



AUDITOR - GENERAL
SOUTH AFRICA

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INTERIM MANAGEMENT REPORT

Property Management Trading Entity

Year end: 31 March 2020

Communicated to management on: 14 July 2020

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31 March 2020

Discussed with the accounting officer on: 14 July 2020

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INTERIM MANAGEMENT REPORT TO THE ACCOUNTING OFFICER ON THE AUDIT OF THE PROPERTY MANAGEMENT TRADING ENTITY FOR THE YEAR ENDED 31 MARCH 2020

INTRODUCTION

1. The purpose of the management report is to communicate audit findings to the accounting officer and does not constitute public information. This management report is provided to make it easier for the auditee to consider and correct the audit findings arising from the audit of the financial statements, reporting on predetermined objectives and compliance with legislation that have come to our attention to date. We will provide a final management report after the completion of the audit after year-end.

Our engagement letter sets out our responsibilities and those of the accounting officer in detail.

2. The audit work performed to date includes the following:

Financial statements

- Operating Leases
 - The risk of overpayment remains a challenge for the entity. Management indicated that lease function on Archibus has been implemented which aims to address overpayment issue.
- Operating expenditure
 - Our interim audit was mainly focused on procurement and contract management. The operating expenditure is closely linked to procurement.

Reporting on predetermined objectives

- Reliance will be placed on the internal auditors (IA) work done on performance of predetermined objectives to assess if management have addressed the issues raised by AG in their prior year audit.
- The IA work was based on the Quarter one performance report for Programme 3 (Construction Project Management), Programme 4 (Real Estate Management Services), Programme 5 (Real Estate Information and Register Services) and Programme 6 (facilities management).
- We have reviewed their work, including the objectives, audit procedures and the conclusions reached.

Compliance with legislation

- Procurement and contract management
- Expenditure management
- Assets management

Other matters

- Review of the general information systems controls

3. This management report consists of the overall message arising from the interim audit, summary of key findings and observations, and an annexure containing the detailed audit findings.
4. This management report consists of the overall message arising from the audit, summary of key findings and observations, annexures containing the detailed audit findings,

annexures to the report on the audit of performance information¹ as well as the annexure to internal control deficiencies reported

5. The auditor's report is finalised only after the final management report has been communicated. All matters included in this report that relate to the auditor's report remains in draft form until the final auditor's report is signed. In adherence to section 50 of the PAA, we do not disclose any information obtained during the audit and contained in this management report.

SECTION 1: OVERALL MESSAGE

1. The accounting officer and executive authority have developed action plans aimed to address the issues raised in the prior year audit of **financial statement**. The entity was previously qualified on Property, plant and equipment (PPE) due to misstatements identified in relation to valuation & rights and obligation assertions. No work was performed during the interim period in relation to immovable assets since the Immovable Assets Register (IAR) was not ready for submission. The operating lease also had material adjustment in the prior year. Our interim audit discovered that the action plans developed to address overpayment issues have not been effective in certain instances, which resulted in a recurrence of findings raised.
2. We have placed reliance on the internal audit unit on the audit work they have performed in the performance information. The internal audit unit raised concerns on the quarterly **performance reports** submitted for review. The issues identified in the current audit cycle are similar to the issues identified in the previous audit cycle, with the major concern being reliable information which supports the reported performance not being provided for audit. The internal audit unit also highlighted concerns where the reported information has been found to be inaccurate and in some instances incomplete.
3. Our interim audit has determined that the entity has not been effectively implemented all recommendations relating to the **Procurement and contract management** preventative controls. Non-compliances were identified where the entity didn't comply with Preferential Procurement Regulations and Treasury Regulations. In certain instances, such non-compliances will have an irregular expenditure impact. The irregular expenditure register will need to be updated with such contracts at the year end. The entity will also need to perform some investigations to determine the extent of irregular expenditure and the fruitless and wasteful expenditure on certain non-compliances identified during the audit. Internal controls in relation to **expenditure management** haven't been fully effective since we were able to identify invoice which was not paid within 30 days. Management should continue to tighten their controls to avoid such non-compliance and strengthen their control environment.

SECTION 2: STATUS OF ANNUAL FINANCIAL STATEMENT

4. Below is a summary of the key issues identified from the audit procedures performed on the financial statement areas selected for focus during the interim audit.

The financial statements areas were assessed as follows:

	No significant matters were identified during the performance of interim audit procedures
	Some areas of concern have been noted; and improvement is required to ensure that no material misstatements remain in the final annual financial statements.
	Urgent intervention is required to ensure that the financial statement area is free of material misstatements at year end.
	This area was scoped out of the interim audit due to the process of addressing significant issues from prior period not being completed.

Financial statement area	Key findings	Progress
Immovable Assets (Deemed costs)	This area was scoped out of the interim audit due to the process of addressing significant issues from prior period not being completed.	
Leases	Urgent intervention is required to ensure that the financial statement area is free of material misstatements at year end.	
Operating expenditure	No significant matters were identified during the performance of interim audit procedures	

We have noted the management action plans to address operating leases related findings that were identified in the prior year, however the implementation of such action plans have not been fully effective since we were able to identify issues relating to overpayment. Furthermore, we have identified an instance where additional payments were made to the landlord after the termination of the lease contract.

SECTION 3: STATUS OF PERFORMANCE INFORMATION

1. We have placed reliance on the work done by internal auditors on the quarterly report (Q1) that was reviewed. The results show that management haven't been effective in implementing their action plans to avoid repeat findings that were highlighted in the prior audit. Urgent intervention is still required to ensure that programmes are free from material misstatement. Management have been updated with the issues identified and this should assist them in preparing for the annual performance report (APP) to be submitted at the year end.

	No significant matters were identified during the performance of interim audit procedures
	Improvement is still required to ensure that no material misstatements remain.
	Urgent intervention is required to ensure that the programme is free of material misstatements at year end.

Programmes	Prior period opinion	Status (Q1)	Key findings
Programme 3: construction project management	Qualified		<p>The Internal Audit (IA) findings raised related to the following:</p> <ul style="list-style-type: none"> - Supporting documents not being provided for the reported result, resulting in a limitation of scope. - Inaccurate and incomplete information being reported by management. - Actual performance not being reported. <p>These findings were in most instances a repetition of findings raised previously by both IA and AGSA. This is indicative of a lack of commitment from management and leadership to address challenges regarding reporting on predetermined objectives.</p>
Programme 4: real estate management services	Qualified		
Programme 5: real estate information and registry services	Unqualified		
Programme 6: facilities management	Qualified		

We noted managements' plans to address performance information findings from the prior year on the audit action plan, however, findings similar to prior year were raised by internal audit in the audit of Q1. This indicates that the implementation of the action plan was not effective as portfolio of evidence was not provided to internal audit to support reported achievements in certain instances, and the risk remains that material findings will recur in the final annual report. A possible regression in programme 5 have been noted where Internal audit has reported misstatement in relation to reliability of the information reported. Management have placed over-reliance on audit process to enable them to produce credible performance report. This is evidenced by the lack of commitment on the action plans developed to address the prior year findings.

SECTION 4: STATUS OF COMPLIANCE WITH LEGISLATION

5. The audit included an assessment of compliance with legislation, procurement processes, contract management and the related controls in place. These processes and controls must comply with legislation to ensure a fair, equitable, transparent, competitive and cost-effective supply chain management (SCM) system and to reduce the likelihood of fraud, corruption, favouritism and unfair and other irregular practices.
6. The findings below will be considered together with findings of a similar nature at year end to determine the materiality of the non-compliance. Should the extent of non-compliance be considered material, this will be reported in the final management and the audit report.
7. The compliance areas assessed were as follows:

	The basics are in place as no concerns were identified.
	Concerns identified.
	Intervention required

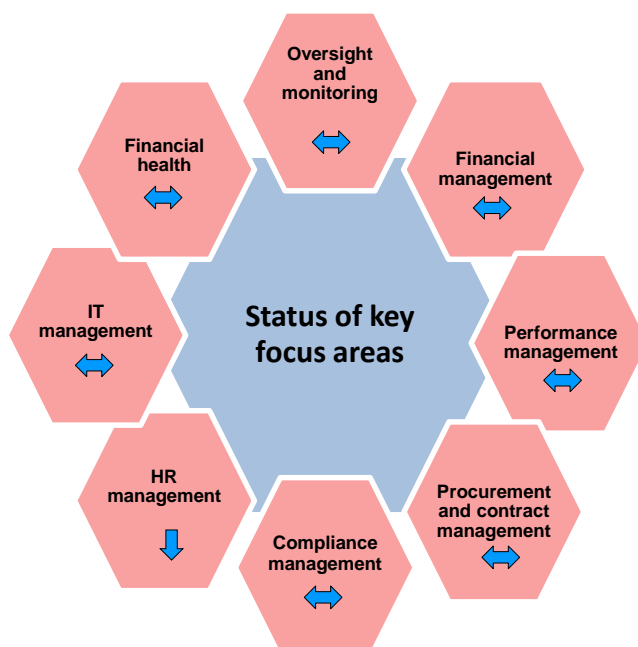
Compliance area	Progress	Key findings	No. of instances
Procurement and contract management		Deviations not justifiable <ul style="list-style-type: none"> Six contracts were procured without inviting competitive bids, and the deviations were approved even though it was practical to invite competitive bids. 	6
		Limitation of scope <ul style="list-style-type: none"> Sufficient appropriate audit evidence could not be provided that one of the selected awards to the value of R114 991 435.31 were made in accordance with the requirements of applicable SCM legislation. Information (contract files) for the unsuccessful bidders were not submitted for the tender: PT18/080. <p>No alternative audit procedures could be performed to obtain reasonable assurance that the expenditure incurred on these awards was not irregular</p>	2
		Possible splitting <ul style="list-style-type: none"> Findings were identified where goods/works and services were deliberately split merely to avoid complying with requirements of SCM policy and regulations. 	2
		Incorrect procurement process <ul style="list-style-type: none"> One tender which failed to achieve the minimum qualifying score for functionality criteria were not disqualified as unacceptable in accordance with preferential procurement regulation One contract was awarded to bidder that did not score the highest points in the evaluation process. 	2
		Pre-qualification criteria <ul style="list-style-type: none"> Sufficient appropriate audit evidence could not be obtained that quotations were awarded to bidders based on pre-qualification criteria that were stipulated in the original invitation for quotations. 	2
		Advertisement of tender and publication of awards	7

Compliance area	Progress	Key findings	No. of instances
		<ul style="list-style-type: none"> Tenders were not advertised and the awards were not published on the on the eTender publication portal and government tender bulletin as required by Treasury regulations. 	
		Extension of contract with financial impact <ul style="list-style-type: none"> One contract was identified where the expenditure exceeds the original contract value. The project is significantly delayed and the supplier have been charging penalties for every delay experienced in the project 	1
Expenditure management		Payment not made within 30 days <ul style="list-style-type: none"> Findings were identified where payments were not made within 30 days. 	1

We have identified instances of non-compliance with Treasury regulations during the interim audit. This is an indication that management have not fully implemented their action plans to address non-compliance in the SCM department. This is concerning for an entity and with the implementation of the PAA, management should focus on the implementation of preventative controls to prevent SCM related transgressions, such as implementing an infrastructure project procurement plan that outlines projects that will be rolled out in a year to also enable monitoring and timeous completion.

SECTION 5: STATUS OF KEY FOCUS AREAS

1. The status as presented below is based on the review performed and reflects the involvement from the previous assessment.



The legend applied is as follows:

Good	The basics are in place as no concerns were identified.
Concerning	Concerns identified.
Intervention required	Level of concerns identified is an indicator that the AO needs to urgently intervene to prevent audit failure.

The movement is assessed as follows:

↑	Improved
↔	Unchanged
↓	Regressed

FINANCIAL VIABILITY

1. Our interim audit included a high-level overview of the trading entity's financial viability as at 30 September 2020. The financial viability assessment provides useful information for accountability and decision-making purposes and complements the financial statements by providing insights and perspectives thereon. The financial viability assessment is expected to enhance timely remedial decision-making and policy reforms where financial viability may be at risk. It will also highlight to management those issues that may require corrective action and the urgency and magnitude of the reforms and decisions necessary to maintain operations. The information should be used to complement, rather than substitute, management's own financial assessment.

FINANCIAL VIABILITY ASSESSMENT: INTERIM PERIOD		
		AS AT 30 SEPTEMBER 2019
EXPENDITURE MANAGEMENT		
1.1	Creditor-payment period	287.6 Days
REVENUE MANAGEMENT		
2.1	Debtor-collection period (after impairment)	203.6 Days
2.2	Debtors impairment provision as a percentage of accounts receivable	24.3%
	<ul style="list-style-type: none"> Amount of debtor's impairment provision Amount of accounts receivable 	R 1 422 142 000 R 5 858 985 000
ASSET AND LIABILITY MANAGEMENT		
3.1	A deficit for the year was realised (total expenditure exceeded total revenue)	Yes
	<ul style="list-style-type: none"> Amount of the surplus / (deficit) for the year 	(R 1 931 398 000)
3.2	A net current liability position was realised (total current liabilities exceeded total current assets)	Yes
	<ul style="list-style-type: none"> Amount of the net current assets / (liability) position 	(12 205 446 000)
3.3	A net liability position was realised (total liabilities exceeded total assets)	No
	<ul style="list-style-type: none"> Amount of the net asset / (liability) position 	152 432 662 000
CASH MANAGEMENT		
4.1	The year-end bank balance was in overdraft	Yes
	<ul style="list-style-type: none"> Amount of year-end bank balance (cash and cash equivalents) / (bank overdraft) 	(2 374 681 000)
4.2	Net cash flows for the year from operating activities were negative	No
	<ul style="list-style-type: none"> Amount of net cash in / (out)flows for the year from operating activities 	1 500 743 000
4.3	Creditors as a percentage of cash and cash equivalents	Bank in overdraft
	<ul style="list-style-type: none"> Amount of creditors (accounts payable) 	4 926 726 000

FINANCIAL VIABILITY ASSESSMENT: INTERIM PERIOD	
	AS AT 30 SEPTEMBER 2019
<ul style="list-style-type: none"> Amount of cash and cash equivalents / (bank overdraft) at year-end 	(2 374 681 000)
OVERALL ASSESSMENT	
Overall the financial viability is assessed as:	Red (Unfavourable – Intervention required)
<p>* <i>These amounts have been adjusted for uncorrected misstatements that resulted in the modification of the audit opinion and will therefore not agree with the financial statement amounts.</i></p>	

High-level comments

- The overall financial position of the trading entity as measured for the six months the following matters were noted:
 - The entity recorded a deficit in the interim financial statements and the key financial indicators were negative.
 - The net current liability position was reported for the period and this resulted in a high number of days taken by the entity to settle their debts.

KEY MATTERS FOR ATTENTION

2. The following areas of concern have come to our attention during our review process. Some of the matters had been reported before or raised in the previous engagements and little progress has been made to address these matters.

Oversight and monitoring

3. Senior management's responsibility towards quality checks have not always been fruitful. This is evidenced by the findings raised on non-compliance with legislations as well as slow response to address the prior year issues. The procurement and contract management processes have not been reviewed to ensure to compliance with Preferential Procurement Regulations and Treasury Regulations. Instances of overpayments on leases results from minimum quality checks done to validate payments made on Archibus. Slow progress has been noted on the implementation of the action plans developed to address the prior year findings. The leadership role to monitor the implementation of such action plans have not yield the positive results for the entity.
4. There remains instability in the leadership of the department with the following senior management positions either being vacant or filled by acting incumbents as at the date of this report:
 - Head of PMTE
 - DDG: Supply Chain Management
 - DDG: Real Estate Management Services (REMS)
 - DDG: Real Estate Information & Registry Services (REIRS)
 - Regional Manager positions in certain regional offices
5. In our review of internal audit reports, we noted that in some instances, concerns were raised by internal audit relating to managements' efforts in place to improve control weaknesses through the implementation of agreed audit action plans. The action plans developed have not been fully implemented.

It has also been noted that the internal audit unit role to monitor the internal controls have not provided assurance for the entity. This is evidenced by the repeat findings identified during the interim audit of operating lease and procurement and contract management. We therefore recommend that internal audit should put more focus on the preventative controls to ensure that non-compliances are prevented instead of being detected once they have occurred.

Financial management

6. The entity has gone through a process of addressing issues affecting the operating lease which was raised in the prior years. The action plans developed were not fully effective as similar findings were identified in our interim audit. The risk of overpayments thus remains for the financial period when considered as a whole.
7. The entity didn't perform an assessment and consider the impact of GRAP 18 Segment reporting standard when preparing the interim financial statement as at 30 September 2019. This resulted in the non-compliance with GRAP standard.

Performance management

8. Management have developed action plans to address performance information findings raised in the prior years. We have noted that their plans were not fully implemented since similar findings were raised by internal auditors in the audit of Q1 reported information. Weakness identified relates to portfolio of evidence not provided, inaccurate and incomplete information being reported in certain instances hence the risk of material findings remains. A possible regression in programme 5 have been noted where Internal audit has reported misstatement in relation to reliability of the information reported. Management have placed over-reliance on audit process to enable them to produce credible performance report. This is evidenced by the lack of commitment on the action plans developed to address the prior year findings.

Human resource management

9. A slight regression was noted with the overall vacancy increasing from 9% as at 31 March 2019 to 10% at the time of performing this assessment. However, the most concern is on the Senior Management vacancy rate which is currently reported at 33%. A number of staff resources within the entity, including some within the Finance unit who played a key role in the preparation and review of annual financial statements in the prior period, did not have their contracts renewed. This combined with the fact that the position of Chief Director: Financial Reporting remains vacant increases the risk that the improvements made in the prior period may not be sustainable.

Compliance management

10. Non-compliance with various requirements of Preferential Procurement Regulations and Treasury Regulations were identified during the performance of our interim audit. In addition, instances of irregular expenditure were identified during the audit which will be required to be included in the irregular expenditure register before year end.
11. Findings raised in procurement and contract management were similar to the issues raised in the prior year in certain instances. This indicates a lack of consequence management by leadership.
12. Management has implemented controls to address the non-compliance in relation to payments not made to suppliers within 30 days. Weaknesses in internal controls have been identified during the interim audit since similar issues have been raised.

IT management

6. Management have indicated that the operating lease function on Archibus have been fully functional as from 01 September 2019 and private leases have been paid such system. Findings have been raised on leases which relates to overpayment during the interim audit. This is concerning since the implementation of archibus was supposed to address such issues. Furthermore, interface of the ARCHIBUS and SAGE systems is yet to be

achieved. The full implementation of the interface between the two systems is critical to ensure that PMTE moves away from the manual spreadsheets used for financial reporting.

Key emerging risks/developments

13. The GRAP 18 on Segment Reporting has been effective as from 1 April 2019 for trading entities. Management should ensure that the final annual financial statement is prepared in compliance with GRAP standards.
14. The amended Public Audit Act (PAA) is effective as from 1 April 2019. Management must ensure that procedures are in place to ensure recommendations for material irregularities issued by AGSA are effectively and timeously implemented.
15. On the 15 March 2020, President Cyril Ramaphosa announced the declaration of a national state of disaster following the World Health organisation declaring the COVID-19 outbreak as a pandemic as well as measures that must be implemented by the nation. The following regulations/instruction notes relating to COVID-19 have become effective;
 - Disaster Management Act, 2002
 - National Treasury Instruction note no. 08 of 2019/2020
 - PFMA exemption – Gazette – 31 March 2020

SECTION 6: STATUS OF IMPLEMENTATION OF COMMITMENTS AND RECOMMENDATIONS

1. Below is our assessment of the progress in implementing the commitments made by the accounting officer and the executive authority to address prior and current year audit findings.

No.	Commitments	Made by	Status/ Auditor's comments
1	<p><u>Immovable Assets</u></p> <p>Differences in extent of structure.</p> <ul style="list-style-type: none"> Ensure correct extents are recorded and reviewed during the transfer from the source data (GIS system, DOD raw data/ building conditions and wheel measurement) to the Asset Register The population with unclear imagery in the IAR will be referred for wheel measurement. Review of updates to ensure correct alignment of data. Entire population of land extents in the IAR that do not agree to the extents as per Deeds to be confirmed against Chief Surveyor General (CSG) diagram 	DDG: REIRS	<p>In progress</p> <p>At the time of the interim audit, the immovable assets register (IAR) was not yet ready for submission. Management are currently addressing the prior year findings raised relating to the valuation of immovable assets as well as confirming the ownership (rights).</p> <p>The IAR will be fully audited once the final AFS have been submitted for audit.</p>
2	<p><u>Immovable Assets</u></p> <p>Buildings recorded on the immovable assets register (IAR) as State domestic facility (SDF) where ownership doesn't exist.</p> <ul style="list-style-type: none"> Additional buildings identified via GIS shall be aligned between the additional buildings to be added and the SDF conclusion for that particular site/ facility. This is to ensure that facilities which were to be removed as per SDF feedback are not included in the IAR erroneously. Confirmation of ownership of DPWI newly identified properties (from different sources such as Deeds Web, Section 42 of transfer acquisition, donation etc.). shall be obtained in the form of appropriate documents such as Title Deeds, SG Diagrams, acquisition documents, donation documents. In instances of disposals of land parcels, a verification is to be undertaken to determine whether the structures located on the land parcel belong to DPWI. The parcels that have been erroneously vested must be first physically verified to confirm the user department and that the parcel should be vested with DPWI. 	DDG: REIRS	<p>In progress</p> <p>At the time of the interim audit, the immovable assets register (IAR) was not yet ready for submission. Management are currently addressing the prior year findings raised relating to the valuation of immovable assets as well as confirming the ownership (rights).</p> <p>The IAR will be fully audited once the final AFS have been submitted for audit</p>
	<p><u>Human Resource Management</u></p> <p>Management of vacancy rate:</p> <ul style="list-style-type: none"> Implement approved organisational for PMTE and DPW (matching and placing) Allocate sufficient compensation of employees; budget to fill vacant positions Activate on Persal establishment the funded vacant positions for immediate advertising and filing. 	DDG: CS, Ms T. Hlatshwayo	<p>In progress</p> <p>The HR plan for 2019/2020 was not approved during the interim audit.</p>

No.	Commitments	Made by	Status/ Auditor's comments
	<p><u>Non-compliance with SCM policies/prescripts</u></p> <ul style="list-style-type: none"> Contract management – extensions/variations Name of bidders not published Information not submitted and contract not signed Non-competitive bidding Contract awarded to service provider that should have been disregarded Quotations R10 000 – R500 000 <p><u>Action:</u></p> <ul style="list-style-type: none"> Implement all administrative requirements as prescribed by National Treasury. Refer for investigation identified cases for appropriate action taken Training of SCM officials and Bid committee members Monitor and enhance existing internal controls, processes and procedures to enforce compliance. 	R. Naidoo (ADDG: Supply Chain Management)	<p>In progress.</p> <p>We have identified instances of non-compliance with SCM laws and regulations during the interim audit.</p> <p>The nature of findings included:</p> <ul style="list-style-type: none"> Deviations that were not justifiable. Incorrect procurement process followed Possible splitting of quotations. Advertisement and awarding of tenders not published to e tender and government tender bulletin etc. <p>The commitments made by management to address SCM issues didn't yield fruitful results. Management should re-visit their internal controls to identify root causes for such non-compliances. The monitoring process by senior management to ensure compliance with SCM regulations should be strengthened.</p>
	<p><u>Pre-determine objectives</u></p> <ul style="list-style-type: none"> Differences between the annual performance report and supporting listings: Actual achievements not valid and accurate No supporting documentation for reported information WORX4U system Inadequate closure of calls <p><u>Actions</u></p> <ul style="list-style-type: none"> Identify and train Admin Officers who will assist in the preparation of quarterly performance reports (APP). Line functions at head office to engage Regional Office to ensure that the information reported information is accurate. Monthly meetings will continue to address the issue of document management to ensure that the issue of scope limitations is minimised Review of performance information to ensure correct alignment of supporting documentation 	DDG: REMS	<p>In progress</p> <p>We have reviewed the internal audit report in relation to audit work done for Quarter one report. Similar findings that were previously reported in the prior year were identified by IA. Nature of findings include;</p> <ul style="list-style-type: none"> Limitation of scope Inaccurate and incomplete information reported. <p>Management have placed over-reliance on audit process to enable them to produce credible performance report.</p>
	<p><u>Operating Leases</u></p> <p>Overpayments and Underpayments of leases</p> <ul style="list-style-type: none"> Archibus will be implemented on 1 September 2019. The calculations for straight-lining, 	M. Sithole (Chief Financial Officer)	<p>In progress</p> <p>Management have indicated that private leases have been paid using Archibus.</p>

No.	Commitments	Made by	Status/ Auditor's comments
	<p>commitments etc. will be performed by Archibus as the source to the AFS.</p> <ul style="list-style-type: none"> Prevent future overpayments by monitoring the successful implementation of Archibus. 		<p>The audit of Archibus is still in progress, due to delays caused by lockdown. Progress will be reported in the final audit.</p> <p>Overpayments have been identified during the interim audit. This indicate that the implementation of Archibus has not resolved the overpayment issue raised in the prior years.</p>
	<p><u>Non-compliance with PFMA on submission of financial statements</u></p> <ul style="list-style-type: none"> Develop a project plan and communicate to regions and line functions. Weekly monitoring of progress of specified tasks assigned to officials. Provide training to regions and Head Office on Financial Statement aspect Compile the 2019/2020 Financial Procedures document Submit letters to Branch Heads and Regional Managers in relation to deadlines 	M. Sithole (Chief Financial Officer)	<p>In progress</p> <p>The delay in the submission of AFS resulted from the IAR not being ready for submission. We have inspected the REIRS action plans in relation to the finalisation of the IAR on time and the work was still in progress. The COVID-19 had an impact on the initial submission date of the AFS. The revised legislated date for the submission of AFS is 31 July 2020.</p>

SECTION 7: CONCLUSION

The matters communicated throughout this report relate to the three fundamentals of internal control that should be addressed to achieve sustained clean administration. Our staff remains committed to assisting in identifying and communicating good practices to improve governance and accountability and to build public confidence in government's ability to account for public resources in a transparent manner.

Yours faithfully

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