | (362 433,52) | 181 392,72 |
| 139591 | Active | (280 015,07) | 1 231 393,06 | (306 008,13) | 73 770,60 |
| 137724 | Active | (224 930,36) | 13 570 974,64 | (300 259,88) | 61 846,76 |
| 137790 | Active | (263 817,74) | 944 980,74 | (263 817,70) | 47 110,11 |
| 139532 | Active | (229 996,86) | 1 250 372,50 | (226 069,48) | 83 296,08 |
| 140103 | Active | (160 235,04) | 369 728,71 | (165 400,75) | 22 311,36 |
| 137759 | Active | (135 581,34) | 1 891 569,60 | (135 581,34) | 105 314,12 |
| 137741 | Active | (132 383,70) | 295 202,43 | (105 568,89) | 37 424,28 |
| 137712 | Active | (93 121,70) | 1 881 294,96 | (94 853,30) | 115 029,24 |
| 139544 | Active | (370 626,52) | 1 456 474,80 | (79 331,56) | 106 963,56 |
| 137752 | Active | (56 527,66) | 1 046 023,44 | (56 527,66) | 64 016,64 |
| 139545 | Active | (334 289,47) | 1 558 597,08 | (47 179,71) | 305 500,21 |
| 139516 | Active | (49 900,70) | 4 876 933,63 | (45 503,34) | 290 578,75 |
| 138233 | Active | (41 073,91) | 174 997,77 | (41 579,20) | 11 755,20 |
| 139593 | Active | (218 171,31) | 2 712 710,67 | (34 707,87) | 335 737,27 |
| 137793 | Active | (30 517,29) | 1 034 477,40 | (30 517,29) | 886,56 |
| 138228 | Active | (30 803,55) | 157 979,30 | (23 603,54) | 9 290,16 |
| 137760 | Active | (15 821,42) | 536 053,56 | (15 821,42) | 32 806,44 |
| 137739 | Active | (13 734,11) | 76 624,50 | (13 734,11) | 1 481,64 |
| 139568 | Active | (2 338,80) | 187 272,00 | (13 354,80) | 22 458,24 |
| 139562 | Active | (17 135,57) | 257 719,61 | (13 069,83) | 33 930,93 |
| 137733 | Active | (2 238 426,55) | 29 175 192,20 | - | 4 743 259,51 |
| 140098 | Active | - | 26 275 928,16 | - | 2 475 342,37 |
| Total |  |  |  |  | **14 509 461,90** |

**Impact of the finding**

* Non-compliance with Section 38(1)(a) (i) of the Public Finance Management Act as the accounting officer of the entity failed to ensure that the trading entity has and maintains Effective, efficient and transparent systems of financial and risk management and internal control.
* Non-compliance with Section 38(1)(c) (i) of the Public Finance Management Act as result of the accounting officer failing to take effective and appropriate steps to collect all money due to the trading entity.
* Impairments are overstated and consequently trade receivables for the related balances is understated.
* Non-compliance with TR 8.1.1 and TR 15.10.2.1
* Possible financial loss of R14 509 461.90

**Internal control deficiency**

*Financial and Performance Management*

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

Management did not monitor or track the amount of money that should have been paid for leases as per valid lease contracts, this resulted in management paying over and above the required amount for their leases contracts.

Furthermore, management did not take the necessary steps to recover the overpaid money from lessors which was due to the entity.

**Recommendation**

It is recommended that management should ensure that the entity complies with all applicable laws and regulations.

Management should implement a system a were leases are tracked, and payments are made solely based on valid lease contract. Payments should also be verified against lease payments when they are authorised. In instance where payments have been made over and above what is required, these payments should be detected immediately and processes in place to recover the outstanding money immediately.

It is recommended that management should revisit the whole population where there are overpayments on active contracts to determine the full extent of the impact of this finding on impairment loss, receivables balances as well as the financial loss.

**Management response**

**Auditors Conclusion**

**COFF 45 HO - Misstatement of operating lease asset and liability**

**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 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.

1. An overstatement for the operating lease liability balance was noted as follows;

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **No.** | **Archibus Asset** | **PC Code** | **Amount as per the AFS as at 31 March 2020** | **Recalculated operating lease Liability** | **Difference** |
| 1 | 137733 | 153 | 4 743 259,51 | 2 371 629,75 | 2 371 629,76 |
| 2 | 137700 | 35 | 2 392 177,40 | - | 2 392 177,40 |
| 3 | 137768 | 318 | 359 486,85 | 390 661,45 | (31 174,60) |
| 4 | 139545 | 311054 | 305 500,21 | 56 123,53 | 249 376,68 |
| 5 | 139584 | 311803 | 303 144,12 | 291 248,52 | 11 895,60 |
| 6 | 137764 | 292 | 297 367,56 | 296 868,93 | 498,63 |
| 7 | 139598 | 311903 | 117 765,24 | 129 799,60 | (12 034,36) |
| 8 | 137712 | 78 | 115 029,24 | - | 115 029,24 |
| 9 | 137767 | 313 | 102 971,88 | 271 887,95 | (168 916,07) |
| 10 | 139580 | 311718 | 62 860,90 | 33 848,18 | 29 012,72 |
| 11 | 138177 | 161855 | 62 003,98 | 68 669,00 | (6 665,02) |
| 12 | 137724 | 123 | 61 846,76 | - | 61 846,76 |
| 13 | 139543 | 311048 | 54 403,36 | 58 833,00 | (4 429,64) |
| 14 | 139548 | 311065 | 35 097,30 | - | 35 097,30 |
| 15 | 138173 | 161022 | 25 830,36 | 23 639,10 | 2 191,26 |
| 16 | 137771 | 335 | 23 054,20 | 630 377,97 | (607 323,77) |
| 17 | 139568 | 311587 | 22 458,24 | 25 827,04 | (3 368,80) |
|  | **Total** | | | | **4 434 843,09** |

2. An understatement for the operating lease asset balance was noted as follows;

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **No.** | **Archibus Asset** | **PC Code** | **Amount as per the AFS as at 31 March 2020** | **Recalculated operating lease asset** | **Difference** |
| 1 | 137718 | 100 | (4 585 037,98) | (4 510 313,52) | (74 724,46) |
| 2 | 137732 | 139 | (2 881 174,32) | (3 166 089,42) | 284 915,10 |
| 3 | 139499 | 310702 | (1 052 911,84) | (1 258 716,39) | 205 804,55 |
| 4 | 139581 | 311750 | (115 929,12) | (624 641,09) | 508 711,97 |
| 5 | 137772 | 339 | (90 584,16) | (60 253,52) | (30 330,64) |
| 6 | 137787 | 407 | (62 725,83) | 19 048,27 | (81 774,10) |
| 7 | 137765 | 308 | (36 672,80) | - | (36 672,80) |
| 8 | 137774 | 350 | (33 328,92) | - | (33 328,92) |
| 9 | 139527 | 310945 | (29 592,96) | 27 885,71 | (57 478,67) |
| 10 | 137780 | 381 | (14 184,78) | - | (14 184,78) |
| 11 | 137785 | 396 | 2 406,38 | - | 2 406,38 |
| 12 | 139506 | 310748 | (7 675,80) | 4 584,97 | (12 260,77) |
| 13 | 137762 | 277 | (7 588,26) | 11 888,23 | (19 476,49) |
| 14 | 137792 | 442 | (6 595,62) | 1 434,32 | (8 029,94) |
| 15 | 137769 | 326 | (6 372,60) | 5 976,57 | (12 349,17) |
| 16 | 139588 | 311845 | (1 206,00) | - | (1 206,00) |
| 17 | 137794 | 456 | (3 064,20) | - | (3 064,20) |
| 18 | 138178 | 162079 | (11 722,41) | - | (11 722,41) |
| 19 | 139560 | 311291 | (172 275,12) | (116 404,91) | (55 870,21) |
| 20 | 139510 | 310765 | (62 759,21) | - | (62 759,21) |
| 21 | 139519 | 310892 | (47 356,07) | - | (47 356,07) |
| 22 | 139528 | 310955 | (69 669,49) | - | (69 669,49) |
| 23 | 137737 | 174 | (9 496,08) | - | (9 496,08) |
| 24 | 137743 | 195 | (13 284,66) | 2 449,50 | (15 734,16) |
| 25 | 137754 | 235 | (102 971,04) | (97 137,51) | (5 833,53) |
|  | **Total** | | | | **338 515,90** |

**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 4 434 843,09.
* Projected misstatement of operating lease liability by R 259 328 051,85.
* 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*

1. 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.

**Management response**

Management response not yet due

**Auditors Conclusion**

Management response not yet due

**COFF 46 HO - Revenue from exchange transactions: Lease agreements not signed**

**Laws, Rules and Regulations**

Section 38(1)(a)(i) and (c)(i) of the Public Finance Management Act (PFMA) states, “*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; Must take effective and appropriate steps to collect all money due to the department, trading entity or constitutional institution…*”

Section 40(1)(a) and (b) of the PFMA states, “*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 recognised accounting practice*…”

Treasury Regulation 7.2.1 regarding responsibility for revenue management states “*The accounting officer of an institution must manage revenue efficiently and effectively by developing and implementing appropriate processes that provide for the identification, collection, recording, reconciliation and safeguarding of information about revenue…*”

**Nature**

During the audit of operating lease expenditure and revenue from exchange transactions, we noted that lease agreements that are entered into between PMTE on behalf of client departments and various lessors were not signed by the client department as proof of validating the lease agreement and occupancy of the building.

Kindly see the attached *Annexure-tab A* for a list of the properties where there is no lease agreement between the PMTE and the client department.

We also noted that the PMTE leased properties to client departments where there is no valid lease agreement in place as the lease agreements submitted for audit purposes were not signed by all the affected parties.

Please see the attached *Annexure* for examples of the properties where there is no valid lease agreement in place.

**Impact**

This may lead to unnecessary disputes of debtors balances by clients as there are no signed lease agreements in place; which then results in the PMTE not collecting all the revenue that is due to it. Further, this could result in the PMTE incurring financial losses due to not recovering from the client department the money that it pays to the lessor on behalf of the client department.

**Internal control deficiency**

*Financial and performance management*

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

Lack of proper controls in the lease agreements management processes that ensure that all leases are signed by the relevant parties and are valid.

**Recommendation**

Management should ensure proper controls with regards to the validity and signing of the lease agreements, as it may help with avoiding unnecessary disputes over debt owed by the clients.

**Management response**

#### Management response not yet due.

**Auditors conclusion**

#### Management response not yet due.

**COFF 54 HO - Overstatement of operating lease expenditure and revenue from exchange transaction**

**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 |
| 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 |
| 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 |
| 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 |
| 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 |
| 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*

1. Lack of proper preparation of regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.
2. 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 response not yet due.

**Auditors Conclusion**

Management response not yet due

**COFF 55 HO Misstatement of the operating commitment**

**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...”*

Paragraph 42 of GRAP 13 states that the following needs to be disclosed in terms of operating leases by the lessor: *“Lessees shall, in addition to meeting the requirements of GRAP 104, make the following disclosures for operating leases:*

*(a) the total of future minimum lease payments under non-cancellable operating leases for each of the following periods:*

*(i) not later than one year;*

*(ii) later than one year and not later than five years; and*

*(iii) later than five years;*

*(b) the total of future minimum sublease payments expected to be received under non-cancellable subleases at the reporting date;*

*(c) lease and sublease payments recognised in the statement of financial performance in the period, with separate amounts for minimum lease payments, contingent rents, and sublease payments; and*

*(d) a general description of the lessee’s significant leasing arrangements including, but not limited to, the following:*

*(i) the basis on which contingent rent payable is determined;*

*(ii) the existence and terms of renewal or purchase options and escalation clauses; and*

*(iii) restrictions imposed by lease arrangements, such as those concerning return of surplus, return of capital contributions, dividends or similar distributions, additional debt, and further leasing.”*

Paragraph 66 of GRAP 13 states that the following needs to be disclosed in terms of operating leases by the lessor: *“Lessors shall, in addition to meeting the requirements of GRAP 104, disclose the following for operating leases:*

*(a) the future minimum lease payments under non-cancellable operating leases in the aggregate and for each of the following periods:*

*(i) not later than one year;*

*(ii) later than one year and not later than five years; and*

*(iii) later than five years;*

*(b) total contingent rents recognised as revenue in the period; and*

*(c) a general description of the lessor’s leasing arrangements.”*

**Nature**

During the audit of the operating lease commitments, 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.

1. The misstatements noted are as follows;



**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).
* Possible overstatement of the operating lease commitment by R979 357 683,67.
* Possible Projected misstatement of the operating lease commitment-PMTE as a lessor by R 5 534 733 580.54.
* Possible Projected misstatement of the operating lease commitment-PMTE as a lessee by 5 422 782 742,06

**Internal control deficiency**

*Financial and Performance Management*

1. 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.

**Management response**

Management response not due yet

**Auditors Conclusion**

Management response not due yet

**COFF 56 HO Misstatement of freehold intergovernmental receivables**

**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 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:*

1. *an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;*
2. *the time value of money; and*
3. *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 freehold intergovernmental, 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. With regards to disputes we find that management did not obtain client confirmations annually to ensure that these agree with their statements and as a result PMTE was not able identify differences and resolve them with client departments. Furthermore, the entity does not clearly document all disputes including the details of such disputes, and as a resulting in delays in resolving disputes with client departments.
* 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** | **Impairment Provision** | | **Difference** |
| --- | --- | --- | --- |
|  | **PMTE** | **Auditor** |  |
| Correctional Services | 168 057 724 | 32 511 142 | - 135 546 583 |
| International Relations & Coop | 7 573 465 | 7 623 941 | 50 476 |
| Agriculture, Forestry and Fisheries | 2 860 845 | 38 994 670 | 36 133 825 |
| Arts and Culture | 171 574 | 6 731 965 | 6 560 391 |
| Basic Education | 40 044 399 | 40 210 263 | 165 864 |
| Environmental Affairs | 3 496 556 | 3 496 947 | 391 |
| Government Printing Works | 2 431 | 64 636 | 62 205 |
| SITA | 2 474 294 | 2 583 096 | 108 802 |
| International Relations & Coop | 63 789 198 | 69 705 263 | 5 916 064 |
| **Total** |  |  | **- 86 548 565** |

Table 2 ; freehold intergovernmental receivable differences

|  |  |  |  |
| --- | --- | --- | --- |
| **Debtor** | **Freehold intergovernmental** | | **Difference** |
|  | **PMTE** | **Auditor** |  |
| Correctional Services | 76 766 453 | 212 313 035 | 135 546 583 |
| International Relations & Coop | 723 354 | 672 879 | - 50 476 |
| Agriculture, Forestry and Fisheries | 74 515 025 | 38 381 200 | - 36 133 825 |
| Arts and Culture | 26 120 578 | 19 560 188 | - 6 560 391 |
| Basic Education | 3 714 767 | 3 548 903 | - 165 864 |
| Environmental Affairs | 8 755 | 8 364 | - 391 |
| Government Printing Works | 62 205 | 0 | - 62 205 |
| SITA | 229 531 | 120 728 | - 108 802 |
| International Relations & Coop | 5 916 064 | - | - 5 916 064 |
| **Total** |  |  | **86 548 565** |

**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 86 548 565.00
* Understatement of freehold intergovernmental receivables by R 86 548 565.00
* Projected understatement of freehold inter-governmental receivables by R 435 731 686.33

**Internal control deficiency**

*Financial and Performance Management*

1. 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**

Management response not due yet

**Auditors Conclusion**

Management response not due yet

**COFF 57 HO Misstatement of the operating commitment**

**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...”*

Paragraph 42 of GRAP 13 states that the following needs to be disclosed in terms of operating leases by the lessor: *“Lessees shall, in addition to meeting the requirements of GRAP 104, make the following disclosures for operating leases:*

*(a) the total of future minimum lease payments under non-cancellable operating leases for each of the following periods:*

*(i) not later than one year;*

*(ii) later than one year and not later than five years; and*

*(iii) later than five years;*

*(b) the total of future minimum sublease payments expected to be received under non-cancellable subleases at the reporting date;*

*(c) lease and sublease payments recognised in the statement of financial performance in the period, with separate amounts for minimum lease payments, contingent rents, and sublease payments; and*

*(d) a general description of the lessee’s significant leasing arrangements including, but not limited to, the following:*

*(i) the basis on which contingent rent payable is determined;*

*(ii) the existence and terms of renewal or purchase options and escalation clauses; and*

*(iii) restrictions imposed by lease arrangements, such as those concerning return of surplus, return of capital contributions, dividends or similar distributions, additional debt, and further leasing.”*

Paragraph 66 of GRAP 13 states that the following needs to be disclosed in terms of operating leases by the lessor: *“Lessors shall, in addition to meeting the requirements of GRAP 104, disclose the following for operating leases:*

*(a) the future minimum lease payments under non-cancellable operating leases in the aggregate and for each of the following periods:*

*(i) not later than one year;*

*(ii) later than one year and not later than five years; and*

*(iii) later than five years;*

*(b) total contingent rents recognised as revenue in the period; and*

*(c) a general description of the lessor’s leasing arrangements.”*

**Nature**

During the audit of the operating lease commitments, 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.

1. The misstatements noted are as follows;



**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).
* Possible overstatement of the operating lease commitment by R979 357 683,67.
* Possible Projected misstatement of the operating lease commitment-PMTE as a lessor by R 5 534 733 580.54.
* Possible Projected misstatement of the operating lease commitment-PMTE as a lessee by 5 422 782 742,06

**Internal control deficiency**

*Financial and Performance Management*

1. 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.

**Management response**

Management response not due yet

**Auditors Conclusion**

Management response not due yet

**COFF 58 HO Misstatement of freehold intergovernmental receivables**

**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 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:*

1. *an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;*
2. *the time value of money; and*
3. *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 freehold intergovernmental, 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. With regards to disputes we find that management did not obtain client confirmations annually to ensure that these agree with their statements and as a result PMTE was not able identify differences and resolve them with client departments. Furthermore, the entity does not clearly document all disputes including the details of such disputes, and as a resulting in delays in resolving disputes with client departments.
* 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** | **Impairment Provision** | | **Difference** |
| --- | --- | --- | --- |
|  | **PMTE** | **Auditor** |  |
| Correctional Services | 168 057 724 | 32 511 142 | - 135 546 583 |
| International Relations & Coop | 7 573 465 | 7 623 941 | 50 476 |
| Agriculture, Forestry and Fisheries | 2 860 845 | 38 994 670 | 36 133 825 |
| Arts and Culture | 171 574 | 6 731 965 | 6 560 391 |
| Basic Education | 40 044 399 | 40 210 263 | 165 864 |
| Environmental Affairs | 3 496 556 | 3 496 947 | 391 |
| Government Printing Works | 2 431 | 64 636 | 62 205 |
| SITA | 2 474 294 | 2 583 096 | 108 802 |
| International Relations & Coop | 63 789 198 | 69 705 263 | 5 916 064 |
| **Total** |  |  | **- 86 548 565** |

Table 2 ; freehold intergovernmental receivable differences

|  |  |  |  |
| --- | --- | --- | --- |
| **Debtor** | **Freehold intergovernmental** | | **Difference** |
|  | **PMTE** | **Auditor** |  |
| Correctional Services | 76 766 453 | 212 313 035 | 135 546 583 |
| International Relations & Coop | 723 354 | 672 879 | - 50 476 |
| Agriculture, Forestry and Fisheries | 74 515 025 | 38 381 200 | - 36 133 825 |
| Arts and Culture | 26 120 578 | 19 560 188 | - 6 560 391 |
| Basic Education | 3 714 767 | 3 548 903 | - 165 864 |
| Environmental Affairs | 8 755 | 8 364 | - 391 |
| Government Printing Works | 62 205 | 0 | - 62 205 |
| SITA | 229 531 | 120 728 | - 108 802 |
| International Relations & Coop | 5 916 064 | - | - 5 916 064 |
| **Total** |  |  | **86 548 565** |

**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 86 548 565.00
* Understatement of freehold intergovernmental receivables by R 86 548 565.00
* Projected understatement of freehold inter-governmental receivables by R 435 731 686.33

**Internal control deficiency**

*Financial and Performance Management*

1. 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**

Management response not due yet

**Auditors Conclusion**

Management response not due yet

**Financial assets**

**COFF 32 HO - Financial assets incorrectly classified as non-financial assets**

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 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*.”

1. GRAP 1 par .18 states that “*Financial statements shall not be described as complying with Standards of GRAP unless they comply with all the requirements of Standards of GRAP.”*
2. GRAP 104 par AG1.7 states that: “Contracts *to buy or sell non-financial items do not meet the definition of a financial instrument because the contractual right of one party to receive a non-financial asset or service and the corresponding obligation of the other party do not establish a present right or obligation of either party to receive, deliver or exchange a financial asset*.”
3. *GRAP defines a financial asset as a contractual right to receive cash or another financial asset from another entity.*

GRAP 104 par 3.1 states that “*An entity shall recognise a financial asset or a financial liability in its statement of financial position when, and only when, the entity becomes a party to the contractual provisions of the instrument...”*

GRAP 104 par 4.2 states that *“A financial asset shall be measured at amortised cost if both of the following conditions are met:*

*a) the financial asset is held within a management model whose objective is to hold financial assets in order to collect contractual cash flows; and*

*(b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.”*

**Nature**

During the audit of receivables from exchange receivables, we noted that the following balance was incorrectly classified as non-financial assets as opposed to financial assets:

1. Prepaid expenses – Leases.

Within the balance of prepaid expense of R384 144 000.00 we noted that there are amounts that are as a result of overpayments and therefore would not qualify for prepayment. The balance of terminated leases no longer represent a non-financial asset as the money will not be recovered through use (remaining in the building without paying rent). On termination of the lease, the pre-payment balance should be recovered from the lessor because the amount now represents a contractual right to receive cash from another entity.

Therefore, prepaid leases that are terminated should be re-classified as a financial asset.

Below is a list of terminated contracts that have prepayment balances;

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **No** | **Archibus Asset No.** | **PMIS code** | **Region** | **Prepayment balance as per AFS** | **AMOUNT** |
| **1** | 138395 | 277185 | NEL | 1 732 530,60 | 1 732 530,60 |
| **2** | 139517 | 310889 | PE | 1 973 873,50 | 1 973 873,50 |
| **3** | 137869 | 81160 | PE | 3 462 924,11 | 3 462 924,11 |
| **4** | 139788 | 315059 | JHB | 3 295 367,66 | 3 295 367,66 |
| **5** | 138916 | 302662 | JHB | 11 616 646,16 | 11 616 646,16 |
| **6** | 139270 | 306340 | MMB | 5 100 205,95 | 5 100 205,95 |
| **7** | 138863 | 301990 | MMB | 2 648 558,69 | 2 648 558,69 |
| **Total** | | | | **29 830 106,67** | **29 830 106,67** |

**Impact of the finding**

* 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 40(1) (b) of the Public Finance Management Act as result of the financial statements are not prepared in accordance with generally recognised accounting practice(GRAP)
* Under-statement of Financial assets at amortised cost of R 29 830 106.67
* Overstatement of Non-financial assets of R 29 830 106.67

**Internal control deficiency**

*Financial and Performance Management*

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

Management did not prepare the annual financial statements in accordance with the generally recognized accounting practice. Furthermore, management did not keep monitor expiring leases with overpayment balances that need to be re-classified from non-financial assets to financial assets on termination of lease.

**Recommendation**

It is recommended that management should ensure that the entity complies with all applicable laws and regulations.

Management should revisit the whole population and reclassify prepaid balances of terminate leases to financial assets.

Management should implement a system to monitor the status of leases with overpayment balances. In cases wherein the overpayment balance cannot be used up prior to termination, management should implement controls to ensure that the amounts are identified, and are then reclassified under financial assets.

#### Management response

Management response not due yet

**Auditors Conclusion**

Management response not due yet

#### Prepaid leases

**COFF 23 HO - Lease prepayment - misstated**

**Audit finding**

Laws, rules and Regulations:

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**

During the audit of prepaid 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** |

**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 response not due yet

**Auditor’s conclusion**

Management response not due yet

#### Immovable assets:

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

**DETAILED AUDIT FINDING**

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 Valuers or Professional******Associated Valuers*** *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*](http://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*](http://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)** |
| N0ES02490000000100000 | 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)** |
| N0HT03670000058400000 | 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)** |
| T0KP00000000021700012 | 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 valuers 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 were 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 valuers. 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.

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

**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 |
| **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 are in line with the deemed cost position paper i.e. all components percentage allocation are applied correctly as per the deemed cost position paper.

Management to revisit the population and ensure that all BI Valuation Method are accurately calculated and consistent with the deemed cost position paper. To provide journal after assessment of the whole population.

**Auditor’s conclusion**

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

**COFF 05 JHB: Assets Under Construction**

**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; 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.

**WCS 046946: 46 BRIGADE: REPAIR AND RENOVATIONS TO MILITARY BASE**

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’s response not received

**Auditor’s conclusion**

Management response not received.

**COFF 03 MMB Assets Under Construction: Incorrect classification of projects**

**Laws, rules and legislation**

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…”*

1. 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 comment noted. The finding will remain on the management report.

**COFF 24 HO Investment Property: Partial information not submitted for audit purposes.**

**Audit finding**

**Requirements**

Public Finance Management Act (PFMA) section 40(1)(a) stipulates that: *“The accounting officer for a department must keep full and proper records of the financial affairs of the department in accordance with any prescribed norms and standards…”*

Furthermore, Section 41 states that *“an accounting officer of a department 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 15 of the Public Auditing Act 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…”*

**Nature**

During the audit of investment property, supporting documentation as per the table below was requested through Request for Information 113 dated 13 August 2020. We have not received the requested information to date. *Refer to the table below*.

**Land - AVL**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **No** | **Site ID** | **Unique property code** | **Sample Description** | **Deemed cost (R)** | **Document not submitted** |
| 1 | 200000048244 | 3139671 | Land - AVL | 14 042 713 | Aktex report/other documentation to confirm ownership and property details |
| 2 | 200000047463 | 1632151 | Land - AVL | 3 014 018 | Aktex report/other documentation to confirm ownership and property details |
| **Total** | | | | **17 056 731** |  |

**Buildings - BI**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **No** | **Building ID** | **Unique property code** | **Sample Description** | **Deemed cost (R)** | **Document not submitted** |
| 3 | 200000046326 | 551062 | Buildings - BI | 703 950 | Aktex report/other documentation to confirm ownership and property details |
| 4 | DODBLD35412 | 731841 | Buildings - BI | 2 380 655 | DoD site map showing the property structure and the building’s extent. |
| 5 | DODBLD35418 | 731841 | Buildings – BI | 3 623 791 | DoD site map showing the property structure and the building’s extent. |
| **Total** | | | | **6 708 396** |  |

**Impact of the finding**

The above will result in the following:

* Limitation of scope as we were unable to obtain sufficient and appropriate audit evidence to complete the audit and this can also lead in unfavorable audit outcomes.
* Non-compliance with the PFMA sections 40(1) a.
* Non-compliance with the PFMA section 41.

**Internal control deficiency**

*Financial and Performance Management*

Management 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

**Recommendation**

It is recommended that the requested information be submitted to the auditors for audit purposes.

**Management response**

Management response not received.

**Auditors Conclusion**

Management response not received

**COFF 25 HO Investment Property & Heritage Assets: Rights and Obligations.**

**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**

1. 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 response not received.

**Auditors Conclusion**

Management response not received.

**COFF 26 HO Investment Property: Differences noted in deemed cost calculations.**

**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…”*

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…”*

**Nature**

During the audit of investment property, we have noted differences between the deemed cost as per the immovable asset register (IAR) and the auditors’ recalculations. Some differences were due to the extent as per the IAR differs from the supporting documents. *Refer to the table below****;***

**Buildings**

**BI**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **No** | **IAR Number** | **Building Id** | **Deemed Cost per IAR** | **Auditors’ recalculation of deemed cost** | **Difference (R)** |
| 1 | 41694 | 200000061849 | 228 330 | 211 515 | 16 815 |

**MVR**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **No** | **IAR Number** | **Building Id** | **Deemed Cost per IAR** | **Auditors’ recalculation of deemed cost** | **Difference (R)** |
| 1 | 77035 | 200000075537 | 901 285 | 938 072 | (36 787) |
| 2 | 106745 | 200000029017 | 836 220 | 1 959 396 | (1 123 176) |
| **Total** | | | | | **(1 159 963)** |

**CSV**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **No** | **IAR Number** | **Building Id** | **Deemed Cost per IAR** | **Auditors’ recalculation of deemed cost** | **Difference** |
| 1 | 71225 | 100000009214 | 760 645 | 794 132 | (33 487) |
| 2 | 81539 | 218900122 | 536 810 | 429 520 | 107 380 |
| 3 | 77263 | 100000031444 | 315 863 | 381 311 | (65 448) |
| **Total** | | | | | **8 445** |

**Land**

**AVL**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **No** | **Unique property code** | **Site ID** | **Deemed cost per IAR (R)** | **Auditors’ recalculation of deemed cost (R)** | **Difference (R)** |
| 1 | 507961 | 100000028805 | 10 031 453 | 10 247 183 | (215 730) |
| 2 | DEEDS21237 | 100000019785 | 488 067 | 567 670 | (79 603) |
| 3 | 742951 | 100000014736 | 133 926 | 1 212 723 | (1 078 797) |
| **Total** | | | **10 653 446** | **12 027 576** | **(1 374 130)** |

**CSV**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **No** | **Unique property code** | **Site ID** | **Deemed cost per IAR** | **Auditors’ recalculation of deemed cost** | **Difference** |
| 4 | 558551 | 100000031767 | 611 014 | 491 745 | 119 268 |
| 5 | 535611 | 100000035747 | 603 994 | 945 877 | (341 883) |
| 6 | 799351 | 100000035820 | 595 964 | 484 808 | 111 155 |
| **Total** | | | | | **(111 460)** |

**Impact of the finding**

The above will result in the following:

* Understatement of investment property (land and buildings) by R2 620 293.
* Buildings have been understated by R1 134 703
* Land have been understated by R1 485 590

**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 should ensure that the deemed cost position paper is applied correctly when calculating the deemed cost using the methods applicable.

**Recommendation**

It is recommended that adequate review processes be put in place to ensure that the immovable asset register is accurate and reflects the correct deemed cost values.

**Management response**

Management response not received.

**Auditors Conclusion**

Management response not received.

**COFF 27 HO Intangible Assets: Differences noted on commitment disclosed in the AFS**

**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 00supporting 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 response not received.

**Auditors Conclusion**

Management response not received.

COFF 28 HO Heritage Assets: Assets not correctly classified

**DETAILED 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**

**AVL**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **No** | **Building ID** | **Site ID** | **Property Description** | **Auditors reason for incorrect classification** | **Deemed Cost of Asset (R)** |
| 1 | N/A | 100000028326 | REMAINDER OF FARM 497 WATERVAL GORDONIA RD | Confirmed the overall property is a private property and classified incorrectly as heritage asset as there is no indication that it needs to be protected, cared for and preserved for current and future generations. | 33 332 105 |

**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 R85 140 928 while the Property, plant and Equipment (PPE) has been understated by R85 140 928.
* 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’s comment has been noted. The issue with regards to classification of the remainder of Farm 497, Waterval Gordonia Rd is resolved. The remainder of the finding will be reported in the management report.

**COFF 29 HO Heritage Assets(AUC) – Differences noted between schedule and disclosure note**

**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 heritage assets, differences were identified under Note no. 9 “additional disclosure relating to assets under construction”, as the cumulative expenditure recognised in the carrying amount of heritage assets disclosed per the annual financial statements did not agree to the cumulative expenditure as per the AUC register

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Cumulative Expenditure recognised in carrying value per AFS** | **Cumulative Expenditure per AUC register** | **Differences (R)** |
| 2020 Buildings and improvements | 759 932 000 | 753 243 637 | 6 688 363 |

**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.
* Heritage assets – carrying value is overstated by R6 688 363 and Property, plant and equipment – carrying value is understated by R6 688 363

**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 not in agreement with the audit finding,

Heritage assets is not overstated as per the statement above; the error relates to transposing the rand value from the AUC Register to the disclosure in Note 9.

Management will correct the disclosure to R753 244 000 in line with the AUC Register. Only disclosure to be corrected.

**Auditors Conclusion**

Management response noted. The misstatement was on the disclosure note 9 supported by the AUC register. The finding will remain on the management report.

**COFF 36 HO Assets Under Construction – Project completed not capitalized**

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

**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 response not received.

**Auditors Conclusion**

Management response not received.

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

**DETAILED AUDIT FINDING**

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

1. *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;*
2. *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 |
| 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 |
| S42\_31032015\_00870 | 200000070241 | C05500000000058400000 | FARM 584 PAARL | 83 779 046 |
| 200000054661 | 200000054661 | C03500020000026500000 | ERF 265 PORTION 0 OF JANSENVILLE | 308 121 |
| **Total** | | | | **89 370 913** |

**Impact**

This impacted immovable assets in the following areas:

* Carrying value of assets as at 31 March 2020 is overstated by R89 370 913.

**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 response not received

**Auditor’s Conclusion**

Management response not received.

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

**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 | 377 85 |
| **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 response not received.

**Auditors Conclusion**

Management response not received.

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

**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 | 4 785 794 |
| 238950531 | 200000072436 | 200000072436 | 987 | STORAGE | 4 166 130 |
| 228600309 | 200000060668 | 200000060668 | 200000060668 | OFFICE | 3 334 908 |
| 200000171499 | 200000064666 | 200000064666 | 0 | OFFICE | 2 554 587 |
| 200000175355 | 200000077498 | 200000077498 | DEEDS31032015\_0044980 | OFFICE | 2 290 524 |
| 200000052950 | 200000070391 | 200000049042 | 2929991 | HALL | 19 335 642 |
| 200000060962 | 200000047387 | 200000047387 | 1650052 | RESIDENTIAL ACCOMMODATION | 99 113 |
| 200000043649 | 100000047559 | 100000047559 | 0 | OFFICE | 39 063 552 |
| 200000043650 | 100000047559 | 100000047559 | 0 | OFFICE | 34 731 702 |
| 200000026782 | 100000046705 | 100000046705 | 266518 | OFFICE | 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 | 6 222 413 |
| DODBLD43962 | N/A | N/A | N/A | FLAT | 5 104 323 |
| DODBLD43998 | N/A | N/A | N/A | HOUSE | 1 049 401 |
| DODBLD44742 | N/A | N/A | N/A | HOUSE | 1 007 600 |
| DODBLD44792 | N/A | N/A | N/A | HOUSE | 940 943 |
| DODBLD44883 | N/A | N/A | N/A | HOUSE | 938 888 |
| DODBLD44897 | N/A | N/A | N/A | OFFICE | 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 response not yet due

**Auditors Conclusion**

Management response not yet due

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

**DETAILED AUDIT FINDING**

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 buildind 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 response not yet due

**Auditor’s conclusion**

Management response not yet due

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

**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***

**PPE – Measuring Wheel: Table A**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **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**

Management response not yet due

**Auditors Conclusion**

Management response not yet due

#### Movable Assets

**PPE – Movable Assets: Differences noted between FAR and AFS.**

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).

Corrective action to be taken: Remapping of account 003234 to the balance sheet from the income statement.

**Name:** H Abrahams

**Position:** D: Financial Reporting

**Date:** 1 September 2020

**Auditors Conclusion**

Management comments have been noted and calculations for the differences have been assessed. The disclosure note as per the final AFS will be assessed to confirm that note 7 has been updated accordingly as stated in the annexure.

#### Procurement and contract management

**COFF 03 – Procurement process not followed – competitive bidding**

**Requirements**

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 trading entity has and maintains*

1. *Effective, efficient and transparent systems of financial and risk management and internal control;*
2. *(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”*

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 and 8.2 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”*

**Nature**

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**

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**

Management should ensure that the entity complies with all applicable laws and regulations.

Due to the nature and prior experiences of procuring continued repairs and maintenance services of land ports, management should properly plan and begin the procurement process timeously.

**Management response:**

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 conclusion**

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.

**COFF 06 CPT- Incorrect procurement process followed - Award to supplier that was supposed to be disqualified**

**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**

***Issue 1***

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 - Highest scoring bidder not awarded contract**

**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.

**`**

**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.

**COFF 9 HO - Procurement and Contract Management – Tender not awarded to highest points scorer**

**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, 2011 section 6(2) states that: *“Points must be awarded to a tenderer for attaining their B-BBEE status level contributor …”*

Preferential Procurement Regulations, 2011 section 6(5) states that: *“The contract must be awarded to the tenderer who scores the highest total number of points …”*

Preferential Procurement Regulations, 2011 section 10(2) states that: *“Tenders other than Exempted Micro-Enterprises (EMEs) must submit their original and valid B-BBEE status level verification certificate or a certified copy thereof, substantiating their B-BBEE rating …”*

**Nature**

During the audit of procurement and contract management, the following deviation was noted:

During the evaluation process of tender number CPT1042/14 Epping: SAPS Stores Deport: Repair Roofs and Associated Infrastructure, we noted that the winning bidder, Messers GVK Siya Zama Building Contractors (Pty) Ltd provided a copy of a certified copy of their B-BBEE status level verification certificate.

The following bids were received for the tender:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **No.** | **Bidder** | **Price tendered** | **BEE Points** | **Points for Price** | **Total points** |
| 1. | Pro Khaya Construction(withdrawn) | R 70 979 563,52 |  |  |  |
| 2. | B.L Williams Construction | R 85 490 000,00 | 0 | 90.00 | 90 |
| 3. | Messers GVK Siya Zama Building Contractors | R 85 492 710,12 | 0 | 89.997 | 89.997 |
| 4. | Granbuild (Pty) Ltd | R 95 364 073,61 | 0 | 79.61 | 79.61 |

Based on the recalculated points above:

1. B.L Williams Construction B-BBEE certificate was no longer valid at the closing date of tender and was rightly not awarded any points for B-BBEE.
2. Messers GVK Siya Zama Building Contractors (Pty) provided an invalid B-BBEE certificate and should not have been awarded any points.

Once the incorrectly awarded points for B-BBEE are removed, Messers GVK Siya Zama Building Contractors (Pty) is no longer the highest points scorer.

B.L Williams Construction tendered the lowest price and should have been awarded the contract. Their bid amount was R 2 710.12 lower than that of Messers GVK Siya Zama Building Contractors (Pty).

Grandbuild (Pty) Ltd did not obtain enough points to change the outcome of the tender

**Impact of the finding**

**The above may result in the following:**

* Possible misstatement of irregular expenditure with amounts of R 85 492 710.12
* Non-compliance with section 38 of the PFMA
* Non-compliance with PPR 2011, section 6(2) and section 10

**Internal control deficiency**

*Financial and Performance Management*

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

Management did not implement procurement processes in a manner to ensure that SCM regulations are adhered to.

**Recommendation**

It is recommended that management should ensure that the entity complies with all applicable laws and regulations.

Management should ensure that bid evaluation committees members are equipped with the knowledge required to evaluate tenders.

Management should perform further investigation to determine the extent of the non-compliance as well as the other instances where this non-compliance may have occurred.

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**

The Department has notes the AGSA’s finding and is not in agreement. The tender was advertised in 31st October 2014. The closing date was 03rd December 2014. The tender was awarded on the 3rd June 2015. The last payment was made 13th October 2017.

Supply Chain Management has a primary responsibility to execute the administrative responsive criteria, with a sole intention to validate the veracity of information submitted with the bid, before the tender documents are being presented to the relevant bid committee to confirm findings encountered. The bid in question was presented to all three bid committees. The final award was adjudicated by National Bid Adjudication Committee (NBAC) which is highest committee within the Department.

Preferential Procurement Regulations, 2011 section 10(2) states that: *“Tenders other than Exempted Micro-Enterprises (EMEs) must submit their original and valid B-BBEE status level verification certificate or a certified copy thereof, substantiating their B-BBEE rating.*

The standard bidding documents further allows that if the Department is already in possession of original B-BBEE Certificate for the same service provider, there’s no need to submit any certificate. Messes GVK Siya Zama had been recently awarded a tender, a certificate was still valid, which AGSA did not accept.

The service provider was accredited a B-BBEE Certificate by AQ Rate Verification Agency Accredited by SANAS. The Department of Trade and Industry stipulates that a B-BBEE must bear a SANAS Logo with a BVA number to remain valid.

The Department hereby submits that quality assurance was performed, even our Departmental Legal Services performed a validation and verification before Service Level Agreement (SLA) was drawn up to verify the correctness of information provided.

AGSA raised a finding on the grounds that the GVK Siyazama Building Contractors B-BBEE Certificate was invalid, the BEE points should have not been awarded to this particular service provider. The Department is not in agreement with the finding, information was verified with a Verification Agency accredited to rate and issued valid certificates to eligible service providers. The Agency confirmed the certificate is valid and authentic and original certificate was issued by them.

The Department is hereby confirming that the B-BBEE Certificate was correct and valid at the time the bid was awarded.

Attached is the original certificate for GVK Siyazama Building Contractors. Additionally, the original certified copy has since been located and is attached.

**Auditors Conclusion**

Management comments are noted, the audit team inspected the certified copy and the finding is resolved.

**COFF 05 PTA: Invitation of tender or expression of interest for construction works contracts**

**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*

1. *Effective, efficient and transparent systems of financial and risk management and internal control;*
2. *(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 02 JHB; COFF 02 DBN - Deviations not justifiable**

**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*

1. *Effective, efficient and transparent systems of financial and risk management and internal control;*
2. *(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**

**Issue 01 – JHB 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 assesment,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.

**Impact of finding**

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

**Issue 02 - DBN 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 |

**Impact of finding**

Non-compliance with the Preferential Procurement Regulation, 2017

Misstatement of irregular expenditure for the amount incurred to date of R494 407.2

**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**

**JHB 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:

1. **High volume of the previous year’s tenders rolled over to the current financial year, 2019/2020**
   1. 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.

* 1. 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.
  2. 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.

1. **Re-prioritisation of the Regional Projects to be procured during the current year**
   1. 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.

2.2. 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.

2.3 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.

1. **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).

1. **Departmental High rate of capacity constraints**

4.1 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** |

4.2 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.

4.3 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.

4.4 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.

1. **The basis that AGSA based its audit opinion on in regarding the nature of the cleaning transactions as Irregular**

5.1 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.

5.2 In order for the Regional 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.

1. **The legislation/ financial prescripts we used when procuring such cleaning services on emergency basis were as articulated below:**

6.1 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.

6.2 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.

1. **The subsequent remedial action that Management considered in improving the procurement process**
   1. 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:
      1. Management has deployed the officials from Demand and Contract Management Sub- Directorates to assist with the tendering and quotation process.
      2. Requested the Deputy Director: Financial Accounting to act as Director: Supply Chain Management in the absence of the current Director: SCM.
      3. Requested the Assistant Director: SCM from Head Office to be acting as Deputy Director: Supply Chain Management from October 2019 until 31 March 2020.
      4. Employment of overtime work as a performance strategy within the SCM environment.
      5. To expedite the appointment of permanent staff members.

**8 Management Responses to the individual Communication of Factual Findings**

The reasons, timelines and summary of background for below-mentioned emergency deviationwill be systematically outlined. Management will, in turn, provide the Management Response on the Communication of Factual Finding (COFF) for this cleaning service procurement.

**8.1. 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, timelines and summary of background provided for the deviation by Management**

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.

**DBN Region**

I am not in agreement with the finding for the following reasons [and supply the following/attached information in support of this:

1. 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.
2. 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.

**Auditors Conclusion**

**JBH Region**

1. **Lebato Development Projects**

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.”

The finding therefore remains.

1. **Immaculate Cleaning & Hygiene Services (PTY) Ltd**

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.

1. **Immaculate Cleaning & Hygiene Services (PTY) Ltd**

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.

1. **Dinnys Business Enterprise**

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.

**DBN 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.

**COFF 05 CPT - Evaluation criteria applied in evaluating quotes not stipulated in the RFQ**

**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…”*

Treasury regulation 16A3.2(a) states that: *“A supply chain management system referred to in paragraph 16A3.1 must be fair, equitable, transparent, competitive and cost effective…”*

**Nature**

During the audit of procurement and contract management, it was noted that a Request for Quotation(RFQ) did not include the evaluation criteria to be used in evaluating the respective quotations. The quotations were evaluated using the 80/20 preference points systems however on the RFQ it did not indicated as such. As a result, quotations were not evaluated on criteria originally set out in the RFQ. Consequently, the process that was followed was not fair, equitable or transparent

The details are as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| **RFQ #** | **Short Description** | **Service Provider** | **Amount (R)** |
| 6425 | Supply of sanitary bins for Area 1 | Amosk Investments | 323 313.90 |

**Impact of the finding**

Non-compliance with section 38 of the PFMA and TR 16A3.2(a)

**Internal control deficiency**

*Financial and Performance Management*

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

Management did not adequately review procurement documents to ensure that all information that should be stipulated in the procurement documents have been stipulated.

**Recommendation**

It is recommended that management should enhance compliance procedures to ensure compliance with all prescribed laws and regulations. In addition, such procedures include enhancement of compliance checklists that are already developed.

**Management response**

The finding is noted, however, the Department is not in agreement with the finding. In terms of SCM Regulations the threshold value for invitation of quotations is up to R500 000. The SCM Regulations prescribes the application of the 80/20 Preference Point System. In this case SCM invited and evaluated all quotations received. The SCM principle mandate’s that at least a minimum of three quotations must be obtained. In this situation more than three quotations were received. The SCM Regulation further stipulates that the rand value from R30 000, 00 to unlimited value the price points and application of B-BBEE Points must be applied. All due process applicable to a close quotations process were applied accordingly. The process was fair and transparent and no service provider was given any unfair advantage.

**Auditors Conclusion**

Managements response is noted and the finding remains unresolved for the following reason:

Management should take cognisance of the fact that the finding does not bring into question the Preference Point System, nor the fact of whether three (3) quotations where received or that the procurement process was not followed by the department. The finding merely highlights that the invitation failed to notify the prospective bidders of the scoring system to be used, as per normal practice that the entity does on all its other invitations. As such, prospective bidders may have been discouraged to bid for the quotation due to this, resulting in an unfair advantage to those who were not discouraged by the missing indicator. As a result, we find that the procurement was not fair service providers and therefore finding remains unresolved.

**COFF 01 DBN - Quotations pre-qualifying criteria**

**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*

1. *Effective, efficient and transparent systems of financial and risk management and internal control;*
2. *(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-BBEE 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 01 PTA; COFF 04 CPT - Possible splitting of quotations**

**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**

**Issue 1 - PTA 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**

Non – compliance with laws and regulations.

Misstatement of irregular expenditure for the amount paid to date.

**Issue 02 – CPT Region**

During the audit of procurement and contract management the following deviations were noted:

1. 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** | | | 1. **085 652,96** |

1. 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** |

**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

**Internal control deficiency**

*Leadership*

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

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.
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*

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

Management did not implement procurement processes in a timely manner to ensure that SCM regulations are adhered to

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**

**PTA 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 awaiting 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**

**CPT Region**

Security Services Contracts.

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 Fern-wood 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.

**Auditor’s conclusion**

**PTA Region**

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.

1. 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.

1. 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.

**CPT Region**

Security Services contract

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.

Facilities Management Contracts

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.

**COFF 04 PTA – Extension of time with financial impact**

**Requirements**

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*

1. *Effective, efficient and transparent systems of financial and risk management and internal control;*
2. *(iii)  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 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 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.”*

**Nature**

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 contract signed by the entity and the contractor.

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.

The penalties charged by the contractor will 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 13 extensions of time to date with the financial impact of R18 965 226.06. The number of days that the project has been extended is 781 days.

Through inspection of the JBCC contract 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:

| **Claim No.** | **Reason for the delay as per the request for extension and Memos.** | **No of days** | **Financial impact** |
| --- | --- | --- | --- |
| 1 | DPW delayed to handover the site to the contractor. | 127 | R3 083 974,02 |
| 10 | DPW agent failed to provide construction information | 65 | R1 578 411,90 |
| The contractor noted the discrepancies on the Civil working drawings and the Structural Engineering concrete work and roof structure details. The information required was not readily available on the time of request. The absence to revised drawings required the contractor to reschedule the works. The contractor claimed 73 days and the PA only approved 65 days. |
| 11 | The required additional scope of work by Department of justice affected the sequencing of work thus attracting additional time. | 53 | R1 287 012,78 |
| It is due to the support as the required additions impact on the extent and sequence of surrounding and related specialized work the community want insisted to do. |
| 12 | Time lost due to delay in design drawings: Site Development plans not issued to contractor. Failure to commence and complete the access roads to the building. | 155 | R3 763 905,30 |
| The contractor has been delayed due the Civil Engineers drawings, starting with the access road and the site development plans not in order. The way-leave was not yet approved. Contractor ask for 188 days the PA approved 155 days. |
|  | ***Delay due to DPW imposed delays and poor planning*** | 400 | **R9 713 304,00** |
|  |  |  |  |
| 2 | Disruptions by local community/lockout demanding the appointment of CLO. | 42 | R1 019 896,92 |
| 3 | Disruptions by local community/lockout preventing work and delivery of materials. 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. | 66 | R1 602 695,16 |
| 4,5,6 | Riot, Strike and lockout: Preventing delivery of material to the site. | 82 | R1 991 227,32 |
| 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. |
| 7,8 | Casting of concrete delay: The workers were removed from site while busy with concrete casting on first and second 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 had to redo the whole first floor as they couldn't vibrate the concrete and also had to leave the suite for the safety of the workers. | 54 | R1 311 296,04 |
| 9 | The site was closed due to safety reasons emanated from civil unrest broke affecting works on site. The community prevent them from entering the site. 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: | 10 | R 242 832,60 |
| - 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. |
| 13 | The contractor submitted application for extension of contract period. They have claimed working days siting delays due to striking community who riot and lock the site. | 127 | R3 083 974,02 |
| The project is being implemented with involvement of community, as a results the contractor has appointed sub-contractors and labours from local community. This action has brought a lot of management challenges. Throughout the contract the Local Community has been difficult to manage, if any dispute arise they strike and prevent any cases to the site this preventing progress. |
|  | ***Delays related to civil unrest and related matters*** | 381 | **R9 251 922,06** |
|  |  |  |  |
|  | **TOTAL DELAYS** | **781** | **R 18 965 226,06** |

**Impact**

Non – compliance with laws and regulations.

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.

**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 contract 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.

It is recommended that management should assess the reasons for the delays against the JBCC contract in order to avoid making unnecessary payments were the delays are covered under JBCC contract clause 29.1.

**Management response**

Management is in agreement with the finding. All the extension of time claimed up to no.05, it was a true reflection of the incidents that happened on site.

The extension of time for claim no.06, dated 04/11/2019, was approved subjected that the Project Manager must resubmit and rectify as per comments of the DDG CPM, Head Office. No financial approval was supported for any extension of time for no.06.The funds of R9 251 922.06 for 381 days were not supported by the Project Manager, Director Projects, Chief Director CPM and DDG CPM.

See attached **annexure an** extension of time from 1-6.

**Auditors Conclusion**

Management comment noted. Through inspection of the supporting documents provided we have noted that an extension of 127 days indicated on both tables have been duplicated. The correct number of days that a project has been delays is 654 with a financial impact of R15 881 252.04.

Furthermore, we have noted that the 381 days indicated by management on the response doesn’t form part of the total 654 days approved by management as per of the project extension. It relates to the recent request for extension which hasn’t been approved yet by management. This request for extension was not included on our finding.

**COFF 02 PTA; COFF 03 DBN - Publish of awards on eTender Publication and Government Tender Bulletin**

**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*

1. *Effective, efficient and transparent systems of financial and risk management and internal control;*
2. *(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**

**Issue 01 - PTA 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** | **Payment to date** |
| 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 | 17 919 036 |
| 2 | PT18/080 | Office accommodation for Independent police investigation directorate (IPID) | Tlou Integrated Tech cc | 122 550 710 |  |
| **Total** | | | | | **17 919 036** |

**Impact of the finding**

Non-compliance with the Preferential Procurement Regulation, 2017

Misstatement of irregular expenditure for the amount paid to date

**Issue 02 - DBN 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 eTender Publication Portal. Management response stated that construction related projects are not advertised or published on eTender as required by Treasury regulation 16A6.3 and National Treasury Instruction No 1 of 2015/16.

*Table 1*

| **No** | **Tender number** | **Project Description** | **Supplier Name** | **Award Contract Value** |
| --- | --- | --- | --- | --- |
| 1 | DBN19/04/05 | DBN: Thenga Holdings Pty Ltd: Durban Prison replacement of boiler at Durban Westville | Thenga Holdings Pty Ltd | 65 175 221,67 |
| 2 | DBN18/11/10 | DBN: Mashalofu Business Enterprise: Jacobs -Department of Labour :Repairs and renovations to entire complex | Mashalofu Business Enterprise | 35 471 056,56 |
| 3 | DBN19/01/01 | DBN: Invested Property Fund: Port Shepstone procurement alternative accommodation and parking | Invested Property Fund | 34 796 622,48 |
| 4 | DBN18/11/05 | DBN: Durban Maintenance and Building (Pty) Ltd - Ladysmith SAPS 8 Mill Street | Durban Maintenance and Building (Pty) Ltd | 22 999 998,56 |
| 5 | DBN18/10/01 | DBN: Durban Maintenance and Building Pty Ltd: SAPS repairs and renovations | Durban Maintenance and Building (Pty) Ltd | 15 700 979,72 |

**Impact of the finding**

Non-compliance with the Treasury regulation 16A6.3 (d) and National Treasury Instruction No 1 of 2015/16

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 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. The expenditure should be included in the irregular expenditure register.

**Management response**

**PTA Region**

Management is in agreement with the finding.

Management will assess the extent of the business processes that were breached and take corrective measures against relevant official(s). We will ensure that advert and result of tenders are published.

**DBN Region**

I am not in agreement with a finding because the department experienced challenges accessing the system and proceeded to use other mediums as this was causing delays and no assistance was received from National Treasury. Amongst the challenges encountered was that of not being able to load the documents on the system continuously shutting down during a process. The region however ensured that the tender was advertised on the Government Tender Bulletin.

Reference is made to National Treasury circular 01 of 2019/2020 issued on 13/08/2019, paragraph 2.2 which emphasizes the importance of using the Tender Bulletin whether the e-tender portal system is available or not, suggesting that e-tender is not an additional SCM process but is an additional tool for maximizing the transparency and to allow easy access to bid documents.

I am not in agreement with the Laws, rules and Regulations quoted in support of the finding insofar as to the contravention of the PFMA section 38 and 40 and Treasury Regulation 16A6.3 as alluded on the findings above which suggest that these transactions will result to irregular expenditure, relatively it can been viewed and reported as non-compliance to National Treasury Instruction Note 01 of 2015 2016.

Public Finance Management Act paragraph 38(1)(a)(i) and 38(1)(a)(iii) – I disagree because an open tender process was followed and the process followed complied with all five pillars of Supply Chain Management.

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*” \_ I disagree because the process followed was an open tendering process, 03 out 04 approved .mediums of advertising were used (i-Tender, DPW website and Tender Bulletin) presuming the introduction of e-Tender portal was not to add an SCM process but to allow service providers easy access to bid documents.

Treasury regulation 16A6.3 (d) states that *“awards are published in the Government Tender Bulletin and other media by which the bids were advertised.”* – I disagree because awards were advertised in all three media that used to advertise / invite bids.

**Auditor’s conclusion**

**PTA Region**

Management comment noted. The finding will remain in the management report

**DBN Region**

Management’s response is noted. However, National Treasury circular no. 1 of 2019/2020 refers to the eTender system experiencing a downtime period between 05 May 2019 to 20 May 2019 and recorded dates post 20 May 2019; where the finding raised refers to tenders that were advertised before that period. Therefore, the finding remains.

**COFF 01 BLOEM – Award not published in government tender bulletin**

**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 16A6.3(d) states that: *“The accounting officer must ensure that awards are published in the Government Tender Bulletin and other media by means of which the bids were advertised…”*

**Nature**

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)** | **Expenditure in the current year (R)** |
| BL19/031 | Bajadi Investments and Projects 133 | 3 844 088,21 | 976 390,15 |

**Impact of the finding**

**The above may result in the following:**

* Possible misstatement of irregular expenditure with amounts of R976 390,15
* Non-compliance with section 38 of the PFMA
* Non-compliance with TR 16A6.3(d)

**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.

**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, quantify the expenditure paid to date and include it in the irregular expenditure register.

**Management response**

The 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 to reflect that this tender information was submitted 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.

**Auditors Conclusion**

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

**COFF 03 PTA - Limitation of Scope - Procurement and contract management**

**Requirements**

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 trading entity has and maintains*

1. *Effective, efficient and transparent systems of financial and risk management and internal control;*
2. *(iii)  An appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective;”*

Public Finance Management Act (PFMA) section 40(1)(a) stipulates *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.*

Furthermore, Section 41 states that *“an accounting officer of a trading entity 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 15 of the Public Auditing Act 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”*

**Nature**

**Issue 1: PT18/080**

During the audit of the supply chain management processes, we noted that the information (contract files) for the unsuccessful bidders for tender: PT18/080: Procurement of office accommodation for Independent police investigation directorate (IPID) were not submitted for audit. The information was requested on the RFI 03 PTA – Competitive bidding. *Refer to table A Table A.*

Table A

|  |  |
| --- | --- |
| **No.** | **Unsuccessful Bidders** |
| 1 | SKG Africca (Pty) Ltd |
| 2 | Tomacap (Pty) Ltd |
| 3 | Tribugenix (Pty) Ltd |
| 4 | Veniogyn (Pty) Ltd |
| 5 | Kilichron Investment |

**Issue 2: WCS: 044028**

During the audit of the contract management, we noted that an authorized amount exceeded the original contract price for project: WCS No: 044028: Construction of a new building Magistrate Court. Through further testing we noted that an increase resulted from the Variation orders and Preliminaries and General items (P&G) however no supporting documents were provided to confirm if the variation orders were authorized by the relevant delegations (VO committee). Furthermore, we could not obtain the breakdown of the P&Gs in order to determine what they relate too. The Information was requested under RFI 02: Contract management. *Refer to Table B.*

**Table B**

|  |  |  |
| --- | --- | --- |
| **Authorized amount description** | **Comment** | **Amount** |
| VOs amount | No evidence to support this VO amount | 13 169 434 |
| Preliminaries and General items (P&G) | No support was provided to explain the amount and the breakdown that the amount relates too. | 24 141 858 |

**Impact**

Limitation of scope as we were unable to obtain sufficient and appropriate audit evidence to complete the audit and this can also lead in unfavourable audit outcomes.

Non-compliance with the PFMA sections 40(1) a. & Section 41.

**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 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.

**Recommendation**

It is recommended that management should ensure that the entity complies with all applicable laws and regulations.

It is recommended that the responsible divisions should provide the auditors with the requested information without further delay.

Furthermore, management should ensure that procedures are put in place to enforce compliance with internal controls regarding submission of information requested by the AGSA within the required timeframe as set out in the engagement letter.

**Management response:**

**Issue 1: PT18/080**

Management is in agreement with the finding of limitation of scope. The requested unsuccessful bidders were submitted to Head Office through the Regional Office Supply Chain Management to be served at National Bid Adjudication Committee. The signed register is attached. **Annexure A**.

**Issue 2: WCS: 044028**

Management is not in agreement with the limitation of scope finding on the authorized amount of

R 13 169 434.82. The supporting documents were submitted to the AGSA together with the project file and other documents as requested on PMTE RFI 02. See attached supporting documents.

Management is in agreement with the limitation of scope on Preliminaries and General items amounting R 24 141 858.00.

**Auditor’s conclusion**

**Issue 1: PT18/080**

Management comment noted. The finding will be reported as a limitation of scope in the management report since the information have not been submitted to auditors to date.

**Issue 2: WCS: 044028**

Management comment noted. The finding will remain and reported in the management report due to the following reasons:

The VO obtained and inspected by auditors relates to an amount of R5 256 904.60 which was excluded from the R13 169 434 figure reported below.

No supporting documents were received to validate the VO indicated below as per the WCS report.

|  |  |  |
| --- | --- | --- |
| **Authorized amount description** | **Comment** | **Amount** |
| VOs amount | No evidence to support this VO amount | 13 169 434 |

**COFF 03 CPT - Partial information not submitted for audit purposes – Procurement and Contract Management Requirements:**

**Requirements**

Public Finance Management Act section 40(1)(a) stipulates that: *“The accounting officer for a department must keep full and proper records of the financial affairs of the department in accordance with any prescribed norms and standards…”*

Furthermore, section 41 states that: *“An accounting officer of a department 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...”*

The Acquisition and Disposal Management Directive paragraph 276.d states that: *“after confirmation with the National Treasury, that the recommended vendor is not listed as a default vendor, the Adjudicator will make the award according to the recommendation…”*

**Nature**

During the audit of procurement and contract management – testing of quotations, the requested information as per PMTE CT – RFI 01 was not submitted for audit purposes as detailed in the table below.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **No** | **Service provider** | **Description of contract** | **Amount** | **Information not submitted** |
| 1 | Do It Better | Plot clearing for saldanha NB once off service | R346 000,00 | Approval of award by Adjudicator/delegated official |
| 2 | Trident Security Service (Pty) Ltd | Tamboerskloof Erf 81: 24 Hour security | R303 546,00 | Approval of award by Adjudicator/delegated official |
| 3 | Petrel Group (Pty) Ltd | Servicing and Manufacture nuts for lifting platform driving screws for Antarctica Research base | R494 304,50 | Approval of award by Adjudicator/delegated official |

**Impact**

The above may result in scope limitation being reported.

The above may result in non-compliance with section 40(1)(a) and 41 of the PFMA

**Internal control deficiency**

*Financial and Performance Management*

Management 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.

Management has not implemented effective internal controls over information management to ensure that complete, relevant and accurate information is accessible and available for audit

**Recommendation**

It is recommended that the responsible divisions should provide the auditors with the requested information without further delay. Furthermore, management should ensure that procedures are put in place to enforce compliance with internal controls regarding submission of information requested by the AGSA within the required timeframe as set out in the engagement letter.

**Management response**

In terms of Item 1 and 2 in the above table these quotations were invited from Devolution and the quotations were subsequently awarded on Devolution and therefore no approval was required.

In respect of item 3 there was a delay in the filing of documents as the responsible official was performing duties in Antarctica from December 2019 until the end of February 2020. The required approval for this matter is attached.

**Auditor’s conclusion**

Management comments have been noted and the finding is partially resolved for the following reasons:

For items 1 and 2, we acknowledge that the quotations were awarded on devolution, however management did not give us any information that indicates that the devolution was approved by the delegated official. Therefore, the finding remains unresolved.

For item 3, management subsequently submitted the outstanding information and therefore the finding is resolved.

**COFF 09 JHB Expenditure in excess of 20% of the contract price not approved by National Treasury**

**Laws, rules and Regulations:**

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**

**WCS: 047918**

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.

***Compiled by:***

*Name:* ***Mr. Makgati Phaladi***

*Position:* ***Chief Construction Project Manager***

*Date: 07 Sep 2020*

***Reviewed by:***

*Name:* ***Mr. P Mongwenyana***

*Position:* ***Acting Director: Finance***

*Date: 07 Sep 2020*

***Noted by:***

*Name:* **Adv J Monare**

*Position:* ***Regional Manager***

*Date:*

**Auditor’s conclusion**

Auditor still evaluating the response from management

**COFF 04 MMB Limitation of scope: Compliance with legislation.**

**Requirements**

Public Finance Management Act paragraph (PFMA) 38(1)(a)(i) and 38(1)(a)(iii) 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 and (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 section 40(1)(a) stipulates *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…”*

Furthermore, Section 41 of PMFA states that *“An accounting officer of a trading entity 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 15 of the Public Auditing Act 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…”*

**Nature**

During the final audit of procurement and contract management at the Mmabatho region, two tender files were requested on 19 August 2020 and submitted for audit purposes, however through inspection of the files we noted that the following information was still outstanding:

| **Information Outstanding** | **Impact and Auditors assessment** | **Amount spent to date as per WCS report** |
| --- | --- | --- |
| **WCS 051646(Tender no. MMB2016/052 EC)** 1. PA-11 and 29 were not included in the winning bidders file.  2. Sworn affidavit of the winning bidder not included in the file. | 1. The non-submission of the PA-11 and PA-29 will result in irregular expenditure as the winning supplier is required to have completed and signed a declaration of interest (SBD4). 2. The Sworn affidavit is required so that points for B-BBEE can be verified by auditors.   The above mentioned will result in Irregular Expenditure. | 11 831 500,50 |
| **WCS045746 (Tender no, MMB20172017/021 EC** CSD report ran by the department not included in the file. | The CSD report ran by the department is required as it serves as proof that the entity has confirmed that the winning supplier's tax matters has been declared by SARS to be in order. The above mentioned will result in Irregular Expenditure. | 16 115 607,32 |

**Impact of the finding**

* Limitation of scope as we were unable to obtain sufficient and appropriate audit evidence to complete the audit and this can also lead in unfavorable audit outcomes.
* Possible misstatement of irregular expenditure for the amount incurred to date of R 27 947 107.82.

**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*

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.

**Recommendation**

It is recommended that:

* Management should submit all outstanding information requested to the AGSA.
* 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 and proper safe keeping of tender files.

**Management response:**

Management comment not received.

**Auditor’s conclusion**

Management response not yet due

#### Irregular, fruitless and wasteful expenditure

COFF 10 HO Irregular, fruitless and wasteful expenditure – Disclosure notes not fairly presented and complete

**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*

1. *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 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…”*

Irregular expenditure framework para16 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 para82 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 response not received.

**Auditors Conclusion**

Management response not received.

**COFF 12 HO Follow up of infrastructure projects finding raised in prior audit**

**Requirements**

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*

1. *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*

1. *collect all money due to the entity.*
2. *prevent unauthorized, irregular and fruitless and wasteful expenditure and losses resulting from criminal conduct*”

Treasury Regulation (TR) 8.1.1 statesthat *“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. 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
  2. Poor project management resulting in delays
  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.

**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.

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’s response not received.

**Auditor’s conclusion**

**COFF 16 HO Irregular expenditure – Prior year COFFs follow up**

**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 - 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 para16 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 para82 states that *“The accounting officer must ensure that only confirmed irregular expenditure is disclosed in the main note to the annual financial statements…”*

**Nature**

During the audit of irregular expenditure, we noted that prior year COFFs were not considered in finalizing the disclosure note in the current year to ensure that it is complete, accurate and fairly presented. The following instances noted in the prior year were not updated

1. The value of work done and payments made to the supplier exceeded the approved threshold as per the approval form (OW415) without additional approval from the delegated official. Furthermore, the excess amount was not recorded in the irregular expenditure register for the current financial year. **PMTE DBN COFF 06**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **No.** | **Call Reference** | **Awarded to** | **Amount paid** | **Approved Threshold as per the 415** | **Irregular Expenditure Amount** | **Irregular Expenditure recorded in the register** | **Difference** |
| 1 | DUR-0917-1116322 | Hunpre Investments | 1 134 696,10 | 200 000,00 | 934 696,10 | - | 934 696,10 |
| 2 | DUR-0218-118220 | Vukani Electrical | 740 505,24 | 500 000,00 | 240 505,24 | - | 240 505,24 |
| **Total** | | | | | | | 1 175 201,34 |

1. Amount used for evaluation of SMEC South Africa PTY LTD was not the same as the offer amount submitted on the tender documentation. The tender was declared irregular and disclosed in the irregular expenditure register, however management disclosed the whole tender amount instead of the expenditure paid or incurred in the current year and resulted to overstatement as indicated in the table below. **PMTE HO COFF 15**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **No** | **Tender no:** | **Services Rendered** | **Advise no** | **Payment Date** | **Expenditure incurred in the current year** | **Irregular Expenditure recorded in the register** | **Difference** |
| 1 | 17/029 | WCS 55057 - Pretoria:Defence intelligrnt College (SADIC): Upgrading of infrastructure. | P-279192 | 2020/03/24 | 490 919.47 | 2 244 774 | (1 753 854.53) |

1. The Implementing Agent did not follow the procurement processes in terms of Regulation 8 of the Preferential Procurement Regulations 2017 and the expenditure incurred resulted in irregular expenditure and management disclosed the expenditure relating to prior years in the annual financial statements. The Implementing Agent sought condonation as per Irregular Expenditure Framework and condonation was granted by National Treasury. **PMTE HO COFF 32**

The expenditure depicted in the table below was incurred by the Implementing Agent in the current year.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **No.** | **Tender Number and description** | **Supplier** | **Contract amount** | **Expenditure incurred for the year ended 31 March 2020** |
| 1 | RFP177/2018 - Procurement strategy for the appointment of a contractor for repairs and upgrade to civitas building: Phase 2 | Vharanani Properties | 74 297 113,58 | 28 806 197,05 |
| 2 | RFP031/2018 - Welkom SAPS: Repairs and Renovations for Phase 1 | Metroprojects | 80 963 075,89 | 32 264 403,56 |
| 3 | RFP019/2019 - NDoPW require assistance with the repairs of renovations and maintenance of various facilities client department | Ruwacon (Pty)Ltd | 144 652 780,21 | 85 064 684,95 |
| **Total** | | |  | **146 135 285,56** |

However, this expenditure was not disclosed in the annual financial statements to reflect fair presentation on the movement in the following line items of the disclosure note 32:

* Add: Irregular Expenditure - current years
* Less: Current year amounts condoned

1. The following contracts depicted in the table below are deemed to be irregular and management have disclosed them as such in the irregular expenditure register. However, expenditure incurred in the current year was not updated in the register as a result the differences were noted.

| **No** | **WCS no** | **Project Description** | **Supplier Name** | **Amount per payment schedule** | **Amount per IE register** | **Differences** |
| --- | --- | --- | --- | --- | --- | --- |
| 1 | 40807 | REPAIR AND RENOVATIONS | ILISO CONSULTING (PTY) LTD | 109 359,36 | - | 109 359,36 |
| 2 | 46386 | CONSTRUCTION OF ADDITIONAL ACCOMMODATION | ROVERT CONSULTING CC | 3 753 820,12 | - | 3 753 820,12 |
| 3 | 46424 | PRETORIA MANAGEMENT AREA: UPGRADING OF EXISTING 'C' MAX FACILITY INTO A HIGH SECURITY DETENTION FACILITY | SECELEC CONSULTING ENGINEERING (PTY) LTD | 780 717,20 | - | 780 717,20 |
| 4 | 46538 | INSTALLATION OF INTERIM SECURITY MANAGEMENT EQUIPMENT | MNJIYA CONSULTING ENGINEERS (PTY) LTD | 912 043,71 | - | 912 043,71 |
| **Total** | | | | | | **5 555 940.39** |

**Impact**

* Non-compliance with section 40 of the Public Finance Management Act
* Non-compliance with National Treasury Instruction No. 1 of 2018/19
* Irregular expenditure as disclosed in Note 32 to the annual financial statements is understated by **R4 977 286.81** *(1 175 201,34 - 1 753 854.53 + 5 555 940,39).*
* Irregular expenditure as disclosed in Note 32 to the annual financial statements is not fairly presented as the following line items are misstated:

Add: Irregular Expenditure - current years **R146 135 285,56**

Less: Current year amounts condoned **R146 135 285,56**

**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 auditors’ prior year findings non-compliance resulting to irregular expenditure to ensure that the annual financial statements and supporting schedules (Irregular 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’s response not received.

**COFF 19 HO Fruitless and wasteful expenditure – Interim DBN COFF 04 follow up**

**Audit finding**

Laws, rules and Regulations:

Public Finance Management Act section 38(1)(c)(i) state that: *“The accounting officer for a trading entity* must take effective *and appropriate steps to; i) collect all money due to the, trading entity; (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 adequately recorded”*

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…”*

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**

During the 2019/20 interim audit, we noted weaknesses in the contract management processes, wherein finding was raised with respect to payments made on a cancelled and unoccupied lease (DBN COFF 4 of 2019/20). Management agreed with the finding and committed to recovering the amount from the landlord.

However, upon inspection of Note 31 fruitless and wasteful expenditure to the annual financial statements, management did not update the note to adequately reflect the outcomes of this transaction.

**Impact**

* Fruitless and wasteful expenditure as disclosed in Note 31 to the annual financial statements is understated by R125 727

**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 auditors’ findings wherein non-compliance identified result to fruitless and wasteful expenditure to ensure that the annual financial statements and supporting schedules (Register) is 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’s response not received

**Auditor’s conclusion**

Management’s response not received

**COFF 08 PTA DETAILED AUDIT FINDING: Fruitless and Wasteful Expenditure On Interest Charged**

**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*

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**

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 favor 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:

* 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**,** therefore finding remains and will reported in the management report.

COFF 21 HO Irregular expenditure – Disclosure note not fairly presented

**Audit finding**

Laws, rules and 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 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…”*

Section 40 (a) 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, in accordance with any prescribed norms and standards…”*

Section 11(2)(a) and (b) of the Public Service Act states that*: “In the making of any appointment in terms of section 9 in the public service all persons who applied and qualify for the appointment concerned shall be considered; and the evaluation of persons shall be based on training, skills, competence, knowledge and the need to redress, in accordance with the Employment Equity Act, 1998 (Act No. 55 of 1998), the imbalances of the past to achieve a public service broadly representative of the South African people, including representation according to race, gender and disability.”*

Regulation 25(2)(b) of the Public Service Regulations, 2016 states that: *“Based on the strategic plan of the department, an executive authority shall define and create the posts necessary to perform the relevant functions of the department while remaining within the current budget;*

*the Medium-Term Expenditure Framework of the department; and the norms and standards determined by the Minister for post provisioning for occupations or categories of employees; and the posts so defined and created shall constitute the department’s approved establishment;…”*

Regulation 67(1) of the Public Service Regulations, 2016 states that: “*An executive authority shall appoint a selection committee to make a recommendation on the appointment to a post. The selection committee shall consist of at least three members who are employees of a grade equal to or higher than the grade of the post to be filled or suitable persons from outside the public service. However the chairperson of the selection committee, who shall be an employee, shall be of a grade higher than the post to be filled; and in the event that the head of the component within which the vacant post is located, is graded lower than the vacant post, such a head may be a member of the selection committee.”*

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 para16 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 para22 and 24 states that *“The accounting officer must conduct a determination test or analyse the particulars of non-compliance in order to establish the facts and losses, if any, related to the transaction. The determination test must be instituted within 30 days from the date that the irregular expenditure was reported to the accounting officer or accounting authority..*.”

Irregular expenditure framework para82 states that *“The accounting officer must ensure that only confirmed irregular expenditure is disclosed in the main note to the annual financial statements…”*

**Nature**

An investigation was conducted by the Public Service Commission on the appointment of senior management officials for the department and the trading entity from the period of 1 April 2017 to 31 March 2018. The finalised report was received by the then Minister of Public Works on 8 February 2019. The investigation confirmed numerous irregularities in the appointments made during the period, as summarized in the annexure to this finding.

During the audit of irregular expenditure (disclosure note 25), it was noted that the expenditure incurred on the irregular appointments of the identified officials were not disclosed for the current financial year.

**Impact**

Non-compliance with Public Finance Management Act (PFMA).

Non-compliance with the Public Service Act and Regulations which resulted in the irregular expenditure been identified.

Irregular expenditure disclosure note is not fairly presented in line with GRAP chapter 1.

Irregular expenditure is understated by R5 480 487,00 for the current year under review and R5 209 590,00 for the prior year

**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 expenditure to ensure that the annual financial statements and supporting schedules (Irregular 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 response not received.

**Auditors Conclusion**

Management response not received.

**COFF 03 MTH DETAILED AUDIT FINDING:** Sundry Expenditure (Irregular Expenditure)

**Requirements**

Public Finance Management Act (PFMA) section 1 states that: ***“****irregular expenditure'**means expenditure, other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including* *this Act; or the State Tender Board Act, 1968 (Act 86 of 1968), or any regulations made in terms of that Act; or* *any provincial legislation providing for procurement procedures in that provincial government”*

Section 38 of the Public Finance Management Act (PFMA) section 38 states that: *“The accounting officer for trading entity must take effective and appropriate steps to* *prevent unauthorized, irregular and fruitless and wasteful expenditure and losses resulting from criminal conduct”*

Section 40 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 department, trading entity or constitutional institution in accordance with any prescribed norms and standards and must prepare financial statements for each financial year in accordance with generally recognized accounting practice”*

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 Paragraph 8.2.2 statesthat *“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.”*

**Nature**

During the audit of sundry expenditures, we have noted that the service provider (Amina Chem Pty Ltd) who didn’t form part of the quotation process was awarded a contract. The description of the project: Supply and delivery of cleaning materials for various courts. The quotation process was followed where quotations were received from 3 different suppliers. *Refer to the table below;*

|  |  |
| --- | --- |
| **Suppliers name** | **Amount** |
| Rapulana Sales and services | 759 000 |
| Sizamelanasodwa supplier | 833 248 |
| Kula Africa Agriculture | 628 598 |

All three suppliers submitted amounts exceeding a threshold of R500 000. Through inspection of the Bid adjudication committee (BAC) we noted that the contract was than given to Amina Chem Pty Ltd at a contract value of R477 246.50. The reasons for appointing the mention supplier was not documented on the BAC minutes. Furthermore, we didn’t receive any quotation submitted by the mentioned supplier.

We have inspected the payment batch for Amina Chem Pty Ltd and noted that the invoice amount of R477 247 was charged to the entity for delivering the goods. The payment was made on the 28 May 2019. *Refer to the payment details below:*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Supplier name** | **Invoice No:** | **Date invoice received** | **Payment No:** | **Amount** |
| Amina Chem Pty Ltd | INV39541 | 2019/05/28 | ZAPNV1905S1012663879 | R477 247 |
| **Total** | | | | **R477 247** |

**Impact of finding**

The finding may result in the following:

* Non-compliance with Section 38 and 40 of the Public Finance Management Act (PFMA), as well as Treasury Regulation paragraph 8.2 that will result in irregular expenditure amounting to R477 247.

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

**Recommendation**

Management should enhance the review of Supply Chain Management policy and PFMA prior to appointment of the service provider to ascertain that all the relevant laws and regulation have been compiled with and that the appointment of the service provider is in accordance with such regulations.

**Management response**

Management response not received.

**Auditor’s conclusion**

Management response not received.

**COFF 06 DBN - Duplicate payments made to suppliers**

**Laws, rules and Regulations:**

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:

1. Non-compliance with Treasury Regulations 8.1.
2. Non-compliance with Section 38 of the Public Finance Management Act
3. Financial loss of R79 047.
4. 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.

**Auditor’s conclusion**

Auditors are still evaluating the management response**.**

**COFF 37 HO : Irregularities Identified in Lindela Repatriation Centre Complex**

**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 | **DHA requested DPWI to procure the facility on 5 April 2019**  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. |
| 2 | **DHA requested the “First Right of Refusal” from the liquidators on 21 May 2019**  The Department of Home Affairs has requested that the government be given the right of first refusal to purchase the Lindela Facility. |
| 3 | **Liquidators response on request by the DHA to grant the state “first right of refusal” on 03 June 2019**  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 | **Briefing memorandum to the Minister, Deputy Minister and the Director General on 04 September 2019**  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 | **Decision by the Land Affairs Board on 24 October 2019**  The Land Affairs Board approved the DPWI fair market value of R158.1 million plus a 5% margin for negation purposes. |
| 7 | **Request to National Treasury to approve deviation from normal SCM processes on 3 December 2019**  The letter was requesting approval of a negotiated procurement strategy (Deviation) to purchase the property prior the auction. |
| 8 | **Approvals by SCM Committees on 04 December 2019**  The national bid adjudication committee approved the bid specifications and the negotiation team. |
| 8 | **Meeting with the liquidators 04 December 2019**  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 | **Letter to liquidators requesting right of refusal and offer price of R23 million on 04 December 2019**  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 | **Meeting of Negotiation meeting between DPWI and liquidators on 04 December 2019**  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 | **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**  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. |
| 12 | **Recording of the auction proceedings on 05 December 2019 (Date of auction)**  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 | **Letter from the Liquidators to DPWI on 09 December 2019**  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 | **Letter from DPWI to the Liquidators on 13 December 2019**  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 | **National Treasury approves the deviation from normal supply chain management processes on18 December 2019**  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. |

Auditors assessment

**Fairness and cost-effectiveness of the procurement process**

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 million 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 response not yet due

**Auditors conclusion**

Management response not yet due

**COFF 42 HO Operating lease payments – Variation above 15% was not approved by National Treasury resulting in irregular expenditure**

**Legislative 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**

The lease agreement between the Department of Public Works and Armaments Corporation of South Africa (ARMSCOR) was concluded on 23 May 1994 and expired on 21 May 1997 for AEMSCOR Building on behalf of the client Department: Department of Defence. The Lease Agreement was then renewed, commenced on 01 August 1999 and expired on 31 July 2004. The commencement monthly rental was R 1 015 052 with an escalation rate of 10% per annum.

The lease has been running on a month-to-month basis since the contract expired on 31 July 2004.

On 31 May 2011, national treasury enacted an instruction note on enhancing compliance monitoring and improving transparency and accountability in supply chain management. The instruction note stipulated that “accounting officers must ensure that contracts are not varied by more than 20% 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.”

On 05 September 2013, the minister of finance through national treasury granted approval to the Departments request to dispense with competitive bidding process to allow the Department to renew the expired leases with the current landlords, subject to the following conditions:

* That the negotiated rental increases to not exceed the inflation rate of 5.5%;
* That the department reports progress on a quarterly basis to National Treasury including progress on the turnaround strategy;
* This approval is only for the renewal of the expired leases indicated on the Department’s application and not for the procurement of new leases or any other purpose;
* The duration of the renewed leases should not exceed three(3) years;
* The exemption excludes the following provisions of the ACT:
* Sections 1, 2(g) of the Act
* Regulations 1, 2(1),9,13 and 14 of the PPPFA Regulations, 2011
* That the approval is not retrospective

Although we have noted that entity had approval from National treasury in a form of the dispensation for leases that were out of contract, we have noted the dispensations did not cover all the months from the period the instruction note was enacted.

Refer below for the details of the leases and the dispensations that were approved and that variations to date:

**Refer below for the details of the contract and approved dispensation:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Dispensation no** | **Date Approved** | **Period covered by the dispensation** | **Lease included on the dispensation?** |
| 1. | 05 September 2013 | 05 September 2016 | Yes |
| 2. | 13 September 2015 | 12 September 2018 | No |
| 3. | 09 August 2017 | No Cut-off date given | No |

As at 31 March 2020 the total variation of the contract, which is all the month to month payments is well over 600% (R 496 497 909) and the total irregular expenditure incurred on this lease contract is **R 343 594 676.**

Furthermore, we noted a letter dated 27 November 2019 that was sent to ARMSCOR by the regional manager where the regional manager conceded that they have been incurring irregular expenditure as the contract has expired.

**Issue 2**

We noted that the lease payments have been escalated by 10% per annum from the date of termination up to date. However, an economical escalation rate would have been 6% as opposed to the 10%.This is based on the average inflation rate of 5.8% since 2006 and national treasury’s dispensations that indicated that the negotiated rental increases should not exceed the inflation rate of 5.5%.

Therefore based on our assessment, excessive rental escalation resulted in a financial loss of R 46 608 660, 36.

|  |  |  |
| --- | --- | --- |
| **Payments based on 10% escalation** | **Payments based on 6% escalation** | **Financial loss** |
| R 501 587 526,81 | R 454 978 866,45 | R 46 608 660,36 |

**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 regulations 8.1.1
* Irregular expenditure amounting to R 343 594 676.
* A possible financial loss of R 46 608 660, 36.

**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 response**

**Auditor’s conclusion**

**COFF 52 HO Irregular, fruitless and wasteful expenditure – Completed SIU investigations not fairly disclosed**

**Audit finding**

Laws, rules and Regulations:

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*

1. *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 para16 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 para82 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 of the following notes to the annual financial statements for the year ended 31 March 2020:

* Note 31 fruitless and wasteful expenditure and
* Note 32 Irregular expenditure.

the following was noted with respect to the narrations “*SIU investigations in terms of proclamations R38. of 2010 is on-going. Recommendations stipulated in the investigation reports received by Management are implemented after following the necessary internal control processes and disclosed accordingly…”*

The SIU investigations in terms of proclamations R38. of 2010 were obtained by the audit team and noted that they were finalised as indicated in the table below.

|  |  |  |
| --- | --- | --- |
| **No** | **Name of R38. of 2010 report** | **Date report finalised and presented to the President of RSA** |
| 1 | DPW Leases | February 2017 |
| 2 | DPW Prestige Projects | May 2018 |
| 3 | DPW Capital Projects | April 2019 |

Upon inspection of the investigations report, allegations with regards to irregular expenditure, fruitless and wasteful expenditure were noted as disclosed in the table below as determination tests have been conducted and completed.

*DPW Leases*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **No** | **Finding** | **Irregular** | **Fruitless** | **Auditors comments** |
| 1 | Unoccupied leases - 4 properties that were never used | - | 6 318 372,67 |  |
| 2 | Wachthuis - Irregular processes followed in the renewal of the lease | 161 928 140,13 | 7 996 160,64 |  |
| 3 | Tulbagh - Irregularities in the procurement of accommodation. | - | - | Management need to quantify the amount of UIFW. |
| 4 | 117 Herbert Baker lease - No approval was obtained for 33 months of the lease as DG approved 03 months. | 6 330 876,96 | - |  |
| 5 | SALU building - Irregular process followed in the procurement of the lease and payments were made before occupation of building | 90 937 176,79 | - |  |
| 6 | Hallmark building - incorrect procurement process followed for DHA lease | - | - | Management need to quantify the amount of UIFW. |
| **Total** | | **259 196 193,88** | **14 314 533,31** |  |

*DPW Prestige Projects*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **No** | **Finding** | **Irregular** | **Fruitless** | **Auditors comments** |
| 1 | Prestige house renovations – Consulting fees paid without supporting documents | 53 469,52 | 2 156 384,49 |  |
| 2 | Prestige furniture - Incorrect procurement process followed | 1 106 566,22 | - |  |
| 3 | Western Cape Walmer Estates - Overpayments as a result of inflated prices | 1 032 811,59 | - |  |
| 4 | Union Building facility management - Extension of contract not in line with National Treasury Practice Note 6 of 2007/2008 | 268 447 209,05 | - |  |
| **TOTAL** | | **270 640 056,38** | **2 156 384,49** |  |

*DPW Capital Projects*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **No** | **Finding** | **Irregular** | **Fruitless** | **Auditors comments** |
| 1 | Skilpadshek Settlement - The amount paid to the contractor and the contractor could not provide proof of their loss of profit. | 50 098 618,56 |  |  |
| 2 | Appointment of project managers for three border posts (Skilpadshek, Golela and Lebombo) - Payment without supporting documents and duplicate payments | 2 624 433,42 | 832 947,78 |  |
| 3 | Empangeni RAMP - The investigation highlighted areas where there appears to have been inflated line items within the bill of quantity (BoQ) and/or duplication such as costs for repairing specific items and the additional costs to replace them. |  | 62 412 660,72 |  |
| 4 | Project Jarmen - Mvela Phanda Construction was appointed without considerations of relevant supply chain management prescripts as the quoted price was higher. |  |  | Management must quantify all expenditure incurred. |
| 5 | Project Ukhosi | 17 443 090,00 |  |  |
| 6 | Pretoria Magistrate court - Irregular appointment of Sebata Sebatane Business Enterprise | 40 300 000,00 |  |  |
| 7 | Lembombo border post - Overpayments made to consultants | 48 591 329,51 |  |  |
| **TOTAL** | | **159 057 471,49** | **63 245 608,50** |  |

**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 on the following line item by:

Add: Fruitless and Wasteful Expenditure - prior years R79 716 526.3

* Irregular expenditure as disclosed in Note 32 to the annual financial statements is incomplete on the following line item by:

Add: Irregular Expenditure - prior years R688 893 721,75

* Possible financial loss of R273 000 896.17 as a result of overpayments, amount paid without supporting documents, fruitless and wasteful expenditure etc.
* Contingencies (SIU Recoveries) as disclosed in note 30 to the annual financial statements must be assessed and updated in line with the reports should the said amounts meet the definition of an asset or contingent asset.

**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 response not yet due.

**Auditor’s conclusion**

Management response not yet due.

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

**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.”*

**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**:

Appointment of Magwa Construction (Contractor)

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

Through our assessment we have noted that the National Treasury Instruction No.08 of 2019/2020 which allows the emergency procurement to be followed in response to National State of Disaster was issued and effective on the 19 March 2020. This instruction note is therefore not applicable to this matter since the appointment of Magwa construction was done on the 18 March 2020 prior to the NT instruction note being effective.

The deviation should then be 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.”*

The PMTE was in the early stages in the process of appointing a service provider prior to the covid 19 outbreak. The trading entity already knew that the border is in a bad condition hence the situation was not unexpected as per the requirement. The fact that the fence was in bad condition did not pose an immediate risk to health, life, property or environment. This is evidenced by the fact that management knew about the condition of the fence before outbreak and were willing to follow the normal SCM process which indicate that no immediate risk was identified.

Management’s justification of this deviation is based on the Minister’s directive stating that the procurement of beitbridge border fence should be done through the emergency procurement.

Ministers directive dated 16 March 2020 paragraph 4 states that *“I have consulted with the Cabinet, and in particular the Minister of Defence, Ms Mapisa-Nqakula, and accordingly issue this directive that emergency procurement procedures shall be undertaken with immediate effect in relation to the erection and repairs of the border fences, with the first focus being on the Beitbridge Border Post, together and in parallel with other identified hotspots.”*

This is not in line with the National Treasury Instruction Note 03 of 2016/2017 paragraph 8 which indicate the circumstances where the deviation from the normal bidding process is allowed.

Appointment of Profteam CC (Consultant)

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….”*

Auditors assessment

Through our assessment of the deviation followed on the appointment of the contractor (Magwa Construction) we have concluded that the procurement is not justified using the National Treasury Instruction note 03 of 2016/2017. The reasons given to justify the appointment of the consultant (Profteam CC) are the same ones used to justify the appointment of the contractor, therefore the conclusion reached on the contractor’s appointment will be applicable on the consultant as well.

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.

**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.

**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.

**Uneconomic use of the resources**

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."*

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…. “*

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)."*

Auditors overall assessment

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.

Through inspection of the internal memo approved on the 18 March 2020, management indicated that they will use the 2016 BOQ (WCS 052500 Beitbridge) as a reference to obtain the scope of work and BOQ prices for the erection of the Beitbridge fence. The rates used in the erection of the Beitbridge fence was expected to be similar to the rates used 4 years ago. As part of our audit work we then compared the 2020 BOQ relating to the erection of the fence to the 2016 BOQ in order to determine if the rates agree. Based on the work performed, we noted differences in rates on three items. The comparison was done under the assumption that the quantities purchased agrees to the quantities captured on the 2020 BOQ. This resulted in the irregular expenditure of R4 100 000 that has a financial loss impact.

***Note:*** *This calculation doesn’t take into account the fact that the quantity on the BOQ might not be a true reflection of the quantity and description of the goods actually used by the contractor in building the fence*. Refer to the table below:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Description** | **Quantity** | **Total value using 2016 BOQ** | **Total Value on current BOQ** | **Differences** |
| 730mm fully galvanised concertina razor wire | 240 000 | 13 920 000 | 15 120 000 | 1 200 000 |
| 1.8m high razor mesh | 40 000 | 6 400 000 | 8 400 000 | 2 000 000 |
| 110 mm tubular posts with additional 600mm single overhang at 45° and with concrete footing for 1.8m high fence | 2 000 | 1 520 000 | 2 420 000 | 900 000 |
| **Total** | | | | **4 100 000** |

The above adjustment on the contract value will also have an impact on the professional fees for the consultant. Based on the recalculation of the professional fees we have noted that the professional fees have been overstated by R415 960 which is a financial loss for the entity. ***Refer to the table below:***

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **Professional Fees based on the management Contract value** | **Professional Fees based on our recalculated contract value** | **Differences** |
| Estimate Contract value |  | **32 327 690** | **27 128 190** | 5 199 500 |
| Primary fee |  | 1 387 600 | 1 387 600 | - |
| Secondary fee | 0.08 | 1 446 375 | 1 030 415 | 415 960 |
| Total Professional fees |  | 2 833 975 | 2 418 015 | 415 960 |

The financial loss calculated based on the above information is R5 615 460. The financial loss including vat at 15% amounted to R6 457 779.

**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.

**Overall assessment of the Beitbridge fence project against fruitless and wasteful expenditure**

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”*

We have inspected the internal memorandum approved on the 18 March 2020 and we **outline 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.’’*

**Presidential Infrastructure Coordinating Commission (PICC) Report**

As assessment was conducted by the PICC to determine if the 40km Beitbridge fence erected was fit for the purpose. PICC also conducted their verification between the period 4 April 2020 and 5 April 2020 and the following concerns were raised in the report:

*“Several aspects of the design specification as well as poor construction practices compromised the effective of the barrier as a deferred for crossing the South African border with Zimbambe. The Technical assessment found that significant elements of the Border Fence Project were not implemented and other elements were compromised. These omissions seriously compromised the value and the utility of the separation fence and its fitness for purpose. As a result, whilst the design of the fence had a final of 2.2, the final actual height of the fence reached no more than 1.8m on either side of the border, making it more easily scalable, and barbed wire coils were stretched to cover distance beyond its recommended effective limit, making it easier to breach the fence. These factors undermined the effectiveness of the fence to mitigate border threats. During the site visit on the 4th and the 5th of April 2020 at least 113 breaches of the fence were recorded, which may have resulted in an untold number of unlawful crossings.*

**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 height of the fence is not aligned to the recommended height as per the BOQ which was 2.2m.
* 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)***

Auditors assessment

Based on our observation on site which is supported by the pictures included in this report, the following conclusions were reached:

* The entity didn’t achieve it purpose of preventing movement of people between countries during the covid 19 period.
* The entity didn’t address the concerns raised on the old fence which include the issue of hotspot areas with holes. The holes have also been identified on the newly constructed fence.
* The newly 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.
* The fence didn’t last long and it already has issues. This is evidenced by the fact that 133 breaches were identified by PICC on the site visit which occurred between 4th and the 5th of April.

This is an indication that the intention of constructing the fence, which was to prevent people from moving between countries during the covid 19 period was not achieved. The purpose of the Beitbridge fence was not fulfilled due to a number of weaknesses identified and consequently the quality of the fence erected was compromised. Therefore, the funds paid to the contractor and consultant for the whole project were not used economically. The construction costs (including the consultation fees) is fruitless and wasteful expenditure.

***Pictures taken on site 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.
* The project was concluded to be not fit for the purpose hence the Bietbridge project costs should be regarded as fruitless and wasteful expenditure.
* A financial loss of R23 662 883 has been incurred and paid as part of the advance payment made by the entity to both contractor and consultant.
* A possible financial loss of R16 773 033 which has been incurred but not yet paid to the contractor and the consultant.

**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 loss suffered by the entity as a result of the irregularities identified.

The fruitless and wasteful expenditure incurred should be recorded and disclosed on the annual financial statement.

Management should assess and recover any financial loss incurred due to the contractor (Magwa Construction) not delivering the fence of good quality as per the signed contract.

Management should also recover any financial loss incurred due to the consultant (Profteam CC) approving the fence which was concluded to be ineffective and have poor quality.

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 response not received**.**

**Auditors Conclusion**

Management response not received yet**.**

#### Operating expenditure

**COFF 02 CPT ,COFF 08 HO Operating Expenditure – Payments not made within 30 days**

**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**

**Issue 01 - CPT Region**

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** |

**Issue 02 – 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 | ZAPNV1908S1001696174 | 06 July 2019 | 12 August 2019 | 37 | R24 897.00 |



**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**

**CPT Region**

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.

**Head office**

Management response not received

**Auditor’s conclusion**

**CPT Region**

Management comments have been noted and it is correct that the payments are for Stainless Concepts. The auditor stated the place where day to day maintenance services were performed instead of the name of the service provider. However, the finding is not resolved for the following reason and will be followed up at year end:

As per managements response it is evident that management is aware that the Property Management Information system closes at every year end and reopens after a few days into the new financial year. It is then recommended that management should have a process in place to identify and prioritize suppliers that are due for payment and settle them before the system closes to avoid the non-payment within the 30 days’ period.

**Head office**

Management response not received. Therefore, finding remains and will be reported on the management report.

**COFF 12 CPT - Operating Expenditure – Payments not made within 30 days**

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**

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.

**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**

**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.

**Auditor’s conclusion**

Payment 1 – 3 management agrees with the findings and will be reported in the management report.

Payment 4 management comments are noted and after careful considerations the payment was made within 30 days.

**COFF 05 DBN - Payments not made within 30 days**

**Laws, rules and Regulations:**

Public Finance Management Act (PFMA) section 38(1)(f) state that: *“The accounting officer for a department, trading entity or constitutional institution must settle all contractual obligations and pay all money owing, including inter-governmental claims, within the prescribed or agreed period.”*

Treasury Regulation 8.2.3 requires that: *“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 the case of civil claims, from the date of settlement or court judgment.”*

Instruction note 34 of National Treasury dated 30 November 2011 State 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.*

*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.”*

**Nature**

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 | BVI CONSULTING ENGINEERS KWAZULU-NATAL (PTY) LTD | P-273955 | 135 885,74 | 26-Mar-19 | 29-Apr-19 | 34 |

**Impact**

The aforementioned findings may result in:

1. Non-compliance with Section 38 of the Public Finance Management Act
2. Non-compliance with Treasury Regulations 8.2.3
3. Non-compliance with Instruction Note 34 of National Treasury

**Internal control deficiency**

*Leadership*

Management does not effectively establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes and responsibilities

Monitoring controls did not ensure that creditors were paid within the required 30 days of receipt of the invoice.

**Recommendation**

Payments should be processed in a speedy manner without compromising internal controls.

The entity should ensure that the implementation and roll out of the invoice tracking system occurs timeously.

**Management response**

Management is not in agreement with the finding

The supplier invoice in question from BVI Consulting Engineers KZN was received by the Department of Public works and Infrastructure on the **25 April 2019**, not on the 26 March 2019 as indicated on this finding. Refer to the Registry stamp on the invoice. The invoice is attached for reference.

The payment was therefore made well within 30 days of receipt of the invoice compliance with PFMA.

The auditor clearly made an error. 26 March 2019 is the supplier invoice date, not date the invoice was received by the department.

**Auditor’s conclusion**

Management comment noted. We are still evaluating the response.

**COFF 05 DBN Invoices not paid within 30 days**

**Laws, Rules and Regulations**

Public Finance Management Act 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 inter-governmental claims, within the prescribed or agreed period…”*

Treasury Regulation 8.2.3states that *“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 the case of civil claims, from the date of settlement or court judgment.”*

Instruction note 34 of National Treasury dated 30 November 2011require 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**

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 |

**Impact**

The aforementioned findings may result in:

* 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**

*Financial and performance management*

Monitoring controls did not ensure that creditors were paid within the required 30 days of receipt of the invoice.

**Recommendation**

It is recommended that:

* Payments be processed in a speedy manner without compromising internal controls.
* The Entity should take action against the relevant employees where payments were not made within 30 days.

**Management response:**

Management is not in agreement with the finding

The supplier invoice in question from BVI Consulting Engineers KZN was received by the Department of Public works and Infrastructure on the **25 April 2019**, not on the 26 March 2019 as indicated on this finding. Refer to the Registry stamp on the invoice. The invoice is attached for reference.

The payment was therefore made well within 30 days of receipt of the invoice compliance with PFMA.

The auditor clearly made an error. 26 March 2019 is the supplier invoice date, not date the invoice was received by the department.

**Auditor’s conclusion**

Management response received. We are still evaluating the response**.**

**COFF 06 DBN - Duplicate payments made to suppliers**

**Laws, rules and Regulations:**

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:

* Non-compliance with Treasury Regulations 8.1.
* Non-compliance with Section 38 of the Public Finance Management Act
* Financial loss of R79 047.
* 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.

**Auditor’s conclusion**

Management response received. We are still evaluating the response.

**COFF 07 JHB Invoices not paid within 30 days**

**Requirements**

Public Finance Management Act 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 inter-governmental claims, within the prescribed or agreed period…”*

Treasury Regulation 8.2.3states that *“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 the case of civil claims, from the date of settlement or court judgment.”*

Instruction note 34 of National Treasury dated 30 November 2011require 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**

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 |

**Impact**

The aforementioned findings may result in:

* 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**

*Financial and performance management*

Monitoring controls did not ensure that creditors were paid within the required 30 days of receipt of the invoice.

**Recommendation**

It is recommended that:

* Payments be processed in a speedy manner without compromising internal controls.
* The Entity should take action against the relevant employees where payments were not made within 30 days.

**Management response**

We are in agreement that the payments were made after 30 days but with reasons:

1. 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.

1. 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.

1. 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.

**Auditor’s conclusion**

Management response noted. We are still evaluating the response

**COFF 33 HO Municipal services and property rates (backlog) – irregular expenditure**

**Requirements**

Section 38(1)(b)(c)(ii)of the Public Finance Management Act states that: *b)*

*“The accounting officer for a department, trading entity or constitutional institution (b) is responsible for the effective, efficient, economical and transparent use of the resources of the department, trading entity or constitutional institution;)* (c)(ii)*must take effective and appropriate steps to prevent unauthorized, irregular and fruitless and wasteful expenditure and losses resulting from criminal conduct…”*

Treasury Regulations for departments, trading entities, constitutional institutions and public entities, paragraph *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.”*

**Nature**

During the audit of prepaid expense – municipal services and property rates (backlog), we noted that:

The National Department of Public Works appointed a service provider, Regucom and Kano Solutions, to assist with the verification and settlement of the government debt claims made by the 278 municipalities across the country for the period starting 01 April 2008 to 31 March 2015. The main objective of the project was to verify arrear debt for municipal services and property rates pertaining to immovable assets owned, leased and used by national and provincial government departments as well as to facilitate the settlement process of outstanding debt due and payable to municipalities.

NDPW together with the service provider, Regucom and Kano Solutions, commenced Phase 2: The Invoice Verification Project on 5 March 2015. The project was undertaken in two parts:

Part A: Verification of debt owed to municipalities

Part B: Facilitation of the settlement process of the debt owed to municipalities

During the audit of prepaid expense – municipal services and property rates (backlog), we noted that some municipalities were overpaid during the settlement process .Furthermore, we identified instances where a municipality verified debt was overpaid and thereafter, additional over payments were made to the municipality. This resulted in the increase of the overpayment balance by almost double the amount that was verified since 2016.

**Refer below for the details of the overpayments:**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **No** | **Province** | **Municipality** | **2019** | **2020** |
| 1 | Eastern Cape | Baviaans | 18 770,11 | 18 770,11 |
| 2 | Eastern Cape | Buffalo city metropoli | 5 032 907,20 | 5 032 907,20 |
| 3 | Eastern Cape | Makana municipality | 1 461 090,97 | 1 461 090,97 |
| 4 | Eastern Cape | Sakhisizwe | 236 374,98 | 236 374,98 |
| 5 | Eastern Cape | Tsolwana | 80 237,74 | 80 237,74 |
| 6 | Free State | Mafube local municipal | 321 528,39 | 321 528,39 |
| 7 | Free State | Mangaung metropolitan | 25 070 063,56 | 25 070 063,56 |
| 8 | Free State | Naledi (Fs) | 46 048,86 | 46 048,86 |
| 9 | Gauteng | City of johannesburg m | 41 433 975,75 | 41 433 975,75 |
| 10 | Gauteng | City of tshwane metrop | 89 918 320,95 | 89 918 320,95 |
| 11 | Gauteng | Ekurhuleni metropolita | 31 351 124,09 | 31 351 124,09 |
| 12 | Kwazulu-Natal | Abaqulusi municipality | 138 925,87 | 138 925,87 |
| 13 | Kwazulu-Natal | Dannhauser municipalit | 129 304,05 | 129 304,05 |
| 14 | Kwazulu-Natal | Emnambithi-Ladysmith | 1 098 184,13 | 1 098 184,13 |
| 15 | Kwazulu-Natal | Endumeni local municip | 86 191,28 | 86 191,28 |
| 16 | Kwazulu-Natal | Ethekwini metropolitan | 13 950 648,74 | 13 950 648,74 |
| 17 | Kwazulu-Natal | The msunduzi municipal | 15 222 136,04 | 15 222 136,04 |
| 18 | Kwazulu-Natal | NEWCASTLE LOCAL MUNICI | 622 851,24 | 622 851,24 |
| 19 | Kwazulu-Natal | The Big 5 False Bay | 66 566,99 | 66 566,99 |
| 20 | Kwazulu-Natal | Umhlathuze local munic | 633 662,22 | 633 662,22 |
| 21 | Kwazulu-Natal | Umngeni municipality | 4 305 775,29 | 4 305 775,29 |
| 22 | Kwazulu-Natal | Uphongolo municipality | 347 951,77 | 1 968 720,84 |
| 23 | Limpopo | Ba-phalaborwa municipa | 5 172 885,05 | 5 172 885,05 |
| 24 | Limpopo | Greater giyani municip | 7 781 131,55 | 7 781 131,55 |
| 25 | Limpopo | Greater tzaneen munici | 615 883,13 | 615 883,13 |
| 26 | Limpopo | Maruleng municipality | 627 800,35 | 627 800,35 |
| 27 | Limpopo | Modimolle | 1 330 047,67 | 1 330 047,67 |
| 28 | Limpopo | Mogalakwena | - 54 436,28 | - 54 436,28 |
| 29 | Limpopo | Molemole municipality | 673 165,66 | 673 165,66 |
| 30 | Limpopo | Modimolle-mookgophong | - 137 941,14 | - 137 941,14 |
| 31 | Limpopo | Musina local municipal | 4 640 831,01 | 4 640 831,01 |
| 32 | Limpopo | Polokwane municipality | 24 429 048,33 | 24 429 048,33 |
| 33 | Mpumalanga | Emakhazeni local munic | 837 625,17 | 837 625,17 |
| 34 | Mpumalanga | Govan Mbeki | 748 441,55 | 748 441,55 |
| 35 | Mpumalanga | Lekwa local municipali | 2 981 435,94 | 2 981 435,94 |
| 36 | Mpumalanga | Mhkondo municipality | 388 880,40 | 388 880,40 |
| 37 | Mpumalanga | Msukaligwa local munic | 871 900,66 | 871 900,66 |
| 38 | North West | Ditsobotla local munic | - 191 571,77 | - 191 571,77 |
| 39 | North West | Kgetlengrivier | 488 184,18 | 488 184,18 |
| 40 | North West | Lekwa-teemane local mu | 1 560 622,62 | 1 560 622,62 |
| 41 | North West | Madibeng local municip | 9 961 799,42 | 9 961 799,42 |
| 42 | North West | Moses Kotane | 18 964 129,29 | 18 964 129,29 |
| 43 | North West | Rustenburg local munic | - 589 772,15 | - 589 772,15 |
| 44 | North West | Tlokwe city council | 5 099 566,11 | 5 099 566,11 |
| 45 | North West | Tswaing local municipa | 22 930 049,16 | 22 930 049,16 |
| 46 | North West | Ventersdorp | 18 051 333,95 | 18 051 333,95 |
| 47 | Northern Cape | !Kheis | 323 185,09 | 323 185,09 |
| 48 | Northern Cape | //Khara Hais | 223 160,68 | 223 160,68 |
| 49 | Northern Cape | Karoo hoogland municip | 27 814,15 | 27 814,15 |
| 50 | Northern Cape | Kgatelopele local muni | 5 202 271,39 | 5 202 271,39 |
| 51 | Northern Cape | Richtersveld local mun | 28 982,38 | 28 982,38 |
| 52 | Northern Cape | Siyancuma municipality | 43 324,01 | 43 324,01 |
| 53 | Northern Cape | Sol plaatje local muni | 4 704 756,40 | 4 928 622,19 |
| 54 | Northern Cape | Tsantsabane municipali | 1 874 978,71 | 1 874 978,71 |
| 55 | Northern Cape | Ubuntu local municipal | 380 133,40 | 380 133,40 |
| 56 | Northern Cape | Umsobomvu local munici | 66 387,39 | 66 387,39 |
| 57 | Western Cape | City of cape town | 50 077 523,61 | 50 078 621,01 |
| 58 | Western Cape | Drakenstein municipali | 1 681 026,84 | 1 681 026,84 |
| 59 | Western Cape | George municipality | 130 305,79 | 130 305,79 |
| 60 | Western Cape | Knysna municipality | 11 291,11 | 11 291,11 |
| 61 | Western Cape | Oudtshoorn municipalit | 112 175,86 | 112 175,86 |
| 62 | Western Cape | Theewaterskloof munici | 23 495,43 | 23 495,43 |
| 63 | Other | Fs: Whole Province | 7 355 784,58 | 7 355 784,58 |
| 64 | Other | Gt: Whole Province | 10 058 039,13 | 10 058 039,13 |
| 65 | Other | Kzn: Whole Province | 4 928 488,57 | 4 963 016,50 |
| 66 | Other | Lp: Whole Province | 3 983 056,71 | 4 146 940,19 |
| 67 | Other | Mp: Whole Province | 1 158 911,21 | 1 158 911,21 |
| 68 | Other | Nw: Whole Province | 12 038 021,21 | 12 038 021,21 |
| 69 | Other | Wc: Whole Province | 2 394 134,86 | 2 394 134,86 |
| 70 | Other | Nc: Whole Province | - | 1 003 100,00 |
| **Total** | | | **465 580 928,56** | **468 628 172,23** |

**Impact of the finding**

The impact of this non-compliance is:

* Irregular expenditure of R 468 628 172. of
* Possible financial loss of R468 628 172.00

**Internal control deficiency**

*Financial and performance management*

Management did not implement controls over daily and monthly processing and reconciling of municipal debt payments.

Management did not ensure that internal procedures and internal control measures are in place for payment approval and processing of municipal debt settlements in order to prevent overpayments.

**Recommendation**

Management must disclose the irregular expenditure incurred of R 468 628 172 to date.

Management should take effective steps to make an arrangement with the municipalities on how the overpayments will be refunded.

**Management response**

Management response not yet due

**Auditors Conclusion**

Management response not yet due

**COFF 60 HO - Misstatement of Municipal Services Receivables**

**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 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:*

1. *an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;*
2. *the time value of money; and*
3. *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 Vetarans | - | 289 334 | 289 334 |
| Minerals Resources | 856 296 | 534 282 | - 322 014 |
| National Prosecuting Authorithy | 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 reseach 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*

1. 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**

Management response not yet due

**Auditors Conclusion**

Management response not yet due

**Revenue from exchange transactions**

**COFF HO 34 Revenue from exchange transactions – National treasury instruction on billing of accommodation services.**

**Requirements**

Section 38(1)(a)(i) and c(i) of the PFMA regarding the general responsibilities of the accounting officer’s 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; Must take effective and appropriate steps to collect all money due to the department, trading entity or constitutional institution;…”

Public Finance Management Act section 40(1)(a), and 40(1)(b) of the 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…”

Treasury regulation 7.2.1. regarding responsibility for revenue management states *that “the accounting officer of an institution must manage revenue efficiently and effectively by developing and implementing appropriate processes that provide for the identification, collection, recording, reconciliation and safeguarding of information about revenue…”*

*GRAP 23 – Revenue from non-exchange transactions defines non-exchange transactions as “transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.”*

**Nature**

The trading entity had applied to National Treasury for exemption of itemised billing and obtained approval in 08 January 2018. We have noted that the trading entity still does not have contract with certain client departments which as per the approval itemised billing was supposed to have commenced in the current or prior financial years.

Furthermore, we noted that revenue relating to accommodation charges for freehold Inter-governmental is classified as revenue exchange. However, the revenue from these accommodation charges does not equal the value of the service delivered as it is based on the budget allocated by National treasury and therefore should be classified as revenue non-exchange.

Refer below for the list of client departments which should have contracts and where itemised billing should have already commenced:

|  |  |  |  |
| --- | --- | --- | --- |
| Item No. | Name of Client institution | Date by which agreement was to signed by the relevant client: | Amount recognised as revenue  (R) |
| 1 | Governments Communication and Information System | 15-Mar-18 | 49 290,00 |
| 2 | Statistic South Africa | 15-Mar-18 | 4 386 326,48 |
| 3 | National Treasury | 15-Mar-18 | 8 513 799,89 |
| 4 | Department of Communications | 15-Mar-18 | 1 530 000,00 |
| 5 | Department of Sports and Recreation | 15-Mar-18 | 17 570,00 |
| 6 | South African Revenue Service | 15-Mar-18 | 42 712 480,45 |
| 7 | Department of Trade and Industry | 15-Mar-18 | 56 000,00 |
| 8 | Department of Public Service Industry and Administration | 15-Mar-18 | 453 800,00 |
| 9 | Department of Mineral Resources | 15-Mar-18 | 4 027 068,39 |
| 10 | Department of Labour | 15-Mar-18 | 72 865 781,48 |
| 11 | Department of Health | 15-Mar-19 | 120 285 92,00 |
| 12 | Department of Arts and Culture | 15-Mar-19 | 104 321 00,00 |
| 13 | Department Home Affairs | 15-Mar-19 | 73 613 111,00 |
| 14 | Department Higher Education | 15-Mar-19 | 59 240,00 |
| 15 | Department Social Development | 15-Mar-19 | 834 727,00 |
| Total | | | **134 612 116,69** |

As a result of the above, we could not determine by how much the revenue from exchange transaction is misstated.

**Impact**

* Possible misstatement of revenue from exchange transactions accommodation charges - freehold intergovernmental.
* Possible financial loss as a result of loss of revenue.
* Incorrect classification of revenue and receivables from exchange transactions accommodation charges - freehold intergovernmental.

**Internal control deficiency**

*Financial and performance management*

Review and monitor compliance with applicable laws and regulations.

Management did not ensure that itemised billing for the clients departments which were stipulated on the approval from National Treasury is implemented.

**Recommendation**

It is recommended that:

Management should ensure that itemized billing is applied and the financial statements are adjusted to reflect the revenue that should have been recognized as a result of applying itemized billing.

**Management response**

Management response not yet due

**Auditor’s conclusion**

Management response not yet due

#### Payables from exchange

**COFF 10 CPT Accruals are recorded at the incorrect amount**

**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.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| No. | **Goods/Service information** | **General Information** | | |  |
| **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 |

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.

Corrective action to be taken will be the aadjustment of R34,346.85

**Auditors Conclusion**

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

**COFF 18 HO - DETAILED AUDIT FINDING: Duplicate identified on WCS Accruals**

**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 |

Refer to Annexure A

**Impact of finding**

* WCS assets accruals are overstated by R2 858 792

**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’s response not received

**Auditor’s conclusion**

Management’s response not received

**COFF 04 JHB Accrued expense: Overstatement of scheduled maintenance**

**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 |

**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:**

The finding will be reported on the management report.

**CCFF 10 PTA DETAILED AUDIT FINDING: Overstatement of Accruals**

**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 response not received.

**Auditor’s conclusion**

Management response not received

**COFF 13 PTA Limitation of scope**

**Requirements**

Public Finance Management Act (PFMA) section 40(1)(a) stipulates *that the accounting officer for a department must keep full and proper records of the financial affairs of the department in accordance with any prescribed norms and standards.*

Furthermore, Section 41 states that *“an accounting officer of a department 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 15 of the Public Auditing Act 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”*

During the final audit of Pretoria region, supporting documentation for the below was not provided

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Component** | **RFI No** | **RFI request date** | **Due date** | **Outstanding information** |
| Accruals municipal services | 32 | 07/08/2020 | 12/08/2020 | • Invoice • Quotation • Job card • Payment batch |



**Impact of the finding**

* Limitation of scope as we were unable to obtain sufficient and appropriate audit evidence to complete the audit and this can also lead in unfavorable audit outcomes.
* Non-compliance with the PFMA sections 40(1) a.
* Non-compliance with the PFMA section 41.
* Increased time spent to request and collect audit documentation may result in delays in finalising the audit and increase in the audit fee.

**Internal control deficiency**

***Financial and performance management***

Management 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

**Recommendation**

It is recommended that all information requested be provided to the AGSA within three days from the date of request as agreed with management.

Officials within the entity are made aware of the audit process and importance of submitting accurate and complete information to the auditors within the required timeframe;

**Management response:**

Management comment not received.

**Auditor’s conclusion**

Management response not received

#### Property maintenance

**COFF 12 PTA Payment not made within 30 days**

**Requirements**

Public Finance Management Act Paragraph 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 inter-governmental claims, within the prescribed or agreed period;”*

Treasury Regulation Paragraph 8.2.3states *that “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 the case of civil claims, from the date of settlement or court judgement”*

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 |
| 2 | SIGMA LIFTS AND ESCALATORS | 52574 | 23 July 2019 | 30 September 2019 | 69 | 1 026 581 |
| **Total** | | | | | | **1 607 610** |



**Impact of the finding**

The aforementioned finding may result in:

1. Non-compliance with Section 38 of the Public Finance Management Act
2. Non-compliance with Treasury Regulations 8.2.3

**Internal control deficiency**

***Financial and performance management***

a) Management did not implement controls over daily and monthly processing and reconciling of transactions.

b) Management did not review and monitor compliance with applicable legislation.

**Recommendation**

Payments should be processed in a speedy manner without compromising internal controls. Amounts owing to suppliers should be monitored on a regular basis to enable the PMTE to pay amounts outstanding on time, thereby avoid paying interest and penalties which will be regarded as fruitless and wasteful expenditure. This can be done through the review and updating of the order register on a regular basis to ensure that all payments are made to the suppliers within 30 days.

**Management response:**

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. Finding will remain on the management report.

**COFF 05 MMB Accrued expense: Overstatement of scheduled maintenance**

**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 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 response not received.

**Auditor’s conclusion**

Management response not received.

**COFF 04 MTH DETAILED AUDIT FINDING:** Payment not made within 30 days

**Requirements**

Public Finance Management Act (PFMA) section 38(1)(f) requires that “*The accounting officer for a department, trading entity or constitutional institution must settle all contractual obligations and pay all money owing, including inter-governmental claims, within the prescribed or agreed period;”*

Treasury Regulation 8.2.3requires that *“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 the case of civil claims, from the date of settlement or court judgment.”*

**Nature**

| **No:** | **Supplier** | **WCS No:** | **Invoice No:** | **Date invoice received** | **Payment date** | **No. of days** | **Amount [R]** |
| --- | --- | --- | --- | --- | --- | --- | --- |
| 1 | NJILO-NJILO CONSULTANCY SERVICES CC | 044969 | 19UMT04-05 | 29 Oct 2019 | 06 Feb 2020 | 100 | 570 803 |

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.

Property Maintenance

Accruals

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **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 |



**Impact of the finding**

The aforementioned findings may result in:

* Non-compliance with Section 38 of the Public Finance Management Act
* Non-compliance with Treasury Regulations 8.2.3

**Internal control deficiency**

***Financial and performance management***

Management did not implement controls over daily and monthly processing and reconciling of transactions.

Management did not review and monitor compliance with applicable legislation.

**Recommendation**

It is recommended that payments be processed in a speedy manner without compromising internal controls. Amounts owing to suppliers should be monitored on a regular basis to enable the PMTE to pay amounts outstanding on time, thereby avoid paying interest and penalties which will be regarded as fruitless and wasteful expenditure. This can be done through the review and updating of the order register on a regular basis to ensure that all payments are made to the suppliers within 30 days.

**Management response**

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.

**Auditor’s conclusion**

Management response noted. Finding will remain in the management report.

**COFF 53 HO Payment not made within 30 days**

**Laws, Rules and Regulations**

Public Finance Management Act Paragraph 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 inter-governmental claims, within the prescribed or agreed period;”*

Treasury Regulation Paragraph 8.2.3states *that “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 the case of civil claims, from the date of settlement or court judgement”*

**Nature**

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 |



**Impact of the finding**

The aforementioned finding may result in:

1. Non-compliance with Section 38 of the Public Finance Management Act
2. Non-compliance with Treasury Regulations 8.2.3

**Internal control deficiency**

*Financial and performance management*

Monitoring controls did not ensure that creditors were paid within the required 30 days of receipt of the invoice.

**Recommendation**

It is recommended that:

* Payments be processed in a speedy manner without compromising internal controls.
* The Entity should take action against the relevant employees where payments were not made within 30 days.

**Management response:**

Management response not yet due.

**Auditor’s conclusion**

Management response not yet due

**Commitments**

**COFF 11 CPT DETAILED AUDIT FINDING: Understatement of Commitment**

**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:**

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. Corrective action to be taken will be the adjustment of R389,850

**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.

**COFF 06 JHB Commitments – Overstatement of commitments**

**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 relate 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 comment noted. Finding will remain on the management report.

**COFF 11 PTA DETAILED AUDIT FINDING: Understatement of Commitment**

**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 authourised 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 |
| 052132 | DBSA | 0 | 20 009 399 | 20 009 399 |
| **Total** | | | | **20 324 570** |

**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.

**DBSA**

DPWI appointed consultants and further appointed DBSA for R928 481 252, 64 as implementing agent to complete the project. The CPAP is not applicable between DWPI and DBSA, hence there is no CPAP commitment on the system and the commitments schedule. The document that the auditor perused with an amount of R427 956 131, 25 and CPAP of R20 009 399, 27 is between the DBSA and the third party (contractor appointed by DBSA). The amount of R427 956 131, 25 and CPAP R20 009 399, 27 is already included in the lump sum of R928 481 252, 64 committed to the DBSA. Therefore, the commitments are not understated.

**Auditor’s conclusion**

Management response noted. We still evaluating the response.

**COFF 09 PTA DETAILED AUDIT FINDING: Overstatement of Accruals**

**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 response not received yet.

**Auditor’s conclusion**

Management response not received yet

**COFF 02 PE DETAILED AUDIT FINDING: Overstatement of Commitment**

**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.

Corrective action to be taken would be to resubmit the revised population and update the required disclosures

Management will revisit the population and ensure that terminated services are excluded from the population.

Engagement with project managers and review of termination letters that affect the existing commitments.

Internal control measure will include the monthly meetings between CPM and Finance to ensure that WCS is updated with the correct information and enhance the financial procedure manual.

Although journal entries are not applicable as the item affected is a disclosure note. However, the reported commitment will decrease to the revised value.

**Auditor’s conclusion**

Management comment noted. Finding will remain in the management report.

**COFF 08 JHB DETAILED AUDIT FINDING: Duplicate identified on D2D Worx4U**

**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…”*

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

|  |  |  |  |
| --- | --- | --- | --- |
| **No** | **Number of items identified duplicated on the Accrual schedule** | **Final value of accruals** | **Duplicated amount** |
| 1 | 178 | 1 520 820 | 760 410 |

Refer to Annexure A

**Impact of finding**

* 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:**

Management agrees with the audit finding. It was an oversight that these duplicates were not identified although the workbooks are thoroughly checked for correctness. No corrections will be made at this stage as the error is deemed to be immaterial**.**

We always ensure that duplicate checks are performed to ensure accuracy of accruals.

**Auditor’s conclusion:**

Management comments are noted. The finding will be reported in the management report.

#### Provisions

**COFF 01 PE: Overstatement of Provisions**

**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 was a difference 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 the details of the reports below:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Call reference** | **Details of call** | **Status per schedule** | **Status per worx4U** | **Amount per provision estimate R'** |
| PLZ-114962 | Request for replacement of Secondary tank no.2 scum buffel arm | Job-Completed | Cancelled | 24 615.66 |
| PLZ-114271 | Fire Detection Alarm is faulty, Keep on beeping | Job-Completed | Cancelled | 24 615.66 |
| **TOTAL** |  |  |  | **49 231.32** |

**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.

**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:**

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.

**Auditor’s conclusion**

Auditor is currently evaluating the management response

**COFF 10 PTA - DETAILED AUDIT FINDING: Overstatement of Provisions**

**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 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 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 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:**

Management comment not received.

**Auditor’s conclusion**

Management comment not received.

**COFF 03 PE DETAILED AUDIT FINDING: Overstatement of Provisions**

**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 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.

Refer to the details of the reports below:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **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<br> | 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<BR> | Job-Completed-WM | Cancelled | 24 615,66 |
| PLZ-114467 | Service of fire extinguishers, last service was May 2016<BR> | Job-Completed-WM | Cancelled | 19 930,21 |
| PLZ-114523 | Servicing of fire extinguishers <BR> | Job-Completed-WM | Cancelled | 24 615,66 |
| PLZ-114962 | Request for replacement of Secondary tank no. 2 scum buffel arm&nbsp; | 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&nbsp;&nbsp;gate faulty<br> | Job-Completed-WM | Cancelled | 21 743,91 |
| PLZ-117301 | Replace the door of the pump station 9it fell down)<br> | Job-Completed-WM | Cancelled | 26 673,39 |
| PLZ-117572 | Request for servicing of fire extinguishers.<br> | Job-Completed-WM | Cancelled | 24 615,66 |
| PLZ-118786 | The PLC Controller for domestic water pump is faulty/missing and faulty dostic water pump<BR> | 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<br> | Job-Completed-WM | Cancelled | 24 615,66 |
| PLZ-125749 | Repair burst water pipe inside the ceiling<br> | Job-Completed-WM | Cancelled | 26 673,39 |
| PLZ-129150 | <BR>Installation of power analyser | Job-Completed-WM | Cancelled | 24 615,66 |
| PLZ-129113 | <BR>Servicing of lifts: November 2019; Lifts number: PEE1324 &amp; PEE1325 | Job-Completed-WM | Cancelled | 24 615,66 |
| **TOTAL** |  |  |  | **390 408,82** |

**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:**

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

**Auditor’s conclusion**

Management comment noted. The finding will remain.

**COFF 30 HO DETAILED AUDIT FINDING: Provisions - Municipal services and property rates (Backlog)**

**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…”*

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:

Management comments as per note 16 to the AFS

“*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…”*

Auditors assessment or determination

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**

Management comment not yet due.

**Auditor’s conclusion**

Management comment not received.

**COFF 02 MMB HO: Overstatement of Provisions**

**Laws, rules and legislation**

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 |

**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 response not received.

**Auditor’s conclusion**

Management response not received.

**COFF 06 MTH DETAILED AUDIT FINDING:** Overstatement of Provisions

**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 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.

The adjusted estimated provision was an isolated case, the remaining estimates were accurately report

**Auditor’s conclusion**

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

**COFF 59 HO Misstatement of Leasehold Intergovernmental receivables**

**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 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:*

1. *an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;*
2. *the time value of money; and*
3. *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 Accommodation debtors – leasehold intergovernmental, 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** | |  |
|  | **PMTE** | **AG** | **Differences** |
| National Prosecuting Authority SA | 4 124 622 | 4 166 330 | 41 708 |
| National Treasury | 118 837 386 | 118 573 568 | (263 818) |
| Office of the Public Protector | 505 | (505 302) | (505 807) |
| Office Of The Public Service Commis | 1 402 041 | - | (1 402 041) |
| Parliament | 1 345 836 | 1 276 539 | (69 297) |
| ROBBEN ISLAND MUSEUM- | 1 971 | 43 690 | 41 720 |
| ROBBEN ISLAND MUSEUM | 1 869 | 30 671 | 28 802 |
| Sa Human Rights Commission | 3 120 | 151 088 | 147 968 |
| Sa Social Security Agency | 121 924 | - | (121 924) |
| Sport And Recreation | 17 195 931 | 21 366 300 | 4 170 369 |
| THE DEPARTMENT OF COMMUNICATIONS | 91 841 | (1 916 435) | (2 008 277) |
| Tourism | 116 402 | - | (116 402) |
| Transport | 41 795 233 | 41 750 203 | (45 029) |
| Women | 3 152 335 | 4 912 892 | 1 760 557 |
| **Total** | 188 191 016 | 189 849 544 | **1 658 529** |

Table 2 ; Leasehold receivable differences

|  |  |  |  |
| --- | --- | --- | --- |
| **Debtor** | **Leasehold intergov.** | |  |
|  | **PMTE** | **AG** | **Differences** |
| National Prosecuting Authority SA | 1 044 301 | 1 086 009,34 | 41 708 |
| National Treasury | 19 715 608 | 19 451 790,44 | (263 818) |
| Office of the Public Protector | 529 779 | 23 971,80 | (505 807) |
| Office Of The Public Service Commis | 1 402 041 | 0,00 | (1 402 041) |
| Parliament | 484 797 | 415 500,01 | (69 297) |
| ROBBEN ISLAND MUSEUM- | 46 814 | 88 534,17 | 41 720 |
| ROBBEN ISLAND MUSEUM | 59 834 | 88 635,89 | 28 802 |
| Sa Human Rights Commission | - | 147 968,08 | 147 968 |
| Sa Social Security Agency | 5 904 309 | 5 782 385,29 | (121 924) |
| Sport And Recreation | 4 272 563 | 8 442 931,87 | 4 170 369 |
| THE DEPARTMENT OF COMMUNICATIONS | 6 363 959 | 4 355 681,98 | (2 008 277) |
| Tourism | 5 636 918 | 5 520 515,86 | (116 402) |
| Transport | 26 061 706 | 26 016 676,78 | (45 029) |
| Women | 2 677 094 | 4 437 651,36 | 1 760 557 |
| **Total** | 74 199 724 | 75 858 253 | **1 658 529** |

**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)
* Understatement of the impairment provision by R 1 658 529.00
* Projected overstatement of leasehold intergovernmental receivables by R 9 275 445.88

**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**

Management response not due yet

**Auditors Conclusion**

Management response not due yet

#### Performance Information

**COFF 07 HO Programme 3: Differences noted between quarterly reports, listing and POE**

**Requirements:**

Section 40(3)(a) of the PFMA states that: *“The annual report and financial statements referred to in subsection 1(d) must Fairly present the state of affairs of the public entity, its business, its financial results, its performance against predetermined objective 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 the: *“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…”*

**Nature**

During the audit of predetermined objectives, Programme 3: Construction Project Management, differences were noted between the quarter 1 reported achievement, listing that supports the reported achievement and actual portfolio of evidence for the performance indicators as per the table below.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **No** | **Performance Indicator** | **Achievement per Q1 report** | **Achievement per listing** | **Achievement per POE** | **Management Comments** |
| 1 | 3.1. Number of approved infrastructure projects designs. | 23 | 27 | 20 | Achievement as per schedule, consolidated report and PoEs submitted to M&E all amount to 27. There are no differences. See **Annexure A** |
| 2 | 3.3 Number of infrastructure sites handed over for construction | 26 | 28 | 26 | Achievement as per schedule, consolidated report and PoEs submitted to M&E all amount to 28. There are no differences. See **Annexure B** |
| 3 | 3.4 Number of infrastructure projects completed. | 26 | 27 | 26 | Achievement as per schedule, consolidated report and PoEs submitted to M&E all amount to 27. There are no differences. See **Annexure C** |

**Impact of the finding**

The reported information is not valid and accurate which may result in a possible qualification on the performance indicators and reported achievement.

**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.

Inadequate review processes by management to ensure that reports and listings that support the reported achievement are accurate

**Recommendation**

It is recommended that thorough review processes be implemented to ensure that correct information is reported in the quarterly reports.

It is further recommended that management should revise the population where inaccurate reporting was identified.

**Management response**

Management does not agree with the findings. See a table and comments above.

**Annexure E is the consolidated report**.

**Auditors Conclusion**

Management comments and information submitted were reviewed, and the finding is partially resolved for the following reasons**:**

Issue 1,2 and 3: Subsequent to review of management comments and submitted information, the difference between the listing and POE is resolved. However, differences still remain between the M&E quarter 1 report and evidence submitted to support the quarterly report. Therefore, these differences are not resolved and finding will be followed up at year end.

**COFF 14 HO Programme 3: Indicator 3.8 – Method of calculation not aligned to the reported achievement**

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

**COFF 14 HO Programme 3 - Details per schedules do not agree to details as per POE**

**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: 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.

**COFF 17 HO Programme 3: Strategic objectives not reported in the 2019/20 Annual Performance Report**

**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

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

**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 comment not yet due.

**Auditor’s conclusion**

Management response not received yet**.**

**COFF 48 HO - Programme 3: Indicator 3.7 -** Number of EPWP work opportunities created through infrastructure projects

**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 following beneficiaries’ attendance register was not submitted for audit purposes

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Name** | **Surname** | **ID** | **Project Code** | **Project Name** | **Sector** |
| Gayiya | Nomazizi | 9210110500085 | 94216-EPWP3N | Bathurst: Freestone Road | Infrastructure Sector |
| Christopher Zwelinzima | Blou | 8408105283086 | 94216-EPWP3N | Bathurst: Freestone Road | Infrastructure Sector |
| Futuse Xolani | Futuse | 7906055274089 | 94216-EPWP3N | Bathurst: Freestone Road | Infrastructure Sector |
| Nandipa | Gaga | 8611050753082 | 94216-EPWP3N | Bathurst: Freestone Road | Infrastructure Sector |
| Thembinkoso | Mafumana | 8008055630086 | 94216-EPWP3N | Bathurst: Freestone Road | Infrastructure Sector |
| Thandile David | Mali | 6708165806086 | 94216-EPWP3N | Bathurst: Freestone Road | Infrastructure Sector |

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**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 is not valid and accurate and may be overstated.
* Limitation of scope in confirming the reported information pertaining to work opportunities created.

**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.

EPWP Projects are not adequately reviewed against the supporting documentation to ensure that work opportunities created are supported by valid supporting documentation

**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 also obtain evidence from the public bodies that the corrective measures have been implemented on all other EPWP projects not selected for the audit

**Management response**

Management response not due yet.

**Auditor’s conclusion**

Management response not due yet.

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

**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** |
| --- | --- | --- | --- | --- | --- | --- |
| 1 | Nontobeko Preety | Shangase | 9201090783080 | 5478-EPWPRS | Masonic Grove Building Refurbishment | Infrastructure Sector |
| 2 | 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 response not due yet.

**Auditor’s conclusion**

Management response not due yet.

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

**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** |
| --- | --- | --- | --- | --- | --- | --- |
| 1 | Gayiya | Nomazizi | 9210110500085 | 94216-EPWP3N | Bathurst: Freestone Road | Infrastructure Sector |
| 2 | Bongile Isaac | Xali | 9910266079087 | 94216-EPWP3N | Bathurst: Freestone Road | Infrastructure Sector |
| 3 | Thembakazi | Lukwe | 9001140640086 | 94216-EPWP3N | Bathurst: Freestone Road | Infrastructure Sector |
| 4 | Thembinkosi Nicolson | Bakada | 7710055635087 | 94216-EPWP3N | Bathurst: Freestone Road | Infrastructure Sector |
| 5 | Christopher Zwelinzima | Blou | 8408105283086 | 94216-EPWP3N | Bathurst: Freestone Road | Infrastructure Sector |
| 6 | Lindile Isaac | Futa | 670118536080 | 94216-EPWP3N | Bathurst: Freestone Road | Infrastructure Sector |
| 7 | Nandipa | Gaga | 8611050753082 | 94216-EPWP3N | Bathurst: Freestone Road | Infrastructure Sector |
| 8 | Thembinkoso | Mafumana | 8008055630086 | 94216-EPWP3N | Bathurst: Freestone Road | Infrastructure Sector |
| 9 | Thandile David | Mali | 6708165806086 | 94216-EPWP3N | Bathurst: Freestone Road | Infrastructure Sector |
| 10 | Ntombovuyo | Mente | 9804020917080 | 94216-EPWP3N | Bathurst: Freestone Road | Infrastructure Sector |
| 11 | Xolani | Mahlathi | 7103285436088 | 94216-EPWP3N | Bathurst: Freestone Road | Infrastructure Sector |
| 12 | Mziyanda | Ntlokwana | 9307185208089 | 94216-EPWP3N | Bathurst: Freestone Road | Infrastructure Sector |
| 13 | Mohanoe Victor | Lekhoaba | 6309125640085 | 95782-EPWP3N | Nala Routine Maintance | Infrastructure Sector |
| 14 | Phillip Mahlaku | Mokhoenyane | 8203055952081 | 95782-EPWP3N | Nala Routine Maintance | Infrastructure Sector |
| 15 | JJ | Funda | 8709115347088 | 95782-EPWP3N | Nala Routine Maintance | Infrastructure Sector |
| 16 | Bongumenzi | Nkosi | 8711205585080 | 2700-EPWPRS | Bulwer Rehabilitation of old prison | Infrastructure Sector |
| 17 | Ntethelelo | Sosibo | 9511035608089 | 2700-EPWPRS | Bulwer Rehabilitation of old prison | Infrastructure Sector |
| 18 | Sihle | Gumede | 9109116092081 | 1090-EPWPRS | Umlazi Magistrate Office | Infrastructure Sector |
| 19 | Nokuphiwe | Zungu | 8204041657081 | 4427-EPWPRS | Melmoth SAPS | Infrastructure Sector |
| 20 | Moshephe | Nkansi | 19771127 | 80999-EPWP3N | Emahlathini and Bothashoop Ports of Entry | Infrastructure Sector |
| 21 | Ashton Auscar | Daniels | 9808255325083 | 96701 | Road Construction and pavements | Infrastructure Sector |
| 22 | Johnny | Jonkers | 7210065822080 | 96701 | Road Construction and pavements | Infrastructure Sector |
| 23 | Axola | Dyani | 8908085899086 | 85725-EPWP3N | WO Caledon Prison | Infrastructure Sector |
| 24 | Alungile | Duli | Unknown | 64927-EPWP3N | NCOP Building | Infrastructure Sector |
| 25 | Ayanda | Ginyigazi | Unknown | 64927-EPWP3N | NCOP Building | Infrastructure Sector |
| 26 | Anelisa | Nginda | Unknown | 64927-EPWP3N | NCOP Building | Infrastructure Sector |
| 27 | Anelwa | Stemela | Unknown | 64927-EPWP3N | NCOP Building | Infrastructure Sector |
| 28 | Msimelelo | Ludaka | Unknown | 64927-EPWP3N | NCOP Building | Infrastructure Sector |
| 29 | Khayalethu | Daliwe | 6912185748084 | 19917 EPWP3N | WO Parliamentary Residential Accommodation | Infrastructure Sector |
| 30 | J.I | Lietzman | 6304305201089 | 19917 EPWP3N | WO Parliamentary Residential Accommodation | Infrastructure Sector |
| 31 | Vukile | Mbele | 7301235522088 | 19917 EPWP3N | WO Parliamentary Residential Accommodation | Infrastructure Sector |
| 32 | Phillip | Maliwa | 7304215514087 | 19917 EPWP3N | WO Parliamentary Residential Accommodation | Infrastructure Sector |
| 33 | Xolile | Msingizana | 8911235422086 | 19917 EPWP3N | WO Parliamentary Residential Accommodation | Infrastructure Sector |
| 34 | Natacia | Sasa | 9306151092089 | 19917 EPWP3N | WO Parliamentary Residential Accommodation | Infrastructure Sector |
| 35 | Francois Virgil | January | 8107095196080 | 19917 EPWP3N | WO Parliamentary Residential Accommodation | Infrastructure Sector |
| 36 | Zuko | Makhalima | 7408166091080 | 19917 EPWP3N | WO Parliamentary Residential Accommodation | Infrastructure Sector |
| 37 | Maria | Pretorious | 6706120097080 | 19917 EPWP3N | WO Parliamentary Residential Accommodation | Infrastructure Sector |
| 38 | Michael | Pretorious | 6510305149082 | 19917 EPWP3N | WO Parliamentary Residential Accommodation | Infrastructure Sector |
| 39 | Briam Isaac | Butler | 6906175232083 | 19917 EPWP3N | WO Parliamentary Residential Accommodation | Infrastructure Sector |
| 40 | Anita Monyeko | Masemola | 9204300874087 | 80970-EPWP3N | Pretoria Bricklaying Apprenticeship Program | Infrastructure Sector |
| 41 | Oscar Kgadime | Mampuru | 9407075749083 | 99121-EPWP3N | SAPS: Salvokop Radio Tech Unit | Infrastructure Sector |
| 42 | Murunwa | Mulaudzi | 0102011246083 | 99121-EPWP3N | SAPS: Salvokop Radio Tech Unit | Infrastructure Sector |
| 43 | Maqalaza | Ndala | 4206015504086 | 2736-EPWPRS | NPA Pietermaritzburg Workshop | Infrastructure Sector |
| 44 | Rosemary Nompilo | Jali | 8906062551086 | 2736-EPWPRS | NPA Pietermaritzburg Workshop | Infrastructure Sector |
| 45 | Vuyani Jackson | Pitani | 6201015863085 | 65870-EPWP3N | Humewood Military Base Port Elizabeth | Infrastructure Sector |
| 46 | Abednego | Modise | 9701056172087 | 90516-EPWP3N | Plooysburg Police Complex Repair of police station,Married Quarters and bach | Infrastructure Sector |
| 47 | Ashwssin | Prins | 9401085265081 | 90516-EPWP3N | Plooysburg Police Complex Repair of police station,Married Quarters and bach | Infrastructure Sector |
| 48 | Roseline | Price | 8607060025081 | 90517-EPWP3N | Grobleshoop Magistrate's Construction of additional Accommodation | Infrastructure Sector |
| 49 | Magang | Liezel | 8507310176082 | 90517-EPWP3N | Grobleshoop Magistrate's Construction of additional Accommodation | Infrastructure Sector |
| 50 | Elmarie | Hugo | 9202080112082 | 93306-EPWP3N | Repair and Renovation Magistrate Court in Victoria West | Infrastructure Sector |
| 51 | Leonardo Jason | Erasmus | 9208235129087 | 93306-EPWP3N | Repair and Renovation Magistrate Court in Victoria West | Infrastructure Sector |
| 52 | Lester Dmetri | Jonker | 8701275007081 | 93306-EPWP3N | Repair and Renovation Magistrate Court in Victoria West | Infrastructure Sector |
| 53 | Tebogo | Mashegoana | 9004301029081 | 98789-EPWP3N | Telkom Towers | Infrastructure Sector |
| 54 | Reginald | Matlala | 8803145343082 | 98789-EPWP3N | Telkom Towers | Infrastructure Sector |
| 55 | Lesego Sharon | Segale | 9310080317088 | 98789-EPWP3N | Telkom Towers | Infrastructure Sector |
| 56 | Vannessa | Seanego | 9903030825083 | 98789-EPWP3N | Telkom Towers | Infrastructure Sector |
| 57 | Tursia | Maphake | 9901250791084 | 98789-EPWP3N | Telkom Towers | 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 response not due yet.

**Auditor’s conclusion**

Management response not due yet.

### ANNEXURE B: OTHER IMPORTANT MATTERS

#### Internal controls

**Financial Misconduct policy not regularly updated**

**Requirements:**

*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 effective, efficient and transparent systems of financial and risk management and internal control…”*

**Nature**

During the audit of consequence management, it was noted that the Financial Misconduct Policy (2016) of PMTE has not been regularly updated to be in line with the National Treasury Instruction Notes, in particular Treasury Instruction No.2 of 2019/2020 on Irregular Expenditure Framework (effective 17 May 2019) and Treasury Instruction No.3 of 2019/2020 on Fruitless & Wasteful Expenditure Framework (effective 1 November 2019). The policy was last approved on 24 February 2016.

The paragraph quoted in the below table is an inconsistency that was identified between the policy and the issued framework. This is not the only instance and the department is advised to review the policy to be in line with the Treasury Instruction Notes.

|  |  |
| --- | --- |
| **Quoted paragraph per the Financial Misconduct Policy** | **Quoted paragraph per Irregular Expenditure Framework issued in terms of Treasury Instruction No.2 of 2019/20** |
| Paragraph 10.1 states that “Transactions of financial misconduct that have resulted in fraudulent, corrupt and criminal activities or actions that deprived the state of value for money must be reported to the SA Police Service” | Paragraph 48 states that “If the investigation confirms that the irregular expenditure is related to fraudulent, corrupt or criminal act, the accounting officer or accounting authority must, ***within 7 days*** ensure that a criminal charge is laid with the SA Police Services against the responsible employee.” |

**Impact of the finding**

The actions taken during the consequence management process may not be in accordance with National Treasury Instructions.

**Internal control deficiency**

*Leadership*

Management did not design and implement proper controls to ensure that the entity's policies are updated, reviewed and approved on a regular basis

**Recommendation**

It is recommended that management should put in place controls to ensure that policies are reviewed regularly in line with issued frameworks. Furthermore,management should update the above mentioned policy and other outdated policies, review all policies and ensure that they are in line with the relevant legislation.

**Management response**

The finding must be withdrawn as it was not discussed with management prior to being issued.

**Auditors Conclusion**

Managements response is noted. Subsequent to issuing the communication of audit finding, a discussion was held with management. We had an expectation that management would indicate whether they agree or disagree with the finding. If they don’t agree, they can provide us with supporting evidence.

**COFF 54 HO Non-compliance with laws and regulation – PMTE Bank in overdraft**

**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**

1. 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**

1. The following is recommended to management:
2. Monthly reconciliations need to be performed and action taken to ensure timeous recovery of current debts from client departments.
3. Management needs to review this overdraft on a monthly basis to ensure the overdraft does not continually increase.

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 response not received yet**.**

**Auditors Conclusion**

Management response not received yet**.**

1. [↑](#endnote-ref-2)