



AUDITOR-GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

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# FINAL MANAGEMENT REPORT

**Property Management Trading Entity**

**31 March 2022**

**Communicated to the accounting officer on: 15 July 2022**





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## MANAGEMENT REPORT TO THE ACCOUNTING OFFICER ON THE AUDIT OF THE PROPERTY MANAGEMENT TRADING ENTITY FOR THE YEAR ENDED 31 MARCH 2022

### INTRODUCTION

1. The purpose of the management report is to communicate audit findings and other key audit observations to the accounting officer and to provide a summary of the material irregularities and suspected material irregularities of which the accounting officer was notified. The report does not constitute public information.

The management report includes audit findings arising from the audit of the financial statements and compliance with legislation for the year ended 31 March 2022. These findings were communicated to management and this report details management's response to these findings. The report includes information on the internal control deficiencies that we identified as the root causes of the matters reported. Addressing these deficiencies will help to improve the audit outcome.

2. In accordance with the terms of engagement, our responsibility in this regard is to:
  - express an opinion on the financial statements
  - report on material findings relating to compliance with specific requirements in key applicable legislation, as set out in the general notice issued in terms of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA)
  - notify the accounting officer of any material irregularity or suspected material irregularities identified during the audit, and report on it in the auditor's report.
3. Our engagement letter sets out our responsibilities and those of the accounting officer in detail.
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 as well as the annexure to internal control deficiencies reported.
5. The auditor's report is finalised only after the management report has been communicated. All matters included in this report that relate to the auditor's report remain 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.
6. The **figure** that follows provides a pictorial summary of the audit results and our key messages on how to improve the audit outcomes with the focus on the following:
  - Status of the audit outcomes
  - Status of the level of assurance provided by key role players
  - Status of the drivers of internal controls
  - Status of risk areas



- Root causes to be addressed

7. Movement from the previous year is depicted as follows:



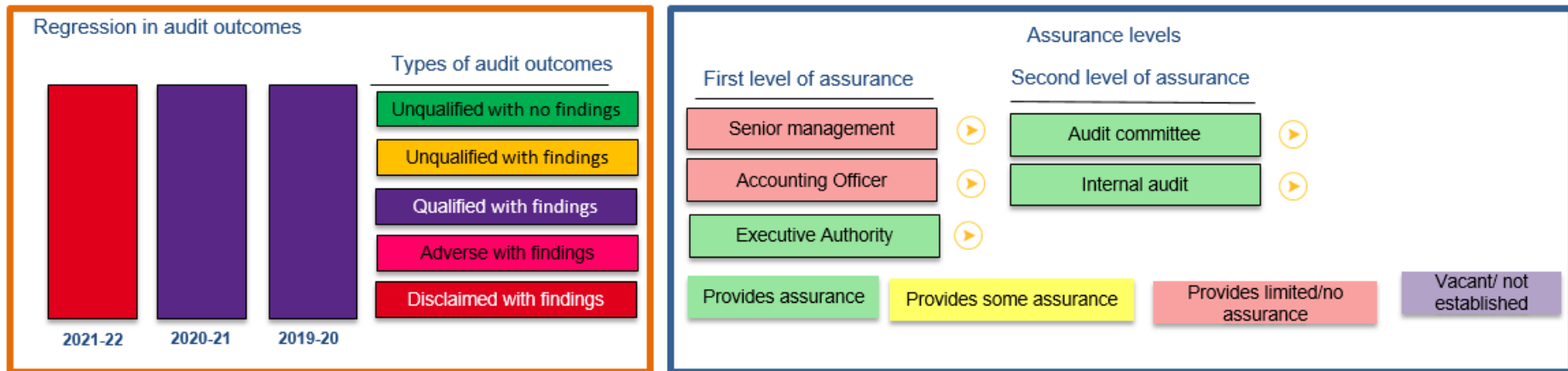
Improved



Unchanged / slight improvement / slight regression



Regressed



1

To improve/maintain the **audit outcomes** ...

2

... the key role players need to **assure** that ...

5

... the **root causes** are addressed ...

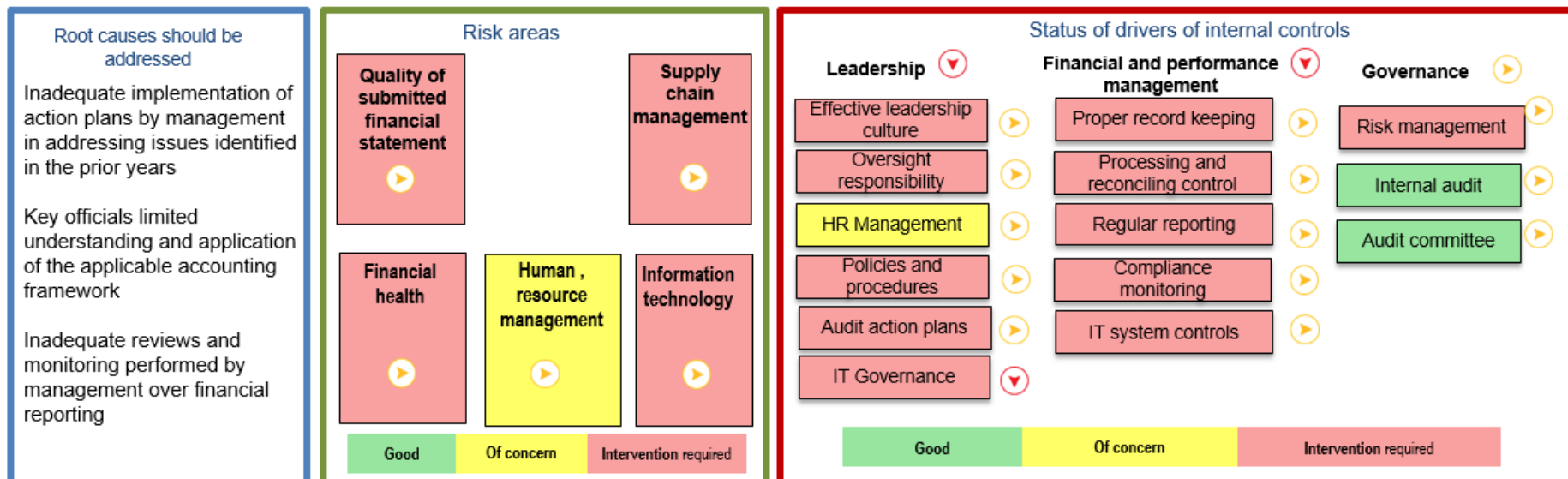
4

... the **risk areas** and ...

3

... attention is given to the **key controls** and ...

... the **best practices** are maintained.



## OVERALL MESSAGE

1. The audit outcome of the entity has regressed in the current period, with the entity obtaining a disclaimer audit opinion. In respect to the **annual financial statements**, we were unable to obtain sufficient audit evidence regarding the significant changes (restatements) made in the immovable assets. In addition, material misstatements were identified with respect to receivables from exchange transactions, payables from exchange transactions, provisions and lease commitments. The regression in the audit outcome is mainly attributed to a lack of reviews by senior management and inadequate application of the Generally Recognised Accounting Practice (GRAP) framework.
2. A major regression was noted on the property, plant and equipment with respect to the opening balances that was subject to significant restatements in the current year. Management did not have supporting schedule which supports the restatements made on the Immovable assets register (IAR) and no supporting documents were provided to confirm accuracy and completeness of the restatements. In the absence of this information, we are therefore unable to place reliance on the Immovable assets (PPE, Investment property and heritage assets) opening balances since we do not know what is the extent of the errors. consequently, we are unable to confirm whether the closing balance is complete, accurate and it can be relied upon. Furthermore, management did not perform the reassessment of useful life on the overall IAR in the current year as required by GRAP framework.
3. In addition, receivables from exchange transaction were not adequately assessed for impairment in accordance with GRAP requirements. This was due to management lack of understanding and application of GRAP standards. As a result, we were unable to quantify the extent to which the impairment provision balance is misstated by.
4. Notwithstanding the above, we commend management on the promptly response to the lease related issues reported in the prior year audit. The implementation of the lease clean-up project through the appointment of Morar incorporation unearthed errors on the Archibus system and provided recommendations on correcting the errors. However, management did not implement recommendations to rectify the system deficiencies and correct the errors as at year-end. As a result, multiple existing lease agreements were not correctly captured on Archibus system, which resulted in numerous misstatements on recorded lease transactions, account balances and disclosure items. Furthermore, lease overpayments have continued to occur in spite of management's efforts to prevent and recover overpayments.
5. In addition, material misstatements were made in relation to provisions balance. This was due inadequate understanding of the accounting process of provisions and incorrect application of GRAP 19 which led to incorrect recognition and classification of transactions related to provisions. Furthermore, we noted that management does not have proper processes in place to account for provisions as at year end. Adequate reviews were also not conducted to confirm the accuracy of the supporting schedules used to prepare the annual financial statements.
6. Lastly, material misstatements were identified on accrued expenses (municipal services) resulting from errors made in the management's calculation of the accrued expense estimate

as at year end. These were mainly due to the entity using the incorrect billing periods in calculating the estimate. Further, there were instances where invoices were duplicated in the accruals schedules which led to further misstatements being identified and ultimately the financial statements being misstated.

7. In relation to **compliance with laws and regulations**, numerous non-compliances were identified which resulted to both irregular and fruitless and wasteful expenditure in certain instances. This is an indication that recommendations on preventative control made in the prior financial years were not effectively implemented by the trading entity as similar non-compliances were identified in the current year. Management should consider involving the internal auditors to perform the probit audit on all major procurement contracts before awarding contracts. This will strengthen the controls that prevent non-compliance.
8. In relation to project management, we have noted that in certain instances the trading entity incur financial losses due to inadequate management of contracts. The financial losses result from the extension of time claimed by contractors due to delays experienced on the project, which could have been avoided if the reasonable care was taken by management. In certain instances, such non-compliances had fruitless and wasteful impact.
9. On the other hand, management made progress in implementing action plans to address prior year audit findings on areas relating to user account management. However, there are still areas of concerns requiring attention especially on ICT service continuity and reviews of users access accounts on the financial systems. The ICT focus areas relating to user access management and Network security management still require improvement. The lack of implementing basic IT security and user access controls could further lead to unauthorised users gaining access to systems, resulting in data being compromised, denial of service attacks or data integrity issues and consequently overall disruption to business processes.



## SECTION 1: INTERACTIONS WITH STAKEHOLDERS RESPONSIBLE FOR OVERSIGHT AND GOVERNANCE

10. During the audit cycle, we met with the following key stakeholders responsible for oversight and governance to communicate matters relating to the audit outcome and matters identified during our status of records review/s of the department:

Key stakeholder	Purpose of interaction	Number of interactions
Portfolio committee on Public Works and Infrastructure	<ul style="list-style-type: none"> <li>Meeting to share the audit outcomes and present the BRRR</li> </ul>	1
Standing committee on public accounts	<ul style="list-style-type: none"> <li>Audits outcomes of DPWI portfolio over (5) Years</li> </ul>	2
Minister of the Department of Public works and Infrastructure.	<ul style="list-style-type: none"> <li>2021-22 Status update on Material irregularities</li> </ul>	3
Acting Director General	<ul style="list-style-type: none"> <li>2021-22 Status update on Material irregularities</li> <li>Detail discussion on interim management report</li> <li>Discussion of the engagement letter and audit Strategy</li> <li>Letters on Audit progress of the DPWI portfolio</li> </ul>	4
Audit committee	<ul style="list-style-type: none"> <li>To discuss governance and oversight</li> <li>Discussion of the engagement letter and audit strategy</li> <li>Communication of the interim management report</li> <li>Approval of the trading entity's annual financial statements</li> <li>Management presentation on the audit action plans to address both internal and external audit findings.</li> </ul>	5
Senior Management	<ul style="list-style-type: none"> <li>Weekly Audit Steering Committee meetings</li> <li>Presentation of the engagement letter and audit strategy</li> <li>Presentation of the interim management report</li> </ul>	15

11. At these interactions, we shared the following key matters affecting audit outcomes and the auditee:

- Audit engagement letter with specific emphasis on the roles and responsibilities of the auditor and management as well as those charged with governance.
- Overall audit strategy including the proposed nature, timing, and extent of audit procedures to be performed.
- PAA Amendments with the focus on progress made in addressing the material irregularities reported in the prior year.

All stakeholders made commitments to implement initiatives that can improve the audit outcome. The commitments given and the progress of previous commitments are included in section 3.2, which deals with the assessment of assurance providers

## SECTION 2: MATTERS RELATING TO THE AUDITOR'S REPORT

### AUDIT OF THE FINANCIAL STATEMENTS

12. We identified material misstatements in the financial statements during the audit. These misstatements were not prevented or detected by the trading entity's system of internal control. These material misstatements also constitute non-compliance with section 40(1) of the Public Finance Management Act (PFMA).

13. The misstatements that were not corrected form the basis for the disclaimer of opinion on the financial statements.

Material misstatement			Impact R current year	Impact R prior year
Financial statement item	Finding	Occurred in prior year		
<b>Material misstatements not corrected</b>				
<b>Non-Current Assets</b>				
Property, Plant and Equipment	Restatements that were made to comparative amounts for immovable assets were not supported by any evidence or schedules in accordance with GRAP 3. <b>(Revised management response not incorporated)</b>	No	R 129 636 644 000	-
<b>Current Assets</b>				
Receivables from exchange transactions	Revenue Accrual – Recoverable Municipal Services, Revenue Accrual – Recoverable Projects and prepaid expenses for municipal services and property rates backlog were not adequately assessed for impairment in accordance with GRAP requirements <b>(Management response outstanding)</b>	No	Amount of the misstatement is unquantifiable	-



Material misstatement			Impact R current year	Impact R prior year
Financial statement item	Finding	Occurred in prior year		
	Differences were identified between auditor's recalculated amounts and the balance disclosed on the AFS relating to prepaid expenses leases and Revenue accrual - recoverable leases. <b>(Projected misstatement)</b>	Yes	Estimated overstatement of R303 658 489	Estimated overstatement of R534 504 138
<b>Current Liabilities</b>				
Provisions - Maintenance	Instances were noted on maintenance provision where the job was done and the trading entity was in possession of an invoice or quotation therefore there was no uncertainty in amount or timing of these transactions to be included as provision.	No	Amount of the misstatement is unquantifiable	-
Payables from exchange transactions ( Accrued expenses- municipal services)	Differences were identified between auditor's recalculated amounts and the balance disclosed on the AFS relating to accrued expenses – municipal services. <b>(Projected misstatement)</b>	No	Estimated overstatement of R316 568 232	-
Payables from exchange transactions (Accrued expenses- Leases)	Differences were identified between auditor's recalculated amounts and the balance disclosed on the AFS relating to accrued expenses – leases. <b>(Management response outstanding)</b>	Yes	Estimated overstatement of R294 591 880	Estimated overstatement of R450 258 312
<b>Statement of Financial performance</b>				
Impairment loss on receivables	Receivables from exchange transactions were not adequately assessed for impairment in accordance with GRAP requirements. <b>(Management response outstanding)</b>	No	Amount of the misstatement is unquantifiable	-



Material misstatement			Impact R current year	Impact R prior year
Financial statement item	Finding	Occurred in prior year		
<b>Disclosure</b>				
Prior period error	Restatements that were made to comparative amounts for immovable assets were not supported by any evidence or schedules in accordance with GRAP 3. <b>(Revised management response not incorporated)</b>	No	Amount of the misstatement is unquantifiable	-
Lease commitment- lessee	Differences were identified between the auditors calculated amounts and amounts on the supporting schedules. <b>(Management response not incorporated)</b> <b>(Projected misstatements)</b>	Yes	R259 790 120	R193 579 653 Understatement
Lease commitment – lessor		Yes	R217 308 239	R305 611 491 Understatement
Fruitless and Wasteful expenditure	Fruitless and wasteful expenditure not complete as a result of paying a landlord without taking occupation and also payments were for services not received by the trading entity. <b>(Management response outstanding)</b>	No	R78 804 414	-
<b>Material misstatements corrected</b>				



## MATTERS TO BE BROUGHT TO THE ATTENTION OF USERS

### Emphasis of matter paragraphs

14. The following emphasis of matter paragraphs will be included in our auditor's report to draw the users' attention to matters presented or disclosed in the financial statements:

### Going concern

15. I draw attention to note 38 to the financial statements, which indicate that the trading entity as of 31 March 2022, has a bank overdraft of R1,02 billion (March 2021: R905 million) and the current liabilities exceed the current assets by R6,7 billion (March 2021: R4,4 billion)

### Irregular expenditure

16. As disclosed in note 32 to the financial statements, irregular expenditure of R188 832 000 that was incurred in the previous years was disclosed as amounts not recoverable and not condoned.

## AUDIT OF THE ANNUAL PERFORMANCE REPORT

17. In terms of section 40(3)(a) of the PFMA for departments, trading entities and constitutional institutions, the trading entity is required to prepare an annual performance report. The trading entity's performance information was reported in the annual performance report of Department of Public Works and Infrastructure. The usefulness and reliability of the reported performance information was tested as part of the audit of Department of Public Works and Infrastructure and any audit findings are included in the management and auditor's report of Department of Public Works and Infrastructure (DPWI).

## AUDIT OF COMPLIANCE WITH LEGISLATION

18. Included below are material findings on compliance with selected specific requirements of applicable legislation, as set out in the general notice issued in terms of the PAA.

### Expenditure Management

19. Effective and appropriate steps were not taken to prevent irregular expenditure amounting to R132 679 000, as disclosed in note 32 to the financial statements, as required by section 38(1)(c)(ii) of the PFMA and treasury regulation 9.1.1. The majority of the irregular expenditure disclosed in the financial statements was caused by incorrect procurement processes followed by management.
20. Effective steps were not taken to prevent fruitless and wasteful expenditure, as required by section 38(1)(c)(ii) of the PFMA and treasury regulation 9.1.1. As reported in the basis for disclaimer opinion the value as disclosed in note 31 to the financial statements does not reflect the full extent of the fruitless and wasteful expenditure incurred.
21. Effective internal controls were not in place for approval and processing of payments, as required by treasury regulation 8.1.1.

## Annual Financial Statement, Performance and Annual Report

22. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework and supported by full and proper records as required by section 40(1)(a) and (b) of the PFMA.

Material misstatements identified by the auditors in the submitted financial statements were not corrected, which resulted in the financial statements receiving a disclaimer of opinion.

## Procurement and contract management

23. Some of the contracts were awarded to bidders based on functionality criteria that were not stipulated in the original invitation for bidding, as required by the 2017 Preferential Procurement Regulation 5(1) and (3).

## Revenue Management

24. Effective and appropriate steps were not taken to collect all money due, as required by section 38(1)(c)(i) of the PFMA.

## OTHER INFORMATION

25. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements and the auditor's report.
26. Our opinion on the financial statements and compliance with legislation do not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.
27. In connection with our audit, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and our knowledge obtained during the audit or otherwise appears to be materially misstated.
28. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

## INTERNAL CONTROLS

29. The significant deficiencies in internal control which led to our overall assessment of the status of the drivers of key controls, as included in the figure in paragraph x, are described below. The detailed assessment of the implementation of the drivers of internal control in the areas of financial statements and compliance with legislation is included in annexure F.

## Leadership

### Effective leadership culture

30. We commend leadership on their actions and attitude in demonstrating the importance of good governance as they developed action plans to address the material irregularities raised



in the prior year. However, the developed action plans do not address the internal control deficiencies that resulted to the non-compliance as similar instances were identified during the audit. Therefore, this renders the implementation of action plans to be ineffective in addressing the root causes.

31. Leadership embarked on a lease data clean up project to ensure that all lease agreements are captured correctly on the ARCHIBUS system. However, a slow response was noted as lease agreements that were negotiated at reduced monthly rentals were not timeously captured on the system as they continued to pay at higher monthly rentals and these resulted to lease overpayment continuing in the current year.
32. We have noted slow progress by leadership in approving investigation reports impacting on the finalisation of investigations into allegations of financial misconduct and other improper conduct under supply chain management (SCM) by officials. Therefore, this impacts the timeous implementation of recommendations with regards to consequence management.

### Oversight responsibility

33. Senior management attitude towards implementing action plans developed has not yielded the desired results. Material misstatements were identified during the audit with respect to account balances and disclosure line item due to inadequate review of the financial statements submitted for audit. The inadequate understanding and application of the Generally Recognised Accounting Practice (GRAP) framework amongst these directorates (Real Estate Information Registry Services (REIRS), Real Estate Management Services (REMS) and the Finance division) led to material misstatements being identified. There is a lack of commitment towards effective implementation of accounting and financial reporting directives to ensure financial statements follow a process of review.
34. Procurement and contract management findings previously identified in the prior years were also noted in the current financial year. This indicates that the processes in place does not address the internal control deficiencies that have been identified and reported in the prior years by external and internal auditors. The entity has not successfully implemented preventative controls.

### Human resource management

35. We commend management on meeting the planned target vacancy rate in order to have a capable DPWI. However, this was as a result of a significant number of appointments which were effective in March 2022, the increase in capacity had no significant impact on the preparation of financial statements and operations of the entity in the current year. This is evidenced by the number of issues raised in the submitted annual financial statements.
36. There is a huge concern regarding the vacancy rates of the Senior management which is currently at 30% as at 31 March 2022. Amongst the stated vacancy rate, the following key positions which play a significant role in the review process remained vacant in the current year in the following divisions:
  - Supply chain management division:
    - Director in acquisition: Property & facilities
    - Director in acquisition: Goods & services
    - SCM Directors at regional level

- Financial reporting division:
  - Chief director financial accounting and reporting
  - Chief director revenue and debt management
  - Directors in financial accounting at head office and regions

This had a significant impact on the entity's audit outcome as there is a lack of oversight of the operations within the entity which might be the major cause of the material misstatements identified during the audit. on the preparation of the annual financial statement and compliance with laws and regulations. and the as there is a lack of oversight of the operations within the entity which might be the major cause of the material misstatements identified during the audit.

37. The SCM Vacancy rate improved slightly from 15% in the previous financial year to 14% as at the current financial year end. However the rate is still high as this is one of the major key divisions within the entity and from which the majority of non-compliance issues stem from.

### Policies and procedures

38. Management internal policies and procedures did not adequately address compliance with key legislation as evidenced by non-compliance findings raised on procurement and contract management. Instances of non-compliance for procurement and contract management identified in the current year were also identified in the previous financial year which is an indication that the policies do not enhance preventative controls.
39. Designed policies currently in place that are in line with GRAP were not implemented by the trading entity in respect to impairment of receivables from exchange transactions, recognition and measurement of accruals and provisions. Furthermore, management have not developed a procedure manual to address the internal control deficiencies that resulted in lease overpayments.

### Action plans to address internal control deficiencies

40. The trading entity developed a plan to address internal and external audit findings, but the appropriate level of management did not monitor adherence to the plan in a timely manner. This is evident by the repeat material misstatements and non-compliance findings identified during the audit.
41. We have noted a regression in the action plans developed to address immovable assets which lead to unqualified opinion in the prior year. Immovable assets register (IAR) submitted in the current year materially differed from the prior year audited IAR. In addition, proper reconciliation supported with evidence detailing changes made and the reasons were not provided during the audit. We therefore could not obtain sufficient evidence that changes made are reliable and reasonable. Furthermore, the entity did not perform the re-assessment of useful lives in the current year resulting in the non-compliance with GRAP 17 Paragraph 56 and 57.



## Financial and performance management

### Proper record keeping

42. 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 reporting. Challenges were experienced in obtaining information for audit purposes at regional offices and head office which resulted in delays on the finalisation of the audit. In addition, material changes were made to the immovable assets register for opening balances however, records of the changes were not kept.
43. The Archibus system which is the main source of information relating to leases used for the preparation of Annual Financial Statements is not updated with all relevant lease agreements. Notwithstanding the lease clean up project which was concluded before year end, numerous errors were identified in lease related balances as a result of outdated and incomplete lease agreements uploaded on the system.

### Daily and monthly processing and reconciling of transactions

44. In certain instances, the amount disclosed in the annual financial statement materially differed from the supporting schedules. Differences were noted in relation to Provisions, receivables for municipal services, revenue and accruals raised for municipal services and property rates. This resulted from a lack of adequate reconciliations of the financial information prior to submission for audit to ensure that the financial statements are free from errors.
45. The above was exacerbated by a lack of reconciliation of payment with lease contracts which resulted in the entity incurring additional overpayments in the current year. Furthermore, attempts to recover these overpayments is being hindered by weaknesses in the interface between Archibus and SAGE.

### Regular, accurate and complete financial reports

46. Management did not prepare regular, accurate and complete financial reports that are supported and evidenced by reliable information. Recording, reviewing and reporting processes and controls over Immoveable assets, operating leases, receivables, revenue, trade payables and disclosure notes in the financial statements were not adequate.
47. As indicated in section 2.1, the financial statements contained material misstatements. This was mainly due to the inadequate review and reconciliation of the annual financial statements to the underlying accounting records and inadequate controls to prevent and detect irregular and fruitless and wasteful expenditure to ensure that all irregular expenditure was disclosed in accordance with section 40(3) (i) of the PFMA.
48. Information pertaining to the prior period error on immovable assets was not supported with reliable evidence, which limited our ability to perform the audit of immovable assets. The reassessment of useful life was not conducted on the immovable assets as required by GRAP 17. Moreover, the impairment provision for long outstanding receivables was not appropriately applied in accordance with GRAP.
49. Supporting documents used for preparation of the annual financial statements with regards to provisions were not reconciled to Worx4U system as a result, invalid calls logged, which

were cancelled was used. In addition, municipal services accruals were not reconciled adequately in line with the consumption period.

## Compliance monitoring

50. Management did not monitor compliance with applicable laws and regulations which resulted in an increase in the number of non-compliance with legislation. A lack of effective internal controls for approval and processing of payments resulted in non-compliances which were not prevented or detected. This resulted in the occurrence of irregular expenditure that are similar to findings raised in the prior year. This indicates a lack of consequence management by leadership.
51. Internal controls in relation to expenditure management have not been adequately implemented which resulted in the entity failing to have effective and appropriate steps to prevent irregular expenditure, fruitless and wasteful expenditure.
52. There is an element of concern with regards to the approval of extension of times(EOT) with costs claimed by contractors that are in contradiction to the terms of the Joint Building Contracts Committee (JBCC) 2000 Principal Building Agreement. In accordance to the JBCC, claims relating to inclement weather, strikes and lockouts give the contractors entitlement to a revision of the date of practical completion but for which the contract value should not be adjusted, however we continue to note EOT approved with cost in relation to lockouts.

## Information technology systems

53. IT controls pertaining to User Access Management were not effectively designed and implemented due to non compliance with the defined policies and procedures in terms of reviewing the user profile reviews, reviewing system controller activities and reviewing the logon violations logs. Furthermore, there was no resource capacity to review the user profiles due to a huge number of users across the regions.
54. Change control management was not adequately designed and implemented due to the limitations on the system to generate program change logs.
55. IT Service continuity management controls were not effectively implemented as the department was in the process of enhancing the backup management process. A service provider has been appointed to assist with the enhancement process and this Backup and Recovery project is currently at the planning stage of implementation. The entity is waiting for the installation and configuration of hardware and software.
56. Inadequate patch management could be attributed to lack of regular system monitoring and non-compliance to patch management processes.
57. Weaknesses identified on SAGE SQL database server could be attributed to non-conformance to, or lack therefore of, the Configuration Standard for Database Security.

## Governance

### Risk management activities and risk strategy

58. The trading entity conducted a risk assessment of identifying and addressing risk within their environment as required by the PFMA. However, some of the investigations that were in progress in the prior year are still reported to be in progress at year end. This is mainly



attributable long approval of the recommendations by the Director General that affects the finalisation of the investigation. Some of the cases relating to corruption were referred to Special Investigation Unit (SIU) due to their complexity in nature and management is still awaiting the outcomes. In relation to cases that were finalised, we noted a slow progress in the implementation of the recommendation from SIU in certain instances, resulting in inadequate consequence management.

#### Internal audit

59. The internal audit unit performed a number of audits throughout the financial period (relating to, inter alia, Enterprise Resource Planning Review which included the effective operation of the Archibus leasing module, supply chain and contract management) and thus effectively discharged its duties. Senior management has a responsibility to design and implement preventative controls, internal audit function can also play a fundamental role in identifying areas of vulnerability where there are no preventative controls i.e. the regression in the financial audit opinion to enable oversight responsibility by other role players such as the audit committee and the accounting officer.

#### Audit committee

60. The audit committee was in place, fully functional for the financial period, and complied with relevant legislation. Audit committee vigorously interrogated the audit action plans that were designed to address audit findings from both internal and external auditors and consistently monitored the implementation thereof. The audit committee members are highly skilled and experienced which enables the robustness in the environment and the committee holds the executive as well as the accounting officer accountable for their actions that may hinder the department from obtaining the desired audit outcome.
61. Furthermore, the audit committee exercised oversight and did not recommend the annual financial statements for audit due to a number of missing line items which were not finalised on the eve of submission for audit. The outstanding line items in relation to the immovable asset register and provisions resulted in an undesirable opinion.

#### Summary

62. The matters above, as they relate to the basis for the disclaimer of opinion, findings on the annual financial statements and findings on compliance with legislation, will be summarised in the auditor's report as follows:
63. There is a lack of reviews by senior management and inadequate application of the Generally Recognised Accounting Practice (GRAP) framework. Management did not have appropriate supporting schedules which supports the AFS, this resulted in material misstatements on Immovable assets ,accrued municipal expenses and provisions. This was exacerbated by inadequate understanding of the accounting process of provisions and incorrect application of GRAP in relation to receivables and provisions.
64. Management's review and monitoring of compliance with applicable laws and regulations was not effective, which resulted in material non-compliance findings on expenditure, procurement and contract management. Non-compliance with legislation could have been prevented had compliance been properly reviewed and monitored. Furthermore, management did not take

effective steps to assess, evaluate and disclose all irregular expenditure in the annual financial statement.

## MATERIAL IRREGULARITIES

65. In accordance with the PAA and the material irregularity regulations, we have a responsibility to report on material irregularities identified during an audit and on the status of material irregularities reported in the previous year.
66. We have notified the accounting officer of material irregularities identified during the audit and the actions the AGSA will take with regard to these material irregularities. We also assessed the progress made in resolving the material irregularities reported in the previous year.
67. Except for the summary of material irregularities in progress, the auditor's report will include the following summarised information:

### Material irregularities in-progress

68. I identified other material irregularity during the audit and notified the accounting officer, as required by material irregularity regulation 3(2). By the date of this auditor's report, the response of the accounting officer was not yet due. These material irregularities will be included in the next year's auditor's report.

### Status of previously reported material irregularities

#### Unfair Procurement Process for the Beitbridge Borderline Infrastructure Project

69. The accounting officer did not ensure an appropriate supply chain management process that is fair, equitable, transparent, competitive and cost effective is followed in the appointment of the contractor Mangwa Constructions and the consultant Profteam CC in order to prevent amounts charged to the trading entity for Beitbridge Borderline Infrastructure project being overpriced. This was in contravention with National Treasury Regulation (TR) 16A3.2 (a). The Accounting Officer was notified of the MI on 13 November 2020. The Response was received on the 10 December 2020 detailing the actions already taken and the planned actions to address the MI.
70. The investigation on the Beitbridge project was initiated on 25 April 2020 as per the Minister of DPWI's request. The investigation was conducted by the GRC unit with the assistance of the SIU who were seconded on the investigation. The investigation was finalised on the 27 July 2020. The entity is currently implementing the recommendations stated on the investigation report. The SIU launched an application on 23 September 2020 to freeze the service providers' bank accounts. The Tribunal made an order by agreement that the service providers would not make any further claims for payment from the Department. On 17 November 2020, the SIU instituted legal action against Caledon River Properties (Pty) Ltd t/a Magwa and Profteam CC with the Special Tribunal under case number GP17/2020. The case is still in progress. The Department has since initiated disciplinary actions against the employees of the Department for their role in the project. The disciplinary proceedings are still in progress. I will follow up on the implementation of the planned actions during my next audit.

#### Beitbridge Borderline Infrastructure Project Establishment Cost

71. The accounting officer did not ensure that internal control measures and procedures are in place to detect that the establishment cost is not included in the BOQ and therefore that it will



not be paid. This was in contravention with National Treasury Regulation (TR) 8.1.1. The Accounting Officer was notified of the MI on 13 November 2020. The Response was received on the 10 December 2020 detailing the actions already taken and the planned actions to address the MI.

72. The investigation on the Beitbridge project was initiated on 25 April 2020 as per the Minister of DPWI's request. The investigation was conducted by the GRC unit with the assistance of the SIU who were seconded on the investigation. The investigation was finalised on the 27 July 2020. The entity is currently implementing the recommendations stated on the investigation report. The SIU launched an application on 23 September 2020 to freeze the service providers' bank accounts. The Tribunal made an order by agreement that the service providers would not make any further claims for payment from the Department. On 17 November 2020, the SIU instituted legal action against Caledon River Properties (Pty) Ltd t/a Magwa and Profteam CC with the Special Tribunal under case number GP17/2020. The case is still in progress. The Department has since initiated disciplinary actions against the employees of the Department for their role in the project. The disciplinary proceedings are still in progress. I will follow up on the implementation of the planned actions during my next audit.

#### **Leeuwkop prison Asset not appropriately safeguarded during construction**

73. After termination of the initial contractor, the boilers on site were not appropriately covered as they were exposed to severe weather conditions, the plastic covering the boilers was damaged. This had an impact on ancillary equipment as they became corroded and unusable.
74. The accounting officer did not take full responsibility and safeguarding of the boilers while they were on site and after the termination date of the initial contractor, as a result, more costs will be incurred to replace and refurbish critical equipment's that have corroded. This is a contravention of TR 10.1.1 (a) which states that "The accounting officer of an institution must take full responsibility and ensure that proper control systems exist for assets and that preventative mechanisms are in place to eliminate theft, losses, wastage and misuse;"
75. The Accounting Officer was notified of the MI on 26 August 2021 and invited to make a written submission on the actions taken and that will be taken to address the matter. The response was received on the 23 September 2021.
76. Even though the accounting officer disagreed with the finding and the MI, in their response they agreed that there was a subsequent deterioration of the boiler cover and corrosion of boiler components. As a result, the boilers were exposed to inevitable physical weather elements.
77. A new Accounting Officer was appointed in April 2022 and was informed of the MI. The Accounting Officer was afforded the opportunity to respond as to whether they will be taking the same stance on the MI as their predecessor. The Accounting Officer informed us that they will be taking the same stance as the predecessor.
78. The matter has been referred to the Material Irregularity Committee for review.

#### **Lease No. 140280 – Overpayment on building occupied by Department of Rural Development**

79. Weaknesses were noted pertaining to internal controls for payment processes, which resulted in payments made to the landlord being in excess of the amounts payable as per the lease agreement. These duplicate payments / overpayments mainly occurred between the periods October 2017 to March 2019. Furthermore, the trading entity renewed the lease agreement with effect from 01 June 2019 which resulted in lesser monthly rental payments as compared to the original lease agreement. According to the payment listing, management continued to make payments based on the original lease agreement which was at a higher rental amount compared to the renewed lease agreement. This resulted in additional overpayments made from the renewal date 01 June 2019 up to 31 March 2021.
80. The overpayments stated above indicate that management did not ensure that internal procedures and internal control measures were in place for the approval and processing of rental payments. These controls would have provided management reasonable assurance that rental payments to be made were necessary for each month and appropriate. This control deficiency resulted in non-compliance with TR 8.1.1.
81. The Accounting Officer was notified of the MI on 27 August 2021 and invited to make a written submission on the actions that will be taken to address the MI. The response was received on the 23 September 2021. The Accounting Officer indicated that the trading entity has appointed Morar Incorporated to assist with:
- Verification of data correctness on Archibus against lease agreements;
  - Correction of historical and current data to ensure correct payments;
  - Upload all supporting documents on Archibus;
  - Implement delegations for any changes on the system especially on active leases;
  - Perform monthly reconciliation prior to the payment run to identify under / overpayments;
  - Perform final reconciliation after the payment run to confirm transactions processed;
82. Furthermore, the trading entity has since correctly captured the lease details on Archibus and implemented the use of debit notes to deduct any overpayments from future rentals. This function has resulted to a recovery of overpayments. The trading entity has since initiated disciplinary actions against the employees of the trading entity for their role in the project.
83. A follow up letter was sent on 04 February 2022 wherein we requested information on progress made in addressing confirmed material irregularity and the response was received on the 28 February 2022 detailing the actions already taken and the planned actions to address the MI.
84. The response from management including the supporting annexures, indicates that the following steps have been taken to address the MI:
- Letters of consequence management have been issued to the lease management team to explain the lack of oversight on lease payments. A final written warning was issued to the supervisor responsible for oversight and ensuring due diligence with regards to lease payments.
  - Management has initiated measures to recover the overpayments from the landlord.



85. Based on the assessment of the response, I have determined that the Accounting Officer is taking appropriate steps to address the MI. I will follow up on the implementation of further actions taken during my next audit.

## Status of material irregularities identified in the current financial year

### Construction contract extension approved, incorrectly included contract value adjustment

86. The construction of the Mamelodi magistrate court project has been significantly delayed and the expenditure paid to date exceed the initial contract amount. Through the audit, we noted that the practical completion date of the contract has been extended and PMTE has been approving the contract extensions with adjustments to the contract value with the daily rate of R24 283,26 charged by the contractor. Based on the approved claims 4, 5, 8 and 9, the delays resulted from civil unrest, riots, strikes and lockouts.
87. This was a contravention of the JBCC 2000 Principal Building Agreement Clause 29.1 which stipulates that the contractor is entitled to a revision of the date of practical completion but for which the contract value should not be adjusted if it pertains to delays related to civil unrest, riots or strikes. However, requests for extensions with a financial impact where the cause of the delay related to civil unrest, riots, strikes and related matters were approved. This is not in line with the JBCC contract.
88. The delegation of authority dated 08 December 2009, in paragraph 7.4 pertaining to the approval of the extension of contract periods as part of the general notes and condition 2 on the approved delegation, stipulates that any decision regarding the extension of the contract needs to be based on the conditions of the contract and that the decision-taker has no opportunity to exercise any discretion in reaching the decision. The approval of claims 4, 5, 8 & 9 were not in line with the conditions of the contract.
89. The Accounting Officer was notified of the MI on 15 October 2021 and invited to make a written submission on the actions taken and that will be taken to address the matter. The response was received on the 17 November 2021.
90. The response from management including the supporting annexures, indicates that the following steps have been taken to address the MI:
  - Letters of consequence management have been issued to the project management team to explain their actions in approving the claims and payments to the contractor.
  - The Department of Public Works sent a letter to the Principal Agent requesting an explanation of the payments made.
  - Based on the response of the Principal Agent, the department has resolved to issue a letter of demand to the contractor for the payments made.
91. The audit team made a determination on the appropriateness of actions taken on 07 December 2021. We considered the representations made and the substantiating documents provided, and concluded that appropriate actions are being taken to address the material irregularity.
92. A follow up letter was sent on 23 February 2022 wherein we requested information on progress made in addressing confirmed material irregularity and the response was received

on the 23 June 2022 detailing the actions already taken and the planned actions to address the MI.

93. I am currently assessing the management response and will communicate the appropriateness of the actions taken during the next audit.

#### Lease no. 140227 overpayment

94. Upon the implementation of the Archibus leasing system in September 2019, we noted that management commenced consistently making overpayments to the landlord. These overpayments were as a result of payments made to the landlord which were significantly above what is required as per the lease obligation. These overpayments occurred from the implementation of Archibus leasing system up to 31 March 2021 and amounted to R14 062 724.

95. As at February 2022, some of the overpayments had been recovered which resulted in a cumulative overpayment of R3 802 786.71.

96. The overpayments stated above indicate that management did not ensure that internal procedures and internal control measures were in place for the approval and processing of rental payments. These controls would have provided management reasonable assurance that rental payments to be made were necessary for each month and appropriate. This control deficiency resulted in non-compliance with TR 8.1.1.

97. The Accounting Officer was notified of the MI on 03 June 2022. The Response was received on the 05 July 2022 detailing the actions already taken and the planned actions to address the MI.

98. Based on the supporting annexures (internal correspondence and letters of consequence management), the following significant highlights were noted:

- Management captured the new lease and effected adjustments to prevent subsequent overpayments.
- Management has taken steps to recover the financial loss by withholding payments to the landlord until the overpayment was recovered.
- Management identified the person responsible for the MI and has taken appropriate consequence management actions. Management has provided evidence that the Portfolio Manager has been issued with a verbal warning on 12 July 2021. The Portfolio has acknowledged receipt of the verbal warning on 14 July 2021.
- Management undertook a lease data clean up exercise to mitigate potential future lease overpayments.

99. Based on the assessment of the response, I have determined that the Accounting Officer is taking appropriate steps to address the MI. I will follow up on the implementation of further actions taken during my next audit.

## OTHER REPORTS

100. We draw attention to the following engagements conducted by various parties that have or could potentially have an impact on the trading entity's financial statements, reported performance information and compliance with applicable legislation and other related matters. The reports noted do not form part of my opinion on the financial statements or my findings





on the reported performance information or compliance with legislation. The summarised other reports will be included in the auditor's report as follows:

- Numerous allegations, mainly relating to alleged transgressions with regard to supply chain management, potential fraud and financial misconduct, are still being investigated on an ongoing basis by Special Investigation Unit. These investigation(s) were in progress at the date of this auditor's report.

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## SECTION 3: ASSURANCE PROVIDERS AND STATUS OF IMPLEMENTATION OF COMMITMENTS AND RECOMMENDATIONS

### ASSESSMENT OF ASSURANCE PROVIDERS

101. The annual report is used to report on the financial position of auditees, their performance against predetermined objectives and overall governance. One of the important oversight functions of Parliament is to consider auditees' annual reports. To perform this oversight function, they need assurance that the information in the annual report is credible. To this end, the annual report includes our auditor's report, which provides assurance on the credibility of the financial statements and the annual performance report, as well as on the auditee's compliance with legislation.
102. Our reporting and the oversight processes reflect on past events, as it takes place after the end of the financial year. However, management, the leadership and those charged with governance contribute throughout the year to the credibility of financial and performance information and compliance with legislation by ensuring that adequate internal controls are implemented.
103. We assess the level of assurance provided by these assurance providers based on the status of internal controls (as reported in section 2.6) and the impact of the different role players on these controls. We provide our assessment for this audit cycle below.

#### Senior management: provides limited assurance.

- Action plans developed by senior management to address prior year audit findings in order to improve internal control deficiencies which led to material misstatements did not result in an improved audit opinion. Management did not effectively implement the stated audit action plans as evidenced by multiple misstatements that were identified within different account balances and disclosure items in the current year. These were attributable to inadequate reviews and reconciliation of information that support the annual financial statements and non-compliance with laws and regulations.
- Even though senior management was devoted to correcting lease data on the Archibus system through the Morar lease clean up project, numerous errors were identified. This was due to management still in the process of rectifying the system deficiencies and correcting the errors as at year end. Management did not ensure that all corrections that the regions were requested to make were done timeously.
- Furthermore, senior management did not adequately apply Generally Recognised Accounting Practices (GRAP) in the current year as evidenced by immovable assets restatements, reassessment of useful lives and residual values, the impairment of receivables from exchange transactions and the recognition and measurement of accruals and provisions not being in accordance with GRAP.
- The controls around proper record keeping, processing and reconciliation of transactions still requires significant intervention, to ensure that assets, leases, provisions are supported by reliable records as evidenced by incorrect schedules being utilised to support the amount disclosed for provisions and no tracking of restatements that were made to the opening balance of immovable assets in the current year.

### Accounting officer provides limited assurance

- We commend the accounting officer on taking appropriate actions in responding to material irregularities reported in the prior year. In spite of changes in the office, the robust attitude towards taking effective steps to address irregularities, prevent the re-occurrence of irregularities and taking disciplinary actions against implicated officials has remained consistent.
- Moreover, the accounting officer had put initiatives such as the development of audit action plans and the involvement of Head Office in all regional audits that take place in order to provide assurance. However, it is not evident that the implementation of the audit action plans were effective in addressing deficiencies in internal controls, which contributed to the identification of multiple misstatements. The focus should be placed on ensuring that initiatives are designed appropriately and deal with the root causes of internal control deficiencies as such officials should be held accountable where weaknesses are identified.
- Based on the material misstatements identified due to lack of reviews and reconciliation of schedules performed by management in ensuring the entity's financials are fairly presented and free from misstatements, it is evident that the monitoring of the implementation of accounting and financial reporting directives in place does not take place.

### Executive authority provides assurance

- The executive authority has been receptive to recommendations from the auditors, and the Minister should continue to engage with the different assurance providers of the trading entity for continuous monitoring of commitments made toward improving audit outcomes of the entity.
- The Minister provided effective governance during the MI process by having regular engagements with auditors and senior management with regards to the progress made in responding to identified and communicated for the DPWI portfolio. Furthermore, management were held accountable for the non-compliances communicated

### Internal audit provides assurance

- Legislation in South Africa requires the establishment, roles and responsibilities of internal audit units. Internal audit units form part of the internal control and governance structures of the Trading entity and play an important role in its monitoring activities.
- Internal audit provides an independent assessment of the trading entity's governance, risk management and internal control processes. Internal audit have a significant role to play as an assurance provider due to the assurance skills that they possess and assurance activities that they perform. Effective internal audit units are able to have a positive impact on the status of key controls. The accounting officer should ensure that the internal audit function is adequately resourced to function effectively
- The internal audit unit of the trading entity must prepare a risk-based audit plan and internal audit programme for each financial year. It must advise the accounting officer and report to the audit committee on the implementation of the internal audit plan and matters relating to internal audit, internal controls, accounting procedures and practices, risk and risk management, performance management, loss control and compliance with the PFMA. The

internal audit unit must also perform such other duties as may be assigned by the accounting officer.

- The internal audit unit effectively carried out its duties and responsibilities, however, the full extent or benefit can only be realised if management effectively and timeously implement the recommendations from the outcomes of these audits. However, adequate follow-ups on the audit issues raised to management should be implemented.

#### Audit committee: provides assurance

- The audit committee was established and fully functional in the current year. The audit committee was established accordingly in terms of the legislation.
- During the year under review, the members of the audit committee were well capacitated in terms of the skills and experience required to execute their duties. The audit committee interacted with both internal and external auditors on the audit matters. The committee performed their annual review of the annual financial statement and provided their inputs to management for implementation. The committee is able to hold the executive as well as the accounting officer accountable for their actions that may hinder the department from obtaining the desired audit outcome.

### STATUS OF IMPLEMENTING COMMITMENTS AND RECOMMENDATIONS

104. Below is our assessment of the progress in implementing the commitments made by the trading entity to address the prior and current year's audit findings.

No.	Commitment	Made by	Auditors comments	Status
1	<p><b>Immovable Assets</b></p> <p>Perform detailed analysis of the Interim and Final Deeds download consisting of all registered properties in South Africa in order to identify which parcels belong to which custodian.</p> <p>Identify consolidated, redefined and renumbered land parcels to ensure that updated land parcels are recorded and disclosed in the IAR with the buildings correctly linked.</p> <p>Engage DALRRD to provide the final Deeds download on or before 20 April 2022.</p> <p>Request Provinces and other National Custodians to submit the IARs on or before 5 May 2022.</p>	Ms. Sasa Subban (DDG: REIRS)	We were unable to determine the status due to limitation of scope experienced on the opening balance.	New issues
2	<p><b>Operating Leases</b></p> <p>Reconcile the conclusion of OMA signoffs in order to identify gaps on where leases were not signed-off or any gaps not resolved between OMA and the Region;</p> <p>All pending disputes with OMA Report to be resolved by Regions (UMT, BFN, CPT, DBN, KBY, JHB, PLK, NLS, MBT) by close of business week 17/09/2021.</p>	Mr Mandla Sithole (Chief Financial Officer)	<p>We identified a significant number of misstatements, which affected all lease line items on the AFS. The root cause still remains the incorrect capturing of lease contracts on Archibus.</p> <p>Due to issues with the interphase between</p>	Not resolved



No.	Commitment	Made by	Auditors comments	Status
	<p>Reconcile the actions taken on overpayments by ensuring that all affected landlords has been sent with letters and confirm responses, reconcile proof of follow-ups with landlords regarding the matter, proof of recovery for the overpayments and capture any amounts not recovered on Archibus.</p> <p>Finance Resources to perform the review of lease data regularly.</p> <p>Finance to reconcile the Archibus data so that information is in line with lease agreement.</p> <p>Finance to calculate the lease commitments by the end of September.</p> <p>Review lease data and lease payments and ensure accuracy in order to avoid overpayments, when overpayment is identified, communicate with REMS to regularly issue demand letters to overpaid landlords.</p> <p>Capture and issue debit note in order to recover the overpaid from future payments.</p>		<p>ARCHIBUS and SAGE, debit notes processed to recover the overpayments do not always reduce future payments.</p> <p>THE entity is still making overpayments significant overpayments due to capturing errors and human intervention.</p> <p>Complete and updated lease data is not fully uploaded on the system resulting in misstatements on the AFS.</p>	
3	<p><b>Provisions</b></p> <p>Archibus call reports issued to all role players on a daily basis</p> <p>Weekly session held with regional Heads of FM</p> <p>FM participate in the ICT Operations Committee</p> <p>Daily call status reports are circulated to all role players</p> <p>Migration of Mthatha to Archibus through the appointment of a Head of FM in the region</p> <p>Submit bi-monthly summary of movement Archibus calls statuses to FM and ICT for intervention to improve the accuracy of the statuses of Archibus.</p> <p>Conduct bi-annual training to all offices in preparation of AFS and IFS</p>	Mr Nkosana Kubeka (Acting Deputy Director-General)	<p>We have identified a number of misstatements in relation to specific and general provisions.</p> <p>The schedule was not updated to removed closed calls, invoiced call, long outstanding calls. Furthermore, an incorrect schedule was submitted for audit which exacerbated the misstatements.</p>	<b>Not resolved</b>
4	<p><b>Supply chain management</b></p> <p>Training of all BACs, SCM Practitioners together with RM's, Line Function PMs involved in the SCM procurement value chain.</p> <p>A training presentation to be developed by SCM by the end of October 2021 by a</p>	Mr Henry Isaacs (Acting Deputy Director-General)	<p>We continued to identify non-compliances with SCM prescripts that resulted in Irregular Expenditure during the interim audit. The following areas are still of concern:-</p> <ul style="list-style-type: none"> <li>- Competitive bidding process not followed</li> </ul>	Partially resolved

No.	Commitment	Made by	Auditors comments	Status
	<p>dedicated team in order to ensure standard SCM processes are followed.</p> <p>Accurate completion of Compliance Irregularity Checklists (IE) for all recommendations for adjudication and award - the approving authority must undertake due diligence and satisfy themselves that there has been compliance in all respects.</p> <p>All applicable Local Content and Production tenders awarded in 2020/21 to be reported by end of September 2021 by all offices.</p> <p>6) Training on Local Production and Content to be embarked on and rolled out to all Regional Offices and Head Office including Line Function stakeholders.</p> <p>Consequence Management to be implemented where instances of non-compliance with any of the above requirements are identified.</p>		<p>- Awards to suppliers whose tax matters were not in order</p> <p>- Deviations which are not justified</p> <p>- Pre-qualifying criteria not met</p> <p>- Incorrect application of functionality criteria</p> <p>- Non-compliance to local content and production requirement</p>	
	<p><b>Other commitments</b></p> <p>DDG: SCM and CFO to engage and assign responsibility to an official within the DPWI to execute submission of the AFS and Annual Report to the BBBEE Commission for all financial years from 2019/20, 2020/21 and going forward.</p> <p>Relevant Managers to complete the Certificate of Completeness and Compliance (COCC) confirming due diligence has been done in reviewing the registers and reports for completeness, accuracy and compliance in all material respects.</p> <p>Monitor progress on the unpaid invoices below and over 30 days through weekly VC meetings with the regional and head offices.</p> <p>Assess the potential IE and FWE, and make the necessary disclosures.</p>	Mr Mandla Sithole (Chief Financial Officer)	<p>No assigned official to champion and execute compliance and the the submission of the AFS and Annual Report the BBBEE Commission.</p> <p>Tender and quotation registers were re-submitted as the original submission was incomplete.</p> <p>An insignificant amount of payments not made within 30 days was identified in the current year.</p> <p>Court judgements which resulted in fruitless and wasteful expenditure was not taken into account during the preparation of the FEW note.</p>	<b>Partially resolved</b>

- One recommendations accepted by management in the prior year on matters included in the auditor's report and other important matters were implemented, or alternative actions were taken to resolve the finding.
- Five recommendations are still being implemented and one have not been addressed, or very limited progress has been made.

- Details on the status of implementing the recommendations made in the previous year(s) are provided in section 10, which summarises the detailed audit findings.

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## SECTION 4: SPECIFIC FOCUS AREAS

### FINANCIAL VIABILITY

105. Our audit included a high-level overview of the entity's financial viability as at year-end. 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			
		AS AT 31 MARCH 2022	AS AT 31 MARCH 2021
EXPENDITURE MANAGEMENT			
1.1	Creditor payment period	156.6 Days	128 Days
REVENUE MANAGEMENT			
2.1	Debtor-collection period (after impairment)	107.1 Days	67 Days
2.2	Debtors' impairment provision as a percentage of accounts receivable	61.6%	62 %
	• Amount of debtors' impairment provision	R 7 964 662 000	R5 159 518 000
	• Amount of accounts receivable	R12 925 666 000	R8 359 846 000
ASSET AND LIABILITY MANAGEMENT			
3.1	A deficit for the year was realised (total expenditure exceeded total revenue)	Yes	No
	• Amount of the surplus/(deficit) for the year	(R2 128 670 000)	R1 593 158 000
3.2	A net current liability position was realised (total current liabilities exceeded total current assets)	Yes	Yes
	• Amount of the net current assets/(liability) position	(R6 359 507 000)	(R5 032 597 000)
3.3	A net liability position was realised (total liabilities exceeded total assets)	No	No
	• Amount of the net asset/(liability) position	R131 381 379 000	R133 130 092 000
CASH MANAGEMENT			
4.1	The year-end bank balance was in overdraft	Yes	Yes
	• Amount of year-end bank balance (cash and cash equivalents)/(bank overdraft)	(R 1 023 022 000)	(R900 896 000)
4.2	Net cash flows for the year from operating activities were negative	No	No



FINANCIAL VIABILITY ASSESSMENT			
		AS AT 31 MARCH 2022	AS AT 31 MARCH 2021
	<ul style="list-style-type: none"> <li>Amount of net cash in/(out)flows for the year from operating activities</li> </ul>	R2 927 219 000	R4 232 622 000
	Creditors as a percentage of cash and cash equivalents	Bank in overdraft	Bank in overdraft
4.3	<ul style="list-style-type: none"> <li>Amount of creditors (accounts payable)</li> <li>Amount of cash and cash equivalents / (bank overdraft) at year-end</li> </ul>	R 4 773 924 000 (R 1 023 022 000)	R3 575 500 000* (R900 896 000)
OVERALL ASSESSMENT			
Overall the financial viability is assessed as:		(Unfavourable – Intervention required)	(Unfavourable – Intervention required)

### High-level comments

8. The entity showed a slight improvement in terms of its creditors payment period as it decreased by 8 days from the prior financial year (from 164 to 156) however on overall this is still not a good indicator and the entity is legislated to pay all their suppliers within 30 days. The debtors collection period regressed drastically from 67 days to 107.1 days meaning the entity takes long to recover the amounts due from its debtors
9. The following other concerning indicators were further noted:
  - The entity operates in a net current liability position which is an indication that the entity may not be able to fulfil its short term commitments, this may be also the contribution factor to the high creditors payment period.
  - The profitability of the entity has deteriorated as the entity moved from a surplus position to having a deficit of R2 128 670 000.
  - The overdraft facility increased from prior year to current year which has a negative impact on the cashflow position of the entity.
  - The above indicators have a negative effect on the entity's ability to carry out its mandate however, they don't create a material uncertainty on the continuity of the entity.

## PROCUREMENT AND CONTRACT MANAGEMENT

106. The audit included an assessment of 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. A summary of the findings from the audit are as follows:

### Irregular expenditure

107. R98 078 000 (98%) of irregular expenditure incurred in the current financial year was as a result of the contravention of SCM legislation. Further irregular expenditure incurred in previous years amounting to R34 602 000, was also identified in the current year. R33 691 480 (8%) of this irregular expenditure was identified during the audit process and not detected by the trading entity's monitoring processes. The root cause(s) of the lack of effective prevention and detection are inadequate review and monitoring of compliance with SCM processes and requirements.

### Procurement processes

108. The table below is a summary of findings identified on procurement processes:

Information	Total		Quotations <sup>1</sup>		Competitive bids		Contract management	
	Number	Value R	Number	Value R	Number	Value R	Number	Value R
Awards selected for testing	130	5 464 950 378	50	17 769 425	40	1 880 790 494	40	3 566 390 459
Expenditure incurred on selected awards – current year		2 750 087 494		16 892 034		352 521 857		2 380 673 603
Limitations – awards selected but could not be tested	0	0	0	0	0	0	0	0
Awards on which non-compliance was identified	26	545 634 033	15	5 433 920	10	242 351 157	1	297 848 556
Irregular expenditure identified	26	33 691 483	15	5 433 920	10	27 560 856	1	696 707
Instances of irregular expenditure where goods/ services were not received	0	0	0	0	0	0	0	0

## Procurement processes – general

- Eight (8) awards with a value of R2 948 677.54 were procured without inviting at least the minimum prescribed number of written price quotations from prospective suppliers, and the deviation was approved even though it was possible to obtain the quotations.
- Two (2) quotations to the value of R664 717 were procured from suppliers whose tax matters had not been declared by the South African Revenue Service to be in order.
- One (1) quotation with a value of R481 922.85 were procured without inviting competitive bids, and the deviations were not approved.
- Invitations for competitive bids for the procurement of one (1) contract with a value of R4 923 630 were not advertised in the (appropriate media).
- Invitations for competitive bids for the procurement of one (1) contract with a value of R4 923 630 were not advertised for the required minimum number of days.
- Two (2) contracts with a value of R87 642 162 were awarded to bidders who did not comply with specified pre-qualification criteria requirement.
- One (1) contract were awarded to bidders who did not score the highest points in the bid evaluations, and there was no justification for the deviation.
- Five (5) contracts which failed to achieve the minimum qualifying score for functionality criteria were not disqualified as unacceptable.
- Five (5) quotations awarded were not approved by an appropriately delegated official. The total value of these awards was R1 820 522.83

## Local content and production (designated sectors)

- Specifications for one (1) award with a total value of R5 084 091.35 did not stipulate the minimum threshold for local production and content.
- Two (2) contracts with a total value of R19 844 010.67 were awarded to bidders that did not meet the minimum threshold for local production and content.

## Contract management

- The contract performance and monitoring measures and methods applied in monitoring eight (8) contracts with a total value of R1 282 257 309 were insufficient to ensure effective contract management.

## Internal control deficiencies

109. In certain instances, the accounting officer did not exercise oversight responsibility of the reporting and compliance with laws and regulations. In addition, management did not conduct a proper review and monitoring of the compliance with laws and regulations in some instances. Preventative controls have not been prioritised in addressing the internal control deficiencies with the trading entity.

## FRAUD AND CONSEQUENCE MANAGEMENT

110. The primary responsibility for preventing and detecting fraud rests with management and those charged with governance. We are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error, and to issue an auditor's report that includes our opinion. Due to the inherent limitations of an audit, there is a risk that some material misstatements, including fraud, may not be detected.

111. Below is a summary of fraud risk factors that should be addressed to ensure that sufficient measures/controls are in place to prevent material misstatement due to fraud.

- Officials in high ranking positions who may take the opportunity to misuse their authority

112. The PFMA and its regulations clearly stipulate that matters such as incurring unauthorised, irregular as well as fruitless and wasteful expenditure, the possible abuse of the SCM system (including fraud and improper conduct) and allegations of financial misconduct should be investigated. Disciplinary steps should be taken based on the results of the investigations. Our audits included an assessment of the entity's management of consequences. The significant findings are provided below:

### Measures to manage consequences

113. The following measures were not implemented to ensure that the environment is conducive to effective consequence management:

- There was a lack of proper record keeping to ensure that complete, relevant and accurate information is accessible and available to support the processes followed for financial misconduct/transgressions committed by officials and suppliers of the auditee.

### Ongoing investigations

114. A total of eighteen (18) investigations were ongoing at year-end into allegations relating to financial misconduct, fraud and improper conduct in SCM. Some of these investigations have been ongoing for a period exceeding 12 months. The table below provides a summary of investigations which had not been completed as at year-end

Total number of ongoing investigations as at year-end	18
• Number of SCM-related investigations	4
• Number of fraud-related investigations	14
Number of investigations exceeding a period of six months	18

### Transgressions reported to management for investigation

1. During the prior year audit, we reported findings relating to transgressions by officials or other role players for management to investigate. During the current year audit, we performed follow-up tests to determine whether the matters reported were dealt with by management.
2. The table below provides a summary of the transgressions reported in the prior year and an indication of how many were dealt with. It also provides a summary of transgressions identified in the current year that must be investigated and disciplinary steps taken based on the results of the investigations.



Finding	Findings reported in prior year			Findings reported in current year	
	Number of instances	Number of instances investigated	Number of instances resolved from those investigated	Number of instances	Value
<b>A: Improper conduct in SCM by suppliers</b>					
Other improper conduct in SCM by suppliers	6	6	3	1	148 755.00
<b>B: Improper conduct in SCM by officials/role players</b>					
Payments made to suppliers who failed to deliver	0	0	0	1	377 548.00
Other improper conduct in SCM by officials or SCM role players	9	5	5	4	Unquantifiable as not all instances have amounts
<b>C: Financial misconduct</b>					
Other financial misconduct-related allegation	0	0	0	1	369 460.00
<b>D: Other contravention of legislation</b>					
(Add other contravention of legislation)	0	0	0	0	0
<b>D: Other fraud / corruption allegations (not included above)</b>					
(Add other possible fraud)	3	3	3	10	Unquantifiable as not all instances have amounts

3. Irregular expenditure disclosed in note (32) to the financial statements must be investigated to determine whether any official is liable for losses incurred as a result of the irregular expenditure. Disciplinary steps must be taken against officials who caused or permitted the irregular expenditure, and losses incurred as a result must be recovered from the person liable.

## BROAD-BASED BLACK ECONOMIC EMPOWERMENT (B-BBEE) ACT AND REGULATIONS REQUIREMENTS

115. The audit included confirming whether the requirements as set out in the B-BBEE Act and Regulations were adhered to. The purpose of this value-add initiative is to highlight the requirements contained in the B-BBEE Act and Regulations. Below is the list of findings identified:

- The trading entity did not submit the FORM B-BBEE 1, the approved audited annual financial statements and the approved annual report pertaining to the 2020-21 financial year to the B-BBEE Commission within 30 days as required by regulation 12(2) of the B-BBEE Regulations.

## SECTION 5. USING THE WORK OF INTERNAL AUDIT

116. The auditing standards allow external auditors the optional use of the work of internal auditors for external audit purposes and for direct assistance. We have used the following internal audit reports for risk identification purposes:

- Internal Audit Report to ASC
- Final Internal Audit Report SCM COVID-19 Q1 OF 2021\_22
- Final Consolidated HRM Audit Report 12 AUG 2021
- HR Data Analytics 202021 Q4 Final Report
- Special Request by Minister KVM Risk Solution

117. The internal audit function was used for direct assistance during final audit of Property Management Trading Entity regions.

## SECTION 6: EMERGING RISKS

### Accounting, performance management/reporting and compliance matters

#### New pronouncements

#### Standards of GRAP

4. The ASB has issued the following GRAP pronouncements, with effective dates as indicated:

GRAP pronouncement	Effective date
GRAP 25 on <i>Employee benefits</i> (revised)	To be determined
GRAP 104 on <i>Financial instruments</i> (revised)	1 April 2025
IGRAP 7 on <i>The limit on a defined benefit asset, minimum funding requirements and their interaction</i> (revised)	To be determined
IGRAP 21 on <i>The effect of past decisions on materiality</i>	1 April 2023
Guideline on <i>Accounting for landfill sites</i>	1 April 2023

#### Subsequent events

5. Management should consider the following sources to identify subsequent events and adequately account for them in accordance with the reporting framework.

- Media reports
- Political initiatives
- Changes in oversight
- Transfer of functions

## SECTION 7: RATINGS OF DETAILED AUDIT FINDINGS

118. For purposes of this report, the detailed audit findings included in annexures A to C have been classified as follows:

- Matters to be included in the auditor's report: These matters should be addressed as a matter/ of urgency.
- Other important matters: These matters should be addressed to prevent them from leading to material misstatements of the financial statements or material findings on the performance report and compliance with legislation in future.
- Administrative matters: These matters are unlikely to result in material misstatements of the financial statements or material findings on the performance report and compliance with legislation.



## SECTION 8: CONCLUSION

119. 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 remain committed to assist 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

Corne Myburgh: Business Unit Leader: National A

15 July 2022

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**Distribution:**

Audit committee  
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