



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

INTERIM MANAGEMENT REPORT

PROPERTY MANAGEMENT TRADING ENTITY

31 MARCH 2022

Communicated to the accounting officer on: 15 April 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 the report does not constitute public information. This management report is provided to make it easier for the auditee to consider and correct the audit findings arising from the audit of the financial statements and compliance with legislation that have come to our attention to date. We will provide a final management report following the completion of the audit after year-end.
2. Our engagement letter sets out our responsibilities and those of the accounting officer in detail.
3. The audit work performed to date includes the following:

Financial statements

- Action plans designed to address the prior year qualification area : Leases
- Irregular expenditure under assessment in the 2020-2021 financial period

Compliance with legislation

- Procurement and Contract Management
- Expenditure management

Material Irregularities

- Follow up on action plans implemented by the accounting officer to address the prior year material irregularities.
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.

OVERALL MESSAGE

6. The accounting officer have developed action plans aimed at addressing the issues raised in the prior year audit of **financial statement**. Material misstatements in the annual financial statements were identified with respect to receivables from exchange transactions and payables from exchange transactions, which formed the basis for the qualified audit outcome in the prior year. These misstatements were in relation to operating lease contracts, which were not correctly captured on Archibus system, and resulted in numerous misstatements on recorded lease transactions, account balances and disclosure items.

Due to an inability to perform work on the qualification arears stated above, we could not determine whether improvements have been realised in these areas as at the date of this report. We have placed reliance on the Morar Incorporated report and the internal audit (IA) unit on the audit work they have performed on leases to date. The reports indicates that significant work is required to be done within the period leading up to the annual financial statements submission date in order to avoid re-occurrence of the same issues as in the prior year audit.

7. Recommendations on preventative control measures made in the prior financial year relating to **procurement and contract management** were not effectively implemented by the trading entity as similar non-compliances were identified in the current year. Where these non-compliances result in irregular expenditure, management will need to appropriately disclose it in the annual financial statements and perform investigations to determine the extent. Management should continue to tighten their controls to prevent such non-compliance and strengthen their control environment.
8. During the audit of active contracts, for **contract 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-complainces will have fruitless and wasteful impact. The fruitless and wasteful expenditure will need to be updated with such financial losses, furthermore, these contracts will need to be investigated by management to determine if further losses can be identified and disclosed appropriately.
9. 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 trading entity:

Key stakeholder	Purpose of interaction	Number of interactions
Portfolio committee on Public Works and Infrastructure	Meeting to share the audit outcomes and present the BRRR	1
Standing committee on public accounts	Audits outcomes of DPWI portfolio over (5) Years	1
Minister of the Department of Public works and Infrastructure.	Presentation on audit outcomes and key messages 2021-22 Status update on Material irregularities	2
Acting Director General (Imtiaz Fazel)	Assessment of implementation on action plans relating to Material irregularities 2021-22 Status update on Material irregularities	3
Audit committee	To discuss governance and oversight	2
Senior Management	Weekly Audit Steering Committee meeting Presentation of the engagement letter and audit strategy	

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

- Audit engagement (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.

SECTION 2: STATUS OF ANNUAL FINANCIAL STATEMENT

AUDIT OF THE FINANCIAL STATEMENTS

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

The financial statements areas were assessed as follows:

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

Prior year qualification areas

Financial statement area	Key findings in the prior year	Progress
Revenue accrual - recoverable leases	A number of existing leases were not correctly captured on Archibus system, which resulted in numerous misstatements on recorded lease transactions, account balances and disclosure items.	
Accrued expenses – Leases		
Prepaid expenses – leases		
Reveceibles from exchange transaction: Leasehold inter-governmental		
Prepaid expenses – Implementing agent		

13. The internal audit report (IA) dated 27 January 2022, reflected on the evaluation of the adequacy and effectiveness of controls in place to determine as to whether the controls are sufficient to ensure that the intended process objectives are reached. Amongst other components, the report dealt with the Enterprise Resource Planning Review which includes the effective operation of the Archibus leasing module.
14. We noted that the IA unit has identified similar issues as those identified by AGSA with regards to data capturing, interface of Archibus and SAGE system where credit notes did not offset when payment were created. In addition, the lease payments were made after the lease agreements are terminated or expired.



15. Furthermore, Morar Incorporated (Morar) was appointed to provide capacity in order to correct the data on the Archibus system. This process focussed on, inter alia:
- 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;
16. Morar Incorporated has done extensive work in order to assist the trading entity correct the data on the Archibus system. However, a number of concerns were noted from the Morar report:
- Morar was only granted viewing rights on ARCHIBUS and the regions were responsible to upload any additional documentation, which was not on ARCHIBUS. Furthermore, all identified lease amendments were provided to regions to effect the changes.
 - As at 18 February 2022, cumulatively only 26% and 42% of the identified overstatements and understatements respectively have been processed on Archibus for adjustment.
 - There were about 23 lease agreements amounting to R9 751 126.30 which expired before January 2022, however they were paid during the January Payment run.
 - There were a few leases which could not be reviewed by Morar from the Mthatha region
17. These matters remains an area of concern, as a number of significant recommendations from the AGSA prior year findings, Morar report and the Internal Audit report need to be implemented prior to 31 May 2022. Therefore, significant improvement is required to ensure that the final annual financial statements are free of any material misstatements with regard to lease related balances.

Irregular expenditure

Financial statement area	Key findings in the prior year	Progress
Irregular expenditure under assessment	<p>Investigations completed by Governance Risk and Compliance Unit (GRC) that confirmed non-compliance were not disclosed in the financial statements</p> <p>No determination or assessment was conducted on prior year audit findings</p>	

18. Material misstatements were identified in the prior year due to numerous instances of irregular expenditure not disclosed in the financial statements submitted for audit; however, these instances of irregular expenditure were subsequently disclosed.
19. We commend management on the implementation of the amended irregular expenditure framework as the internal control unit was able to conduct a determination test and analysed particulars of the non-compliance to establish the facts and losses, if any related to the transactions. Furthermore, investigations concluded by GRC where non-compliance was identified was disclosed on the irregular expenditure register as at 28 February 2022.

SECTION 3: STATUS ON COMPLIANCE WITH LEGISLATION

AUDIT OF COMPLIANCE WITH LEGISLATION

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

Supply Chain Management

22. During the interim audit, we have identified an increase in number of instances relating to non-compliance with legislation. The findings raised in this report are similar to issues raised in the prior year, which resulted to irregular expenditure. This indicates a lack of consequence management by leadership.
23. Such non-compliance with legislation could have been prevented had compliance been properly reviewed and monitored. This is concerning as the trading entity is implementing the amended Public Audit Act (PAA) and as such management should focus on the implementation of preventative controls to prevent SCM related transgressions.
24. As at date of this report, there were certain instances of non-compliance which have a possibility of resulting to irregular expenditure that management were in disagreement with. Such transactions were then referred to the internal control unit to conduct a determination test as well as conduct applicable investigation processes to analyse the particulars of the non-compliance to establish the validity and losses within 30 days as required by National Treasury Instruction 02 of 2019/2020.

Compliance area	Progress	Key findings	No. of instances	Amount (R)
Procurement and contract management: Competitive Bids and Quotations		Deviations not justifiable <ul style="list-style-type: none"> Ten quotations were procured without inviting competitive bids, and the deviations were approved even though it was practical to invite competitive bids. 	10	3 032 543,44
		Payments not approved in line with the SCM Delegations <ul style="list-style-type: none"> Three quotations awarded were not approved by an appropriately delegated official/committee 	3	1 446 157,40
		Limitation	1	



Compliance area	Progress	Key findings	No. of instances	Amount (R)
		<ul style="list-style-type: none"> One tender information relating to deviations was not submitted for audit. (Pretoria region) 		
		Preference Points <ul style="list-style-type: none"> One quotation was awarded to bidders based on preference points that were not calculated according to the requirements of the Preferential Procurement Policy Framework Act and its regulations. One contract was awarded to bidder who did not score the highest points in the bid evaluations, and there was no justification for the deviation. 	2	427 500
		Minimum functionality criteria <ul style="list-style-type: none"> Three contracts which failed to achieve the minimum qualifying score for functionality criteria were not disqualified as unacceptable. 	3	14 993 159,38
		Local content and production (designated sectors) <ul style="list-style-type: none"> One contract was awarded to bidders that did not submit a declaration of local production and content (Annexure C) and were awarded to bidder that did not meet the minimum threshold for local production and content. One contract did not stipulate the minimum threshold for local production and content 	2	11 703 746
		Non-tax compliant supplier <ul style="list-style-type: none"> One quotation was procured from suppliers whose tax matters had not been declared by the South African Revenue Service to be in order. 	1	664 718,16
		Advertisement of tender and publication of awards <ul style="list-style-type: none"> One Tender was not advertised for the required minimum number of days. 	1	No amount paid

Expenditure Management

25. 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 and fruitless and wasteful expenditure as outlined above.

Contract Management

26. Based on the audit outcome of the interim regional audit of contract management, there is an element of concern with regards to the approval of extension of times with costs claimed by contractors that are in contradiction to the terms of the contract 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.

Compliance area	Progress	Key findings	No. of instances	Amount (R)
Contract Management		Extensions of time		
		Payments were made for delays experienced by contractors during the construction period and that were not in line with the criteria documented in the contract. This relates to Eight (8) contracts.		
		<ul style="list-style-type: none">Failure to issue a work permit on time to the contractor by the Department of Labour.	2	2 802 699,48
		<ul style="list-style-type: none">Delays caused by strike or lockout.	4	8 639 722,22
		<ul style="list-style-type: none">Failure to give possession of the site to the contractor.	1	4 874 164,87
	<ul style="list-style-type: none">Delays caused by inaccurate structural designs that had to be revised multiple times.	1	1 718 545	
		<ul style="list-style-type: none">Tiling work that was performed on defective floor that subsequently led to an instruction of the tiles.	1	4 503 920
		Variation order		
<ul style="list-style-type: none">Failure to hold consultants and project manager accountable for approving work that was unsatisfactorily/ not of quality standards and not in accordance with the drawings of the consultants.		1	118 753,80	

SECTION 4: STATUS ON INTERNAL CONTROLS

INTERNAL CONTROLS

Oversight responsibility

27. The governance, risk and compliance (GRC) unit has continued to play a key role in oversight for the trading entity. Numerous investigations were conducted and concluded in the current year, which identified non-compliances with laws and regulations to be updated on the irregular expenditure.
28. Senior management's attitude towards implementing action plans developed has not yield desired results. We have noted non-compliance findings on procurement and contract management, which are similar to the issues raised in the previous years.

Human resource management

29. We assessed the vacancy rates at divisions that are key to the areas we audit. A slight regression was noted with the overall vacancy increasing from 10% in the prior period to 15% as at 28 February 2022. The Supply Chain Management (SCM) and finance division vacancy rate almost remained the same at 15% and 12% respectively.
 - The following key positions in the SCM division remained vacant for a significant period in the current year:
 - Director in acquisition: Property & facilities
 - Director in acquisition: Goods and services
 - SCM Directors in certain regional offices.
 - Within the financial reporting division, the following key position remained vacant:
 - Chief director financial accounting and reporting
 - Chief director revenue and debt management
 - Directors in financial accounting at head office and certain regional offices.
30. The SCM vacancy rate remains a concern as no improvement was noted, similar findings reported in the prior year were noted on the work conducted for interim audit which then proves that the positions that are vacant have an impact.

Action plans to address internal control deficiencies

31. Management developed action plans to address the findings that were raised in the previous financial period on Supply Chain Management. However, these actions were not achieved as similar findings as in the prior year were identified and resulted in irregular expenditure.
32. Based on the Morar Incorporated and Internal audit reports, instances of overpayments have been noted as payments were made on leases expired and in certain instances the SAGE system couldn't interface to process credit notes. Similar findings were identified by AGSA in the prior year and this indicates that action plans developed on leases relating to overpayments have not yielded the required.



Proper record keeping

33. The trading entity has not yet fully implemented the new record management system. In certain instances, we experienced significant delays and limitations where supporting documentation were provided late, especially with respect to the regional audit and head office. The internal control unit should strengthen monitoring measures with regional offices with regards to requests for information or any other critical documents needed during the audit for as the extent of limitation or late submission of documents may have a negative impacts on final audit.
34. On the extensive work conducted by Morar Incorporated in assisting the trading entity to correct the data on the Archibus system, we noted that not all lease agreements were uploaded on the lease systems nor submitted as a results it delayed the progress on completing the review process.

Daily and monthly processing and reconciling of transactions

35. Management implemented the contract, tender and quotation registers, however, these registers were not complete at all times and sometimes were inaccurate i.e. quotations for the trading entity were recorded as if they were procured by the department and vice versa thus resulting into audit inefficiencies.
36. On the extensive work conducted by Morar Incorporated in assisting the trading entity to correct the status of lease overpayments or underpayments on operating leases, it was noted that monthly reconciliation prior to payment run were not adequately conducted as lease overpayments and underpayments were noted for the month of January 2022. The process put into place to verify payment amounts before they are made have not yet made a significant difference as similar issues raised in the prior year have continued to occur.

Information technology systems

37. IT controls pertaining to User Access Management were not effectively designed and implemented due to non-compliance to 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. Lack of system control to restrict duplication of User ID.
38. Change control management was not effectively designed and implemented due to the system limitations on the systems to generate program change logs.
39. IT Service continuity management controls were not effectively designed and implemented since the department is waiting for the installation and configuration of hardware and software. Service provider has been appointed and the Backup and Recovery project is at planning stage of implementation.

SECTION 5: STATUS ON MATERIAL IRREGULARITIES

MATERIAL IRREGULARITIES

40. 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.
41. 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.

Status of previously reported material irregularities

On the 20-21 financial year auditor's report, I communicated in detail on the status of planned actions for the following material irregularities:

- **Unfair Procurement Process For The Beitbridge Borderline Infrastructure Project**
- **Beitbridge Borderline Infrastructure Project Establishment Cost**

In my assessment, such planned actions were deemed appropriate in addressing the MI, the individuals responsible for the MI were identified and as such, disciplinary actions were initiated. The recovery process is in progress as the Special Investigating Unit (SIU) has instituted legal action against the supplier with the Special Tribunal under case number GP17/2020.

I will continue to follow up on the implementation of the planned actions during the final audit of 21-22 financial year.

Leeuwkop prison Asset not appropriately safeguarded during construction

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.

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 cost 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;*".

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.

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.

I am currently assessing the management response and have will communicate the conclusion



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

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 and resulted to lesser monthly rental payments as compared to the previous lease agreement. According to the Archibus payment listing, management continued to make payments based on the old lease contract even though a new lease had a lesser monthly rental and resulted in additional overpayments made since the renewal period of 01 June 2019 up to the end of the current year, 31 March 2021.

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.

The Accounting Officer was notified of the MI on 27 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.

At the date of this report, 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;

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.

I will continue to follow up on the implementation of the planned actions during the final audit of 21-22 financial year.

Construction contract extensions approved, incorrectly included contract value adjustment

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.

According to the JBCC 2000 PRINCIPAL BUILDING AGREEMENT CLAUSE 29.1, 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.

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.

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.

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.

A follow up letter was sent on 23 February 2022 wherein we requested information on progress made in addressing confirmed material irregularity. No response has been received yet on the request.

SECTION 6: STATUS ON IMPLEMENTING COMMITMENTS AND RECOMMENDATIONS

The following key action plans were developed to address significant areas of audit concern. The effective of these actions will be evaluated during the final audit, as the balances were not available for audit during the interim.

Commitments	Date of commitment	Status
FINANCE		
Receivables and payables from exchange transactions - Leases		
<p>1) 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>2) Review to identify whether the gaps identified between OMA and Regions report were resolved or not.</p> <p>3) 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> <p>4) 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>5) Capture opening balances on Archibus</p> <p>6) Finance Resources to perform the review of lease data regularly.</p>	<p>1) 31-Oct-21 2) 15th of each month 3) 20th of each month 4) 17-Sep-21 5) 15-Oct-21 6) Monthly</p>	<p>Action(s) Partially Implemented</p> <p>1) Regions have been engaged to obtain sign offs with OMA where there has not been any sign offs.</p> <p>2) Weekly sessions are being held with the Regions requesting them to engage OMA about all the disputes identified, to be resolved.</p> <p>3) Feedback from Regions about disputes with OMA is still awaited.</p> <p>4) Reconciliation have been performed for Nov /Dec/Jan/Feb, overpayment identified have been sent to Regions for further validation. Letters of recovery to be sent out by 11 Mar 2022 where necessary</p> <p>5) To be done at year end</p> <p>6) Monthly Compliance certificates reconciling Archibus to External source(MDB) are performed</p>
Lease commitments		
<p>1) Reconcile Archibus data on a weekly basis and continuously monitor accuracy of the data every month.</p> <p>2) Calculate lease commitments by the end of September</p>	15-Oct-21	<p>Action(s) Partially Implemented</p> <p>1) Reconciliations for ALL the Regions by MORAR, relating to the Apr-Feb balances have been performed and discrepancies identified followed up.</p> <p>2) Monthly Compliance certificates reconciling Archibus to External source(MDB) are performed on monthly basis</p> <p>3) The interim audit has been moved to Feb 2022. The AFS for</p>



		this period are being compiled and these should be ready by 15 Mar 2022.
Overpayments on lease contracts		
<p>1) Reconcile the payments done to identify and communicate to REMS overpayment as fruitless and wasteful expenditure</p> <p>2) Review lease data and lease payments and ensure accuracy in order to avoid overpayments.</p> <p>3) Reconcile payments to avoid overpayments, when overpayment is identified, communicate with REMS to regularly issue demand letters to overpaid landlords then capture and issue debit note in order to recover the overpaid from future payments.</p> <p>4) Where there is no existing lease contract, debt management and legal management will be applied to recover the overpayment.</p>	<p>1) 31-Oct-21 2) 15-Oct-21 3) 20th of each month 4) Monthly</p>	<p>Action(s) Partially Implemented</p> <p>1) Reconciliation of balances as at 31 September 2021 were performed and forwarded to Regions to review and investigate all discrepancies. To date Finance in the Regions have validated the Top 10 Overpayment and REMS is in the process confirming those calculations. The delay from REMS side is due to the engagement on the MORAR project. The expected date to conclude on the exercise is 15 Mar 2022.</p> <p>2) Work of the service provider, MORAR, is being monitored on a weekly basis to ensure implementation of findings target date 31 March 2022</p> <p>3) Work of the service provider, MORAR, is being monitored to ensure implementation of findings and monthly Compliance certificates are produced to track discrepancies between Archibus and the MDB</p> <p>4) Recovery process underway where overpayments were previously identified AND Consequence letters were sent to Regions in December where non-compliance has been identified.</p> <p>5) Monthly Reconciliations are being performed and the Compliance certificate submitted accordingly (process is similar to the PP38 format).</p>
CS		
Increased Vacancy rates		
<p>1) Identify and advertise all funded positions not advertised, through monthly review of the vacancy report.</p> <p>2) Identify and deactivate from the post establishment all unfunded positions.</p> <p>3) Monitor the implementation of the recruitment drive through bi-weekly Recruitment Warroom meetings.</p> <p>4) Source additional HR recruitment capacity to fasttrack the filling of positions</p>	<p>1) Monthly 2) 30-Sep-21 3) Bi-weekly 4) 30-Sep-21</p>	<p>1) 89 positions advertised in the Public Service Vacancy Circular.</p> <p>2) 37 unfunded positions identified and submitted for abolishment by Directorate: OD.</p> <p>3) To War room meeting held. (4) Request for additional capacity routed for approval by the Acting Director-General</p>
CPM		

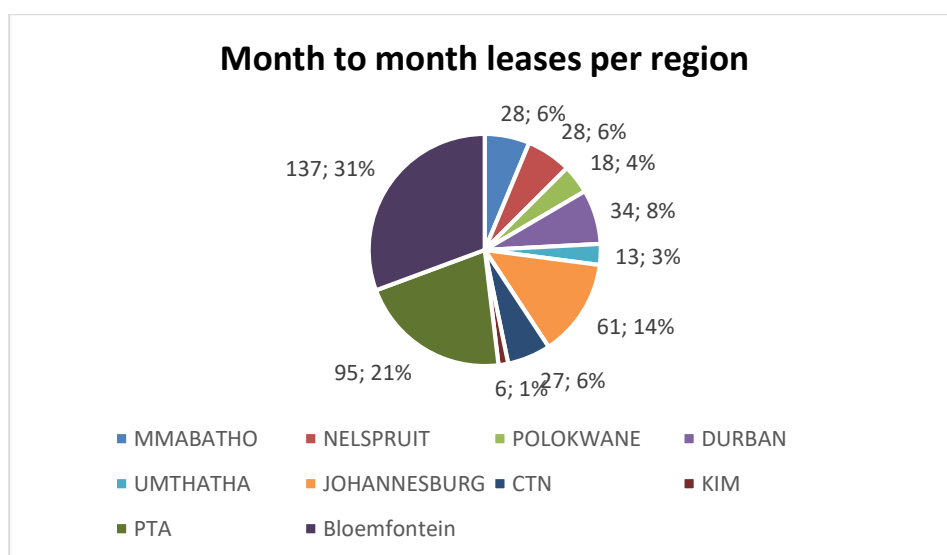
Under performing contractors and inadequate monitoring: 1. Impose penalties in accordance with the applicable conditions of contracts. 2. The monitor of performance and progress of the project, take place during monthly meetings and Bi-weekly meeting (progress and technical meetings) for ordinary projects. 3. Apply consequence management on officials inadequately monitoring the projects.	Ongoing	Action(s) 1. Two penalties were levied against contractors during the month on February and they amount to R264 465. 68. (Mthatha, Kimberley and Polokwane). 2. Progress and technical meetings for ordinary projects are taking place on monthly basis on site. 3. One consequence management letter was issued to a Project Manager for mismanagement of a project.	Partially	Implemented
FM				
Insufficient funds allocated to maintain immovable assets				
1) FM will engage Finance and approach NT on various options and solutions. This will include packaging the critical components such as lifts, HVAC, boilers and call for Refurbish Operate and Transfer model (ROT). - Engage Infrastructure South Africa on the framework for the ROT. - Development of a critical components replacement strategy to support ring fencing of budget 2) Consult and agree on prioritised facilities (from Top 300) for condition assessment 3) Establish standing meeting with PP&M, UDM, REIS and Finance for the development of costed maintenance plans	01-Mar-22	Action(s) 1) There has been engagement with Infrastructure Fund (IF)/DBSA and DPWI to develop a Business Case for the Repair/refurbish, operate and transfer process, which is similar to a PPP contract. These engagements have transpired in January and February 2022. In February 2022 it was agreed that DPWI and ISA will use the Technical Advisory Panel from National Treasury to assist with Early Business Case, as subject matter specialists in relation to PPP processes. DPWI met with GTAC on 12 February 2022 to explore the mechanism for implementing a fast-tracked PPP. There was a meeting between the Minister and NT with a follow-up meeting between DPWI /ISA with NT and OCPO in March 2022 to further explore alternative funding models and procurement. The User charges vs services provided by DPWI are not aligned. FM is represented in the Itemised Billing Committee, which is reviewing the current user charges paid by Client Departments and there will be engagement with NT to review the current user charges to try and align to the services being provided by DPWI to the User Departments.	Partially	Implemented
REIS				
Assets				
Detailed review of 827 buildings including site visits and validate POE for 1 641 buildings	28-Mar-22	Action(s) 827 and 1641 review , including site visits completed and submitted to HO. The HO team is currently doing QA on site in each region, with 8 regions completed and 3 being finalised by Friday 4th March 2022.	Partially	Implemented
REMS				
Receivables and payables from exchange transactions - Leases				

<p>1) Develop a property management module with Detailed activity manual with user requirements relevant to uploading of lease contract data.</p> <p>2) Regional Heads: REMS will submit the lease files to support all the historical data on the system from 1 April 2012 - to-date.</p> <p>3) Validate reviewed cases and correct on Archibus (overs and unders).</p> <p>4) Regional Heads: REMS to issue a certificate of completeness of historical data.</p> <p>5) Ensure alignment of Archibus formulas (regarding rounding off figures) is attended to align to lease contract rental figures in Schedule B.</p>	<p>1) 31 March 2022</p> <p>3) 30 September 2021</p> <p>4) 31 October 2021</p> <p>5) 15 November 2021</p> <p>6) 31 October 2021</p> <p>7) 31 October 2021</p>	<p>Action(s) Partially Implemented</p> <p>1) ICT reported to be on track in developing a blue print that covers the entire value chain of the property management process.</p> <p>2) 100% complete for nine Regions. Two Regional Offices are outstanding (Polokwane - only one file can't be located - correctional centre in Tzaneen and Umthatha - only one file can't be located - SAPS). But has the current lease contracts.</p> <p>3) Validation of information from Morar Inc. and other cases picked up by REMS and Finance is continuing on a daily basis.</p> <p>4) Seven Regions have submitted the signed completion certificates signed by both REMS and Finance in the Region. The four outstanding Regions will be submitting before 8 February 2022.</p> <p>5) alignment of Archibus formula to lease contract rental figures have been implemented.</p>
Overpayments made to the suppliers on the lease contracts		
<p>1) Schedule training for new and existing staff including Management supported by a detailed activity manual from ICT.</p> <p>2) Determine internal system control required for installation by ICT.</p> <p>3) Ensure that the rental amount captured is as per the lease contract and refer incorrectly captured cases picked to assess and institute consequence management.</p>	<p>1) 31 October 2021</p> <p>2) 25 November 2021</p> <p>3) Monthly</p>	<p>Action(s) Partially Implemented</p> <p>1) Training has been completed</p> <p>2) An issue log has been developed containing the list of weaknesses and discussion with ICT will ensue with a view to develop an action plan.</p> <p>3) Verifiers have been part of the training conducted in October 2021 and fully appreciate their responsibility.</p> <p>4) All cases have been referred but relate to historical data which was migrated from PMIS, MDB and Archibus.</p>
Month -to- month leases		
<p>1) Renegotiate month to month leases.</p> <p>2) Renegotiate leases with looming expiry dates.</p> <p>3) Develop eportal</p> <p>4) Engage NT for special dispensation for state owned entities and other spheres of government.</p> <p>5) Develop Lease Management Framework and route it for approval.</p> <p>6) Develop guideline document on extension of leases (contract management) and route for approval.</p>	<p>1) 31-Mar-22</p> <p>2) 30-Jun-22</p> <p>3) 31-Mar-22</p> <p>4) 31-Oct-21</p> <p>5. 1 Jun- 22</p> <p>6. 30-Sep-22</p>	<p>Action(s) Partially Implemented</p> <p>1) Reduced month to month from 538 to 267.</p> <p>2) Have received confirmation of preferred lease period from all user departments except STATS and DAC. Month to month leases will be eradicated.</p> <p>3) Sessions between REMS / SCM and ICT was held in February 2022 were held and blueprint to be issued by ICT.</p> <p>4) In addressing the challenge of Municipalities not co-operating in completing standard bid documents, IGR was approached by REMS to assist in facilitating a meeting with SALGA where this matter will be tabled for possible intervention. IGR has started engagements with SALGA. Minister further instructed that letters be prepared for her signature to Executive Mayors. Such letters were prepared and submitted to Minister in February 2022.</p> <p>5) Draft lease management framework is at advanced stage and</p>

		consultation with the external stakeholders deferred to align to the portal (which is an infant stage). 6) In progress. The guideline document on extension of leases (with or without user department's approval was presented to Fosad).
SCM		
Non-compliance to SCM prescripts		
1) Training of all BACs, SCM Practitioners together with RM's, Line Function PMs involved in the SCM procurement value chain. 2) A training presentation to be developed by SCM by the end of October 2021 by a dedicated team in order to ensure standard SCM processes are followed. 3) Accurate completion of Compliance Irregularity Checklists (IE) and SCM Middle Managers and Senior Managers must complete and sign off Certificates of Compliance and Completeness (COCC) 4) A Management Dashboard that summarises the COCCs must be updated and meeting must be held to monthly reports addressing all the risks to ensure that they do not become repeated findings. 5) Consequence Management to be implemented where instances of non-compliance with any of the above requirements are identified.	1) 31-December 2021. 2) 31 October 2021. 3) Daily 4) Monthly (done by the 4th of the new month for the preceding months transaction) 5) Monthly.	Action(s) Partially Implemented 1) NBAC attended training on the 24-26 August. Then it was only NBACL training that was scheduled for 29 November to 02 December 2021 for Head Office and then members of the NBAC-Leasing were informed accordingly and they were requested to submit their training application forms for attendance of this training, 2) Supply Management Branch will review now in March 2022 and present this training in the new FY. 3) Checklists completed for all files submitted accompanied by COCC for adjudication at RBAC/NBAC and quality checks are done on all submissions. 4) Dashboard reports was presented in February 2022. 5) Consequence management is implemented when the need arises. For HO and Regional Offices during this month no consequence management was reported or undertaken. Limpompo regional office two officials were issued with consequence management letters.
GCR		
Dealing with Allegations reported		
1) The Internal investigating unit to strive to finalise investigations within 90 days. 2) The Office of the DDG GRC to conduct periodic (monthly) follow-ups with the Office of the DG 3) Re-Instatement of the quarterly progress report to the DG in respect of open cases highlighting date investigation started and status update / stage of investigation.	Quarterly	Action(s) Partially Implemented Follow up done with office of the DG and the followings were noted: <ul style="list-style-type: none"> A total of thirty (30) investigations were completed in the 2021/22 year, Twelve (12) of investigations (i.e. 40% of the total completed investigations) were completed within 90 days. Whilst the GRC's Anti-Corruption Unit strives to complete investigations within 90 days, investigations are, by nature, different and some are technically complex and time consuming. Furthermore, the timeous finalisation of each matter depends on the availability of information and relevant parties to be interviewed to determine the facts of the matters. These factors are not necessarily within the control of the investigator.
Reporting IE & FEW		

Finalised reports which bears findings of IE and/or F&WE to be submitted directly to the Directorate Internal Control for disclosure puposes. A monthly reporting template to be developed and implemented between the two Units to ensure updated and accurate reporting.	Quartely	Implemented
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SECTION 7: OTHER VALUE WORK PERFORMED ON LEASES



As at February 2022, PMTE has 447 out of 2144 active leases, which are on month-to-month basis. This is a significant improvement (42%) and has seen the entity reduce the number of month-to-month leases by 329 leases, from 776 in the prior year.

We further commend management for re-negotiating lower rates, which include market related escalation rates that are in line with the previous dispensations from the minister of finance through National Treasury of 6%. The 329 re-negotiated leases will see the entity and user departments saving on rental costs per month. One of the lowlights from the prior year management report was the Armscor lease, which had been on a month-to-month basis for 17 years. We wish to commend management for successfully negotiating a lease agreement with the landlord.

Contracts running on a month-to-month basis have a negative impact on the entity as they result in PMTE paying rentals at higher than market related lease escalations. We encourage management to continue re-negotiating month-to-month lease agreement and negotiate market related lease conditions.

Overpayments

As reported in the previous year, the top five (5) overpaid lease agreements were followed up and we would like to commend management for taking steps to recover overpayments. We are aware that this process has been met with some resistance/pushbacks from a few landlords which resulted in user departments being lockout and unable to provide service delivery. The process has also been hindered due to the credit notes, which were processed by management and never interfaced with SAGE payment system to recover overpayments. The internal audit unit has also reported on this matter and management indicated that they are in the process of resolving the issue.

We caution management to closely monitor the overpayment recovery process in order to avoid further overpayments occurring in an attempt to recover overpayments. This may result from credit notes effected /initiated on Archibus, which do not interface with SAGE, and leases, which have two or more lease codes.



SECTION 8: RATINGS OF DETAILED AUDIT FINDINGS

1. For purposes of this report, the detailed audit findings included in annexures A 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 and compliance with legislation.

SECTION 9: CONCLUSION

The matters communicated throughout this report relate to the two fundamentals of internal control Annual financial statements and Compliance with laws and regulations 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

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Head of internal audit unit
Executive authority

SECTION 10: SUMMARY OF DETAILED AUDIT FINDINGS

Annexure A: Summary of detailed audit finding



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