

**SECTION: Summary of detailed audit findings**

Page no.	Finding	Classification					Rating			Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters		
Immovable Assets											
52-60	COFF 24 HO - Immovable Assets: Differences in extent of structure	X					X			2	In process
61-64	COFF 25 HO - Immovable Assets: Google images of poor quality & incorrectly digitized images used to estimate the extent of structure	X					X			2	In process
65-68	COFF 26 HO - Immovable Assets: Differences in extent of structure for DoD properties	X					X			2	In process
69-72	COFF 58 HO - Immovable Assets: Differences in extent of structure and derecognition of buildings- DoD	X					X			2	In process
73-80	COFF 78 HO - Immovable Assets: Differences identified during physical verification process	X					X			2	In process
81-84	COFF 29 HO - Immovable Assets: Differences on land value as a result of differences on the land extent	X					X			1	In process
85-89	COFF 52 HO - Immovable Assets: Limitation of scope on improvements rights	X					X			3	In process

90-93	COFF 75 HO - Immovable Assets: Limitation of scope on improvements rights	X					X			2	In process
94-98	COFF 27 HO - Immovable Assets: Properties not owned by PMTE have been included on the IAR	X					X			3	In process
99-104	COFF 76 HO - Immovable Assets: Reassessment of useful lives and impairment	X					X			2	In process
105-111	COFF 67 HO - Immovable Assets: Differences in deemed cost calculation due to differences in conditional assessment	X					X			3	In process
<b>Predetermined Objectives – Programme 3</b>											
112-117	Indicator 3.7: Number of EPWP work opportunities created through construction projects – EPWP participants were not reported on EPWP Q4 data		X				X			1	In progress
118-119	Indicator 3.7: Number of EPWP work opportunities created through construction projects – Participants listed on the participant list not employed on the project		X				X			1	In progress
119-121	Indicator 3.7: Number of EPWP work opportunities created through construction projects – Ids, attendance registers and proof of payments not submitted for audit purposes		X				X			1	In progress
122-134	Indicator 3.7: Number of EPWP work opportunities created through construction projects – participant's banking detail not submitted for audit purposes				X				X	1	In progress
<b>Predetermined Objectives – Programme 4</b>											
134-135	Limitation of Scope – Performance Information (RFI 107)		X				X			1	In progress

136-137	Indicator 4.8: Validity of reported information		X				X			1	In progress
<b>Predetermined Objectives – Programme 6</b>											
138-139	Indicator 6.4: Completeness of reported performance information		X				X			1	In progress
140-141	Indicator 6.6: Q4 water savings not reported in the annual report		X				X			1	In progress
142-143	WORX4U system: inadequate controls related to closure and cancelling of calls		X				X			1	In progress
<b>Compliance</b>											
144-145	Non-compliance with the PFMA on submission of financial statements			X			X			3	In process
146-149	Overpayments made in contravention of Treasury Regulations			X			X			2	In process
150-153	Revenue from exchange transaction: No lease agreements in place with clients'			X				X		1	In process
<b>Procurement and contract management</b>											
154-155	Procurement: Competitive bidding – no approved extension			X			X			1	In progress
156-157	Contract management: Expansions or variations above the threshold			X			X			1	In progress
<b>Receivables</b>											
158-161	Misstatement of receivables from exchange transaction: Accommodation debtors – Leasehold intergovernmental	X						X		1	In progress
162-164	Misstatement of receivables from exchange transaction: Accommodation debtors – Municipal services	X						X		1	In progress
165-167	Misstatement of receivables from exchange transaction: Accommodation debtors – Freehold inter-governmental	X						X		1	In progress
168-169	Accommodation Charges: Municipal services- Interest on	X						X		1	In progress

	long outstanding debtors not charged										
<b>Leases</b>											
172-175	Overstatement of operating lease liability	X						X		1	In process
176-180	Overstatement of operating lease accrual	X						X		1	In process
181-185	Overstatement of operating lease prepayments	X						X		1	In process
186-190	Overstatement of operating lease expenditure	X						X		1	In process
191-197	Understatement of operating lease commitments: Operating lease assets and liabilities	X						X		1	In process
198-199	Operating lease expenditure: Differences between AFS and schedules	X						X		1	In process
200-201	Overstatement of operating lease commitments	X						X		1	In process
<b>Provisions</b>											
202-203	Overstatement of provisions - Bloemfontein	X						X		1	In progress
<b>Irregular expenditure</b>											
204-205	Difference noted in irregular expenditure disclosed	X						X		1	In progress
<b>Payables from exchange transactions</b>											
206-207	Accrued expenses: Understatement of accrual assets	X						X		1	In progress
208-209	Accrued expenses: Understatement of accruals for Scheduled Maintenance	X						X		1	In progress
210-211	Accrued expenses: Understatement of day to day accruals	X						X		1	In progress
209-213	Accrued expenses: understatement of other accruals	X						X		1	In progress
214-215	Accrued expenses: Overstatement of Day to Day Accruals	X						X		1	In progress

216-217	Accrued expenses: Overstatement of Accrual Assets	X						X		1	In progress
218-219	Accrued expenses: Overstatement of Scheduled Maintenance	X						X		1	In progress
220-221	Accrued expenses: Understatement of municipal service accruals	X						X		1	In progress
<b>Operating expenditure</b>											
222-225	Invoices not paid within 30 days	X						X		3	In progress
<b>Bank Overdraft</b>											
226-228	Non-compliance with laws and regulations – PMTE bank in overdraft			X				X		1	In progress
<b>Immovable assets</b>											
229-230	COFF 21 HO - Immovable Assets :Different valuations methods used to value assets with the same property code	X						X		3	In process
231-233	COFF 22 HO - Immovable Assets: Inconsistent Generally Recognized Accounting Practice Standards (GRAP) classifications between land and buildings	X						X		3	In process
234-235	COFF 23 HO – Immovable Assets: Duplicate buildings.	X						X		2	In process
236-237	COFF 79 HO- Immovable Assets: Depreciation	X						X		1	In process
238-243	COFF 52 HO - Differences in asset values where MVR was used as a valuation method							X		1	In process
244-248	COFF 77 HO - CAATS Analysis_ Duplicate assets between asset registers of different custodians	X							X	2	In process
<b>Commitments</b>											
252-253	Differences noted in amount disclosed	X						X		1	In progress
254-254	Understatement of commitments	X						X		1	In progress
<b>Contingent assets</b>											

256-257	Understatement of contingent assets	X						X		1	In progress
<b>Procurement and contract management</b>											
255-257	No measures in place to monitor contract performance and delivery have been defined and implemented			X				X		1	In progress
258-259	Procurement: Competitive bidding - limitation of scope			X				X		1	In progress
260-261	Procurement: Competitive bidding not followed for goods and services above R500 000			X				X		1	In progress
262-263	Procurement: Supplier not tax compliant at time of award			X				X		1	In progress
264-268	Designated Sector compliance not adhered to in the procurement process			X				X		1	In progress
269-270	IDD – Procurement documents not recorded and completed fully and proper			X				X		1	In progress
271-272	IDD: SCM/Procurement internal controls not implemented as required by the SCM officials and Managements per the SCM procedure manual			X				X		1	In progress
273-276	Procurement and contract management			X				X		1	In progress
<b>Other important matters</b>											
277-278	Inadequate design and implementation of the User Access control on SAGE system Audit finding					X			X	1	In progress
279-281	IT Service continuity					X			X	1	In progress
282-292	IT Security Management					X			X	1	In progress

## Detailed audit findings

### ANNEXURE A: MATTERS AFFECTING THE AUDITOR'S REPORT

#### DETAILED AUDIT FINDING

##### Immovable assets

#### Immovable assets: Differences in extent of structure (COFF 24)

##### Laws, rules and Regulations:

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

Generally Recognised Accounting Practice (GRAP) 17 paragraph 38 states that: *“If there is no market-based evidence of fair value because of the specialised nature of the item of plant and equipment, an entity may need to estimate fair value using, for example, either reproduction cost or depreciated replacement cost. The depreciated replacement cost of an item of plant or equipment may be established by reference to the market buying price of components used to produce the asset or the indexed price for the same or a similar asset based on a price for a previous period. When the indexed price method is used, judgement is required to determine whether production technology has changed significantly over the period, and whether the capacity of the reference asset is the same as that of the asset being valued....”*

Directive 7 paragraph 6 states that: *“When an entity initially recognises or acquires an asset using the Standards of GRAP, it measures such assets using either cost or fair value (acquisition cost). Where the acquisition cost of an asset is not available on the adoption of the Standards of GRAP or on the transfer date or the merger date (initial acquisition), acquisition cost is measured using a surrogate value (deemed cost) at the date an entity adopts the Standards of GRAP or on the transfer date or the merger date (measurement date). Deemed cost is determined as the fair value of an asset at the measurement date...”*

Directive 7 paragraph 10(a) to (c) states that: *“If fair value at the measurement date cannot be determined for an item of property, plant and equipment, investment property or a heritage asset, an entity may estimate such fair value using depreciated replacement cost at the measurement date for an item of property, plant and equipment; depreciated replacement cost at the measurement date for an investment property, but only if the investment property is of such a specialised nature that there is no market-based evidence of fair value; and replacement cost at the measurement date for heritage assets...”*

Chapter 4.3.4(a) to (d) of the Model for applying municipal values, comparative municipal values/sales and replacement costs as deemed cost of immovable assets of the Property Management Trading Entity (PMTE) as at 1 April 2013 outlines the process for Determining the Building Value states that: *“Building Cost information from reference sites such as **“AECOM – Africa Property and Construction handbook”** will be used in consultation with National DPW’s Valuations unit.*

*Calculate the building value using the building indices and DPW's 2014/15 physical verification information. From the building cost information sources obtain the rate per square meter of the type of improvement and multiply by the extent of the buildings to get the building value. Use the condition assessment from the DPW 2014/15 physical assessment rating to adjust the calculated replacement cost to determine the value of the building; Determine the building's extent through the use of GIS or another method where GIS is not considered appropriate..."*



## Nature

During the audit of immovable assets, we noted that the extent of structure as disclosed on the immovable asset register (IAR) did not agree to the extent of structure as per GIS. These differences were mainly due to the following:

Incorrect digitization of improvements which management subsequently submitted correctly digitized maps.  
Incorrectly captured the extent of footprint on the IAR from GIS downloads.

This resulted to the following differences as shown in the table below after taking components into account but excluding differences in number of floors as they will be confirmed during physical verification. Refer to tables below

## Multi-Story Sample

### Improvements

No	Building Id	Extent Of structure as per GIS in SQM	Extent Of structure as per IAR in SQM	Differences in SQM	Recalculated Deemed cost less components in Rands	Deemed cost as per IAR in Rands	Differences in Rands
1	100000040756	15 733	16 026	(293)	54 710 721	55 729 614	(1 018 893)
2	100000042523	10 525	10 678	(153)	41 047 500	41 644 200	(596 700)
3	200000032310	14 554	14 715	(161)	72 094 694	72 892 224	(797 530)
4	200000037529	18 091	18 315	(224)	103 715 703	104 999 895	(1 284 192)
5	200000048861	24 440	23 782	658	124 849 296	121 487 969	3 361 327
6	200000069377	17 767	37 863	(20 096)	103 936 950	221 498 550	(117 561 600)
7	200000084462	78 089	74 750	3 339	443 116 031	424 168 875	18 947 156
8	200000089142	41 809	44 666	(2 857)	234 799 344	250 844 256	(16 044 912)
9	200000137468	34 798	35 018	(220)	52 544 980	52 877 180	(332 200)
	<b>Total</b>	<b>244 806</b>	<b>275 813</b>	<b>(20 007)</b>	<b>1 230 815 219</b>	<b>1 346 142 763</b>	<b>(115 327 544)</b>

### Components

No	Building Id	Component Description	Component value	Recalculated deemed cost (Components)	Differences in Rands
1	100000040756	Aircon	1 149 064	1 128 056	(21 008)
2	100000040756	Lift / Elevator	574 532	564 028	(10 504)
3	200000032310	Aircon	1 518 588	1 501 973	(16 615)
4	200000032310	Generator	759 294	750 986	(8 308)
5	200000032310	Lift / Elevator	759 294	750 986	(8 308)
6	200000037529	Lift / Elevator	1 071 428	1 058 324	(13 104)
7	200000037529	Lift / Elevator	1 071 428	1 058 324	(13 104)
8	200000048861	Lift / Elevator	1 227 151	1 261 104	33 953
9	200000084462	Lift / Elevator	4 372 875	4 568 207	195 332
10	200000084462	Lift / Elevator	4 372 875	4 568 207	195 332
11	200000084462	Security/Access Control	4 372 875	4 568 207	195 332
12	200000089142	Generator	2 612 961	2 445 827	(167 135)
13	200000089142	Lift / Elevator	2 612 961	2 445 827	(167 135)
14	200000089142	Aircon	5 225 922	4 891 653	(334 269)
	<b>Total</b>		<b>31 701 248</b>	<b>31 561 706</b>	<b>(139 541)</b>

## GIS Sample

### Improvements

No	Building Id	Extent Of structure as per GIS in SQM	Extent Of structure as per IAR in SQM	Differences in SQM	Recalculated Deemed cost less components in Rands	Deemed cost as per IAR in Rands	Differences in Rands
1	200000029309	1169	2338	(1 169)	28 967 820	57 935 640	(28 967 820)
2	200000029310	2863	5726	(2 863)	22 159 620	44 319 240	(22 159 620)
3	200000029312	1582	3164	(1 582)	18 794 160	37 588 320	(18 794 160)
4	227300418	2730	2800	(70)	33 824 700	34 692 000	(867 300)
5	230600824	1950	5850	(3 900)	20 972 250	62 916 750	(41 944 500)
6	234350366	17741	17638	103	53 577 820	53 266 760	311 060
7	234350363	15511	15932	(421)	46 843 220	48 114 640	(1 271 420)

No	Building Id	Extent Of structure as per GIS in SQM	Extent Of structure as per IAR in SQM	Differences in SQM	Recalculated Deemed cost less components in Rands	Deemed cost as per IAR in Rands	Differences in Rands
8	230600416	3111	6222	(3 111)	22 305 870	44 611 740	(22 305 870)
9	200000032849	3092	2953	139	46 428 235	44 341 067	2 087 168
10	236800915	11794	11768	26	42 281 490	42 188 280	93 210
11	100000045484	3294	3596	(302)	35 426 970	38 674 980	(3 248 010)
12	200000068566	4387	4536	(149)	33 955 380	35 108 640	(1 153 260)
13	227800688	4915	4766	149	35 093 100	34 029 240	1 063 860
14	236800882	8982	9447	(465)	32 200 470	33 867 495	(1 667 025)
15	100000011425	6288	7006	(718)	29 756 074	33 153 793	(3 397 720)
16	200000118274	4516	4503	13	32 379 720	32 286 510	93 210
17	200000162462	295	7884	(7 589)	1 141 650	30 510 737	(29 369 087)
18	100000045122	1933	1914	19	29 623 612	29 332 433	291 179
19	234300408	9795	10570	(775)	23 508 000	25 368 000	(1 860 000)
20	100000007959	2687	3007	(320)	20 589 406	23 041 438	(2 452 032)
21	200000168971	2863	2881	(18)	11 079 810	11 149 470	(69 660)
22	100000045561	4189	3163	1 026	12 650 780	9 552 260	3 098 520
23	200000124189	982	1116	(134)	5 597 400	6 361 200	(763 800)
24	200000033262	2245	2324	(79)	3 364 555	3 482 952	(118 396)
25	100000005693	1374	1254	120	2 745 597	2 505 807	239 790
26	200000044624	375	399	(24)	2 137 500	2 274 300	(136 800)
27	200000091089	2242	2436	(194)	1 646 429	1 788 894	(142 465)
28	200000033257	2145	2319	(174)	1 607 343	1 737 729	(130 386)
29	200000033261	2008	2244	(236)	1 504 683	1 681 528	(176 845)
30	200000033265	2039	2240	(201)	1 527 913	1 678 531	(150 618)
31	200000164231	303	312	(9)	1 172 610	1 207 440	(34 830)
32	200000055782	167	200	(33)	646 290	774 000	(127 710)
33	100000042584	76	265	(189)	196 080	683 700	(487 620)
34	236800456	26	43	(17)	19 483	32 222	(12 739)

No	Building Id	Extent Of structure as per GIS in SQM	Extent Of structure as per IAR in SQM	Differences in SQM	Recalculated Deemed cost less components in Rands	Deemed cost as per IAR in Rands	Differences in Rands
35	236950524	116	11	105	206 712	19 905	186 807
36	231750509	28	1	27	105 700	3 775	101 925
37	200000124185	391	1	390	885 615	2 265	883 350
38	228650081	16282	16643	(361)	77 827 960	79 553 540	(1 725 580)
39	200000048172	8271	15313	(7 042)	59 303 070	109 794 210	(50 491 140)
40	200000137701	11158	16519	(5 361)	53 335 240	78 960 820	(25 625 580)
41	200000138468	16644	18338	(1 694)	64 412 280	70 968 060	(6 555 780)
42	200000096474	6446	5931	515	66 522 720	61 207 920	5 314 800
43	100000046255	7010	8346	(1 336)	33 507 800	39 893 880	(6 386 080)
44	227150114	10231	10906	(675)	36 678 135	39 098 010	(2 419 875)
45	200000096394	2991	3234	(243)	30 867 120	33 374 880	(2 507 760)
46	245150633	316	11872	(11 556)	715 740	26 890 080	(26 174 340)
47	200000140312	6961	8565	(1 604)	15 766 665	19 399 725	(3 633 060)
48	200000165904	918	896	22	3 552 660	3 467 520	85 140
49	200000133512	1986	2026	(40)	496 066	506 057	(9 991)
50	100000004416	114	172	(58)	270 864	408 672	(137 808)
51	236250411	2088	2301	(213)	32 322 240	35 619 480	(3 297 240)
52	200000136389	34240	28060	6 180	200 304 000	164 151 000	36 153 000
<b>Total</b>		<b>255 860</b>	<b>301 951</b>	<b>(46 091)</b>	<b>1 332 806 627</b>	<b>1 593 577 536</b>	<b>(260 770 908)</b>

## Components

No	Building Id	Component Description	Component value	Recalculated deemed cost (Components)	Differences in Rands
1	200000032849	1 Aircon & 3 Security/Access Control	1 435 925	1 371 373	64 552

No	Building Id	Component Description	Component value	Recalculated deemed cost (Components)	Differences in Rands
2	100000011425	Generator	300 566	334 887	(34 320)
3	100000045122	Lift / Elevator	299 228	296 287	2 941
4	100000007959	Lift / Elevator	207 974	232 742	(24 768)
5	200000091089	Aircon	33 601	36 508	(2 907)
6	236950524	Generator	2 088	201	1 887
7	100000004416	Generator	2 736	4 128	(1 392)
<b>Total</b>			<b>2 282 118</b>	<b>2 276 126</b>	<b>5 992</b>

## **Impact of finding**

Based on the sample tested, property plant and equipment (Deemed cost) is overstated by R376 232 001, however management should revisit the whole population to determine the full impact of this finding.

## **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.

Management didn't properly review the extent of structure recorded on the IAR against the GIS to ensure that all inputs have been correctly transferred to the IAR.

The digitized google images were not properly reviewed to identify any incorrectly digitized images.

## **Recommendation**

It is recommended that:

Management should ensure that immovable assets register (IAR) agrees to all supporting schedules before submission for audit. The extent of structure recorded to the IAR should be reviewed against the GIS to confirm that all inputs have been accurately transferred before finalising the register.

Management should ensure that buildings are correctly digitized on the GIS Maps. The digitization should be aligned to the building structure captured on the google image.

## **Management response**

Management is in agreement with the finding.

### GIS system

The root cause is the incorrect extents captured on the Asset Register during the transferring of information from the GIS system download.

### Digitising

The root cause for digitising is as a result of following the wall instead of the roof plan and inclusion of voids.

To ensure that the correct extents are correctly recorded and reviewed during the transfer to the Asset Register. The corrective measure is to ensure that digitising follows the roofline instead of the wall and excluding the voids where applicable.

**Auditor's conclusion**

Management comment noted. The finding will remain on the management report.

### Immovable assets: Google images of poor quality & Incorrectly digitized images used to estimate the extent of structure (COFF 25)

#### Laws, rules and Regulations:

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

Generally Recognised Accounting Practice (GRAP) 17 paragraph 38 states that: “If there is no market-based evidence of fair value because of the specialised nature of the item of plant and equipment, an entity may need to estimate fair value using, for example, either reproduction cost or depreciated replacement cost. The depreciated replacement cost of an item of plant or equipment may be established by reference to the market buying price of components used to produce the asset or the indexed price for the same or a similar asset based on a price for a previous period. When the indexed price method is used, judgement is required to determine whether production technology has changed significantly over the period, and whether the capacity of the reference asset is the same as that of the asset being valued....”

Directive 7 paragraph 6 states that: “When an entity initially recognises or acquires an asset using the Standards of GRAP, it measures such assets using either cost or fair value (acquisition cost). Where the acquisition cost of an asset is not available on the adoption of the Standards of GRAP or on the transfer date or the merger date (initial acquisition), acquisition cost is measured using a surrogate value (deemed cost) at the date an entity adopts the Standards of GRAP or on the transfer date or the merger date (measurement date). Deemed cost is determined as the fair value of an asset at the measurement date...”

Directive 7 paragraph 10(a) to (c) states that: “If fair value at the measurement date cannot be determined for an item of property, plant and equipment, investment property or a heritage asset, an entity may estimate such fair value using depreciated replacement cost at the measurement date for an item of property, plant and equipment; depreciated replacement cost at the measurement date for an investment property, but only if the investment property is of such a specialised nature that there is no market-based evidence of fair value; and replacement cost at the measurement date for heritage assets...”

Chapter 4.3.4(a) to (d) of the Model for applying municipal values, comparative municipal values/sales and replacement costs as deemed cost of immovable assets of the Property Management Trading Entity (PMTE) as at 1 April 2013 outlines the process for Determining the Building Value states that: “Building Cost information from reference sites such as **“AECOM – Africa Property and Construction handbook”** will be used in consultation with National DPW’s Valuations unit. Calculate the building value using the building indices and DPW’s 2014/15 physical verification information. From the building cost information sources obtain the rate per square meter of the type of improvement and multiply by the extent of the buildings to get the building value. Use the condition assessment from the DPW 2014/15 physical assessment rating to adjust the calculated replacement cost to determine the value of the building; Determine the building’s extent through the use of GIS or another method where GIS is not considered appropriate...”



Chapter 4.3.4.2.4 of Deemed cost model: Exceptional cases where GIS will not be used.

Where buildings are obstructed by trees, adjacent high rise buildings and where the google imagery sourced is of a poor quality (rendering it impossible to get the correct outline of the building footprints), the GIS personnel produces a building footprint for geo referencing purposes and the buildings are flagged for the respective extents to be measured in the field using the measuring wheel.

### Nature

During the audit of immovable assets, we noted that management used google images of poor quality to estimate the extent of footprint. As per the position paper, management was supposed to use measuring wheel to estimate the extent in this regard.

The following concerns were noted in the google images provided:

Buildings are obstructed by trees.

Adjacent high rise buildings incorrectly digitized.

Google imagery sourced is of a poor quality (rendering it impossible to get the correct outline of the building footprints).

We further noted that management have estimated the buildings extent of footprint using incorrectly digitized google images.

Refer to Tables below on the buildings identified:

### Property, Plant and Equipment

Building Id	Accommodation type	Extent Of footprint as per IAR in SQM	Deemed cost as per IAR in Rands
205950852	STORAGE	46	104 190
242700077	RESIDENTIAL ACCOMMODATION	2	11 950
<b>Total</b>		<b>48</b>	<b>116 140</b>

### Multi story sample – Incorrectly digitized Buildings

Building Id	Accommodation type	Extent Of footprint as per IAR in SQM	Deemed cost as per IAR in Rands
218700037	POLICE STATION	4 377	196 952 243
211700191	POLICE STATION	6 693	190 977 696
200000089396	OFFICE (MULTI STOREY REINFORCED CONCRETE)	4 967	193 951 212
<b>Total</b>		<b>16 037</b>	<b>581 881 151</b>

### Investment Property

Building Id	Accommodation type	Extent Of footprint as per IAR in SQM	Deemed cost as per IAR in Rands
200000172382	OFFICE	358	1 385 460
200000046378	Prefab	163	81 429

Building Id	Accommodation type	Extent Of footprint as per IAR in SQM	Deemed cost as per IAR in Rands
200000046377	Prefab	157	78 431
200000046361	RESIDENTIAL ACCOMMODATION	266	1 271 480
200000046350	RESIDENTIAL ACCOMMODATION	264	946 440
<b>Total</b>		<b>1 208</b>	<b>3 763 240</b>

### Heritage Property

Building Id	Accommodation type	Extent Of footprint as per IAR in SQM	Deemed cost as per IAR in Rands
200000134876	GOVERNMENT GARAGE	60	107 100
200000172089	GOVERNMENT PRINTER	8	41 280
<b>Total</b>		<b>68</b>	<b>148 380</b>

### Impact of finding

Based on the sample tested, we were unable to confirm that the extent of structure used to calculate the immovable assets deemed cost is correct and reasonable. Management should revisit the whole population to determine the full impact of this finding.

### 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.

Management didn't apply the position paper to address the issue of google images with poor quality to estimate the extent of structure.

The digitized google images were not properly reviewed to identify any incorrectly digitized images.

### Recommendation

It is recommended that:

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

Management should estimate the extent of structure using a measuring wheel on all properties with poor google images. This will be in line with their position paper.

Management should ensure that buildings are correctly digitized on the GIS Maps. The digitization should be aligned to the building structure captured on the google image.

**Management response**

Management is in agreement with the finding.

The root cause is that GIS was used to determine extents on properties with poor google images.

The population with unclear imagery will be corrected using wheel measurement.

**Auditor's conclusion**

Management comment noted. The finding will remain on the management report.

**Immovable assets: Differences in extent of structure for DoD properties (COFF 26)****Laws, rules and Regulations:**

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

Generally Recognised Accounting Practice (GRAP) 17 paragraph 38 states that: “If there is no market-based evidence of fair value because of the specialised nature of the item of plant and equipment, an entity may need to estimate fair value using, for example, either reproduction cost or depreciated replacement cost. The depreciated replacement cost of an item of plant or equipment may be established by reference to the market buying price of components used to produce the asset or the indexed price for the same or a similar asset based on a price for a previous period. When the indexed price method is used, judgement is required to determine whether production technology has changed significantly over the period, and whether the capacity of the reference asset is the same as that of the asset being valued....”

Directive 7 paragraph 6 states that: “When an entity initially recognises or acquires an asset using the Standards of GRAP, it measures such assets using either cost or fair value (acquisition cost). Where the acquisition cost of an asset is not available on the adoption of the Standards of GRAP or on the transfer date or the merger date (initial acquisition), acquisition cost is measured using a surrogate value (deemed cost) at the date an entity adopts the Standards of GRAP or on the transfer date or the merger date (measurement date). Deemed cost is determined as the fair value of an asset at the measurement date...”

Directive 7 paragraph 10(a) to (c) states that: “If fair value at the measurement date cannot be determined for an item of property, plant and equipment, investment property or a heritage asset, an entity may estimate such fair value using depreciated replacement cost at the measurement date for an item of property, plant and equipment; depreciated replacement cost at the measurement date for an investment property, but only if the investment property is of such a specialized nature that there is no market-based evidence of fair value; and replacement cost at the measurement date for heritage assets...”

Chapter 4.3.4(a) to (d) of the Model for applying municipal values, comparative municipal values/sales and replacement costs as deemed cost of immovable assets of the Property Management Trading Entity (PMTE) as at 1 April 2013 outlines the process for Determining the Building Value states that: “Building Cost information from reference sites such as **“AECOM – Africa Property and Construction handbook”** will be used in consultation with National DPW’s Valuations unit. Calculate the building value using the building indices and DPW’s 2014/15 physical verification information. From the building cost information sources obtain the rate per square meter of the type of improvement and multiply by the extent of the buildings to get the building value. Use the condition assessment from the DPW 2014/15 physical assessment rating to adjust the calculated replacement cost to determine the value of the building; Determine the building’s extent through the use of GIS or another method where GIS is not considered appropriate...”

## Nature

During the audit of immovable assets, we noted that the extent of structure as disclosed on the immovable asset register (IAR) did not agree to the extent of structure as per DoD Maps. These differences were mainly due to the following:

Incorrectly captured extent of structure on the IAR from DoD Map downloads.

This resulted to the following differences as shown in the table below after taking components into account.

Refer to the table below.

## DOD Sample

No	Building Id	Extent of structure as per DoD Map in sqm	Extent of structure as per IAR in sqm	Difference in extent in per sqm	Recalculated depreciable replacement cost excl component in Rands	Depreciable replacement cost excl component per asset register in Rands	Differences in Rands
1	DODBLD06140	33 885	44 000.00	(10 115)	198 227 250.00	257 400 000.00	(59 172 750)
2	DODBLD09961	10 953	13 908.00	(2 955)	63 668 229.08	81 361 800.00	(17 693 571)
3	DODBLD05553	15 247	15 420.00	(173)	58 845 618.24	59 675 400.00	(829 782)
4	DODBLD12787	12 712	12 574.64	138	49 197 297.60	48 663 856.80	533 441
5	DODBLD32465	3 744	3 709.77	34	46 391 381.40	45 964 050.30	427 331
6	DODBLD32187	5 533	5 985.00	(452)	32 868 039.60	35 550 900.00	(2 682 860)
7	DODBLD08806	6 114	5 556.00	558	34 850 028.00	31 669 200.00	3 180 828
8	DODBLD12901	8 137	8 088.00	49	31 488 448.50	31 300 560.00	187 889
9	DODBLD07320	5 696	6 700.00	(1 004)	22 044 526.20	25 929 000.00	(3 884 474)
10	DODBLD12629	5 257	6 952.00	(1 695)	65 136 460.20	25 027 200.00	40 109 260
11	DODBLD07166	5 671	6 911.48	(1 241)	20 414 772.00	24 881 328.00	(4 466 556)
12	DODBLD05572	6 586	6 236.18	350	25 476 357.69	24 134 016.60	1 342 341
13	DODBLD34747	4 091	4 099.10	(8)	23 319 270.00	23 364 870.00	(45 600)
14	DODBLD24671	6 113	5 798.33	314	24 572 692.20	23 309 286.60	1 263 406
15	DODBLD05941	6 667	6 444.96	222	23 858 085.76	23 105 181.60	752 904
16	DODBLD05586	4 862	5 491.62	(630)	18 791 660.88	21 252 569.40	(2 460 909)

No	Building Id	Extent of structure as per DoD Map in sqm	Extent of structure as per IAR in sqm	Difference in extent in per sqm	Recalculated depreciable replacement cost excl component in Rands	Depreciable replacement cost excl component per asset register in Rands	Differences in Rands
17	DODBLD18796	9 104	9 113.98	(10)	20 610 957.32	20 643 164.70	(32 207)
18	DODBLD05505	3 853	8 620.98	(4 768)	8 726 750.55	19 526 519.70	(10 799 769)
19	DODBLD31735	8 498	8 516.12	(18)	19 248 853.35	19 289 011.80	(40 158)
20	DODBLD24361	4 737	4 748.67	(12)	16 982 288.40	17 023 981.95	(41 694)
21	DODBLD12810	3 078	2 904.52	174	18 008 347.50	16 991 442.00	1 016 906
22	DODBLD11516	4 450	4 432.89	18	16 288 793.40	16 224 377.40	64 416
23	DODBLD24189	3 062	3 082.00	(20)	10 977 019.05	11 048 970.00	(71 951)
24	DODBLD31658	4 190	4 795.37	(605)	9 490 191.45	10 861 513.05	(1 371 322)
25	DODBLD05163	1 251	1 332.71	(82)	7 316 712.00	7 796 353.50	(479 642)
26	DODBLD16933	3 820	1 752.62	2 067	14 783 400.00	6 782 639.40	8 000 761
27	DODBLD06657	1 402	1 035.65	366	5 426 204.40	4 007 965.50	1 418 239
28	DODBLD31671	1 865	1 755.18	110	4 223 907.90	3 975 482.70	248 425
29	DODBLD32200	477	540.00	(63)	2 789 748.00	3 159 000.00	(369 252)
30	DODBLD39084	61	51.86	9	234 676.80	200 698.20	33 979
31	DODBLD31320	124	76.73	48	222 089.70	136 963.05	85 127
32	DODBLD25201	16	49.61	(34)	35 809.65	112 366.65	(76 557)
	<b>Total</b>	<b>191 258</b>	<b>210 684</b>	<b>(19 426)</b>	<b>894 515 867</b>	<b>940 369 669</b>	<b>(45 853 802)</b>

### **Impact of finding**

Based on the sample tested, property plant and equipment (Deemed cost) is overstated by R45 853 802, however management should revisit the whole population to determine the full impact of this finding.

### **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.

Management didn't properly review the extent of structure recorded on the IAR against the DoD to ensure that all inputs have been correctly transferred to the IAR.

### **Recommendation**

It is recommended that Management should ensure that immovable assets register (IAR) agrees to all supporting schedules before submission for audit. The extent of structure recorded to the IAR should be reviewed against the DoD Maps to confirm that all inputs have been accurately transferred before finalising the register.

### **Management response**

Management are in agreement with the finding.

### **Auditor's conclusion**

Management comment noted. The finding will remain on the management report.

## Immovable assets: Differences in extent of structure and derecognition of buildings (COFF 58)

### Laws, rules and Regulations:

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

Generally Recognised Accounting Practice (GRAP) 17 paragraph 38 states that: “If there is no market-based evidence of fair value because of the specialised nature of the item of plant and equipment, an entity may need to estimate fair value using, for example, either reproduction cost or depreciated replacement cost. The depreciated replacement cost of an item of plant or equipment may be established by reference to the market buying price of components used to produce the asset or the indexed price for the same or a similar asset based on a price for a previous period. When the indexed price method is used, judgement is required to determine whether production technology has changed significantly over the period, and whether the capacity of the reference asset is the same as that of the asset being valued....”

Directive 7 paragraph 6 states that: “When an entity initially recognises or acquires an asset using the Standards of GRAP, it measures such assets using either cost or fair value (acquisition cost). Where the acquisition cost of an asset is not available on the adoption of the Standards of GRAP or on the transfer date or the merger date (initial acquisition), acquisition cost is measured using a surrogate value (deemed cost) at the date an entity adopts the Standards of GRAP or on the transfer date or the merger date (measurement date). Deemed cost is determined as the fair value of an asset at the measurement date...”

Directive 7 paragraph 10(a) to (c) states that: “If fair value at the measurement date cannot be determined for an item of property, plant and equipment, investment property or a heritage asset, an entity may estimate such fair value using depreciated replacement cost at the measurement date for an item of property, plant and equipment; depreciated replacement cost at the measurement date for an investment property, but only if the investment property is of such a specialized nature that there is no market-based evidence of fair value; and replacement cost at the measurement date for heritage assets...”

Chapter 4.3.4(a) to (d) of the Model for applying municipal values, comparative municipal values/sales and replacement costs as deemed cost of immovable assets of the Property Management Trading Entity (PMTE) as at 1 April 2013 outlines the process for Determining the Building Value states that: “Building Cost information from reference sites such as **“AECOM – Africa Property and Construction handbook”** will be used in consultation with National DPW’s Valuations unit. Calculate the building value using the building indices and DPW’s 2014/15 physical verification information. From the building cost information sources obtain the rate per square meter of the type of improvement and multiply by the extent of the buildings to get the building value. Use the condition assessment from the DPW 2014/15 physical assessment rating to adjust the calculated replacement cost to determine the value of the building; Determine the building’s extent through the use of GIS or another method where GIS is not considered appropriate...”



## Nature

During the audit of immovable assets for DoD Properties, we have noted the following issues;

### Issue 1

We noted that the extent of structure as disclosed on the immovable asset register (IAR) did not agree to the extent of structure as per DoD Maps. These differences were mainly due to the following:

Incorrectly captured extent of structure on the IAR from DoD Map downloads.

This resulted to the following differences as shown in the table below after taking components into account.

Refer to the Table 1 below.

**DOD Sample: Table 1**

No	Building Id	Extent of structure as per DoD Map in sqm	Extent of structure as per IAR in sqm	Difference in extent in per sqm	Recalculated depreciable replacement cost excl component in Rands	Depreciable replacement cost excl component per asset register in Rands	Differences in Rands
1	DODBLD06013	25 315	116 280.00	(90 965)	148 090 937	680 238 000	( 532 147 064 )
2	DODBLD11726	7 046	10 872.00	(3 826)	27 269 645	42 074 640	(14 804 995)
3	DODBLD18737	2 230	5 562.00	(3 332)	8 631 532	21 524 940	(12 893 408)
4	DODBLD12809	2 101	2 546.84	(446)	12 291 026	14 899 014	(2 607 989)
5	DODBLD18639	447	720.00	(273)	1 798 829	2 894 400	(1 095 571)
6	DODBLD26259	245	236.82	8	877 608	849 000	28 608
7	DODBLD07290	7 060	7 073.76	(14)	25 310 279	25 359 430	(49 150)
8	DODBLD17528	325	290.96	34	1 168 524	1 047 456	121 068

No	Building Id	Extent of structure as per DoD Map in sqm	Extent of structure as per IAR in sqm	Difference in extent in per sqm	Recalculated depreciable replacement cost excl component in Rands	Depreciable replacement cost excl component per asset register in Rands	Differences in Rands
Total		44 769	143 582	(98 813)	225 438 380	788 886 879	(563 448 499)

## Issue 2

During the audit of immovable assets register, we further noted that management has failed to derecognise buildings that have been demolished on site. Through inspection of google maps and supporting evidence provided by CSIR (An expert responsible to value DoD properties) we confirmed that some buildings have been demolished. The carrying value for these old structures demolished were not derecognized in the immovable assets register.

Refer to the Table 2 below for demolished buildings

No.	Building Id	Extent Of footprint as per IAR in SQM	Deemed cost as per IAR in Rands	Carrying value as at 2018/2019 in Rands
1	DODBLD11667	7 949	31 955 101	25 564 080
2	DODBLD25239	22	80 304	64243.2
Total		7 971	32 035 405	25 628 324

## **Impact of the finding**

Based on the sample tested,

### **Issue 1**

Property plant and equipment (Deemed cost) is overstated by R563 448 449.

### **Issue 2**

Property plant and equipment (carrying value 2018/2019) is overstated by R25 628 324.

However, management should revisit the whole population to determine the full impact of this finding.

## **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.

Management didn't properly review the extent of structure recorded on the IAR against the DoD to ensure that all inputs have been correctly transferred to the IAR.

## **Recommendation**

It is recommended that:

Management should ensure that immovable assets register (IAR) agrees to all supporting schedules before submission for audit. The extent of structure recorded to the IAR should be reviewed against the DoD Maps to confirm that all inputs have been accurately transferred before finalising the register.

Management should inspect immovable assets where demolitions were done for years beginning 1 April 2013 up to 31 March 2019 to ensure that when old structures were demolished the carrying amount relating to those structures were derecognized in the immovable assets.

## **Management response**

Management agrees to the finding.

## **Auditor's conclusion**

Management comment noted. The finding will remain on the management report.

## Differences identified during the physical verification process (COFF 78)

### Laws, rules and Regulations:

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

Generally Recognised Accounting Practice (GRAP) 17 paragraph 38 states that: *“If there is no market-based evidence of fair value because of the specialised nature of the item of plant and equipment, an entity may need to estimate fair value using, for example, either reproduction cost or depreciated replacement cost. The depreciated replacement cost of an item of plant or equipment may be established by reference to the market buying price of components used to produce the asset or the indexed price for the same or a similar asset based on a price for a previous period. When the indexed price method is used, judgement is required to determine whether production technology has changed significantly over the period, and whether the capacity of the reference asset is the same as that of the asset being valued....”*

Directive 7 paragraph 6 states that: *“When an entity initially recognises or acquires an asset using the Standards of GRAP, it measures such assets using either cost or fair value (acquisition cost). Where the acquisition cost of an asset is not available on the adoption of the Standards of GRAP or on the transfer date or the merger date (initial acquisition), acquisition cost is measured using a surrogate value (deemed cost) at the date an entity adopts the Standards of GRAP or on the transfer date or the merger date (measurement date). Deemed cost is determined as the fair value of an asset at the measurement date...”*

Directive 7 paragraph 10(a) to (c) states that: *“If fair value at the measurement date cannot be determined for an item of property, plant and equipment, investment property or a heritage asset, an entity may estimate such fair value using depreciated replacement cost at the measurement date for an item of property, plant and equipment; depreciated replacement cost at the measurement date for an investment property, but only if the investment property is of such a specialized nature that there is no market-based evidence of fair value; and replacement cost at the measurement date for heritage assets...”*

Chapter 4.3.4(a) to (d) of the Model for applying municipal values, comparative municipal values/sales and replacement costs as deemed cost of immovable assets of the Property Management Trading Entity (PMTE) as at 1 April 2013 outlines the process for Determining the Building Value states that: *“Building Cost information from reference sites such as **“AECOM – Africa Property and Construction handbook”** will be used in consultation with National DPW’s Valuations unit. Calculate the building value using the building indices and DPW’s 2014/15 physical verification information. From the building cost information sources obtain the rate per square meter of the type of improvement and multiply by the extent of the buildings to get the building value. Use the condition assessment from the DPW 2014/15 physical assessment rating to adjust the calculated replacement cost to determine the value of the building; Determine the building’s extent through the use of GIS or another method where GIS is not considered appropriate...”*

*Chapter 4.3.4.2.4 of Deemed cost model: Exceptional cases where GIS will not be used.*

*Where buildings are obstructed by trees, adjacent high rise buildings and where the google imagery sourced is of a poor quality (rendering it impossible to get the correct outline of the building footprints), the GIS personnel produces a building footprint for geo referencing purposes and the buildings are flagged for the respective extents to be measured in the field using the measuring wheel.*

## Nature

### Issue 1: Measuring wheel

During the audit of immovable assets, we noted that the extent of footprint disclosed on the immovable asset register (IAR) did not agree with the extent of footprint measured by auditors during the physical verification process. We have used a measuring wheel to re-measure the extent of foot print.

The table (A-B) below shows the differences identified.

Table A

No	Building Id	Extent of structure as per Measuring wheel in sqm	Extent of structure as per IAR in sqm	Difference in extent in per sqm	Recalculated depreciable replacement cost excl component in Rands	Depreciable replacement cost excl component per asset register in Rands	Differences in Rands
1	200000140542	10 785	15 520	-4 735	51 552 300	74 185 600	-22 633 300
2	100000032854	215	185	30	823 959	708 791	115 169
3	200000046367	1 632	4 002	-2 370	8 739 360	7 143 570	1 595 790
4	200000029474	92	181	-89	350 436	686 461	-336 024
5	200000028797	136	418	-282	238 360	1 585 307	-1 346 947
6	206750918	102	19	83	228 720	42 605	186 115
7	200000159297	1 175	1 367	-192	5 616 500	6 534 260	-917 760
8	212500518	45	83	-38	101 803	186 115	-84 312
9	100000020169	735	1 123	-388	948 150	1 448 670	-500 520
10	200000119044	21.7	33	-11	48 659	73 998	-25 339
11	200000068010	291.35	350	-59	1 473 299	1 769 880	-296 581
12	200000138399	366	1 358	-992	1 416 962	5 255 460	-3 838 498
13	200000172320	472	606	-134	1 827 917	2 345 220	-517 303
14	100000021748	84	146	-62	318 578	553 720	-235 141
15	200000027490	745	4 026	-3 281	7 688 400	20 774 160	-13 085 760
16	2106000516	4	30	-26	999	7 493	-6 494
17	200000028108	1 855	1 786	69	7 178 850	6 911 820	267 030
18	235150912	467	1 278	-811	4 819 440	6 594 480	-1 775 040

No	Building Id	Extent of structure as per Measuring wheel in sqm	Extent of structure as per IAR in sqm	Difference in extent in per sqm	Recalculated depreciable replacement cost excl component in Rands	Depreciable replacement cost excl component per asset register in Rands	Differences in Rands
19	200000118564	12	1 138	-1 126	4 819 440	3 436 760	-3 400 520
20	200000169906	60	881	-821	4 819 440	1 572 585	-1 465 485
21	220300291	386	315	71	4 819 440	236 043	53 203
22	202000164	154	197	-43	4 819 440	747 142	-151 162
23	202000181	165	148	17	4 819 440	519 968	71 557
24	200000124135	84	144	-60	4 819 440	505 915	-204 775
25	206650222	180	66	114	4 819 440	156 816	275 184
26	202000262	64	31	33	4 819 440	145 216	160 704
<b>Total</b>							<b>- 48 096 211</b>

Table B: Components

No	Building Id	Recalculated depreciable replacement cost excl component in Rands	Depreciable replacement cost excl component per asset register in Rands	Differences in Rands
1	100000032854	8 323	7 160	-1 163
2	200000029474	7 152	14 009	6 858
3	200000028797	4 864	32 353	27 489
4	206750918	2 310	430	-1 880
5	212500518	1 028	1 880	852
6	200000119044	492	747	256
7	200000068010	30 067	36 120	6 053
8	100000021748	6 502	11 300	4 799
<b>Total</b>				<b>43 262</b>

**Issue 2: Multi-Story**

During the audit of immovable assets, we noted that the extent of structure disclosed on the immovable asset register (IAR) did not agree with the extent structure confirmed by auditors during the physical verification process. The differences in extent of structure

results from differences between the number of floors recorded on the immovable assets register (IAR) and number of floors 17-- by auditors.

The table (C-D) below shows the differences identified.

Table C

No	Building Id	Extent of structure as per verification in sqm	Extent of structure per IAR in sqm	Difference in extent in per sqm	Recalculated depreciable replacement cost excl component in Rands	Depreciable replacement cost excl component per asset register in Rands	Differences in Rands
1	200000048861	17 590	23 782	- 6 192	135 829 980	121 487 969	14 342 011
2	200000061724	20 895	21 575	- 680	80 055 014	124 951 613	- 44 896 599
3	100000025106	5 868	13 164	- 7 296	22 709 160	50 944 680	- 28 235 520
4	237500002	43 738	43 833	- 95	156 800 730	157 141 305	- 340 575
5	237500001	25 261	32 759	- 7 498	90 560 685	117 441 015	- 26 880 330
6	237201079	22 603	27 767	- 5 164	81 031 755	99 544 695	- 18 512 940
7	237201034	10 327	17 245	- 6 918	37 022 295	61 823 325	- 24 801 030
8	219850923	11 843	11 609	234	42 032 583	41 202 082	830 501
9	200000034710	49 106	51 797	- 2 691	287 270 100	303 012 450	- 15 742 350
10	100000036142	11 263	12 872	- 1 609	53 837 140	61 528 160	- 7 691 020
11	227500997	11 564	11 686	- 122	43 410 100	43 868 075	- 457 976
12	100000040750	11 714	10 810	904	41 574 743	38 366 312	3 208 432
13	211050036	45 571	43 558	2 013	255 926 736	244 621 728	11 305 008
14	200000028332	14 384	18 462	- 4 078	71 252 582	138 243 456	- 66 990 874
16	200000137639	10 360	10 004	356	60 606 000	58 523 400	2 082 600
17	200000137634	5 351	5 039	312	30 677 283	1 188 299	29 488 984
<b>Total</b>		<b>317 438</b>	<b>355 962</b>	<b>- 38 524</b>	<b>1 490 596 886</b>	<b>1 663 888 563</b>	<b>- 173 291 677</b>



Table D: Components

No	Building Id	Recalculated depreciable replacement cost excl component in Rands	Depreciable replacement cost excl component per asset register in Rands	Differences in Rands
1	200 000 048 861	1 372 020	1 227 151	- 144 869
2	200 000 061 724	808 637	1 262 138	453 501
3	219 850 923	424 572	416 183	- 8 389
4	227 500 997	1 342 580	1 356 745	14 164
5	100 000 040 750	419 947	387 539	- 32 408
6	211 050 036	10 663 614	10 192 572	- 471 042
7	200 000 028 332	2 968 858	5 760 144	2 791 286
8	200 000 137 634	626 067	24 251	- 601 816
<b>Total</b>		<b>18 626 294</b>	<b>20 626 721</b>	<b>2 000 427</b>

**Issue 3: GIS Sample**

During the audit of immovable assets, we noted that the extent of structure disclosed on the immovable asset register (IAR) did not agree with the extent structure confirmed by auditors during the physical verification process. The differences in extent of structure results from differences between the number of floors recorded on the immovable assets register (IAR) and number of floors verified by auditors.

**Note:** Differences in deemed cost value results from differences in the number of floors used by management. We have used the extent as per the IAR.

Table E

No	Building Id	Number of floors as per verification	Number of floors as per IAR	Difference in number of floors	Recalculated depreciable replacement cost excl component in Rands	Depreciable replacement cost excl component per asset register in Rands	Differences in Rands
1	200000027888	1	2	- 1	11 558 295	23 116 590	- 11 558 295
2	200000139165	2	1	1	81 816 870	40 908 435	40 908 435
3	236250411	4	3	1	47 492 640	35 619 480	11 873 160
<b>Total</b>		<b>7</b>	<b>6</b>	<b>1</b>	<b>140 867 805</b>	<b>99 644 505</b>	<b>41 223 300</b>

**Issue 4: Existence**

During the audit of immovable assets, we noted that one building disclosed on the immovable assets register doesn't exist.

Table F

No	Building Id	Site ID	FACILITY/ NAME	GROUPING	Facility Type as per physical verification	Carrying value as at 2018/2019
1	220250732	100000045388	NOUPOORT MAGISTRATES COURT		MAGISTRATES COURT	202 272

### **Impact of finding**

Based on the sample tested, property plant and equipment (Deemed cost) is overstated by R178 323 171, however management should revisit the whole population to determine the full impact of this finding.

### **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.

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

### **Recommendation**

It is recommended that:

Management should ensure that financial statements and supporting schedules are adequately supported by complete, relevant and accurate information.

Management should ensure that all inputs to the immovable asset register are adequately reviewed.

Management should ensure that physical verification is done on a regular and continuous basis.

### **Management response**

Management are in agreement with the findings as raised by the AGSA.

Management will revise the entire wheel population. The errors due to differences in number of floors shall be resolved by revisiting the entire population of buildings greater than one floor.

### **Auditor's conclusion**

Management comment noted. The finding will remain on the management report.

## **Immovable assets: Differences on land value as a result of differences on the land extent (COFF 29)**

### **Laws, rules and Regulations:**

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

Generally Recognised Accounting Practice (GRAP) 17 paragraph 38 states that: "If there is no market-based evidence of fair value because of the specialised nature of the item of plant and equipment, an entity may need to estimate fair value using, for example, either reproduction cost or depreciated replacement cost. The depreciated replacement cost of an item of plant or equipment may be established by reference to the market buying price of components used to produce the asset or the indexed price for the same or a similar asset based on a price for a previous period. When the indexed price method is used, judgement is required to determine whether production technology has changed significantly over the period, and whether the capacity of the reference asset is the same as that of the asset being valued...."

Directive 7 paragraph 6 states that: "When an entity initially recognises or acquires an asset using the Standards of GRAP, it measures such assets using either cost or fair value (acquisition cost). Where the acquisition cost of an asset is not available on the adoption of the Standards of GRAP or on the transfer date or the merger date (initial acquisition), acquisition cost is measured using a surrogate value (deemed cost) at the date an entity adopts the Standards of GRAP or on the transfer date or the merger date (measurement date). Deemed cost is determined as the fair value of an asset at the measurement date..."

Directive 7 paragraph 10 (a) to (c) states that: "If fair value at the measurement date cannot be determined for an item of property, plant and equipment, investment property or a heritage asset, an entity may estimate such fair value using depreciated replacement cost at the measurement date for an item of property, plant and equipment; depreciated replacement cost at the measurement date for an investment property, but only if the investment property is of such a specialized nature that there is no market-based evidence of fair value; and replacement cost at the measurement date for heritage assets..."

Chapter 4.3.3 (i) to (iv) of the Model for applying municipal values, comparative municipal values/sales and replacement costs as deemed cost of immovable assets of the Property Management Trading Entity (PMTE) as at 1 April 2013 outlines the process for Determining the Land Value states that: "Land Value – use the comparable method to value the land – calculate average vacant land value per average extent for each town using the MVRs (vacant land value/ vacant land extent). Where there is no vacant land in a specific area, a similar area/ township with vacant land will be used to calculate the vacant land ratio. Distinguish the land between Erf's, Farms or Agricultural Holdings in obtaining the average vacant land rates. Apply the average vacant land to the actual extent in the IAR to calculate land value (average vacant land x actual IAR extent for the land parcel = land value)"

## Nature

During the audit of immovable assets, we noted that land extent (in hectares) as disclosed in the immovable asset register (IAR) did not agree to the land extent as disclosed in the Aktex (Deeds support). Furthermore, we noted that where land extent is not available on Aktex and show DUM800, the land extent as per immovable asset register did not agree to the extent as per qSurveyor General diagrams. These differences were mainly due to the following:

Incorrectly captured land extent on the IAR from Aktex or Surveyor General diagrams.

Inclusion of sectional title unit land extent in the IAR whereas the extent on the diagram deed number relates to actual unit (Improvement / building and not land).

This resulted to the following differences as shown in the tables below for respective GRAP Standards after taking infrastructure into account.

### GRAP 16 – Investment Property

No	Unique Property Code	LPI Code	Extent of land parcels in Hectares (IAR)	Extent of land parcels in Hectares (Aktex or SG diagram)	Differences in Hectares	Recalculated value in Rands (Excluding infrastructure)	Assets as per IAR in Rands	Differences in Rands
1	DEEDS125265	TOJU00000000500000299	86,26	86,85	0,59	416 630	413 782	2 848
2	600000010032	NOFU00860000308800000	0,11	0,11	-	180 929	161 556	19 374
3	S42_31032015_00826	C02000000000028600000	0,13	1,30	1,17	6 243	194 412	(188 169)
<b>Total</b>			<b>86,49</b>	<b>88,26</b>	<b>1,77</b>	<b>603 802</b>	<b>769 749</b>	<b>(165 947)</b>

### GRAP 17 – Property, plant and equipment

No	Unique Property Code	LPI Code	Extent of land parcels in Hectares (IAR)	Extent of land parcels in Hectares (Aktex or SG diagram)	Differences in Hectares	Recalculated value in Rands (Excluding infrastructure)	Assets as per IAR in Rands	Differences in Rands
1	DEEDS22272	C05300000000002100000	97 223,61	97 204,55	(19,06)	466 301 592	466 393 040	(91 448)

No	Unique Property Code	LPI Code	Extent of land parcels in Hectares (IAR)	Extent of land parcels in Hectares (Aktex or SG diagram)	Differences in Hectares	Recalculated value in Rands (Excluding infrastructure)	Assets as per IAR in Rands	Differences in Rands
2	100000017984	C034000000000057400000	95,40	102,01	6,62	489 368	453 046	36 322
3	774651	C05300130000022600000	129 241,64	129 250,68	9,04	620 274 008	619 987 282	286 725
4	884031	C034000000000004000007	59 782,17	6 652,29	(53 129,88)	31 911 815	286 782 056	(254 870 241)
5	200000078891	TOJU00000000014200000	55 529,50	50 347,01	(5 182,49)	241 520 493	266 381 516	(24 861 023)
6	DEEDS55915	TOIR01470000024700000	6 403,00	0,06	(6 402,94)	113 553	239 253 203	(239 139 650)
7	78051	TOJR00000000008300000	2 574,84	2 567,65	(7,19)	95 942 175	96 210 951	(268 776)
8	739181	C013000000000093000000	2 040,70	2 040,70	(0,00)	88 645 536	88 645 736	(200)
9	3031511	TOJR00000000012000001	1 710,32	1 709,57	(0,75)	63 879 518	63 907 370	(27 852)
10	576151	C00700070000107200000	4,79	5,60	0,80	26 843	22 992	3 851
11	152255	C02800070000191500000	-	0,07	0,07	350	110 530	(110 180)
12	200000078016	C074000000000003000002	920,95	0,09	(920,86)	139 415	4 417 905	(4 278 490)
13	3116271	C00700070000000100000	15 981,12	27,37	(15 953,75)	131 306	76 663 304	(76 531 997)
14	S42_31032015_00888	C06700000000015500000	4 208,75	4 132,46	(76,29)	179 509 057	182 823 002	(3 313 945)
15	600000010146	C01600070000018400001	0,0071	0	-0,01	-	10 750	(10 750)
16	600000010149	C01600070000018400004	0,0071	0	-0,01	-	10 750	(10 750)
17	600000010152	C01600070000018400007	0,0071	0	-0,01	-	10 750	(10 750)
<b>Total</b>			<b>375 717</b>	<b>294 040</b>	<b>(81 677)</b>	<b>1 788 885 029</b>	<b>2 392 084 184</b>	<b>(603 199 155)</b>

### **Impact of finding**

Based on the sample tested, deemed cost is overstated by

Investment property – R165 947

Property, plant and equipment – R603 199 155

However, management should revisit the whole population to determine the full impact of this finding.

### **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.

Management didn't properly review the land extent recorded on the IAR against the Aktex (Deeds support) or Surveyor General diagrams to ensure that all inputs have been correctly transferred to the IAR.

### **Recommendation**

It is recommended that management should confirm that immovable assets register (IAR) agrees to all supporting schedules before submission for audit. The land extent recorded on the IAR should be reviewed against the Aktex (Deeds support) and Surveyor General diagrams to confirm that all inputs have been accurately transferred before finalising immovable asset register.

### **Management response**

Management is in agreement with the finding.

The root cause was the incorrect conversion of old measurements (roods, morgens, perches etc) to hectares or square meters in the IAR.

Management to re-perform all conversions within the IAR.

### **Auditor's conclusion**

Management comment noted. The finding will remain on the management report.

**Immovable assets: Limitation of scope on improvements rights (COFF 52)****Laws, rules and Regulations:**

Section 40(a) and (b) of the Public Finance Management Act (PFMA) states that: "The accounting officer for a department, trading entity or constitutional institution 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; 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 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/disclose 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 audit of immovable assets, we noted that improvements situated on land parcels not owned by the PMTE, referred to as State Domestic Facilities were included on the immovable asset register.

For improvements listed under table A below we are unable to confirm the custodianship based on what is deemed to belong to the Department of Public Works in terms of the Immoveable Asset Guide.

No permission to occupy the land or other supporting documentation were provided to proof ownership.

Furthermore, some improvements were classified as a national function (i.e. sole custodianship is deemed to be of NDPW such as SA Police Services), however the improvement is leased from a private land lord as disclosed in table B below.

Table A

No.	Building Id	Site ID	Accommodation type	CARRYING VALUE FOR THE YEAR 2018/19
1	200000046455	200000046591	AGRICULTURE	283 454
2	200000124820	200000067532	RESIDENTIAL ACCOMMODATION	381 444
3	200000123865	200000067023	RESIDENTIAL HOUSE	291 102
4	200000079233	200000060274	RESIDENTIAL ACCOMMODATION	168 973
5	214700044	200000049024	OFFICE	84 810
6	200000033805	100000048462	PURIFICATION WORKS	12 684
7	99860	200000060124	RESIDENTIAL AND QUARTERS	1 465 548
8	300497	PHYSICAL VERIFICATION REQUIRED	RESIDENTIAL AND QUARTERS	1 465 548
9	208252	PHYSICAL VERIFICATION REQUIRED	RESIDENTIAL AND QUARTERS	1 465 548
10	208250	PHYSICAL VERIFICATION REQUIRED	RESIDENTIAL AND QUARTERS	1 465 548
11	166770	PHYSICAL VERIFICATION REQUIRED	RESIDENTIAL AND QUARTERS	1 465 548
12	162542	PHYSICAL VERIFICATION REQUIRED	RESIDENTIAL AND QUARTERS	1 465 548
13	162541	PHYSICAL VERIFICATION REQUIRED	RESIDENTIAL AND QUARTERS	1 465 548
14	162539	PHYSICAL VERIFICATION REQUIRED	RESIDENTIAL AND QUARTERS	1 465 548
15	162527	PHYSICAL VERIFICATION REQUIRED	RESIDENTIAL AND QUARTERS	1 465 548
16	161738	PHYSICAL VERIFICATION REQUIRED	RESIDENTIAL AND QUARTERS	1 465 548

No.	Building Id	Site ID	Accommodation type	CARRYING VALUE FOR THE YEAR 2018/19
17	161737	PHYSICAL VERIFICATION REQUIRED	RESIDENTIAL AND QUARTERS	1 465 548
18	161736	PHYSICAL VERIFICATION REQUIRED	RESIDENTIAL AND QUARTERS	1 465 548
19	161722	PHYSICAL VERIFICATION REQUIRED	RESIDENTIAL AND QUARTERS	1 465 548
20	161720	PHYSICAL VERIFICATION REQUIRED	RESIDENTIAL AND QUARTERS	1 465 548
21	161717	PHYSICAL VERIFICATION REQUIRED	RESIDENTIAL AND QUARTERS	1 465 548
22	161706	PHYSICAL VERIFICATION REQUIRED	RESIDENTIAL AND QUARTERS	1 465 548
23	161200	PHYSICAL VERIFICATION REQUIRED	RESIDENTIAL AND QUARTERS	1 465 548
24	161194	PHYSICAL VERIFICATION REQUIRED	RESIDENTIAL AND QUARTERS	1 465 548
25	100385	PHYSICAL VERIFICATION REQUIRED	RESIDENTIAL AND QUARTERS	1 465 548
26	99860	PHYSICAL VERIFICATION REQUIRED	RESIDENTIAL AND QUARTERS	1 465 548
27	99858	PHYSICAL VERIFICATION REQUIRED	RESIDENTIAL AND QUARTERS	1 465 548
28	200000137882	200000058897	TSHWELOKGOTO TRADING INTERPRISE	1 265 229
29	200000133618	200000072226	OFFICE	1 693 512
30	202100034	100000028810	NA	734 208
31	100000035118	100000013833	EERSTERUST CLINIC	7 688
32	245800521	200000057402	OFFICE	13 411 872
33	200000169949	200000051724		2 130 048
34	200000169278	100000027012		1 198 824
35	100000003088	100000020135	TELKOM TELEPHONE EXCHANGE OFFICES	963 900
36	200000169981	100000046732		823 536
37	200000169836	200000059668		656 352
38	200000172138	200000070280	GUEST HOUSE	464 616
39	236600292	200000059358		352 944
40	200000169122	200000057443		233 280
41	200000172356	100000030180		192 156
42	200000050782	200000049026	NO FACILITY NAME	144 377
43	200000169337	200000047799		151 704
44	200000043996	100000047513	ROAD WORKS	104 677
45	200000169552	100000046799		102 168

No.	Building Id	Site ID	Accommodation type	CARRYING VALUE FOR THE YEAR 2018/19
46	200000170061	100000042330		88 908
47	100000046416	100000046702		69 972
48	100000046418	100000046701		69 972
49	200000125302	200000067447	HOUSE	60 228
50	200000170795	100000023017		41 412
51	100000020892	100000046220	BASIC EDUCATION OFFICE BETHLEHEM	34 712
52	200000165318	100000038713		18 564
<b>Total</b>				<b>57 013 834</b>

Table B

No.	Building Id	Site ID	Accommodation type	PROPCODE as per lease register	CARRYING VALUE FOR THE YEAR 2018/19
1	200000174197	200000064707	Office	305744	1 210 536
2	200000044843	200000085862	Office	275473	2 448 936
<b>Total</b>					<b>3 659 472</b>

### **Impact of finding**

Based on the sample tested,

Property plant and equipment (Carrying value) is overstated by R60 673 306.

However, management should revisit the whole state domestic facility population to determine the full impact of this finding.

### **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.

### **Recommendation**

It is recommended that:

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

Management should perform an investigation on all improvements categorised as SDF to determine if they are maintaining the buildings or there is a permission to occupy the land. Where ownership cannot be confirmed, the whole SITE ID should be derecognised on the immovable asset register.

### **Management response**

Management partially agrees with the finding.

Management is in agreement with 24 out of 54 SDF findings. Please refer to the table above for the details per individual line item. The finding was a result of misalignment between GIS work stream work completed and SDF work completed.

### **Auditor's conclusion**

Management comment noted. Management provided subsequent information to supports the disagreements. The submitted information was audited. The revised overstatement is as flows:

- Property plant and equipment (Carrying value) is overstated by R24 597 769.

**Immovable assets: Limitation of scope on improvements rights (COFF 75)****Laws, rules and Regulations:**

Section 40(a) and (b) of the Public Finance Management Act (PFMA) states that: "The accounting officer for a department, trading entity or constitutional institution 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; 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 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/disclose 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 audit of immovable assets, we noted that improvements situated on land parcels not owned by the PMTE, referred to as State Domestic Facilities were included on the immovable asset register.

For improvements listed under table A below we are unable to confirm the custodianship based on what is deemed to belong to the Department of Public Works in terms of the Immovable Asset Guide.

No permission to occupy the land or other supporting documentation were provided to proof ownership.

Furthermore, some improvements were classified as a national function (i.e. sole custodianship is deemed to be of NDPW such as SA Police Services), however the improvement is leased from a private land lord as disclosed in table B below.

Table A

### Property, Plant and Equipment

No.	Building Id	Site ID	Accommodation type	CARRYING VALUE FOR THE YEAR 2018/19
1	234350366	200000062395	STORAGE	46 608 415
2	234350363	200000062395	STORAGE	42 100 310
3	200000164274	200000059820	OFFICE	387 000
4	232500611	200000058345	OFFICE	44 266 608
5	232500593	200000058345	OFFICE	27 520 344
6	200000168477	200000057984	OFFICE	1 513 944
7	202350411	100000040734	RESIDENTIAL ACCOMMODATION	14 372
8	200000166940	100000013916	OFFICE	139 320
9	200000029312	100000013227	RECREATION	30 070 656
10	200000029310	100000013227	OFFICE	35 455 392
11	200000029309	100000013227	HALL	46 348 512
12	225000452	100000013227	LABORATORY	10 216 800
<b>Total</b>				<b>284 627 301</b>

## Investment Property

No.	Building Id	Site ID	Accommodation type	CARRYING VALUE FOR THE YEAR 2018/19
1	202350411	100000040734	RESIDENTIAL ACCOMMODATION	14 372

## Table B

## Property Plant and Equipment

No.	Building Id	Site ID	Accommodation type	CARRYING VALUE FOR THE YEAR 2018/19
1	230350020	200000058345	OFFICE	59 649 600
2	200000113763	200000052223	OFFICE	4 445 856
3	232500534	200000058345	OFFICE	29 396 520
4	DODBLD09944	DODDB2604	OFFICE	29 890 889
5	DODBLD09935	DODDB2604	PARKING BASEMENT	20 612 568
6	DODBLD04631	DODDB1505	MOBILE STORE / ACCOMMODATION	271 399
7	DODBLD09935	DODDB2604	PARKING BASEMENT	20 612 568
<b>Total</b>				<b>164 879 400</b>

## **Impact of finding**

Based on the sample tested,

Property plant and equipment (Carrying value) is overstated by R449 506 701

Investment Property (Carrying value) is overstated by R14 372.

However, management should revisit the whole state domestic facility population to determine the full impact of this finding.

## **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.

## **Recommendation**

It is recommended that:

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

Management should perform an investigation on all improvements categorised as SDF to determine if they are maintaining the buildings or there is a permission to occupy the land. Where ownership cannot be confirmed, the whole SITE ID should be derecognised on the immovable asset register.

## **Management response**

Management partially agrees with the finding

Management agrees with the findings with the exception of one (Building Id: 200000113763). The South African Police Academy is a State owned property. The lease in question relates to SAPS offices for additional accommodation. The rest of the findings were as a result of misalignment between GIS work stream work completed and SDF work completed.

## **Auditor's conclusion**

Management comment noted. Management provided subsequent information to supports the disagreement. The submitted information was audited. The revised overstatement is as flows:

- Property plant and equipment (Carrying value) is overstated by R445 060 845.
- Investment Property (carrying value) is overstated by R14 372.





**Immovable assets: Properties not owned by PMTE have been included on the IAR (COFF 27)**

#### **Laws, rules and Regulations:**

Section 40(a) and (b) of the Public Finance Management Act (PFMA) states that: "The accounting officer for a department, trading entity or constitutional institution 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; 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 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/disclose 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 audit of immovable assets, we noted that management included land parcels not owned by PMTE on the immovable assets register.

Through inspection of Aktex / Deeds information the land parcels do not belong to the Entity.

Refer to Tables below on the list of properties identified:

### Property, Plant and Equipment

No	Unique Property Code	LPI Code	Registered Owner as per deeds aktex	CARRYING VALUE 31 MARCH 2019
1	1033281	N0FU00000001631400000	PROVINCIAL GOVERNMENT OF THE PROVINCE OF KWAZULU-NATAL	3 331
2	DEEDS46313	C00700070000008300000	EMRIKO BOERDERY CC	24 653
3	DEEDS45269	C00700000000015700002	PROVINCIAL GOVERNMENT OF NORTHERN CAPE	15 761
4	DEEDS182271	C08100000000025100010	PROVINCIAL GOVERNMENT OF THE NORTH WEST PROVINCE	8 777 714
5	DEEDS103068	N0FT02680000344400000	PROVINCIAL GOVERNMENT OF THE PROVINCE OF KWAZULU-NATAL	991 805
6	DEEDS107197	N0FU03350000092200000	PROVINCIAL GOVERNMENT OF THE PROVINCE OF KWAZULU-NATAL	966 709
7	D_3132013_48364	T0IQ02930000015200000	TRANSNET SOC LTD	437 702 954
8	DEEDS17666	C03600060000159000000	STEMMET WILHELMINA	1 120 441
9	DEEDS4133	C01300000000000200000	PROVINCIAL GOVERNMENT-WESTERN CAPE	82 064 369
10	732601	C01300000000001900000	PROVINCIAL GOVERNMENT-WESTERN CAPE	77 147 497
11	739451	C01300000000000100000	PROVINCIAL GOVERNMENT-WESTERN CAPE	81 764 107
12	DEEDS46302	C00700070000007100000	SETEROX PTY LTD	20 545
13	728671	C01300000000009400000	PROVINCIAL GOVERNMENT OF NORTHERN CAPE	65 698 249
14	S42_31032015_00027	F01900010000011200000	PROVINCIAL GOVERNMENT OF THE FREE STATE	211 067
15	S42_31032015_00029	F01500090000003500000	PROVINCIAL GOVERNMENT OF THE FREE STATE	15 438
16	S42_31032015_00030	F03100030000019000000	PROVINCIAL GOVERNMENT OF THE FREE STATE	6 282
17	S42_31032015_00773	F00100050000000900000	PROVINCIAL GOVERNMENT OF THE FREE STATE	168 975
18	S42_31032015_00771	F00100050000001000000	PROVINCIAL GOVERNMENT OF THE FREE STATE	168 975
19	S42_31032015_00777	F03900070000000100000	PROVINCIAL GOVERNMENT OF THE FREE STATE	18 681

No	Unique Property Code	LPI Code	Registered Owner as per deeds aktex	CARRYING VALUE 31 MARCH 2019
20	S42_31032015_00028	F02100030000007900000	PROVINCIAL GOVERNMENT OF THE FREE STATE	675 747
21	S42_31032015_00764	F00300030000228000000	PROVINCIAL GOVERNMENT OF THE FREE STATE	840 482
22	200000069747	F03900070000004500000	PROVINCIAL GOVERNMENT OF THE FREE STATE	1 291 082
23	S42_31032015_00772	F00100050000018900000	PROVINCIAL GOVERNMENT OF THE FREE STATE	450 296
24	920931	C05700000000012500006	PROVINCIAL GOVERNMENT OF NORTHERN CAPE	480 071
25	200000077763	T0IS00000000032200012	PROVINCIAL GOVERNMENT OF THE MPUMALANGA PROVINCE	246 527
26	DD30082014_046397	C07600110000545500000	EDUCATIONAL TRUSTEES-UITENHAGE	231 591
27	DEEDS31032015_0152019	T0JQ00000000006300001	PROVINCIAL GOVERNMENT OF THE NORTH WEST PROVINCE	808 966
28	100000028976	T0LS00010000005900001	PROVINCIAL GOVERNMENT OF LIMPOPO	216 063
29	200000069508	T0KU00180000195700000	BUSHBUCKRIDGE LOCAL MUNICIPALITY	3 194 880
<b>Total</b>				<b>765 323 259</b>

#### Investment Property

No	Unique Property Code	LPI Code (as per deeds aktex)	Registered Owner as per deeds aktex	CARRYING VALUE 31 MARCH 2019
1	DEEDS177420	C10800010000025100000	VILLAGE MANAGEMENT BOARD OF TSOLO	148 231
2	961711	N0ET00000000992600000	MARIANNHILL MISSION INSTITUTE	6 513
<b>Total</b>				<b>154 744</b>

#### Heritage Property

No	Unique Property Code	LPI Code (as per deeds aktex)	Registered Owner as per deeds aktex	CARRYING VALUE 31 MARCH 2019
1	200000077759	T0IS00000000027900020	PROVINCIAL GOVERNMENT OF MPUMALANGA	108 175

**Impact of finding**

Based on the sample tested,

Property plant and equipment (Carrying value) is overstated by R765 323 25

Investment Property (Carrying value) is overstated by R154 744.

Heritage Property (Carrying value) is overstated by R108 175.

However, management should revisit the whole population to determine the full impact of this finding.

**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.

Management didn't review the immovable assets register (Land and buildings) against the supporting documentation (e.g aktex) in order to confirm ownership.

**Recommendation**

It is recommended that:

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

Management should ensure that they record immovable assets owned by PMTE on the register. All properties captured on the register should be checked against the aktex to confirm ownership.

Management should perform an investigation on all land parcels not owned by them to determine if they own the improvements situated on that land parcel. In cases where the improvement is identified and not used by the entity or other custodians within National Government, the improvements should be removed from the immovable assets register.

**Management response**

Management partially agrees with the finding.

Management is in agreement with 5 out of 29 PPE land parcels and 1 of 2 Investment property land parcels.

Please see the detail per land parcel in the table below.

All land parcels acquired before 27 April 1994 have to be vested to distinguish ownership in terms of section 239 of the Constitution. During the vesting process some errors have occurred between National Public Works and Provinces. Due to the indistinct nature of custodianship and land parcels registered in the historical names, Provinces were vesting National owned land parcels. As a result of erroneous vesting, land parcels owned and controlled by DPW will reflect provincial ownership in the Akteks instead of the rightful custodian, which is the National Government of South Africa.

We are currently in the process of rectifying ownership as some of these land parcels were transferred by the provinces with provincial ownership in terms of Section 42. Provinces have agreed not to record land parcels as such, as they do not have control over them. Kindly note that the majority of these land parcels are vacant land and in terms of the vesting guidelines, section 7.37 states that for any provincial government to claim ownership of a vacant land, such province should produce proof of intended use. The absence of such proof automatically means that such land vests in the National Government of Republic of South Africa. Please refer to the below table for more details and attached annexures supporting the response.

### **Auditor's conclusion**

Management comment noted. Management provided subsequent information to supports the disagreements. The submitted information was audited. The revised overstatement is as flows:

- Property plant and equipment (Carrying value) is overstated by R442 063 473.
- Investment Property (Carrying value) is overstated by R6 513.

**Immovable assets: Reassessment of useful lives and impairment (COFF 76)****Laws, rules and Regulations:**

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

Generally Recognised 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.”*

Generally Recognised Accounting Practice (GRAP) 21 paragraph 23 (C) states that: *“In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications: Internal sources of information, evidence is available of obsolescence or physical damage of an asset”*

## Nature

### *Reassessment of useful lives*

During the audit of immovable assets, we noted indications that the useful life of assets has changed, however, the useful life was not revised /reassessed by management.

- 1) There has been a change in condition of assets as a result of impairment (Building condition changing from 60% fair average to 40% serious structural defects) 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

No	Building Id	Average Building Condition as at 1 April 2013	Average Building Condition as at 31 March 2019	change in condition % (Down)
1	242200203	80%	40%	40%
2	200000084462	60%	40%	20%

- 2) Significant additions through assets under construction, which includes upgrading, refurbishment and replacement of assets, occur each financial year. After AUC was incurred on these buildings, management reassessed the condition upward (Building condition changing from 60% fair average to 80% good) which is an indication that the expected useful life of an asset changed.

No	Building Id	Average Building Condition as at 1 April 2013	Average Building Condition as at 31 March 2019	change in condition % (Upwards)	Assets under construction capitalised amount
1	218700037	60%	80%	20%	18 403 934
2	200000027621	40%	60%	20%	7 059 989

- 3) Movable assets – Management incorrectly reassessed the remaining useful life of assets as they didn't adjust remaining useful life based on the original useful lives allocated as per movable assets policy and accounting policy.

### *Impairment of assets*

As a result of change in building condition, management impaired the affected improvements, however differences between auditors and managements calculations were noted as disclosed in the table below.

Detailed calculations were provided to management



No	Building Id	Average Building Condition as at 1 April 2013	Average Building Condition as at 31 March 2019	change in condition % (Downwards)	IMPAIRMENT LOSS FOR THE YEAR 2018/19	Auditors Impairment loss	Difference
1	DODBLD35695	60%	40%	20%	51 845	85 425	33 580
2	DODBLD29257	60%	40%	20%	101 288	166 892	65 604
3	200000132225	60%	40%	20%	94 280	155 344	61 065
4	242200203	80%	40%	40%	3 351 205	4 511 238	1 160 033
5	200000075848	40%	20%	20%	73 124	169 680	96 556
6	200000078333	60%	20%	40%	126 840	271 196	144 356
7	200000081872	60%	40%	20%	137 557	275 114	137 557
8	200000084462	60%	40%	20%	31 247 836	49 547 862	18 300 026
9	2100750809	80%	40%	40%	333 221	498 221	165 000
10	2100750789	80%	40%	40%	176 113	263 318	87 205
11	2100750785	80%	40%	40%	182 448	272 790	90 342
12	2000042119	60%	40%	20%	116 666	192 229	75 564
13	200000045727	40%	20%	20%	19 204	40 685	21 482
14	100000028559	60%	20%	40%	16 632	101 375	84 744
15	100000028551	60%	20%	40%	14 804	97 142	82 337
16	100000030924	40%	20%	20%	54 842	114 042	59 200
17	100000034963	60%	40%	20%	201 782	257 004	55 222
18	100000034965	60%	40%	20%	210 034	267 097	57 063
19	200000027819	40%	20%	20%	23 168	53 760	30 592
20	100000037381	60%	40%	20%	299 387	367 764	68 377
21	100000031325	60%	40%	20%	45 055	88 407	43 352
<b>Total</b>					<b>36 877 329</b>	<b>57 796 586</b>	<b>20 919 256</b>

Based on the physical verification conducted, the buildings listed in the table below were found to be vandalised, furthermore no impairment was provided by management.

No	Building Id	Average Building Condition as at 1 April 2013	Average Building Condition as at 31 March 2019	change in condition % (Downwards)
1	DODBLD05402	60%	20%	40%
2	DODBLD12810	60%	20%	40%
3	DODBLD12809	60%	20%	40%
4	DODBLD08674	60%	20%	40%
5	DODBLD37192	60%	20%	40%
6	200000061724	60%	20%	40%
7	200000027940	60%	20%	40%
8	200000113829	60%	20%	40%
9	100000040730	80%	20%	60%
10	200000027853	60%	20%	40%
11	100000035141	60%	20%	40%
12	100000034505	60%	20%	40%
13	200000049650	40%	20%	20%
14	246200176	80%	20%	60%
15	246200176	60%	20%	40%

### **Impact of finding**

Based on the sample tested,

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

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

Property plant and equipment (Impairment loss) is understated by R20 919 256 and carrying value is overstated by the same amount.

Impairment conditions identified during physical verification may result to understatement of impairment and overstatement of carrying amount.

However, management should revisit the whole population to determine the full impact of this finding.

### **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. Management did not review annual financial statements before submission for audit.

### **Recommendation**

It is recommended that:

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

Management should investigate as to when the improvements were vandalised and assess if it affects impairment for the year ended 31 March 2019.

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

### **Management response**

Management agrees to the audit finding.

### **Reassessments**

1. Management has confirmed that the 2 omitted properties were isolated as they were late additions to the impairment listing thus the reciprocal reassessment was not conducted.

2. Management has assessed the population and confirmed that there are only a further 17 instances in the entire population that will be corrected in the IAR. The 17 were erroneously omitted in the transfer of reassessments to the final IAR.

**Impairment of assets**

Management will ensure that the population impaired is complete by having timeous and frequent engagements with UCA (utilisation and contract administration) in the respective regions to identify potentially damaged and impaired buildings

.

**Auditor's conclusion**

Management comment noted. The finding will remain on the management report.

## Immovable assets: Differences in deemed cost calculation due to differences in conditional assessment (COFF 67)

### Requirements

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

Generally Recognised Accounting Practice (GRAP) 17 paragraph 38 states that: *“If there is no market-based evidence of fair value because of the specialised nature of the item of plant and equipment, an entity may need to estimate fair value using, for example, either reproduction cost or depreciated replacement cost. The depreciated replacement cost of an item of plant or equipment may be established by reference to the market buying price of components used to produce the asset or the indexed price for the same or a similar asset based on a price for a previous period. When the indexed price method is used, judgement is required to determine whether production technology has changed significantly over the period, and whether the capacity of the reference asset is the same as that of the asset being valued....”*

Directive 7 paragraph 6 states that: *“When an entity initially recognises or acquires an asset using the Standards of GRAP, it measures such assets using either cost or fair value (acquisition cost). Where the acquisition cost of an asset is not available on the adoption of the Standards of GRAP or on the transfer date or the merger date (initial acquisition), acquisition cost is measured using a surrogate value (deemed cost) at the date an entity adopts the Standards of GRAP or on the transfer date or the merger date (measurement date). Deemed cost is determined as the fair value of an asset at the measurement date...”*

Directive 7 paragraph 10(a) to (c) states that: *“If fair value at the measurement date cannot be determined for an item of property, plant and equipment, investment property or a heritage asset, an entity may estimate such fair value using depreciated replacement cost at the measurement date for an item of property, plant and equipment; depreciated replacement cost at the measurement date for an investment property, but only if the investment property is of such a specialized nature that there is no market-based evidence of fair value; and replacement cost at the measurement date for heritage assets...”*

Chapter 4.3.4(a) to (d) of the Model for applying municipal values, comparative municipal values/sales and replacement costs as deemed cost of immovable assets of the Property Management Trading Entity (PMTE) as at 1 April 2013 outlines the process for Determining the Building Value states that: *“Building Cost information from reference sites such as **“AECOM – Africa Property and Construction handbook”** will be used in consultation with National DPW’s Valuations unit. Calculate the building value using the building indices and DPW’s 2014/15 physical verification information. From the building cost information sources obtain the rate per square meter of the type of improvement and multiply by the extent of the buildings to get the building value. Use the condition assessment from the DPW 2014/15 physical assessment rating to adjust the calculated replacement cost to determine the value of the building; Determine the building’s extent through the use of GIS or another method where GIS is not considered appropriate...”*

## Nature

During the audit of immovable assets, we noted that the condition assessment of DoD buildings disclosed on the immovable asset register (IAR) did not agree to the condition assessment as per DoD support. These differences were mainly due to the following:

Incorrectly capturing of the building's condition assessment on the IAR from DoD support.

This resulted to the following differences as shown in the table below after taking components into account. Refer to the table below.

**Note:** Differences in deemed cost value results from incorrect conditional assessment used by management. We have used the extent as per the IAR.

## DOD Sample

No	Building Id	Condition assessment as per DoD assessment	Conditional assessment as per IAR	Differences	Recalculated depreciable replacement cost excl component in Rands	Depreciable replacement cost excl component per asset register in Rands	Differences in Rands
1	DODBLD06013	80%	60%	20%	906 984 000	680 238 000	226 746 000
2	DODBLD06140	80%	60%	20%	343 200 000	257 400 000	85 800 000
3	DODBLD34750	80%	60%	20%	182 917 039	137 187 779	45 729 260
4	DODBLD06139	80%	60%	20%	144 794 760	108 596 070	36 198 690
5	DODBLD09961	80%	60%	20%	108 075 287	81 361 800	26 713 487
6	DODBLD21545	80%	60%	20%	105 850 744	79 388 058	26 462 686
7	DODBLD05553	80%	60%	20%	79 542 495	59 675 400	19 867 095
8	DODBLD32465	40%	60%	-20%	30 642 700	45 964 050	(15 321 350)
9	DODBLD32187	80%	60%	20%	47 401 200	35 550 900	11 850 300
10	DODBLD09999	80%	60%	20%	45 541 158	34 155 869	11 385 290
11	DODBLD37192	80%	60%	20%	43 719 000	32 789 250	10 929 750
12	DODBLD08806	80%	60%	20%	42 225 600	31 669 200	10 556 400
13	DODBLD10572	80%	60%	20%	41 889 706	31 417 279	10 472 426
14	DODBLD10586	80%	60%	20%	41 137 200	30 852 900	10 284 300
15	DODBLD09955	80%	60%	20%	40 693 051	30 544 200	10 148 851

No	Building Id	Condition assessment as per DoD assessment	Conditional assessment as per IAR	Differences	Recalculated depreciable replacement cost excl component in Rands	Depreciable replacement cost excl component per asset register in Rands	Differences in Rands
16	DODBLD29469	80%	60%	20%	38 416 560	28 812 420	9 604 140
17	DODBLD07320	80%	60%	20%	34 572 000	25 929 000	8 643 000
18	DODBLD05534	80%	60%	20%	34 277 000	25 707 750	8 569 250
19	DODBLD07290	80%	60%	20%	33 797 749	25 359 430	8 438 320
20	DODBLD07166	80%	60%	20%	33 175 104	24 881 328	8 293 776
21	DODBLD05572	80%	60%	20%	32 166 336	24 134 017	8 032 320
22	DODBLD21381	80%	60%	20%	30 986 644	23 415 600	7 571 044
23	DODBLD34747	80%	60%	20%	31 153 160	23 364 870	7 788 290
24	DODBLD24671	80%	60%	20%	31 079 049	23 309 287	7 769 762
25	DODBLD05941	80%	60%	20%	30 765 054	23 105 182	7 659 873
26	DODBLD31737	80%	60%	20%	30 466 485	22 849 864	7 616 621
27	DODBLD36568	80%	60%	20%	28 839 240	21 629 430	7 209 810
28	DODBLD18737	80%	60%	20%	28 689 502	21 524 940	7 164 562
29	DODBLD05586	80%	60%	20%	28 312 054	21 252 569	7 059 485
30	DODBLD30307	80%	60%	20%	28 237 846	21 178 384	7 059 461
31	DODBLD12630	80%	60%	20%	28 057 770	21 043 328	7 014 443
32	DODBLD18796	80%	60%	20%	27 513 802	20 643 165	6 870 637
33	DODBLD11748	80%	60%	20%	26 245 280	19 683 960	6 561 320
34	DODBLD05505	80%	60%	20%	26 035 360	19 526 520	6 508 840
35	DODBLD31735	80%	60%	20%	25 718 682	19 289 012	6 429 671
36	DODBLD05511	80%	60%	20%	25 637 082	19 227 812	6 409 271
37	DODBLD07347	80%	60%	20%	23 436 926	17 577 695	5 859 232
38	DODBLD29466	80%	60%	20%	22 935 065	17 201 299	5 733 766
39	DODBLD24361	80%	60%	20%	22 698 643	17 023 982	5 674 661
40	DODBLD12810	80%	60%	20%	22 655 256	16 991 442	5 663 814
41	DODBLD06100	80%	60%	20%	22 379 281	16 784 461	5 594 820
42	DODBLD01280	80%	60%	20%	21 778 428	16 333 821	5 444 607
43	DODBLD01274	80%	60%	20%	21 778 428	16 333 821	5 444 607
44	DODBLD01273	80%	60%	20%	21 778 428	16 333 821	5 444 607

No	Building Id	Condition assessment as per DoD assessment	Conditional assessment as per IAR	Differences	Recalculated depreciable replacement cost excl component in Rands	Depreciable replacement cost excl component per asset register in Rands	Differences in Rands
45	DODBLD11516	80%	60%	20%	21 632 503	16 224 377	5 408 126
46	DODBLD12809	80%	60%	20%	19 705 900	14 899 014	4 806 886
47	DODBLD27609	80%	60%	20%	18 811 296	14 108 472	4 702 824
48	DODBLD10004	80%	60%	20%	18 501 335	13 876 001	4 625 334
49	DODBLD24189	80%	60%	20%	14 731 960	11 048 970	3 682 990
50	DODBLD17015	80%	60%	20%	14 569 713	10 927 285	3 642 428
51	DODBLD15759	80%	60%	20%	14 523 763	10 905 931	3 617 832
52	DODBLD31658	80%	60%	20%	14 482 017	10 861 513	3 620 504
53	DODBLD00843	80%	60%	20%	10 963 310	8 222 483	2 740 828
54	DODBLD05163	80%	60%	20%	10 395 138	7 796 354	2 598 785
55	DODBLD07742	80%	60%	20%	9 188 276	6 891 207	2 297 069
56	DODBLD16933	80%	60%	20%	9 043 519	6 782 639	2 260 880
57	DODBLD10286	80%	60%	20%	8 991 661	6 743 746	2 247 915
58	DODBLD34129	80%	60%	20%	8 799 012	6 599 259	2 199 753
59	DODBLD07179	80%	60%	20%	8 559 360	6 419 520	2 139 840
60	DODBLD34156	80%	60%	20%	6 963 697	5 222 773	1 740 924
61	DODBLD21764	80%	60%	20%	6 959 395	5 219 546	1 739 849
62	DODBLD05402	80%	60%	20%	5 359 383	4 019 537	1 339 846
63	DODBLD06657	80%	60%	20%	5 343 954	4 007 966	1 335 989
64	DODBLD34074	80%	60%	20%	5 343 552	4 007 664	1 335 888
65	DODBLD31671	80%	60%	20%	5 300 644	3 975 483	1 325 161
66	DODBLD32200	80%	60%	20%	4 212 000	3 159 000	1 053 000
67	DODBLD18639	80%	60%	20%	3 848 782	2 894 400	954 382
68	DODBLD32401	80%	60%	20%	3 856 600	2 892 450	964 150
69	DODBLD41268	80%	60%	20%	3 849 383	2 887 037	962 346
70	DODBLD15846	80%	60%	20%	2 619 608	1 964 706	654 902
71	DODBLD15845	80%	60%	20%	2 619 608	1 964 706	654 902
72	DODBLD01588	80%	60%	20%	2 380 545	1 785 409	595 136
73	DODBLD16475	80%	60%	20%	2 195 872	1 646 904	548 968



No	Building Id	Condition assessment as per DoD assessment	Conditional assessment as per IAR	Differences	Recalculated depreciable replacement cost excl component in Rands	Depreciable replacement cost excl component per asset register in Rands	Differences in Rands
74	DODBLD15948	80%	60%	20%	2 190 346	1 642 759	547 586
75	DODBLD10051	80%	60%	20%	2 178 749	1 634 062	544 687
76	DODBLD16395	80%	60%	20%	2 137 759	1 603 320	534 440
77	DODBLD37709	80%	60%	20%	2 136 660	1 602 495	534 165
78	DODBLD16397	80%	60%	20%	2 135 035	1 601 276	533 759
79	DODBLD27048	80%	60%	20%	1 841 707	1 381 280	460 427
80	DODBLD27077	80%	60%	20%	1 840 841	1 380 631	460 210
81	DODBLD23123	80%	60%	20%	1 555 149	1 166 362	388 787
82	DODBLD22987	80%	60%	20%	1 499 762	1 124 822	374 941
83	DODBLD23032	80%	60%	20%	1 498 101	1 123 576	374 525
84	DODBLD17528	80%	60%	20%	1 396 608	1 047 456	349 152
85	DODBLD29351	80%	60%	20%	1 348 468	1 011 351	337 117
86	DODBLD26380	80%	60%	20%	1 348 199	1 011 149	337 050
87	DODBLD36538	80%	60%	20%	1 284 941	963 706	321 235
88	DODBLD15260	80%	60%	20%	1 284 625	963 469	321 156
89	DODBLD26259	80%	60%	20%	1 132 000	849 000	283 000
90	DODBLD25770	80%	60%	20%	1 130 728	848 046	282 682
91	DODBLD20900	80%	60%	20%	1 130 374	847 781	282 594
92	DODBLD26778	80%	60%	20%	1 049 879	787 409	262 470
93	DODBLD31980	80%	60%	20%	1 025 498	769 124	256 375
94	DODBLD26339	80%	60%	20%	1 025 167	768 875	256 292
95	DODBLD35164	80%	60%	20%	943 907	707 930	235 977
96	DODBLD15375	80%	60%	20%	933 916	700 437	233 479
97	DODBLD21089	80%	60%	20%	744 055	558 041	186 014
98	DODBLD36581	80%	60%	20%	653 321	489 991	163 330
99	DODBLD26670	80%	60%	20%	501 087	375 816	125 272
100	DODBLD09670	80%	60%	20%	452 171	339 128	113 043
101	DODBLD08840	80%	60%	20%	384 446	288 335	96 112
102	DODBLD04970	80%	60%	20%	305 231	228 924	76 308

No	Building Id	Condition assessment as per DoD assessment	Conditional assessment as per IAR	Differences	Recalculated depreciable replacement cost excl component in Rands	Depreciable replacement cost excl component per asset register in Rands	Differences in Rands
103	DODBLD08681	80%	60%	20%	303 450	227 587	75 862
104	DODBLD30389	80%	60%	20%	295 356	221 517	73 839
105	DODBLD05546	80%	60%	20%	276 451	207 338	69 113
106	DODBLD39084	80%	60%	20%	267 598	200 698	66 899
107	DODBLD20963	80%	60%	20%	266 560	199 920	66 640
108	DODBLD02423	80%	60%	20%	214 652	160 989	53 663
109	DODBLD35242	40%	60%	-20%	100 762	151 144	50 381
110	DODBLD22449	80%	60%	20%	201 495	151 121	50 374
111	DODBLD32220	80%	60%	20%	201 485	151 114	50 371
112	DODBLD29231	80%	60%	20%	182 712	137 034	45 678
113	DODBLD29621	80%	60%	20%	150 758	113 069	37 690
114	DODBLD25201	80%	60%	20%	149 822	112 367	37 456
115	DODBLD35111	80%	60%	20%	149 822	112 367	37 456
116	DODBLD22554	80%	60%	20%	131 955	98 966	32 989
117	DODBLD19865	80%	60%	20%	110 376	82 782	27 594
118	DODBLD05398	80%	60%	20%	107 754	80 815	26 938
119	DODBLD37735	80%	60%	20%	106 968	80 226	26 742
120	DODBLD34331	80%	60%	20%	12 542	9 406	3 135
121	DODBLD34290	80%	60%	20%	12 542	9 406	3 135
122	DODBLD34289	80%	60%	20%	12 542	9 406	3 135
123	DODBLD34288	80%	60%	20%	12 542	9 406	3 135
124	DODBLD32267	80%	60%	20%	9 030	6 773	2 258
125	DODBLD40441	80%	60%	20%	4 122	3 092	1 031
126	DODBLD06085	80%	60%	20%	3 020	2 265	755
127	DODBLD30892	80%	60%	20%	54 516 440	40 897 608	13 618 832
<b>Total</b>					<b>3 376 837 425</b>	<b>2 556 446 276</b>	<b>820 391 149</b>

### **Impact of finding**

Based on the sample tested, property plant and equipment (Deemed cost) is understated by R820 391 149, however management should revisit the whole population to determine the full impact of this finding.

### **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.

Management didn't properly review the conditional assessment recorded on the IAR against the DoD support to ensure that all inputs have been correctly transferred to the IAR.

### **Recommendation**

It is recommended that:

Management should ensure that immovable assets register (IAR) agrees to all supporting schedules before submission for audit. The buildings condition recorded on the IAR should be checked against the buildings conditional assessment as per the DoD supports to confirm that all inputs have been accurately transferred before finalising the register.

### **Management response**

Management agrees with the finding.

### **Auditor's conclusion**

Management comment noted. The finding will remain on the management report.

## Predetermined Objectives – Programme 3

### **AOPO – Programme 3: Indicator 3.7: Number of EPWP work opportunities created through construction projects - EPWP beneficiaries were not reported on the EPWP Q4 data**

#### **Laws, rules and regulations**

Public Finance Management Act (PFMA) section 40(3)(a) states that: *“The annual report and audited financial statements referred to in subsection (1)(d) must fairly present the state of affairs of the department, trading entity or constitutional institution, its business, its financial results, its performance against predetermined objectives and its financial position as at the end of the financial year concerned....”*

Technical indicator description – method of calculation states that: *“A count of the aggregate work opportunities created/reported. Work opportunity is paid work created for an individual on an EPWP project for any period of time. The same person can be employed on different projects and each period of employment will be counted as work opportunity...”*

#### **Nature**

During the audit of performance information, programme 3: indicator 3.7 relating to “Number of EPWP work opportunities created through construction projects”, the following deviation was noted:

For the project as per the table below, participants were identified on the attendance register and/or proof of payment, but were not reported for the Q4 validated data submitted for audit purposes.

No	Project Code	Project Name	Name	Surname	Id number	EPWP Office
1	80970-EPWP3N	Pretoria Bricklaying Apprenticeship Program	Anita Manyako	Masemole	9204300874087	Pretoria Office
2	67032-EPWP3N	SA Army College Thaba Tshwane	Andries	Mafetsa	8912215625086	Pretoria Office
3	67032-EPWP3N	SA Army College Thaba Tshwane	Gezani Tlangelani	Mkhari	8712275751081	Pretoria Office
4	80427-EPWP3N	Alberton SAPS Laboures	Palisa Zandile	Mgudlwa	9611251376088	Johannesburg Office
5	80427-EPWP3N	Alberton SAPS Laboures	Zakele	Simelane	8902075372085	Johannesburg Office
6	80427-EPWP3N	Alberton SAPS Laboures	Jacob	Vilakazi	8202116209085	Johannesburg Office
7	49883-EPWP3N	Alexandra Single Quarters SAPS	Mlungisi	Qwabe	Unknown	Johannesburg Office
8	49883-EPWP3N	Alexandra Single Quarters SAPS	Stanley	Mathebula	Unknown	Johannesburg Office
9	49883-EPWP3N	Alexandra Single Quarters SAPS	Vusi	Tshabalala	Unknown	Johannesburg Office
10	49883-EPWP3N	Alexandra Single Quarters SAPS	Mfugquza	Mqweno	Unknown	Johannesburg Office
11	49883-EPWP3N	Alexandra Single Quarters SAPS	Tiro	Choabi	Unknown	Johannesburg Office

No	Project Code	Project Name	Name	Surname	Id number	EPWP Office
12	58084-EPWP3N	Kensington Millitary Base 46 Brigade	Thabani	Xulu	8405046418086	Johannesburg Office
13	58084-EPWP3N	Kensington Millitary Base 46 Brigade	Emerina	Takavanda	Unknown	Johannesburg Office
14	58084-EPWP3N	Kensington Millitary Base 46 Brigade	Sifase	Britten	Unknown	Johannesburg Office
15	49934-EPWP3N	Leeuwkop Prison	Mabasa	Clyde	Unknown	Johannesburg Office
16	49934-EPWP3N	Leeuwkop Prison	Sifile	Sabelo	Unknown	Johannesburg Office
17	49934-EPWP3N	Leeuwkop Prison	Mhlongo	Daniel	Unknown	Johannesburg Office
18	59308-EPWP3N	Vanderbijlpark Police Station	Sizwe	Khambule	8702125971088	Johannesburg Office
19	59308-EPWP3N	Vanderbijlpark Police Station	Witness	Nyathi	CN562822	Johannesburg Office
20	59308-EPWP3N	Vanderbijlpark Police Station	Courage	Khumalo	Unknown	Johannesburg Office
21	59308-EPWP3N	Vanderbijlpark Police Station	Mduduzi	Dube	Unknown	Johannesburg Office
22	59308-EPWP3N	Vanderbijlpark Police Station	Kudakwashe	Makora	DN534764	Johannesburg Office
23	59308-EPWP3N	Vanderbijlpark Police Station	Simon	Botswe	7103245649087	Johannesburg Office
24	59308-EPWP3N	Vanderbijlpark Police Station	Francis	Dzimiri	CN489784	Johannesburg Office
25	59308-EPWP3N	Vanderbijlpark Police Station	Njabulo	Moyo	CN950826	Johannesburg Office
26	59324-EPWP3N	Diepkloof Crime Combating Unit	Mashele	Adroshion	Unknown	Johannesburg Office
27	59324-EPWP3N	Diepkloof Crime Combating Unit	Kondile	Xolani	Unknown	Johannesburg Office
28	59324-EPWP3N	Diepkloof Crime Combating Unit	Lubisi	Jacob	Unknown	Johannesburg Office
29	59324-EPWP3N	Diepkloof Crime Combating Unit	Zolwane	Bulelani	Unknown	Johannesburg Office
30	59324-EPWP3N	Diepkloof Crime Combating Unit	Nkonza	Nombulole	Unknown	Johannesburg Office
31	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Grant Nathan	Petersen	740309550967	Johannesburg Office
32	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Nyasha	Matungwana	63-1297680E-75	Johannesburg Office
33	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Barnabas	Gayl	7006293652085	Johannesburg Office
34	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Jose	Marquele	12 AC 19361	Johannesburg Office
35	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Lord	Mathebula	8201018239083	Johannesburg Office

No	Project Code	Project Name	Name	Surname	Id number	EPWP Office
36	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Ntlantla	Mtyolo	7405166076087	Johannesburg Office
37	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Sydwell	Mkansi	7611225300083	Johannesburg Office
38	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Vicky	Magabane	7405085719080	Johannesburg Office
39	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Zakhele	Mnisi	8105106289084	Johannesburg Office
40	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Zito	Nkuna	DS 002328	Johannesburg Office
41	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Herman	Dinala	Unknown	Johannesburg Office
42	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Destri	Ferris	Unknown	Johannesburg Office
43	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Antonio	Whittaker	9101145276082	Johannesburg Office
44	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Trevor	Triegaardt	8405185045088	Johannesburg Office
45	47398-EPWP3N	Springfield Department of Labour	Sibangilizwe Mike	Sitole	Unknown	Johannesburg Office
46	47398-EPWP3N	Springfield Department of Labour	Xolile Maureen	Zondi	Unknown	Johannesburg Office
47	47398-EPWP3N	Springfield Department of Labour	Onsen	Sibanda	Unknown	Johannesburg Office
48	47398-EPWP3N	Springfield Department of Labour	Johannes	Maake	Unknown	Johannesburg Office
49	47398-EPWP3N	Springfield Department of Labour	A	Maferoka	Unknown	Johannesburg Office
50	47398-EPWP3N	Springfield Department of Labour	Nontokozo	Thusi	Unknown	Johannesburg Office
51	47398-EPWP3N	Springfield Department of Labour	Troy	Radebe	Unknown	Johannesburg Office

No	Project Code	Project Name	Name	Surname	Id number	EPWP Office
52	47398-EPWP3N	Springfield Department of Labour	Ngonidzashe	Chikombe	Unknown	Johannesburg Office
53	47398-EPWP3N	Springfield Department of Labour	Christien	Siphuma	Unknown	Johannesburg Office
54	47398-EPWP3N	Springfield Department of Labour	Mbuso	Xaba	Unknown	Johannesburg Office
55	47398-EPWP3N	Springfield Department of Labour	Ndodana	Nyoni	Unknown	Johannesburg Office
56	47397-EPWP3N	Kesington Irish Military Base	Hlekelani	Mathebula	Unknown	Johannesburg Office
57	47397-EPWP3N	Kesington Irish Military Base	Kwashira	Kumbiria	Unknown	Johannesburg Office
58	47397-EPWP3N	Kesington Irish Military Base	Khutso	Letwaba	Unknown	Johannesburg Office
59	68358-EPWP3N	Alberton SAPS NYS	Simphiwe Dornic	Motloun	9308145520084	Johannesburg Office
60	68358-EPWP3N	Alberton SAPS NYS	Tshidi	mafunga	9210290647086	Johannesburg Office
61	68358-EPWP3N	Alberton SAPS NYS	Tshidiso Collin	Seroke	8606285728081	Johannesburg Office
62	68358-EPWP3N	Alberton SAPS NYS	Velry Solfa	Mashego	8712271438089	Johannesburg Office
63	68358-EPWP3N	Alberton SAPS NYS	Marubuni Virginia	Modiba	9003021391086	Johannesburg Office
64	68358-EPWP3N	Alberton SAPS NYS	Yvone Tintswalo	Khosa	8502280839082	Johannesburg Office
65	68358-EPWP3N	Alberton SAPS NYS	Moeke SI Hemelton	Ramaphalatsane	9106105726083	Johannesburg Office
66	68358-EPWP3N	Alberton SAPS NYS	Selina Puleng	Monco	8810170347086	Johannesburg Office
67	68358-EPWP3N	Alberton SAPS NYS	Dudu Rose	Mnisi	8910011307081	Johannesburg Office
68	68358-EPWP3N	Alberton SAPS NYS	Nwabisa	Holwana	9205141188082	Johannesburg Office
69	52359-EPWP3N	Heidelberg Gymnasium houses	Busisiwe Welhemina	Mazibuko	9703071293088	Johannesburg Office
70	52359-EPWP3N	Heidelberg Gymnasium houses	Mathebula	Nkosinathi	9903035630082	Johannesburg Office
71	52359-EPWP3N	Heidelberg Gymnasium houses	Refiloe Ephesia Lerato	hlongwane	9606120500082	Johannesburg Office
72	52359-EPWP3N	Heidelberg Gymnasium houses	Nhlanhla Jan	Kula	9603055889085	Johannesburg Office
73	52359-EPWP3N	Heidelberg Gymnasium houses	Sipho Solomon	Kula	9509196211081	Johannesburg Office
74	52359-EPWP3N	Heidelberg Gymnasium houses	Khanyisile	mabetha	9903190318085	Johannesburg Office
75	52359-EPWP3N	Heidelberg Gymnasium houses	Promise Sifiso	Mhlotswane	9706305343082	Johannesburg Office
76	52359-EPWP3N	Heidelberg Gymnasium houses	Morodi	Motlalepule Jeremia	9512215488086	Johannesburg Office
77	52359-EPWP3N	Heidelberg Gymnasium houses	Molefe	Nthabiseng Margeret	9802200542082	Johannesburg Office



No	Project Code	Project Name	Name	Surname	Id number	EPWP Office
78	52359-EPWP3N	Heidelberg Gymnasium houses	Mkhwanazi	Miriam Dieketseng	8903090589083	Johannesburg Office
79	55897-EPWP3N	Glencoe Prison	Ntokozo	Mhlongo	Unknown	Durban Office
80	55897-EPWP3N	Glencoe Prison	Alias	Radebe	Unknown	Durban Office
81	55897-EPWP3N	Glencoe Prison	P	Duduane	Unknown	Durban Office
82	76378-EPWP3N	New Durban Point Branch Court	Lungisa	Bomela	Unknown	Durban Office
83	76378-EPWP3N	New Durban Point Branch Court	Simon	Nxumalo	Unknown	Durban Office
84	76378-EPWP3N	New Durban Point Branch Court	Mcebo Mpucuko	Mathenjwa	Unknown	Durban Office
85	76378-EPWP3N	New Durban Point Branch Court	Thulani	Mkhize	Unknown	Durban Office
86	76378-EPWP3N	New Durban Point Branch Court	Njabulo	Magubane	Unknown	Durban Office
87	58939-EPWP3M	Labour/Saldanha Bay and Pepper Bay Harbour	Bonga	Mapatalala	Unknown	Western Cape Office
88	58939-EPWP3M	Labour/Saldanha Bay and Pepper Bay Harbour	Sylvester Cederick	Loff	Unknown	Western Cape Office
89	58939-EPWP3M	Labour/Saldanha Bay and Pepper Bay Harbour	Anelisa	Dwaza	Unknown	Western Cape Office
90	81726-EPWP3N	SAPS Garage Oudtshoorn	Delilla Dina	Claasen	Unknown	Western Cape Office
91	81726-EPWP3N	SAPS Garage Oudtshoorn	Christiaan	Hufke	Unknown	Western Cape Office
92	81726-EPWP3N	SAPS Garage Oudtshoorn	Johan	Jeftha	Unknown	Western Cape Office
93	81726-EPWP3N	SAPS Garage Oudtshoorn	Gert	Jacobs	Unknown	Western Cape Office
94	81726-EPWP3N	SAPS Garage Oudtshoorn	Goliath	Van Rooyen	Unknown	Western Cape Office
95	81726-EPWP3N	SAPS Garage Oudtshoorn	Pinkie	Pantshwa	Unknown	Western Cape Office
96	81726-EPWP3N	SAPS Garage Oudtshoorn	Meyer	Bernadine	Unknown	Western Cape Office
97	81726-EPWP3N	SAPS Garage Oudtshoorn	Portia	Josephs	Unknown	Western Cape Office
98	81726-EPWP3N	SAPS Garage Oudtshoorn	Clothelda	Mann	Unknown	Western Cape Office
99	81726-EPWP3N	SAPS Garage Oudtshoorn	Brenadine Jade Samantha	Meyer	Unknown	Western Cape Office
100	74029-EPWP3N	Parkroad SAPS	Ntsokolo Piet	Mandjie	8708235911088	Free State Office



No	Project Code	Project Name	Name	Surname	Id number	EPWP Office
101	80546- EPWP 3N	Mthatha Police Training College: Complete RR	Mzimasi	Mcotheli	8712265696090	Mthatha Office

### Impact of finding

Non-compliance with PFMA section 40(3) (a)

Understatement of work opportunities created reported

### Internal control deficiency

#### *Financial and Performance Management*

The entity did not implement effective controls to reconcile the beneficiaries on the attendance registers to the beneficiaries reported on the EPWP reporting system.

Beneficiary lists and attendance registers are not regularly reviewed to ensure that all participants are captured on EPWP reporting system.

### Recommendation

It is recommended that:

The entity should perform frequent, adequate reviews of beneficiary lists and attendance registers from the public bodies to ensure that all participants are captured on EPWP reporting system.

Management should review all EPWP projects reported on the system against the attendance registers, to ensure that all work opportunities created are reported.

### Management response

Management is in agreement with the finding.

Project Managers will need to ensure that all project information is reported on the EPWP reporting system. Strict monthly monitoring of record keeping and establishment of a Task Team comprising of CPM and EPWP in all the Regions

### Auditor's conclusion

Management agrees with the finding therefore it remains unresolved.

**AOPO – Programme 3: Indicator 3.7: Number of EPWP work opportunities created through construction projects – Beneficiaries listed on beneficiary list not employed on the project**
**Laws, rules and regulations**

Public Finance Management Act (PFMA) section 40(3)(a) states that: *“The annual report and audited financial statements referred to in subsection (1)(d) must fairly present the state of affairs of the department, trading entity or constitutional institution, its business, its financial results, its performance against predetermined objectives and its financial position as at the end of the financial year concerned....”*

Technical indicator description – method of calculation states that: *“A count of the aggregate work opportunities created/reported. Work opportunity is paid work created for an individual on an EPWP project for any period of time. The same person can be employed on different projects and each period of employment will be counted as work opportunity.....”*

**Nature**

During the audit of performance information, programme 3: indicator 3.7 relating to “Number of work opportunities created through construction projects”, the following deviation was noted:

The beneficiaries listed below for the projects, were reported as beneficiaries on the EPWP reporting system including the number of days worked. However, during the audit of the project we noted that the beneficiaries did not work on the project as attendance register and proof of payment could not be obtained.

No	Name	Surname	ID	Project no	Project name	EPWP Office
1	Rudzani	Nethononda	9404170712082	80970-EPWP3N	Pretoria Bricklaying Apprenticeship Program	Pretoria Office
2	F	Senter	7701225155080	52947-EPWP3M	Metrox Area 1 Cape Town Court	Western Cape Office

**Impact of the finding**

Non-compliance with PFMA section 40(3)(a)

Work opportunities created for the financial year could be overstated.

**Internal control deficiency**
*Financial and Performance Management*

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

Beneficiary lists and attendance registers are not regularly reviewed to ensure that participants as per the attendance registers agree to the beneficiary list reported on the EPWP reporting system.

### **Recommendation**

It is recommended that:

The department should perform frequent and adequate reviews of the beneficiary lists and attendance registers to ensure that the number days of beneficiaries worked and reported is accurate and valid.

### **Management response**

I am in agreement with the finding for the following reasons [and supply the following/attached information in support of this]:

Keeping of these records by reporting public bodies are prescribed by EPWP guidelines.

It is evident that the required documents could not be provided to the AGSA.

### **Auditor's conclusion**

Management responses were noted. The finding was followed up during the final audit to the Q4 participant list of the selected project and the participant is still appearing on the project participant list. Therefore, this issue remains unresolved and will be included in the final management report.

## **AOPO – Programme 3: Indicator 3.7: Number of EPWP work opportunities created through construction projects - Supporting documentation not provided for audit purposes**

### **Laws, rules and regulations**

Section 40(3)(a) of the Public Finance Management Act (PFMA) states that: *“The annual report and audited financial statements referred to in subsection (1)(d) must fairly present the state of affairs of the department, trading entity or constitutional institution, its business, its financial results, its performance against predetermined objectives and its financial position as at the end of the financial year concerned....”*

Technical indicator description – method of calculation states that: *“A count of the aggregate work opportunities created/reported. Work opportunity is paid work created for an individual on an EPWP project for any period of time. The same person can be employed on different projects and each period of employment will be counted as work opportunity.....”*

The ministerial determination 4: Expanded Public Works Programme dated 04 May 2012 paragraph 12(1)(a) to (e) and 12.2 – Keeping records it states that: *“Every employer must keep a written record of at least the worker’s name and position; copy of an acceptable worker identification; in the case of task-rated worker, the number of tasks completed by the worker; in the case of a time-rated worker, the time worked by the worker; payments made to each worker. The employer must keep this record for a period of at least three years after completion of the EPWP...”*

### **Nature**

During the audit of performance information, programme 3: indicator 3.7 relating to “Number of work opportunities created through construction projects”, the following deviations were identified:

- a) The following beneficiaries’ identity documents were not provided for audit purposes.

No	Project Code	Project Name	Name	Surname	Id no	EPWP Office
1	67032-EPWP3N	SA Army College Thaba Tshwane	Gift Maselebane	Mankge	9505040738089	Pretoria Office
2	78024-EPWP3N	DPW Minaar Street Workshop	Mologadi Anna	Mello	8504300498089	Pretoria Office
3	80970-EPWP3N	Pretoria Bricklaying Apprenticeship Program	Anita Manyako	Masemole	9204300874087	Pretoria Office
4	80970-EPWP3N	Pretoria Bricklaying Apprenticeship Program	Sagwati Locate	Mashabane	9402020824081	Pretoria Office
5	80970-EPWP3N	Pretoria Bricklaying Apprenticeship Program	Bongani Alert	Chabalala	9102130659084	Pretoria Office
6	80970-EPWP3N	Pretoria Bricklaying Apprenticeship Program	Lefokoane Inocentia	Ramollo	9311040379085	Pretoria Office

No	Project Code	Project Name	Name	Surname	Id no	EPWP Office
7	80970-EPWP3N	Pretoria Bricklaying Apprenticeship Program	Motjoadi Patronella	Lekgau	9201210812082	Pretoria Office
8	80970-EPWP3N	Pretoria Bricklaying Apprenticeship Program	Takalani Vicent	Mphilo	9102066312088	Pretoria Office
9	80970-EPWP3N	Pretoria Bricklaying Apprenticeship Program	Phumzile Precious	Mahisa	9503120341080	Pretoria Office
10	80970-EPWP3N	Pretoria Bricklaying Apprenticeship Program	Maselele Constance	Malatji	9003161173088	Pretoria Office
11	80970-EPWP3N	Pretoria Bricklaying Apprenticeship Program	Klaas	Mabena	9403075975083	Pretoria Office
12	80970-EPWP3N	Pretoria Bricklaying Apprenticeship Program	Desmond	Dikgole	8809036213086	Pretoria Office
13	80970-EPWP3N	Pretoria Bricklaying Apprenticeship Program	Morudi Lesley	Monama	9012065995082	Pretoria Office
14	80970-EPWP3N	Pretoria Bricklaying Apprenticeship Program	Khuthadzo	Ramugondo	9410210598084	Pretoria Office
15	80970-EPWP3N	Pretoria Bricklaying Apprenticeship Program	Livhuwani	Nemukhaphi	9403270458083	Pretoria Office
16	80427-EPWP3N	Alberton SAPS Laboures	Jacob	Vilakazi	8202116209085	Johannesburg Office
17	49883-EPWP3N	Alexandra Single Quarters SAPS	Tshebeletso	Mphahlele	9504160605087	Johannesburg Office
18	49883-EPWP3N	Alexandra Single Quarters SAPS	Tsepo Abel	Moilola	9003085337082	Johannesburg Office
19	49883-EPWP3N	Alexandra Single Quarters SAPS	Nare	Masoga	9306270562087	Johannesburg Office
20	49883-EPWP3N	Alexandra Single Quarters SAPS	Boledi Negita	Sedibengt	9512131038080	Johannesburg Office
21	49883-EPWP3N	Alexandra Single Quarters SAPS	Ruth Eva	Sekhasimbe	8510140048083	Johannesburg Office
22	49883-EPWP3N	Alexandra Single Quarters SAPS	Hlengani Ryzeth	Nkwinika	7806155339081	Johannesburg Office
23	49883-EPWP3N	Alexandra Single Quarters SAPS	Dennis Mzamani	Maluleko	8012126095089	Johannesburg Office
24	49883-EPWP3N	Alexandra Single Quarters SAPS	Mokgaetji Gift	Phaladi	9306135686089	Johannesburg Office
25	49883-EPWP3N	Alexandra Single Quarters SAPS	Mnqweno	Mfungquza	9102176222086	Johannesburg Office
26	49883-EPWP3N	Alexandra Single Quarters SAPS	Mlungisi	Qwabe	Unknown	Johannesburg Office
27	49883-EPWP3N	Alexandra Single Quarters SAPS	Stanley	Mathebula	Unknown	Johannesburg Office
28	49883-EPWP3N	Alexandra Single Quarters SAPS	Vusi	Tshabalala	Unknown	Johannesburg Office
29	49883-EPWP3N	Alexandra Single Quarters SAPS	Mfugquza	Mqweno	Unknown	Johannesburg Office
30	49883-EPWP3N	Alexandra Single Quarters SAPS	Tiro	Choabi	Unknown	Johannesburg Office

No	Project Code	Project Name	Name	Surname	Id no	EPWP Office
31	58084-EPWP3N	Kensington Millitary Base 46 Brigade	Thabani	Xulu	8405046418086	Johannesburg Office
32	58084-EPWP3N	Kensington Millitary Base 46 Brigade	Emerina	Takavanda	Unknown	Johannesburg Office
33	58084-EPWP3N	Kensington Millitary Base 46 Brigade	Sifase	Britten	Unknown	Johannesburg Office
34	58084-EPWP3N	Kensington Millitary Base 46 Brigade	Serongwe Michael	Kamela	8203235660083	Johannesburg Office
35	58084-EPWP3N	Kensington Millitary Base 46 Brigade	Ngaka Isaack	Motaung	8610276175088	Johannesburg Office
36	49934-EPWP3N	Leeuwkop Prison	Mabasa	Clyde	Unknown	Johannesburg Office
37	49934-EPWP3N	Leeuwkop Prison	Sifile	Sabelo	Unknown	Johannesburg Office
38	49934-EPWP3N	Leeuwkop Prison	Mhlongo	Daniel	Unknown	Johannesburg Office
39	49934-EPWP3N	Leeuwkop Prison	Rasekele Naom	Ntsoane	8001200728087	Johannesburg Office
40	59308-EPWP3N	Vanderbijlpark Police Station	Thandi Evodia	Tshabalala	7607210308081	Johannesburg Office
41	59308-EPWP3N	Vanderbijlpark Police Station	Sizwe	Khambule	8702125971088	Johannesburg Office
43	59308-EPWP3N	Vanderbijlpark Police Station	Courage	Khumalo	Unknown	Johannesburg Office
44	59308-EPWP3N	Vanderbijlpark Police Station	Mduduzi	Dube	Unknown	Johannesburg Office
45	59324-EPWP3N	Diepkloof Crime Combating Unit	Nkonza	Nombulole	Unknown	Johannesburg Office
46	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Lucky Matsobane	Aphane	9108176182089	Johannesburg Office
47	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Madimetja Brain	Diale	9407095594089	Johannesburg Office
48	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Siza Mora	Dladla	9608235290088	Johannesburg Office
49	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Enver Christo	John	8401265167082	Johannesburg Office
50	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Lulu Isaac	Kolle	8808056164088	Johannesburg Office
51	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Gauta Michael	Lungane	8709035694080	Johannesburg Office
52	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Mandisi	Madikane	9608086436087	Johannesburg Office
53	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Thando Kenneth	Magwaca	9102245767087	Johannesburg Office
54	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Justice	Makhambi	9502136046089	Johannesburg Office

No	Project Code	Project Name	Name	Surname	Id no	EPWP Office
55	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Teanet	Makwakwa	9105045912084	Johannesburg Office
56	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Thabang Nelson	Mamowe	9407085290086	Johannesburg Office
57	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Lekoala Clifford	Mankgela	9009046428084	Johannesburg Office
58	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Skhumbuzo Isaac	Mathandela	6503265488087	Johannesburg Office
59	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Thandi	Mathebula	9412300837083	Johannesburg Office
60	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Sotsha Absaloni	Mbila	8608275505081	Johannesburg Office
61	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Siphiwe Simon	Mchunu	8003026144085	Johannesburg Office
62	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Bongikhaya	Mntuyedwa	9005286267083	Johannesburg Office
63	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Nomadlozi Gladys	Mofokeng	8106021321085	Johannesburg Office
64	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Thomas Tebogo	Mofokeng	9311146038080	Johannesburg Office
65	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Makhosonke	Ntombela	9511075705084	Johannesburg Office
66	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Mashale Ronald	Ntswane	8903036118088	Johannesburg Office
67	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Mohale Johannes	Pilusa	6309075665082	Johannesburg Office
68	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Ramano Monico	Van Rooyen	9208305145088	Johannesburg Office
69	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Mxolisi Nicholas	Vilakazi	9212315382087	Johannesburg Office
70	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Njabulo Mxolisi	Vundla	9501045443080	Johannesburg Office
71	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Shoiniece Canidean	Williams	8807060105087	Johannesburg Office
72	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Nyasha	Matungwana	63-1297680E-75	Johannesburg Office
73	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Barnabas	Gayl	7006293652085	Johannesburg Office



No	Project Code	Project Name	Name	Surname	Id no	EPWP Office
74	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Jose	Marquele	12 AC 19361	Johannesburg Office
75	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Ntlantla	Mtyolo	7405166076087	Johannesburg Office
76	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Sydwell	Mkansi	7611225300083	Johannesburg Office
77	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Vicky	Magabane	7405085719080	Johannesburg Office
78	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Zakhele	Mnisi	8105106289084	Johannesburg Office
79	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Zito	Nkuna	DS 002328	Johannesburg Office
80	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Herman	Dinala	Unknown	Johannesburg Office
81	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Destri	Ferris	Unknown	Johannesburg Office
82	68358-EPWP3N	Alberton SAPS NYS	Thabiso	Mcongwane	9702026145088	Johannesburg Office
83	68358-EPWP3N	Alberton SAPS NYS	Koketso	Tshishonga	9703110978087	Johannesburg Office
84	68358-EPWP3N	Alberton SAPS NYS	Leseilane Valecia	Mahlakwana	9102210785080	Johannesburg Office
85	68358-EPWP3N	Alberton SAPS NYS	Nthabiseng Ellen	Skosana	8610280392083	Johannesburg Office
86	68358-EPWP3N	Alberton SAPS NYS	Avuyile Innocent	Bam	9908195135087	Johannesburg Office
87	68358-EPWP3N	Alberton SAPS NYS	Sihle Innocent	Mthembu	9707135965086	Johannesburg Office
88	68358-EPWP3N	Alberton SAPS NYS	Ntlantla	Mahlangu	9101150636089	Johannesburg Office
89	68358-EPWP3N	Alberton SAPS NYS	Marcus Kabelo	Ramaite	9403115763085	Johannesburg Office
90	68358-EPWP3N	Alberton SAPS NYS	Mfanafuthi Welcome	Buthlezi	9310066201082	Johannesburg Office
91	68358-EPWP3N	Alberton SAPS NYS	Marubini Bridget	Midzi	8308250474086	Johannesburg Office
92	68358-EPWP3N	Alberton SAPS NYS	Vinolia	Makola	9506060524086	Johannesburg Office
93	64102-EPWP3N	Umlazi Magistrate Courts	Nokwanda Precious	Majola	Unknown	Durban Offices
94	64102-EPWP3N	Umlazi Magistrate Courts	Sihle	Gumede	Unknown	Durban Offices

b) The following beneficiaries' proof of payment was not submitted for audit purposes



No	Project Code	Project Name	Name	Surname	Id no	EPWP Office
1	67032-EPWP3N	SA Army College Thaba Tshwane	Andries	Mafetsa	8912215625086	Pretoria Office
2	67032-EPWP3N	SA Army College Thaba Tshwane	Gezani Tlangelani	Mkhari	8712275751081	Pretoria Office
3	80970-EPWP3N	Pretoria Bricklaying Apprenticeship Program	Noah	Makweng	9202195923084	Pretoria Office
4	49883-EPWP3N	Alexandra Single Quarters SAPS	Tshebeletso	Mphahlele	9504160605087	Johannesburg Office
5	49883-EPWP3N	Alexandra Single Quarters SAPS	Nare	Masoga	9306270562087	Johannesburg Office
6	49883-EPWP3N	Alexandra Single Quarters SAPS	Boledi Negita	Sedibengt	9512131038080	Johannesburg Office
7	49883-EPWP3N	Alexandra Single Quarters SAPS	Dennis Mzamani	Maluleko	8012126095089	Johannesburg Office
8	49883-EPWP3N	Alexandra Single Quarters SAPS	Mokgaetji Gift	Phaladi	9306135686089	Johannesburg Office
9	49883-EPWP3N	Alexandra Single Quarters SAPS	Malibongwe	Siyaka	6506066638081	Johannesburg Office
10	49883-EPWP3N	Alexandra Single Quarters SAPS	Stanley Mvelo	Miya	8410106844080	Johannesburg Office
11	49883-EPWP3N	Alexandra Single Quarters SAPS	Christopher Mzuzile	Sokaukile	8004145620088	Johannesburg Office
12	49883-EPWP3N	Alexandra Single Quarters SAPS	Llewellyn	Nagel	6712135132086	Johannesburg Office
13	49883-EPWP3N	Alexandra Single Quarters SAPS	Shonisani	Mutavhatsindi	8207295652088	Johannesburg Office
14	49883-EPWP3N	Alexandra Single Quarters SAPS	Basimane Elias	Motshwaedi	8809261311084	Johannesburg Office
15	49883-EPWP3N	Alexandra Single Quarters SAPS	Motsiri Brown	Lebepe	9201066107082	Johannesburg Office
16	49883-EPWP3N	Alexandra Single Quarters SAPS	Nko Martin	Mathibela	7002265305085	Johannesburg Office
17	49883-EPWP3N	Alexandra Single Quarters SAPS	Shimane Cornelius	Mathibela	7110185726080	Johannesburg Office
18	49883-EPWP3N	Alexandra Single Quarters SAPS	Curie	Nkabinde	7203065590088	Johannesburg Office
19	49883-EPWP3N	Alexandra Single Quarters SAPS	Hatlani Michael	Maluleke	6109065671086	Johannesburg Office
20	49934-EPWP3N	Alexandra Single Quarters SAPS	Mashoto	Mokgophi	9710225780084	Johannesburg Office
21	49883-EPWP3N	Alexandra Single Quarters SAPS	Nhlakanipho Harry	Mtambo	9107285163089	Johannesburg Office
22	49883-EPWP3N	Alexandra Single Quarters SAPS	Tshomaelo Gladys	Kgasago	9405061218089	Johannesburg Office
23	58084-EPWP3N	Kensington Military Base 46 Brigade	Ngaka Isaack	Motaung	8610276175088	Johannesburg Office
24	49934-EPWP3N	Leeuwkop Prison	Rasekele Naom	Ntsoane	8001200728087	Johannesburg Office
25	49934-EPWP3N	Leeuwkop Prison	Tshayaboyo Gellian	Selowa	9201190728084	Johannesburg Office
26	49934-EPWP3N	Leeuwkop Prison	Raisibe Doris	Malete	9106211093089	Johannesburg Office
27	49934-EPWP3N	Leeuwkop Prison	Mujono Daniel	Mhlongo	6001165446081	Johannesburg Office
28	49934-EPWP3N	Leeuwkop Prison	Lethola John	Tsotetsi	7408095668081	Johannesburg Office

No	Project Code	Project Name	Name	Surname	Id no	EPWP Office
29	49934-EPWP3N	Leeuwkop Prison	Mabasa	Clyde	Unknown	Johannesburg Office
30	49934-EPWP3N	Leeuwkop Prison	Mhlongo	Daniel	Unknown	Johannesburg Office
31	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Grant Embrose Richard	Badenhorst	7605275175080	Johannesburg Office
32	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Vivian	Chavalala	8811290911082	Johannesburg Office
33	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Craig Danzil	Davies	7602145066086	Johannesburg Office
34	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Enver Christo	John	8401265167082	Johannesburg Office
35	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Desmond	Leffler	8309275387089	Johannesburg Office
36	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Franklin	Louw	7205066506088	Johannesburg Office
37	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Thando Kenneth	Magwaca	9102245767087	Johannesburg Office
38	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Patrick Lovemore	Mahlaola	8612045773086	Johannesburg Office
39	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Justice	Makhambi	9502136046089	Johannesburg Office
40	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Tankiso Joseph	Makopane	8803305881087	Johannesburg Office
41	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Teanet	Makwakwa	9105045912084	Johannesburg Office
42	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Rofhiwa	Malogwa	8410155793089	Johannesburg Office
43	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Thabang Nelson	Mamowe	9407085290086	Johannesburg Office
44	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Skhumbuzo Isaac	Mathandela	6503265488087	Johannesburg Office
45	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Siphiwe Simon	Mchunu	8003026144085	Johannesburg Office
46	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Beullah Promise	Mkhabela	8806220833083	Johannesburg Office
47	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Saluwakha	Mntungwa	7705106172080	Johannesburg Office

No	Project Code	Project Name	Name	Surname	Id no	EPWP Office
48	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Bongikhaya	Mntuyedwa	9005286267083	Johannesburg Office
49	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Nomadlozi Gladys	Mofokeng	8106021321085	Johannesburg Office
50	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Sipho Simon	Mofokeng	7511155930083	Johannesburg Office
51	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Ntsane	Molefi	9208206279085	Johannesburg Office
52	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Zubenathi Honnest	Mqwathi	9603015104088	Johannesburg Office
53	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Lindelani	Mqwathi	8602166020086	Johannesburg Office
54	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Jabulani Joseph	Mthembu	7507075341088	Johannesburg Office
55	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Mthembeni Simon	Mtshali	6912055474084	Johannesburg Office
56	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Ntakuseni Enos	Mulovhedzi	8106256093086	Johannesburg Office
57	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Fanuel	Ndlovu	7512045109086	Johannesburg Office
58	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Makhume Thembi	Ngomane	9503110626086	Johannesburg Office
59	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Sabelo Justice	Nkosi	9106036210082	Johannesburg Office
60	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Mohale Johannes	Pilusa	6309075665082	Johannesburg Office
61	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Henry Edward	Roberts	6011145056082	Johannesburg Office
62	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Percy	Shongwe	9207135820084	Johannesburg Office
63	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Sibusiso Nedvet	Sithole	9506246118084	Johannesburg Office
64	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Mlungisi Msizi	Siyaya	9602106244084	Johannesburg Office
65	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Melusi Nolege	Thwala	9402166010081	Johannesburg Office
66	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Cromwell Modise	Tshabalala	8101065305086	Johannesburg Office

No	Project Code	Project Name	Name	Surname	Id no	EPWP Office
67	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Ramano Monico	Van Rooyen	9208305145088	Johannesburg Office
68	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Mxolisi Nicholas	Vilakazi	9212315382087	Johannesburg Office
69	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Njabulo Mxolisi	Vundla	9501045443080	Johannesburg Office
70	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Shoiniece Canidean	Williams	8807060105087	Johannesburg Office
71	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Grant Nathan	Petersen	740309550967	Johannesburg Office
72	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Nyasha	Matungwana	63-1297680E-75	Johannesburg Office
73	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Barnabas	Gayl	7006293652085	Johannesburg Office
74	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Jose	Marquele	12 AC 19361	Johannesburg Office
75	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Lord	Mathebula	8201018239083	Johannesburg Office
76	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Ntlantla	Mtyolo	7405166076087	Johannesburg Office
77	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Sydwell	Mkansi	7611225300083	Johannesburg Office
78	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Vicky	Magabane	7405085719080	Johannesburg Office
79	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Zakhele	Mnisi	8105106289084	Johannesburg Office
80	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Zito	Nkuna	DS 002328	Johannesburg Office
81	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Antonio	Whittaker	9101145276082	Johannesburg Office
82	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Trevor	Triegaardt	8405185045088	Johannesburg Office
83	68358-EPWP3N	Alberton SAPS NYS	Siphokuhle Jabulile	Mbongwe	8805051592081	Johannesburg Office
84	68358-EPWP3N	Alberton SAPS NYS	Khutso	Mogope	8601010766084	Johannesburg Office
85	68358-EPWP3N	Alberton SAPS NYS	Nthabiseng Ellen	Skosana	8610280392083	Johannesburg Office
86	68358-EPWP3N	Alberton SAPS NYS	Lebogang Lina Mokgaetji	Maifo	9804110683089	Johannesburg Office

No	Project Code	Project Name	Name	Surname	Id no	EPWP Office
87	49191-EPWP3N	Chartsworth Magistrate Court	Bongani Clifford	Mfuphi	7311265766083	Durban Office
88	49191-EPWP3N	Chartsworth Magistrate Court	Michael Sifiso	Mdladla	7808095455084	Durban Office
89	55897-EPWP3N	Glencoe Prison	Christoph Zakhele	Nkabinde	8309266103081	Durban Office
90	55897-EPWP3N	Glencoe Prison	Thandeka Alecia Thembekile	Mpulo	8108300538082	Durban Office
91	55897-EPWP3N	Glencoe Prison	Zamokwakhe Nkosingizwele	Mpanza	9106106649086	Durban Office
92	55897-EPWP3N	Glencoe Prison	Mpume Nonhlanhla	Mgaga	9006010932083	Durban Office
93	55897-EPWP3N	Glencoe Prison	Welcome Ndodeni	Kunene	7707095264084	Durban Office
94	55897-EPWP3N	Glencoe Prison	Ricardo	Benjamin	8509155222088	Durban Office
95	55897-EPWP3N	Glencoe Prison	Sinenhlanhla	Zulu	9505280879080	Durban Office
96	55897-EPWP3N	Glencoe Prison	Benzani	Mntungwa	6802050431082	Durban Office
97	55897-EPWP3N	Glencoe Prison	Bonani	Makhoba	8704175734085	Durban Office
98	55897-EPWP3N	Glencoe Prison	Khethiwe Bayikile	Zuma	6301010271084	Durban Office
99	55897-EPWP3N	Glencoe Prison	Mandlenkosi Goodwill	Luvuno	8903036375084	Durban Office
100	55897-EPWP3N	Glencoe Prison	Mfanafuthi Sandile	Motlounq	9110035570082	Durban Office
101	55897-EPWP3N	Glencoe Prison	Msawenkosi	Shandu	9412195821085	Durban Office
102	55897-EPWP3N	Glencoe Prison	Mxolisi Wilmot	Msibi	7411035792086	Durban Office
103	55897-EPWP3N	Glencoe Prison	Nkosinathi Cornwell	Magugu	8702075369085	Durban Office
104	55897-EPWP3N	Glencoe Prison	Nyakomusha Lindokuhle	Zwane	9501016993089	Durban Office
105	55897-EPWP3N	Glencoe Prison	Senzo Thabani	Mbona	9302245391082	Durban Office
106	55897-EPWP3N	Glencoe Prison	Sibongiseni	Mathula	9708266227080	Durban Office
107	55897-EPWP3N	Glencoe Prison	Siphamandla	Khumalo	9211075845085	Durban Office
108	55897-EPWP3N	Glencoe Prison	Wilfred Mthokozisi	Ndlovu	7601266188083	Durban Office
109	55897-EPWP3N	Glencoe Prison	Eugin Nkosikhona	Ntuli	8602015518082	Durban Office
110	55897-EPWP3N	Glencoe Prison	Mbalenhle Vincentia	Mchunu	8202220387082	Durban Office
111	55897-EPWP3N	Glencoe Prison	Mbongiseni Anthony	Hlatshwayo	7506066587089	Durban Office
112	55897-EPWP3N	Glencoe Prison	Dumisane	Nxumalo	9112186269084	Durban Office
113	55897-EPWP3N	Glencoe Prison	Khawulezile Bongangithini	Xulu	9203040999089	Durban Office
114	55897-EPWP3N	Glencoe Prison	Thembusi Nehemia	Khumalo	8905185448083	Durban Office

No	Project Code	Project Name	Name	Surname	Id no	EPWP Office
115	55897-EPWP3N	Glencoe Prison	Sabelo Joseph	Mthembu	7411225792086	Durban Office
116	55897-EPWP3N	Glencoe Prison	Siphamandla	Sibisi	8204205983083	Durban Office
117	55897-EPWP3N	Glencoe Prison	Thabang Zakhele	Mokoena	7806195512085	Durban Office
118	55897-EPWP3N	Glencoe Prison	Lindani Morgan	Dube	9307025408089	Durban Office
119	55897-EPWP3N	Glencoe Prison	Mthobisi Sylvester	Ndlela	8605125855088	Durban Office
120	55897-EPWP3N	Glencoe Prison	Mzwandile	Khumalo	9509096243085	Durban Office
121	55897-EPWP3N	Glencoe Prison	Siphesihle Clearance	Gamede	9305305656088	Durban Office
122	55897-EPWP3N	Glencoe Prison	Atlas	Ngobeni	8909245797083	Durban Office
123	55897-EPWP3N	Glencoe Prison	Buhle Gloria	Sibiya	9412160543086	Durban Office
124	55897-EPWP3N	Glencoe Prison	Simangaliso Floyd	Kgotshane	9010045917085	Durban Office

c) The following beneficiaries' attendance register was not submitted for audit purposes

No	Project Code	Project Name	Name	Surname	Id no	EPWP Office
1	49883-EPWP3N	Alexandra Single Quarters SAPS	Sibusiso Michael	Shezi	7102045285084	Johannesburg Office
2	49883-EPWP3N	Alexandra Single Quarters SAPS	Tshebeletso	Mphahlele	9504160605087	Johannesburg Office
3	49883-EPWP3N	Alexandra Single Quarters SAPS	Nare	Masoga	9306270562087	Johannesburg Office
4	49883-EPWP3N	Alexandra Single Quarters SAPS	Dennis Mzamani	Maluleko	8012126095089	Johannesburg Office
5	49883-EPWP3N	Alexandra Single Quarters SAPS	Mnqweno	Mfungquza	9102176222086	Johannesburg Office
6	49883-EPWP3N	Alexandra Single Quarters SAPS	Malibongwe	Siyaka	6506066638081	Johannesburg Office
7	49883-EPWP3N	Alexandra Single Quarters SAPS	Stanley Mvelo	Miya	8410106844080	Johannesburg Office
8	49883-EPWP3N	Alexandra Single Quarters SAPS	Llewellyn	Nagel	6712135132086	Johannesburg Office
9	49883-EPWP3N	Alexandra Single Quarters SAPS	Shonisani	Mutavhatsindi	8207295652088	Johannesburg Office
10	49883-EPWP3N	Alexandra Single Quarters SAPS	Basimane Elias	Motshwaedi	8809261311084	Johannesburg Office
11	49883-EPWP3N	Alexandra Single Quarters SAPS	Motsiri Brown	Lebepe	9201066107082	Johannesburg Office
12	49883-EPWP3N	Alexandra Single Quarters SAPS	Nko Martin	Mathibela	7002265305085	Johannesburg Office
13	49883-EPWP3N	Alexandra Single Quarters SAPS	Shimane Cornelius	Mathibela	7110185726080	Johannesburg Office
14	49883-EPWP3N	Alexandra Single Quarters SAPS	Curie	Nkabinde	7203065590088	Johannesburg Office
15	49883-EPWP3N	Alexandra Single Quarters SAPS	Hatlani Michael	Maluleke	6109065671086	Johannesburg Office



No	Project Code	Project Name	Name	Surname	Id no	EPWP Office
16	49883-EPWP3N	Alexandra Single Quarters SAPS	Mashoto	Mokgophi	9710225780084	Johannesburg Office
17	49883-EPWP3N	Alexandra Single Quarters SAPS	Nhlakanipho Harry	Mtambo	9107285163089	Johannesburg Office
18	49883-EPWP3N	Alexandra Single Quarters SAPS	Tshomaelo Gladys	Kgasago	9405061218089	Johannesburg Office
19	49883-EPWP3N	Alexandra Single Quarters SAPS	Mlungisi	Qwabe	Unknown	Johannesburg Office
20	49883-EPWP3N	Alexandra Single Quarters SAPS	Stanley	Mathebula	Unknown	Johannesburg Office
21	49883-EPWP3N	Alexandra Single Quarters SAPS	Vusi	Tshabalala	Unknown	Johannesburg Office
22	49883-EPWP3N	Alexandra Single Quarters SAPS	Mfugquza	Mqweno	Unknown	Johannesburg Office
23	49883-EPWP3N	Alexandra Single Quarters SAPS	Tiro	Choabi	Unknown	Johannesburg Office
24	58084-EPWP3N	Kensington Millitary Base 46 Brigade	Emerina	Takavanda	Unknown	Johannesburg Office
25	58084-EPWP3N	Kensington Millitary Base 46 Brigade	Sifase	Britten	Unknown	Johannesburg Office
26	58084-EPWP3N	Kensington Millitary Base 46 Brigade	Phemelo	Mhlanga	8809200708085	Johannesburg Office
27	58084-EPWP3N	Kensington Millitary Base 46 Brigade	Bingosi John	Mboweni	7204175835082	Johannesburg Office
28	58084-EPWP3N	Kensington Millitary Base 46 Brigade	Ngaka Isaack	Motaung	8610276175088	Johannesburg Office
29	49934-EPWP3N	Leeuwkop Prison	Rasekele Naom	Ntsoane	8001200728087	Johannesburg Office
30	49934-EPWP3N	Leeuwkop Prison	Tshayaboyo Gellian	Selowa	9201190728084	Johannesburg Office
31	49934-EPWP3N	Leeuwkop Prison	Raisibe Doris	Maletse	9106211093089	Johannesburg Office
32	49934-EPWP3N	Leeuwkop Prison	Vutomi Clyde	Mabasa	9212145722080	Johannesburg Office
33	49934-EPWP3N	Leeuwkop Prison	Pereko	Mosia	9109235839081	Johannesburg Office
34	49934-EPWP3N	Leeuwkop Prison	Mujono Daniel	Mhlongo	6001165446081	Johannesburg Office
35	49934-EPWP3N	Leeuwkop Prison	Makhwenkwe Benjamin	Monqo	6011135663087	Johannesburg Office
36	59308-EPWP3N	Vanderbijlpark Police Station	Thandeka Thandi Innocentia	Tshabalala	8906030386080	Johannesburg Office
37	59324-EPWP3N	Diepkloof Crime Combating Unit	Nkonza	Nombulole	Unknown	Johannesburg Office
38	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Shoiniece Canidean	Williams	8807060105087	Johannesburg Office
39	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Grant Nathan	Petersen	740309550967	Johannesburg Office
40	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Nyasha	Matungwana	63-1297680E-75	Johannesburg Office
41	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Lord	Mathebula	8201018239083	Johannesburg Office

No	Project Code	Project Name	Name	Surname	Id no	EPWP Office
42	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Vicky	Magabane	7405085719080	Johannesburg Office
43	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Herman	Dinala	Unknown	Johannesburg Office
44	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Destri	Ferris	Unknown	Johannesburg Office
45	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Antonio	Whittaker	9101145276082	Johannesburg Office
46	54042-EPWP3N	Boksburg Prison: Repair and Upgrade of Buildings	Trevor	Triegaardt	8405185045088	Johannesburg Office
47	68358-EPWP3N	Alberton SAPS NYS	Zinhle Goodness	Mbongwe	8203100880089	Johannesburg Office
48	68358-EPWP3N	Alberton SAPS NYS	Khutso	Mogope	8601010766084	Johannesburg Office
49	68358-EPWP3N	Alberton SAPS NYS	Livhuwani	Ratshiedana	8903281248085	Johannesburg Office
50	68358-EPWP3N	Alberton SAPS NYS	Koketso	Tshishonga	9703110978087	Johannesburg Office
51	68358-EPWP3N	Alberton SAPS NYS	Mfanafuthi Welcome	Buthlezi	9310066201082	Johannesburg Office
52	68358-EPWP3N	Alberton SAPS NYS	Marubini Bridget	Midzi	8308250474086	Johannesburg Office
53	68358-EPWP3N	Alberton SAPS NYS	Choene Jostina	Mokoatedi	9607141102080	Johannesburg Office
54	55897-EPWP3N	Glencoe Prison	Christopher Zakhele	Nkabinde	Unknown	Durban Office

### Impact of finding

Non-compliance with PFMA section 40(3) (a)

The quarter 4 data reported submitted for audit might be overstated.

Non-compliance with ministerial determination 4: Expanded Public Works Programme dated 04 May 2012.

Limitation of scope in confirming the reported information pertaining to work opportunities created

### Internal control deficiency

#### *Financial and Performance Management*

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

EPWP Projects are not adequately reviewed against the supporting documentation to ensure that work opportunities created are supported by valid supporting documentation



### **Recommendation**

It is recommended that:

The entity should follow up on all findings noted by the internal, external auditors and also findings from their visits to public bodies to ensure that corrective measures have been implemented.

The entity should also obtain evidence from the public bodies that the corrective measures have been implemented on all other EPWP projects not selected for the audit

### **Management response**

Management is not agreement with the finding in its totality.

Information is attached for the following projects: Alberton SAPS, Boksburg Prison: Repairs & upgrade of Building, Kensington Military base 46 brigade, Leeuwkop Prison, Vanderbijlpark Park Police Station, Diepkloof Crime Combating Unit POE's are attached. However, not all the POEs were

submitted by the PMTE Project Management Unit from Johannesburg Office

### **Auditor's conclusion**

Management comments were noted, not all supporting documents were provided. Therefore, the finding remains unresolved.

## Predetermined Objectives – Programme 4

### Limitation of Scope – Performance Information (RFI 107)

#### Laws, rules and regulations

Section 40(3)(a) of the Public Finance Management Act (PFMA) states that: *“The annual report and audited financial statements referred to in subsection (1)(d) must fairly present the state of affairs of the department, trading entity or constitutional institution, its business, its financial results, its performance against predetermined objectives and its financial position as at the end of the financial year concerned....”*

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 15 of the Public Auditing Act states that the Auditor-General has at all reasonable times full unrestricted access to *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; any of the assets of or under the control of the auditee; or any staff member or representative of the auditee”*

#### Nature

Request of information no.107 dated 5 August 2019 relating to performance information for Programme 4 was not submitted for audit purposes as per the table below:

Corroborating evidence for the reasons provided for the following variances on the reported performance:

Indicator	Actual performance	Reason for variance
Saving realised on identified private leases	R257 000 000	Saving realised on renewed and renegotiated leases. Saving for 238 head offices leases are at R257 Million – Reason not valid
Percentage of revenue increased through rentals of state owned small harbours and coastal properties	5.3%	No new leases were signed during this period. The New Letting Out Framework has not been approved. The New Letting Out Framework is the enabler through which new lease agreements will be signed.
Number of state-owned properties` whose occupation status rectified	21	19 – Evictions 2 –Rectifications Valid reason not provided -Kindly provide reason and corroborating evidence.
Number of work opportunities created through the letting out of State coastal properties and small harbours	778	The New Letting Out has not been approved. The new letting Out Framework is the enabler through which new lease agreements will be signed and indirect work opportunities be created. The work opportunities are created from the private sector and many are seasonal jobs

Indicator	Actual performance	Reason for variance
Number of state-owned properties verified to confirm occupation status	505	More effort put in by regions
Number of SEDFs completed for identified rural coastal towns	0	The Phakisa Lab was only held in November 2018 where the Small Harbour Framework initiatives was developed to allow informed decision on the harbours site locations.

### Impact of finding

More findings of this nature could have a limitation of scope impact on the audit report

### 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.

### Recommendation

Management should ensure that the required information is provided to auditors.

### Management response

Management does not agree.

All performance indicators were over achieved. There was no problem in reporting or in performance targets as targets were set taking into consideration existing resources and conditions within the branch. Operational improvements have led to the over achievement of all targets

### Auditor's conclusion

Management comments were noted; the issues raised on the finding does not relate to overachievement. The issue raised is that supporting documents for reasons for deviations were not provided. Therefore, the finding remains unresolved and will be reported in both the audit and management report.

**Indicator 4.8: Validity of reported performance information****Laws, rules and legislation:**

In terms of the Public Finance Management Act section 40 (1)(a) and (b) Accounting officers' reporting responsibilities. *"The accounting officer for a department, trading entity or constitutional institution 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; must prepare financial statements for each financial year in accordance with generally recognized accounting practice;*

*(3) The annual report and audited financial statements referred to in subsection (1) (d) must—  
(a) Fairly present the state of affairs of the department, trading entity or constitutional institution, its business, its financial results, its performance against predetermined objectives and its financial position as at the end of the financial year concerned;*

**Nature**

During the audit of performance information relating to Property Management Trading Entity for the 2018/19 performance cycle, the following property status rectification(Evictions) were completed in the previous financial years, however they were reported as actual performance for 2018/19:

Indicator 4.8: Number of state owned properties' occupation status rectified

No.	Property details	Occupant	Date of court order for eviction
1	368 Bosman Street,Meintjies and Pelser Building	NABCAT Section 21 Company	2016/10/26
2	VT 01 Room 05 Farm Mphaphuli	Mobe NG	2015/12/08
3	Portion 1 of farm 278 Mphaphuli	Thohoyandou Victim Empowerment	2018/01/18
4	Room 01 of Portion 1 of farm 278 Mphaphuli	KD Mtshaeni	2015/08/17
5	Room 10 of Old Sibasa Embassy	TV Khomolo	2015/08/17
6	VT 06 Unit A Sibasa	KE Mphaphuli	2016/01/21
7	Room 01 of Portion 1 of farm 278 Mphaphuli (Former Sibasa Embassy)	KK Bekwa	2015/08/17
8	VT 10 Room 05	Khakhu T	2015/08/17
9	Room 01 of Portion 1 of farm 278 Mphaphuli (Former Sibasa Embassy)	RI Mbedzi	2015/10/29
10	Portion 1 of farm 278 Mphaphuli	Peter Lebea	2015/10/29
11	Erf 1248 Ga-Kgapane	Mydah Suzan Malomane	2016/05/31
12	House H8 Lark Crescent Drakensig Hoedspruit	RB Maponya	2015/03/23
13	VT 01 Room 04	MR Letsoalo	2015/09/21
14	VT 01 Room 02	LH Netsipese	2015/09/03
15	VT 10 Room 02	EM Tshifhango	2015/03/25
16	VT 01 Room 05 Farm Mphaphuli	EM Tshifhango	2015/03/25

**Impact of finding**

Reported performance information is not valid.

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

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

**Recommendation**

The department should implement processes to ensure that actual achievements reported on the quarterly reports and ultimately the annual performance report is valid and supported by sufficient and appropriate portfolio of evidence.

**Management response**

No management response received as yet

**Auditor's conclusion**

Management response provided not received. Therefore, the finding will remain unresolved

## Predetermined Objectives – Programme 6

### Indicator 6.4: Completeness of reported performance information

#### Laws, rules and legislation:

In terms of the Public Finance Management Act section 40 (1)(a) and (b) Accounting officers' reporting responsibilities. *"The accounting officer for a department, trading entity or constitutional institution 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; must prepare financial statements for each financial year in accordance with generally recognized accounting practice;*

*(3) The annual report and audited financial statements referred to in subsection (1) (d) must—  
(a) Fairly present the state of affairs of the department, trading entity or constitutional institution, its business, its financial results, its performance against predetermined objectives and its financial position as at the end of the financial year concerned;*

#### Nature

During the audit of performance information relating to Property Management Trading Entity for the 2018/19 performance cycle, reporting of reduction in energy consumption for the period was not included in the listing supporting the reported performance:

Indicator 6.4: Reduction in energy consumption for identified buildings			
No.	Region	Period	Energy reduction reported
1	Johannesburg	Quarter 4	0
2	Kimberley	Quarter 4	0
3	Polokwane	Quarter 4	0
4	Durban	Quarter 4	0
5	Nelspruit	Quarter 4	0
6	Mthatha	Quarter 4	0
7	Cape Town	Quarter 4	0
8	Mmabatho	Quarter 4	0

#### Impact of finding

Reported performance information is not complete.

#### 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 must ensure that the annual report is complete.

The department should implement processes to ensure that actual achievements reported on the quarterly reports and ultimately the annual performance report is valid and complete.

### **Management response**

Management accept the finding. In discussion with M & E and in practice we agreed to do a quarterly delay to accommodate delays in the billing system by Municipalities. There was an error in not updating the TID for financial year 2018/2019. For the current financial year we updated the Technical Indicator Description.

The new reporting process will provide reporting for all 4 quarters moving forward.

### **Auditor's conclusion**

Management comments were noted therefore the finding remains unresolved.

**Indicator 6.6: Quarter four (4) water saving not reported in the annual report****Laws, rules and legislation:**

In terms of the Public Finance Management Act section 40 (1)(a) and (b) Accounting officers' reporting responsibilities. *"The accounting officer for a department, trading entity or constitutional institution 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; must prepare financial statements for each financial year in accordance with generally recognized accounting practice;*

(3) The annual report and audited financial statements referred to in subsection (1) (d) must—  
(a) Fairly present the state of affairs of the department, trading entity or constitutional institution, its business, its financial results, its performance against predetermined objectives and its financial position as at the end of the financial year concerned;

**Nature**

During the audit of performance information relating to Property Management Trading Entity for the 2018/19 performance cycle.

Quarter four performance was not reported relating to water saving for the following regions listed below:

Indicator 6.6:Reduction in water consumption for identified property			
No.	Region	Period	Water saving reported
1	Johannesburg	Quarter 4	0
2	Kimberley	Quarter 4	0
3	Polokwane	Quarter 4	0
4	Durban	Quarter 4	0
5	Nelspruit	Quarter 4	0
6	Mthatha	Quarter 4	0
7	Port Elizabeth	Quarter 4	0
8	Bloemfontein	Quarter 4	0
9	Cape Town	Quarter 4	0
10	Mmabatho	Quarter 4	0

**Impact of finding**

Reported performance information is not complete.

**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**

It is recommended that:

Management must ensure that the annual report is complete.

Management must ensure that internal audit recommendations are implemented.

The department should implement processes to ensure that actual achievements reported on the quarterly reports and ultimately the annual performance report is valid and complete.

### **Management response**

Management accept the finding. In discussion with M & E and in practice we agreed to do a quarterly delay to accommodate delays in the billing system by Municipalities. There was an error in not updating the TID for financial year 2018/2019. For the current financial year we updated the Technical Indicator Description.

The new reporting process will provide reporting for all 4 quarters moving forward.

### **Auditor's conclusion**

Management comments were noted therefore the finding remains unresolved.

**WORX4U system - Inadequate controls related to closure and cancelling of calls****Laws, rules and legislation:**

Section 40 of the Public Finance Management Act (PFMA) states that: *“The accounting officer for a department, trading entity or constitutional institution 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; must prepare financial statements for each financial year in accordance with generally recognized accounting practice”*

*(3) The annual report and audited financial statements referred to in subsection (1) (d) must—  
(a) Fairly present the state of affairs of the department, trading entity or constitutional institution, its business, its financial results, its performance against predetermined objectives and its financial position as at the end of the financial year concerned;*

**Nature**

During our testing of WORX4U system the following issues were noted:

The system configuration allows the status of job-completed, closed and cancelled calls to be updated which result in the information reported as at year end not to be reliable.

Refer to the table below:

As per the reported listing supporting the annual report					Details as per Worx4U	
Call no	Status	Category	Severity	Last Status	Last Status Date	Status
<b>Indicator: Percentage of unscheduled reported maintenance incidents resolved within prescribed timeframes</b>						
154570	Job- Completed- WM	Electrical	Urgent	2018/10/02	2019/03/26	Job-Completed-WM
154503	Job- Completed- WM	Mechanical	Urgent	2018/10/02	2019/03/22	Job-Completed-WM
154481	Job- Completed- WM	Civil	Urgent	2018/09/27	2019/03/20	Job-Completed-WM
154454	Job- Completed- WM	Electrical	Urgent	2018/04/10	2018/12/18	Job-Completed-WM
154430	Job- Completed- WM	Mechanical	Urgent	2018/04/10	2018/12/18	Job-Completed-WM
154455	Job- Completed- WM	Electrical	Urgent	2018/04/10	2019/02/10	Job-Completed-WM
154424	Job- Completed- WM	Civil	Urgent	2018/09/28	2018/10/10	Job-Completed-WM
154421	Job- Completed- WM	Civil	Urgent	2018/09/27	2018/09/27	Job-Completed-WM
154182	Job- Completed- WM	Civil	Emergency	2018/09/18	2018/09/18	Job-Completed-WM
154184	Job- Completed- WM	Electrical	Emergency	2018/09/27	2019/03/28	Job-Completed-WM
154093	Job- Completed- WM	Civil	Emergency	2018/10/02	2019/02/24	Job-Completed-WM
154065	Job- Completed- WM	Electrical	Emergency	2018/12/09	2018/09/12	Job-Completed-WM
154014	Job- Completed- WM	Mechanical	Emergency	2018/09/19	2018/09/19	Job-Completed-WM
154011	Job- Completed- WM	Electrical	Emergency	2018/12/09	2018/09/12	Job-Completed-WM
153990	Job- Completed- WM	Electrical	Emergency	2018/12/09	2018/12/04	Job-Completed-WM
153930	Job- Completed- WM	Electrical	Emergency	2018/12/09	2018/09/12	Job-Completed-WM
153857	Job- Completed- WM	Electrical	Emergency	2018/04/09	2018/09/04	Job-Completed-WM
121687	Job- Completed- WM	Electrical	Urgent	2018/10/03	2018/12/12	Cancelled

Furthermore, differences were noted between the date indicated as per the per worx4u report and the signed job card.

Region	Call ref no:	Status of the Call	Date Call was cancelled	Status of the Call as per raw sample	Date services were rendered per Completion of service control sheet.	Last status date as per raw sample
Pretoria	PRE-146549	Job-Completed-WM	N/A-Call was not cancelled	Job-Completed-WM	2018/06/01	2018/09/20

### Impact for finding

The impact of this findings is that the performance reported for the indicator may not be reliable

### Internal control deficiency

*Financial and performance management:*

Information Technology systems

Management did not develop and monitor the implementation of action plans to address internal control deficiencies relating to information systems.

### Recommendation

Management should ensure that the system is adequately configured not to allow closed and cancelled status call to be updated and changed.

### Management response

The dates on the list above are incorrect for certain incidents. The dates have been updated in red with dates as per the attached POE.

The system automatically updates the date when the official updates the progress of the call or is working on the call but the status will remain as job completed. The status will change once payment is processed for the incident.

### Auditor's conclusion

Management comments were noted, however as the system allows the users to update even after the call is closed. Therefore, this result in the reported number not being accurate.

## Non-compliance with the PFMA on submission of financial statements

### Audit finding

Section 40(1)(c)(i) of the Public Finance Management Act (PFMA) stipulates the following: The accounting officer for a department, trading entity or constitutional institution must submit those financial statements within two months after the end of the financial year to the Auditor General for auditing.

The following non-compliance was identified:

The financial statements for the Property Management Trading Entity for the year ended 31 March 2019 were submitted for audit to the Auditor General on 30 June 2019. This was not within two months of year end as required by the PFMA.

### *Reason for the deviation*

The delay in the submission of the final annual financial statements is mainly due to schedules for the financial statements being compiled manually.

### *Impact of deviation*

1. Non-compliance with Section 40(1)(c)(i) of the (PFMA)

### Internal control deficiency

#### **Financial and performance management**

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

Management should expedite the full implementation of SAGE, to ensure that detailed information required is readily available for audit purposes, as well as management decision making purposes and the use of manual schedules is minimized.

Management should consider compiling quarterly financial statements to allow for frequent and timely reporting.

### Management response

Management disagrees with the audit finding that the Entity did not comply with the “*PFMA on submission of the financial statements*”, in particular section 40(1)(c)(i) of the PFMA. While management agrees and acknowledges a fact that the annual financial statements of the PMTE were not submitted within two months after the end year of the financial year, it must be noted by the audit team that section 40(5) of the PFMA further provides thus “*if an accounting officer is unable to comply with any of the responsibilities determined for accounting officers in this Part,*

*the accounting officer must promptly report the inability, together with reasons, to the relevant executive authority and treasury.*” Management can therefore confirm that the Director-General, as accounting officer, promptly notified the Minister, as the executive authority, and National Treasury, as the relevant treasury, of the delays and the reasons of submission of the financial statements beyond 31 May 2019, as required in terms of section 40(5). Copies of the said notifications are herewith annexed.

Section 40(5) provides for instances where the accounting officer is unable to comply with the requirements of *inter alia* section 40(1)(c)(i) and how such instances should be dealt with. Management can confirm that it complied with provisos of the PFMA as required, notwithstanding the fact that the annual financial statements of the PMTE were not submitted “*within two months after the end of the financial year to the Auditor-General for auditing*”. Management is commitment to ensure compliance with the relevant prescripts. This is further demonstrated by the fact that the late submission, and the reasons thereof, was reported to both the Auditor-General and the Audit Committee, despite not being any legal requirement to do so. A copy of the letter to the Auditor-General and the Audit Committee are annexed hereto as well. Therefore, management believes that the finding by the audit team that management did not comply with section 40(1)(c)(i) of the PFMA, and therefore deviated, is rejected.

The recommendations of the audit team with regard to full implementation of SAGE to ensure that detailed information required is readily available for audit purposes as well as management decision making is noted and well received. Major strides are being with other modules on SAGE and other sub-systems that will feed into SAGE for ease of reporting. It must be noted by the audit team that interim financial statements were prepared in the year under audit. Interim financial statements will also be prepared in 2019/20. It is not possible at this stage to prepare quarterly financial statements, however, once other sub-systems and other modules and SAGE have been finalised and fully implemented will quarterly financial statements be prepared.

### **Auditor’s Conclusion**

Management’s comments noted and cognizance is taken of the fact that PMTE complied with the requirements to inform the relevant parties with respect to section 40(5) of the PFMA.

We however note that complying with the requirements of section 40(5) does not absolve the entity from complying with section 40(2). The provisions of section 40(5) relate to an additional requirement in the event of non-compliance of section 40(2), rather than a means to extend the required period for submission as set out in section 40(2). It is also noted that there is no mention of approval of deviation in section 40(5).

The finding will thus remain in the management and audit report as a non-compliance, and will be reported as such.

## Overpayments made in contravention of Treasury Regulations

### Laws, rules and Regulations

Treasury Regulations 15.10.1.1 and 15.10.1.2 (c) stated *“The accounting officer is responsible for establishing systems, predures, processes and training and awareness programmes to ensure efficient and effective banking and cash management and for purposes of this regulation, sound cash management includes avoiding prepayments for goods or services (i.e. payments in advance of the receipt of the goods or services), unless required by the contractual arrangements with the supplier;”*

### Nature

During the audit of operating leases, we noted that overpayment of leases is still being made. We identified instances where leases that were overpaid in the prior periods were still being overpaid in the current period.

Furthermore, the amount on the annual financial statements exclude the provision for impairment of amount of R260 081 834.82 that management are not expecting to recover.

No	Property code	Prepayment required per the lease agreement	Prepayment As per AFS	Differences
1	317236	320 310,36	8 592 704,12	(8 272 393,76)
2	305206	2 818 479,22	7 225 004,92	(4 406 525,70)
3	307640	520 182,00	4 452 401,25	(3 932 219,25)
4	296891	164 747,10	1 399 430,67	(1 234 683,57)
5	306399	497 716,02	6 875 069,06	(6 377 353,04)
6	323209	279 043,84	238 667,71	40 376,13
7	316690	184 366,50	41 286,31	143 080,19
8	303277	129 820,70	276 084,65	(146 263,95)
9	310073	115 800,29	387 872,64	(272 072,35)
10	315015	118 328,58	134 581,66	(16 253,08)
11	316895	121 620,02	164 538,19	(42 918,17)
12	140110	416 293,80	66 532,79	349 761,01
13	155842	133 382,19	1 278 378,31	(1 144 996,12)
14	195233	459 733,50	949 669,25	(489 935,75)
15	297725	777 493,68	1 822 027,18	(1 044 533,50)
16	307876	201 654,51	584 139,45	(382 484,94)
17	311291	360 625,10	2 356 783,65	(1 996 158,55)
18	302839	217 639,22	493 369,05	(275 729,83)
19	320874	373 985,96	1 556 942,88	(1 182 956,91)
		<b>8 211 222,60</b>	<b>38 895 483,75</b>	<b>(30 684 261,15)</b>

## Impact

The aforementioned finding result in the following:

Non-compliance with PFMA sec 38(1) (c) (i) and Treasury Regulation 15.10.1

## Internal control deficiency

### *Leadership*

Management did not monitor implementation of action plans to address internal control deficiencies as the same finding was raised in the prior year.

## Recommendation

Management need to take effective steps to fully address the process where the overpayments are made and also enhance steps to do follow ups with landlords.

## Management response

Management is in agreement with the finding, however we are in the process to recover amounts overpaid to landlords. The process is very complex as it requires reconciliations of all properties for the specific landlord, the availability and willingness to reconcile the overpaid amounts and agree on repayment terms resulting in a time consuming process.

Despite the long process, we are still actively engaging with landlords to best resolve and recover the overpayments.

We are still utilising PMIS to make payments to landlords, and calculating GRAP adjustments every 6 month at reporting period. We do not have a live accrual based system where these overpayments can be identified and resolved as and when they occur.

We have appointed a service provider (OMA Chartered Accountants) to assist with reconciliations of overpayments and underpayments, as well as recovery of overpayments. The service provider is currently contacting landlords to attempt to resolve any outstanding balances. Unfortunately this process was not completed by 31 March 2019.

Description	Response	
Corrective action to be taken	Service provider to complete project and outstanding balances to be settled. Implementation of Archibus to prevent over/underpayments.	
Does the finding affect an amount disclosed in the financial statements	<b>Yes</b>	<b>No</b>
		X

If yes, what corrections will be made to the population	N/A	
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.	N/A	
If yes and the population was adjusted, the proposed adjusting journal entries to correct the population, with the supporting documentation.	N/A	
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.)	<b>Yes</b>	<b>No</b>
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	N/A	
Estimated completion date for corrective action	N/A	

Does management agree with the root cause indicated	<b>Yes</b>	<b>No</b>
		X
If management does not agree with the root cause indicated, please provide the root cause according to management.	Lack of funding and resources to reconcile all differences before year-end. Timeous process that requires a longer time to resolve, however management has implemented controls to prevent further overpayments and resolve differences.	

Does management agree with the internal control deficiencies indicated	<b>Yes</b>	<b>No</b>
		X
If management does not agree with the internal control deficiency indicated, please provide the internal control deficiency according to management.	Inadequate systems and resources to resolve issues timeously. This is currently a manual process that require detail work.	

Name: Andre Joubert  
Position: Director: Revenue and Debt Management  
Date: 21 August 2019

*Reviewed by:*

Name: Belinda van der Merwe  
Position: Technical Finance Expert



Date: 21 August 2019

**Auditor's conclusion**

Management response is noted. The finding remains and will be followed up in the next financial year audit cycle.

**Revenue from exchange transaction: No lease agreements in place with clients'****Laws, rules and Regulations:**

Section 38(1)(a)(i) and c(i) of the PFMA regarding the general responsibilities of the accounting officer's states that: *"The accounting officer for a department, trading entity or constitutional institution must ensure that that department, trading entity or constitutional institution has and maintains effective, efficient and transparent systems of financial and risk management and internal control; Must take effective and appropriate steps to collect all money due to the department, trading entity or constitutional institution; "*

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 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; must prepare financial statements for each financial year in accordance with generally recognized accounting practice;"*

Treasury regulation 7.2.1. regarding responsibility for revenue management states that *"the accounting officer of an institution must manage revenue efficiently and effectively by developing and implementing appropriate processes that provide for the identification, collection, recording, reconciliation and safeguarding of information about revenue"*

**Nature**

Accommodation charges: Freehold inter-governmental

It was noted that the trading entity did not implement the National treasury instruction on billing of accommodation services on a per property basis for the following clients:

No.	Client	Date by which agreement will be signed by the relevant client:
1	Department of Labour	15 March 2018
2	Department of Mineral Resources	15 March 2018
3	National Treasury	15 March 2018
4	South African Revenue Services	15 March 2018
5	Government Communication and information systems	15 March 2018
6	Statistics South Africa	15 March 2018
7	Department of Communications	15 March 2018
8	Department of Sport and Recreation	15 March 2018
9	Department of Trade and Industry	15 March 2018
10	Department of Public Service and Administration	15 March 2018

**Accommodation Charges: Leasehold inter-governmental**

During the audit of operating lease expenditure and revenue, it was identified that PMTE signed the lease agreement entered on behalf of the client department as a lessee and there is no lease agreement between the client and the PMTE where PMTE is a lessor.

Below are some of the examples of the properties where there is no lease agreement with clients:

Lease details									
No .	File no.	Propert y Code	User Department	Region	Start Date	End Date	Signed on behalf of Lessor	Signed on behalf of PMTE (Name and Designatio n)	Signed on behalf of the clients
1	6029/1377	41_2	DEFENCE	Pretoria	01-Oct-2014	30-Sep-2017	JN Van Huyssteen	Mahalingu m Govender ( Acting head PMTE)	Not signed
		41_3			01-Oct-2014	30-Sep-2017			
2	6029/0134	153_2	WATER AFFARS		01-Jun-14	30-May-16	Tembela Vautyi	Mahalingu m Govender ( Acting head PMTE)	Not signed
3	6029/6213	299358_3	STATISTICS SOUTH AFRICA		01-Apr-14	31-Mar-16	Mark Grey	Mahalingu m Govender ( head PMTE)	Not signed
4	6029/6702	307635_2	SPORT & RECREATION SOUTH AFRICA		01-May-14	30-Apr-17	James Tannenberge Otto	Yalkhe Kusinana (Head of Finance PMTE)'	Not signed
		307635_3			01-May-14	30-Apr-17			
5	6029/6895	317236_1	JUSTICE AND CONSTITUTIONAL DEVELPM		01-Oct-12	30-Sep-17	Chuma Shweni	Jacob Maroga Head: PMTE	Not signed
		317236_2			01-Oct-12	30-Sep-17			
		317236_3			01-Dec-18	31-Oct-28			
6	H6029/6944	321198_1	DEFENCE		26-Sep-14	25-Sep-19	M Tsai	Mziwonke Dlabantu (DG)	Not signed
7	6029/7016	322730_1	WATER AFFARS		01-Jun-15	31-May-20	Charles George Buffa	Mahalingu m Govender (Acting	Not signed

								Head PMTE)	
8	6029/6949	323497_1	DEFENCE		01-Nov-18	31-Oct-23	Micheal Thompson	Ramabele Matlala Act DDG REMS	Not signed
9	6112/0666	135723_3	SA POLICE SERVICES	Johannesburg	01-Aug-2015	31-Mar-2016	A Williams	Regional Manager	Not signed
10	6110/0773	305206_2	INTER RELATIONS & COOPERATIONS		01-Mar-2015	29-Feb-2016	Linksfield	Director General	Not signed

### **Impact of finding**

This may lead to unnecessary disputes of debtors balances by clients as there are no signed contracts in place. This is evidenced by the amount of R453 607 055,06 and R196 288 102,56 relating to private leases and freehold inter-governmental (state owned) that is being disputed by clients.

Non-compliance with Section 38(1)(a)(i) and c(i) of the PFMA.

### **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.

### **Recommendation**

Management should consider entering into lease agreements with the clients as it may help with avoiding unnecessary disputes over debt owed by the clients.

### **Management response**

No management response received as yet

### **Auditor's conclusion**

No management comment received as yet, there for this finding remains in the management report

## Procurement and contract management

### Procurement: competitive bidding – no approved extension: (COFF 7 MTH)

#### Laws, rules and legislation

Chapter 5 of the Public Finance Management Act (PFMA) section 40(1)(a) stipulates “*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, section 41 furthermore states that an accounting officer of a department 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 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; any of the assets of or under the control of the auditee; or any staff member or representative of the auditee.*”

#### Nature

During the audit of contract management, we noted that the projects below were extended however there was no approved extension was provided as per request no. 08 MTHA dated 20 February 2019:

No.	WCS No.	Supplier name	Description	Tender amount
1	050594	Sisonke/Lebaka JV	Refurbishment of Domestic water reticulation	53 216 315,40
2	050171	Siyazama Housing	50171	10 776 779,10

#### Impact of finding

The aforementioned finding will result in the following;

More findings of this nature could have a limitation of scope impact on the audit report.

If there is no approved extension this will results in irregular expenditure

#### Internal control deficiency

##### *Financial and performance management*

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

#### Recommendation

It is recommended that management provide the required information as a matter of urgency.

**Management response**

Yes we agree with the findings, although the documents (approval of extension) requested were in the project file however, their extension time lapsed as the projects were not completed within the approved extension times.

The extensions of time for both were approved up until those specified dates, as the projects are not yet completed penalties according to JBCC are applied.

- **(WCS: 050594)** Extended to 14 December 2018, currently the contractor is on penalties, which factored each monthly payment certificates (please see attachment).
- **(WCS: 040171)** Extended to 28 November 2018, currently the contractor is on penalties, which factored each monthly payment certificates (please see attachment).

**Auditor's conclusion**

Management agrees with the finding; therefore, the finding remain unresolved

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## Contract Management: expansions or variations above threshold – limitation of scope (COFF 2 MMB)

### Laws, rules and legislation

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, section 41 furthermore states that an accounting officer of a department 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 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; any of the assets of or under the control of the auditee; or any staff member or representative of the auditee.”

The following information was requested in PMTE MMB RFI 2 relating to contract management: Contract Management:

- signed contract by both winning bidder and client (PMTE)
- consultant file and project file

Please note that the Project files and Consultant files documentation includes, but is not limited to the following: Approval for extension/ modification to the contract (including variation orders)

### Nature

During the audit of contract management, it was noted that not all variation order approvals were provided for the following:

WCS number	Supplier	Description of goods	Tender award amount	Authorised amount	Difference in % of excess of contract amount
049593	Sebushi Somo Construction and Projects (Pty) Ltd	Repair of electrical reticulations and mechanical installations	R39 474 287,52	R49 483 308,36	25%

Only the following variation order approvals were provided.

Variation Order No.	Approver of Variation Order	Date of Approval	Amount	Difference between authorised amount and tender amount	Difference
3	Variation Committee	07/04/2016	989 930,40	10 009 020,84	7 769 421,91
5			150 026,74		
6			527 785,74		
7			79 252,57		
8			295 939,44		
10		25/05/2016	196 664,04		
<b>Total amount of approved Variation orders</b>			<b>2 239 598,93</b>	<b>10 009 020,84</b>	<b>7 769 421,91</b>



### **Impact of the finding**

More findings of this nature could have a limitation of scope impact on the audit report.

### **Internal control deficiency**

#### *Financial and performance management*

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

### **Recommendation**

It is recommended that management provide the required information as a matter of urgency.

### **Management response**

Management is in agreement with the finding some Variations were erroneously excluded when submitting to AG during the Audit and will be sent to auditors.

### **Auditors conclusion**

Management agrees with the finding. The finding will remain until all the received information is fully assessed.

## ANNEXURE B: OTHER IMPORTANT MATTERS

### Receivables

#### **Misstatement of receivables from exchange transaction: Accommodation debtors – Leasehold intergovernmental (COAF 53)**

##### **Laws, rules and Regulations:**

Section 40(1)(a)(b) of the PFMA states the following: *"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;"*

GRAP 104 paragraph 57 states that *"An entity shall assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the entity shall apply paragraphs .61 to .63 (for financial assets carried at amortised cost) and paragraph .64 (for financial assets carried at cost) to determine the amount of any impairment loss."*

GRAP 104 paragraph 58 states that *"A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated."*

GRAP 104 paragraph 61 states that *"If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit."*

##### **Nature**

The following issues were identified regarding the balance of debtor's leasehold intergovernmental:

At the time of issuing the finding management has not provided us with all the information relating to amounts that debtors are disputing on their accounts as recorded in the age analysis, such information was requested on RFI no 110 on the 06 August 2019

As a result of the limitation, we could not confirm the validity of all the disputes, however through inspecting of the age analysis and discussion with management, it was identified that known disputed amount for debtors account were not taken into account in calculating the expected future cash flow and as a result the amount of present value of future cash flows is misstated.

Invoices raised during the current year for a debtor did not agree with the amount recorded for the debtor in the SAGE report

As a result of the above, there were differences in the expected future receipts from the debtor calculated by management and auditors:

The following table details the misstatement:

No.	Name of debtor	Management expected present value of future cash flows (R)	Auditors expected present value of future cash flows (R)	Difference (R)
1	Agriculture, Forestry and Fisheries	1 750 668.85	-	1 750 668,85
2	Arts and Culture	14 212 294.45	- 5 241 190.96	8 971 103,49
3	Energy	3 054 887.35	- 8 137 731.09	(5 082 843,74)
4	Environmental Affairs	920 187.44	-	920 187,44
5	Ind Police Investigative Directorat	16 476 004.18	- 28 469 714.51	(11 993 710,33)
6	National Prosecuting Authority SA	811 223.08	- 1 138 934.86	(327 711,77)
7	National Treasury	34 299 725.26	- 3 563 250.16	30 736 475,10
8	Public Enterprises	3 514 362.23	- 1 990 242.52	1 524 119,72
9	Sa Social Security Agency	4 274 993.97	- 4 350 198.20	(75 204,23)
10	Science And Technology	4 309 625.24	-	4 309 625,24
11	Sport And Recreation	4 261 867.95	- 4 872 122.07	(610 254,12)
12	Statistics SA	205 143.23	-	205 143,23
	<b>Total</b>	<b>88 090 983.24</b>	<b>- 57 763 384.37</b>	<b>30 327 598.88</b>

### Impact of finding

The aforementioned finding result in the following:

Misstatement of receivables of R30 327 598,88

Possible projected misstatement of R137 060 694,83

Provision for impairment is misstated by R6 436 793,18

### 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.

Lack of proper review of financial statements submitted for audit to ensure that they are accurate and complete.

**Recommendation**

It is recommended that proper reviews should be implemented on the annual financial statements and supporting schedules to ensure that accurate and complete amounts are disclosed in the annual financial statements.

**Management response**

Management is in agreement with the finding, however disagree with the methodology of the AGSA that only the known disputes should be impaired.

Management impair all balances older than 12 months unless clear evidence exists that the amount has been or is recoverable after year-end. For current year outstanding balances, management consider any known disputes and the payment history of the client to determine additional indicators for impairment. Expected future cash flows is determined based on actual receipts after year-end, as well as promise letters and debt confirmation letters from the client excluding known disputes and amounts not considered recoverable based on the payment history. This is done separately for significant debtors and on a portfolio bases for other debtors.

After considering the finding of the AGSA, management identified some errors in the provision provided to the AGSA, including not considering the timing of subsequent receipts in the calculation of the present value of expected future cash flows. Management also acknowledge that it did not distinguish adequately between known disputes and presumed disputes based on payment history.

We have re-evaluated and adjusted the impairment to consider the errors in applying our methodology resulting in an impairment provision of R 479 064 624.40 whereas the impairment provision was previously stated as R 484 039 162.38.

Refer to attached age analysis with revised impairment provision for lease debtors.

Name: André Joubert  
Position: Director: Revenue and Debt  
Date: 19 August 2019

*Reviewed by:*

Name: Belinda van der Merwe  
Position: Technical Finance Expert  
Date: 19 August 2019

**Auditor's conclusion**

Management response is noted and we reviewed up on the resubmitted schedules and the misstatement were resolved.

## Misstatement of receivable from exchange transaction: Accommodation debtors – Municipal services

### Laws, rules and Regulations:

Section 40(1)(a)(b) of the PFMA states the following: *"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;"*

GRAP 104 paragraph 57 states that *"An entity shall assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the entity shall apply paragraphs .61 to .63 (for financial assets carried at amortised cost) and paragraph .64 (for financial assets carried at cost) to determine the amount of any impairment loss."*

GRAP 104 paragraph 58 states that *"A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated."*

GRAP 104 paragraph 61 states that *"If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit."*

### Nature

The following issues were identified regarding accommodation debtors – municipal services

Invoices raised during the current year for a debtor did not agree with the amount recorded for the debtor in the SAGE report

In calculating present value of future cash flows we noted that management incorrectly included amounts for disputes in the expected future cash flows which lead to the differences in present value of future cash flows and the impairment provision, refer to the differences below;

*Please note that the referred disputes have not yet been verified as we are currently checking the completeness of information received*

The following table details the misstatement:

No.	Name of debtor	Management expected present value of future cash flows (R)	Auditors expected present value of future cash flows (R)	Difference (R)
1	Agriculture, Forest and Fish	3 978 959,96	- 5 842 301	-1 863 340,82
2	Arts and Culture	17 399 013,33	- 25 643 027	-8 244 013,76
3	Correctional Services	290 026 996,89	- 127 348 519	162 678 477,79
4	Defence	627 273 107,88	- 842 245 328	-214 972 219,83
5	Environmental Affairs	713 552,85	- 4 233 186	-3 519 633,22
6	Health	3 574 778,17	- 4 212 160	-637 381,85
7	Higher Education	1 318 945,08	- 1 271 414	47 530,93
8	Inter Relation and Coop (DIRCO)	1 145 373,64	- 2 992 644	-1 847 270,61
9	Justice and Constitutional Dev	48 097 845,50	- 30 606 618	17 491 227,15
10	Minerals Resources	153 961,14	- 8 292 745	-8 138 783,76
11	National Treasury	3 773 597,73	- 31 444 277	-27 670 679,24
12	Rural dev and land affairs	3 236 960,35	- 2 909 779	327 181,79
13	SA Police Services	215 951 373,54	- 98 375 906	117 575 467,39
14	Sports and Recreation	814 892,55	- 1 789 465	-974 572,94
15	Statistics SA	1 093 165,27	- 1 411 631	-318 465,54
16	Water Affairs	3 345 337,34	- 4 229 065	-883 728,15
	<b>Total</b>	<b>1 221 897 861,23</b>	<b>-1 192 848 065,88</b>	<b>29 049 795,35</b>

### Impact of finding

The aforementioned finding result in the following:

Misstatement of receivables of R29 049 795,35

Provision for impairment is misstated by R5 155 854,08

Projected misstatement of receivables R29 388 409,66

### 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.

Lack of proper review of financial statements submitted for audit to ensure that they are accurate and complete.

### Recommendation

It is recommended that proper reviews should be implemented on the annual financial statements and supporting schedules to ensure that accurate and complete amounts are disclosed in the annual financial statements.

**Management response**

Management is in agreement with the finding, however disagree with the methodology of the AGSA that only the known disputes should be impaired.

Management impair all balances older than 12 months unless clear evidence exists that the amount has been or is recoverable after year-end. For current year outstanding balances, management considers any known disputes and the payment history of the client to determine additional indicators for impairment. Expected future cash flows is determined based on actual receipts after year-end, as well as promise letters and debt confirmation letters from the client excluding known disputes and amounts not considered recoverable based on the payment history. This is done separately for significant debtors and on a portfolio bases for other debtors.

After considering the finding of the AGSA, management identified some errors in the provision provided to the AGSA, including not considering the timing of subsequent receipts in the calculation of the present value of expected future cash flows. Management also acknowledge that it did not distinguish adequately between known disputes and presumed disputes based on payment history.

We have re-evaluated and adjusted the impairment to consider the errors in applying our methodology resulting in an impairment provision of R 1,816,464,347.06 whereas the impairment provision was previously stated as R1,280,802,660.02

Refer to attached age analysis with revised impairment provision for municipal debtors

**Auditor's conclusion**

Management response is noted and we reviewed up on the resubmitted schedules and the misstatement were resolved.



## Misstatement of receivables from exchange transaction: Accommodation debtors – Freehold inter-governmental

### Laws, rules and Regulations:

Section 40(1)(a)(b) of the PFMA states the following: *"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;"*

GRAP 104 paragraph 57 states that *"An entity shall assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the entity shall apply paragraphs .61 to .63 (for financial assets carried at amortised cost) and paragraph .64 (for financial assets carried at cost) to determine the amount of any impairment loss."*

GRAP 104 paragraph 58 states that *"A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated."*

GRAP 104 paragraph 61 states that *"If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit."*

### Nature

The following issues were identified regarding the accommodation debtors – freehold inter-governmental:

In calculating present value of future cash flows we noted that management incorrectly included amounts for disputes in the expected future cash flows which lead to the differences in present value of future cash flows and the impairment provision, refer to the differences below;

*Please note that the referred disputes were received late and have not yet been verified as we are currently checking the completeness of information received*

The following table details the misstatement:

No.	Type	Name of debtor	Management expected present value of future cash flows R	Auditors expected present value of future cash flows R	Difference R
1	State owned	Correctional Services	675 889 141,86	- 513 183 252,22	162 705 889,64
2	State owned	Health	18 574 749,13	- 8 776,86	18 565 972,27
3	State owned	International Relations & Coop	-	- 278 462,27	- 278 462,27
4	PACE	Arts and Culture	68 105 305,65	- 72 111 270,13	- 4 005 964,48
5	PACE	Defence	16 574 961,00	- 17 896 068,87	- 1 321 107,87
6	CA	Basic Education	-	- 5 358 797,81	- 5 358 797,81
7	CA	Defence	179 920 639,66	- 180 403 715,85	- 483 076,18
8	CA	Environmental Affairs	-	- 91 658,63	- 91 658,63
9	CA	International Relations & Coop	-	- 2 339 534,76	- 2 339 534,76
10	CA	National Prosecuting Authority SA	-	- 51 039,79	- 51 039,79
11	CA	South African Police Services	-	- 2 112 382,31	- 2 112 382,31
12	CA	SITA	-	- 2 455 599,34	- 2 455 599,34
<b>Total</b>			<b>959 064 797,30</b>	<b>- 796 290 558,85</b>	<b>162 774 238,45</b>

### Impact of finding

The aforementioned finding result in the following:

Misstatement of receivables of R160 420 791,02

Provision for impairment is misstated by R151 413 288,59

Projected misstatement for receivables is R R160 420 791,02

### 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.

Lack of proper review of financial statements submitted for audit to ensure that they are accurate and complete.

### Recommendation

It is recommended that proper reviews should be implemented on the annual financial statements and supporting schedules to ensure that accurate and complete amounts are disclosed in the annual financial statements.

## Management response

Management is in agreement with the finding, however disagree with the methodology of the AGSA that only the known disputes should be impaired.

Management impair all balances older than 12 months unless clear evidence exists that the amount has been or is recoverable after year-end. For current year outstanding balances, management consider any known disputes and the payment history of the client to determine additional indicators for impairment. Expected future cash flows is determined based on actual receipts after year-end, as well as promise letters and debt confirmation letters from the client excluding known disputes and amounts not considered recoverable based on the payment history. This is done separately for significant debtors and on a portfolio bases for other debtors.

After considering the finding of the AGSA, management identified some errors in the provision provided to the AGSA, including not considering the timing of subsequent receipts in the calculation of the present value of expected future cash flows. Management also acknowledge that it did not distinguish adequately between known disputes and presumed disputes based on payment history.

We have re-evaluated and adjusted the impairment to consider the errors in applying our methodology resulting in an impairment provision as follows:

Portfolio	Previously reported to AGSA	Revised impairment
State Owned	113 843 251,75	173 544 423,01
PACE	13 588 815,87	16 688 566,19
CA	118 110 134,17	104 322 275,13
<b>TOTAL</b>	<b>245 542 201,79</b>	<b>294 555 264,33</b>

Refer to attached age analysis with revised impairment provision for State Owned, PACE and CA debtors (send per e-mail).

## Auditor's conclusion

Management response is noted and we reviewed up on the resubmitted schedules and the misstatement were resolved.

## Accommodation Charges: Municipal services- Interest on long outstanding debtors not charged

### Laws, rules and Regulations:

Treasury regulation 11.5.1. regarding interest payable on debts to the state states that “*interest must be charged on debts to the state at the interest rate determined by the minister of finance in terms of section 80 of the act*”

Management did not follow the treasury regulation as it was identified that interest was not charged for debtors on municipal services that has been outstanding for more than 30 days.

The following table illustrates the misstatement as a result of interest that was not charged:

Closing balance as per schedules	Less current amount	Outstanding amount which interest should have been levied on	Rate		
R 2 560 325 020,46	R 430 408 617,45	R 2 129 916 403,01	10.25%	n	Total
	Longer than 30 days	R 66 958 701,04	R 6 863 266,86	30	R 564 104,13
	Longer than 60 days	R 60 022 279,13	R 6 152 283,61	60	R 1 011 334,29
	Longer than 90 days	R 49 984 228,44	R 5 123 383,42	90	R 1 263 300,02
	Longer than a year	R 1 952 951 194,40	R 200 177 497,43	365	R 200 177 497,43
<b>Amount of understatement</b>					<b>R 203 016 235,86</b>

*\*\*It should be noted that our calculations are based on the schedules provided by management and no invoices have been inspected to confirm the dates in which the debt was outstanding.*

### Impact of finding

The aforementioned finding result in the following:

Understatement of interest revenue and receivables from exchange transaction by R 203 016 235,86

Non-compliance with the treasury regulation.

### 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.

## Recommendation

Management should ensure that interest is accrued for long outstanding debts taking into account the dates the debt was outstanding

## Management response

Management takes note of the audit finding and wishes to respond as follows:

While Treasury Regulations 11.5.1 regarding interest payable on debts to the state states that “interest must be charged on debts to the state at the interest rate determined by the minister of finance in terms of section 80 of the act”, section 80(1)(b) of the PFMA, on which Treasury Regulations 11.5 relies, provides as thus:

- 1) The Minister, by notice in the national Government Gazette, must determine—
  - (a) ...
  - (b) a uniform interest rate applicable to all other debts which must be paid into a Revenue Fund.

From the above, it is clear that Treasury Regulations 11.5.1 refers to interest that “must be charged on debts to the state...” (our emphasis). The amount that is owed by client departments to the PMTE on municipal services is not “debts to the state” as envisioned by Treasury Regulations but rather a debt between the state. This provision is actually intended for departments that must pay into a Revenue Fund, as envisaged by section 80(1)(b), the interest it receives, while the entity does not pay the interest that it levies into the Revenue Fund. It must be noted by the audit team the PMTE charges interest on debt to the state, such as employee debts, debts by contractors etc. in line with the policy. Therefore, to equate the debt that is owed by and between the state (PMTE and other state institutions), and regard it as non-compliance with Treasury Regulations 11.5.1 is incorrect.

Management took a decision to deal with the unfavourable bank balance, in line with its own debt policy, and not as per treasury Regulations 11.5.1, to impose interest on overdue accounts, including amounts owed by client departments. This was to ensure that client departments viewed the invoices of the PMTE as seriously as they did invoices of other creditors. The delays in levying of interest on municipal accounts was deliberate as there were still disputes that management and client departments are resolving. It has always been the intention of management of start levying interest on municipal account only in phase 2, which was projected to start from 1 September 2019. Major strides have been made to deal and finalise disputes to ensure correct debt accounts when the PMTE begins charging interest.

Management agrees that it did not charge interest for municipal debt in accordance with communication to the clients for interest to be implemented from 1 November 2018, however, disagrees that interest is understated and debtors are understated by the same amount as the clients have not been charged interest on overdue amounts.

## Auditor’s conclusion

Management comment is noted , and the finding will remain as a control deficiency and will be followed up in the following year audit cycle.



## Leases

**Overstatement of operating lease liability****Laws, rules and Regulations:**

Section 38(1)(a)(i) of the Public Finance Management Act (PFMA) states that: “*The accounting officer for a department, trading entity or constitutional institution must ensure that that department, trading entity or constitutional institution has and maintains effective, efficient and transparent systems of financial and risk management and internal control...*”

Section 40(a) and (b) of the PFMA states that: “*The accounting officer for a department 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; must prepare financial statements for each financial year in accordance with generally recognized accounting practice...*”

GRAP 1, paragraph 17 states that “*Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses.*”

**Nature**

During the performance of the audit of operating lease liability, 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.	File No.	Property Code	AFS Closing Balance - 31 March 2019 (R)	Recalculated Operating Lease (straight-line liability/asset) (R)	Differences (R)
1	H6029/6944	321198	(830 265,05)	(861 688,52)	(31 423,47)
2	6029/7016	322730	(922 673,69)	(930 767,32)	(8 093,63)
3	6508/7803	321549	(6 285 042,79)	(6 230 738,06)	(54 304,73)
4	6418/5531	300477	(23 372,10)	(25 612,52)	(2 240,42)
5	6706/3347	155842	(4 185 546,35)	(4 247 786,47)	(62 240,12)
6	6706/3258	303486	(2 196 766,01)	(2 597 712,83)	(400 946,82)
7	H6307/1175	308685	-	(159 155,69)	(159 155,69)
8	6024/0232	155822	(99 513,90)	(399 046,40)	(299 532,50)
9	6088/0483	323139	(1 843 662,94)	(101 959,28)	(1 741 703,66)
	<b>Total</b>				<b>(2 759 641,05)</b>



Detailed calculations are available

### Impact of finding

The aforementioned finding result in the following:

Possible overstatement of operating lease liability by R2 759 641.05

Possible projected misstatement of operating lease liability by R16 829 946.50

Possible overstatement of operating lease asset by R2 759 641.05

Possible projected misstatement of operating lease asset by R17 959 533.82

### 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.

Lack of proper review of financial statements submitted for audit to ensure that they are accurate and complete.

### Recommendation

It is recommended that proper reviews should be implemented on the annual financial statements and supporting schedules to ensure that accurate and complete amounts are disclosed in the annual financial statements.

### Management response

I am in agreement with the finding that differences exist, however disagree with the amounts of the differences. Refer to the below table for recalculated differences, as well as the attached document with the detailed calculations:

No.	File No.	Property Code	AFS Closing Balance 31 March 2019  (R)	Recalculated Operating Lease (straight- line liability/asset)  (R)	Differences  (R)
1	H6029/6944	321198	830 265.05	886 197.49	55 932.44
2	6029/7016	322730	922 673.69	969 615.98	46 942.29
3	6508/7803	321549	6 285 042.79	6 509 999.27	224 956.48

No.	File No.	Property Code	AFS Closing Balance 31 March 2019  (R)	Recalculated Operating Lease (straight-line liability/asset)  (R)	Differences  (R)
4	6418/5531	300477	23 372.10	25 736.45	2 364.36
5	6706/3347	155842	4 185 546.35	4 416 116.16	230 569.81
6	6706/3258	303486	2 196 766.01	2 348 834.96	152 068.95
7	H6307/1175	308685	159 155.69	0.00	-159 155.69
8	6024/0232	155822	99 513.90	104 492.08	4 978.19
9	6088/0483	323139	1 843 662.94	107 991.54	-1 735 671.40

-1 177 014.57

Description	Response	
Corrective action to be taken	None, the differences are not deemed to be material	
Does the finding affect an amount disclosed in the financial statements	<b>Yes</b>	<b>No</b>
		X
If yes, what corrections will be made to the population	N/A	
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.	N/A	
If yes and the population was adjusted, the proposed adjusting journal entries to correct the population, with the supporting documentation.	N/A	
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.)	<b>Yes</b>	<b>No</b>
If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated.	The differences are not deemed to be material	
Position of official responsible to take corrective actions	N/A	
Estimated completion date for corrective action	N/A	

Does management agree with the root cause indicated	<b>Yes</b>	<b>No</b>
If management does not agree with the root cause indicated, please provide the root cause according to management.		

Does management agree with the internal control deficiencies indicated	<b>Yes</b>	<b>No</b>

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: Andre Joubert  
 Position: Director: Revenue and Debt Management  
 Date: 19 August 2019

*Reviewed by:*

Name: Belinda van der Merwe  
 Position: Technical Finance Expert  
 Date: 20 August 2019

### **Auditor's conclusion**

Management response is noted. Through inspection of the management response, the revised actual finding is an overstatement of R1 042 077,64.

The projected misstatement for operating lease liability is R6 355 214,61

The projected misstatement for operating lease asset is R6 781 762.00

## Overstatement of Operating Lease Accruals

### Laws, rules and Regulations:

Section 38(1)(a)(i) of the Public Finance Management Act (PFMA) states that: *"The accounting officer for a department, trading entity or constitutional institution must ensure that that department, trading entity or constitutional institution has and maintains effective, efficient and transparent systems of financial and risk management and internal control..."*

Section 40(a) and (b) of the PFMA states that: *"The accounting officer for a department 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; must prepare financial statements for each financial year in accordance with generally recognized accounting practice..."*

GRAP 1, paragraph 17 states that *"Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses..."*

### 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	Property code	Recalculate cumulative total lease payment (R)	Total as per PMIS (R)	Accrual as per AGSA's Recalculation (R)	Accrual as per the client's schedule supporting the AFS (R)	Difference (R)
1	321198_1	(44 899 355,23)	40 848 032,58	(4 051 322,65)	(2 426 858,76)	(1 624 464)
2	301653_2	(20 184 513,55)	159 399 172,31	(3 960 305,44)	(3 830 379,34)	(129 926)
	301653_3	(117 417 432,83)				
	301653_4	(25 757 531,36)				
3	321549_1	(36 291 061,44)	35 618 612,22	(672 449,22)	(1 027 538,07)	(355 089)
4	305952_1	(14 688 919,80)	53 537 967,21	(150 305,83)	(84 079,41)	(66 226)
	305952_2	(21 554 638,78)				
	305952_3	(930 388,70)				
	305952_4	(8 356 940,59)				
	305952_5	(8 157 385,17)				
5	298702_1	(35 395 681,16)	94 095 726,02	(5 304 897,96)	(1 592 399,69)	(3 712 498)
	298702_2	(64 004 942,83)				
6	298719_1	(6 307 861,57)	15 545 940,81	(10 398 071,71)	(10 346 903,41)	(51 168)
	298719_2	(7 033 235,33)				
	298719_3	(3 684 075,60)				
	298719_4	(8 918 840,02)				
7	320388_1	(19 821 811,82)	21 015 776,97	(1 193 965,15)	(1 567 518,85)	(373 554)
8	312569_1	(29 811 712,33)	28 330 898,88	(1 480 813,45)	(635 219,26)	(845 594)

No	Property code	Recalculate cumulative total lease payment (R)	Total as per PMIS (R)	Accrual as per AGSA's Recalculation (R)	Accrual as per the client's schedule supporting the AFS (R)	Difference (R)
9	94855_1	(49 492 399,44)	75 491 760,82	(2 387 884,69)	(1 091 043,30)	(1 296 841)
	94855_2	(27 126 599,98)				
	94855_3	(1 260 646,09)				
10	295427_1	(8 006 473,03)	47 957 036,26	(3 262 819,48)	(2 514 145,83)	(748 674)
	295427_2	(1 287 263,92)				
	295427_3	(41 926 118,79)				
11	301784_2	(6 741 117,51)	30 163 241,57	(644 614,89)	(716 666,28)	(72 051)
	301784_3	(4 073 701,81)				
	301784_4	(19 993 037,14)				
12	165217_4	(7 318 562,16)	30 983 280,75	(224 131,18)	(135 694,80)	(88 436)
	165217_5	(13 970 734,36)				
	165217_6	(9 918 115,41)				
	Total					(9 364 522,53)

Detailed calculations are available

### Impact of finding

The aforementioned finding result in the following:

Possible overstatement of operating lease accruals by R9 364 522,53

Possible projected misstatement of operating lease accruals by R137 356 817,81

Possible overstatement of receivables from exchange transactions: Recoverable leases by R9 364 522,53

Possible projected misstatement of receivables from exchange transactions: Recoverable leases by R42 933 812,44

### 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.

Lack of proper review of financial statements submitted for audit to ensure that they are accurate and complete.

### **Recommendation**

It is recommended that proper reviews should be implemented on the annual financial statements and supporting schedules to ensure that accurate and complete amounts are disclosed in the annual financial statements.

### **Management response**

Management is in agreement with the finding that differences exist, however disagree with the amounts of the differences. Refer to the below table for recalculated differences, as well as the attached document with the detailed calculations:

No	Property code	Recalculate cumulative total lease obligation (R)	Total as per PMIS (R)	Accrual as per Recalculation (R)	Accrual as per the client's schedule supporting the AFS (R)	Difference (R)
1	321198	44 985 514.22	42 648 032.58	2 337 481.64	2 426 858.76	-89 377.11
2	301653	163 605 835.29	159 399 172.38	4 206 662.91	3 830 379.34	376 283.57
3	321549	37 269 705.52	35 618 612.22	1 651 093.30	1 027 538.07	623 555.23
4	305952	52 762 958.72	53 538 148.11	-775 189.39	84 079.41	-859 268.81
5	298702	99 535 023.32	97 808 224.29	1 726 799.03	1 592 399.69	134 399.34
6	298719	25 983 441.28	15 545 941.39	10 437 499.89	10 346 903.41	90 596.48
7	320388	19 821 811.82	18 254 292.97	1 567 518.85	1 567 518.85	0.00
8	312569	29 857 640.20	29 176 493.07	681 147.13	635 219.26	45 927.87
9	94855	77 993 403.57	76 670 707.50	1 322 696.07	1 091 043.30	231 652.77
10	295427	51 299 931.05	48 705 709.91	2 594 221.14	2 514 145.83	80 075.31
11	301784	30 852 733.58	30 091 190.18	761 543.40	716 666.28	44 877.12
12	165217	31 247 823.60	31 073 277.60	174 546.00	135 694.80	38 851.20
						<b>717 572.97</b>

Description	Response	
Corrective action to be taken	None, the differences are not deemed to be material	
Does the finding affect an amount disclosed in the financial statements	<b>Yes</b>	<b>No</b>
		X
If yes, what corrections will be made to the population	N/A	
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.	N/A	
If yes and the population was adjusted, the proposed adjusting journal entries to correct the population, with the supporting documentation.	N/A	
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.)	<b>Yes</b>	<b>No</b>
If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated.	The differences are not deemed to be material	
Position of official responsible to take corrective actions	N/A	
Estimated completion date for corrective action	N/A	

Does management agree with the root cause indicated	<b>Yes</b>	<b>No</b>
If management does not agree with the root cause indicated, please provide the root cause according to management.		

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: Andre Joubert  
 Position: Director: Revenue and Debt Management  
 Date: 19 August 2019

*Reviewed by:*

Name: Belinda van der Merwe  
 Position: Technical Finance Expert  
 Date: 20 August 2019

#### **Auditor's conclusion**

Management response is noted. Through inspection of the management response, the revised actual finding is an overstatement of R779 262.

The projected misstatement for operating lease accrual is R10 597 392.75



## Overstatement of operating lease prepayments

### Laws, rules and Regulations:

Section 38(1)(a)(i) of the Public Finance Management Act (PFMA) states that: “*The accounting officer for a department, trading entity or constitutional institution must ensure that that department, trading entity or constitutional institution has and maintains effective, efficient and transparent systems of financial and risk management and internal control...*”

Section 40(a) and (b) of the PFMA states that: “*The accounting officer for a department 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; must prepare financial statements for each financial year in accordance with generally recognized accounting practice...*”

GRAP 1, paragraph 17 states that “*Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses.*”

### Nature

During the performance of the audit of operating lease prepayment, 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	Total Payments as per PMIS R	Total recalculated payments per lease agreement R	Prepayment Recalculated R	Prepayment as per AFS R	Differences R
1	307635_1	62 949 546,16	14 244 399,13	1 879 744,05	1 900 161,49	- 20 417,44
	307635_2		46 320 952,98			
	307635_3		504 450,00			
2	317236_1	50 742 515,43	29 213 873,42	10 170 399,64	8 592 704,12	1 577 695,52
	317236_2		8 892 137,02			
	317236_3		2 466 105,35			
3	305206_1	269 679 366,31	152 404 596,42	29 995 750,88	7 225 004,92	22 770 745,96
	305206_2		147 270 520,77			
5	296891_1	55 048 735,70	4 763 221,46	1 352 535,64	1 399 430,67	- 46 895,03
	296891_2		11 597 515,20			
	296891_3		8 116 405,08			
	296891_4		17 531 435,04			
	296891_5		11 687 623,28			
6	306399_1	165 496 894,61	51 781 877,38	6 669 765,51	6 875 069,06	- 205 303,55
	306399_2		51 053 046,43			
	306399_3		2 593 899,61			
	306399_4		24 636 429,65			
	306399_5		28 761 876,02			
10	310073_2	8 749 999,91	2 598 551,75	2 032 724,03	387 872,64	1 644 851,39

No.	Property Code	Total Payments as per PMIS R	Total recalculated payments per lease agreement R	Prepayment Recalculated R	Prepayment as per AFS R	Differences R
	310073_3		3 760 230,63			
	310073_4		4 423 941,56			
	310073_1		-			
	316895_1		656 748,12			
	316895_2		6 061 977,81			
12	316895_3	14 135 979,32	7 405 921,26	11 332,13	164 538,19	- 153 206,06
	140110_3		5 158 486,68			
13	140110_4	41 916 878,70	39 949 851,01	3 191 459,00	66 532,79	3 124 926,21
	155842_1		6 135 580,68			
14	155842_2	21 912 246,08	17 512 222,12	1 735 556,73	1 278 378,31	457 178,42
	195233_1		14 709 471,24			
15	195233_2	40 701 304,71	25 149 933,76	841 899,71	949 669,25	- 107 769,54
	297725_1		24 514 846,17			
	297725_2		60 273 566,30			
	297725_3		43 831 354,47			
16	297725_4	138 681 060,85	8 360 738,80	1 700 555,12	1 822 027,18	- 121 472,07
	307876_1		2 370 373,05			
17	307876_2	48 053 252,86	45 108 617,38	574 262,43	584 139,45	- 9 877,02
	311291_1		7 573 127,17			
	311291_2		6 021 653,10			
18	311291_3	42 151 269,36	24 596 924,93	3 959 564,16	2 356 783,65	1 602 780,51
	302839_1		4 570 423,62			
	302839_2		6 259 965,91			
19	302839_3	26 758 149,27	11 619 850,74	4 307 909,00	493 369,05	3 814 539,95
	<b>Total</b>					<b>34 327 777,25</b>

Detailed calculations are available

### Impact of finding

The aforementioned finding result in the following:

Possible overstatement of operating lease prepayment by R34 327 777,25

Possible projected misstatement of R128 678 252,48

### 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.

Lack of proper review of financial statements submitted for audit to ensure that they are accurate and complete.

### Internal control deficiency

#### *Financial and performance management*

It is recommended that proper reviews should be implemented on the annual financial statements and supporting schedules to ensure that accurate and complete amounts are disclosed in the annual financial statements.

### 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 with the finding that differences exist, however disagree with the amounts of the differences.

Refer to the below table for recalculated differences, as well as the attached document with the detailed calculations:

No.	Property Code	Total Payments as per PMIS R	Total recalculated payments per lease agreement R	Prepayment Recalculated R	Prepayment As per AFS R	Differences R
1	307635	62 949 546.04	61 162 193.67	1 787 352.37	1 900 161.49	-112 809.12
2	317236	50 742 522.97	42 149 818.85	8 592 704.12	8 592 704.12	0.00
3	305206	269 679 366.71	263 164 038.01	6 515 328.70	7 225 004.92	-709 676.22
5	296891	55 048 735.94	54 144 212.80	904 523.14	1 399 430.67	-494 907.53
6	306399	165 496 894.58	159 060 018.78	6 436 875.80	6 875 069.06	-438 193.26
10	310073	8 750 000.00	8 340 424.44	409 575.56	387 872.64	21 702.93
12	316895	14 289 185.38	14 145 440.79	143 744.59	164 538.19	-20 793.60
13	140110	41 916 878.90	41 916 878.87	0.03	66 532.79	-66 532.76
14	155842	21 912 246.65	20 426 681.38	1 485 565.27	1 278 378.31	207 186.97
15	195233	40 701 304.46	39 911 367.91	789 936.55	949 669.25	-159 732.70
16	297725	138 681 060.80	136 980 505.73	1 700 555.07	1 822 027.18	-121 472.12
17	307876	48 053 253.33	47 478 990.43	574 262.90	584 139.45	-9 876.55
18	311291	40 548 488.85	38 136 542.35	2 411 946.50	2 356 783.65	55 162.86
19	302839	22 943 609.32	22 483 630.95	459 978.37	493 369.05	-33 390.68

**-1 883 331.81**

Description	Response	
Corrective action to be taken	None, the differences are not deemed to be material	
Does the finding affect an amount disclosed in the financial statements	<b>Yes</b>	<b>No</b>
		X
If yes, what corrections will be made to the population	N/A	
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.	N/A	
If yes and the population was adjusted, the proposed adjusting journal entries to correct the population, with the supporting documentation.	N/A	
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.)	<b>Yes</b>	<b>No</b>
If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated.	The differences are not deemed to be material	
Position of official responsible to take corrective actions	N/A	
Estimated completion date for corrective action	N/A	

Does management agree with the root cause indicated	<b>Yes</b>	<b>No</b>
If management does not agree with the root cause indicated, please provide the root cause according to management.		

Does management agree with the internal control deficiencies indicated	<b>Yes</b>	<b>No</b>
If management does not agree with the internal control deficiency indicated, please provide the internal control deficiency according to management.		

Name: Andre Joubert  
 Position: Director: Revenue and Debt Management  
 Date: 19 August 2019

*Reviewed by:*

Name: Belinda van der Merwe  
 Position: Technical Finance Expert  
 Date: 20 August 2019

### Auditor's conclusion

Management response is noted. Through inspection of the management response, the revised actual finding is an overstatement of R1 895 434

The projected misstatement for operating lease prepayment is R7 104 907,98

## Overstatement of operating lease expenditure

### Laws, rules and Regulations:

Section 38(1)(a)(i) of the Public Finance Management Act (PFMA) states that: *“The accounting officer for a department, trading entity or constitutional institution must ensure that that department, trading entity or constitutional institution has and maintains effective, efficient and transparent systems of financial and risk management and internal control...”*

Section 40(a) and (b) of the PFMA states that: *“The accounting officer for a department 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; must prepare financial statements for each financial year in accordance with generally recognized accounting practice...”*

GRAP 1, paragraph 17 states that *“Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses.”*

### Nature

During the performance of the audit of operating lease expenditure, 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	Operating lease expense amount as per the AFS	Recalculated operating lease expense	Difference
1	153_2	21 281 405,03	18 141 609,88	3 139 795,16
2	317236_1	8 698 439,82	3 638 630,13	983 722,87
	317236_2		1 043 953,18	
	317236_3		3 032 133,64	
3	321198_1	10 440 274,93	7 152 400,45	3 287 874,48
4	322730_1	8 600 661,02	7 117 567,28	1 483 093,74
5	323497_1	9 781 241,79	8 340 982,59	1 440 259,20
6	307640_1	22 545 652,62	15 992 284,63	3 314 128,11
	307640_2		3 239 239,88	
7	318321	14 334 349,36	14 322 313,81	12 035,56
8	321516	13 651 725,17	13 640 262,76	11 462,41
9	301653_4	32 019 502,63	30 089 121,17	1 930 381,46
10	317973	11 488 462,77	11 476 508,08	11 954,70
11	321549	10 426 292,03	10 358 980,97	67 311,07
12	300477_4	5 251 525,17	4 765 694,67	485 830,50
13	305952_4	8 830 583,16	577 444,49	1 481 001,98
	305952_5		6 772 136,69	
14	314935_2	3 867 395,73	3 335 231,86	532 163,87
15	316690_1	4 706 543,78	3 352 293,40	1 354 250,39
	316690_2		-	

No.	Property Code	Operating lease expense amount as per the AFS	Recalculated operating lease expense	Difference
	316690_3		-	
16	310073_4	1 462 890,72	1 474 647,19	(11 756,47)
	174657_2		379 250,01	
17	174657_3	1 816 290,37	1 383 987,64	53 052,71
18	302898_3	1 975 712,68	1 935 123,41	40 589,27
19	303486_3	4 174 391,32	3 742 031,30	432 360,02
20	312569_1	4 459 494,98	3 814 809,77	644 685,21
	315122_2		645 050,91	
21	315122_3	8 272 913,76	6 744 846,86	883 015,99
	94855_2		12 968 418,41	
22	94855_3	14 111 169,79	1 260 646,09	(117 894,71)
	297725_3		15 035 998,62	
23	297725_4	23 334 087,43	8 360 738,80	(62 649,99)
	308685_2		4 711 936,42	
24	308685_3	27 614 926,37	11 368 263,35	11 534 726,61
25	155822_3	7 485 971,12	7 534 740,18	(48 769,06)
26	300212_4	4 852 158,79	4 709 502,03	142 656,76
27	307876_2	7 708 788,10	7 122 413,27	586 374,83
28	302839_3	3 650 331,52	3 594 849,02	55 482,50
29	309363_3	3 204 409,56	3 050 539,52	153 870,04
30	312654_3	3 260 721,50	3 104 147,46	156 574,04
31	276947_3	5 460 885,12	3 958 005,17	1 502 879,95
32	320639_2	5 871 274,52	4 627 449,44	1 243 825,09
33	320874_2	9 609 332,61	8 068 607,86	1 540 724,74
34	323139_1	9 681 369,16	7 307 197,70	2 374 171,47
	<b>Total</b>			<b>40 639 184,00</b>

Detailed calculations are available

### Impact of finding

The aforementioned finding result in the following:

Possible overstatement of operating lease expenditure of R40 639 184,58

Possible projected misstatement of R254 299 344,58

Possible overstatement of operating lease revenue of R40 639 184,58

Possible projected misstatement of operating lease revenue of R254 299 344,58

### 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.

Lack of proper review of financial statements submitted for audit to ensure that they are accurate and complete.

### Recommendation

It is recommended that proper reviews should be implemented on the annual financial statements and supporting schedules to ensure that accurate and complete amounts are disclosed in the annual financial statements.

### Management response

Management is in agreement with the finding that differences exist, however disagree with the amounts of the differences.

Refer to the below table for recalculated differences, as well as the attached document with the detailed calculations:

No.	Property Code	Operating lease expense amount as per the AFS	Recalculated operating lease expense	Difference
1	153	21 281 405.03	19 559 893.03	1 721 512.00
2	317236	8 698 439.82	7 691 379.85	1 007 059.97
3	321198	10 440 274.93	10 464 073.92	-23 798.99
4	322730	8 600 661.02	8 642 806.56	-42 145.54
5	323497	9 781 241.79	9 781 241.79	0.00
6	307640	22 545 652.62	23 041 756.51	-496 103.89
7	318321	14 334 349.36	14 388 707.48	-54 358.11
8	321516	13 651 725.17	13 743 605.60	-91 880.43
9	301653	32 019 502.63	32 361 804.15	-342 301.52
10	317973	11 488 462.77	11 370 139.44	118 323.33
11	321549	10 426 292.03	10 507 129.15	-80 837.12
12	300477	5 251 525.17	5 271 679.13	-20 153.96
13	305952	8 830 583.16	8 854 219.75	-23 636.59
14	314935	3 867 395.73	3 237 404.92	629 990.81
15	316690	4 706 543.78	3 360 715.56	1 345 828.22
16	310073	1 462 890.72	1 420 231.10	42 659.62
17	174657	1 816 290.37	1 758 603.81	57 686.56



No.	Property Code	Operating lease expense amount as per the AFS	Recalculated operating lease expense	Difference
18	302898	1 975 712.68	2 000 205.79	-24 493.11
19	303486	4 174 391.32	4 179 835.14	-5 443.82
20	312569	4 459 494.98	4 480 958.91	-21 463.93
21	315122	8 272 913.76	8 034 696.25	238 217.50
22	94855	14 111 169.79	14 342 822.56	-231 652.77
23	297725	23 334 087.43	22 971 190.29	362 897.14
24	308685	27 614 926.37	27 184 041.71	430 884.66
25	155822	7 485 971.12	7 502 374.46	-16 403.34
26	300212	4 852 158.79	4 730 759.36	121 399.43
27	307876	7 708 788.10	7 122 413.27	586 374.83
28	302839	3 650 331.52	3 839 928.38	-189 596.86
29	309363	3 204 409.56	3 058 563.24	145 846.32
30	312654	3 260 721.50	3 191 086.66	69 634.85
31	276947	5 460 885.12	5 362 610.06	98 275.06
32	320639	5 871 274.52	5 765 213.65	106 060.88
33	320874	9 609 332.61	9 679 325.40	-69 992.80
34	323139	9 681 369.16	9 070 896.32	610 472.84

5 958 861.23

Description	Response	
Corrective action to be taken	None, the differences are not deemed to be material	
Does the finding affect an amount disclosed in the financial statements	<b>Yes</b>	<b>No</b>
		X
If yes, what corrections will be made to the population	N/A	
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.	N/A	
If yes and the population was adjusted, the proposed adjusting journal entries to correct the population, with the supporting documentation.	N/A	
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.)	<b>Yes</b>	<b>No</b>

If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated.	The differences are not deemed to be material
Position of official responsible to take corrective actions	N/A
Estimated completion date for corrective action	N/A

Does management agree with the root cause indicated	<b>Yes</b>	<b>No</b>
If management does not agree with the root cause indicated, please provide the root cause according to management.		

Does management agree with the internal control deficiencies indicated	<b>Yes</b>	<b>No</b>
If management does not agree with the internal control deficiency indicated, please provide the internal control deficiency according to management.		

Name: Andre Joubert  
 Position: Director: Revenue and Debt Management  
 Date: 19 August 2019

*Reviewed by:*

Name: Belinda van der Merwe  
 Position: Technical Finance Expert  
 Date: 20 August 2019

### **Auditor's conclusion**

Management response is noted. Through inspection of the management response, the revised actual finding is an overstatement of R3 699 541  
 The projected misstatement for operating lease prepayment is R23 149 846,45

## Understatement of Operating Commitments: Operating lease assets and liabilities

### Laws, rules and Regulations:

Section 38(1)(a)(i) of the Public Finance Management Act (PFMA) states that: *“The accounting officer for a department, trading entity or constitutional institution must ensure that that department, trading entity or constitutional institution has and maintains effective, efficient and transparent systems of financial and risk management and internal control...”*

Section 40(a) and (b) of the PFMA states that: *“The accounting officer for a department 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; must prepare financial statements for each financial year in accordance with generally recognized accounting practice...”*

Paragraph 42 of GRAP 13 states that the following needs to be disclosed in terms of operating leases by the lessor: *“Lessees shall, in addition to meeting the requirements of GRAP 104, make the following disclosures for operating leases:*

- (a) the total of future minimum lease payments under non-cancellable operating leases for each of the following periods:*
  - (i) not later than one year;*
  - (ii) later than one year and not later than five years; and*
  - (iii) later than five years;*
- (b) the total of future minimum sublease payments expected to be received under non-cancellable subleases at the reporting date;*
- (c) lease and sublease payments recognised in the statement of financial performance in the period, with separate amounts for minimum lease payments, contingent rents, and sublease payments; and*
- (d) a general description of the lessee’s significant leasing arrangements including, but not limited to, the following:*
  - (i) the basis on which contingent rent payable is determined;*
  - (ii) the existence and terms of renewal or purchase options and escalation clauses; and*
  - (iii) restrictions imposed by lease arrangements, such as those concerning return of surplus, return of capital contributions, dividends or similar distributions, additional debt, and further leasing.”*

Paragraph 66 of GRAP 13 states that the following needs to be disclosed in terms of operating leases by the lessor: *“Lessors shall, in addition to meeting the requirements of GRAP 104, disclose the following for operating leases:*

- (a) the future minimum lease payments under non-cancellable operating leases in the aggregate and for each of the following periods:*
  - (i) not later than one year;*
  - (ii) later than one year and not later than five years; and*
  - (iii) later than five years;*
- (b) total contingent rents recognised as revenue in the period; and*
- (c) a general description of the lessor’s leasing arrangements. “*

### **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.

Some of the examples where misstatements were identified are stipulated below:

No	Property code	Less than one year			More than one year equal to five			More than five years		
		Recalculated Amount	Amount disclosed in AFS	Difference	Recalculated Amount	Amount disclosed in AFS	Difference	Recalculated Amount	Amount disclosed in AFS	Difference
1	41_2	- 833 952.36	947 433.08	8 238.55	-	-	-	-	-	-
	41_3	- 105 242.18			-			-		
2	153_1	- 17 095 513.60	18 633 942.91	45 271.54	- 87 089 558.93	87 060 620.40	28 938.53	- 1 999 345.73	2 028 284.25	28 938.53
	153_2	-			-			-		
3	299358_3	- 682 630.97	- 726 493.01	43 862.03	-	-	-	-	-	-
4	307635_2	- 872 962.31	889 244.88	7 732.56	-	-	-	-	-	-
	307635_3	- 8 550.00			-			-		
5	317236_3	- 6 910 477.35	- 6 916 113.31	5 635.96	- 32 435 299.64	- 32 461 752.82	26 453.18	- 48 681 360.32	- 48 721 063.26	39 702.94
6	321198_1	- 5 144 922.45	9 025 256.92	99 241.90	- 35 862 784.12	35 800 111.29	62 672.83	- 51 618 778.82	51 681 451.65	62 672.83
	321198_2	-			-			-		
7	322730_1	- 7 908 179.26	- 7 991 234.40	83 055.14	- 1 330 582.54	- 1 344 556.90	13 974.36	-	-	-
8	323497_1	- 18 199 821.54	- 18 199 821.54	-	- 74 493 668.13	- 74 493 668.13	-	-	-	-
9	135723_3	- 745 069.24	- 751 604.94	6 535.70	-	-	-	-	-	-
10	305206_2	- 3 614 397.69	- 3 646 102.93	31 705.24	-	-	-	-	-	-
11	307640_1	- 1 396 151.83	1 692 613.95	15 898.04	-	-	-	-	-	-
	307640_2	- 280 564.08			-			-		
12	308087	- 11 888 736.09	- 11 993 023.25	104 287.16	-	-	-	-	-	-
13	308088	- 1 484 139.95	- 1 571 089.89	86 949.93	-	-	-	-	-	-
14	309222	- 1 011 274.51	- 1 103 392.55	92 118.03	-	-	-	-	-	-
15	318321	- 17 692 978.70	- 17 848 180.27	155 201.57	- 27 376 482.04	- 27 616 626.62	240 144.58	-	-	-
16	321516	- 12 920 773.29	- 13 034 113.41	113 340.12	- 64 406 315.70	- 64 971 283.38	564 967.68	- 14 689 811.30	- 14 818 669.30	128 857.99
17	139713_5	- 4 304 384.98	- 4 342 142.74	37 757.76	-	-	-	-	-	-
18	296891_5	- 730 476.45	- 736 884.14	6 407.69	-	-	-	-	-	-
19	306399_5	- 2 212 452.00	- 2 231 859.48	19 407.47	-	-	-	-	-	-
20	317973	- 3 702 152.03	4 374 073.86	32 475.02	-	3 894 262.22	3 356.80	- 269 095.62	272 452.42	3 356.80
	317973_2	- 639 446.81			- 3 897 619.02			-		
21	319522_4	- 908 491.15	- 971 448.00	62 956.84	-	-	-	-	-	-
23	321549	- 10 830 621.00	- 10 881 626.93	51 005.93	- 34 427 865.01	- 35 776 592.30	1 348 727.29	-	-	-
24	136926_3	- 4 378 424.92	- 4 416 832.16	38 407.24	- 736 687.37	- 743 149.54	6 462.17	-	-	-
25	300477_4	- 420 493.67	- 424 539.19	4 045.52	-	-	-	-	-	-
26	301224_4	- 449 996.02	- 453 943.35	3 947.33	-	-	-	-	-	-
27	308791_3	- 337 715.60	3 511 716.76	2 962.42	-	7 842 036.48	0.00	-	-	-
	308791_4	- 3 171 038.75			- 7 842 036.48			-		
28	314935_2	- 279 148.72	- 281 988.10	2 839.38	-	-	-	-	-	-
29	316690_1	- 790 411.93	4 313 138.14	391 739.25	-	9 057 485.84	27 482.03	-	2 619 373.26	27 482.03
	316690_2	- 3 914 465.45			-			-		
	316690_3	-			- 9 084 967.87			- 2 591 891.23		
30	296038_2	- 436 531.84	- 349 877.26	- 86 654.58	-	-	-	-	-	-
31	298702_2	- 1 303 308.61	- 1 037 217.61	- 266 091.00	-	-	-	-	-	-
32	298719_4	- 408 625.39	- 412 209.82	3 584.43	-	-	-	-	-	-
33	301343_3	- 4 034 020.33	- 4 069 406.47	35 386.14	- 337 761.58	- 340 724.40	2 962.82	-	-	-
34	303277_3	- 2 298 123.58	- 2 318 282.56	20 158.98	-	-	-	-	-	-
35	309625_2	- 219 408.68	- 221 165.56	1 756.88	-	-	-	-	-	-
36	310073_3	- 1 509 804.15	2 162 599.79	352 856.36	- 910 792.43	6 237 933.66	216 028.84	-	257 090.02	3 167.53
	310073_4	- 1 005 652.00			- 5 543 170.08			- 253 922.50		
37	302898_3	- 2 026 116.00	- 2 206 988.77	180 872.77	- 4 424 226.90	- 4 392 670.14	31 556.76	-	-	-
38	315015_1	- 236 539.38	- 238 614.29	2 074.91	-	-	-	-	-	-
39	316895_3	- 205 285.84	- 207 086.59	1 800.75	-	-	-	-	-	-
40	316988_3	- 175 723.64	- 186 267.05	10 543.42	-	-	-	-	-	-
41	318954_1	- 623 814.50	- 629 286.56	5 472.06	-	-	-	-	-	-
42	321508_1	- 1 816 646.66	1 832 582.16	15 935.50	-	5 113 069.60	0.00	-	-	-
	321508_2	-			- 5 113 069.60			-		
43	137258_2	- 4 316 111.04	- 4 701 819.39	385 708.35	- 9 357 436.64	- 9 357 436.65	0.01	-	-	-
44	140110_4	- 6 799 536.00	- 666 400.73	- 6 133 135.27	- 31 530 080.52	-	- 31 530 080.52	- 51 293 673.20	-	- 51 293 673.20
45	308986_3	- 772 800.00	- 850 956.21	78 156.21	- 1 687 486.08	- 1 675 449.72	12 036.36	-	-	-
46	309219_3	- 512 923.44	- 877 330.80	364 407.36	- 2 378 473.67	- 3 667 463.89	1 288 990.21	-	-	-
47	317872_1	- 902 502.26	- 861 548.53	- 40 953.73	- 1 572 815.30	- 1 501 444.12	71 371.18	-	-	-
48	312569_1	- 454 825.11	- 458 814.80	3 989.69	-	-	-	-	-	-
49	316571_3	- 271 860.00	- 297 411.07	25 551.07	-	-	-	-	-	-
50	94855_2	- 13 867 106.99	- 13 783 063.92	- 84 043.07	-	-	-	-	-	-
		(195 626 599.57)	(190 278 784.00)	(5 347 815.56)	(441 839 179.63)	(413 348 338.10)	(28 490 841.54)	(171 397 878.73)	(120 398 384.17)	(50 999 494.56)
Difference			- 84 838 151.66							

Detailed calculations are available

**Impact of finding**

The aforementioned finding result in the following:

Possible understatement of operating lease asset of (R42 516 462,75)

Possible projected misstatement of operating lease asset of (R195 263 650,45)

Possible understatement of operating lease Liability of (R42 516 462,75)

Possible projected misstatement of operating lease Liability of (R193 847 203,55)

**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.

Lack of proper review of financial statements submitted for audit to ensure that they are accurate and complete.

**Recommendation**

It is recommended that:

Proper reviews should be implemented on the annual financial statements and supporting schedules to ensure that accurate and complete amounts are disclosed in the annual financial statements.

Management should revisit the whole population and ensure that amounts are accurately recorded.

**Management response**

Management is in agreement with the finding for the following reasons:

1. Where the lease is still active the template also calculated a 1 month commitment duplicating the commitment.
2. Commitments were not calculated for leases as column AO was not populated.
3. Leases were renewed when the lease is still active, the renewal is thus superseding the current lease, however the commitments were calculated for both leases resulting in duplicates.

4. Amounts incorrectly reflected under “more than 5 years” commitment for month to month leases due to the ageing bracket formula referring to cells BE1 and BF1, whereas the dates were populated in cells BE2 and BF2.

In order to correct the above root causes the following actions were performed:

1. A formula was inserted in tab “1 Month Commitment” in columns BD to BF to prevent a 1 month commitment if there is a commitment calculated for the active lease in tab “Commitment 2018-19”. The impact of this correction is a reduction in commitments of R56 988 750.81.
2. Column AO on tab “MDB” was filtered for blanks, for all blank cells a formula was inserted to link to value in column P. The impact of this correction is an increase in commitments of R 342 354 795.05.
3. In tab “MDB” in columns AS, AU and AW formulas were inserted to identify where leases are overlapping. All 233 overlapping leases were inspected to determine if the leases are running concurrently or if the new lease supersedes the original. 34 leases were found to supersede the original where the commitment was duplicated in error. The impact of this corrections was a decrease in commitments of R -100 464 544.98.
4. The contents of cells BE2 and BF2 was copied into cells BE1 and BF1. This eliminated the amounts reflected under “More than 5 years”.

Over and above the root causes identified Property 312782 calculated a duplicate expense (overlap) for February 2019, Property 299648 calculated a duplicate expense (overlap) for July 2016, Property 310762 was not calculating accruals/prepayments for the gap period from November 2012 - April 2014.

The value of the error recalculated by management is R54 757 324.55. Refer to the attached document for detailed calculations.

The amounts corrected as part of the above root causes are R51 977 257.31. Refer to attached Y100 private lease calculation workbook that was resubmitted. The unresolved difference that remains is R2 780 067.25 is not deemed to be significant.

Description	Response	
Corrective action to be taken	Please refer to above corrective action taken	
Does the finding affect an amount disclosed in the financial statements	<b>Yes</b>	<b>No</b>
	X	
If yes, what corrections will be made to the population	Please refer to above corrective action taken	
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.	Please refer to above corrective action taken	
If yes and the population was adjusted, the proposed adjusting journal entries to correct the population, with the supporting documentation.	Please refer to above corrective action taken	
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.)	<b>Yes</b>	<b>No</b>
If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated.	N/A	
Position of official responsible to take corrective actions	Andre Joubert	
Estimated completion date for corrective action	19 August 2019	

Does management agree with the root cause indicated	<b>Yes</b>	<b>No</b>
If management does not agree with the root cause indicated, please provide the root cause according to management.		

Does management agree with the internal control deficiencies indicated	<b>Yes</b>	<b>No</b>
If management does not agree with the internal control deficiency indicated, please provide the internal control deficiency according to management.		

Name: Andre Joubert  
 Position: Director: Revenue and Debt Management  
 Date: 19 August 2019

*Reviewed by:*

Name: Belinda van der Merwe  
 Position: Technical Finance Expert  
 Date: 19 August 2019

### Auditor's conclusion



Management response is noted. Through inspection of the subsequent information received, there is an actual finding of understatement of operating lease commitments of R5 330 557,82.

The impact of the finding will be:

Projected misstatement of operating lease commitment of R24 481 438.76 (PMTE as the Lessor)

Projected misstatement of operating lease commitment of R24 303 849.85 (PMTE as the Lessee)

## Operating lease expenditure: Differences between the AFS and Schedule

### Laws, rules and Regulations:

Section 40(a) and (b) of the PFMA states that: *“The accounting officer for a department 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; must prepare financial statements for each financial year in accordance with generally recognized accounting practice...”*

GRAP 1, paragraph 17 states that *“Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses.”*

### Nature

The following difference was noted between the operating lease expenditure presented in the annual financial statements and the schedule:

Component	Amount as the AFS (R)	Amount as per the schedule (R)	Difference (R)
Operating Lease Expenditure	4 770 012 000,00	4 713 670 699,33	56 341 300,67

### Impact of the finding

The finding will result in the following:

Overstatement of operating lease expenditure by R56 341 300,67

### 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.

Lack of proper review of financial statements submitted for audit to ensure that they are accurate and complete.

### Recommendation

It is recommended that proper reviews should be implemented on the annual financial statements and supporting schedules to ensure that accurate and complete amounts are disclosed in the annual financial statements.

### Management response

I am not in agreement, please refer to the below reconciliation:

The amount per the Y100 lease schedule is	R4 713 670 699.33
Add tenant installation and other costs paid	R 23 638 268.13 (Refer to 2019 PMIS)
Less payment included both rental and other costs	R - 2 391 195.58 (Property 319044)
<u>Journal adjustment for opening balance correction</u>	<u>R - 5 295 772.60</u>
Total amount supported	R4 729 621 999.27

The total lease amount per the AFS	R4 770 013 182.69
<u>Less Furniture and office equipment</u>	<u>R - 41 144 033.02</u> (Refer to account 004856)
Amount for land and buildings	R4 728 869 149.67
Unexplained difference	R 752 849.60

Name: Andre Joubert  
Position: Director: Revenue and debt management  
Date: 1 August 2019

Reviewed by:

Name: Belinda van der Merwe  
Position: Technical Finance Expert  
Date: 2 August 2019

### **Auditors Conclusion**

Management response is noted. After the reviewing the new schedule and adjusted AFS, the finding is resolved.

**Operating lease commitments: Overstatement of operating lease commitment****Laws, rules and Regulations:**

Section 40(a) and (b) of the PFMA states that: *“The accounting officer for a department 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; must prepare financial statements for each financial year in accordance with generally recognized accounting practice...”*

GRAP 1, paragraph 17 states that *“Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses.”*

**Nature**

The following difference was noted between the operating lease commitment disclosed in the annual financial statements and the schedule:

Component	Amount as the AFS (R)	Amount as per the schedule (R)	Difference (R)
Operating Lease Commitment	9 229 500 000,00	9 226 616 651,94	2 883 348,06

**Impact of the finding**

The finding will result in the following:

Overstatement of operating lease Commitment by R2 883 348,06

**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.

Lack of proper review of financial statements submitted for audit to ensure that they are accurate and complete.

**Recommendation**

It is recommended that proper reviews should be implemented on the annual financial statements and supporting schedules to ensure that accurate and complete amounts are disclosed in the annual financial statements.

**Management response**

I am in agreement with the finding, however I am not in agreement with the error value.

The detailed calculation was updated however the pivot table was not updated. The amount disclosed in the AFS was the incorrect amount from the pivot table. Below is the error according to management:

Note: The correct amount per the schedule for the lessee is R9 120 066 774.14 ([Y100 Lease-in AFS Calc 2018 2019 - Year End.xlsx] AFS!V3147)

Note: The correct amount per the schedule for the lessor is R9 216 038 096.21, this comprises of leasehold intergovernmental of R9 095 739 984.65 (Lessee amount above less non-recoverable [Y100 Lease-in AFS Calc 2018 2019 - Year End.xlsx]Client!) and freehold private of R120 298 111.56 ([F701 Rental Debtors Straight lining 31 March 2019.xlsx]Straight 2018-19!BF1408)

Component	Amount as the AFS (R)	Amount as per the schedule (R)	Difference (R)
Operating Lease Commitment (Lessor)	9 229 500 000.00	9 216 038 096.21	13 461 903.79
Operating Lease Commitment (Lessee)	9 162 549 000.00	9 120 066 774.14	42 482 225.86

Name: Andre Joubert  
Position: Director: Revenue and debt management  
Date: 1 August 2019

Reviewed by:

Name: Belinda van der Merwe  
Position: Technical Finance Expert  
Date: 1 August 2019

### Auditors Conclusion

Management response is noted and we followed up on the adjusted AFS and new schedule and confirmed that the finding is resolved.

## Provisions

### Overstatement of provisions

#### Laws, rules and legislation

Section 40(a) and (b) of the Public Finance Management Act (PFMA) states that: *“The accounting officer for a department 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; must prepare financial statements for each financial year in accordance with generally recognized accounting practice...”*

GRAP 19 paragraph 17 states that liabilities are present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential. A provision is a liability of uncertain timing or amount.

GRAP 19 paragraph 18 states that Provisions can be distinguished from other liabilities such as payables and accruals because there is uncertainty about the timing or amount of the future expenditure required in settlement. By contrast:

(a) payables are liabilities to pay for goods or services that have been received or supplied and have been invoiced or formally agreed with the supplier (and include payments in respect of social benefits where formal agreements for specified amounts exist); and

(b) accruals are liabilities to pay for goods or services that have been received or supplied but have not been paid, invoiced or formally agreed with the supplier, including amounts due to employees (for example, amounts relating to accrued vacation pay). Although it is sometimes necessary to estimate the amount or timing of accruals, the uncertainty is generally much less than for provisions.

Accruals are often reported as part of accounts payable, whereas provisions are reported separately.

#### Nature

During the audit of provisions, it was noted that transaction for work which was done and approved by works manager and invoiced at year end was incorrectly included in provisions. Transaction details as follows.

Ref to supporting accrual schedule and journal ref number	Supplier	Date work done per works manager signature	Date receipt/ invoice stamp registry	Provision per client listing	Recalculated provision
IP34	Eden Island Trading	2019/03/20	2019/03/07	201 499,90	0

### **Impact of the finding**

The aforementioned finding may result in:

Overstatement of provisions by R201 449,90

Understatement of accruals by R201 449,90

### **Internal control deficiency**

#### *Financial and performance management*

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

Management did not review and monitor compliance with applicable laws and regulations.

### **Recommendation**

It is recommended that:

Management should ensure that the schedules that support the annual financial statements are accurate and are adequately reviewed.

### **Management response**

Management is not in agreement with the finding.

Accruals and provisions are classified in accordance with the approved guidelines issued by Head Office for classification purposes. For day-to-day maintenance, an accrual is only recognised when there is objective evidence that the work has been completed i.e. a signed off job card exists. Please see attachment (Annexure A) to the COFF).

Name: Petrus Whielers

Position: Dir: Finance

Date: 19 July 2019

Reviewed by:

Name: Belinda van der Merwe

Position: Technical Finance Expert

Date: 24 July 2019

### **Auditor's conclusion**

Management comment noted however finding remains as work was confirmed to be done by works manager at year end and invoice was received before year end, therefore there is no uncertainty in timing or amount of the liability.

## Irregular expenditure

**Differences noted in irregular expenditure disclosed (Coff 5 and Coff 6 DBN)****Laws, rules and regulations**

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

GRAP 1 par .17 states that *“Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses. The application of Standards of GRAP with additional disclosures, when necessary, is presumed to result in financial statements that achieve a fair presentation.”*

Treasury Regulation paragraph 8.2.1 states that *“An official of an institution may not spend or commit public money except with the approval (Either in writing or duly authorised electronic means) of the accounting officer or a properly delegated or authorised officer.”*

Treasury Regulation 8.2.2 states that *“Before approving expenditure or incurring a commitment to spend, the delegated or authorised official must ensure compliance with any limitations or condition attached to the delegation or authorisation.”*

**Nature**

During the audit of irregular expenditure, the following differences were identified between the amount disclosed and the amount per supporting documents.

No.	Payment date	Supplier name	Date of discovery	Reasons for disclosure as per irregular expenditure	Date reported to DG (Accounting Officer)	Amount disclosed in IE register	Amount recalculated as per supporting documentation	Difference
1	2018/04/18	Osolwazi Trading Enterprise (Pty) Ltd	2018/05/24	Appropriate approval not obtained from delegated authority	2018/06/05	1 603 280,54	3 680 512,62	- 2 077 232,08
<b>Total</b>						<b>1 603 280,54</b>	<b>3 680 512,62</b>	<b>- 2 077 232,08</b>

During the audit of the completeness of irregular expenditure, the following deviation was identified:

For the below mentioned emergency calls logged, the value of work done and payments made to the supplier exceeded the approved threshold as per the approval form (OW415) without



additional approval from the delegated official. Furthermore, the excess amount was not recorded in the irregular expenditure register for the current financial year.

No.	Details per supporting documentation					Recalculated	Irregular Expenditure recorded in the register	Difference
	Service Description/ Service	Call Reference	Awarded to	Amount paid	Approved Threshold as per the 415	Irregular Expenditure Amount		
1	SAPS Glendale: repairs to damaged roof	DUR-0917-1116322	Hunpre Investments	1 134 696,10	200 000,00	934 696,10	-	934 696,10
2	DCS Kokstad: service and repair switch gears and transformers	DUR-0218-118220	Vukani Electrical	740 505,24	500 000,00	240 505,24	-	240 505,24
<b>Total</b>						1 175 201,34	-	1 175 201,34

### Impact of finding

The finding may result in the following:

Non-compliance with Section 40 of the Public Finance Management Act (PFMA)

Understatement of irregular expenditure by an amount of R3 252 433

### 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 accurate and presented fairly

### Management response

Management comment not provided

### Auditor's conclusion

Management comments not received, therefore finding remains

## Payables from exchange transactions

**Accrued expenses: Understatement of accrual assets****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;*”

*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. “*

**Nature**

During the performance of our audit we identified that the following transactions for accrued expenses were not accounted for accurately.

COF F No.	Region	Supplier name	WCS Number/ Payment	Valuation Date	Invoice amount	Amount per accrual listing	Amount per recalculation	Difference between accrual listing amount and recalculation
16	Mmabatho	GR MAKOPPO PROJECTS CC	P-273886	2019/04/04	1 075 598,65	1 051 696,46	1 075 598,65	23 902,19
16	Mmabatho	KHETHWAYO CONSTRUCTION	P-273898	2019/03/31	518 981,89	467 083,70	518 981,89	51 898,19
5	Bloemfontein	MLO INVESTMENTS & NEW BOSS CONSTRUCTION JOINT VENT	47923	2019/03/11	2610 192,95	2 269 733	2 610 192,95	340 459,95
10	Umthatha	FEZ BUILDING CONSTRUCTION CC	051745		344 267,62	0	22 210,81	22 210,81
5	Cape Town	CSM CONSULTING SERVICES (PTY		2019/03/31	152 371,22	136 185,27	152 371,22	16 185,95

<b>Total</b>	<b>454 657,10</b>
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### **Impact of finding**

The aforementioned findings may result in:

Understatement of accrual assets as at 31 March 2019 by R454 657,10

### **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's response**

Management comment not provided

### **Auditor's conclusion**

Management comments not received, therefore finding remains

**Accrued expenses: Understatement of accruals for Scheduled Maintenance****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;*”

*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. “

**Nature**

During the performance of our audit we identified that the following transactions for accrued expenses were not accounted for accurately.

COF F No.	Region	Supplier name	WCS Number/ Payment	Valuation Date	Invoice amount	Amount per accrual listing	Amount per recalculation	Difference between accrual listing amount and recalculation
73	Head Office	INDYEBO CONSULTING ENG	ZAPNV1905S1 001659716	2019/02/19	190 153,51	0	190 153,51	190 153,51
73	Head Office	INDYEBO CONSULTING ENG	ZAPNV1905S1 001659638	2019/02/19	190 153,51	0	190 153,51	190 153,51
73	Head Office	INDYEBO CONSULTING ENG	ZAPNV1905S1 001659570	2019/02/19	190 153,51	0	190 153,51	190 153,51
73	Head Office	INDYEBO CONSULTING ENG	ZAPNV1905S1 001659826	2019/02/19	190 153,51	0	190 153,51	190 153,51
73	Head Office	INDYEBO CONSULTING ENG	ZAPNV1905S1 001659829	2019/02/19	190 153,51	0	190 153,51	190 153,51
<b>Total</b>								<b>760 614,04</b>

**Impact of finding**

The aforementioned findings may result in:

Understatement of accrual for scheduled maintenance by R760 614,04.

### **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**

It is recommended

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's response**

Management comment not provided

### **Auditor's conclusion**

Management comments not received, therefore finding remains

**Accrued expenses: Understatement of day to day accruals****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;*”

*Property Management Trading Entity Payables Management Systems***6.7.8.3 States that:**

*“For the purpose of accruals, all certification dates up to and including the 7th October [2016] will be regarded, due to the nature of projects, as services rendered in the reporting period. For all payments processed with a valuation date after 7th October [2016], Finance at Head Office performs an analysis to determine the accrual amount prior to the reporting date with due consideration of the detail of the previous payment made to the same contractor.”*

**Nature**

During the audit of accruals, it was noted that the above transactions were not appropriately disclosed. The relevant invoices show that services were received before 31 March 2019, and payment was not made to the supplier before year end.

COFF No.	Region	Supplier name	Date when service was received	Amount per invoice	Amount per recalculation	Amount per accrual listing	Difference between accrual amount recalculation and listing
5	Polokwane	Poppe Maphori Supply Service	2018/09/20	79 465,00	79 465,00	0	79 465,00
5	Mmabatho	Yaone Holding (Pty) Ltd	2019/03/11	13 041,40	13 041,40	0	13 041,40
5	Mmabatho	Moheenye Electrical	2019/02/05	5 154,46	5 154,64	0	5 154,46
<b>Total</b>							<b>97 660,86</b>

**Impact of finding**

The aforementioned findings may result in:

Understatement of other accruals as at 31 March 2019 by R97 660,86

**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's response**

### Mmabatho

No response received from management

### Polokwane

Management agrees with the finding.

During the process of compilation of the accruals report the relevant documentation supporting the value of the accrual was not supplied to finance and accordingly, the value was included as a provision and not as an accrual based on the information available at the time.

Name: Lucas Serepo  
Position: Deputy Director  
Date: 19 July 2019

### *Reviewed by:*

Name: Belinda van der Merwe  
Position: Technical Finance Expert  
Date: 15 August 2019

## **Auditor's conclusion**

Management comments not received, therefore finding remains

**Accrued expenses: understatement of other accruals****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;*”

*Property Management Trading Entity Payables Management Systems**6.7.8.3 States that:*

*“For the purpose of accruals, all certification dates up to and including the 7th October [2016] will be regarded, due to the nature of projects, as services rendered in the reporting period. For all payments processed with a valuation date after 7th October [2016], Finance at Head Office performs an analysis to determine the accrual amount prior to the reporting date with due consideration of the detail of the previous payment made to the same contractor.”*

**Nature**

During the audit of accruals, the following services were rendered before year end however they were not included on the accrual listing.

COFF No.	Region	Supplier name	Date when service was received	Amount per invoice	Amount per recalculation	Amount per accrual listing	Difference between accrual amount recalculation listing and
18	Mmabatho	Travel with Flair	2019/02/27	3 194,89	3 194,89	0	3 194,89
18	Mmabatho	Travel with Flair	2019/02/27	1 884,91	1 884,91	0	1 884,91
18	Mmabatho	Travel with Flair	2019/03/24	2 140,66	2 140,66	0	2 140,66
18	Mmabatho	Travel with Flair	2019/03/26	3 011,40	3 011,40	0	3 011,40
8	Cape Town	Star Security Services(Silver Solutions 2616CC)	2019/03/21-2019/04/21	64 042,99	64 042,99	0	64 042,99
8	Cape Town	Star Security Services(Silver Solutions 2616CC)	2019/03/20-2019/04/20	23 094,18	23 094,18	0	23 094,18
4	Cape Town	Star Security Services(Silver Solutions 2616CC)	20/03/2019 to 20/04/2019	65 083,59	27 293,12	0	27 293,12
6	Polokwane	Atim Holdings	2019/01/21	25 635,00	25 635,00	0	25 635,00
<b>Total</b>							<b>150 297,20</b>

**Impact of the finding**

The aforementioned findings may result in:



Understatement of other accruals as at 31 March 2019 by R 150 297,20

### **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's response**

#### Mmabatho and Cape Town

No response received from management

#### Polokwane

Management agrees with the finding.

During the process of compilation of the accruals report the relevant documentation supporting the value of the accrual was not supplied to finance and accordingly it could not be used to calculate an accrual value. Due to this a general provision was raised for this item and not an accrual.

Name: Lucas Serepo  
Position: Deputy Director  
Date: 19 July 2019

#### *Reviewed by:*

Name: Belinda van der Merwe  
Position: Technical Finance Expert  
Date: 15 August 2019

### **Auditor's conclusion**

Management comments not received, therefore finding remains

**Accrued expenses: Overstatement of Day to Day Accruals****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;*”

*Property Management Trading Entity Payables Management Systems***6.7.8.3 States that:**

*“For the purpose of accruals, all certification dates up to and including the 7th October [2016] will be regarded, due to the nature of projects, as services rendered in the reporting period. For all payments processed with a valuation date after 7th October [2016], Finance at Head Office performs an analysis to determine the accrual amount prior to the reporting date with due consideration of the detail of the previous payment made to the same contractor.”*

**Nature**

- a) During the audit of accruals, it was noted that the above transactions were not appropriately disclosed. The relevant invoices show that services were received before 31 March 2019, and payment was not made to the supplier before year end.

COFF No.	Region	Supplier name	Date when service was received	Amount per invoice	Amount per recalculation	Amount per accrual listing	Difference between accrual listing amount and recalculation
19	Mmabatho	Climate Control	2018/12/06	95 346,80	0	95 346,80	95 346,80

- b) During the audit of accruals, it was noted that the above transactions were not appropriately disclosed. Differences were identified between the amount per accrual listing and recalculations performed.

COFF No.	Region	Supplier name	Date when service was received	Amount per invoice	Amount per recalculation	Amount per accrual listing	Difference between accrual listing amount and recalculation
8	Pretoria	GauFlora	14/03/2019-15/04/2019	1 400 000,00	763 636,36	1 400 000,00	636 363,64
3	Durban	NP Khuzwayo Engineering Services	2019/03/20	163 333,00	1 633 333,00	163 333,00	1 470 000,00
<b>Total</b>							<b>2 106 363,64</b>

**Impact of finding**

The finding will result in the following:

Overstatement of day to day accruals by R2 201 710,44

### **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's response**

No response received from management

#### Pretoria - Gau Flora

Management is in agreement with the finding. The invoices that make up R1 400 000,00 were all for services that were rendered from 14/03/2019-15/04/2019 not from 15/02/2019-14/03/2019 as it was captured in the accrual workbooks.

The total invoice amount should have been apportioned accordingly for the accrual listing.

### **Auditor's conclusion**

Management comments not received, therefore finding remains

**Accrued expenses: Overstatement of Accrual Assets****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;*”

*Property Management Trading Entity Payables Management Systems 6.7.8.3 States that:*

*“For the purpose of accruals, all certification dates up to and including the 7th October [2016] will be regarded, due to the nature of projects, as services rendered in the reporting period. For all payments processed with a valuation date after 7th October [2016], Finance at Head Office performs an analysis to determine the accrual amount prior to the reporting date with due consideration of the detail of the previous payment made to the same contractor.”*

**Nature**

- a) During the performance of our audit we identified that the following transaction for services received before 31 March 2019 was not apportioned accurately

COFF No.	Region	Supplier name	WCS Number/ Payment	Valuation Date	Invoice amount	Amount per accrual listing	Amount per recalculation	Difference between accrual listing amount and recalculation
16	Mmabatho	RABANA ARCHITECTS (PTY) LTD	P-274124	2019/03/31 to 2019/04/17	1 255 238,59	1 255 238,59	1 162 014,59	93 224,00

- b) The following transaction was included on the accrual listing, however the services were rendered and paid before year end, therefore an accrual should not have been raised.

COF F No.	Region	Supplier name	WCS Number/ Payment	Valuation Date	Invoice amount	Amount per accrual listing	Amount per recalculation	Difference between accrual listing amount and recalculation
5	Cape Town	ATPLANNING TOWN & REGIONAL PLANNING		2019/03/14	15 726,25	15 726,25	0,00	15 726,25
3	Port Elizabeth	BISIWE VAN NIEKERK INC		2019/03/07	2 769 421,44	2 769 421,44	0,00	2 769 421,44
<b>Total</b>								<b>2 785 147,69</b>

**Impact of finding**

The finding will result in the following:

Overstatement of accruals assets by R2 878 371,69

**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's response**

No response received from management

**Auditor's conclusion**

Management comments not received, therefore finding remains

**Accrued expenses: Overstatement of Scheduled Maintenance****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;*”

*Property Management Trading Entity Payables Management Systems**6.7.8.3 States that:*

*“For the purpose of accruals, all certification dates up to and including the 7th October [2016] will be regarded, due to the nature of projects, as services rendered in the reporting period. For all payments processed with a valuation date after 7th October [2016], Finance at Head Office performs an analysis to determine the accrual amount prior to the reporting date with due consideration of the detail of the previous payment made to the same contractor.”*

**Nature**

During the performance of our audit we identified that the following transaction for services received before 31 March 2019 was not apportioned accurately

COFF No.	Region	Supplier name	WCS Number/ Payment	Invoice amount	Amount per accrual listing	Amount per recalculation	Difference between accrual listing amount and recalculation
5	Mthatha	SIVIWE JAYIYA CONSTRUCTION (PTY) LTD	046769	1 095 642,31	469 560,99	446 372,79	23 188,20

**Impact of finding**

The aforementioned finding results in the following;

Accrued expenses- Planned maintenance is overstated by R23 188,20

**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's response**

No response received from management

**Auditor's conclusion**

Management comments not received, therefore finding remains

**Accrued expenses: Understatement of municipal service accruals****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;*”

*Property Management Trading Entity Payables Management Systems**6.7.8.3 States that:*

*“For the purpose of accruals, all certification dates up to and including the 7th October [2016] will be regarded, due to the nature of projects, as services rendered in the reporting period. For all payments processed with a valuation date after 7th October [2016], Finance at Head Office performs an analysis to determine the accrual amount prior to the reporting date with due consideration of the detail of the previous payment made to the same contractor.”*

**Nature**

During the audit of accruals, it was noted that the above transactions were not appropriately disclosed. The relevant invoices show that services were received before 31 March 2019, and payment was not made to the supplier before year end.

COFF No.	Region	Supplier name	Date when service was received	Amount per invoice	Amount per recalculation	Amount per accrual listing	Difference between accrual amount recalculation and listing
2	Port Elizabeth	Nelson Mandela Bay Municipality	29/03/2019	15 142,02	15 142,02	0	15 142,02
2	Port Elizabeth	Maluyo General Trading	28/03/2019	26 589,50	26 589,50	0	26 589,50
8	Pretoria	PEC Utility	20/02/2019 to 19/03/2019	27 189,40	27 189,40	0	27 189,40

**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's response**

No response received from management

**Auditor's conclusion**

Management comments not received, therefore finding remains

## Operating expenditure

### Invoices not paid within 30 days

#### Laws, rules and Regulations:

Public Finance Management Act (PFMA) section 38(1)(f) requires that; *“The accounting officer for a department, trading entity or constitutional institution must settle all contractual obligations and pay all money owing, including inter-governmental claims, within the prescribed or agreed period;”*

Treasury Regulation 8.2.3 requires that; *“Unless determined otherwise in a contract or other agreement, all payments due to creditors must be settled within 30 days from receipt of an invoice or, in the case of civil claims, from the date of settlement or court judgment.”*

Instruction note 34 of National Treasury dated 30 November 2011 require that;

*“4.1 The accounting officer’s responsibility [in terms of section 38(1)(f)] to settle all contractual obligations and to pay all money owing, including intergovernmental claims, within the prescribed (30 days) or agreed period is hereby re-iterated.*

*4.2 Within thirty days (30) days from the date of this Instruction Note, all departments are required to have in place systems (processes and procedures) that will enable the tracking of each invoice received from the various service providers.”*

*4.3 The system referred to in paragraph 4.2 above may either be manual or electronic in nature and such a system must also be able to track progress with the processing of each invoice.”*

*4.4 At any given time, such a system must be able to provide information related to the date on which an invoice was received, the date on which it was paid and the time period between the date of receipt and the date of payment, if the invoice was indeed paid.*

*4.6 The information required in paragraph 4.5 above must be submitted to the National Treasury within seven (7) days after the end of the preceding month in the format prescribed in the enclosed Annexure A.”*

*4.7 The accuracy of information in paragraph 4.5 must be confirmed by signature of the department’s accounting officer prior to its submission to the National Treasury.*

*4.11 If accounting officers of national and provincial departments delegate the power to confirm the accuracy of information in paragraph 4.5 to their respective department’s chief financial officer or to any other functionary, the accounting officers are not divested of the responsibility concerning the exercising of the delegated power, as provided in section 44(1)(d) of the PFMA.”*

#### Nature

The following payment was not made within 30 days from the date of receipt of the invoice:

Region	Supplier	Date invoice received by Registry	Payment date	No. of days	Amount [R]
Durban	Northern Lights Trading 27 CC	2018/06/13	2018/08/27	75	1 590 207,49
Durban	Muller & Neumeister T/A Mini Architects	2018/03/19	2018/08/26	38	299 641,48
Durban	DHP Consulting Engineers	2018/04/03	2018/05/16	41	670 525,84

Durban	CK Architect & Valuer	2018/03/19	2018/05/31	74	1 542 873,69
Durban	High Pana Projects CC	2018/05/28	2018/08/03	68	807 762,78
Durban	Anathi Consulting Engineers (PTY) LTD	2018/03/09	2018/05/16	68	431 917,31
Durban	Starplex 259 CC - SD Tedpaul and Associates	2017/11/17	2018/04/19	154	1 116 267,61
Durban	Nkomishana Trading and Projects CC	2018/03/19	2018/05/08	51	701 513,25
Durban	Preben Naidoo Association	2018/04/06	2018/05/16	41	794 447,71
Durban	Introstat Pty Ltd	2019/02/22	2019/04/05	43	381 570,00
Durban	Muller & Nuemeister International	2019/06/07	2019/07/18	41	346 207,83
Durban	Ayob Ismail and Mohomedy KZN CC	2019/04/25	2019/05/28	33	495 866,35
Durban	Cassim Kadwa Architects	2019/03/15	2019/04/29	45	118 596,10
Durban	KZN Provincial Department of Health	2018/08/16	2018/09/27	43	1 560,00
Johannesburg	Shumanie property management services (PTY) LTD	2018/03/19	2018/05/23	65	706 646,62
Umtata	INDWE QUANTITY SURVEYORS CC	2018/07/19	2018/08/21	33	317 721,14
Polokwane	BA Hassim PTY (LTD)	2018/06/12	2018/08/01	50	257 550,90
Mmabatho	Omphile Dineo Trading	2019/03/05	2019/04/12	38	13 147,47
Mmabatho	SH Kadiri and SN Kadiri	2019/02/12	2019/04/11	58	90 333,42
Mmabatho	Makrs Electrical and supply (Pty) Ltd	2019/02/25	2019/03/23	57	66 944,63
Mmabatho	Pule was mmapule	2019/03/28	2019/05/07	40	3 860,36
Mmabatho	Mmanare Trading	2019/03/13	2019/05/09	57	22 347,50
Mmabatho	Job Constructions	2019/04/29	2019/05/31	32	29 884,92
Mmabatho	Kabelo wa Matsheka	2019/04/01	2019/05/07	36	29 526,93
Head Office	Coega development corp	2019/04/17	2019/05/21	34	3 427 379,37
Head Office	INDYEBO CONSULTING ENG	2019/02/19	2019/05/21	91	190 153,51
Head Office	INDYEBO CONSULTING ENG	2019/02/19	2019/05/21	91	190 153,51
Head Office	INDYEBO CONSULTING ENG	2019/02/19	2019/05/21	91	190 153,51
Head Office	INDYEBO CONSULTING ENG	2019/02/19	2019/05/21	91	190 153,51
Head Office	INDYEBO CONSULTING ENG	2019/02/19	2019/05/21	91	190 153,51
Cape Town	Unscheduled maintenance Saldana Bay	2019/01/17	2019/02/19	32	7 751,00
Cape Town	Drakestein	2019/01/17	2019/02/14	35	931,50

Cape Town	Breedy valley	2019/01/17	2019/02/14	35	253,00
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### Impact of finding

The aforementioned findings may result in:

Non-compliance with Section 38 of the Public Finance Management Act

Non-compliance with Treasury Regulations 8.2.3

Non-compliance with Instruction Note 34 of National Treasury

### Internal control deficiency

#### *Financial and performance management*

Monitoring controls did not ensure that creditors were paid within the required 30 days of receipt of the invoice.

### Recommendation

It is recommended that payments be processed in a speedy manner without compromising internal controls.

The Entity should take action against the relevant employees where payments were not made within 30 days

### Management response

#### Durban

Management is in agreement with the finding in that the payments were made in more than the 30 days' limit.

Muller and Neumeister matter refers.

The payments were delayed due to the WCS being switched off for maintenance purposes from (approximately) 20 March 2018 to 13 April 2018 due to the end of the financial year and changed to the 15% VAT processes being built into the system.

This resulted in Professional Services not being able to verify the correctness of the payment up to 16 April 2018. This delay was outside the control of this unit.

Payment to Northern Lights Trading (t/a Quanto) matter refers;

The payment was delayed due to additional funding required for the payment that had to be sourced from DCS via PBA and Head Office. Note that this issue became evident on 14 June 2019 and that the funds became available on 24 June 2018 and that the payment was processed on the same day when the funds were made available.

This delay was outside the control of this unit. The business process of having to request for additional funding from the client prior to payments being processed is managed and delegated to Head Office (Finance PBA) to manage on behalf of regions. The client did not respond

timeously to allow the department to meet the 30 Day payment period. This was outside the control of Durban Regional Office.

Johannesburg

I am in agreement with the finding for the following reasons:

The supplier payment could not be processed because they had applied for extension of time to avoid penalties being imposed on their invoice. Due to that we had to waiting for approval of extension of time from Head Office so that we should pay the full invoice amount accordingly.

Note that this occurred in March 2018 and subsequently, a proper system of monitoring of invoices was implemented.

uMthatha

Agree with the audit finding however, the project manager was out office and the invoice had not been transferred to the available project managers for processing of payment.

Polokwane

I am in agreement with the finding that invoices paid after 30 days. However, the reason has been recorded and delay is due to registration of banking details where function is centralised in head office

**Auditor's conclusion**

Management agrees with the finding there for this issue remains in the management report

## Bank overdraft

**Non-compliance with laws and regulations – PMTE bank in overdraft****Laws, rules and regulations**

*Treasury Regulation 19.2.3 states the following: “Trading entities allowed to open bank accounts may not borrow for bridging purposes and may not run overdrafts on their banking accounts...”*

**Nature**

During the audit of cash and bank, it was noted that the PMTE Pay Master General account 8033 is operating on an overdraft.

Furthermore, the matter was reported in the prior year audit and has since been increasing significantly.

Description	Amount (R)	Increase amount (R)
Balance as at 31 March 2018	2 338 485 000,00	
Balance as at 31 March 2019	2 683 976 000,00	345 491 000,00

**Impact of finding**

The finding may result in the following:

Non-compliance with TR 19.2.3

The bank overdraft may cast significant doubt on the entity's ability to continue as a going concern

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

Management did not review and monitor compliance with applicable laws and regulations.

**Recommendation**

The following is recommended to management:

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

Management does not agree with the audit finding.

While management agrees that the PMTE's Paymaster General Account 8033 had an unfavourable debit balance of R2,6 billion at the end of March 2019, this cannot be regarded as an overdraft in the true sense of bank overdraft. The "bank account" held with the South African Reserve Bank does not meet the definition of a bank account.

Firstly, a **bank** is defined, in terms of the Banks Act, 1990, as: "*a public company registered as a bank in terms of this Act*". While a **bank account** is not defined by both the Banks Act and Treasury Regulations, however, it can be deduced from the Banks Act to mean an account that is held with a "*public company registered as a bank in terms of this Act*". The ABSA accounts that the PMTE has meet this definition since ABSA is a "*public company registered as a bank*".

Furthermore, the Banks Act defines "**the business of a bank**" as

- a) *the acceptance of deposits from the general public (including persons in the employ of the person so accepting deposits) as a regular feature of the business in question;*
- b) *the soliciting of or advertising for deposits;*
- c) *the utilization of money, or of the interest or other income earned on money, accepted by way of deposit as contemplated in paragraph (a) –*
  - (i) *for the granting by any person, acting as lender in such person's own name or through the medium of a trust or a nominee, of loans to other persons;*
  - (ii) *for investment by any person, acting as investor in such person's own name or through the medium of a trust or a nominee; or*
  - (iii) *for the financing, wholly or to any material extent, by any person of any other business activity conducted by such person in his or her own name or through the medium of a trust or a nominee;*
- d) *the obtaining, as a regular feature of the business in question of money through the sale of an asset, to any person other than a bank, subject to an agreement in terms of which the seller undertakes to purchase from the buyer at a future date the asset so sold or any other asset; or*
- e) *any other activity which the Registrar has, after consultation with the Governor of the Reserve Bank, by notice in the Gazette declared to be the business of a bank,*

The South African Reserve Bank does not carry "**the business of a bank**" as defined in the Banks Act. In fact Banks Act is quite explicit in section 2(i) that the provision of Banks Act "*shall not apply to – (i) the Reserve Bank.*" As mentioned above, the ABSA bank account, as the primary bank account of the Entity, carries the business of a bank as defined in the Banks Act.

The PMTE has been allowed to operate a bank account (**account number 40 6451-8843**) which is held with **ABSA bank**, which operates as a bank, as defined in the Banks Act. As at 28 March 2019, relating to year-ended 31 March 2019, the bank balance held with **ABSA bank** showed a favourable (credit) bank balance of R2,1 million. Had this account been overdrawn, the audit finding of the audit team would have sufficed since the PMTE would have had a bank overdraft.

See attached Bank Statement issued on 28 March 2019. It is management's contention that the balance of R2,6 billion held with the South African Reserve Bank is not a bank overdraft, and the PMTE has therefore not failed to comply with Treasury Regulations 19.2.3. It is precisely for this reason that the National Treasury, upon the establishment of the PMTE, instructed that the account that clients must use to reimburse the costs recovery of the PMTE must be the SA Reserve Bank's Exchequer account, not into a commercial account.

While the unfavourable bank balance, which is an Exchequer account, is shown as a bank overdraft for accounting purposes, such cannot be seen as non-compliance with laws and regulations, Treasury Regulations 19.2.3. The unfavourable balance on the Exchequer account should not been seen in isolation of the approval of the National Treasury, which allowed the PMTE to incur expenditure and claim it from client departments thereafter.

Management further takes note of the recommendations of the audit team.

It should further be noted by the audit team that management has already implemented some of the recommendations made by the audit team. These initiatives include charging interest to client department on outstanding amounts, implementation of rates payments on a monthly basis, ring-fencing of accommodation charges. The nature of the relationship between the PMTE, client departments and National Treasury, and the business model of the PMTE as approved by the National Treasury prior to April 2006 had resulted in the credit balance on this account.

Name: Lesetja Toona  
Position: ACD: Financial Accounting & Reporting  
Date: 14 August 2019

*Reviewed by:*

Name: Belinda van der Merwe  
Position: Technical Finance Expert  
Date: 15 August 2019

#### **Auditor's conclusion**

Management comments are noted however there is a still a concern on the going concern of the trading entity.



## Immovable Assets

### Immovable assets: Different valuation method used to value assets with the same property code (COFF 21)

#### Laws, rules and regulations

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

#### Nature

During the performance of our audit, we identified instances where different valuation methods (Municipal values, comparison approach and depreciated replacement cost) were used to value assets (Land and buildings) which share the same property code as disclosed in Table 1 below.

Furthermore, we identified instances where different valuation methods (Municipal values, comparison approach and depreciated replacement cost) were used to value improvements which share the same property code as disclosed in Annexure A.

Table 1

No.	Unique property code	Valuation method as per Land register	Valuation method as per Improvement register	Property value per assets register (Land & Buildings)
1	507781	Municipal Values	Building Indices	3 533 849,77
2	2814851	Municipal Values	Comparable sales	5 601 247,86
3	DD30082014_052118	Municipal Values	Building Indices	8 236 810,00
4	387231	Municipal Values	Building Indices	1 241 295,00
5	957674	Municipal Values	Building Indices	372 655,00
6	833141	Municipal Values	Building Indices	1 018 072,93
7	DD30082014_166625	Municipal Values	Building Indices	531 720,55
<b>Total</b>				<b>20 535 651,11</b>

#### Impact of finding

This impacted immovable assets in the following areas:

Limitation of scope on properties with different valuation methods, as we are unable to confirm:

Whether the property code is correct and the valuation method should be amended, or

Whether duplicate property codes were allocated to different properties, resulting in different valuation methods per property.

### **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**

It is recommended that:

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

Management should ensure that all properties are classified according to the use of the facility on the appropriate GRAP Standard.

Management should ensure that the approved deemed cost model is correctly applied.

Management should examine the immovable assets register to identify all properties with different valuation methods and confirm that the unique property code, site ID and deemed cost method were correctly allocated.

### **Management response**

Management is in agreement with the finding.

### **Auditor's conclusion**

Management comment noted. The finding will remain on the management report.

## **Immovable assets: Inconsistent Generally Recognized Accounting Practice Standards (GRAP) classifications between land and buildings (COFF 22)**

### **Laws, rules and regulations**

Section 40 (a) and (b) of the Public Finance Management Act (PFMA) states that: *“The accounting officer for a department, trading entity or constitutional institution 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 and 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 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 5 of GRAP 16 states that *“Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative purposes, or sale in the ordinary course of operations”*

Paragraph 6 of GRAP 17 states that *“Property, plant and equipment are tangible non-current assets that are held for use in the production or supply of goods or services, rental to others, strategic or for administrative purposes, and are expected to be used during more than one period”*

Paragraph 4 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 1.1 Significant judgement and sources of estimation uncertainty to the annual financial statements for the year ended 31 March 2019, subsection 1.1.9 Classification of immovable assets states that “Judgement is applied when classifying immovable assets between property, plant and equipment, investment property and heritage assets. Consideration is given to the type of property, the purpose for which the property is held, and the occupant. The main factor considered is whether PMTE holds the asset either for service delivery (In accordance with government objective), resulting in property, plant and equipment, or for capital appreciation and/or earning or rentals, resulting in investment property, or for future generations resulting in heritage assets. Where state property is rented out to another government entity or public service employees to provide cost effective accommodation services or for social services, these properties are classified as property, plant and equipment rather than investment property as the PMTE holds these assets to deliver on its mandate rather than to earn rentals or capital appreciation.*

*PMTE determines the intended use of a facility by evaluating the characteristics of the facility against the criteria for Investment Property. The criteria for Investment Property are as follows: The intended use is of a dual nature/purpose. A facility will only be classified as Investment Property if the main purpose and most significant use of the facility is to earn rentals or capital appreciation”*

## Nature

During the performance of our audit, we identified instances where land and buildings within one unique property code were inconsistently classified between the Standards of GRAP (GRAP 16, GRAP 17 and GRAP 103) as disclosed in tables below.

### Land register

Number of items identified	AFS Classification as per land register	AFS Classification as per Improvements register	Total Deemed cost amount in Rands
102	GRAP 17	GRAP 16	1 160 401 317
62	GRAP 17	GRAP 103	251 506 923
53	GRAP 103	GRAP 17	40 383 167
59	GRAP 16	GRAP 17	56 797 450
<b>Total</b>			<b>1 509 088 857</b>

### Improvement register

Number of items identified	AFS Classification as per land register	AFS Classification as per Improvements register	Total Deemed cost amount in Rands
263	GRAP 17	GRAP 16	4 125 072 555
544	GRAP 17	GRAP 103	458 065 116
325	GRAP 103	GRAP 17	278 413 743
631	GRAP 16	GRAP 17	129 230 567
<b>Total</b>			<b>4 991 653 459</b>

## Impact of finding

This impacted immovable assets in the following areas:

Each class of Standards of GRAP may be overstated or understated.

Depreciation procedures may not be performed for assets that are classified under GRAP 103, but should be classified on other Standards of GRAP.

## 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**

It is recommended that:

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

Management should ensure that all properties are classified according to the use of the facility on the appropriate GRAP Standard.

Management should check classification of component and infrastructure and ensure that it consistent with the classification of the improvements it relate too.

### **Management response**

Management agrees with the finding. Management will review the GRAP classifications to ensure there is alignment between land and improvement register.

### **Auditor's conclusion**

Management comment noted. The finding will remain on the management report.

## Immovable assets: Duplicate Buildings (COFF 23)

### Laws, rules and regulations

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

### Nature

During the performance of our audit, we identified instances where assets (Buildings) were duplicated on the immovable asset register as disclosed in table below.

Number of items identified duplicated on the IAR	Deemed cost as per IAR.	Accumulated depreciation as per IAR	Depreciation as per AIR	Carrying value as per AIR
177	124 221 910	24 852 364	4 142 061	99 369 632

### Impact of finding

This impacted immovable assets in the following areas:

Carrying value of assets as at 31 March 2019 is overstated by R99 369 632

Accumulated depreciation: PPE is overstated by R24 852 364

Surplus for the year ended 31 March 2019 is understated by R4 142 061 and depreciation is overstated by the same amount.

Accumulated surplus as at 31 March 2018 is understated by R20 710 303

### 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**

It is recommended that:

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

Management should ensure that all inputs and supporting schedules to the immovable asset register are adequately reviewed.

Management should perform a duplicate check on the immovable assets register to ensure that no asset has been duplicated resulting in an overstatement.

### **Management response**

Management is in agreement with the finding.

### **Auditor's conclusion**

Management comment noted. The finding will remain on the management report.

## Depreciation differences

### Laws, rules and regulations

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

Generally Recognised Accounting Practice (GRAP) 17 paragraph 6 states that: *“Useful life is the period over which an asset is expected to be available for use by an entity”*

Generally Recognised Accounting Practice (GRAP) 17 paragraph 55 states that: *“The depreciable amount of an asset shall be allocated on a systematic basis over its useful life.”*

### Nature

During the audit of immovable assets, we noted differences between management recalculations and auditor's recalculations as disclosed in the table below. These differences were mainly due to the following:

Differences in recalculated deemed cost.

The estimated useful lives used on the immovable asset register to calculate depreciation do not agree to the estimated useful lives as per the immovable asset management policy.

The remaining useful lives for the assets that had a change in condition was not revised.

### GRAP 17 – Property, plant and equipment

Asset	Accumulated depreciation as at 31 March 2018	Auditors recalculated accumulated depreciation as at 31 March 2018	Difference – Accumulated depreciation	Depreciation for the year ended 31 March 2019	Auditors recalculated depreciation for the year ended 31 March 2019	Difference – Current year depreciation
Improvements	1 452 287 879	1 327 281 110	(125 006 768)	287 910 807	265 456 222	(22 454 585)

### GRAP 16 – Investment Property

Asset	Accumulated depreciation as at 31 March 2018	Auditors recalculated accumulated depreciation as at 31 March 2018	Difference – Accumulated depreciation	Depreciation for the year ended 31 March 2019	Auditors recalculated depreciation for the year ended 31 March 2019	Difference – Current year depreciation
Improvements	409 254 226	408 356 507	(897 719)	81 850 845	81 671 301	(179 544)



### **Impact of finding**

Based on the sample tested,

Property, plant and equipment – accumulated depreciation opening balance is overstated by R125 006 768 and current year depreciation and accumulated depreciation is overstated by R22 454 585

Investment property – accumulated depreciation opening balance is overstated by R897 719 and current year depreciation and accumulated depreciation is overstated by R179 544

However, management should revisit the whole population to determine the full impact of this finding.

### **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.

Management did not review annual financial statements before submission for audit.

### **Recommendation**

It is recommended that:

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

Management should allocate correct useful lives to assets as per asset management policy and accounting policy.

### **Management response**

Awaiting the management response.

### **Auditor's conclusion**

Awaiting the management response.

## Differences in asset values where MVR was used as a valuation method

### Laws, rules and regulations

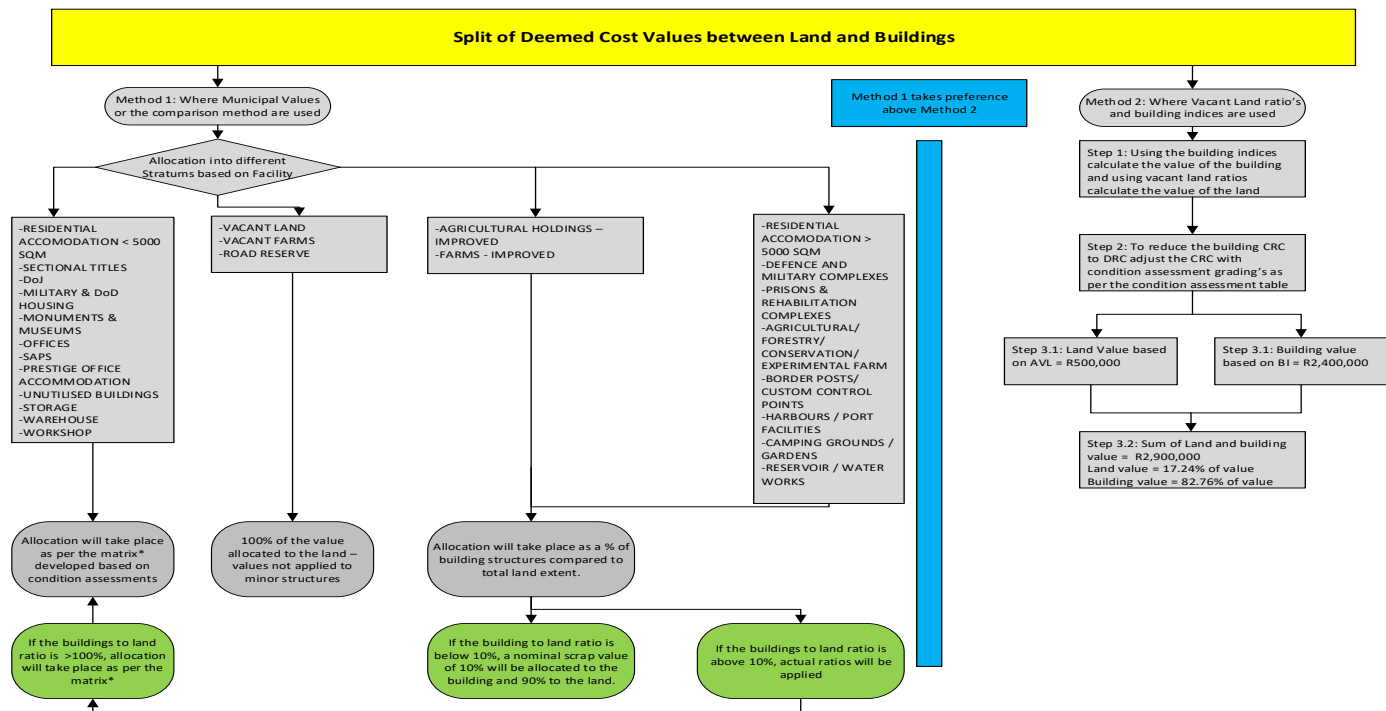
Section 40(a) and (b) of the Public Finance Management Act (PFMA) states that: *“The accounting officer for a department, trading entity or constitutional institution must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards; must prepare financial statements for each financial year in accordance with generally recognized accounting practice...”*

Generally Recognised Accounting Practice (GRAP) 17 paragraph 38 states that: *“If there is no market-based evidence of fair value because of the specialised nature of the item of plant and equipment, an entity may need to estimate fair value using, for example, either reproduction cost or depreciated replacement cost. The depreciated replacement cost of an item of plant or equipment may be established by reference to the market buying price of components used to produce the asset or the indexed price for the same or a similar asset based on a price for a previous period. When the indexed price method is used, judgement is required to determine whether production technology has changed significantly over the period, and whether the capacity of the reference asset is the same as that of the asset being valued....”*

Directive 7 paragraph 6 states that: *“When an entity initially recognises or acquires an asset using the Standards of GRAP, it measures such assets using either cost or fair value (acquisition cost). Where the acquisition cost of an asset is not available on the adoption of the Standards of GRAP or on the transfer date or the merger date (initial acquisition), acquisition cost is measured using a surrogate value (deemed cost) at the date an entity adopts the Standards of GRAP or on the transfer date or the merger date (measurement date). Deemed cost is determined as the fair value of an asset at the measurement date...”*

Directive 7 paragraph 10 (a) to (c) states that: *“If fair value at the measurement date cannot be determined for an item of property, plant and equipment, investment property or a heritage asset, an entity may estimate such fair value using depreciated replacement cost at the measurement date for an item of property, plant and equipment; depreciated replacement cost at the measurement date for an investment property, but only if the investment property is of such a specialized nature that there is no market-based evidence of fair value; and replacement cost at the measurement date for heritage assets...”*

Chapter 4.4 (4.4.1) to (4.4.2) of the Model for applying municipal values, comparative municipal values/ sales and replacement costs as deemed cost of immovable assets of the Property Management Trading Entity (PMTE) as at 1 April 2013 outlines the process for Determining the Land Value states that: **“Allocation of deemed cost to Land and Improvements in the cases where Municipal Values / the comparison method are used – The preferred and first option to split between land & improvements is the stratification process / bucketing system, where properties are arranged in specific strata in order to split the MVR or Sales Comparison Values between land and buildings. We have analysed the different classes of properties and stratified them based on the current use, service delivery purpose and extents of land and buildings in order to determine a consistent and systematic way of apportioning values between land and buildings. The table and diagram below explains the approach taken on the stratification process to provide a fair split between land and improvements:**



## Nature

During the audit of immovable assets, we noted differences between improvements and land deemed cost recorded in the immovable assets register (IAR) to that calculated by auditors where municipal values roll was used as a valuation method. These differences were mainly due to the following:

Incorrect split between land and improvements using bucketing system instead of the stratification process.

In some cases, the property value as per IAR (Land, improvements and components) is greater than the property value as per municipal valuation roll.

This resulted to the following differences as shown in the tables below for respective GRAP Standards after taking components into account.

### GRAP 16 – Investment Property (Land)

No	Unique Property Code	Current use of asset as per physical verification	DEEMED COST FOR DISCLOSURE	Recalculated deemed cost	Differences
1	DEEDS63351	EDUCATION AND TRAINING	3 039 877	6 079 754	3 039 877
<b>Total</b>			<b>3 039 877</b>	<b>6 079 755</b>	<b>3 039 877</b>

### GRAP 17 – Property, plant and equipment

#### Land

No	Unique Property Code	Current use of asset as per physical verification	DEEMED COST FOR DISCLOSURE	Recalculated deemed cost	Differences
1	3120071	RESIDENTIAL ACCOMODATION	4 594 783	3 428 943	(1 165 840)
2	813671	PRISON	2 956 290	2 665 435	(290 855)
3	966101	POLICE STATION	617 400	504 000	(113 400)
4	820238	EDUCATION AND TRAINING	26 857 608	26 829 504	(28 104)
5	2693441	MUSEUM	6 750 000	3 000 000	(3 750 000)
6	3121791	RESIDENTIAL ACCOMODATION	2 619 215	1 653 240	(965 975)
7	1137501	MUSEUM	32 623 940	18 124 411	(14 499 529)
8	494701	RESIDENTIAL ACCOMODATION	2 512 925	1 396 069	(1 116 856)
9	2546041	MUSEUM	3 615 085	2 008 381	(1 606 705)
10	1137502	MUSEUM	15 165 723	6 740 321	(8 425 402)
11	601471	RESIDENTIAL ACCOMODATION	38 322 900	24 255 000	(14 067 900)
12	1385511	RESIDENTIAL ACCOMODATION	1 880 000	3 290 000	1 410 000
13	DD30082014_052118	AGRICULTURE	500 000	820 007	320 007
14	DD30082014_166625	VACANT STAND	16 435	250 000	233 565
15	3181081		1 881 020	940 510	(940 510)

No	Unique Property Code	Current use of asset as per physical verification	DEEMED COST FOR DISCLOSURE	Recalculated deemed cost	Differences
<b>Total</b>			<b>140 913 324</b>	<b>95 905 821</b>	<b>(45 007 503)</b>

## Buildings / improvements

No	Building Id	Unique prop code of land parcel site	Facility Type as per physical verification	DEEMED COST FOR SUBMISSION_30 JUNE 2019	Recalculated deemed cost	Differences
1	200000118859	979081	PRISON	2 870 095	4 848 712	1 978 617
2	200000069329	616752	PRISON	2 628 772	2 641 031	12 260
3	200000069327	616752	PRISON	2 497 665	2 509 313	11 648
4	200000048995	393451	STORAGE	950 877	347 146	(603 731)
5	100000030832	804621	STORAGE	3 644 971	2 186 982	(1 457 988)
6	100000030831	804621	STORAGE	4 686 156	2 811 694	(1 874 462)
7	100000028355	804621	STORAGE	4 296 328	2 577 797	(1 718 531)
8	100000045543	820231	HOSTEL	7 446 669	9 039 173	1 592 504
9	100000045473	820231	HOSTEL	4 815 567	5 845 398	1 029 831
10	200000114411	46491	OFFICE	3 208 321	7 914 667	4 706 346
11	200000114410	46491	OFFICE	3 344 394	8 250 348	4 905 954
<b>Total</b>				<b>40 389 816</b>	<b>48 972 262</b>	<b>8 582 446</b>

## GRAP 103 – Heritage assets

## Land

No	Unique Property Code	Current use of asset as per physical verification	DEEMED COST FOR DISCLOSURE	Recalculated deemed cost	Differences
1	8263711	PRISON	1 227 013	1 239 533	12 521
2	1407055	EXPERIMENTAL FARM	1 888 397	1 875 000	(13 397)
3	130736	PARKING	2 410 057	2 424 272	14 215
4	136991	RESIDENTIAL ACCOMODATION	1 260 000	700 000	(560 000)
5	2819841	POLICE STATION	4 490 691	2 124 569	(2 366 122)
6	DD30082014_1 04400	OFFICE	3 438 740	3 820 822	382 082
<b>Total</b>			<b>14 714 897</b>	<b>12 184 196</b>	<b>(2 530 701)</b>

## Buildings

No	Building Id	Unique prop code of land parcel site	Facility Type as per physical verification	DEEMED COST FOR SUBMISSION_30 JUNE 2019	Recalculated deemed cost	Differences
1	200000031330	440261	OFFICE	88 313	7 638	(80 676)
2	200000036395	DEEDS 180202	STORAGE	44 350	61 056	16 706
3	200000036390	DEEDS 180202	WORKSHOP	129 234	174 078	44 845
4	200000035667	DEEDS 180161	STORAGE	64 268	62 251	(2 017)
5	100000001035	1137502	MUSEUM	1 139 460	6 836 762	5 697 302
6	200000057342	1137501	MUSEUM	1 834 094	9 170 468	7 336 374

No	Building Id	Unique prop code of land parcel site	Facility Type as per physical verification	DEEMED COST FOR SUBMISSION 30 JUNE 2019	Recalculated deemed cost	Differences
7	100000001196	2847803	MUSEUM	555 956	3 032 485	2 476 530
8	200000027764	2693441	MUSEUM	286 121	1 716 724	1 430 603
9	216650118	2546041	UNULITIZED	141 440	141 112	(328)
10	200000028777	1348371	MUSEUM	342 894	2 057 366	1 714 471
11	200000043836	494701	RESIDENTIAL HOUSE	175 251	876 256	701 005
<b>Total</b>				<b>4 801 381</b>	<b>24 136 196</b>	<b>19 334 816</b>

### Impact of finding

Based on the sample tested, deemed cost is

Investment property land is understated by R3 039 877

Property, plant and equipment buildings are understated by R36 425 057 (45007503-8582446), depreciation is also understated by an undeterminable amount.

Heritage assets buildings are understated by R16 804 115 (19334816-2530701).

However, management should revisit the whole population to determine the full impact of this finding.

### 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.

Management didn't properly review the split of land and buildings against the deemed cost position paper.

### Recommendation

It is recommended that

Management review all the split between land and improvements using bucketing system and stratification process so that correct value is allocated to the asset.

Management must review the municipal valuation roll value against the value allocated on the IAR to ensure that the value agrees.

### Management response

Management partially agrees with the finding.

The impact of the findings raised by the AG shall not have an impact on the cost of immovable assets in the financial statements as a class item (e.g. PPE). The finding results in differences in the allocation between land and buildings and potential depreciation differences but cost is still correct.

The AGSA has raised 44 exceptions. Of the 44, 40 relate to issues of the AGSA using the wrong matrix to value the various properties, not accounting for a parent facility in performing the calculations, not including buildings in a facility that are not disclosed in the IAR for purposes of calculating the value of a property or AGSA incorrectly concluding that a understatement shall result from the error identified.

### **Auditor's conclusion**

Management comment noted. The finding will remain on the management report.

### Immovable assets: Duplicate assets between the asset registers of the different custodians (COFF 77)

#### Laws, rules and regulations

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

#### Nature

During the performance of the CAATS investigative analysis, it was noted that there are duplicate assets between the asset register of PMTE and other government custodians of immovable assets. This should be investigated by management to ensure that the rightful custodian is disclosing the immovable asset. (Table A- B)

We further noted that some properties were registered under the private owner's name or municipality name on the deeds register. This should be investigated by management to ensure that the rightful custodian is disclosing the immovable asset. (Table C- D)

The assets as outlined in the table below were found to be duplicates between the PMTE asset register and Department of Rural Development and Land Reform asset register

Table A

Unique Property Code	LPI Code (as per deeds/aktex)	Property Description	Title Deed Number (as per deeds/aktex)	CARRYING VALUE 31 MARCH 2018
600000010208	T0JT00000000025100024	N/A	T11561/1992	43 789

The assets as outlined in the table below were found to be duplicates between the PMTE asset register and Department of Deference (DoD) asset register.

Table B

Unique Property Code	LPI Code (as per deeds/aktex)	Property Description	Title Deed Number (as per deeds/aktex)	CARRYING VALUE 31 MARCH 2018
600000010132	C01600070000037000000	N/A	CPF28-6/1914	9 710
600000010133	C01600070000037100000	N/A	CPF20-43/1894	9 630
600000010134	C01600070000037200000	N/A	CPF20-25/1892	10 957
100000017069	C01600070000180100000	ERF 1801 PORTION 0 OF CAPE TOWN	CPF20-27/1892	6 364
100000017068	C01600070000180200000	N/A	CPF20-27/1892	1 294 261
600000010143	C01600070006604700000	N/A	CPF18-34/1886	213 937
600000010144	C01600070006604800000	N/A	CPF19-20/1888	26 679



Unique Property Code	LPI Code (as per deeds/aktex)	Property Description	Title Deed Number (as per deeds/aktex)	CARRYING VALUE 31 MARCH 2018
100000017057	C01600070008701200000	ERF 87012 PORTION 0 OF CAPE TOWN	T19355/1964	108 107
100000017052	C01600070008709200000	ERF 87092 PORTION 0 OF CAPE TOWN	T8576/1943	130 710
600000010135	C01600210000125200000	N/A	CPF21-36/1897	69 022
600000010145	C01600240000120900000	N/A	T5890/1971	952 072
100000016525	C01600510000055800000	ERF 558 PORTION 0 OF SEA POINT EAST	CPF21-3/1894	680 592
200000085427	C01600540000054400000	ERF 544 PORTION 0 OF SIMON'S TOWN	CPF19-22/1888	1 340 139
100000017410	C01600540000054500000	ERF 545 PORTION 0 OF SIMON'S TOWN	CPF24-12/1904	54 392
100000017055	C01600540000107600000	ERF 1076 PORTION 0 OF SIMON'S TOWN	T51/1959	1 352 857
600000010136	C01600540000107700000	N/A	G110/1956	73 889
600000010137	C01600540000124900000	N/A	SIF1-41/1888	8 805
600000010141	C01600540000266600000	N/A	T89827/1993	26 625
26770	C01600540000377900000	ERVEN 3779 PORTION 0 OF SIMON'S TOWN	DEEDS13131	191 874
100000016928	C01600570000008100000	ERF 81 PORTION 0 OF TAMBOERSKLOOF	CPF20-31/1893	38 752
600000010017	F00300000000065400149	N/A	T2588/1972	15 612
200000070408	F00300030000329900000	ERVEN 3299 PORTION 0 BLOEMFONTEIN	T2731/1938	118 729
600000010013	F00300030002638800000	N/A	T4019/1962	15 819
200000077619	T0IQ00000000043500000	FARM 435 PORTION 0 IQ	T2345/1906	8 113 821
3209631	T0JR00000000035100270	FARM 351 PORTION 270 OF PRETORIA TOWN AND TOWNLANDS	DEEDS13130	151 109
600000010023	T0JR00000000035800007	N/A	T34895/1947	1 516 908
600000010024	T0JR00000000035800096	N/A	T48302/1980	8 996
<b>Total</b>				<b>16 540 368</b>

The assets as outlined in the table below were found to be properties that were registered in a municipality's name on the deeds register.

Table C

Unique Property Code	LPI Code (as per deeds/aktex)	Property Description	Title Deed Number (as per deeds/aktex)	Owner as per deeds	CARRYING VALUE 31 MARCH 2018
EC332_238	C06200410000000500000	ERF 5 WHITTLESEA	T13867/1978-CT	ENOCH MGIJIMA LOCAL MUNICIPALITY	324 171
EC332_239	C06200410000000800000	ERF 8 WHITTLESEA	T2946/1980-CT	ENOCH MGIJIMA LOCAL MUNICIPALITY	162 161

Unique Property Code	LPI Code (as per deeds/aktex)	Property Description	Title Deed Number (as per deeds/aktex)	Owner as per deeds	CARRYING VALUE 31 MARCH 2018
EC332_241	C06200410000001300000	ERF 13 WHITTLESEA	T18648/1979-CT	ENOCH MGIJIMA LOCAL MUNICIPALITY	291 769
EC332_245	C06200410000002100000	ERF 21 WHITTLESEA	T17211/1979-CT	ENOCH MGIJIMA LOCAL MUNICIPALITY	237 715
EC332_246	C06200410000003000000	ERF 30 WHITTLESEA	T6989/1968-CT	ENOCH MGIJIMA LOCAL MUNICIPALITY	569 305
EC332_248	C06200410000003500000	ERF 35 WHITTLESEA	T23512/1980-CT	ENOCH MGIJIMA LOCAL MUNICIPALITY	389 126
EC332_251	C06200410000008900000	ERF 89 WHITTLESEA	T25506/1979-CT	ENOCH MGIJIMA LOCAL MUNICIPALITY	895 445
EC332_252	C06200410000009000000	ERF 90 WHITTLESEA	T25506/1979-CT	ENOCH MGIJIMA LOCAL MUNICIPALITY	237 715
<b>Total</b>					<b>3 107 408</b>

The assets as outlined in the table below were found to be properties that had different names on the deeds register.

Table D

Unique Property Code	LPI Code (as per deeds/aktex)	Property Description	Title Deed Number (as per deeds/aktex)	Owner as per deeds	CARRYING VALUE 31 MARCH 2018
DEEDS17701	C03600060000099000000	ERF 990 KAKAMAS	T31633/1999CTN	ALEXANDER JOHANNES	316 667
DEEDS17702	C03600060000099200000	ERF 992 KAKAMAS	T10743/1997CTN	ASGAAI GRIET	470 476
DEEDS17707	C03600060000099700000	ERF 997 KAKAMAS	T31631/1999CTN	BASSON ANNA	190 000
DEEDS17648	C03600060000100300000	ERF 1003 KAKAMAS	T10747/1997CTN	BASSON HANS	161 229
571421	C03600060000158400000	ERF 1584 KAKAMAS	T56499/2012CTN	BRAND NICOLAAS ALBERTUS	40 714
DEEDS17688	C03600060000041400000	ERF 414 KAKAMAS	T51564/2006CTN	DUMAS JOSEPH WILLIAM	90 476
DEEDS17658	C03600060000143700000	ERF 1437 KAKAMAS	T99668/2006CTN	ENGELBRECH T JOHANNA	90 476
DEEDS17685	C03600060000041000000	REMAINDER OF ERF410 KAKAMAS	T61953/1989CTN	HAM PETRONELLA SUSANNA VAN DER	63 333

Unique Property Code	LPI Code (as per deeds/aktex)	Property Description	Title Deed Number (as per deeds/aktex)	Owner as per deeds	CARRYING VALUE 31 MARCH 2018
DEEDS17664	C03600060000158800000	ERF 1588 KAKAMAS	T40842/2009CTN	HUYSAMEN PATRICK JACOBUS	27 143
570291	C03600060000098900000	ERF 989 KAKAMAS	T59838/1995CTN	ISAAKS CHRISTINA	301 730
DEEDS17667	C03600060000159100000	ERF 1591 KAKAMAS	T14722/2009CTN	JACOBS PETRUS CASPARUS	36 190
DEEDS17704	C03600060000099400000	ERF 994 KAKAMAS	T2013/2007CTN	KROON SUSANNA	361 905
1650481	C03600060000041300000	ERF 413 KAKAMAS	T61061/2007CTN	MINNAAR HANNES	195 429
555291	C03600060000002900000	REMAINDER OF ERF 29 KAKAMAS	T55727/1991CTN	MUN KAI GARIB	188 191
DEEDS17696	C03600060000098500000	ERF 985 KAKAMAS	T9963/1991CTN	MUN KAI GARIB	298 572
DEEDS17650	C03600060000101500000	ERF 1015 KAKAMAS	T9963/1991CTN	MUN KAI GARIB	45 238
DEEDS17657	C03600060000140600000	ERF 1406 KAKAMAS	T52674/1995CTN	MUN KAI GARIB	80 614
DEEDS17659	C03600060000144000000	ERF 1440 KAKAMAS	T52674/1995CTN	MUN KAI GARIB	180 952
DEEDS17671	C03600060000218200000	ERF 2182 KAKAMAS	T24314/2016CTN	MUN KAI GARIB	1 219 619
DEEDS17673	C03600060000027800000	ERF 278 KAKAMAS	T46778/1998CTN	NATIONAL GOVERNMENT OF THE REPUBLIC OF SOUTH AFRICA	749 143
DEEDS17683	C03600060000040700000	ERF 407 KAKAMAS SUID SETT	T16002/1976CTN	NATIONAL GOVERNMENT OF THE REPUBLIC OF SOUTH AFRICA	117 619
DEEDS17694	C03600060000083400000	ERF 834 KAKAMAS	T42651/2001CTN	PLESSIS KATRINA ELIZABETH DU	211 714
DEEDS17662	C03600060000158600000	ERF 1586 KAKAMAS	T66374/2011CTN	REID ROBERT BURDON	9 048
DEEDS17646	C03600060000100000000	ERF 1000 KAKAMAS	T10764/1997CTN	ROOI PETRUS VAN	27 250
DEEDS17698	C03600060000098700000	ERF 987 KAKAMAS	T60905/1996CTN	SPANGENBERG FREDERICK WILLIAM CHRISTOPHER	687 619
DEEDS17666	C03600060000159000000	ERF 1590 KAKAMAS	T58481/2015CTN	STEMMET WILHELMINA	1 120 441
<b>Total</b>					<b>7 281 790</b>

**Impact of finding**

The immovable asset register may be overstated. If the auditee fails to investigate or take action after being informed of the possible overstatement, auditors may consider reporting the overstatement. This will be followed up in the next audit cycle.

**Internal control deficiency***Leadership*

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal control.

*Financial and performance management*

Management 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.

**Recommendation**

Management should investigate to ensure that the assets are disclosed by the rightful custodian.

**Management response**

Management partially agrees with the finding.

Management agree with the findings in Tables A through D in principle. Further investigations to be conducted.

**Auditor's conclusion**

Management comment noted. This finding will be followed up in the next financial period.

## Commitments

**Commitments Differences noted in amount disclosed****Laws, Rules and Regulations**

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

GRAP 1 par .17 states that *“Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses. The application of Standards of GRAP with additional disclosures, when necessary, is presumed to result in financial statements that achieve a fair presentation.”*

**Nature**

During the audit of contractual commitments, the following difference was identified on the consultant authoriser amounts.

WCS No	Project Description	Consultant authorised amount per schedule	Consultant authorised amount per supporting documentation	Difference
045757	Construction of new building	81 347 976,89	81 647 976,89	300 000,00

**Impact of finding**

The finding may result in understatement of commitments by R300 000,00

**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 accurate and presented fairly

**Management response**

Management is in agreement with the finding.

The difference, as indicated by the AGSA is exactly R300,000. This was due to a typing error that the parties involved did not note and correct at the time. (Typing a “3” instead of “6” on the keyboard – these buttons are next to each other on the keyboard)

Note that the funds approved was in fact R 300 000 less than the approved amount.

**Auditor's conclusion**

Management response agrees with the finding, therefore the finding remains.

**Understatement of commitments****Laws, Rules and Regulations**

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

**Nature**

During the final audit we noted that the following project contract was not included on the commitment and retention schedule although it was on-going as at 31 March 2019.

No	WCS	Detailed scope of work	Amount as per Commitment Schedule as at 31 March 2019 [R]	Amount as per appointment letter and WCS report as at 31 March 2019 [R]	Differences [R]
1.	WCS50835	REFURBISHMENT AND UPGRADE OF FIRE SERVICES AND PUBLIC ADDRESS SYSTEM AT THE UNION BUILDING	R0,00	R22 690 916,00	(R22 690 916,00)

**Impact of finding**

The aforementioned findings may result in understatement of commitments and retention schedule by R 22 690 916,00

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

Management did not implement controls over daily and monthly processing and reconciling of transactions.

**Recommendation**

Management should update the commitment and retention schedule timeously.

**Management response**

Management is in agreement with the finding. The responsible project manager inadvertently omitted the project during the preparation of WCS commitments workbooks.

Management is of the opinion that this matter is isolated for the following reasons:

To check the completeness of the WCS Commitments, Head Office finance obtains a listing of all tenders awarded during the financial year from SCM head office.

It is a business process that regional SCM should forward a listing of all tenders awarded weekly to head office SCM.

In this instance the regional SCM inadvertently omitted to include this award during the listing of tenders in the register; hence, it was not included in the commitments schedule which head office SCM submitted to head office finance.

Subsequent to this audit finding, Regional SCM inspected all RBAC minutes to identify other tenders which were not submitted to head office SCM and the result was that this was the only tender awarded during the 2018/2019 financial year which was not submitted to head office SCM. (Evidence of this work can be obtained from Director: SCM Pretoria Regional Office)

Management is therefore of the opinion that this is an isolated incident, and that the population is clean of other errors and therefore should not be extrapolated.

Name: Ms Tebogo Phiri  
Position: Regional Manager  
Date: 22 July 2019

*Reviewed by:*  
Name: Ms Belinda van der Merwe  
Position: Technical Finance Expert  
Date: 31 July 2019

### **Auditor's conclusion**

Management comment is noted however extrapolation of the error will be dependent on the other errors that would have been identified from other regions.



## Contingent Assets

**Understatement of contingent assets****Laws, Rules and Regulations**

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

**Nature**

During the final audit we noted that contingents' assets under Pretoria region were not included/ added to the consolidated contingent assets disclosure note number 30. contingencies.

No	Details	Amount as per litigation Schedule as at 31 March 2019 [R]	Differences [R]
1.	Contingent Assets	925 911,75	925 911,75

**Impact of finding**

Understatement of contingent assets by R 925 911,75

**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.

Lack of proper reviews of the schedules submitted for audit to ensure that they are accurate and complete. The format of the amounts in the schedule was not in a number format and as a result the amount for contingent assets was reflected as a R0,00 as the formulas could not work

**Recommendation**

It is recommended that proper process for reviews should be implemented on the annual financial statements and supporting schedules to ensure that accurate and complete amounts are disclosed in the annual financial statements.

**Management response**

Management is not in agreement with the finding.

The Department will disclose Contingent Liabilities or Assets in a case where legal action has been instituted (by way of either a Summons or Notice of Motion) refer to Page 19 of Accounting Manual for Departments attached hereto.

In the matters raised in this Communication of Factual Finding, the Department has not instituted an action as provided for in the Manual. The matters have been referred to the State Attorney (The Department's lawyers) and the latter has not yet expressed an opinion on the probability of the claims as prescribed by the manual.

Name: Ms Tebogo Phiri  
Position: Regional Manager  
Date: 2019/07/26

**Auditor's conclusion**

Management comment is noted however the finding remains for the following reasons:

Contingent assets or files that are included under the amount of R925 911,75 were requested and management submitted the files and was determined that they do qualify for contingent assets.

As a result of the audit test performed it was verified that the amount qualifies as contingent assets and should therefore be disclosed in the note for contingencies.

## Procurement and contract management

**No measures in place to monitor contract performance and delivery have been defined and implemented (COFF 4 MMB)****Laws, rules and legislation**

Public Finance Management Act section 38(1)(a), 38(1)(b), 38(1)(c) state the following:

*“The accounting officer for a department, trading entity or constitutional institution must ensure that that department, trading entity or constitutional institution has and maintains an effective, efficient and transparent systems of financial and risk management and internal control; is responsible for the effective, efficient, economical and transparent use of the resources of the department, trading entity or constitutional institution; must take effective and appropriate steps to collect all money due to the department, trading entity or constitutional institution; prevent unauthorised, irregular and fruitless and wasteful expenditure and losses resulting from criminal conduct; and manage available working capital efficiently and economically...”*

General Conditions of Contract (GCC) (2010) paragraph 21 and 22 state that: *“Delivery of the goods and performance of services shall be made by the supplier in accordance with the time schedule prescribed by the purchaser in the contract. If at any time during performance of the contract, the supplier or its subcontractor(s) should encounter conditions impeding timely delivery of the goods and performance of services, the supplier shall promptly notify the purchaser in writing of the fact of the delay, its likely duration and its cause(s). As soon as practicable after receipt of the supplier’s notice, the purchaser shall evaluate the situation and may at his discretion extend the supplier’s time for performance, with or without the imposition of penalties, in which case the extension shall be ratified by the parties by amendment of contract. If at any time during performance of the contract, the supplier or its subcontractor(s) should encounter conditions impeding timely delivery of the goods and performance of services, the supplier shall promptly notify the purchaser in writing of the fact of the delay, its likely duration and its cause(s). As soon as practicable after receipt of the supplier’s notice, the purchaser shall evaluate the situation and may at his discretion extend the supplier’s time for performance, with or without the imposition of penalties, in which case the extension shall be ratified by the parties by amendment of contract. The right is reserved to procure outside of the contract small quantities or to have minor essential services executed if an emergency arises, the supplier’s point of supply is not situated at or near the place where the supplies are required, or the supplier’s services are not readily available. Except as provided under GCC Clause 25, a delay by the supplier in the performance of its delivery obligations shall render the supplier liable to the imposition of penalties, pursuant to GCC Clause 22, unless an extension of time is agreed upon pursuant to GCC Clause 21.2 without the application of penalties. Upon any delay beyond the delivery period in the case of a supplies contract, the purchaser shall, without cancelling the contract, be entitled to purchase supplies of a similar quality and up to the same quantity in substitution of the goods not supplied in conformity with the contract and to return any goods delivered later at the supplier’s expense and risk, or to cancel the contract and buy such goods as may be required to complete the contract and without prejudice to his other rights, be entitled to claim damages from the supplier.*

*Subject to GCC Clause 25, if the supplier fails to deliver any or all of the goods or to perform the services within the period(s) specified in the contract, the purchaser shall, without prejudice to its other remedies under the contract, deduct from the contract price, as a penalty, a sum calculated on the delivered price of the delayed goods or unperformed services using the current prime interest rate calculated for each day of the delay until actual delivery or performance. The purchaser may also consider termination of the contract pursuant to GCC Clause 23.”*

**Nature**

The following discrepancies were identified during the audit of contract management:

WCS	Supplier	Description	Contract Amount
050728	Ngaatendwe Trading	Losperfontein Prison : Bane Marine X4 , Extractor FAN, Electrical Industrial Stove , Convention Oven X3, Band Saw, Cooking Pots X4, Tiling Pans X8	15 880 838,40
051875	GMD Projects	Sannieshof Police Station: Condition Based Maintenance on Structural, Electrical and Civil Elements	7 127 319,00
049593	Sebushi Somo Construction and Projects (Pty) Ltd	Ganyesa Police: Condition based maintenance of Civil, Electrical and Structural elements to the Police Station, facilities for the disabled and four houses	39 474 287, 52

It was noted during the audit of contract management that the department did provide us with site progress minutes of meetings for the above mentioned projects.

We therefore cannot determine whether there are measures and the methods were the contract is being monitored and if the measures used are sufficient to ensure effective contract management which may result in the department failing to detect under-performance of the supplier.

We could also not determine if any problems, delays or defects were identified during project monitoring or inspections have been rectified and neither could we determine if there were applicable penalties that have been invoked and/ or the contract terminated for default if supplier is not performing in accordance with the contract/ service level agreement.

### Impact of finding

Non- compliance with PFMA section 38(1)(a),38(1)(b), 38(1)(c)

Non-compliance with clause 21 and 22 of the GCC (2010)

### Internal control deficiency

#### *Financial and performance management*

Management did not adequately review and monitoring compliance with applicable laws and regulations.

### Recommendation

It is recommended that management develop or enhance compliance procedures to ensure compliance with all prescribed laws and regulations. In addition, management's compliance management tools, such as checklists, should be enhanced

It is recommended that minutes of site meetings must be kept and filed in the project files for record keeping.

### Management response

Management is not in agreement with the finding reasons being for wcs 051872 no extension of time was granted, due to late completion the penalties amounting to R 33 630 were imposed. For wcs 049593 Extension of time was granted and penalties to the amount of R247 500.00 were imposed and the contract was never terminated. WCS 051875 the department together with the consultants are managing the contract and the contractor was informed to resolve his issue of financial cash flow problems and failure to do so the project will be terminated. Monitoring of project is done through the reports that are sent to head office each month

### Auditor's conclusion

Management comments noted, however no supporting documentation was submitted to verify that the monitoring process was in place.

## Procurement: Competitive bidding – limitation of scope

### Laws, rules and legislation

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, section 41 furthermore states that an accounting officer of a department 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 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; any of the assets of or under the control of the auditee; or any staff member or representative of the auditee.”*

### Nature

Information relating to the procurement process that was followed in appointing Somana Construction CC for the projects below was requested as per request no.13 and 14 MTHA dated 04 March 2019 and this information has not been provided for audit purposes:

#### Project 1

Description: Nqamakwe Police Station: Station, Cells, Detective Office, Houses and Complete Repairs

Tender no. MTHNQCR1

Tender amount: 14 758 424.61

- a) There was no evidence provided to confirm or validate that the following was performed by the entity:

The Bid was advertised for a minimum period of 21 days before closure
The names of bidders that submitted bids were published on the auditees website within 10 days after closing date for at least 30 days
The declaration of interest (SBD4 or PA-11) that was completed and signed by the winning supplier
The declaration of bidder's past SCM practices (SBD 8) was completed and signed by the winning supplier
The certificate of independent bid determination (SBD 9) that was completed and signed by the winning supplier
The details of the winning bidder, contract number and description, preference claimed and contract price were published in the government tender bulleting or website of the auditee
The invitation to tender was advertised in the CIDB website.
The invitation for tenders that it was advertised for at least 10 working days before the closing date and 5 working days before any compulsory site meetings.
Signed contract (Only for Project 1)

### Impact of finding

More findings of this nature could have a limitation of scope impact on the audit report.

### 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**

- Agree with the audit finding however as the files has been long under scrutiny, some documents could have been misplaced.
- We acknowledge that the following procurement processes were not followed :
  1. The names of bidders were not published on the website within 10 days after closing date for at least 30 days
  2. The invitation to tender was advertised in the CIDB website.
- Payments made in the financial year were based arbitration not on services rendered in the current financial year.

### **Auditor's conclusion**

Management comments noted and the finding remains.

## Competitive bidding not followed for goods and service above R500 000 (COFF 1 MMB)

### Laws, rules and legislation

According to treasury regulation 16A6.1 *“Procurement of goods and services either by way of quotation or through competitive bidding process, must be within the threshold values as determined by National Treasury...”*

According to Treasury regulation 16A6.4 and Treasury Instruction 3 of 2016/17 *“If competitive bidding was not followed, this was done only under the following circumstances: in an emergency - where immediate action is necessary, if goods or services are produced or available from a sole provider; If not any of the above: The deviation was allowed subject to the prior written approval from the relevant treasury...”*

PFMA defines irregular expenditure as expenditure incurred in contravention of any applicable legislation.

### Nature

The following discrepancies were identified:

Bid No	Supplier	Form of offer and acceptance date	Contract period	Amount R'
MMA/0218/110774	Active boiler	2018/04/11	6 Months	639 977,76

It was noted that the above mentioned contract was awarded through the deviation process.

The requested service was classified as an emergency.

However, this was not an emergency as the department was aware that the initial contract will end on the 1 February 2017 which gave the department enough time to follow the competitive bidding process for this service.

The following were reasons provided by management for the deviation:

The two years' term contracts for maintenance, operation, repairs and servicing of boilers had expired on 01 February 2017.

The boilers were operated on a month to month basis hence there is a need to extend the operation of boilers to 6 months.

The Acting Regional Manager was requested to declare the service to operate the boilers an urgent service for 06 months at Potchefstroom DCS.

The reasons provided do not justify an emergency therefore irregular expenditure has been incurred on this contract.

### Impact of finding

This finding will lead to irregular expenditure on this contract as a result of non-compliance with National Treasury regulations.

### Internal control deficiency



### *Financial and performance management*

Management did not adequately review and monitoring compliance with applicable laws and regulations. As a result, irregular expenditure has occurred due to poor contract management.

### **Recommendation**

It is recommended that:

Management develop or enhance compliance procedures to ensure compliance with all prescribed laws and regulations. In addition, management's compliance management tools, such as checklists, should be enhanced

Management start a new procurement process six months before the expiry of the current contract.

Management investigate the reasons for the irregular expenditure and confirm if it was deliberate. The expenditure should be included in the irregular expenditure register.

### **Management response**

I am not in agreement with the finding for the following reasons:

The services was requested as an urgent service based on deviation from normal procurement process due to time constraints in carrying out such service. From that process, 6 service providers responded and were evaluated as per the PA20.7 Scoring Model (refer to the original document).

### **Auditor's conclusion**

Management comments were noted, however, this was not an emergency as the department was aware that the initial contract will end on the 1 February 2017 which gave the department enough time to follow the competitive bidding process for this service. Therefore, this finding remains unresolved.

## Procurement – Supplier not tax compliant at time of award (COFF 13 MMB)

### Laws, rules and Regulations

Public Finance Management Act (PFMA) section 38(1) (c) (g) (h) requires that: *“The accounting officer for a department, trading entity or constitutional institution must take effective and appropriate steps to collect all money due to the department, trading entity or constitutional institution; prevent unauthorised, irregular and fruitless and wasteful expenditure and losses resulting from criminal conduct; and 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 contravenes or fails to comply with a provision of this Act; commits an act which undermines the financial management and internal control system of the department, trading entity or constitutional institution; or 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.”*

### Nature

During the testing of procurement for the Mmabatho Region the following discrepancies were identified:

Number	Supplier	Description	Amount paid
1	Supplier: Hawling Management Consultants	Electrical repairs at SANDF	280 630,08

At the time of the award the Hawling Management Consultants Overall Tax Status was Non-Compliant and was last validated date 30 June 2018.

During the time of the award on 06 June 2018 the supplier was non tax compliant, we further inspected the CSD Tax Compliance Verification and confirmed that the supplier's Overall Validation to Tax Compliant status change occurred on 12 October 2018 after having been Non-Compliant since 09 September 2017.

Thus the amount should have been included as irregular expenditure, however it was not included in the irregular expenditure register, the detail of the transaction can be seen below:

### Impact of finding

Non- compliance with PFMA sections 38(1)(c),38(1)(g), 38(1)(h)

Understatement of Irregular Expenditure by R280 630,00.

### 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.

### **Recommendation**

Management should ensure that all information related to irregular expenditure is captured completely in the registers supporting the financial statement and that all registers are reviewed to ensure that irregular expenditure has been completely recorded.

### **Management response**

Management is not in agreement with the finding.

When invoking the emergency procurement process it is impractical to follow the normal procurement process that includes the verification of tax matters prior to award. The contractor was however requested to resolve their tax matters when this non-compliance was identified. A reasonable time was afforded to the service provider to remedy their tax matters and this was eventually resolved.

Additionally, payment for services rendered was done only after the Tax Affairs were compliant.

### **Auditor's conclusion**

Management comments were noted, however in terms of the treasury regulation tax matters must be verified during procurement process.

## Designated Sector compliance not adhered to in the procurement process

### Laws, rules and Regulations

Section 40 (1) (a) of the Public Finance Management Act states that “The accounting officer for a trading entity must keep full and proper records of the financial affairs of the trading entity in accordance with any prescribed norms and standards”

Section 217 (1) of the Constitution of The Republic of South Africa, 1996 states that “When an organ of state in the national, provincial or local sphere of government or any other institution identified in national legislation, contracts for goods or services, it must do so in accordance with a system which is fair, equitable, transparent, competitive and cost effective.”

Paragraph 9 (1) of the Preferential Procurement Regulation of 2011 states that “An organ of state must, in the case of designated sectors, where in the award of tenders local production and content is of critical importance, advertise such tenders with a specific tendering condition that only locally produced goods, services or works or locally manufactured goods, with a stipulated minimum threshold for local production and content will be considered.”

Paragraph 8 (2) of the Preferential Procurement Regulation of 2017 states that “An organ of state must, in the case of designated sector, advertise the invitation to tender with a specific condition that only locally produced goods or locally manufactured goods, meeting the stipulated minimum threshold for local production and content, will be considered.”

Paragraph 8 (5) of the Preferential Procurement Regulation of 2017 states that “A tender that fails to meet the minimum stipulated threshold for local production and content is an unacceptable tender.”

National Treasury Designated Sectors Instruction Number 15 of 2016-2017 in paragraph 4.1.states that Bids in respect of steel products and components of construction must contain a specific bidding condition which states that:

4.1.1 Only locally produced or locally manufactured steel products and components for constructions with a stipulated minimum threshold for local production and content will be considered.

4.1.3 Bidders must clearly indicate in their bids the quantities to be supplied and the level of local content for each product.

National Treasury Designated Sectors Instruction Number 15 of 2016-2017 in paragraph 5.1.1.1 states that Bids must be evaluated in terms of the minimum threshold stipulated in the bid documents. Further in 5.1.1.2 it states that the “The declaration made by the bidder in the Declaration Certificate for Local Content SBD 6.2 and Annexure C (Local content Declaration: Summary Schedule) must be used for this purpose.

National Treasury Designated Sectors Instruction Number 15 of 2016-2017 in paragraph 4.5, for purposes of complying with paragraph 4.1, 4.2 and 4.3 of the instruction notice, the local production and content SBD 6.2 must form part of the bid documentation. The SBD 6.2 is for use by all National, provincial departments, constitutional institutions and public entities listed in schedules 2, 3, 3A, 3B, 3C and 3D of the Public Finance Management Act.

National Treasury Designated Sectors Instruction Number 15 of 2016-2017 in paragraph 7 states “Once bids are awarded, the DTI must be:

- (i) Notified of all the successful bidders and the estimated value of the contractors; and

- (ii) Provided with copies of the contracts, the SBD6.2 certificates together with declaration C submitted by the successful bidder

The purpose of requirements of paragraph of 7.1 above is for the DTI to among others conduct non-compliance audits with a view to monitor the implementation of the industrial development strategies.

### Nature

During the audit of IDD tenders, we noted the following:

The bid specifications document did not specify the minimum threshold for local production and content which is not less than the threshold prescribed in the relevant National Treasury (NT) Instruction Notes.

The bidders were not requested to submit the SBD6.2 declaration form for local production and content.

We were not provided with evidence that the DBSA had notified the DTI of the successful bidder for the tenders with steel products or have components of the construction together with the SBD 6.2 certificates of declaration.

We therefore could not verify the compliance to the designated sector requirements. Furthermore, no measures were put into place to monitor that the supplier is delivering goods that comply with the minimum threshold for local content.

No.	Tender Number	Designated sectors item identified	Contract amount	Paid as at 31 March 2019
10	RFP177/2018 Vharanani Properties Procurement strategy for the appointment of a contractor for repairs and upgrade to civitas building: Phase 2	1. Steel Products and Components for Construction - Fasteners and frames: Doors 2. Valve products and Actuators - Ball Valves (no measurement listed) 3. Valve products and Actuators - Gate Valves (no measurement listed)	R74 297 113,58	R-
15	RFP031/2018 Metroprojects Welkom SAPS: Repairs and Renovations for Phase 1	1. Steel Products and Components for Construction - Gutters 2. Steel Products and Components for Construction - Frames: Doors 3. Steel Products and Components for Construction - Primary Steel products: Plates	R80 963 075,89	R7 743 965,65
34	RFP019Ruwacon (Pty)Ltd NDoPW require assistance with the repairs of renovations and maintenance of various facilities client department	1. Electrical and telecom products sector - Electrical Cables 1. Valve Products and Actuators - Taps 2 Working Vessels - Pumps (no description on the list) 3. Valve Products and Actuators - Gate valves (100mm, 150mm)	R 144 652 780,21	R -
<b>Total</b>			<b>R299 912 969,68</b>	<b>R7 743 965,65</b>

## Impact

This has resulted in non-compliance of the Preferential Procurement Regulations by the IDD as an implementing agent. This has also resulted in Irregular expenditure for the principals in the related tenders.

## Internal control deficiency

### *Leadership*

Exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls.

Management did not implement the preferential procurement requirements in relation to designated sectors for local content.

## Recommendation

Management and those charged with governance should exercise oversight in implementing all the Preferential Procurement Regulation requirements to ensure compliance throughout the procurement process. The procurement division needs to quantify the irregular expenditure per principle and inform the principles so the disclosure can be done.

## Management response

We advise that our tender documents do make provision in Part T2.2.2: Local Employment & Sourcing – Procurement of Materials of Volume 2, in that bidders are required to have a minimum target for materials sourced locally as 30% of the contract value.

In Part T2.4.2: PPPFA Prequalifying & Subcontracting Schedule, (3) Subcontracting after award of tender in Volume 2; the following statement is noted; “A person awarded a contract in relation to a designated sector, may not subcontract in such a manner that the local production and content of the overall value of the contract is reduced to below the stipulated minimum threshold.” We note that the Local Content SBD6.2 is not in our tender documents, however it does make provision to be complied with post tender award and contracting.

We acknowledge that this is not always the case for contracts below R30 million. Within the abovementioned list, 13 of the 35 tenders are below R30 million. Of the 13 that are below R30 million, 7 (seven) contracts specified a subcontracting of at least 30%. The remaining 6 (six) either have no subcontracting applied, or have a subcontracting of below 30%. Of the remaining 6 (six) contracts, only 3 (three) have expenditure already expended.

Management has previously been in consultation with the DTI regarding the challenges with the current legislated framework as well as the problematic implementation of these stipulations. Management will continue to consult and resolve these challenges.

## Auditor’s conclusion

Management response is noted.

### *1. Bid specification on local production and content*

Paragraph 8 (2) of the Preferential Procurement Regulations (PPR) of 2017 requires an entity to include a *specific* condition in the bid advertisement that only locally produced goods or locally

manufactured goods meeting the minimum stipulated thresholds for local production and content from designated sectors will be considered.

T2.2.2: Contract participation goal, mostly focuses on the goal to source local contractors i.e. subcontracting locally and limited to 30% at most which meets the minimum threshold as per the SBD6.2 par. 1.5, however since the SBD6.2 states that: This Standard Bidding Document (SBD) must form part of all bids invited. It contains general information and serves as a declaration form for local content (local production and local content are used interchangeably).

The T2.2.2 declaration covers only subcontracting So where there is no subcontracting stipulated or required, how is DBSA accounting for local content and production?

Again, T2.2.2 does not take into account the requirements in paragraphs 4 to 5.1 of the SBD6.2, therefore it is advisable to use the SBD6.2 and its annexures to ensure full compliance of all local content and production.

Therefore, the DBSA did not fully comply with the requirement as they only requested bidders to declare compliance to paragraph 8 (2) of the PPR to the portion of the contracted that will be subcontracted and not to the full contract. Normally a minimum 30% of the contract value is subcontracted.

The main bidder was therefore not requested to declare whether for the remainder of 70% of the contract value; materials relating to designated sectors will be locally produced or locally manufactured. It was further noted that for bids with a value below R30 million bidders were not always required to make this declaration.

The evidence submitted by management makes provision only for subcontracting, as such, where there is no subcontracting stipulated or required; the DBSA does not ensure that bidders make a declaration of local production and content as required by the PPR.

## *2. Declarations by bidders on local production and content*

The SBD 6.2 standard declaration form issued by Treasury is designed to ensure that bidders understand and comply with the PPR, instructions and circulars issued by National Treasury in relation to local production and content. It further ensures enforceability of the rules relating to procuring from designated sectors.

Before completing the SBD 6.2 declaration, bidders must study the General Conditions, Definitions, Directives applicable in respect of Local Content as prescribed in the Preferential Procurement Regulations, 2011, the South African Bureau of Standards (SABS) approved technical specification number SATS 1286:2011 (Edition 1) and the Guidance on the Calculation of Local Content together with the Local Content Declaration Templates [Annex C (Local Content Declaration: Summary Schedule), D (Imported Content Declaration: Supporting Schedule to Annex C) and E (Local Content Declaration: Supporting Schedule to Annex C)].

Paragraph 1.4 of the SBD 6.2 states that: A person awarded a contract in relation to a designated sector, may not sub-contract in such a manner that the local production and content of the overall value of the contract is reduced to below the stipulated minimum threshold.

The DBSA did not make use of the standard SBD6.2 declaration form for local production and content issued by National Treasury. The declaration form (returnable schedules) that bidders were requested to complete by the DBSA did not make provision for bidders to declare materials that will produced locally or manufactured locally from designated sectors.

The DBSA could therefore not assess during the bid evaluation process whether bidders submitted tenders that complied with the requirements of local production and content as required by the PPR and the related Instruction notes issued by National Treasury. Unacceptable bids as indicated

paragraph 8 (5) of the PPR could therefore not be identified and disqualified during the bid evaluation process.

We could not confirm based on the declaration forms submitted, whether the bidders complied with the percentages specified in the designated sectors instruction notes and circulars due to the fact that a blanket declaration of 30% of the contract value was applied instead of specific materials from designated sectors.

### *3. Notification for submitted to National Treasury*

For construction contracts, the DBSA did not submit to the Department of Trade and Industry (DTI) a notification of all successful bids with the related contract values and SBD6.2 certificates and declaration to enable the DTI to conduct compliance audits as required by the National Treasury Instructions Notes on local content and production.

The finding remains and will result in material non-compliance paragraph in the audit report.



## **IDD – Procurement documents not recorded and completed fully and proper**

### **Laws, rules and Regulations**

Section 55 (1) (a) of the Public Finance Management Act, 1999 (PFMA) states that *“The accounting authority for a public entity must keep full and proper records of the financial affairs of the public entity”*

Section 51(1) (b) (ii) of Public Finance Management Act, 1999 (PFMA) states *“An accounting authority for a public entity (b) must take effective and appropriate steps to prevent irregular expenditure, fruitless and wasteful expenditure, losses resulting from criminal conduct, and expenditure not complying with the operational policies of the public entity”*

### **Nature**

The following tenders were audited and we discovered the following discrepancies:

The Motivation to Source was not signed by the Division Manager and the Acting Group IDD: RFP031/2018

The tender submission register was not dated and the format does not provide space to record the date and time the bidder submitted the bid documents: RFP031/2018

The bidder selection approval form was not signed and dated by either the preparer or the approver or verifier or have full details thereof for the following tenders issued: RFP031/2018

The acceptance letters for the following tenders were not signed by the winning bidders: RFP031/2018

### **Impact of finding**

These have resulted in internal control deficiencies which may lead to non-compliance with laws and regulations and possible irregular expenditure.

### **Internal control deficiency**

#### *Financial and performance management*

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

Management did not ensure that bidding documents were signed by the appropriate delegated official and further did not ensure that there was proper record keeping of procurement documents.

### **Recommendation**

Supply Chain Management should implement proper document completion procedures for procurement documents and implement reviews to ensure procurement documents are fully and properly completed to ensure compliance and effectiveness of internal control processes.

### **Management response**

Management agrees with the finding and recommendation. Current templates in use were designed prior to the advent of the SIPDM framework issued by National Treasury. Committees such as the Bid Review Committee (BRC) and Infrastructure Committee (IPC) were implemented as required by

the SIPDM, however, the documentation and workflow was not formally adjusted to cater for these changes. All current documentation templates will be reviewed as well as the current workflow within IDD. This will complement the proposed new delegation of authority (DOA) for SCM.

The new draft SCM Procedures has taken into account the challenges experienced within IDD and has streamlined processes in this regard.

Further, management undertakes to augment capacity and implement a filing/archiving system to cater for the volume of transactions within IDD.

### **Auditor's conclusion**

Management comment noted. The implementation of the action plan will be followed up in the next audit cycle.

## **IDD: SCM/Procurement internal controls not implemented as required by the SCM officials and Managements per the SCM procedure manual**

### **Laws, rules and Regulations**

Section 51(1) (b) (ii) of Public Finance Management Act, 1999 (PFMA) states *“An accounting authority for a public entity (b) must take effective and appropriate steps to prevent irregular expenditure, fruitless and wasteful expenditure, losses resulting from criminal conduct, and expenditure not complying with the operational policies of the public entity;”*

Section 1.5.1 of the Supply Chain procedure manual states that *“At the official closing time of 11h00 on the closing date the following officials from the business should be present: An official from the SCM unit; The business unit representative; A security representative; A Legal representative **MANDATORY** for open tenders and optional for closed tenders; An internal Audit representative (for Tenders with estimated values above R10million for DBSA and R40million for other and any Agency or MOU. Note: It is the responsibility of the SCM Unit representative to ensure that all business officials as listed above are present”*

### **Nature**

The following registers for the tenders awarded in the current financial year reflected the following deficiencies in the internal controls for the closing and opening of the tenders:

The SCM tender opening register had two officials recorded as present for the opening of the tender. There was no security and internal audit representative present, furthermore only the one of the officials signed the register. RFP177/2018

The SCM price opening register had only one official (functionary) recorded and signed there were no details of the SCM and Security officials recorded on the register. RFP182/2018

Furthermore, the register in all the tenders audited to date had no details of Legal representative and Internal audit (for tenders above R40 million) representatives and signatures.

### **Impact of finding**

This results in internal control deficiencies which may result to non-compliance with laws and regulations and irregular expenditure.

### **Internal control deficiency**

#### *Leadership*

Exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls

Supply Chain Management did not implement proper internal controls to ensure that all business officials as listed in the SCM procedure manual are present to ensure compliance.

### **Recommendation**

Supply Chain Management did not implement proper internal controls to ensure that all business officials as listed in the SCM procedure manual are present to ensure compliance.

### **Management response**

Management agrees with the finding and recommendation. Current templates in use were designed prior to the advent of the SIPDM framework issued by National Treasury. Committees such as the Bid Review Committee (BRC) and Infrastructure Committee (IPC) were implemented as required by the SIPDM, however, the documentation and workflow was not formally adjusted to cater for these changes. All current documentation templates will be reviewed as well as the current workflow within IDD. This will complement the proposed new delegation of authority (DOA) for SCM.

The new draft SCM Procedures has taken into account the challenges experienced within IDD and has streamlined processes in this regard.

Further, management undertakes to augment capacity and implement a filing/archiving system to cater for the volume of transactions within IDD.

### **Auditor's conclusion**

Management comments noted. The implementation action plan will be followed up in the next audit cycle.

**Competitive bidding: Supplier scoring the highest point not awarded the tender****Requirement**

**Section 6(8) of the Preferential Procurement Regulation of 2017 states:** Subject to subregulation (9) and regulation 11, The contract must be awarded to the tenderer scoring the highest points.

**Section 11(1) & (2) of the Preferential Procurement Regulation of 2017 states:** A contract may be awarded to a tenderer that did not score the highest points only in accordance with section 2(1)(f) of the Act. If an organ of state intends to apply objective criteria in terms of section 2(1)(f) of the Act, the organ of state must stipulate the objective criteria in the tender documents.

## Nature

During the audit of competitive bidding process, it was noted that the amount used for evaluation of one of the bidders was not the same as the offer amount submitted on the tender documentation. The details of the tender documents are as follows.

No	Tender no:	Services Rendered	Supplier Name	Amount per bid documents	Amount used per evaluation
1	17/029	Pretoria:Defence intelligrnt College (SADIC): Upgrading of infrastructure.	SMEC South Africa PTY LTD	1 983 238.68	4 342 606.71

							B-BBBEE			
No	Bidder	Price tendered	Lowest tendered	Auditors recalculation.	Bid evaluation calculations	Differences	Level	Points	Bid evaluation calculations	Total Points
				80(1- Pt - Pmin)/Pmin						
1	NKSr Consulting PTY LTD	9 732 684,61	1 983 328,68	(232.58)	(186.86)	(45.72)	1	20	20	(212.58)
2	SFC Engineers PTY LTD	R 2 347 260.00	1 983 328,68	65.32	76.35	(11.03)	2	18	18	83.32
3	Nathoo Mbenyane Engineers	R 2 224 774.00	1 983 328,68	70.26	80.00	(9.74)	2	18	18	88.26
4	SMEC South Africa	R 1 983 328.68	1 983 328,68	80.00	5.24	74.76	1	20	20	100.00

5	IX Engineers	R 3 662 820.00	1 983 328,68	12.26	29.46	(17.20)	1	20	20	32.26
6	Ndodana Consulting Engineers	R 3 750 030.00	1 983 328,68	8.74	26.36	(17.62)	1	20	20	28.74

The above bidder SMEC South Africa was responsive and met functionality criteria however the bidder ended up being unsuccessful due to the incorrect price of R 4 343 606.71 instead of R1 983 328.68 being used during evaluation. The tender was then awarded to Nathoo Mbenyane Engineers service Pty Ltd at R2 244 774

**Impact**

Non-compliance with laws and regulations resulting in irregular expenditure of R 2 244 774.

**Internal control deficiency**

Financial performance and management

Management did not review and monitor compliance with applicable laws and regulations. As a result, irregular expenditure has occurred.

**Recommendation**

Management must develop or enhance compliance procedures to ensure compliance with all prescribed laws and regulations, furthermore management's compliance management tools, such as checklists, should be enhanced.

**Management response**

I am in agreement with the finding for the following reasons: The amount of R1 983 328, 68 is correctly populated on the website of received bidders but wrongly recorded on the PA 13 as R4 342 606, 71. This is an unfortunate honest error that occurred due to the official being overworked as a result of insufficient capacity hence the lack of oversight. The Bid Evaluation Committee (BEC) could also not pick up the error. This tender was arranged for professional services. Going forward the population of PA 13's will be done immediately on closing of the tender by the SCM Practitioner(s) controlled, checked and signed off by the supervisor who shall have cross referenced and reconciled back to the tender documents as a due diligence measure. The BEC, the Project Manager and the SCM Practitioner will also sign off to satisfy themselves that the price in the PA 13 is consistent with the actual tender documents, the register advertised in the website as well as the manually captured prices that were announced at the bid opening session(s). Checklist for closing of tender and opening of bids will be developed and implemented. Where irregular expenditure has been incurred, the provisions of irregular expenditure policy will be followed after due processes has been followed.

**Auditor's conclusion**

Management response noted and the finding will be reported in the management and audit report.



## Annexure C: OTHER IMPORTANT MATTERS

### 1. User access management

#### 1.1 Inadequate design and implementation of the User Access control on SAGE system

##### 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:

- Segregation of duties was not enforced as review of system administrator's activities was performed by same user with the system administrator's access rights.
- The review of the user access rights was not performed to confirm that access rights were still commensurate with their job responsibilities (Repeat finding)
- System developers had access to the SAGE system and performed transaction within the financial year. (Repeat finding)

##### Risk

- Lack of proper segregation of duties in review of the system administrator's activities may increase the risk of overriding system controls, which may not be timeously detected.
- Lack of review of user access to SAGE may result in users with inappropriate access to process unauthorised or fraudulent transactions that could negatively impact the integrity of data generated by SAGE.
- Lack of proper segregation of duties with regard to the developer may result in unauthorised or fraudulent transactions performed without being detected that could negatively impact the integrity of data generated by SAGE

##### Internal control deficiency

##### Financial and performance management: Information technology systems

- The lack of consequences for non-compliance to formally documented process with regards to review of user access rights
- Lack of management oversight to ensure proper and adequate user accounts management controls were implemented on SAGE system

##### Recommendation

- Management should ensure compliance with the control identified in the standard operating procedure for user account management and there should be consequence for non-compliance

- Management should ensure that with new version for sage the system has the capabilities to separate the functions to view and edit. Furthermore, segregation of duties should be enforced.
- Management should ensure that with new version for sage access to production is restricted from the service provider and access to deployed change to the production environment should be minimised

### Management response

- **Segregation of duties was not enforced as review of system administrator's activities was performed by same user with the system administrator's access rights.**

Management Response: We agree with the finding. This is what management is doing to address this finding:

- An official with whose role is to review the system administrator's activities has been given that task and is doing it. The challenge has been that the current version of SAGE doesn't differentiate between the role of someone reviewing the admins activities and the system admin. However,
- The latest version of SAGE will allow the segregation of duties. The upgraded version has been installed and configured and will go live by 1 July 2019.

- **The review of the user access rights was not performed to confirm that access rights were still commensurate with their job responsibilities (Repeat finding)**

Management Response: We agree with the finding. This is what management is doing to address this finding:

- As of March 2019, we have sent a report from the SAGE system highlighting a list of users to the Supervisors, Regional Heads of Finance and Regional Managers to confirm the user's rights and privileges. This list is sent on monthly basis and updated accordingly on the SAGE system.

- **System developers had access to the SAGE system and performed transaction within the financial year**

Management Response: We agree with the finding. This is what management is doing to address this finding:

- The SAGE system is operating in 3 environments viz. Production, QA and Development. System developers have access in all the environments, especially the production environment so that they can be able to deploy code. However,
- The latest version of SAGE will allow system developers to have access on the production environment but will not be able to do transactions.

### Auditor's conclusion

Management comments were noted and the corrective controls will be assessed during the next financial year

## 2. IT Service continuity

### 2.1 Inadequate design and implementation of backup procedures on SAGE system 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:

- Backup restorations were not performed.
- Backup registers were not taken offsite.
- DR testing was not performed for the period of audit. (Repeat finding)

#### Risk

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 occurred.

#### Internal control deficiency

**Financial and performance management:** Information technology systems

- Management failed to ensure that backup software in use was enabled to performed backup restorations for the Information technology systems
- Lack of IT management oversight to keep the records of backups taken offsite
- Location for disaster recovery was identified; however, there were issues with procurement as there were financial constraints.

#### Recommendation

- Management should ensure that backup restorations are performed for Sage system through upgrading the current backup software in used, or finding alternative ways to ensure restoration are performed.
- Management should ensure the backup procedure is adequately designed to include the process of backup restoration and ensure adherence to the identified control with regard to taking backup to the offsite storage.
- Managements should ensure that they get support from relevant stakeholder by highlighting the risk posed to PMTE by not having the Disaster recovery site and the importance of prioritise those funds to ensure that business continue with normal operation in case of disaster to the information system.

#### Management response

- **Backup restorations were not performed.**

Management Response: We agree with the finding. This is what management is doing to address this finding:

- SAGE is being backed-up on regular basis. Full back up on Fridays and incremental backups on the other days of the week. The backup logs are saved at a different location as from May 2018.
- Testing was delayed due to unavailability of Hardware space. New servers have been procured. The applications on the old hardware are being migrated to the new servers. The space on the old servers that will be made available after migration will be used for testing.

- **Backup registers were not taken offsite.**

Management Response: We agree with the finding. This is what management is doing to address this finding:

1. The backup register is being signed and kept at the JHB Regional Office as of January 2019.

- **DR testing was not performed for the period of audit. (Repeat finding)**

Management Response: We agree with the finding. This is what management is doing to address this finding:

- The delay in procurement of the service provider to prepare the Fennel Street DR Site by JHB Regional Office led to the delay in the implementation of the DR. ICT is putting an alternative DR environment in place which will be procured during the
- Testing was delayed due to unavailability of Hardware space. New servers have been procured. The applications on the old hardware are being migrated to the new servers. The space on the old servers that will be made available after migration will be used for testing.

### **Auditor's conclusion**

Management comments were noted and the corrective controls will be assessed during the next financial year

### 3. IT Security Management

#### Audit finding

##### 3.1 Inadequately security controls on the payment file

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 is transmitted to the SAGE application for payment of rates and taxes, assets under constructions, leases and municipal services is stored temporarily in a file storage (staging area) on server 13 prior to the payments on SAGE being processed. It was further 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 who have access to the temporary file location and had the rights to amend the contents of the temporary payment file while it is still in the staging area. (Repeat findings)

#### Risk

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

The service provider delayed the process for implementing the system that will addressed the encryptions on the staging server as the close early last year.

#### Recommendation

Management should ensure that the develop system is implemented so 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.

#### Management response

Management Response: We agree with the finding. This is what we have done to address this finding:

- ICT has procured the software to encrypt and automate secure file transmission.
- The software was installed and configured on the test environment.
- Testing of the encryption and file transfer has started and will be completed by 15 April 2019.

**Auditor's conclusion**

Management comments were noted and the corrective controls will be assessed during the next financial year

### 3.2 Password policy check and password expiration check not enabled

#### Audit finding

Password policy checks and password expiration check was not enabled on certain accounts on the SAGE system. Refer to the list below:

Server	Password policy check	Password expiration check
dpwsagedb.ndpw.local	sa, X3, X3_REPORT, PMTETEST, PMTETEST_REPORT, afm PMTELIVE, PMTELIVE_REPORT, Alchemex, Thabo, ZImportTool, zAlchemex, EY, Support, IGN, PMTETRAIN, PMTETRAIN_REPORT, PMTEUG, PMTEUG_REPORT,	sa, X3, X3_REPORT, PMTETEST, PMTETEST_REPORT, afm PMTELIVE, PMTELIVE_REPORT, Alchemex, Thabo, ZImportTool, zAlchemex, EY, Support, IGN, PMTETRAIN, PMTETRAIN_REPORT, PMTEUG, PMTEUG_REPORT,

Not requiring a periodic change of passwords increases the risk that someone who has gained unauthorized access to the system will have continued access to the system.

#### Internal control deficiency

**Financial and performance management:** Information technology systems

Weaknesses identified on the SQL servers is attributed to lack of approved designed Security Configuration Standard procedure for management to comply with.

#### Recommendation

Management should ensure that approved security configuration standard is place and monitored for compliance. The password policy checks and password expiration check is enable on above mentioned account to ensure SAGE SQL database server is secured.

#### Management response

We agree with the finding

#### Auditor's conclusion

Management comments are required. The risks will be reassessed in the following audit (19/20) cycle based on changes to the environment.



### 3.3 Database settings no adequately configured

#### Audit finding

During the time of the audit the following configuration settings were inadequately set on the SQL servers (dpwsagedb.ndpw.local):

Name	Server settings	Required setting
Remote access server	Enabled	Disabled
XP_cmdshell	Enabled	Disabled
Server authentication login mode	Mixed	Windows
CLR Assembly permission	Disabled	Enabled

The risk of an attacker discovering ways to access the database increases substantially if the database is not securely configured. An attacker could exploit configuration weaknesses to modify the contents of the databases, or to shut them down. This would impact the business applications and transactions.

#### Internal control deficiency

**Financial and performance management:** Information technology systems

Weaknesses identified on the SAGE database SQL servers is attributed to lack of approved designed Security Configuration Standard procedure for management to comply with.

#### Recommendation

Management should ensure that approved security configuration standard is place and monitored for compliance. The above mentioned weaknesses are rectified to ensure SAGE SQL database server

- ICT Management should ensure the following:
- Remote access server is disabled
- XP\_cmdshell is disabled
- Server authentication login set to Windows mode
- CLR Assembly permission is disabled

#### Management response

We agree with the finding

#### Auditor's conclusion

Management comments were noted and the corrective controls will be assessed during the next financial year

### 3.4 Perimeter firewall management

#### Audit finding

A firewall controls the incoming and outgoing network traffic based on an applied rule set and establishes a barrier between a trusted, secure internal network and another network (e.g. the Internet) that is assumed not to be secure and trusted. Firewalls should be well managed and securely configured to prevent and detect unauthorised access and visibility to other devices.

The following weaknesses were identified on Cisco ASDM 7.9 (2) for ASA:

- Password parameter firewalls were not adequately set:
  - Password length: NOT set
  - Uppercase characters: NOT enabled
  - Lowercase characters: NOT enabled
  - Numeric characters: NOT enabled
  - Non-alphanumeric = NOT set
  - Password lifetime: NOT set
- The department have an Authentication, Authorization and Accounting(AAA) server called Cisco ACS that should track all activities, process and stored logs of any changes that are done on the firewalls by firewall administrators. However, at the time of the audit it was noted that the service is not implemented to store on the External Vodacom firewall yet.
- The firewall rule configuration was not adequately set on the following rules:
  - Global rule 9 allows “any to any with ICMP service
  - CoreData rule 6 allows “any to any with ICMP service
  - Vodacom rule 1 allows FTP
  - Global rule 30 allow Internet service to any with FTP
  - The following rules allow traffic to any (ip) service:
    - ✓ CoreData Rule 11
    - ✓ Vodacom Rule 2
    - ✓ Global Rule 4 and 12
- All the rules did not have comments to specifically and properly describe the service, users, devices that it affected. There was also no date when the rule was added or amended in the comments or when the rule expired or who added the rule. Changes on the rules base could not be tracked back due to lack of comments

#### Risk

- The risk of an attacker discovering passwords increases substantially if password settings are not adequately set. An attacker could use this information to guess passwords with little difficulty and could then exploit it to modify the contents of the system, or to shut it down, which would impact the business applications and transactions
- Firewall change logs not stored may result to unauthorised changes made, log files and alerts not monitored, unauthorised traffic transmitted to and from department not be detected in a timely manner. In the event of a breach, the department may not be able to report on, and respond appropriately to the incident.
- Not commenting and making detailed notes about every rule, makes it difficult to understand the intention behind each one when it's time to make changes and in determining if it is needed or should be removed.
- An inadequately design, management and configuration of the firewall could expose internal network resources and sensitive information to the public domain. The firewall might be configured in an insecure manner due to the lack of formally approved policies, standards or procedures.

### **Internal control deficiency**

#### **Financial and performance management:** Information technology systems

Inadequate firewall management is attributed to lack of an approved firewall security management policy and security configuration standard for managing the firewall environment.

### **Recommendation**

Management should ensure that firewall security management policy and procedure is adequately design, implemented and approved, and furthermore ensure that above mentioned weaknesses are rectified to ensure external firewall is adequately secured.

ICT management should consider the following:

- Ensure that password parameter settings are in line with ICT security policy and best practice
- Ensure that firewall logs settings are enabled and firewall logs are retained
- Ensure that no rules are set up to allow any source, destination and service. Rules requiring any in the services, source and destination should be limited to users requiring internet access to perform job functions. In case of internet access, a mitigating control (e.g. an application layer filter) should be applied to limit web surfing capabilities.
- Ensure that firewall rules are commented, labelled accordingly and description of the purpose of the rules.

### **Management response**

We agree with the findings

### **Auditor's conclusion**

Management comments were noted and the corrective controls will be assessed during the next financial year

### 3.5 Inadequate patch management

#### Audit finding

A patch is software developed and released by a vendor with the intention of correcting flaws in the software or operating system. Patches may include resolutions to security vulnerabilities or fixes to a malfunctioning component of the software.

An operating system scan was performed on the windows systems hosting the SQL database, it was noted that a total of eight (8) critical and one hundred and forty-five (145) high Microsoft security updates were missing. These updates are a collection of patches for multiple security vulnerabilities updates which includes but is not limited to remote code execution, elevation of privilege, information disclosure and denial of service vulnerability. **See Appendix A for details.**

Failure to install patches could lead to vulnerabilities being exploited. Furthermore, if updates are not timely installed, business systems such as web and application systems are vulnerable to unauthorised access that might not be detected.

Affected system: dpwsagedb.ndpw.local

#### Internal control deficiency

##### ***Financial and performance management: Information technology systems***

Weaknesses identified is attributed to approved patch management procedure not been in place for management to comply with.

#### Recommendation

Management should ensure that approved patch management procedure is in place and in compliance with management. A complete system evaluation is performed to detect and update/ upgrade outdated/ unsupported systems. Relevant patches for outdated Windows operating systems are tested and applied.

#### Management response

We agree with the finding

#### Auditor's conclusion

Management comments are required. The risks will be reassessed in the following audit (19/20) cycle based on changes to the environment.

### 3.6 User authentication and user management

#### Audit finding

User authentication and management ensures that only authorised users with valid credentials (i.e. username and passwords) have access to the organisational information systems.

The following was noted with regards to user authentication and management:

- **Inadequate password parameter settings**

An evaluation of the database server revealed that password policies of the following password settings were inadequate setup:

Settings	Server settings	Best practice
Minimum password length	7	8
Account Lockout threshold	Not set	3

Affected system: dpwsagedb.ndpw.local

- **Anonymous connection**

Anonymous access can be used to gather information in preparation for system compromise, therefore anonymous shares (anonymous enumeration of SAM accounts and shares (restrict anonymous)) was set to "0" not restricted/prevented. This the level of access is significant and could be used to compromise a vulnerable server.

Affected system: dpwsagedb.ndpw.local

- **Inadequate user management**

The following generic accounts were identified on Windows servers:

- Administrator was not renamed and was enabled on SAGE server.
- The account of PMTE0\Thabo Vilakazi was allocated the following elevated privileges Local Admin account on OS, Global Admin account on OS and Sysadmin account on DB, which contradict the principles of least privilege and separation of duties

Affected system: dpwsagedb.ndpw.local

- **Audit Policy:**

It was found that the Audit policy settings was inadequately set on SAGE system". The Audit policy was set as follows:

Audit Account Management Events - No auditing

Audit Security Group Management - Success  
Audit Other Logon/Logoff Events - No auditing  
Audit Other Object Access Events - No auditing  
Audit Policy Change - Success  
Audit Sensitive Privilege Use - No auditing

The absence of recording important events increases the risk that unauthorized system actions, may not be detected and resolved in a timely manner.

Affected systems: dpwsagedb.ndpw.local

### **Internal control deficiency**

#### ***Financial and performance management: Information technology systems***

Weaknesses identified on the SQL servers is attributed to lack of approved designed Security Configuration Standard procedure for management to comply with.

### **Recommendation**

Management should ensure that approved security configuration standard is place and monitored for compliance. The above mentioned weaknesses are rectified to ensure SQL database server accounts on SAGE system is secured.

ICT should consider the following:

- Update the password parameters in line with best practices. For parameter requirements that are not covered, management should consider amending the respective policy to include the necessary requirement.
- Ensure that network controls and security settings are set and where necessary disabled appropriately.
- Ensure that default administrator name is renamed or disabled
- Ensure that audit policy settings are appropriately set to log both success and failure

### **Management response**

We agree with the finding

### **Auditor's conclusion**

Management comments are required. The risks will be reassessed in the following audit (19/20) cycle based on changes to the environment.

## **Annexure D: Performance management and reporting framework**

The Performance Management and Reporting Framework (PMRF) consists of the following:

Legislation applicable to performance planning, management and reporting, which includes the following:

- Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA)
- Treasury Regulations, 2005 issued in terms of the PFMA
- National treasury practice note 4 of 2009-10
- Public Service Act, 1994 (PSA)
- Public Service Regulations, 2016 issued in terms of the Public Service Act

The Framework for Managing Programme Performance Information (FMPPPI), issued by the National Treasury. This framework is applicable to all spheres of government.

The Framework for Strategic Plans and Annual Performance Plans (FSAPP), issued by the National Treasury. This framework is applicable to all national and provincial departments, constitutional institutions and those public entities listed in parts A and C of schedule 3 of the PFMA.

Circulars and guidance issued by the National Treasury, Department of Public Service and Administration (DPSA) and supported by the Department of Planning Monitoring and Evaluation (DPME) regarding the planning, management, monitoring and reporting of performance against predetermined objectives.



## Annexure D – Criteria developed from the performance management and reporting framework

CRITERIA	REFERENCES TO THE PMRF PER TYPE OF ENTITY			
	Departments / constitutional institutions / trading entities	Public entities	Parliament / provincial legislatures	Universities
<b>Consistency: Objectives, performance measures / indicators and targets are consistent between planning and reporting documents</b>				
1. Reported strategic or development objectives are consistent or complete when compared to planned objectives	Section 40(3)(a) of the PFMA TR 5.2.4 NT Instruction Note 33: Implementation of the FSAPP Sec 25(1) and 31(1) of the PSR	Section 55(2)(a) of the PFMA TR 28.2.2 Applicable to 3A & 3C public entities: TR 30.1.3(g) NT Instruction Note 33: Implementation of the FSAPP Applicable to 2; 3B & 3D public entities: TR 29.1.1 & TR 29.2	Section 55(3)(d) of the FMPPLA	Sec 5(2)(k) & 7(4)(a) of the regulations for reporting by Public Higher Education Institutions
2. Changes to strategic or development objectives are approved	TR 5.1.1 NT Instruction Note 33: Implementation of the FSAPP Sec 4 of FSAPP	Applicable to schedule 3A & 3C public entities: TR 30.1.1 NT Instruction Note 33: Implementation of the FSAPP Sec 4 of FSAPP Applicable to schedule 2, 3B & 3D public entities: TR 29.1.1 and TR 29.2	Section 15(1) and (2)(b) of the FMPPLA	Sec 5(2)(m) & 7(4)(a) of the regulations for reporting by Public Higher Education Institutions

CRITERIA	REFERENCES TO THE PMRF PER TYPE OF ENTITY			
	Departments / constitutional institutions / trading entities	Public entities	Parliament / provincial legislatures	Universities
3. Reported measures or indicators are consistent or complete when compared to planned measures or indicators	Section 40(3)(a) of the PFMA TR 5.2.4 NT Instruction Note 33: Implementation of the FSAPP Sec 25(1) of the PSR	Section 55(2)(a) of the PFMA TR 28.2.2  Applicable to 3A & 3C public entities: TR 30.1.3(g)  NT Instruction Note 33: Implementation of the FSAPP  Applicable to 2; 3B & 3D public entities: TR 29.1.1 & TR 29.2	Section 55(3)(d) of the FMPPLA	Sec 5(2)(k) & 7(4)(a) of the regulations for reporting by Public Higher Education Institutions
4. Changes to measures or indicators are approved	TR 5.1.1 NT Instruction Note 33: Implementation of the FSAPP Sec 4 of FSAPP	Applicable to 3A & 3C public entities: TR 30.1.1  NT Instruction Note 33: Implementation of the FSAPP  Sec 4 of FSAPP  Applicable to 2; 3B & 3D public entities: TR 29.1.1 & TR 29.2	Section 15(1) and (2)(b) of the FMPPLA	Sec 5(2)(m) of the regulations for reporting by Public Higher Education Institutions
5. Reported targets are consistent or complete when compared to planned targets	Section 40(3)(a) of the PFMA TR 5.2.4 NT Instruction Note 33: Implementation of the FSAPP	Section 55(2)(a) of the PFMA TR 28.2.2  Applicable to 3A & 3C public entities: TR 30.1.3(g)	Section 55(3)(d) of the FMPPLA	Sec 5(2)(k) & 7(4)(a) of the regulations for reporting by Public Higher Education Institutions

CRITERIA	REFERENCES TO THE PMRF PER TYPE OF ENTITY			
	Departments / constitutional institutions / trading entities	Public entities	Parliament / provincial legislatures	Universities
	Sec 25(1) of the PSR	Applicable to 2; 3B & 3D public entities: TR 29.1.1 & TR 29.2		
6. Changes to targets are approved	TR 5.1.1 NT Instruction Note 33: Implementation of the FSAPP Sec 4 of FSAPP	Applicable to 3A & 3C public entities: TR 30.1.1  NT Instruction Note 33: Implementation of the FSAPP Sec 4 of FSAPP  Applicable to 2; 3B & 3D public entities: TR 29.1.1 & TR 29.2	Section 15(1) and (2)(b) of the FMPPLA	Sec 5(2)(m) of the regulations for reporting by Public Higher Education
7. Reported achievements are consistent with the planned and reported indicator and target	Sec 40(3)(a) of the PFMA	Sec 55(2)(a) of the PFMA	Sec 55(3)(d) of the FMPPLA	Sec 7(4)(a) of the regulations for reporting by Public Higher Education Institutions
<b>Measurability: Performance measures / indicators are well defined and verifiable, and targets are specific, measurable and time bound</b>				
8. A performance measure or indicator is well defined when it has a clear definition so that data will	FMPPI Chapter 3.2		Criteria not applicable	Sec 1(d) of the regulations for reporting by Public Higher Education Institutions

CRITERIA	REFERENCES TO THE PMRF PER TYPE OF ENTITY			
	Departments / constitutional institutions / trading entities	Public entities	Parliament / provincial legislatures	Universities
be collected consistently and is easy to understand and use				
9. A performance measure / indicator is verifiable when it is possible to validate or verify the processes and systems that produce the indicator	FMPPI Chapter 3.2		Criteria not applicable	
10. A target is specific when the nature and the required level of performance of the target are clearly identifiable	FMPPI Chapter 3.3		Criteria not applicable	Sec 1(a) of the regulations for reporting by Public Higher Education Institutions
11. A target is measurable when the required performance can be measured	FMPPI Chapter 3.3		Criteria not applicable	Sec 1(b) of the regulations for reporting by Public Higher Education Institutions
12. A target is time bound when the time frames for the achievement of the target are indicated	FMPPI Chapter 3.3		Criteria not applicable	Sec 1(c) of the regulations for reporting by Public Higher Education Institutions
<b>Relevance: Performance measures / indicators relate logically and directly to an aspect of the entity's mandate and the realisation of its strategic goals and objectives</b>				
13. The performance measure / indicator and target relate logically and directly to an aspect of	FMPPI Chapter 3.2		Criteria not applicable	Sec 1(e) of the regulations for reporting by Public Higher Education Institutions

CRITERIA	REFERENCES TO THE PMRF PER TYPE OF ENTITY			
	Departments / constitutional institutions / trading entities	Public entities	Parliament / provincial legislatures	Universities
the entity's mandate and the realisation of its strategic goals and objectives				
<b>Presentation and disclosure: Performance information in the annual performance report is presented and disclosed in accordance with the requirements contained in legislation, frameworks, circulars and guidance</b>				
14. Reasons for variances between planned and actual performance are disclosed in the annual performance report.	The NT's annual report guide for national and provincial departments  Sec 31(1) of the PSR	Applicable to schedule 3A & 3C public entities:  The NT's annual report guide for schedule 3A and 3C public entities	Criteria not applicable	
15. Reasons for variances are corroborated by source documentation	The NT's annual report guide for national and provincial departments  FMPPI chapter 5	Applicable to schedule 3A & 3C public entities:  The NT's annual report guide for schedule 3A and 3C public entities  FMPPI chapter 5	Criteria not applicable	
16. Changes to objectives, performance indicators and performance targets are disclosed in the annual performance report	NT annual report guide for national and provincial departments  Sec 31(1) of the PSR	Applicable to 3A & 3C public entities:  NT annual report guide for schedule 3A and 3C public entities	Criteria not applicable	

CRITERIA	REFERENCES TO THE PMRF PER TYPE OF ENTITY			
	Departments / constitutional institutions / trading entities	Public entities	Parliament / provincial legislatures	Universities
<b>Reliability: Recording, measuring, collating, preparing and presenting information on actual performance / target achievements that is valid, accurate and complete</b>				
1. Reported performance occurred and pertains to the reporting entity	Section 40(3)(a) of the PFMA Chapter 5 of the FMPPI Sec 25(1)(e) of the PSR	Section 55(2)(a) of the PFMA Chapter 5 of the FMPPI	Section 55 of the FMPPLA	Section 7 of the regulations for reporting by Public Higher Education Institutions
2. Reported performance is recorded and reported accurately				
3. All actual performance is recorded and included in the reported performance information				

## Annexure E: Auditor general's responsibility for the audit of the reported performance information<sup>1</sup>

1. As part of our engagement conducted in accordance with ISAE 3000, we exercise professional judgement and maintain professional scepticism throughout our reasonable assurance engagement on reported performance information for selected [programmes/ objectives].
2. We are independent of the trading entity in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) together with the ethical requirements that are relevant to our audit in South Africa. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA code.

### QUALITY CONTROL RELATING TO ASSURANCE ENGAGEMENTS

3. In accordance with the International Standard on Quality Control 1, the Auditor-General of South Africa maintains a comprehensive system of quality control that includes documented policies and procedures on compliance with ethical requirements and professional standards.

### REPORTED PERFORMANCE INFORMATION

4. In addition to our responsibility for the assurance engagement on reported performance information as described in the auditor's report, we also:

identify and assess risks of material misstatement of the reported performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. In making those risk assessments, we consider internal control relevant to the management and reporting of performance information per selected programme in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the trading entity's internal control.

evaluate the documentation maintained by the trading entity that supports the generation, collation, aggregation, monitoring and reporting of performance indicators and their related targets for the selected programmes.

evaluate and test the usefulness of planned and reported performance information, including presentation in the annual performance report, its consistency with the approved performance planning documents of the trading entity and whether the indicators and related targets were measurable and relevant.

evaluate and test the reliability of information on performance achievement to determine whether it is valid, accurate and complete.

### COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

5. We communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.




We also confirm to the accounting officer that we have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.






## Annexure F: Assessment of internal controls






















Below is our assessment of implementing the drivers of internal control based on significant deficiencies identified during our audit of the financial statements, the annual performance report and compliance with legislation. Significant deficiencies occur when internal controls do not exist, are not appropriately designed to address the risk, or are not implemented. These either had caused, or could cause, the financial statements or the annual performance report to be materially misstated, and material instances of non-compliance with legislation to occur.

The internal controls were assessed as follows:













	The required preventative or detective controls were in place.
	Progress was made on implementing preventative or detective controls, but improvement is still required, or actions taken were not or have not been sustainable.
	Internal controls were either not in place, were not properly designed, were not implemented or were not operating effectively. Intervention is required to design and/or implement appropriate controls.

The movement in the status of the drivers from the previous year-end to the current year-end is indicated collectively for each of the three audit dimensions under the three fundamentals of internal control. The movement is assessed as follows:

	Improved
	Unchanged
	Regressed

	Financial statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
<b>Leadership</b>						
<b>Overall movement from previous assessment</b>						
• Provide effective leadership based on a culture of honesty, ethical business practices and good governance, and protecting and enhancing the best interests of the entity						
• Exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls						
• Implement effective human resource management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored						

	Financial statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
• Establish and communicate policies and procedures to enable and support the understanding and execution of internal control objectives, processes and responsibilities						
• Develop and monitor the implementation of action plans to address internal control deficiencies						
• Establish and implement an information technology governance framework that supports and enables the business, delivers value and improves performance						
<b>Financial and performance management</b>						
<b>Overall movement from previous assessment</b>						
• 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						
• Implement controls over daily and monthly processing and reconciling transactions						
• Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information						
• Review and monitor compliance with applicable legislation						
• Design and implement formal controls over information technology systems to ensure the reliability of the systems and the availability, accuracy and protection of information relating to user access management , program change control and IT service continuity.					N/A	N/A
<b>Governance</b>						
<b>Overall movement from previous assessment</b>						
• Implement appropriate risk management activities to ensure that regular risk assessments, including the consideration of information technology risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored						

	Financial statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
<ul style="list-style-type: none"> <li>Ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively</li> </ul>						
<ul style="list-style-type: none"> <li>Ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and overseeing the effectiveness of the internal control environment, including financial and performance reporting and compliance with legislation</li> </ul>						

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