

Detailed audit findings

ANNEXURE B: OTHER IMPORTANT MATTERS

Immovable assets

Reassessment of useful lives not in accordance with GRAP (COFF 40)

DETAILED AUDIT FINDING

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

- (a) must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;
- (b) must prepare financial statements for each financial year in accordance with generally recognized accounting practice”

GRAP 17 paragraph 56 and 57 states that:

56. An entity shall assess at each reporting date whether there is any indication that the entity's expectations about the residual value and the useful life of an asset have changed since the preceding reporting date.

If any such indication exists, the entity shall revise the expected useful life and/or residual value accordingly.

The change(s) shall be accounted for as a change in an accounting estimate in accordance with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

57. In assessing whether there is any indication that the expected useful life of an asset has changed, an entity considers the following indications:

- (a) The composition of the asset changed during the reporting period, i.e. the significant components of the asset changed.
- (b) The use of the asset has changed, because of the following:
 - (i) The entity has changed the manner in which the asset is used.
 - (ii) The entity has changed the utilisation rate of the asset.
 - (iii) The entity has made a decision to dispose of the asset in a future reporting period(s) such that this decision changes the expected period over which the asset will be used.

(iv) Technological, environmental, commercial or other changes that occurred during the reporting period that have, or will, change the use of the asset.

(v) Legal or similar limits placed on the use of the asset have changed.

(vi) The asset was idle or retired from use during the reporting period.

(c) The asset is approaching the end of its previously expected useful life.

(d) Planned repairs and maintenance on, or refurbishments of, the asset and/or its significant components either being undertaken or delayed.

(e) Environmental factors, e.g. increased rainfall or humidity, adverse changes in temperatures or increased exposure to pollution.

(f) There is evidence that the condition of the asset improved or declined based on assessments undertaken during the reporting period.

(g) The asset is assessed as being impaired in accordance with GRAP 21 and GRAP 26.

Nature

During the performance of our audit, we identified the following:

Indications that the useful life of assets have changed has been identified; however, the useful life was not revised.

According to the reassessment of useful lives prepared by management:

“Properties were identified to have had a change in their condition through assessments that were conducted. These assessments indicated a possible change in useful life or residual value of the identified assets. A re-assessment was done on the remaining useful lives of these assets. PMTE does not plan to dispose any of these assets thus the residual value shall remain zero. It was identified that the reassessed useful life agrees to the useful life after the implementation of the revised immovable assets management policy thus no change in useful life needs to be done.”

- 1) There has been a change in condition of assets which is an indication that the expected useful life of an asset changed. As per GRAP 17, an entity shall revise the expected useful life if any indication exists.

Management's reassessment is unreasonable as assets with different condition grading's have the same number of remaining useful lives.

For example, an office building with a condition grading of 20% and an office building with a condition grading of 60%, are both indicated to have a remaining useful life of 40 years. Furthermore, based on management's assessment some conditions changed from 80% to 40%; however, the remaining useful life of the asset remained the same.

- 2) Significant additions through assets under construction, which includes upgrading, refurbishment and replacement of assets, occur each financial year. Based on

management's reassessment of useful lives there is no indication that this has been considered in revising the useful lives.

E.g. Building ID 200000028424 had a total amount of R 692 796 861 AUC capitalized to the asset; however, the condition is indicated as 20%.

Impact

The aforementioned finding results in the following:

Non-compliance with GRAP Accounting standard (GRAP 17).

Internal control deficiency

Financial and performance management

The department did not review and monitor compliance with applicable standards.

Recommendation

Management should ensure that the GRAP standards are correctly and consistently applied.

Management should consider all indications in their reassessment of useful lives.

Management response

Management agrees with the finding.

The finding is as a result of management not taking into account the current condition assessment when calculating the remaining useful life. Corrective adjustments will be done to the Immovable Asset Register to account for the revision of the reassessment of useful lives.

Auditor's conclusion

Management submitted a revised IAR on 3 August 2018. Management has taken into account the current condition assessment when calculating the remaining useful life in the revised IAR.

DETAILED AUDIT FINDING

Impairment – Incorrect value in use

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

- (a) must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;*
- (b) must prepare financial statements for each financial year in accordance with generally recognized accounting practice”*

Paragraph 10 of the Standards of Generally Recognized Accounting Practice (GRAP) 21 states that: *“Recoverable service amount is the higher of a non-cash-generating asset’s fair value less costs to sell and its value in use.*

Value in use of a non-cash-generating asset is the present value of the asset’s remaining service potential.”

Paragraph 20 of the Standards of GRAP 21 states that: *“An entity shall assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable service amount of the asset.”*

Paragraph 43 of the Standards of GRAP 21 states that:
“Depreciated replacement cost approach

Under this approach, the present value of the remaining service potential of an asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset’s gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.”

Nature

During the performance of our audit, the following was identified:

Significant changes to the condition grading of the building was identified by management and impairment was then recognized.

According to the assessment prepared by management:

“Properties were identified to have had a change in their condition grading through assessments that were conducted. Calculate the recoverable amount of the properties that have impairment indicators using the depreciable replacement cost method. There are different calculations between properties valued using BI and those valued using the MVR/EY ALR/CSV approach.”

The replacement cost of an asset is the cost to replace the asset's gross service potential, in getting to the gross service potential of the asset as at 31 March 2018 management used information as at 1 April 2013 (Municipal Valuation Rolls, Comparable Sales Value and Building Indices AECOM rates used to get to the deemed cost value as at 1 April 2013).

The transitional provisions in terms of Directive 2 have expired, therefore values should be determined at current year end and in terms of applicable GRAP standards.

According to management constructing a new building in 2018 (Gross service potential of the asset) will cost the same amount as it was in April 2013. An incorrect recoverable amount i.e. value in use was used in assessing buildings for impairment after taking into account current conditional grading and accumulated depreciation (The already consumed or expired service potential of the asset).

Getting to recoverable amount (Value in use), we therefore obtained AECOM – Africa Property and Construction handbook 2017 and recalculated applicable rates, current building condition grading was also taken into account in getting to replacement cost. The replacement cost was therefore depreciated to get to value in use. The differences as outlined in the table below were noted:

Building Id	Average Building Condition as at 1 April 2013	Average Building Condition as at 31 March 2018	Accommodation Type	IMPAIRMENT LOSS FOR THE YEAR 2017/18 (Rands)	Auditors Impairment loss (Rands)	Difference (Rands)
100000025106	60%	40%	OFFICE	18 422 821	25 230 354	6 807 533
100000025867	60%	20%	OFFICE	41 966 048	45 449 003	3 482 955
200000031928	60%	20%	OFFICE	-	3 106 297	3 106 297
100000040689	80%	20%	OFFICE	-	2 895 968	2 895 968
200000049650	40%	20%	HALL	-	347 315	347 315
206650200	80%	40%	OFFICE	3 584 910	3 846 930	262 020
100000034505	60%	20%	RESIDENTIAL ACCOMMODATION	201 184	260 841	59 657
100000036229	60%	20%	STORAGE	224 873	273 636	48 763
100000036227	60%	20%	STORAGE	29 211	35 546	6 334
210850414	60%	20%	UNUTILIZED	31 316	35 323	4 006
100000036232	60%	20%	RESIDENTIAL ACCOMMODATION	103 067	106 094	3 027
100000036235	60%	20%	RESIDENTIAL ACCOMMODATION	86 532	89 074	2 542
100000036234	60%	20%	RESIDENTIAL ACCOMMODATION	79 918	82 266	2 347
100000028967	60%	20%	PARKING	45 238	47 463	2 225
100000036230	80%	20%	OFFICE	173 615	175 464	1 849

Building Id	Average Building Condition as at 1 April 2013	Average Building Condition as at 31 March 2018	Accommodation Type	IMPAIRMENT LOSS FOR THE YEAR 2017/18 (Rands)	Auditors Impairment loss (Rands)	Difference (Rands)
2000042124	60%	40%	RESIDENTIAL ACCOMMODATION	52 978	52 636	(342)
2100750201	60%	40%	POLICE STATION	369	-	(369)
2100750165	60%	40%	POLICE STATION	616	-	(616)
2100750155	80%	40%	POLICE STATION	1 016	-	(1 016)
2000042119	60%	40%	RESIDENTIAL ACCOMMODATION	166 371	165 295	(1 075)
2100750181	80%	40%	RESIDENTIAL ACCOMMODATION	1 108	-	(1 108)
2100750175	80%	40%	POLICE STATION	1 200	-	(1 200)
200000045752	60%	40%	RESIDENTIAL ACCOMMODATION	200 760	199 463	(1 298)
2100750196	60%	40%	POLICE STATION	1 970	-	(1 970)
2100750143	60%	40%	RESIDENTIAL ACCOMMODATION	2 154	-	(2 154)
100000028549	60%	40%	GENERATOR	3 614	1 347	(2 267)
100000025103	60%	40%	PARKING	64 577	59 091	(5 487)
100000036233	60%	20%	UNUTILIZED	24 251	17 923	(6 328)
2100750150	80%	40%	POLICE STATION	7 202	-	(7 202)
2100750635	80%	40%	RESIDENTIAL ACCOMMODATION	7 221	-	(7 221)

Building Id	Average Building Condition as at 1 April 2013	Average Building Condition as at 31 March 2018	Accommodation Type	IMPAIRMENT LOSS FOR THE YEAR 2017/18 (Rands)	Auditors Impairment loss (Rands)	Difference (Rands)
200000121675	60%	40%	RESIDENTIAL ACCOMMODATION	142 471	133 898	(8 572)
200000121677	60%	40%	POLICE STATION	57 276	48 173	(9 103)
2100750160	60%	40%	POLICE STATION	9 295	-	(9 295)
237600027	60%	40%	GENERATOR	32 792	23 460	(9 332)
100000028548	60%	40%	STORAGE	9 491	-	(9 491)
2100750138	60%	40%	POLICE STATION	9 541	-	(9 541)
100000028246	60%	40%	RESIDENTIAL ACCOMMODATION	167 034	156 984	(10 050)
200000121674	60%	40%	POLICE STATION	65 268	54 895	(10 373)
100000003310	80%	40%	RESIDENTIAL ACCOMMODATION	10 729	-	(10 729)
100000008098	60%	40%	RESIDENTIAL ACCOMMODATION	13 446	-	(13 446)
100000025875	80%	60%	PARKING	17 306	-	(17 306)
100000008586	80%	40%	RESIDENTIAL ACCOMMODATION	17 494	-	(17 494)
200000121673	60%	40%	POLICE STATION	115 884	97 467	(18 417)
200000121672	60%	40%	POLICE STATION	142 524	119 873	(22 651)
100000036225	40%	20%	RESIDENTIAL ACCOMMODATION	168 655	145 500	(23 155)

Building Id	Average Building Condition as at 1 April 2013	Average Building Condition as at 31 March 2018	Accommodation Type	IMPAIRMENT LOSS FOR THE YEAR 2017/18 (Rands)	Auditors Impairment loss (Rands)	Difference (Rands)
2100750133	80%	40%	POLICE STATION	23 268	-	(23 268)
100000036226	40%	20%	RESIDENTIAL ACCOMMODATION	175 820	151 681	(24 139)
100000001449	80%	40%	RESIDENTIAL ACCOMMODATION	26 038	-	(26 038)
2000042179	80%	40%	RESIDENTIAL ACCOMMODATION	62 425	34 164	(28 261)
100000036228	40%	20%	RESIDENTIAL ACCOMMODATION	217 708	187 818	(29 890)
100000005823	80%	40%	RESIDENTIAL ACCOMMODATION	70 125	39 735	(30 389)
200000121676	60%	40%	POLICE STATION	278 388	234 145	(44 243)
100000036231	80%	20%	UNUTILIZED	260 698	214 401	(46 298)
100000008585	80%	40%	RESIDENTIAL ACCOMMODATION	50 363	-	(50 363)
100000008097	60%	40%	RESIDENTIAL ACCOMMODATION	60 604	-	(60 604)
200000123593	80%	40%	RESIDENTIAL ACCOMMODATION	99 540	37 208	(62 333)
2100750632	80%	40%	RESIDENTIAL ACCOMMODATION	70 769	-	(70 769)
100000028533	60%	40%	OFFICE	77 022	-	(77 022)

Building Id	Average Building Condition as at 1 April 2013	Average Building Condition as at 31 March 2018	Accommodation Type	IMPAIRMENT LOSS FOR THE YEAR 2017/18 (Rands)	Auditors Impairment loss (Rands)	Difference (Rands)
100000005822	80%	40%	RESIDENTIAL ACCOMMODATION	203 695	115 421	(88 274)
2000042174	80%	40%	RESIDENTIAL ACCOMMODATION	210 273	115 077	(95 195)
100000028546	60%	40%	POLICE STATION	178 136	-	(178 136)
100000025878	60%	40%	OFFICE	215 837	-	(215 837)
100000028245	80%	60%	OFFICE	411 326	143 100	(268 226)
100000028547	60%	40%	POLICE STATION	300 788	-	(300 788)
100000028446	60%	60%	WORKSHOP	503 021	-	(503 021)
100000025874	60%	40%	OFFICE	1 341 030	-	(1 341 030)
100000025880	60%	40%	OFFICE	1 960 284	-	(1 960 284)
200000066659	80%	40%	OFFICE	5 547 756	2 899 682	(2 648 074)
100000025828	60%	40%	OFFICE	2 819 742	-	(2 819 742)
Total				81 627 999	87 430 011	5 802 012

Impact

The aforementioned finding results in the following:

Non-compliance with GRAP Accounting standard (GRAP 21).

Impairment loss for the 2017/18 financial year is understated by R 5 802 012 and accumulated impairment (Property, plant and equipment) is understated by R 5 802 012.

Internal control deficiency

Financial and performance management

The Entity did not review and monitor compliance with applicable standards.

Recommendation

Management should ensure that the GRAP standards are correctly and consistently applied.

Management should correctly recalculate value as outlined in GRAP 21.

Management response

Management agree with the finding and corrective adjustments will be done to the Immovable Asset Register impairment amounts.

Auditor's conclusion

Management submitted a revised IAR on 3 August 2018. Management corrected the impairment amounts in the revised IAR.

Immovable assets: Derecognition of immovable assets (COFF 32)

DETAILED AUDIT FINDING

Derecognition of the immovable assets demolished/replaced by PMTE

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

- (c) must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;*
- (d) must prepare financial statements for each financial year in accordance with generally recognized accounting practice”*

Section 41 furthermore states that an accounting officer of a department, trading entity or constitutional institution must submit to the relevant Treasury or the Auditor-General such information, returns, documents, explanations and motivations as may be prescribed or as the relevant Treasury or the Auditor-General may require.

Paragraph 72 of the Standards of Generally Recognized Accounting Practice (GRAP) 17 states that: *“The carrying amount of an item of property, plant and equipment shall be derecognised:*

- (a) on disposal (including disposal through a non-exchange transaction); or*
- (b) when no future economic benefits or service potential are expected from its use or disposal.”*

Paragraph 73 of the Standards of Generally Recognized Accounting Practice (GRAP) 17 states that: *“The gain or loss arising from the derecognition of an item of property, plant and equipment shall be included in surplus or deficit when the item is derecognised”*

Furthermore, paragraph 76 of the Standards of Generally Recognized Accounting Practice (GRAP) 17 states that: *“If, under the recognition principle in paragraph .07, an entity recognises in the carrying amount of an item of property, plant and equipment the cost of a replacement for part of the item, then it derecognises the carrying amount of the replaced part regardless of whether the replaced part had been depreciated separately. If it is not practicable for an entity to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or constructed.”*

Paragraph 77 of the Standards of Generally Recognized Accounting Practice (GRAP) 17 states that: *“The gain or loss arising from the derecognition of an item of property, plant and equipment shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.”*

Nature

During the performance of the audit, the following was identified:

Carrying values of immovable assets demolished are not derecognized. Significant additions through assets under constructions is undertaken by PMTE, however no de-recognition of carrying values are considered on existing assets.

On the selected immovable assets, the properties with old structure were demolished and the carrying value for these old structures were not derecognized in the immovable assets register.

The audit of this component is still in progress; however, see below the results to date:

No.	WCS No.	Property code	Site ID	Building ID	Carrying Amount 2017/2018
1	N/A	1295671	100000010255	232500263	R 2 028 369,60
				232500254	R 762 048,00
				232500260	R 1 547 910,00
				232500266	R 787 449,60
				232500275	R 1 113 701,40
				232500269	R 1 655 866,80
				232500272	R 8 774 754,30
				232500278	R 2 460 780,00
				232500257	R 5 648 680,80
2	54806	143211	200000065207	234950262	R 802 074,17
Total					R 25 581 634,67

Impact

The aforementioned finding result in the following:

- The immovable assets (Improvements) have been overstated by R 25 581 634.67
- The loss on disposal has been understated R 25 581 634.67.

Internal control deficiency

Financial and performance management

The entity did not implement a proper financial and reporting system to enable proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

The entity did not sufficiently review the supporting schedules and financial statements prior to submission for audit.

Recommendation

Management should ensure that financial statements and supporting schedules are adequately reviewed before submission for audit.

Management should ensure that all supporting schedules are finalized before submission for audit.

Management should inspect immovable assets where repairs, demolitions, renovations, upgrading and refurbishment were done for years beginning 1 April 2013 up to 31 March 2018 to ensure that when old structures were demolished the carrying amount relating to those structures were derecognized in the immovable assets.

Management response

Management is partially in agreement with the finding.

Management agree with property code 1295671 but disagree with property code 143211. Property code 143211 site digitization reflects 8 buildings which have correctly been included in the IAR. This was further corroborated by management physically verifying the police station to further confirm that the buildings exist.

Please refer to annexure A to refer to the site digitization.

Auditor's conclusion

Management submitted a revised IAR on 3 August 2018. Management corrected the derecognition issue in the revised IAR.

Immovable assets: Completeness of Immovable asset register (COFF 58)

DETAILED AUDIT FINDING

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

- (a) must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;*
- (b) must prepare financial statements for each financial year in accordance with generally recognized accounting practice”*

Section 41 furthermore states that an accounting officer of a department, trading entity or constitutional institution must submit to the relevant Treasury or the Auditor-General such information, returns, documents, explanations and motivations as may be prescribed or as the relevant Treasury or the Auditor-General may require.

Section 4 of the Government Immovable Asset Management Act states that: *“(1) The departments managed by the following executive organs of state within the national and provincial spheres of government are custodians:*

- (a) The Minister, in relation to immovable assets that vest in the national government, except in cases where custodial functions were assigned to other Ministers by virtue of legislation before the commencement of this Act;*
- (b) subject to subsection (5), the Minister responsible for Land Affairs, in relation to immovable assets acquired for land reform, as well as immovable assets that vest in the national government and are situated within the former homelands, except in cases where custodial functions in respect of those areas were assigned to another Minister by virtue of specific legislation before the commencement of this Act; and*
- (c) a Premier of a province or an MEC designated by the Premier, in relation to an immovable asset that vests in a provincial government.*

(2) A custodian—

- (a) acts as the caretaker in relation to an immovable asset of which it is the custodian;”*

Paragraph 1: Custodian Framework for the state of immovable assets state that: *“Custodianship is the equivalent of control or ownership of the assets from an accounting perspective. DPW must therefore, in terms of the relevant reporting framework, recognize/discard as its own assets all immovable assets that it controls, whether it is through custodianship on behalf of the state, or direct ownership”*

Nature

During the performance of the audit, the following was identified:

Facilities listed in the table below are not included in the Immovable Asset Register (IAR) as required by the Vesting Guidelines issued by the Department of Rural Development and Land Reform to substantiate the application of section 239 of the Constitution of the Republic of South Africa Act, 1993, the following facilities vests with National Department of Public Works.

No.	Facility Name / No	Town / Suburb	Province
1	Bolobedu Police Station	Ga-Kgapane-A, Bolobedu	Limpopo
2	Lulekani Police Station	Lulekani-B, Phalaborwa	Limpopo
3	Bushbuckridge Police Station	Bushbuckridge	Mpumalanga
4	Skukuza Police Station	Skukuza	Mpumalanga
5	Eersterust Police Station	Eersterust, Pretoria	Gauteng
6	Meadowlands Police Station	Meadowlands East Zone 2, Johannesburg	Gauteng
7	Reigerpark Police Station	Reigerpark	Gauteng
8	Yeoville Police Station	Yeoville, Johannesburg	Gauteng
9	Dingleton Police Station	Dingle, Dingleton	Northern Cape
10	Dimbaza Police Station	Dimbaza	Eastern Cape
11	Flagstaff Police Station	Flagstaff	Eastern Cape
12	Ngqeleni Police Station	Ngqeleni	Eastern Cape
13	Emondlo Police Station	Emondlo	KwaZulu Natal
14	Gamalakhe Police Station	Gamalakhe	KwaZulu Natal
15	Hluhluwe Police Station	Hluhluwe	KwaZulu Natal
16	DFFS00120 Airforce Base	Bloemfontein	Free State
17	DFFS00121 Airforce Base	Bloemfontein	Free State
18	DFFS00110 Airforce Base	Bloemfontein	Free State
19	DFFS00154 Airforce Base	Bloemfontein	Free State
20	Port of Ngqura Border Post	Ngqura	Eastern Cape
21	Peka Bridge Border Post	Clocolan	Free State
22	Sepapushek Border Post	Ficksburg	Free State
23	Van Rooyenshek Border Post	Van Rooyenshek	Free State
24	Bushmansneck Border Post	Mzimkhulu	KwaZulu Natal

No.	Facility Name / No	Town / Suburb	Province
25	Sani Pass Border Post	Mkhomazi	KwaZulu Natal
26	Emahlathini Border Post	Mkhondo /Piet Retief	Mpumalanga
27	Josefsdal Border Post	Nbarberton	Mpumalanga
28	Middelputs Border Post	Khuis	Northern-Cape
29	Sendelingsdrif Border Post	Sendelingsdrif	Northern-Cape
30	Zonderwater Correctional Services	Cullinan	Gauteng
31	Bizana Correctional Services	Bizana	Eastern Cape
32	Flagstaff Correctional Services	Flagstaff	Eastern Cape
33	Mount Fletcher Correctional Services	Mount Fletcher	Eastern Cape
34	Mqanduli Correctional Services	Mqanduli	Eastern Cape
35	Ngqeleni Correctional Services	Mthatha	Eastern Cape
36	Ntabankulu Correctional Services	Mouth Frere	Eastern Cape
37	Sada Correctional Services	Queenstown	Eastern Cape
38	Willow Vale Correctional Services	Wollow Vale	Eastern Cape
39	Humansdorp Correctional Services	Humansdorp	Eastern Cape
40	Nongoma Correctional Services	Nongoma	KwaZulu Natal
41	Baviaanspoort Correctional Services	Roodeplaat	Gauteng
42	Odi Correctional Services	Mabopane	Gauteng

Impact

The aforementioned finding result in the following:

The Immovable Asset register is not complete.

The Immovable Assets is understated by an undeterminable amount.

Internal control deficiency

Financial and performance management

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

Recommendation

Management should ensure that financial statements and supporting schedules are adequately reviewed before submission for audit.

Management should ensure that they record all immovable assets owned by the entity as certain assets were identified as owned by the entity, but not included in the asset register.

Management response

Management disagree with 36 of the 42 properties identified in the finding raised.

Management engages the AGSA on the issues raised and are in agreement with the AGSA on the following:

- Bushmanshek Port of Entry
- Flagstaff Correctional Service
- Mondlo Saps
- Mqanduli Correctional Service
- Sani Pass Port of Entry
- Skukuza Saps

Auditor's conclusion

Management submitted a revised IAR on 3 August 2018. Management corrected the completeness issue in the revised IAR.

DETAILED AUDIT FINDING

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

- (a) must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;*
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- (b) subject to subsection (5), the Minister responsible for Land Affairs, in relation to immovable assets acquired for land reform, as well as immovable assets that vest in the national government and are situated within the former homelands, except in cases where custodial functions in respect of those areas were assigned to another Minister by virtue of specific legislation before the commencement of this Act; and*
- (c) a Premier of a province or an MEC designated by the Premier, in relation to an immovable asset that vests in a provincial government.*

(2) A custodian—

- (a) acts as the caretaker in relation to an immovable asset of which it is the custodian;”*

Paragraph 1: Custodian Framework for the state of immovable assets state that: *“Custodianship is the equivalent of control or ownership of the assets from an accounting perspective. DPW must therefore, in terms of the relevant reporting framework, recognize/discard as its own assets all immovable assets that it controls, whether it is through custodianship on behalf of the state, or direct ownership”*

During the performance of the audit, the following was identified:

Properties registered in the name of National Government of South Africa have not been recorded in the Immovable asset register of PMTE. The owner of the following properties is indicated as National Government (E.g. RSA, Republic of South Africa, National Government, National Public Works etc.) as per municipal valuation rolls; however, could not be traced to the PMTE's asset register or the asset registers of other National and Provincial custodians.

FARM / ERF #	PTN	FARM NAME / TOWN	Street	LPI CODE	TITLE DEED NO
7		IS	23 GROOTPAN 7 IS	T0IS0000000000700023	T10622/1951
1300	0	PORTERVILLE	42 PIET RETIEF STREET		None (00000265)
671	0	PIKETBERG	AKASIASTRAAT		None (00002000)
855	0	PIKETBERG	AKKER STREET		None (00002028)
856	0	PIKETBERG	AKKER STREET		None (00002029)
857	0	PIKETBERG	AKKER STREET		None (00002030)
858	0	PIKETBERG	AKKER STREET		None (00002031)
310		JS	BAILEY SENTRUM	T0JS00000000031000065	T33381/1955
1296	0	PORTERVILLE	BASSONSTRAAT 26		None (00000261)
1315	0	PORTERVILLE	BASSONSTRAAT 8		None (00000279)
5	0	PIKETBERG	BERGSTRAAT		None (00001647)

FARM / ERF #	PTN	FARM NAME / TOWN	Street	LPI CODE	TITLE DEED NO
411	0	PIKETBERG	BERGSTRAAT		None (00001845)
413	0	PIKETBERG	BERGSTRAAT		T74327/2005
439	0	PIKETBERG	BERGSTRAAT		None (00001857)
311		JS	BIRKHOLTZ STR DEL JUDOR W	T0JS00000000031100172	T000/2013
25	0	BARBERTON	Bos Street	T0JU00020000002500000	
840	0	PIKETBERG (SCHEMES)	CALENDULASTRAAT		None (00002365)
1215		DEL JUDOR	CECILE	T0JS0007000012150	T9258/1983
2235		WITBANK	CHRISTIAAN DE WET	T0JS0035000022350	T50851/1981
1180		KWA-GUQA	CINDI	T0JS00480000118000001	T44255/1997
2519		WITBANK	CLAREDON	T0JS0035000025190	T3319/1964
1504		DEL JUDOR	CORNEL	T0JS0007000015040	T19839/1977
2834	0	VELDDRIF (PORT AREA)	DE VILLIERS STREET		None (00009235)
2835	0	VELDDRIF (PORT AREA)	DE VILLIERS STREET		None (00009236)
2836	0	VELDDRIF (PORT AREA)	DE VILLIERS STREET		None (00009237)
2833	0	VELDDRIF (PORT AREA)	DE VILLIERSSTRAAT		None (00009234)
852	0	PIKETBERG	DIE TREK STREET		None (00002025)
853	0	PIKETBERG	DIE TREK STREET		None (00002026)
854	0	PIKETBERG	DIE TREK STREET		None (00002027)
19		DIXON AGRICULTURAL HOLDINGS	DIXON	T0JS0011000000190	T41775/1976

FARM / ERF #	PTN	FARM NAME / TOWN	Street	LPI CODE	TITLE DEED NO
297		JS	DRIEFONTEIN GED 29 WITBAN	T0JS00000000029700029	T29234/1958
123	20	BERGRIVIER (FARMS)	DROMMELVALLEY		T49696/2007
555		WITBANK	DUNCAN	T0JS00350000005550	T25328/1955
5		WITBANK	EADIE	T0JS0035000000050	T36772/1947
1573		PHOLA	ERF 1573	T0IS0034000015730	T96300/1994
2171		PHOLA	ERF 2171	T0IS0034000021710	T96300/1994
2413		PHOLA	ERF 2413	T0IS0034000024130	T96300/1994
8		DIXON AGRICULTURAL HOLDINGS	GAZELLE	T0JS0011000000081	T22720/1983
534		JR	GED 1 EENZAAMHEID 534JR B	T0JR00000000053400001	T3481/1911
73		IS	GED 1 KRIEL 73 IS	T0IS00000000007300001	T87750/1988
310		JS	GED 102 JOUBERTSRUST WITB	T0JS00000000031000102	T8250/1989
297		JS	GED 11 DRIEFONTEIN 297JS	T0JS00000000029700011	T16983/1972
278		JS	GED 11 SUIKERBOSCHKOP 278	T0JS00000000027800011	T4827/1916
311		JS	GED 123 ZEEKOEWEATER WITBA	T0JS00000000031100123	T11373/1949
311		JS	GED 124 ZEEKOEWEATER WITBA	T0JS00000000031100124	T10287/1950
311		JS	GED 136RG ZEEKOEWEATER WIT	T0JS00000000031100136	T15638/1961
311		JS	GED 138 ZEEKOEWEATER 311JS	T0JS00000000031100138	T15638/1961
33		IS	GED 15 SPRINGBOKLAAGTE 33	T0IS00000000003300015	T7052/1910
335		JS	GED 168 NAAUWPOORT 335 JS	T0JS00000000033500168	T12719/1984

FARM / ERF #	PTN	FARM NAME / TOWN	Street	LPI CODE	TITLE DEED NO
335		JS	GED 169 NAAUWPOORT 335 JS	T0JS00000000033500169	T16847/1981
300		JS	GED 27 NOOITGEDACHT 300 J	T0JS00000000030000027	T16983/1972
20		IS	GED 29 ENKELDEBOSCH 20IS	T0IS0000000002000029	T48384/1991
13		IS	GED 3 TWEEFONTEIN 13 IS	T0IS0000000001300003	T18116/1949
258		JS	GED 30 GROOTVALLEI 258JS	T0JS00000000025800030	T12338/1954
215		IR	GED 32 PLAAS HEUVELFONTEI	T0IR00000000021500032	T5449/1925
32		IS	GED 35 KLIPPOORTJE 32 IS	T0IS0000000003200035	T34732/1998
7		IS	GED 35 PLAAS GROOTPAN 7 I	T0IS0000000000700035	T9165/1967
297		JS	GED 4 PLAAS DRIEFONTEIN 2	T0JS00000000029700004	T86939/1996
215		IR	GED 44 PLAAS HEUVELFONTEI	T0IR00000000021500044	T22607/1949
215		IR	GED 47 HEUVELFONTEIN 215	T0IR00000000021500047	T1387/1953
70		IS	GED 5 ONVERWACHT 70 IS	T0IS0000000007000005	T1208/1910
13		IS	GED 5 TWEEFONTEIN 13 IS	T0IS0000000001300005	T24641/1963
330		JS	GED 5 VLAKLAAGTE 330 JS	T0JS00000000033000005	T11174/1946
58		IS	GED 6 ROODEBLOEM 58 IS	T0IS0000000005800006	T8050/1977
330		JS	GED 6 VLAKLAAGTE 330 JS	T0JS00000000033000006	T11175/1946
58		IS	GED 7 ROODEBLOEM 58 IS	T0IS0000000005800007	T8050/1977
310		JS	GED 76 JOUBERTSRUST WITBA	T0JS00000000031000076	T8156/1965
317		SCHOONGEZICHT	GOODMAN	T0JS0032000003170	T7418/1979

FARM / ERF #	PTN	FARM NAME / TOWN	Street	LPI CODE	TITLE DEED NO
308		JS	GROENFONTEIN	T0JS00000000030800006	T86939/1996
7		IS	GROOTPAN GED 20RG OGIES	T0IS00000000000700020	T33164/1978
739		WITBANK	HOFMEYER	T0JS0035000007390	T32070/1955
741		WITBANK	HOFMEYER	T0JS0035000007410	T32070/1955
742		WITBANK	HOFMEYER	T0JS0035000007420	T14068/1940
207	0	AURORA	HOFSTRAAT		None (00009996)
122	0	AURORA	HOOFSTRAAT		T92001/2007
4		IS	HOOFWEG ERF 6 OGIES	T0IS00000000000400006	T9561/1911
205	16	BERGRIVIER (FARMS)	HOUDCONSTANT B		None (00004873)
66		KWA-GUQA	INGWENYAMA	T0JS00480000006600001	T44255/1997
67		KWA-GUQA	INGWENYAMA	T0JS00480000006700000	T44255/1997
267	1	KU	INJAKA, 267 - KU	T0KU00000000026700001	
267	9	KU	INJAKA, 267 - KU	T0KU00000000026700009	
267	14	KU	INJAKA, 267 - KU	T0KU00000000026700014	
267	14	KU	INJAKA, 267 - KU	T0KU00000000026700014	
267	22	KU	INJAKA, 267 - KU	T0KU00000000026700022	
267	31	KU	INJAKA, 267 - KU	T0KU00000000026700031	
267	32	KU	INJAKA, 267 - KU	T0KU00000000026700032	
756		DUVHAPARK	JEAN WELTZ	T0JS0012000007560	T17046/1987

FARM / ERF #	PTN	FARM NAME / TOWN	Street	LPI CODE	TITLE DEED NO
310		JS	JOUBERTSRUST GED 36 WITBA	T0JS00000000031000036	T9421/1946
310		JS	JOUBERTSRUST GED 47 WITBA	T0JS00000000031000047	T22773/1949
1227	0	PORTERVILLE	KERKSTRAAT		None (00000205)
710	0	PIKETBERG	KLOOFSTRAAT		None (00002023)
390	0	REDELINGSHUYS	KOTZE STREET		None (00005253)
557		KWA-GUQA	LEKWA	T0JS00480000055700000	T79364/1992
61		KWA-GUQA	LEOLA	T0JS00480000006100000	T44255/1997
1660	0	MONTE BERTHA	LOERIESTRAAT 2		None (00000731)
1099	0	PIKETBERG (SCHEMES)	LONGSTRAAT		None (00002375)
4951		WITBANK	MANDELA (PRESIDENT)	T0JS00350000495100000	T8249/1989
287	2	KU	MARITE, 287 - KU	T0KU00000000028700002	
791		CLEWER	MARKET	T0JS0005000007910	T11397/1977
241		DUVHAPARK	MIMIE ROTHMAN	T0JS0012000002410	T40578/2002
18		MODELPARK	MONTAGU	T0JS0025000000180	T1409/1981
19		MODELPARK	MONTAGU	T0JS0025000000190	T1409/1981
20		MODELPARK	MONTAGU	T0JS0025000000200	T1409/1981
21		MODELPARK	MONTAGU	T0JS0025000000210	T1409/1981
22		MODELPARK	MONTAGU	T0JS0025000000220	T1409/1981
23		MODELPARK	MONTAGU	T0JS0025000000230	T1409/1981

FARM / ERF #	PTN	FARM NAME / TOWN	Street	LPI CODE	TITLE DEED NO
24		MODELPARK	MONTAGU	T0JS0025000000240	T1409/1981
25		MODELPARK	MONTAGU	T0JS0025000000250	T1409/1981
378		MODELPARK	MONTAGU	T0JS00250000003780	T34800/1985
22		TASBETPARK	MOPANIE	T0JS0063000000220	T21700/1982
25		TASBETPARK	MOPANIE	T0JS0063000000250	T21702/1982
288		SCHOONGEZICHT	NELL	T0JS00320000002880	T7419/1979
1243		DEL JUDOR	NITA	T0JS0007000012430	T9261/1983
579	0	NOORDHOEK	NOORDHOEKLAAN		T65393/2005
384	0	REDELINGSHUYS	OEOFF BERG STREET		T75598/2005
2840	0	VELDDRIF (PORT AREA)	OESTERSTRAAT		None (00009241)
193	0	BERGRIVIER (FARMS)	PAARDEN VALLEI		None (00004843)
1647	0	PORTERVILLE	PARKSTRAAT 19		None (00000436)
2880		WITBANK	PIENAAR	T0JS0035000028800	T48490/1969
1299	0	PORTERVILLE	PIET RETIEFSTRAAT 42		None (00000264)
30		DIXON AGRICULTURAL HOLDINGS	PLOT	T0JS00110000003055	T129897/1999
14		SEEKOEIWATER AGRICULTURAL HOLDINGS	PLOT 14 ZEEKOEIWATER SMALL	T0JS0033000000140	T3927/1959
34		SEEKOEIWATER AGRICULTURAL HOLDINGS	PLOT 34 ZEEKOEIWATER SMALL	T0JS0033000000340	T3927/1959
44		RIVER VIEW AGRICULTURAL HOLDINGS	PLOT 44 RIVERVIEW WITBANK	T0JS0030000000440	T14008/1939

FARM / ERF #	PTN	FARM NAME / TOWN	Street	LPI CODE	TITLE DEED NO
311		JS	PORT 225 ZEEKOEWATER WITB	T0JS00000000031100225	T13937/1985
311		JS	PORT 226 ZEEKOEWATER WITB	T0JS00000000031100226	T27965/1985
1878		HOEVELDPARK	PRINSBERG	T0JS0017000018780	T8135/1979
273		TASBETPARK	RIBBOK	T0JS0063000002730	T27486/1971
274		TASBETPARK	RIBBOK	T0JS0063000002740	T31488/1974
30	1	BERGRIVIER (FARMS)	RIETFontein		T4313/2011, 01/02/2011
3827		WITBANK	ROSE-INNES	T0JS0035000038270	T49609/1969
263	0	REDELINGSHUYS	SCHOOL STREET		None (00005232)
389	0	REDELINGSHUYS	SCHOOL STREET		None (00005252)
201	0	AURORA	SCHOOL STREET		T1002/1915
63	0	AURORA	SCHOOL STREET		None (00009885)
203	0	AURORA	SCHOOL STREET		None (00009992)
1253		KWA-GUQA	SHADRACK MAELANE	T0JS00480000125300000	T33138/1997
1377		TASBETPARK	SIMFONIE	T0JS0063000013770	T29534/1999
851	0	PIKETBERG	SIMON VAN DER STEL STREET		None (00002024)
578	0	PIKETBERG	SIMON VAN DER STELSTRAAT		None (00001928)
1045	0	PIKETBERG	SIMON VAN DER STELSTRAAT		None (00002092)
1326	0	PIKETBERG	SIMON VAN DER STELSTRAAT		None (00002122)
1083	0	PIKETBERG (INDUSTRIAL AREA)	SINGELSTRAAT		None (00002789)

FARM / ERF #	PTN	FARM NAME / TOWN	Street	LPI CODE	TITLE DEED NO
71	0	EENDEKUIL (KLIPPIESDORP)	SKOOLSTRAAT		T29254/1972
203	0	REDELINGSHUYS	SKOOLSTRAAT		None (00005225)
323	0	REDELINGSHUYS	SKOOLSTRAAT		None (00005239)
4120		KWA-GUQA	SKROP MASILELA	T0JS0048000041200000	TL14222/1994
1	0	VELDDRIF	SMITLAAN		None (00006196)
26	0	VELDDRIF	SMITLAAN		None (00006221)
29	2	BERGRIVIER (FARMS)	ST HELENAFONTEIN A		T15643/1967
7		IS	STRYDOM STR OGIES	T0IS0000000000700036	T2917/1967
1313	0	PIKETBERG	TUINSTRAAT 43		None (00002119)
690	0	PIKETBERG	TUINSTRAAT 7		None (00002015)
60	0	EENDEKUIL	VAN NIEKERK STREET		None (00005483)
111		MODELPARK	VERA	T0JS0025000001110	T64796/1980
1092		WITBANK	WATERMEYER	T0JS0035000010920	T39639/1982
273	41	KU	WATERVAL, 273 - KU	T0KU00000000027300041	

Impact

The aforementioned finding result in the following:

The Immovable Asset register is not complete.

The Immovable Assets is understated by an undeterminable amount.

Internal control deficiency

Financial and performance management

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

Recommendation

Management should ensure that financial statements and supporting schedules are adequately reviewed before submission for audit.

Management should ensure that they record all immovable assets owned by the entity as certain assets were identified as owned by the entity, but not included in the asset register.

Management response

Management takes note of AG's comments but is not in agreement.

Management had an engagement with the AG wherein management expressed its concerns regarding the quality of the data source provided by the AG. Management stated that municipalities' municipal valuation rolls had inferior quality data when accounting for land parcels as not all mandatory fields that would allow management to locate the land parcel in question were populated. Management is of the opinion that the key source of all land parcels is the Department of Rural Development and Land Reform through the Deeds office. Management performed a reconciliation between all the properties belonging to the Provincial/ National (government) and ensured that all the land parcels were recorded in the official Asset Registers or the Deemed list in accordance with National Treasury's Immovable Asset Guide.

Management also noted that previously the Property Rates budget for both Provincial and National departments was allocated to the National Department of Public Works. However, the budget was devolved, but municipalities had not updated their information/records to reflect who the owner of the land parcel is and whom bears the responsibility to pay the rates levied thus rendering the valuation roll data as an inaccurate source of ownership of the land parcels.

Subsequent to the engagement with AG, AG provided a revised sample of 50 which stated that the owner of the property was the National Department of Public Works. Management were able to link 43 of the 50 land parcels. Forty two (42) were identified in the Western Cape Provincial Register, 1 was found in the Department of Rural Development and Land Reform Register demonstrating that the naming conventions for ownership utilized by municipalities are not correct. The balance of seven (7) did not have sufficient detail to be traced. This was due to the properties not being assigned an LPI or title deed number as these are the 2 unique identifiers used to code all land parcels. Management attempted to regenerate the LPI code using the data provided by the AG but were unable to create an LPI as the data was insufficient. A further shortcoming in the data is that in the COFF it was not stated whether the name provided was a farm name or a town.

Management then attempted to use the farm/town name to identify the land parcels but were unable to as when searching assuming it is a town, no data was found in the Deeds-web however when farm name was utilized to search, an error was received as you are unable to search a farm name in the absence of a registration division which was not provided by the AG.

Auditor's conclusion

Management submitted a revised IAR on 3 August 2018. Management corrected the completeness issue in the revised IAR.

Immovable assets: Incorrect classification of assets (COFF 36)

DETAILED AUDIT FINDING

Incorrect classification of assets

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

- (e) must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;*
- (f) must prepare financial statements for each financial year in accordance with generally recognized accounting practice”*

Paragraph 85 of the Standards of Generally Recognized Accounting Practice (GRAP) 1 states that: *“An entity shall disclose, either on the face of the statement of financial position or in the notes to the statement of financial position, further sub-classifications of the line items presented, classified in a manner appropriate to the entity’s operations.”*

Paragraph 05 of GRAP 16 states that: *“Investment property is property (land or a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:*

- (a) use in the production or supply of goods or services or for administrative purposes; or*
- (b) sale in the ordinary course of operations.*

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction. “

Paragraph 06 of GRAP 17 states that: *“Property, plant and equipment are tangible items that:*

- (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and*
- (b) are expected to be used during more than one reporting period.”*

Paragraph 04 of GRAP 103 states that: *“Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.”*

Note 1.7 (Investment Property) to the 2017/18 Annual Financial Statement states that: *“Investment property is initially recognised at cost, including transaction costs. Investment property is*

subsequently carried at cost less accumulated depreciation and any accumulated impairment losses, except for land. Land is not depreciated."

Nature

During the performance of our audit, the following was identified:

Buildings in Table 1 below are disclosed as GRAP 16 on the Immovable Asset Register (IAR), these properties were traced to the rental debtors / leased schedule to confirm if the PMTE is receiving rental income and we were unable to confirm that they are classified correctly.

Table 1

No.	Building Id	Unique prop code of land parcel/site	Accommodation Type	AFS/IAR CLASSIFICATION	Classification as per Auditors	CARRY VALUE FOR THE YEAR 2017/18
1	100000008640	3038791	WORKSHOP	GRAP 16	GRAP 17	R 1 478 766
2	100000008641	3038791	WORKSHOP	GRAP 16	GRAP 17	R 2 433 688
3	233400047	508801	UNUTILIZED	GRAP 16	GRAP 17	R 2 268 211
4	233400182	508801	WORKSHOP	GRAP 16	GRAP 17	R 1 285 053
5	233400050	508801	WORKSHOP	GRAP 16	GRAP 17	R 1 827 995
6	233400021	508801	PURIFICATION WORKS	GRAP 16	GRAP 17	R 2 835 961
7	200000119604	3081092	MINING	GRAP 16	GRAP 17	R 1 387 562
8	200000119606	3081092	MINING	GRAP 16	GRAP 17	R 1 517 972
9	234400730	3081092	MINING	GRAP 16	GRAP 17	R 2 569 725
10	200000119599	3081092	MINING	GRAP 16	GRAP 17	R 4 240 933
11	200000089407	3105851	AGRICULTURE	GRAP 16	GRAP 17	R 1 631 510

12	200000089406	3105851	AGRICULTURE	GRAP 16	GRAP 17	R	2 601 180
13	DODBLD25174	587721	STORE	GRAP 16	GRAP 17	R	1 045 179
						Total	R 27 123 735

Land in Table 2 below is disclosed as GRAP 16 on the Immovable Asset Register (IAR) and is not linked to improvements / buildings. We traced the land to the rental debtors / leased schedule to confirm if the PMTE is receiving rental income and we were unable to confirm that they are classified correctly. As per investment property accounting policy land is subsequently measured at cost model and not fair value model, thus we could not confirm that land is held for capital appreciation.

Table 2

No.	Unique Property Code	Property Description	User Department occupying the property as per Physical verification reporting	AFS/IAR Classification	Classification as per Auditors	CARRYING VALUE 31 MARCH 2018
1	3008591	FARM 497 PORTION 0 OF NAMAQUALAND RD-FARM 497	ENVIRONMENTAL AFFAIRS	GRAP 16	GRAP 17	R 3 096 937
2	576721	FARM 251 PORTION 146 OF GORDONIA RD-KALAHARI-WES	DEFENCE AND MILITARY	GRAP 16	GRAP 17	R 3 793 265
3	3139671	FARM 1 PORTION 2 OF PRIESKA	WATER AFFAIRS	GRAP 16	GRAP 17	R 12 972 438
4	780341	FARM 196 PORTION 0 OF CALVINIA RD-COMMISSIONERS VLEY	NATIONAL UNUTILIZED	GRAP 16	GRAP 17	R 74 910 075
Total						R 94 772 714

Land in Table 3 below is disclosed as GRAP 13 on the Immovable Asset Register (IAR), we therefore used coordinates to locate the land and we confirmed that it is part of Police Station Fort Brown. No evidence of heritage was seen on Google Maps

Table 3

N O.	Unique Property Code	Property Description	Branch / Unit of User Department occupying the property as per Physical verification reporting	AFS/IAR Classification	Classification as per Auditors	CARRYING VALUE 31 MARCH 2018
3	3005511	FARM 101 PORTION 0 OF ALBANY RD-FARM 101	DEFENCE AND MILITARY	GRAP 103	GRAP 17	R 337 278
Total						R 337 278

Building in Table 4 below is disclosed as GRAP 17 on the Immovable Asset Register (IAR), however as per physical verification conducted, the improvement is a museum.

Table 4

No.	Building Id	Unique prop code of land parcel/site	Accommodation Type	AFS/IAR CLASSIFICATION	Classification as per Auditors	CARRY VALUE FOR THE YEAR 2017/18
1	243600359	200000083194	MUSEUM	GRAP 17	GRAP 103	R 164 842 413
Total						R 164 842 413

This impacted immovable assets in the following areas:

- Investment property is overstated by R 121 896 449
- Heritage assets are understated by R 164 505 135
- Property, plant and equipment is overstated by R 42 608 686

Internal control deficiency

Financial and performance management

The entity did not implement a proper financial and reporting system to enable proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

The entity did not sufficiently review the supporting schedules and financial statements prior to submission for audit.

Recommendation

Management should ensure that financial statements and supporting schedules are adequately reviewed before submission for audit.

Management should ensure that assets recorded on the immovable asset register are classified correctly according to Generally Recognized Accounting Practice (GRAP) standards.

Management response

Management are partially in agreement with the finding.

Management agrees with all the discrepancies identified by the AG except the following findings:

1. In table 2 above, AG has identified a unique property code number 780341 with a carrying value amounting to R 74 910 075 being classified as GRAP 17, however, this property was correctly classified as GRAP 16 as the piece of land has a corresponding lease agreement.
2. In table 4 above, AG has identified the Playhouse in Durban as GRAP 103. Management has discussed with AG to corroborate that building ID 200000083194 with a carrying value amounting to R 164 842 413 is correctly classified as GRAP 17.

Auditor's conclusion

Management comments noted. The finding remains.

Payables from exchange transactions

Accrued expenses: understatement of schedule maintenance

Laws, rules and Regulations:

Public Finance Management Act section 40(1)(a), and 40(1)(b) of the PFMA states the following: (a) the accounting officer for a department, trading entity or constitutional institution- (b) must prepare financial statements for each financial year in accordance with generally recognized accounting practice;"

Property Management Trading Entity Payables Management Systems

6.9.2 states:

The accrued goods and services received prior to the reporting date need to be accounted in the current financial year.

6.9 Apportionment of accruals

6.9.4 The process to be followed to accurately apportion accruals includes:

- *Obtain all the supporting documentation relating to the particular payment; and*
- *Calculate the apportioned amount based on the total period covered by the service charge and the portion relating to the period under review. "*

During the performance of our audit we identified that the following transaction relates to services received before year end and were not included in the accrual schedule.

Scheduled Maintenance (understatement)

COFF No.	Region	Supplier name	WCS Number	Valuation Date	Invoice amount	Amount per recalculation	Amount per accrual listing	Difference between accrual listing amount and recalculation
10	Durban	Mishoe Projects	049153	2018/03/05-2018/04/09	708 382.46	526 226.97	-	526 226.97
6	Cape Town	SAWE Multi-disciplinary engineers	040793	2018/03/09	147 887.13	147 887.13	-	147 887.13
14	Head Office	Superway construction	053363	2018/03/14-20/04/2018	1 126 449.1	1 126 449.1	-	1 126 449.10
10	Polokwane	NGAATENDWE TRADING CC	050342	2018/02/16-2018/04/16	247 786.00	180 589.00	-	180 589.00
16	Pretoria	Tsekwane Investments	052132	2018/03/19	946 462,99	946 462,99	-	946 462,99
4	Nelspruit	Burewa Trading 84 CC	051821	2018/03/23	172 244.52	172 244.52	-	172 244.52
4	Nelspruit	Bitupquip Construction	051786	2018/03/23-2018/04/23	868 236.13	868 236.13	-	224 060.94

3 323 920.65

Impact

This will result in an understatement of scheduled maintenance by **R 3 323 920.65**

Internal control deficiency

Financial and performance management

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

Recommendation

Management estimates should utilise a range of sources, and project managers should be consulted to determine whether estimates are reasonable.

Management should enhance the review of the financial statements prior to submission for audit purposes and ensure that all information that is included in the financial statements is complete and presented fairly.

Management response

Management agrees with the audit finding.

Management is in the process of reassessing the completeness, validity and accuracy of the WCS project accruals. A revised population was provided to the AGSA by 27 July 2018 as

Management has improved the process of identifying and determining the accrual relating to WCS projects. This includes considering subsequent payments, invoices registered on Reapatala and follow up with contractors & consultants on estimated work performed by 31 March 2018 where invoice has not yet been issued.

Auditor's conclusion

Management is in agreement with the finding therefore it will be reported in the management report

Accrued expenses: overstatement of schedule maintenance

Laws, rules and Regulations:

Public Finance Management Act section 40(1)(a), and 40(1)(b) of the PFMA states the following: (a) the accounting officer for a department, trading entity or constitutional institution- (b) must prepare financial statements for each financial year in accordance with generally recognized accounting practice;"

Property Management Trading Entity Payables Management Systems 6.9.2 states:

The accrued goods and services received prior to the reporting date need to be accounted in the current financial year.

6.9 Apportionment of accruals

6.9.4 The process to be followed to accurately apportion accruals includes:

- Obtain all the supporting documentation relating to the particular payment; and*
- Calculate the apportioned amount based on the total period covered by the service charge and the portion relating to the period under review. "*

During the performance of our audit we identified that the following transaction relates to services received before year end however the amount accrued for was more than the invoice amount.

Scheduled Maintenance (overstatement)

COFF No.	Region	Supplier Name	WCS Number	Valuation Date	Invoice amount	Amount per recalculation	Amount per accrual listing	Difference between accrual listing amount and recalculation
6	Cape Town	Nolitha (pty) Ltd	48538	31/03/2018	4 297 144.00	4 297 144.27	4 939 856.00	642 711.28

Impact

This will result in an overstatement of scheduled maintenance by **R 642 711.28**

Internal control deficiency

Financial and performance management

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

Recommendation

Management estimates should utilise a range of sources, and project managers should be consulted to determine whether estimates are reasonable.

Management should enhance the review of the financial statements prior to submission for audit purposes and ensure that all information that is included in the financial statements is complete and presented fairly.

Management response

Management is in agreement with the finding.

In this case the Project Manager requested either an invoice or an estimate from the consultants and contractors to prepare the accrual listing as at 31 March 2018. The reason being that it is not possible for Project Managers to do a realistic estimate of work done. The accrual raised here was based on the invoice (Estimated) that was received from the contractor as requested.

The actual invoice received 4 days later that was prepared based on the actual measurement of work done was less than the estimated amount as per the first invoice. It was not possible for the Project Manager to know when the first invoice was received that the actual amount to be claimed by the contractor would be less. This is a possibility in respect of all construction projects where estimates are made in respect of work done up to particular date.

Management will consider the adjustment in line with GRAP 14 Events after reporting date.

Auditor's conclusion

Management is in agreement with the finding therefore it will be reported in the management report

Commitments

Differences on commitments (JHB Coff 2)(CTN Coff 10)(MTH Coff 5)

Laws, rules and Regulations:

Public Finance Management Act section 40(1)(a), and 40(1)(b) of the PFMA states that the accounting officer for a department, trading entity or constitutional institution must prepare financial statements for each financial year in accordance with generally recognized accounting practice.

Generally Recognised Accounting Policy 1, paragraph 19(b) states that fair presentation requires an entity to present information including accounting policies, in a manner which provides relevant, reliable, comparable and understandable information.

Generally Recognised Accounting Policy 17, paragraph 81(c) states that the financial statements shall also disclose for each class of property, plant and equipment recognised in the financial statements, the amount of contractual commitments for the acquisition of property, plant and equipment.

During the audit of commitments, the following misstatements were noted:

Johannesburg

Differences on calculations of commitment as at 31 March 2018 were noted for the below mentioned projects:

No	WCS	Project description	Commitment per commitment schedule	Recalculated commitment	Difference
1	054053	Construction of facilities for people with disabilities	R214 126,80	R343 493,25	R129 366,45
				Total	R129 366,45

Cape Town

Differences identified between the consultant authorised amount per commitment schedule and the authorised amount per supporting documentation:

Region	WCS Number	Consultant authorisation as per the schedule (R)	Consultant authorisation as per the supporting documentation (R)	Difference (R)
CT	052153	10 492 585.56	11 829 850	1 337 267
CT	049416	12 894 950	13 163 841	268 891
				1 606 158

Umtata

Differences were identified between the CPAP authorized amounts per supporting documentation to the amount disclosed in the commitments schedule

Region	WCS No	Amount per supporting documentation	Amount per schedule	Difference
MTH	44390	R 5 488 443.75	R 0	(R 5 488 443.75)

Impact

This will result in an understatement of commitments.

Internal control deficiency***Financial and performance management***

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

Recommendation

Management should enhance the review of the financial statements prior to submission for audit purposes and ensure that all information that is included in the financial statements is complete and presented fairly.

Management responseJohannesburg

Management is in agreement with the finding.

This was due to a human error, and inadequate review of the amounts submitted. However, this is an isolated error

Cape Town

Although there is a difference in the authorized amount on WCS and the financial statement input it is not agreed that this will lead to an understatement in respect of commitments.

In respect of the first case listed the Project Manager had paid the final account but all the consultant's fee accounts were not yet submitted. Based on the available information at the time of preparing the statements the Project Manager estimated that the consultants would require less funding than indicated on WCS.

In respect of the second case an estimate of fees required was submitted by the consultant by means of a Financial Report of which a copy is attached to this response.

In both these cases it was not possible to update WCS as the information was only made available or became known after 31 March 2018.

Umtata

Responses not provided

Auditor's conclusion

Johannesburg

Management agrees with the finding. The finding remains

Cape Town

Management responses noted. The finding remains as there are differences between amounts per schedule and supporting documentation.

The finding will be included in the management report.

Umtata

No management response provided. Finding remains.

Commitment not included in the commitment schedule (Coff 21 PTA)**Audit finding**

Laws, rules and Regulations:

Chapter 5 of the Public Finance Management Act (PFMA) Section 40 stipulates that: “the accounting officer for a department, trading entity or constitutional institution –

- (a) must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;
- (b) must prepare financial statements for each financial year in accordance with generally recognized accounting practice”.

Nature

During the performance of our audit we identified that the following transaction was not included on the commitment schedule where the acceptance of appointment was before 31 March 2018:

WCS Number	Supplier name	Tender acceptance date	Tender amount R
55107	KVM Solutions (Pty) Ltd	2018/03/08	1 838 592

Impact

This result in understatement of commitments by R1 838 592

Internal control deficiency***Financial and performance management***

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

Recommendation

Management should enhance the review of the financial statements prior to submission for audit purposes and ensure that all information that is included in the financial statements is complete and presented fairly.

Management response

Management agrees with the finding. The tender acceptance date was done before the 31 March 2018. Management will review tenders awarded during the 2017/2018 financial period to ensure that contractual obligations are accounted for in the capital commitments schedule.

Auditor's conclusion

Management agrees with the finding. The finding will remain.

Cancelled contract included in the commitment schedule (Nel Coff 06)**Laws, rules and Regulations:**

Public Finance Management Act section 40(1)(a), and 40(1)(b) of the PFMA states the following:

- (a) the accounting officer for a department, trading entity or constitutional institution-
- (b) must prepare financial statements for each financial year in accordance with generally recognized accounting practice;"

During the performance of our audit we identified that for the following commitments were included in the commitments schedule even though the contracts were cancelled.

WCS number	Supplier	Date of termination per signed termination letter	Removed in commitment listing	Contractor commitment amount if not removed
54021	Today's Destiny Trading and Projects	27-Oct-17	No	2 478 080,05
49866	Mabosola construction and projects	26-May-17	No	1 304 727,15
				3 782 807,20

Impact

This will result in an overstatement of commitments by **R3 782 807.20**

Internal control deficiency

Financial and performance management

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

Recommendation

Management should ensure that all information is captured correctly in the schedules supporting the financial and all schedules are reviewed to ensure that it has been recorded correctly.

Management response

Management response were not received

Auditor's conclusion

Management response not received therefore the finding remains.

Irregular expenditure

GRC investigations on irregular expenditure not included in the irregular expenditure register. (Coff 76)

Public Finance Management Act (PFMA) section 38(1)(c) states:

“The accounting officer for a department, trading entity or constitutional institution must take effective and appropriate steps to—

(ii) prevent unauthorised, irregular and fruitless and wasteful expenditure and losses resulting from criminal conduct;“

Public Finance Management Act (PFMA) section 38(1)(c)(g) requires that;

“(c) must take effective and appropriate steps to—

(i) collect all money due to the department, trading entity or constitutional institution;

(ii) prevent unauthorised, irregular and fruitless and wasteful expenditure and losses resulting from criminal conduct; and

(iii) manage available working capital efficiently and economically”

“(g) on discovery of any unauthorised, irregular or fruitless and wasteful expenditure, must immediately report, in writing, particulars of the expenditure to the relevant treasury and in the case of irregular expenditure involving the procurement of goods or services, also to the relevant tender board”

“(h) must take effective and appropriate disciplinary steps against any official in the service of the department, trading entity or constitutional institution who—

(i) contravenes or fails to comply with a provision of this Act;

(ii) commits an act which undermines the financial management and internal control system of the department, trading entity or constitutional institution; or

(iii) makes or permits an unauthorised expenditure, irregular expenditure or fruitless and wasteful expenditure”

Chapter 5 of the Public Finance Management Act (PFMA) section 40(1)(a) stipulates that the accounting officer for a department must keep full and proper records of the financial affairs of the department in accordance with any prescribed norms and standards.

Treasury Regulations 9.1.5 states:

The amount of the unauthorised, irregular, fruitless and wasteful expenditure must be disclosed as a note to the annual financial statements of the institution.

The following discrepancies were identified:

The following matters were investigated by the Governance, Risk and Compliance (GRC) Unit. Irregular expenditure was identified per the investigation. The irregular expenditure was not included in the irregular expenditure register:

Number	GRC Reference Number	Supplier	Amount
1	PTA/FAI/06/2016-17	Access Electronics	Management must determine amount
2	HO/FAI/03/2016/17	Rubbytad	5 278 061,51
3		Tsogang Mohale & Sons Trading & Projects Pty Ltd	9 060,10
4	POL/FAI/01/2016-17	Amukangs Electrical Pty Ltd	6 389,07

Internal control deficiency

Financial and performance management

The entity did not implement a proper financial and reporting system to enable proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

Risk

Understatement of irregular expenditure

Recommendation

Management should ensure that all information is captured correctly in the schedules supporting the financial statement and all schedules are reviewed to ensure that it has been recorded correctly.

Irregular expenditure should be included in the irregular expenditure register.

Management response

Management does not agree with the audit finding. The transactions for Amukangs Electrical (Pty) Ltd for an amount of R6 389.07 was discovered and disclosed by management in 2016/17 financial year after it was validated and confirmed to be irregular expenditure. With respect to other transactions, a summary of the report was provided to Internal Control for disclosure purposes. However, due to lack of sufficient information at that time, the amounts were not disclosed in the register, pending the validation purpose once all relevant documents have been provided.

With respect to the suspected transactions of irregular expenditure for Access Electronics, Rubbytdad and Tsogang Mohale & Sons Trading & Projects (Pty) Ltd, management is still in the process of validating them before they could be disclosed.

It must be noted by the audit team that once investigations have been conducted, it is not a default that, despite the fact that investigation may have found instances of irregularities, the resultant thereof will be irregular expenditure. The responsibility to validate and confirm if a transaction meets the definition of irregular or fruitless and wasteful expenditure has been delegated to Director: Internal Control for Head Office. The same principle applies with transactions that have been investigated by the SIU, as indicated to the audit team, where further details were not provided. This fact was indicated to the audit team as they information provided was scant and did not have basic information for disclosure purpose. This is to ensure that only transactions that meet the definition of irregular or fruitless and wasteful are reported and properly disclosed in the registers and annual financial statements. It is anticipated that the validation of these transactions, as with the other transactions, will be finalised by end September 2018 and disclosed appropriately thereafter. Management will provide a narrative to this effect in the disclosure note of irregular expenditure.

Auditor's conclusion

Management comments with respect to Amukangs electrical (Pty) Ltd and the finding resolved with respect to Amukangs.

Management comments are noted with respect to Access Electronics, Rubbytdad and Tsogang Mohale & Sons. However formal investigations were conducted and finalized on the matters. The

recommendations included that there was irregular expenditure which must be disclosed. The recommendations were approved by the Director General for implementation.

The irregular expenditure relating to these cases is still not included in the irregular expenditure register and not disclosed in the financial statements. The finding will remain as understatement of irregular expenditure.

Irregular Expenditure not included in the register.

Public Finance Management Act (PFMA) section 38(1)(c) states:

“The accounting officer for a department, trading entity or constitutional institution must take effective and appropriate steps to—

(ii) prevent unauthorised, irregular and fruitless and wasteful expenditure and losses resulting from criminal conduct;“

Public Finance Management Act (PFMA) section 38(1)(c)(g) requires that;

“(c) must take effective and appropriate steps to—

(i) collect all money due to the department, trading entity or constitutional institution;

(ii) prevent unauthorised, irregular and fruitless and wasteful expenditure and losses resulting from criminal conduct; and

(iii) manage available working capital efficiently and economically”

“(g) on discovery of any unauthorised, irregular or fruitless and wasteful expenditure, must immediately report, in writing, particulars of the expenditure to the relevant treasury and in the case of irregular expenditure involving the procurement of goods or services, also to the relevant tender board”

“(h) must take effective and appropriate disciplinary steps against any official in the service of the department, trading entity or constitutional institution who—

(i) contravenes or fails to comply with a provision of this Act;

(ii) commits an act which undermines the financial management and internal control system of the department, trading entity or constitutional institution; or

(iii) makes or permits an unauthorised expenditure, irregular expenditure or fruitless and wasteful expenditure”

Chapter 5 of the Public Finance Management Act (PFMA) section 40(1)(a) stipulates that the accounting officer for a department must keep full and proper records of the financial affairs of the department in accordance with any prescribed norms and standards.

Treasury Regulations 9.1.5 states:

The amount of the unauthorised, irregular, fruitless and wasteful expenditure must be disclosed as a note to the annual financial statements of the institution.

The following discrepancies were identified:

The following irregular expenditure was identified during the audit process in the 2016/17 financial year and the below mentioned Communications of audit findings (COFFs) were raised indicating that irregular expenditure incurred and should be included in the irregular expenditure register. The findings were also included in the management report for 2016/17. However it was noted that the irregular expenditure relating to these suppliers was not included in the irregular expenditure register for 2017/18:

COFF Number	Supplier name	Award	Expenditure
COFF 24 PTA	Emthunzini aircon and (8366*1539*AH788694)	358 679	358 679
COFF 24 PTA	Superfecta Trading (209 8365*8660*AH265368)	393 518	393 518
COFF 24 PTA	Co Setati Trading and (8366*1478*AH789373)	495 505	495 505
COFF 24 PTA	Risima Engineering (8366*1642*789331)	358 679	358 679
COFF 24 PTA	Ddw-Moago Construction (8366*0912*AH118232)	429 717	429 717
COFF 5 BFN	Amkelo Electrical	145 411	145 411
COFF 26 PTA	Zwa Shu Trading	32 500 000	-
COFF 4 PE	Razzmatazz Civil Pty Ltd	41 656 711	6 005 202
COFF 57 PTA	Motseng Property Services (6029/6752)	240 381 757	4 281 535

COFF 9CT	14 Long Street	30 889 344	3 234 216
COFF 3 KIM	Trifecta	7 113 412	-
COFF 34	Superway Construction (Pty) Ltd (Wcs 050596)	26 875 521	4 452 981
COFF 36	BMK Electronics CC (049252)	14 937 997	1 382 276

Internal control deficiency

Financial and performance management

The entity did not implement a proper financial and reporting system to enable proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

Risk

Understatement of irregular expenditure

Recommendation

Management should ensure that all information is captured correctly in the schedules supporting the financial statement and all schedules are reviewed to ensure that it has been recorded correctly.

Irregular expenditure should be included in the irregular expenditure register.

Management response

Management disagrees with the audit finding. In the previous financial year, management indicated the following narrative in the disclosure note of irregular expenditure regarding the transactions that were identified by the AGSA during the audit for which management disagreed with the audit: *“an amount of R29 million was discovered as potential irregular expenditure, which management still needs to validate in line with the National Treasury Guideline on Irregular Expenditure. The validation will be completed in the 2017/18 financial year and appropriate disclosures, where necessary, will be made.”* These relate to transactions where management disagreed with the audit findings, and the audit team further disagreed with management responses. As it has been a norm in the past, the audit team has always afforded management an opportunity to go back in the new financial year to review, validate and confirm the findings. This process was not completed in the current financial year. Management has committed to have the validation process finalised by 30 September 2018, after which appropriate disclosures will be made. To this end, the narrative that was provided in the disclosure note in the previous financial year will be retained for completeness purpose.

Auditor's conclusion

Management comments noted. The National Treasury Guideline on Irregular Expenditure encourages investigations of irregular expenditure to be finalized within 30 days from discovery of such irregular expenditure. The matters indicated in the finding were identified during the 2016/17 audit. In addition management has not provided supporting documentation that investigations have begun and the progress thereof. The narrative will be confirmed to the revised financial statements however the finding will therefore remain for the management report.

Fruitless and wasteful expenditure

Understatement of Fruitless and Wasteful Expenditure

Audit finding

Laws, rules and Regulations:

Chapter 5 of the Public Finance Management Act (PFMA) Section 40 stipulates that: *“the accounting officer for a department, trading entity or constitutional institution –*

- (a) *must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;*
- (b) *must prepare financial statements for each financial year in accordance with generally recognized accounting practice”.*

Treasury Regulation 9.1.5 stipulates that:

The amount of the fruitless and wasteful expenditure must be disclosed as a note to the annual financial statements.

The National Treasury Guideline on fruitless and wasteful expenditure provides the following:

11. Upon the discovery of alleged fruitless and wasteful expenditure, an employee must immediately report the alleged fruitless and wasteful expenditure to the accounting officer of a department of constitutional institution in line with Treasury Regulation 9.1.2.

12. The accounting officer or accounting authority must maintain a fruitless and wasteful expenditure register which must contain detailed information on such expenditure for each financial year. A complete and accurate register will also ensure that fruitless and wasteful expenditure disclosed in the annual financial statements is complete and accurate.

17. Once an investigation has been concluded and the result confirms that the expenditure constitutes fruitless and wasteful expenditure, the accounting officer of a department or constitutional institution must immediately, in writing, report the particulars of the fruitless and wasteful expenditure to the relevant treasury in terms of section 38(1)(g) PFMA.

Nature

During the performance of our audit we identified that the following transactions relating to fruitless and wasteful expenditure were reported to National treasury as fruitless and wasteful expenditure but were not included on the fruitless and wasteful expenditure register for the period ended 31 March 2018 for disclosure in the financial statements:

Region	Supplier name	Payment Date	Total payment R	Date reported to National Treasury
Kimberley	Eddies Electrical	2017/09/01	1 231.20	2017/11/15
Kimberley	Jaj General Service	2017/07/06	3 141.00	2017/11/15
Kimberley	Siyanxhasana Construction	2017/11/09	158 079.10	2017/12/12
Kimberley	Mdeketsheeni (Pty) Ltd	2017/03/07	281 991.20	2017/12/12
Head Office	Kruger & Scaff Attorneys	2017/02/14	54 309.64	2017/05/10
Head Office	Savage Jooste and Adams	2017/03/14	59 957.15	2017/05/10
Durban	Mbangomuni Cleaning	2017/04/11	4 699.80	2017/05/10

Impact

This will result in an:

- Understatement of fruitless and wasteful expenditure by **R 563 409.09**

Internal control deficiency

Financial and performance management

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

Recommendation

Management should enhance the review of the financial statements prior to submission for audit purposes and ensure that all information that is included in the financial statements is complete and presented fairly.

The amounts should be disclosed in the fruitless and wasteful expenditure register and in the financial statements.

Management response

Management does not agree with the finding for the following reasons:

- The following transactions are included in the register for the period ended 31 March 2018 and disclosed in the annual financial statements submitted to the audit team.

Region	Supplier name	Payment Date	Total payment R	Date reported to National Treasury
Head Office	Kruger & Scaff Attorneys	2017/02/14	54 309.64	2017/05/10
Head Office	Savage Jooste and Adams	2017/03/14	59 957.15	2017/05/10
Durban	Mbangomuni Cleaning	2017/04/11	4 699.80	2017/05/10

- The transactions below were initially included in the registers of fruitless and wasteful expenditure and reported to National Treasury during the months of November and December 2017. They were later removed from the final register submitted for audit as, at face value, they did not meet the definition of fruitless and wasteful expenditure, and still needed to be validated by the delegated authority. The June 2018 register that was submitted to National Treasury does reflect this fact. However, for completeness and audit trail purpose, the transactions were retained in the final register that was submitted for audit. The validation purpose could not be completed by the time the annual financial statements were finalised.

Region	Supplier name	Payment Date	Total payment R	Date reported to National Treasury
Kimberley	Eddies Electrical	2017/09/01	1 231.20	2017/11/15
Kimberley	Jaj General Service	2017/07/06	3 141.00	2017/11/15
Kimberley	Siyaxhasana Construction	2017/11/09	158 079.10	2017/12/12
Kimberley	Mdeketseni (Pty) Ltd	2017/03/07	281 991.20	2017/12/12

Auditor's conclusion

Management comments are noted. The auditors agree that the transactions in point a of the management response were correctly disclosed in schedules to the financials but were not disclosed in the annual financial statements. Note 31 of the financial statements does not show these transactions. Note 31 of the financial statements currently does not show any amounts of fruitless and wasteful expenditure relating to the current year. The following is currently disclosed under Note 31:

“Due to improved internal controls instituted by management, no fruitless or wasteful expenditure was discovered and confirmed in the current financial year.”

The finding therefore remains for the following items:

Region	Supplier name	Payment Date	Total payment R	Date reported to National Treasury
Head Office	Kruger & Scaff Attorneys	2017/02/14	54 309.64	2017/05/10
Head Office	Savage Jooste and Adams	2017/03/14	59 957.15	2017/05/10
Durban	Mbangomuni Cleaning	2017/04/11	4 699.80	2017/05/10

For point b of the management response, accounting officers and accounting authorities are encouraged to conclude all investigations and resolve all matters related to fruitless and wasteful expenditure within 90 days from the date on which the alleged fruitless and wasteful expenditure was discovered in terms of the National Treasury Guideline on fruitless and wasteful expenditure. If such investigations are not concluded by the date on which the annual financial statements are published, a narrative to this effect must be included as part of the fruitless and wasteful expenditure note to the annual financial statements.

Should the investigation reveal that the expenditure does not constitute fruitless and wasteful expenditure, the register must then be updated to reflect the outcome of the investigation. As there is no narrative in the financial statements, the finding remains for the following transactions:

Region	Supplier name	Payment Date	Total payment R	Date reported to National Treasury
Kimberley	Eddies Electrical	2017/09/01	1 231.20	2017/11/15
Kimberley	Jaj General Service	2017/07/06	3 141.00	2017/11/15
Kimberley	Siyanhhasana Construction	2017/11/09	158 079.10	2017/12/12
Kimberley	Mdeketsheeni (Pty) Ltd	2017/03/07	281 991.20	2017/12/12

Compliance

Non-compliance with treasury regulations as bank account is in overdraft

Audit finding

Treasury Regulations (TR) 19.2.3 states that trading entities allowed to open bank accounts may not borrow for bridging purposes and may not run overdrafts on their banking accounts.

The following non-compliance was identified:

During the audit it was noted that the PMTE PMG account (8033) is operating on a bank overdraft.

Furthermore the situation was reported in the prior year financial year and has since increased significantly:

Description	Amount R	Increase in overdraft R
Balance as at 31 March 2017	(1 932 441 000.00)	401 090 844.37
Balance as at 31 March 2018	(2 332 531 844.37)	

Reason for the deviation

The current business model of the entity requires PMTE to make payments on behalf of client departments, and only subsequently issue invoices to recover funds.

Impact of deviation

1. Non-compliance with TR 19.2.3
2. The bank overdraft may cast significant doubt on the entity's ability to continue as a going concern

Internal control deficiency

Leadership

The measures set for implementation by management have not yielded a positive result as the bank overdraft situation has worsened.

Recommendation

The successful implementation of the Archibus system must be prioritized as this was a requirement in the prior year for National Treasury to be further involved in the recovery of long outstanding debts from client departments.

Monthly reconciliations need to be performed and action taken to ensure timeous recovery of current debts from client departments.

Management needs to review this overdraft on a monthly basis to ensure the overdraft does not continually increase.

The entity should consider entering into agreements with the user departments to pay the PMTE upfront to alleviate the bank overdraft situation.

Management response

The bank balance fluctuates due to very big cash inflows and outflows, e.g. augmentation received from DPW, quarterly payment of state owned leases, etc.

The PMTE's initiatives to change the existing operating model and thereby improve the cash flow includes:

- Payments system for leases has been to claim leases in advance from client departments,
- Monthly reconciliation are performed and meetings held with client departments to facilitate the recovery of long outstanding debts as well as current debts timeously.
- Management monitors the bank on a monthly basis,
- The following strategies will be implemented to reduce the bank overdraft:
 - Claiming quarterly in advance for stated owned and leased accommodation
 - Ring fenced accommodation related budget in the clients baseline
 - Claiming in advance for capital projects
 - Terminating the services for clients not paying
 - Full implementation of the User Charge Model
 - Claim deposit equivalent to the monthly expenditure (municipal services and private leases)
 - Charging interest on all overdue amounts

Auditor's conclusion

Management agrees with the findings and therefore it will be reported in the management report.

Supply chain management

Suppliers did not declare interest of persons in service of state institutions (MMB – Coff 2)(KBY – Coff 1)(PTA – Coff 9)(UMT – Coff 2) (PLK – Coff 6)

Laws, rules and regulations

Laws, rules and regulations

National Treasury Practice Note 7 of 2009/2010 requires “a standard bidding document (SBD 4) “Declaration of Interest” to be completed”.

Instruction note on enhancing compliance monitoring SCM part 3.3.1 states that:

“There must be verification of the names and identity numbers of directors / trustees / shareholders of companies, enterprises, closed corporations and trusts against the relevant staff structure on the Standard Bid Document (SBD 4) Declaration of Interest has been augmented to compel bidders to submit the names of their directors / trustees / shareholders, their individual identity numbers, personal tax reference number and state1 employee / persal numbers as part of their bid (includes written price quotations, advertised competitive bids, limited bids and proposals) submissions”.

“Accounting officers and accounting authorities are required to utilize the revised SBD 4 when inviting bids and to verify the identity numbers of the directors / trustees / shareholders of the preferred bidder(s) against the institution’s staff establishment in order to determine whether or not any of the directors / trustees / shareholders are in the service of the state or officials employed by the specific institution. Such verification must take place during the bid evaluation process. If a bidder / director / trustee / shareholder declares that he / she is an employee of the state and furnishes, where applicable, proof that appropriate authority exists for him or her to undertake remunerative work outside his or her employment in the public service, such a bid must be evaluated in accordance with normal procurement processes. If a bidder / director / trustee / shareholder is found to be an official who is in the service of the state and has failed to make such a declaration in the bid documents, the bidder may be disqualified and the matter must be dealt with as financial misconduct and the relevant accounting officer / authority must take the necessary disciplinary steps against the official concerned “

Treasury Regulations 16A8.4 states that “If a supply chain management official or other role player, or any close family member, partner or associate of such official or other role player, has any private or business interest in any contract to be awarded, that official or other role player must

–

- (a) disclose that interest; and
- (b) withdraw from participating in any manner whatsoever in the process relating to that contract. “

Public Finance Management Act section 50(3)(a) states that “a member of an accounting authority must disclose to the accounting authority any direct or indirect personal or private business interest that member or any spouse, partner or close family member may have in any matter before the accounting authority.”

Audit finding**Mmabatho Region**

During the audit we noted that the suppliers listed below did not declare that a member/director of the close corporation or any person connected to the director was in service of the state institution at the time of the award.

No.	Batch no.	Name of person employed by the state	State institution where employed	Supplier name	Date from when person had interest	Period of awarding	Total rand-value of award
1	8769*6119*AI107801	BN SIYO	WC: EDUCATION	TOLO ENTERPRISE	03/13/2001	2017/06/13	31 000.00
2	8769*5986*F801382	BN SIYO	WC: EDUCATION	TOLO ENTERPRISE	03/13/2001	2017/04/25	29 500.00
3	8869*1201*AI199135	NP CHABANE	NW: EDUCATION & TRAINING	MMETLA-KGOTLA CIVIL CONSTRUCTION	03/13/2006	2017/11/01	15 357.27
4	8769*6077*AI107994	NP CHABANE	NW: EDUCATION & TRAINING	MMETLA-KGOTLA CIVIL CONSTRUCTION	03/13/2006	2017/03/15	3 515.00
5	8869*0372*AI108416	NP CHABANE	NW: EDUCATION & TRAINING	MMETLA-KGOTLA CIVIL CONSTRUCTION	03/13/2006	2017/01/27	18 176.00
6	8869*0352*AI108026	NP CHABANE	NW: EDUCATION & TRAINING	MMETLA-KGOTLA CIVIL CONSTRUCTION	03/13/2006	2016/06/30	15 029.66
7	N/A	GE MORALADI	GP: HEALTH	POPSUE PLACE***	10/08/2003	2017/09/01	24 500.00
8	8769*8694*AI107841	SJ KHUMALO	NW: EDUCATION & TRAINING	MOTSEWABATHO ELECTRICAL REPAIR AND MAINTENANCE	07/21/2003	2015/07/01	20 711.58

Kimberly Region

No	Name of person	State institution where employed	Supplier name where person has interest	Description of award	Award (R)
1	Peter Charles Key	South African Broadcasting Corporation	Laatoe Key Kotze CC	Calvinia repairs of married quarters	500 000.00
2	GC Kgomongwe	SAPS Crime Intelligence	Umphile Trading and Investments CC	Renovations of two regional office for additional office accommodation	140 000.00

Pretoria Region

The declaration of interest (SBD4) was completed and signed by the winning supplier but there was no declaration whether the bidder or any person connected with the bidder is employed by the state. However, the supplier is connected to an employee of the state.

No	Employee Initials and Surname	Department employed	Supplier	Order number	Amount of award [R]
1	F Musandiwa	Limpopo:DBE	Maano Di Vhambeelee Construction	AI-126116	48 147.63
2	T Ramovha	National: Water Affairs	Maano Di Vhambeelee Construction	AI-126114	43 563.93
3	M Mothibi	City of Johannesburg	Molatela Ralekgola Trading	AL -788498	300 000.00

Mthatha Region

The declaration of interest (SBD4) was completed and signed by the winning supplier but there was no declaration whether the bidder or any person connected with the bidder is employed by the state. Refer to the table below.

No	Surname and Initials	Department employed	Supplier Name	Order number	Amount of award [R]
1	L Mvambo	Department of Defence	Mvandulu Construction	AD - 506462	17 000.00
2	PG Zondi	Department of Education	Thandokuhle Construction	AD - 502863	10 380.00

Polokwane Region

During the audit we noted that the suppliers listed below did not declare that a member/director of the close corporation or any person connected to the director was in service of the state institution at the time of the award.

N o.	Batch no.	Name of person employed by the state	State institution where employed	Supplier name	Date from when person had interest	Period of awarding	Total rand-value of award
1	8785*3087AG850 711	M A Mogashoa	LP: Education	Mmaselotsha Trading Enterprise cc	21-Oct-14	21-Oct-16	13 920.77
2	8781*3087*04308 7	M A Mogashoa	LP: Education	Mmaselotsha Trading Enterprise cc	21-Oct-14	26-Apr-17	22 432.92
3	8785*3858*AG84 4470	Titiane Naum Mollo	South African Broadcasting Corporation	Mohlalerwa and Boledi Construction cc	30-Jan-06	28-Jul-17	79 187.89
4	8785*2611*AG84 3509	Titiane Naum Mollo	South African Broadcasting Corporation	Mohlalerwa and Boledi Construction cc	30-Jan-06	22-Feb-17	45 125.62
5	8785*2608*AG84 9244	FN MVUBU	NAT: PUBLIC SERVICE & ADMINISTRATION	Mohlaba-Malesela Steel Works	20-Oct-04	01-Feb-17	16 263.00
6	8785*2474**AG8 49243	Titiane Naum Mollo	South African Broadcasting Corporation	Mohlalerwa and Boledi Construction cc	30-Jan-06	17-Mar-17	46 990.80

Impact

- a) Non-compliance with laws and regulations resulting in irregular expenditure.
- b) This may result in possible fraudulent act by the supplier (i.e. false declaration or misrepresentation). If the auditee fails to investigate or take action after being informed of the possible fraud, auditors may consider reporting this as a non-compliance with TR 16A9.1 (f)

Internal control deficiency

Leadership

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

The entity does not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Although management did develop action plans to address internal control deficiencies, they were not effective to prevent non-compliance with applicable laws and regulations.

Financial and performance management

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

Recommendation

The auditee must investigate and/ or take action against the employees who knowingly supplied/ declared false information in their declarations of interest.

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

Management response

Mmabatho Region

No management response received.

Kimberly Region

We are not in agreement with the finding based on the following reasons:

As it relates to GC KGOMONGWE attached to UMPHILE TRADE AND INVESTMENTS CC:

- National Treasury Supply Chain Management Instruction Note No 4A of 2016/17 prescribes the mandatory utilisation of the Central Supplier Database (CSD) to verify key supplier information [paragraph 3.1.3 (c)] inter alia such as employment by the state (**Annexure A**).
- In compliance with the above NT Instruction Note No 4A, the verification of the CSD report did not indicate that the suppliers are employed by the state (**Annexure B**).

- The suppliers also completed PA-11: Declaration of Interest and bidders past Supply Chain Management Practices (**Annexure C**) wherein they stated that they were not employed by the State and this declaration correlated with the CSD verification report.
- Furthermore to the above on Friday, 25 May 2018 the employment status of the suppliers were verified on the DPSA website (**Annexure D**) and this confirms that they are not employed by the State.

As it relates to PETER CHARLES KEY attached to LAATOE KEY KOTZE CC:

- The consultant was appointed in or around April 2013 via the Roster System.
- This appointment and related expenditure related thereto where found to be irregular (Annexure E).
- As recorded in annexure E both the appointment and expenditure related thereto where condoned by the appropriate authority in terms of clause 12.56 of Policy for Management of Financial Misconduct.
- In view of the above, any irregularity or non-compliance related to Roster System appointments as well as related expenditure has been acknowledge, condoned and accordingly reported to the National Treasury

Pretoria Region

SBD4 form within the Department of Public Works is replaced by PA.11. The extract from SCM part 3.3.1 relates specifically to directors, trustees, shareholders and not to the connected parties to which this COFF relates to. The PA.11 does require information from connected parties and management agrees that this section has not been completed or has been misrepresented by the supplier.

The supplier failed to declare his connection to persons in the employ of the state. However, it is not the function of DPW to audit the information provided by suppliers but, as this information has been supplied to DPW management will introduce a control activity to Persal before issuing award letters. SCM practitioner will contact the suppliers directly, inform them of this breach and misrepresentation and commence blacklisting the suppliers with immediate effect.

Mthatha Region

Management is not agreement with the findings.

The matter should be addressed with the relevant departments as the national department of public works do not have a system to investigate the extended related parties.

Polokwane Region

The Department has fully complied with the requirement of obtaining declaration from bidders through the use of SBD4. In a Circular dated 28 November 2011 (attached as Annexure A), the National Treasury officially withdrew implementation of paragraph 3.3 of Instruction Note 32 dated 31 May 2011 (attached as Annexure B) which initially required verification of names and identity numbers of directors / trustees / shareholders of companies, enterprises, closed corporations and trusts against the relevant staff structures. The reason for this postponement as explained by National Treasury was the actual impracticality of performing the activity.

The same impracticality was further demonstrated when National Treasury issued Instruction Note 4A of 2016/2017 (Attached as Annexure C) wherein it was stated that CSD capability of verification of suppliers' key information with regard to state employment was limited to Persal and that verification with regard to other state-owned entities was to be done with effect from 01 October

2016. To this end, National Treasury has not issued any further update with regard to whether such extended verification was effected on CSD post 01 October 2016.

The SBD 4 and the CSD are the tools prescribed by National Treasury in a form of Instruction Notes for Government Departments to utilize to check bidders' state employment status during the SCM acquisition process. At the point of award, SCM had no reasonable basis to believe that the declaration provided by the bidder was possibly inaccurate. It is impractical for investigations to be instituted during acquisition process for each and every bidder who responds to the Departmental Request for Quotations or Bids to determine whether the information reflected on the SBD 4 and the results provided by CSD are complete and accurate. Action can only be taken once information surface through other means (such as audits) as to the information supplied by bidders.

Information provided by the Auditors has thus been noted and necessary processes will be followed for the matter to be investigated.

Auditor's conclusion

Mmabatho Region

No management response received. The finding will remain.

Kimberly Region

Management response is noted. The finding relating to PETER CHARLES KEY attached to LAATOE KEY KOTZE CC is resolved as it was part of the rooster appointments.

The finding relating to GC KGOMONGWE attached to UMPHILE TRADE AND INVESTMENTS CC is not resolved as the supplier did not declare the interest of GC Kgomongwe

Pretoria Region

Management comment noted. However, finding will be reported in the management report.

Mthatha Region

Management agreement noted. However, it is the responsibility of the National department of public works to verify the accuracy of the information provided by the supplier. Furthermore, we take cognizance of the fact that at the time of the award management was not aware of this information, however this is now brought to the attention of management to further investigate and take appropriate action.

Polokwane Region

Management comments noted and the finding remains.

Publication of bidders' names and winning bidders on the Public Works website. (PTA – Coff 7, 10)(HO – Coff 10)(CT – Coff 2)(DBN- Coff 4)

Laws, rules and regulations

Instruction note 32 paragraph 3.2.1, states that “*within ten (10) working days after the closure of any advertised competitive bid, institutions must publish on its website the names of all bidders that submitted bids in relation to that particular advertisement. Where practical, institutions must also publish the total price and the preferences claimed by the respective bidders. The information should remain on the website for at least thirty (30) days.*”

The details of the winning bidder, contract number and description, preference claimed and contract price must also be published in the government tender bulletin”

Audit Finding

During the audit of procurement, the following discrepancies were identified:

a) Publication on the website

No evidence was provided that the names of all bidders who submitted bids in relation to the advertisement were published on the website within ten (10) working days after the closure of the advertised bid and remained on the website for a minimum of thirty (30) days.

The list of tenderers for the following tenders were not published on the website of the Department:

Pretoria Region

No	Name of Supplier	Tender Number	Tender value (R)
1	CSM Consulting	PT17/003	459 260.00
2	Matebello cleaning and catering	PT17/021	3 245 993.00
3	Matebello cleaning and catering	PT17/023	3 531 435.00
4	Health care cleaning and catering	PT17/022	6 782 352.00
5	Matebello cleaning and catering	PT17/025	2 078 988.00
6	Elihle group	PT17/001	1 476 613.00
7	Themba Consultant	PT17/004	292 562.00
8	Imbeu development engineers	PT17/006	1 183 871.00
9	Falcon Supplies	PT17/012	44 628 649.00

No.	Name of Supplier	Tender Number	Tender value (R)
1	Mafumu Consulting (Pty) Ltd	PT16/038	5 545 552.92
2	JR 209 Investments (Pty) Ltd	PT15/081	62 494 384,00

Cape Town Region

No.	Name of Supplier	Tender Number	Tender value (R)
1	BVI Consulting	CPTC016/16	2 854 606,02
2	Rubiquant cc	CPTC009/16	9 850 762,80
3	Atvantage Projects Managers	CPTC015/16	19 699 200,00
4	EBESA Architectures	CPTC014/16	10 694 103,50
5	MK Cooling and Electrical cc	CPTC1020/16	2 220 520,00
6	Augementum Construction	CPTC1034/16	1 153 360,00
7	Baseline Civil Contractors	CPTC1019/16	13 719 874,00
8	The Construction Co.	CPTC1035/16	5 908 602,06

- b) The date posted for the names of the bidders for the following tender is before the closing date of the tender:

Head Office

Tender Number	Closing date	Date Posted per DPW website
H17/002	19 June 2017	20 May 2017

- c) The details for the winning bidder for the following tenders were not published on the website of the Department:

No evidence could be obtained that the details of the winning bidder was published on the departmental website.

Cape Town Region

No.	Name of Supplier	Tender Number	Tender value (R)
1	BVI Consulting	CPTC013/16	R3 765 000,00
2	BVI Consulting	CPTC010/16	R4 605 338,99
3	MK Cooling and Electrical cc	CPTC1020/16	R2 220 520,00
4	Augementum Construction	CPTC1034/16	R1 153 360,00
5	Baseline Civil Contractors	CPTC1019/16	R13 719 874,00
6	The Construction Co.	CPTC1035/16	R5 908 602,06

Durban Region

No	Name of Supplier	Tender Number	Tender value (R)
1	Siyazenzela Textile	DBN 16/10/10	741 199.00
2	Shazi Njomane Trading Enterprise (Pty) Ltd	DBN 16/10/11	720 000.00
3	Dunge Production (Pty) Ltd	DBN 16/10/21	565 320.00

Pretoria Region

No.	Name of Supplier	Tender No.	Tender value (R)
1	JR 209 Investments (Pty) Ltd	PT15/081	62 494 384,00

Impact

This will result in non-compliance with laws and regulations

Internal control deficiency**Leadership**

Financial and performance management

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

The entity does not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Although management did develop action plans to address internal control deficiencies, they were not effective to prevent non-compliance with applicable laws and regulations.

Recommendation

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

Management must develop policies and procedures to ensure compliance with all prescribed laws and regulations.

A compliance checklist should be completed and reviewed to ensure that the correct procurement process was followed at each stage of the procurement process.

Management responsePretoria Region

Management is in agreement with the finding, however, Emails were sent to Head Office to publish the list of bids received on the Departmental website within 10 working days, however, there was an oversight from the Region as they did not remind ICT about the publication of the awards.

Management will ensure that responsible SCM practitioner/s log a call to request that received bids are published within 10 working days after the award. SCM officials will ensure that follow up and monitoring is done after a call has been logged.

Pretoria Region

Management is in agreement with the finding, however, Emails were sent to Head Office to publish the list of bids received on the Departmental website within 10 working days, however, there was an oversight from the Region as they did not follow up on ICT about the publication of the awards.

Management is not in agreement with JR 209 Investments for not being published on the departmental website as the winning bidder. See attached annexure A for a proof that JR 209 Investments was on the list that was sent to ICT at Head Office for publication as the winning bidder.

It should also be noted that SCM only publish awards every six (6) months or quarterly when there are awards.

Management has now corrected this, a call is logged to request that ICT at Head Office publish all received bids within 10 working days after the award. SCM officials are doing a follow up and monitoring after submission of the Regional list

Cape Town Region

I am in agreement with the audit finding. Two officials have been assigned to solely deal with compliance issues for SCM processes to ensure that the existing checklists are completed and reviewed accordingly.

Head Office

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

H17/002 – The register of bids received was published on 20 June 2017 and not 20 May 2017. The attached email from Precious Sefoka (Departmental IT Official) dated 20 June 2017 confirmed publication date of 20 June 2017. The official confirmed that she made an error when capturing the dates at the time and put May instead of June. See attached confirmatory emails.

Durban Region

Management agrees with the finding as awards for the mentioned services were not published due to lack of controls in terms of obtaining response from Facilities regarding the appointment letters. SCM delegations for 2018 will assist in improving compliance as appointment letters are now issued by Legal Services and SCM and Legal services have always maintained the level of compliance in publishing of awards within the set timeframes. Monitoring process has improved, as communication will be at an ASD level from Legal Services and SCM.

Appointment letter were followed up and received from Facilities and request to publish was sent and awards are expected to be published by 23-03-2018 on bulletin then SCM will ensure its published on public works website a request will sent to Head Office by 23-03-2018.

Auditor's conclusion

Pretoria Region

Management agrees with the finding. The finding will remain and be reported in the management report.

Cape Town Region

Management comments are noted. The finding will remain.

Head Office**H17/002**

Management comments are noted. The emails submitted do indicate that the ICT team confirmed on 20 June 2017 that the publication was uploaded. However there is an inherent weakness in the system as the system allows for capturing of a backdated date. The website still indicates the publication date as 20 May 2017 which is before the tender closing date of 20 June 2017. Management needs to come up with a corrective action to address the inherent weakness that allows for the capturing of a backdated date during the upload on the website.

The finding will remain for management to address the inherent weakness during the upload on the website.

Durban Region

Management comments and supporting documents are acknowledged.

The finding relating to the publishing of the winning bidders remains unresolved and will be included in the management letter.

No	Name of Supplier	Tender Number	Tender value (R)
1	Siyazenzela Textile	DBN 16/10/10	741 199.00
2	Shazi Njomane Trading Enterprise (Pty) Ltd	DBN 16/10/11	720 000.00
3	Dunge Production (Pty) Ltd	DBN 16/10/21	565 320.00

Evaluation criteria not stipulated (DBN – Coff 1)

Laws, rules and legislation:

- a) PPPFA Sec 2(1)(e); PPPR 4 (3) Para 3.3 of NT Instruction Note September 2010 requires that;

“All evaluation criteria for functionality, price and/or preference points must be stipulated in the request for quotations/bids.”

“Any specific goal, for which a point may be awarded, must be clearly specified in the invitation to submit a tender.”

- b) GNR.225 Sec 16A3.2 requires that;

“A supply chain management system referred to in paragraph 16A3.1 must -

(a) be fair, equitable, transparent, competitive and cost effective;

(b) be consistent with the Preferential Procurement Policy Framework Act, 2000 (Act No.5 of 2000)”

Audit Finding

During the performance of our audit it was noted that evaluation criteria applied in evaluating the below quotations for price and/or preference points (80/20) were not stipulated in the request/invitation for quotations.

No	Name of Supplier	Description	Amount (R)
1	SP Mkhize	SAPS Chartsworth Training College: Servicing of aircons	92 500.00
2	Iqholo Boiler Plants	DCS Westville: Operation and Maintenance	397 000.00
3	Nokwazi sbu Trading Enterprise	DCS Ncome: Operation and maintenance of Boilers	429 000.00
4	Siyasiza Investments cc	DCS Mtunzini: Operation and maintenance of sewer	362 700.00

Impact

The aforementioned findings may result in:

- a) Non-compliance with PPPFA Sec 2(1)(e)
- b) Non-compliance with PPPR 4 (3) Para 3.3 of NT Instruction Note September 2010

Internal control deficiency**Leadership**

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

Recommendation

It is recommended that all invitations for quotations must specify the evaluation criteria for functionality, price and/or preference points must in the request for quotations.

Management response

Management is not in agreement with the finding as the evaluation criteria for price and preference was indicated on the request for quotations (DRO2).

As portfolio of evidence, copies of the DR02 used as invitation to quote are attached for each service mentioned above, and all indicate the preferential point system for evaluation in line with PPPFA 2017.

Auditor's conclusion

Management comments and the supporting documents provided are acknowledged. However, the following disagreements are not appropriately supported by the relevant documentations.

No	Supplier	Description	Amount [R]
1	SP Mkhize	SAPS Chartsworth Training College: Servicing of aircons	92 500
2	Igholo Boiler Plants	DCS Westville: Operation and Maintenance	397 000
3	Nokwazisbu Trading Enterprise	DCS Ncome: Operation and maintenance of Boilers	429 000
4	Siyasiza Investments cc	DCS Mtunzini: Operation and maintenance of sewer	362 700

- 1 - DR-02 form not attached to support the disagreement
- 3 - DR-02 form not attached to support the disagreement
- 4 - DR-02 form not attached to support the disagreement
- 6 - DR-02 form attached does not relate to this work reference (Dur-0717-115725) and also the amount quoted by Siyasiza Investments was R362 700 not per attached form.

Therefore, the finding remains unresolved and will therefore be included in the management letter.

B-BBEE points awarded to bidders who submitted copies of B-BBEE certificates that were not certified. (Development Bank of South Africa)

Requirement

National Treasury SCM Circular 5 of 2016/17

Bidders are required to submit original and valid B-BBEE Status Level Verification Certificates or certified copies thereof together with their bids, to substantiate their B-BBEE rating claims.

Audit Finding

The following discrepancies were identified:

During the audit of Development Bank of South Africa (DBSA) tenders on projects relating to National Department of Public Works, it was noted bidders submitted copies of B-BBEE certificates which were not certified however points were awarded for B-BBEE status level on preferential point's calculation

Tender number	Tender amount	Name of bidder	B-BBEE Status level	Points awarded
RFP139/2017	R31 099 423.31	Marnolda	2	18
RFP139/2017		Dzwa Development Projects	2	18
RFP 138/2017	R62 897 067.08	Soaring Summits	1	10

This resulted in non-compliance with SCM circular 5 of 2016/2017 as prescribed by Treasury Regulation by DBSA.

Internal control deficiency

Financial and performance management

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

Compliance monitoring tools, such as checklists, were not utilized by management to ensure strict adherence to Treasury Regulations and related circulars.

Recommendation

Management must develop or enhance compliance procedures to ensure compliance with all prescribed laws and regulations.

Management's compliance management tools, such as checklists, should be enhanced as more findings of this nature could result to irregular expenditure if wrong supplier is awarded the bid.

Property Management Trading Entity (PMTE) is advised to have representatives at the bid evaluation and adjudication committees of implementing agent. This is to ensure that proper procurement processes are followed on projects relating to PMTE because any irregular expenditure incurred will have to be reported on the financial statements of PMTE.

Management response

I am in agreement with the finding. Management would like to place on record that the appointed providers in these instances are on an approved panel of contractors and are therefore invited to bid on a frequent basis. Compliance documents, including B-BBEE certificates, for these service providers are submitted to us with each tender response.

Due to the fact that the B-BBEE statuses of these companies are being verified on the Central Supplier Database of National Treasury (CSD) on an ongoing basis, and in particular prior to each award, we believe that the compliance risk is adequately mitigated.

Auditor's conclusion

Management at DBSA agrees with the finding. The finding remains as non-compliance by DBSA as an implementing agent. This finding will be also reported to Department of Public Works/ Property Management Trading Entity for noting.

Incorrect preference points awarded to the bidders (Development Bank of South Africa)**Requirement**

Preferential Procurement Regulations, 2017 provides as follows:

90/10 preference point system for acquisition of goods or services with Rand value above R50 million

PPR 7(2) The following table must be used to calculate points out of 10 for B-BBEE

B-BBEE Status Level of Contributor	Number of points
1	10
2	9
3	6
4	5
5	4
6	3
7	2
8	1
Non-compliant contributor	0

Audit Finding

The following discrepancies were identified:

During the audit of Development Bank of South Africa (DBSA) tenders on projects relating to National Department of Public Works it was noted that inaccurate points for bids were awarded to bidders:

Tender number	Name of bidder	B-BBEE status level used on preference points calculation	Points awarded by DBSA	B-BBEE status level per certificate submitted	Accurate points that should have been awarded	Difference
RFP 137/2017	GVK-Siya Zama	2	9	4	5	4
RFP 137/2017	Qinisa construction	3	8	2	9	-1
RFP 137/2017	Group 5	3	8	3	6	2
RFP 137/2017	Esor	3	8	3	6	2
RFP 53/2017	Endecon Level	6	3	1	10	-4

This resulted in non-compliance with PPR 7(2) as prescribed by Preferential Procurement Regulations by DBSA.

Internal control deficiency

Financial and performance management

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

Compliance monitoring tools, such as checklists, were not utilized by management to ensure strict adherence to laws and regulations.

Recommendation

Management must develop or enhance compliance procedures to ensure compliance with all prescribed laws and regulations.

Management's compliance management tools, such as checklists, should be enhanced as more findings of this nature could result to irregular expenditure if wrong supplier is awarded the bid.

Property Management Trading Entity (PMTE) is advised to have representatives at the bid evaluation and adjudication committees of implementing agent. This is to ensure that proper procurement processes are followed on projects relating to PMTE because any irregular expenditure incurred will have to be reported on the financial statements of PMTE.

Management response

I am in agreement with the finding. This was an unfortunate error. Whilst the Unit has increased the sample size for reviews to be performed on bid reports, it has proven challenging to conduct deep dives on all reports given the volumes.

Management, in conducting its review, often places emphasis on reports from team members / programmes that are prone to errors, and this particular transaction was not classified as such.

Once the new role for Governance; Contracts and Quality is finally appointed, this will help provide additional capacity to assist with peer and quality assurance reviews. A suitable candidate has been identified, and HC is still busy with finalizing the appointment.

Auditor's conclusion

Management at DBSA agrees with the finding. The finding remains as non-compliance by DBSA as an implementing agent. This finding will be also reported to Department of Public Works/ Property Management Trading Entity for noting.

Awarded construction contract not registered with Construction Industry Development Board (CIDB) - COEGA

Audit finding

Section 22 of the Construction Industry Development Board (CIDB) Act provides the following:

- Sub section (1); The Board must, within the first three years of its establishment, establish a register of projects to gather information on the nature, value and distribution of projects and provide the basis for the best practice project assessment scheme contemplated in section 23.
- Sub section (3); All construction contracts above the prescribed tender value must be recorded in the register.

Regulation 18 of the CIDB Act provides the following:

- Sub regulation (1A); Despite the values determined in Government Notice No. 692 of 9 June 2004, every project consisting of a single construction works contract-
 - a) for the public sector of which the value exceeds R200 000.00; or
 - b) for the private sector and a public entity listed in Schedule 2 of the Public Finance Management Act, 1 of 1999, of which the value exceeds R10 million, must be registered in accordance with this Part.
- Sub regulation (1); An employer must, within 21 working days from the date on which a contractor's offer to perform a construction works contract is accepted in writing by the employer, apply on the approved form to the CIDB for the registration of every project, consisting of a single construction works contract, of which the contract value exceeds a value determined by the Minister by notice in the *Gazette*.

The following non-compliance was identified:

A construction contract was awarded by Coega Development Corporation (CDC) but was not registered with CIDB as required in terms of section 22 of the CIDB Act read with regulation 18 of the same Act. This non-compliance relates to a project that CDC is an implementing agent on behalf of National Department of Public Works/Property Management Trading Entity.

Contract number	Project	Awarded contractor	Award value (R)
CDC/138/17	Mthatha High Court- Repair and Refurbishment of Building ,Civil, Electrical, Mechanical and other related services	PWISE Projects	101 409 413.79

Impact

Non-compliance with Section 22(3) of the CIDB Act by CDC.

Internal control deficiency

Financial and performance management: Review and monitor compliance with applicable laws and regulations - Construction contracts that were awarded through a closed procurement process are not registered with CIDB by CDC. CDC only registers contracts awarded through an open tender process.

Recommendation

All construction contracts awarded by Coega Development Corporation which are above the value of R200 000 must be registered with CIDB irrespective of whether an open tender or closed procurement process was followed to award the contract.

Management response

Management does not agree with the finding.

Management does not agree with the internal control deficiency.

The entry gate into the CIDB Register of Projects is i.tender. As is correctly stated above, this project was a closed tender and the bid was thus not openly advertised on the CIDB website through i.tender. It was thus not considered necessary to register the award or ultimate completion of the project on the CIDB Register of Projects as this project was not advertised/initiated through i-tender to start with.

This bid was published on the CDC website. Section 3.2.1 of the Treasury Instruction 32 of 2014/15 states that the entity must publish winning bidders on “Its” Website. The CDC did publish the Bidder awards on the CDC’s Website. The evidence thereof was provided. However the CDC has implemented the capturing of construction related closed tenders on the CIDB i.tender as of 01 May 2018. Attached is evidence of both CDC and CIDB i.tender awards.

Auditor’s conclusion

Comments by management at COEGA are noted however in terms of section 22 of the CIDB Act read with regulation 18 of the same Act, all construction works projects above the prescribed value must be registered with CIDB. There is no differentiation between projects awarded via an open or closed tender process.

The purpose of the CIDB Register of Projects is to gather information on the nature, value and distribution of projects above the prescribed value to enable the assessment of whether contractors do deliver the projects. This information would be required regardless of whether an open and closed procurement process was followed.

It is noted that management has since registered this contract with CIDB after the finding was raised. The finding will however remain as non-compliance by CDC as the contract was not registered with 21 days of being awarded.

Operating leases

Operating leases - Difference in operating lease expenses

Laws, rules and Regulations:

Public Finance Management Act section 40(1)(a), and 40(1)(b) of the PFMA states the following:

- (a) the accounting officer for a department, trading entity or constitutional institution-
- (b) must prepare financial statements for each financial year in accordance with generally recognised accounting practice;”

Nature

During the performance of the audit of operating lease expense, the following differences were identified between amounts calculated in the schedule supporting the annual financial statements (AFS) and the amount recalculated from the lease agreements.

No	Region	Prop Code	AFS Closing Balance (R)	Recalculated - Operating Lease Expenditure (R)	Difference (R)
1	JOHANNESBURG	301040	152 843	166 867	(14 023)
2	JOHANNESBURG	312727	7 520 335	5 297 354	2 222 981
3	JOHANNESBURG	310819	9 844 065	9 790 064	54 001
4	PRETORIA	44	47 474 428	41 848 836	960 038
				4 665 554	
5	PRETORIA	301745	68 365 351	70 454 259	(2 088 909)
6	PRETORIA	304406	13 351 743	13 388 725	(36 982)
7	UMTATA	301243	3 638 696	4 107 877	(469 180)
8	PRETORIA	170	552 818	628 985	(76 167)
Total			150 900 279	150 348 520	551 759

Impact

The aforementioned finding results in the following:

- Overstatement of operating lease expenditure by R551 759

Internal control deficiency

Financial and performance management

The entity did not implement a proper financial and reporting system to enable proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial reporting.

Recommendation

Management should ensure that all information is captured correctly in the schedules supporting the financial statement and all schedules are reviewed to ensure that it has been recorded correctly.

Management response

Management is partly in agreement with the finding.

However our recalculated differences are different from the AGSA's values as set out in the below table.

Please refer to attached annexure for the detailed calculations.

No	Region	Prop Code	AFS Closing Balance (R)	Recalculated - Operating Lease Expenditure (R)	Difference (R)
1	JOHANNESBURG	301040	152 843	138 820	14 023
2	JOHANNESBURG	312727	7 520 335	5 632 712	1 887 622
3	JOHANNESBURG	310819	9 844 065	9 805 392	38 673
4	PRETORIA	44	47 474 428	47 474 428	0
5	PRETORIA	301745	68 365 351	68 365 351	0
6	PRETORIA	304406	13 351 743	13 388 725	-36 982
7	UMTATA	301243	3 638 696	3 828 045	-189 348
8	PRETORIA	170	552 818	630 213	-77 395
Total			150 900 279	149 263 685	1 636 593

Auditor's conclusion

Management response is noted. We agree on management calculations. The finding remains. Operating lease expenditure is overstated by R1 636 593.

Operating leases - Difference in operating lease accruals**Laws, rules and Regulations:**

Public Finance Management Act section 40(1)(a), and 40(1)(b) of the PFMA states the following:

(a) the accounting officer for a department, trading entity or constitutional institution-

(b) must prepare financial statements for each financial year in accordance with generally recognized accounting practice;”

Nature

During the performance of the audit of operating lease accruals, the following differences were identified between amounts calculated in the schedule supporting the annual financial statements (AFS) and the amount recalculated from the lease agreements.

No.	Region	Prop Code	(Accrual)/Prepayment as per AGSA's Recalculation (R)	Accrual as per the client's schedule supporting the AFS (R)	Difference (R)
1	CAPE TOWN	321549	(582 578)	(257 403)	(325 175,07)
2	JOHANNESBURG	312727	(5 961 100)	(1 859 132)	(4 101 968,11)
3	NELSPRUIT	321409	15 326	(13 406)	28 731,75
4	NELSPRUIT	321514	(258 678)	(170 103)	(88 574,83)
5	NELSPRUIT	321554	0	(155 478)	155 478,18
6	PRETORIA	44	(10 296 503)	(9 815 553)	(480 950,32)
7	PRETORIA	304406	(7 876 075)	(8 378 968)	502 892,88
8	UMTATA	321546	(48 099)	(122 443)	74 343,86
			(24 959 609)	(20 650 044)	(4 309 566)

Impact

The aforementioned finding result in the following:

- Possible understatement of operating lease accruals by R4 309 566

Internal control deficiency**Financial and performance management**

The entity did not implement a proper financial and reporting system to enable proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial reporting.

Recommendation

Management should ensure that all information is captured correctly in the schedules supporting the financial statement and all schedules are reviewed to ensure that it has been recorded correctly.

Management response

Management is partly in agreement with the finding.

The differences, as recalculated by management, are set out in the table below. Please refer to attached annexure for the detailed calculations.

No.	Region	Prop Code	Accrual as per the client's schedule supporting the AFS (R)	(Accrual)/Prepayment as per management's Recalculation (R)	Difference (R)
1	Cape Town	321549	-257 403	-582 578	-325 175
2	Johannesburg	312727	-1 859 132	4 809 658	6 668 790
3	Nelspruit	321409	-13 406	15 326	28 732
4	Nelspruit	321514	-170 103	-196 711	-26 607
5	Nelspruit	321554	-155 478	0	155 478
6	Pretoria	44	-9 815 553	-9 815 553	0
7	Pretoria	304406	-8 378 968	-8 560 737	-181 769
8	Umtata	321546	-122 443	-48 099	74 344
			-20 772 487	-14 378 694	6 393 793

Auditor's conclusion

Management response is noted, we agree with the final calculation and the finding remains. The operating lease accruals is overstated by R6 393 793.

Operating leases - Difference in operating lease commitments**Laws, rules and Regulations:**

Public Finance Management Act section 40(1)(a), and 40(1)(b) of the PFMA states the following:

(a) the accounting officer for a department, trading entity or constitutional institution-

(b) must prepare financial statements for each financial year in accordance with generally recognized accounting practice;”

Nature

During the performance of the audit of operating lease commitments, the following differences were identified between amounts calculated in the schedule supporting the annual financial statements (AFS) and the amount recalculated from the lease agreements.

No	Property code	Region	Total commitments		
			Recalculated Amount (R)	Sum of amount disclosed in AFS (R)	Difference (R)
1	301611	CAPE TOWN	19 408,48	-	19 408,48
2	321549	CAPE TOWN	56 903 648,45	56 733 799,71	169 848,74
3	301765	DURBAN	1 693 640,22	1 729 149,87	(35 509,66)
4	312641	DURBAN	254 007,91	228 640,76	25 367,15
5	301040	JOHANNESBURG	14 146,23	-	14 146,23
6	312727	JOHANNESBURG	365 286,32	532 164,37	(166 878,04)
7	139766	JOHANNESBURG	17 555 591,80	17 725 094,07	(169 502,27)
8	301420	NELSPRUIT	297 728,18	308 727,29	(10 999,12)
9	321409	NELSPRUIT	24 100,05	12 741,59	11 358,46
10	321473	POLOKWANE	1 612 305,08	1 594 223,78	18 081,30
11	5	PRETORIA	81 640 236,09	81 295 368,07	344 868,02
12	321439	PRETORIA	7 902 294,54	31 527 536,78	1 616 753,82
			25 241 996,06		
13	44	PRETORIA	4 467 940,62	475 714,53	4 467 940,58
			475 714,49		
14	99	PRETORIA	195 819 403,46	211 450 673,97	(15 631 270,50)
15	100	PRETORIA	53 774 704,49	53 307 098,36	467 606,13
16	301745	PRETORIA	5 122 780,93	5 167 717,61	(44 936,67)
17	301243	UMTATA	362 862,45	319 902,06	42 960,39
18	321546	UMTATA	1 468 478,00	91 231,63	1 377 246,37
19	307640	Johannesburg	1 282 247,71	256 492,25	1 283 469,71
			257 714,25		
20	322776	Pretoria	9 580 248,35	9 621 211,76	(40 963,41)
21	323205	Port Elizabeth	600 760,16	612 238,99	(11 478,83)
22	321046	Port Elizabeth	329,45	11 075,74	(10 746,29)
Totals			466 737 573,80	473 000 803,20	(6 263 229,41)

Impact

The aforementioned finding results in the following:

- Possible understatement of operating lease commitments by R6 263 229.41

Internal control deficiency

Financial and performance management

The entity did not implement a proper financial and reporting system to enable proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial reporting.

Recommendation

Management should ensure that all information is captured correctly in the schedules supporting the financial statement and all schedules are reviewed to ensure that it has been recorded correctly.

Management response

Management is in agreement that there are differences.

Management deems the differences to not be material and thus have not recalculated the variances. Management is in agreement that there is no IT system that can be relied on and the variances are mainly caused by capturing errors in the manual template used.

Auditor's conclusion

Management response is noted. The finding remains and will be reported in the management report. Lease commitments is thus understated by (R6 263 229)

Operating leases – Lease contracts are not signed**Laws, rules and Regulations:**

Public Finance Management Act section 40(1)(a), and 40(1)(b) of the PFMA states the following:

(a) the accounting officer for a department, trading entity or constitutional institution-

(b) must prepare financial statements for each financial year in accordance with generally recognised accounting practice;”

Nature

During the performance of the audit of operating leases we noted that the following lease contracts were not signed by the lessor in some instances or an official from PMTE in other instances.

No.	File no.	Property Code	Region	User Department	Signed on behalf of Lessor	Signed on behalf of PMTE
1	6508/7803	321549	CAPE TOWN	ARTS AND CULTURE	not signed by the lessor	D.Lewin
2	6029/0157	5	PRETORIA	SA POLICE SERVICES	not signed by the lessor	Noloyiso Ntwana (Act Regional Manager)
3	6029/2786	17	PRETORIA	SA POLICE SERVICES	not signed by the lessor	Ben Mhlamba (Deputy Director)
4	6029/2347	42	PRETORIA	PUBLIC ENTERPRISES	not signed by the lessor	M Fasyele Lindie (Acting Director General)
5	6029/0059	44	PRETORIA	HOME AFFAIRS	no signature of lessor	M Fasyele Lindie (Acting Director General)
6	6441/0289/9	301243	UMTATA	SA POLICE SERVICES	Robert John Beer	not signed by an official from PMTE
7	6458/5397	301343	UMTATA	NATIONAL PROSECUTING AUTHORITY	not signed by the lessor	Yakhe Kwana Head Finance PMTE)
8	6110/0773	305206	Johannesburg	INTER RELATIONS & COOPERATIONS	not signed by the lessor	Director General DPW
9	6029/6950	322237	Pretoria	SA POLICE SERVICES	not signed by the lessor	Mahalingum Govender (Acting Head PMTE)

Impact

The aforementioned finding result may lead to possible irregular expenditure as the contracts are not signed by both parties.

Internal control deficiency

Leadership

Oversight responsibility was not exercised to ensure that all lease contracts are signed and therefore evidenced as having properly approved lease contracts in place.

Recommendation

PMTE should ensure that all lease contracts are signed by the lessee and lessor before commencement of the contract.

Management response

Name:

Position:

Date:

Auditor's conclusion

Management comments are outstanding

Operating leases: Lease expenditure incurred on expired lease contracts

Laws, rules and Regulations:

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

- (a) must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;*
- (b) must prepare financial statements for each financial year in accordance with generally recognised accounting practice”*

Section 45. Responsibilities of other officials also states *“An official in a department, trading entity or constitutional institution—*

- (a) must ensure that the system of financial management and internal control established for that department, trading entity or constitutional institution is carried out within the area of responsibility of that official;*
- (b) is responsible for the effective, efficient, economical and transparent use of financial and other resources within that official’s area of responsibility;*
- (c) must take effective and appropriate steps to prevent, within that official’s area of responsibility, any unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure and any under collection of revenue due;*

Treasury Regulation 8.2.1 states

“An official of an institution may not spend or commit public money except with the approval (either in writing or by duly authorised electronic means) of the accounting officer or a properly delegated or authorised officer.

Audit finding

We identified that certain lease contracts included in our sample had expired, however lease payments were still made after expiration of the leases. These expired lease contracts had a conditional extension clause however the conditions were not met.

The extension clauses included were as follows:

“The lessee has the right to renew the lease for a further period commencing on the expiration of the contract of lease and on terms and conditions agreed to by the parties.

In the event of the lessee exercising its right of renewal, he shall be obliged to give the lessor written notice thereof.

At least six months prior to the expiry of the lease period the lessee shall notify the lessor in writing of its intention to exercise the right to renew and the lease renewal period. Should the parties fail to reach an agreement on the terms and conditions of the new lease, the original lease will be terminated at the normal expiry period.”

As the conditions for renewal were not met, the leases are regarded as terminated on the expiry date.

Property Code	User department	Lease Period as per the lease agreement		Lease payments for current year (R)
		Start date	End date	
17	SA POLICE SERVICES	01-Jan-07	31-Dec-11	8 629 851
36	NATIONAL TREASURY	01-Jun-14	30-May-16	53 218 372
39	CORRECTIONAL SERVICES	01-Apr-14	31-Mar-17	50 286 649
42	PUBLIC ENTERPRISES	01-Jun-11	31-May-13	10 744 788
44	HOME AFFAIRS	01-Nov-09	31-Oct-17	23 405 785
103	DEFENCE	01-Apr-14	31-Mar-17	2 569 122
170	LABOUR	01-Feb-14	31-Jan-17	619 881
124021	SA POLICE SERVICES	01-May-96	31-Oct-96	207 814
137258	SA POLICE SERVICES	01-Apr-14	31-Mar-17	3 778 799
139591	SA POLICE SERVICES	10-Apr-04	30-Jun-14	6 176 805
158642	SA POLICE SERVICES	01-Apr-14	31-Mar-17	1 384 856
174029	SA POLICE SERVICES	01-Apr-14	31-Mar-17	9 516 280
174182	HOME AFFAIRS	01-Dec-09	31-Mar-17	3 006 820
296895	LABOUR	01-Apr-14	31-Mar-15	7 938 437
299693	SA POLICE SERVICES	01-May-14	30-Apr-17	171 671
300653	SA POLICE SERVICES	01-Apr-14	31-Mar-17	363 818
301025	DEFENCE	01-Oct-11	30-Sep-14	152 857
301035	LABOUR	01-Apr-14	31-Mar-17	1 699 581
301040	SA POLICE SERVICES	01-May-14	30-Apr-17	115 692
301134	LABOUR	01-Apr-14	31-Mar-17	682 323
301195	SA POLICE SERVICES	01-May-14	30-Apr-17	173 469
301202	HOME AFFAIRS	01-Jan-14	31-Dec-16	2 846 996
301226	JUSTICE AND CONSTITUTIONAL DEVELPM	01-May-14	30-Apr-17	2 063 559
301248	HOME AFFAIRS	01-May-14	30-Apr-17	572 870
301337	RURAL DEVELOPMENT LAND & REFORM	01-Feb-14	31-Jan-17	640 653
301343	NATIONAL PROSECUTING AUTHORITY	01-May-14	30-Apr-17	2 633 521
301611	LABOUR	01-May-14	30-Apr-17	210 708
301654	SA POLICE SERVICES	01-May-14	30-Apr-16	631 937
301668	DEFENCE	01-Jun-14	31-May-16	3 581 621
301670	DEFENCE	01-Nov-07	31-Oct-17	10 433 727
301672	DEFENCE	01-Sep-15	31-Aug-16	31 510 334
301695	LABOUR	01-Apr-14	30-Apr-16	399 069
301745	DEFENCE	01-Nov-07	31-Oct-17	29 935 004
301752	SA POLICE SERVICES	01-Apr-14	31-Mar-17	632 427
302486	LABOUR	01-May-14	30-Apr-17	99 363
303487	COOP GOV & TRADITIONAL AFFAIRS	01-Apr-14	31-Mar-17	14 691 753
304406	PUBLIC PROTECTOR	01-Dec-05	30-Nov-14	8 651 679
305186	WATER AFFARS	01-Jan-14	31-Dec-14	440 732
305206	INTER RELATIONS & COOPERATIONS	01-Mar-15	29-Feb-16	32 092 818

Property Code	User department	Lease Period as per the lease agreement		Lease payments for current year (R)
305764	SA POLICE SERVICES	04-Mar-05	04-Mar-15	1 004 321
307640	PUBLIC WORKS	01-Sep-08	30-Sep-13	19 163 215
308088	SA POLICE SERVICES	01-May-07	30-Mar-17	17 145 372
310819	RURAL DEVELOPMENT LAND & REFORM	01-Nov-14	31-Oct-17	3 880 916
311649	DEFENCE	01-May-14	30-Apr-16	5 067 512
311884	PUBLIC WORKS	01-Aug-14	31-Jul-17	2 715 454
312152	PUBLIC WORKS	01-Apr-14	31-Mar-17	821 431
312190	SA POLICE SERVICES	01-Jun-14	31-May-17	2 398 122
312646	THE PRESIDENCY	01-Jul-08	30-Jun-13	6 223 112
312727	PUBLIC SERVICE & ADMINISTR	01-Jul-14	30-Jun-17	4 286 023
321046	SA POLICE SERVICES	01-Apr-11	31-Mar-16	4 179
322237	SA POLICE SERVICES	01-May-15	30-Apr-17	235 790
Total				311 986 693

We also noted that there was a legal opinion from the State Attorney date 27 November 2012 which concluded that payments on expired lease contracts need to be made where the premises were still occupied by the original lessee as per the original lease contract.

The legal opinion however does not extend to the requirements of the PFMA and Treasury Regulations that require proper approval of expenditure. The legal opinion merely confirms that payments need to be made. This does not remove the requirement of the department in following proper internal processes to ensure that Treasury Regulations are adhered to.

Impact

The aforementioned findings result in the following:

Non-compliance with Treasury Regulation 8.2.1 and irregular expenditure amounting to R311 986 693 for the 2017-18 financial year. Where the leases expired in the prior period, there will also be irregular expenditure which need to be calculated and adjusted for.

Internal control deficiency

Leadership

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

The entity does not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls

Recommendation

Management should ensure that all expired leases are reviewed to ensure that they are renewed or that new lease contracts are procured.

Management should ensure that all lease contracts are reviewed six months before they expire, in order to see if the contract will be renewed or cancelled in time.

Management should revisit the population and ensure that all lease payments made after the lease has expired, are disclosed as irregular expenditure.

Management response

Management does not agree with the audit finding. While the audit team acknowledges that the lease agreements contain a condition thus “*The lessee has the right to renew the lease for a further period commencing on the expiration of the contract of lease and on terms and conditions agreed to by the parties. In the event of the lessee exercising its right of renewal, he shall be obliged to give the lessor written notice thereof. At least six months prior to the expiry of the lease period the lessee shall notify the lessor in writing of its intention to exercise the right to renew and the lease renewal period. Should the parties fail to reach an agreement on the terms and conditions of the new lease, the original lease will be terminated at the normal expiry period*” the parties continued with the lease on a month-to-month basis at the expiry of the lease agreement. The conduct of the parties in these cases were such that the leases continue to run on a month-to-month basis, and the Entity continued to honour its obligations on the terms of the old lease agreements, including effecting rental and escalations at the rate, while the landlord also perform their responsibilities, in terms of the “*old lease agreements*”. It is also incorrect for the audit team to infer that the “proper approval of expenditure” may not have been obtained. All payments and commitments in these cases were effected by duly delegated officials. Though there may not have been extensions in writing, as per the lease agreements, the tacit extensions of the lease agreement by the parties are acknowledged and effected. Paragraph 9.3 of the legal opinion *supra* provides thus “...a Court will in all probability find that the rental payable in terms of the **new tacit Lease Agreement** is the “escalated rental” namely the rental which was payable for the last month of the lease period in terms of the Written Agreement of Lease...” (Our emphasis). The legal opinion recognises the “new tacit Lease Agreement”.

In the broader context, it must also be noted by the audit team – as the management has indicated in the previous years – that the PMTE and the National Treasury were working reforms on leasing and letting. It would therefore have been improper of the Entity to commit itself to landlords on a long term basis without factoring in the reforms that were being implemented, even though they were not implemented at the time. Furthermore, the National Treasury, as part of broader reforms, granted the Entity approval to deviate from SCM processes to renegotiate leases that were still running, and to renew the leases that may have expired as part of cost-containment measures introduced by Cabinet from 2015.

Description	Response	
Corrective action to be taken	None	
Does the finding affect an amount disclosed in the financial statements	Yes	No
If yes, what corrections will be made to the population	NA	
If yes, the process followed to correct the population, including the internal controls put in place to ensure that the misstatement does not recur in future.	NA	
If yes and the population was adjusted, the proposed adjusting journal entries to correct the population, with the supporting documentation.	NA	
Acknowledgement that additional audit costs will be incurred in order to audit the proposed adjustments and that the financial	Yes	No

statements will not be adjusted if material misstatements still exist. (Under these circumstances the misstatements identified originally will be reported by the auditor.)	
If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated.	<p>Part of clause 4.3 of the standard lease agreement reads as follows; "Should the lessee fail to so exercise the option, this agreement shall continue on a month to month basis until such time as either of the parties gives the other a written notice terminating this agreement."</p> <p>This provision of the lease agreement addresses the finding of the AG with regards to rentals paid after the lease expiry date. Therefore, no action needs to be taken to rectify the expenditure as it is covered in Clause 4.3 of the Standard Lease Agreement</p>
Position of official responsible to take corrective actions	NA
Estimated completion date for corrective action	NA

Description	Response	
Does management agree with the root cause indicated	Yes	No
If management does not agree with the root cause indicated, please provide the root cause according to management.	NA	

Description	Response	
Does management agree with the internal control deficiencies indicated	Yes	No
If management does not agree with the internal control deficiency indicated, please provide the internal control deficiency according to management.		

Name: Dhaya Govender
Position: Acting DDG: REMS
Date: 03 August 2018

Auditor's conclusion

Management comments noted. We performed additional audit procedures to determine whether the leases were included on the list supporting the dispensation. We found five leases per the table above which were not included on the list and the expenditure after expiry date is deemed irregular expenditure. The terms of the leases were not adhered to. No written notices were given and the leases expired. Where payments were approved by delegated officials does not approve the procurement of the service as per National Treasury requirements. PMTE need to investigate the expenditure for irregular expenditure and include it on the Irregular expenditure note for matters to be investigated.

	Property Code	User department	Lease Period as per the lease agreement		Lease payments for current year (R)
			Start date	End date	
17	301025	Defence	01-Oct-11	30-Sep-14	152 857

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39	305206	Inter Relations & Cooperations	01-Mar-15	29-Feb-16	32 092 818
40	305764	SA Police Services	04-Mar-05	04-Mar-15	1 004 321
41	307640	Public Works	01-Sep-08	30-Sep-13	19 163 215
50	321046	SA Police Services	01-Apr-11	31-Mar-16	4 179
	Total				52 417 390

Receivables

Receivables - Accommodation debtors (freehold private)

Laws, rules and Regulations:

a) Treasury Regulation (TR) 16A7.4 states the following –

“The letting of immovable state property (excluding state housing for state officials and political office bearers), must be at market related tariffs, unless the relevant treasury approves otherwise. No state property may be let free of charge without the prior approval of relevant treasury.”

b) TR16A7.5 states the following –

“The accounting officer or accounting authority must review, at least annually when finalizing the budget all fees, charges, rates, tariffs, scales of fees or other charges relating to the letting of state property to ensure sound financial planning and management.”

c) In terms of rental debtors' management policy dated 20 February 2008 section 3 – Objectives.

The objectives of this policy are to:

Section 3.5: “Ensure that all debtors pay market related rental, and if below market related rental, approval from National Treasury is required.”

Nature

In the following instances identified in Accommodation debtors- freehold private, no evidence (valuation reports) was provided to confirm that the entity performed valuation assessments to ensure that the rental rates are at market related rates for the properties below.

We were also not provided with lease agreements for the properties marked ***:

No.	Prop code	Property Description	Region	Building	Rental amount as per schedule (R)
1	300816***	Creche	Bloemfontein	Building 270	11 514,80
2	114603***		Bloemfontein	Building 37 Reservoir	6 808,44
3	79801	Recommend By The PSLDVC For Provincial Government	Cape Town	Erf 267	8,33
4	290383	General Harbour & Witsand Eiland	Cape Town	Witsand Eiland	15 251,18
5	290605	Y6533/5993 Sf 35	Cape Town	Various Lots (Consolidated)	68 455,76
6	292875	Forms Part Of Erf 1194 Hout Bay	Cape Town	Lot 29a	2 222,29
7	301100***	Admiralty Reserve; South Coast Railwayline Umkomaas	Durban	Admiralty Reserve	8,33
8	305933***	Land - Pt 4 Of The Farm Goedgeloof 197 Hu	Durban	197 : PT 4	6 149,24
9	265563	Erven 173117301729172817271726 Johannesburg	Johannesburg	Complex: The Turkish Baths	5 314,68
10	126371***	Double Storey Face Brick Cladded Building	Johannesburg	Charge Office	7 320,50

No.	Prop code	Property Description	Region	Building	Rental amount as per schedule (R)
11	144089***		Johannesburg	Farm Vlakfontein 69 IR PT 123	6 802,44
12	56215		Kimberley	Alheit 986	10,32
13	52565	Facebrick Walls & Corrugated Zinc Cladding & Zinc Roof	Kimberley	Old Factory Saps Vehicle Store	4 587,30
14	54777		Kimberley	House 5	500,00
Total					134 953,61

Impact of the deviation

- Lease rentals may be charged below the market related prices.
- Non-compliance with Treasury Regulations.

Internal control deficiency

Leadership

Leadership does not provide effective oversight to ensure that lease rentals are properly valued, that there are lease agreements for all leases and that rentals are at market rates.

Recommendation

Leadership should ensure that there are effective measures in place that ensure that all leases have valuation reports, lease agreements are in place for all leases and the leases are at market rates.

Management response

Description	Response	
Corrective action to be taken		
Does the finding affect an amount disclosed in the financial statements		
If yes, what corrections will be made to the population		
If yes, the process followed to correct the population, including the internal controls put in place to ensure that the misstatement does not recur in future.		
If yes and the population was adjusted, the proposed adjusting journal entries to correct the population, with the supporting documentation.		
Acknowledgement that additional audit costs will be incurred in order to audit the proposed adjustments and that the financial statements will not be adjusted if material misstatements still exist. (Under these circumstances the misstatements identified originally will be reported by the auditor.)	Yes	No
If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated.		
Position of official responsible to take corrective actions		
Estimated completion date for corrective action		

Description	Response	
Does management agree with the root cause indicated	Yes	No
If management does not agree with the root cause indicated, please provide the root cause according to management.		

Description	Response	
Does management agree with the internal control deficiencies indicated	Yes	No

If management does not agree with the internal control deficiency indicated, please provide the internal control deficiency according to management.	
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Name:

Position:

Date:

Auditor's conclusion

Management comments outstanding

Contingent Assets

Contingent Assets - Limitation of scope

Laws, rules and Regulations:

Chapter 5 of the Public Finance Management Act (PFMA) section 40(1)(a) states that the accounting officer for a department or trading entity must keep full and proper records of the financial affairs of the department in accordance with any prescribed norms and standards, section 41 furthermore states that an accounting officer of a department or trading entity must submit to the relevant Treasury or the Auditor-General such information, returns, documents, explanations and motivations as may be prescribed or as the relevant Treasury or the Auditor-General may require.

Paragraph 15 of the Public Auditing Act states that the Auditor-General has at all reasonable times full unrestricted access to:

- (a) Any document, book or written or electronic record or information of the auditee or which reflects or may elucidate the business, financial results, financial position or performance of the auditee;
- (b) Any of the assets of or under the control of the auditee; or
- (c) Any staff member or representative of the auditee.

Audit finding

Information relating to the contingent assets was requested as per request no. 133 of 2017/18 dated 02 August 2018 and this information has not been provided for audit purposes:

- a) SIU reports for matters referred to AFU under Proclamation 59 of 2014- Leases
- b) Summons for matters pending (Summons issued/in Court) under Proclamation 59 of 2014- Leases on

Impact

A limitation of scope on the audit.

Internal control deficiency

Financial and performance management

Proper record keeping and record management could be a problem within the department as requested information was not available and supplied within a reasonable timeframe.

Recommendation

The required information should be provided as a matter of urgency.

Management response

Description	Response	
Corrective action to be taken		
Does the finding affect an amount disclosed in the financial statements	Yes	No

If yes, what corrections will be made to the population		
If yes, the process followed to correct the population, including the internal controls put in place to ensure that the misstatement does not recur in future.		
If yes and the population was adjusted, the proposed adjusting journal entries to correct the population, with the supporting documentation.		
Acknowledgement that additional audit costs will be incurred in order to audit the proposed adjustments and that the financial statements will not be adjusted if material misstatements still exist. (Under these circumstances the misstatements identified originally will be reported by the auditor.)	Yes	No
If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated.		
Position of official responsible to take corrective actions		
Estimated completion date for corrective action		

Description	Response	
Does management agree with the root cause indicated	Yes	No
If management does not agree with the root cause indicated, please provide the root cause according to management.		

Name:

Position:

Date:

Auditor's conclusion

Information system audit

USER ACCESS CONTROLS

Audit finding

User access controls, which should ensure that only valid and authorised users are allowed access to initiate and approve transactions on the system and that user access is adequately segregated when transactions are captured and approved, have been adequately designed and implemented.

Key audit finding identified:

- Information security policy was not adequately designed and was last reviewed in 2014. As a result, the policy did not address the following processes for user account management:
 - Password resets process
 - Change of access rights
 - Review of system administrator' activities
 - Review of access and logon violations
- During the review, it was noted that review of the system controller's activities and user's activities were performed.
- Through the review, it was noted that the review of access and logon violation were not performed for the year under review.
- System developers had access to the SAGE system and performed transaction as per the audit trail provided.

Inadequately designed user account management procedures could result in existing administrating and monitoring processes with sufficient mitigate control to prevent unauthorised access on SAGE.

Lack of review of the system administrators responsible for granting users access to the system increases the risk of override controls, which may not be timeously detected. The lack of access and logon violations reviews increases the risk that unauthorised activity on the system will remain undetected or may not be detected and corrected timeously.

Internal control deficiency

Financial and performance management: Information technology systems

Lack of management oversight in ensuring that adequate user access control management within the SAGE system are in place.

Recommendation

- Management should ensure that the policy is adequately designed to ensure that the process for granting access, reset of password, change of access, monitoring of system controller's activities and review of logons are included on the policy.
- There should be an independent person who reviews the system administrator activities with regards to new user creations, change of functions and terminations, the reviews should be performed on a regular basis and evidence thereof should be retained.
- Management should ensure that they put measure in place to deal with non-compliance and not addressing prior audit findings as per agreed action plans and timelines.

Management response

The security policy has been updated to address user account processes to reflect the password reset process, change of access rights, review of system administrator activities and review of access and logon violations. The system controller has been identified, and their role defined. A

report for user activity and for user logon and violations will be created on SAGE. Some of the functionality like user activity and logon violations will be available on the upgrade version of SAGE which is due before the end of the financial year. Developers will be restricted to only Development and QA servers. This will be enforced through the Access Management Solution.

Auditor's conclusion

Management comments are noted; however, an assessment of the corrective actions agreed upon by management will be performed during the next financial audit.

SECURITY MANAGEMENT

Audit finding

Security management ensures that security controls are implemented to prevent unauthorised access to the network and information systems that generate the information used to prepare the financial statements

Key audit finding identified:

The payment file from the Property Management Information System (PMIS) and Works Control Systems (WCS) that was transmitted to the SAGE application for payment of rates and taxes, assets under constructions and leases was stored temporarily in a file storage (staging area) on server 13 prior to the payments on SAGE being processed.

It was noted that the payment file was stored in clear text format in the temporary file storage and thus the information contained inside could be amended. The information inside the payment file included sensitive information such as rate and taxes amounts payable and bank account details, etc.

Furthermore, it was noted that there were users within information technology who had access to the temporary file location and had rights to amend the contents of the temporary payment file while it was still in the staging area.

The lack of encryption of the payment file whilst in the staging area could lead to amendment of the file's contents by unauthorised people who could alter payment information such as recipient banking details in order to misdirect or misappropriate funds, this can result in unauthorised payment being processed on the system without being detected.

Internal control deficiency

Financial and performance management: Information technology systems

Lack of consequence management as prior audit findings were not resolved, due to the payment file in the staging area that was still not protected.

Recommendation

- Management should develop and implement system controls to ensure that the system is able to encrypt all the payment data in the staging area (Server 13) to avoid alteration of transaction data processed for payment to ensure. Furthermore, activity logs must be reviewed on regular basis to detect any unauthorised changes to the payment file .
- Management should only give service providers access to Development and testing environment.
- Management should ensure that they put measure in place to deal with non-compliance and not addressing prior audit findings as per agreed action plans and timelines.

Management comments

Management investigated this problem with an objective of ensuring that the environment is secured to prevent any possible manipulation of the data. The first thing is that the file delivery from the source system (PMIS) must be automated, this will remove the chances of human intervention at that level. Secondly there needs to be a mechanism to encode the contents in a way that only the authorised parties can have access and if an authorised party intercepts the file, the content must be unintelligible. However, the file must be decoded by the target solution. This therefore requires that the target system (SAGE) must have an inbuilt mechanism to decode the encrypted file. Furthermore, the output from SAGE must be encrypted and securely transported

(requires a dedicated line) for example to Bankserve, forward and back. After a thorough analysis of this problem, management has looked at different encryption solutions.

In this regard, management has begun a process to procure an encryption solution. The progress to date is as follows:

Quotations were sourced. Briefing session was held with prospective suppliers. Only 3 SP replied and only 1 met BBBEE requirements. The 1 Qualified SP's quotation is higher than the estimated solution price by the Dept. Awaiting SCM availability for further advice. Most likely the process will have to be redone with adjusted estimates. The estimated completion date is 4 October 2018. Implementation will be 2 months' work at minimum.

Auditor's conclusion

Management comments are noted; however, an assessment of the corrective actions agreed upon by management will be performed during the next financial audit

IT SERVICE CONTINUITY

Audit finding

IT service continuity is the process of managing the availability of hardware, system software, application software and data to enable an organisation to recover/re-establish information systems services in the event of a disaster. The process includes disaster recovery plans and backups.

Key audit finding identified:

The backup procedure was not adequately designed as it did not make provision for backup restoration process. Furthermore, the following weaknesses were noted:

- Evidence was not provided to verify that backups were performed successfully.
- Backup restorations were not performed.
- Backup registers were not signed for backups taken offsite.
- DR testing was not performed for the current period of audit.
- Inadequate designed standard procedures may lead to inconsistency within the backup processes. Furthermore, the entity might not be able to recover its data in case of server failure or disaster.

Internal control deficiency

Financial and performance management: Information technology systems

Lack of ICT management oversight to ensure that adequate IT service continuity processes were designed and implemented adequately.

Recommendation

Management should ensure the following:

- Review and update the backup plan to include restoration processes and the DR is tested on a regular basis.
- Test restores of backups should be performed on a regular basis to ensure on-going readability of data devices. The results of the restores should be recorded and errors investigated by management to ensure the continued integrity of data.

Management response

Currently daily, weekly and monthly backups are done on the SAGE system. Also a snapshot of the Application is conducted on regular intervals. Backup's restoration plan will be executed on quarterly basis. The plan was put on hold pending availability of sever space and update to the current backup software. The new servers have been procured and the process of upgrading the current software is underway and will be finalised by January 2019. The backup process is being modified through update, work shopping and implementing of the backup policy. The update will cover establishing standard operating procedures for performing backups, restoration, registration of offsite mediums and testing.

Auditor's conclusion

Management comments are noted; however, an assessment of the corrective actions agreed upon by management will be performed during the next financial audit

Project assurance Archibus

The Archibus system is being implemented to replace the two legacy systems - Work Control System (WCS) and Property Management Information System (PMIS).

The following project management weaknesses were identified on the implementation of Archibus:

The LDM Archibus contract for implementation of Archibus had expired on 2017/05/05 as per the project plan. The entity appointed a new service provider for the same system and the scope for both service providers as per the project charter was found to be the same. See below table:

No	LDM	ALCM
1	Phase 1 & 2 Immovable Asset Register and Immovable Asset Management	Current Modules (Reactive maintenance, immovable Assets management, Movable Asset management)
2	Phase 2 Movable Asset Management	Current Modules (Reactive maintenance, immovable Assets management, Movable Asset management)
3	Phase 3 Capital Budgeting & Project Management	Infrastructure Budgeting & project management
4	Phase 4 ESRI Integration	Completion of the ESRI GIS interface
5	Phase 5 Condition Assessment	Conditions Assessment

- LDM was awarded a contract amount of R 22 017 515.86 on the 08/09/2015 for a period of 17 months to implement the Archibus system, however the service provider contract expired before they could deliver on all the project modules. LDM service provider was paid total of R 16 500 027.78.
- ALCM was awarded a contract amount of R 19 891 660.50 on the 14 February 2018 to complete the remaining modules. The auditor noted that by the time the Contract was signed by the PMTE and ALCM, the service provider was already working on the project from August 2017 as per the approved project charter.
- According to the LDM approved contract the Licensing cost for the first year subscription to allow department access to the new system functionality was R 2 979 758.40, however the entity paid an amount of R 3 778 140, 58 to LDM on 2015/10/06 for Licenses, support and maintenance on Archibus. Furthermore, the Licensing fee was paid before the system was functionally used by the entity.

Impact

Inadequate project management process may result in cost overruns, project delays, and project failure.

Lack of monitoring of the project deliverables before payment may result in the entity paying for work not done.

Internal control deficiency

Financial and performance management: Formal controls over IT Systems:

Lack of management oversight to ensure all related Archibus payments were in line with deliverables by the service provider.

Recommendation

Management should consider reimbursement from the service provider for payment for modules that were not provided to avoid fruitless and wasteful expenditure. In addition, management should consider performing an internal investigation to access and identify if there are any project team member to be held accountable.

Management response

Management does not agree with the Auditor's findings on the following issues:

- Work completed by LDM was compensated in line with the project charter
- Work currently being done by ALCM is to enhance the "Current" Modules and the work that was done by LDM. This is due to the fact that after the go-live with LDM there was additional work identified by the users, and since LDM's contract had ended this additional work had to be undertaken by ALCM upon assumption of work on the new contract.
- Licensing model work is such a way that licensing is paid in advance before usage. Therefore, the PMTE could not start any customisation and user training having not paid licensing as yet.
- The difference in licences prices is due to VAT. Please note that planned costs and actual costs are likely to change depending on the actual time of procurement.
- Management agrees with the principles recommended by the Auditor:
 - Management should investigate possible cost overruns on the licensing
 - Management should ensure that modules that were paid for are implemented and are fully functional.
 - Management should ensure that there is adequate project management over the implementation of Archibus.

Auditor's conclusion

- Work completed by LDM was compensated in line with the project charter

Management comments are noted however, not all the modules such as Immovable assets and immovable Assets management were not fully implemented. The finding will remain

- Work currently being done by ALCM is to enhance the “Current” Modules and the work that was done by LDM. This is due to the fact that after the go-live with LDM there was additional work identified by the users, and since LDM’s contract had ended this additional work had to be undertaken by ALCM upon assumption of work on the new contract.

Management comments are noted however, when the entity entered into a contract with LDM was to provide the following module:

Immovable Asset Register

Immovable Asset Management

Movable Assets Management

Capital Budgeting & project management

ESRI integration.

However, none of the above modules were full implemented during the review,

Management should also provide the auditor with breakdown of detail enhancement to be done/done by ALCM to substantiate the amount spend on enhancements.

Management should provide the auditors with the User acceptance test and completion certificate per above modules as per the statement above. The finding will remain.

- Licensing model work is such a way that licensing is paid in advance before usage. Therefore, the PMTE could not start any customisation and user training having not paid licensing as yet.

Management comment are noted however, on page 12 it was noted that licence cost include first year subscription to allow department access to new functionality. However, during the review none of the modules were fully implemented on Archibus to warrant the payments of licensing. The finding will remain.

Project assurance SAGE

The following project management weaknesses were identified on SAGE implementation:

Deloitte was awarded a contract of 15 423 883.08 on the 22/11/2013 for implementation of SAGE system. However, a total of R 25 859 908, 93 was paid to Deloitte for SAGE system. Furthermore, AccTech was awarded a three-year contract for SAGE X3 support and maintenance on 05/02/2018 for the contact amount of R 49 803 169.00.

A comparison was performed to evaluate if the new contract awarded to AccTech did not include any modules or processes that was supposed to be implemented by the Deloitte. See the table below for illustration:

Deloitte	AccTech
Accounts receivables & accounts payables	-
Upgrading of the architecture and infrastructure	Support to the service provider on-site (Pretoria and Johannesburg) for the duration of contract on the following: Customisation, configuration, development, database administration and first and second level application support
Training and Change management	Training to the regional and head office and Annual Licensing, updates and upgrade of existing product to the latest version
Irregular expenditure process	-
GRAP compliance and reporting on all financial data	-
Integration between SAGE X3 and Archibus systems	Interfacing and integration to the existing business system such as Archibus,

In addition, evidence that project charter was in place was not provide.

Impact

Lack of project monitoring might have result in purchase of a system that does not meet business needs and the entity might pay more for modules that were not implemented.

Internal control deficiency

Financial and performance management: Formal controls over IT Systems:

Lack of management oversight to ensure all related SAGE payments were in line with deliverables by the service provider.

Recommendation

Management should consider reimbursement from the service provider for payment for modules that were not provided to avoid fruitless and wasteful expenditure. In addition, management should consider performing an internal investigation to access and identify if there are any project team member to be held accountable..

Management response

Management does not agree with the Auditor's that the scope of Deloitte and AccTech is the same. Yes, there are similarities in that AccTech is continuing the contract from Deloitte and supporting or enhancing work completed by Deloitte as systems are not static. The auditor's financial comparison also does not take into account that the PMTE requested additional requirements such as procurement module with licensing and the mammoth task of upgrading the whole system from version 6 to version 11.

Management does not agree with the Auditor on the financial analysis as the Auditor did not consider all the approved scope changes with Variation Orders and licensing paid to Deloitte

Proper project management on the SAGE Projects for Deloitte and AccTech was performed. All payments made to the Service providers was according to services rendered, either support or development for new functionalities.

The current service provider, AccTech are currently busy to stabilise the previous PMIS/WCS integrations and building new integrations between SAGEX3 and Archibus.

The project team will ensure that proper project management and proper expenditure and budgeting will be performed on this project.

Auditor's conclusion

- Management does not agree with the Auditor's that the scope of Deloitte and AccTech is the same. Yes, there are similarities in that AccTech is continuing the contract from Deloitte and supporting or enhancing work completed by Deloitte as systems are not static. The auditor's financial comparison also does not take into account that the PMTE requested additional requirements such as procurement module with licensing and the mammoth task of upgrading the whole system from version 6 to version 11.
- *Management comments are noted. However, the lack of the project charter for AccTech results in the auditor not able to determine the additional requirements to be done by AccTech on SAGE that was not done by Deloitte. Hence it was not established what additional scope of work to be done which required R 49 803 169. 00. The entity budgeted R 15 423 883.08 for the implementation of the above-mentioned modules but management contracted another service provider on the same system treble the initial amount. The finding will remain until management provide the auditor with a project charter that details the scope, cost, timelines and justification of the more 300% increase on the current contract with the new service provider from the initial contract with Deloitte.*
- Management does not agree with the Auditor on the financial analysis as the Auditor did not consider all the approved scope changes with Variation Orders and licensing paid to Deloitte

Management comments are noted. However, variation approval with the details and reasons for scope creep should be provided to the auditor to access the difference in budget and actuals paid to Deloitte, furthermore as per the approved charted and

contract with Deloitte the license fees were not part of the budget. The finding will remain.

- Proper project management on the SAGE Projects for Deloitte and AccTech was performed. All payments made to the Service providers was according to services rendered, either support or development for new functionalities.

Management comments are noted. Proper project management requires adequate proper planning which includes project charter should be completed and approved prior to developing any system.

- The current service provider, AccTech are currently busy to stabilise the previous PMIS/WCS integrations and building new integrations between SAGEX3 and Archibus.

Management comments are noted. However, as per the approved project charter page 10, it was noted that Sage X3/Archibus scope end to end lease in and out was one of the scope which included an integration between SAGE ERP X3 and Archibus. The finding will remain.

ANNEXURE C: ADMINISTRATIVE MATTERS

Human resource management

Payroll certificate certified after the payment date and not returned timeously (COFF PTA 6, NEL 2, CPT 3, JHB 1, BLM 1, PLK 5)

Audit finding

Laws, rules and regulations

- a) In terms of Treasury Regulation 8.3.4 states that:
“For all employees, the person in charge at the respective pay-points must certify on the date of payment that all persons listed on the payroll report are entitled to payment. Employees paid by cheque must sign the payroll report when collecting their cheques.”
- b) Paragraph 8.3.5
“Within ten days of being certified, the payroll report must be returned to the chief financial officer. The accounting officer must ensure that all pay-point certificates have been received on a monthly basis.”

(1)The following payroll certificates were certified by the person in charge of the pay point after payment date.

No	Coff no:	Region	Pay point number	Period	Date payroll certificate signed
1	6	Pretoria	3110	15/11/2017	20/11/2017
			3180	15/11/2017	07/02/2018
			3153	15/11/2017	23/11/2017
			3162	15/11/2017	06/02/2018
2	3	Cape Town	1093	31/07/2017	10/08/2017
			1093	15/07/2017	29/08/2017
			1100	15/07/2017	25/08/2017
3	1	JHB	1108	15-Jul-17	17-Jul-17
4	1	Bloem	1141	15-May-17	18-May-17
5	5	Polokwane	1211	15-Apr-17	02-May-17

- (2) There was no evidence that the following payroll certificates were returned to the finance section within ten days of being certified.

No	Coff no:	Region	Pay point number	Period	Date payroll certificate signed
1	6	Pretoria	3110	15/11/2017	20/11/2017
			3180	15/11/2017	07/02/2018
			3153	15/11/2017	23/11/2017
			3162	15/11/2017	06/02/2018
2	3	Cape town	1093	31/07/2017	10/08/2017
			1093	15/07/2017	29/08/2017
			1100	15/07/2017	25/08/2017

Impact of finding:

- a) Non-compliance with section 8.3.4 of the Treasury Regulation.
- b) Should incorrect payments be present on the payroll reports, they will not be timeously detected and corrected, might lead to possible fictitious payments or losses to the state.

The prior year action plan stated that the different units will reconcile payroll register to the actual payrolls and that non-compliance report will be submitted to Branch Heads at Head Office and Regional Managers in Regions.

Internal control deficiency

Financial and Performance Management

- a) The department did not implement controls over daily and monthly processing and reconciling of transactions

Recommendation

- a) The department must investigate the possibility of printing the payrolls from another provincial department in their province.
- b) The department needs to improve their current record keeping system relating to the payrolls certificates as the current system in place is insufficient, and no records are kept of the date of return for payroll certificates.
- c) No accurate register is in place that documents all the payroll certificates received
- d) Review the monthly payroll expense reports and ensure that payrolls that have been certified will be returned within ten days to finance department

Management response

Cape Town response:

I am in agreement with the finding.

- (1) The following payroll certificates were certified by the person in charge of the pay point after payment date.
The payroll certificate for pay point 001093 and 001100 were only received after the payment date hence it was signed by the responsible official after the payment date. This matter was also raised in previous audits and the proposal made by the auditor to have payrolls printed at a provincial department were escalated to Head Office who has indicated that this is not possible. There has however been an improvement in receiving the payroll certificates before the payment date since the beginning of 2018.
- (2) There was no evidence that the following payroll certificates were returned to the finance section within ten days of being certified.
A payroll register has been implemented effective from April 2018, and on the register it provides for an e-mail reminder to be sent 5 days after the payroll certificates have been distributed and then also for follow-ups to be done for outstanding payroll certificates at intervals of 10 days to try and comply with the requirement that signed payroll certificates must be returned to the Finance Section within 10 days. The mentioned register will address the shortcomings as identified by the auditor in the management of payroll certificates.

Johannesburg response:

I am in agreement with the finding for the following reasons and hereby supply the following/attached information as per Annexure A, B & C in support of this management response:

1. The JHB Regional Office Registry went to Head Office to collect the Payroll Sheets and Payslips on Thursday, 06 July 2018. They were taken to the Payroll Office the following day on Friday, 07 July 2017. The Payroll Office created the Payroll Control Sheet as per "Annexure A" and sorted the payslips according to the pay points on Friday, 07 July 2017 and Monday, 10 July 2017.
2. It took Payroll Office one and half days to create and update the Payroll Control Sheet and start distributing the payroll sheets and payslips because of capacity constraints. The reason for the time taken, is because the Payroll Office is presently being manned by one official, who is the Senior State Accountant (SSA)- Revenue, instead of two because the position of the State Accountant: Payroll is still vacant;
3. On 11 July 2018, all the payroll sheets and their corresponding payslips were distributed to the respective Line Managers for certification. The payroll sheet and corresponding payslips in question were also distributed to the Office of the Regional Manager (RM) on the same date, 11 July 2017, but the Payroll Office did not find anybody to accept the payroll sheet and payslips. The SSA-Revenue official went back again on 12 July 2017 for certification of the payroll sheet as per attached "Annexure B". The payroll sheet and payslips were left with the officials from her Office, pending her coming back from sick leave and certify it. Refer to attached "Annexure A" as Proof of Evidence (POE).

4. The following day, Thursday, 13 February 2017, the RM was on sick leave until Friday, 14 July 2017 as per attached "Annexure C" Unfortunately, there was nobody who was appointed to act on her behalf due to the fact that at that time only the Minister could appoint an acting RM. This made it difficult to appoint an acting RM for a short period of 2 days. However, the Department has now amended the delegations to enable the RM's supervisor to appoint acting RM's.
5. The RM came back from her sick leave on Monday, 17 July 2017 and then certified the said payroll sheet on the same date, 17 July 2017. The payroll Office collected the certified payroll sheet the same day, Monday, 17 July 2017 as per "Annexure A".
6. That was the reason why the payroll sheet in question was certified, just one (1) working day from payday on Friday, 14 July 2017, since the 15 and 16 July 2018 fell on a weekend.
7. Finance Directorate will ensure that the filling of the vacant post of SA-Payroll is expedited.
8. The current delegations will be used to ensure that when the Regional manager is absent the acting will ensure that the payroll is signed on time.
9. Finance will also enhance the system of managing the certification of payroll sheets, by- among other things- ensuring that any certification of payroll sheets done after payday is accompanied by a memorandum from the affected Line Manager, explaining the reason for such a delay.
10. We shall also implement the schedule of monitoring the certification of such.

Polokwane response:

Management acknowledges the audit finding and wishes to respond as follows:

Payroll certificates are only received from the head office after the payment date, Regional office is unable to provide further details in terms of corrective action to be taken as the printing of payroll is centralised. Management disagrees with the impact identified by the audit team that *"Should incorrect payments be present on the payroll reports, they will not be timeously detected and corrected, might lead to possible fictitious payments or losses to the state."* The certification, as a control measure, is not meant to "...timeously detected and corrected...which might lead to fictitious or losses to the state" since the certification of the payroll must be done on the date of payment, at which stage no fictitious payment would not be detected.

Pretoria response:

The management is in agreement with this finding for the following reasons; it is a challenge to certify the payroll certificates before the payday due to unavailability of some of the employees to sign for their payslips. The certification can only be done when all the payslips have been taken by their owners. Management will from now on ensure that the managers responsible for pay points sign the payroll sheet, and in case where employees are not available to sign for their payslip, responsible managers will sign the payroll on their behalf.

Management disagrees with the impact identified by the audit team that "Should incorrect payments be present on the payroll reports, they will not be timeously detected and corrected,

might lead to possible fictitious payments or losses to the state.” The certification, as a control measure, is not meant to “...timeously detected and corrected...which might lead to fictitious or losses to the state” since the certification of the payroll must be done on the date of payment, at which stage no fictitious payment would not be detected.

Management will ensure that the payroll certificates are certified by respective Heads of units as soon as they are received from Head Office and returned timeously to Finance. Managers in respective units must correct their payroll certificates and internal communication will be issued within the Pretoria regional Office.

Bloemfontein response:

I am in agreement with the finding for the following reason;

1. The Payroll Certificates are only received from Head Office after the actual Payment date and thus resulting in this Office being unable to comply with the requirements of TR 8.3.4. This matter as indicated above was reported on since the 2015/16 financial year as well and escalated to Head Office; however no feedback or improvement has been noted. This office will once again raise the Coff with HO to sensitize HO regarding the current non-compliance based on TR 8.3.4.

In addition the office is doing a monthly reconciliation to ensure that all payroll certificates are signed by the relevant managers to ensure that there are no fictitious payments, as a control to address the concern raised by the AGSA.

Note that the Internal Control Deficiency regarding the “not effectively communicate policies” is not correct as the root cause is related to the actual late distribution of the Payroll’s from Head Office and not the policy itself.

Corrective action to be taken: Escalate the matter to HO

HO to investigate other options to ensure that Payroll certificates are provided to Regions before the actual pay date.

Auditor conclusion

Management comments are noted. The finding will remain as there was non-compliance with the Treasury Regulations.

Performance work plans not signed on time (COFF 2 BLM)**Audit finding**

Laws, rules and legislation:

Performance Management and Development System Policy Paragraph 7.2 *Performance planning and work plans state that,*

Existing employees shall have entered into performance agreement and signed work plans on or before the 15th April of each performance cycle starting from 01 April to 31 March of the following year.

Non-compliance with the Performance Management Development System Policy as a result of the employees listed below having signed their performance work plan after the 15th April 2017.

No	Surname	Initials	Persal number	Date the employee signed the performance work plan
1	'DE VILLIERS	PA	12549291	01 June 2017
2	MOFOLO	NA	12746720	12 June 2017

The aforementioned findings may result in:

- a) This will lead to non-compliance with Performance Management Development System Policy

Internal control deficiency*Leadership*

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

Monitoring controls did not ensure that Non –SMS member sign their performance work plan timely.

Recommendation

Performance work plan should be signed timely to ensure compliance with Performance Management Development System Policy

Management response

I am in agreement with the finding as the work plans were not submitted within the timeline required.

It must however be noted that Human Resources did make follow-ups with the relevant unit managers via emails as per attached POE.

A number of reasons could have contributed to the delays being, amongst other;

- Late distribution of the APP 2017/18 by HO.
- Disputes between officials and supervisors regarding specific targets.
- Possibility that officials were on leave or sick leave.
- Workload, due to the high vacancy rate could also have contributed to the late submission.

Human Resources will continue to sensitise staff and supervisors regarding the different timelines and will monitor compliance.

Relevant Line Managers (P Zweni and D Manus) to be held accountable by the delegated authority for the non-compliance.

All late submissions to be recorded by HR and these are to be communicated to the AO for intervention as required.

Auditor conclusion

Management agrees with the finding. The finding will remain in the management report.

Scope limitation on payroll certificates (COFF 2 NEL)**Audit finding**

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

- (g) must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;
- (h) must prepare financial statements for each financial year in accordance with generally recognized accounting practice”

Section 41 furthermore states that an accounting officer of a department, trading entity or constitutional institution must submit to the relevant Treasury or the Auditor-General such information, returns, documents, explanations and motivations as may be prescribed or as the relevant Treasury or the Auditor-General may require.

During the performance of the audit, the below information was not provided to auditors as per RFI 13 sent.

No.	Pay point	Period	Region
1	002840	15-09-2017	Nelspruit
2	002840	30-09-2017	Nelspruit

Impact of the finding

Possible Non compliance

Internal control deficiency

Financial and performance management

Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information

Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting

Recommendation

The required information should be provided as a matter of urgency.

Management response

No management response received

Auditor conclusion

No management response received. Finding remains.

