

# Report of the auditor-general to Parliament on Property Management Trading Entity

## Report on the audit of the financial statements

### Qualified opinion

1. I have audited the financial statements of the Property Management Trading Entity set out on pages ... to ..., which comprise the statement of financial position as at 31 March 2021, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the Property Management Trading Entity as at 31 March 2021, and its financial performance and cash flows for the year then ended in accordance with Standards of Generally Recognised Accounting Practice (Standards of GRAP) and the requirements of the Public Finance Management Act 1 of 1999 (PFMA).

### Basis for qualified opinion

#### Payables from exchange transactions- Accrued expenses- Leases

3. The trading entity did not correctly value payables from exchange transactions in accordance with GRAP 104, *financial instruments*. Differences were noted between Accrued expenses- lease balances presented on the financial statements and the recalculated balance. Consequently, payables from exchange transactions is overstated by R450 258 312. This also has an impact on the surplus for the period and on the accumulated surplus.

#### Receivables from exchange transactions

4. In addition to the individually material uncorrected misstatement on Payables from exchange transactions, Receivables from exchange transactions was materially misstated by R534 504 138 due to the cumulative effect of individually immaterial uncorrected misstatements in Receivables from exchange transactions:
  - Accommodation debtors - leasehold inter-governmental stated at R195 684 000 is overstated by R17 572 495.
  - Prepaid expenses – leases stated at R339 178 000 is overstated by R190 360 282.
  - Prepaid expenses - implementing agent stated at R775 490 000 is understated by R15 766 325.
  - Revenue accrual - recoverable leases stated at R305 374 000 is overstated by R342 337 686.

## **Emphasis of matters**

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

### **Restatement of corresponding figures**

6. As disclosed in note 37 to the financial statements, the corresponding figures for 31 March 2020 were restated as a result of an error in the annual financial statements of the entity at, and for the year ended, 31 March 2021.

### **Impairments – Receivables from exchange transactions**

7. As disclosed in note 22 to the financial statements, material losses of R760 185 000 were incurred as a result of a lack of recoverability in long outstanding receivables.

### **Going concern**

8. I draw attention to note 38 to the financial statements, which indicate that the trading entity as of 31 March 2021, has a bank overdraft of R905 million (March 2020: R2,6 billion) and the current liabilities exceed the current assets by R4,5 billion (March 2020: R6,2 billion).

## **Responsibilities of the accounting officer for the financial statements**

9. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the GRAP and the requirements of the PFMA and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
10. In preparing the financial statements, the accounting officer is responsible for assessing the trading entity's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the trading entity or to cease operations, or has no realistic alternative but to do so.

## **Auditor-general's responsibilities for the audit of the financial statements**

11. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
12. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.



## Report on the audit of the annual performance report

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

## Report on the audit of compliance with legislation

### Introduction and scope

14. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the trading entity's compliance with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
15. The material findings on compliance with specific matters in key legislation are as follows:

### Expenditure Management

16. Effective and appropriate steps were not taken to prevent irregular expenditure amounting to R82 937 000, as disclosed in note 32 to the financial statements, as required by section 38(1)(c)(ii) of the PFMA and treasury regulation 9.1.1. The majority of the irregular expenditure disclosed in the financial statements was caused by appropriate approval not obtained from a delegated authority .
17. Effective internal controls were not in place for approval and processing of payments, as required by treasury regulation 8.1.1. The non-compliance resulted in a material irregularity as reported in the section on material irregularities.

### Annual Financial Statement, Performance and Annual Report

18. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework and supported by full and proper records, as required by sections 40(1) (a) and (b) of the PFMA. Material misstatements of non-current assets, current assets, current liabilities and disclosure items identified by the auditors in the submitted financial statements were corrected and the supporting records were provided subsequently, but the uncorrected material misstatements resulted in the financial statements receiving a qualified opinion.

### Assets Management

19. Proper control systems were not in place at the trading entity to ensure the safeguarding of assets, as required by treasury regulation 10.1.1(a). The non-compliance resulted in a material irregularity as reported in the section on material irregularities.

### Consequence Management

- 20. I was unable to obtain sufficient appropriate audit evidence that investigations were conducted into all allegations of financial misconduct committed by officials, as required by treasury regulation 4.1.1.
- 21. Disciplinary hearings were not held for confirmed cases of financial misconduct committed by some of the officials, as required by treasury regulation 4.1.1.
- 22. I was unable to obtain sufficient appropriate audit evidence that confirmed cases of improper conduct in the supply chain management system that constituted a crime were reported to the SAPS, as required by treasury regulation 16A9.1(b)(ii).

### Procurement and contract management

- 23. Some of the bid documentation for procurement of commodities designated for local content and production, did not stipulate the minimum threshold for local production and content as required by the 2017 Procurement Regulation 8(2).
- 24. Some of the commodities designated for local content and production, were procured from suppliers who did not submit a declaration on local production and content in accordance with paragraph 3.4 of National Treasury Instruction Note 4 of 2015/2016.
- 25. Some of the commodities designated for local content and production, were procured from suppliers who did not meet the prescribed minimum threshold for local production and content, as required by the 2017 Preferential Procurement Regulation 8(5).

### Revenue Management

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

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



auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

### Internal control deficiencies

31. I considered internal control relevant to my audit of the financial statements and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the adverse of opinion and the findings on compliance with legislation included in this report.
32. Management did not properly review the details of the leases that were recorded on Archibus system, as a result, significant differences were identified on the leases disclosed in the annual financial statements and the details of the lease as per the lease contract. This was exacerbated by the fact that lease information is decentralised, and regional officials were not provided with recent lease agreements concluded by Real Estate Management Services (REMS) timely, as a result latest lease agreements were not captured on Archibus system.
33. Management's review and monitoring of compliance with applicable laws and regulations was ineffective, which resulted in material non-compliance findings on expenditure, procurement and contract management. Non-compliance with legislation could have been prevented had compliance been properly reviewed and monitored. Furthermore, management did not take effective steps to assess, evaluate and disclose all irregular expenditure in the annual financial statement.

### Material irregularities

34. In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities identified during the audit and on the status of the material irregularities reported in the previous year's auditor's report.

#### Material irregularities identified during the audit

35. The material irregularities identified are as follows:

#### Unfair Procurement Process For The Beitbridge Borderline Infrastructure Project

36. An appropriate supply chain management process that is fair, equitable, transparent, competitive and cost effective was not followed in the appointment of the contractor and the consultant on 18 March 2020 and 19 March 2020 respectively in order to ensure that amounts charged to the trading entity for Beitbridge Borderline Infrastructure project are market related. This was in contravention with National Treasury Regulation (TR) 16A3.2 (a), which requires that a supply chain management system referred to in paragraph 16.3.1 of the TR must be fair, equitable, transparent, competitive and cost effective. The non-compliance is likely to result in a material financial loss.



37. The Accounting Officer was notified of the MI on 13 November 2020 and invited to make a written submission on the actions taken and that will be taken to address the matter. The response was received on the 10 December 2020.
38. The investigation on the Beitbridge Borderline project was initiated on 25 April 2020 on request from the Minister of DPWI. The investigation was conducted by the Governance Risk and Compliance (GRC) unit of DPWI with the assistance of seconded members from the Special Investigation Unit (SIU). The investigation was finalised on the 27 July 2020. The entity is currently implementing the recommendations stated on the investigation report. The SIU launched an application on 23 September 2020 to freeze the service providers' bank accounts. The Tribunal made an order by agreement on the 23 September 2021 through the Special Tribunal Order that the contractor would not make any further claims for payment from the trading entity. On 17 November 2020, the SIU instituted legal action against the suppliers with the Special Tribunal under case number GP/17/2020. The case is still in progress. The trading entity has since initiated disciplinary actions against the employees of the trading entity for their role in the project. The disciplinary proceedings are still in progress.
39. I will follow up on the implementation of the planned actions during my next audit.

#### Beitbridge Borderline Infrastructure Project Establishment Cost

40. Internal control measures and procedures were not in place to ensure that there are controls that will be able to detect that the establishment cost pertaining to the Beitbridge Borderline Infrastructure Project is incorrectly included in the BOQ and therefore prevent the payment thereof for an award made to a contractor on 18 March 2020. This was in contravention with TR 8.1.1, which states that the accounting officer of an institution must ensure that internal procedures and internal control measures are in place for payment approval and processing. These internal controls should provide reasonable assurance that all expenditure is necessary, appropriate, paid promptly and is adequately recorded and reported on. The non-compliance is likely to result in a material financial loss.
41. The Accounting Officer was notified of the MI on 13 November 2020 and invited to make a written submission on the actions taken and that will be taken to address the matter. The response was received on the 10 December 2020.
42. The investigation on the Beitbridge Borderline project was initiated on 25 April 2020 on request from the Minister of DPWI. The investigation was conducted by the GRC unit of DPWI with the assistance of seconded members from the SIU. The investigation was finalised on the 27 July 2020. The entity is currently implementing the recommendations stated on the investigation report. The SIU launched an application on 23 September 2020 to freeze the service provider's bank account. On 17 November 2020, the SIU instituted legal action against the supplier with the Special Tribunal under case number GP/17/2020. The case is still in progress. The trading entity has since initiated disciplinary actions against the employees of the trading entity for their role in the project. The disciplinary proceedings are still in progress.
43. I will follow up on the implementation of the planned actions during my next audit.

## Material irregularities in progress

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

## Other reports

45. In addition to the investigations relating to material irregularities, I draw attention to the following engagements conducted by various parties, which had, or could have, an impact on the matters reported in the trading entity's financial statements, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the compliance with legislation.

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

Auditor-General

Pretoria

15 September 2021



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

## **Annexure – Auditor-general's responsibility for the audit**

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements and on the trading entity's compliance with respect to the selected subject matters.

### **Financial statements**

2. In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:
  - identify and assess the risks of material misstatement of the financial statements, 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 my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control
  - obtain an understanding of internal control relevant to the audit 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 appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors, which constitutes the accounting officer.
  - Conclude on the appropriateness of the accounting officer's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the Property Management Trading Entity to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a trading entity to cease operating as a going concern
  - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

### **Communication with those charged with governance**

3. I 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 I identify during my audit.
4. I also provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.