

Auditor's report

Property Management Trading Entity

31 March 2015

Report of the Auditor-General to Parliament on the Property Management Trading Entity

Report on the financial statements

Introduction

1. I have audited the financial statements of the Property Management Trading Entity (PMTE) set out on pages ... to ..., which comprise the statement of financial position as at 31 March 2015, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified opinion

Payables from exchange transactions

6. The trading entity did not recognise all outstanding amounts meeting the definition of a liability in accordance with GRAP 1: *Presentation of financial statements*. As the entity did not have adequate systems to maintain records of accruals for goods and services received but not yet paid for, payables were understated. I was not able to determine the full extent of the understatement of accruals of R1 526 429 000 (2014: R1 305 338 000) included in payables from exchange transactions stated at R6 110 126 000 (2014: R3 370 421 000) in note 11 to the financial statements as it was impracticable to do so.

Receivables from exchange transactions

7. The trading entity did not recognise all outstanding amounts meeting the definition of revenue accrual in accordance with GRAP 1: *Presentation of financial statements*. As the entity did not have adequate systems to maintain records of accounts receivables for services rendered but not yet paid for, receivables from exchange transactions were understated. I was not able to determine the full extent of the understatement of revenue accrual of R631 574 000 (2014: R613 852 000) included in receivables from exchange transactions stated at R2 156 652 000 (2014: R1 707 574 000) in note 3 to the financial statements as it was impracticable to do so.

Operating expenses

8. The trading entity did not recognise property maintenance amounts meeting the definition of expenses in accordance with GRAP 1: *Presentation of financial statements*. This resulted in operating expenses being understated. I was not able to determine the full extent of the understatement of property maintenance stated at R2 390 455 000 (2014: R2 536 662 000) included in operating expenses stated at R8 273 859 000 (2014: R7 654 294 000) in note 18 to the financial statements as it was impracticable to do so. Consequently, there was a resultant impact on the surplus for the period and accumulated surplus in the financial statements.
9. I was unable to obtain sufficient appropriate audit evidence that property rates paid for the current year were valid due to the properties not being identifiable on the entity's asset register. I was unable to confirm property rates by alternative means. Consequently, I was unable to determine whether any adjustments to property rates stated at R835 257 000 included in operating expenses stated at R8 273 859 000 in note 18 to the financial statements were necessary. Consequently, there was a resultant impact on the surplus for the period and accumulated surplus in the financial statements.

Qualified opinion

10. In my opinion, except for the effects of the matters described in the basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the PMTE as at 31 March 2015 and its financial performance and cash flows for the year then ended, in accordance with the SA Standards of GRAP and the requirements of the PFMA.

Emphasis of matters

11. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

12. As disclosed in note 30 to the financial statements, the corresponding figures for 31 March 2014 were restated as a result of errors discovered during 2015 in the financial statements of the PMTE at, and for the year ended, 31 March 2014.

Material impairments

13. As disclosed in note 18 to the financial statements, potential losses to the amount of R100 349 000 were incurred as a result of an impairment of irrecoverable trade debtors.

Transfer of functions

14. The Department of Public Works transferred certain property management functions including the related assets, liabilities and staff to the PMTE as at 1 April 2013. An additional transfer took place as at 1 April 2014. The PMTE has taken advantage of transitional provisions in terms of GRAP 105 and Accounting Standards Board's Directive 2 to measure all assets and liabilities transferred. The effect of these transfers is detailed in note 33 to the financial statements.

Report on other legal and regulatory requirements

15. In accordance with the Public Audit Act of South Africa (Act No. 25 of 2004) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives, compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

16. I did not audit performance against predetermined objectives, as the PMTE does not report separately on performance against predetermined objectives. The performance against predetermined objectives is reported in the annual report of the Department of Public Works.

Compliance with legislation

17. I performed procedures to obtain evidence that the trading entity had complied with applicable legislation regarding financial matters, financial management and other related matters. My findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Financial statements, performance report and annual report

18. Financial statements were not submitted for auditing within two months after the end of financial year, as required by section 40(1)(c)(i) of the PFMA.
19. The financial statements submitted for auditing were not supported by full and proper records, as required by section 40(1) (a) of the PFMA. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected, which resulted in the financial statements receiving a qualified audit opinion.

Procurement and contract management

20. Sufficient appropriate audit evidence could not be obtained that all contracts were awarded in accordance with the legislative requirements as the entity did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information was accessible and available to evaluate compliance.
21. Goods and services with a transaction value below R500 000 were in certain instances procured without obtaining the required price quotation, as required by treasury regulation 16A6.1.
22. Goods and services with a transaction value above R500 000 were in certain instances procured without inviting competitive bids, as required by treasury regulation 16A6.1. A number of deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of treasury regulation 16A6.4.
23. Sufficient appropriate audit evidence could not be obtained that invitations for competitive bidding were advertised for a required minimum period and advertised in the government tender bulletin, as required by treasury regulation 16A6.3(c).
24. Sufficient appropriate audit evidence could not be obtained that bid adjudication was done by committees which were composed in accordance with the policies of the trading entity, as required by treasury regulation 16A6.2(a), (b) and (c).
25. Sufficient appropriate audit evidence could not be obtained that contracts were awarded to suppliers whose tax matters have been declared by the South African Revenue Service to be in order, as required by treasury regulation 16A9.1(d) and the preferential procurement regulations.
26. Sufficient appropriate audit evidence could not be obtained that contracts were awarded to bidders based on points given for criteria that were stipulated in the original invitation for bidding, as required by treasury regulation 16A6.3(a) and preferential procurement regulations.
27. Contracts and quotations were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, in contravention of treasury regulation 16A8.3.

28. Sufficient appropriate audit evidence could not be obtained that the preference point system was applied in all procurement of goods and services above R30 000, as required by section 2(a) of the Preferential Procurement Policy Framework Act and treasury regulation 16A6.3(b).
29. Sufficient appropriate audit evidence could not be obtained that contracts were awarded to suppliers based on preference points that were allocated and calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations.
30. Sufficient appropriate audit evidence could not be obtained that contracts were awarded to bidders that scored the highest points in the evaluation process, as required by section 2(1)(f) of Preferential Procurement Policy Framework Act and preferential procurement regulations.
31. Contracts were awarded to bidders who did not submit a declaration of past supply chain practices such as fraud, abuse of supply chain management system and non-performance, in contravention of treasury regulation 16A9.2

Expenditure management

32. Steps taken to prevent irregular and fruitless and wasteful expenditure, as required by section 38(1)(c)(ii) of the PFMA and treasury regulation 9.1.1, were in certain instances not effective.

Consequence management

33. Effective and appropriate disciplinary steps, in certain instances, were not taken against officials who made or permitted irregular expenditure, as required by section 38(1)(h)(iii) of the PFMA and treasury regulation 9.1.3.

Revenue management

34. Effective and appropriate steps were not taken to collect all money due, as required by section 38(1)(c)(i) of the PFMA and treasury regulations 11.2.1, 15.10.1.2(a) and 15.10.1.2(e).

Asset management and liability management

35. The entity's main bank account was overdrawn throughout the reporting period, in contravention of treasury regulation 19.2.3.

Internal control

36. I considered internal control relevant to my audit of the financial statements and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion and the findings on compliance with legislation included in this report.

Leadership

37. Although improvements were noted in certain areas of the financial statements, leadership must continue to enhance effective oversight regarding financial reporting, compliance and related internal controls.
38. The leadership did not institute effective measures to ensure that correct payments were made to suppliers in respect of private leases. Payments relating to leases were made from the Property Management Information System which did not agree with the information on signed lease agreements in certain instances, resulting in overpayments to landlords. At year-end management identified and disclosed these as prepayments.

Financial and performance management

39. Proper record keeping was not always implemented in a timely manner to ensure that complete, relevant and accurate information was accessible and available to support financial reporting.
40. Regular, accurate and complete financial reports that were supported and evidenced by reliable information were not prepared throughout the financial year.
41. The review and monitoring of compliance with applicable legislation were ineffective. In certain instances, the non-compliance related to multi-year contracts entered into in previous years.

Governance

42. The leadership must continue to focus on expanding capacity in the risk management and internal audit units to ensure optimal functioning in terms of addressing risks and internal control deficiencies within the entity.

Other reports

Investigations

43. Numerous internal allegations, mainly relating to transgressions with respect to supply chain management, potential fraud and financial misconduct, are being investigated on an ongoing basis.
44. The alleged abuse of urgent and emergency procurement and the use of sole suppliers are the subject of an ongoing investigation. The investigation aims to establish whether there was collusion between officials and service providers and to determine any reckless spending of funds. The investigation is being probed in phases. The department has instituted disciplinary action in respect of the finalised reports on an ongoing basis.
45. Proclamation no. R. 59 of 2013 was approved on 20 December 2013 by the President for the Special Investigating Unit to probe allegations relating to the prestige project. This involves the security upgrading of the President's private residence situated at Nkandla, KwaZulu-Natal. This report was concluded on 20 August 2014.

Auditor-General

Pretoria

04 September 2015



AUDITOR - GENERAL
SOUTH AFRICA

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