

## **Annexure A: Summary of detailed audit findings**























## **IMMOVABLE ASSETS**

### **PMTE HO COFF 13 - Immovable assets: Restatement of comparative amounts (Limitation of scope)**

#### **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...*”

According to GRAP 03 prior period errors are defined as; “*omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:*

- (a) *was available when financial statements for those periods were authorized for issue; and*
- (b) *could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.*

*Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud”*

Paragraph 43 of GRAP 03 states that; “*Errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. Financial statements do not comply with Standards of GRAP if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows. Potential current period errors discovered in that period are corrected before the financial statements are authorised for issue. However, material errors are sometimes not discovered until a subsequent period, and these prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period”*

Paragraph 54 of GRAP 03 states that; “*Therefore, retrospectively applying a new accounting policy or correcting a prior period error requires distinguishing information that:*

- (a) *provides evidence of circumstances that existed on the date(s) as at which the transaction, other event or condition occurred; and*
- (b) *would have been available when the financial statements for that prior period were authorised for issue from other information. For some types of estimates (e.g. an estimate of fair value not based on an observable price or observable inputs), it is impracticable to distinguish these types of information. When retrospective application or retrospective restatement would require making a significant estimate for which it is impossible to distinguish these two types of information, it is impracticable to apply the new accounting policy or correct the prior period error retrospectively.”*

Furthermore, paragraph 55 of GRAP 03 states that; “*Hindsight should not be used when applying a new accounting policy to, or correcting amounts for, a prior period, either in making assumptions about what management's intentions would have been in a prior period or estimating the amounts recognised, measured or disclosed in a prior period.”*

## Nature

During the audit of immovable assets, it was noted that **comparative amounts** for Property, plant and equipment (PPE), Investment property and Heritage assets in the annual financial statement (AFS) were restated due to **prior period errors** that were identified and corrected by management.

Based on the comparison of the immovable assets restated opening balance (carrying value) for the period 2021-2022 and the Immovable assets closing balance as per 2020-2021 financial statements, we noted the following differences which agreed to the prior period error note 37.

Components	Restated opening balance as at 31 March 2022	Closing balance (Carrying amount) as at 31 March 2021	Differences	Prior period error note Amount
<b>Property, plant and equipment (PPE)</b>				
Land	42 355 794 000	42 209 680 000	146 114 000	
Buildings & improvements	87 364 229 000	88 729 848 000	(1 365 619 000)	
<b>Total</b>	<b>129 720 023 000</b>	<b>130 939 528 000</b>	<b>(1 219 505 000)</b>	<b>(1 219 505 000)</b>
<b>Investment property</b>				
Land	1 355 864 000	1 362 688 000	(6 824 000)	
Buildings & improvements	3 652 568 000	3 654 649 000	(2 081 000)	
<b>Total</b>	<b>5 008 432 000</b>	<b>5 017 337 000</b>	<b>(8 905 000)</b>	<b>(8 905 000)</b>
<b>Heritage assets</b>				
Land	3 736 700 000	3 628 884 000	107 816 000	
Buildings & improvements	2 182 557 000	2 176 816 000	5 741 000	
<b>Total</b>	<b>5 919 257 000</b>	<b>5 805 700 000</b>	<b>113 557 000</b>	<b>113 557 000</b>

In order to confirm the accuracy, completeness and occurrence of the prior period error amounts disclosed on the note 37, we required a supporting schedule that details the list of properties that were restated together with the supporting evidence to confirm accuracy of the restatement. This information was however **not provided by management** and the reason for non-submission was stated as follows:

*“The change to the opening balance was a result of multiple adjustments identified when conducting procedures subsequent to the 2021 statutory audit. These subsequent procedures gave management a better state of information as at 31 March 2021 which then necessitated the disclosure of a prior period error.*

*These adjustments not only affected the 2020/2021 Financial year but also other financial years dating back to date of transfer of 1 April 2013.*

*Over the years, Management realised that when correcting balances relating to the immovable asset register, it is extremely difficult to track those changes in SAGE when processing correcting journal entries and trying to rebalance back to the disclosure notes thereafter.*

*It is based on that challenge that the methodology was developed that when a restatement is enacted on the Immovable Asset, that such restatement is done by cleaning out the existing numbers which*

*exist on SAGE and to then bring in “fresh TB balances” by way of new journals that agrees to the current and corrected IAR’s.*

*This methodology then results in a cleaner set of records and a more streamlined approach leading up to the AFS Submission date”*

### **Auditor’s assessment of the management response:**

Based on management’s response it was clear that:

- Management does not have a supporting schedule which supports the prior period error amount disclosed under note 37.
- Furthermore, it is not evident if management have in their position the supporting documents to support the accuracy and completeness of the amounts.

This results in the non-compliance with GRAP 03 paragraph 54 which states that “*correcting a prior period error requires distinguishing information that:*

*(a) provides evidence of circumstances that existed on the date(s) as at which the transaction, other event or condition occurred”*

The management comment which stated that “*The change to the opening balance was a result of multiple adjustments identified when conducting procedures subsequent to the 2021 statutory audit. These subsequent procedures gave management a better state of information as at 31 March 2021 which then necessitated the disclosure of a prior period error*” is in contravention with GRAP 03 paragraph 55 which state that hindsight should not be used when correcting amounts for a prior period, either in making assumptions about what management’s intentions would have been in a prior period or estimating the amounts recognised, measured or disclosed in a prior period.”

Based on the response provided, it can be concluded that hindsight of the situation was made when correcting the amounts that were recognised, measured or disclosed in a prior period error. In the absence of the information to explain the correction of the prior period errors as auditors we are therefore **unable to place reliance** on the Immovable assets (PPE, Investment property and heritage assets) opening balances since we do not know **what is the extent of errors**, and whether any adjustments made on the opening balance where necessary. Consequently this raises doubt on whether the closing balance is complete, accurate and it can be relied upon. The limitation of scope finding is therefore raised.

In addition, the current disclosure of the prior period error does not sufficiently outline what the errors that resulted in the restatement are and doesn’t stipulate the extent of the restatement of prior period balances in line with the requirements of GRAP 03.

### **Impact of the finding**

In the absence of the supporting information and reasons to justify the corrections and adjustments made in the immovable assets we therefore unable to conclude that PPE, investment property and heritage assets at the carrying amount of valued at;

- Property, plant and Equipment – R129 636 644 000
- Investment property – R4 926 415 000
- Heritage assets – R 5 963 020 000, are complete, accurate and fairly presented.

### **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. Management did not ensure the restatements that were made to the opening balances were in supported and evidenced by reliable information and not performed through hindsight.

In addition, management did not review and monitor compliance with applicable laws and regulations Management did not ensure prior period errors were made in accordance with the applicable GRAP 03 and all requirements were met.

## **Recommendation**

It is recommended that adequate review process be implemented on the immovable assets registers (IAR) in order to identify all properties that were restarted in the current financial period. The supporting schedule detailing a breakdown of the restated properties should be maintained and be supported by source documents, recalculations or assumptions made when the prior period error was corrected.

Furthermore, management to ensure restatements are performed in accordance with the applicable GRAP framework to enable management to have reliable evidence to support the restatements made to comparative amounts presented in the annual financial statements. Furthermore, that these are reviewed before finalizing immovable asset register.

## **Management response**

Management agrees with the finding.

The narrative / write up and reconciliation of the opening as well as closing balance are attached as supporting documents.

## **Auditors Conclusion**

Management response has been noted. Before we provide our conclusion on the matter, we would like to detail the background of the limitation of scope and the sequence of events including the timelines.

## **Background**

The annual financial statements (AFS) were submitted for audit on the **31 May 2022** as per the PFMA requirement. The audit team received and performed the high level analysis of the financial statements which revealed that significant restatements was made on the immovable assets register (IAR). The restatements amount was then agreed with the prior period error note 37 included on the AFS.

## **Request for information (RFI):**

The request for information was sent to the client on the **10 June 2022** under RFI No.104 where the following information was requested:

*"Schedules and supporting documentation for the immovable assets restatements made in Annexure A"*

The annexure A attached made reference to the net effect of the restatements made on the immovable assets (PPE, investment and heritage assets). The response on the RFI was received on the **24 June 2022** where management indicated that the reconciliation was not performed on the restatement amounts. The details of the actual response was as follows:

*"The change to the opening balance was a result of multiple adjustments identified when conducting procedures subsequent to the 2021 statutory audit. These subsequent procedures gave*

management a better state of information as at 31 March 2021 which then necessitated the disclosure of a prior period error.

These adjustments not only affected the 2020/2021 Financial year but also other financial years dating back to date of transfer of 1 April 2013.

Over the years, Management realised that when correcting balances relating to the immovable asset register, it is extremely difficult to track those changes in SAGE when processing correcting journal entries and trying to rebalance back to the disclosure notes thereafter.

It is based on that challenge that the methodology was developed that when a restatement is enacted on the Immovable Asset, that such restatement is done by cleaning out the existing numbers which exist on SAGE and to then bring in "fresh TB balances" by way of new journals that agrees to the current and corrected IAR's.

This methodology then results in a cleaner set of records and a more streamlined approach leading up to the AFS Submission date"

**Auditor's assessment:** It should be noted that the response to RFI 104 was received after **9 working days** from the date the request was issued. This was not in line with the signed engagement letter shared with the auditee on the 28 April 2022. Engagement letter paragraph 61 states that; "*Management has three (3) working days to submit the information requested from the date the request was made. Failure to submit the information requested within the agreed timeframe will result in an audit finding and if material, individually or in aggregate, will impact the audit opinion.*" The late submission of the response on the RFI has resulted in the limitation of scope regarding the prior period error note relating to immovable assets.

### **Communication of Audit finding (COAF 13)**

After the audit team received the RFI response, we made follow ups with the client with the intention of obtaining clarity regarding the content of their response provided. Engagements were made with management with the intention of trying to resolve the limitation however we could not resolve the matter. The formal communication of audit finding (**COAF 13**) was then issued on **30 June 2022**. The purpose of the finding was to bring to management's attention the impact of the limitation of scope finding. This finding was in line with paragraph 53 of the engagement letter which stated that "*All documentation and information in support of the financial statements and compliance with legislation must be available on request and be retrievable within a reasonable time. This documentation and information is also relevant to disclosures in the financial statements and could include information outside the general and subsidiary ledgers. If this information is not provided in the time agreed, it will be regarded as a limitation on the audit which could result in a modification of the audit opinion.*"

### **Management response to COAF 13**

On the **7 July 2022**, the client provided us with the management response on COAF 13 raised. The content of the response was as follows; "*Management does not agree with the finding. The change to the opening balance was a result of multiple adjustments identified when conducting procedures subsequent to the 2021 statutory audit. These adjustments on Assets Under Construction and Deemed Cost did not only affect the 2020/2021 Financial year, but also other financial years dating back to the date of transfer of function, that is, 1 April 2013.*"

We also had a formal meeting on the **same date (7 July 2022)** where management confirmed that **significant changes** were made on the prior year immovable assets register resulting in the prior period error note 37 being disclosed on the annual financial statements. Furthermore, management indicated that **they do not have a reconciliation** in place to explain changes made however the audit team should test whole immovable assets register. This request was then rejected by auditors based on the following observations:

- Significant changes were made to the audited IAR without being tracked.
- Management were aware of these significant changes prior to the submission of the financial statements however the external auditors were not informed.

### **Subsequent event**

According to GRAP 14 Paragraph 03 “*Events after the reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:*

- (a) *those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and*
- (b) *those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).*

Auditor's assessment: It should be noted that significant changes were made to the prior year audited immovable assets register where management decided to revise the IAR. This exercise commenced after the prior year audit was finalized and the IAR was unqualified. After the revision of the IAR, management did not inform the auditors of their decision as well as the impact on the audited annual financial statement. The auditors therefore did not have an opportunity to assess the decision against the subsequent event standard in order to determine if these changes results in the adjusting or non-adjusting event in the annual financial statement. This would have also provided auditors with an opportunity to assess if these adjustments have an impact on the communicated audit report or not.

#### Other audit work performed at a high level

In order to assess the impact of the restatements made on the overall IAR, we have done alternative procedures on the IAR where we conducted the following:

- Trace properties from the prior year audited IAR to the current year's IAR.
- Agree the opening balance figures at an asset level to the prior year closing balances.

Based on the procedures performed we noted the following:

- There are properties that were included in the prior year IAR however these properties were removed from the current years register. (Completeness risk)
- Some properties that did not form part of the prior year IAR were included in the submitted IAR. These properties did not form part of the current year's additions or acquisitions. (Existence & Rights risk)
- Differences were noted between the prior year closing balance figures to the current year's opening balance figures for some properties. (valuation)

The high level analysis performed indicated a high risk that the immovable assets register submitted might not be accurate, reliable and complete.

Management subsequently decided to prepare the immovable assets reconciliation where the prior year IAR closing balances was agreed to the current year's opening balances. Furthermore, the revised management response was promised to be submitted to the auditors with the breakdown of all the properties that were affected by the restatements.

#### Revised management response to COAF 13

The revised management response was submitted on the **13 July 2022**. Upon analysing the revised response we noted that the reconciliation and the write-up explaining the changes made on the immovable assets register was attached however, the **breakdown of the assets (List of properties) that were subject to restatements was not included**. This list would have been used to select a sample or test 100% depending on the auditor's approach of testing restatements. We performed the high level analysis on the reconciliation submitted as well as the write-up document and we noted the following differences:

	<b>Amount as per the Recon</b>	<b>Amount as per AFS</b>	<b>Differences</b>
<b>GRAP 17</b>			
LAND	134 039 253	146 114 000	(12 074 747)
IMPROVEMENTS	(1 249 770 068)	(1 365 619 000)	115 848 932
<b>Total</b>	<b>(1 115 730 814)</b>	<b>(1 219 505 000)</b>	<b>103 774 186</b>
<b>GRAP 16</b>			
LAND	(6 824 519)	(6 824 000)	(519)
IMPROVEMENTS	(15 991 877)	(2 081 000)	(13 910 877)
<b>Total</b>	<b>(22 816 396)</b>	<b>(8 905 000)</b>	<b>(13 911 396)</b>
<b>GRAP 103</b>			
LAND	107 816 537	107 816 000	537
IMPROVEMENTS	6 348 663	5 741 000	607 663
<b>Total</b>	<b>114 165 200</b>	<b>113 557 000</b>	<b>608 200</b>

However based on the management write-ups, they have indicated that they were able to reconcile GRAP 103 and GRAP 16. The difference of R39 064 402 relating to GRAP 17 could not be reconciled. This was an indication that even though a reconciliation has been performed, there are still items on the population that could not be properly reconciled.

Furthermore, on the management write-ups they have indicated further errors where identified when the reconciliation of the 2022 IAR against the 2021 IAR that has the following impact:

#### **Immovable assets – Land**

The carrying value for 2021/22 must be adjusted to account for balances that did not carry forward from the 2021 closing balances. These balances include the redesigned land population identified during the 2021 audit with a carrying Value of R431 751 588.

#### **Immovable assets - Buildings**

The carrying value for 2021/22 must be adjusted to account for balances that did not carry forward from the 2021 closing balances. These balances include the 2021 DOD extents updates obtained from CSIR. The net difference of the correction for DOD extent updates is an amount of R102 268 862.

Based on the above observations with regards to the reconciliation submitted as well as the write-ups, it was clear that the reconciliation provided with an attempt to clear the limitation of scope finding was not accurate and it further indicates the errors that are on the immovable assets register submitted for audit.

#### **Engagement held on the 18 July 2022**

A meeting was held with the client on the **18 July 2022** where management was given an opportunity to discuss the revised management response. The purpose of the meeting was also to inform the client that the information submitted was still inadequate since it did not contain a detailed list of properties that were restated in order to allow auditors to perform an audit to confirm the accuracy and the completeness of the prior period error amount. The required information was then provided to auditors in batches were the first batch (Land register) was submitted on the **18 July 2022** while the second batch (improvement register) was submitted on the **19 July 2022**.

#### **Overall Conclusion**

Based on the above background, sequence of events as well as the timelines of this matter. The audit team has experienced a limitations with regard to the audit of immovable assets opening balances. This limitation of scope was imposed by management on the auditors as the underlying

records that informs the financial statement and also reconciling with the registers should have been submitted as per the engagement letters timelines.

Furthermore, it should be noted that the absence of the reconciliations or registers that supports the amount disclosed on the annual financial statement results in the limitation of scope as the auditors would not be able to continue with the audit beyond the risk assessment procedures, as the auditor cannot confirm that the underlying records presented are those that were used to prepare the financial statements.

An overriding requirement when selecting items for testing is that the auditor should ensure that the population and its underlying information are sufficiently complete and accurate for the auditor's purpose of obtaining reliable audit evidence.

Based on the assessment above, **the limitation of scope finding remains.**

### **Immovable assets: Re-assessment of useful live and residual values**

#### **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...*"

Paragraph 56 of GRAP 17 states that; "*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.*"

Paragraph 58 of GRAP 17 states that; "*In assessing whether there is any indication that the expected residual value of an asset has changed, an entity shall consider whether there has been any change in the expected timing of disposal of the asset, as well as any relevant indicators included in paragraph .57.*"

*Paragraph 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.”*

Paragraph 63 of GRAP 17 states that; “*The useful life of an asset is defined in terms of the asset’s expected utility to the entity. The asset management policy of the entity may involve the disposal of assets after a specified time or after consumption of a specified proportion of the future economic benefits or service potential embodied in the asset”*

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

During the audit of immovable assets, we issued an RFI 109 where we requested the following information relating to the assessment of useful lives:

*“Assessment of useful lives working paper done by management on immovable assets for the 2021/2022 financial period.”*

According to Paragraph 56 of GRAP 17 states that; “*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.*

**Management response:** No evidence was provided to confirm that the reassessment of useful lives and residual values of immovable assets was conducted. Through further engagement we have also learned that the reassessment of the useful lives for immovable assets was **not conducted** in the current financial year.

Building Id	Unique prop code of land parcel/site	Building Condition	Impairment loss for the year 2021/22
200000058122	784961	60%	13 266
100000003755	1182551	80%	49 701
100000037382	678121	60%	52 906
100000001191	2773051	60%	44 855
226600510	200000057598	40%	11 264
226600505	200000057598	40%	50 475
200000120370	2667981	60%	19 320
100000003758	1182521	80%	146 231
200000085653	200000057598	40%	94 422
200000091213	1226891	20%	3 188
100000037381	678121	60%	77 776
200000035729	3120041	60%	135 607
100000003757	1182521	80%	322 636
100000003756	1182551	80%	236 313
200000120368	2667981	20%	4 522
200000121400	504371	60%	2 161 929
216600566	2957031	60%	84 420
216600571	2957031	60%	84 420
240300682	200000084117	60%	42 000
200000168662	593871	60%	11 070 360
<b>Total</b>			<b>14 705 610</b>

## **Auditor's assessment:**

This results in the non-compliance with paragraph 56 of GRAP 17 which requires that an entity shall assess at each reporting date whether there are any indication that a useful life of an asset have changed since the preceding reporting period.

Furthermore it is not evidence if the entity considered any **indication** that the expected useful life of an asset might have changed. This is in contravention with GRAP 17 paragraph 58 and paragraph 57 which details the indications to be considered when assessing the useful lives.

Failure to conduct the re-assessment of using lives have the following impact:

- Inaccurate allocation of depreciation value to immovable assets over its useful life **due to changes** in use of asset.
- Immovable assets that are approaching the end of its previously expected useful life would not have been considered for reassessment.

During the testing of impairment, we have also noted that management has **impaired** the immovable assets included in Table A and table B below. This is one of the indications of reassessment of useful lives under paragraph 57 (g) of GRAP 17.

According to GRAP 17 paragraph 57(g) "*In assessing whether there is any indication that the expected useful life of an asset has changed, an entity considers the following indications:*

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

However the useful lives of these properties were not re-assessed. Refer to the list of properties:

**Table A:** Property, plant and equipment

**Table B:** Investment property

<b>Building Id</b>	<b>Unique prop code of land parcel/site</b>	<b>Building Condition</b>	<b>Impairment loss for the year 2021/22</b>
2100750830	881832	60%	557
2100750790	861451	80%	41 261
2100750789	861451	80%	86 053
2100750785	861451	80%	87 291
2100750788	861451	80%	38 448
2100750809	881832	80%	151 675
<b>Total</b>			<b>405 284</b>

## **Impact**

This results in the:

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

The overall impact is **unquantifiable** as no assessment was done on the overall immovable assets register to determine if the useful lives and residual values allocated to assets are still relevant and reliable.

## **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. Management did not ensure the reassessment of useful lives and residual values were performed and taken into account in the IAR to **enable**

**reliable estimates** to be utilized in calculating the carrying amounts of the assets in the IAR that supports the annual financial statements

In addition, management did not review and monitor compliance with applicable laws and regulations. Management did not ensure that the entity complies with GRAP 17 standard in relation to assessment of useful lives and residual values.

### **Recommendation**

It is recommended that adequate review process be implemented on the schedules and other information supporting the annual financial statement to ensure that the annual financial statements submitted are supported by accurate and complete schedules and information.

Furthermore, management to ensure the reassessment of useful lives and residual values are performed on an annual basis as per GRAP 17 to ensure full compliance with GRAP standards. This ensure reliable estimates are being utilized in calculating the carrying amounts of the assets in the IAR.

Management should revisit the whole population to determine the full impact of this finding and correct the population.

### **Management response**

Management agrees with the finding.

Impaired buildings (GRAP 16 & 17) have been identified and accounted for appropriately. The useful live assessment may or may not impact the calculated depreciation, currently there is no reliable indicator of what the outcome might be, and therefore it is prudent not to adjust the calculated depreciation without sufficient and appropriate supporting evidence.

### **Auditors Conclusion**

Management's response is noted. The finding will remain and will be reported in the management report.

## **PMTE HO COFF 17 - Properties disposed off without prior approval from delegated official (Land parcels)**

### **Requirements**

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 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...*"

Paragraph 78 of GRAP 17 states that; "*The carrying amount of an item of property, plant and equipment shall be derecognised:*

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

According to GIAMA paragraph 5(1) state that "

- (e) when an immovable asset is acquired or disposed best value for money must be realised;*

- (f) in relation to a disposal, the custodian must consider whether the immovable asset concerned can be used –
- (i) by another user or jointly by different users;
  - (ii) in relation to social development initiatives of government; and
  - (iii) in relation to government's socio- economic objectives, including land reform, black economic empowerment, alleviation of poverty, job creation and the redistribution of wealth."

[In GIAMA, " best value for money" is defined as " the optimization of the return on investment in respect of an immovable asset in relation to functional, financial, economic and social return, wherever possible."]

According to the Immovable assets disposal policy paragraph 6.4 state that "*The written approval of the Minister of Public Works (or an office- bearer or government official so delegated by the Minister) must be obtained in all disposals.*"

According to the Immovable assets disposal policy paragraph 6.5 state that "*Any disposal at less than market value/ market rental must be approved by the National Treasury [in terms of Treasury Regulation 16A7 "Disposal and letting of state assets"].*

According to the Immovable Asset Disposal Policy section 7.1(d), "*Before State land can be transferred in the Deeds Office, the custodian of that property must therefore secure the aforementioned certificate [commonly referred to as an "Item 28(1) certificate] confirming that the property vests in that particular sphere of government".*

## Nature

During the audit of immovable asset register, it was noted that the following land parcels previously recognized as property, plant and equipment (PPE) in the prior year were disposed in the current financial period. The disposal was due to a **change in ownership with no formal process** being followed. The following narration was included on the annual financial statement under note 7:

*"In 2022, 3 land parcels with the value of R 3 904 263 (2021, 20 land parcels with the value of R35 579 772) had changed ownership with no formal process or disposal followed. PMTE does not disclose such properties for financial reporting purposes but retains them within internal systems whilst investigations and internal processes are conducted."*

Through inspection of the aktext (title deeds) the transfer of ownership occurred on the dates stated below to the following individuals and municipality:

No.	Property Description	Current use of asset as per physical verification	Date of transfer	Previous owners	New owner
1	ERF 77 OF MAKHADO-A	RESIDENTIAL ACCOMODATION	2022/01/24	UNREGIST ERED	MPHAPHULI GOLE PRINCE
2	REMAINDER OF ERF 11543 DURBAN	UNUTILIZED	2021/06/15	R S A	ETHEKWINI MUNICIPALITY
3	ERF 11545 DURBAN	VACANT STAND	2021/06/15	R S A	ETHEKWINI MUNICIPALITY

### Property 1: ERF 77 OF MAKHADO-A

As stated above, the ownership of this **land parcel** currently being utilized for residential purposes by the Dept. of Justice changed from PMTE to a private individual with no process being followed. The change in ownership occurred on the 24 June 2022. We have noted that the building situated on this land has been included in the IAR. This event raises the uncertainty of whether the building situated on the disposed land is indeed owned by PMTE. Furthermore, there is a high risk that government owned properties are being used by private individuals without the entity's knowledge.

### Property 2: REMAINDER OF ERF 11543 DURBAN & Property 3: ERF 11545 DURBAN

Through inspection of the title deeds for these two properties we noted that the ownership changed from PMTE EThekwini Municipality.

According to the Immovable Asset Disposal Policy section 7.1(d), *"Before State land can be transferred in the Deeds Office, the custodian of that property must therefore secure the aforementioned certificate [commonly referred to as an "Item 28(1) certificate] confirming that the property vests in that particular sphere of government".*

Based on the engagement with management, there was no evidence that the transfer certificate indicated under paragraph 7.1 (d) was in place. This is also evidenced by the fact that management is still in the process of investigating this matter.

### Non-compliance with the approval process

The immovable assets disposal policy states that; *"the written approval of the Minister of Public works (or an office-bearer or government official so delegated by the minister) must be obtained in all disposals."* Furthermore, *that "any disposals at less than the market value/market rental must be approved by the National Treasury [in terms of Treasury Regulation 16A7 "Disposal and letting of state assets"]"*

During the audit we also noted that **no approval was obtained from the minister or her delegated official** in relation to these three properties that were disposed. This results in the non-compliance with paragraph 6.4 of the immovable assets disposal policy. Furthermore, this results in the

completeness issue for the entity resulting from unauthorized changes in the ownership of the government properties. Refer to the table below:

Unique Property Code	Property Description_2021	LPI Code	Amount
1654971	ERF 77 OF MAKHADO-A	T0MT00130000007700000	68 574
976601	REMAINDER OF ERF 11543 DURBAN	N0FU00850001154300000	1 035 688
1055191	ERF 11545 DURBAN	N0FU00850001154500000	2 800 000
<b>Total</b>			<b>3 904 263</b>

## **Impact**

The impact is as follows:

- Non-compliance with immovable assets disposal policy paragraph 6.4.
- Property plant and equipment (Land) has been understated by R3 904 263 due to unauthorised disposals.

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

## **Internal control deficiency**

### *Leadership*

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls:

Management did not ensure that disposal of land parcels due to change in ownership were approved by the Minister in order to remove the parcels from the State register and administer a formal investigation through how the ownership was changed without the Minister's knowledge.

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

Management did not assess the control deficiencies surrounding the change in ownership of land parcels without formal approval to develop an action plan to mitigate the deficiencies on the re-occurring issue currently being experienced by the entity

### *Financial and Performance Management*

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

Management did not ensure that the immovable asset register fairly presented and disclosed the land parcels noted to be disposed without a formal process being followed.

## **Recommendation**

It is recommended that all immovable asset disposals should be submitted to the minister of DPWI or delegated official as per the disposal policy so that proper authorization can be obtained.

Management to ensure a formal investigation has been launched with regards to the change in ownership of State-owned properties and that there are follow up processes to ensure the control deficiencies are identified in order to mitigate the unlawful and informal transfers of ownership of State assets.

Management should revisit the whole population to determine the full impact of this finding and correct the population.

## **Management response**

Management disagrees with the finding. The land parcels were not disposed, but management discovered that they were no longer under the custodianship of DPWI in terms of rights and obligations. Remainder of Erf 11543 Durban and Erf 11545 Durban were transferred from PMTE to EThekweni Municipality as per the order of the High Court of KwaZulu Natal (case number D2213/2019).

The change in ownership for ERF 77 OF MAKHADO-A occurred on 24 January 2022. This transaction is under investigation in line with the OBB strategy of DPWI to recover State properties that have been transferred illegally.

According to the GRAP recognition criteria, the Framework for the Preparation and Presentation of Financial Statements requires that an item should be recognised in the statement of financial position or statement of financial performance when it meets the definition of an element in the financial statements and satisfies **the recognition criteria**. The definition of an asset is met when the resource is **controlled** by the entity because of past events and from which future economic benefits or service potential is expected to flow to the entity. Control is evidenced by **legal ownership** or the right to direct access to land, and to restrict or deny the access of others to land.

According to **iGRAP 18 paragraph 18 - 21** “*Legal ownership refers to the owner being the registered title deed holder of the land. Legal ownership also arises where the land is transferred from the legal owner to another entity or party, through legislation or similar means. In the absence of an entity demonstrating that it has granted the right to direct access to and restrict or deny access of others to the land to another entity, the legal owner controls the land as it retains the right to direct access to land, and to restrict or deny the access of others to land.*

*In assessing whether the rights that have been granted to an entity in a binding arrangement result in control of the land, it is important to distinguish between **substantive rights and protective rights**. Only **substantive rights** are considered in assessing whether an entity controls land.*

Management has applied the recognition criteria and came to the conclusion that , as the result of the new registered title deed holder of the land , PMTE no longer has control of the asset. Furthermore there is no binding arrangement between the two parties that grants PMTE substantive rights over the land.

## **Auditors Conclusion**

Management's response is noted. The finding will remain based on the following:

Management stated that the “land parcels were not disposed, but management discovered that they were no longer under the custodianship of DPWI in terms of rights and obligations”, however, according to section 7.5.5 of the Immovable Asset Management Policy, “assets sold, transferred to other custodians or donated” are described as disposals for the entity.

The transfer of Remainder of Erf 11543 Durban and Erf 11545 Durban from PMTE to EThekweni Municipality as per the order of the High Court of KwaZulu Natal (case number D2213/2019) are disposals and should have been properly disclosed as a disposal in the IAR. Furthermore, approval from the relevant parties should have been obtained for transfer based on the court order in accordance with the Immovable Asset Disposal Policy section 7.1(d).

The Auditor agrees with management that PMTE has no control over the assets that do not belong to them and should derecognize the assets from the immovable asset register based on the illegal transfer of ownership from PMTE to a private individual for ERF 77 OF MAKHADO.

Management should consider disclosing ERF 77 OF MAKHADO-A as a contingent asset based on the illegal transfer of ownership being under investigation in line with the OBB strategy as the

retention of the assets ownership by the entity will be confirmed by the occurrence or non-occurrence of uncertain future events that are not wholly within the control of the entity.

Therefore, there was no evidence of **approval obtained from the minister or her delegated official** in relation to these three properties that were disposed. This results in the non-compliance with paragraph 6.4 of the immovable assets disposal policy.

#### **PMTE HO COFF 41 - Immovable property: Properties that are not owned by PMTE**

##### **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...*"

Section 41 of the Public Finance Management Act (PFMA) 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 through confirmation of the Deeds CAATs download that the custodianship of the sampled land parcels listed below could not be confirmed to belong by PMTE based on what is deemed to belong to the Department of Public Works in terms of the Immovable Asset Guide.

### Property, plant and Equipment - Land

Unique_Property_Code	LPI_Code	Persons Name as per Deeds Download	Carrying value
DEEDS32027	C07300000000007.000014	BRUWER GIDEON DANIEL	176 463,81
D_3132013_99141	N0GS02820000029800000	MCOTSHWA NTOMBININGI AGNES	415 654,45
900871	C02700090000128100000	AGRICULTURE & FISHERIES	41 766,91
DEEDS35526	C01600620000029000000	EDUCATIONAL TRUSTEES	97 059,05
DEEDS34078	C04600140000422300000	EDUCATIONAL TRUSTEES	4 505 000,00
DEEDS29236	C06700210000445300000	EDUCATIONAL TRUSTEES-STELLENBOSCH	1 500 000,00
158515	C01600070009516400000	ADMINISTRATOR OF THE CAPE OF GOOD HOPE	133 699,66
DEEDS86262	N0FT00000000124700057	INGONYAMA TRUST-TRUSTEES	1 573 435,90
1674341	T0IR03160000106900000	GOVERNMENT OF THE REPUBLIC OF BOPHUTHATSWANA	1 452 000,00
DEEDS58446	T0IR03100000243800000	CITY OF JOHANNESBURG	40 713,40
D_3132013_45713	T0IR00750000128900000	EKURHULENI METROPOLITAN MUNICIPALITY	220 000,00
D_3132013_45714	T0IR00750000129000000	EKURHULENI METROPOLITAN MUNICIPALITY	230 000,00
D_3132013_171090	T0JR00740000006300000	JOHANNES MASHIGO FAMILY TRUST	38 208,22
141771	T0JP00020000006200000	RAMOTSHERE MOILOA LOCAL MUNICIPALITY	102 868,28
DEEDS 180202	T0JR00000000035100224	PROVINCIAL GOVERNMENT OF GAUTENG	5 069 936,56
D_3132013_69679	T0IR00330000024000000	MCHATTIE FREDERICK STUART	137 157,70
DEEDS140255	T0IQ00000000019900119	MONKOR TRUST DORPSGEBIEDE PTY LTD	360 000,00
DEEDS142039	T0IR00000000009200545	AIR FORCES HOUSING MEMORIAL-JOHANNESBURG	39 086,38
D_3132013_47435	T0IR07780002093000000	EKURHULENI METROPOLITAN MUNICIPALITY	431 062,64
1607532	C11700040000021100000	PROVINCIAL GOVERNMENT OF THE EASTERN CAPE	90 670,09
DEEDS152457	T0LU00080000135900000	DEPARTMENT OF LAW & ORDER	29 064,00
DEEDS90378	N0GT00000000014000001	INGONYAMA TRUST-TRUSTEES	3 022 928,22
DEEDS71395	N0ET00030000021500000	AMANZIMTOTI SR-CC	219 398,80
1303831	T0IR00330000042900000	MCHATTIE FREDERICK STUART	48 984,89
1341461	T0IR03080000196900000	HIGHLANDS NORTH INV & ESTATE DEVELOPMENT CO LTD	1 038 904,78
DEEDS84291	N0ET00000000474800000	INGONYAMA TRUST-TRUSTEES	194 000,00
DEEDS119745	T0IT00090000308500000	MSUKALIGWA LOCAL MUNICIPALITY	38 500,00
980892	N0FU00850000342900000	ROYAL DURBAN LIGHT INFANTRY	329 820,00
792951	C04600000000055200004	NATIONAL BOTANIC GARDENS	44 500,00
DEEDS181897	T0HN00030000028200000	REPUBLIC OF BOPHUTHATSWANA	91 432,02
DEEDS109793	N0FU04630000301000000	HLOPHE BUSLAPHI GLADYS	150 000,00
2E+11	C07900020000074300000	PROVINCIAL GOVERNMENT OF THE EASTERN CAPE	99 309,85
D31032014_157980	T0JQ00960000187800000	BOPHUTHATSWANA INTERNAL INTELIGENCE SERVICES	16 500,00

Unique_Property_Code	LPI_Code	Persons Name as per Deeds Download	Carrying value
D31032014_158071	T0IQ0305000010200001	SUID-AFRIKAANSE POLISIE UNIE	377 183,69
D31032014_57850	T0JR0199000092400000	CITY OF TSHWANE METROPOLITAN MUNICIPALITY	156 045,13
D31032014_124363	T0LS00000000100100159	DLOMU AMUKELANI GARCIA	58 194,91
2E+11	T0IR0388000007800000	ADMINISTRATEUR VAN TRANSVAAL	616 404,23
DEEDS83915	N0ET0000001310800000	INGONYAMA TRUST-TRUSTEES	34 704,65
DEEDS35525	C01600620000027900000	EDUCATIONAL TRUSTEES	3 143 634,75
DEEDS34067	C04600140000312800000	EDUCATIONAL TRUSTEES	3 290 000,00
DEEDS45944	C03700010000771700000	GOVERNMENT OF THE COLONY OF THE CAPE OF GOOD HOPE	60 426,81
1376371	T0IR01660000166400000	DEPARTMENT OF REGIONAL & LAND AFFAIRS	885 000,00
DEEDS95332	N0FU0205000015400000	DEVELOPMENT & HOUSING BOARD	380 000,00
D_3132013_124444	N0FU00000001582600029	DUNN VICTOR VIVIAN	287 000,00
DEEDS31032015_0017308	C10400010000017000000	SOUTH AFRICAN BANTU TRUST	224 333,04
DEEDS 180222	T0JR00000000050200002	PREMIER TRANSVAAL DIAMOND MINING CO LTD	764 164,35
D_3132013_82884	T0HT00000000002100028	MTHABELA GIDEON ELIJAH	61 349,29
D_3132013_85524	T0JT00000000002400005	CLAMA PTY LTD	613 494,37
DD30082014_123280	T0IR00000000006100070	NATIONAL HEALTH LABORATORY SERVICE	1 261 273,55
DD30082014_131954	T0IR05640000002600000	PHALA MADUMETJA THOMAS	12 270,15
403051	T0JQ00000000021100070	BRONKHORST ANNA ENGELIA	5 216 098,10
DEEDS90487	N0GT0000000005900009	INGONYAMA TRUST-TRUSTEES	1 618 186,17
DEEDS31032015_0117714	T0LR00000000029600001	SUID-AFRIKAANSE ONTWIKKELINGSTRUST	3 376 303,32
3113094	C01300020000300900000	NATIONAL BOTANIC GARDENS	6 500 000,00
DEEDS90083	N0GS0000000588200000	INGONYAMA TRUST-TRUSTEES	1 739 147,50
2548323	C10900010000007100000	SOUTH AFRICAN BANTU TRUST	420 324,00
D31032014_150958	T0JQ00070000050800000	AFRIKAANSE PROTESTANTSE KERK	1 379 791,52
D31032014_154992	T0JQ00000000038100025	BENDER IRENE HELEN	1 120 710,98
2E+11	T0JR00370000046400000	SOUTH AFRICAN ARMY FOUNDATION	727 191,73
2E+11	T0JR00370000046500000	SOUTH AFRICAN ARMY FOUNDATION	780 147,07
DEEDS66873	T0IR06140000083400000	EKURHULENI METROPOLITAN MUNICIPALITY	488 560,76
DEEDS160469	T0JR03560000307400000	CITY OF TSHWANE METROPOLITAN MUNICIPALITY	85 182,18
3113097	C01300020000304500000	NATIONAL BOTANIC GARDENS	680 000,00
DEEDS179629	C02800060000009800000	ONGEREGISTREerde STAATSGROND	14 057,61
DEEDS 180200	T0JR00000000035100085	PROVINCIAL GOVERNMENT OF GAUTENG	65 976,01
400751	T0JU00020000018200000	MURRAY DAN	72 345,01
3120771	N0GS0000000139300474	MATOWAN'S KOP SYNDICATE	225 321,54
535301	C02800060000008400000	ONGEREGISTREerde STAATSGROND	151 015,23
1307481	T0IR00330000043000000	MCHATTIE FREDERICK STUART	48 984,89
1674371	T0IR04880000029700001	GOVERNMENT OF VENDA	960 000,00
DEEDS31032015_0002173	C08700010000030600000	SOUTH AFRICAN DEVELOPMENT TRUST	100 727,61
DEEDS31032015_0010305	C09400010000006300000	SOUTH AFRICAN DEVELOPMENT TRUST	302 182,84

Unique_Property_Code	LPI_Code	Persons Name as per Deeds Download	Carrying value
DEEDS31986	C0730000000004400003	FOURIE PHILLIPUS JURIE WYNAND	235 127,49
DEEDS150105	T0KR0016000057500000	SUID AFRIKAANSE BANTU TRUST	48 984,89
1590171	C08600010000010200000	SOUTH AFRICAN BANTU TRUST	8 807 859,85
DEEDS79301	N0FU0085000343000000	ROYAL DURBAN LIGHT INFANTRY	317 823,09
DEEDS160473	T0JR0356000316900000	CITY OF TSHWANE METROPOLITAN MUNICIPALITY	78 640,14
2E+11	C1090001000008300000	SOUTH AFRICAN BANTU TRUST	473 530,39
D_3132013_171083	T0JR0074000005600000	MAKENA AMOS PULANE	43 106,71
2E+11	T0KR0000000041900125	WEDUWEE-EN WEESFONDS VAN DIE SUID-AFRIKAANSE POLISIE	396 669,85
DEEDS152456	T0LU0008000135800000	DEPARTMENT OF LAW & ORDER	29 064,00
DEEDS90054	N0GS0000000422500163	HADEBE SIPHESIHLÉ NTOMBIFUTHI	26 307,24
D_3132013_125170	N0GS0000000422500220	HADEBE SIFISO LOWARD	690 565,15
1099381	N0HT0000000881600005	MBATHA PHINDILE BARBARAH	201 064,64
1073351	N0HT0000000757600031	DHLAMINI DUDUZILE QUEEN	10 617,23
1050361	N0GS0282000004600000	DUBE SIBONGILE GLADYS	1 877 021,84
1030571	N0GS0000000139300398	MATOWAN'S KOP SYNDICATE	17 099,71
D_3132013_125171	N0GS0000000422500221	DLAMINI CLARENCE	203 881,14
DEEDS90486	N0GT0000000056800003	INGONYAMA TRUST-TRUSTEES	240 007,08
2926961	C0950001000008400000	PROVINCE OF THE EASTERN CAPE	228 884,83
DEEDS46014	C037000000001310008	COLONIAL GOVERNMENT	16 436,09
DEEDS46013	C037000000001310007	COLONIAL GOVERNMENT	426 086,09
D31032014_154991	T0JQ0000000038100011	BENDER IRENE HELEN	152 003,40
1411381	T0IQ0352000184100073	DEVELOPMENT & HOUSING BOARD	5 569,86
D_3132013_47437	T0IR07780002093200000	EKURHULENI METROPOLITAN MUNICIPALITY	500 000,00
DD30082014_026557	C0320000000010900003	COLONIAL GOVERNMENT	30 591,08
DEEDS182168	C0070007000058100000	MERWE SAREL JOHANNES VAN DER	571 691,47
D_3132013_170431	T0MS0000000002700000	DIE NASIONALE PARKERAAD	5 445 599,46
WC000001	C0780008000026400000	EDUCATIONAL TRUSTEES	133 490,75
DEEDS179449	T0JO0000000010600009	COETZER JESSIE MARY	211 533,29
DEEDS179450	T0JO0000000010800003	ROOYEN PHILLIPUS JOHANNES VAN	90 000,00
3052091	C1080001000020700000	SOUTH AFRICAN BANTU TRUST	11 503,04
2862301	C0950001000009800000	SOUTH AFRICAN BANTU TRUST	44 496,92
1349181	T0IR0465000020100000	ADMINISTRASIERAAD OOSRAND	970 000,00
DEEDS31876	C0730007000061100000	DEPT KLEURLINGSAKE-COLOURED AFFAIRS	290 970,28
D_3132013_47425	T0IR07780002091900000	EKURHULENI METROPOLITAN MUNICIPALITY	81 435,26
D_3132013_47439	T0IR07780002093400000	EKURHULENI METROPOLITAN MUNICIPALITY	206 320,64
D_3132013_47455	T0IR07780002095000000	EKURHULENI METROPOLITAN MUNICIPALITY	153 704,80
D_3132013_131761	T0JR0185000041900000	SOUTH AFRICAN REVENUE SERVICES	58 781 873,18
739951	C0500000000018700000	ALINFORT TRADING PTY LTD	472 000,00
426891	T0LR0000000054000002	SUID-AFRIKAANSE ONTWIKKELINGSTRUST	1 592 103,45
1338881	T0IR0033000015400000	MCHATTIE FREDERICK STUART	48 984,89
980891	N0FU0085000334000000	ROYAL DURBAN LIGHT INFANTRY	140 474,39

Unique_Property_Code	LPI_Code	Persons Name as per Deeds Download	Carrying value
3108311	T0IR0033000019400000	DIPALESENG LOCAL MUNICIPALITY	48 984,89
DEEDS31868	C0730007000001400000	DEPT KLEURLINGSAKE-COLOURED AFFAIRS	244 924,47
DEEDS 180232	T0JR0000000052900001	PREMIER TRANSVAAL DIAMOND MINING CO LTD	36 242 077,93
DEEDS 180233	T0JR0000000052900008	PREMIER TRANSVAAL DIAMOND MINING CO LTD	276 129,25
C0410000000067900001	C0410000000067900001	PROVINCIAL GOVERNMENT OF THE NORTH WEST PROVINCE	6 134 943,67
D31032014_35146	T0JR0037000073000086	SOUTH AFRICAN ARMY FOUNDATION	53 630,50
DEEDS145281	T0JR0000000051300017	NASIONALE KULTUURHISTORIESE & OPELUGMUSEUM	969 900,91
DEEDS55552	T0IR0075000103800000	EKURHULENI METROPOLITAN MUNICIPALITY	320 000,00
D_3132013_69733	T0IR0033000040500000	MCHATTIE FREDERICK STUART	48 984,89
DEEDS18280	C03900000000018300051	EDUCATIONAL TRUSTEES-KNYSNA	480 000,00
3130961	N0GS0282000003500000	MABASO ROSE ROSELINA	57 971,58
14615	N0FU00850001169900000	WAR DEPARTMENT	131 631,41
EC332_65	C03800000000079500000	PROVINCIAL GOVERNMENT OF THE EASTERN CAPE	61 349,29
D_3132013_69736	T0IR0033000040600000	MCHATTIE FREDERICK STUART	48 984,89
1101881	N0HT0000000881600029	KHUZWAYO THOBILE IRIS	48 097,16
3120831	N0GS0000000139300351	DLAMINI VICTOR	229 004,56
D31032014_153389	T0JO00000000011400002	SOUTH AFRICAN BANTU TRUST	2 210 910,99
28232	T0JR00000000035100008	CITY OF TSHWANE METROPOLITAN MUNICIPALITY	7 960 045,33
3131051	N0GS0000000110200017	NDLOVU SIZAKELA MAVIS	1 014 144,25
2927551	C10500010000009400000	SOUTH AFRICAN BANTU TRUST	17 856,21
D31032014_153229	T0IO00130000414200000	BOPHUTHATSWANA INTERNAL INTELLIGENCE SERVICE	67 888,28
980893	N0FU0085000342700000	ROYAL DURBAN LIGHT INFANTRY	94 388,83
DD30082014_098973	N0HT0000000002900001	GEVERS RALF	2 453 977,47
DD30082014_034587	C0410000000068400001	PROVINCIAL GOVERNMENT OF THE NORTH WEST PROVINCE	3 710 454,38
DEEDS90482	N0GT0000000052900003	INGONYAMA TRUST-TRUSTEES	1 944 017,03
DEEDS86717	N0FT00000000698100014	INGONYAMA TRUST	314 690,29
3171311	C01600420001086700000	EDUCATIONAL TRUSTEES	501 725,33
3113095	C01300020000302300000	NATIONAL BOTANIC GARDENS	1 150 000,00
2E+11	T0IR0000000006100085	NATIONAL HEALTH LABORATORY SERVICE	206 836,02
DEEDS140645	T0IQ00000000030200139	DEPARTMENT OF COMMUNITY DEVELOPMENT	880 000,00
2551806	T0JR00000000030200026	AGRICULTURAL RESEARCH COUNCIL	1 322 592,15
3118761	C0400000000004800000	COLONIAL GOVERNMENT	328 840,55
DEEDS119110	T0IT0033000062300000	KANGWANE POLICE	57 145,01
DEEDS179098	T0IM0000000043600009	REPUBLIC OF BOPHUTHATSWANA	4 601 207,76
D31032014_151608	T0HO0000000034400087	BLOEMHOF S A POLISIE ONDEROFFISIERSKLUB	588 822,23
DEEDS13576	C01600190001624700000	HOUSE OF REPRESENTATIVES	202 222,12
817041	C0710002000097900000	COLONIAL GOVERNMENT	717 516,02
DEEDS45946	C03700010000772900000	GOVERNMENT OF THE CAPE OF GOOD HOPE	44 000,00
2926381	C0910001000004000000	COLONIAL GOVERNMENT	2 911 554,20
2016_ACQ0001	T0JR0199000326500000	GOVERNMENT PRINTING WORKS	417 271,44

Unique_Property_Code	LPI_Code	Persons Name as per Deeds Download	Carrying value
160618	C0790002000002200000	PROVINCIAL GOVERNMENT OF THE EASTERN CAPE	124 347,55
DEEDS31032015_00662 16	T0IR0706000001800000	ADMINISTRATEUR VAN TRANSVAAL	992 491,24
DEEDS31032015_00155 92	C10300010000004200000	SOUTH AFRICAN BANTU TRUST	197 630,32
DD_20180331_110968	T0JT00120000146600000	STATE SECURITY AGENCY REPUBLIC OF SOUTH AFRICA	293 192,02
DEEDS 180223	T0JR00000000050200018	PREMIER TRANSVAAL DIAMOND MINING CO LTD	950 502,89
2E+11	T0JR02770000121200000	GOVERNMENT OF THE REPUBLIC OF BOPHUTHATSWANA	242 161,33
DEEDS179541	T0JO00000000040600003	REPUBLIC OF BOPHUTHATSWANA	172 995,37
DEEDS31032015_00880 79	N0GU00000000929600003	REGIONAL & LAND AFFAIRS	1 058 325,67
1339791	T0IR0033000074900000	MCHATTIE FREDERICK STUART	435 064,05
DD_31032017_79907	N0GT0000000047300001	EMCAKWINI COMMUNITY TRUST-TRUSTEES	2 047 047,14
DEEDS145195	T0JR00000000048000002	PREMIER TRANSVAAL DIAMOND MINING CO PTY LTD	21 091 886,56
1594181	C06200410000016600000	PROVINCIAL GOVERNMENT OF THE EASTERN CAPE	19 454,89
DEEDS145282	T0JR00000000051300088	NASIONALE KULTUURHISTORIESE & OPELUGMUSEUM	4 100 035,65
D_3132013_45712	T0IR00750000128800000	EKURHULENI METROPOLITAN MUNICIPALITY	230 000,00
D_3132013_47426	T0IR07780002092000000	EKURHULENI METROPOLITAN MUNICIPALITY	393 070,01
D_3132013_47446	T0IR07780002094100000	EKURHULENI METROPOLITAN MUNICIPALITY	43 656,53
DD_31032017_50550	T0IR05490000060300000	HERBST CORNELIA SUSANNA	181 340,18
782541	C02000000000061900000	VERENIGING VIR GEMEENSKAPLIKE EIENDOM-ALGERIA	3 134 233,15
DEEDS160491	T0JR03560000366700000	CITY OF TSHWANE METROPOLITAN MUNICIPALITY	44 086,40
DEEDS54742	C07000000000096200003	TRANSNET LTD	411 339,83
DEEDS58502	T0IR03100000435400000	NATIONAL HEALTH LABORATORY SERVICE	24 133 600,00
799211	C08500040000360500000	NATIONAL BOTANIC GARDENS	1 233 000,00
DD30082014_034597	C04100000000075200000	PROVINCIAL GOVERNMENT OF THE NORTH WEST PROVINCE	12 799 593,62
445111	T0JR00000000033500001	PREMIER TRANSVAAL DIAMOND MINING CO PTY LTD	25 752 372,58
D_3132013_166723	T0KQ00000000043700001	DIE NASIONALE PARKERAAD	4 238 010,00
3113092	C01300020000242200000	NATIONAL BOTANIC GARDENS	3 500 000,00
DEEDS142269	T0JO00000000005900000	LESABE KHUDUGA ISHMAEL	2 152 921,14
D31032014_13452	C09500010000002600000	SOUTH AFRICAN BANTU TRUST	373 988,97
DEEDS47243	C02300030000057900000	MINISTER OF THE BUDGET & LOCAL GOVERNMENT - HOUSE OF ASSEMBLY	1 052 289,75
169391	T0JP0002000006400000	RAMOTSHERE MOIOA LOCAL MUNICIPALITY	97 969,79
DD30082014_026586	C03200000000022400001	COLONIAL GOVERNMENT	15 695,87
DEEDS109811	N0FU04630000319100000	DLAMINI REJOYCE NTOMBIKAYISE	95 000,00
DD30082014_034578	C04100000000068000000	PROVINCIAL GOVERNMENT OF THE NORTH WEST PROVINCE	16 441 649,05
2E+11	C0070007000099100000	GROOTBOOM ISRAEL	1 404 683,89
D_3132013_124442	N0FU00000001582600010	HOORZUK DOLCEY ELLEN	333 500,00
DEEDS3762	C06700040000220900000	EDUCATIONAL TRUSTEES	1 580 000,00

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DEEDS18918	C05800050000038300000	EDUCATIONAL TRUSTEES	1 175 637,46
DEEDS31032015_0023102	C1070001000008300000	SOUTH AFRICAN BANTU TRUST	12 904,26
DD30082014_030333	C03800070000289400000	COMMUNITY DEVELOPMENT BOARD	203 893,41
DEEDS31032015_0160193	C03700010003596700000	KIMBERLEY POLICE RUGBY CLUB	398 610,00
3131031	N0GS02820000028300000	NENE CHRISTOPHER JABULANI	189 412,16
1311071	T0IR00330000074600000	MCHATTIE FREDERICK STUART	9 796,98
1420131	T0IQ03970000013700000	ADMINISTRATEUR VAN TRANSVAAL	7 760 000,00
3004381	T0IR03680000003400044	GOVERNMENT OF KWA ZULU	400 000,00
D_3132013_125159	N0GS00000000422500138	MAVUSO MPOTO DOUGLAS	60 931,72
DEEDS150106	T0KR00160000009100000	DEPARTMENT OF LAW & ORDER	78 375,83
953782	N0FT00000000466700016	INGONYAMA TRUST-TRUSTEES	33 168 518,22
397541	T0JQ00000000041000990	A F M EXECUTIVE WELFARE COUNCIL	10 000,00
486641	T0JR00000000035100229	PROVINCIAL GOVERNMENT OF GAUTENG	1 895 036,67
405151	T0JR00000000035100117	PROVINCIAL GOVERNMENT OF GAUTENG	412 611,55
1100821	N0HT00000000881600020	MASEKO MUZIKAYISE MCDONALD	11 619,79
DD_20180430_110977	C07900020000069300000	PROVINCIAL GOVERNMENT OF THE EASTERN CAPE	108 804,11
1296481	T0IR00330000038200000	MCHATTIE FREDERICK STUART	48 984,89
EC332_53	C03800000000078900000	PROVINCIAL GOVERNMENT OF THE EASTERN CAPE	37 681,40
733351	C04300000000014600005	NATIONAL BOTANIC GARDENS	16 000,00
D_3132013_47442	T0IR07780002093700000	EKURHULENI METROPOLITAN MUNICIPALITY	41 375,00
DEEDS 180193	T0JR00000000042400035	MOLETSI FLORIS	39 187,92
D_3132013_69685	T0IR00330000030100000	MCHATTIE FREDERICK STUART	48 984,89
D_3132013_85245	T0JS00000000010200000	BOSHOFF CHRISTIAAN HENDRIK	14 657 689,41
501571	T0JR00000000035100209	PROVINCIAL GOVERNMENT OF GAUTENG	2 590 020,33
DD30082014_034548	C04100000000055400000	PROVINCIAL GOVERNMENT OF THE NORTH WEST PROVINCE	7 528 205,73
D_3132013_125160	N0GS00000000422500156	NYAWO THAMSANGA BLESSING ARMSTRONG	159 158,82
DEEDS163508	T0MT00370000277100000	DEPARTMENT OF LAND TENURE & LOCAL GOVERNMENT	97 679,88
D_3132013_45715	T0IR0075000129100000	EKURHULENI METROPOLITAN MUNICIPALITY	340 000,00
D_3132013_47436	T0IR07780002093100000	EKURHULENI METROPOLITAN MUNICIPALITY	1 447 859,95
D_3132013_47444	T0IR07780002093900000	EKURHULENI METROPOLITAN MUNICIPALITY	350 000,00
524866	C04100000000067600001	PROVINCIAL GOVERNMENT OF THE NORTH WEST PROVINCE	13 025 630,45
DD30082014_034572	C04100000000067700001	PROVINCIAL GOVERNMENT OF THE NORTH WEST PROVINCE	9 202 415,51
DEEDS104202	N0GS02820000000500000	CHAMANE FAITH MAKHOSZANA	74 975,64
1374851	T0JR00000000035100003	PROVINCIAL GOVERNMENT OF GAUTENG	109 334 284,00
2546041	T0JR00000000032800177	NASIONALE KULTUURHISTORIESE & OPELUGMUSEUM	3 615 085,20
D_3132013_47445	T0IR07780002094000000	EKURHULENI METROPOLITAN MUNICIPALITY	240 000,00
D_3132013_47447	T0IR07780002094200000	EKURHULENI METROPOLITAN MUNICIPALITY	1 008 000,00

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D_3132013_47449	T0IR07780002094400000	EKURHULENI METROPOLITAN MUNICIPALITY	490 000,00
DEEDS79299	N0FU00850000342800000	ROYAL DURBAN LIGHT INFANTRY	292 047,61
DEEDS15423	C01600200000108400000	HOUSE OF REPRESENTATIVES	345 840,00
DEEDS144892	T0JR00000000032800197	NASIONALE KULTUURHISTORIESE MUSEUM	10 668 909,98
3121121	N0GS00000000139300438	MABASO DUMISA NEGRO	1 617 895,49
DEEDS2305	C07800010000005100000	EDUCATIONAL TRUSTEES	22 600,16
D_3132013_47440	T0IR07780002093500000	EKURHULENI METROPOLITAN MUNICIPALITY	200 000,00
D_3132013_47441	T0IR07780002093600000	EKURHULENI METROPOLITAN MUNICIPALITY	530 000,00
3113093	C01300020000280100000	NATIONAL BOTANIC GARDENS	500 150,00
1101141	N0GS00000000106400013	SOUTH AFRICAN DEV TRUST-TRUSTEES	99 967,53
1073231	N0HT00000000757600030	MDIDIMBA IDAH NONVULA	79 358,06
DEEDS79297	N0FU00850000342700004	ROYAL DURBAN LIGHT INFANTRY	1 775 500,00
3120851	N0GS00000000139300367	KHOZA SIBUSISO LEWIS	2 393 169,97
3074181	N0GS00000000139300354	NKOSI PENTSI GILBERT	62 348,17
3073551	N0ET02520000029100000	GEM ONT RAAD-COM DEV BOARD	144 462,60
DEEDS33725	C07800080000027100000	EDUCATIONAL TRUSTEES	215 779,58
DEEDS3997	C03900020000007400000	EDUCATIONAL TRUSTEES	2 000 000,00
DEEDS22074	C05100070000573700000	EDUCATIONAL TRUSTEES	35 025,53
D_3132013_47430	T0IR07780002092400000	EKURHULENI METROPOLITAN MUNICIPALITY	252 000,00
D_3132013_47438	T0IR07780002093300000	EKURHULENI METROPOLITAN MUNICIPALITY	560 000,00
D31032014_179886	C05500080000174700000	AFRIKAANSE TAALMUSEUM-PAARL	761 396,92
DEEDS31032015_0010304	C09400010000006200000	SOUTH AFRICAN DEVELOPMENT TRUST	302 182,84
DEEDS46018	C03700000000005200001	COLONIAL GOVERNMENT	17 463,35
1607531	C11700040000021000000	PROVINCIAL GOVERNMENT OF THE EASTERN CAPE	90 670,09
DEEDS66712	T0IQ03520000075600000	DEPARTMENT OF AGRICULTURAL CREDIT & LAND TENURE	50 132,45
DEEDS31032015_0115875	T0KQ00000000056200001	GA-PHADI COMMUNAL PROP ASSOCIATION	1 223 111,66
DEEDS36918	F00300000000039400001	NATIONAL DEPARTMENT OF AGRICULTURE	675 759,79
DD_31032017_38677	T0JR00810000020100000	HAVENGA MICHELLE	417 271,44
2E+11	T0IQ00000000022400198	S A POLICE RECREATION & BENEVOLENT FUND	91 473,74
DEEDS31032015_0150970	T0JO0000000009300015	SUID-AFRIKAANSE ONTWIKKELINGSTRUST	554 400,00
D_3132013_112241	N0ET03960000954400000	MKHABELA SINDISIWE	110 000,00
DEEDS90489	N0GT00000000060100002	INGONYAMA TRUST-TRUSTEES	3 013 852,04
DEEDS31867	C07300070000010200000	DEPT KLEURLINGSAKE-COLOURED AFFAIRS	284 112,39
DEEDS18911	C05800050000018800000	EDUCATIONAL TRUSTEES	286 071,78
DEEDS31032015_0005745	C02300000000086700000	SOUTH AFRICAN DEVELOPMENT TRUST	4 500 000,00
D_3132013_136622	T0HO00190000011300000	MAQUASSI HILLS LOCAL MUNICIPALITY	9 602,39
1740991	C11400010000008100000	SOUTH AFRICAN BANTU TRUST	302 182,84
2925671	C08600010000008600000	SOUTH AFRICAN DEVELOPMENT TRUST	370 952,49
2E+11	C03800000000195100005	SOUTH AFRICAN BANTU TRUST	762 709,69

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1121711	N0HT0000000964200008	MTHEMBU THABILE EUNICE	17 000,00
3120781	N0GS0000000139300429	NKABINDE MURIEL NOMSA YVONNE	52 614,49
3120721	N0GS0000000139300009	NKABINDE MURIEL NOMSA YVONNE	21 045,80
3133511	N0GT03710000034500000	MCHUNU ELIZABETH CATHERINE	394 608,66
DEEDS109792	N0FU04630000300900000	MTHETHWA PATRICK BONGINKOSI	160 000,00
575881	C00700070000108000000	MODUPE KESELEPILE GEORGE	59 740,03
DEEDS30222	C06700220000449300000	EDUCATIONAL TRUSTEES	3 665 000,00
DEEDS24995	C01600420000635000000	EDUCATIONAL TRUSTEES	1 700 000,00
DEEDS31032015_01494 84	T0IM00000000024500016	SUID AFRIKAANSE ONTWIKKELINGS TRUST	754 314,19
2E+11	T0IR0388000011100000	ADMINISTRATEUR VAN TRANSVAAL	616 404,23
1300161	T0IR00330000038100000	MCHATTIE FREDERICK STUART	48 984,89
D_3132013_47427	T0IR07780002092100000	EKURHULENI METROPOLITAN MUNICIPALITY	430 000,00
D_3132013_47443	T0IR07780002093800000	EKURHULENI METROPOLITAN MUNICIPALITY	410 000,00
DEEDS110114	N0FU04630000431100000	NGCOBO THEMBALETHU MELTHA	58 000,00
DEEDS76681	N0FT00540000052300000	MGAGULA NOMUSA ANGELLA	240 000,00
2E+11	F02100030000092200000	S A POLISIE OFFISIERSKLUB NR 24-LADYBRAND	1 426 120,13
DEEDS90485	N0GT00000000056800002	INGONYAMA TRUST-TRUSTEES	3 024 660,15
DEEDS90490	N0GT00000000060100003	INGONYAMA TRUST-TRUSTEES	2 147 176,87
D31032014_43332	T0IQ00000000010300037	FAR WEST RAND DOLOMITIC WATER ASSOC	870 000,00
D31032014_154993	T0JQ00000000038100026	BENDER IRENE HELEN	4 349 573,44
2E+11	T0JR00230000020400000	SUID AFRIKAANSE POLISIE UNIE	208 635,72
DEEDS76539	N0FT00540000003100000	MOHLAKOANA PUSELETSO REBECCA	330 000,00
2E+11	T0JR00370000073000064	SOUTH AFRICAN ARMY FOUNDATION	60 334,31
3120861	N0GS0000000139300425	NKABINDE MURIEL NOMSA YVONNE	11 443,65
D31032014_43335	T0IQ00000000010300047	FAR WEST RAND DOLOMITIC WATER ASSOC	1 240 000,00
DEEDS 180196	T0JR00000000047600000	PREMIER TRANSVAAL DIAMOND MINING CO PTY LTD	43 648 206,96
DEEDS31032015_00881 16	N0GU0000000112230000 2	REGIONAL & LAND AFFAIRS	30 965,80
DEEDS74572	N0FT00310000023000000	PROVINCIAL GOVERNMENT OF THE PROVINCE OF KWAZULU-NATAL	340 000,00
DEEDS87808	N0FU00000001582600025	ECKERSLEY RUBY EUNICE ANGELA	241 500,00
3073541	N0ET02520000029000000	GEM ONT RAAD-COM DEV BOARD	207 354,62
D_3132013_2299	F00200010000148300000	BRITS SUSANNA FRANCINA JOHANNA	84 254,02
DEEDS45723	C03200000000007500001	COLONIAL GOVERNMENT	13 474,76
D_3132013_136621	T0HO00190000011200000	NTSITSI SEITATOLO NICHOLAS	576 936,07
D_3132013_136623	T0HO00190000043900000	WOLMARANSSTAD TRANSITIONAL LOCAL COUNCIL	15 521,28
2E+11	T0JS00000000086400000	MONUMENTE KOMMISSIE-MONUMENTS COMMISSION	442 987,26
DEEDS104074	N0GS0282000000100000	MHLANZI THEMBISILE DOREEN	3 054 271,00
DD30082014_026556	C03200000000010900002	COLONIAL GOVERNMENT	39 949,68
2E+11	T0JR0000000003600007	GOVERNMENT RAILWAYS & HARBOURS	14 202,60

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2E+11	C0230000000086600001	SOUTH AFRICAN DEVELOPMENT TRUST	2 718 169,15
DD30082014_026558	C0320000000010900004	COLONIAL GOVERNMENT	35 890,81
2E+11	C07900020000097700000	PROVINCIAL GOVERNMENT OF THE EASTERN CAPE	232 819,11
1069721	N0HT0000000757600009	HLATSHWAYO MAWALA HENRY	83 710,02
DEEDS31032015_0023101	C10700010000008200000	SOUTH AFRICAN BANTU TRUST	1 295 459,20
DD30082014_025046	C02800070001267500000	KOMMANDOFONDS GORDONIA KOMMANDO	239 339,10
398161	T0LR00000000049700008	SUID-AFRIKAANSE ONTWIKKELINGSTRUST	2 384 346,13
DD30082014_026543	C0320000000006200001	COLONIAL GOVERNMENT	72 995,59
584251	C00700070000039900000	PELSER MARTHINUS JACOBUS	81 428,60
DEEDS46012	C03700000000013100006	COLONIAL GOVERNMENT	260 676,75
DEEDS45945	C03700010000772800000	GOVERNMENT OF THE CAPE OF GOOD HOPE	22 000,00
1084051	N0GS00000000106700020	KUMALO WILFRED CYPRIAN TOSI	1 370 607,40
DD_31032017_40250	T0IR02970000077500000	JORDAAN JOHANNES JAKOBUS	141 567,25
1080541	N0HT00000000757700011	NGCOBO NONHLANHLA FORTUNE	131 233,47
2829981	C10500010000023600000	SOUTH AFRICAN BANTU TRUST	11 846,12
2925501	C10000010000018400000	SOUTH AFRICAN BANTU TRUST	3 318 530,65
D31032014_94288	N0GS00000000534200000	DUBAZANE ERNEST	403 816,19
1030421	N0FU00000001582600066	BOWDEN CLARISSA CEYLONIA	230 000,00
1073931	N0HT00000000757600036	MABASO AUDREY	80 202,53
2E+11	F03900070000785100000	BASUTOLAND GOVERNMENT	420 130,15
367431	C09800010000019100000	SOUTH AFRICAN BANTU TRUST	286 997,16
DEEDS89975	N0GS00000000211800000	REGIONAL & LAND AFFAIRS	1 657 356,36
2E+11	T0IR03880000004200000	ADMINISTRATEUR VAN TRANSVAAL	616 404,23
DEEDS141188	T0IQ00000000049000018	HATCH DAVID MARK	734 773,41
DEEDS31032015_0010303	C09400010000006100000	SOUTH AFRICAN DEVELOPMENT TRUST	302 182,84
576741	C00700070000109600000	ESTERHUIZEN HENDRIK	423 482,66
DEEDS54741	C07000000000096200002	TRANSNET LTD	8 073,70
1107651	N0HS00500000059500000	NEWCASTLE MUNICIPALITY	1 741 667,20
1057641	N0GS00000000110200423	KUMALO HAROLD HUBERT TEMBA	263 072,44
2E+11	C02300000000104500001	SOUTH AFRICAN DEVELOPMENT TRUST	1 787 286,91
2E+11	C02300000000104600008	SOUTH AFRICAN DEVELOPMENT TRUST	132 652,37
DEEDS31032015_0088078	N0GU00000000929600002	REGIONAL & LAND AFFAIRS	916 148,88
2E+11	T0IR03880000007700001	ADMINISTRATEUR VAN TRANSVAAL	75 431,42
1075751	N0HT00000000757600053	MABASO FIKIZOLO STEPHAN	754 012,47
DEEDS31032015_0051186	T0IR04880000028800000	REPUBLIC OF BOPHUTHATSWANA	412 451,24
3131091	N0GS00000000110200009	MABASO NYAGAMBI BETTY	143 374,48
1121911	N0GS00000000139300115	MATOWAN'S KOP SYNDICATE	6 576,81
DD30082014_026567	C03200000000012300002	COLONIAL GOVERNMENT	17 448,24
2E+11	C0380000000019500002	SOUTH AFRICAN BANTU TRUST	1 621 158,84
2E+11	C02300000000124000001	SOUTH AFRICAN DEVELOPMENT TRUST	1 123 901,90
DD30082014_026555	C03200000000010900001	COLONIAL GOVERNMENT	19 302,74

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DEEDS31032015_0085179	N0FU00000001390300001	REGIONAL & LAND AFFAIRS	1 076 909,19
DEEDS31032015_0012569	C03800000000195100001	SOUTH AFRICAN BANTU TRUST	746 141,00
DEEDS103240	N0FT02760000407800000	HURDEEN ?	33 724,82
2E+11	C06700040000217800000	EDUCATIONAL TRUSTEES	7 345 105,66
3198481	F03200250000033000000	REPUBLIC OF BOPHUTHATSWANA	91 800,00
DD_31032017_28817	F02100030000034900000	MANTSOPA LOCAL MUNICIPALITY	180 273,47
939151	C07100020000017000000	COLONIAL GOVERNMENT	2 464 572,19
2E+11	T0JR00370000073000063	SOUTH AFRICAN ARMY FOUNDATION	40 004,52
D31032014_157979	T0JQ00960000173600000	BOPHUTHATSWANA INTERNAL INTELLIGENCE SERVICES	16 500,00
DEEDS91183	N0GV01440000001200000	THE MAJE TRUST	501 600,15
1059721	N0GS02820000005900000	KHUZWAYO THETHIWE CLARA	929 961,07
DD_31032017_40190	T0IR02970000054000000	MUN HEIDELBERG	37 791,90
2E+11	C02300000000104300015	SOUTH AFRICAN DEVELOPMENT TRUST	118 162,55
D31032014_142126	T0JR00000000003600008	GOVERNMENT RAILWAYS & HARBOURS	20 633,84
DD_31032017_76477	N0FT000000000183600000	COETSER PHILIPPUS JOHANNES	1 736 656,37
2E+11	C08600010000017300000	SOUTH AFRICAN BANTU TRUST	874 853,60
DEEDS31032015_0012570	C03800000000195100002	SOUTH AFRICAN BANTU TRUST	762 707,24
DEEDS79187	N0FU00850001169300000	WAR DEPARTMENT	14 311,45
568021	C03200000000014300001	COLONIAL GOVERNMENT	15 351,83
D_3132013_166658	T0KQ00000000027400009	DIE NASIONALE PARKERAAD	995 673,83
D_3132013_166659	T0KQ00000000027400010	DIE NASIONALE PARKERAAD	895 120,38
		SUID-AFRIKAANSE NASIONALE PARKE	
DEEDS146098	T0KQ00000000027800031		1 003 518,96
DEEDS146092	T0KQ00000000027400001	DIE NASIONALE PARKERAAD	1 974 229,19
2750781	N0ES04200000012900000	SOUTH AFRICAN DEV TRUST-TRUSTEES	656 177,16
2843381	C10700010000008100000	SOUTH AFRICAN BANTU TRUST	10 991,63
1740992	C11400010000008000000	SOUTH AFRICAN BANTU TRUST	302 182,84
2957521	C10300010000004000000	SOUTH AFRICAN BANTU TRUST	267 895,83
2829872	C10700010000008800000	SOUTH AFRICAN BANTU TRUST	12 174,88
D_3132013_166625	T0KQ00000000013600000	DIE NASIONALE PARKERAAD	3 358 354,00
D_3132013_166628	T0KQ00000000013600009	DIE NASIONALE PARKERAAD	662 428,83
D_3132013_166643	T0KQ00000000023900003	DIE NASIONALE PARKERAAD	773 968,90
D_3132013_166661	T0KQ00000000027500003	DIE NASIONALE PARKERAAD	2 090 470,03
D_3132013_166670	T0KQ00000000027800003	DIE NASIONALE PARKERAAD	1 785 946,82
D_3132013_166684	T0KQ00000000031500000	DIE NASIONALE PARKERAAD	4 771 561,58
447061	T0JR00000000033500002	PREMIER TRANSVAAL DIAMOND MINING CO PTY LTD	32 312 318,03
158932	C07900020000049600000	PROVINCIAL GOVERNMENT OF THE EASTERN CAPE	600 098,85
	C053000000000000100000	RICHTERSVELD SIDA HUB COMMUNAL PROP ASSOC	504 643 777,11
297331	C07900020000044500000	PROVINCIAL GOVERNMENT OF THE EASTERN CAPE	106 061,15
292819	C0380042000000600000	PROVINCIAL GOVERNMENT OF THE EASTERN CAPE	23 862,71
	C07900020000044400000	PROVINCIAL GOVERNMENT OF THE EASTERN CAPE	102 583,68

Unique_Property_Code	LPI_Code	Persons Name as per Deeds Download	Carrying value
	C03800360000469700000	PROVINCIAL GOVERNMENT OF THE EASTERN CAPE	1 281 876,97
	C07900020000074200000	PROVINCIAL GOVERNMENT OF THE EASTERN CAPE	108 804,11
	C07900020000099000000	PROVINCIAL GOVERNMENT OF THE EASTERN CAPE	153 301,03
	C03800450000005900000	SOUTH AFRICAN DEVELOPMENT TRUST	708 445,80
	C0380042000001000000	PROVINCIAL GOVERNMENT OF THE EASTERN CAPE	689 092,69
	T0IR03100000435400005	NATIONAL HEALTH LABORATORY SERVICE	14 588,25
1666871	C03200060000005200000	SORGVRY LANDGOED CC	24 916,32
3053101	C01300090000042300000	RENSBURG CHRISTINA MAGDALENA VAN	105 756,37
941201	C07700040000017400000	OLD APOSTOLIC CHURCH OF AFRICA	107 127,85
2707931	C03900020000043700000	BRENTON ONTWIKKELINGSMAATSKAPPY PTY LTD	136 690,88
1317861	T0IQ00550000139100000	MYKATRADE 266 CC	9 948,05
<b>Total</b>			<b>1 276 249 421,41</b>

#### Heritage assets - Land

Unique_Property_Code	LPI_Code	Person's name as per the Deeds	Carrying value
928381	C05400000000012700000	BEUEKE ABRAHAM AARON	10 803 636,16
DEEDS79189	N0FU00850001169700000	NATURAL & HISTORICAL MONUMENTS RELICS & ANTIQUES	360 537,40
3113096	C01300020000304000000	NATIONAL BOTANIC GARDENS	6 030 000,00
2811031	C01600070000419600000	SOUTH AFRICAN MUSEUM	211 414,03
3113091	C01300020000242000000	NATIONAL BOTANIC GARDENS	2 400 000,00
785221	C08500000000030600092	NATIONAL BOTANIC GARDENS	49 500,00
2811033	C01600070000420300000	SOUTH AFRICAN MUSEUM	1 945,48
DEEDS79173	N0FU00850001165400000	NATURAL & HISTORICAL MONUMENTS RELICS & ANTIQUES	118 496,61
776601	C08500040000375500000	NATIONAL BOTANIC GARDENS	363 639,95
DEEDS31032015_0024764	C11000010000034700000	TRANSKEIAN TERRITORIAL AUTHORITY	396 510,21
943591	C07700000000005800000	KLEN ABRAHAM CORNELIS JOHANNES	28 884 807,81
DEEDS31032015_0024767	C11000010000035000000	TRANSKEIAN TERRITORIES GENERAL COUNCIL	196 272,55
711881	C08500000000030600041	NATIONAL BOTANIC GARDENS	29 700,00
DEEDS50916	C03800070000898900000	KAFFRARIAN MUSEUM	3 480 000,00
DEEDS79191	N0FU00850001170000000	NATURAL & HISTORICAL MONUMENTS RELICS & ANTIQUES	131 631,41
DEEDS79177	N0FU00850001166100000	NATURAL & HISTORICAL MONUMENTS RELICS & ANTIQUES	32 850,80
DEEDS31032015_0024766	C11000010000034900000	TRANSKEIAN TERRITORIES GENERAL COUNCIL	198 255,10
DEEDS79188	N0FU00850001169400000	NATURAL & HISTORICAL MONUMENTS RELICS & ANTIQUES	14 305,97
<b>Total</b>			<b>53 703 503,48</b>

Investment property – Land:

Unique_Property_Code	LPI_Code	Person's name as per the Deeds	Carrying value
DEEDS182162	C00700070000138400000	TSHOBENG MASEGO VIOLET	64 069,72

## Impact of the finding

The above will result in an

- Overstatement of PPE: Land (carrying amount) by an amount of R1 276 249 421,41.
- Overstatement of Heritage Assets: Land (carrying amount) by an amount of R53 703 503.
- Overstatement of Investment property: Land (carrying amount) by an amount of R64 070.

## 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 complete information.

Management did not ensure land parcels recognized in the immovable asset register belong to entity. Furthermore, management does not monitor land parcels that change ownership without any formal process being followed,

## Recommendation

It is recommended that:

- Management should ensure that adequate review process be implemented on the schedules and other information supporting the annual financial statement to ensure that the annual financial statements submitted are supported by accurate information.
- Furthermore, management should review the land immovable asset register against the deeds for any change in ownership of the land parcels and investigate the matter as there is no corrective action being taken currently.

## Management response

The audit finding has been noted, please refer below for management response.

Management disagrees with the finding on 410 of the identified land parcels and agrees on 4 of the identified land parcels. Please refer to Annexure A for a detailed list of land parcels which belong to DPWI based on the application of section 3.2 of the Immovable Asset Guide, confirming DPWI ownership.

For ease of reference **section 3.2 of the Immovable Asset Guide** states that: The National Department of Public Works shall record the following:

- a). All facilities used by the national government located on un-surveyed land or surveyed but unregistered land including those from the former TVBC states and self- governing territories and state land in the former territory of the Republic of South Africa (pre 27 April 1994), or located on land governed by Kwazulu- Natal Ingonyama Trust Act (pre 24 April 1999) as amended.
- b). All land in the former territory of the Republic (pre 27 April 1994) registered in the name of National Government of the Republic of South Africa, where custodian powers have not been assigned to another national government in terms of section 4 of the GIAMA.
- c). All land in the former territory of the Republic of South Africa (pre 27 April 1994) registered in the name of any of the historical holders of National state land (e.g., Governor of the Cape of Good Hope, Union of South Africa, Minister Lands, Republic of South Africa etc.) before the advent of the democratic dispensation in 1994, that it is deemed to vest in the national government where custodial powers have not assigned to another national government of GIAMA.

- d). All land vested with national government and situated in the former TBVC states and self-government territories occupied by a national government in support of its service delivery objectives( e.g. a magistrate court of prison) and or where DPW performs the custodial function ( barring the disposal thereof) in terms of section 4 of the GIAMA.
- e). All former South African Development Trust land, which by proclamation vest with DPW.
- f). All surveyed but not unregistered land parcels falling within the custodian function of the department.
- h). All properties acquired by DPW for discharge of its mandate.
- i). Any properties that fall within the custodianship of the National government through a process of law or other process except those specifically related to land reform.
- j). Any properties listed in the Deeds Registry as State properties not claimed by any other custodian (national/provincial) until such time as a rightful custodian can be identified
- k). Any property where the department is deemed to be the custodian.

### **Section 7 (d) Interim arrangement**

Where land that should be recorded and disclosed by another custodian (national/provincial) are included in an appropriate register or asset register, a transfer in terms of Section 42 of the PFMA must be initiated from the side where land parcel is currently recorded.

#### **7.37 Vesting of Vacant/unutilized Land**

Section 239 of the Interim Constitution was written in such a manner that national vesting of assets happens almost automatically whereas provincial vesting depends on proof that the use or intended use is associated with a Schedule 6 functional area"

For any provincial government to claim ownership of 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 the Republic of South Africa.

#### **Management agrees with AGSA on the land parcels listed below**

Please refer to Annexure A for descriptions of who owns these land parcels, further investigations will be conducted on these land parcels. These improvements were under the custody of DPWI and vested accordingly.

<b>Unique_Property_Code</b>	<b>LPI_Code</b>	<b>Persons Name as per Deeds Download</b>	<b>Carrying value</b>
DD30082014_123280	T0IR0000000006100070	NATIONAL HEALTH LABORATORY SERVICE	1 261 273,55
200 000 000 000	T0IR0000000006100085	NATIONAL HEALTH LABORATORY SERVICE	206 836,02
	T0IR0310000435400005	NATIONAL HEALTH LABORATORY SERVICE	14 588,25
D_3132013_131761	T0JR0185000041900000	SOUTH AFRICAN REVENUE SERVICES	58 781 873,18

60 264 571,00

#### **Auditors Conclusion**

Management comment have been noted. Through inspection of the supporting documents (Aktext) we were able to confirm some of the properties. However we also confirmed that some buildings are indeed not owned by PMTE based on the aktext as well as the deeds download hence they will remain: Refer to the table below:

<b>Unique_Property_Code</b>	<b>LPI_Code</b>	<b>Persons Name as per Deeds Download</b>	<b>Carrying value</b>
D_3132013_99141	NOGS02820000029800000	MCOTSHWA NTOMBININGI AGNES	415 654,45
900871	C02700090000128100000	AGRICULTURE & FISHERIES	41 766,91
DEEDS35526	C01600620000029000000	EDUCATIONAL TRUSTEES	97 059,05
DEEDS34078	C04600140000422300000	EDUCATIONAL TRUSTEES	4 505 000,00
DEEDS29236	C06700210000445300000	EDUCATIONAL TRUSTEES-STELLENBOSCH	1 500 000,00
158515	C01600070009516400000	ADMINISTRATOR OF THE CAPE OF GOOD HOPE	133 699,66
DEEDS86262	N0FT00000000124700057	INGONYAMA TRUST-TRUSTEES	1 573 435,90
1674341	T0IR03160000106900000	GOVERNMENT OF THE REPUBLIC OF BOPHUTHATSWANA	1 452 000,00
D_3132013_45713	T0IR00750000128900000	EKURHULENI METROPOLITAN MUNICIPALITY	220 000,00
D_3132013_45714	T0IR00750000129000000	EKURHULENI METROPOLITAN MUNICIPALITY	230 000,00
141771	T0JP00020000006200000	RAMOTSHERE MOILOA LOCAL MUNICIPALITY	102 868,28
DEEDS 180202	T0JR00000000035100224	PROVINCIAL GOVERNMENT OF GAUTENG	5 069 936,56
DEEDS142039	T0IR00000000009200545	AIR FORCES HOUSING MEMORIAL-JOHANNESBURG	39 086,38
DEEDS152457	T0LU00080000135900000	DEPARTMENT OF LAW & ORDER	29 064,00
DEEDS119745	T0IT00090000308500000	MSUKALIGWA LOCAL MUNICIPALITY	38 500,00
980892	N0FU00850000342900000	ROYAL DURBAN LIGHT INFANTRY	329 820,00
792951	C04600000000055200004	NATIONAL BOTANIC GARDENS	44 500,00
DEEDS181897	T0HN00030000028200000	REPUBLIC OF BOPHUTHATSWANA	91 432,02
DEEDS109793	N0FU04630000301000000	HLOPHE BUSELAPHI GLADYS	150 000,00
2,00E+11	C07900020000074300000	PROVINCIAL GOVERNMENT OF THE EASTERN CAPE	99 309,85
D31032014_157980	T0JQ00960000187800000	BOPHUTHATSWANA INTERNAL INTELIGENCE SERVICES	16 500,00
D31032014_158071	T0IQ03050000010200001	SUID-AFRIKAANSE POLISIE UNIE	377 183,69
DEEDS35525	C01600620000027900000	EDUCATIONAL TRUSTEES	3 143 634,75
DEEDS34067	C04600140000312800000	EDUCATIONAL TRUSTEES	3 290 000,00
DEEDS45944	C03700010000771700000	GOVERNMENT OF THE COLONY OF THE CAPE OF GOOD HOPE	60 426,81
1376371	T0IR01660000166400000	DEPARTMENT OF REGIONAL & LAND AFFAIRS	885 000,00
DEEDS95332	N0FU02050000015400000	DEVELOPMENT & HOUSING BOARD	380 000,00
DEEDS31032015_0017308	C10400010000017000000	SOUTH AFRICAN BANTU TRUST	224 333,04
DD30082014_123280	T0IR00000000006100070	NATIONAL HEALTH LABORATORY SERVICE	1 261 273,55
DEEDS31032015_0117714	T0LR00000000029600001	SUID-AFRIKAANSE ONTWIKKELINGSTRUST	3 376 303,32
3113094	C01300020000300900000	NATIONAL BOTANIC GARDENS	6 500 000,00
2548323	C10900010000007100000	SOUTH AFRICAN BANTU TRUST	420 324,00

<b>Unique_Property_Code</b>	<b>LPI_Code</b>	<b>Persons Name as per Deeds Download</b>	<b>Carrying value</b>
2,00E+11	T0JR00370000046400000	SOUTH AFRICAN ARMY FOUNDATION	727 191,73
2,00E+11	T0JR00370000046500000	SOUTH AFRICAN ARMY FOUNDATION	780 147,07
3113097	C01300020000304500000	NATIONAL BOTANIC GARDENS	680 000,00
DEEDS179629	C02800060000009800000	ONGEREGISTREerde STAATSGROND	14 057,61
DEEDS 180200	T0JR00000000035100085	PROVINCIAL GOVERNMENT OF GAUTENG	65 976,01
3120771	N0GS00000000139300474	MATOWAN'S KOP SYNDICATE	225 321,54
535301	C02800060000008400000	ONGEREGISTREerde STAATSGROND	151 015,23
1674371	T0IR04880000029700001	GOVERNMENT OF VENDA	960 000,00
DEEDS31032015_0002173	C08700010000030600000	SOUTH AFRICAN DEVELOPMENT TRUST	100 727,61
DEEDS31032015_0010305	C09400010000006300000	SOUTH AFRICAN DEVELOPMENT TRUST	302 182,84
DEEDS31986	C07300000000004400003	FOURIE PHILLIPUS JURIE WYNAND	235 127,49
DEEDS150105	T0KR00160000057500000	SUID AFRIKAANSE BANTU TRUST	48 984,89
1590171	C08600010000010200000	SOUTH AFRICAN BANTU TRUST	8 807 859,85
DEEDS79301	N0FU00850000343000000	ROYAL DURBAN LIGHT INFANTRY	317 823,09
2,00E+11	C10900010000008300000	SOUTH AFRICAN BANTU TRUST	473 530,39
2,00E+11	T0KR00000000041900125	WEDUWE-EN WEESFONDS VAN DIE SUID-AFRIKAANSE POLISIE	396 669,85
DEEDS152456	T0LU00080000135800000	DEPARTMENT OF LAW & ORDER	29 064,00
1073351	N0HT00000000757600031	DHLAMINI DUDUZILE QUEEN	10 617,23
2926961	C09500010000008400000	PROVINCE OF THE EASTERN CAPE	228 884,83
1411381	T0IQ03520000184100073	DEVELOPMENT & HOUSING BOARD	5 569,86
WC000001	C07800080000026400000	EDUCATIONAL TRUSTEES	133 490,75
3052091	C10800010000020700000	SOUTH AFRICAN BANTU TRUST	11 503,04
2862301	C09500010000009800000	SOUTH AFRICAN BANTU TRUST	44 496,92
1349181	T0IR04650000020100000	ADMINISTRASIERAAD OOSRAND	970 000,00
DEEDS31876	C07300070000061100000	DEPT KLEURLINGSAKE-COLOURED AFFAIRS	290 970,28
D_3132013_13176 1	T0JR01850000041900000	SOUTH AFRICAN REVENUE SERVICES	58 781 873,18
980891	N0FU00850000334000000	ROYAL DURBAN LIGHT INFANTRY	140 474,39
3108311	T0IR00330000019400000	DIPALESENG LOCAL MUNICIPALITY	48 984,89
DEEDS31868	C07300070000001400000	DEPT KLEURLINGSAKE-COLOURED AFFAIRS	244 924,47
DEEDS 180232	T0JR00000000052900001	PREMIER TRANSVAAL DIAMOND MINING CO LTD	36 242 077,93
DEEDS145281	T0JR00000000051300017	NASIONALE KULTUURHISTORIESE & OPELUGMUSEUM	969 900,91
DEEDS55552	T0IR00750000103800000	EKURHULENI METROPOLITAN MUNICIPALITY	320 000,00

<b>Unique_Property_Code</b>	<b>LPI_Code</b>	<b>Persons Name as per Deeds Download</b>	<b>Carrying value</b>
DEEDS18280	C03900000000018300051	EDUCATIONAL TRUSTEES-KNYSNA	480 000,00
3130961	N0GS02820000003500000	MABASO ROSE ROSELINA	57 971,58
14615	N0FU00850001169900000	WAR DEPARTMENT	131 631,41
EC332_65	C03800000000079500000	PROVINCIAL GOVERNMENT OF THE EASTERN CAPE	61 349,29
1101881	N0HT00000000881600029	KHUZWAYO THOBILE IRIS	48 097,16
3120831	N0GS00000000139300351	DLAMINI VICTOR	229 004,56
D31032014_153389	T0J000000000011400002	SOUTH AFRICAN BANTU TRUST	2 210 910,99
28232	T0JR000000000035100008	CITY OF TSHWANE METROPOLITAN MUNICIPALITY	7 960 045,33
3131051	N0GS00000000110200017	NDLOVU SIZAKELE MAVIS	1 014 144,25
2927551	C10500010000009400000	SOUTH AFRICAN BANTU TRUST	17 856,21
980893	N0FU00850000342700000	ROYAL DURBAN LIGHT INFANTRY	94 388,83
DD30082014_034587	C04100000000068400001	PROVINCIAL GOVERNMENT OF THE NORTH WEST PROVINCE	3 710 454,38
DEEDS86717	N0FT00000000698100014	INGONYAMA TRUST	314 690,29
3171311	C01600420001086700000	EDUCATIONAL TRUSTEES	501 725,33
3113095	C01300020000302300000	NATIONAL BOTANIC GARDENS	1 150 000,00
2,00E+11	T0IR000000000006100085	NATIONAL HEALTH LABORATORY SERVICE	206 836,02
DEEDS140645	T0IQ000000000030200139	DEPARTMENT OF COMMUNITY DEVELOPMENT	880 000,00
2551806	T0JR000000000030200026	AGRICULTURAL RESEARCH COUNCIL	1 322 592,15
DEEDS119110	T0IT00330000062300000	KANGWANE POLICE	57 145,01
DEEDS179098	T0IM00000000043600009	REPUBLIC OF BOPHUTHATSWANA	4 601 207,76
D31032014_151608	T0HO00000000034400087	BLOEMHOF S A POLISIE ONDEROFFISIERSKLUB	588 822,23
DEEDS13576	C01600190001624700000	HOUSE OF REPRESENTATIVES	202 222,12
DEEDS45946	C03700010000772900000	GOVERNMENT OF THE CAPE OF GOOD HOPE	44 000,00
2926381	C0910001000004000000	COLONIAL GOVERNMENT	2 911 554,20
2016_ACQ0001	T0JR01990000326500000	GOVERNMENT PRINTING WORKS	417 271,44
160618	C07900020000022000000	PROVINCIAL GOVERNMENT OF THE EASTERN CAPE	124 347,55
DEEDS31032015_0066216	T0IR07060000001800000	ADMINISTRATEUR VAN TRANSVAAL	992 491,24
DD_20180331_110968	T0JT00120000146600000	STATE SECURITY AGENCY REPUBLIC OF SOUTH AFRICA	293 192,02
2,00E+11	T0JR02770000121200000	GOVERNMENT OF THE REPUBLIC OF BOPHUTHATSWANA	242 161,33
DEEDS179541	T0JO00000000040600003	REPUBLIC OF BOPHUTHATSWANA	172 995,37
DEEDS31032015_0088079	N0GU000000000929600003	REGIONAL & LAND AFFAIRS	1 058 325,67
1594181	C06200410000016600000	PROVINCIAL GOVERNMENT OF THE EASTERN CAPE	19 454,89

Unique_Property_Code	LPI_Code	Persons Name as per Deeds Download	Carrying value
D_3132013_45712	T0IR00750000128800000	EKURHULENI METROPOLITAN MUNICIPALITY	230 000,00
D_3132013_47426	T0IR07780002092000000	EKURHULENI METROPOLITAN MUNICIPALITY	393 070,01
D_3132013_47446	T0IR07780002094100000	EKURHULENI METROPOLITAN MUNICIPALITY	43 656,53
782541	C02000000000061900000	VERENIGING VIR GEMEENSKAPLIKE EIENDOM-ALGERIA	3 134 233,15
799211	C08500040000360500000	NATIONAL BOTANIC GARDENS	1 233 000,00
DD30082014_034597	C04100000000075200000	PROVINCIAL GOVERNMENT OF THE NORTH WEST PROVINCE	12 799 593,62
D_3132013_166723	T0KQ00000000043700001	DIE NASIONALE PARKERAAD	4 238 010,00
3113092	C01300020000242200000	NATIONAL BOTANIC GARDENS	3 500 000,00
D31032014_13452	C09500010000002600000	SOUTH AFRICAN BANTU TRUST	373 988,97
DEEDS47243	C02300030000057900000	MINISTER OF THE BUDGET & LOCAL GOVERNMENT - HOUSE OF ASSEMBLY	1 052 289,75
169391	T0JP00020000006400000	RAMOTSHERE MOILOA LOCAL MUNICIPALITY	97 969,79
DEEDS109811	N0FU04630000319100000	DLAMINI REJOYCE NTOMBIKAYISE	95 000,00
DD30082014_034578	C04100000000068000000	PROVINCIAL GOVERNMENT OF THE NORTH WEST PROVINCE	16 441 649,05
DEEDS3762	C06700040000220900000	EDUCATIONAL TRUSTEES	1 580 000,00
DEEDS18918	C05800050000038300000	EDUCATIONAL TRUSTEES	1 175 637,46
DEEDS31032015_0023102	C10700010000008300000	SOUTH AFRICAN BANTU TRUST	12 904,26
DD30082014_030333	C03800070000289400000	COMMUNITY DEVELOPMENT BOARD	203 893,41
DEEDS31032015_0160193	C03700010003596700000	KIMBERLEY POLICE RUGBY CLUB	398 610,00
1420131	T0IQ03970000013700000	ADMINISTRATEUR VAN TRANSVAAL	7 760 000,00
3004381	T0IR03680000003400044	GOVERNMENT OF KWA ZULU	400 000,00
DEEDS150106	T0KR0016000009100000	DEPARTMENT OF LAW & ORDER	78 375,83
953782	N0FT00000000466700016	INGONYAMA TRUST-TRUSTEES	33 168 518,22
397541	T0JQ00000000041000990	A F M EXECUTIVE WELFARE COUNCIL	10 000,00
486641	T0JR00000000035100229	PROVINCIAL GOVERNMENT OF GAUTENG	1 895 036,67
405151	T0JR00000000035100117	PROVINCIAL GOVERNMENT OF GAUTENG	412 611,55
DD_20180430_110977	C07900020000069300000	PROVINCIAL GOVERNMENT OF THE EASTERN CAPE	108 804,11
EC332_53	C03800000000078900000	PROVINCIAL GOVERNMENT OF THE EASTERN CAPE	37 681,40
733351	C04300000000014600005	NATIONAL BOTANIC GARDENS	16 000,00
D_3132013_47442	T0IR07780002093700000	EKURHULENI METROPOLITAN MUNICIPALITY	41 375,00
501571	T0JR00000000035100209	PROVINCIAL GOVERNMENT OF GAUTENG	2 590 020,33
DD30082014_034548	C04100000000055400000	PROVINCIAL GOVERNMENT OF THE NORTH WEST PROVINCE	7 528 205,73
D_3132013_47436	T0IR07780002093100000	EKURHULENI METROPOLITAN MUNICIPALITY	1 447 859,95

<b>Unique_Property_Code</b>	<b>LPI_Code</b>	<b>Persons Name as per Deeds Download</b>	<b>Carrying value</b>
DD30082014_0345 72	C04100000000067 700001	PROVINCIAL GOVERNMENT OF THE NORTH WEST PROVINCE	9 202 415,51
1374851	T0JR00000000035 100003	PROVINCIAL GOVERNMENT OF GAUTENG	109 334 284,00
D_3132013_47445	TOIR07780002094 000000	EKURHULENI METROPOLITAN MUNICIPALITY	240 000,00
D_3132013_47447	TOIR07780002094 200000	EKURHULENI METROPOLITAN MUNICIPALITY	1 008 000,00
D_3132013_47449	TOIR07780002094 400000	EKURHULENI METROPOLITAN MUNICIPALITY	490 000,00
DEEDS79299	N0FU0085000034 2800000	ROYAL DURBAN LIGHT INFANTRY	292 047,61
DEEDS15423	C01600200000108 400000	HOUSE OF REPRESENTATIVES	345 840,00
DEEDS144892	T0JR00000000032 800197	NASIONALE KULTUURHISTORIESE MUSEUM	10 668 909,98
3121121	N0GS0000000013 9300438	MABASO DUMISA NEGRO	1 617 895,49
DEEDS2305	C07800010000005 100000	EDUCATIONAL TRUSTEES	22 600,16
D_3132013_47440	TOIR07780002093 500000	EKURHULENI METROPOLITAN MUNICIPALITY	200 000,00
D_3132013_47441	TOIR07780002093 600000	EKURHULENI METROPOLITAN MUNICIPALITY	530 000,00
3113093	C01300020000280 100000	NATIONAL BOTANIC GARDENS	500 150,00
1101141	N0GS0000000010 6400013	SOUTH AFRICAN DEV TRUST-TRUSTEES	99 967,53
DEEDS79297	N0FU0085000034 2700004	ROYAL DURBAN LIGHT INFANTRY	1 775 500,00
3073551	N0ET02520000029 100000	GEM ONT RAAD-COM DEV BOARD	144 462,60
DEEDS3997	C03900020000007 400000	EDUCATIONAL TRUSTEES	2 000 000,00
DEEDS22074	C05100070000573 700000	EDUCATIONAL TRUSTEES	35 025,53
D_3132013_47430	TOIR07780002092 400000	EKURHULENI METROPOLITAN MUNICIPALITY	252 000,00
D_3132013_47438	TOIR07780002093 300000	EKURHULENI METROPOLITAN MUNICIPALITY	560 000,00
D31032014_17988 6	C05500080000174 700000	AFRIKAANSE TAALMUSEUM-PAARL	761 396,92
DEEDS66712	T0IQ03520000075 600000	DEPARTMENT OF AGRICULTURAL CREDIT & LAND TENURE	50 132,45
DEEDS36918	F00300000000039 400001	NATIONAL DEPARTMENT OF AGRICULTURE	675 759,79
2,00E+11	T0IQ00000000022 400198	S A POLICE RECREATION & BENEVOLENT FUND	91 473,74
DEEDS31032015_ 0150970	T0JO00000000009 300015	SUID-AFRIKAANSE ONTWIKKELINGSTRUST	554 400,00
DEEDS31867	C07300070000010 200000	DEPT KLEURLINGSAKE-COLOURED AFFAIRS	284 112,39
DEEDS31032015_ 0005745	C02300000000086 700000	SOUTH AFRICAN DEVELOPMENT TRUST	4 500 000,00
1740991	C1140001000008 100000	SOUTH AFRICAN BANTU TRUST	302 182,84
2925671	C0860001000008 600000	SOUTH AFRICAN DEVELOPMENT TRUST	370 952,49
2,00E+11	C03800000000195 100005	SOUTH AFRICAN BANTU TRUST	762 709,69
1121711	N0HT0000000096 4200008	MTHEMBU THABILE EUNICE	17 000,00
DEEDS109792	N0FU0463000030 0900000	MTHETHWA PATRICK BONGINKOSI	160 000,00

<b>Unique_Property_Code</b>	<b>LPI_Code</b>	<b>Persons Name as per Deeds Download</b>	<b>Carrying value</b>
DEEDS30222	C06700220000449300000	EDUCATIONAL TRUSTEES	3 665 000,00
DEEDS24995	C01600420000635000000	EDUCATIONAL TRUSTEES	1 700 000,00
DEEDS31032015_0149484	TOIM000000000024500016	SUID AFRIKAANSE ONTWIKKELINGS TRUST	754 314,19
2,00E+11	TOIR03880000011100000	ADMINISTRATEUR VAN TRANSVAAL	616 404,23
2,00E+11	TOJR00230000020400000	SUID AFRIKAANSE POLISIE UNIE	208 635,72
DEEDS76539	NOFT00540000003100000	MOHLAKOANA PUSETSO REBECCA	330 000,00
2,00E+11	TOJR00370000073000064	SOUTH AFRICAN ARMY FOUNDATION	60 334,31
3073541	NOET02520000029000000	GEM ONT RAAD-COM DEV BOARD	207 354,62
2,00E+11	TOJS000000000086400000	MONUMENTE KOMMISSIE-MONUMENTS COMMISSION	442 987,26
2,00E+11	TOJR000000000003600007	GOVERNMENT RAILWAYS & HARBOURS	14 202,60
2,00E+11	C0230000000086600001	SOUTH AFRICAN DEVELOPMENT TRUST	2 718 169,15
2,00E+11	C07900020000097700000	PROVINCIAL GOVERNMENT OF THE EASTERN CAPE	232 819,11
DEEDS31032015_0023101	C10700010000008200000	SOUTH AFRICAN BANTU TRUST	1 295 459,20
DD30082014_025046	C02800070001267500000	KOMMANDOFONDS GORDONIA KOMMANDO	239 339,10
DD_31032017_40250	TOIR02970000077500000	JORDAAN JOHANNES JAKOBUS	141 567,25
2925501	C10000010000018400000	SOUTH AFRICAN BANTU TRUST	3 318 530,65
2,00E+11	F03900070000785100000	BASUTOLAND GOVERNMENT	420 130,15
367431	C09800010000019100000	SOUTH AFRICAN BANTU TRUST	286 997,16
DEEDS89975	NOGS000000000211800000	REGIONAL & LAND AFFAIRS	1 657 356,36
2,00E+11	TOIR03880000004200000	ADMINISTRATEUR VAN TRANSVAAL	616 404,23
DEEDS31032015_0010303	C09400010000006100000	SOUTH AFRICAN DEVELOPMENT TRUST	302 182,84
2,00E+11	C02300000000104500001	SOUTH AFRICAN DEVELOPMENT TRUST	1 787 286,91
2,00E+11	C02300000000104600008	SOUTH AFRICAN DEVELOPMENT TRUST	132 652,37
DEEDS31032015_0088078	NOGU000000000929600002	REGIONAL & LAND AFFAIRS	916 148,88
2,00E+11	TOIR03880000007700001	ADMINISTRATEUR VAN TRANSVAAL	75 431,42
DEEDS31032015_0051186	TOIR04880000028800000	REPUBLIC OF BOPHUTHATSWANA	412 451,24
3131091	NOGS000000000110200009	MABASO NYAGAMBI BETTY	143 374,48
1121911	NOGS000000000139300115	MATOWAN'S KOP SYNDICATE	6 576,81
2,00E+11	C03800000000195000002	SOUTH AFRICAN BANTU TRUST	1 621 158,84
DEEDS31032015_0012569	C03800000000195100001	SOUTH AFRICAN BANTU TRUST	746 141,00
2,00E+11	C06700040000217800000	EDUCATIONAL TRUSTEES	7 345 105,66
3198481	F03200250000033000000	REPUBLIC OF BOPHUTHATSWANA	91 800,00

Unique_Property_Code	LPI_Code	Persons Name as per Deeds Download	Carrying value
2,00E+11	T0JR00370000073 000063	SOUTH AFRICAN ARMY FOUNDATION	40 004,52
D31032014_15797 9	T0JQ00960000173 600000	BOPHUTHATSWANA INTERNAL INTELLIGENCE SERVICES	16 500,00
1059721	N0GS0282000000 5900000	KHUZWAYO THETHIWE CLARA	929 961,07
2,00E+11	C02300000000104 300015	SOUTH AFRICAN DEVELOPMENT TRUST	118 162,55
D31032014_14212 6	T0JR00000000003 600008	GOVERNMENT RAILWAYS & HARBOURS	20 633,84
D_3132013_16665 8	T0KQ0000000002 740009	DIE NASIONALE PARKERAAD	995 673,83
DEEDS146098	T0KQ0000000002 7800031	SUID-AFRIKAANSE NASIONALE PARKE	1 003 518,96
2750781	N0ES0420000001 2900000	SOUTH AFRICAN DEV TRUST-TRUSTEES	656 177,16
2843381	C10700010000008 100000	SOUTH AFRICAN BANTU TRUST	10 991,63
1740992	C11400010000008 000000	SOUTH AFRICAN BANTU TRUST	302 182,84
2957521	C10300010000004 000000	SOUTH AFRICAN BANTU TRUST	267 895,83
2829872	C10700010000008 800000	SOUTH AFRICAN BANTU TRUST	12 174,88
D_3132013_16662 5	T0KQ0000000001 3600000	DIE NASIONALE PARKERAAD	3 358 354,00
D_3132013_16662 8	T0KQ0000000001 3600009	DIE NASIONALE PARKERAAD	662 428,83
D_3132013_16664 3	T0KQ0000000002 3900003	DIE NASIONALE PARKERAAD	773 968,90
D_3132013_16666 1	T0KQ0000000002 7500003	DIE NASIONALE PARKERAAD	2 090 470,03
D_3132013_16667 0	T0KQ0000000002 7800003	DIE NASIONALE PARKERAAD	1 785 946,82
D_3132013_16668 4	T0KQ0000000003 1500000	DIE NASIONALE PARKERAAD	4 771 561,58
158932	C07900020000049 600000	PROVINCIAL GOVERNMENT OF THE EASTERN CAPE	600 098,85
297331	C07900020000044 500000	PROVINCIAL GOVERNMENT OF THE EASTERN CAPE	106 061,15
292819	C03800420000000 600000	PROVINCIAL GOVERNMENT OF THE EASTERN CAPE	23 862,71
	C07900020000044 400000	PROVINCIAL GOVERNMENT OF THE EASTERN CAPE	102 583,68
	C07900020000074 200000	PROVINCIAL GOVERNMENT OF THE EASTERN CAPE	108 804,11
	C07900020000099 000000	PROVINCIAL GOVERNMENT OF THE EASTERN CAPE	153 301,03
	C03800450000005 900000	SOUTH AFRICAN DEVELOPMENT TRUST	708 445,80
	C03800420000001 000000	PROVINCIAL GOVERNMENT OF THE EASTERN CAPE	689 092,69
	T0IR03100000435 400005	NATIONAL HEALTH LABORATORY SERVICE	14 588,25
1666871	C03200060000005 200000	SORGVRY LANDGOED CC	24 916,32
3053101	C01300090000042 300000	RENSBURG CHRISTINA MAGDALENA VAN	105 756,37
941201	C07700040000017 400000	OLD APOSTOLIC CHURCH OF AFRICA	107 127,85
2707931	C03900020000043 700000	BRENTON ONTWIKKELINGSMAATSKAPPY PTY LTD	136 690,88
1317861	T0IQ00550000139 100000	MYKATRADE 266 CC	9 948,05

Unique_Property_Code	LPI_Code	Persons Name as per Deeds Download	Carrying value
Total			484 535 862,97

**PMTE HO COFF 42 - Property, plant, and equipment: SAPs completed projects in the 2021/22 FY were not included in the Immovable assets register**

**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...*”

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...*”

Paragraph 17 of Generally Recognised Accounting Practice (GRAP) 1 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...*”

Paragraph 07 of Generally Recognised Accounting Practice (GRAP) and GRAP 17 states that “*The cost of an item of property, plant and equipment is recognised as an asset when: it is probable that future economic benefits or service potential associated with the item will flow to the entity; and the cost of the item can be measured reliably...*”

## Nature

During the audit of completeness of property, plant and equipment, we noted that the following SAPs projects that have been completed in the 2021-22 financial year which were transferred to DPWI as the custodian of national immovable assets based on the GIAMA Act were not included in the immovable asset register (IAR).

Based on the completion certificates provided, the projects were confirmed to exist and verified to be completed by management to substantiate the recognition of the improvements in the immovable assets register.

WCS Nr	Property code	Police station name	Type of infrastructure	Asset Classification	Cost
1199	59649	PHILIPPI EAST	NEW AND REPLACEMENT ASSETS	AIR CONDITIONER	32 412,00
1670		WELTEVREDE/ SAMORA MACHELE	NEW AND REPLACEMENT ASSETS	PARK HOME: VICTIM FRIENDLY FACILITIES	1 387 078,66
7400	322851	GOUDA	UPGRADE AND ADDITIONS	POLICE STATION	61 187,00
AAKU	312573	LETSITELE	UPGRADE AND ADDITIONS	POLICE STATION	328 271,30
AAMG	256016	TOM BURKE	NEW AND REPLACEMENT ASSETS	CONTAINER	166 750,00
AANV	310404	WITPOORT	NEW AND REPLACEMENT ASSETS	CONTAINER	170 315,00
AANY	255800	CUMBERLAND	NEW AND REPLACEMENT ASSETS	CONTAINER	183 425,00
AAOB	4143	VILLA NORA	NEW AND REPLACEMENT ASSETS	CONTAINER	168 245,00
AAOC	275434	SAAMBOUBRUG	NEW AND REPLACEMENT ASSETS	CONTAINER	170 775,00
AAOD	137046	HOOPDAL	NEW AND REPLACEMENT ASSETS	CONTAINER	178 595,00
AAEG	7776	VAL	NEW AND REPLACEMENT	POLICE STATION	1 750 894,00
AAEH	1579	CHARL CELLIERS	NEW AND REPLACEMENT	POLICE STATION	907 785,00
7403	N/A	RIEMVASMAAK	UPGRADE AND ADDITIONS	POLICE STATION	113 521,00
1266	62127	DE DOORNS	NEW AND REPLACEMENT	POLICE STATION	66 997,00
2020	135887	BOSCHKOP	NEW AND REPLACEMENT	POLICE STATION	268 560,00
AAEF	624/168141	KINROSS	NEW AND REPLACEMENT	POLICE STATION	1 051 405,00
AAKW	62001	VICTORIA WEST	NEW AND REPLACEMENT	POLICE STATION	4 033,00
1286	63733	VAN RHYNSDORP	NEW AND UPGRADE	POLICE STATION	60 271,00
7457	59623	RIVIERSONDEREND	NEW AND UPGRADE	POLICE STATION	60 270,00
					7 130 789,96

## Impact of the finding

The above will result in an

- Understatement of PPE: Improvements by an amount of R7 130 790 before taking into account depreciation.

## 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 complete information.

Management did not ensure all completed projects that should be transferred to the immovable asset register are transferred and recorded in the immovable asset register.

Furthermore, management does not keep record of projects currently carried out by user departments to enable management to keep track of active projects and completed projects that should be transferred and recognized in the entity's immovable asset register.

### **Recommendation**

It is recommended that:

- Management should ensure that adequate review process be implemented on the schedules and other information supporting the annual financial statement to ensure that the annual financial statements submitted are supported by accurate and complete schedules and information.
- Furthermore, management should keep track with capital projects carried out by user departments to ensure all completed projects that should be transferred to the entity are recognized in the IAR.

### **Management response**

**Awaiting management's response**

### **Auditors Conclusion**

**PMTE HO COFF 44 - Property, plant, and equipment: State Owned Assets let out to private stakeholders**

**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...*”

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...*”

Paragraph 17 of Generally Recognised Accounting Practice (GRAP) 1 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...*”

Paragraph 07 of Generally Recognised Accounting Practice (GRAP) and GRAP 17 states that “*The cost of an item of property, plant and equipment is recognised as an asset when: it is probable that future economic benefits or service potential associated with the item will flow to the entity; and the cost of the item can be measured reliably...*”

## Nature

### Issue 1:

During the audit of completeness of immovable assets, we noted that the following sampled state properties under the custodianship of DPWI based on the GIAMA Act which are currently let to private stakeholders were not to be included in the immovable asset register (IAR) through utilization of the unique property code.

Property code	Property Description	Physical address	Customer No	Customer Name
114934	PRISON	MR A BAM VODACOM PTY LTD BLOEMFONTEIN	386421	VODACOM
114603		VODACOM SA SANDTON	398900	VODACOM SA
59828		MR T FORTUIN BELLVILLE	25394	FORTUIN T
60978		TELKOM - ATT:DAPHNEY CENTURION	26544	TELKOM (TFMC)
65402		MR N COETZEE HOPEFIELD	31786	COETZEE N
99513	HOUSE - OFFICE	DR. A.W. VAN TONDER CAMPERDOWN	38900	DR. VAN TONDER
103283	LAND	WILDLIFE SOCIETY OF S.A. DURBAN	161196	WILDLIFE SOCIETY
140793	HOUSE	MR MH SPANGENBERG OLIFANTSHOEK	39444	EVENING FLAME TRADING 69
75727	LAND	MESSRS GR & JA CLOETE CONCORDIA	124116	MESSRS GR & JA CLOETE
53508	HOUSE	MR A B MOSES LOUISVALE	138407	MR A B MOSES
323609	ANTENNA	4TH FLOOR 23 FREEDMAN DR SANDTON JOHANNESBURG	407256	AMERICAN TOWER COMPANY
37583		4TH FLOOR 23 FREEDMAN DR SANDTON JOHANNESBURG	407257	AMERICAN TOWER COMPANY
323611	ANTENNA	4TH FLOOR 23 FREEDMAN DR SANDTON JOHANNESBURG	407259	AMERICAN TOWER COMPANY
51048		MR JGH BESTER TZANEEN	90012	JGH BESTER
50796		BMJ VAN VUUREN TZANEEN	115505	B M J VAN VUUREN
135584	AIR FORCE BASE	EASTGATE AIRPORT SILVERTON	388271	EASTGATE AIRPORT

### Issue 2:

In addition, we noted that the following sampled state properties which the entity pays municipal property rates on in accordance with Section 24(1) of the MPRA which states that: "*A rate levied by a municipality on property must be paid by the owner of the property, subject to Chapter 9 of the Municipal Systems Act*" were not included in the immovable asset register (IAR) through utilization of the unique property code.

Unique Property Code	Municipality	User Department	Account number
115399	MOQHAKA LOCAL MUNICIPALITY	CORRECTIONAL SERVICES	1080820
74041	BEAUFORT WEST MUNICIPALITY	SA POLICE SERVICES	01848/01849
74668	DRAKENSTEIN MUNICIPALITY	UNUTILISED	10004400010
85075	KNYSNA MUNICIPALITY	JUSTICE AND CONSTITUTIONAL DEVELOPM	10295000001 5
85143	GEORGE MUNICIPALITY	DEFENCE	17038930102
85453	OUDTSHOORN MUNICIPALITY	SA POLICE SERVICES	13034660005
88010	BITOU MUNICIPALITY	WATER AND SANITATION	8045000005
95019	THE MSUNDUZI MUNICIPALITY	ARTS AND CULTURE	90244

Unique Property Code	Municipality	User Department	Account number
95248	ETHEKWINI METROPOLITAN MUNICIP	DEFENCE	83204924634
97664	INKOSI LANGALIBALELE LOCAL MUN	UNUTILISED	112200
45747	EMFULENI LOCAL MUNICIPALITY	UNUTILISED	10027487
144486	MIDVAAL LOCAL MUNICIPALITY	UNUTILISED	40013140
130596	LESEDI LOCAL MUNICIPALITY	UNUTILISED	100004044
134165	CITY OF JOHANNESBURG METROPOLI	DEFENCE	206000692
51190	SOL PLAATJE LOCAL MUNICIPALITY	DEFENCE	41654062747
53509	TSANTSABANE MUNICIPALITY	DEFENCE	1178
53814	GAMAGARA LOCAL MUNICIPALITY	DEFENCE	9779
58757	SIYANCUMA MUNICIPALITY	UNUTILISED	10925
81657	RENOSTERBERG MUNICIPALITY	SA POLICE SERVICES	10002972
303671	KAI GARIB MUNICIPALITY	PUBLIC WORKS AND INFRASTRUCTURE	8324
169085	GREATER TAUNG LOCAL MUNICIPALI	JUSTICE AND CONSTITUTIONAL DEVELOPM	P0246/01264 7
39736	KGETLENGRIVIER LOCAL MUNICIPAL	PUBLIC WORKS AND INFRASTRUCTURE	1370
207568	MAFIKENG LOCAL MUNICIPALITY	CORRECTIONAL SERVICES	1600897027
292470	TLOKWE CITY COUNCIL	SA POLICE SERVICES	18555
4258	CITY OF MBOMBELA LOCAL MUNICIP	JUSTICE AND CONSTITUTIONAL DEVELOPM	2246646
11983	CITY OF MBOMBELA LOCAL MUNICIP	WATER AND SANITATION	2237918
12381	STEVE TSHWETE LOCAL MUNICIPALI	CORRECTIONAL SERVICES	7714257
14191	NKOMAZI LOCAL MUNICIPALITY	SA POLICE SERVICES	10100699
15855	NKOMAZI LOCAL MUNICIPALITY	HOME AFFAIRS	18600003
16708	CITY OF MBOMBELA LOCAL MUNICIP	DEFENCE	1466104
39344	THABA CHWEU LOCAL MUNICIPALITY	PUBLIC WORKS AND INFRASTRUCTURE	20963
44560	CHIEF ALBERT LUTHULI MUNICIPAL	WATER AND SANITATION	009455/0465 91
323335	LEKWA LOCAL MUNICIPALITY	PUBLIC WORKS AND INFRASTRUCTURE	9002784
323336	LEKWA LOCAL MUNICIPALITY	PUBLIC WORKS AND INFRASTRUCTURE	9001798
323556	NKOMAZI LOCAL MUNICIPALITY	PUBLIC WORKS AND INFRASTRUCTURE	26000002
2605	BA-PHALABORWA MUNICIPALITY	DEFENCE	46946
39264	POLOKWANE MUNICIPALITY	DEFENCE	11114703
50465	GREATER TZANEEN MUNICIPALITY	WATER AND SANITATION	838040
255925	MOGALAKWENA LOCAL MUNICIPALITY	SA POLICE SERVICES	1057386
321474	EPHRAIM MOGALE LOCAL MUNICIPAL	SA POLICE SERVICES	900008383
321635	BELA BELA MUNICIPALITY	LAND REFORM AND RURAL DEVELOPMENT	3002666
323648	MAKHADO LOCAL MUNICIPALITY	LEASED OUT PRIVATELY	9107001
87413	AMAHLATHI MUNICIPALITY	WATER AND SANITATION	90023729
163725	SUNDAYS RIVER VALLEY MUNICIPAL	ENVIRONMENT FORESTRY AND FISHERIES	600000201
166806	KOUGA MUNICIPALITY	WATER AND SANITATION	9030032067
311879	CITY OF TSHWANE METROPOLITAN M	ENVIRONMENT FORESTRY AND FISHERIES	3318236394
320812	CITY OF TSHWANE METROPOLITAN M	NDPW PRESTIGE	5011324351
322967	CITY OF TSHWANE METROPOLITAN M	SA POLICE SERVICES	1060058508

Unique Property Code	Municipality	User Department	Account number
160592	MBHASHE MUNICIPALITY	SA POLICE SERVICES	00001W
256123	KING SABATA DALINDYEBO MUNICIP	CORRECTIONAL SERVICES	220403
278923	PORT ST JOHNS MUNICIPALITY	LAND REFORM AND RURAL DEVELOPMENT	10000265
284160	KING SABATA DALINDYEBO MUNICIP	HOME AFFAIRS	168024
291758	MBIZANA LOCAL MUNICIPALITY	JUSTICE AND CONSTITUTIONAL DEVELOPM	5691
292945	SAKHISIZWE MUNICIPALITY	UNUTILISED	C0720/00415 8
294384	INGQUZA HILL LOCAL MUNICIPALIT	LAND REFORM AND RURAL DEVELOPMENT	601984

## **Impact of the finding**

This result in the:

- An understatement of the immovable assets (PPE, Investment property and Heritage assets)

The overall impact is **unquantifiable** as an assessment of the value of the properties will have to be assessed to determine the value thereof.

## **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 complete information.

Management did not ensure all immovable assets that are under the entity's custodianship have been recorded in the immovable asset register to ensure it is complete.

## **Recommendation**

It is recommended that:

- Management should ensure that adequate review process be implemented on the schedules and other information supporting the annual financial statement to ensure that the annual financial statements submitted are supported by accurate and complete schedules and information.
- Furthermore, management to keep a complete record of all assets that are currently under its custodianship to ensure all national immovable assets are accounted for.

## **Management response**

## **Auditors Conclusion**

## **PMTE HO COFF 45 - Immovable assets: Improvements not assessed for impairment**

### **Requirements:**

Section 38(1)(d) of the Public Finance Management Act (PFMA) states that; “*The accounting officer for a department, trading entity or constitutional institution is responsible for the management, including the safe-guarding and the maintenance of the assets, and for the management of the liabilities, of the department, trading entity or constitutional institution*”

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 33 states that; “*After recognition as an asset, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.*”

Generally Recognised Accounting Practice (GRAP) 21 paragraph 18 states that; “*This Standard defines an “impairment” as a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation). Impairment, therefore, reflects a decline in the utility of an asset to the entity that controls it*”

Generally Recognised Accounting Practice (GRAP) 21 paragraph 20 states that; “*An entity shall assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable service amount of the asset.*”

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

### Issue 1:

During the Cape Town physical verification, it was noted that the following Parliament building situated in the parliament precinct had suffered severe structural damages due to the fire that broke out on the 02 January 2022, as there was extensive damage to the roof. Therefore, presenting an indicator that the asset should have been impaired.

Building Id	Facility Name as per physical verification	Facility Type as per physical verification	Accommodation Type	CARRY VALUE FOR THE YEAR 2021/22
200000136389	PARLIAMENT	OFFICE	Office: Government	184 235 856,68

According to The South African News article dated 10 May 2022, “*Public works acting director-general Imtiaz Fazel recently told Parliamentary chiefs and the leaders of political parties that the bill is set to be over R220 million. The damage to the buildings affected by the fire that took three days for Cape Town firefighters to extinguish may well reach costs as high as R1 billion*”

According to GRAP 17 paragraph 23, when assessing whether there is any indication that an asset may be impaired, an entity shall consider, evidence is available of obsolescence or physical damage of an asset. Evidence of physical damage of the asset was available for management to assess the building for impairment.

### Issue 2:

Furthermore, based on the physical verification that was conducted together with an auditee's official from the 27 June 2022 to the 08 July 2022, the following buildings were assessed to have been run down, vandalized, deteriorated and etc. Indicating that the building conditions of the improvements have regressed from the building condition that was recorded in the immovable asset register.

However, the improvements were not assessed for impairment due to the change in condition of the assets due to the assets becoming obsolescence this includes the asset becoming idle, discontinued use or restructuring.

Building Id	Facility Name as per physical verification	Facility Type as per physical verification	Building Condition	Building condition as per physical verification	Carrying amount
200000168662	The Parliament	OFFICE	60% FAIR	Very Poor (20%)	11 360 160,00
100000032859	HOME AFFAIRS	OFFICE	40% POOR	Very Poor (20%)	966 339,00
200000174315	OFFICE	OFFICE	60% FAIR	Very Poor (20%)	910 224,00
246500389	LOSPERFONTE IN PRISON	HALL	80% GOOD	Poor (40%)	907 773,00
200000140058	LOSPERFONTE IN PRISON	OFFICE	80% GOOD	Poor (40%)	851 787,00
200000164897	BEDWANG POLICE STATION		60% FAIR	Very Poor (20%)	474 075,00
100000046744	HOUSE	RESIDENTIAL HOUSE	40% POOR	Very Poor (20%) -	1 483 127,80
200000164401	QUMBU - TINA FALLS	SAPS	60% FAIR	Very Poor (20%) -	73 143,00
200000174173	ART & CULTURE	UNULITIZED	60% FAIR	Very Poor (20%)	1 208 214,00
200000143990	NAVAL MILITARY BASE	UNULITIZED	60% FAIR	Very Poor (20%)	799 155,00
200000176951	UBOMBO PUBLIC WORKS		60% FAIR	Very Poor (20%)	521 976,00

200000047079	ST ALBANS CORRECTIONAL FACILITY	PRISON	100% EXCELLENT	Poor (40%)	793 737,00
200000043897	RESIDENTIAL AND QUARTERS	HOUSE	60% FAIR	N/A - The house was demolished there is a construction of Home Affairs offices.	2 549 652,00
200000090622	Davel	UNULITIZED	60% FAIR	Very Poor (20%)	1 335 537,00
100000047448	PURIFICATION WORKS	UNULITIZED	80% GOOD	Very Poor (20%)	781 727,00
200000113077	BELMONT HOUSE - Department of Public works	BELMONT HOUSE	40% POOR	Very Poor (20%) -	1 099 221,03
					<b>26 115 847,83</b>

### Issue 3:

In addition, the following improvement was assessed to be in good condition based on the sound functional structure with minor wear and tear which is in contradiction to the improvements condition recorded in the immovable asset register.

Building Id	Facility Name as per physical verification	Facility Type as per physical verification	Building Condition	Building condition as per physical verification	Carrying amount
240500774	SAKHILE POLICE STATION	POLICE STATION	40% POOR (SERIOUS STRUCTURAL DEFECTS)	Good (80%) - Functionally sound structure.	<b>933 295,00</b>

### Impact

These results in the:

- An overstatement of the property, plant and equipment: improvements carrying amount due to the improvements not being assessed for impairment based on the indicators available to management.

The overall impact is **unquantifiable** as an assessment of the extent of the damage or obsolescence needs to be done on the affected buildings to determine the recoverable value of the buildings.

### 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.

Management did not assess whether there was any indication that assets owned by Entity may be impaired at reporting date due to sever physical damages, vandalism or deterioration.

### Recommendation

It is recommended:

- That an adequate review process is implemented on the schedules and other information supporting the annual financial statement to ensure that the annual financial statements submitted are supported by accurate and complete schedules and information.

- Furthermore, management to perform an assessment of whether there are any indicators of impairment for assets owned by the entity on an annual basis as per GRAP 17 to ensure the carrying amounts of assets are fairly presented.
- Management should revisit the whole population to determine the full impact of this finding and correct the population.

### **Management response**

### **Auditors Conclusion**

## **PMTE HO COFF 46 - Immovable assets: Improvements owned by PMTE that could not be physically verified**

### **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”*

Section 41 of the Public Finance Management Act (PFMA) 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

### Issue 1:

During the physical verification of assets, we noted that the following improvements that were sampled for physical verification conducted together with an auditee's official from the 27 June 2022 to the 08 July 2022, could not be confirmed to exist due to the improvement either being demolished, the asset could not be located or a significantly different structure was identified:

Building ID	Site ID	Facility Type as per physical verification	Improvement physically verified	Carrying value
232500225	200000064775	STORAGE	Engen Garage instead of Storage.	707 823,00
2000000438 97	200000077498	RESIDENTIAL AND QUARTERS	The house was demolished there is a construction of Home Affairs offices	2 549 652,00
2000001712 18	100000034847	RESIDENTIAL ACCOMODATION	Building could not be located for the building as shown on the map	33 664 942,50
<b>Total</b>				<b>36 922 417,50</b>

### Issue 2:

In addition, the following improvements were identified during the physical verification to be illegally occupied by civilians and not user departments for government functions as recorded in the immovable asset register. The illegal occupancy impacts the entity's control and right of use over the assets.

Building ID	Facility Name as per physical verification	Facility Type as per physical verification	Occupant	Carrying amount
20000007926 4	PUBLIC OFFICES	UNULITIZED	Illegal occupants	1 172 997,00
20000002676 8	SOCIAL DEVELOPMENT	OFFICE	Illegal occupants	929 919,84
221401004	HOUSE 845-09	RESIDENTIAL HOUSE	Illegal occupants	241 330,25
20000011343 7	RESIDENTIAL HOUSE	RESIDENTIAL HOUSE	Illegal occupants	166 284,25
<b>Total</b>				<b>2 510 531,34</b>

## Impact

These results in the:

- An overstatement of the property, plant and equipment: improvements carrying amount due to the improvements not being assessed for impairment based on the indicators available to management.

The overall impact is **unquantifiable** as an assessment of the extent of the damage or obsolescence needs to be done on the affected buildings to determine the recoverable value of the buildings.

## Internal control deficiency

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

Management did not assess whether there was any indication that assets owned by Entity may be impaired at reporting date due to sever physical damages, vandalism or deterioration.

### **Recommendation**

It is recommended:

- That an adequate review process is implemented on the schedules and other information supporting the annual financial statement to ensure that the annual financial statements submitted are supported by accurate and complete schedules and information.
- Furthermore, management to perform an assessment of whether there are any indicators of impairment for assets owned by the entity on an annual basis as per GRAP 17 to ensure the carrying amounts of assets are fairly presented.
- Management should revisit the whole population to determine the full impact of this finding and correct the population.

### **Management response**

### **Auditors Conclusion**

## PAYABLES FROM EXCHANGE TRANSACTIONS

### PMTE PTA COAF 03 – Overstatement of Accrued expenses: Security

#### Requirements:

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

Public Finance Management Act section 40(1)(a) stipulates 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.*”

*Public Finance Management Act paragraph 40(1)(b) 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”*

Furthermore, Section 41 of PMFA states that “*An accounting officer of a trading entity must submit to the relevant Treasury, or the Auditor-General such information, returns, documents, explanations, and motivations as may be prescribed or as the relevant Treasury or the Auditor-General may require...*”

Standard of 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. The application of Standards of GRAP with additional disclosures, when necessary, is presumed to result in financial statements that achieve a fair presentation...*”

*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.*

#### Nature

During the audit of **Accrued expenses (Security accruals)** we noted differences between the accrued expense amount included on the schedule and the recalculated amount as per the supporting invoices submitted for audit. The difference of **R655 261** resulted in the overstatement of the accrued expenses. The details of the transactions are as follows:

No	Service provider	Description of goods/service	Final Accrual Value per schedule	Recalculated amount	Difference
1	Bava Security	Security	437 585	29 000	408 585
2	Simaledi Security	Security	83 000	59 927	23 073
3	Good Purpose	Security	242 995	19 392	223 603
<b>Total</b>					<b>655 261</b>

## Impact

This results in the Overstatement of Accrued expenses: Security by R 655 261.

Non-compliance with GRAP 1, paragraph 17 requiring fair presentation of annual financial statements and GRAP 19 recognition of accruals

## 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.

Management did not ensure that accruals have been accurately accounted based on supporting documentation in the accruals schedule that supports the amount presented in the annual financial statements.

Management did not ensure the calculated amounts by management for accruals have been reviewed and accounted for accurately in the supporting schedule.

## Recommendation

Management should ensure that sufficient reviews are performed on the invoices to ensure that the amounts recorded in the listings are accurate.

Management should review the accrual listings against the supporting evidence to ensure that the amounts included in the listings are accurate and are supported by reliable evidence.

Management should make proposed adjustments to the financial statements and provide the proposed adjustments to auditors for concurrence before any final adjustments are made.

## Management response:

Management agrees with the finding.

We have identified that the amounts in **column K** of the security services accruals workbook for PTA Region submitted for audit are correct, however the formulas calculating the total accruals in column **N** was not applied correctly. This inconsistency was not identified during the various regional or Head Office reviews. Although management agrees to the sample selections totalling a difference of R655,261 – as per the annexure, the total difference across the entire population is **R108 798.99 (2.58%) (Column O)** and is regarded as immaterial as it is unlikely to have an impact on the decisions of the users of the financial statements and will therefore not require adjustment.

## Auditor's conclusion

Management's response is noted. The misstatement will be included to the uncorrected misstatements to assess the impact in aggregate, and therefore the finding remains and will be included in the management report.

## **PMTE JHB COAF 11 - Overstatement of Accruals-Property Rates**

### **Requirement:**

Section 40 (a) and (b) of the Public Finance Management Act (PFMA) 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 and must prepare financial statements for each financial year in accordance with generally recognized accounting practice*”

Public Finance Management Act (PFMA) section 38(1)(a)(i) 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;*”

Standard of 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. 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 property rates accruals for the financial period under review (2021/22), it was noted that management estimated the accruals amount due to there being no invoice from the municipality as at the financial year-end date. The estimate was calculated based on the last claim for account no: 1072417 received from Rand West City Local Municipality on 22 February 2022.

Based on the reperformed property rates calculations, there was a significant variance between our recalculated estimate amount and that of management as per the below table:

Description	PMTE Management Calculation	Auditor General's Calculation	Difference R
PROPERTY RATES ACCRUAL AS AT 31 MARCH 2022	R 2 486 640.00	R 86 640.00	2 400 000.00

The estimate was calculated to be R86 640, 00 based on the latest available tariff (0,0361) and value of the property (R2 400 00).

### **Impact**

- This results in overstatement of property rates accruals by R2 400 000.
- Non-compliance with GRAP 1, paragraph 17 requiring fair presentation of annual financial statements.
- Non-compliance with section 40(1)(a)(i) of the Public Finance Management Act (PFMA) that requires accounting officers for state owned entities and departments to keep accurate, full and proper records of the entity's financial affairs.
- **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.

Management did not adequately review the accruals schedule against the supporting evidence to ensure that the amounts included in the schedule are accurate and are supported by reliable evidence.

### **Recommendation**

- Management should ensure that sufficient reviews are performed to ensure that the annual financial statements sufficiently comply with the Standards of Generally Recognized Accounting Practices.
- Management should make proposed adjustments to the financial statements and provide the proposed adjustments to auditors for concurrence before any final adjustments are made.

### **Management response:**

#### **Management agrees with the finding for the following reasons:**

On the date of the accrual being calculated, the region was not aware of the fact that the payment made on 1 June 2021 was an overpayment. Therefore, an accrual was raised based on the last payment for the year, which was R2,486,640.

However, based on the actual charges, an overpayment was made on 1 June 2021, which has been utilised to date as follows:

	R
Payment made 1 June 2021	2,486,640.00
Actual rates 2021 fin year	(86,640.00)
Actual rates 2022 fin year	(93,835.00)
Utilities consumption up to 31 Mar 2022	(847,041.19)
Balance (Annexure A)	1,459,123.81

Therefore, the account still has a credit to the value of R1,459,123.81 as per the attached annexure, and no accrual should have been raised for the account at all.

This oversight error will be corrected during the over/under statement process.

## **Auditor's conclusion**

Management response is noted. The finding will remain based on the following reasons:

Management agrees to the finding, and the overpayment has not been recorded to date as a prepayment. The prepayment opening balance as a result is misstated by R1 459 123.81 and accrual account is misstated by an amount of R2 486 640.00 since management acknowledges the overpayment of R2 486 640 made in June 2021. The misstatements will be taken to the schedule of uncorrected misstatements and further evaluated with other misstatements. The auditing finding will be included in the management report. Therefore, the finding remains.

### **PMTE CPT COAF 09: Overstatement of Accruals-Municipal Services**

#### **Requirement:**

Section 40 (a) and (b) of the Public Finance Management Act (PFMA) 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 and must prepare financial statements for each financial year in accordance with generally recognized accounting practice*”

Public Finance Management Act (PFMA) section 38(1)(a)(i) 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;*”

Standard of 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. 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 municipal service accruals for the financial period under review (2021/22), it was noted that management over-estimated the accruals amount by R7 189 184.38.

We noted that the overstatement was a result of management duplication of the invoice number 659a/202105/1 from Kuper-Legh Property Management dated 11/05/2021 which was already been correctly accrued for as at year end, this resulted to an additional accrual of R5 544 581.01.

We noted for the invoice number 078052700155/202104 from DRAKENSTEIN MUNICIPALITY dated 24/04/2021, the Water billing was for a period from 01/03/2021 to 01/04/2021. Based on the above audited supporting documents, we calculated an accrual amount that is significantly varied to the management estimate.

We noted for invoice number 068089900064/202201 from DRAKENSTEIN MUNICIPALITY dated 24/04/2022, the electricity billing was for a period from 01/12/2021 to 01/01/2022.

Based on the above audited supporting documents, we calculated an accrual amount that is significantly varied to the management estimate.

## Finding

Based on the reperformed municipal service accrual calculations, there was a significant variance between our recalculated estimate amount and that of management as per the below table:

Description	PMTE Management Calculation	Auditor General's Calculation	Difference
KUPER-LEGH PROPERTY MANAGEMENT	R 5 544 581.01	R NIL	(R 5 544 581.01)
DRAKENSTEIN MUNICIPALITY	R 3 728 917.27	R 3 199 972.11	(R 528 945.16)
DRAKENSTEIN MUNICIPALITY	R 4 998 148.81	R 3 882 490.59	(R 1 115 658.22)

Therefore, municipal service accruals are overstated by an amount of R7 189 184.38

## Impact

- This results in overstatement of municipal service accruals by R7 189 184.38.
- Non-compliance with GRAP 1, paragraph 17 requiring fair presentation of annual financial statements.
- Non-compliance with section 40(1)(a)(i) of the Public Finance Management Act (PFMA) that requires accounting officers for state owned entities and departments to keep accurate, full and proper records of the entity's financial affairs.

## 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.

Management did not adequately review the accruals schedule against the supporting evidence to ensure that the amounts included in the schedule are accurate and are supported by reliable evidence.

Management 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.

Management did not implement controls over daily and monthly processing and reconciling of transactions.

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

### *Leadership*

Management did not exercise oversight responsibility regarding financial reporting and related internal controls.

## Recommendation

- Management should ensure that sufficient reviews are performed to ensure that the annual financial statements sufficiently comply with the Standards of Generally Recognized Accounting Practices.

- Management should make proposed adjustments to the financial statements and provide the proposed adjustments to auditors for concurrence before any final adjustments are made.
- Management should ensure implementation of proper record keeping, internal controls over daily and monthly processing, preparation of regular reconciliations and performance reports that are supported by reliable information.
- Management should develop and monitor the implementation of action plans to address internal control deficiencies.

**Management response:**

Management agrees with the finding. Subsequent to that, we will ensure that the information populated on the workbook talks to the supporting documents and thorough review will always be performed.

**Kuper-Legh Property Management** – This account was listed as an accrual twice as a typing error occurred listing the account number both as account 659A and account 695A, however only 659A was a valid account.

**Drakenstein Municipality (account number 78052700155)** - was accrued for twice with different dates but the issue was due to incorrect category of municipal charges being listed, on one charge the category selected was electricity and the other one was water but both were supposed to be for electricity.

**Drakenstein Municipality (account number 6808990064)** - was overstated as the account date was incorrectly captured as reading date.

**Auditor's conclusion**

We note management's acceptance of the misstatement, internal control deficiency and root cause. Further, we note management's intended corrective action to ensure adequate review prior to compilation of the financial statements. The misstatement will be included in the schedule of uncorrected misstatements and evaluated with other misstatements. The audit finding will be included in the management report.

## **Overstatement of Accruals-WCS Accruals (Completeness)**

### **Requirement:**

Section 40 (a) and (b) of the Public Finance Management Act (PFMA) 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 and must prepare financial statements for each financial year in accordance with generally recognized accounting practice*”

Public Finance Management Act (PFMA) section 38(1)(a)(i) 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;*”

Standard of 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. 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 completeness testing of WCS accruals for the financial period under review (2021/22), it was noted that the PMTE Cape Town region over-estimated the accruals amount by R 3 948 390.31.

We inspected the external confirmation letter from the supplier (Nolitha Electrical) and confirmed that the supplier only acknowledges an outstanding payable amount of R5 163 279.65 (Invoice BLDC/April 2022) as at the last day of the financial period ended 21 March 2022. We noted that PMTE had raised an accrual amount of R9 111 669.96 on the same invoice.

We therefore have a variance between the accrual amount as per the supporting documents and the management provided schedule.

We received no other supporting documentation and evidence that supports the accrual amount raised as per the WCS accruals schedule and therefore raise the below variance as an audit finding.

Description	PMTE Accrual	AG Recalculated Accrual	Difference
WCS: 50483 Supplier: Nolitha Electrical (Pty) Ltd Service start date: 2021/03/20	R9 111 669,96	R5 163 279,65	R 3 948 390.31

,

### **Impact**

- This results in overstatement of WCS accruals by R 3 948 390,31.
- Non-compliance with GRAP 1, paragraph 17 requiring fair presentation of annual financial statements.
- Non-compliance with section 40(1)(a)(i) of the Public Finance Management Act (PFMA) that requires accounting officers for state owned entities and departments to keep accurate, full and proper records of the entity's financial affairs.

### **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.

Management did not adequately review the accruals schedule against the supporting evidence to ensure that the amounts included in the schedule are accurate and are supported by reliable evidence.

### **Recommendation**

- Management should ensure that sufficient reviews are performed to ensure that the annual financial statements sufficiently comply with the Standards of Generally Recognized Accounting Practices.
- Management should make proposed adjustments to the financial statements and provide the proposed adjustments to auditors for concurrence before any final adjustments are made.

### **Management response:**

Management agrees with the finding. At present, no adjustments will be made, the overstated rand value should be taken to the schedule of uncorrected misstatements, seeing that the omitted amounts are relatively immaterial in relation to the value of the accruals disclosed.

The impact will be assessed by Head Office in consultation with AGSA prior to the finalisation of the statutory audit in assessing the materiality thereof, which will determine if there is a need to revisit the population and adjust the financial statements.

### **Auditor's conclusion**

We note management's acceptance of the audit finding and the intention to re-evaluate the component's population. The finding will be included in the schedule of uncorrected misstatements and evaluated with other misstatements. The misstatement and overall audit finding will be included in the management report

## **PMTE PE COAF 03 - Overstatement of accruals – Property rates**

### **Requirements**

Section 40 (a) and (b) of the Public Finance Management Act (PFMA) 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 and must prepare financial statements for each financial year in accordance with generally recognized accounting practice*”

Public Finance Management Act (PFMA) section 38(1) (a) (i) 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;*”

Standard of 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. 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 property rates accruals, we noted that management has calculated the accrued amount using the incorrect monthly rate which resulted in an overstatement of accruals. Refer to the below schedule regarding the accrual details and variance thereof:

<b>Property code</b>	<b>Municipality</b>	<b>Monthly rates as per invoice</b>	<b>Months accrued</b>	<b>PMTE accruals</b>	<b>Recalculated accruals</b>	<b>Difference</b>
320814	NELSON MANDELA BAY METROPOLITAN	475 376,00	3	3 033 062,40	1 426 128,00	1 606 934,40
83218	Makana Municipality	1 278,65	24	33 143,48	30 687,68	2 455,80
81603	BUFFALO CITY METROPOLITAN	23 637,75	24	47 275,50	567 306,00	(520 030,50)
<b>Total</b>						<b>1 089 359,70</b>

### **Impact**

- This results in overstatement of Accruals by R1 089 359,70.
- Non-compliance with GRAP 1 par 17, PFMA act section 38 (1) (a) (i) and section (40) (a) and (b).

## **Internal control deficiency**

### *Leadership*

Management did not exercise oversight responsibility regarding financial reporting and compliance and related internal controls.

Management did not ensure that accruals are have been accurately accounted based on supporting documentation in the accruals schedule that supports the amount presented in the annual financial statements.

Management did not review the accruals recognized in the schedule supporting the annual financial statements to ensure accruals recognized are for goods and/services that have been received in the current year.

### *Financial and performance management*

Management did not implement controls over daily and monthly processing and reconciling of transactions

Management did not ensure the calculated amounts by management for accruals have been reviewed and accounted for accurately in the supporting schedule.

### **Recommendation**

- It is recommended that management ensures that sufficient reviews are performed to ensure that the annual financial statements sufficiently comply with the Standards of Generally Recognized Accounting Practices.
- Management to ensure amounts final accruals are accurately accounted for based on supporting documentation.

### **Management response**

Management agrees with the finding, management will intensify the workshops regarding financial statements workbooks and improve on its review procedures to address the finding raised.

This finding will also be included in the regional office Audit Action Plan to action the AG's recommendation and monitor on a continuous basis.

No immediate action will be taken. Management will assess the cumulative impact of all Property rates accruals. If the overall impact is material, management will submit a revised population in consultation with head office Financial Reporting.

### **Auditor's conclusion**

We note management's acceptance of the misstatement and overall audit finding. Further, we note management's agreement with the root cause and internal control deficiency. We also take note of management's planned workshops to ensure improved preparation of workbooks and the review processes in preparation of the financial statements. The misstatement will be included in the schedule of uncorrected misstatements and evaluated with other misstatements. The audit finding will be included in the management report.

## **PMTE PE COAF 04 - Overstatement of accruals – Operating expense (day to day maintenance)**

### **Requirements**

Section 40 (a) and (b) of the Public Finance Management Act (PFMA) 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 and must prepare financial statements for each financial year in accordance with generally recognized accounting practice*”

Public Finance Management Act (PFMA) section 38(1)(a)(i) 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;*”

Standard of 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. 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 Accruals, day to day maintenance (OPEX), we have noted that the management has incorrectly accrued for the whole invoice amount from Melees Electrical lines which includes 7 days after the year end (31 March 2022). There was no apportionment of the invoice amount as required by the Generally recognized accounting principles. Refer to the schedule regarding the accrual details and variance thereof:

Invoice no	Description of service	Start	End date	Accrual amount	Invoice amount	Recalculated accrual	Difference
MEL899/0 106	Stand-by generator is faulty	2022/01/18	2022/04/07	434 399,85	434 399,85	395 908,72	(38 491,13)

### **Impact**

- This results in overstatement of Accruals by R38 491,13
- Non-compliance with GRAP 1 par 17 “*Financial statements shall present fairly the financial position, financial performance and cash flows of an entity.*”

### **Internal control deficiency**

#### *Leadership*

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Management did not ensure that accruals are have been accurately accounted based on supporting documentation in the accruals schedule that supports the amount presented in the annual financial statements.

Management did not review the accruals recognized in the schedule supporting the annual financial statements to ensure accruals recognized are for goods and/services that have been received in the current year.

#### *Financial and performance management*

Management did not implement controls over daily and monthly processing and reconciling of transactions

Management did not ensure the calculated amounts by management for accruals have been reviewed and accounted for accurately in the supporting schedule.

Management did not ensure that goods and/or services have been received before year-end for accruals that have been recognized in the schedule supporting the amount presented in the annual financial statements.

#### **Recommendation**

- It is recommended that management ensures that sufficient reviews are performed to ensure that the annual financial statements sufficiently comply with the Standards of Generally Recognized Accounting Practices.
- Management to ensure amounts final accruals are accurately accounted for based on supporting documentation.

#### **Management response**

Management agrees with the finding.

The regional office will improve its review procedures to implement the recommendations as indicated above by the AG and the finding will be added to the regional office Audit Action Plan.

Management will continue to consult with head office in relation to the materiality of the errors for Maintenance Accruals and in the event that the Maintenance accruals is material, a revised population will be prepared.

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

Management's commitment to implement the recommendations and also include the finding to the Regional Action plans is noted. The misstatement will be included in the schedule of uncorrected misstatements to assess the impact in aggregate and the finding will be included in the management report.

## **PMTE PE COAF 05 - Understatement of Accruals-Municipal Services**

### **Requirement:**

Section 40 (a) and (b) of the Public Finance Management Act (PFMA) 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 and must prepare financial statements for each financial year in accordance with generally recognized accounting practice*”

Public Finance Management Act (PFMA) section 38(1)(a)(i) 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;*”

Standard of 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. 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 municipal service accruals for the financial period under review (2021/22), it was noted that management under-estimated the accruals amount by R839 109.08.

We noted that the understatement on municipal accruals was due to a management error in using the incorrect consumption period on the last invoice paid. This resulted in the calculation of an incorrect daily rate estimate and number of days to be accrued until year end.

### **Finding**

Based on the reperformed municipal service accrual calculations, there was a significant variance between our recalculated estimate amount and that of management as per the below table:

<b>Account Number (Buffalo City)</b>	<b>PMTE Management Calculation</b>	<b>Auditor General's Calculation</b>	<b>Difference</b>
10010301	R225 104.47	R369 312.08	-R144 207.61
20543575	R380 652.78	R624 508.46	-R243 855.69
20021152	R112 236.42	R184 137.88	-R71 901.46
10118471	R164 231.33	R269 442.02	-R105 210.69
20528866	R115 847.89	R190 062.94	-R74 215.05
10155060	R201 171.57	R267 297.40	-R66 125.84
10035791	R208 535.02	R342 127.76	-R133 592.75

Therefore, municipal service accruals are understated by an amount of R839 109.08.

### **Impact**

- This results in understatement of municipal service accruals by R839 109.08
- Non-compliance with GRAP 1, paragraph 17 requiring fair presentation of annual financial statements.
- Non-compliance with section 40(1)(a)(i) of the Public Finance Management Act (PFMA) that requires accounting officers for state owned entities and departments to keep accurate, full and proper records of the entity's financial affairs.

### **Internal control deficiency**

#### *Financial and performance management*

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

Management did not adequately review the accruals schedule against the supporting evidence to ensure that the amounts included in the schedule are accurate and are supported by reliable evidence.

Management 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.

Management did not implement controls over daily and monthly processing and reconciling of transactions.

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

#### *Leadership*

Management did not exercise oversight responsibility regarding financial reporting and related internal controls.

### **Recommendation**

- Management should ensure that sufficient reviews are performed to ensure that the annual financial statements sufficiently comply with the Standards of Generally Recognized Accounting Practices.
- Management should make proposed adjustments to the financial statements and provide the proposed adjustments to auditors for concurrence before any final adjustments are made.
- Management should ensure implementation of proper record keeping, internal controls over daily and monthly processing, preparation of regular reconciliations and performance reports that are supported by reliable information.

- Management should develop and monitor the implementation of action plans to address internal control deficiencies.

**Management response:**

Management agrees with the finding. Management will re-assess its review processes and implement the recommendations as recommended by the AG and the enter population of municipality services will be reassessed by reviewing the workbook against supporting documents.

**Way Forward:**

Each Portfolio Manager will request Age Analysis from each municipality follow-up on any long outstanding accounts.

Secondly from August 2022 the Property Payments Unit with commence with monthly meetings whereby each Portfolio Manager with present their portfolio provide reasons and remedial actions to be taken for long outstanding accounts which will be part of the resolutions for the next month, this will assist the region when it comes to year end in disclosing more accurate figures for IFS and AFS.

The finding will also be included as part of the regional office Audit Action Plan which will be monitored and updated on monthly basis for progress, based on the remedial actions mentioned above.

The region, in consultation with head office, will assess the materiality and the potential success of revised population.

Management is cognizant that this audit finding relates to understatement whilst the material error relates to overstatement, hence the entire population will be tested for accuracy in the event that the population is resubmitted to avoid any failure of the accept/reject population

**Auditor's conclusion**

We note management's acceptance of the misstatement and the overall audit finding including the root cause and internal control deficiencies. We further acknowledge management's plans to:

- Follow-up after long outstanding accounts
- Monthly updates and accountability meetings
- Reviewing of the workbooks against the supporting documents.

We will include the misstatement in the schedule of uncorrected misstatements and evaluate it with other misstatements. The audit finding will be included in the management report.

## **PMTE MMB COAF 13 – Overstatement of accruals – Differences identified between reported and recalculated accrual amount**

## **Requirement:**

Section 40 (a) and (b) of the Public Finance Management Act (PFMA) 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 and must prepare financial statements for each financial year in accordance with generally recognized accounting practice*”

Public Finance Management Act (PFMA) section 38(1)(a)(i) 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;*”

Standard of 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. 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 accruals for, municipal services the following differences were noted between the final accrual amount as per the schedule and the recalculated accrual amount using the supporting documentation submitted for audit.

## Municipal Services Accruals:

For municipal accruals a total difference of R9 605 100.64 was identified, resulting in an overstatement of municipal services accruals.

## **Impact**

- This results in overstatement of accruals totaling R9 605 100.64
- Non-compliance with GRAP 1, paragraph 17 requiring fair presentation of annual financial statements.

## **Internal control deficiency**

### *Leadership*

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Management did not ensure that accruals have been accurately accounted for based on supporting documentation in the accruals schedule which supports the amount presented in the annual financial statements.

### *Financial and performance management*

Management did not implement controls over daily and monthly processing and reconciling of transactions

Management did not ensure the estimated amounts made by management for accruals have been reviewed and accounted for accurately in the supporting schedule.

## **Recommendation**

- It is recommended that management ensures that sufficient reviews are performed to ensure that the annual financial statements sufficiently comply with the Standards of Generally Recognized Accounting Practices.
- Management to ensure final accruals are accurately accounted for based on supporting documentation.
- Management should make proposed adjustments to the financial statements and provide the proposed adjustments to auditors for concurrence before any final adjustments are made.

## **Management response:**

Issue 1 (134358) - Management agrees with this finding.

This item erroneously included opening balances in the calculation of accrual.

Issue 1 (299875) - Management agrees with this finding.

This item erroneously included opening balances in the calculation of accrual.

## **Auditor's conclusion**

Management's acknowledgement to the finding noted, the finding would be included in uncorrected to assess the aggregate impact, the finding remains and would be included in the management report.

**PMTE MMB COAF 14 - Understatement of accruals – Accruals not raised for services rendered before year-end**

**Requirement:**

Section 40 (a) and (b) of the Public Finance Management Act (PFMA) 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 and must prepare financial statements for each financial year in accordance with generally recognized accounting practice*”

Public Finance Management Act (PFMA) section 38(1)(a)(i) 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;*”

Standard of 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. 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 completeness of accruals the sample of payment batches made after year end were selected payment made after year-end were selected and confirmed that the service was rendered before year-end. This batches were traced to the accrual schedule and we confirmed that there were not recorded.

**Municipal Services Accruals:**

For municipal services accruals the following batches amounting to R672 352.31 were not included as accruals, resulting in understatement of municipal services accruals.

No	Supplier Name	Payment batch no	Invoice amount	Date payment approved	Invoice date	Invoice date received	Date when goods and service received (job cards/For WCS accruals valuation date as per payment certificate)
1	NG Gemeente Bospoort	4183	3 533,81	25-Apr-22	16-Mar-22	19-Apr-22	2022/02/16 - 2022/03/16
2	Columbia Falls Properties	4184	273 401,13	25-Apr-22	24-Mar-22	21-Apr-22	15-Mar-22
3	Ditsobotla Local Municipality	4234	29 922,24	12-May-22	28-Feb-22	12-May-22	28-Feb-22
4	Lekwa-Teemane Local Municipality	4185	365 495,13	26-Apr-22	31-Mar-22	26-Apr-22	31-Mar-22

Schedule Maintenance Accruals:

For schedule maintenance accruals the following batches amounting to R177 151.75 were not included as accruals, resulting in understatement of schedule maintenance accruals.

No	WCS Number	Supplier Name	Payment batch no	Date payment approved	Invoice Number	Invoice date	Invoice date received	Invoice amount	Date when goods and service received
1	AI-878742	SH Kadiri & SN Kadiri express refrigeration & air-conditioning	0995	13-Jun-22	7259	28-Mar-22	10-Jun-22	R177 151,75	24-Mar-22

Day to day (opex):

For day-to-day accruals, the following batches amounting to R592 927.60 were not included as accruals, resulting in understatement of day-to-day accruals.

No	Supplier Name	Description of services/goods	Payment batch no	Date payment approved	Invoice Number	Invoice date received	Invoice amount	Date when goods and service received
1	Climate control refrigeration & Air-conditioning	Major Repair & Servicing A/C Units Bay Police Station	0597	13-Apr-22	0131	01-Apr-22	109 410,08	31-Jan-22
2	Pakeng Construction & Projects	Operation & maintenance of water treatment plant at Losperfontein Prison	0598	13-Apr-22	png/09/01	01-Apr-22	320 876,00	08-Dec-20
3	Moleboga Water Projects	Operate ad maintenance DCS Losperfontein waste water treatment plant for 2 months	0594	13-Apr-22	02/2020	01-Apr-22	162 641,52	08-Jul-20

Gardening and cleaning:

For gardening and cleaning accruals, the following batches amounting to R200 029.80 were not included as accruals, resulting in understatement of gardening and cleaning accruals.

No	Supplier Name	Description of services/goods	Payment batch no	Date payment approved	Invoice Number	Invoice date received	Invoice amount	Date when goods and service received
1	Gabo Motho Trading (Pty) Ltd	Cleaning Service	589	30-Mar-22	GU 09	29-Mar-22	R47 041,80	14-Mar-22
2	Molebogwe Water Projects (Pty) Ltd	Maturation and final ponds of the wastewater treatment works	598	12-Apr-22	03/20	01-Apr-22	R152 988,00	24-Feb-22

Property rates:

For property rates accruals the following batches amounting to R1 564 667.00 were not included as accruals, resulting in understatement of property rates accruals.

No	Prop code	Supplier Name	Payment batch no	Payment amount	Date payment approved	Invoice date	Invoice date received	Invoice amount	Recalculation Accrual amount	Date when goods and service received
1	14 44 2	Ditsobotla Local Municipality	0483	1 194 597,00	2022/05/16	2022/05/12	2022/05/13	1 194 597,00	1194597	2020/07/01-30/06/2021
2	45 37 6	Ditsobotla Local Municipality	0483	161 000,00	2022/05/16	2022/05/12	2022/05/13	161 000,00	161000	2020/07/01-30/06/2021
3	38 71 0	Ditsobotla Local Municipality	0483	177 100,00	2022/05/16	2022/05/12	2022/05/13	177 100,00	177100	2020/07/01-30/06/2021
4	14 43 6	Ditsobotla Local Municipality	0483	8 050,00	2022/05/16	2022/05/12	2022/05/13	8 050,00	8050	2020/07/01-30/06/2021
5	40 59 7	Ditsobotla Local Municipality	0483	23 920,00	2022/05/16	2022/05/12	2022/05/13	23 920,00	5980	2020/07/01-30/06/2021

## Impact

- This results in understatement of accruals totaling R3 207 128.46
- Non-compliance with GRAP 1, paragraph 17 requiring fair presentation of annual financial statements.

## Internal control deficiency

### Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Management did not ensure that accruals recorded are complete, by ensuring that payments made after year-end for service rendered before year-end are accrued for.

### Financial and performance management

Management did not implement controls over daily and monthly processing and reconciling of transactions

Management did not ensure the all accruals are recorded.

## Recommendation

- It is recommended that management ensure that payments made after year-end that relates to service rendered before year-end are recorded as accruals.
- Management should have a proper filing system where they keep all payment batches made after year-end.
- Management to ensure that all accruals are recorded.
- Management should make proposed adjustments to the financial statements and provide the proposed adjustments to auditors for concurrence before any final adjustments are made.

## Management response:

### Municipal Services Accrual

Issue 1 (4183) - Management disagrees with this finding.

Method used to trace accrual is incorrect, the use of account number should be utilized. Therefore batch 4045 with account number 166797 is included in the accrual schedule and we confirm it is recorded.

Issue 2 (4184) - Management disagrees with this finding.

Method used to trace accrual is incorrect, the use of account number should be utilized. Therefore Batch 3533 with account number 164696 is included in the accrual schedule and we confirm it is recorded.

Issue 3 (4234) - Management disagrees with this finding.

Method used to trace accrual is incorrect, the use of account number should be utilized. Therefore Batch 4102 with various account numbers is included in the accrual schedule and we confirm it is recorded.

Issue 4 (4185) – Management disagrees with this finding.

Method used to trace accrual is incorrect, the use of account number should be utilized. Therefore Batch 4065 with account number 42200256 is included in the accrual schedule and we confirm it is recorded.

### **Schedule Maintenance Accrual**

Issue 1 (0995) - Management disagrees with this finding.

This is a term-contract and the invoice as well as the job card were however only received on 10-Jun-22 after the compilation date for financial statements.

### **Day to day (opex)**

Issue 1 (0597) Ref# 118432 - Management agrees with this finding. This item was erroneously not included in accrual schedule.

Open job cards were not monitored to ensure closed calls are included on accrual schedule.

Issue 2 (0598) Ref# 117198 - Management agrees with this finding. This item was erroneously not included in accrual schedule.

Open job cards were not monitored to ensure closed calls are included on accrual schedule. There was a delay in submissions due to additional activities on site.

Issue 3 (0594) Ref# 116318 - Management agrees with this finding. This item was erroneously not included in accrual schedule.

Open job cards were not monitored to ensure closed calls are included on accrual schedule. There was a delay in submissions due to additional activities on site.

### **Gardening and cleaning**

Issue 1 (589) - Management disagrees with this finding.

Batch 589 with reference number CG11 is included in the accrual schedule and we confirm it is recorded.

Issue 2 (598) - Management disagrees with this finding.

This seems to be incorrectly sampled, Batch 598 refers to a batch already addressed above under the section "Day to day (opex)". This finding will therefore be removed.

### **Property Rates**

Issue 1 (0483) - Management disagrees with this finding.

At reporting date the amounts reported were unknown to management as the invoice and charges were only received on the 12<sup>th</sup> May 2022.

Issue 2 0483) - Management disagrees with this finding.

At reporting date the amounts reported were unknown to management as the invoice and charges were only received on the 12<sup>th</sup> May 2022.

Issue 3 0483) - Management disagrees with this finding.

At reporting date the amounts reported were unknown to management as the invoice and charges were only received on the 12<sup>th</sup> May 2022.

Issue 4 0483) - Management disagrees with this finding.

At reporting date the amounts reported were unknown to management as the invoice and charges were only received on the 12<sup>th</sup> May 2022.

Issue 5 0483) - Management disagrees with this finding.

At reporting date the amounts reported were unknown to management as the invoice and charges were only received on the 12<sup>th</sup> May 2022.

### **Auditor's conclusion**

Management response noted, the following finding has been resolved:

- Municipal services, scheduled maintenance and gardening services

For Property rates, the finding is not resolved, as management should have calculated an estimate value, as they are aware that they have a property under the municipality that they need to pay rates. The finding would be included as part of uncorrected misstatement to assess the aggregate impact. Therefore the finding remains, and would be included in the management report.

Day to day (Opex) - Management acknowledgement to the finding noted, therefore the finding remains and would be included as part of management report.

Due to no response from management, we assume management agrees to the finding and the finding remains and will be included in the management report.

### **Understatement of Accrued expenses: Municipal Services**

#### **Requirements:**

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

Public Finance Management Act section 40(1)(a) stipulates 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...*”

*Public Finance Management Act paragraph 40(1)(b) 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”*

Furthermore, Section 41 of PMFA states that “*An accounting officer of a trading entity must submit to the relevant Treasury, or the Auditor-General such information, returns, documents, explanations, and motivations as may be prescribed or as the relevant Treasury or the Auditor-General may require...*”

Standard of 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. The application of Standards of GRAP with additional disclosures, when necessary, is presumed to result in financial statements that achieve a fair presentation...*”

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.*

#### **Nature**

During the audit of **Accrued expenses (Municipal Services)** we noted differences between the accrued expense amount included on the schedule and the recalculated amount as per the supporting invoices submitted for audit. The difference of **R255 118** resulted in the understatement of the accrued expenses. The details of the transactions are as follows:

<b>Service Provider/ Municipality</b>	<b>Description of goods/service</b>	<b>Invoice #</b>	<b>Final Accrual Value</b>		<b>recalculated accrual</b>	<b>Difference</b>	
Sol Plaatjie Local Municipality	Electricity	310598	R 301 347,26		R 357 849,87	-R	56 502,61
Hantam Municipality	Electricity	303058	R 320 995,97		R 519 612,22	-R	198 616,25
Total						-R	<b>255 118,86</b>

## **Impact**

This results in the:

- Understatement of Accrued expenses: Municipal services by R 255 118, 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.

Management did not ensure the calculated amounts by management for accruals have been reviewed and accounted for accurately in the supporting schedule.

## **Recommendation**

Management should ensure that sufficient reviews are performed on the invoices to ensure that the amounts recorded in the listings are accurate.

Management should review the accrual listings against the supporting evidence to ensure that the amounts included in the listings are accurate and are supported by reliable evidence.

Management should make proposed adjustments to the financial statements and provide the proposed adjustments to auditors before any final adjustments are made.

## **Management response:**

Management agrees with the finding.

If the entirety of the understatement of accruals are regarded as material, management will advise on the nature of the restatement to be made.

## **Auditor's conclusion**

Management response noted, the misstatement will be included in the accumulation of uncorrected misstatements to assess the impact in aggregate, the finding remains and will be included in the management report.

## **Completeness of Accrued Expenses: OPEX projects**

### **Requirements:**

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

Public Finance Management Act section 40(1)(a) stipulates *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...*”

*Public Finance Management Act paragraph 40(1)(b) 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”*

Furthermore, Section 41 of PMFA states that “*An accounting officer of a trading entity must submit to the relevant Treasury, or the Auditor-General such information, returns, documents, explanations, and motivations as may be prescribed or as the relevant Treasury or the Auditor-General may require...*”

Standard of 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. The application of Standards of GRAP with additional disclosures, when necessary, is presumed to result in financial statements that achieve a fair presentation...*”

*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.*

### **Nature**

During the audit of **Accrued expenses (Opex projects)** the following payments, selected from the floor, could not be traced to the accrual's schedules. This resulted in the understatement of the accrued expenses by R40 519, 15. The details of the transactions are as follows:

<b>Supplier Name</b>	<b>Payment batch no</b>	<b>Invoice Number</b>	<b>Invoice date</b>	<b>date invoice received</b>	<b>Payment amount</b>
Katorus FireSystems (Pty) Ltd	681	90436	31/03/2022	04/04/2022	R 2 511,60
Katorus Fire Systems (Pty) Ltd	680	90437	31/03/2022	04/04/2022	R 21 348,60
Le Roux's Air Conditioning & Maintenance	744	INV7476	20/04/2020	22/04/2022	R 16 658,95
<b>Total</b>					<b>40 519.15</b>

## **Impact**

This results in the:

- Understatement of Accrued expenses: OPEX projects by R 40 519, 15.

## **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.

Management did not ensure that accruals have been completely accounted for in the accruals schedule based on the invoices that were received.

## **Recommendation**

Management should ensure that sufficient reviews are performed on the accruals schedule to ensure completeness thereof.

Management should make proposed adjustments to the financial statements and provide the proposed adjustments to auditors for concurrence before any final adjustments are made.

## **Management response:**

Management agrees with the finding.

If the entirety of the understatement of accrued expenses are regarded as material, management will advise on the nature of the restatement to be made.

## **Auditor's conclusion**

Management response noted, the misstatement will be included in the accumulation of uncorrected misstatements to assess the impact in aggregate, the finding remains and will be included in the management report.

## **Completeness of Accrued expenses: Property Rates**

### **Requirements:**

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

Public Finance Management Act section 40(1)(a) stipulates *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...*”

*Public Finance Management Act paragraph 40(1)(b) 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”*

Furthermore, Section 41 of PMFA states that “*An accounting officer of a trading entity must submit to the relevant Treasury, or the Auditor-General such information, returns, documents, explanations, and motivations as may be prescribed or as the relevant Treasury or the Auditor-General may require...*”

Standard of 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. The application of Standards of GRAP with additional disclosures, when necessary, is presumed to result in financial statements that achieve a fair presentation...*”

*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.*

### **Nature**

During the audit of **Accrued expenses (Property rates)** the following payments, selected from the floor, could not be traced to the accruals schedules. This resulted in the understatement of the accrued expenses by R71 067.00. The details of the transactions are as follows

<b>Supplier Name</b>	<b>Description of Services</b>	<b>Payment batch</b>	<b>Invoice date</b>	<b>Invoice receipt date</b>	<b>Invoice amount</b>
Umsobomvu Local Municipality	Property Rates	6313	31/07/2021	09/05/2022	R 65 560,00
Umsobomvu Local Municipality	Property Rates	6289	31/07/2021	26/04/2022	R 5 507,00
Total					<b>R 71 067,00</b>

## **Impact**

This results in the understatement of Accrued expenses: Municipal services by R 71 067.

## **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.

Management did not ensure that accruals have been completely accounted for in the accruals schedule based on the invoices that were received.

## **Recommendation**

Management should ensure that sufficient reviews are performed on the accruals schedule to ensure completeness thereof.

Management should make proposed adjustments to the financial statements and provide the proposed adjustments to auditors for concurrence before any final adjustments are made.

## **Management response:**

Management agrees with the finding.

If the entirety of the understatement of accrued expenses are regarded as material, management will advise on the nature of the restatement to be made.

## **Auditor's conclusion**

Management response noted, the misstatement will be included in the accumulation of uncorrected misstatements to assess the impact in aggregate, the finding remains and will be included in the management report.

## **PMTE DBN COAF 13 - Understatement of Accruals**

### **Requirements**

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

Public Finance Management Act (PFMA) section 40(1)(a)(i) state 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...*”

Generally Recognised 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**

#### **Issue 01**

During the audit **Accruals - Day to day maintenance**, we have identified a transaction (Repairs and unblocking of an underground sewage pipe) where the service was rendered before the year end (Service date: 23 August 2022) and the payment was made after the 31 March 2022. When traced the transaction to the Accruals schedule, we noted that the transaction was not recorded resulting in the completeness issue. Refer to the table below:

<b>Payment Batch No</b>	<b>Supplier name</b>	<b>Project description</b>	<b>Date when goods and service were rendered</b>	<b>Amount</b>
69095	Lumvelo Projects (Pty) Ltd	Repair and unblocking of an underground sewage pipe	2020/08/23	62 771

## **Issue 02**

During the audit of **Accruals – Other** we have identified transactions relating to bursaries that were awarded to students before the year end. Inspected the contract of each applicable student and noted that they were signed before year end. Based on the contract period we have noted that some services were rendered before year end and qualify to be recorded as accruals. However through inspection of the accrual schedule, we noted that these transactions were not recorded resulting in the completeness issue. Refer to the table below for the details:

<b>Student Name</b>	<b>Item being paid for</b>	<b>Contract signature date</b>	<b>Period</b>	<b>Understated amount (Feb &amp; March Expenditure)</b>
N Ntombela	Accommodation allowance	13th of March 2022	1 February 2022 – 30 June 2022	3 800
J Abrahams	Bursary allowance and Meals allowance for February to June 2022	12th of March 2022	1 February 2022 – 30 June 2022	3 650
N Mseleku	Bursary allowance and Meals allowance for February to June 2022	24th of March 2022	1 February 2022 – 30 June 2022	3 650
	Accommodation allowance for 1 February 2022 -June 2022	24th of March 2022	1 February 2022 – 30 June 2022	3 500
<b>Total</b>				<b>14 600</b>

## **Impact**

This results in the:

- Understatement of the accruals: Day to day maintenance by R62 771
- Understatement of Accruals: Other accruals by R14 600
- Non-compliance with GRAP 1, paragraph 17 requiring fair presentation of annual financial statements.

## **Internal control deficiency**

### *Financial and performance management*

Management did not implement controls over daily and monthly processing and reconciling of transactions to ensure that all accrual transactions are included in the accrual schedule and accounted for in the AFS

## **Recommendation**

It is recommended that management ensures that sufficient reviews are performed to ensure that the annual financial statements sufficiently comply with the Standards of Generally Recognized Accounting Practices.

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

**Management response:**

**Issue 01**

Management partially agrees with the finding. The amount was erroneously omitted on the accruals listing. However, an amount of R31 379.00 was reported as general provision since the Departments did not have confirmation that the services were completed by the year end (31 March 2022). Therefore, the difference which amounts to R31 392.00 was an understatement of accruals.

**Issue 02**

Management agrees with the finding. To ensure that accruals are recorded in each financial year, accruals will be raised as soon as registrations are confirmed. This misstatement will be combined with other similar misstatement to determine materiality

**Auditor's conclusion.**

**Issue 1**

We note management's partial acceptance of the audit finding, however, we do not agree with management's response as we were unable to locate the provision raised of R R31 392.00 on the provisions schedule submitted for audit. , therefore the finding remains at a total value of R62 771 and will be reported as such in the Management Report.

**Issue 2**

Management's response noted, the proposed plan of corrective actions will be followed. The finding therefore remains and will be reported as such in the Management Report.

## **PMTE MTH COAF 02 – Understatement of Other Accruals**

### **Requirements:**

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

Public Finance Management Act section 40(1)(a) stipulates *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...*”

*Public Finance Management Act paragraph 40(1)(b) 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”*

Furthermore, Section 41 of PMFA states that “*An accounting officer of a trading entity must submit to the relevant Treasury, or the Auditor-General such information, returns, documents, explanations, and motivations as may be prescribed or as the relevant Treasury or the Auditor-General may require...*”

Standard of 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. The application of Standards of GRAP with additional disclosures, when necessary, is presumed to result in financial statements that achieve a fair presentation...*”

*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.*

### **Nature**

During the completeness testing of Accrued expenses: other accruals, we confirmed through Inspection of the payment batch that the service was rendered before year end on 2022/03/13 - 2022/03/17. We further confirmed that the transaction was not accounted for as an accrual at year end. The details of the transaction are as follows:

<b>Supplier name</b>	<b>Description</b>	<b>Payment batch number</b>	<b>Start and end dates</b>	<b>Payment amount</b>
School of Government	Compulsory Induction Program	ZAPNV2204510/200/2885	2022/03/13 - 2022/03/17	<b>5 680</b>

### **Impact**

#### **This results in the:**

- Understatement of Accrued expenses: Other Accruals by R5 680
- Non-compliance with section 38(1) (a) (i) and 40(1) (a) (i) of the PFMA,
- Non-compliance with GRAP 1, paragraph 17 requiring fair presentation of annual financial statements and GRAP 19 recognition of accruals

### **Internal control deficiency**

#### *Financial and Performance Management*

Management did not implement controls over daily and monthly processing and reconciling of transactions to ensure that all transactions are included and accounted for correctly.

### **Recommendation**

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

Management should make proposed adjustments to the financial statements and provide the proposed adjustments to auditors for concurrence before any final adjustments are made.

### **Management response:**

Agree with the finding, oversight occurred during the compilation of accruals. The transaction was thus erroneously missed. Should the finding together with other findings on Other Accruals across the PMTE be regarded as material, adjustment will be discussed with AG.

### **Auditor's conclusion**

Management's response is noted. The misstatement will be included to the uncorrected misstatements to assess the impact in aggregate, and therefore the finding remains and will be included in the management report.

## **PMTE MTH COAF 03 – Overstatement of OPEX Projects Accruals**

### **Requirements:**

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

Public Finance Management Act section 40(1)(a) stipulates *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...*”

*Public Finance Management Act paragraph 40(1)(b) 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”*

Furthermore, Section 41 of PMFA states that “*An accounting officer of a trading entity must submit to the relevant Treasury, or the Auditor-General such information, returns, documents, explanations, and motivations as may be prescribed or as the relevant Treasury or the Auditor-General may require...*”

Standard of 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. The application of Standards of GRAP with additional disclosures, when necessary, is presumed to result in financial statements that achieve a fair presentation...*”

*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 provision.*

### **Nature**

During the audit of Accrued expenses: OPEX projects, we noted that an accrual amount was raised based on an invoice which was not reflective of the accurate amount for the services received. We noted that an accrual has been raised based on an Invoice of R87 835,61. Through inspection of the supporting documentation and enquiry from management, we confirmed that the invoice amount of R87 835.61 was queried and a revised invoice of R68 393,68 was submitted on (2022/04/28).

We further inspected the email communication between the Mthatha region and Head Office and confirmed that management submitted the Day-to-Day Maintenance to Head Office on 03 May 2022 and that the Head Office responded to the mail on 06 May 2022 with reviews on the statements.

Based on all the above presented evidence, the accrual was raised incorrectly as management had enough time to go back and amend the accrual schedules to consider the new information they received.

The details of the transaction are as follows:

Supplier name	Description	Accrual amount based on first invoice	Amount as per the revised invoice	Difference
Malandelwa Engineering	Repair lights in the cells and court Rooms only @Qumbu Magistrate Court	87 835.61	68 393.68	19 441.93

### **Impact**

#### **This results in the:**

- Overstatement of Accrued expenses: Day-to-day maintenance by R19 441.93
- Non-compliance with section 38(1) (a) (i) and 40(1) (a) (i) of the PFMA, Non-compliance with GRAP 1, paragraph 17 requiring fair presentation of annual financial statements and GRAP 19 recognition of accruals

### **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.

Management did not ensure that accruals have been accurately accounted based on supporting documentation in the accruals schedule that supports the amount presented in the annual financial statements.

Management did not ensure that the schedules prepared are updated timeously to consider new evidence that management received.

### **Recommendation**

Management should ensure that sufficient reviews are performed on the invoices to ensure that the amounts recorded in the listings are accurate.

Management should review the accrual listings against the supporting evidence to ensure that the amounts included in the listings are accurate and are supported by reliable evidence.

Management should make proposed adjustments to the financial statements and provide the proposed adjustments to auditors for concurrence before any final adjustments are made.

### **Management responses**

Agree with the audit finding on compilation of accruals, the revised invoice was not yet received. The invoice was received on 28 April 2022 and submitted to facility manager from registry on 03 May 2022 because it was a long weekend Monday 02 May was a public holiday. The invoice was thus reviewed and revised by facility manager on the 04 May 2022 which was after submission of accruals. During the review and updating of the day-to-day maintenance accruals after initial submission the revised invoice was erroneously missed.

Should the finding together with other findings on day to day maintenance accruals across the PMTE be regarded as material, adjustment will be discussed with AG

### **Auditor's conclusion**

Management's response is noted. The misstatement will be included in the uncorrected misstatements to assess the impact in aggregate, and therefore the finding remains and will be included in the Management report.

## **PMTE NEL COAF 04 - Overstatement of accruals – Differences identified between reported and recalculated accrual amount**

### **Requirement:**

Section 40 (a) and (b) of the Public Finance Management Act (PFMA) 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 and must prepare financial statements for each financial year in accordance with generally recognized accounting practice*”

Public Finance Management Act (PFMA) section 38(1)(a)(i) 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;*”

Standard of 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. 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 accruals for, CAPEX, municipal services and cleaning and security goods and/or services, the following differences were noted between the final accrual amount as per the schedule and the recalculated accrual amount using the supporting documentation submitted for audit.

#### **CAPEX Accruals:**

For CAPEX accruals, a difference of R22 500 was identified resulting in CAPEX accruals being overstated.

Supplier name	Description of goods & services	Invoice Number	Final Accrual Value	Recalculated accrual amount	Difference between the recalculated accrual amount and accrual amount per listing
Burewa Trading	Construction of new labour centre in Standerton.	Inv: STN007	782 183,41	759 683,41	22 500,00

#### **Municipal Accruals:**

For municipal accruals a total difference of R727 108,95 was identified, resulting in an overstatement for municipal services

Service provider/ municipality	Description of services	Invoice Number	Final Accrual Value	Recalculated accrual amount	Difference between the recalculated amount and accrual amount per listing
City Of Mbombela Local Municip	Electricity	0,00	895 780,32	118 348,54	- 777 431,78
City Of Mbombela Local Municip	Electricity	500000946 061,00	793 350,40	843 673,23	50 322,83

#### Cleaning, gardening and security:

For cleaning, gardening and security accruals a difference of R28 670, resulting in overstatement of security accruals

Service Provider	Description of goods/service	Invoice Number	Final Accrual Value	Recalculated accrual amount	Difference between the recalculated accrual amount and accrual amount per listing
Xilota Projects	Rendering 24hr Security Guarding Services	XIL-NPWRT-0006	36 518,00	24 738,17	11 779,83
Maxhlubi PTY LTD	Rendering 24hr Security Guarding Services	MH05LTRP	37 400,00	20 509,68	16 890,32

#### **Impact**

- This results in overstatement of accruals totaling R778 279
- Non-compliance with GRAP 1, paragraph 17 requiring fair presentation of annual financial statements.

#### **Internal control deficiency**

Leadership Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Management did not ensure that accruals have been accurately accounted for based on supporting documentation in the accruals schedule which supports the amount presented in the annual financial statements.

#### *Financial and performance management*

Management did not implement controls over daily and monthly processing and reconciling of transactions

Management did not ensure the estimated amounts made by management for accruals have been reviewed and accounted for accurately in the supporting schedule.

#### **Recommendation**

- It is recommended that management ensures that sufficient reviews are performed to ensure that the annual financial statements sufficiently comply with the Standards of Generally Recognized Accounting Practices.
- Management to ensure final accruals are accurately accounted for based on supporting documentation.

- Management should make proposed adjustments to the financial statements and provide the proposed adjustments to auditors for concurrence before any final adjustments are made.

- **Management response:**

Management agrees with finding for CAPEX Accruals.

Management is not in agreement with finding for Municipal Accruals:

Actual invoice of R476, 901.68 which was received end of March 2022 and paid in April with the remaining days of 20 and before year end, which needed to be estimated. The actual amount (R476, 901.68 + estimate (R317,934.45 + VAT(R47,690.17) = R365,624.62) Total of R842,526.30

The amount for the second transaction should have been raised as understatement however the department received actual invoice and estimated the remainder of days before year end (Invoice was received on 30 march of R 723 148.49 that is the actual amount to be accrued end date 27 March 2022 which 5 days needed to be estimated so the it will be R723 148.49 + estimate (R 61 045.15 + VAT 9156.77) totaling to R 7930350.40 (Please see Attached involve)

Management is not in agreement with finding for Cleaning, gardening, and security:

During the perusal of the documents, it was discovered that the auditors combined two workbooks to make an RFI which the workbooks have formulas and the formula of security from the RFI pulls column of invoice number not the year end date.

Refer to RFI 17 and supporting documentation attached.

### **Auditor's conclusion**

Management response is noted however the finding remains based on the following:

#### CAPEX Accruals:

Management agrees with the difference identified.

#### Municipal services accruals:

First difference:

Based on the supporting documentation provided by management, the actual invoice with an amount of was used R476, 901,68 was used to determine the accrual to be recognized. Based on the supporting documentation and management's response the recalculated accrual amount

should have been R794 836.13 based on the invoice of R476 901,68 (VAT inclusive) received before year end and an estimated accrual of R317 934 (VAT inclusive).

Therefore, R100 944 overstatement of the accrual.

Second accrual:

Management's response is noted. The accrual amounts to R843 673,23 which includes the R723 148.49 based on the invoice that was still outstanding and an estimated accrual amount R120 524,75. Which still results in an understatement of R50 322,83.

*Cleaning and gardening*

*The difference is resolved.*

## **PMTE HO COFF 26 - Lease accruals and prepayments balances misstated**

### **Requirements**

Public Finance Management Act (PFMA) section 38(1)(a)(i) state that “*The accounting officer for a trading entity must ensure that the trading entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control*”

Public Finance Management Act (PFMA) section 40(1)(a)(i) state 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*”

Standard of Generally Recognised Accounting Practice (GRAP 1), paragraph 17 state 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*”

### **1. Nature**

Based on the negative audit outcome on lease related balances in the prior years as a result of a number of existing lease agreements which were not correctly captured on Archibus system, the trading entity then decided to appoint Morar Incorporated (Morar) to provide capacity in order to correct the data on the Archibus system. The process focussed on verifying data correctness on Archibus against lease agreements for current and historical leases.

Based on the audit work conducted in the current year on receivables from exchange transactions: prepaid expense leases and payables from exchange transactions: accrued lease expense, similar issues as those communicated in the prior years on leases were identified. These issues include:

- Lease agreements which were captured incorrectly on Archibus system
- In certain instances addendums to lease agreements which were effective during the year under review were captured after year end thus they were not utilized for preparation of the AFS.

Furthermore, as management was in the process of correcting the historical data on the Archibus system that was incorrectly captured, we noted that additional errors were made as the data was wiped.

Auditor’s recalculations are based on the supporting documentation (lease agreements, addendums provided and the payment reports) and on evaluating these supporting documents, differences were noted as indicated below.

### **Issue 1 Prepayment**

No. of Items	Archibus Asset	Region	Property File Reference	Prepayment as per Schedule	Recalculated amounts	Differences
1	138721	MTH	6458/5389/000	(144 896)	(108 445)	36 451
2	139696	BFN	6706/3474/000	(217 386)	(198 575)	18 811
3	138806	CPT	6508/7632/000	(619 515)	(647 068)	(27 554)
4	138989	MTH	6458/5405/005	(758 677)	(3 601 453)	(2 842 776)
5	137723	PTA	6029/0180/000	(2 633 940)	(2 282 973)	350 966
6	138504	CPT	6508/7614/000	(4 825 322)	(3 620 476)	1 204 846
7	139749	PTA	6029/6810/000	(6 863 545)	9 928 317	16 791 862
8	140343	PTA	6029/6958/000	(7 306 475)	(7 116 890)	189 586
9	140280	PTA	6029/6593/003	(8 883 452)	(515 041)	8 368 411
10	140737	NEL	6023/0701/000	(9 188 574)	1 861 813	11 050 387
11	138552	NEL	6043/0439/000	(9 392 846)	(1 103 134)	8 289 711
12	139901	PTA	6029/6895/000	(11 097 717)	(4 452 528)	6 645 189
13	137994	JHB	6112/0666/000	(11 507 025)	(24 640 144)	(13 133 119)
14	138633	PTA	6029/5759/000	(22 330 689)	(22 362 584)	(31 895)
15	137758	POL	6026/0393/000	(46 064 526)	3 374 268	49 438 794
16	139795	PTA	6029/7056/000	(46 799 013)	(42 035 983)	4 763 029
<b>Total</b>				<b>(188 633 599)</b>	<b>(97 520 897)</b>	<b>91 112 701</b>

### Issue 2 Accrual

No. of Items	Archibus Asset	Region	Property File Reference	Prepayment as per Schedule	Recalculated amounts	Differences
1	138612	PTA	6029/3898/000	142 488 093	85 284 385	(57 203 709)
2	139381	PTA	6029/6753/000	57 500 993	4 701 309	(52 799 684)
3	139822	NEL	6024/0852/000	29 153 494	(4 253 731)	(33 407 225)
4	138488	MTH	6458/5372/000	18 665 766	(2 472 161)	(21 137 926)
5	139279	CPT	6508/7649/000	12 281 918	10 923 008	(1 358 911)
6	139968	PTA	6029/6884/000	11 768 549	(1 089 200)	(12 857 749)

7	140060	PTA	6029/6917/00 0	10 254 767	9 221 880	(1 032 886)
8	139333	PTA	6029/7044/00 0	8 139 303	22 443 114	14 303 811
9	137716	PTA	6029/0353/00 0	3 518 919	14 043 439	10 524 520
10	137703	PTA	6029/1377/00 0	3 203 894	710 699	(2 493 195)
11	137842	CPT	6508/7358/00 0	3 037 298	1 805 692	(1 231 606)
12	139995	JHB	6121/0996/00 0	1 099 511	(5 078 705)	(6 178 216)
13	139874	PTA	6029/6885/00 0	852 886	694 622	(158 264)
14	138987	CPT	6508/7642/00 0	111 561	65 376	(46 185)
15	140318	NEL	6024/0954/00 0	14 742	11 425	(3 316)
<b>Total</b>				<b>302 091 694</b>	<b>137 011 153</b>	<b>(165 080 540)</b>

## Impact

The above may result in the following:

- Non-compliance with section 38(1) (a) (i) and 40(1) (a) (i) of the PFMA,
- Non-compliance with paragraph 17 of GRAP 01 resulting in misrepresentations of balances to the users of the financial statements
- Prepaid expense balance (Leases) is overstated by **R91 112 701**
- Accruals expense balance (Leases) overstated by **R165 080 540**

## 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.

Management did not adequately reconcile the contractual obligation of the lease contracts with the PMIS and ARCHUBUS payments to ensure that the overpayment and accrual balance as at year-end is accurate.

## Recommendation

It is recommended that:

Management should perform a thorough review of the accruals and prepayment schedule and update it accordingly to ensure that the balances per landlord is valued accurately.

## Management response:

Management is partially in agreement with the finding, the differences according to management is as follow:

## Prepayments

No. of Items	Archibus Asset	Region	Property File Reference	Prepayment as per Schedule	Management recalculation	Differences
1	138721	MTH	6458/5389/000	-144 896	-108 445	36 451
2	139696	BFN	6706/3474/000	-217 386	-198 575	18 811
3	138806	CPT	6508/7632/000	-619 515	-647 068	-27 554
4	138989	MTH	6458/5405/005	-758 677	-3 601 453	-2 842 776
5	137723	PTA	6029/0180/000	-2 633 940	-2 282 973	350 966
6	138504	CPT	6508/7614/000	-4 825 322	-3 620 476	1 204 846
7	139749	PTA	6029/6810/000	-6 863 545	9 928 317	16 791 862
8	140343	PTA	6029/6958/000	-7 306 475	-7 116 890	189 586
9	140280	PTA	6029/6593/003	-8 883 452	-8 882 572	880
10	140737	NEL	6023/0701/000	-9 188 574	5 262 740	14 451 314
11	138552	NEL	6043/0439/000	-9 392 846	-598 359	8 794 487
12	139901	PTA	6029/6895/000	-11 097 717	-11 097 718	-1
13	137994	JHB	6112/0666/000	-11 507 025	-26 227 733	-14 720 707
14	138633	PTA	6029/5759/000	-22 330 689	-22 362 584	-31 895
15	137758	POL	6026/0393/000	-46 064 526	3 374 268	49 438 794
16	139795	PTA	6029/7056/000	-46 799 013	-42 035 983	4 763 029
<b>Total</b>				<b>-188 633 599</b>	<b>-110 215 504</b>	<b>78 418 093</b>

## Accruals

Archibus Asset	Prepayment as per Schedule	Recalculated amounts	Differences
138612	142 488 093	146 954 415	4 466 322
139381	57 500 993	4 701 309	-52 799 684
139822	29 153 494	-4 253 731	-33 407 225
138488	18 665 766	-2 472 161	-21 137 927
139279	12 281 918	10 923 008	-1 358 910
139968	11 768 549	-2 201 844	-13 970 393
140060	10 254 767	10 276 384	21 617
139333	8 139 303	22 443 114	14 303 811
137716	3 518 919	14 043 439	10 524 520
137703	3 203 894	710 699	-2 493 195
137842	3 037 298	1 805 692	-1 231 606

139995	1 099 511	-115 396	-1 214 907
139874	852 886	694 622	-158 264
138987	111 561	65 376	-46 185
140318	14 742	11 425	-3 317
Total	<b>302 091 694</b>	<b>203 586 351</b>	<b>-98 505 343</b>

Please refer to attached annexures for detailed calculations

Description	Response	
Corrective action to be taken	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, The differences are not deemed to be material	
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, The differences are not deemed to be material	
If yes and the population was adjusted, the proposed adjusting journal entries to correct the population, with the supporting documentation.	N/A, The differences are not deemed to be material	
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>
	C	
If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated.	N/A, The differences are not deemed to be material	
Position of official responsible to take corrective actions	N/A, The differences are not deemed to be material	
Estimated completion date for corrective action	N/A, The differences are not deemed to be material	
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.		

## Auditor's conclusion

Managements comment are noted, after taking into consideration management calculations and supporting documents provided the revised calculations are follows:

### Issue 1 Prepayment

- Management agrees with auditor's difference and the finding remains with an overstatement of **R69 892 121,06** on the lease agreements indicated as agreement on the response.
- Management calculations were reviewed with auditor's calculations and further inspected supporting documents provided for the differences that management disagrees with. The revised calculations are as per table A below. The adjusted overstatement is it now **R24 321 020,56**

**Table A**

Item No.	Archibus Asset	Region	Property File Reference	Prepayment as per Schedule supporting AFS	Recalculated amount	Differences	Comments
1	140280	PTA	6029/6593 /003	- 8 883 452,17	- 515 040,72	8 368 411,45	Based on MI
2	140737	NEL	6023/0701 /000	- 9 188 574,42	4 962 253,10	14 150 827,52	Refer to annexure A for the Auditors calculations and comments
3	138552	NEL	6043/0439 /000	- 9 392 845,58	- 1 103 134,10	8 289 711,48	Refer to annexure A for the Auditors calculations and comments
4	139901	PTA	6029/6895 /000	-11 097 717,24	-4 452 528,33	6 645 188,91	Based on PTA PMTE COFF 02 - 2020-21 and further the supplier has 1 lease agreement with PMTE
5	137994	JHB	6112/0666 /000	-11 507 025,21	-24 640 144,01	- 13 133 118,80	Refer to annexure A for the Auditors calculations and comments
					<b>- 25 748</b>		
				<b>- 50 069 614,62</b>	<b>594,06</b>	<b>24 321 020,56</b>	

The overall adjusted over statement for prepayment after taking into consideration management calculations is **R 94 210 920**

### Issue 2 Accrual

- Management agrees with auditor's difference and the finding remains for the differences noted with an overstatement of **R 87 807 981** on the lease agreements indicated as agreement on the response.

After taking into consideration management calculations and supporting documents provided for the differences that management disagrees under accruals, the revised calculations are as per table D below. The adjusted overstatement is it now sitting at **R 9 093 0**

**Table D**

Item No.	Archibus Asset	Region	Property File Reference	Prepayment / Accrual as per Schedule supporting AFS	Recalculated accruals	Differences	Comments
1	138612	PTA	6029/3898/000	142 488 093,10	153 463 884,29	10 975 791,19	Refer to annexure B for the Auditors calculations and comments
2	139968	PTA	6029/6884/000	11 768 549,16	-1 089 199,60	-12 857 748,76	Refer to annexure B for the Auditors calculations and comments
3	140060	PTA	6029/6917/000	10 254 766,55	9 221 880,07	- 1 032 886,48	Refer to annexure B for the Auditors calculations and comments
4	139995	JHB	6121/0996/000	1 099 510,89	-5 078 705,25	- 6 178 216,14	Refer to annexure B for the Auditors calculations and comments
<b><u>165 610 919,70</u></b>				<b><u>156 517 859,51</u></b>	<b><u>- 9 093 060,19</u></b>		

The overall adjusted over statement for accruals after taking into consideration management calculations is **R 96 890 550.76**

## LEASES

### PMTE HO COFF 22 - Differences in lease commitment

#### Laws and Regulations

Public Finance Management Act (PFMA) section 38(1)(a)(i) state that “*The accounting officer for a trading entity must ensure that the trading entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control*”

Public Finance Management Act (PFMA) section 40(1)(a)(i) state 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*”

Standard of Generally Recognized Accounting Practice (GRAP 1), paragraph 17 state 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.*”

GRAP 13, paragraph 06 definitions state “*Minimum lease payments are the payments over the lease term that the lessee is or can be required to make, excluding contingent rent, costs for services and, where appropriate, taxes to be paid by and reimbursed to the lessor*”

GRAP 13, paragraph 06 definitions state the lease term is “*The non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.*”

GRAP 13, paragraph 42 states “*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;*

GRAP 13, paragraph 66 states that “*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;”*

## Nature

During the current year audit of lease commitments differences were noted between auditor's recalculations and amounts on the annual financial statement (AFS) i.e. (*Supporting schedules*) submitted for commitment for both instances where PMTE is a lessee and a lessor.

The contributors to the misstatement is as a result of lease agreements:

- That we signed and commences after year end included on the commitment schedules.
- That were captured incorrectly or in certain instances addendums to lease agreements were captured after year end thus they were not utilized for preparation of the AFS.
- Furthermore, the incorrect capturing was also noted on F701 rental debtor's schedule where PMTE is a lessor.

Total commitment differences are highlighted in tables A below. For detailed differences for commitments categories as indicated below, refer to Annexure A for both instances where PMTE is a lessee or lessor.

- (i) *not later than one year;*
- (ii) *later than one year and not later than five years; and*
- (iii) *later than five years;*"

Table A

Commitment type	Amount disclosed in AFS	Recalculated Amount	Difference
Lessor	R2 011 458 166,20	R1 794 149 926,66	(217 308 239,54)
Lessee	R1 936 915 346,47	R1 792 917 889,62	(143 997 456,85)

## Impact

The above may result in the following:

- Non-compliance with section 38(1) (a) (i) and 40(1) (a) (i) of the PFMA.
- Non-compliance with paragraph 17 of GRAP 01.
- Non-compliance with paragraph 42 and 66 GRAP 13.
- This resulted in the disclosure note for lease commitments being overstated by
  - Lessor R217 308 239 and Lessee by R143 997 456.

## Internal control deficiency

### *Financial and performance management*

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

Management did not adequately review the amounts disclosed in the AFS prior to submission for audit.

## **Recommendation**

It is recommended that:

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

## **Management response**

## **Auditor's conclusion**

### **PMTE HO COFF 23- Differences in Lease straight lining**

#### **Laws and Regulations**

Public Finance Management Act (PFMA) section 38(1)(a)(i) state that “*The accounting officer for a trading entity must ensure that the trading entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control*”

Public Finance Management Act (PFMA) section 40(1)(a)(i) state 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*”

Standard of Generally Recognized Accounting Practice (GRAP 1), paragraph 17 state 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.*”

GRAP 13, paragraph 40 states that “*Lease payments under an operating lease shall be recognised as an expense in the statement of financial performance on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit*”

GRAP 13, paragraph 60 states that “*Lease revenue from operating leases shall be recognised as revenue on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which benefit derived from the leased asset is diminished*

### Nature

During the audit of operating lease expenditure, differences were noted between auditor's recalculations and amounts on the annual financial statement (AFS) (Supporting schedules) submitted for operating lease expenditure and revenue from exchange transactions - accommodation charges - leasehold intergovernmental for both instances where PMTE is a lessee and a lessor.

Differences are highlighted in tables A below.

Item No.	Archibus Asset	Straight-line amount per AFS	Recalculated Amount	Difference
1	138085	7 665 923,28	8 382 737,12	716 813,84
2	138118	4 088 473,56	3 639 922,20	(448 551,36)
3	138586	745 246,20	754 525,71	9 279,51
4	138329	556 577,65	691 507,81	134 930,16
5	138342	1 111 011,60	1 020 079,04	(90 932,56)
6	138432	6 218 704,08	6 095 774,86	(122 929,22)
7	139717	6 213 686,28	6 627 980,84	414 294,56
8	139236	3 412 338,80	3 291 645,12	(120 693,68)
9	138492	4 745 499,12	4 158 467,83	(587 031,29)
10	138806	27 518 879,52	27 577 368,25	58 488,73
11	140419	2 751 498,72	1 907 607,65	(843 891,07)
12	168109	375 423,89	394 611,54	19 187,65
13	138279	43 137 345,27	43 288 614,14	151 268,87
14	137902	1 256 351,59	1 388 551,41	132 199,82
15	139489	5 308 284,60	5 549 271,60	240 987,00
16	138826	(0,00)	1 038 129,29	1 038 129,29
17	139065	52 276,20	57 164,30	4 888,10
18	139067	52 276,20	57 164,33	4 888,13
19	139088	613 770,96	671 162,46	57 391,50
20	139234	847 620,36	907 891,32	60 270,96
21	139762	1 937 479,00	2 013 561,00	76 082,00
22	139808	2 473 793,76	2 517 554,70	43 760,94
23	139438	12 077 957,28	12 224 190,28	146 233,00
24	138958	10 129 921,63	8 873 305,12	(1 256 616,51)
25	139669	7 160 983,27	7 129 778,25	(31 205,02)
26	140245	13 743 605,64	13 651 725,17	(91 880,47)
27	140147	1 325 979,50	1 337 477,30	11 497,80
28	139725	5 973 701,40	2 827 209,54	(3 146 491,86)
29	140314	3 782 249,58	1 015 471,64	(2 766 777,94)
30	138775	4 286 383,68	4 666 470,24	380 086,56
31	138601	13 629 209,64	15 363 751,31	1 734 541,67

<b>Item No.</b>	<b>Archibus Asset</b>	<b>Straight-line amount per AFS</b>	<b>Recalculated Amount</b>	<b>Difference</b>
32	138594	1 420 604,64	1 601 400,09	180 795,45
33	138785	4 171 434,12	4 536 896,43	365 462,31
34	139727	1 044 497,92	4 536 896,43	3 492 398,51
35	168198	813 319,76	1 458 718,69	645 398,93
36	138647	8 318 164,91	7 108 399,90	(1 209 765,01)
37	138571	436 525,08	749 623,46	313 098,38
38	137888	1 098 676,92	971 885,05	(126 791,87)
39	138348	818 011,29	558 183,20	(259 828,09)
40	138141	1 590 198,24	1 697 639,71	107 441,47
41	139536	3 393 742,32	4 378 523,68	984 781,36
42	138629	663 912,36	189 050,71	(474 861,65)
43	138652	848 118,24	927 422,72	79 304,48
44	138653	960 418,56	1 050 223,91	89 805,35
45	137878	581 459,28	81 459,31	(499 999,97)
46	138097	792 886,21	816 824,35	23 938,14
47	138151	653 028,36	980 993,09	327 964,73
48	138412	630 250,56	689 183,04	58 932,48
49	138696	1 659 141,24	1 814 281,62	155 140,38
50	138700	387 560,04	420 620,58	33 060,54
51	138794	953 666,81	967 617,67	13 950,86
52	138894	1 101 782,04	1 204 805,73	103 023,69
53	138994	1 807 395,16	1 787 904,55	(19 490,61)
54	139046	655 101,84	718 787,25	63 685,41
55	139266	2 397 193,00	2 339 689,90	(57 503,10)
56	139403	436 941,48	481 360,16	44 418,68
57	139442	536 299,68	585 954,82	49 655,14
58	139732	655 768,80	719 232,39	63 463,59
59	139750	665 261,72	713 202,52	47 940,80
60	139781	741 356,64	810 678,27	69 321,63
61	140036	1 079 206,80	1 179 128,73	99 921,93
62	140073	2 362 674,48	2 214 812,22	(147 862,26)
63	140139	456 106,80	494 595,97	38 489,17
64	140369	1 035 798,84	1 132 617,49	96 818,65
65	140378	151 379,40	164 549,09	13 169,69
66	140401	904 284,24	914 582,97	10 298,73
67	138686	349 567,80	368 767,61	19 199,81
68	138668	1 655 948,28	1 755 305,16	99 356,88
69	139443	945 171,36	1 033 551,02	88 379,66
70	139448	3 221 407,80	3 168 299,90	(53 107,90)
71	139510	1 233 804,24	1 261 539,97	27 735,73
72	140049	31 304 997,18	50 593 548,57	19 288 551,39
73	140322	45 892 116,72	37 292 007,27	(8 600 109,45)
74	137700	17 999 812,80	31 080 163,66	13 080 350,86
75	138812	3 795 036,84	4 181 311,17	386 274,33

<b>Item No.</b>	<b>Archibus Asset</b>	<b>Straight-line amount per AFS</b>	<b>Recalculated Amount</b>	<b>Difference</b>
76	137723	8 054 629,44	8 401 759,84	347 130,40
77	139303	3 890 660,16	3 228 951,06	(661 709,10)
78	137699	14 243 391,54	18 671 189,91	4 427 798,37
79	138612	72 683 058,90	67 685 266,14	(4 997 792,76)
80	137717	102 826 794,90	101 951 398,38	(875 396,52)
81	137705	82 198 481,24	67 706 060,64	(14 492 420,60)
82	139884	4 375 394,50	4 076 611,30	(298 783,20)
83	138067	5 332 697,52	6 225 342,30	892 644,78
84	139195	50 847 739,94	48 481 062,80	(2 366 677,14)
85	139522	8 098 650,56	8 565 187,04	466 536,48
86	139028	16 224 341,88	16 127 993,93	(96 347,95)
87	137702	61 877 672,45	56 113 216,65	(5 764 455,80)
88	138811	4 035 942,00	3 859 073,91	(176 868,09)
89	138809	51 690 325,56	52 157 386,88	467 061,32
90	140098	24 493 200,62	34 821 453,43	10 328 252,81
91	140227	26 141 514,12	28 096 064,50	1 954 550,38
92	167625	65 324 588,62	71 370 910,80	6 046 322,18
93	138219	20 699 771,44	20 684 431,92	(15 339,52)
94	139901	11 247 510,24	12 577 654,66	1 330 144,42
95	140096	53 648 186,16	59 108 719,01	5 460 532,85
96	140100	6 323 959,69	6 373 526,22	49 566,53
97	140187	8 973 296,76	12 822 866,32	3 849 569,56
98	140060	5 333 665,92	5 323 698,55	(9 967,37)
<hr/>				
<b>Total</b>		<b>R1 054 377 957,22</b>	<b>R1 085 282 737,61</b>	<b>R30 904 780,39</b>

## Impact

The above may result in the following:

- Non-compliance with section 38(1) (a) (i) and 40(1) (a) (i) of the PFMA.
- Non-compliance with paragraph 17 of GRAP 01.
- This resulted in the operating lease expenditure being understated by **R30 904 780**
- This resulted in the Revenue from exchange transactions - Accommodation charges - leasehold inter-governmental being understated by **R31 690 594**

## Internal control deficiency

### *Financial and performance management*

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

Management did not adequately review the amounts disclosed in the AFS prior to submission for audit.

## **Recommendation**

It is recommended that:

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

## **Management response**

Management agrees with the finding

The main root cause of the differences are 9 years and 11 month leases with de-escalation in year 6. Archibus does not have the functionality to capture once off de-escalations in the middle of the lease period. Thus to get the payments correct, we then capture the rental in 2 separate cost records, first five years, then the remaining 4 years and 11 months after the de-escalation. Archibus then straight-lines the 2 cost records separately resulting in a difference for straight-lining. The commitments for these leases will be correct as the rental is correct for payment purposes. This error is only applicable to 9 year 11 month leases with a de-escalation clause in year 6, and thus not representative of the full population.

## **Auditor's conclusion**

Management comments are noted as they agree with the finding. However, managements should also note that the misstatements identified were not only limited to the 9 years and 11-month leases, but misstatements also occurred due to VAT changes not taken into account, lease addendums, and new leases for same properties not timeously correctly taken into account.

Based on the above, it is not evident that the misstatements is only limited to 9 years and 11 months leases.

## **PMTE HO COFF 24 - Differences in Lease asset/liability**

### **Laws and Regulations**

Public Finance Management Act (PFMA) section 38(1)(a)(i) state that “*The accounting officer for a trading entity must ensure that the trading entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control*”

Public Finance Management Act (PFMA) section 40(1)(a)(i) state 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*”

Standard of Generally Recognised Accounting Practice (GRAP 1), paragraph 17 state 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.*”

The PMTE accounting policy on operating leases note 1.4 to the financial statements states that “*Operating lease payments are recognised as an expense on a straight-line basis over the lease term where the lease term exceeds one month; except where the terms and conditions have not been determined or are in the process of being renegotiated. The difference between the amounts recognised as an expense and the contractual payments is recognised as an operating lease asset or liability.*”

### **Nature**

During the audit of operating lease asset / liability, differences were noted between auditor's recalculations and amounts on the annual financial statement (AFS) (Supporting schedules) submitted for operating lease asset / liability for both instances where PMTE is a lessee and a lessor.

Differences are highlighted in tables A below.

<b>Item No.</b>	<b>Archibus Asset</b>	<b>Lease Liability balance</b>	<b>Recalculated Amount</b>	<b>Difference</b>
1	138085	(1 350 766,81)	(3 501 208,55)	2 150 441,74
2	138586	(84 226,44)	(1 602 557,12)	1 518 330,68
3	139791	(6 552 864,18)	(7 227 916,29)	675 052,11
4	138342	(206 051,04)	(554 724,22)	348 673,18
5	138329	(99 317,36)	(345 544,69)	246 227,33
6	139821	(6 672,94)	-	(6 672,94)
7	138118	(2 291 515,07)	(451 389,24)	(1 840 125,83)
8	139717	(1 046 654,28)	(1 167 877,39)	121 223,11
9	140087	(23 039,43)	(18 555,76)	(4 483,67)

<b>Item No.</b>	<b>Archibus Asset</b>	<b>Lease Liability balance</b>	<b>Recalculated Amount</b>	<b>Difference</b>
10	138432	(891 820,36)	(746 118,28)	(145 702,08)
11	138806	(10 473 688,79)	(10 079 643,96)	(394 044,83)
12	138492	(4 415 152,44)	(3 840 735,59)	(574 416,85)
13	139489	(932 345,14)	(1 615 141,16)	682 796,02
14	137902	(240 117,46)	(624 945,61)	384 828,15
15	139234	(149 354,26)	(330 167,08)	180 812,82
16	138826	-	(179 699,48)	179 699,48
17	139088	(108 148,93)	(280 323,58)	172 174,65
18	139065	(9 210,80)	(23 875,82)	14 665,02
19	139067	(9 210,80)	(23 875,82)	14 665,02
20	139438	(2 084 916,84)	(2 329 050,31)	244 133,47
21	139669	(665 857,06)	(732 442,44)	66 585,38
22	139808	(434 496,08)	(224 584,02)	(209 912,06)
23	140245	(12 302 023,32)	(494 557,49)	(11 807 465,83)
24	140147	(126 330,82)	(138 968,25)	12 637,43
25	143086	(51 427,68)	(561 383,14)	509 955,46
26	140314	(169 998,60)	(54 019,96)	(115 978,64)
27	139725	(269 234,90)	(127 422,48)	(141 812,42)
28	138601	(1 524 324,95)	(5 282 498,36)	3 758 173,41
29	139727	(162 907,12)	(1 874 794,91)	1 711 887,79
30	138785	(656 587,24)	(1 874 794,91)	1 218 207,67
31	138775	(692 613,07)	(1 801 198,67)	1 108 585,60
32	168198	(73 768,67)	(667 604,03)	593 835,36
33	138594	(158 884,00)	(550 607,31)	391 723,31
34	138721	-	(35 751,36)	35 751,36
35	138962	(192 908,10)	(230 916,81)	38 008,71
36	139536	(426 875,94)	(3 882 661,68)	3 455 785,74
37	138141	(172 875,28)	(686 817,55)	513 942,27
38	138696	(291 879,18)	(744 371,98)	452 492,80
39	138894	(193 827,98)	(494 313,42)	300 485,44
40	140036	(189 855,63)	(481 295,03)	291 439,40
41	140369	(182 219,65)	(464 607,16)	282 387,51
42	138653	(168 958,16)	(430 890,81)	261 932,65
43	139443	(166 276,65)	(424 050,26)	257 773,61
44	138652	(149 202,15)	(380 507,30)	231 305,15
45	139781	(130 420,42)	(332 608,92)	202 188,50
46	139732	(113 747,14)	(295 090,03)	181 342,89
47	138629	(116 796,39)	(297 863,53)	181 067,14
48	139046	(114 876,79)	(290 011,94)	175 135,15

<b>Item No.</b>	<b>Archibus Asset</b>	<b>Lease Liability balance</b>	<b>Recalculated Amount</b>	<b>Difference</b>
49	138412	(110 874,86)	(282 761,29)	171 886,43
50	139510	(72 432,85)	(230 721,68)	158 288,83
51	139442	(94 346,85)	(239 174,18)	144 827,33
52	139403	(76 867,86)	(206 422,12)	129 554,26
53	140139	(73 699,96)	(185 959,76)	112 259,80
54	138700	(62 623,52)	(159 050,66)	96 427,14
55	137867	(4 762,35)	(85 752,77)	80 990,42
56	140401	(0,12)	(73 142,09)	73 141,97
57	139185	(8 186,21)	(80 286,69)	72 100,48
58	140378	(24 460,50)	(61 471,63)	37 011,13
59	138994	(123 445,59)	(143 473,89)	20 028,30
60	138036	(16 623,21)	-	(16 623,21)
61	139266	(131 030,02)	6 228 241,30	(6 359 271,32)
62	140084	(69 663,57)	(102 238,06)	32 574,49
63	138944	(11 653 899,97)	(30 331 186,53)	18 677 286,56
64	140096	(9 134 419,22)	(27 336 194,79)	18 201 775,57
65	167625	(885 618,67)	(12 925 600,84)	12 039 982,17
66	137699	(2 885 369,19)	(8 634 923,80)	5 749 554,61
67	140227	(4 525 078,48)	(8 597 058,41)	4 071 979,93
68	137723	(1 534 632,61)	(3 988 069,85)	2 453 437,24
69	140098	(6 452 041,77)	(8 820 856,67)	2 368 814,90
70	140049	(2 164 875,50)	(3 501 243,64)	1 336 368,14
71	138812	(646 162,58)	(1 614 362,53)	968 199,95
72	139884	(16 522,95)	(253 962,82)	237 439,87
73	138809	(546 920,61)	(733 993,52)	187 072,91
74	139028	(159 002,22)	113 983,72	(272 985,94)
75	138811	(687 180,72)	-	(687 180,72)
76	140100	(2 911 501,87)	(1 592 248,29)	(1 319 253,58)
77	140187	(1 565 935,37)	-	(1 565 935,37)
78	138067	(1 385 016,56)	4 039 373,04	(5 424 389,60)
<b>Total</b>		<b>(98 897 442,10)</b>	<b>(158 598 542,19)</b>	<b>59 701 100,09</b>

## Impact

The above may result in the following:

- Non-compliance with section 38(1) (a) (i) and 40(1) (a) (i) of the PFMA.
- Non-compliance with paragraph 17 of GRAP 01.
- This resulted in the lease liability being understated by **R59 701 100**
- This resulted in the lease asset being understated by **R58 757 938**

## **Internal control deficiency**

### *Financial and performance management*

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

Management did not adequately review the amounts disclosed in the AFS prior to submission for audit.

### **Recommendation**

It is recommended that:

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

### **Management response**

Management is in agreement with the finding

The main root cause of the differences are 9 years and 11 month leases with de-escalation in year 6. Archibus does not have the functionality to capture once off de-escalations in the middle of the lease period. Thus to get the payments correct, we then capture the rental in 2 separate cost records, first five years, then the remaining 4 years and 11 months after the de-escalation. Archibus then straight-lines the 2 cost records separately resulting in a difference for straight-lining. The commitments for these leases will be correct as the rental is correct for payment purposes. This error is only applicable to 9 year 11 month leases with a de-escalation clause in year 6, and thus not representative of the full population.

### **Auditor's conclusion**

Management comments are noted as they agree with the finding. However, managements should also note that the misstatements identified were not only limited to the 9 years and 11 month leases, but misstatements also occurred due to VAT changes not taken into account, lease addendums, and new leases for same properties not timeously correctly taken into account.

Based on the above, it is not evident that the misstatements is only limited to 9 years and 11 months leas

## **PMTE HO COFF 39 - Differences in Lease straight lining**

### **Laws and Regulations**

Public Finance Management Act (PFMA) section 38(1)(a)(i) state that “*The accounting officer for a trading entity must ensure that the trading entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control*”

Public Finance Management Act (PFMA) section 40(1)(a)(i) state 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*”

Standard of Generally Recognized Accounting Practice (GRAP 1), paragraph 17 state 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.*”

GRAP 13, paragraph 40 states that “*Lease payments under an operating lease shall be recognised as an expense in the statement of financial performance on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit*”

GRAP 13, paragraph 60 states that “*Lease revenue from operating leases shall be recognised as revenue on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which benefit derived from the leased asset is diminished*”

### **Nature**

During the audit of operating lease expenditure, differences were noted between auditor's recalculations and amounts on the annual financial statement (AFS) (Supporting schedules) submitted for operating lease expenditure and revenue from exchange transactions - accommodation charges - leasehold intergovernmental for both instances where PMTE is a lessee and a lessor.

Differences are highlighted in tables A below.

No	Archibus Asset	Straight-line amount per AFS	Recalculated Amount	Difference
1	139884	R4 375 394.50	R4 076 611.30	-R298 783.20
2	138571	R436 525.08	R749 623.46	R313 098.38
3	137888	R1 098 676.92	R971 885.05	-R126 791.87
4	138594	R1 420 604.64	R1 601 400.09	R180 795.45
5	138647	R8 318 164.91	R7 108 399.90	-R1 209 765.01
6	138785	R4 171 434.12	R4 536 896.43	R365 462.31
7	138826	R0.00	R1 038 129.29	R1 038 129.29
8	139088	R613 770.96	R671 162.46	R57 391.50
9	139234	R847 620.36	R907 891.32	R60 270.96
10	139669	R7 160 983.27	R7 129 778.25	-R31 205.02
11	139725	R5 973 701.40	R2 827 209.54	-R3 146 491.86
12	139727	R1 044 497.92	R4 536 896.43	R3 492 398.51
13	138219	R20 699 771.44	R20 684 431.92	-R15 339.52
14	138329	R556 577.65	R691 507.81	R134 930.16
15	138342	R1 111 011.60	R1 020 079.04	-R90 932.56

16	138629	R663 912.36	R189 050.71	-R474 861.65
17	138652	R848 118.24	R927 422.72	R79 304.48
18	138653	R960 418.56	R1 050 223.91	R89 805.35
19	137878	R581 459.28	R81 459.31	-R499 999.97
20	138097	R792 886.21	R816 824.35	R23 938.14
21	138151	R653 028.36	R980 993.09	R327 964.73
22	138412	R630 250.56	R689 183.04	R58 932.48
23	138696	R1 659 141.24	R1 814 281.62	R155 140.38
24	139016	R700 852.82	R692 977.29	-R7 875.53
25	140396	R872 436.72	R877 663.19	R5 226.47
26	139448	R3 221 407.80	R3 168 299.90	-R53 107.90
<b>Total</b>				<b>R427 634.51</b>

## Impact

The above may result in the following:

- Non-compliance with section 38(1) (a) (i) and 40(1) (a) (i) of the PFMA.
- Non-compliance with paragraph 17 of GRAP 01.
- This resulted in the operating lease expenditure being understated by **R427 634.51**
- This resulted in the Revenue from exchange transactions - Accommodation charges - leasehold inter-governmental being understated by **R1 271 937.21**

## Internal control deficiency

### *Financial and performance management*

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

Management did not adequately review the amounts disclosed in the AFS prior to submission for audit.

## Recommendation

It is recommended that:

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

## Management response

Management agrees with the finding

The main root cause of the differences are 9 years and 11 month leases with de-escalation in year 6. Archibus does not have the functionality to capture once off de-escalations in the middle of the lease period. Thus to get the payments correct, we then capture the rental in 2 separate cost records, first five years, then the remaining 4 years and 11 months after the de-escalation. Archibus then straight-lines the 2 cost records separately resulting in a difference for straight-lining. The commitments for these leases will be correct as the rental is correct for payment purposes. This error is only applicable to 9 year 11 month leases with a de-escalation clause in year 6, and thus not representative of the full population.

## Auditor's conclusion

Management comments are noted as they agree with the finding. However, management should also note that the misstatements identified were not only limited to the 9 years and 11-month leases, but misstatements also occurred due to VAT changes not taken into account, lease addendums, and new leases for same properties not timeously correctly taken into account.

Based on the above, it is not evident that the misstatements is only limited to 9 years and 11 months leases.

## PROVISIONS

### PMTE PTA COAF 02 - Overstatement of general provisions

#### Requirements:

The Public Finance Management Act (PFMA) section 40(1) (b) 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;*”

Section 40(3) (a) of the Public Finance Management Act states that: “*The annual report and audited financial statements referred to 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...*”

Standards of Generally Recognized Accounting Practice (GRAP 19) paragraph 21 states that:

*A provision is a liability of uncertain timing or amount*

- (a) *an entity has a present obligation (legal or constructive) - as a result of a past event –*
- (b) *it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and –*
- (c) *a reliable estimate can be made of the amount of the obligation*

#### Nature

During the audit of **General provisions**, we have noted that the following call logs made by the client departments were included in the provision schedule as “in progress”. However, based on the inspection of the supporting documents (W4U print out) we noted that these call logs were cancelled.

Through inspection of the cancellation date on the W4U print out we noted that these transactions were cancelled in the prior year financial period. There is no present obligation that exist for PMTE to raise a provision in the current financial year period since the projects (call logs) were cancelled, no work was done, and no suppliers were even appointed. Refer to the schedule below:

No.	Ref No	Summary	Project status as per W4U	Cancellation date	Final provision new amount
1	PRE-159927	Faulty waterproof fittings	Cancelled	18-Jun-20	35 260
2	PRE-163942	Broken windows	Cancelled	19-Jun-20	35 260
3	PRE-162727	The water Turbidity is high, and all the water storage tanks need to be cleaned	Cancelled	13-Aug-20	35 260
4	PRE-159904	Wall cracked and its damage the ceiling	Cancelled	18-Jun-20	35 260
5	PRE-162872	Air Conditioners Faulty	Cancelled	16-Mar-21	16 936
<b>Total</b>					<b>157 976</b>

## **Impact**

This results in the:

- Overstatement of Provisions by R157 976.
- Non-compliance with GRAP 19.21 Recognition of Provisions and non-compliance with the PFMA Sec 40

## **Internal control deficiency**

### *Leadership*

Exercise oversight responsibility regarding financial, performance reporting, compliance, and related internal controls.

Management did not implement adequate control processes to ensure that the schedules are continuously updated to consider any changes that occur which led to the inconsistencies between the schedules and W4U system.

### *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 should review the provision schedule against the supporting evidence to ensure that the transactions included in the schedule are accurate and are supported by reliable evidence.

Management should revise the overall provision population and make proposed adjustments to the financial statements. The proposed adjustments should be submitted to auditors for concurrence before any final adjustments are made.

## **Management response:**

Management agrees with the finding, however, prior to this COFF being raised, management has already indicated to the AGSA that this has been identified and a revised submission of general provisions has been compiled and submitted to the AG as agreed with the audit partner.

## **Auditor's conclusion**

Management's response on the submission of the revised general provisions calculation is noted. However, the finding is not only based on the calculation of the general provisions, but it is based on the existence of the general provisions. Therefore, the finding remains and will be included in the management report.

## **PMTE JHB COAF 13 – Overstatement of Provisions (Litigations and Claims)**

### **Laws and Regulations**

Section 40 (a) and (b) of the Public Finance Management Act (PFMA) 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 and must prepare financial statements for each financial year in accordance with generally recognized accounting practice*”

Public Finance Management Act (PFMA) section 38(1)(a)(i) 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;*”

GRAP 19 - Provisions, Contingent Liabilities and Contingent Assets –“A provision is a liability of uncertain timing or amount-

- (d) *an entity has a present obligation (legal or constructive) as a result of a past event.*
- (e) *it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and*
- (f) *a reliable estimate can be made of the amount of the obligation.”*

*If these conditions are not met, no provision shall be recognised.*

### **Nature**

#### Issue 1

During the audit of provisions in Johannesburg region, we inspected that the combined summons with case no: 62543/2020 from the High Court of South Africa (stamped by the court registrar on 27 November 2020) and confirmed legal proceedings between Redefine Properties (Plaintiff) and Department of Public Works (Defendant). The summons were issued by the plaintiff for alleged unpaid rentals amounting to R665 185.74.

We further inspected the letter (dated and signed on 25 March 2021) from the office of the state attorney to Yolanda Britz (Plaintiffs Attorney) and confirmed that PMTE was confident that all rental monies that were due to the Plaintiff were settled. Furthermore, proof of payment was provided to the plaintiff's attorneys and legal proceedings have not proceeded since then.

Based on the above PMTE does not have a present obligation and there is no probability of an outflow of economic benefits.

Therefore, the claim does not meet the definition of a liability as the recognition criteria is not met. The state has a possible obligation with a low probability of an outflow of economic benefits and thus the state should only disclose a contingent liability.

#### Issue 2

During the audit of litigation and claims provisions in the Johannesburg region, we inspected the combined summons with case no: 20/12789 from the High Court of South Africa (stamped by the registrar of the high court on 8 June 2020) and confirmed existing legal proceedings between Ekurhuleni Metropolitan Municipality and the Department of Public Works. The summons were issued by the Plaintiff's Attorneys for alleged unpaid rentals amounting to R672 451, 97.

We further inspected internal memorandum (signed and dated 14 October 2020) from Mr. L. Nelwamondo (Leasing and Acquisition – PMTE official) and noted that the alleged unpaid rentals were loaded on the system between July 2015 and March 2019. The payments were not released due to the leases system failing to interface with the Sage payments. Payments began processing through in April 2019 however still on 14% VAT rate instead of 15%. According to PMTE the amount confirmed to be in

arrears was R155 157, 28 (VAT adjustment due from the 14% VAT rate to 15%). PMTE settled the amount that they confirmed to be in arrears of R155 157, 28 in November 2020.

Based on the assessment made by PMTE, it was confirmed that PMTE only had an obligation of R155 157, 28 and not R672 451, 97. Therefore, there is no present obligation and no probability of the outflow of economic benefits.

Therefore, the claim does not meet the definition of a provision as the recognition criteria is not met. The state has a possible obligation with a low probability of an outflow of economic benefits and thus the state should only disclose a contingent liability.

## **Impact**

- Overstatement of provision by R1 337 343.02 (R665 185.74+R672 451.97)
- Non-compliance with GRAP 1, paragraph 17 requiring fair presentation of annual financial statements.
- Non-compliance with section 40(1)(a)(i) of the Public Finance Management Act (PFMA) that requires accounting officers for state owned entities and departments to keep accurate, full and proper records of the entity's financial affairs.

## **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.

Management did not adequately review the provision schedule against the supporting evidence to ensure that the amounts included in the schedule are accurate and are supported by reliable evidence.

## **Recommendation**

- Management review the provision schedule against the supporting evidence to ensure that the amounts included in the schedule are accurate and are supported by reliable evidence.
- Management should make proposed adjustments to the financial statements and provide the proposed adjustments to auditors for concurrence before any final adjustments are made.

## **Management response:**

### **Issue 1**

#### **Management agrees with the finding for the following reasons:**

Claim has since been settled and file should be closed.

The claim has been settled; however, the Plaintiff has not yet responded to State Attorney's letter requesting withdrawal of the action. As such, the matter remains pending and therefore the outcome may go either way.

Based on the available information, the state has a possible obligation with a low probability of an outflow of economic benefits and thus the state should only disclose a contingent liability instead of provision.

This error will be corrected during the over/under-statement process.

## **Auditor's conclusion (Issue 1)**

We note management's acceptance of the auditing finding. We note that management acknowledges that the obligation was settled, and we further note that management has presented no evidence that

indicates that the plaintiff will pursue the matter further. We note that management's conclusion is still aligned with our finding that PMTE should only disclose a contingent liability. Management has not provided evidence to support the disagreement with the internal control deficiencies and root causes identified. We therefore conclude that the misstatement amount will be included in the schedule of uncorrected errors and be evaluated with other misstatements. The audit finding will be included in the management report.

#### **Auditor's conclusion (Issue 2)**

We note management's acceptance of the audit finding. However, we do not agree with management's conclusion that PMTE should not disclose the contingent liability. We note that the service provider has not objected to the proof of payment, however, the legal proceedings have not been withdrawn and therefore PMTE still has a pending court matter as of 31 March 2022. Therefore, the auditor's conclusion remains the same, provisions are overstated and PMTE should disclose a contingent liability. The misstatement will be included in the schedule of uncorrected errors and evaluated with other misstatements. The audit finding will be included in the management report.

## **PMTE CPT COAF 08 – Overstatement and Classification of Specific Provisions**

### **Laws and Regulations**

Section 40 (a) and (b) of the Public Finance Management Act (PFMA) 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 and must prepare financial statements for each financial year in accordance with generally recognized accounting practice*”

Public Finance Management Act (PFMA) section 38(1)(a)(i) 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;*”

Standard of 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. The application of Standards of GRAP with additional disclosures, when necessary, is presumed to result in financial statements that achieve a fair presentation*”

GRAP 19 - Provisions, Contingent Liabilities and Contingent Assets – “A provision is a liability of uncertain timing or amount-

- (g) *an entity has a present obligation (legal or constructive) as a result of a past event.*
- (h) *it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and*
- (i) *a reliable estimate can be made of the amount of the obligation.”*

### **Nature**

#### Issue 1 - Overstatement

During the audit of specific provisions, we noted that the below provision that was listed on the consolidated provisions & accruals schedule could not be traced to the Archibus system using the call reference number that was provided as per the aforesaid management schedule.

REF NR	PROPERTY CODE	Classification (Accrual/Provision)	Reference to supporting documents	Value of transaction
131939	F0011483	Specific Provision	4099	R 85 991.00

No supporting evidence was provision for the transaction as a result, we cannot ascertain that a present obligation existed as at the financial year ended and thus the recognition criteria was not met.

Therefore, provisions are overstated by an amount of R85 991.00.

#### Issue 2 - Classification

During the audit of specific provisions in the Cape Town region, we noted that the below accruals were incorrectly classified as provisions.

REF NR	PROPERTY CODE	Reference to supporting documents	Value of transaction
130053	F0000715	SA 389	R 66 045.18
127804	F0011515	2733	R 85 991.00

Invoices for the above accruals were received in sufficient time prior to the reporting submissions deadline.

- INV0003149 -Amount R66 079.28 (Received 06/04/2022)
- INV-4C113901 -Amount R67 078.17 (Received 20/04/2022)

Therefore, we note that management has sufficient information to estimate the accrued amount and therefore the above aforesaid invoices should have been classified as accruals and not provisions (no uncertainty of amount or timing).

### **Impact**

- Overstatement of provision by R 238 027.18
- Non-compliance with GRAP 1, paragraph 17 requiring fair presentation of annual financial statements.
- Non-compliance with GRAP 19's recognition criteria for recognizing provisions.
- Non-compliance with section 40(1)(a)(i) of the Public Finance Management Act (PFMA) that requires accounting officers for state owned entities and departments to keep accurate, full and proper records of the entity's financial affairs.

### **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.

Management did not adequately review the provision schedules against the supporting evidence to ensure that the amounts included in the schedule are accurate and are supported by reliable evidence.

### **Recommendation**

- Management reviews the provision schedule against the supporting evidence to ensure that the amounts included in the schedule are accurate and are supported by reliable evidence.
- Management should make proposed adjustments to the financial statements and provide the proposed adjustments to auditors for concurrence before any final adjustments are made.

### **Management response:**

Management agrees with the finding, these items were erroneously classified as accruals and one item erroneously included as a provision.

Provisions and accruals will be adjusted if total value of misstatements is regarded to be material.

### **Auditor's conclusion**

We note management's acceptance of the audit findings for issue 1 and issue 2. We further note management's disagreement with the root cause and internal control deficiencies and advise management to consider the recommendations made as per the COFF. The misstatements will be included in the schedule of uncorrected misstatements and evaluated with other misstatements. The misstatement will be included in the management report.

## **PMTE CPT COAF 10 – Overstatement of Provisions (Litigations and Claims)**

### **Laws and Regulations**

Section 40 (a) and (b) of the Public Finance Management Act (PFMA) 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 and must prepare financial statements for each financial year in accordance with generally recognized accounting practice*”

Public Finance Management Act (PFMA) section 38(1)(a)(i) 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;*”

Standard of 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. The application of Standards of GRAP with additional disclosures, when necessary, is presumed to result in financial statements that achieve a fair presentation*”

GRAP 19 - Provisions, Contingent Liabilities and Contingent Assets – “A provision is a liability of uncertain timing or amount-

- (j) *an entity has a present obligation (legal or constructive) as a result of a past event.*
- (k) *it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and*
- (l) *a reliable estimate can be made of the amount of the obligation.”*

### **Nature**

#### Issue 1- Overstatement

During the audit of litigation provisions, we inspected supporting documents pertaining to legal proceedings initiated by Boshard Construction (Plaintiff) against the Department of Public Works/ Property Management Trading Entity (Defendant).

Upon further inspection of the summons, we noted that the Plaintiff sought a full and final settlement offer of R858 651.61. Further upon inspection of the supporting documents, we noted that the aforesaid amount was settled out of court by a single payment of R858 865.61 on 14 December 2021.

Description	PMTE Provision	Auditor General's Recalculation	Difference
Boshard Construction - (case no.5277/21)	R 858 651.61	R NIL	(R 858 651.61)

Therefore PMTE, had no present obligation as at the last day of the financial year ended 31 March 2022. Therefore, the above results in an overstatement of litigation provisions by an amount of R858 865.61.

#### Issue 2 -Understatement

During the audit of litigation provisions, we inspected supporting documents pertaining to legal proceedings initiated by Arcus Facilities and Management (Plaintiff) against the Department of Public Works/ Property Management Trading Entity (Defendant).

Upon further inspection of the summons, we noted that the Plaintiff sought a claim to the value R4 422 920.81 because of a dispute in the value of services delivered.

We inspected the supporting documentation of the matter and noted an independent & external service provider (Multi QS was appointed to determine the value of the services provided by Arcus Facilities and

Management before their contract was terminated on 27 March 2019. We further confirmed that the determined value of services R2 695 005.12 (VAT incl.) as per supporting documents provided to MultiQS by the Plaintiff.

Further, we inspected the Plaintiff's correspondence to the state attorney and confirmed that the plaintiff was made a settlement offer of R2 695 005.12.(VAT incl.)

We therefore note the following discrepancy between the provision amount raised as per the schedule and the provided supporting documents:

Description	PMTE Provision	Auditor General's Provision	Difference
<i>Arcus Facilities and Management - case 3055/21</i>	R 2 200 000	R2 695 005	R495 005

Therefore, litigation provisions were understated by R495 005

### **Impact**

- Net overstatement of litigation provisions by R 363 824.85 (R 858 829.97- R 495 005.12)
- Non-compliance with GRAP 1, paragraph 17 requiring fair presentation of annual financial statements.
- Non-compliance with section 40(1)(a)(i) of the Public Finance Management Act (PFMA that requires accounting officers for state owned entities and departments to keep accurate, full and proper records of the entity's financial affairs.

### **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.

Management did not adequately review the provision schedules against the supporting evidence to ensure that the amounts included in the schedule are accurate and are supported by reliable evidence.

### **Recommendation**

- Management review the provision schedule against the supporting evidence to ensure that the amounts included in the schedule are accurate and are supported by reliable evidence.
- Management should make proposed adjustments to the financial statements and provide the proposed adjustments to auditors for concurrence before any final adjustments are made.

### **Management response:**

#### Issue 1- Overstatement

Management agrees with the finding, these items were erroneously included. Corrective action will be affected.

#### Issue 2 -Understatement

Management disagrees with the finding. The provision made is in line with what was agreed as full and final settlement. While this was a tacit agreement between the parties it has since been reduced in writing through the correspondence between the Counsel for both parties and the formalities will be concluded. Therefore, no adjustment/corrective action is necessary.

## **Auditor's conclusion**

### **Issue 1**

We note management's acceptance of the misstatement and the intended corrective action. We further note management does not agree with the root cause and internal control deficiencies identified. We encourage management to consider the recommended practices to avert future misstatements and similar audit findings. The misstatement will be included in the schedule of uncorrected misstatements and evaluated with other misstatements. The overall audit finding will be included in the management report.

### **Issue 2**

We note management's disagreement with the audit finding on the basis that the amount disclosed is in line with a settlement negotiation process that is still to be concluded. However, during the audit of the litigation and claims, we engaged with the legal services department and confirmed that the only tangible evidence of the value of work was determined to be R2 695 005.12 (VAT incl), which was independently determined by an external service provider MultiQS. Further, we note that the settlement offer for the aforesaid amount was rejected by the Plaintiff's attorneys through a legal letter which further threatened to pursue total costs of approximately R7 Million from the entity.

We further note that management has not provided any supporting evidence of the settlement negotiation that is being concluded with this management response. We further note, based on our engagement with the Cape Town legal services department, that the entity has no prospects of settling the matter out of court with the Plaintiff, as the Plaintiff threatened to further pursue recoveries of approximately R7 million if their counteroffer was not met.

Therefore, we conclude that the audit finding remains based on the above-mentioned factors. The misstatement will be included in the schedule of uncorrected misstatements and be evaluated with other misstatements. The overall audit finding will be included in the management report.

## PMTE CPT COAF 12 - Incorrect Classification of General Provision

### Requirements

Section 40 (a) and (b) of the Public Finance Management Act (PFMA) 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 and must prepare financial statements for each financial year in accordance with generally recognized accounting practice*”

Public Finance Management Act (PFMA) section 38(1)(a)(i) 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;*”

Standard of 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. The application of Standards of GRAP with additional disclosures, when necessary, is presumed to result in financial statements that achieve a fair presentation*”

Standard of Generally Recognized Accounting Practice (GRAP) 19, paragraph 21 states that; “*provision shall be recognised when:*

- (a) *an entity has a present obligation (legal or constructive) as a result of a past event;*
- (b) *it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and*
- (c) *a reliable estimate can be made of the amount of the obligation.*

*If these conditions are not met, no provision shall be recognised.”*

### Nature

During the audit of **General provisions**, we have noted that the following call logs made by the client departments were included in the provision schedule as “in progress”. However, based on the inspection of the supporting documents (W4U print out) we noted that these call logs were “cancelled”.

Based on the above, provisions have therefore been overstated by these call logs:

Number	Ref No	Status	Property Code	Final provision new amount
1	CPT-165272	Cancelled	61628	R 35 259.98
2	CPT-169688	Cancelled	83228	R 24 006.17
3	CPT-169035	Cancelled	63586	R 22 090.92
<b>Total</b>				<b>R 81 357.07</b>

### Impact

- This results in overstatement of General Provisions by R81 357.07
- Non-compliance with GRAP 19.21 Recognition of Provisions and non-compliance with the PFMA Sec 40

### Internal control deficiency

#### Leadership

Exercise oversight responsibility regarding financial, performance reporting, compliance, and related internal controls.

Management did not implement adequate control processes to ensure that the schedules are continuously updated to consider any changes that occur which led to the inconsistencies between the schedules and W4U system.

#### *Financial and performance management*

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information as adequately reviews of the provisions schedule against the supporting evidence was not performed to ensure that the amounts included in the schedule are accurate and are supported by reliable evidence.

#### **Recommendation**

Management should ensure that sufficient reviews are performed to ensure that the annual financial statements sufficiently comply with the Standards of Generally Recognized Accounting Practices.

It is recommended that management should review the provision schedule against the supporting evidence to ensure that the transactions included in the schedule are accurate and are supported by reliable evidence.

Management should revise the overall provision population and make proposed adjustments to the financial statements. The proposed adjustments should be submitted to auditors for concurrence before any final adjustments are made.

#### **Management response**

Management agrees with the finding, these items were erroneously included.

General Provision to be adjusted if total value of misstatements is regarded to be material

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

We note management's acceptance of the misstatement. We also note management's disagreement with the root cause and internal control deficiency, and we note that management has not provided any supporting evidence to substantiate the disagreement. We note management's intention to adjust should the cumulative misstatement for the component sample be quantitatively material. The misstatement will be included in the schedule of uncorrected misstatements and evaluated with other misstatements. The audit finding will be included in the management report.

## **PMTE PE COAF 06 – Overstatement of Provisions (Litigations and Claims)**

### **Laws and Regulations**

Section 40 (a) and (b) of the Public Finance Management Act (PFMA) 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 and must prepare financial statements for each financial year in accordance with generally recognized accounting practice*”

Public Finance Management Act (PFMA) section 38(1)(a)(i) 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;*”

Standard of 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. The application of Standards of GRAP with additional disclosures, when necessary, is presumed to result in financial statements that achieve a fair presentation*”

Standard of Generally Recognized Accounting Practice (GRAP 104), paragraph 23 states that “*An entity shall recognize a financial asset or a financial liability in its statement of financial position when, and only when, the entity becomes a party to the contractual provisions of the instrument*”.

Standard of 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*”

GRAP 19 - Provisions, Contingent Liabilities and Contingent Assets – “A provision is a liability of uncertain timing or amount-

- (m) *an entity has a present obligation (legal or constructive) as a result of a past event.*
- (n) *it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and*
- (o) *a reliable estimate can be made of the amount of the obligation.”*

### **Nature**

#### Issue 1- Overstatement of provisions (R18 229 987.37)

During the audit of litigation provisions, we confirmed existence of legal proceedings initiated by the Department of Public Works/ Property Management Trading Entity (Plaintiff) against Lawrence and Victor CC (Defendant).

We noted that the management schedule of litigations and claims, incorrectly captured Lawrence and Victor CC as the Plaintiff and as a result management incorrectly classified the above matter as a provision.

Based on the supporting documents, there was no counter suit against the department and therefore there was no possible nor probable outflow of economic benefits on the matter. Prior to finalization of the legal matter by the courts, PMTE had a possible inflow of economic benefits.

Refer to the table for the misstatement:

Description	PMTE Provision	Auditor Recalculation	General's	Difference
Lawrence and Victor CC - (case no.3406/2018)	R 18 229 987.37	R NIL		(R 18 229 987.37)

PMTE did not have a present obligation as at the last day of the financial year ended 31 March 2022. Therefore, the above results in an overstatement of litigation provisions by an amount of R18 229 987.37.

#### Issue 2 -Understatement of receivables

Upon assessment of the legal documents pertaining to case 3406/2018 (DPWI/PMTE VS Lawrence and Victor CC), we noted that matter was finalized by the courts and a judgement was handed down on the 07 March 2019.

The following judgement was granted by the courts in favor of the Plaintiff (DPWI/PMTE):

Judgement Summary:
Payment of the sum of R18 229 987.37
Interest on sum of R18 229 987.37, at the current legal rate from date of demand to date of final payment.
Costs of suit.

Based on the above summary of the court judgment, it can be noted that management seized to have a possible inflow of economic benefits to a probable inflow from 07 March 2019. Therefore, the recognition criteria for recognizing a receivable as per GRAP 104 was met in the 2018/19 financial period.

Based on the above facts, management should have :-

- Disclosed a contingent asset in the 2017/18 financial period when the matter was still pending the outcome of the court.
- Recognized a receivable from the 2018/19 financial period.
- Recognized accrued interest on the receivable at the current legal rate from date of demand to date of final payment.
- Recognized the legal costs of the matter as a receivable.
- Considered the receivable for impairment in the current financial period.

Therefore, receivables were understated by R18 229 987.37 plus the unknown interest capitalization and legal costs.

#### **Impact**

- Overstatement of litigation provisions by R18 229 987.37.
- Understatement of Receivables R18 229 987.37
- Understatement of Receivables (Interest and legal costs) – Unquantifiable
- Non-compliance with GRAP 1, paragraph 17 requiring fair presentation of annual financial statements.
- Non-compliance with GRAP 104 (recognition of financial assets and impairments).
- Non-compliance with section 40(1)(a)(i) of the Public Finance Management Act (PFMA that requires accounting officers for state owned entities and departments to keep accurate, full and proper records of the entity's financial affairs.

#### **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.

Management did not adequately review the provision schedules against the supporting evidence to ensure that the amounts included in the schedule are accurate and are supported by reliable evidence.

Management 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.

Management did not implement controls over daily and monthly processing and reconciling of transactions.

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

### *Leadership*

Management did not exercise oversight responsibility regarding financial reporting and related internal controls.

### **Recommendation**

- Management review the provision schedule against the supporting evidence to ensure that the amounts included in the schedule are accurate and are supported by reliable evidence.
- Management should make proposed adjustments to the financial statements and provide the proposed adjustments to auditors for concurrence before any final adjustments are made.
- Management should ensure implementation of proper record keeping, internal controls over daily and monthly processing, preparation of regular reconciliations and performance reports that are supported by reliable information.
- Management should develop and monitor the implementation of action plans to address internal control deficiencies.

### **Management response:**

#### Issue 1:

Management agrees with the audit finding.

Management will implement stricter reviewing processes for the litigation workbook to improve AFS disclosure.

#### Issue 2

Management agrees the audit finding.

Management will implement stricter reviewing processes for the workbooks to improve AFS disclosure.

### **Auditor's conclusion**

#### Issue 1

We note management's acceptance of the misstatement, root cause and internal control deficiencies identified. We note management's intentions to intensify the review processes prior to finalization of schedules that are translated into disclosed balances on the financial statements. We further note that management is of the opinion that the misstatement won't affect the financial statements and no reasons were provided for management's premise on the audit finding. The disclosure of the contingent liability is incorrect as an asset cannot be classified as a liability. Therefore, we recommend that management

must correct the disclosure of contingent liabilities on the financial statements appropriately. The audit finding will be included in the management report.

#### Issue 2

We note management's acceptance of the misstatement, root cause and internal control deficiencies identified. We note management's intentions to intensify the review processes prior to finalization of schedules that are translated into disclosed balances on the financial statements. We further note that management is of the opinion that the misstatement won't affect the financial statements and no reasons were provided for management's premise on the audit finding. We conclude that the misstatement will be included in the schedule of uncorrected misstatements and will be evaluated with other misstatements. The audit finding will be included in the management report.



Furthermore, it was noted that the following provisions were recorded on both accrual and provision schedule. Through inspection of the batch payment, we also noted that the payment for this transaction was made on 6 August 2020. Therefore, this transaction should have not been recorded as either accrual or provisions

No	Call ref no:	Property code	Call log details	Status as per schedule	Amount (R.)
1	MMA-115327	276029	There is no electricity at the farm.	In-Progress	30 927,87

Therefore, the call logs do not meet the definition of a provision, which is “*a liability of uncertain timing or amount*”

### **Impact**

- This results in overstatement of general provisions by R98 926.77
- Non-compliance with GRAP 1, paragraph 17 requiring fair presentation of annual financial statements.

### **Internal control deficiency**

#### *Leadership*

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Management did not ensure general provisions were recognized from call logs that are currently in-progress and not closed to meet the requirement that there is a possibility of an outflow.

### **Recommendation**

- It is recommended that management ensures that sufficient reviews are performed to ensure that the annual financial statements sufficiently comply with the Standards of Generally Recognized Accounting Practices.
- Management to ensure that all calls logged are updated and reviewed timeously on the system in order for calls with call status such as closed are not included in general provisions and comply with the applicable GRAP recognition requirements.
- Management should also ensure that proper records (batch payment) are kept for the provisions that are closed.
- Management should make proposed adjustments to the financial statements and provide the proposed adjustments to auditors for concurrence before any final adjustments are made.

### **Management response:**

*Issue 1 (MMA-113597; MMA-113998; MMA-114029)* - Management agrees with the finding, these items were erroneously included.

*Issue 2 (MMA-115327)* – Management disagrees with this finding.

The item listed as an accrual in the workbook referred to Archibus call 115327, logged on 13 Dec 2021 on the Archibus system.

Call MMA-115327 listed under general provisions referred to W4U call ref MMA-115327, logged on 3 December 2019 on the W4U system. These were 2 separate calls logged on separate dates in different systems.

General Provision to be adjusted if total value of misstatements is regarded to be material.

## **Auditor's conclusion**

### **Issue 1:**

Management response noted, the finding remains based on the following reasons:

The general provision should have not been recorded as the status of the call has been closed, meaning that the service was performed, and the service provider was paid. Therefore, there is no probability that there will be a cash outflow to settle the obligation.

### **Issue 2:**

Management response is noted; however, the main issue is that the payment has been made for this provision on 6 August 2020. Therefore, this transaction should have not been recorded as a provision.

Therefore, the whole finding remains.

## **PMTE MMB COAF 07 – Overstatement of specific provisions**

### **Requirement:**

Section 40 (a) and (b) of the Public Finance Management Act (PFMA) 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 and must prepare financial statements for each financial year in accordance with generally recognized accounting practice”*

Public Finance Management Act (PFMA) section 38(1)(a)(i) 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;”*

Standard of 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. The application of Standards of GRAP with additional disclosures, when necessary, is presumed to result in financial statements that achieve a fair presentation”*

Standard of Generally Recognized Accounting Practice (GRAP) 19, paragraph 21 states that; *“provision shall be recognised when:*

- (a) *an entity has a present obligation (legal or constructive) as a result of a past event;*
- (b) *it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and*
- (c) *a reliable estimate can be made of the amount of the obligation.*

*If these conditions are not met, no provision shall be recognised.”*

## Nature

During the audit of specific provisions, we noted that the following provisions relating to the call logs were incorrectly recorded, the provision amount does not agree to the supporting documents provided.

It should further be noted that call log with reference number 69716 and 125797 they should have been not recorded as a specific provision since there is not yet a quotation, invoice or job card. The only evidence that was provided for these provisions was the Worx4U form only. These provisions should have been recorded as a general provision instead.

No	Call ref no:	Property code	Call log details	Status as per schedule	Amount (R.)	Amount as per supporting documents	Difference
1	69716	F0040495	Check and replacement of drainage and sewer fittings in the regional court. Repair the leaking drainage pipe in the holding cells. Repair the leaking water pipe connected to the tap at the regional court.	Assigned to Work Order	100 774,50	63 160,00	37 614,50
2	125614	F0006771	Jojo tank that is leaking very bad	Issued and In Process	57 930,74	15 329,70	42 601,04
3	125797	F0003577	Leaking roof	Issued and In Process	56 287,40	43 050,00	13 237,40
<b>Total Amount</b>					<b>214 992,64</b>	<b>121 539,70</b>	<b>93 452,94</b>

Therefore, the amount the provision is recorded based on is incorrect.

## Impact

- This results in overstatement of specific provisions by R93 452,94
- Non-compliance with GRAP 1, paragraph 17 requiring fair presentation of annual financial statements.

## 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.

Management did not adequately review the provisions schedule against the supporting evidence to ensure that the amounts included in the schedule are accurate and are supported by reliable evidence.

## Recommendation

- It is recommended that management ensures that sufficient reviews are performed to ensure that the annual financial statements sufficiently comply with the Standards of Generally Recognized Accounting Practices.
- Management should make proposed adjustments to the financial statements and provide the proposed adjustments to auditors for concurrence before any final adjustments are made.

**Management response:**

*Issue 1 (69716)* -Management disagrees with this finding.

The job card shows the correct amount of R100,775.65

*Issue 2 (125614)* - Management agrees with the finding, the completion date was indicated to be based on a job card which was not the case. Management will take greater care in confirming accurate supporting documents in the workbook in the future.

*Issue 3 (125797)* - Management agrees with the finding, an estimate was used instead of the quotation amount. It should have been indicated as such on the workbook, erroneously it was stated to be based on a quotation, leading to it being classified as specific provision instead of general provision.

**Auditor's conclusion**

Management response noted, the finding for the following call reference is remains:

- 125614 & 125797

The finding for the call reference (69716) is resolved. The job card was not made available during the audit at the region, the Worx4U form was the only supporting document that was provided.

Therefore, the finding for the two (125614 & 125797) call references remain.

## **PMTE MMB COAF 15 – Overstatement of Provisions (Litigations and Claims) and understatement of fruitless and wasteful expenditure**

### **Laws and Regulations**

Section 40 (a) and (b) of the Public Finance Management Act (PFMA) 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 and must prepare financial statements for each financial year in accordance with generally recognized accounting practice”*

Public Finance Management Act (PFMA) section 38(1)(a)(i) 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;”*

GRAP 19 - Provisions, Contingent Liabilities and Contingent Assets – “A provision is a liability of uncertain timing or amount-

- (p) *an entity has a present obligation (legal or constructive) as a result of a past event.*
- (q) *it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and*
- (r) *a reliable estimate can be made of the amount of the obligation.”*

*If these conditions are not met, no provision shall be recognised.*

Public Finance Management Act section 38 (1)(g) states that: *“The accounting officer for a department, trading entity or constitutional institution must on discovery of fruitless and wasteful expenditure, immediately report, in writing, particulars of the expenditure to the relevant treasury;”*

Public Finance Management Act section 38 (1)(h) states that: *“The accounting officer for a department, trading entity or constitutional institution must take effective and appropriate disciplinary steps against any official in the service of the department or constitutional institution who makes or permits fruitless and wasteful expenditure”*

Treasury Regulation 8.1.1 state that *“The accounting officer of the institution must ensure that internal procedures and internal control measures were in place for the approval and processing of payments. These controls provided reasonable assurance that all expenditure is necessary, is appropriate, is paid promptly and is adequately recorded and reported on.”*

Treasury Regulation 9.1.1 state that *“The accounting officer of a trading entity must exercise all reasonable care to prevent and detect fruitless and wasteful expenditure and must, for this purpose, implement effective, efficient and transparent processes of financial and risk management.”*

## Nature

During the audit of provisions relating to legal claims, we inspected the summons dated 2013-04-02 with the case number 40/13C for the nature of the case and noted the plaintiff (City Matlosana) instituted the action against the defendant (Department of Public Works). The summons were issued by the plaintiff for unpaid arrear rates and taxes.

We also inspected the court order dated 21 August 2019 and noted that the ruling was as follows:

- The court ruled against the defendant jointly and severally. The amount to be paid by the defendant amounts to R171 041.13
- Signed at Klerksdorp on 21 August 2019 by the Regional Magistrate on 21 August 2019.

Through inspection of the remittance advice, we noted that the amount of R171 041.13 relating to legal claim was paid to the municipality on 29 January 2021.

### Issue 1

Based on the above, we noted that the legal claim was paid by the entity, it should have not been classified as a provision.

### Issue 2

We further inspected the memo and we noted that the purpose of the memo was to advise the office of the regional manager to approve and pay the interest of R24 230.82 flowing from the capital amount of R171 041.13. The interest was based on the outstanding amount of R171 041.13 calculated at 10% per annum from 21 August 2019 to date of settlement (February 2021).

PMTE has a present obligation on the interest amount of R24 230.82 since it has not yet been settled.

Details per schedule							
No	Region	Plaintiff	Nature of the Claim	Plaintiff's Firm of Attorneys	Date of Summons	Assessment of Claim	Amount
1	Mmabatho	City of Matlosana	Claim for arrear rates and taxes	Case nr. 40/2013C Mr M. Letsoalo 44 Sheppard Street, MAHIKENG, (018) 381 0269	2013/04/02	The property in question belongs to the Department.	171 041,13

### **Impact (Issue 1 & 2)**

- Overstatement of provision by R146 810.31 (R171 041.3 – R24 230.82)
- Non-compliance with GRAP 1, paragraph 17 requiring fair presentation of annual financial statements.
- Non-compliance with section 40(1)(a)(i) of the Public Finance Management Act (PFMA) that requires accounting officers for state owned entities and departments to keep accurate, full and proper records of the entity's financial affairs.

### Issue 3

The total amount that was paid of R171 041.13 to City of Matlosana included the interest levied of R82 297.44. This interest is in vain since the department could have avoided this expenditure by settling the rates and taxes as and when due. This interest was further traced to the fruitless and wasteful expenditure and we confirmed that it was not included. This results in understatement of fruitless and wasteful expenditure.

### **Impact (Issue 3)**

- Non-compliance with PMFA 45(a) and treasury regulation 8.1.1.
- Non-compliance with treasury regulation 9.1.1

- The expenditure paid in vain which could have been avoided will result in fruitless and wasteful expenditure of R82 297.44
- Understatement of fruitless and wasteful expenditure by R82 297.44

## **Internal control deficiency**

### *Leadership*

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

### *Financial and performance management*

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

Management has not taken the proactive steps to recover the financial loss from the responsible person where the interest was paid to the municipality because of not paying property rates as and when there was due.

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

Management did not adequately review the provision schedule against the supporting evidence to ensure that the amounts included in the schedule are accurate and are supported by reliable evidence.

## **Recommendation**

- Management should review the provision schedule against the supporting evidence to ensure that the amounts included in the schedule are accurate and are supported by reliable evidence.
- Management should ensure that fruitless and wasteful expenditure is complete.
- Management should ensure that the entity complies with all applicable laws and regulations.
- Management should make proposed adjustments to the financial statements and provide the proposed adjustments to auditors for concurrence before any final adjustments are made.

## **Management response:**

Management response not received.

## **Auditor's conclusion**

The COAF sent to management on 11 July 2022 was due on 15 July 2022. We did not receive management response and followed up on 22 July 2022. Management then requested an extension until Monday 25 July 2022 COB. We further followed up on management responses on 25 July 2022 and management committed to submit by midnight. After further follow-ups on 26 July in the morning, management committed to submit by 11am on the 26<sup>th</sup>. No response received by 12pm 26 July.

Due to no response from management, we assume management agrees to the finding and the finding remains and will be included in the management report.

## PMTE KMB COAF 04 - Overstatement of general provisions

### Requirements:

The Public Finance Management Act (PFMA) section 40(1) (b) 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,*”

Section 40(3) (a) of the Public Finance Management Act states that: “*The annual report and audited financial statements referred to 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...*”

Standards of Generally Recognized Accounting Practice (GRAP 19) paragraph 21 states that:

*A provision is a liability of uncertain timing or amount*

*(s) an entity has a present obligation (legal or constructive) - as a result of a past event –*

*(t) it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and –*

*(u) a reliable estimate can be made of the amount of the obligation*

### Nature

During the Audit of General Provisions, we noted that the following calls were listed as General provisions however per the inspection of the supporting documents (Wox4U, quotation, invoice and/or Job Cards) we noted that the noted the calls were completed invoices received and suppliers paid for the services they provided. Thus indicating that there was no uncertainty in either amount or timing

Call ref no:	Call log details	Status	Severity	Amount
KIM-109552	Render security Services for 1 Month	In Progress	Urgent	35 259,98
KIM-108311	Repair walk in fridge that is not working 	Job-Completed-WM	Urgent	20 917,69
KIM-109592	The working fridge CR16 is not working	Job-Completed-WM	Emergency	18 173,66
KIM-109599	Check and repair freezer that is not working	Job-Completed-WM	Urgent	20 917,69

### Impact

This results in the:

- Overstatement of Provisions by R74 351.32
- Non-compliance with GRAP 19.21 Recognition of Provisions and non-compliance with the PFMA Sec 40

### Internal control deficiency

*Leadership*

Exercise oversight responsibility regarding financial, performance reporting, compliance, and related internal controls.

Management did not implement adequate control processes to ensure that the schedules are continuously updated to consider any changes that occur which led to the inconsistencies between the schedules and W4U system.

*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 should review the provision schedule against the supporting evidence to ensure that the transactions included in the schedule are accurate and are supported by reliable evidence.

Management should revise the overall provision population and make proposed adjustments to the financial statements. The proposed adjustments should be submitted to auditors for concurrence before any final adjustments are made.

**Management Response:**

Management agrees with the finding, these items were erroneously included.

If the entirety of the provision is regarded as material, management will advise on the nature of the restatement to be made

**Auditor's conclusion**

Management response noted, the finding will be reported accordingly in the management report.

## PMTE DBN COAF 14 - Incorrect Classification of General Provision

### Requirements

Section 40 (a) and (b) of the Public Finance Management Act (PFMA) 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 and must prepare financial statements for each financial year in accordance with generally recognized accounting practice*”

Public Finance Management Act (PFMA) section 38(1)(a)(i) 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;*”

Standard of 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. The application of Standards of GRAP with additional disclosures, when necessary, is presumed to result in financial statements that achieve a fair presentation*”

Standard of Generally Recognized Accounting Practice (GRAP) 19, paragraph 21 states that; “*provision shall be recognised when:*

- (a) *an entity has a present obligation (legal or constructive) as a result of a past event;*
- (b) *it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and*
- (c) *a reliable estimate can be made of the amount of the obligation.*

*If these conditions are not met, no provision shall be recognised*

### Nature

During the audit of **General provisions**, we have noted that the following call logs made by the client departments were included in the provision schedule as “in progress”. However, based on the inspection of the supporting documents (W4U print out) we noted that these call logs were “completed” and paid before year end. The service providers were appointed, and work was completed for all the identified calls logs and signed off by the relevant Works managers. Furthermore, payments were made to the suppliers. Refer to the schedule regarding the payment details:

Number	Ref No	Appointed service provider	Payment number	Payment date
1	62120	MABHUZELA	ZINTP2110S1001003560	2021/10/18
2	59372	ZAMATIMBURWA	ZINTP2105S1001006049	2021/05/27
3	61176	OKUHLEKODWA TRADING AND PROJECTS 30	ZINTP2111S1001004631	2021/11/25
4	61450	MANCAMA GROUP	ZINTP2109S1001002497	2021/09/07

Based on the above payment details, provisions have therefore been overstated by these call logs:

Number	Ref No	Status	Property Code	Final provision new amount
1	62120	Completed	F0018274	35 260
2	59372	Completed	F0000323	30 928
3	61176	Completed	F0003974	30 928
4	61450	Completed	F0009091	35 260
<b>Total</b>				<b>132 376</b>

## **Impact**

- This results in overstatement of General Provisions by R132 376
- Non-compliance with GRAP 19.21 Recognition of Provisions and non-compliance with the PFMA Sec 40

## **Internal control deficiency**

### *Leadership*

Exercise oversight responsibility regarding financial, performance reporting, compliance, and related internal controls.

Management did not implement adequate control processes to ensure that the schedules are continuously updated to consider any changes that occur which led to the inconsistencies between the schedules and W4U system.

### *Financial and performance management*

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information as adequately reviews of the provisions schedule against the supporting evidence was not performed to ensure that the amounts included in the schedule are accurate and are supported by reliable evidence.

## **Recommendation**

Management should ensure that sufficient reviews are performed to ensure that the annual financial statements sufficiently comply with the Standards of Generally Recognized Accounting Practices. It is recommended that management should review the provision schedule against the supporting evidence to ensure that the transactions included in the schedule are accurate and are supported by reliable evidence.

Management should revise the overall provision population and make proposed adjustments to the financial statements. The proposed adjustments should be submitted to auditors for concurrence before any final adjustments are made.

## **Management response**

Management agrees with the finding, these items were erroneously included.

This misstatement will be combined with other similar misstatement to determine materiality

## **Auditor's conclusion**

Management comments noted, the finding will be reported as such in the management report.

## **PMTE MTH COAF 04 - Overstatement of Provisions – Overstatement of general provisions raised**

### **Requirement:**

Section 40 (a) and (b) of the Public Finance Management Act (PFMA) 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 and must prepare financial statements for each financial year in accordance with generally recognized accounting practice"*

Public Finance Management Act (PFMA) section 38(1)(a)(i) 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;"*

Standard of 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. The application of Standards of GRAP with additional disclosures, when necessary, is presumed to result in financial statements that achieve a fair presentation"*

Standard of Generally Recognized Accounting Practice (GRAP) 19, paragraph 21 states that; *"provision shall be recognised when:*

- (a) *an entity has a present obligation (legal or constructive) as a result of a past event.*
- (b) *it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and*
- (c) *a reliable estimate can be made of the amount of the obligation.*

*If these conditions are not met, no provision shall be recognised."*

## Nature

During the audit of general provisions, it was noted that the following calls logs made for general works for a client department was closed and not completed/ in progress as stated in the schedule. Through assessment of the W4U print out, it was confirmed that the project status was closed before year-end.

According to GRAP 19 paragraph 21, a provision shall be recognized when:

- "(a) an entity has a present obligation (legal or constructive) as a result of a past event;*
- (b) it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and*
- (c) a reliable estimate can be made of the amount of the obligation."*

Based on the supporting documentation, the call logs were closed before year-end, which suggests that the job has been performed by the service provider and therefore there is no probability that there will be a cash outflow to settle the obligation. Furthermore, it was noted that an invoice was provided for the jobs that had been completed. This indicates that the amount of the work completed can be determined reliably and can ascertain the timing of the job.

No	Call ref no:	Property code	Call log details	Status as per schedule	Status as per Worx4U	Amount (R.)
1	MTH - 107855	292723	Check and repair 24 x download lights, 7 x normal lights,&nbsp;8 x fluorescent lights and 1 x circuit breaker that is tripping	Job completed	Closed	18 477,36
2	MTH - 107946	292872	Repair&nbs;p;of backup generator	Job completed	Closed	18 477,36
3	MTH - 109018	292383	User request 5000 liters of 4x water tanks	In - Progress	Closed	30 927,87
						67 882,59

Furthermore, it was noted that the following call logs were recorded as provisions although the evidence as per the W4U prints out proof that no job was ever performed, and the call was closed before year end.

No	Call ref no:	Property code	Call log details	Status as per schedule	Status as per Worx4U	Amount (R.)
1	MTH - 108079	81430	Cleaning of mould infested carpet in X5 offices 	In - Progress	Closed	35 259,98
2	MTH - 108376	159012	Eradication for mice need to be done	In - Progress	Closed	35 259,98
3	MTH - 1038418	292383	Request of&nbs;p; 2x 10000 L of water	Job completed	Closed	22 666,30
						93 186,26

Therefore, the call logs do not meet the definition of a provision, which is "a liability of uncertain timing or amount"

## Impact

- This results in overstatement of general provisions by R161 068,85
- Non-compliance with GRAP 1, paragraph 17 requiring fair presentation of annual financial statements.

## Internal control deficiency

### Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Management did not ensure general provisions were recognized from call logs that are currently in-progress and not closed to meet the requirement that there is a possibility of an outflow.

### **Recommendation**

- It is recommended that management ensures that sufficient reviews are performed to ensure that the annual financial statements sufficiently comply with the Standards of Generally Recognized Accounting Practices.
- Management to ensure that all calls logged are updated and reviewed timeously on the system in order for calls with call status such as closed are not included in general provisions and comply with the applicable GRAP recognition requirements.
- Management should also ensure that proper records (batch payment) are kept for the provisions that are closed.
- Management should make proposed adjustments to the financial statements and provide the proposed adjustments to auditors for concurrence before any final adjustments are made.

### **Management response:**

Management agrees with the finding, these items were erroneously included.

If the entirety of the provision is regarded as material, management will advise on the nature of the restatement to be made.

### **Auditor's conclusion**

Management's response on the restatement of provisions is noted. Therefore, the finding remains and will be included in the management report.

## **PMTE NEL COAF 01 – Overstatement of general provisions raised**

### **Requirement:**

Section 40 (a) and (b) of the Public Finance Management Act (PFMA) 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 and must prepare financial statements for each financial year in accordance with generally recognized accounting practice”*

Public Finance Management Act (PFMA) section 38(1)(a)(i) 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;”*

Standard of 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. The application of Standards of GRAP with additional disclosures, when necessary, is presumed to result in financial statements that achieve a fair presentation”*

Standard of Generally Recognized Accounting Practice (GRAP) 19, paragraph 21 states that; *“provision shall be recognised when:*

- (a) *an entity has a present obligation (legal or constructive) as a result of a past event;*
- (b) *it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and*
- (c) *a reliable estimate can be made of the amount of the obligation.*

*If these conditions are not met, no provision shall be recognised.”*

## Nature

During the audit of general provisions, it was noted that the following call log made for general works for a client department was cancelled and not to be in-progress as stated in the schedule. Through assessment of the W4U print out, it was confirmed that the project status was cancelled before year-end.

According to GRAP 19 paragraph 21, a provision shall be recognized when:

- "(a) an entity has a present obligation (legal or constructive) as a result of a past event;*
- (b) it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and*
- (c) a reliable estimate can be made of the amount of the obligation."*

Based on the supporting documentation, the call log was cancelled before year-end, which suggests that the job was not performed by the allocated service provider and therefore there is no probability that there will be a cash outflow to settle the obligation

Call ref no:	Call log details	Status as per schedule	Status as per call log	Amount (R )
NST-109789	Eradication of rats	In-Progress	Cancelled	35 259,98

Furthermore, it was noted that an invoice was provided for the jobs that had been completed as per the job cards before year-end for the call logs indicated below. Which indicates that the amount of the work completed can be determined reliably and can ascertain the timing of the job.

Call ref no:	Call log details	Status as per the schedule	Status as per the schedule	Amount (R.)
61596	No information	Completed	Completed	30 927,87
69791	No information	Completed	Completed	16 352,03
72342	No information	Completed	Completed	18 173,66
<b>Total</b>				65 453.56

Therefore, the call logs do not meet the definition of a provision, which is "*a liability of uncertain timing or amount*"

## Impact

- This results in overstatement of general provisions by R100 714.
- Non-compliance with GRAP 1, paragraph 17 requiring fair presentation of annual financial statements.

## Internal control deficiency

### *Leadership*

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Management did not ensure general provisions were recognized from call logs that are currently in-progress and not cancelled to meet the requirement that there is a possibility of an outflow

### *Financial and performance management*

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

Management did not adequately review the provisions schedule against the supporting evidence to ensure that the amounts included in the schedule are accurate and are supported by reliable evidence.

## Recommendation

- It is recommended that management ensures that sufficient reviews are performed to ensure that the annual financial statements sufficiently comply with the Standards of Generally Recognized Accounting Practices.
- Management to ensure that all calls logged are updated and reviewed timeously on the system in order for calls with call status such as closed or cancelled are not included in general provisions comply with the applicable GRAP recognition requirements.
- Management should make proposed adjustments to the financial statements and provide the proposed adjustments to auditors for concurrence before any final adjustments are made.

#### **Management response:**

Management agrees with the finding, however, prior to this COFF being raised, management has already indicated to the AGSA that this has been identified and a revised submission of general provisions has been compiled and submitted to the AG as agreed with the audit partner.

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

Management's response is noted. The finding remains and will be reported in the management report.

#### **PMTE HO COFF 07 - Overstatement of Receivables from exchange: Municipal Service**

##### **Laws and Regulations**

Section 40 (a) and (b) of the Public Finance Management Act (PFMA) 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 and must prepare financial statements for each financial year in accordance with generally recognized accounting practice"*

Public Finance Management Act (PFMA) section 38(1)(a)(i) 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;"*

Standard of 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. 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 financial statements relating to the financial period ending 31 March 2022, we noted that the municipal services receivable's balance was recorded in the annual financial statements based on the balance as per the Sage system (R5 001 731 135.18).

Upon further audit testing, we noted that the account balance as per the Sage system had a material difference with the balance as per management's manually prepared schedule for municipal services (F500).

From enquiries with management, we learnt that, based on prior practices, the Sage system is known to have general system errors that result in unreconcilable differences with the management prepared schedules due to the system failing to account for certain transactions including, payments received from debtors. Therefore, the normative practice has been to record receivables balances in the annual financial statements as per the management prepared schedules.

##### **Finding**

According to management's prepared schedule (F500), the gross positive balances for municipal services amounted to R4 944 794 831.48. However, the Sage system reported a balance of

R5 001 731 135.18 and the management prepared report is an unreconciled amount of R56 936 303.70. Below is a table illustrating the difference:

Description	Manual schedule amount (F500)	SAGE Amount	Difference
AGE ANALYSIS FOR MUNICIPAL SERVICES 31 MARCH 2022	R 4 944 794 831,48	R 5 00 173 1135,17	-R 56 936 303,70

Upon enquiry with management of the auditee, we noted that the unreconciled difference could not be attributed to any particular transaction nor any particular client department. This resulted in an accounted/irreconcilable difference reflecting in the annual financial statements for the period ended 31st March 2022.

### Impact

- Overstatement of Municipal Service receivables from exchange transactions by R 56 936 303.
- Non-compliance with GRAP 1, paragraph 17 requiring fair presentation of annual financial statements.
- Non-compliance with section 40(1)(a)(i) of the Public Finance Management Act (PFMA) that requires accounting officers for state owned entities and departments to keep accurate, full and proper records of the entity's financial affairs.

### 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.

Management relied on the Sage generated balance to compile the gross balance for municipal services which has an irreconcilable difference compared to the manual age analysis.

### Recommendation

- Management should ensure that sufficient reviews are performed to ensure that the annual financial statements sufficiently comply with the Standards of Generally Recognized Accounting Practices.
- Management should continue the normative practice of recording receivables in the annual financial statements using their prepared schedules when there are discrepancies between the schedules and the Sage system.

### Management response

Management agrees with the finding:

The difference between the gross positive municipal service amount of **R4 944b** and **R5 001b** of SAGE is reconcilable and attributed to specific clients and transaction.

See attached a copy of municipal related No Port schedule of **R79m**. This represents the municipal credit transactions lying in the No Portfolio due to system glitches. Should these transactions have been allocated to the Municipal Portfolio, the balance should have been (**R5 001-R79m=R4 922b**). When we add back the reclassified credit transactions of **R11m** we arrive at **R 4 933b**.

In addition to the above the **R79m** credits lying on No Portfolio is reconciled to the rest of the Portfolios to disclose the true and accurate Receivable balance.

The system deficiency was detected and full-blown project of un-matching and matching of receipts was implemented but still experiencing challenges. Management will try a different approach via IT

### Auditor's conclusion

We note management's acceptance of the audit finding however, we do not agree with management's reasoning that the misstatement does not affect the AFS. The misstatement inflates the gross municipal receivable which results in the overstatement of the aforesaid receivable before the impairment provision. We note the management explanation of the system challenges, however we highlight that management has been aware of the system issues in prior period and as a result, management has resolved to rely on the manual management schedules in preparing financial statements. Management should continue the normative practice of recording receivables in the annual financial statements using their prepared schedules when there are discrepancies between the schedules and the Sage system. We therefore conclude that the misstatement and auditing finding remains. The misstatement will be included in the schedule of uncorrected errors and evaluated with other misstatements. Further, the audit finding will be included in the management report.

## **PMTE HO COFF 08 - Insufficient disclosure and presentation (Receivables from exchange transactions)**

### **Laws and Regulations**

ASB Directive 5 APPENDIX C: 1 APRIL 2021 states, “*This appendix lists the standards and pronouncements that are the GRAP Reporting Framework for Trading Entities effective for financial periods commencing on or after 1 April 2021 and should be applied as set out in paragraphs .05 and .06 of this Directive.*”

The Minister has determined the effective date for the Standards of GRAP outlined below

Reference	Topic
GRAP 109	Accounting by Principals and Agents

Standard of 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. The application of Standards of GRAP with additional disclosures, when necessary, is presumed to result in financial statements that achieve a fair presentation*

GRAP 109, paragraph 62 states that “*An entity that is a party to a principal-agent arrangement shall disclose:*

- a. *a description of the arrangement, including the transactions undertaken;*
- b. *whether the entity is the principal or agent and any significant judgement applied in making this assessment;*
- c. *significant terms and conditions of the arrangements and whether any*
- d. *changes occurred during the reporting period; and an explanation of the purpose of the principal-agent relationship and any significant risks (including any risk mitigation strategies) and benefits associated with the relationship.”*

GRAP 109, paragraph 67 states that “*An entity that is the principal in a principal-agent arrangement shall disclose the following:*

- a. *the resources (including assets and liabilities) of the entity that are under the custodianship of an agent and whether or not those resources have been recognised by the agent, any resources remitted during the period along with the expected timing of remittance of any remaining resources back to the entity (where applicable) or to third parties;*
- b. *the fee paid as compensation to the agent; and*
- c. *a discussion of the resource or cost implications for the principal if the principal-agent arrangement is terminated.”*

### **Nature**

During inspection of the notes to the financial statements, we noted that note 2.2 (Standards not yet effective), indicated that Accounting by Principals and Agents (GRAP 109), have been approved but not effective for reporting during the 2021-2022 financial year. We further noted that the PMTE has not applied the standard, as it has been approved but not yet effective.

However, as per inspection of the amended Appendix C to Directive 5 issued by the Accounting Standard Board, we confirmed that GRAP 109 has been approved and is effective for reporting in the current year.

Based on the work conducted during planning phase, it was noted that Property Management Trading Entity currently has five (5) implementing agents:

1. Amatola Water

2. Coega Development Corporation (COEGA)
3. Development Bank of Southern Africa (DBSA)
4. Governments Strategic and Technical Advisory (GTAC)
5. Independent Development Trust (IDT)

Based on the above, the entity did not disclose details as required by GRAP 109 paragraph 62 and paragraph 67.

### **Impact**

- Non-compliance GRAP 1 par. 17 as financial statements do not apply additional disclosures, when necessary, to achieve a fair presentation.
- Non-compliance with GRAP 109, paragraphs 62 and 67 to provide the required disclosure pertaining to the principal-agent relationships.
- Non-compliance with GRAP 1 par 9 through the omission of material information pertinent to providing useful information in predicting the level of resources required for continued operations, the resources that may be generated by continued operations, and associated risks and uncertainties.

### **Recommendation**

- Management should ensure that sufficient reviews are performed to ensure that the annual financial statements sufficiently comply with the Standards of Generally Recognized Accounting Practices.
- Management should appropriately disclose principle-agent relations in accordance with GRAP 109
- Management should amend the relevant note disclosures to ensure compliance with all applicable GRAP disclosures as cited in this communication of audit finding.

### **Management response**

Management agrees with the finding the following narrative will be added on the AFS:

The PMTE has signed Memorandums of Understanding with the following implementing agents:  
Amatola Water

Coega  
DBSA  
IDT  
GTAC

In all these MOU's, the PMTE is deemed to be the Principal and the primary objective of these agreements are such that the implementing agents will execute both Capex and Opex construction projects on behalf of PMTE. Except for the GTAC MOU, the implementing agents are entitled to receive management fees. In a few limited projects, the underlying project was not construction in nature, but more of a consultative and services nature.

As part of the respective MOU's the Coega, IDT and DBSA have separate bank accounts in which all PMTE projects are managed. The PMTE is then entitled to all interest earned in these ring-fenced bank accounts. Any changes to the scope or other forms of variation at project level are administered in line with the applicable PMTE Variation Order Committee process, any amendments to the MOU's must be approved in writing by both parties and no such amendments occurred during the 2021/2022 financial year.

<b>Implementing Agents</b>	<b>Liabilities</b>	<b>Assets</b>
Amatola Water	0,00	16 912 766,20
COEGA	101 413 393,80	83 377 952,25
DBSA	174 315 365,79	268 556 037,97
GTAC	2 639 660,99	264 385 610,95
IDT	31 849 481,09	64 747 409,71
<b>Grand Total</b>	<b>310 217 901,66</b>	<b>697 979 777,08</b>

An amount of R 55 005 144.98 was earned by implementing agents for management fees for the 2021/22 financial year. No principal/agent arrangements were terminated for the 2021/2022 financial year.

### Auditor's conclusion

We note management's acceptance of the audit finding. We further note management's proposed corrective action to amend note 3 as per the above management response. We deem the proposed note 3 amendment appropriate. The audit finding will be included in the management report. We will await the adjusted annual financial statements to deem the audit finding resolved.

### **PMTE HO COFF 32 - Interest on receivable is misstated.**

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

Section 40 (a) and (b) of the Public Finance Management Act (PFMA) 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 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.*"

Definitions paragraph of PMTE Revenue and Receivables Policy states that "  
**Interest** or interest revenue refers to interest charged on all arrear amounts due to the PMTE at the rate specified in the applicable legislative prescript from time to time."

#### **Audit finding**

During the audit of Receivables, we identified misstatements on interest calculations performed by management. Upon scrutinizing each individual debtor, it was noted that the incorrect interest charged was because of applying rates not yet gazetted by National Treasury. For example, under state owned accommodation we noted that an interest rate of 7,25% was applied by management for month November and December 2021. However, in terms of the Gazette no 45703 dated 31 December 2021, 7.25% was only applicable for January 2022 and February 2022.

Below is the table for the misstatements identified: For details on individual debtors, please refer to Annexure A and B:

Receivable from exchange transactions	Overstatement of receivables and revenue R
1. Accommodation debtor – Municipal Services ( <i>Overstatement</i> )	10 083 769.59
2. Accommodation debtor – Freehold Inter-governmental ( <i>understatement</i> )	(2 685 956.36)
<b>Total Misstatement</b>	<b>7 397 813.23</b>

#### **Impact.**

The above receivable balances, interest revenue and provision for impairment are misstated in the annual financial statements.

Non-compliance with section 40 (a) and (b) of the Public Finance Management Act (PFMA) as management did not prepare financial statements for the financial year in accordance with generally recognized accounting practice.

### **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.

Management did not ensure that correct interest rates are used and adequate reviews on interest calculations are performed.

### **Recommendation**

Management should ensure that the interest rates applied on outstanding debts are as per the rates gazetted by National Treasury for that period.

Management should make adjustments to receivables, interest revenue and impairment for provision where applicable.

### **Management response:**

#### ***Freehold – intergovernmental Accommodation debtors***

Client Name	PMTE-Calculations	AG-Calculations	Reasons for differences
Defense	2 873 736.14	1 954 447.57	The interest calculated by AG was based on capital amount which also accumulated interest and did not take into account some payments invoices issued.
Arts & Culture	181,698.85	189,487.61	The interest calculation for March 2022 by AG did not consider the opening balance. The interest calculated by AG for June and July 2021 was done twice for each month
Health	559,042.87	1,919,347.53	The calculated figures by AG were incorrectly done on accumulated interest. An outstanding invoice of R 7.9 for July interest was added twice. PMTE did not consider the opening in their calculation.
Correctional Services	62,138,794.17	64,469,004.09	AG did not consider the repayment of 1 <sup>st</sup> quarter invoice

Management agrees with the findings regarding accommodation charges freehold where the client departments as identified in this COFF were incorrectly charged an interest rate of 7% instead of 7, 25% for the month of November and December 2021 however we noted that Auditor General has performed its re-calculations for other months on wrong capital amount.

The table below is a comparison of calculations done by PMTE and AG as well as the reasons for differences: -

### *Freehold-intergovernmental Accommodation debtors*

PMTE did not perform the interest calculation for environmental Affairs however the amount calculated by AG did not consider dates when the quarterly invoices were issued.

The calculated differences between AG and PMTE calculations for other clients as per this COFF appear to be immaterial as the total amount for differences is R 78 thousand rands.

Annexure A COFF 32 is attached for amounts re-calculated and the overall misstatements amount R 3,088,273.80 for freehold intergovernmental and it has resulted in the overstatement of debtors balance, interest charge.

The total amount overstated appears to be immaterial in relation to the total debtor's balances, interest charge, and impairment calculated and therefore adjustments are not recommended

### **Municipal Services**

Management is partially in agreement with the finding. In agreement with recalculation on months where the incorrect interest rate was used and in disagreements on recalculation of interest on incorrect capital balances. Upon estimation of the assessment of the quantum of the misstatement, the amount comes to R 1 794 940.67 which we believe is insignificant to make AFS adjustment. The methodology of the estimation was on recalculation of interest of 96% portion of the receivables. In future we will revisit the total population and adjust the incorrect interest accordingly.

### **Auditor's conclusion**

#### **Freehold Accommodation**

Comments from management are noted, we agree with some of the arithmetic differences identified. However, it should be noted that the set of data provided for audit did not include some of the amounts that are indicated by management. Despite the differences noted, management indicated that there will be no adjustment made. Therefore, the misstatement and the finding will be reported in the management report.

### **Municipal Services**

Management's comments are noted. During our discussion with management, it was identified that the differences between the auditor's interest re-calculations were mainly attributable to the age analysis used and interest rates applied by management which were not in terms of the gazettes for those specific months (November 2021, December 2021, January 2022, February 2022 and March 2022). The management's age analysis took into account the opening balances that were cleared on the age analysis that we used to re-perform the interest calculations. We have since obtained the age analysis that includes the correct opening balances, therefore the difference that remains of R6 075 296.35 is as a result of incorrect interest rates used.

However, we disagree with management that the remaining misstatements is R 1 794 940.67. The applied interest rates not yet gazetted by National Treasury for November 2021 – March 2022 were higher. Thus, the interests raised for those months resulted in an overstatement of interest. Based on our recalculations of interests for month November 2021 to March 2022 in terms of gazetted rates, we noted a total misstatement of **R6 075 296.35** remains. (Kindly refer to the annexure for workings performed).

## REVENUE FROM EXCHANGE TRANSACTIONS

### PMTE HO COFF 09 - Differences noted between Annual Financial Statements and supporting schedule

#### Laws and Regulations

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

Public Finance Management Act (PFMA) section 40(1)(a)(i) state 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...*”

Standard of Generally Recognised Accounting Practice (GRAP 1), paragraph 17 state 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 the financial statements submitted on the 31 May 2022, we noted that amounts on the annual financial statement (AFS) did not agree to the amounts on the supporting schedules submitted for Revenue from exchange transactions as outlined in note 17 to the AFS.

As a result, the following difference was noted as disclosed in the table below:

Description	Amount per AFS	Amount per supporting schedule	Differences
Management Fees on municipal services	186 343 000	173 866 314,42	(12 476 685,58)
Accommodation charged: Inter-governmental freehold	6 681 327 000	6 665 198 278,37	(16 128 721,63)
Accommodation charged: Leasehold Inter-governmental	4 986 723 000	5 159 646 839,67	172 923 839,67
<b>Total</b>			<b>144 314 381,34</b>

#### Impact

The above may result in the following:

- Non-compliance with section 38(1) (a) (i) and 40(1) (a) (i) of the PFMA.
- Non-compliance with paragraph 17 of GRAP 01.
- Understatement of the revenue from exchange transactions amount by R144 314 381,

#### Internal control deficiency

##### *Financial and performance management*

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

Management did not adequately review the amounts disclosed in the AFS prior to submission for audit.

#### Recommendation

It is recommended that

- Management should make the necessary adjustments on the AFS submitted for audit to ensure that accurate amounts are presented on the financial statements.
- Management should review the financial statements to ensure that the amounts agree to the amounts as per the supporting schedules.

Management response:

### COFF 09 Part 3

Description	Amount per AFS	Amount per supporting schedule	Differences
Accommodation charged: Leasehold Inter-governmental	4 986 723 000	5 159 646 839,67	172 923 839,67

Management is partially in agreement with the finding.

Management provided 2 schedules, first is for debtors age analysis, which includes the total amount invoiced. This amount invoiced includes manual invoices, interest, and management fees, however, does not consider accruals/prepayments adjustments or straight-lining adjustments.

The second schedule is for lease accruals, prepayments, and straight-lining. This GRAP calculation starts with Archibus invoices issued and includes accruals/prepayments adjustments and straight-lining adjustments, however it does not include manual invoices, interest, and management fees.

A reconciliation was performed to break down the amount per the AFS into line-item transactions. Please refer to Annexure A for the reconciliation. The reconciliation identified the following:

Description	Amount	Comment
Manual interest and management fees etc.	9 365 792.27	
July 2021 SAGE Error	-19 091 864.30	Error to be corrected
ZAGEN2104S1001489689	182 649 642.23	Journal processed to incorrect account
Total AG difference	<b>172 923 570.20</b>	R163 557 777.93 is a valid difference

During July 2021 SAGE was processing Archibus lease invoices, something went wrong, and the process had to be restarted, this resulted in some transactions to be duplicated on SAGE. This will be corrected

Journal ZAGEN2103S1001488735 for R182m was processed as part of the finalization of the AFS during September 021. This journal was not considered when we restated the lease accruals and straight-lining for March 2021. The implication is an overstatement in the March 2021 balances for Leasehold revenue as well as Debtors with credit balances. Please refer to RFI 105.

Journal ZAGEN2104S1001489689 for R182m (reversal of ZAGEN2103S1001488735) was processed for 2021-22 financial year. This journal was not taken into account when we restated the lease accruals and straight-lining for March 2022. The implication is an understatement in the March 2022 balances for Leasehold revenue as well as Debtors with credit balances. The equity balance will not change with this R182m as it is a timing issue between the current and the comparative financial years.

### Auditor's conclusion

Management response noted, a finding remains with a difference of R163 557 777.66 being the July sage error of R19 091 864.00 and the journal that was incorrectly processed of R182 649 642.23.

The adjustments that will be processed by management will be reviewed when the final adjusted AFS are provided.

## PMTE HO COFF 31 – Differences revenue from exchange transactions

### Requirements

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

Public Finance Management Act (PFMA) section 40(1)(a)(i) state 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...*”

Standard of Generally Recognised Accounting Practice (GRAP 1), paragraph 17 state 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...*”

### 2.

3. In terms of GRAP 13 leases Paragraph .60 state that the lease revenue from operating leases shall be recognized as revenue on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which benefit derived from the leased asset is diminished.
- 4.
5. GRAP 13 paragraph .61 further state that lease revenue (excluding receipts for services provided such as insurance and maintenance) is recognized on a straight-line basis over the lease term even if the receipts are not on such a basis, unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished.

### Nature

#### Issue 1

During the audit of revenue from exchange transactions - accommodation charges freehold private we noted that the lease revenue for freehold private was not recognized on a straight-line basis over the lease term. Management only recognized the rentals invoiced to the clients in the current year hence we noted variances between the recalculated straight lined lease revenue and the revenue recorded /recognized in the Annual Financial Statement as indicated in table A below:

Table A

No	Region	Customer no	Customer name	Rentals recognised	Recalculated Straight-lined amount	Differences
1	BLM	406887	Telkom	155 871,43	94 847,39	(61 024)
2	CPT	359919	Sea Harvest Corporation Ltd	1 389 133,50	889 300,51	(499 833)
3	CPT	360000	Premier Fishing SA (Pty) Ltd	518 525,44	332 743,47	(185 782)
4	CPT	360034	Lamberts Bay Food Ltd	517 850,07	2 151 079,82	1 633 230
5	CPT	361251	Tallie Marine (Pty) Ltd	800 794,20	698 968,77	(101 825748)
6	CPT	374407	Terrasan Management Services	548 090,43	409 771,88	(138 319)
7	CPT	377471	Hout Bay Boat Yard	560 304,76	482 922,53	(77 382)
8	CPT	377914	Rheinmetal Denet Munition	2 334 990,77	706 589,38	(1 628 401)
9	CPT	404723	Hout Bay Harvest Centre	831 096,00	757 877,29	(73 219)
10	CPT	406228	Abagold Ltd	920 736,99	762 382,17	(158 355)
11	DBN	48886	Rovish Entertainment (Pty) Ltd	30 971,44	96 430,32	65 459
12	DBN	405620	Abaqulusi Private Hospital	55 066,25	154 287,56	99 221
13	JHB	401198	Sentech Ltd	255 664,20	416 810,92	161 147
14	JHB	402687	Dudhia Investments CC	513 561,00	322 448,07	(191 113)
15	KIM	82969	Saamwerk Southwerk	437 821,00	217 343,43	(220 478)
16	KIM	395759	Vodacom	112 896,46	114 480,53	1 584

17	KIM	405820	Telkom SA (8TA)	126 720,77	131 544,18	4 823
18	NEL	400619	Izamix (Pty) Ltd	2 238 374,22	1 600 300,60	(638 074)
19	POL	388271	Eastgate Airport	1 307 858,40	730 402,29	(577 456)
20	PE	407192	Willow Academy	435 137,28	87 713,28	(347 424)
				14 091 464,61	11 158 244,38	(2 933 220,24)

## **Issue 2**

During the audit of interest revenue, we noted that the amounts for interest on bank account and implanting agents disclosed on the AFS does not agree with the confirmations received from third parties. As a results the following differences were noted as disclosed in the table below:

Interest component	Amounts as per AFS	Amounts confirmed	Difference
Interest on bank balances	904 000,00	43 520,01	(860 479,99)
Interest on prepayment	8 026 000,00	7 805 448,06	(220 551,94)
<b>Total</b>			<b>(1 081 031,93)</b>

## **Impact**

The above may result in the following:

- Non-compliance with section 38(1) (a) (i) and 40(1) (a) (i) of the PFMA,
- Non-compliance with GRAP 13 Leases
- Non-compliance with paragraph 17 of GRAP 01
- Revenue from exchange transactions is overstated by R4 014 252.17

## **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.

Management did not adequately review the amounts disclosed in the AFS against the relevant supporting documents prior to submission for audit.

## **Recommendation**

It is recommended that:

- Management should make necessary adjustments on the AFS submitted for audit in order to ensure that amounts recognised are accurate and supported by relevant information.
- Management should review the financial statements prior to submission for audit.

## **Management response:**

### **Management response:**

We partially agree with the finding for the following reasons:-

1. For the amounts indicated in the table below for 7 leases that relates to rentals recognized in the current financial year, we noted that the figures as per this COFF are not the same as the information that was submitted to AG for revenue on rental debtors and therefore we are unable to confirm them.

No	Region	Customer no	Rentals recognised	Rentals recognised in AFS from F 700 document
2	Cape Town	359919	1 389 133,50	653,184.17
11	Durban	48886	30 971,44	190,912.72

12	Durban	405620	55 066,25	217,038.51
13	Johannesburg	401198	255 664,20	1,512,394.94
15	Kimberly	82969	437 821,00	880,333.48
16	Kimberly	395759	112 896,46	407,172.28
17	Kimberly	405820	126 720,77	291,075.84
<b><u>TOTAL</u></b>			<b>R 2 408 273.62</b>	<b>R 4 152 111.94</b>

2. Some of the leases that were submitted by the regional offices had expired and have not been renewed hence the straight lining amount was not calculated in F 701 workings.

The table below is a list of expired leases.

No	Region	Customer no	Expiry date	Comment
1	Bloemfontein	406887	30 June 2017	
2	Cape Town	359919	1 August 2020	
3	Cape Town	360000		Month to month
4	Cape Town	360034	1 February 2000	
5	Cape Town	361251	30 April 2019	
7	Cape Town	377471	31 October 2020	
11	Durban	48886	31 May 2019	
12	Durban	405620	1 September 2020	
20	PE	407192		Month to month

3. Management noted the errors such as rental amount, escalation rates, start and end dates of the leases that were incorrectly captured in the workbooks are that caused differences between the amount calculated by AG and straight lining submitted in F 701 calculations. The table below indicates where the differences were identified in the comment column.

No	Region	Customer no	F 701 amount	PMTE Recalculated Straight-lining	Comment
6	CP T	374 407	148,715.26	409 771,88	An amount of R 24 192.50 was not added or taken into account in the workbook submitted as part of initial rental
9	CP T	404 723	34,866.82	118,392.6 1	The lease expired on 31 May 2021 and a monthly rental of R 17 433 was captured in the work book instead of R 49 470 as per the lease agreement
10	CP T	406 228	470,800.57	762 382,17	An amount of R 44 473.63 was not added or taken into account in the workbook submitted as part of initial rental and an incorrect escalation of 6% was also used
15	KI M	829 69	0.00	326,586.6 7	Lease start and end-date was incorrectly captured in the workbook received for AFS
16	KI M	395 759	0.00	114 480,53	Lease start and end-date was incorrectly captured in the workbook received for AFS
17	KI M	405 820	0.00	136,333.8 2	date was incorrectly captured in the workbook received for AFS

## Auditor's conclusion

### Issue 1

Management response not received, the finding remains and will be included as part of uncorrected misstatements.

### Issue 2

Management response noted. The journals provided were tested however, there was no evidence provided as to why the journal for interest was processed, (e.g. bank statement). Therefore, the finding remains and will be included as part of uncorrected misstatements.

Therefore, the whole finding remains.

## PMTE HO COFF 37 – Revenue from exchange transactions internal control deficiency

### Requirements

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

Section 45 (1) (a) of the Public Financial Management Act on Responsibilities of other officials states that “*An official in a department, trading entity or constitutional institution must ensure that the system of financial management and internal control established for that department, trading entity or Constitutional institution is carried out within the area of responsibility of that official;*”

PMTE Financial Delegations 2017 state that “*All journals should adequately supported documentation detailing the reasons why such journal is processed. The approval of journals is delegated as follows:*

- Chief Director/ Directors: Unlimited
- Deputy Directors or equivalent: R50 000 000.00
- Assistant Directors or equivalent: R20 000 000.00”

### Nature

#### Issue 1

During the audit of adjustments made on revenue-freehold intergovernmental which is made up of the credit notes as listed on the below, we noted that there were no approvals of credit note processed as per PMTE standard operating procedure.

No	Department	Credit notes	Amount	Period
1	Rural Development and Land Reform	ZACCN2202S1001024269	- 12 781 404,78	1 April - June 2021
2	Rural Development and Land Reform	ZACCN2202S1001024269	- 12 781 404,78	1 July - Sept 2021
3	Rural Development and Land Reform	ZACCN2202S1001024270	- 12 781 404,78	1 Oct - 31 Dec 2021
4	Rural Development and Land Reform	ZACCN2202S1001024271	- 12 781 404,78	1 Jan - 31 Mar 2022
5	Rural Development and Land Reform	ZACCN2203S1001024548	- 18 140 028,81	31-Mar-22

#### Issue 2

During the audit of journals processed under revenue from exchange transactions, we noted that the following journal was processed to the revenue general ledger; however, there was no approval from the delegated official as per PMTE Financial Delegations 2017.

No	Account description	Accounting Date	Amount	Line Description (reason for journal)	Account	Jnl no.
1	Accom Chrgs - State Owned-Rev	2021/10/31	- 16 388 257,76	DOJ Payment transfer	4749	ZAGEN2105S1001563240

## Impact

The above may result in the following:

- Deficiency in internal control
- Validity of the journals and credit notes processed could not be confirmed since there was no approval for journals and credit notes recognized.

## Internal control deficiency

### *Financial and performance management*

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Management did not approve the credit note and journals processed.

## Recommendation

Management should ensure that journals and credit notes processed are approved, reasons for journals are documented and adequate supporting documents are kept secured for audit purposes. This will ensure that journals and credit notes recognized are valid.

## Management response:

We do not agree with finding for the following reasons:- Refer to paragraph 133 page 54 of 88 of the attached Financial delegations.

## Issue 1

The credit notes issued for Rural Development which amounts to R 51 million emanates from a dispute by the client where they indicated that they will not pay the invoices as it includes properties that do not relate to office accommodation and further they said the properties attached to the amount above is not a complete list for which they occupy state-owned buildings. As a result of this, a new user charged per property was determined which included the additional information and presented to the client by PMTE. Therefore, the initial invoice was then cancelled with credit notes stated and new invoice for the full year was issued based on the calculated user charge of R 102 million.

There is no journal that was done in correcting or addressing the disputes raised by the client instead a credit note was issued and also provided to AG on request as part of RFI to support the validity.

The credit note of R 18 140 028,81 is also not a journal and it was issued due to correct an error that was made by the client where they used a credit note that relates to lease hold intergovernmental account to reduce the payment of the above indicated invoice amount of R 102 million. Documents regarding this was also provided to Auditor as part of RFI.

## Issue 2

The journal was captured incorrectly and the correction journal will be passed as per COFF 09 proposed adjustment journal by management.

**Auditor's conclusion**

**Issue 1**

Management response noted, however, there were no approvals of credit note processed as per PMTE standard operating procedure.

**Issue 2**

Management response noted, however, the approval of the journal was not done by the delegated official as per PMTE Financial Delegations 2017.

Therefore, the whole finding remains.

## **Overstatement of Management Fees and Understatement of Prepayments**

### **Laws and Regulations**

Section 40 (a) and (b) of the Public Finance Management Act (PFMA) 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 and must prepare financial statements for each financial year in accordance with generally recognized accounting practice"*

Public Finance Management Act (PFMA) section 38(1)(a)(i) 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;"*

Standard of 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. The application of Standards of GRAP with additional disclosures, when necessary, is presumed to result in financial statements that achieve a fair presentation"*

### **Nature**

#### Issue 1

During the audit of management fees, a variance was noted between amount that was paid (R891 583.17) as per the General ledger/PMIS system and the supporting documents as per the payment batch which included invoices and statements. We inspected the payment batch and confirmed the amount due was R121 083.17 as per invoice no: 46004871073 for account number 220058550 dated 5 August 2021.

Based on the above, the region over-paid the Municipality by R770 500.00, which results, into overstatement of management fees on municipal services (R770 500 X 5% =R 38 525.00) and Prepayments were understated by R770 500.00.

Description	Management Fees (Revenue)	Prepayments (Current Assets)
<i>Understatement and (Overstatement) of Accounts</i>	(R 38 525.00)	R 770 500.00

#### Issue 2

During the audit of management fees, a variance was noted between amount that was paid of R6 247 519, 12 as per the General ledger/PMIS system the supporting documents as per the payment batch which included invoices and statements. We inspected the payment batch and confirmed the invoices provided did not add up to R6 247 519, 12. We further confirmed, upon inspection of the statement from City of Jo'burg (with account no: 500100483) that the balance due as of January 2022 was R3 690 210, 93.

Based on the above, the region over-paid the Municipality by R2 560 965.19, and municipality fees charged of 5% were also overstated (R2 560 965.19 X 5% =R128 048.26) and prepayments were underestimated by R2 560 965.19.

Description	Management Fees (Revenue)	Prepayments (Current Assets)
<i>Understatement and (Overstatement) of Accounts</i>	(R 128 048.26)	R 2 560 965.19

## **Impact**

- Overstatement of management fees by R166 573.26 (R128 048.26+ R38 525).
- Understatement of prepayments by R3 331 465.19 (R770 500 + R2 560 965.19).
- Management need to determine the impact on receivables from exchange transactions
- Non-compliance with GRAP 1, paragraph 17 requiring fair presentation of annual financial statements.
- Non-compliance with section 40(1)(a)(i) of the Public Finance Management Act (PFMA) that requires accounting officers for state owned entities and departments to keep accurate, full and proper records of the entity's financial affairs

## **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.

Management did not adequately review the management fees supporting evidence to ensure that the amounts included in the schedule are accurate and are supported by reliable evidence.

Management did not adequately review the municipal service payment batches to ensure that the amounts paid to municipalities are supported by reliable evidence.

## **Recommendation**

Management should:

- Review the management fees schedule against the supporting evidence to ensure that the monies paid to municipalities are accurate and are supported by reliable evidence.
- Make proposed adjustments to the financial statements and provide the proposed adjustments to auditors for concurrence before any final adjustments are made.
- Determine the overall impact of the transactions on other financial statement areas such as receivables from exchange transactions.

## **Management response: Issue 1**

Management partially agrees with the finding.

The Department acknowledges that an overpayment was made to the municipality amounting to R770 500 during the month of August 2021. However, the Department realised the overpayment in the same month (as part of the monthly accounts reconciliation processes followed) and stopped making payment against the consumption or billings on the same account from September 2021 until the credit or overpayment was utilised through the monthly consumptions on the account. The account is currently up to date.

Furthermore, the Department prepared the annual financial statements as at 31<sup>st</sup> March 2022 and reported the debt owed by municipalities at municipal level and not at account level. As a result, the amount disclosed on municipal account requires no adjustment as it is supported by the age analysis/statement of accounts obtained from the municipalities and reasonable estimates. **(Refer to Annexure D as highlighted in yellow)**

The Department will develop and enhance controls within the payment section that ensures that municipal payments are reviewed adequately and reconciliations performed before and after payments are made.

No Corrections will be made since the error is not significant (Less than 1% of the total Management Fees).

The overpayment requires no adjustment to annual financial statements on the bases that the Department reported the amount owed by municipalities at municipal level and not account level. The reported amounts are supported by the age analysis and/or reasonable estimates

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

We acknowledgement's managements partial acceptance of the audit finding. We also noted that management raises accruals as per the property and not based on debt owed at the municipal level. The audit finding remain, the misstatement identified will be included in the schedule of uncorrected errors and evaluated with other misstatements.

#### **Management response: Issue 2**

Management partly agrees with the finding.

The Department acknowledges that an overpayment was made to the municipality amounting to R2 560 965.19 during the month of January 2022. However, the Department realized the overpayment in the same month (as part of the monthly accounts reconciliation processes followed) and stopped making payment against the consumption or billings on the same account from February 2022 until the credit or overpayment was utilized through the monthly consumptions on the account.

Furthermore, the department prepared the annual financial statements as at 31<sup>st</sup> March 2022 and reported the debt owed by municipalities at municipal level and not at account level. As a result, the amount disclosed on municipal account requires no adjustment as it is supported by the age analysis/statement of accounts obtained from the municipalities and reasonable estimates. (**Refer to Annexure D as highlighted in yellow**)

The department will develop and enhance controls within the payment section that ensures that reviews on municipal payments are reviewed adequately, and reconciliations performed before and after payments are made.

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

We acknowledge management's partial acceptance of the audit finding. We also noted that management raises accruals as per the property and not based on debt owed at the municipal level. The audit finding remain, the misstatement identified will be included in the schedule of uncorrected errors and evaluated with other misstatements.

Therefore, the whole finding remains.

## EXPENDITURE

### PMTE PTA COAF 04 - Overstatement of expenditure - Subsistence and travel expenses

#### Requirements:

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

Section 38(1)(a)(iii) of the Public Finance Management Act states that: "*The accounting officer for a trading entity has and maintains an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective...*"

According to the GRAP 1.05 definitions, Accrual basis means a basis of accounting under which transactions other events and conditions are recognised when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions, other events or conditions are recorded in the accounting records and recognised in the financial statements of the periods to which they relate. The elements recognised under accrual accounting are assets, liabilities, net assets, revenue, and expenses.

Furthermore GRAP 1.05 defines Expenses as decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of liabilities that result in decreases in net assets, other than those relating to distributions to owners.

#### Nature

During the audit of **Expenditure – Subsistence and travel expenses** we noted that the trip authorization for the Lesiba Papo – Chief Artisan was authorized on 05/11/2020 and the invoice date relating to the transaction was on the **12/01/2021** which falls under the prior financial period (2020-2021). However, this transaction was recorded on the **24 May 2021** which falls within the current financial period (2021-2022). The cut off period for the current financial period is 1 April 2021 – 31 March 2022.

As per the accrual basis of accounting, expenditure should be recorded as incurred and not when payment has been done. The amount of R37 056.30 was incurred in the 2020/21 period when it was first approved, and the employee travelled on the 08/11/2020. Therefore, the expenditure was supposed to be recorded in the prior year financial period and not the current year. Refer to the table below for transaction details:

Invoice date	Accounting date	Date of approval PW21	Approved period Trip Approved (PW21)	Name if employee	Amount
12/01/2021	24/05/2021	05/11/2020	08/11/2020 – 08/12/2020	Lesiba Papo – Chief Artisan	37 056

#### Impact

This has resulted in the:

- Overstatement of expenditure: S&T by R37 056.
- Non-compliance with GRAP 01 and section 38 of the PFMA Act

#### Internal control deficiency

##### Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

##### Financial and performance management

Management did not review and monitor compliance with the presentation and disclosure.

### **Recommendation**

It is recommended that management should ensure that expenditure is recorded when incurred and not defer the recording of expenditure to the next financial period. This will ensure that an accrual basis of accounting is applied appropriately.

Management should make proposed adjustments to the financial statements and provide the proposed adjustments to auditors for concurrence before any final adjustments are made by adjusting the prior year financials with the expenditure.

### **Management response:**

Management agrees with the finding. Due diligence will be exercised in future to ensure that transactions are accounted for in the correct accounting period. The misstatement is isolated and seems immaterial if the opportunity to adjust is available, we will adjust accordingly.

### **Auditor's conclusion**

Management's commitment to exercise due diligence in future to ensure that all accruals are disclosed and are accurate is noted. The misstatement will be included to uncorrected misstatements to assess the impact in aggregate, and therefore the finding remains and will be included in the management report.

## **PMTE PE COAF 02 - Expenditure – property rates not paid within 30 days period**

### **Requirements**

Public Finance Management Act (PFMA) section 38(1)(f) state 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.*”

### **Nature**

During the audit of expenditure – property rates, we noted that the property rate payment of Raymond Mhlaba Municipality for period 31 July 2021 – 30 June 2022 was paid late. We noted that the payment was made more than 30 days after receipt of invoice. Refer to the schedule below for the details:

Payment Number	Amount	Beneficiary/ Supplier Name	Invoice number	Date invoice received by DPWI registry	Payment/ Settlement Date	Time taken to pay the invoice.
8000	R2 631 074.25	Raymond Mhlaba Municipality	Various invoices	2021/08/23	2021/12/22	121

### **Impact**

- Non-compliance with PFMA Act s38 (1) (f) and Treasury regulation 8.2.3.

### **Internal control deficiency**

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

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

### **Recommendation**

It is recommended that payments must be made within the 30 days from the receipt of the invoice and when there are unforeseen circumstances that may result in payments not being made timeously, this be communicated to the affected suppliers to renegotiate payment terms and correspondences be kept for audit trial.

### **Management response**

Management agrees with the finding.

Management would like to advise that verbal communication had been taking place between the DPWI and the Supplier in which we agreed on the delayed processing of payment. Unfortunately, we did not reduce these conversations to an email or a memorandum.

Management would also like to advise that this finding will also be included in the regional office Audit Action plan to action the AG's recommendation and monitor on a continuous basis.

### **Auditor's conclusion**

We note management's acceptance of the audit finding. Further, we note management's reassurance of the engagements with the municipality to ensure penalties are not levied on the outstanding amount.

We advise management to proceed as per the recommendation listed above to avert future non-compliance. The audit finding will be included in the management report.

## **PMTE MMB COAF 05 - Requested information not provided (Limitation of scope)**

### **Requirements**

Section 41 of the Public Finance Management Act (PFMA) 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*”.

### **Nature**

During the final audit for Mmabatho Regional Office, the following requested information was not submitted to the auditors within the timeframe and is to date still outstanding.

RFI no.	Information outstanding	RFI request date	RFI due date
RFI 10: Accruals	Other Accruals: - E967376491 - E680407825	22 June 2022	24 June 2022
RFI 17: Expenditure	Property rates: - ZAPNV2111S1007007625 - ZAPNV2201S1007029238  Subsistence and Travel Allowance - ZAPNV2107S1007974487 - ZAPNV2203S1007047699  Property Maintenance - ZAPNV2112S1007025181	22 June 2022	24 June 2022

### **Impact**

A limitation of scope on the planned audit procedures should the information not be received within the next five days.

Furthermore, inefficiencies are noted in the audit since additional time has to be spent following up on outstanding information that is overdue, thus impacting on the budget of the audit.

### **Root cause**

The above is due to:

Not all officials understanding the audit process and the importance of submitting the requested documentation within the required timeframe.

### **Internal control deficiency**

#### *Financial and performance management*

Management 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.

### **Recommendation**

It is recommended that:

- Officials within the entity to be made aware of the audit process and importance of submitting accurate and complete information to the auditors within the required timeframe.
- Management to ensure compliance with internal controls regarding the submission of information as requested by the AGSA within the agreed upon timeframe as per the engagement letter.

- Priority is given to the outstanding information as indicated above and that such information is submitted without further delay.

**Management response:** Management agrees with the finding, the requested information was not found during the audit however the information was found and was forwarded to auditors on 08/07/2022.

#### Auditor's conclusion

1. Management response noted however insufficient information was provided for the following invoices relating to property rates, as a result we could not recalculate the property rate amount, classification and occurrence and no information was provided for the below Subsistence & Travel Allowance Expenditure:

RFI no.	Information outstanding	RFI request date	RFI due date
RFI 17: Expenditure	Property rates: - ZAPNV2111S1007007634 - ZAPNV2111S1007007625 - ZAPNV2201S1007029238  Subsistence and Travel Allowance - ZAPNV2203S1007047699	22 June 2022	24 June 2022

Therefore, the finding for the above item is not resolved.

## **PMTE KMB COAF 05 – Overstatement of Other Sundry Expenditure - Losses incurred recorded in the incorrect financial period**

### **Requirements**

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

Public Finance Management Act (PFMA) section 40(1)(a)(i) state 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...*”

Standard of 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. 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 **losses incurred**, we have identified that the following transaction relating to losses incurred was recorded in the incorrect period:

Regions	Transaction Description	Accounting Date	Account Number	Amounts
Kimberly	Thefts And Losses	3/28/2022 0:00:00	000814	158 079,10

We noted that the memorandum to approve the write off irrecoverable losses to the state was approved on the 14 September 2020 therefore the loss was incurred during the 2020 - 2021 financial period however was recorded in the 2021 - 2022 financial period:

### **Impact**

This resulted in the:

- Overstatement of losses incurred by R158 079.1

### **Internal control deficiency**

#### *Financial and performance management*

Management did not implement controls over daily and monthly processing and reconciling of transactions to ensure that all transactions are accurately recorded in the correct financial period.

### **Recommendation**

Management should perform adequate review of financial statements to ensure that all all transactions are accurately recorded in the correct financial period

Management should adjust the financial statements to correct the misstatements identified and submit the schedule of the adjustment processed to auditors.

Management agrees with the finding

### **Auditor's conclusion**

Management response noted, the finding remains and will be reported accordingly in the management report

## PMTE DBN COAF 15 - Payment not made within 30 days

### Requirements

Public Finance Management Act (PFMA) section 38(1)(f) states 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.*”

### Nature

During the audit of property maintenance, we noted that the entity had two identical invoices submitted by the supplier with different registry stamp dates. The first invoice dated 14 December 2020 stamped on 2021/02/17 which was indicated as cancelled (Handwritten). Reasons of the cancellation of the first invoice were not stated and there were not supporting documents in the batch to support the cancellation of the invoice.

We further noted that the invoice subsequently used for payment was **still dated 14 December 2020** however the stamp date indicating when the invoice was received was 03 June 2021. We did not obtain evidence that the entity obtained a new invoice from the supplier, or they used the same invoice that was received on the 17 February 2022. Refer to the details:

Invoice number	Invoice date	Date of receipt of invoice	Date of receipts of the invoice	Amount
2020/888	14 December 2020	17 February 2021	03 June 2021	1 040 929

In the absence of the valid supporting documents to explain the cancellation of the first invoice received, it is evident that the invoice **was not paid within 30 days** as required by legislation as the entity was in possession of this invoice from 17 February 2021. No supporting information was received from management indicating that they received a new invoice from the supplier replacing the invoice dated 14 December 2020.

### Impact

The above results to the following:

- Non-compliance with Section 38(1)(f) of the Public Finance Management Act
- Non-compliance with Treasury Regulations 8.2.3

### Internal control deficiency

#### *Financial and performance management*

Management did not review and monitor compliance with applicable laws and regulations. They did not ensure payments are made within 30 days as required by legislation.

### Recommendation

It is recommended that payments must be made within the 30 days from the receipt of the invoice and when there are unforeseen circumstances that may result in payments not being made timeously, this must be communicated to the affected suppliers to renegotiate payment terms and correspondence kept for audit purposes.

### Management response:

This office agrees with the finding.

It is regrettable that the payment had not been done in the stipulated time period.

The payment could not be done due to issues outside the control of the Durban Regional Office as indicated in the "Cancelled" invoice attached to the payment.

In future, all will be done to ensure that the financial approvals are in place before the invoice is received from the service provider.

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

Management comments noted, the finding remains and will be reported as such in the management report.

## **PMTE NEL 02 - Overstatement of expenditure – Recognition of capital expenditure under property maintenance**

### **Requirement:**

Section 40 (a) and (b) of the Public Finance Management Act (PFMA) 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 and must prepare financial statements for each financial year in accordance with generally recognized accounting practice*”

Public Finance Management Act (PFMA) section 38(1)(a)(i) 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;*”

Standard of 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. 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 property maintenance expenditure, we have noted that the following expenditure currently recognized as property maintenance in the general ledger was of capital in nature and was further noted to be recognized under assets under construction in the current year.

Upon further assessment of year-end journals, we confirmed that the expenditure did not form part of the year-end journal that transfers previously recognized property maintenance expenditure to capital expenditure therefore, resulting in the expenditure being accounted for twice:

<b>WCS No</b>	<b>Service provider</b>	<b>Description</b>	<b>Payment Nr.</b>	<b>Amount</b>
51762	Mahlatsi tumelo cost c	Condition based maintenance on Civil Electrical and Structural Elements of station and official Quarters.	ZAPNV2106S100 8961272	1 296 609,09

### **Impact**

- This results in overstatement of property maintenance by R1 296 609.
- Non-compliance with GRAP 1, paragraph 17 requiring fair presentation of annual financial statements.

### **Internal control deficiency**

#### *Leadership*

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Management did not ensure that capital expenditure related to capital projects are recognized accurately in the general ledger.

#### *Financial and performance management*

Management did not implement controls over daily and monthly processing and reconciling of transactions.

Management did not ensure all related capital expenditure were appropriately recognised and classified under assets under construction.

## **Recommendation**

- It is recommended that management ensures that sufficient reviews are performed to ensure that the annual financial statements sufficiently comply with the Standards of Generally Recognized Accounting Practices.
- Management to ensure that all capital expenditure related to capital projects are recognised appropriately as capital expenditure.
- Management should make proposed adjustments to the financial statements and provide the proposed adjustments to auditors for concurrence before any final adjustments are made.

## **Management response:**

Management is not in agreement with the finding, to ascertain all expenditure for relating to capital projects, a WCS report is used.

If you follow the attached WCS report you will see that the supplier was paid an amount of R292,598.79 in the year ending 2021. which is for “Secunda police station repairs and maintenance of electrical, civil, mechanical and structural elements of station and official quarters”.

You will also follow that the supplier was paid an amount of R1,296,606.09 in the year ending 2022. which is for “Secunda police station repairs and maintenance of electrical, civil, mechanical and structural elements of station and official quarters”

As per our methodology, if we are going to restate prior years, we first open all prior years and reverse all Journals relating to Assets, then we restate using current information.

Please see attached Annexure A (which the expenditure schedule used), Annexure B (Journal for 2021 posted) and Annexure C (Journal for 2022 posted).

## **Refer Annexure D (BOQ and PI)**

## **Auditor's conclusion**

Management's response is noted however, it does not address the matter communicated in the finding.

The issue related to property maintenance expenditure recognized as property maintenance in the general ledger but was further recognized as a capital expenditure under assets under construction in the current year. Therefore, resulting in the expenditure being recorded twice.

Management has not provided any supporting documentation to prove that the expenditure was transferred from property maintenance to WCS expenditure at year-end.

Therefore, the finding remains

## **PMTE NEL COAF 03 - Overstatement of expenditure – Basic charges misclassified as property rates**

### **Requirement:**

Section 40 (a) and (b) of the Public Finance Management Act (PFMA) 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 and must prepare financial statements for each financial year in accordance with generally recognized accounting practice*”

Public Finance Management Act (PFMA) section 38(1)(a)(i) 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;*”

Standard of 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. 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 property rates expenditure, we have noted that the following expenditure currently recognised as property rates in the general ledger also includes basic service charges provided by the municipality. Based on the supporting documents provided, basic charges were recognized together with property rates for the invoices that were provided for properties under Lekwa Local Municipality.

<b>Supplier name</b>	<b>Account description</b>	<b>Payment batch</b>	<b>Amount</b>
Lekwa Local Municipality	Mun B/Acc:Mun Rates And Taxes	8989*0783*000001	Unquantifiable

Therefore, the misclassification of basic service charges results in an overstatement of property rates. It was further noted that this is re-curing finding from prior years and the misclassification occurs due to operational challenges experienced when charging their client departments, however the entity is able to recognize the basic service charges accordingly.

### **Impact**

- This results in overstatement of property rates charged by Lekwa Local Municipality
- Non-compliance with GRAP 1, paragraph 17 requiring fair presentation of annual financial statements.

### **Internal control deficiency**

#### *Leadership*

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Management did not ensure that basic service charges are recognized and classified correctly in the general ledger based on supporting invoices provided.

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

Management did not adequately develop an action plan that addresses the classification of basic service charges in accordance with the applicable GRAP requirements whilst also addressing the operational gaps within the entity concerning charging client departments.

## **Recommendation**

- It is recommended that management ensures that sufficient reviews are performed to ensure that the annual financial statements sufficiently comply with the Standards of Generally Recognized Accounting Practices.
- Management to ensure that all basic services charges are accounted for and classified appropriately as municipal services.
- Management should make proposed adjustments to the financial statements and provide the proposed adjustments to auditors for concurrence before any final adjustments are made.

## **Management response:**

Management is partially in agreement with audit finding, however basic charges are levies, paid/billed together by municipalities with rates and taxes are irrecoverable expenditure. According to SCoA are classified as Transfers and Subsidies and are inseparable. Currently the regional office does not have a process to separate the two transactions, hence the transactions were combined

## **Auditor's conclusion**

Management's response is noted however, the finding remains based on the following:

Basic charges are core services that local government provides as these relate to clean drinking water, sanitation, electricity, shelter, waste removal and roads as these are basic human rights enshrined in our Constitution. Therefore, management's statement that basic charges are levies, paid/billed together by municipalities with rates and taxes is incorrect as these are basic municipal charges and not part of rates and taxes.

Management is to align PMIS to the nature of services received from municipalities by creating a separate nominal code for basic charges invoiced from Municipalities.

## **PMTE HO COFF 20 - Incorrect Classification of Expenditure (travel and Subsistence)**

### **Laws and Regulations**

Section 40 (a) and (b) of the Public Finance Management Act (PFMA) 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 and must prepare financial statements for each financial year in accordance with generally recognized accounting practice"*

Public Finance Management Act (PFMA) section 38(1)(a)(i) 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;"*

Standard of 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. 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 Annual Financial Statements relating to the entity, we noted the following transaction for Travel and Subsistence were incorrectly classified in the General Ledger:

1. The following Payment batch relating to a claim from the Department of Arts and Culture at a total amount of R2687250, 77 (composed of salary related payments, Accommodation, food and beverages etc. Of the above stated amount, the only portion of the claim that related to Accommodation is R10 340. Therefore a total of (R2 687 250, 77 - 10 340) R2 676 910, 77 has been incorrectly classified:

Regions	Transaction Description	Accounting Date	Account Number	Amounts
Head Office	T&S Non Empl: Accommodation	3/25/2022	003363	2 687 250,77

2. The transaction has been classified as a foreign accommodation, however per inspection of the supporting documents it is a domestic accommodation (as the employee utilized Akani Apartments).

Regions	Transaction Description	Accounting Date	Account Number	Amounts
Head Office	T&S Foreign: Accommodation	8/12/2021 0:00:00	003371	27 550,00

### **Impact**

- Overstatement of Accommodation by R 2 676 910,77 and an overstatement of foreign accommodation by R27 550

### **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 by ensuring that the expenditure transactions are appropriately reviewed and classified correctly in the Annual Financial Statements.

### **Recommendation**

- Management should ensure that sufficient reviews are performed to ensure that the annual financial statements sufficiently comply with the Standards of Generally Recognized Accounting Practices.
- Management should also process the correcting journal entries to correct the above misclassifications.

### **Management response**

Management agrees with the finding. Corrective action to be taken is the reclassification of the amounts. Process re-allocation journal(s), which will not affect profit / loss, i.e. R 2 676 910,77 process to the relevant Salaries Account number.

### **Auditor's conclusion**

Management comments noted, the finding remains and will be reported accordingly.

## RETENTION LIABILITY

### PMTE DBN COAF 16 - Understatement of retention

#### Requirements

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

Public Finance Management Act (PFMA) section 40(1)(a)(i) state 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...*”

Standard of 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. 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 **retention liabilities**, we have identified projects that were subject to retention % as per the contracts. However, when we inspected the retention schedule, we noted that these projects were not included resulting in the completeness issue. Refer to the table below:

WCS number	Supplier name	Contract start date	Value of Work done + CPAP as per the latest Payment Certificate	Retention % as per the contract	Amount
46725	Umzingwane Construction and Projects CC	30-Jun-16	R 8 615 838,17	10%	861 584
53594	Thenga Holdings (PTY) LTD	19-Sep-19	R 39 246 890,07	10%	3 924 689
					4 786 273

#### Impact

This resulted in the:

- Understatement of the retention liability by R4 786 273.

#### Internal control deficiency

##### Financial and performance management

Management did not implement controls over daily and monthly processing and reconciling of transactions to ensure that all projects which have a stipulated retention percentage on the contracts have a calculated retention amount and are included in the retentions schedule.

#### Recommendation

Management should perform adequate review of the retention listing to ensure that all projects which have a retention as per the contract are listed on the retention schedule.

Management should adjust the financial statements to correct the misstatements identified, by calculating the retention amount for each of the above projects based on the last payment certificate for the current financial year.

## **Management response:**

**WCS046725**

**This office is not in agreement with the finding.**

Retention amount for this project had been withheld in line with the conditions of contract up to payment number 12. In this payment, the total value of R 410 356.86 had been withheld for retention. At that point in time, the contractor was not able to update his financial banking details as required by the Department. A submission was drafted to the DDG to request approval to allow the direct payment of the sub-contractor for works that he performed and to complete what he was busy with. (copy attached for your ease of reference).

The submission clearly indicates that the amount available is inclusive of the retention amount that was kept from the main contractor.

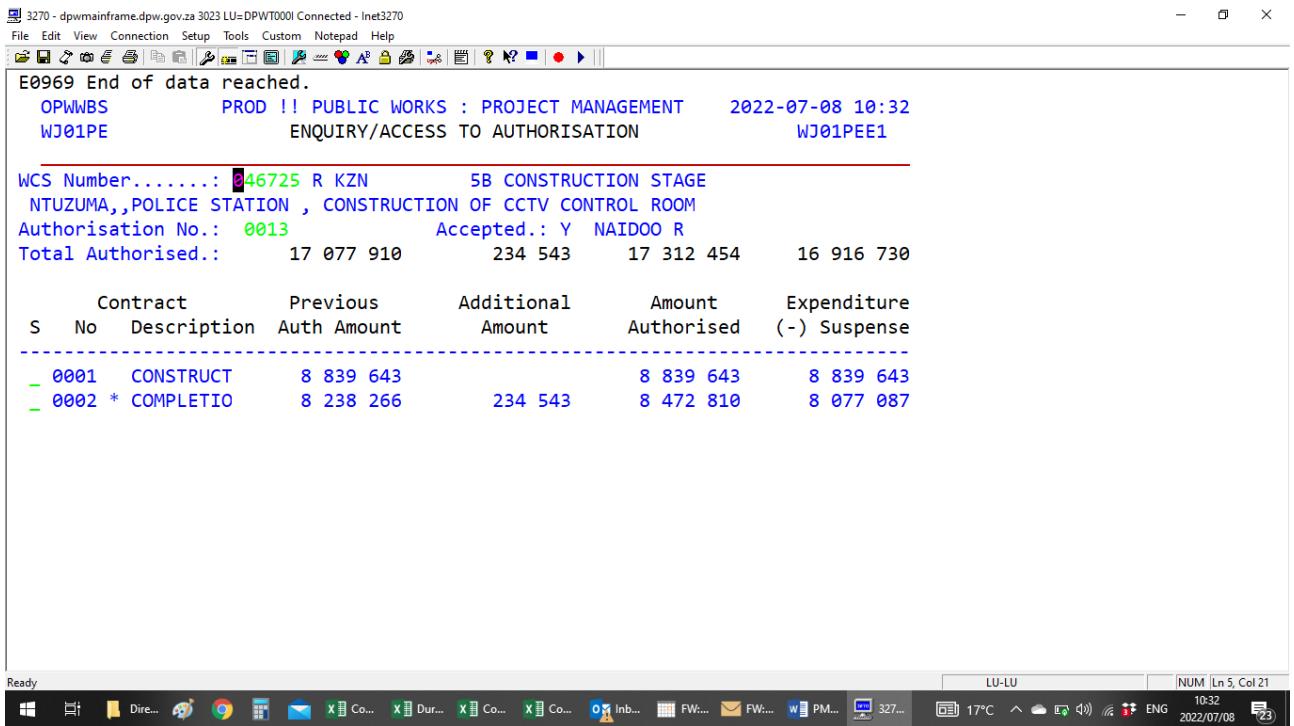
The WCS was thus updated in,

1. A "Nul balance payment" was done on the system to remove the retention form the main contractor.
2. The amount retained remained in the authorized amount.
3. Payments were then made to the sub-contractor, using the authorized amount, which in turn, included the retention monies from the main contractor.

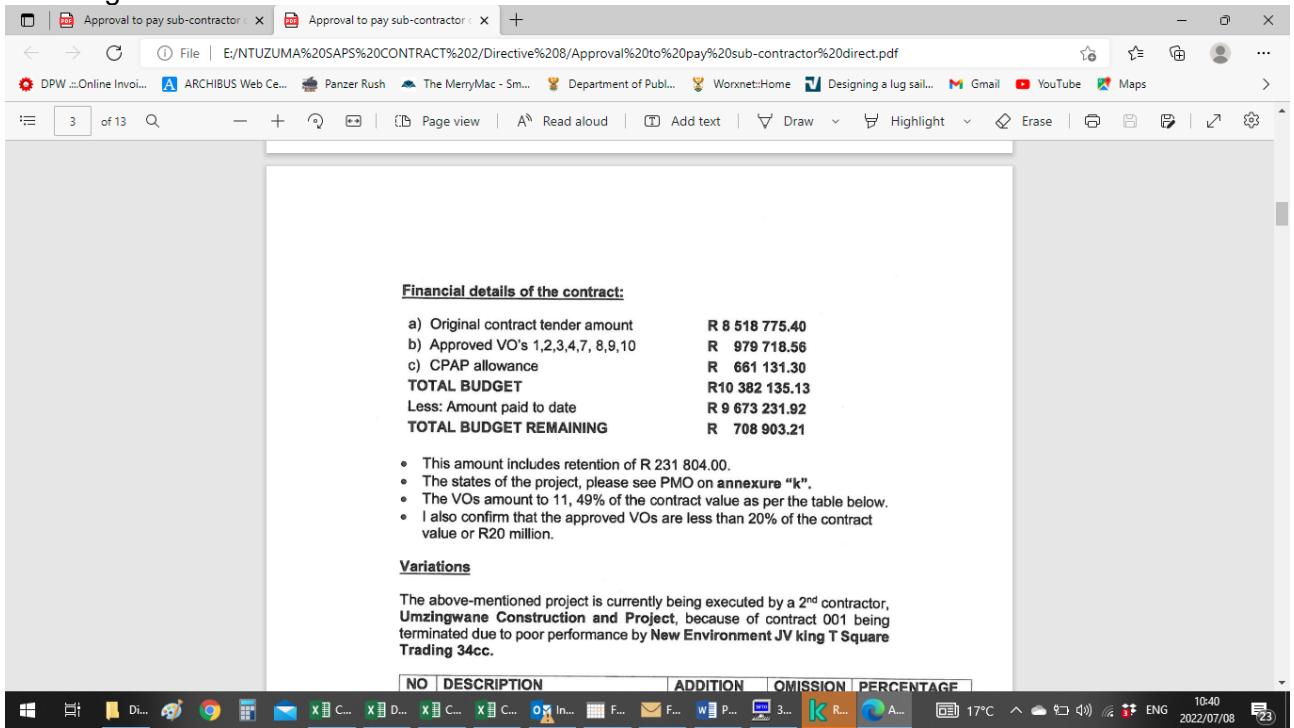
This screenshot of the WCS indicates the retention held under contract 0002 to the value of R410356.86

The screenshot shows a software window titled 'OPWWBS PROD !! PUBLIC WORKS : PROJECT MANAGEMENT' with the date '2022-07-08 09:33'. The user is identified as 'WM20PEE1'. The report details a distribution to '8400 WCS:DURBAN: (031) 332-1211' with a 'WCS number' of '046725 R KZN'. The project is '5B CONSTRUCTION STAGE NTUZUMA,, POLICE STATION , CONSTRUCTION OF CCTV CONTROL ROOM'. The contract number is '0002 COMPLETION OF CONTRACT 0001'. The contractor is listed as 'U203 UMZINGWANE CONSTRUCTION AND PROJECTS' with an address '93 DALE ROAD,GLEN AUSTIN,MIDRAND,GAUTENG,1618'. A 'PAYMENT DETAIL' table is displayed, showing debit amounts on the left and credit amounts on the right. The table includes rows for 'VALUE OF WORK', 'MATERIAL ON SITE', 'MATERIAL OFF SITE', 'CPAP (MAIN CONTRAC', 'NCS'S-CPAP INCLUDE', 'MAT. ON SITE CIV.', 'MISCELLANEOUS PLUS', and 'CPAP (SUSPENSE)'. A subtotal row shows 'Subtotal B.....:' with a value of '7 796 780.25'. The credit amount for 'RETENTION MONEY' is '410 356.86'. The table has a dashed border and is set against a black background. The software interface includes a menu bar with File, Edit, View, Connection, Setup, Tools, Custom, Notepad, Help, and various toolbar icons. The taskbar at the bottom shows several open applications and the system clock.

This screenshot indicates the authorised amount



The following is a screenshot of the mentioned submission to the DDG indicating the financial status, including the issue of the retention.



The following is a screenshot of the wcs payments, which includes payments 014A and 015A to the sub-contractor as approved.

OPWBTS PROD !! PUBLIC WORKS : PROJECT MANAGEMENT 2022-07-08 10:33 WG09PE PROGRESS PAYMENTS PER CONTRACT WG09PPE1							
WCS number.....: 046725 R KZN 5B CONSTRUCTION STAGE							
NTUZUMA,,POLICE STATION , CONSTRUCTION OF CCTV CONTROL ROOM							
Contract.....: 0002 COMPLETION OF CONTRACT 0001							
Contractor.....: U203 UMZINGWANE CONSTRUCTION AND PROJECTS							
Total tender amnt:	8 518 775.40	Total expenditure:	9 968 401.09				
Acc. VAT .....	1 214 941.79	(-)Fine.....:					
Suspense used....:	1 891 313.95	Cheq amount tot...:	9 968 401.09				
S	Contrt	PayNo	Amount	VAT	Cheq.	Amnt	AdviceNo Batch Date yymmdd
_	U203	015					P-287495 9998 220608
_	R830	015A	207 000.00		207 000.00	P-287964 2259 220608	
_	U203	014					P-282761 9998 210324
_	R830	014A	88 169.17		88 169.17	P-282762 2457 210318	
_	U203	013	661 509.88	99226.48	760 736.36	P-276323 2667 191004	
_	U203	012	983 110.95	147466.64	1130 577.59	P-275293 2717 190718	
_	U203	011	942 659.08	141398.86	1084 057.94	P-273462 2771 190322	
_	U203	010	127 731.66	19159.75	146 891.41	P-270386 2877 180926	
_	U203	009	363 103.70	54465.56	417 569.26	P-269793 2900 180817	
_	U203	008	272 644.84	38170.28	310 815.12	P-265339 3056 171130	
_	U203	007	1761 353.74	246589.52	2007 943.26	P-264012 3094 171006	

Ready      LU-LU      NUM 10:33 2022/07/08 23

## WCS053594 – Thenga holdings

**This office agrees with the finding.**

The error that not retention had been held is correct and was found in May 2022 and Professional Services had been instructed to correct that with immediate effect. A new progress payment had been generated by June 2022, indicating that the 10% retention is now withheld.

**The following is an extract from the emails referring to this issue:**



Fri 2022/07/01 10:24

Mzwandile Dube

FW: EXTERNALClaim 21 for Derban Westville prison boilers 053594

To Thuthuka Mbhele; thuthuka.works@gmail.com; Jean Rindel

You forwarded this message on 2022/07/01 11:10.

This message was sent with High importance.

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**From:** Amina Ismail

[↑ Next](#) [↓ Previous](#)

**Sent:** Tuesday, 07 June 2022 16:44

**To:** Innocent Simwanza

**Cc:** Dennis Deyzel; Mzwandile Dube; Mohamed Soomar

**Subject:** RE: EXTERNALClaim 21

Good Afternoon Innocent,

I am still working on your claim. I did not include the 10% retention in the previous claims (claim 01 to claim 20). It was brought to my attention that 10% retention should be withheld from every claim. I sought advice from the PM and the DPWI QS on how to rectify this matter. Applying the 10% retention to claim 21 gives me a negative value on the progress payment certificate, which means that Thenga holdings is owing DWPI.

I am in the process of reviewing my previous payments and I will advise you tomorrow on the way forward regarding the claim.

Thank you

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## Auditor's conclusion

### WCS046725

Management comments noted it should however be noted that we are not disputing the fact that the retention amount was not withheld, the issue if that the retention liability schedule that was submitted for audit did not disclose the total amount of the retention withheld for this project (i.e. the retention amount for this project was omitted in the listing) . Thus there is an understatement.

Due to the above the finding remains and will be reported as such in the management report.

### WCS053594

Management comments noted, the finding will be reported as such in the management report.

## PRIOR PERIOD ERROR

### PMTE HO COFF 33 - Requested information not provided (Limitation of scope)

#### Requirements

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.*

Furthermore, Section 41 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 -

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

#### Nature

During the audit of Financial Statement for the 2021/22 financial year end, the following requested information was not submitted to the auditors within the required timeframe and is to date still outstanding.

RFI no.	Information outstanding	RFI request date	RFI due date	Number of outstanding days
133	Schedules, explanation and supporting documentation for the revenue restatements made in Annexure A	11 July 2022	15-Jul-22	1 day

#### Impact of the finding

- Limitation of scope as we were unable to obtain sufficient and appropriate audit evidence to complete the audit and this can also lead in unfavorable audit outcomes.
- Non-compliance with the PFMA sections 40(1) and 41.

#### Internal control deficiency

##### *Financial and performance management*

Management 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.

#### Recommendation

It is recommended that all information requested be provided to the AGSA within three days from the date of request as agreed with management.

**Management response:** See attached schedules, supporting documentation for the revenue restatements made in Annexure A

## **Auditor's conclusion**

### **Deferred revenue**

Management response noted.

The submitted information has been evaluated and it was noted that the journals do not provide evidence of the nature of the error or reasons as to why restatements were performed. Furthermore the schedules submitted does not reconcile to the total amount of restatement made for deferred revenue therefore we could not obtain appropriate evidence and cannot confirm the accuracy of the restatement. The finding therefore remains and will be reported accordingly.

### **Property rates & Construction revenue**

Management response not submitted within the agreed timelines, the finding therefore remains and will be reported accordingly.

## IRRIGULAR EXPENDITURE

### PMTE HO COFF 40 - Irregular expenditure disclosure not complete

#### Requirements

The Public Finance Management Act (PFMA) section 40(1) (b) 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;*”

The Public Finance Management Act (PFMA) section 38(1) states that “*the accounting officer for a department, trading entity or constitutional institution —*

- (a) *must ensure that that department, trading entity or constitutional institution has and maintains—*
  - (iii) *an appropriate procurement and provisioning system, which is fair, equitable, transparent, competitive and cost-effective;*
- (c) *must take effective and appropriate steps to—*
  - (ii) *prevent unauthorised, irregular and fruitless and wasteful expenditure and losses resulting from criminal conduct;*

The Public Finance Management Act (PFMA) section 38(1)(h)(iii) states that “*must take effective and appropriate disciplinary steps against any official in the service of the department, trading entity or constitutional institution who makes or permits an unauthorised expenditure, irregular expenditure or fruitless and wasteful expenditure*”.

Treasury regulations paragraph 8.1.1 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.*”

#### Nature

##### **Issue 1**

During the audit of irregular expenditure, we noted that investigations that were concluded by end of 2021/22 financial year by the Anti-Corruption and Fraud Awareness Unit were confirmed to be irregular expenditure by management however there were not included in the irregular expenditure register. The **Acting DG** also approved the investigation report on the 05 November 2021.

No	Investigation ref #	Description of the report	Suppliers name	Amount	AG assessment
1	POL/FAI/04/20-21	The official at Polokwane Regional Office irregularly awarded day-to-day maintenance to a service provider	Rachoshi Enterprise	178 551	The procurement process of appointing the service provider does not appear to be fair, transparent and equitable since same suppliers are appointed to render day-to-day services and this suppliers are not sole providers.
			Fetsatlala Enterprise	151 695	This results irregular expenditure due to non-compliance with PFMA section 38 (1).
			Comedown printing & projects	465 179	
<b>Total</b>				<b>795 425</b>	

##### **Issue 2**

We have also followed up on audit issues of irregular expenditure that were communicated to management during the 2020/21 audit year. It was noted that management **did not conduct** and finalise the assessment of these transactions despite this being a requirement by National Treasury Instruction No. 2 of 2019/2020 for Irregular Expenditure Framework effective from the 31 May 2021.

National Treasury Instruction No. 2 of 2019/2020 for Irregular Expenditure Framework effective from the 31 May 2021, “*states that management have 30 days to conduct an assessment to confirm the alleged*

*irregular expenditure meets the definition of irregular expenditure. If there are disputes regarding whether the alleged irregular expenditure meets the definition of irregular expenditure, the assessment process must be completed within a period of 3 months from the date the alleged irregular expenditure was reported to the accounting officer."*

Furthermore, the identified irregular expenditure was not included in the irregular expenditure schedule and in the annual financial statement disclosure note 32 resulting in the understatement of the irregular expenditure.

No	Details of finding	supplier name	COFF #	Amount in the finding
1	Misrepresentation by the winning bidder	Asiphakameni Trading	COFF 01 NEL 2020/21	195 810
2	Incorrect procurement processes followed	Bakoena Cooling Systems		347 244
3	Possible splitting of quotations - Quotations for Telkom Towers	Roshen Holdings	COFF 01 PTA	499 675
		Security24 Investment		498 805
		Nkarabe Protection Service		498 990
4	Misrepresentation by the winning bidder: 1. "Submission of (PA-11): Declaration of interest and Tender's Past Supply Chain Management Practices. 2. Compliance to Local Production and Content requirements as per PA36 and Annexure C."	4RGA electrical	COFF 01 PE	5 650 000
5	Possible splitting of quotations	BC Security Solutions	COFF 03 CPT 2020/21	43 558
6	Procurement and Contract Management	Hiroworx (Pty) Ltd	COFF 28 HO 2020/21	-
7	Misrepresentation by the winning bidder	Zidlaphi Kgomo and Associates CC	COFF 35 HO 2020/21	4 856 987
8	Lease payments not in line with the deviation approved by National Treasury for DOH office accommodation	Hiroworx (Pty) Ltd	COFF 12 HO 2020/21	641 635
<b>Total</b>				<b>13 232 704</b>

### **Issue 3**

During the interim audit, several audit findings were raised which had an irregular expenditure impact however the irregular expenditure disclosure note 32 was not updated with these items. In addition, these findings were not included as irregular expenditure under assessment on the financial statement.

No	Region	Supplier	Nature of service	Non-compliance	COFF no.	Expenditure to date
1	JHB	Ellmog Investments	Procurement of Alternative Office Accommodation Measuring 3054.55m <sup>2</sup> with 81 Covered Parking Bays for the Department of Mineral Resources in Johannesburg for a Lease Period of Nine (9) Years , Eleven Months	Pre-qualifying criteria & Minimum functionality criteria not met, Invalid BBE certificate	JHB COFF 07	-
2	CPT	Hawkvale Security Solutions Pty	Hawkvale Security Solutions Pty - 24 hours Security Services : Customs House Building for a period of 24 months.	Winning bidder did not meet minimum functionality score of 50%	CPT COFF 03	2 766 812
3	DBN	Baduls Investments CC	Procurement of alternative office accommodation and parking for SAPS (FORENSIC LABORATORY) in Durban for a period of 5 years	Pre-qualifying criteria & Minimum functionality criteria not met	DBN COFF 06	-

4	JHB	Musan Trading Enterprise	Service,maintenance,repairs and replacement of gas boilers,geysers,incinerators,heat pumps and laundry equipment for all clients within JHB regional offices	Minimum threshold not met, Tender not reported in IDT	JHB COFF 02	2 257 209
5	KYB	Ngaatendwe Trading CC	KIM 01/2021 : Ngaatendwe Trading CC Kimberly Justice High Court including masters office: Installation of air conditioners	Minimum threshold not met	KYB COFF 02	10 703 747
<b>Total</b>						<b>15 727 767</b>

#### **Issue 4**

In addition, we noted that an investigation was conducted by internal auditors which was approved by Mr. Imtiaz Fazel (Acting Director General) on 8 December 2021. The purpose of the investigation was to review non-payment query by the service provider KVM Risk Solutions. Based on the investigation performed by Internal Auditors it was concluded that the contract entered by the Department with KVM Risk Solution (Pty) Ltd is time based. This means that all the invoices should specify the work performed, time spent and rate per hour, or alternatively the timesheets should have been attached.

Based on the outcome of the investigation, it was noted that all invoices were paid without timesheets which is in contravention with the contract (not time-based). Therefore, the work conducted could not be verified against the supporting documents. Furthermore, an overpayment of R1 165 224.42 was noted where the amount spent exceeded the contract amount (R703 000) by more than 15% and no approval was obtained from the National Treasury.

No	Investigation ref #	Description of the report	Suppliers name	Amount (R)	AG assessment
1	Internal audit report on special request by Minister KVM Risk Solution	KVM Risk Solution is a service provider appointed in terms of tender number PT15/120 for an Initial period of 30 months. The service provider was appointed as an Occupational Health Services agent (OHS agent) on the 30 June 2016 for a tender amount of R703 000 (VAT inclusive) as per contract.  The amount of R1 165 224.42 (R1 868 224.42 - R703 000) which was paid to the service provider was confirmed to be over than the contract amount of R703 000.00. The variation of 165% was not referred to NBAC and National Treasury for approval hence this was confirmed to be an overpayment.	KVM Risk Solutions (Pty) Ltd	1 165 224	Payments made not in line with the contract.  No approval was obtained from National Treasury for the approval of deviation since the variation exceeds 15%. This results in non-compliance with treasury Instruction 3 of 2016/17.
<b>Total</b>					<b>1 165 244</b>

#### **Impact of the finding**

- Non-compliance with the Public Finance Management Act
- Non-compliance with Treasury Regulations
- Understatement of irregular expenditure by R30 921 140.

#### **Internal control deficiency**

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

Management did not implement 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**

Management should conduct reviews on completed investigations and determine non-compliance resulting to irregular expenditure to ensure that the annual financial statements and supporting schedules (Irregular expenditure) are updated with accurate and complete amounts.

Management must develop or enhance compliance procedures to ensure compliance with all prescribed laws and regulations. In addition, such procedures include enhancement of compliance checklists already developed.

Management should revisit the entire population to quantify the full extent of irregular expenditure register and adjust the financial statements

### **Management response**

#### **Issue 1**

Management agrees to the finding. In April 2022, details of the transactions were requested in order to update the register of irregular expenditure as the investigation report did not provide sufficient details to disclose the transactions. See attached request sent to the regional office. This was an isolated matter. The full amounts will then be disclosed and the details of which will be disclosed in the new financial year. **Annexure A**

#### **Issue 2**

Management disagrees with the finding that the assessment was not conducted and finalised. The assessment relating to the transactions from the prior year were finalized by management on 17<sup>th</sup> of March 2022. The results of the assessments were forwarded to the audit team on 22<sup>nd</sup> of March 2022. See attached email. **Annexure B**

#### **Issue 3**

Management agrees that the transactions were not included under assessment sub-note. This was since some of the information was missing from the audit findings themselves. These transactions will then be included in the sub-note of irregular expenditure.

#### **Issue 4**

Management takes note of the finding. The report was submitted to Internal Control to confirm the irregularity identified and this process is ongoing. See attached report. The amount will be included under assessment in the sub-note. **Annexure C**

### **Auditor's conclusion**

#### **Issue 1**

Management's response noted, the adjusted AFS and related irregular expenditure register would be reviewed. Therefore, the finding remains.

#### **Issue 2**

Information provided by management was evaluated and the finding has been cleared.

#### **Issue 3**

Management's response noted, the adjusted AFS and related irregular expenditure register would be reviewed. Therefore, the finding remains.

#### **Issue 4**

Management's response noted, the adjusted AFS and related irregular expenditure register would be reviewed. Therefore, the finding remains.



## **PROCUREMENT AND CONTRACT MANAGEMENT**

### **QUOTATIONS**

#### **Deviations not justifiable**

##### **Requirements:**

Section 38(1)(a)(i) and (iii) of the Public Finance Management Act states that; “*The accounting officer for a department must ensure that the department, trading entity or constitutional institution has and maintains effective, efficient and transparent systems of financial and risk management and internal control; an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective...*”

Furthermore, section 38 (1)(c)(ii) states that; “*The accounting officer for a department must take effective and appropriate steps to prevent unauthorized, irregular and fruitless and wasteful expenditure and losses resulting from criminal conduct...*”

Section 44 (1) of the Public Finance Management Act states that; “*The accounting officer for a department, trading entity or constitutional institution may*

- (a) in writing delegate any of the powers entrusted or delegated to the accounting officer in terms of this Act, to an official in that department, trading entity or constitutional institution; or*
- (b) instruct any official in that department, trading entity or constitutional institution to perform any of the duties assigned to the accounting officer in terms of this Act.*

Paragraph 3.3.3 of Practice Note 8 of 2007/08 states that; “*If it is not possible to obtain at least three (3) written price quotations, the reasons should be recorded and approved by the accounting officer / authority or his / her delegate*”

Section 8.1 and 8.2 of the National Treasury Instruction Note 3 of 2016/17 states that;

8.1 “*The Accounting Officer/Accounting Authority must only deviate from inviting competitive bids in cases of emergency and sole supplier status*”

8.2 “*An emergency procurement may occur when there is a serious and unexpected situation that poses an immediate risk to health, life, property or environment which calls an agency to action and there is insufficient time to invite competitive bids*”

## **MMABATHO REGION**

### **Nature**

During the regional audit of procurement through quotations, the following was noted:

### **Background**

An emergency services were required for repairs of a leaking roof at Bungalow 1300 Klipdrift at SANDF Potchefstroom and that a deviation stated below was processed to deviate from the three written quotation process.

According to the Worx4U and manual form completed by the Chief Works Manager, a request was made on the 12 November 2020. Furthermore, inspection of the job card completed by the contractor, it also indicated that the services were requested on the 12 November 2020 for the repairs to be done on the leaking roof.

Based on the completed contractor's site register, Letsimane Trading and Projects, work commenced on the 11 January 2021 till 25 February 2021. Which coincides with the job card. The work was completed by the contractor on 25 January 2021. Furthermore, it was noted that the work was certified to have been satisfactorily completed on 09 March 2021.

The final hand-over of completed services to client department SANDF Potchestroom-Klipdrift was certified on 07 April 2021 that the services were rendered by Letsimane Trading and Projects.

An internal memo dated the 15 April 2021 was submitted to the Chairperson of the Regional Bid Committee (RBAC) from the Chief Works Manager for the ratification of issuing an order and payment amounting to R481 922.85 for the repairs completed on the leaking roof at Bungalow 1300 Klipdrift.

However, according to the PA12: Approval by the RBAC, the matter was referred back on 28 April 2021. A follow up internal memorandum was submitted to the Chairperson of the RBAC from the Chiefs Works Manager on the 13 May 2021 for a brief clarity as per the RBAC's motion to refer back the matter.

Based on inspection of the second PA12: Approval by the RBAC dated 18 May 2021, the members of the RBAC unanimously elected for the deviation to be referred back again to the Chief Works Manager. The motion was approved by the Chairperson of the RBAC on the same date.

However, the supplier was paid for services rendered on the 20 May 2021.

Reference ID	Supplier	Description of services	Amount (R)
47464	Letsimane Trading and projects	Ratification for the repairs of roof leaking at bungalow 1300 klipdrift : SANDF Potchefstroom on emergency	481 922,85

### **Auditor's assessment**

#### **Issue 01**

Base on the above, the leaking roof that was caused by rain and wind would be considered as an immediate risk to property as damage to property was incurred due to inclement weather conditions.

According to the Worx4u, a request was made for repairs to be made on a leaking roof at SADNF Potchefstroom bungalow 1300 on the 12 of November 2020 and based on the contractor's register was only attended to by the contractor on the 11 of January 2021, therefore services to repair the roof only commenced 2 months after the request to repair the roof was made.

Although the leaking roof would be considered to be an emergency, the untimely action took by management and contractor to repair the roof is an indication that sufficient time was available to invite

other competitive bids for the repairing of the roof. Based on auditors assessment on work conducted on quotations, we noted that the lead time taken by the region to invite three (3) quotations is on average five (5) to seven (7) days.

It is with the stated reasons that the emergency is not justified based on the timeframe taken to attend to the damage to property as it indicate that there was sufficient time to get 3 quotations.

#### Issue 02

Part 4.4.9 of the SCM Circular 49 of 2017 further states that RBAC shall ratify emergency procurements up to the value of R75 million. However, the emergency procurement was referred back by the RBAC on the 28 April 2021 and 18 May 2021, therefore not ratifying the emergency procurement.

Therefore, no approval was obtained to deviate from the three written quotations based on an emergency nor was the deviation ratified by the RBAC.

It is on the above discussion that the payment is considered irregular expenditure.

#### **Impact of the finding**

The above may result in the following:

- Irregular expenditure with amounts of **R481 922,85**
- Non-compliance with section 38 and 44 of the PFMA
- Non-compliance with National Treasury instruction notes

#### **Internal control deficiency**

##### *Leadership*

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Management did not ensure that deviations by the trading entity were approved and reviewed by the delegated official in order to comply with the relevant SCM laws and regulations.

##### *Financial and Performance Management*

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

Management did not implement procurement processes in an appropriate manner to ensure that SCM regulations are adhered to

#### **Recommendation**

It is recommended that management should ensure that the entity complies with all applicable laws and regulations.

Procurement through deviations should be reviewed and approved by the approved delegated official as per the SCM prescripts.

## **Management response**

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

### Issue 01

Call ref No. ID – 47464 was logged for urgent repairs to be made on a leaking roof at SADNF Potchefstroom bungalow 1300 on the 12 of November 2020. Works Management had to conduct a feasibility study and compile a scope of work before quotations are invited. The process commenced on the 13th of November 2020 and had to be held in abeyance during the festive season. In January 2021 another complain was raised by the client as a result of the heavy rain that occurred during the festive season and early January 2021. The department was forced to abandon the urgent procurement process it started and appoint a contract on an emergency basis to eminently address this issue. The contractor was appointed on the 10th of January 2021 and commenced with the work on the 11th of January 2021.

### Issue 02

The emergency procurement was referred back by the RBAC on the 28 April 2021 but approval was granted by the RBAC on 18 May 2021, therefore ratifying the emergency procurement. The PA-12 date 18 May 2021 indicates that Letsimane Trading and Projects 34 cc has been approved with an amount of R481,922.85. The tick box for “Refer back” was erroneously ticked by RBAC members when signing off the PA-12. The matter has since been corrected.

## **Auditors Conclusion**

Managements responses has been acknowledged however management did not provide auditors with the proof that Call ref No. ID – 47464 was logged for urgent repairs to be made on a leaking roof at SADNF Potchefstroom bungalow 1300 on the 12 of November 2020 and that appointed on 10 January 2021, job card to indicate the work was completed as at 11th of January 2021. No proof that the ratification was performed and signed by Regional bid adjudication committee.

As a result of the communication of audit finding remains, the misstatement will be reported on the managements report accordingly and amount of irregular expenditure should be disclosed accordingly.

## **JOHANNESBURG REGION**

### **Nature**

During the audit of supply chain management, we noted that the JHB regional office appointed a service provider for the operation and maintenance of coal fired boilers for a period of 3 months at Boksburg prison, through a deviation process.

### **Background:**

We noted that the chief works manager wrote a memo to the acting regional manager on 13/04/2021 regarding a compliant for repairs to their boilers. Further noted that the prison needs the boilers to prepare food, provide warm showers for the inmates, laundry, and other basic services. Therefore, the steam is required 24 hours daily without interruptions.

The contractor at that time had a 24-month contract that was expiring on the 14/04/2021.

As per inspection of the internal memo, the Project Manager was unable to issue a bid for the repair services as they were excluded from the April 2020 project plan. The services were then included in the September 2020 project plan and the April 2021 plan. The Chief Works Manager cited that the BSC had difficulty meeting and thus requested approval from the Regional Manager for the recommendation to appoint an emergency specialized service provider to ensure repairs, maintenance and compliance with the Occupational Health and Safety Act.

RB Mas Trading (Pty) Ltd was appointed under emergency procurement deviation as per the letter of award dated 21/04/2021 for a period of 3 months.

### **Auditor's assessment**

The need for repair and maintenance of boilers is a standing order, which the department is aware of. Removing it from the April 2020 procurement plan due to the re-prioritization of projects resulted in the procurement process being delayed. This then resulted in a self-inflicted emergency when the existing contract was expiring. Therefore, with adequate plan and taking into account that the department had sufficient time to source a successor on the project we deem the emergency not justified.

### **Impact**

The above may result in the following:

- Non-compliance with section 38(1) (a) (iii) and 38(1) (c) (ii) of the PFMA,
- Non-compliance with paragraph 8.1 and 8.2 of the *National treasury SCM Instruction Note 3 of 2016/2017*.
- Irregular expenditure of R347 960.00

### **Internal control deficiency**

#### **Financial and Performance Management**

Management did not adequately review and monitor compliance with applicable laws and regulations relating to supply chain management.

Management is reluctant to procure these services mentioned by following normal procurement processes and has opted to deviate from normal procurement processes. A succession plan was not in place while the original contract was active.

## **Recommendation**

It is recommended that:

- The auditee should exercise caution going forth when procuring emergency goods and services.
- The auditee ought to ensure that there is adequate planning to reduce the need for emergency procurement.
- The auditee should ensure that emergency procurement is the last resort and should be used in exceptional circumstances as guided by the procurement laws provided by National Treasury.

## **Management response:**

We are not in agreement with the finding that the long term contract was not procured due to poor planning and that Management is alleged to be reluctant to procure the said services following the normal procurement processes. This happened due to the following reasons:

1. There was no adequate movement on the procurement process as per the Procurement Plan due to the effectiveness of the COVID-19 pandemic on the procurement plan process to all bid committees.
2. The majority of BSC and BEC members do not have data and cell phones to enable them to connect virtually through **Zoom or Microsoft Teams** from their respective offices or homes, seeing that the Department was mandatorily operating on a rotation basis.
3. At some time, the JHB Regional Office officials were rotating in working from the office. Therefore, it was not easy to have fruitful meetings or to form a quorum on BSC and/or other committees as officials were not allowed to hold meetings in boardrooms.
4. The Tender and Quotation processes require briefing sessions to be conducted to the prospective bidders/tenders if the bid processes are to be open, fair, transparent, etc. With regard to the Local Content and Production (PA 36 and Annexure C), during the COVID-19 pandemic, there was no site briefing allowed to take place at all tenders that were advertised or in procurement process. We had a challenge on how we were going to educate the contractors (service providers) on the provisions of the Local Content and Production (PA 36 and Annexure C) and as the site briefing was the only way to explain the Local Content and Production. By allowing the tender to be advertised, we were risking the high possibility of getting the tender to lapse and we then prevented the fruitless & wasteful expenditure by not advertising the tender because both term contracts and quotations go the same route. **Annexure C, D, E, F, G and H are to support the above assertion.**
5. The relaxation of the COVID-19 levels by the Disaster Management Committee and /or DPSA from say, 4 to 3, 2 or 1:
  - Has led to the Department increasing the staff Rotation % from, say 30% to 50%, 75% or 100%, which then enable the committee members form a quorum.
  - The COVID-19 Compliance Officer also approves the Bid Committee meetings subject to the compliance to COVID-19 protocols.
  - The Department keeps intensifying the training of Bid Committee members and SCM officials with a view to develop strategies of packaging the bid documents with a view to provide the adequate information.

## Auditor's conclusion

Based on the management response and provided supporting documents, our audit response is as follows:

1. There was no adequate movement on the procurement process as per the Procurement Plan due to the effectiveness of the COVID-19 pandemic on the procurement plan process to all bid committees.

As per inspection of the internal memo to the acting Regional Manager, the Project Manager was unable to issue a bid for the repair services as they were excluded from the April 2020 project plan.

2. The majority of BSC and BEC members do not have data and cell phones to enable them to connect virtually through **Zoom or Microsoft Teams** from their respective offices or homes, seeing that the Department was mandatorily operating on a rotation basis.
3. At some time, the JHB Regional Office officials were rotating in working from the office. Therefore, it was not easy to have fruitful meetings or to form a quorum on BSC and/or other committees as officials were not allowed to hold meetings in boardrooms.

As per inspection of the internal memo to the acting Regional Manager, the Project Manager states that the services were then included in the September 2020 project. Further, the Project Manager states that the contractor at that time had a 24-month contract that was expiring on the 14/04/2021. Therefore, the auditee had approximately 8 months to implement adequate planning for the procurement through an open bidding process.

4. The Tender and Quotation processes require briefing sessions to be conducted to the prospective bidders/tenders if the bid processes are to be open, fair, transparent, etc. With regard to the Local Content and Production (PA 36 and Annexure C), during the COVID-19 pandemic, there was no site briefing allowed to take place at all tenders that were advertised or in procurement process. We had a challenge on how we were going to educate the contractors (service providers) on the provisions of the Local Content and Production (PA 36 and Annexure C) and as the site briefing was the only way to explain the Local Content and Production. By allowing the tender to be advertised, we were risking the high possibility of getting the tender to lapse and we then prevented the fruitless & wasteful expenditure by not advertising the tender because both term contracts and quotations go the same route. **Annexure C, D, E, F, G and H are to support the above assertion.**

In conclusion, we maintain that the need for repair and maintenance of boilers is a standing order, which the department is aware of. Removing it from the April 2020 procurement plan due to the re-prioritization of projects resulted in the procurement process being delayed. This then resulted in a self-inflicted emergency when the existing contract was expiring. Therefore, with adequate planning and considering that the department had sufficient time to source a successor on the project we conclude that the emergency procurement was not justifiable and could have been avoided.

## **Audit findings**

During the audit of supply chain management, we noted that PMTE procured cleaning services for a period of one month at the Johannesburg magistrate court through a deviation process.

### **Background**

Through inspection of the internal memorandum approved by the regional manager, we noted that the regional office has not been able to appoint a long-term cleaning contract since 2019. The last attempt to appoint a provider was an advertised bid on the 18<sup>th</sup> of June 2021 and closing on the 01 July 2021. The process was aborted due to the fact that only two bids were received. The Project Leader hence requested support for an emergency procurement of cleaning services from the 06/08/2021 to 05/09/2021.

The contract was awarded to Susani Teaya Project (Pty) Ltd on 01/09/2021 and the reference number is JHB 21/126.

### **Auditor's assessment**

Based on our evaluation of the circumstances that brought about this emergency, we are of the opinion that the procurement of cleaning services was not unexpected as management is aware that these services are in constant demand. Furthermore, based on the timelines it is evident that management had sufficient time to finalise the procurement process. Thus, although the situation (not having cleaners) poses an *immediate risk to health*, the events leading up to the procurement could have been avoided.

### **Impact of the finding**

- Non-compliance with Public Finance Management Act paragraph 38
- Non-compliance with National treasury SCM Instruction Note 3 of 2016/17
- Irregular expenditure of R468 395.

### **Internal control deficiency**

Financial and Performance Management

Management did not adequately review and monitor compliance with applicable laws and regulations relating to supply chain management.

Management is reluctant to procure these services mentioned by following normal procurement processes and has opted to deviate from normal procurement processes. A succession plan was not in place while the original contract was active.

### **Recommendation**

- Management should have a succession plan in place to allow the procurement process sufficient time from initiation phase to awarding in order to have a seamless handover once.
- Management should disclose the Irregular Expenditure

### **Management response:**

We are not in agreement with the finding that the long term contract was not procured due to poor planning and that Management is alleged to be reluctant to procure the said services following the normal procurement processes. This happened due to the following reasons:

1. There was no adequate movement on the procurement process as per the Procurement Plan due to the effectiveness of the COVID-19 pandemic on the procurement plan process to all bid committees.
2. The majority of BSC and BEC members do not have data and cell phones to enable them to connect virtually through **Zoom or Microsoft Teams** from their respective offices or homes, seeing that the Department was mandatorily operating on a rotation basis.
3. At some time, the JHB Regional Office officials were rotating in working from the office. Therefore, it was not easy to have fruitful meetings or to form a quorum on BSC and/or other committees as officials were not allowed to hold meetings in boardrooms.
4. The said tendering problems were exacerbated by the fact that first Project Manager was hospitalised for a long period due to COVID-19 related ailment. He ended up passing on. The situation then also destabilised the tendering process for this project, until Management decided to appoint another Project Manager to take over from where her predecessor left off.
5. The Tender and Quotation processes require briefing sessions to be conducted to the prospective bidders/tenders if the bid processes are to be open, fair, transparent, etc. With regard to the Local Content and Production (PA 36 and Annexure C), during the COVID-19 pandemic, there was no site briefing allowed to take place at all tenders that were advertised or in procurement process. We had a challenge on how we were going to educate the contractors (service providers) on the provisions of the Local Content and Production (PA 36 and Annexure C) and as the site briefing was the only way to explain the Local Content and Production. By allowing the tender to be advertised, we were risking the high possibility of getting the tender to lapse and we then prevented the fruitless & wasteful expenditure by not advertising the tender because both term contracts and quotations go the same route. **Annexure C, D, E, F, G and H are to support the above assertion.**
6. The relaxation of the COVID-19 levels by the Disaster Management Committee and /or DPSA from say, 4 to 3, 2 or 1:
  - has led to the Department increasing the staff Rotation % from, say 30% to 50%, 75% or 100%, which then enable the committee members form a quorum.
  - The COVID-19 Compliance Officer also approve the Bid Committee meetings subject to the compliance to COVID-19 protocols.
  - The Department keeps intensifying the training of Bid Committee members and SCM officials with a view to develop strategies of packaging the bid documents with a view to provide the adequate information during the COVID-19 pandemic period

### **Auditor's conclusion**

Based on the management response and provided supporting documents, our audit response is as follows:

1. There was no adequate movement on the procurement process as per the Procurement Plan due to the effectiveness of the COVID-19 pandemic on the procurement plan process to all bid committees.

Based on our evaluation of the circumstances that brought about this emergency, we are of the opinion that the procurement of cleaning services was not unexpected as management is aware that these services are in constant demand.

2. The majority of BSC and BEC members do not have data and cell phones to enable them to connect virtually through Zoom or Microsoft Teams from their respective offices or homes, seeing that the Department was mandatorily operating on a rotation basis.
3. At some time, the JHB Regional Office officials were rotating in working from the office. Therefore, it was not easy to have fruitful meetings or to form a quorum on BSC and/or other committees as officials were not allowed to hold meetings in boardrooms.
4. The said tendering problems were exacerbated by the fact that first Project Manager was hospitalised for a long period due to COVID-19 related ailment. He ended up passing on. The situation then also destabilised the tendering process for this project, until Management decided to appoint another Project Manager to take over from where her predecessor left off.
5. The Tender and Quotation processes require briefing sessions to be conducted to the prospective bidders/tenders if the bid processes are to be open, fair, transparent, etc. With regard to the Local

Content and Production (PA 36 and Annexure C), during the COVID-19 pandemic, there was no site briefing allowed to take place at all tenders that were advertised.

Through inspection of the internal memorandum approved by the regional manager, we noted that the regional office has not been able to appoint a long-term cleaning contract since 2019. The last attempt to appoint a provider was an advertised bid on the 18<sup>th</sup> of June 2021 and closing on the 01 July 2021. The process was aborted due to the fact that only two bids were received.

Therefore based on the timelines, it is evident that management had sufficient time to finalise an open procurement process. Thus, although the situation (not having cleaners) poses *an immediate risk to health*, the events leading up to the procurement could have been avoided through adequate planning.

## DURBAN REGION

### Nature

During the regional audit of procurement through Deviation, the following was noted:

### Background

Emergency services were required at Waterval Prison for repairs to faulty boilers (Boiler number 1 and 2) stocker. A deviation process processed followed to appoint to Coldpoint Aircon Service CC.

The call was logged on Worx4U on 04 October 2021 and approved by the Regional Manager (RM) on 25 October 2021. As per inspection of the motivation to procure the services under emergency an internal memo dated 28 October 2021 stated the following reasons:

- There is currently one boiler running at Waterval prison, boiler number 1, and that boiler number 2 is out of service as the stocker matt is completely burnt and other critical components are not working.
- The malfunctioning of boiler number 2 has put a lot of strain on boiler number 1 as it has been running 24/7 for a long time without any minor or major service.
- Currently boiler number 1 is under performing because it needs major service, so fixing boiler number 2 will assist in boiler rotation as required by the regulation for vessels under pressure and it releases the operational strain on boiler number 1.

Delays relating to approval of the call were explained as follows:

- Delays were experienced on WM Archibus systems being faulty and was reported to ITC as the call was logged on 04 October 2021 and could only be accessed and proceeded on the 18 October 2021.
- Delays were also experienced from the RM's office in speedily approving the service because of the presidential visit in the province and that the RM had to attend to prestige matter on the week of 18-23 October 2021 that is why they got the approval on the 25 October 2021.

It was recommended on the 28 October 2021 by the CWM to request appointment of Cold point aircon service on a strip and quote basis as approved by the RM, Cold point Aircon service are on site on a 24 months term contract of boiler operation for the service of repairs to stocker for boiler no 1 & 2 and the recommendation was supported by DD: Facilities on the 28-10-2021.

According to discussions held with the works manager, it was noted that boiler number 2 has not been working for a period of almost 2 years.

Request ID	Supplier	Description of services	Amount (R)
103027	Coldpoint Aircon Service CC	Waterval Prison;Repair to Faulty Boiler Number 1 and 2 Stocker for 24 months term	432 600

### Auditor's assessment

Based on the details stated above, it is clear that the matter was urgent as it imposes a risk to human life however according to the Worx4u, a request was made for repairs to be made on faulty boilers on the 04 October 2021 and the approval was made on the 25 October 2021. Although the repairs to faulty boilers in prison would be considered to be an emergency, the untimely action taken by management to approve the request is an indication that sufficient time was available to invite other competitive quotes for the repairs of faulty boilers as according to SCM Circular No. 0160 of 2021/22 the maximum number

of days for invitation of price quotations is 7 calendar days for quotation thresholds up to R500 000. Furthermore, there was no evidence provided to support both claims of delays stated on the motivation.

Furthermore, it is stated on the motivation that "fixing boiler number 2 will assist in boiler rotation as required by the regulation for vessels under pressure and it release the operational strain on boiler number 1". This means that when boiler 2 died, the pressure was definitely going to affect the performance of boiler 1. Therefore, the process of obtaining competitive quotations could have commenced at the time that boiler 2 stopped working.

According to the motivation, there was a term contract which was meant to initially deal with the maintenance of these 2 boilers of which it was not clear as to how the 2 boilers reached this stage of not functioning and poor performance if they were meant to be maintained to preserve their condition. It was further noted that the scope of the current contract does not include repairs.

Section 4.4.9 of the SCM Circular 49 of 2017 further states that RBAC shall ratify emergency procurements up to the value of R75 million. However, there was no indication of ratification made by RBAC.

Therefore, no approval was obtained to deviate from the three written quotations based on an emergency.

### **Impact of the finding**

#### **The above may result in the following:**

- Irregular expenditure with amounts of R432 600
- Non-compliance with section 38 and 44 of the PFMA

### **Internal control deficiency**

#### *Leadership*

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Management did not ensure that deviations by the department were approved and reviewed by the delegated official in order to comply with the relevant SCM laws and regulations.

#### *Financial and Performance Management*

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

Management did not implement procurement processes in an appropriate manner to ensure that SCM regulations are adhered to

### **Recommendation**

It is recommended that management should ensure that the entity complies with all applicable laws and regulations.

Procurement through deviations should be reviewed and approved by the approved delegated official as per the SCM prescripts.

### **Management response**

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

Repairs were part of the term contract as per attached BOQ scheduled 3 documents, hence the appointment of Cold Point Aircon Services as the service provider on a 24 months term contract. As part of the contract the necessary approvals must be obtained to ensure compliance and cost containment.

It should be noted that ratifications only happen once the claim has been submitted by the contractor on completion of the works, however this process has not been finalized as yet.

With regards to boiler no.2, we are in agreement with the AG's view however as part of our term contract the assessment was conducted and a report was provided which detailed the necessary repairs.

### **Auditors Conclusion**

Management's response is noted and that ratification is done once a claim has been submitted is accepted, however the finding remains based on the following;

Management was unable to respond to the main issue communicated in the finding, that "although the repairs to faulty boilers in prison would be considered to be an emergency, the untimely action took by management to approve the request is an indication that sufficient time was available to invite other competitive quotes for the repairs of faulty boilers"

It should be noted that management has yet to provide there evidence to support both claims of delays stated on the motivation.

Furthermore, management states that they with regards to how the matter arose, they are in agreement with the AG's view however as part of our term contract the assessment was conducted and a report was provided which detailed the necessary repairs.

However, according to the management's motivation for the deviation it was stated that repairs were out of the scope of the term contract and therefore, a Work4U request was required for the repairs.

## **PORT ELIZABTH REGION**

### **Nature**

During the regional audit of procurement through quotations, the following was noted:

#### **Matter 1 – Deviation not justifiable**

### **Background**

During the audit of quotations testing, it was noted that a quotation deviation process was followed in which a single supplier was appointed based on an emergency, instead of the usual minimum three quotations.

The service was carried out at the Uitenhage Police Station. This was for the repairs of sewer line cast iron pipes. The sole contractor sourced and appointed was Lulonke Projects (Pty) Ltd.

This service was for the repair/removal of all cast iron pipes that clogged the sewer system. This was deemed an emergency as this situation could pose a threat to public health.

According to management this was a serious and unexpected situation that posed an immediate risk to health, life, property and environment which caused an urgency to action and as such management did not have sufficient time to follow a normal quotation process

The following timelines were noted:

No	Date	Detail	No of days between each event
1	2021/05/21	Request by SAPS to PMTE for services	
2	2021/06/05	Contractor reports to site to perform services	15 days

### **Auditor's assessment**

According to management, this was an emergency and as such required urgent attendance.

However, it was noted that from the date this emergency was reported to management to the date when the contractor actually reported to site, there was a period of 15 days.

Considering the above number of days (15 days) for the emergency to have been attended to indicates that there was sufficient time for management to source quotations through a normal process.

Therefore, it is evident that there was no need to have deviated from the normal procurement process and thus the deviation is not justified considering the turnaround time for attending to the emergency.

Based on the above assessment, and the non-compliance with paragraph 3.3.3 of Practice Note 8 of 2007/08 the above expenditure is irregular

#### **Matter 2 – Deviation not justifiable**

### **Background**

During the audit of quotations testing, it was noted that a quotation deviation process was followed in which a single supplier was appointed based on emergency, instead of the usual minimum three quotations.

The services were carried out at the Klipplaat Police Station. The service related to repairs of a leaking roof. The sole contractor sourced and appointed was Deltyle CC.

Furthermore, according to management this was a serious and unexpected situation that posed an immediate risk to health, life, property and environment which caused an urgency to action and as such management did not have sufficient time to follow a normal quotation process

The following timelines were noted:

No	Date	Detail	No of days between each event
1	2021/09/22	Request by SAPS for attending to leaking roof	27 days
2	2021/10/18	Contractor reports to site	

### **Auditor's assessment**

According to management, this was an emergency and as such required urgent attendance.

Furthermore, according to SCM circular 160, paragraph 3.2.2, "*The maximum number of days for the invitation of price quotation is 7 days for quotation thresholds up to R500 000*". This circular was effective at the date of award of the deviation quotation.

However, it was noted that from the date this emergency was reported to management to the date when the contractor actually reported to site, was a period of 27 days.

Considering the above number of days (15 days) for the emergency to have been attended to indicates that there was sufficient time for management to source quotations through a normal process.

Therefore, it is evident that there was no need to have deviated from the normal procurement process and thus the deviation is not justified considering the turnaround time for attending to the emergency.

Auditor also inspected email communication between DPWI official M Carolus and Regional Manager, J. Van De Walt dated 25 June 2021, in which the conditional assessment report with cost estimations was shared with the RM. This furthermore solidifies the auditors view that management was aware of the problems experienced by the client department SAPS.

Based on the above assessment, and the non-compliance with paragraph 3.3.3 of Practice Note 8 of 2007/08 the above expenditure is irregular

### **Impact of the finding**

The above may result in the following:

- Matter 1 - Irregular expenditure with amounts of **R178 349,00**
- Matter 2 - Irregular expenditure with amounts of **R84 845,60**
- Non-compliance with section 38 and 44 of the PFMA
- Non-compliance with Practice Note 8 of 2007/08

### **Internal control deficiency**

#### *Financial and Performance Management*

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

Management did not implement procurement processes in an appropriate manner to ensure that SCM regulations are adhered to

## **Recommendation**

- Management should ensure that the entity complies with all applicable laws and regulations.
- Management should ensure detailed assessments are performed prior to appointment of service providers for the need of emergency procurement.

## **Management response**

Management is not in agreement with the finding.

### **Matter 1**

Management hereby attaches the Job Card for the supplier site inspection and making safe as at 21 May 2021 (See Annexure A).

### **Matter -2**

Management hereby attaches the Job Card for the supplier site inspection and making safe as at 1 October 2021 (See Annexure B).

Management would like to advise that it is not correct to link the email that was sent to the Regional Manager on 25 June to this call that was logged in September 2021. Please see page 2 of the report (Annexure C) in which the below is extracted.

#### **Internally**

Repair broken internal doors, cupboards and iron monger	R 3 000.00
Vanish wooden and seal vinyl floor	R 12 000.00

## **Auditors Conclusion**

### **Matter 1:**

Management comments are noted. Management disagrees with the finding.

#### Auditors' assessment and conclusion:

Auditors have noted that additional information submitted as per annexure A, in which the actual date the contractor first reported on site was on 25 May 2021.

Furthermore, auditors noted that the department has an internal document Day-to-Day maintenance guideline, which lists SAPS as a priority level 3, with a turnaround time of 8 hours and resolution time of 24 hours.

It is, further noted that from date of reporting of the matter by the user department SAPS on 21 May 2021, to the date when the departments' appointed service provider reported to site on 25 May 2021, there was a turnaround time of 5 days.

Based on the above assessment, it is evident that management had sufficient time to have sourced the services through a normal quotation process.

Therefore, the finding remains and related impact will be reported on the management report.

### **Matter 2:**

Management comments are noted. Management disagrees with the finding.

#### Auditors' assessment and conclusion

Auditors have noted that additional information submitted as per annexure C, in which the actual date the contractor first reported on site was on 01 October 2021.

Furthermore, auditors noted that the department has an internal document Day-to-Day maintenance guideline, which lists SAPS as a priority level 3, with a turnaround time of 8 hours and resolution time of 24 hours.

It is, further noted that from date of reporting of the matter by the user department SAPS on 22 September 2021, to the date when the departments' appointed service provider reported to site on 01 October 2021, there was a turnaround time of 10 days.

Based on the above assessment, it is evident that management had sufficient time to have sourced the services through a normal quotation process.

Therefore, the finding remains and related impact will be reported on the management report.

## **POLOKWANE REGION**

### **Nature**

During the regional audit of procurement through quotations, the following was noted:

#### **Matter 1 – Sufficient time to source normal quotation**

##### **Background**

During the audit of quotations testing, it was noted that a quotation deviation process was followed in which a single supplier was appointed on the basis of emergency, instead of the usual minimum three quotations.

The service was carried out on building no 514 at 62 Hoedspruit Maruleng Rural SANDF and the supplier Andymol Construction and Projects (Pty) Ltd was appointed to provide the service.

This service was for the repair of the faulty bio filter facility that affected the water supply. This was deemed an emergency as this situation could pose a threat to public health.

The following timelines were noted:

No	Date	Detail	No of days between each event
1	2020/06/26	Request by SANDF to the PMTE for services	0
2	2020/06/27	RM approves the service as an <i>Emergency</i>	1 day
3	2020/07/06	Contractor reports to site to perform services	10 days

##### **Auditor's assessment**

According to management, this was an emergency and as such required urgent attendance.

However, it was noted that from the date the RM approved the service as an emergency to the date when the contractor actually reported site, was a space of 10 days.

With consideration of the above number of days (10 days) for the emergency to have been attended to for the client department, it is indicative of the fact that there was sufficient time for management to source quotations through a normal process.

Therefore, it is evident that there was no need to have deviated from the normal procurement process and thus the deviation is not justified considering the turnaround time for attending to emergency.

Based on the above assessment, that the payment is considered irregular expenditure.

#### **Matter 2 – Deviation as emergency unjustified**

##### **Background**

During the audit of quotations testing, it was noted that a quotation deviation process was followed in which a single supplier was appointed based on emergency, instead of the usual minimum three quotations.

This was deemed an emergency by management as this was for the repair of faulty air conditioner at Lenyenye Magistrate Court Office. The emergency appointment was awarded to Andymol Construction and Projects (Pty) Ltd on the 14 March 2021

## **Auditor's assessment**

According to par 8.2 of the NT Instruction Note 3 2016/17 on Preventing and Combating Abuse in the SCM systems, it was noted that:

*"An emergency procurement may occur when there is a serious and unexpected situation that poses immediate risk to health, life, property or environment which calls an agency to action and there is insufficient time to invite competitive bids"*

Based on this paragraph 8.2, there was no evidence that the faulty air conditioner in a magistrate court posed immediate risk to health, life, property or environment.

Based on the above assessment, it is clear that the emergency was not justified and as such, management should have obtained the repair services through a normal quotation process.

Therefore, based on the above assessment b the deviation was unjustified and thus irregular expenditure for expenditure incurred to date.

## **Impact of the finding**

The above may result in the following:

- Matter 1 - Irregular expenditure with amounts of **R231 859.27**
- Matter 2 - Irregular expenditure with amounts of **R127 470.72**
- Non-compliance with section 38 and 44 of the PFMA

## **Internal control deficiency**

### *Leadership*

#### *Financial and Performance Management*

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

Management did not implement procurement processes in an appropriate manner to ensure that SCM regulations are adhered to

## **Recommendation**

- Management should ensure that the entity complies with all applicable laws and regulations.
- Management should ensure detailed assessments are performed prior to appointment of service providers for the need of emergency procurements.
- Ensure adherence to the provisions of National Treasury Instruction Note 3 of 2016/17

## **Management response**

### **Matter 1**

Management disagrees with the finding, the above mentioned complaint was logged during a hard log down on 30 June 2020, and the contractor went on site and conducted diagnostics, brought in temporary measures while sourcing the necessary materials. The contractor received the parts only on the 9 July 2020 and immediately went on site to complete the work. He did not include the 30th of June 2020 as he only spent a short time on site. Furthermore, the department did not use a single supplier to render services; the quotation register that was provided to AG clearly demonstrates a rotation of suppliers.

### **Matter 2**

Management disagrees with the finding, HVAC that are referred to Heating, Ventilation, Air Circulation on our maintenance manual index page V and Air conditioners, must be responded to within 2 Hours and Resolved within 8 Hours as outlined in our Day to Day Maintenance guidelines for courts and they are given priority 2 Colour coded Red or Urgent, Let me break this down into priority, most of the court rooms have limited windows that are situated high up the wall some are inaccessible and some court room have no windows at all especially the High courts, windows provide ventilation which is air that human being need for their biological functioning, If there no windows in court and the court is packed with people as they will suffocate, this pose serious risk to health this translate the nonfunctioning of air conditioners or HVACSs in the court room as an emergency. Furthermore we all know that Limpopo province is hot, Attorneys, Judges and prosecutors wear ropes in courts will they survive with the heat this is another health risk that also translate into an emergency. It is not practically possible to source quotations within two hours. Additionally the department did not use a single source, several suppliers were used as per the quotation register that was provided to AG.

### **Auditors Conclusion**

#### **Matter 1**

Management comments noted. Management disagrees with the finding.

##### Auditors' assessment and conclusion:

Firstly, the time of logging the call as per records was dated 26 June 2020 and not as per management response of 30 June 2020.

Furthermore, according to management, the complaint was logged during the "*hard lockdown*" period on 30 June 2020"

This however this is incorrect as the "*hard lockdown*" period was only under Alert level 5, which took effect from midnight 26 March to 30 April 2020.

Additionally, Alert level 4 was in effect from 01 May 2020 to 31 May 2020, in which the State published Gazette no 43258, which detailed the following sectors as operational:

1. Construction and Related Services (Inc. Trades Persons) were already allowed to trade:
  - Civil engineering for Public Works projects (including water, energy, sanitation).
  - Public Works civil engineering and construction works
  - Road and bridge projects, including local road repairs.
  - Critical maintenance and repairs.

Furthermore, the period of logging the call was 26 June 2020, which was under Alert level 3 which was in effect from 1 June to 17 August 2020.

In conclusion, auditors have noted managements' inconsistencies with absence of tangible evidence to support managements' assertions above, as result the finding remains and will be reported further in the management report with related impact.

#### **Matter 2**

Management comments noted. Management disagrees with the finding.

##### Auditors' assessment and conclusion:

The following matters should be noted:

- Based on management response, there are significant indicators that management places stringent reliance on their internal guideline document without thorough application to par 8.2 of the NT Instruction Note 3 2016/17 on Preventing and Combating Abuse in the SCM systems.
- The definition of *Emergency* provided in Instruction Note 3 2016/17 on Preventing and Combating Abuse in the SCM systems, which defines that an Emergency Procurement:

*"May occur when there is a serious and unexpected situation that poses immediate risk to health, life, property or environment which calls an agency to action and there is insufficient time to invite competitive bids"*

- Management did not provide any tangible proof in respect of the specific instance that indeed there was absence of windows in relation to the particular courtroom or office, nor was there evidence to substantiate how this was an immediate risk to life that prevent management from following the normal quotation process.
- No evidence submitted to confirm whether the particular courtroom or office was in use during the said period of the procurement, and if the absence of an air conditioner prevented management from obtaining three quotations.
- Management further makes a number unverifiable statements such as:
  - *"We all know that Limpopo province is hot".*
  - If auditor were to consider this as evidence, a number of factors would need to be answered for that particular day, such as:
    - The exact weather conditions of the day,
    - Whether it was raining,
    - whether it was significantly cooler as the southern hemisphere approached autumn during this time.
  - This all would not suffice to support managements' assertions as the facts become extremely circumstantial.

Therefore based on above assessment, it can be concluded that the finding remains and will be reported further in the management report with related impact.

## BLOEMFONTEIN REGION

### Audit findings

During the audit of supply chain management for quotations, we noted that there was a deviation from normal SCM processes for the operation of water and sewage treatment plant in Goedemoed Correctional Services. The emergency procurement was awarded to D-Matt supplies on the 7<sup>th</sup> of April 2021 on a month-to-month basis for a period not exceeding 6 months.

We performed further procedures and noted that the contract for the above-mentioned service was extended to the same supplier in June 2020 for a period not exceeding 8 months based on an emergency procurement. The emergency procurement was extended again in April 2021 for a period not exceeding 6 months.

The emergency procurement is still active with the same supplier as of 25 February 2022. The total amount paid to D-Matt Supplies from 24<sup>th</sup> June 2020 to 25<sup>th</sup> February 2022 amounts to R 3 842 195.45. The procurement does not qualify as per the definition of emergency procurement, specifically the "Unexpected situation" and "insufficient time to invite competitive bids" element as the department should have initiated and concluded the open bid processes in the period where the first emergency procurement (11 months) was approved. As a result, the irregular expenditure from April 2021 to 25 February 2022 amounts to R 1 878 132.36

Furthermore, the Regional Adjudication committee endorsed the April 2021 emergency procurement and stated that payments should not exceed R500 000.

Below is a summary of the award:

No	Deviation number	Project description	Supplier Name	Total value of the contract	Expenditure to date
1	ID 72647	Operation of water and sewage treatment plant in Goedemoed Correctional Services.	D-MATT Supplies	R 500 000	R 1 878 132.36

### Impact of the finding

- Non-compliance with Public Finance Management Act paragraph 38
- Non-compliance with National treasury SCM Instruction Note 3 of 2016/17
- Irregular expenditure of R 1 878 132.36

### Internal control deficiency

Financial and Performance Management

Management did not adequately review and monitor compliance with applicable laws and regulations relating to supply chain management.

Management is reluctant to procure these services mentioned by following normal procurement processes and has opted to deviate from normal procurement processes for 2 years.

Management did not implement the over-spending controls set by the Regional adjudication committee when the emergency contract was endorsed and approved.

## **Recommendation**

- It is recommended that management should enhance compliance procedures to ensure compliance with the applicable laws and regulations relating to supply chain management to ensure consistency, specifically the National treasury SCM Instruction Note 3 of 2016/17
- Management should implement controls set in place by the Regional adjudication committee in order to avoid over spending.
- Management should initiate and conclude an open bidding process for the above contract and avoid Irregular expenditure
- Management should disclose the Irregular Expenditure

## **Management response:**

I do not agree with the finding...

In terms of Paragraph 8.2 of National Treasury SCM Instruction No 3 of 2016/17, An emergency procurement may occur when there is a serious and unexpected situation that poses an immediate risk to health, life, property or environment which calls an agency to action and there is an insufficient time to invite competitive bids.

As per Day to Day Guidelines and Facilities Management Business Process under Item 7,1,4 - this service is regarded as an emergency service and the Regional Manager has emergency delegation to approve this request as an emergency as per the Facilities Management business process. Therefore, we are not in agreement that this is a deviation as the work was done in line with Facilities Management business process

Failure to attend to this as an emergency was going to results in contravention of the following act:

- Contravention of drinking water quality failures as per Water Service Authorities in terms of section 62 of the Water Services Act 1997 (Act no 108 of 1997). Contravention of Occupational Health and Safety Act, Act of 85 1993 as amended in terms of Section 30 taking into consideration the number of employees who stays in the facility and the public at large
- Secondly discharging of poor effluent quality for water treatment works would have resulted in contravening the Water Service Authorities in terms of section 62 of the Water Services Act 1997 (Act no 108 of 1997) and environment regulations due to water pollution as result of untreated sewerage discharged into the river

Furthermore, this was declared as an emergency because Goedemoed Prison to mitigate the health and safety risk and litigation against the Department due to poor quality drinking water and untreated sewer as the prison host many inmates and employees.

The normal procurement processes of an open tender process was followed. A normal procurement process of an open tender procedure was followed and could not be concluded as the all bidders failed the responsive criteria in terms of qualifications except the one bidder left who refused to negotiate their offer price as it was way above the tender estimate

## **Auditor's conclusion**

Management's response is noted.

Based on the response, it seems we agree that poor quality drinking water and untreated sewer at the prison, which hosts many inmates and employees, is a serious situation that poses an immediate risk to health, life, property or environment and calls an agency to action.

However, we differ with regard to the other two conditions that must be present in order to bring justification for management to deviate from inviting competitive bids:

### Was the situation unexpected:

Management, and more specifically the project leader is well aware that a service provider which must ensure that water is of drinkable quality and the sewage system is operating effectively, is a standard requirement for the prison. This is to avoid contraventions with the Water Services Act 1997 (Act no 108 of 1997), the Occupational Health and Safety Act, Act of 85 1993 and any health related litigations.

Therefore, the situation was not unexpected e.g. a burst pipe.

### Was there insufficient time to invite competitive bids:

Based on our assessment, the contract was already on deviation as at June 2020 and further extended on a month-to-month basis in April 2021. We further confirmed with the project leader that there has not been a service provider appointed as of yet. This brings the total term of the deviation to 22 months.

Therefore, management has had sufficient time to initiate and conclude a normal procurement process

In conclusion, we disagree with management's response. The finding will remain.

## **Audit findings**

During the audit of supply chain management for quotations, we noted a deviation from normal SCM processes for AF336790 MASERU BORDER POST: Water and sewerage operation and maintenance. The Bloemfontein region was informed on 22/05/2020 that they are required to assist in the interim for the procurement of the operation and maintenance of water and sewers at the Maseru border post. The contract was for a 6 month period ending 30/11/2020 until the procurement of replacing a contractor can be finalised by the head office as the existing contract at the time was expiring on 23 May 2020.

The RM approved the award for the appointment of BNM Civil Construction. The temporary appointment was further extended on a month-to-month basis at the end of the 6 months term ending 30 November 2020, as the NBAC had not yet convened for approval of the recommended bidder. This was at the recommendation of the head office, and the RM approved the extension of the contract with BNM Civil Construction.

The reasons for deviation does not meet the criteria for emergency procurement. We find that management induced the emergency by not allowing themselves sufficient time to follow normal procurement processes. A succession plan while the original contract was active would have avoided a situation where the region is informed on a day's notice to source a supplier.

Below is a summary of the award:

No	Deviation number	Project description	Supplier Name	Total value of the contract	Expenditure to date
1	AF336790	MASERU BORDER POST: Water and sewerage operation and maintenance	BNM CIVIL CONSTRUCTION	R 461 270,09	R 461 901 per month

### **Impact of the finding**

- Non-compliance with Public Finance Management Act paragraph 38
- Non-compliance with National treasury SCM Instruction Note 3 of 2016/17
- Irregular expenditure of R461 901 per month

### **Internal control deficiency**

#### Financial and Performance Management

Management did not adequately review and monitor compliance with applicable laws and regulations relating to supply chain management.

Management is reluctant to procure these services mentioned by following normal procurement processes and has opted to deviate from normal procurement processes. A succession plan was not in place while the original contract was active as the region was informed on a day's notice to source a supplier.

### **Recommendation**

- It is recommended that management should enhance compliance procedures to ensure compliance with the applicable laws and regulations relating to supply chain management to ensure consistency, specifically the National treasury SCM Instruction Note 3 of 2016/17
- Management should have a succession plan to initiate and conclude an open bidding process for the above contract and avoid Irregular expenditure
- Management should disclose the Irregular Expenditure

### **Management response:**

I do not agree with the finding...

In terms of Paragraph 8.2 of National Treasury SCM Instruction No 3 of 2016/17, An emergency procurement may occur when there is a serious and unexpected situation that poses an immediate risk to health, life, property or environment which calls an agency to action and there is an insufficient time to invite competitive bids.

As per Day to day guidelines and Facilities management business process Item 7,1,4 this service is regarded as an emergency service and the Regional Manager has emergency delegation to approve this request as an emergency as per the Facilities Management business process. Therefore, we are not in agreement that this is a deviation as the work was done in line with Facilities Management business process

Failure to attend to this as an emergency was going to results in contravention of the following act:

- Contravention of drinking water quality failures as per Water Service Authorities in terms of section 62 of the Water Services Act 1997 (Act no 108 of 1997). Contravention of Occupational Health and Safety Act, Act of 85 1993 as amended in terms of Section 30, taking into consideration the number of employees who stays in the facility and the public at large
- Secondly discharging of poor effluent quality for water treatment works would have resulted in contravening the Water Service Authorities in terms of section 62 of the Water Services Act 1997 (Act no 108 of 1997) and environment regulations due to water pollution as result of untreated sewerage discharged into the river

Furthermore, this was declared as an emergency because the Land Ports of Entry are a security risk and access to the country. Not been able to put the Water, sewerage operation and maintenance could have led to Occupational Health risks leading to closure of the border line. This would have a ripple effect to things like extraditions and would have a threat of life as the citizens stuck abroad would be at risk. Maseru Bridge was one of the borders that was open during lockdown because it goes directly to the capital of a SADC county

The normal procurement processes of an open tender process was followed. However, during the period in question, there was Covid 19 and the department could not have envisaged the smooth operation for working at home and a number of lockdowns that were introduced. There was a sufficient succession planning but it was delayed due to the pandemic. At that time, officials were affected/infected by the virus and that lead to a number of postponements that led to delays in finalizing the process on time.

### **Auditor's conclusion**

The Head office informing the Regional Office on 22 May to appoint a contractor for the procurement of the operation and maintenance of water and sewers at the Maseru border post justifies the regional office departing from the standard procurement process considering the time frame and the nature of the services procured. We as the auditors do not dispute this.

They issue we have is that we believe the Head Office had reasonable time to appoint a service provider on both occasions being before the 1<sup>st</sup> of June 2021 where the regional office was instructed to appoint a contractor for a period of 6 months and the 30<sup>th</sup> of November 2021 where the head office requested the regional office to extend the contract on a month-to-month basis. We have noted the reasons mentioned above that the head office was delayed by the Covid-19 pandemic and that the department could not have envisaged the smooth operation for working at home, a number of lockdowns being introduced and that officials were affected/infected by the virus that led to a number of postponements that led to the delays in finalizing the process on time.

Lockdown was instituted from 27 March 2020 and this left the department with approximately 2 months from this day to the end of May where the initial contract was expected to lapse, which would imply that by this time the tender process for appointing a new contractor should have been in its final stages. Online meetings were then introduced at the time to ensure continuation of duties for employees.

The department also has a list of approved NBAC members who are permitted to be part of the NBAC, which means that members can be replaced should others not be available. As a result, we feel the reasons provided are not sufficient to justify the head office delegating the Bloemfontein regional office to appoint an interim service provider and further extent the contract on a month-to-month basis also considering the nature of the services required.

## KIMBERLY REGION

### Nature

During the audit of procurement of goods, it was noted that a deviation to Letsatsi Empire Pty Ltd for Provisioning of cleaning services for 3 months was approved on 03 June 2021 by the Regional Bid Adjudication Committee, the reasons for the deviation was that it was an emergency. The reasons provided are not justifiable based on the factors below:

- On the 28<sup>th</sup> of May 2021 the department sent a letter to Letlotlo cleaning services terminating their services effectively on 30 May 2021, the reasons for the termination of contract were not included in the letter.
- Inspected the minutes of the meeting with the contractor dated 28 May 2021 and confirmed that the resolution was taken in the meeting that the services for Letlotlo should be terminated and a new service provider be appointed on an emergency basis
- It was further stated in the meeting that the service provider Letlolo was not cleaning and not paying employees in this regard. However, it was not clear how the department tried to rectify the issue of poor performance of Letlotlo as there was no proof provided to auditors to confirm that the service provider was not performing before the services were terminated. Furthermore it is unclear when the department found out about the fact that employees were not paid by letlotlo and that the court was not being cleaned.
- The service provider had been cleaning the court since 2019 till 2021 and it is unclear when the department identified the service provider to be not performing.
- According to the Assessment of Procurement Instruction by the Project Leader dated 24 May 2021 and approved by the DD: Facilities management on the 25 May 2021, procurement for the provisioning of cleaning services for 3 months was required.
- Furthermore, it was noted that an email was sent to prospective suppliers on the 28<sup>th</sup> of May 2021 requesting for quotations for the required services and that all documents should be submitted to the Kimberley Regional Office on/before the 11<sup>th</sup> of June 2021 at 11:00am.

An approval through an internal memo to the Regional Manager was obtained for the emergency procurement of cleaning services on the 28 May 2021 stating that an emergency was due to:

- The service contract with Letlotlo Cleaning Services had been terminated as of 31 May 2021
- The process to source the thirty six (36) month contract is at advert stage
- That it is of vital importance to provide cleaning services at the magistrate court especially in the Covid era.
- That a three month contract will provide SCM with sufficient time to procure the 36 month contracts.

Upon further inspection it was noted that another email was sent to prospective suppliers on the 31 May 2021 stating RFQ: PF43/2021 Kimberley Magistrate Court: Provisioning of Cleaning services for 3 months was cancelled.

It was further noted that an email was sent to one supplier, Micheal Thembu with email address [nonkuch69@gmail.com](mailto:nonkuch69@gmail.com), on the 31 May 2021 for the emergency procurement of PF43/2021 Kimberley Magistrate Court: Provisioning of Cleaning services for 3 months stating that there was an agreement the day before for the contractor to attend to the mentioned emergency.

Taking into account the facts above and the definition of an emergency, it may pose an immediate health risk however, it is evident that there was sufficient time for management to request competitive bids for the services to be rendered. The department had enough time to request the RFQs from service providers for the cleaning services this is evident from the fact that on 24 April assessment of procurement Instruction by the Project Leader was done and approved by DD: Facilities management on 25 April. Therefore, the reasons for the deviation were assessed to be not justifiable.

## **Cause**

Management did not implement procurement processes in an appropriate manner to ensure that SCM regulations are adhered to.

Management did not ensure contract measures were implemented for effective contract monitoring to ensure timely procurement of goods and services required that are required on a continuous basis

## **Impact**

This will result in an irregular expenditure of R493 335.

## **Internal control deficiency**

### *Financial and Performance Management*

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

Management 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.

## **Recommendation**

It is recommended that:

Management implements procurement processes in an appropriate manner to ensure that SCM regulations are adhered to.

Management to ensure contract measures are implemented for effective contract monitoring to ensure timely procurement of goods and services that are required on a continuous basis.

## **Management response**

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

Due to non-performance by the service provider Letlolo Cleaning Services, the services for Provisioning of cleaning services for Kimberley Magistrate Court was abruptly terminated. The termination letter of services by Letlolo Cleaning Services for Cleaning Services was approved 28 May 2021, with the services to end 31 May 2021. The Procurement Instruction approval date per the PI received by SCM is 28 May 2021 (POE attached for ease of reference).

SCM had already began the process of inviting quotations RFQ: PF43/2021 for a three month period with invitation of quotation advert date (28 May 2021) Closing date (11 June 2021) to allow SCM to receive a minimum of three quotations. This request was cancelled due to the termination of the services by Letlolo Cleaning Services. The PI dated 25 May 2021 was for the cancelled 3 months process, it in no way references the emergency.

Furthermore the Regional Office assessed the impact and risk that waiting for the SCM process to conclude would pose to the Client because of the heightened response times in cleaning due to the COVID pandemic which had to be strictly adhered to, to ensure that the Courts were fully compliant. It was found that the High Court would have been negatively impacted and might have been forced to shut down, and not provide judiciary services to the public. This would have been an untenable situation since court dates are determined by the judiciary that places matters on the court roll.

As a contingency plan, a request for emergency was done and submitted to the Regional Manager for consideration and approval granted on 28 May 2021. The approval was granted by the Delegated Official per the SCM Circular No. 49 of 2017 par 3.12.8;

Various service providers were checked from CSD for availability until an available service provider was found. It should be noted that between 28 to 30 May (3 days) SCM wouldn't have been unable to source 3 quotations evaluate and award and ensure that site is handed over timely, there was not enough time to allow for the SCM process to be concluded.

29 May 2021, the estimate was disclosed R496 500 and it was indicated that the range of the quotation that would be acceptable within close range of the estimate to ensure that the price of the emergency is controlled. The price was agreed upon and service provider appointed while awaiting the formal SCM process to be concluded. Letsatsi Empire was forwarded all compliance documents on receipt by SCM from the project leader and site was handed over 01 June 2021.

### **Auditor's conclusion**

Management response has been noted however the finding stands based on the following:

As initially indicated in the COAF it is not clear when the department noted that the supplier is not performing and when they received a complaint about the service provider not paying salaries of the employees.

According to National Treasury SCM Instruction Note 3 of 2016/17 Preventing and combating Abuse Paragraph 8.2 an emergency procurement may occur when there is a serious and unexpected situation that poses an immediate risk to health, life, property or environment which calls an agency to action **and there is insufficient time to invite competitive bids.**

Considering that, the department started the process of looking for a service provider to clean the magistrate court on from the 24 May 2021 as the project leader completed the assessment of procurement instruction and approved by the DD Facilities management on the 25 May 2021. This indicates that the department was aware that they needed a cleaning service provider or they knew the service provider was not performing (Letlotlo).

The reasons provided does not meet the definition of an emergency based on the reasons stated above.

## **Payments not approved in line with SCM delegations Requirements**

Public Finance Management Act (PFMA) paragraph 38(1)(n) states that “*The accounting officer for a department, trading entity or constitutional institution must comply, and ensure compliance by the department, trading entity or constitutional institution, with the provisions of this Act.*”

Public Finance Management Act (PFMA) paragraph 44 of the PFMA states that:

- (1) *The accounting officer for a department, trading entity or constitutional institution may—*
  - (a) *In writing delegate any of the powers entrusted or delegated to the accounting officer in terms of this Act, to an official in that department, trading entity or constitutional institution; Or*
  - (b) *Instruct any official in that department, trading entity or constitutional institution to perform any of the duties assigned to the accounting officer in terms of this Act.*
- (2) *A delegation or instruction to an official in terms of subsection (1)—*
  - (a) *is subject to any limitations and conditions prescribed in terms of this Act or as the relevant treasury may impose;*
  - (b) *Is subject to any limitations and conditions the accounting officer may impose;*

Treasury regulations 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 by duly authorised electronic means) of the accounting officer or a properly delegated or authorised officer.*

Par 4 of SCM Circular 160 of 2021/22 on *Thresholds Values for the Procurement of Goods, Works and Services by means of Petty cash, Written Price Quotations or Competitive*:

### **4.2. Delegations to the Authority or Committee responsible for the Adjudication of Price Quotations and Open Competitive Bids:**

**These delegations are reflected to the lowest levels and apply also to officials in the line of authority above the lowest level up to DDG (SL15) level.**

Provision and/or Description	Delegated Authority or Committee	Applicability and/or Ranges	Conditions
Adjudication of Price Quotations	SCM Practitioner (SL 8)	<b>Range:</b> Above R2000 to R30 000	SCM official involved in evaluation process must not be involved in adjudication process to ensure segregation of duties.
	Assistant Director: (SL9) SCM	<b>Range:</b> Above R30 000 to R100 000	
	Deputy Director (SL11)	<b>Above</b> R100 000 to R300 000	
	Director SCM	<b>Above</b> R300 000 to R500 000	
	BAC's	<b>Above</b> R500 000 to R1 000 000	The current approved Acquisition Standard Operating Procedures in the various SCM: Acquisition Functional Streams for Goods & Services, Infrastructure and Property and Facilities Management apply.

## POLOKWANE REGION

### Nature

During the audit of written price quotations, it was noted that an official authorized the appointment of a service provider without adhering to the delegations limitations and thresholds of the PMTE. See below:

Supplier name	Description of services	Approver	Designation	Delegation authority	Amount	Official authorized to appointment
JPB UZZI Projects (Pty) Ltd	Gardening Services at Hlanganani Magistrate Office	LM Serepo	Deputy Director: Finance	R100 000 to R300 000	R464 266.55	No Official not authorized. Limited to R300 000.00

The official approved the appointment of supplier as per the written price quotation, which was above their delegated authority. The officials delegated official limited to R300 000.00 however the amount quoted adjudicated amounts to R464 266.55.

Therefore none compliance with FPMA and Treasury regulations 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 by duly authorized electronic means) of the accounting officer or a properly delegated or authorized officer.*”

### Cause:

This is due to management not implementing the SCM delegations requirements prior to appointment.

### Impact of the finding

#### **The above may result in the following:**

- Irregular expenditure with amounts of **R464 266.55**
- Non-compliance with section 38 and 44 of the PFMA
- Non-compliance with internal policies

### Internal control deficiency

#### *Leadership*

*Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.*

Management did not ensure that written price quotations adjudication is approved by the delegated in order to comply with the relevant delegations.

#### *Financial and Performance Management*

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

Management did not implement procurement processes in an appropriate manner to ensure that finance delegations are adhered to.

### Recommendation

- It is recommended that management should ensure that the entity complies with the finance delegations.
- Management should ensure that payments are authorized in accordance with the approved finance delegations.

## **Management response**

Management disagrees with the finding due to the following:

1. The award of the quotation in question, was done electronically using the devolution system (quotation management system) as per the SCM directive, which requires all offices to use devolution for quotations for goods and services below R500,000.
2. The delegation you're referring to, it is SR 11, the Deputy Director and approver of the quotation in question is Head SCM (Deputy Director) on SR 12. Which is variance
3. In terms of delegations which is illustrated as per circular 160

Delegate d authority	SCM Practitioner (SL 8) Range	Assistant Director (SL 9) Range	Deputy Director (SL 11) Above	Director Above
Threshold	R2000 T0 R30 000	R30 000 T0 R100 000	R100 000 T0 R300 000	R300 000 to R500 000

- SCM Practitioner to assistant director's delegation stating threshold range and from deputy director level the delegation is stating above the threshold
- our interpretation is that the deputy director is delegated to approve the quotation above the threshold as per table
- range means be within the threshold and above means over the threshold stated

## **Auditors response**

Management comments are noted. Auditors made the following assessment

- Firstly, the Deputy Director Salary range of approval is between SR11 and SR12. This however does not take away the fact that they are a Deputy Director and not a Director who is on a SR13.
- Additionally based on managements' response above, there is indicators of clear misinterpretation of the requirements of the delegations circular by management.
- If we auditors were to apply the exact explanation provided by managements, it would mean with regards to the last threshold speaking to the delegations of the BAC, the BAC would have powers to approve quotations that are "above" R1 000 000.00.
- This would be in contravention with Treasury requirements, as this then would mean that this is no longer a "Quotations" but rather a "Competitive bid".
- Therefore, without it is clear that as per managements" response that the above interpretation by management is invalid.
- It is clear from the above extract provided under the "Requirements Section" that the range for a deputy director to approve a written quotation is anything "Above" R100 000.00 but limited to a maximum of R300 000.00.
- Based on the above assessment, the finding will remain and will be reported in the Management Report with related impact.

## **MMABATHO REGION**

### **Nature**

During the regional audit of quotations, we noted that a quotation for the rendering of garden services for 12 months at Wolmaransstad magistrate office was adjudicated and awarded by the sub-regional Bid Adjudication Committee on 11 September 2021 which was chaired by a Deputy Director: SCM.

According to SCM Circular 160 of 2021/22 which was effective from the 01 August 2022, the delegated official to approve awards between R300 000- R500 000 is the Director of SCM.

Therefore, the approval of award was not obtained from the approved delegated official.

RFQ	Supplier	Description	Amount (R)
MMB 2021/201 GS	H and M Project Management	Rendering of garden services for 12 months at Wolmaransstad magistrate office	499 968

### **Impact of the finding**

The above may result in the following:

- Irregular expenditure with amounts of **R499 968**.
- Non-compliance with section 38 and 44 of the PFMA

### **Internal control deficiency**

#### *Leadership*

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Management did not ensure that deviations by the trading entity were approved and reviewed by the delegated official in order to comply with the relevant SCM laws and regulations.

#### *Financial and Performance Management*

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

Management did not implement procurement processes in an appropriate manner to ensure that SCM regulations are adhered to

#### **Recommendation**

It is recommended that management should ensure that the entity complies with all applicable laws and regulations.

Procurement through deviations should be reviewed and approved by the approved delegated official as per the SCM prescripts.

#### **Management response**

I am in agreement with the finding for the following:

The understanding for all intents and purposes was that the delegation is to be for the Head of SCM in regional offices to approve such procurement.

Procurement of MMB2021/201GS and similar procurements will be reviewed and approved by the approved delegated official as per the SCM Circular 161 of 2021/22.

### **Auditors Conclusion**

Management's responses has been noted, therefore the audit finding remains, and misstatement will be reported to management report accordingly.

## DURBAN REGION

### Nature

During the regional audit of procurement, it was noted that quotations listed below were adjudicated and awarded by the Sub-regional Bid Adjudication Committee which was chaired by the ASD: SCM.

However, according to SCM Circular 160 of 2021/22 section 4.2 which was effective from the 01 August 2021, the delegated official to approve awards between:

R100 000 - R300 000 Deputy Director: SCM  
R300 000 - R500 000 is the Director of SCM

Furthermore, it was stated that the current approved Acquisitions Standard Operating Procedures in the various SCM: Acquisition Functional Streams for Goods and services apply.

Therefore, the approval of the following awards were not obtained from the approved delegated official

Request ID	Supplier	Description of services	Amount (R)
86181	QH7 Construction (Pty) Ltd	SAPS :Gamalakhe ;Repairs to 28X Air Conditioning split units (2weeks period)	136 080
82993	Enzayolinto Trading Enterprise (Pty) Ltd	Ingwavuma Prison, supply and delivery 20 000L of drinking water for a period of three months	394 999.83
81409	Nokwazi-Siwe Trading CC	Justice:PMB High Court :Services & repairs 1x cooling tower ,2x chiller plants 3xVRV ,8x Package units &104 Split type air conditioners for 3 months	447 350
98023	Pakama Group (Pty) Ltd	Ekuseni Youth Prison :Operation & Maintenance of Sewerage treatment plant for 3 months	342 125
Total			1 320 554.83

### Impact of the finding

#### The above may result in the following:

- Irregular expenditure with amounts of R978 429.83
- Possible irregular of R342 125
- Non-compliance with section 38 and 44 of the PFMA

### Internal control deficiency

#### *Leadership*

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Management did not ensure that quotations by the department were approved and reviewed by the delegated official in order to comply with the relevant SCM laws and regulations.

#### *Financial and Performance Management*

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

Management did not implement procurement processes in an appropriate manner to ensure that SCM regulations are adhered to

## **Recommendation**

It is recommended that management should ensure that the entity complies with all applicable laws and regulations.

Procurement through quotations should be reviewed and approved by the approved delegated official as per the SCM prescripts.

## **Management response**

I am not in agreement with the finding for the following reasons [as per the attached information in support of this]:

The Sub-Regional Bid Adjudication Committee is appointed by the Region Manager as per the departmental circular 16 of 2012 paragraph 2.2.2 which states "*The appointment of the Sub Regional Bid Adjudication Committee remains the competency of the Regional Manager*".

Circular no 161 of 2021/22 quoted by Auditor General does not provide for the appointment of the Committee as it only outlines the responsibilities in so far as the individuals are concerned. The Regional Manager has clearly delegated in writing the same responsibilities and accountabilities to the committee.

The appointed Chairperson of the committee is the Deputy Director SCM alternated by the Assistant Director SCM.

The Assistant Director when chairing the committee is no longer viewed as an individual authorized to approve only up to R100 000 as per the circular **but** as the Chairperson of the Committee that is authorized to approve up to R500 000.

Same argument can be raised with the composition of the RBAC/ NBAC, which according to the National Treasury Practice Note of 03 of 2005, the Chief Financial Officer should be the chairperson of the Bid Adjudication Committee, however the departmental practice is not aligned to this practice note.

The above delegations are supported by Section 44 of the PFMA. **ASSIGNMENT OF POWERS AND DUTIES BY ACCOUNTING OFFICERS**. Which provides that the "The Accounting Officer for a department, trading entity or constitutional institution may— **(a) in writing delegate any of the powers entrusted or delegated to the accounting officer in terms of this Act, to an official in that department, trading entity or constitutional institution**"

## **Auditors Conclusion**

Management's response is noted.

Management stated that The Sub-Regional Bid Adjudication Committee is appointed by the Region Manager as per the departmental circular 16 of 2012 paragraph 2.2.2 which states "*The appointment of the Sub Regional Bid Adjudication Committee remains the competency of the Regional Manager*".

However, no evidence of the above had been submitted by management. The finding remains till such evidence of approval is submitted.

## **Non-tax compliant supplier**

### **Requirements**

Public Finance Management Act paragraph (PFMA) 38(1)(a)(iii) states that “*The accounting officer for a trading entity must ensure that the trading entity has and maintains an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective...*”

Furthermore, section 38 (1)(c)(ii) states that; “*The accounting officer for a department must take effective and appropriate steps to prevent unauthorized, irregular and fruitless and wasteful expenditure and losses resulting from criminal conduct...*”

National Treasury Instruction No. 09 of 2017/2018 section 4 states the following:

*“4.1 Designated employee(s) must verify the bidder’s tax compliance status prior to the awarding of price quotations or competitive bids.*

*4.2 Where the recommended bidder is not tax compliant, the bidder must be notified in writing of their non-compliant status and the bidder must be requested to submit written proof from SARS of their tax compliance status or proof that they have made an arrangement to meet their outstanding tax obligations within 7 working days. The bidder should thereafter provide the accounting officer or accounting authority with proof of their tax compliance status which should be verified via the Central Supplier Database or e-Filing.*

*4.3 Should the recommended bidder fail to provide written proof of their tax compliance status in terms of paragraph 4.2 above, accounting officers and accounting authorities must reject the bid submitted by the bidder.*

*4.4 In all instances, accounting officers and accounting authorities must ensure that systems are in place in their respective institutions to ensure that all invoices are paid within 30 days from receipt of an invoice, unless determined otherwise in a contract or other agreement.”*

## **DURBAN REGION**

### **Nature**

During the audit of quotations, we noted that Siyelabula Security services was appointed for the provision of security services as listed in the table below for *9 Golf Street, Ladysmith* and at *25 Carlton Road, Ladysmith* through the open quotation process.

The regional sub-bid adjudication committee adjudicated and approved the awarding of two quotations to Siyelabula Security Solution on 26 August 2021, however through verification of the CSD history compliance report of Siyelabula Security Solution, It was noted that the service provider was not tax compliant from 25 August 2021 (a day before evaluation and adjudication of the quote) until 1 September 2021.

Furthermore, there was no evidence of a written letter to the bidder notifying them of their non-tax compliance nor a response from the bidder to confirm that there are now tax compliance.

No	Supply Name	Description	Reference	Amount (R)
1.	Siyelabula Security Solution	Provision of security services at 9 Golf Street, Ladysmith	DBN21/07/13	332 359,08
2.		Provision of security services at 25 Carlton Road, Ladysmith	DBN21/07/11	332 359,08
<b>Total Amount</b>				<b>664 718,16</b>

### **Impact of the finding**

- Irregular expenditure of R664 718.16

- Non-compliance with National Treasury Instruction No. 09 of 2017/2018

## **Internal control deficiency**

### *Financial and performance management*

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

Management did not ensure quotations are awarded to suppliers who are tax compliant.

### *Leadership*

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls

Management did not ensure that the adjudicated and awarding of quotations by the auditee are in accordance to the relevant SCM laws and regulations.

## **Recommendation**

Management to ensure quotations are awarded to suppliers that have been verified to be tax compliant to comply with the relevant National Treasury Regulations.

Upon adjudication of quotations, management to extract a CSD registration report or compliance history report to confirm whether the selected service provider is tax compliant.

### **Management response:**

I am not in agreement with the finding for the following reasons [as per the attached information in support of this]:

At the time of the evaluation the bidder was compliant as per the CSD report printed on the 18<sup>th</sup> of August 2022. This verification together with the tax status report with an expiry date of 26 May 2022 was thus considered for adjudication and award thereof. This is in line with the paragraph 3.1 (b) of National Treasury Instruction Note of 2017/18

## **Auditor's conclusion**

Management's response noted, however the finding remains based on the following:

The central supplier database tax compliance report was drawn by management on the 18 August 2021 for the evaluation and adjudication of the quotation on the 26 August 2021 for which a letter of award was issued in the 27 August 2021.

According to the CSD tax history compliance report, the supplier was noted that the service provider was not tax compliant from 25 August 2021 till 1 September 2021.

In terms of National Treasury Instruction No. 09 of 2017/2018, section 4 states the following:

*"Designated employee(s) must verify the bidder's tax compliance status prior to the awarding of price quotations or competitive bids."*

The emphasis is placed on making sure that a bidder who is awarded a quotation/tender is tax compliant, which creates an obligation for management to ensure that any service provider "awarded" a quotation/tender is tax compliant.

## **Preference Points Requirement**

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

*Public Finance Management Act paragraph 38(1) (a) (i) and 38(1) (a) (iii) states that “The accounting officer for a trading entity must ensure that the trading entity has and maintains*

- (i) *Effective, efficient and transparent systems of financial and risk management and internal control;*
- (ii) *(iii) An appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective;”*

*Public Finance Management Act paragraph 38 (1)(c)(ii) states that “The accounting officer for a trading entity must take effective and appropriate steps to prevent unauthorized, irregular and fruitless and wasteful expenditure and losses resulting from criminal conduct”*

Preferential procurement regulations, 2017 paragraph 6(3) and 6(4) state that:

- “(3) A tenderer must submit proof of its B-BBEE status level of contributor.
- (4) A tenderer failing to submit proof of B-BBEE status level of contributor or is a non-compliant contributor to B-BBEE may not be disqualified, but-
  - (a) may only score points out of 80 for price; and
  - (b) scores 0 points out of 20 for B-BBEE.”

## **CAPE TOWN REGION**

### **Audit finding**

During the audit of quotation number 10827 for the transportation of learners, the following issue was noted:

#### **Issue 01:**

The winning bidder (Maistry Transport) submitted a letter, stating that there is a joint venture between Maistry Transport and Faadiel Tours and transfers.

In accordance with the SANAS (South African National Accreditation System) when bidding through a Joint Venture, the Joint Venture must submit a Consolidated B-BBEE certificate provided that it is not an incorporated entity when responding to tenders. This means that you will have to obtain a new B-BBEE certificate for the Joint Venture, which consolidates each participant's B-BBEE status level. You apply for a Consolidated B-BBEE certificate at your B-BBEE Verification Agency who will issue the Consolidated B-BBEE certificate after combining the Joint Venture Partners' B-BBEE Certificates.

The Consolidated B-BBEE certificate must be tender specific – in other words, it must contain the name and number of the tender that you are responding.

We then inspected the B-BBEE Certificate submitted by the bidder and noted that they only submitted a sworn affidavit. Therefore, the bidder is not eligible to be awarded points for BEE status.

#### **Issue 02:**

We inspected the sworn affidavit submitted by the Joint and confirmed that the Sworn Affidavit submitted was not valid in accordance with SANAS.

Through inspection of the PA-16: Preference Point for bids (point 8.1) Maistry Transport declared that they will sub-contract 50% of their services to Faadiel Tours and Transfers.

The two parties submitted one sworn affidavit –BEE certificate, on which they both completed and signed. We then confirmed through a telephonic discussion with DTI and SANAS is that joint ventures must submit a consolidated BBBEE certificate, which are issued by an accredited institution.

Based on the above assessment, the winning bidder was supposed to be disqualified during the pre-qualification screening phase due to not meeting the stipulated pre-qualifying criteria as per PA-03 (GS):Notice and invitation for quotation, and considered unacceptable tender for submitting an invalid BBBEE Certificate.

Furthermore, the bidder would not be eligible for BEE points, as their certificate is not valid. Therefore, the second highest bidder (Capeway Transport) was supposed to be awarded the contract.

### **Impact of the finding**

- Non- compliance with Preferential Procurement Regulation 2017, paragraph 6(3) and 6(4).
- Non- compliance with paragraph 38(1)(a)(i) and (38(1)(c)(ii) of the Public Finance Management Act.
- Irregular expenditure of R 427 500.

### **Internal control deficiency**

#### Financial and Performance Management

- Management did not adequately review and monitor compliance with applicable laws and regulations relating to supply chain management.
- Management did not sufficiently evaluate the winning bidder's submission file, more especially the validity of the BEE certificate provided.

### **Recommendation**

- It is recommended that management should enhance compliance procedures to ensure compliance with the applicable laws and regulations relating to supply chain management to ensure consistency in how all the bidders are assessed.
- Management should disclose the Irregular expenditure to date.

### **Management response:**

I am in agreement.

There was a confusion with regards to the Sworn Affidavit, bidders were advised if there's an agreement signed by the lawyer both bidders can sign one Sworn Affidavit as part of consolidated status level. Internal control measures have since been implemented to address this deficiency.

Internal control measures have since been implemented to address this deficiency. Where required, it will be ensured that the consolidated BBBEE certificates are signed by accredited verification agency.

### **Auditor's conclusion**

Management response is noted and the corrective actions taken. Going forward we will evaluate the effectiveness of the implemented controls through normal procurement testing.

The finding will remain.

## **Local Content and Production (Designated Groups)**

### **Requirement**

The Public Finance Management Act, 1999 (Act No. 1 of 1999) paragraph 38(1) states that “*the accounting officer for a department, trading entity or constitutional institution* —

- (a) *must ensure that that department, trading entity or constitutional institution has and maintains—*
  - (iii) *an appropriate procurement and provisioning system, which is fair, equitable, transparent, competitive, and cost-effective.*
- (c) *must take effective and appropriate steps to—*
  - (ii) *prevent unauthorised, irregular, and fruitless and wasteful expenditure and losses resulting from criminal conduct;*

The preferential procurement regulations, paragraph 8(2) state that “*An organ of state must, in the case of a 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.*”

National Treasury Designated Sector Circular on “Local production and content as announced by the Minister of Trade and Industry” of 20 January 2012 states that “*The stipulated minimum threshold percentages for local content and production for Textiles, Clothing, leather and footwear sector is 100%.*”

National Treasury Designated Sector Circular number 3 of 2017/18 Pumps, medium voltage motors states that “*The stipulated minimum threshold percentages for local content and production for Pumps, medium voltage motors sector is 70%.*”

National Treasury Designated Sector Circular number 11 of 2016/2017 valve products states the following “*The stipulated minimum threshold percentages for local content and production for valve products sector is 70%.*”

National Treasury Designated Sector Circular number 1 of 2019/2020 plastic pipes states that “*The stipulated minimum threshold percentages for local content and production for plastic pipes sector is 100%.*”

National Treasury Designated Sector Circular number 10 of 2019/20 Electrical cables states the following “*The stipulated minimum threshold percentages for local content and production for electrical cable sector is 90%.*”

National Treasury Designated Sector Instruction Notes paragraph 7.1 states that “*Once bids are awarded, the DTI must be notified of all the successful bidders and the value of the contracts; and provided with copies of the contracts, the SBD/MBD 6.2 Certificates together with the declaration C submitted by the winning bidder.*”

## **CAPE TOWN REGION**

### **Audit finding**

#### **Issue 1 – Local content reporting (Internal Control deficiency)**

During the audit of quotations, we noted that RFQ no. 10319 was advertised for making and installing curtains for the formal lounge and sunroom and to replace damaged curtains.

Through the inspection of the invitation to bid document (PA-04), we noted that local content was applicable on the bid and the local content declaration (PA-36 and annex C) were listed on the PA-04 as part of the prequalification criteria used to assess bid responsiveness.

We further confirmed that the invitation to bid document (PA-04) stipulated that prospective supplier(s) are required to provide fully signed and fully completed bid documents as part of the prequalification criteria used to assess bid responsiveness.

We further confirm that the invitation to bid document (PA-04) stipulated that prospective bidding suppliers that do not adhere to the requirements listed on the prequalification criteria will be deemed non-responsive and will not be evaluated further.

We further inspected the local content declaration (PA-36) and confirmed that the threshold for fabrics a subsector of the textile's designated sector was stipulated correctly at 100%.

Through enquiry with the SCM department, it was confirmed that the Department of Trade and Industry (DTI) was not notified of the successful bidder's local content declaration and the value of the contract.

### **Issue 2- Local content thresholds and DTI reporting (Irregular and internal control deficiency)**

During the audit of competitive bids, we noted that RFP no. 1005/19 was advertised for the construction of a new sickbay facility at the Saldanha Military base.

Through the inspection of the invitation to bid document (PA-04), we noted that local content was not ticked as applicable on the bid and the local content declaration (PA-36 and annex C) were not listed on the PA-04 as part of the prequalification criteria used to assess bid responsiveness.

Through inspection of the winning and losing bidders returnable document bid files, we confirmed that all bidding suppliers were provided with a copy of a local content declaration (PA-36) and declared their local content compliance for the tender.

Through inspection of the winning bidder's local content declaration (PA-36) we confirmed that the auditee did not stipulate the percentage thresholds of the local content designated sectors that need to be adhered to by the winning bidder.

Further upon inspection of the winning bidder's itemised bill of quantities, we noted that the following designated sectors were applicable as per the DTI's list of designated sectors:

- Plastic Pipes and Fittings - 100%
- Valves -70%
- Steel products and components for construction- 100%.

Therefore, the invitation to tender did not specify the minimum thresholds applicable for local content production as prescribed in the relevant National Treasury Instruction Notes guided by the DTI's list of designated sectors.

Further through enquiry with the SCM department, it was confirmed that the Department of Trade and Industry (DTI) was not notified of the successful bidder's local content declaration and the value of the contract.

### **Impact**

- Non-compliance with the paragraph 38(1) (a)(iii) and (c)(ii) of the Public Finance Management Act, 1999 (Act No. 1 of 1999)
- Non-compliance with the Instruction Notes on Designated Sectors
- Irregular expenditure

## **Internal control deficiency**

Financial and Performance management

Management did not review and monitor compliance with applicable legislation.

Management did not adequately review bidding documents, in order to ensure that PA- 36: local and production requirements as prescribed by national treasury are adhered to.

Furthermore, management did not ensure DTI reporting as required by the designated sector instruction notes.

## **Recommendation**

Due diligence should be performed on bidding documents prior to advertisement to ensure that they comply with local content rules and regulations.

Management should ensure that the procurement for local content and production complies with the National Treasury Designated Sector Instruction Notes.

Management should provide evidence that the DTI was notified of the successful bidder and the value of the contract for local content

## **Management response:**

I am not in agreement with the finding due to the following reasons:

### **Issue 1**

For RFQ no. 10319, the Regional Office was awaiting confirmation whether the service will be rendered as there were uncertainties that the service as still required. We have since submitted this information to Head Office for reporting purposes to DTI.

### **Issue 2**

For Saldanha Military Base, it must be noted that as much as the local content was not ticked as a responsiveness criteria on the PA-04, the successful bidder did declare their local content compliance on the PA-36. (**See attached Annexure E**). It is agreed the Regional Office did not notify Head Office for reporting purposes to DTI and will report accordingly.

It must be mentioned that during the implementation of the local content, there was no formal training that was provided. It was therefore not clear how it should be implemented as DTI was not clear when guidance was sought. National Treasury also did not conduct formal training to the Departments, as a result even Service Providers are still having a challenge.

National Treasury has recently requested DTI to conduct training on the Local Content, all Procurement relating/involving Local Content it will be designated accordingly. It was indicated as part of Audit Action Plan in 2021/2022 financial year.

## **Auditor's conclusion**

Management response is noted and the corrective actions taken. Going forward we will evaluate the effectiveness of the implemented controls through normal procurement testing.

The finding will remain.

## **Advertisement of and publication of bid awards**

### **Requirement**

The Public Finance Management Act, 1999 (Act No. 1 of 1999) paragraph 38(1) states that “*the accounting officer for a department, trading entity or constitutional institution* —

- (a) *must ensure that that department, trading entity or constitutional institution has and maintains—*
  - (iii) *an appropriate procurement and provisioning system, which is fair, equitable, transparent, competitive, and cost-effective.*
- (c) *must take effective and appropriate steps to—*
  - (ii) *prevent unauthorised, irregular, and fruitless and wasteful expenditure and losses resulting from criminal conduct;*

National Treasury instruction note 1 of 2015/2016 “Advertisement of Bids and Publication of Awards on eTender Publication Portal” -paragraph 2.3 states that “*The National Treasury is therefore introducing a web application in the form of the eTender Publication Portal where all PFMA compliant institutions must advertise all their bids and publish all their awarded bids.*”

## **CAPE TOWN REGION**

### **Audit finding**

#### **Issue 1- eTenders Advertising and publication of Award (Internal Control Deficiency)**

During the audit of competitive bids, we noted that RFP no. 1005/19 was advertised for the construction of a new sickbay facility at the Saldanha Military base.

Through enquiry with the auditee’s SCM department, it was confirmed that the bid was not advertised on eTenders, and the award was also not published on eTenders.

#### **Issue 1- Publication of Award on Tender Bulletin (Non-compliance)**

During the audit of competitive bids, we noted that RFP no. 1005/19 was advertised for the construction of a new sickbay facility at the Saldanha Military base.

Through enquiry with the auditee’s SCM department, it was confirmed that the bid award was also not published on the tender bulletin.

### **Impact**

- Non-compliance with the paragraph 38(1) (a)(iii) and (c)(ii) of the Public Finance Management Act, 1999 (Act No. 1 of 1999)
- Non-compliance with the Instruction Notes on bid advertising and bid award publications

### **Internal control deficiency**

Financial and Performance management

Management did not review and monitor compliance with applicable legislation.

Furthermore, management did not ensure proper advertising and publication of bid awards as required by the National Treasury.

## **Recommendation**

Management should ensure all bids are advertised on all required media channels and all bid awards are published on all applicable media channels.

### **Management response:**

I am in agreement.

It must be mentioned that challenges were experienced with advertising tenders on the e-Tender as the documents were too big to upload however bids were advertised on CIDB and the DPWI website. The bid advert was advertised on the Government Tender Bulletin, (**Annexure C**) and the award was also advertised. It is unfortunate that the copy was misplaced as numbers of auditors request information more frequently, and as the website for National Government Tender Bulletin is still under construction, it is not possible to obtain such evidence.

### **Auditor's conclusion**

Management response and commitment to ensure that bids and bid awards are published on all the required media channels in future. This will be monitored on future bid adverts and awards.

The finding will remain.

## **COMPETITIVE BIDS**

### **Preference Points**

#### **Requirements:**

*Section 38(1)(a)(i) and (iii) of the Public Finance Management Act states that; “The accounting officer for a department must ensure that the department, trading entity or constitutional institution has and maintains effective, efficient and transparent systems of financial and risk management and internal control; an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective...”*

*Furthermore, section 38 (1)(c)(ii) states that; “The accounting officer for a, department must take effective and appropriate steps to prevent unauthorized, irregular and fruitless and wasteful expenditure and losses resulting from criminal conduct...”*

*Section 44 (1) of the Public Finance Management Act states that; “The accounting officer for a department, trading entity or constitutional institution may*

- (a) *in writing delegate any of the powers entrusted or delegated to the accounting officer in terms of this Act, to an official in that department, trading entity or constitutional institution; or*
- (b) *instruct any official in that department, trading entity or constitutional institution to perform any of the duties assigned to the accounting officer in terms of this Act.*

*Section 6(8) of the Preferential Procurement Policy Framework Act, 2000: Preferential Procurement Regulations, 2017 states that; “Subject to subregulation (9) and regulation 11, the contract must be awarded to the tenderer scoring the highest points”*

*Section 6(9) of the Preferential Procurement Policy Framework Act, 2000: Preferential Procurement Regulations, 2017 states states that;*

*“(a) If the price offered by a tenderer scoring the highest points is not market related, the organ of state may not award the contract to that tenderer.*

*The organs of state may-*

- (i) negotiate a market-related price with the tenderer scoring the highest points or cancel the tender;*
  - (ii) if the tenderer does not agree to a market-related price, negotiate a market-related price with the tenderer scoring the second highest points or cancel the tender;*
  - (iii) if the tenderer scoring the second highest points does not agree to a market-related price, negotiate a market-related price with the tenderer scoring the third highest points or cancel the tender.*
- (c) If a market-related price is not agreed as envisaged in paragraph (b)(iii), the organ of state must cancel the tender”*

*Section 11(1) and 11(2) of the Preferential Procurement Policy Framework Act, 2000: Preferential Procurement Regulations, 2017 states that;*

*11(1) - “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.”*

*11(2) – “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”*

## KIMBERLY REGION

### Nature

During the regional audit of procurement through competitive bidding, the following was noted:  
Background:

According to the PA04: (EC): Notice and Invitation for RFP: ID 83781 for Servicing and Maintenance of kitchen equipment, cold and Freezer rooms at various clients for 24 months, the following were deemed to be the functionality criteria that evaluated the capacity and capability of the prospective bidders:

- References from client/consultants for electrical HT projects
- Artisans and key staff in relation to the scope of work
- Electrical technician (supervisor)
- Financial Capacity

Furthermore, the functionality scoring sheet for MLK Engineering from the panel score was 20/25 for references from clients/consultants for previous electrical HT projects completed and thus, passed functionality stage.

However, based on the assessment of the PA20.7 scoring sheet, MLK Engineering was not tested for price and BBBEE scoring even though they had met the functionality. (MLK Bid's was 54.12% below the estimate and thus BEC deemed the bid a financial risk).

Based on the "Risk assessment report for bidders who scored the highest points" report which was performed on the 13/09/2021 for the bid submitted by MLK Engineers.

- According to part 2 of the report for the quality of previous work,

"The quality of the previous work performed by the contractor as listed in the DPW-09(EC) had been verified with the references provided and is indicated on the table, but only one has responded to our request to complete the contractor's performance evaluation template and has not affix the official stamp.

From the projects as listed in the table it is clear that the references of the projects listed by bidder, it is clear that quality of work is not satisfactory"

However, according to the responded performance evaluation template, the bidder was evaluated as very good to excellent performance. Furthermore, the bidder was scored on functionality based on the number of projects completed by providing project completion certificates and had scored 4 points indicative of 4 projects being completed. It is not clear whether the department followed up with the references as no proof was included in the risk assessment report also it is not clear how the department reached a decision that the suppliers work was not satisfactory.

Furthermore, the assessment on the quality of work was assessed based on the non-response of the references and also not taking into account the one reference that responded

- According to part 3 of the report for contractual commitment

"The contractual commitment on projects as listed on DPW-09(EC) had been verified with the references provided.

As per the references interviewed, the bidder has not demonstrated an excellent quality of work, the workmanship might be poor and does not always deliver according to the required standard. That the bidder does not have sufficient resources to complete a project of this nature and magnitude. In terms of the technical risk involved, it was evident from the feedback that there is **high technical risk** in appointing the bidder MLK Engineering and Consultants"

However, according to the statements made in the previous point, the references did not respond for the quality of previous work but were available for interviews for contractual commitment. Furthermore, there was no evidence submitted as proof of the interviews that were conducted nor which reference were interviewed.

The statements made are also uncertain as there's an element of uncertainty made such as "the workmanship might be poor and does not always deliver according to required standard"

- According to point 7 for risk analysis:

"The bidder poses a high risk because the basic items of transport and labour rates are far below the market related rates, which might be a problem during the contract period"

However, based on the response from the bidder on the clarification of the price, the bidder specialises in the maintenance and installation of mechanical equipment and had indicated that they have some materials in stock to support them in the project of such magnitude and most of the stock was purchased when the stock was lower than usual and had taken advantage of auctions and specials in their purchasing strategy thereby guaranteeing low prices. That the bidder also has good relations with suppliers that provide discounts.

Therefore, MLK did not change/ alter their price and provided clarity and confirmation of capability and capacity to fulfil the contract.

- Conclusion:

According to the risk assessment, MLK Engineering failed the risk assessment based on technical risk due to the bidding price and the response from reference checks despite being low risk in the Quality of work, contractual commitment, commercial risk, capacity risk.

However, according to the points mentioned in point 2, 3 and 7, the bidder was a high risk which is inconsistent with the conclusion that was provided in the assessment that stated they were low risk.

### **Auditor assessment:**

There are inconsistencies that were identified with in the risk evaluation performed for the bid submitted by MLK Engineering which was the highest scoring bidder that was disqualified. Furthermore, there was no evidence to prove the assessment that was performed through interviews of references, requests made by the Department to verify the material nor proof of communication with the bidder to provide guarantee on the quality of previous project.

Based on section 6(9) of the Preferential Procurement Policy Framework Act, 2000: Preferential Procurement Regulations, 2017, if the price offered by a tenderer scoring the highest points is not market related, the organ of state may not award the contract to that tenderer. However, the organs of state may negotiate a market-related price with the tenderer scoring the highest points or cancel the tender

However, according to National Treasury Preferential Procurement FAQ item 39, where a supplier offers a price that is deemed to be not viable to supply goods or services as required by the organ of state, measures are in place to mitigate the risk. These may include confirming with the supplier if they will be able to deliver on the price, for which the auditee did and for which the supplier responded to confirm that they can deliver the services, however, the bidder was disqualified. The auditee could have had tight contract measures to mitigate the risk of non-performance. Further action on failures by the supplier to deliver should be handled in terms of the contract including performance warnings and listing on the database of restricted suppliers.

Therefore, MLK should have been evaluated further for price and auditee considered the following contingencies when considering awarding the bid to MLK Engineering

### **Impact of the finding**

#### **The above may result in the following:**

- The award was awarded irregularly
- Non-compliance with section 38 and 44 of the PFMA
- Non-compliance with Preferential Procurement Policy Framework Act, 2000: Preferential Procurement Regulations, 2017

### **Internal control deficiency**

#### *Leadership*

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Management did not ensure that the highest scoring bidder was risk evaluated suitably and appropriately based on available and accessible information to prove the validity of the risk analysis to not appoint the highest scoring bidder.

#### *Financial and Performance Management*

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

Management did not implement procurement processes in an appropriate manner to ensure that SCM regulations are adhered to

### **Recommendation**

It is recommended that management should ensure that the entity complies with all applicable laws and regulations.

Management to ensure that the highest scoring bidder are evaluated suitably and appropriately for risk based on available and accessible information to prove the validity of the risk analysis to not appoint the highest scoring bidder.

Furthermore, the auditee could have had tight contract measures to mitigate the risk of non-performance. Further action on failures by the supplier to deliver should be handled in terms of the contract including performance warnings and listing on the database of restricted suppliers.

The entity should disclose irregular amount limited to the payment made to date

### **Management response**

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

The Region experienced an increase in non-performance by service providers, especially for construction works and the need to perform risk assessment was identified as a tool to mitigate against the identified risk. In terms of circular 6 of 2018 paragraph 5.6 – no bid may be passed over

solely because it is considered low and therefore a financial risk unless there are just reasons for not doing so.

In terms of circular 34 of 2014 paragraph 3.2.10 and 16 – if a bid presents unacceptable financial risk, the department may not award to the highest bidder. In the same principle, once a bidder possess financial risk at the instance of his price been found to be lower than the estimate. Our systems requires us to conduct risk assessment.

During risk assessment, the bidder confirmed the price but could not demonstrate how he was to acquire the substantial material required to execute the work. He could not demonstrate to the satisfaction of the BEC that he has material in stock. The bidder was requested to allow the BEC team to do ex stock material inspection but he was not available at all the proposed dates. Without verification of the availability of ex stock, the BEC viewed the risk too high and not in line with department's risk appetite.

Expectation was that the BEC will conduct inspection of material to establish if the material is fit for the purpose for which it may be required (Servicing and Maintenance of kitchen equipment, cold and Freezer rooms). This is so considering the model, size and specification of the material.

The bidder was also required to provide guarantee on the ex-stock from the manufacturers which he could not provide. The BEC due to their technical expertise, arrived at the position that the risk is untenable. The price offered was well below market value for all items in the BOQ and this gave an indication to the BEC that the bidder poses a high risk of not completing the project due to under-pricing.

At a rand to rand value assessment, the bidder quoted low on material elements like transport and labour which are considered as key costs drivers. In the body of the BOQ, the bidder has no movement to fund and close the gaps caused by low pricing. It is apposite to record that the two items has nothing to do with ex-stock. The AG is of the view that strengthened contract management and warnings would have resolved the risks. As much as we appreciate the advice, if the risk is

beyond our appetite, it must be avoided at all cost. This is so to ensure that projects are delivered on time, within time and cost. The measures suggested would have been reactive and placed the project deliverables at risk.

NB: The price estimate BOQ is attached for ease of reference, if we can draw your attention to BILL6 EPWP, the labour requirements alone cost in the margin of R4.3 million and the bidder's offer was R6.5 mil, that alone is an indicator to the BEC that this bidder is a high risk and all these factors were taken into consideration prior to making arriving at a conclusion. It should further be noted that the price was negotiated with the bidder which was eventually recommended to a more reasonable rate from R16 mil to R14 mil. This price is more in line with market rates.

The priced BOQ is attached for ease of reference.

### Auditors Conclusion

Management's comments are noted. However, the finding still remains based on the following:

According to management's response, in terms of circular 6 of 2018 paragraph 5.6 – no bid may be passed over solely because it is considered low **and therefore a financial risk unless there are just reasons for not doing so.**

However, circular 06 of 2018 paragraph 5.6 states that; "*No bid may be passed over solely on the basis of "too low" without clarification by the service provider*"

Paragraph 5.5 further states that; "*It is important to not summarily disregard a price as not being market-related. The Department has an obligation to clarify unreasonably low or high prices with tenderers*"

Therefore, the circular does not state that should a bidder be "too low" there are therefore considered a financial risk as management has stated above.

According to management's response a risk assessment was performed and the bidder confirmed the price but could not demonstrate how he was to acquire the substantial material required to execute the work. That he could not demonstrate to the satisfaction of the BEC that he has material in stock.

However, the bidder responded through email correspondence dated 09 September 2021 to the Department providing clarity on the bid price and stated that the following:

- That they have some materials in stock to support them in the project of such magnitude and most of the stock was purchased during periods when the cost was in fact lower than usual and have taken advantage of auctions and specials.
- That their pricing strategy for this particular project had been that of factoring in repair and replacement materials within their monthly and yearly recurrent service charges.
- That through good relations with suppliers, they utilize bulk buying for most of the projects which has resulted in major discounts of as much as 30-40%.

Management further stated that the bidder was requested to allow the BEC team to do ex stock material inspection but he was not available at all the proposed dates. That without verification of the availability of ex stock, the BEC viewed the risk too high and not in line with department's risk appetite.

However, management could not provide any evidence of the above communication with the bidder requesting verification of the material and the unavailability of the bidder on the proposed date.

In terms of Circular 34 of 2014 section 3.2.14(ii) states that; “*The risk assessment covers technical and commercial risk and can be conducted by externally appointed consultants for the particular project or by Department officials possessing necessary expertise and skills to conduct such*”

Furthermore, section 3.2.15 (ii) states the aspects to be covered by technical risk as “reference checks will be conducted with the clients and depending on their **written feedback** and the dynamics of the bid under evaluation, the BEC will rule on the level of risk thereof”

It is not clear which party performed the risk assessment as there was no evidence of acknowledgement by the compiler.

Based on the risk assessment that was conducted on the bid, the quality of the previous work performed by the contractor as listed in the DPW-09(EC) had been verified with the references provided and is indicated on the table, but **only one** had responded to the request to complete the contractor’s performance evaluation template and has not affix the official stamp.

Through inspection of the one responded evaluation template, the bidder was evaluated between the ranks of “very good” and “excellent” for quality of work. It should also be noted that these evaluation templates were submitted directly to the Department by the clients.

The policy states that reference checks will be conducted and depending on the written feedback the BEC will rule on the level of risk. However, based on the risk assessment it was concluded that, “*the projects as listed in the table it is clear that the references of the projects listed by bidder, it is clear that quality of work is not satisfactory*”, without any written evidence of the quality being unsatisfactory.

The Risk Assessment mentioned that the references were interviewed and the bidder had not demonstrated an excellent quality of work, the workmanship **might be poor** and does not always deliver according to the required standard. However, management has not provided evidence of such interviews that were conducted. Which was in contradiction to the mentioned evaluation template that was received.

Furthermore, the bidder was stated under quality assessment to not have sufficient resources to complete a project of this nature and magnitude. However, risk assessment performed on the capacity concluded to state that the bidder has sufficient resources to complete a project of such a nature and magnitude. Which provides two contradicting statements in one report.

Based on the above, numerous inconsistencies were identified in the risk assessment that was conducted to conclude the bidder was a high risk and therefore, disqualified.

## Minimum Functionality Criteria

### Requirement

The Public Finance Management Act, 1999 (Act No. 1 of 1999) paragraph 38(1) states that “*The accounting officer for a department, trading entity or constitutional institution —*

*(a) (iii) must ensure that that department, trading entity or constitutional institution has and maintains an appropriate procurement and provisioning system, which is fair, equitable, transparent, competitive, and cost-effective.*

*(c) (ii) must take effective and appropriate steps to prevent unauthorised, irregular, and fruitless and wasteful expenditure and losses resulting from criminal conduct;*

The Preferential Procurement Regulations, 2017, paragraph 5 states:

*“5. (1) An organ of state must state in the tender documents if the tender will be evaluated on functionality”*

*5. (2) The evaluation criteria for measuring functionality must be objective.”*

*5. (3) The tender documents must specify-*

- a. the evaluation criteria for measuring functionality;*
- b. the points for each criteria and, if any, each sub-criterion; and*
- c. the minimum qualifying score for functionality.*

*5. (6) A tender that fails to obtain the minimum qualifying score for functionality as indicated in the tender documents is not an acceptable tender.*

*5. (7) Each tender that obtained the minimum qualifying score for functionality must be evaluated further in terms of price and the preference point system and any objective criteria envisaged in regulation 11.”*

## CAPE TOWN REGION

### Audit finding

During the audit of supply chain management for competitive bids for tender CPTSC25/21 – 24 Hours Security Services at Customs House which was awarded to Hawksvale Security Solutions for a total amount of R 9 486 211,44 .

We noted that the minimum points for functionality was stated as 50 % and that the winning bidder did not meet the minimum functionality score of 50 %:

The Criteria was assessed as follows per PA 04 – Notice and Invitation to Bid.

#### 1) **Company experience ( 30%)**

Company experience of similar projects to the minimum value of R 500 000 undertaken in the past 5 years. (Bidders will be required to attach either actual letter of appointment / Service level Agreement / Purchase Order. List of completed projects to be included in the DPW – 09.

Allocation of points is as follows:

- 5 or more projects = 30%
- 4 projects = 24%
- 3 projects = 18%
- 2 projects = 12%
- 1 project = 6%

### Assessment:

**Completed:**

Department of Public Works - Security Services – R 399 520, 77  
Phuti Ke Mamoloto Info Tech – Security Services – R 96 000, 00  
Nokayamaseela – Security Services – R60 000, 00  
Phuti Ke Mamoloto Info Tech – Security Services – R30 000,00

**In progress:**

Department of Public Works - Security Services – R399 520, 53(60%)

**Conclusion :** Per inspection of the tender file we noted that the winning bidder has 5 projects in total on the DPW – 09 form and that all of them were below the minimum threshold of R500 000,00 , we therefore allocated 0 points, however management allocated 12% which equates to 2 projects.

**2) Infrastructure (30 %)**

The bidder must provide proof of existing and operational control room ( physical address) with base radio, two licensed roadworthy vehicles or proof of ownership or lease agreement ( Certified copies not older than 3 months ) and at least two licensed fire arms.

The points for infrastructure requirements will be allocated as follows:

2.1The bidder must provide proof of existing and operational control room at the bidder's property or rented premises, Bidders to attach atleast 3 color pictures, which must reflect the base radio and other supporting documentation.

**Satisfactorily provided = 10**

**No proof = 0**

**Assessment:** Per inspection of the tender file, we noted that the bidder only attached one color picture , we therefore scored them 0 as the service provider did not attach at least 3 pictures as required and the client scored them 10 points.

2.2)The bidder must provide proof of owning atleast two licensed fire arms in the name of the bidder ( Company) or atleast in the name of one of the directors of the company .

**Proof of ownership of two or more licensed fire arms provided = 10**

**No proof = 0**

**Assessment:** Per inspection of the tender file, we noted that only gun one License was attached belonging to AK Mplate for a Handgun, we therefore allocated 0 points and the client allocated 10.

2.3) Bidder to provide proof of owning at least two roadworthy vehicles in the name of the company or any of the directors.

**Satisfactorily provided = 10**

**No proof = 0**

**Assessment:** Per our inspection of the tender documents, we noted that two vehicle licenses were attached as required but both were not certified, we therefore allocated 0 points and the client allocated 10 points.

**3) Dog handling license and Security Guards handling certificates.( 20 % )**

3.1 Where a service provider has submitted proof of dog handling license or the valid agreement:

**Satisfactorily provided = 10**

**No proof = 0**

**Assessment:** Per inspection of the tender file, we noted that a dog-handling license provided and we scored them 10 points, client also scored them 10 points.

3.2. Where a service provider Proof of atleast three certificates of competency of security guards.  
**Satisfactorily provided = 10**  
**No proof or insufficient team = 0**

**Assessment:** Per inspection of the tender file, we noted that three certificates were attached, we therefore allocated 10 points and the client allocated 10 points.

4) **Personnel Experience - Site Supervisor with Grade B Certificate: Attach CV with History of employment and contactable referees (20%)**

**Grade B Certificates**

- a) Two or more supervisors in position of Grade B certificates = 10
- b) One or none of the supervisors process Grade B certificate = 0

**Experience:**

Either one or both of the supervisors have the following experience:

- 5 years of supervisory experience = 10
- 4 years of supervisory experience = 8
- 3 years of supervisory experience = 6
- 2 years of supervisory experience = 4
- 1 years of supervisory experience = 2

**Assessment:** Per inspection of the tender file, we noted that Two Grade B certificates were attached for the following guards (Mdaka L, Peter Vlotman) – we have therefore allocated 10 points and the client has allocated 10 points.

**Assessment:** Per inspection of the tender file, we noted that two CV's were attached for the following two gaurds:

Mdaka L - Grade B – Registration date: 2013/09/04  
P Vlotman – Grade B – Registration date – 2001/12/14

Based on the above, we allocated a total of 10 points as both gaurds have Grade B certificates and both have more than 10 years' experience based on the registration dates per the PSIRA certificates and the client awarded them 10 points.

Therefore based on all of the above, the winning bidder (Hawksvale) scored a total of 40 % and therefore did not meet the 50 % minimum functionality threshold requirement and should not have been assessed further for price and BEE scoring.

**Impact of the finding**

- Non- compliance with Preferential Procurement Regulation 2017, paragraph 4(2).
- Non- compliance with paragraph 38(1)(a)(i) and (38(1)(c)(ii) of the Public Finance Management Act
- Irregular expenditure of R 9 486 211,44 .

**Internal control deficiency**

Financial and Performance Management

Management did not adequately review and monitor compliance with applicable laws and regulations relating to supply chain management.

During the competitive bid evaluation process, management adjusted the functionality criteria in a manner that advantaged the winning bidder Hawksvale.

### **Recommendation**

- It is recommended that management should enhance compliance procedures to ensure compliance with the applicable laws and regulations relating to supply chain management to ensure consistency in how all the bidders are assessed.
- Management should disclose the Irregular Expenditure.

### **Management response:**

I do not agree with the finding due to the following reasons:

### **ISSUE 1**

#### **PA-11 (Declaration of interest form)**

According to the guidance from Legal Services, the PA 11 is not an element of fraudulent misrepresentation and therefor disqualification is not good in law. See attached legal opinion, **Annexure A**

#### **Evaluation criteria**

1. **Company Experience:** The procurement strategy stipulates that company experience of similar projects to the minimum value of R500 000 were required. All projects below R500 000 were then consolidated in order reach minimum criteria as per approved strategy. On the DPW09 Hawksvale listed four (4) completed projects which amounted to R585 520.77. The department requires that the service provider must portray they have done projects to the minimum of R500 000 regardless of the value of each project.
2. The Department did not request per project taking into consideration the business opportunities in the Security Industry is very limited and the majority of bidders are still new. The company also listed the current projects which amounted to R399 520, 77 which constitutes 60% completion. This indicates that a bidder has tangible and relevant experience in executing the current service.
3. **Infrastructure requirement:** The infrastructure was divided into three (3) categories, namely control-room, fire-arm and road worthy vehicles and the weight was 10% for each category.

**For the control room,** the bidders submitted only one colour picture of control room, lease agreement signed by both lessee and lessor as well as ICASA certificate from I.R.POPE & SONS which qualified for 1 (one) point. In light of the above-mentioned, the BEC members were satisfied with these documents. As a further control, the site inspection was conducted to confirm the existence of the control room. The bidder would receive zero marks if no tangible proof was provided at all, in this instance it was fair to consider what was furnished. In the scale of 10, the bidder was required to submit 3 colour pictures and only submitted 1 which then qualified as 3.33.

The bidder submitted certified 1 **fire-arm licenced** registered under the Director of the company (Mr. A. K Mplate), and the average of the three (3) categories amounted to 3 points. This complied with the requirements as articulated in the functionality criteria. The requirement was for the bidder to submit proof of owning two licensed fire-arms however the bidder provided 1 which qualified for 5 points. Therefor we are not in agreement that the bidder should be scored zero.

4. **Supervisor Experience:** According to PSIRA, grades C & B are considered as supervisors. See attached guide from PSIRA, (**Annexure B**) In addition to this, Mr Louw has security experience

of 9 years and, Mr Mdaka 7 yrs and both have Grade B certificates. The CV's submitted are in line with credible relevant experience and correct Grading at the level of supervisory. In this instance bidders were allocated full score

### **Auditor's conclusion**

Management's response is noted.

#### **Issue 01**

(PA11 - Declaration of interest form)

The legal opinion as per annexure A is noted. Our response on the matter is currently reserved while we consult our legal to assess the opinion and determine if we arrive to the same conclusion as management.

#### **Issue 02**

We have noted management's response. As per our inspection of the response and the clarity, which was provided by PSIRA, we agree with management on the matter relating to the PSIRA supervisor experience.

However, we still disagree on the point's allocation for the winning bidder specifically in relation to the following Categories: Company Experience and Infrastructure as noted in our Assessment above. Thus, the winning bidder would still not meet the minimum functionality criteria.

Therefore based on the above, the finding remains.

### **Audit finding**

During the audit of competitive bids, we noted that Tender no. CPTSC 26/20 was advertised for provision of security services: Hope Street Parking for a period of 24 months from the date of order.

#### **Issue 1- Incorrect application of functionality scoring**

Through inspection of the functionality scoring sheets, we confirmed the following:

The following bids were deemed responsive and evaluated for functionality:

- Papamike Protection Services (68%)
- Jungephaphi Construction and Projects (80%)
- Mokato Security Services & Projects (80%)
- Striving mind trading 519 CC (88%)

Inspected the PA-04 "Invitation to bid" and confirmed that the functionality threshold was set at 50% and thus the above bidders were considered correctly to be functional and evaluated further for price and BBBEE.

We further inspected the PA -21 (dated 07/06/2021) and confirmed that the bidders that were initially deemed functional were eventually excluded from the bidding process for the following reasons:

- Striving Mind - Document for vehicle registration not originally certified
- Papamike- Document for vehicle registration not originally certified
- Jungephaphi (No price for part B and G, Incorrect calculations for part C, D, E, F and G)

Further inspected the second 20.7 scoring model for price and BBBEE and confirmed that only Mokato was deemed functional post further evaluation by the BEC:

- Mokato Security Services & Projects (R2 960 829.20) -BEE (20) + Price (80) = 100 (Total points)

#### Auditors' assessment:

The SCM functionality process was thus incorrectly applied. The BEC should not have excluded Striving Mind, Papamike and Jungephaphi based on the above but rather should have re-scored the bidders for functionality and determined their new functionality scores

Mitigating factor: Mokato Security Services would have still been the winning bidder, but we raise an internal control deficiency as the SCM process was not adequately followed.

#### **Impact**

- Non-compliance with the paragraph 38(1) (a)(iii) and (c)(ii) of the Public Finance Management Act, 1999 (Act No. 1 of 1999)
- Non-compliance with the PPR 2017 functionality scoring

#### **Internal control deficiency**

Financial and Performance management

Management did not review and monitor compliance with applicable legislation.

Furthermore, management did not ensure proper application of the SCM process pertaining to the functionality assessment of the bidders.

#### **Recommendation**

Management should evaluate tenders based on the evaluation criteria stipulated on the bid invitation document.

Management should ensure compliance with PPR 2017.

#### **Management response:**

I do not agree with the finding due to the following reasons:

It must be noted that all the above mentioned bidders were evaluated both on administrative and functionality criteria and they were duly scored. The BEC submitted their recommendation to the RBAC on 25 May 2021. The RBAC noted some discrepancies with regards to PSIRA rates as well as infrastructure requirements and referred the recommendation back for review.

During the review, BEC noted the following discrepancies as highlighted by AGSA:

- Striving Mind - Document for vehicle registration not originally certified
- Papamike- Document for vehicle registration not originally certified
- Jungephaphi (No price for part B and G, Incorrect calculations for part C, D, E, F and G)

Due to these discrepancies, the bidders were then disqualified. It must be mentioned that the procurement strategy stipulates that the bidders must score in all areas hence these bidders were disqualified. See attached minutes from the BEC, **Annexure D**

## Auditor's conclusion

In light of the newly provided supporting documents (Annexure D – “minutes of the BEC dated 25 May 2021), we were able to obtain evidence of the BEC’s rectification of the incorrect application of the functionality assessment criteria. The minutes provides evidence that the SCM process was appropriately followed.

Therefore, we find the audit evidence provided appropriate enough to clear the audit finding.

## DURBAN REGION

### Nature

During the audit of tender no: BDN21/01/01 for KZN Group3 (Melmoth, Mahlabathii, Babanango, Paul Pietersburg, Nquthu, Madadeni Magistrates Court) for installation of emergency Water Tanks and Booster Pumps, the following was noted:

The PA-04: Notice and invitation to tender stated that functionality will be applied and a minimum functionality score to qualify for further evaluation was 50%. The following criterion (extract) were applicable:

Functionality criteria	Weighting factor
<b>Completed projects work Experience:</b> Contractor to provide a list of all previous projects undertaken and completed in the last 5 year of similar nature (installation of steel water tanks) accompanied by final completion certificates must be signed by the Principal Agent, Client or PM as proof of the following values:  R4 000 001 – R5 000 000 = 30 points R3 000 001 – R4 000 000 = 25 points R2 000 001 – R3 000 000 = 20 points R1 000 001 – R2 000 000 = 15 points	30%
<b>Work force:</b> Contractor to provide proof of work force.  Certified copies of identity documents, not older than 3 months from date of advertisement, certified certificates or approved qualifications must be submitted as proof, if certificates are not provided you get 0:  a) Brick Layers  4 = 15 points 3 = 10 points 2 = 8 points 1 = 6 points	15%

Based on the auditor's assessment conducted to validate the functionality points for MKF Trading and Projects, the following was noted:

Auditee's Calculation			Auditors Assessment			
Criteria's	Points	Total functionality	Points	Total Functionality	Difference	Auditors comments
Completed projects works experience	1	15%	0	0%	15%	The audit team received an original file that was compiled by the bidder, included in it was all returnable documents.

Auditee's Calculation			Auditors Assessment			
				Upon inspection on the list for similar projects, one project was identified with a value range R1 000 001 – R2 000 000 = 15 points		
Work force (Brick Layers)	4	15%	2	8%	7%	Only 2 Brick Layers with certificates were provided hence the bidder was awarded 2 points.
				22%		

Based on the auditor's recalculation of functionality we noted that, MKF should have been awarded 36 points whereas the Bid Evaluation Committee awarded them 58 points, the difference of 22 points has been explained on the table above.

Therefore, the bidder should have not been considered for further evaluation for price as they didn't meet the minimum functionality score.

No	Bid No	Service Description	Contract Amount (R)	Expenditure to date (R)
1	BDN21/01/01	Installation of emergency Water Tanks and Booster Pumps	3 226 542,00	846 653,06

## Impact

The above may result in the following:

- Non-compliance with section 38 of PFMA
- Non-compliance with PPR regulations
- Irregular expenditure of all payments made to date R 846 653.06

## Internal control deficiency

### *Financial and performance management*

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

The Bid Evaluation Committee did not adequately rate the bidder in line with the functionality requirements stipulated in the PA-04: Notice and invitation to tender.

## Recommendation

It is recommended that:

- Management should review tenders that are awarded and ensure that there are in line with National Treasury Regulations.
- Management should perform further investigation to determine the extent of the non-compliance as well as the other instances where this non-compliance may have occurred.

- The accounting officer should also 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:**

**Auditor's conclusion**

## Nature

During the audit of procurement and contract management for tender no. DBN21/02/01 for Port Shepstone Court: Construction of a new building: Completion Contract, the following was noted.

The PA-04: Notice and invitation to tender stated that functionality will be applied and a minimum functionality score to qualify for further evaluation was 65%. The following criterion (extract) were applicable:

Functionality criteria	Weighting factor
<b>Financial Standing and Rating</b> <ul style="list-style-type: none"> <li>- Three letters of credit reference confirming available credit limits from key material suppliers -</li> </ul> <p>Three letters of credit references confirming remaining available credit limits from key material suppliers as defined in the scope of works and bills of quantities and specifications. Letter must not be older than 2 calendar months from date of closing. Current status of tenderers account with the supplier must be stated.</p>	15%
<b>Competency, Experience, Resource capacity</b> <p>Schedule of projects completed within the past 5 years.</p> <ul style="list-style-type: none"> <li>- Exceeding R50million and not exceeding R100 million – 5 points</li> <li>- Exceeding R100 million and not exceeding R150 million – 10 points</li> <li>- R150 million and above -15 points</li> </ul> <p>* 1 project – 15 * 2 projects – 30</p>	30%

Based on the auditor's assessment conducted to validate the functionality points for Musan Trading Enterprise, the following was noted:

Auditee's Calculation			Auditors Assessment			
Criteria	Points	Total functionality	Points	Total Functionality	Difference	Auditors comments
Financial Standing and Rating Three letters of credit references confirming remaining available credit limits from key material suppliers as defined in the scope of works and bills of quantities and specifications. Letter must not be older than 2 calendar months from date of closing. Current status of tenderers account with the supplier must be stated.	12	12%	7	7%	5%	The winning bidder submitted three letters of credit reference however, the third letter was not dated which results in an uncertainty surrounding whether the letter was older than two months or not.  This would then also bring an issue to whether the status of the account with the supplier is the most recent status or not as at the date of closing of the tender as the objective is to ensure that the tenderer has the sufficient resources and capacity to fulfil the requirements of the contract.
Competency, Experience, Resource capacity	5	5%	0	0%	5%	The winning bidder submitted a project that was awarded on 30 August 2013 with a value of R62m by Statistics South

					Africa. The project was for a period of 24 months.  The completion certificate submitted does not have a date of completion and the closing date of the tender was on 31 March 2021.  There is insufficient information as a result to determine whether the project was completed after 31 March 2015 which is the beginning of the 5 years period before closing date as required by the functionality requirement or completed prior to that which shouldn't have been taken into account.  Furthermore, the risk assessment conducted excluded this project so no alternative evidence we obtained to ascertain if the project falls within the required 5 years.
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Based on the auditor's recalculation Musan Trading Enterprise should have been awarded 61,8 points, instead of 71,8 points awarded by the Bid Evaluation Committee. The difference of 10 points has been explained on the table above.

Therefore the bidder (Musan Trading Enterprise) failed to obtain the minimum qualifying score for functionality of 65%, thus should have not been further evaluated for price and BBBEE. The next bidder with the highest points in terms of price and BBBEE should have been appointed.

No	Bid No	Service Description	Contract Amount (R)	Expenditure to date (R)
1	BDN21/02/01	Port Shepstone Court: Construction of a new building: Completion Contract	95 467 633.65	11 833 089,38

### **Impact of the finding**

#### **Impact**

The above may result in the following:

- Non-compliance with section 38 of PFMA
- Non-compliance with PPR regulations
- Irregular expenditure of all payments made to date R11 833 089

#### **Internal control deficiency**

##### *Financial and performance management*

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

The Bid Evaluation Committee did not adequately rate the bidder in line with the functionality requirements stipulated in the PA-04: Notice and invitation to tender.

## **Recommendation**

It is recommended that:

- Management should review tenders that are awarded and ensure that there are in line with National Treasury Regulations.
- Management should perform further investigation to determine the extent of the non-compliance as well as the other instances where this non-compliance may have occurred.
- The accounting officer should also 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 [as per the supporting evidence attached]:

### **Finding 1**

- I am not in agreement with the finding because whilst the credit reference letter submitted by the bidders was not dated, it was accompanied by the proof of communication between Musan Trading Enterprise and their supplier Koedoespoort Reinforcing Steel, hence a period could be confirmed from this communication. Since the communication was within one month, allocated points are therefore justified. (**see attached POE**)

### **Finding 2**

Management notes the AG finding, with the following reservations;

- It is factually correct that the bidder submitted a completion certificate for a project of a value of R62million which was done and successfully completed for Statistic South Africa.
- It is unfortunate that the author of the completion certificate did not date the certificate.
- It is also common in government infrastructure projects for delays to be encountered, resulting in projects being completed late.
- Whilst the date issue might have been an oversight at time of evaluation, technically the weight in this criteria is with the type and value of the project successfully completed.

Based on the aforementioned reasons the region still maintains that the allocated points were justified and the allocation of 71.8 points remain.

## **Auditor's conclusion**

Management's response is noted. However, the finding remains based on the following:

### **Finding 1**

Through verification of the original bidder's returnable documents, attachments on file and enquiries which were held with management during the regional audit, there was no evidence of the email correspondence of the bidder and their supplier Koedoespoort Reinforcing Steel.

It cannot be reasonably assured that the email correspondence was available upon evaluation of the bid.

### **Finding 2**

Management agrees that there is insufficient information to conclude whether the project was completed within the 5 years period before closing date as required by the functionality requirement. Therefore, there was no objective evidence available to assume the project meet the stipulated criteria.

Management making use of assumptions in determining the date of completion is not in line with what was communicated on PA04 to prospective bidders as such the evaluation and adjudication criteria indicated in the bid documentations was not followed and the bidder should have been disqualified.

## **Local Content and Production (designated sectors)**

### **Requirement**

The Public Finance Management Act, 1999 (Act No. 1 of 1999) paragraph 38(1) states that “*the accounting officer for a department, trading entity or constitutional institution* —

- (a) *must ensure that that department, trading entity or constitutional institution has and maintains—*
  - (iii) *an appropriate procurement and provisioning system, which is fair, equitable, transparent, competitive and cost-effective;*
- (c) *must take effective and appropriate steps to—*
  - (ii) *prevent unauthorised, irregular and fruitless and wasteful expenditure and losses resulting from criminal conduct;”*

The preferential procurement regulations, paragraph 8(2) state that “*An organ of state must, in the case of a 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.”*

National Treasury Designated Sector Circular number 3 of 2017/18 Pumps, medium voltage motors states that “*The stipulated minimum threshold percentages for local content and production for Pumps, medium voltage motors sector is 70%.*”

National Treasury Designated Sector Circular number 11 of 2016/2017 valve products states the following “*The stipulated minimum threshold percentages for local content and production for valve products sector is 70%.*”

National Treasury Designated Sector Circular number 1 of 2019/2020 plastic pipes states that “*The stipulated minimum threshold percentages for local content and production for plastic pipes sector is 100%.*”

National Treasury Designated Sector Circular number 10 of 2019/20 Electrical cables states the following “*The stipulated minimum threshold percentages for local content and production for electrical cable sector is 90%.*”

National Treasury Designated Sector Instruction Notes paragraph 7.1 states that “*Once bids are awarded, the DTI must be notified of all the successful bidders and the value of the contracts; and provided with copies of the contracts, the SBD/MBD 6.2 Certificates together with the declaration C submitted by the winning bidder.*”

## **JOHANNESBURG REGION**

### **Audit finding**

#### **Issue 1**

During the audit of competitive bids, we noted that tender no. JHB20/06 was advertised for maintenance, service, repairs, and replacement of fire automatic sprinkler systems to all clients within the jurisdiction of the JHB regional office for a period of 24 months.

Through the inspection of the invitation to bid document (PA-04), we noted that local content was applicable on the bid and the local content declaration (PA-36 and annex C) were listed on the PA-04 as part of the prequalification criteria used to assess bid responsiveness.

We further confirmed that the invitation to bid document (PA-04) stipulated that prospective bidding suppliers are required to provide fully signed and fully completed bid documents as part of the prequalification criteria used to assess bid responsiveness.

We further confirm that the invitation to bid document (PA-04) stipulated that prospective bidding suppliers that do not adhere to the requirements listed on the prequalification criteria will be deemed non-responsive and will not be evaluated further.

Through inspection of the awarded bidder's local content declaration (PA-36 and annex C), we noted that although Annexure C was signed, the awarded bidder did not declare the itemised purchase list of their local content procurement (i.e., Annexure C was only signed and left blank). Therefore, the bidder did not submit fully complete bid documents as required by the prequalification criteria stipulated in the invitation to bid document (PA-04).

Furthermore, through inspection of the awarded bidder's local content declaration (PA-36 and annex C), we noted that the bid document did not stipulate the required thresholds of the applicable local content designated sectors as required by the National Treasury and the DTI.

Further upon inspection of the winning bidder's itemised bill of quantities, we noted that the following designated sectors were applicable as per the DTI's list of designated sectors:

- Plastic Pipes and Fittings - 100%
- Valves -70%
- Steel products and components for construction- 100%.

Therefore, the invitation to tender did not specify the minimum thresholds applicable for local content production as prescribed in the relevant National Treasury Instruction Notes guided by the DTI's list of designated sectors.

#### **Issue 2**

During the audit of contract competitive bids, we noted that tender no. JHB20/09 was advertised for Service, maintenance, repairs and replacement of gas boilers, geysers, incinerators, heat pumps and laundry equipment for 24 months.

Through the inspection of the invitation to bid document (PA-04), we noted that local content was applicable on the bid and the local content declaration (PA-36 and annex C) were listed on the PA-04 as part of the prequalification criteria used to assess bid responsiveness.

We further confirmed that the invitation to bid document (PA-04) stipulated that prospective bidding suppliers are required to provide fully signed and fully completed bid documents as part of the prequalification criteria used to assess bid responsiveness.

We further confirm that the invitation to bid document (PA-04) stipulated that prospective bidding suppliers that do not adhere to the requirements listed on the prequalification criteria will be deemed non-responsive and will not be evaluated further.

We noted on inspection of the bid document file that the PA36 - Declaration for local content and production did not indicate the percentage of the local content to be supplied by the winning bidder.

Further upon inspection of the winning bidder's itemised bill of quantities, we noted that the following designated sectors were applicable as per the DTI's list of designated sectors:

- Electrical cables -90%
- Pumps and medium voltage motors -70%
- Valves -70%
- Plastic pipes – 100%
- Steel products (Joining/connecting components and steel pipes) – 100%

Therefore, the invitation to tender did not specify the minimum thresholds applicable for local content production as prescribed in the relevant National Treasury Instruction Notes guided by the DTI's list of designated sectors.

Furthermore, we noted that the winning bidder did not complete the declaration properly: the bidder did not indicate what percentages of the materials he would be using is locally produced. We noted that the bidder simply stated that "Musan Trading will comply with the required minimum threshold for local content". Therefore, the bidder did not submit fully complete bid documents as required by the prequalification criteria stipulated in the invitation to bid document (PA-04).

### **Issue 3**

It was further noted that for both procurements listed above, there is no evidence that that the Department of Trade and Industry (DTI) was notified of the successful bidders and the value of the contract.

### **Impact**

- Non-compliance with the paragraph 38(1) (a)(iii) and (c)(ii) of the Public Finance Management Act, 1999 (Act No. 1 of 1999)
- Non-compliance with the Instruction Notes on Designated Sectors

### **Internal control deficiency**

Financial and Performance management

Management did not review and monitor compliance with applicable legislation.

Management did not adequately review bidding documents, in order to ensure that PA- 36: local and production requirements as prescribed by national treasury are adhered to.

Furthermore, management was not consistent when it comes to disqualifying bidders who did not "fully complete' the PA 36: LOCAL Content and production declaration.

### **Recommendation**

Due diligence should be performed on bidding documents prior to advertisement to ensure that they comply with local content rules and regulations.

Management should ensure that the procurement for local content and production complies with the National Treasury Designated Sector Instruction Notes.

Management should provide evidence that the DTI was notified of the successful bidder and the value of the contract for local content

Management response

### **Management Response:**

#### **Issue 1**

We are not in agreement with the statement that the local content and production (PA-36 and Annexure C) for tender no. JHB20/06 was required in this tender due to the following reasons:

- The awarded bidder did not have to declare their bid's local content because our bid did not have the stipulated minimum thresholds for local content and production which they have to be filled on Annexure C.
- The products that are mentioned on the BOQ are for overhauling and servicing the existing valves and pumps, which are not the items that are produced locally. These products have to be imported and the names of the products which are on our site are Viking products and Tyco products.
- When these products are overhauled and serviced you have to replace their spare parts with the product of the manufacturers. This means that the products have to be imported in order for the system to work properly.
- We have attached a BOQ as a supporting document which was showing what was expected from the bidder. On column number 2 of the BOQ, it shows the items that the bidder has to overhaul and service the sprinkler system with. It also further guide the bidder that should they be awarded this tender they have to overhaul the valves as per manufactures' guideline, check the attachment on page 31 under item 63.
- South Africa have no main controlling valves which can drive the sprinkler system.
- We have attached the PA 21 which is the *Tender Evaluation Report to the Bid Adjudication Committee*. This form shows that the bidders were not disqualified as a result of (PA 36 & Annexure C). This form overrule the pre-screening evaluation check list which was done by SCM just before the BEC sat.

So, the Term-Contract is for day-to-day was for maintenance, service, repair and replacement of component for the existing machine equipment and plant. The local content from DTI is for new installation of those equipment. (See attached ANNEXURE A & B which are to serve as Proof of Evidence).

### **Auditor's Conclusion**

Based on the management response and provided supporting documents, our audit response is as follows:

- The awarded bidder did not have to declare their bid's local content because our bid did not have the stipulated minimum thresholds for local content and production which they have to be filled on Annexure C.
- We have attached the PA 21 which is the Tender Evaluation Report to the Bid Adjudication Committee. This form shows that the bidders were not disqualified as a result of (PA 36 & Annexure C). This form overrule the pre-screening evaluation check list which was done by SCM just before the BEC sat.

Based on the inspection of the provided BOQ, the Auditor General maintains that local content and production was applicable on the bid as the tender was for:

- (i) Servicing existing equipment
- (ii) Overhauling of existing equipment and
- (iii) Replacement of damaged existing equipment

The replacement component of the tender requires that the supplier install a new component in instances of irreparable damage. As per inspection of the BOQ, the main components of the fire sprinkler system that needed to be serviced, overhauled and or replaced were:

- (i) Sprinkler head (Valve product)
- (ii) Pipes & Fittings, hangers, braces and supports

Based on the BOQ we can conclude that the following designated sectors and thresholds were applicable:

- Pumps and medium voltage motors -70%
- Valves -70%
- Plastic pipes – 100%
- Steel products (Joining/connecting components and steel pipes) – 100%

Therefore, the Auditor General maintains that local content was applicable.

- The products that are mentioned on the BOQ are for overhauling and servicing the existing valves and pumps, which are not the items that are produced locally. These products have to be imported and the names of the products which are on our site are Viking products and Tyco products.
- We have attached a BOQ as a supporting document which was showing what was expected from the bidder. On column number 2 of the BOQ, it shows the items that the bidder has to overhaul and service the sprinkler system with. It also further guide the bidder that should they be awarded this tender they have to overhaul the valves as per manufacturers' guideline, check the attachment on page 31 under item 63.
- South Africa have no main controlling valves which can drive the sprinkler system.
- When these products are overhauled and serviced you have to replace their spare parts with the product of the manufacturers. This means that the products have to be imported in order for the system to work properly.

Post enquiry with various market suppliers of fire sprinkler systems in South Africa, we confirmed the sprinkler head valves are imported products and do not get manufactured in South Africa. We therefore concede that the Valve component may not have local content as it would be impossible for the bidders to comply with the threshold.

As per inspection of the BOQ, the main components of the fire sprinkler system that needed to be serviced, overhauled and or replaced were:

- (i) Sprinkler head (Valve product)
- (ii) Pipes & Fittings, hangers, braces and supports

During our enquiry with various market suppliers of fire sprinkler systems in South Africa, we confirmed that the supporting structures (Pipes & Fittings, hangers, braces and supports) are manufactured locally and can be sourced from various suppliers in the country.

We therefore conclude the following:

- Local content and production was applicable.
- Local content and product declarations should have been a prequalifying condition. The local content declaration (PA-36) should have been on the list of returnable documents.
- The local content declaration (PA-36) should have stipulated the designated sectors and applicable thresholds.
- DTI reporting on the winning bidder's contract value was also applicable.

## Issue 2

During the audit of contract competitive bids, we noted that tender no. JHB20/09 was advertised for Service, maintenance, repairs and replacement of gas boilers, geysers, incinerators, heat pumps and laundry equipment for 24 months.

Through the inspection of the invitation to bid document (PA-04), we noted that local content was applicable on the bid and the local content declaration (PA-36 and annex C) were listed on the PA-04 as part of the prequalification criteria used to assess bid responsiveness.

We further confirmed that the invitation to bid document (PA-04) stipulated that prospective bidding suppliers are required to provide fully signed and fully completed bid documents as part of the prequalification criteria used to assess bid responsiveness.

We further confirm that the invitation to bid document (PA-04) stipulated that prospective bidding suppliers that do not adhere to the requirements listed on the prequalification criteria will be deemed non-responsive and will not be evaluated further.

We noted on inspection of the bid document file that the PA36 - Declaration for local content and production did not indicate the percentage of the local content to be supplied by the winning bidder.

Further upon inspection of the winning bidder's itemised bill of quantities, we noted that the following designated sectors were applicable as per the DTI's list of designated sectors:

- Electrical cables -90%
- Pumps and medium voltage motors -70%
- Valves -70%

Therefore, the invitation to tender did not specify the minimum thresholds applicable for local content production as prescribed in the relevant National Treasury Instruction Notes guided by the DTI's list of designated sectors.

Furthermore, we noted that the winning bidder did not complete the declaration properly: the bidder did not indicate what percentages of the materials he would be using is locally produced. We noted that the bidder simply stated that "Musan Trading will comply with the required minimum threshold for local content". Therefore, the bidder did not submit fully complete bid documents as required by the prequalification criteria stipulated in the invitation to bid document (PA-04).

#### **Management Response:**

#### **Issue 2**

We are not in agreement with the statement that the local content and production (PA-36 and Annexure C) for tender no. JHB20/09 was required in this tender due to the following reasons:

- The awarded bidder did not have to declare their bid's local content and production because our bid did not have the stipulated minimum thresholds for local content and production which they have to be filled on Annexure C
- The products that are mentioned on the BOQ are for overhauling and servicing the existing parts of old equipment, replace their spare parts with the product of the manufacturers.
- Term-Contract for day-to-day was for maintenance, service, repair and replacement of component for the existing machine equipment and plant. The local content from DTI is for new installation of those equipment.

## **Auditor's Conclusion**

Based on the management response and provided supporting documents, our audit response is as follows:

- The awarded bidder did not have to declare their bid's local content and production because our bid did not have the stipulated minimum thresholds for local content and production which they have to be filled on Annexure C
- The products that are mentioned on the BOQ are for overhauling and servicing the existing parts of old equipment, replace their spare parts with the product of the manufacturers.
- Term-Contract for day-to-day was for maintenance, service, repair and replacement of component for the existing machine equipment and plant. The local content from DTI is for new installation of those equipment.

Based on the inspection of the winning bidder's itemised bill of quantities, we confirmed that the following designated sectors were applicable as per the DTI's list of designated sectors:

- Electrical cables -90%
- Pumps and medium voltage motors -70%
- Valves -70%

We therefore conclude the following:

- Local content and production was applicable.
- Local content and product declarations should have been a prequalifying condition. The local content declaration (PA-36) should have been on the list of returnable documents.
- The local content declaration (PA-36) should have stipulated the designated sectors and applicable thresholds.
- DTI reporting on the winning bidder's contract value was also applicable.

## **Issue 3**

It was further noted that for both procurements listed above, there is no evidence that the Department of Trade and Industry (DTI) was notified of the successful bidders and the value of the contract.

## **Management Response**

### **Issue 3**

The local content and production was not applicable on the two term-contracts for tender nos. JHB20/06 and JHB20/09. As such, there was no need for Management to notify DTI of the successful bidder and the value of the contract for local content and production.

- Management complied with the Preferential Procurement Regulations, paragraph 8(2).
- Management did review and monitor compliance with applicable legislation.
- Management did adequately review bidding documents, in order to ensure that PA- 36: local and production requirements as prescribed by national treasury are adhered to.
- Furthermore, Management was consistent in applying the PA 36: Local Content and production declaration.

## **Auditor's Conclusion**

Based on the above responses on issue 1 and issue 2. We conclude that local content was applicable and thus DTI reporting was applicable.

## KIMBERLY REGION

### Nature

During the audit of procurement and contract management, we noted that the PA36 Declaration for local content and production for tender no KIM 01/2021- Kimberly Justice High Court including masters office: Installation of air conditioners indicated the percentages of the local content to be supplied by the bidders as follows:

- Cabling- 90%
- Primary Steel products- 100%
- Instrument transformers -90%
- Busbars-100%
- Housing-100%
- Switching devices-70%
- Casting or Frame Fabrication-100%
- Accessories-100%
- Assembly and testing of the fully built unit-100%
- Steel Value-added Products-100%
- Electrical and telecom cables-90%
- Low voltage (LV) associated accessories-70%

Further, through inspection of the tender file of the winning bidder, noted that the PA36 - Declaration for local content and production completed by Ephraim P. Maourisa, member of Ngaatendwe Trading CC on 12/04/2021 did not comply with the minimum thresholds as documented in the PA36 as the bidder stated the following:

- The bid price (excluding VAT)- R12 973 210
- Imported content- R6 378 000
- Stipulated minimum threshold for local content- R6 595 210
- Local content- 49.16%

The winning bidder did not correctly complete the form as they did not indicate the breakdown of what percentages of local content they will supply as stipulated in PA36. Furthermore, It is not clear whether the winning bidder had the required percentages of local content as they did not indicate the breakdown as required in PA 36 through Annexure C.

### Impact

- This results in the irregular expenditure of R10 703 746 as the procurement did not comply with the requirements of the National Treasury Designated Sector Instructions.
- Non-compliance with PFMA 40 and Preferential Procurement Regulations,

### Internal control deficiency

*Financial and Performance management*

Management did not review and monitor compliance with applicable legislation.

Management did not ensure that all bidders comply with the required stipulated local content percentages as per the invitation to bid specified minimum thresholds for local production and content, which is not less than the threshold prescribed in the relevant NT Instruction Notes.

### **Recommendation**

Management to ensure that the winning bidders comply with the stipulated local content and production thresholds as per PA36

Management to ensure that the procurement for local content and production complies with the National Treasury Designated Sector Instruction Notes.

### **Management response**

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

PA36 for local content and production was completed and the declaration signed by the recommended bidder, there was misalignment in the percentage calculation by the bidder which is due to the different interpretations of what should be on that portion of the form itself. However, the bidder did declare to comply with the provisions of PA36 in total based on the BOQ, the compliant sum is above the indicated minimum threshold which agrees with the declaration that the bidder willfully comply with the indicated minimum thresholds as indicated in PA36. Please refer to Line 1172-1182 where the figures have been broken down.

The finding, albeit not agreed to, is noted, steps have been taken by the Region to remedy the compliance with Local Content and Production. An email sent to the DTIC is submitted as POE to attest to the fact that training had taken place for all Regional Bid Committee members, all officials have been recently trained and the 2<sup>nd</sup> part of the request for a roadshow to service providers is still in the process of being arranged to fully train the service providers on the completion and requirements to comply with Local Content and Production. This will mitigate future non-compliance issues.

### **Auditor's conclusions**

Management response has been noted however, the finding stands based on the following:

The PA 36 stipulated the percentages of the local content to be supplied by the bidders as follows:

- Cabling- 90%
- Primary Steel products- 100%
- Instrument transformers -90%
- Busbars-100%
- Housing-100%
- Switching devices-70%
- Casting or Frame Fabrication-100%
- Accessories-100%
- Assembly and testing of the fully built unit-100%
- Steel Value-added Products-100%
- Electrical and telecom cables-90%
- Low voltage (LV) associated accessories-70%

However, according to the PA36 local content and production declaration submitted by the winning supplier, Ngaatendwe, 49.16% was declared as the local content implied by the bidder based on declared amount of R6 378 000 over the total bid amount of R12 973 210, excluding VAT. As stated above, there was no evidence of Annexure C that supports the PA36 declaration of local content.

To support management's response to the communication of finding, an excel BOQ was submitted by the auditee that states only the following calculated percentages for the stated designated sections:

- Steel,
- Low voltage cable,
- uPVC pipe,
- Paint and pumps and not all the % as stipulated in PA 36

However, these do not address all the stipulated designated sectors that applied in the tender. Furthermore, the amount of R6 361 960 as per the BOQ schedule submitted for local content does not agree to the amounts of R6 378 000 as per PA 36 declaration signed by the bidder.

The BOQ submitted by management in response to the finding was an excel document that was not signed by the bidder and therefore cannot obtain assurance whether this document is the one that was initially submitted by the tender or not as the documents which were inspected during the regional audit was a tender file and the BOQ was a PDF document.

Based on the above, the supporting documents submitted does not provide evidence that the bidder complied with the stated minimum thresholds for the designated sectors that applied in the tender. Therefore, the bidder did not meet the stipulated minimum thresholds as stipulated in PA 36 and therefore should have not been awarded the tender.

## **Advertisement of tender and publication of awards**

### **Requirement**

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

*Public Finance Management Act paragraph 38(1) (a)(i) and 38(1)(a)(iii) states that “The accounting officer for a the department must ensure that the trading entity has and maintains*

- (i) Effective, efficient and transparent systems of financial and risk management and internal control;*
- (ii) An appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective;”*

*Public Finance Management Act paragraph 38 (1)(c)(ii) states that “The accounting officer for the department must take effective and appropriate steps to prevent unauthorized, irregular and fruitless and wasteful expenditure and losses resulting from criminal conduct”*

*Treasury Regulation 16A6.3c states that “The accounting officer or accounting authority must ensure that bids are advertised in at least the Government Tender Bulletin for a minimum period of 21 days before closure, except in urgent cases when bids may be advertised for such shorter period as the accounting officer or accounting authority may determine;”.*

*National treasury SCM Instruction Note 3 of 2016/17 - Preventing and combating Abuse in the supply chain management system states that;*

*8.1 “accounting officers must only deviate from inviting competitive bids in cases of emergency and sole supplier status”.*

*8.2 “emergency procurement may occur when there is a serious and unexpected situation that poses an immediate risk to health, life, property or environment which calls an agency to action and there is insufficient time to invite competitive bids”.*

## **CAPE TOWN REGION**

### **Background**

Annual maintenance need to be performed at the South African Scientific Research Bases on all the Islands in the South Atlantic (Gough Island and Marion Island) as well as in Antarctica. It is the Departments' responsibility and mandate to maintain all the research facilities.

To prevent unnecessary breakdown of essential operational systems and the loss of valuable scientific data from different Institutions such as the S.A Weather Service, Universities , Colleges , to name but a few, that may result in the closure of the relevant bases . The Department strives to procure all materials, tools and equipment needed to ensure a safe working base thus preventing costly Emergency Voyages, unnecessary damage to state property or loss of lives in the event of Power loss.

### **Audit finding**

During the audit of supply chain management for competitive bids, we noted that PA-04 (EC): Notice and Invitation for tender number CPTSC 21/21 for Purchase, Installation, programming, commissioning and signing off of four times 250 kVA complete Marine type generators was advertised for 7 days. The date of advert was 14 October 2021 and the closing date was 21 October 2021.

### **Issue**

Though discussion with management we identified that the generators relates to the ship that is more than 4000 kilometers away in the Island and the only time to service the ship is during November each year.

On PA-01 (GS) - request for approval of procurement strategy par.7, Bid advertisement period, it is stated that the advertisement will be for 7 days due to the urgency of the project. Further noted that the generators need to be delivered by 22/11/2021 as the ship leaves on 30/11/2021 and still needs to go for cargo clearance.

We noted on the risk analysis report that replacement of the generators cannot be postponed on this voyage, it had to happen. The existing generators have not been overhauled since its installation in 2016/2017 voyage; as a result, the above risk is extremely high.

Upon follow up on the status of this procurement, we noted that only one (1) out of the four (4) generators have been delivered. This calls in to question the urgency of the matter, as the specifications were not followed through.

It was also noted that the highest scoring bidder (Excellent electrical projects) was not awarded the tender due to the following reasons:

Bidders were asked that, should they win, will they be able to meet the deliverables taking into account the sensitivity of the timeframe. Excellent responded as follows –

>The engines, which they initially intended to buy from the manufacturer, have been procured by another customer.

>Secondly, it would not be able to procure and assemble the engines within the confines of the special dates given.

Therefore, the supplier withdrew from the bid, as they did not want to fail the state.

### **Auditor's assessment**

Based on the above we conclude that the urgency does not meet the definition of an emergency. This is due to the situation not being unexpected as it is known that the ship would sail in November and key components should be optimally functional. Furthermore, management had since January to plan and initiate the procurement.

### **Impact of the finding**

- Non-compliance with Treasury Regulation, paragraph 16A6 3(c).
- Non-compliance with paragraph 38(1)(a)(i) and (38(1)(c)(ii) of the Public Finance Management Act
- Irregular expenditure on date of payment.

### **Internal control deficiency**

Financial and Performance Management

Management did not adequately review and monitor compliance with applicable laws and regulations relating to supply chain management.

Management did not initiate the procurement of generators in a timely manner.

### **Recommendation**

- It is recommended that management should enhance compliance procedures to ensure compliance with the applicable laws and regulations relating to supply chain management.
- Management should perform a service check when the ship comes back from Antarctica in order to ensure that any maintenance that is required is procured on time.
- Management should monitor the payment made and disclose as Irregular Expenditure at year-end.

### **Management response:**

I do not agree with the finding due to the following reasons:

The project manager requested the approval from Regional Manager to advertise the bid for a shorter period less than 21 days, which was subsequently approved. (**See attached Annexure A**) Then the Regional Bid Adjudication Committee approved the procurement strategy. The voyage for Sanae was due to leave on the first week of December. This meant

that advertising for 21 days from October would have affected the delivery date which was going to fall outside the voyage dates.

The bidder who scored the highest number of points declined, due to the fact it was no longer possible to deliver the stock and the second highest tenderer was appointed and agreed to deliver, other technicalities for non-delivery of the 3 Generators were beyond the Department. When the bidder requested to deliver those three Generators it was no longer possible since the time for departing of the Cargo Ship was closed. It was a high risk to transport components for generators to be tested its functionality taking into consideration cost implication involved for the Island. It can also be mentioned that on delivery, generators must be assembled, tested then commissioned for installation and that requires time which was a constraint.

### **Auditor's conclusion**

Management response has been noted however, the finding stands based on the following

The department during SNAE voyage in December 2020/March 2021 it was found that the 2 CAT Generators were in dire need of Major Service and this service can only be done in South Africa. The department had enough time between December 2020 until October 2021 to follow procurement process for the ship as the ship yearly comes to South Africa and each service can only be done in November each year.

Furthermore, we noted from the Department of Forest, Fishery and the Environment [Antarctica and southern oceans islands | Department of Environmental Affairs \(dffe.gov.za\)](#) that “*Antarctica is about 4000km away from South Africa. It takes 10-15 days to travel there by ship, the time depending on how much ice there is along the way. It can only be reached between November/December and April/May. The SA Agulhas (and now the new SA Agulhas II) is the Department of Environmental Affairs' research and supply ship. The vessel transports people and cargo to its three bases in Antarctica and on Marion and Gough Islands. The ship is therefore also a scientific platform allowing for research to be conducted, weather observations to be made and weather to be released as it sails.*”

Treasury Regulation 16A6.3c states that “The accounting officer or accounting authority must ensure that bids are advertised in at least the Government Tender Bulletin for a minimum period of 21 days before closure, except in urgent cases when bids may be advertised for such shorter period as the accounting officer or accounting authority may determine;”.

National treasury SCM Instruction Note 3 of 2016/17 - Preventing and combating Abuse in the supply chain management system states that; 8.2 emergency procurement may occur when there is a serious and unexpected situation that poses an immediate risk to health, life, property or environment which calls an agency to action and there is insufficient time to invite competitive bids”.

Procurement of the generators does not meet the definition of emergency as the department had enough time between December 2020 until November to ensure that the procurement process was followed for generators and therefore the advert should have been 21 days according to treasury regulation 16A6.3c as the services were not urgent

## **Limitation of scope**

### **Requirements**

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.*

Furthermore, Section 41 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 -

*“(a) Any document, book or written or electronic record or information of the auditee or which reflects or may elucidate the business, financial results, financial position or performance of the auditee;*

*(b) Any of the assets of or under the control of the auditee; or*

*(c) Any staff member or representative of the auditee”*

## **PRETORIA REGION**

### **Nature**

During the audit of supply chain management for the 2021/22 financial year end, the requested information was submitted as at 10 March 2022 with the due date 16 March 2022 information was received accordingly however the letter from national treasury was not submitted to confirm the conditions. Refer below table

No	RFI no.	Information outstanding	RFI request date	RFI due date	Number of outstanding days
1.	RFI – 66 Competitive bid	Tender No: PT15/018  - Letter from National treasury for the approval of Deviation.	10 March 2022	16 March 2022	7 days

### **Impact of the finding**

- Limitation of scope as we were unable to obtain sufficient and appropriate audit evidence to confirm the conditions for approval of Deviation and this can also lead in unfavorable audit outcomes.
- Non-compliance with the PFMA sections 40(1) a.
- Non-compliance with the PFMA section 41.
- Increased time spent to request and collect audit documentation may result in delays in finalising the audit and increase in the audit fee.

### **Internal control deficiency**

*Financial and performance management*

Management 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.

**Recommendation**

It is recommended that all information requested be provided to the AGSA within three days from the date of request as agreed with management.

Officials within the entity are made aware of the audit process and importance of submitting accurate and complete information to the auditors within the required timeframe;

**Management response:**

**Auditor's conclusion**

Managements responses was not received accordingly, the limitation of audit finding resulted in managements not submitting the following competitive bid documents for the auditors to test the initial award of the tender, as a result of that the communication of audit finding remains. Refer below table.

Tender Number	Client Department	Awarded Supplier	Tender amount	date of occupation of the lease building
PT/13/045	Public Service Commission (PSC)	JR209 Investments (Pty) Ltd	R1 361 352,38 pm	01-Nov-14

## CONTRACT MANAGEMENT

### Extension of time

#### Requirements

Public Finance Management Act paragraph 38(1)(a)(i) and 38(1)(a)(ii) states that “*The accounting officer for a trading entity must ensure that the department has and maintains effective, efficient and transparent systems of financial and risk management and internal control and an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective...*”

Public Finance Management Act paragraph 1 defines “*fruitless and wasteful expenditure*” as “*expenditure which was made in vain and would have been avoided had reasonable care been exercised*”

Public Finance Management Act paragraph 38 (1)(c)(ii) states that “*The accounting officer for a, trading entity must take effective and appropriate steps to prevent unauthorized, irregular and fruitless and wasteful expenditure and losses resulting from criminal conduct*”

Public Finance Management Act paragraph 38 (1)(g) states that: “*The accounting officer must on discovery of fruitless and wasteful expenditure, immediately report, in writing, particulars of the expenditure to the relevant treasury;*”

Public Finance Management Act paragraph 38 (1)(h) states that: “*The accounting officer must take effective and appropriate disciplinary steps against any official in the service of the department or constitutional institution who makes or permits fruitless and wasteful expenditure*”

Public Finance Management Act paragraph 40 (3)(b) states that: “*The annual report and audited financial statements must include particulars of fruitless and wasteful expenditure that occurred during the financial year and any disciplinary steps taken as a result of such fruitless and wasteful expenditure.*”

Treasury Regulation 8.1.1 state that “*The accounting officer of the institution must ensure that Internal procedures and internal control measures were in place for the approval and processing of payments. These controls provided reasonable assurance that all expenditure is necessary, is appropriate, is paid promptly and is adequately recorded and reported on.*”

Treasury Regulation 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.*”

Treasury Regulation 9.1.1 state that “*The accounting officer of a trading entity must exercise all reasonable care to prevent and detect fruitless and wasteful expenditure and must, for this purpose, implement effective, efficient and transparent processes of financial and risk management.*”



## **CAPE TOWN REGION**

### **Nature**

#### **WCS: 052456**

#### **Background**

During the Interim audit of the contract management, we audited Project WCS No: 052456 : *Overberg : Upgrading ,Repair and Renovation of Building ,Mechanical ,Electrical and Civil Structure at Bredasdorp Air force Base in Western Cape*. The project had a commencement date of 06 December 2016 and a completion date of 05 December 2019 .The contract value was set at R249 880 000.

Through the inspection of the internal memorandums and the application for extension of contract period (PRM 040), the following issues were identified:

The contractor charges the entity an amount of R 46 447, 17 per day on the approved extensions of time. We have inspected the request for extensions and the internal memorandums prepared by the entity, which detail the reasons for the delays. Memorandums included the number of days requested by the contractor and the financial impact expected from the extension.

#### **Issue 1 - Extension of Time 2**

Failure to issue a work permit on time to the contractor by the Department of Labour.

The Department of Labour - Government Notice (dated July 2015) states that, “*a client who intends to have construction work carried out must at least within 30 days before that work is to be carried out apply to the Provincial director in writing for a construction work permit, if the intended construction works starts after 7<sup>th</sup> of August 2015, and the works contract is of a value exceeding one hundred and thirty million rand or CIDB grading level 9”*

We noted on the Progress meeting Number 1 (meeting dated 20/01/2017) - Annexure B , Par 15 that the permit application to the Department of Labour was still to be submitted due to contractor outstanding information. The application was only submitted to the Department on 26 January 2017.

Through inspection of the application of Extension of Time, we noted that the Contractor received the Permit on 21 February 2017, as the permit had been erroneously sent to an incorrect recipient. This led to the Contractor applying for an Extension of Time with costs as Construction works had been set to commence on 2 February 2017.To this end, the contractor was granted an extension of time with costs amounting to R975 390, 57 for the 21 calendar days. The claim was awarded on the 17 of July 2017.

The contractor `s claim relied on the :JBCC 2005,.Clause 29,3 -“*Further circumstances for which the contractor is entitled to a revision of the date for practical completion are delays caused by any other cause beyond the contractor’s reasonable control that could have reasonably anticipated and provided for”*

Upon inspection of the contract file, we discovered that the Contractor did not submit the application within 30 days. We further noted that the Construction Permit was finalised on the 31 January 2017.When calculating the number of days from the 2<sup>nd</sup> to 21 February 2017, we noted 20 days and not 21 days.

Based on our assessment this expenditure could have been avoided had proper planning been done (timeous submission). We have further noted that the fact that the permit was sent to an incorrect recipient (as stated in the application) has resulted in a financial loss of R975 390,57. This expenditure was made in vain and could have been avoided.

### **Issue 2 -Extension of Time 4**

Raubex Joint Venture states that Construction work of the structural installation in the pump house stopped when the contractor found out that adequate depth for the floor fixing bolts could not be achieved according to the structural engineer's design. This issue was identified on the 12 May 2017.

The structural engineer's design from the sketch plan stage involved spanning between the existing reinforced concrete columns and possibly additional steel columns to lighten the load on existing foundations if the need arises. The issue that came up was the inadequate depth for the bolts to go into the existing reinforced column. (12 May 2017)

1. The Structural engineer then revised their design and re- issued drawings on 26 May 2017.
2. The Principal Agent then pointed out a design issue to the engineer on 29 May 2017.
3. The Structural engineer re-designed the structure design and issued revised drawings on 07 June 2017. Again, the Principal agent (ACA) pointed out design issues on the drawings 14 June 2017.
4. The Structural engineers revised the drawings and issued a final set on the 20th of June 2017.
5. Raubex then procured the structural steel, manufactured and transported in to Bredasdorp (12 July 2017) and the delay ceased.

On the Basis of Clause 29.6.2 -Failure to issue construction information timeously, the contractor then claimed an extension of time for 37 days which were recommended with cost adjustment resulting in a cost of R1 718 545.

Upon inspection of the contract file, we discovered that three (3) structural designs were revised in addition to the original design resulting in a financial loss of R1 718 545. Based on our assessment, it is concerning that there were three structural design issues relating to the structural installation in the pump house which resulted in penalties being charged by the contractor. It is clear that this expenditure was made in vain and resulted in a financial loss for the entity. This expenditure could have been avoided had proper structural designing been done.

### **Issue 3 -Extension of Time 5**

#### **Construction defect on the Tiles**

We noted that, when the houses (12) under repairs were completed, and ready to be handed back to the user client, many of the tiles sounded hollow when tapped with a rod. The hollow sound was detected on some of the tiles, which then led to the service deemed unacceptable, and the Principal agent issued an instruction for the tiles to be removed in order to rectify the hollow sound because the quality of the workmanship was poor on the original existing building.

To this end, the contractor claimed an extension of time for the delay caused by the demolitions to the surface beds and screeds on various houses. The claim was based on Clause 29.2.3 of the JBCC 2005 - Contract instruction not occasioned by the contractor, where

the contractor is fairly entitled to a revision to the date of Practical Completion and adjustment to the contract value.

Based on our assessment of the reasons for delays provided, and the supporting documentation provided, we noted that the purpose of the project was the Upgrading, Repair and Renovation of Building, Mechanical, Electrical and Civil Structure at the Bredasdorp Air force base. It is reasonably anticipated that a site inspection, needs assessment, and a feasibility study should have detected amongst other things the defective floor slabbing which was not the case. Instead tiling work was performed on a defective floor, which subsequently led to an instruction for the removal of the tiles.

We noted that in addition to the cost of re-tiling, the Department has had to incur an amount of R4 503 920 for an additional 97 days which is an expenditure in vain. Had proper planning and monitoring been in place, this expenditure could reasonably have been mitigated.

#### **Issue 4 -Extension of Time 8**

On 29 January 2019, ACA (Principal agent) issued an instruction for the installation of a raised timber platform to the control room (Fire Department) and to tint the windows. Closer to refurbishing of the Fire Department, the user Department noted that the scope of works excluded the raised platform to the control room.

Due to the ergonomics of the space, the user department, nevertheless now required a platform that was not considered an essential element during the planning phase of the project. An extension of time with costs for an extension of 15 calendar days were approved with cost adjustments based on JBCC Clause 29.7 and Clause 29.2.3 - Contract Instruction not occasioned by the default of the contractor.

We further note that the nature of this claim indicates that this was a variation order, which should be approved by the VO committee. However, we noted that only the chairperson of the VO committee approved it under the application of extension of time claim.

Based on our assessment, we noted that if the raised platform timber that was not considered an essential element during the planning phase of the project was now required by the user Department.

We therefore concluded that the expenditure incurred in the installation of a raised timber platform was an irregular expenditure, as this service was never identified in the planning phase of the project. This claim resulted in an additional cost of R 696 707 for a 15 day calendar delay.

#### **Issue 5 - Extension of Time 9**

Late Handover of Accommodation buildings: Block D

The contractor required access to block D on the 28th of March 2019. However logistics determined that it would be more suitable to the user Department if block C is handed over instead as the two blocks were identical.

However, the User Department's actual handover of substitute Block C only transpired on 14 May 2019 and not 28th of March 2019 as scheduled. Therefore, 33 working days after it was agreed to be handed over. The Principal Agent's opinion was that flight tests prevented the user Department to hand over Block C on the agreed date, 28 March 2019.

Based on the fact that site hand over was done on the 19th of December 2016, It is clear that construction work had already commenced at the Air force base of which the User Department and all affected parties would have been expected to be aware of / be in possession of a programme plan. The 35 delay in Block D resulting in an extension of time with costs resulted in an expenditure in vain for an amount of R1 625 650,95 .

Through our assessment of the reasons for delays provided and the supporting documentation provided, the penalties charged by the contractor have resulted in a financial loss for the entity, as the entity did not get any value from the expenditure incurred. In addition, this expenditure could have been avoided had adequate planning been done.

### **Issue 6 - Extension of Time 11**

#### **Issue 6.1**

Extension of time due to the National lockdown from 27 March 2020 to 2 June 2020.

The World Health Organisation declared COVID-19 a pandemic and several countries including South Africa announced National lockdowns to slow the spread of the virus. The South African government, declared a state of national disaster , on 15 March 2020, giving the national executive certain powers to implement regulations in an effort to curtail the spread of the virus which included regulations relating to the protection of property, protection of the public and for the purpose of “dealing with the destructive and other effects of the disaster”, as set out in the GN313 of 2020

Following the compulsory national lockdown that was promulgated in terms of the Disaster Management Act 2002, The President of the Republic of South Africa announced the National lockdown from the 26th of March 2020 till 2<sup>nd</sup> of June 2020. This lockdown resulted in South Africans not being able to leave their homes. Although certain categories of people were exempt from the National Lockdown, such categories did not include the Construction industry. Due to the inability to continue with construction activities the contractor then applied for an extension of time for a period of 89 calendar days.

The contractor's claim relies upon clause 29.3 - A Cause beyond the contractor's reasonable conduct that could not have reasonably been anticipated and provided for and not clause 29.1.4 (Vis Major, riot, strike or lockout):

The following was stated by the contractor: "*The National lockdown was not an act of God by a third party, but an act by a contracting party. The contracting party is the state and the state is equal to the Department of Public works. It is therefore important to rule out Clause 29.1.4(Vis major) as the cause for the hard lockdown was a direct result of the State which is equal to the Department of Public Works*".

The Claim was approved the 16 November 2020 without any cost adjustments based on the recommendations of the construction project manager and the Principal Agent.

#### **Based on our Assessment, the following was noted –**

The term force majeure is of French origin and refers to an event or occurrence, which renders contractual performance impossible. The term force majeure is synonymous with vis maior or casus fortuitus. Force majeure clauses are often found in commercial contracts. These clauses allow a contracting party to escape the normal consequences of non-performance or late performance of contractual obligations because of an unavoidable and unforeseeable event.

Force majeure may include acts of God, acts of government, natural disasters, epidemics, pandemics and even war and terrorism. The invocation of a force majeure clause will suspend a party's obligation to fulfil their performance for the duration of which the force majeure event occurs. The term act of government in a force majeure clause could be applied where the government has closed its borders, imposed quarantine or isolation, banned or restricted travel and/or announced a lockdown."

Investopedia defines Vis Major "as an irresistible natural occurrence that causes damage or disruption and that is neither caused by nor preventable by humans even when exercising the utmost skill, care, diligence or prudence and will exclude one or both parties from liability and fulfilling their obligations when events beyond their control occurs"

### **Conclusion:**

During alert level 5, the contract was force majeure i.e. neither the department nor contractor could fulfill their obligations towards the contract.

The Government/State in ordering businesses to close, public transport to stop running made the performance of obligations under a commercial contract impossible, this would be deemed an "Act of State" and would fall under our common law understanding of force majeure. To constitute a vis major the occurrence must be uncontrollable and unforeseen. The Covid-19 was a global pandemic whose rapid spread was uncontrollable and its devastating effects unforeseeable.

Through an assessment of the JBCC contract assessment, clause 29.1 it was noted that contract state that "The circumstances for which the contractor is entitled to a revised of the date for practical completion and for which revision the principal agent shall not adjust the contract value in terms of 32.12 are delays to practical completion caused by

29.1.1 Increment weather

29.1.4 Vis major, civil commotion, riot, strike or lockout"

It is noted that even though the closure of the economy was because of the decision by the state to close the economy, it is imperative to consider the underlying causes that led to such decision to be taken which was the outbreak of Covid-19 .Neither the State nor the Contractor caused the delay. The fact that the Outbreak of Covid-19 was spreading fast and needed to be contained as such was an Act of God which we feel the extension of time should have been granted without costs as was recommended by the Principal agent.

We then discovered through inspection of the financial report that this extension of time was granted with costs, which was not in line with what had been approved. We therefore came to the conclusion that this constituted wasteful and fruitless expenditure which could have been avoided .The expenditure has resulted in a financial loss for the Department of R4 133 752, 74 (R46 447, 17\* 89 calendar days)

### **Issue 6.2**

Incorrect calculation of calendar days resulting from the delay due to Covid-19 lockdown:

We noted a claim relating to an extension of time because of the compulsory national lockdown promulgated in terms of the Disaster Management Act 2002, on which the contractor claimed 89 calendar days with financial Implications. We further discovered that the number of days affected, amounted to 67 days and not 89 days as follows:

Level 5(hard lockdown) - 27 March to 30 April 2020 = 35 calendar days lost during and;  
Level 4 lockdown - 1 May to 2 June 2020 = 32 calendar days

We recalculated the calendar days under this extension of time and noted that, the principal Agent and the Department incorrectly approved 89 Calendar days when in fact the calendar days amounted to 67 days.

Based on our assessment, we concluded that the number of days for this extension of time were incorrectly determined and affected the practical completion date by an additional 22 days and total cost of R 1 021 837.

### **Issue 6 - Extension of Time 12**

We noted that the contractor claimed 41 calendar days relating to delays on covid-19 Health and Safety Legislation compliance requirements, daily covid-19 screening and the phased in labour totaling 41 calendar days.

The claim was a result of the contractor not being able to work at full capacity because of the Initial hard lockdown and the extended lockdown 4 and 3. It was further noted that the claim relied upon Clause 29.3 and not 29.1.4 (Vis Major, riot, strike or lockout) - cause beyond the contractor's reasonable conduct that could not have reasonably been anticipated and provided for.

The following was stated by the contractor: "The National lockdown was not an act of God by a third party, But an act by a contracting party "The contracting party is the state and the state is equal to the Department of Public works."

Investopedia defines Vis Major "as an irresistible natural occurrence that causes damage or disruption and that is neither caused by nor preventable by humans even when exercising the utmost skill, care, diligence or prudence and will exclude one or both parties from liability and fulfilling their obligations when events beyond their control occurs"

The term force majeure is of French origin and refers to an event or occurrence, which renders contractual performance impossible. Force majeure clauses are often found in commercial contracts. These clauses allow a contracting party to escape the normal consequences of non-performance or late performance of contractual obligations because of an unavoidable and unforeseeable event. Force majeure may include acts of God, acts of government, natural disasters, epidemics, pandemics and even war and terrorism. The invocation of a force majeure clause will suspend a party's obligation to fulfil their performance for the duration of which the force majeure event occurs. The term act of government in a force majeure clause could be applied where the government has closed its borders, imposed quarantine or isolation, banned or restricted travel and/or announced a lockdown."

The World Health Organisation declared the COVID-19 virus and several countries including South Africa declared National lockdowns to slow the spread of the virus. The South African government declared a state of national disaster on 15 March 2020, giving the national executive certain powers to implement regulations in an effort to curtail the spread of the virus which included regulations relating to the protection of property, protection of the public and for the purpose of "dealing with the destructive and other effects of the disaster", as set out in the GN313 of 2020

The Government/State in ordering businesses to close, public transport to stop running made the performance of obligations under a commercial contract impossible, this would be deemed an "Act of State" and would fall under our common law understanding of force majeure. To constitute a vis major the occurrence must be uncontrollable and unforeseen. The Covid-19 was a global pandemic whose rapid spread was uncontrollable and its devastating effects unforeseeable.

### **JBCC contract assessment**

Through inspection of the JBCC Agreement clause 29.1, It was noted that “The circumstances for which the contractor is entitled to a revised date for practical completion and for which revision, the principal agent shall not adjust the contract value in terms of 32.12 are delays to practical completion caused by -

29.1.1 Inclement weather

29.1.4 Vis major, civil commotion, riot, strike or lockout”

Based on the JBCC contract, it is evident that the delays due to a National Lockdown are vis major and should not have a financial impact. Based on the approved claim dated 16/11/2020 it was noted that this extension has a financial impact where the contract value was adjusted. The adjustment amount of R1 904 334 was not in line with JBCC contract clause 29.1.

It is therefore concluded that the extension of time was incorrectly awarded with costs as the underlying cause to have Screening and phased in labour force was as a result of the pandemic which neither party had control over and the contractor should have claimed extension of time without cost adjustments .This cost is seen as wasteful and fruitless .

### **Impact**

- Non – compliance with Treasury Regulation paragraph 8.1.1, 8.2.1 and 8.2.2.
- The expenditure paid in vain which could have been avoided will result in fruitless and wasteful expenditure.
- Irregular expenditure of R 696 707.
- A possible financial loss of R14 863 094 resulting from the expenditure incurred due to the extension of time which had a financial impact.

### **Internal control deficiency**

#### *Leadership*

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

#### *Financial and Performance Management*

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

All the necessary information required to execute the projects were not always submitted on time to the contractor to avoid delays which will results in the financial loss for the entity.

Approvals for extension of time with cost where the result of the delay was due to Vis major.

Management has not taken the proactive steps to recover the financial loss from the responsible person where the penalty was paid to the contractor resulting from the delays.

### **Recommendation**

It is recommended that management should ensure the entity complies with all applicable laws and regulations.

It is recommended that management should ensure:

- All projects are monitored regularly and all the necessary information and documents are provided to the supplier timeously to avoid delays.
- The consultants work should be monitored by the project managers and all the reports/ drawings prepared by consultants should be checked for accuracy and be delivered to the contractor timeously.
- Access to the construction sites should be organized before the construction commence.

It is recommended that management should assess the reasons for the delays against the JBCC 2000 PRINCIPAL BUILDING AGREEMENT in order to avoid making unnecessary payments were the delays are covered under JBCC contract clause 29.1.

Where the financial loss results from the consultant not performing as per the contract or any other party e.g. user department, the fruitless and wasteful amount should be recovered from them. If the PMTE officials cause the financial loss, the disciplinary processes should be followed to ensure that the money is recovered from the implicated individual.

### **Management response:**

Management takes note of the audit finding and is in disagreement and comment as follows:

#### **Issue 1 - Extension of Time 2**

Considering that the site was handed over during the annual builders holiday the permit request was lodged (by the employer's H&S Agent, not the contractor) within 9 working days of the 2017 construction calendar opening (traditionally around the 15th of January) . We deem this time period as acceptable.

Should the Department of Labour have been more supportive in confirming the approval of the permit on the 31 January 2017, the unforeseen circumstances would have been avoided. Furthermore it was stated that the permit was emailed to the incorrect email on the 22 February 2017, however the QS did forward the email to the correct address on the same date. Since the contractor only received the permit on the 22 February 2017, work could only commence the next day.

Please see on-line day calculator shows the quantity of 21 days as correct:

How many days, months, and years are there between two dates?

Count Days	Add Days	Workdays	Add Workdays	Weekday	Week №
<b>Start Date</b>					
Day: <input type="text" value="2"/> Month: <input type="text" value="2"/> Year: <input type="text" value="2017"/> <input type="button" value="Date:"/>					
<input type="button" value="Today"/>					
<input checked="" type="checkbox"/> <b>Include end date in calculation (1 day is added)</b>					
Add time fields Add time zone conversion					
<input type="button" value="Calculate Duration"/>					
From and including: Thursday, 2 February 2017 To and including: Wednesday, 22 February 2017					
<b>Result: 21 days</b> It is 21 days from the start date to the end date, end date included.					
<b>Alternative time units</b> 21 days can be converted to one of these units: <ul style="list-style-type: none"> <li>• 1,814,400 seconds</li> <li>• 30,240 minutes</li> <li>• 504 hours</li> </ul>					

#### **Issue 2 -Extension of Time 4**

It is important to point out that EOT 4 relates to a decanting facility which only came into consideration when the logistics of the User Department to handover the spaces earmarked for renovation were subjected to unforeseen operational circumstances on their part, subsequently affecting the programming of the works. The fast tracked design development of the complex structural design solution to install temporary office accommodation over among other a mechanical plant during a critical path of the program, is in fact an effort to be commended.

#### **Issue 3 -Extension of Time 5**

The original surface beds were not constructed according to standards that resulted in the delamination of the existing screed that could not have been foreseen and/or picked up at any stage during construction. Only after the new tiles were laid was the issue picked up.

#### **Issue 4 -Extension of Time 8**

The Fire Department must be operational at all times to protect high value aircraft and human lives. Hence, during construction the User Department requested that the raised platform that was removed from the control room during the refurbishment of the Fire Department Building be reinstalled as a critical element of the fire station building. Accordingly, budgetary allowance was made in the BOQ for additional joinery at the fire station building.

#### **Issue 5 - Extension of Time 9**

This claim relates to the late handover of one of the accommodation buildings by the user Department as test flight training at Bredasdorp AFB is often at the mercy of the weather, international events, pilot availability, sickness etc. Hence, delays as a result of such eventualities can only be mitigated within the parameters available at the time which, in this case, did not provide feasible solutions.

#### **Issue 6 - Extension of Time 11**

The approved EOT 11 did not award the claim with costs. However the PQS has since corrected the oversight of allocating costs on the financial report. Furthermore, practical completion has still not been taken and any discrepancies are corrected during the final account before final payment is done.

In terms of the day's allocated, kindly note that the approved PRM 040/1 clarifies the discrepancy as per the below extract from the PRM 040/1 that included builders holiday.

RECOMMENDATION: (See attached report for complete motivation including PRM040/2)

ACA RECOMMENDS THE GRANTING OF 43 WORKING DAYS WITH COST. (NOTE\* 113 WORKING DAYS INCORPORATING THE 2020/2021 BUILDERS HOLIDAY = 89 CALENDAR DAYS)

Submitted by:

  
PRINCIPAL AGENT / PROJECT MANAGER

28 SEPT. 2020  
DATE

Start Date	End Date
Day: 10 Month: December Year: 2020	Day: 9 Month: March Year: 2021
Today	Today
<input type="checkbox"/> Include end date in calculation (1 day is added)	
Add time fields Add time zone conversion	
<b>Calculate Duration</b>	
From and including: Thursday, 10 December 2020 To, but not including Tuesday, 9 March 2021	
<b>Result: 89 days</b> It is 89 days from the start date to the end date, but not including the end date. Or 2 months, 27 days excluding the end date.	
<b>Alternative time units</b> 89 days can be converted to one of these units: <ul style="list-style-type: none"><li>7,689,600 seconds</li><li>128,160 minutes</li><li>2,136 hours</li></ul>	

## Issue 6 - Extension of Time 12

This claim deals with the impact of COVID-19 Health and Safety legislation had on progress after resumption of works on 2 June 2020. Therefore, the post-COVID start-up requirements (not the COVID-19 global pandemic) is the immediate event causing the contractor's delay and losses.

### Auditor's conclusion

## Issue 1 - Extension of Time 2

Management response has been noted. Based on our assessment and the information at our disposal we disagree with management based on the following:

- As per the letter from Siyakhathala Safety dated 19 June 2017, signed by Anton Els (Construction Health and Safety Manager) point no.19 we confirmed that the permit was distributed to Raubex Joint Venture on 21 January 2017. The extension of time days that should have been applied for was 20 days and not 21 days.

- The employer's H&S Agent, only applied for the work permit on 26 January 2017(due to delays by the contractor in submitting the supporting documentation) not applied for within the minimum 30 days prior to construction date of 02 February 2017. The extension of Time should therefore been without cost adjustments as the delays were from the contractor hence the amount paid of R975 390.57 is fruitless and wasteful expenditure.

This finding remains and will be included in the management and audit report.

#### **Issue 2 - Extension of Time 4**

Management assessment has been noted. We disagree with management assessment on the following:

- Based on the Principal Agent's Adjudication letter dated 25 April 2017 of Extension of Time No 4 ,this claim relates to the construction work stoppage due to inadequate depth for the floor fixing bolts could not be achieved according to the structural engineer's design and not decanting the facilities . This finding resulted in a wasteful and fruitless expenditure of R1 718 545.
- This finding remains and will be included in the management report.

#### **Issue 3 - Extension of Time 5**

Management response has been noted. This finding remains on the basis that, the purpose of the project was the Upgrading, Repair and Renovation of Building, Mechanical, Electrical and Civil Structure at the Bredasdorp Air force base. It is reasonably anticipated that a site inspection, needs assessment, and a feasibility study should have detected amongst other things the existing defective floor slabbing which was not the case. Instead, tiling work was performed on a defective floor, which subsequently led to an instruction for the removal of the tiles. This resulted in the department incurring R4 503 920, 00 which is an expenditure in vain.

This finding remains and will be included in the management report.

#### **Issue four - Extension of Time 8**

Management response has been noted. In the management response, we noted that during construction the User Department requested that the raised platform that was removed from the control room during the refurbishment of the Fire Department Building be reinstalled as a critical element of the fire station building. We therefore conclude that the raised platform was included in the budget and scopes of work and thus should not resulted in an extension of time with cost adjustments.

This finding remains and will be included in the management report.

#### **Issue 5 - Extension of time 9**

Management response has been noted .Based on the Principal Agent report we noted that flight tests prevented the user Department to hand over Block C on the agreed date, 28 March 2019 ,an indication of inadequate planning on project management. If the weather was a contributing factor the extension of time, should resulted in an extension of time without cost adjustments.

This finding remains and will be included in the management report.

### **Issue 6 - Extension of Time 11**

#### **Issue 6.1**

Management response has been noted. We noted that the period of management assessment differs from the period under review which is 27 March 2020 to 2 June 2020. We therefore disagree with management and this finding remains and will be included in the management report.

#### **Issue 6.2**

Management's response has been noted, however this finding remains and will be included in the management report as the payments made to the contractor during the phased -in Labour return to work and Covid screening processes does not negate the fact that the expense was wasteful and in vain.

## **MMABATHO REGION**

### **Nature**

Project number **WCS 043964** was awarded to La-Natura (Pty) Ltd as at 18 October 2019 (Date of letter of Acceptance) for the Taung District office - Construction of new accommodation. The original contract period was for 18 months and the project expected date of completion being 18 April 2021 for a total contract value of R 22 764 708,75 (Incl. VAT).

In accordance with clause 42.2.6 of the JBCC 2000 Agreement Principal Building Agreement: Edition 4.1 of March 2005, possession of the site was to be given to the contractor within 10 working days from the commencement (award) date. Consequently, possession should have been given to the contractor by 04 November 2019, however the site was only handed over to the contractor on 20 January 2020.

Refer reasons for the delays as per the memorandums have been included on the table below:

<b>Claim No.</b>	<b>Reason for the delay as per the request for extension and Memos.</b>	<b>No of days</b>	<b>Financial impact</b>
1	<p><b><u>Claim 1 - Situation</u></b></p> <p>Late approval of safety file – The contractor sent the file on 05 December 2019 and confirmation of receipt was on 10 December 2019 and subsequently approved 15 January 2020. As a result 37 days is claimed with cost.</p> <p>Delays were experienced in handing over the site to the contractor even though the safety file was approved on the date stated. 5 days was claimed with cost</p> <p>The offer and acceptance letter was dated 18 November 2019 and issued to the contractor on the 25 November 2019. 07 days was claimed with cost for sending the letter of acceptance</p> <p>However only 35 days was approved by head of projects.</p>	35 days	R 31 979.95

Claim No.	Reason for the delay as per the request for extension and Memos.	No of days	Financial impact
	<p><b>Auditors comment:</b></p> <p>In accordance to the JBCC:</p> <p>29.2 The circumstances for which the contractor is entitled to a revision of the date for practical completion and for which revision the principal agent shall adjust the contract value in terms of 32.12 are delays to practical completion caused by:</p> <p>29.2.1 Failure to give possession of the site to the contractor in terms of 15.2.1.</p> <p>Based on assessment of the reasons given for this claim, we have noted that the contractor was within their rights to make a claim for extension of time with costs as a result of late site handover.</p> <p>However with regards to:</p> <p>*Late approval of safety file - 15.1.4 Add 15.1.4 of the JBCC states as follows: An acceptable health and safety plan, required in terms of the Occupational Health and Safety Act, 1993 (Act 85 of 1993), within twenty-one (21) calendar days of commencement date. It is of the above view that PMTE was not supposed to pay the extension of time with cost</p> <p>*Offer and acceptance letter: Even though the date of the acceptance letter and the delivery date are different, it is not evident what the client paid for as the work wouldn't have commenced in 5 days.</p>		
2	<p><b>Claim 2</b></p> <p>Delays were experienced as a result of Covid 19 National lockdown period based on demobilization days 5 Days (23 March 2020 to 26 March 2020), 42 days (27 March 2020 to 01 June 2020, 10 days (01 June 2020 to 18 June 2020) and re-establishment and mobilizations for 10 days (19 June 2020 to 05 July 2020).</p> <p>To this effect, the contractor has successfully made claim for extension of time, which equate to a total of 53 days.</p> <p><b>Auditors comment:</b></p> <p>29.1 The circumstances for which the contractor is entitled to a revision of the date for practical completion and for which revision the principal agent shall not adjust the contract value in terms of 32.12 are delays to practical completion caused by:</p> <p>29.1.4 Vis major, civil commotion, riot, strike or lockout.</p> <p>Based on the JBCC Principal Agreement, any delays resulting from lockout does not attract the contract price adjustments with cost. Therefore, the extension with cost was <b>not</b> in line with the Building agreement as a result PMTE paid for no value.</p>	53 Days	R 55 690.63
3	<p><b>Claim 3</b></p> <p>Delays were experienced due to community disturbances on site from 25 January 2021 to 07 March 2021 as a result contractor could not access the site.</p> <p><b>Auditors comment:</b></p> <p>29.1 The circumstances for which the contractor is entitled to a revision of the date for practical completion and for which revision</p>	30	R31 523.00

Claim No.	Reason for the delay as per the request for extension and Memos.	No of days	Financial impact
	<p>the principal agent shall not adjust the contract value in terms of 32.12 are delays to practical completion caused by:</p> <p>29.1.4 Vis major, civil commotion, riot, strike or lockout.</p> <p>Based on the JBCC Principal Agreement, any delays resulting from lockout does not attract the contract price adjustments with cost. Therefore, the extension with cost was <b>not</b> in line with the Building agreement as a result PMTE paid for no value.</p>		
	<b>TOTAL DELAYS</b>	<b>115</b>	<b>R 119 193.48</b>

### Impact of the finding

- Non-compliance with the PFMA sections 40(1)
- Fruitless and wasteful expenditure to the amount of **R119 193.48**
- The expenditure paid in vain which could have been avoided will result in fruitless and wasteful expenditure.

### Internal control deficiency

#### *Leadership*

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

#### *Financial and Performance Management*

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

All the necessary information required to execute the projects when not always submitted on time to the contractor to avoid delays, which will results in the financial loss for the entity.

Management has not taken the proactive steps to recover the financial loss from the responsible person where the penalty was paid to the contractor resulting from the delays.

### Recommendation

It is recommended that management should ensure the entity complies with all applicable laws and regulations.

It is recommended that management should ensure:

- All projects are monitored regularly and all the necessary information and documents are provided to the supplier timeously to avoid delays.
- Access to the construction sites should be organized before the construction commence.

It is recommended that management should assess the reasons for the delays against the JBCC principal building agreement in order to avoid making unnecessary payments where the delays are covered under JBCC contract clause 29.1.

It is recommended that management should conduct an investigation on all significantly delayed projects to determine the reasons for the delay as well as the financial loss incurred by the entity. The fruitless and wasteful expenditure assessment should be conducted to identify expenditures that could have been avoided by the entity.

**Management response:**

The Project Manager acknowledges late approval of safety file and late site hand over of the project. Safety file was received by Project Manager on the 10th December 2019 from the Contractor which was submitted to NDPW-OHS on the 11th December 2019. Approval was granted by OHS Officer on the 15th January 2020 reason was due to work over load and Project Manager handed over site on the 20th January 2020. Contractually site cannot be handed over unless the safety file is approved

Extention 2

Response: National lockdown for COVID-19 pandemic was a new thing in South Africa. The contractor was requested to comply with the following before re-establishment of site:

- Adherence to COVID-19 regulations.
- Preparation of site to comply with COVID-19 prior to workforce being allowed on site.
- COVID-19 Occupational Health and Safety plans to be submitted to DPWI for approval.

All the above items were not included in the original scope of work accepted by the Department and this resulted to additional cost to the contractor.

Extention 3

Project Manager acknowledges and accept the finding. A letter will be written to the consultants to recover the said amount from the contractor

**Auditor's conclusion**

Claim 1

Managements responses has been acknowledged accordingly, however in terms of JBCC 2000 service level agreement the late approval of safety file - 15.1.4 Add 15.1.4 of the JBCC states as follows: An acceptable health and safety plan, required in terms of the Occupational Health and Safety Act, 1993 (Act 85 of 1993), within twenty-one (21) calendar days of commencement date, the extensions of times should be without cost.

Claim 2

Managements responses has been acknowledged accordingly, however the extension of time was due to National lockdown for COVID-19 pandemic which is in line with JBCC 2000 service level agreement sub para 29.1.4 lockout, the extensions of time should be without cost.

### Claim 3

Managements responses has been acknowledged accordingly and auditors agrees with management.

#### ***Overall conclusions***

Based on auditor's assessment the communication of audit finding remains, and the misstatement will be reported to management report accordingly, the amount of fruitless and wasteful expenditures should be disclosed accordingly and measures should be put in place to recover the amount.

### **DURBAN REGION**

#### **Nature**

Project number **WCS 013029** was awarded to RGZ Projects PTY LTD as at 01 August 2016 for the Emanguzi SAPS Complex: Upgrade of CSC and Police Cells: Project 5 Star: Construction of new accommodation including upgrade of electrical. The original contract period was for 24 months and the project expected date of completion being 01 August 2018 for a total contract value of R92 203 771.76 (Incl. VAT).

The JBCC 2000 Principal Building Agreement (Edition 4.1 of March 2005), approved by the Construction Industry Development Board is applicable to this contract as such all extension of time are governed by section 29. Extension of time were noted during the duration of the contract and were assessed by the audit team as indicated in the table below.

Refer reasons for the delays as per the memorandums have been included on the table below:

Claim No.	Reason for the delay as per the request for extension and Memos.	No of days	Financial impact
1	<p><b><u>Claim 1</u></b></p> <p>According to the contractor's works program, work was scheduled to begin at the Temporary CSC area on the 16<sup>th</sup> August 2016. However, work could not commence due to the slow process of the South African Police Service moving SAP13 vehicles out of the site. The area was only cleared on the 01 March 2017. As a result, this affected the contractor's critical path, as the temporary CSC had to be completed for SAPS to move into so that works could commence on the main police station building.</p> <p>The claim was approved by the delegated official with cost</p>	119 days	R 1 272 986.32
2	<p><b><u>Claim 2</u></b></p> <p>The main parking area for the South African Police Services was programmed to begin on the 01 March 2017 concurrently with the New police alterations, which is, listed as item no 97 on RGZ projects baseline program. (4x) prefabs were located in the area, which could not be removed by the contractor as the border police members occupied them.</p> <p>Border police members only vacated these prefabs (Cabins) on the 31 March 2017. The Contractor was unable to demolish these structures as they had items belonging to SAPS. The items were</p>	73 Days	R 780 909.19

<b>Claim No.</b>	<b>Reason for the delay as per the request for extension and Memos.</b>	<b>No of days</b>	<b>Financial impact</b>
	only removed on the 10 <sup>th</sup> of May 2017. The confirmation for the contractor to demolish these structures was issued on 22 June 2017.  The claim was approved by the delegated official with cost		
3	<p><b><u>Claim 3</u></b></p> <p>RGZ Projects experienced a delay in gaining access to the police station because of the following:</p> <ul style="list-style-type: none"> <li>• A delay in the installation of the overhead Telkom cables to the temporary park homes. This was beyond the control of the contractor.</li> <li>• The SAPS requested the tyre stores building to be converted to a temporary exhibit store for the SAPS13 items, with a fire arm safe</li> <li>• When repairs commenced to the exhibit stores building, it was determined that the most feasible option would be to demolish and rebuild it. The amount of repair work that needed to be done to get the building back to the standard required by SAPS was going to be a lot more expensive and time consuming.</li> <li>• The contractor gained access to the police station on the 26 September 2017. As a result, the contractor was delayed by 24 days by not gaining access on the 23 August 2017.</li> </ul>	24 Days	R299 200.84
6	<p><b><u>Claim 6</u></b></p> <p>The contractor baseline program scheduled the renovations to the existing cell to commence on the 25<sup>th</sup> April 2017. However, this date was not achieved because of the delay by SAPS in moving SAP13 items from the cellblock.</p>	80 Days	R990 634
8	<p><b><u>Claim 8</u></b></p> <p>Extension of time claim no 8 also resulted due to SAPS unable to give possession of old cellblock to contractor on the due date as per contract programme. Operation to move SAPS was highlighted to SAPS in August 2018. SAPS were to move inmates to Hluhluwe SAPS for the contractor to gain access to old cellblock to be converted to stores building. SAPS indicated on the 23rd March 2019 via email that it is not practical to move inmates from existing cell block to another location. Client (SAPS) has been consistently reminded to vacate site.</p>	72 Days	R856 778
<b>Total</b>		368 days	R4 200 508.47
<p><b><u>Auditors comment:</u></b></p> <p>As per inspection of the minutes held on site for progress and technical meetings, it was noted that the client department representatives (SAPS) are part of the progress meeting and the works program plans were communicated well in advance.</p> <p>In accordance to the JBCC:</p>			

Claim No.	Reason for the delay as per the request for extension and Memos.	No of days	Financial impact
29.2	<p>The circumstances for which the contractor is entitled to a revision of the date for practical completion and for which revision the principal agent shall adjust the contract value in terms of 32.12 are delays to practical completion caused by:</p> <p>29.2.1 Failure to give possession of the site to the contractor in terms of 15.2.1.</p> <p>Based on the assessment of the reasons provided for these extension of time with costs, we have noted that the contractor was within their rights to make a claim with costs as a result of SAPS not given site as and when required.</p> <p>The claims with costs or not giving possession to site to the contractor should have been avoided had reasonable care been taken as SAPS attended the site progress meetings and was aware of the contractors works program ahead of and should have made the site available. There is no value for money in the amount paid to date as no benefits were received.</p> <p>Furthermore, as the extension of time was above the approval level of the director projects it was then approved by DDG CPM and it was noted that the made comments that this should be avoided.</p> <p>This amount is considered to be fruitless and wasteful expenditure, however it will follow the similar process of who caused it and as such it should be disclosed in the books of SAPS</p>		

### **Impact of the finding**

- Non-compliance with the PFMA sections 38
- Possible fruitless and wasteful expenditure to the amount of R4 200 508.47
- The expenditure paid in vain which could have been avoided will result in fruitless and wasteful expenditure.

### **Internal control deficiency**

#### *Leadership*

Management did not exercise oversight responsibility regarding financial, performance reporting, compliance, and related internal controls.

#### *Financial and Performance Management*

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

The client failed to vacate the premises or building on numerous occasions to allow the contractor access to the site to fulfil their obligations, which will resulted in the financial loss for the entity.

### **Recommendation**

It is recommended that management should ensure the entity complies with all applicable laws and regulations.

It is recommended that management should ensure the contractor has full access to the construction

Sites on the due date as per the contractor's program to avoid any delays and costs associated with the delays which could have been avoided had reasonable care been exercised.

The fruitless and wasteful expenditure assessment should be conducted to identify expenditures that could have been avoided by the entity.

**Management response:**

**Auditor's conclusion**

**Nature**

Project number **WCS 050034** was awarded to Xiluva Xa Mina Projects cc as at 10 May 2018 (Date of Site Hand Over) for the Rehabilitation of Old Bulwer Prison: Dartnell Street. The original contract period was for 25 months and the project expected date of completion being 10 June 2020 for a total contract value of R 47 718 7332,40 (Incl. VAT).

The JBCC 2000 Principal Building Agreement (Edition 4.1 of March 2005), approved by the Construction Industry Development Board is applicable to this contract as such all extension of time are governed by section 29. Extension of time were noted during the duration of the contract and were assessed by the audit team as indicated below.

Delays were experienced by the Contractor due to the site being closed by the local community as a result of demanding to be part of the 30% sub-contracting. Strikes / lockout happened on the following dates:

- 15 October 2018 – 22 October 2018 (6 working days)
- 15 January 2019 – 12 February 2019 (20 working days)

The above extension of time was approved with cost (P&Gs) to the amount of **R160 244.65**

**Auditor's comment:**

29.1 The circumstances for which the contractor is entitled to a revision of the date for practical completion and for which revision the principal agent shall not adjust the contract value in terms of 32.12 are delays to practical completion caused by:

29.1.4 Vis major, civil commotion, riot, strike or lockout.

Based on the JBCC Principal Agreement, any delays resulting from lockout does not attract the contract price adjustments with cost. Therefore, the extension with cost was **not** in line with JBCC as a result PMTE paid for no value. However, we have noted that management has commenced with the recovery process by notifying the contractor but at the date of this report, the amount has not been withheld on any progress payment certificate as the contractor is on negative payments.

### **Impact of the finding**

- Non-compliance with the PFMA sections 40(1)
- Fruitless and wasteful expenditure to the amount of **R160 244,65**
- The expenditure paid in vain which could have been avoided will result in fruitless and wasteful expenditure.

### **Internal control deficiency**

#### *Leadership*

Management did not exercise oversight responsibility regarding financial, performance reporting, compliance, and related internal controls.

#### *Financial and Performance Management*

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

Management has taken the proactive steps to recover the financial loss from the contractor.

### **Recommendation**

It is recommended that management should ensure the entity complies with all applicable laws and regulations.

It is recommended that management should conduct an investigation on all significantly delayed projects to determine the reasons for the delay as well as the financial loss incurred by the entity. The fruitless and wasteful expenditure assessment should be conducted to identify expenditures that could have been avoided by the entity.

#### **Management response:**

I am not in agreement with the finding of *Fruitless and Wasteful expenditure* as this was an oversight which was discovered before AG identified it. The matter was raised with the professional team and the principal agent was instructed to recover the amount on a recovery statement. However due to the contractor being on penalties the amount could not yet be recovered. It is intended for the amount to be recovered in future payment certificates or in the final account as the project is still ongoing.

### **Auditors' conclusion**

Management is in agreement that the payment made with regards to the extension of time claimed by the contractor was not according to the JBCC Principal Agreement, furthermore management indicated that this was as a result of lack of oversight with regards to what the contractor can claim against.

The amount is yet to be recovered from the contractor, upon recovery shall the client obtain approval to condone the amount to be recognised as fruitless and wasteful expenditure.

Based on the above, the finding remains and will be reported in the management report.

## **JOHANNESBURG REGION**

### **Nature**

During the audit of contract management, we noted that GVK Siya Zidlaphi & Associates JV (contractor) was awarded tender no.JHB19/20 for the Rehabilitation and Construction of the new Office Block at 85 Anderson Street (WCS 049343). The letter of acceptance was issued on 03 March 2020; however, the site handover only took place on the 11<sup>th</sup> of June 2020. To this end, the contract was granted an extension of time amounting to 65 days.

According to Contract Data: JBCC 2000 Principal Building Agreement (Edition4.1 of March 2005): dpw-04(EC) the following conditions were agreed to:

“15.1.4 Add 15.1.4 as follows:

An acceptable health and safety plan, required in terms of the Occupational Health and Safety Act, 1993 (Act 85 of 1993), within twenty-one (21) calendar days of commencement date

15.2.1 Under 41: Amend to read as follows:

Give the contractor possession of the site within ten (10) working days of the contractor complying with the terms 15.1.4”

## **29.0 REVISION OF DATE FOR PRACTICAL COMPLETION**

29.1 The circumstances for which the contractor is entitled to a revision of the date for practical completion and for which revision the principal agent shall not adjust the contract value in terms of 32.12 are delays to practical completion caused by:

29.1.4 Vis major, civil commotion, riot, strike or lockout.

29.2 The circumstances for which the contractor is entitled to a revision of the date for practical completion and for which revision the principal agent shall adjust the contract value in terms of 32.12 are delays to practical completion caused by:

29.2.1 Failure to give possession of the site to the contractor in terms of 15.2.1.

29.3 Further circumstances for which the contractor is entitled to a revision of the date for practical completion are delays to practical completion caused by any other cause beyond the contractor's reasonable control that could not have reasonably been anticipated and provided for.”

## **Issue 1**

The contractor was granted a total extension of time of 51 working days In terms of Clause 29.2.1 of the JBCC Principal Building Agreement (PBA), the delay was caused by failure to give possession of the site by the client.

Two events have resulted in a delay to the date for practical completion of the project.

- The National lockdown declared by the President of the Republic of South Africa (Level 5)
- The delay in the contractor being given site possession where the President announced that South Africans may not leave their homes from the 26th of March 2020 till 30th of April 2020.Although certain categories of people were exempt from the National Lockdown ,such categories did not include the Construction industry.(level 4)

The contractor claimed 26 working days (22 days under level 5 plus 4 days for late handover) without costs. The claim was based on an understanding that during alert level 5, the contract was force majeure i.e. neither the department nor contractor could fulfill their obligations towards the contract. In addition, the contractor claimed 4 days when the President moved the country to alert level 4 in order to cater for the time, which the employer was expected to arrange for site handover as per clause 15.2.1 of the contract.

On 23 April 2020, the President announced changes to the lockdown restrictions. These changes included the re-commencement of construction and was effective from 1 May 2020.Although the contractor did acknowledge that the president's announcement regarding construction was ambiguous, they were of the opinion that they should be granted site and commence with construction. To this end, the contractor claimed 25 working days with costs for the delay in site handover by the employer. The period claimed was from May 2020 up to date of site handover, 11 June 2020.

During our discussions with management, we noted that the Department of Public Works had not instituted a resumption of work for the employees under the Projects units. A memo was circulated to employees that work can resume under alert level 3 from 01 June 2020. The project manager was only then able to commence the planning to hand the site over to the contractor.

The total time preliminaries is R44 714 854, 49 divided by 702 working days =P&G Rate of R63 696, 37 per working day. Thus, the contractor was granted R3 248 514, 87 for delay in site handover.

### **Auditors comment:**

Through inspection of the reasons given for this claim, we have noted that the contractor was within their rights to make a claim for extension of time due to late handover of site. The initial 22 days under level 5 was which were claimed without cost in accordance with clause 29.1.4 were due to vis major and the additional 4 days under level 4 was as per clause 15.2.1 which allowed the employer 10 days to handover the site.

However, under alert level 4 the contractor expected site handover, which was not granted by the employer. In accordance with clause 29.2.1, the contractor claimed 25 working days with costs for late handover. The delay was due to Department of Public Works had not instituted a resumption of work for the employees under the Projects units. The approval of the claim for extension of time with costs is indicative that the department is in agreement with the contractor that they were supposed to handover site on alert level 4 however only handed it over under alert level 3.

## **Issue 2**

The contractor made an additional extension of time claim with costs. The extension was as a result of the delay in receiving the Construction work permit. A total of 14 working days was claimed in this regard. The delay occurred from 06/24/2020 to 07/14/2020. Claim 02 was in line with clauses 29.2, 29.3, 29.4 and 29.5 of the JBCC contract March, Edition 4.1. The claim amount was equal to 14days \*R63 696, 37per day = R891 749, 18.

#### **Auditors comment:**

Through inspection of the reasons given for this claim, we have noted that the contractor was within their rights to make a claim for extension of time with costs due. It is the responsibility of the employer to ensure that the construction permit is granted in order to allow the contractor to commence operation. However, the employer did not obtain the construction permit timely that resulted in the contractor not being able to work.

#### **Impact**

- Non-compliance with PMFA 45(a) and treasury regulation 8.1.1.
- Non-compliance with treasury regulation 9.1.1
- The expenditure paid in vain which could have been avoided will result in fruitless and wasteful expenditure of R4 140 264,05

#### **Internal control deficiency**

##### *Leadership*

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

##### *Financial and Performance Management*

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

All the necessary information required to execute the projects when not always submitted on time to the contractor to avoid delays, which will result in the financial loss for the entity.

Management has not taken the proactive steps to recover the financial loss from the responsible person where the penalty was paid to the contractor resulting from the delays.

#### **Recommendation**

It is recommended that management should ensure the entity complies with all applicable laws and regulations.

It is recommended that management should ensure:

- All projects are monitored regularly and all the necessary information and documents are provided to the supplier timeously to avoid delays.
- Access to the construction sites should be organized before the construction commence.

It is recommended that management should assess the reasons for the delays against the JBCC principal building agreement in order to avoid making unnecessary payments where the delays are covered under JBCC contract clause 29.1.

It is recommended that management should conduct an investigation on all significantly delayed projects to determine the reasons for the delay as well as the financial loss incurred by the entity. The fruitless and wasteful expenditure assessment should be conducted to identify expenditures that could have been avoided by the entity.

**Management Response:**

I am not in agreement with the finding because of the following reasons:

**Issue 1**

1. We dispute the view that the Department of Public Works and Infrastructure (DPWI) could have avoided these circumstances. The Covid-19 pandemic and its resultant regulations were beyond any individual's or department's control. DPWI was subject to National Government regulations (e.g. National Disaster Act). When these regulations were distributed, state organs had to first deliberate on the interpretation of those regulations, and how best to implement them. This exercise took three months before approvals could be granted to implement and action. The implementation by respective line managers and project managers also took time. This was further impacted by the pandemic as the emphasis (even under Level 4) from government was the safety of personnel from contracting the virus.

**Issue 2**

2. With respect to the Construction Permit, the Department was at the mercy of the Department of Labour, who themselves were struggling due to the effects of the pandemic and regulations. As a consequence the permit was issued late. It is incorrect to imply that the Department did not apply for the contract in a timely manner. The Department applied for the permit as soon as the contractor was appointed. It should be noted also that it is an inaccurate assumption that the permit could have been applied for before the appointment of the contractor because according to construction regulations (2014) clause 5(b) (ii), before the permit can be issued the Department of labour must vet the contractor and check their registration and good standing and this can only be done after the contractor has been appointed.
3. The Management of the Department of Public Works and Infrastructure (DPWI) does not subscribe to the Auditors notion that the cost incurred under the period of Level 5 and 4 of the COVID-19 pandemic as promulgated under the applicable Disaster Management Act should be regarded as Fruitless and Wasteful Expenditure under the books of DPWI because the reason for the delay was caused by the Department of Labour, unless the Auditors may come up with the reasonably practical example of the cause of action that DPWI Management would have done to cause the Department of Labour to expedite the issuing of the Permit on time within the confines of the JBCC.
4. Under normal circumstances delays of this nature can be mitigated. Unfortunately, the Department was dealing with these delays under extraordinary circumstance of the Covid-19 Pandemic.
5. In case the Auditors still insist that this expenditure is to be regarded as Fruitless and Wasteful Expenditure, then such reporting should be attributable to the books of the Department of Labour, where AGSA should then liaise with its counterpart who are auditing the books of the Department of Labour to audit this transaction from there.

**Auditor's conclusion**

## **Issue 1**

Management's response, however we are in disagreement for the following reasons.

Management has indicated the following key circumstances, which resulted in the delay:

1. Covid-19 pandemic and its resultant regulations were beyond any individual's or department's control.
2. The emphasis (even under Level 4) from government was the safety of personnel from contracting the virus.
3. The exercise to deliberate on the interpretation of those regulations and how best to implement them took three months before approvals could be granted to implement and action.
4. The implementation by respective line managers and project managers also took time.

Firstly, we should rule out point number 1 and 2. This is because both reasons relate to Vis major/ Force majeure, which include acts of God, acts of government, natural disasters, epidemics, pandemics and even war and terrorism. Any extension of time claim under these circumstances should be without cost as per JBCC 29.1.4.

Secondly, it is not arithmetically correct that it took three months before approvals could be granted to implement and action. This is because the president announced changes to the regulations on 23 April 2020 and management only granted approval for returning back to work on 1 June 2020. This was less than the three months indicated. The delay in issuing the return to work policy by a month resulted in the Department losing R3 248 514.

## **Issue 02**

In response to issue number 2, it is imperative to highlight key dates:

- Award date - 03 March 2020
- Contractor submission of OHS – 24 March 2020
- Expected date to hand over site – 07 April 2020
- Date which construction permit is expected – 07 April 2020
- Date of actual delivery of permit – 14 July 2020

Therefore, it took management more than 3 months to apply and obtain a permit. Even taking into account the impact of Covid, the extent of time was excessive. Furthermore, management has not been able to demonstrate when the application was sent to Department of Labour (DOL) in order to attribute the delay to DOL.

It is also important to note that Government Notice (dated July 2015) states that, "*a client who intends to have construction work carried out must at least within 30 days before that work is to be carried out apply to the Provincial director in writing for a construction work permit, if the intended construction works starts after 7<sup>th</sup> of August 2015, and the works contract is of a value exceeding one hundred and thirty million rand or CIDB grading level 9*"

## **Nature**

During the audit of contract management, we noted that Temi Construction (contractor) was awarded tender no.JHB 18/28 for the complete repairs and renovations of Randfontein military

base on 13 February 2020. The contract period was set for 18 months, with anticipated completion date of 25 August 2021.

We noted that the contractor submitted extension of time claim no.1 for 83 days due to "Delay in issuing of the construction permit by the department of labour".

In assessing this application, the project manager recommended 83 working days from the day the contractor was handed site, 25 February 2020 to 26 June 2020, with costs.

The days were recommended for approval as the contractor has complied with the conditions of Contract JBCC Clause 29.4.3, which requires extension of contract period claims to be submitted in writing within 20 days of the cause of the delay and the reason for the delay was beyond the contractors control.

As a result, the department incurred costs to the contractor to the value of R 1 827 308.91 for the delays.

### **Auditor's assessment**

Prior to entering the construction contract, the department was aware that a construction permit was required as per the OHS Act. Upon awarding of the contract, the department was supposed to arrange for a construction permit in a timely manner. Furthermore, on the date of site handover, it was the responsibility of the department to ensure that all relevant permits are in place to allow the contractor to carry out their tasks as per contract.

Therefore, the department ended up paying R 1 827 308 to the constructor while no construction was taking place i.e fruitless expenditure.

### **Impact**

- Non-compliance with PMFA 45(a) and treasury regulation 8.1.1.
- Non-compliance with treasury regulation 9.1.1
- The expenditure paid in vain which could have been avoided will result in fruitless and wasteful expenditure of R 1 827 308.91

### **Internal control deficiency**

#### *Leadership*

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

#### *Financial and Performance Management*

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

All the necessary permits required to execute the project were not submitted on time to the contractor to avoid delays, which will results in the financial loss for the entity.

Management has not taken the proactive steps to recover the financial loss from the responsible person where the penalty was paid to the contractor resulting from the delays.

### **Recommendation**

It is recommended that management should ensure the entity complies with all applicable laws and regulations.

It is recommended that management should ensure:

- All projects are monitored regularly and all the necessary information and documents are provided to the supplier timeously to avoid delays.
- Access to the construction sites should be organized before the construction commence.

It is recommended that management should assess the reasons for the delays against the JBCC principal building agreement in order to avoid making unnecessary payments where the delays are covered under JBCC contract clause 29.1.

It is recommended that management should conduct an investigation on all significantly delayed projects to determine the reasons for the delay as well as the financial loss incurred by the entity. The fruitless and wasteful expenditure assessment should be conducted to identify expenditures that could have been avoided by the entity.

**Management response:**

I am not in agreement with the finding because of the following reasons:

6. We dispute the view that DPWI could have avoided these circumstances for the following reasons;

- With regards to the Construction Permit, It is incorrect to imply that the Department did not apply for the contract in a timely manner. The Department applied for the permit as soon as the contractor was appointed. It should be noted also that it is an inaccurate assumption that the permit could have been applied for before the appointment of the contractor because according to construction regulations (2014) clause 5(b) (ii) before the permit can be issued the Department of Labour must vet the contractor and check their registration and good standing and this can only be done after the contractor has been appointed.
- It can also be noted that the Department did all it could and applied oversight on the whole application i.e., the Department did the application on 06/03/2022 and the Department of Labour only approved the submission on 23/06/2020. (See attached)
- The Covid-19 pandemic and its resultant regulations were beyond any individual's or department's control. DPWI was subject to National Government regulations (e.g. National Disaster Act). When these regulations were distributed, state organs had to first deliberate on the interpretation of those regulations, and how best to implement them. This exercise took three months before approvals could be granted to implement and action. The time taken by the respective Line Managers and Project Managers to implement the project needed some logistical arrangement to be made and was also impacted by the pandemic as the emphasis (even under Level 4) from government was the safety of personnel from contracting the virus.
- The Management of the Department of Public Works and Infrastructure (DPWI) does not subscribe to the Auditors notion that the cost incurred under the period of Level 5 and 4 of the COVID-19 pandemic as promulgated under the applicable Disaster Management Act should be regarded as Fruitless and Wasteful Expenditure under the books of DPWI because the reason for the delay was

caused by the Department of Labour, unless the Auditors may come up with the reasonably practical example of the cause of action that DPWI Management would have done to cause the Department of Labour to expedite the issuing of the Permit on time within the confines of the JBCC.

- Under normal circumstances delays of this nature can be mitigated. Unfortunately, the Department was dealing with these delays under extraordinary circumstance of the Covid-19 Pandemic.
- In case the Auditors still insist that this expenditure is to be regarded as Fruitless and Wasteful Expenditure, then such reporting should be attributable to the books of the Department of Labour, where AGSA should then liaise with its counterpart who are auditing the books of the Department of Labour to audit this transaction from there.

### **Auditor's conclusion**

Management's response is noted.

We wish to first highlight that within this 83 days which were granted with costs, is a period where the country was under hard lockdown (33 calendar days). During this period, all contracts would have been force majeure /vis major. Under such conditions, the JBCC does not allow extension of time with cost, however management did grant the extension with cost.

Furthermore, from the evidence provided, it is noted that the Department of Labour indicated that they only received your application of 11 June 2020, which is materially in contradiction to your assertion that the application was made on 06/03/2022.

Therefore the finding will remain

### **HEAD OFFICE REGION**

#### **Project number WSC no: 039808**

##### **Nature**

Project number WSC no: 039808 was awarded to Maseno General Trade (Pty) Ltd at 25 July 2017. (Date of letter of Acceptance) for the Ibolobedu Police Station :Repair & renovation ,conversion and construction of additional accommodation. The original contract period was 24 months and the project expected date of completion being 24 July 2019 for a total contract value of R92 970 095,46.

Refer the table below:

<b>Supplier: Maseno General Trade (Pty) Ltd WCS: 039808</b>			
5	<b>Claim 5</b>	16 Day	R102 216,16

	<p>The contractor requested for sixteen (16) working days, of which the Principal Agent has adjudicated and has recommended 16 working days based on the opinion that the circumstances were beyond the contractor's control. Extensions of time was a results of PMTE experienced a delay in issuing information to the contractor(Two and three bedroom houses as a temporary police station) compiled by project manager: Mr M. Mncwango, recommended by principle agent Mr Marius Swanepoel and approved by Director Projects: Mrs J. Masango as at 05/11/2020</p>		
	<p><b><u>Clause 29.2.4 of the JBCC 2000 Agreement Principal Building Agreement</u></b></p> <p>Based on clause 29.2 of JBCC 2000 Agreement Principal Building Agreement: Edition 4.1 of March 2005 " <i>The circumstances for which the contractor is entitled to a revision of the date for practical completion and for which revision the principal agent shall adjust the contract value</i>"</p> <p><i>29.2.4 Failure to issue or late issue of a contract instruction following a request from the contractor</i></p>		
	<p><b><u>Auditors comment:</u></b></p> <p>Based on auditors assessment the extensions of time was as a results of late submission of the information for the contractor and the extensions of time should be with cost, however cost should have been avoided.</p>		
<b>6</b>	<p><b><u>Claim 6</u></b></p> <p>The contractor requested for four (4) working days, of which the Principal Agent has adjudicated and has recommended 4 working days based on the opinion that the circumstances were beyond the contractor's control. Extensions of time was a results of rain preventing external site works due to muddy conditions compiled by project manager: Mr M. Mncwango, recommended by principle agent Mr Marius Swanepoel and approved by Director Projects: Mrs J. Masango as at 05/11/2020</p>	4 Days	R25 554,04
	<p><b><u>Clause 29.1.4 of the JBCC 2000 Agreement Principal Building Agreement</u></b></p> <p>Based on clause 29.0 of JBCC 2000 Agreement Principal Building Agreement: Edition 4.1 of March 2005 " <i>The circumstances for which the contractor is entitled to a revision of the date for practical completion and for which revision the principal agent shall not adjust the contract value</i>"</p> <p><i>29.1.4 Inclement weather</i></p>		
	<p><b><u>Auditors comment:</u></b></p> <p>Based on auditors assessment the extensions of time was as a results of heavy rainfalls and the extensions of time should be without cost.</p>		
	<b>TOTAL DELAYS</b>	20 Days	R127 770,20

## Impact of the finding

- Non-compliance with the PFMA sections 40(1)
- Possible fruitless and wasteful expenditure to the amount of R127 770.20
- The expenditure paid in vain which could have been avoided will result in fruitless and wasteful expenditure.

## Internal control deficiency

### Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

## *Financial and Performance Management*

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

### **Recommendation**

It is recommended that management should ensure the entity complies with all applicable laws and regulations.

It is recommended that management should ensure:

- All projects are monitored regularly and all the necessary information and documents are provided to the supplier timelyously to avoid delays.

It is recommended that management should assess the reasons for the delays against the JBCC contract in order to avoid making unnecessary payments were the delays are covered under JBCC contract clause 29.1.

It is recommended that management should conduct an investigation on all significantly delayed projects to determine the reasons for the delay as well as the financial loss incurred by the entity. The fruitless and wasteful expenditure assessment should be conducted to identify expenditures that could have been avoided by the entity.

It is recommended that management should assess the reasons for the delays against the JBCC contract in order to avoid making unnecessary payments were the delays are covered under JBCC contract clause 29.1.

### **Management response:**

I do not agree with the finding...

The delay in the issuing of the information was as a result of the omission of the temporary police station from the original project scope, which was then done as a VO. Due to site conditions (the initial plan was to move the user client around the site to the sides where the contractor would not be working and demolish and build partially in stages. However having assessed the site and workability it was decided that there would not be sufficient space to accommodate the user client, also, the health and safety of the occupants and the public would be at risk because of heavy machinery that is needed to demolish and do deep excavation), there were consultations with the user client, the space previously allocation as a temporary police station was not sufficient due to the fact that at the time the plan was based on the fact that the two houses, which were later converted to the temporary police station, were utilized as housing by the client. It was at the beginning of the contract that this option was available as there were no occupants at the time. and a new temporary police station was allocated under a VO. Please see VO motivation report attached, Annexure A – COFF 03

The extension was granted following unworkable site conditions caused by the rain, not the days when it was raining. Therefore this extension was for unfavorable site conditions and under clause 29.3, herein annexure C, as the extension was not for inclement weather but for site conditions. The wet conditions had a ripple effect that made the contractor unable to work in the days succeeding the rainy days.

### **Auditor's conclusion**

## **Claim 5**

Managements responses has been acknowledged, however management was expected to have put measures in place to avoid extensions of time, based on the internal letter from the principal agent the extension of time was adjudicated with the reason of PMTE experienced a delay in issuing information to the contractor(Two and three bedroom houses as a temporary police station)

## **Claim 6**

Managements responses has been acknowledged and based on the internal memorandum from the principal agent, the reasons for adjudications of extensions of time was due unworkable site conditions caused by the rain(Muddy conditions), therefore muddy conditions was as a result of weather conditions(Rain), in terms of JBCC 2000 Agreement Principal Building Agreement sub para 29.1.4 the extensions of time should with no cost

## **Overall conclusions**

Bases on auditor's assessment communication of audit finding remains and the amount of fruitless and wasteful expenditures must be disclosed accordingly, misstatement will be reported in the management report

## **Nature**

Project number WSC no: 047104 was awarded to Vorster & Brandt Inc at 18 March 2019. (Date of letter of Acceptance) for the Justice college, Upgrading and refurbishment The original contract period was 24 months and the project expected date of completion being 17 March 2021 for a total contract value of R 225 897 855,80.

Supplier : VORSTER & BRANDT INC WCS: 047104			
	<b><u>Claim 2</u></b>  Application for extension of contract period memo was compiled and supported by Project Manager Mr Musawenkosi Mncwango, verified and approved by D: Construction Management : T Mabaso 2021/09/01 with reason for extension is due to the delay in variation orders approval.		
	<b><u>Clause 29.2.10 of the JBCC 2000 Agreement Principal Building Agreement</u></b>  Based on clause 29.0 of JBCC 2000 Agreement Principal Building Agreement: Edition 4.1 of March 2005 " <i>The circumstances for which the contractor is entitled to a revision of the date for practical completion and for which revision the principal agent shall adjust the contract value</i> "  <i>29.2.2 Due execution of additional work for which the quality included in the bill of quantities is not sufficiently accurate.</i>	7 Days	R221 184,43
	<b><u>Auditors comment:</u></b>  Based on the reason for extension it is therefore PMTEs fault to have not approved the variation order on time, contractor was not going to work without guarantee of payments. This is an expenditure paid in vain and should have been avoided.		
3	<b><u>Claim 3</u></b>	15 Days	R380 885,88

	The contractor requested for fifteen (15) working days, of which the Principal Agent has adjudicated and has recommended 15 working days based on the opinion that the circumstances were beyond the contractor's control. Extensions of time was a results that the contractor was instructed to stop the construction in order to address the community unrest compiled and supported by Project Manager Mr Musawenkosi Mncwango, verified and approved by D: Construction Management : T Mabaso 2021/09/01		
<b><u>Clause 29.1.4 of the JBCC 2000 Agreement Principal Building Agreement</u></b>			
Based on clause 29.0 of JBCC 2000 Agreement Principal Building Agreement: Edition 4.1 of March 2005 " <i>The circumstances for which the contractor is entitled to a revision of the date for practical completion and for which revision the principal agent shall not adjust the contract value</i> "			
29.1.4 Vis Major, Civil commotion, riot, strike or lockout			
<b><u>Auditors comment:</u></b>			
Based on auditors assessment the extensions of time was as a results of community unrest "strike" and the extensions of time should be without cost.			
<b><u>Claim 4</u></b>			
The contractor requested for twenty-two (22) working days, of which the Principal Agent has adjudicated and has recommended 22 working days based on the opinion that the circumstances were beyond the contractor's control. Extensions of time was a results of Contractors sub contractors prevented to access the site by the community, compiled and supported by Project Manager Mr Musawenkosi Mncwango, verified and approved by D: Construction Management : T Mabaso 2021/09/01			
<b><u>Clause 29.1.4 of the JBCC 2000 Agreement Principal Building Agreement</u></b>			
4	Based on clause 29.0 of JBCC 2000 Agreement Principal Building Agreement: Edition 4.1 of March 2005 " <i>The circumstances for which the contractor is entitled to a revision of the date for practical completion and for which revision the principal agent shall not adjust the contract value</i> "	22 Days	R698 290,78
29.1.4 Vis Major, Civil commotion, riot, strike or lockout			
<b><u>Auditors comment:</u></b>			
Based on auditors assessment the extensions of time was as a results of community unrest "strike" and the extensions of time should be without cost.			
<b>TOTAL DELAYS</b>		37 Day	R1 300 361.09

## Impact of the finding

- Non-compliance with PMFA 45(a) and treasury regulation 8.1.1.
- Non-compliance with treasury regulation 9.1.1
- The expenditure paid in vain which could have been avoided will result in fruitless and wasteful expenditure of R1 300 361.09

## Internal control deficiency

### Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

## *Financial and Performance Management*

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

### **Recommendation**

It is recommended that management should ensure the entity complies with all applicable laws and regulations.

It is recommended that management should ensure:

- All projects are monitored regularly and all the necessary information and documents are provided to the supplier timeously to avoid delays.

It is recommended that management should conduct an investigation on all significantly delayed projects to determine the reasons for the delay as well as the financial loss incurred by the entity. The fruitless and wasteful expenditure assessment should be conducted to identify expenditures that could have been avoided by the entity.

It is recommended that management should assess the reasons for the delays against the JBCC contract in order to avoid making unnecessary payments were the delays are covered under JBCC contract clause 29.1.

### **Management response:**

I do not agree with the finding...

There were delays in the approval of VO1: Fencing. However the change in the scope of the fence as a result of VO1 pushed out the schedule as per the recommended number of days, 7 working days. The VO1 could not have been anticipated or avoided as the necessity to upgrade the type of security was necessitated by the site conditions evaluated at the time of site handover.

The community unrest mentioned in the EoT application is not a strike but is a result of the requirement of 30% community participation goal which has been an issue all over the country. In order to avoid violence, the contractor was issued an instruction to stop the work on site while the consultations with the community and its leadership were on going. The stoppage was as a result of an instruction by the PA/Client, so the clause applicable in this instance was 29.2.3

As mentioned above these conditions of community unrest are not catered and classified under 29.1.4, The contractor was granted extension with cost due to the fact there was cost implications as the contractor was already on site and the work was disrupted, unlike a strike or lockout where no cost is incurred as the site is closed completely or locked. In this case the site daily cost were still incurred as the contractor's internal staff and other subcontractors were still working, however the lockout of other contractors affected the construction schedule while the site daily cost were still incurred as it was not a total shut down of the site as it would be the case in a strike. The clause applicable in this instance was 29.3, herein annexure C, which caters for conditions other than the ones stipulated.

Please see adjudication report attached. Annexure A – COFF 04

### **Auditor's conclusion**

### **Claim 2**

Managements Reponses has been acknowledged, However auditors are of the view that prior to hand over certificates risk assessment should have been performed to eliminate further expenses to the contract as a results of extensions of time.

### **Claim 3 and 4**

Managements Reponses has been acknowledged, however auditors are of the view that community unrest is strike, as defined does not relates to 30% community participations hence the contractor was instructed to stop operations, the community unrest is closely related to the extensions of time that was adjudicated by the principal agent.

### **Overall conclusions**

Bases on auditor's assessment communication of audit finding remains and the amount of fruitless and wasteful expenditures must be disclosed accordingly, misstatement will be reported in the management report.

### **Variation Order**

#### **Requirements:**

- a) The Public Finance Management Act (PFMA) section 1 defines "fruitless and wasteful expenditure' as expenditure which was made in vain and would have been avoided had reasonable care been exercised..."
- b) The Public Finance Management Act (PFMA) section 76 (4) (c) state that: "*The accounting officer for a trading entity must ensure that the department has and maintains effective, efficient and transparent systems of financial and risk management and internal control and an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective...*"
- c) Public Finance Management Act (PFMA) section 38(1) (b) states that: "*The accounting officer for a trading entity is responsible for the effective, efficient, economical and transparent use of the resources of the trading entity...*"
- d) Public Finance Management Act section 38 (1) (c) (ii) states that "*The accounting officer for a, trading entity must take effective and appropriate steps to prevent unauthorized, irregular and fruitless and wasteful expenditure and losses resulting from criminal conduct*"
- e) Public Finance Management Act section 38 (1) (g) states that: "*The accounting officer must on discovery of fruitless and wasteful expenditure, immediately report, in writing, particulars of the expenditure to the relevant treasury...*"
- f) Public Finance Management Act section 38 (1)(h) states that: "*The accounting officer must take effective and appropriate disciplinary steps against any official in the service of the department or constitutional institution who makes or permits fruitless and wasteful expenditure...*"
- g) Public Finance Management Act section 40 (3)(b) states that: "*The annual report and audited financial statements must include particulars of fruitless and wasteful expenditure that occurred during the financial year and any disciplinary steps taken as a result of such fruitless and wasteful expenditure...*"

h) Treasury Regulation 8.1.1 state, “*The accounting officer of the institution must ensure that internal procedures and internal control measures were in place for the approval and processing of payments. These controls provided reasonable assurance that all expenditure is necessary, is appropriate, is paid promptly and is adequately recorded and reported on...*”

i) Treasury Regulation 9.1.1 state that “*The accounting officer of a trading entity must exercise all reasonable care to prevent and detect fruitless and wasteful expenditure and must, for this purpose, implement effective, efficient and transparent processes of financial and risk management...*”

## POLOKWANE REGION

### Nature

#### WCS: 039789

During the audit of the contract management for project with WCS No 039789, It was noted that two contractors were appointed to perform works on the Project 5 Star: Upgrading of police station and construction of additional offices (tender no: PLK 11/61).

The following contractors were appointed:

- Contractor 01: Dwelling Innovation – Appointed on 9 November 2011 and withdrew on 07 August 2013.
- Contractor 02: MUMS Business Enterprise was appointed on 24 February 2015, to complete the works of contractor 01.

The following approved variation order details were noted:

Variation order No	Details	Amount
No 2	<p>This was to approve works to be redone contractor 02 for works performed by contractor 01.</p> <ul style="list-style-type: none"><li>• The reason for the variation was that concrete slab for the three story single quarters building were cast by Contractor 01: Dwelling Innovation</li><li>• No electrical connection boxes were visible during electrical engineer re-measuring work for re-tendering by contractor 02: MUMS Business Enterprise.</li><li>• Additionally with start of work by Mums Business Enterprise, it was discovered that the electrical connection boxes for the lights were not positioned in the middle of the rooms according to the consultant's drawing.</li></ul>	R118 753.80

### Auditors assessment:

Based on the above variation:

- Management failed to hold consultants and project manager accountable for approving work that was unsatisfactorily / not of quality standards and not in accordance with the drawings of the consultants.
- This amount is fruitless and wasteful expenditure as reasonable care was not exercised and this expenditure could have been avoided had reasonable care and project management principles applied.

## **Cause**

- Inadequate and timely project management principles not implemented.
- Consultants did not act in the best interests of the Department, as there were approving payment certificates whilst being aware that the work completed is not of required standard not in accordance with the drawings.

## **Impact**

- Non-compliance with PFMA Section 38 and 44
- Non-compliance with Treasury Regulation 8.1.1
- Fruitless and wasteful expenditure amounting to R118 753.80.

## **Internal control deficiency**

### *Leadership*

Management did not exercise oversight responsibility regarding financial, performance reporting and compliance and related internal controls.

### *Financial and Performance Management*

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

Management has not taken the proactive steps to recover the financial loss from the first contractor.

## **Recommendation**

It is recommended that:

- The accounting officer should commission an investigation into the above mentioned project to determine the full extent of fruitless and wasteful expenditure incurred.
- Appropriate legal action should be taken against the first contractor to recover the amount paid for work not performed satisfactorily.
- Consequence management actions to be instituted against project managers that had to monitor deliverables of contractor in terms of the contract and that approved payment to the contractor for unsatisfactorily performance
- The roles of the consultants in failing to mitigate this risk should be investigated with a view to recover losses, where professional negligence is detected.
- Management must determine the total financial losses which were suffered by the department as a result of the above-mentioned irregularities. The workings must be submitted to the AGSA.
- Management should include the second contractor (MUMS Business Enterprise) and consultants to the list of non-performing suppliers.

## **Management response**

### **Management disagrees with the finding due the following reasons:**

1. The variation order mentioned fall under the remedial work's expenditure that are to be recovered from contractor 01.
2. The final account for contract 02 is completed, therefore it gives us an idea of how much is to be recovered from the first contractor.
3. The process to recover will start unfolding, firstly the final account will be submitted to departmental Chief Quantity Surveyor to be audited in checking accuracy of the close-up report.
4. When the CQS is done with auditing, is then close-up report will be taken to Legal section for recovery processes to unfold.
5. The legal services will advise in terms of the processes.

### **Auditor's conclusion**

Management comments noted. Management disagrees with the finding.

### **Auditors' assessment and conclusion**

- Although management asserts that the variation order mentioned falls under the remedial work expenditure that is to be recovered from contractor 01: *Dwellings Innovations CC*,
  - However to date management has not performed a feasibility assessment to determine the likelihood of recovery of expenditure incurred is recoverable.
- Additionally as per the definition of Fruitless expenditure, the expenditure was incurred was incurred in vain as reasonable had not been take to avoid the fruitless expenditure.
  - This was noted as the Consultants together with the Project Manager continued approving payment certificates whilst being aware that the work completed is not of required standard not in accordance with the initial drawings.

In conclusion, as per above auditors assessment, it is evident that the Entity incurred fruitless and wasteful expenditure that could have been avoided had reasonable care been applied prior to approving any payments to supplier.

Therefore finding the audit finding remains, and will be reported in management reported with related fruitless and wasteful expenditure assessment.

### **Limitation of scope**

## **Requirements**

Section 41 of the Public Finance Management Act (PFMA) 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 -

“(a) Any document, book or written or electronic record or information of the auditee or which reflects or may elucidate the business, financial results, financial position or performance of the auditee;

(b) Any of the assets of or under the control of the auditee; or

(c) Any staff member or representative of the auditee”

Section 40(1)(a) 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 in accordance with any prescribed norms and standards*.”

Section 9(1) and 9(2) of the Preferential Procurement Policy Framework Act, 2000: Preferential Procurement Regulations, 2017 states that;

9.(1) “*If feasible to subcontract for a contract above R30 million, an organ of state must apply subcontracting to advance designated groups*”

9.(2) “*If an organ of state applies subcontracting as contemplated in subregulation (1), the organ of state must advertise the tender with a specific tendering condition that the successful tenderer must subcontract a minimum of 30% of the value of the contract to-*”

Section 12(3) of the Preferential Procurement Policy Framework Act, 2000: Preferential Procurement Regulations, 2017 states that; “*A person awarded a contract may not subcontract more than 25% of the value of the contract to any other enterprise that does not have an equal or higher B-BBEE status level of contributor than the person concerned, unless the contract is subcontracted to an EME that has the capability and ability to execute the subcontract*”

## Nature

### Issue 1:

During the interim audit of contract management, the following information that was requested on the 02 March 2022 was not submitted for audit within the agreed upon timeframe and is still outstanding to date:

RFI no.	Information outstanding	RFI request date	RFI due date
RFI-03 Contract management	<u>WCS No: 037481:</u> Contract management information	02 March 2022	06 March 2022

### Impact of the finding

- Limitation of scope to ascertain whether management defined and implemented contract monitoring measures that are sufficient to ensure effective contract management.
- Non-compliance with the PFMA sections 40(1)(a) and section 41.
- Increased time spent to request and collect audit documentation may result in delays in finalising the audit and increase in the audit fee.

### Issue 2:

During the audit of procurement through competitive bidding, it was noted that that 30% of the contract awarded to LM Group will be sub-contracted to UMPHA Group and Sealamps Business Enterprise.

However, the BBBEE certificates for the subcontractors were not provided hence it could not be confirmed if the BBBEE status level of the sub-contractors was the same as that of the winning bidder (LM Group) or if the sub-contractor is an EME.

### Impact of the finding

- No BBBEE points can be awarded to the winning bidder, LM Group, since they did not provide the BBBEE certificates for the subcontractors, therefore resulting in an irregular awarding of the project.
- Non-compliance with PFMA sections 40(1)(a) and section 41.
- Non-compliance with Preferential Procurement Policy Framework Act, 2000: Preferential Procurement Regulations, 2017

## Internal control deficiency

### *Financial and performance management*

Management 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:

Management did not ensure compliance with internal controls regarding submission of information as requested by the AGSA within the agreed upon timeframe as per the engagement letter.

Officials within the department are not made aware of the audit process and importance of submitting accurate and complete information to the auditors within the required timeframe.

### **Recommendation**

It is recommended that:

- All information requested be provided to the AGSA within five days of the date of communication of finding.
- Officials within the entity to be made aware of the audit process and importance of submitting accurate and complete information to the auditors within the required timeframe.
- Management to ensure compliance with internal controls regarding the submission of information as requested by the AGSA within the agreed upon timeframe as per the engagement letter.

### **Management response:**

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

Management did not respond to the communication of finding, however partial information has been submitted, communication of audit finding remains because the following information is missing:

1. Default letter
2. Mora letters and warnings where applicable
3. Proof that applicable penalty was invoked where it is apparent that the supplier is not performing in accordance with the contract/ service level agreement
4. CPAP assessment and calculations at year end
5. Extensions of time
6. WCS reports to indicate
  - Authorized amount
  - Total expenditures amount
  - CPAP amount

### **EMERGING FINDINGS**

### **Pre-qualification Criteria**

## **Requirements:**

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

Section 38(1)(a)(iii) of the Public Finance Management Act states that: “*The accounting officer for a trading entity has and maintains an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective...*”

Section 38 (1) (c) (ii) of the PFMA states that: “*The accounting officer for a trading entity must take effective and appropriate steps to prevent unauthorized, irregular and fruitless and wasteful expenditure and losses resulting from criminal conduct*”

Preferential Procurement Regulation 01 definitions states that “*Acceptable tender means any tender which, in all respects, complies with the specifications and conditions of tender as set out in the tender document*”

Preferential Procurement Regulation 4(2) states: “*A tender that fails to meet any pre-qualifying criteria stipulated in the tender documents is an unacceptable tender.*”

Section 5(6) of the Implementation guide: Preferential Procurement Regulations 2017 states that,

“*Tenderers that do not meet the pre-qualification criteria stipulated in the tender document should be disqualified from further evaluation*”

Section 5 (10) of the Implementation guide: Preferential Procurement Regulations 2017 states that,

“*Where no tenderer meets prequalification criteria, the institution must cancel the tender; and must investigate the reasons for tenderers failing to meet prequalification criteria.*”

## **BLOEMFONTEIN REGION**

### **Audit finding**

During the audit of supply chain management for competitive bids, we noted that PA-04 (EC) : Notice and Invitation for tender number BL21/014 for the rendering of security services for 36 months period was advertised with the following pre-qualification criteria amongst other requirements:

- Submission of (PA -11) : Declaration of interest and Bidder's Past Supply Chain Management Practices

We noted that the winning bidder was not transparent in responding to the question on PA – 11 paragraph 3.11 - ” Do you or any of the directors / trustees / shareholders / members of the company have any interest in any other related companies whether or not they are bidding for this contract?”.

The winning bidder responded with a “No” on the question, however through inspection of the CSD report downloaded by the evaluation committee, we noted that the sole director of the company has interest in 5 other companies, of which some are involved in the security industry.

We further noted that the evaluation committee had flagged this bidder as non-responsive due to “false declaration” on PA-11, for not declaring all the other companies they have interest therein.

Based on the above, the winning bidder was supposed to be disqualified during the pre-qualification screening phase for not meeting the stipulated pre-qualifying criteria as per PA-04 (EC): Notice and Invitation and considered unacceptable tender.”

Below is the details of the awarded bidder:

No	Tender number	Project description	Supplier Name	Total value of the contract	Expenditure to date
1	BL21-014	Rendering of Security Services for 36 months period	Odieli Molelo Trading 822 CC	R6 463 764	R897 745

### **Impact of the finding**

- Non- compliance with Preferential Procurement Regulation 2017, paragraph 4(2).
- Non- compliance with paragraph 38(1)(a)(i) and (38(1)(c)(ii) of the Public Finance Management Act
- Irregular expenditure of R897 745 to date.

### **Internal control deficiency**

#### **Financial and Performance Management**

Management did not adequately review and monitor compliance with applicable laws and regulations relating to supply chain management.

During the competitive bid evaluation process, management did identify that the bidder has made a “false declaration” however this non-compliance was ignored because management were of the understanding that the bidders should only disclose “other related companies” who are providing a similar service/good.

### **Recommendation**

- It is recommended that management should enhance compliance procedures to ensure compliance with the applicable laws and regulations relating to supply chain management to ensure consistency in how all the bidders are assessed.
- Management should disclose the Irregular Expenditure limited to the amount paid

### **Management response:**

I do not agree with the finding...

The 1<sup>st</sup> evaluation report, dated 5 July 2021, was submitted to the RBAC and adjudicated on 17 August 2021. This submission was returned for corrections by the RBAC and thus not awarded as per PA12 dated 17 August 2021. One of the areas that had to be reviewed by the BEC as per RBAC instruction was that there must be “communicate with bidders especially because of the discrepancy between PA11 3.8 and DPW09. (Annexure B)

The BEC actioned this instruction from the RBAC, through the issue of a letter to the specific bidder (as indicated by the AGSA) being Odieile Molelo Trading 822 cc. The letter requested clarity regarding "tick" on the PA11 item 3.11 and was dated 19 August 2021. A response was received the same day where the bidder responded to request indicating the "tick" was incorrectly marked and the other company's details were provided. (Annexure C). This process was done in line with SCM Directive no 5: Communication with Service Providers during an Evaluation Process, with specific reference to items 2.2.2 and 2.2.3. (Annexure D)

The BEC submitted a new evaluation report dated 1 September 2021 to the RBAC and the RBAC adjudicated this report on 21 September 2021. An award letter was issued on 23 September 2021. (Annexure E)

The above is further supported by advise received from National Treasury dated 24 March 2021 reading as follow; " The intent of the bid document is to assist the accounting officer prevent the abuse of the supply chain system through the identification and management of any potential conflicts of interest that may arise. There is no conclusive answer that can be given because each disclose must be evaluated on its merits and on its impact on the procurement process at hand." (Ann F)

Although this office does not agree with the finding, it should be noted by the AGSA that SCM cir 185 of 2021 was issued addressing administrative matters. This will allow the department to correct some "Administrative compliance issues. Please refer to item 3.1.3 of the attached circular. Item 3.1.5 explains the criteria for a responsive tender in detail. This administrative error by the bidder would thus not impact on the responsiveness. (Annexure A)

### **Auditor's conclusion**

Management's response is noted.

However, we are in disagreement with the process that was followed by the BEC in seeking clarity.

The bidder clearly indicated by ticking "No" on question 3.11 that he has no interests in other companies .His position on the matter was further validated by leaving blank the subsequent question(3.11.1) which stated that "If so, furnish particulars:".

Although national treasury does allow the auditee to communicate with bidders during the evaluation state for seeking clarity, the changes that occurred after communication was held with the bidder are significant and unjustified.

We therefore maintain our position on the matter and thus disagree with management.

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### **Audit finding**

During the audit of supply chain management for quotation number G21/020; rendering of garden Maintenance services for a period of 36 months, we noted that the winning bidder was not transparent in declaring "other related companies" as per PA -11, paragraph 3.11. Based on inspection of the CSD report, it was noted that the bidder has 3 other companies he is involved in, which he did not disclose on PA -11.

Based on above, the bidder should have been disqualified for not being responsive.

Below is details of the winning bidder:

No	Tender number	Project description	Supplier Name	Contract value
1	Q21/020	Tseseng Magistrate Office: 36 months garden maintenance services	Phakela Industries	R 469 062

### **Impact of the finding**

- Non- compliance with Preferential Procurement Regulation 2017, paragraph 4(2).
- Non- compliance with paragraph 38(1)(a)(i) and (38(1)(c)(ii) of the Public Finance Management Act
- Irregular expenditure

### **Internal control deficiency**

#### Financial and Performance Management

Management did not adequately review and monitor compliance with applicable laws and regulations relating to supply chain management.

During the evaluation of quotations submitted, management did not cross-reference PA – 11 declarations to the CSD report in order to identify undisclosed interests.

### **Recommendation**

- It is recommended that management should enhance compliance procedures to ensure compliance with the applicable laws and regulations relating to supply chain management to ensure consistency in how all the bidders are assessed.
- Management should include the checking of CSD reports in their SCM compliance checklist to ensure that the supplier has been transparent in declaring other related companies.

### **Management response:**

I do not agree with the finding...

This office does not agree with the claim that no cross reference of the PA11 Item 3.11 was done regarding Quote (Q21/020). The CSD report at the time of evaluation did indicate the other entities, however on assessment it was noted that three provided services in the Accommodation and Food services, (not related to the required service, being Gardening services) and the other (Recommended bidder) related to construction. (Annexure A). The purpose of the declaration is to validate if there could potentially be conflict of interest from the bidder, where multiple offers is submitted under different names, resulting in limited competition in the market. In this case NONE of the other entities were invited to submit offers for this services and thus there was no conflict.

The above is further supported by advise received from National Treasury dated 24 March 2021 reading as follow; " The intent of the bid document is to assist the accounting officer prevent the abuse of the supply chain system through the identification and management of any potential conflicts of interest that may arise. There is no conclusive answer that can be

given because each disclose must be evaluated on its merits and on its impact on the procurement process at hand.” (Ann B)

The procurement process followed in this case was a normal quotation process, where 7 offers were received. This was after a list of possible suppliers were obtained from CSD in line with the current policy and business processes. The other bidders (6 out of 7) were non responsive due to issues related to the PA36 (Local Content) and the PA32 (Form of Offer), resulting in only the one bidder being responsive. (Ann C) As already indicated above the intent of this declaration is to identify possible misuse of the SCM system. As this was a “closed” quotation process (invitation only) the evaluation could identify that the other companies did not quotes for this service, nor were they part of the nomination list. (Ann D)

Although this office does not agree with the finding, it should be noted by the AGSA that SCM cir 185 of 2021 was issued addressing administrative matters. This will allow the department to correct some “Administrative compliance issues. Please refer to item 3.1.3 of the attached circular. Item 3.1.5 explains the criteria for a responsive tender in detail. This administrative error by the bidder would thus not impact on the responsiveness. (Annexure E)

### Auditor's conclusion

Management's response is noted.

Based our assessment, we are in disagreement. The reason for the disagreement is that the question as stated on paragraph 3.8 of the PA -11-declaration form does not specify that bidders should only declare companies, which are doing the same business as the bidding company.

## DURBAN REGION

### Background and Nature

During the audit of competitive bids, the following was noted during the procurement process to appoint Badul's Investments CC for the SASSA Verulam local office: Procurement of office accommodation and parking for a period of 5 years.

Event No.	Details
1	<p><b>SASSA: Verulam Local Office- Procurement of office accommodation and parking – DBN18/11/11</b></p> <p>On 18 January 2019, PMTE invited prospective bidders to tender for the procurement of office accommodation for SASSA: Verulam Local Office – <b>Tender DBN 18/11/11</b>.</p> <p>The requirements as per the advert, which closed on 12 February 2019 on the Government Tender Bulletin were as follows:</p> <ul style="list-style-type: none"><li>• Leasing of office accommodation of 832.44 m<sup>2</sup></li><li>• 27 parking bays;</li><li>• For a period of 5 years; and</li></ul> <p>On the Closing date of 12 February 2019 only 03 Number of tenders were received.</p>
2	<p><b>Pre- qualifying criteria</b></p>

	<p>Tender no: DBN18/11/11 stipulated the following <b>pre-qualification criteria</b> on the tender documents:</p> <ul style="list-style-type: none"> <li>• Bid offer must be properly received on the bid closing date and time specified on the invitation, fully completed and signed in ink.</li> <li>• The DPW-08(LS): Bid must be clearly completed by the bidder, with clear specification of the financial offer in terms of rental and tenant installation allowance offered by the bidder. The offer should be submitted as per the bid questionnaire which forms part of the bid documents.</li> <li>• Submission of applicable (PA-15.1, PA-15.2, and PA-15.3): Resolution by the legal Entity, or consortium/ joint venture, authorising a dedicated person(s) to sign documents on behalf of the firm/consortium/joint venture.</li> <li>• The building must be within the geographic boundaries specified in the bid documents</li> <li>• Submission of other compulsory returnable schedules/documents as per (PA-09(GS)): List of returnable documents</li> <li>• Submission of (PA-11): Declaration of interest and bidder's past supply chain management practices</li> <li>• Submission of (PA-29): Certificate of Independent Bid Determination</li> <li>• If the bidder is an agent, a copy of the mandate from the owner must be submitted with the bid documents or in case of a prospective buyer the signed purchase agreement must be submitted.</li> <li>• Scope of requirements to be signed and submitted.</li> <li>• Registration on National Treasury's Central Supplier Database (CSD)</li> <li>• Compliance with pre-qualification criteria for Preferential Procurement</li> <li>• Copy of title deed including the ID document of the property owner</li> <li>• Use of correction fluid is prohibited, it will lead to disqualification.</li> <li>• Draft floor layout plan drawn by a suitable registered professional architect with SACAP showing the accessibility aspects as per SANS 10400part A and S Zoning certificate to be submitted.</li> </ul> <p>The bid was evaluated according to the 80/20 preference points scoring system.</p> <p><b><u>Functionality criteria included the following amongst others</u></b></p> <ul style="list-style-type: none"> <li>• Location = 40</li> </ul> <p>The building should be located in the Verulam CBD as attached to the Google map, including public transport route and <b>appropriately zoned for offices</b>.</p>												
3	<p><b><u>RBEC Evaluation:</u></b></p> <p>Through inspection of the Regional Bid Evaluation Committee (RBEC) minutes of the meeting held in 26 April 2019, we confirmed the following:</p> <table border="1"> <thead> <tr> <th>No</th><th>Supplier</th><th>RBEC Assessment</th><th>Auditors Assessment</th></tr> </thead> <tbody> <tr> <td>1</td><td>Celsius-Fahrenteit Engineering Pty Ltd</td><td>*The bidder submitted all the required tender documents and met all the pre-qualifying criteria.</td><td>Performed a pre-qualification test and confirmed that all documents required as per the responsiveness criteria were submitted by the supplier.</td></tr> <tr> <td>2</td><td>Asmals' International Hardware Agencies</td><td>*PA-16 not signed *0-2 years which is compulsory not signed and CK documentation.</td><td>Performed a pre-qualification test and confirmed the following: *PA-16 not signed and witnessed. *Compulsory section of the DPW '08: bid offer was not completed and CK documentation.</td></tr> </tbody> </table>	No	Supplier	RBEC Assessment	Auditors Assessment	1	Celsius-Fahrenteit Engineering Pty Ltd	*The bidder submitted all the required tender documents and met all the pre-qualifying criteria.	Performed a pre-qualification test and confirmed that all documents required as per the responsiveness criteria were submitted by the supplier.	2	Asmals' International Hardware Agencies	*PA-16 not signed *0-2 years which is compulsory not signed and CK documentation.	Performed a pre-qualification test and confirmed the following: *PA-16 not signed and witnessed. *Compulsory section of the DPW '08: bid offer was not completed and CK documentation.
No	Supplier	RBEC Assessment	Auditors Assessment										
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2	Asmals' International Hardware Agencies	*PA-16 not signed *0-2 years which is compulsory not signed and CK documentation.	Performed a pre-qualification test and confirmed the following: *PA-16 not signed and witnessed. *Compulsory section of the DPW '08: bid offer was not completed and CK documentation.										

	3	Badul's Investments CC	* Zoning not attached * 3-6 years not completed into the tender document.	Performed a pre-qualification test and confirmed that the following: *Zoning not attached *3-6 year's compulsory section of the DPW 08: bid offer not completed into the tender document.
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Based on the above assessment, Celsius Fahrenteit Engineering was the only responsive bidder, and Asmals' International Hardware Agencies and Badul's Investments CC were non-responsive and therefore disqualified.

Celsius Fahrenteit Engineering Pty Ltd was therefore evaluated for functionality and met the minimum score of 70% and further evaluated for price and points which they also met as they were the only supplier left. The supplier was correctly recommended as the winning bidder by the RBEC on 26 April 2019.

Based on the auditor's assessment performed, we confirmed that Celsius Fahrenteit Engineering met all the pre-qualification criteria, functionality and price and points. Celsius Fahrenteit was then recommended for by the RBEC on 13 August 2019.

The Tender was awarded to Celsius Fahrenteit engineering Pty Ltd on the 27 August 2019. However, upon awarding of the tender, the bidder confirmed through an email on 27 August 2019 that the property that was tendered for was no longer available and an alternative site would be made available to the Department.

On 17 October 2019 the Evaluation Committee agreed that the offer of the alternative site be rejected as it was not part of the original bid and that the tender be cancelled for re advertisement.

*Based on the above, Celsius Fahrenteit was then disqualified from the tender process.*

		<b><u>Further evaluation of Non- Responsive bidders:</u></b>
	4	<p>A request for cancellation and re-advertisement of the tender was sent by the RBEC to NBAC on 14 December 2019.</p> <p>However NBAC: L rejected the request to cancel the tender on 06 March 2020 and proposed that the Evaluation Committee must re-evaluate the two bidders (Badul's Investments CC and Asmals International Hardware Agency) who were disqualified based on administrative responsiveness and they must be given another opportunity to submit that which is outstanding and re-evaluate.</p> <p>Through inspection of the email communications sent to the non-responsive bidders on 18 March 2020, confirmed that the bidders were requested to make available and sign all the outstanding documents at the site viewing. RBEC agreed that the members will conduct a site visit on the 2 properties and the bidders will be requested to submit the required documents on site. The site visit was scheduled for 18 June 2020 were both properties were viewed. Further confirmed through inspection that the non-responsive bidders did submit the documents that were outstanding.</p> <p>Based on the above, the two bidders were now evaluated further in terms functionality and PPR points.</p> <p>On 23 June 2020 a follow up RBEC meeting was held where members were made aware of a letter received from one of the bidders (Asmals' International Hardware Agencies CC) requesting to be excluded from the tender process going forward as the director of the company (Mr. Asmals') had passed away and the wife confirmed she would not be able to cope with all the requirements.</p> <p>The withdrawal of Asmals' International Hardware Agencies left the Department to conclude the tender process with Badul's Investments CC.</p>

5	<p><b><u>Conclusion on the winning bidder: Badul's Investments CC</u></b></p> <p>On 27 August 2020 Negotiations with the bidder was held via zoom. After negotiations the bidder requested for R160/m<sup>2</sup> excluding Vat for offices, parking will remain at R750 excluding Vat, operating costs will be removed and escalation will be 6.9% and the lease will be signed for a period of five (5) years.</p> <p>On 23 October 2020 the National Bid Adjudication Committee approved the recommended bidder (Badul's Investments CC ) with a total contract value of R12 152 786.15 based on the negotiated offers by the bidder.</p>

### **Auditor's assessment**

According to the Preferential Procurement Regulation 01 an acceptable tender is defined as any tender which, in all respects, complies with the specifications and conditions of tender as set out in the tender document.

Based on the PA04 Notice and Invitation communicated with prospective suppliers, a bidder is considered non-responsive should the pre-qualification criteria not be met.

According to the evaluation performed by the RBEC on the 29 April 2019, Badul's Investments CC failed to submit appropriate zoning documents and failed to complete the 3-6 year's compulsory section of the DPW 08: bid offer tender document, therefore resulting in Badul Investment not meeting two pre-qualifying criteria stipulated in the documents as per the Preferential Procurement Regulation 4(2). Therefore, based on the tender failing to meet pre-qualifying criteria stipulated in the tender documents it is considered an unacceptable tender in accordance with the Preferential Procurement Regulations.

Furthermore, the information not submitted impacts the compliance with the technical specifications of the tender as the information not submitted affects the bidder scoring during evaluation.

It was further noted that on 06 March 2020 the RBEC were referred back by the NBAC:L to request compulsory information previously not submitted by unacceptable bidders and re-evaluate based on the information to be submitted. However, based on having no tenders meeting prequalification criteria before the winning bidder was disqualified due to providing an alternative site, the auditee must cancel the tender; and must investigate the reasons for tenderers failing to meet prequalification criteria winning bidder being.

It is the auditee's common practice to implement disqualification of prospective bidders not meeting the pre-qualifying criteria on similar tenders. A reference is made to the Tender no. DBN 20/11/03: Procurement of alternative office accommodation and parking for SAPS for period of 5 years, where one bidder: Vascowiz Investments was disqualified for not completing the DPW-08 document fully and was subsequently not requested to re-submit and correct the stated document. Furthermore, it was noted that the Evaluation Committee that evaluated the mentioned tender is the same committee that evaluated the procurement of office accommodation and parking for SASSA tender.

Based on the above it is evident that evaluation process performed for the procurement of office accommodation and parking for SASSA is inconsistent with the auditee's common

practice. Which hinders on the transparency and fairness of the procurement system of the auditee as the decision made by NBAC: L is not consistent throughout all the tenders.

Therefore, as it the common practice to disqualify bidders who do not meet the pre-qualifying criteria, Badul's Investments CC should have remained disqualified and not evaluated further in terms of functionality and price. It is noted that the tender has already been cancelled before, however this does not take away the fact that the tender should have been cancelled and re-advertised in order to comply with the Preferential Procurement Regulations and the Public Finance Management Act enforcing fairness and transparency.

Some of the information that was not submitted by the supplier was critical in the functionality e.g. zoning certificate.

## **Impact**

- Irregular award of the contract to Badul's Investments CC (Pty) Ltd.
- Non-compliance with Preferential Procurement Regulation and PFMA.

## **Internal control deficiency**

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

#### **Reviewing and monitoring compliance with applicable laws and regulations.**

Management did not implement the procurement process in accordance with the mentioned Preferential Procurement Regulations. Furthermore, management did not ensure that it enforces and implements a procurement system that's fair and transparent.

### ***Leadership***

#### **Exercise oversight responsibility regarding financial, performance reporting, compliance, and related internal controls.**

Management did not provide adequate oversight over the procurement processes to ensure compliance to applicable SCM prescripts.

## **Recommendation**

It is recommended that:

Management to consider implementing and monitoring a consistent procurement process to enhance the prevention any non-compliance with PPPFA Regulations during evaluation of bids. This is to ensure that all pre-qualification evaluation criterion documented in the bid document are used and applied consistently throughout the evaluation and adjudication of all bids.

Management did to provide adequate oversight over the procurement processes to ensure compliance to applicable SCM prescripts

### **Management response:**

NBAC: L considered a number of facts before could consider requesting BEC to re-evaluate the two tenders.

NBAC: L considered the fact that there have been a number of court cases where bidders took government departments to court for the same reason of administratively disqualifying bidders.

"Millennium Waste Management (Pty) Ltd. v Chairperson of the Tender Board: Limpopo Province and Others (31/2007) [2007] ZASCA 165; [2007] SCA 165 (RSA); [2008] 2 All SA 145; 2008 (2) SA 481; 2008 (5) BCLR 508; 2008 (2) SA 481 (SCA) (29 November 2007)"

Administrative compliance usually entails complying conditions and requirements which are immaterial in so far as the ability to deliver on the technical specification of the tender is concerned.

The buildings offered by both bidders met all the requirements as stated in the advert.

NBAC: L also considered the fact that the region went out on tender for the third time for the same requirement/need.

It can't be correct that AGSA compares tender **DBN18/11/11** with other tenders. Tender **DBN18/11/11** was dealt with on its merit, considering the need for accommodation by SASSA in Verulam and the time it took DPWI to procure accommodation for SASSA.

When NBAC: L adjudicated on the matter also considered that National Treasury (NT) once rejected the request to support the cancellation of the tender as reasons provided by DPWI to cancel was administrative in nature and bidders could be requested to submit the missing information. Furthermore, NT indicated that it could not ascertain the reasons why DPWI could not request bidders to submit the missing information and continue with evaluation of the tender.

If this was not enough, NT wrote to DPWI informing the department that no bids must be disqualified administratively.

As a result DPWI promulgated circular no. 185 of 2021/2022 (Administrative requirements and communication with bidders during an evaluation process)

### Auditor's conclusion

#### **JOHANNESBURG REGION**

##### **Nature**

During the audit of tender number JHB 20/11 for the procurement of alternative office accommodation for the department of Mineral Resources in Johannesburg CBD, the following issues were noted, on the evaluation of the winning bidder:

##### **Issue 1**

We inspected PA – 04: Notice and Invitation to bid and noted that one of the responsiveness criteria is that "Bidders to score at least 50% on each functionality criteria"

We further inspected the two BEC minutes on the administration file and noted that the committee scored the bidder 0/5(0%) on functionality for not submitting their grading certificate.

Therefore, the bidder should have been disqualified for not being responsive.

##### **Issue 2**

We further noted that the following responsiveness criteria was included:

“Submission of applicable (PA -15.1, PA -15.2 , PA – 15.3) : Resolution by the Legal Entity, or consortium/ joint venture, authorizing a dedicated person(s) to sign documents on behalf of the firm/ consortium/ joint venture”

During the evaluation of the bidder’s PA 15.1, we noted the following matters:

1. The PA15.1 is not fully complete.
2. Paragraph 2, which requires the nominated authorized personnel to sign, was not completed.
3. Throughout the bid documents e.g. PA-11; we noted that both the authorized personnel as per PA 15.1 and the CFO of the company were completing the bid documents interchangeably.

Furthermore, it was noted that some bidders were disqualified for not submitting a fully complete PA 15.1. Therefore, the winning bidder was supposed to be disqualified as non-responsive.

### **Issue 3**

We noted that the bidder submitted two letters on which they declared the following people are authorized to sign the bid/tender and complete all other documents relating to the bid/tender:

Tebogo Mogashoa – Director  
Henk Kopper - CFO

During the evaluation of the bidder’s sworn affidavit - BEE certificate, we noted that the two authorized individuals acted as deponent and commissioner of oaths respectively.

According to the commissioner of oath guidelines:

“A Commissioner of Oaths is not allowed to administer an oath or affirmation relating to a matter in which he or she has an interest. The reason is that a person attesting an affidavit should be unbiased and impartial in relation to the matter contained in the affidavit for the deponent to be free from any influence on the subject matter of the affidavit.”

Therefore, the commissioner of oaths being the authorized person to complete the bid documents and the CFO of the company had a material conflict of interest. Thus rendering the sworn affidavit invalid and the bidder non-responsive.

### **Issue 4**

We noted that PA – 04: Notice and Invitation included the following responsiveness criteria:

“Submission of (PA-11): Declaration of interest and Bidder’s Past Supply Chain Management Practices”

During the evaluation of the bidder’s PA 11, we noted the following matters:

1. Not all directors are declared on the form.
2. On the question 3.11 where the directors are asked to disclose all business we noted that only 2 companies are disclosed .However based on our inspection of the CSD

report and bizhub portal we noted that there are a lot of other companies not disclosed. See attachments.

3. The form also specifically stated that “Failure to complete this form in full and signed by the duly authorized person, as indicated on PA-15.1 shall render the tender non-responsive and will be removed from any further contention” :
  - 3.1 Upon inspection of the bidders PA -11 we noted that it was not authorized person, as indicated on PA-15.1 (Tebogo Mogashoa)

Furthermore, it was noted that some bidders were disqualified for not submitting a fully complete PA 11. Therefore, the winning bidder was supposed to be disqualified as non-responsive.

### **Impact**

- Non-compliance with PFMA 38(1) (a) (iii) and paragraph 38 (1) (c) (ii).
- Non-compliance with *Practice Note 7 of 2009/10 par 4.1.2* which would have resulted in the winning bidder being disqualified and considered non-responsive.
- The expenditure incurred to date on the contract is Irregular.

### **Internal control deficiency**

#### *Financial and Performance Management*

Management did not adequately review and monitor compliance with applicable laws and regulations relating to supply chain management policy.

The winning bidder's submission was not sufficiently inspected to ensure it complied with all the prescribed responsiveness criteria during the evaluation stage.

### **Recommendation**

It is recommended that management should enhance compliance procedures to ensure compliance with all prescribed laws and regulations.

Management should enhance the SCM compliance checklist by ensuring that the pre-qualifying checklist is reviewed to ensure that the reviewer will detect any matters, which the compiler might have missed.

Management should disclose the irregular expenditure.

### **Management response:**

I do not agree with the finding based on the following:

### **Issue No1**

We are not in agreement with the finding for the following reasons:

According to the approved procurement strategy, the bidders should score at least 50% on the total functionality criteria.

Insofar as the PA 04 has one of the responsiveness criteria that says “Bidders to score at least 50% on each functionality criteria”, the Bid Evaluation Committee (BEC) fairly followed the approved procurement strategy when evaluating all the bids.

So, the BEC did not disqualify any bidder based on the criteria as reflected on PA-4 as per the BEC Evaluation Report. (See attached ANNEXURE J & K)

### **Issue No 2**

We are not in agreement with the finding for the following reasons:

The PA 15.1 Resolution of Board of Directors page was signed by the Director. If it was not signed at all on the same page that you are enquiring then we could have agreed that it would render the Resolution as per PA-15.1 invalid. The BEC did not have such

Over and above the resolution as reflected on PA-15.1, the bidder also submitted their own Resolution as duly completed and signed by Board of Directors which is allowed on PA 15.1 Note. (See attached ANNEXURE K)

### **Issue No 3**

We are not in agreement with the finding for the following reasons:

The duties for Bid Evaluation Committee (BEC) is only to verify the validity of the Sworn Affidavit with a view to establish whether it was signed by both the Deponent and the Commissioner of oath and that it is not more than 12 months old. The BEC does not authenticate the validity of the signatories of the Sworn Affidavit because they do not have any technical skills, which may be defended with legal authority, if brought before the court of law. The authentication process may be done in the case of any suspicion of any foul play on the submitted Sworn Affidavit, something of which the BEC did not have such during the evaluating process then. (See attached POE 1, ANNEXURE I)

### **Issue No 4**

Par. 3.11 reads “Do you or any of the Directors/ Shareholders/ Members/ Trustees of the company have any of the interest in any other related company whether or not they are bidding for this contract” If so furnish particulars.

The bidders responded with “yes” and mentioned only 2 companies

Par. 3.11 does not mention that if so, mention all the companies the Directors are involved in. Please also take note that the CSD document that AGSA is comparing with was attached by the service provider of which we can't say they are misrepresenting. We may also assume that the bidder only provided companies which are more relevant to this contract.

Furthermore, in the case where the requested information may not have been disclosed in full in one of the tender documents, whereas the said information may have been provided and disclosed as part of the attached tender document, such information should be considered having been duly disclosed.

It should also be noted that there was no site-briefing conducted on this bid due to COVID 19 restrictions so that we as the Department could have explained to bidders what they should disclose and how they should disclose. Had there been the site briefing the Department should have-inter alia- advised them to disclose each and every company, instead of just assuming that they will know everything that is expected of them in this regard.

Therefore, in the name of fairness, for the mere fact that we did not conduct the site-briefing for the prospective bidders, it is imperative that we give bidders the benefit of the doubt on matters of this nature.

(See attached – ANNEXURE L)

Management did adequately review and monitor compliance with applicable laws and regulations relating to supply chain management policy.

Secondly, the winning bidder's submission was sufficiently inspected to ensure it complied with all the prescribed responsiveness criteria during the evaluation stage.

### **Auditor's conclusion**

Management response is noted, however the finding remains for the following reasons:

#### **Issue No1**

The approved procurement strategy is an internal document that does not reach the bidders. Therefore, the intention management had when compiling the strategy did not accurately pull through to the PA-04 advert. This resulted in a criteria being included which management had no intention of using. However, this criteria has influenced bidders responding to the advert and furthermore, the winning bidder did not meet this criteria.

#### **Issue No 2**

We agree that the Director signed the PA 15.1 Resolution of Board of Directors page. However the is a critical part that is not completed, this renders the document not fully complete. Furthermore, we have noted that management does disqualify bidders for similar offences.

#### **Issue No 3**

We note the limitations management encountered with regards to evaluating the validity of the BEE certificate. However, this does not negate the issue at hand which leads to the certificate is not valid.

#### **Issue No 4**

We reserve our response with regards to the question on paragraph 3.11 while we await legal advice.

## FINDINGS RELATING TO THE INFORMATION SYSTEMS AUDIT

### USER ACCESS MANAGEMENT

User access controls ensures 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.

Inadequate implementation of user access management controls around WCS system

#### Audit finding

The following deficiencies were noted with regards to the administration of user access controls on the WCS system:

During the audit it was noted that password reset for the user OPWBTW" was done on the 01/04/2021, however the password reset form was not provided.

Cognizance was taken of the fact that ICT Application Management division reminds all the managers and supervisors to review active user profile reports to confirm if users have the correct profiles aligned to their roles, however; evidence of the review performed by the managers and supervisors was not provided for audit purpose, thus assurance could not be provided on whether review were performed by the managers and supervisors.

It was noted during the audit that there were three user IDs/user accounts that were duplicated and shared by different users the accounts were as follows:

The following users shared user ID OPW000:

- Dimitri Georgedes
- System administrator

The following users shared user ID OPW001:

- Namhla Mayekiso
- System administrator

Findings relating to user profile reviews is a repeat finding as it has been raised in 2020-21 financial year audit.

#### Risk

Lack of formally communicated requests for password resets could result in unauthorised and fraudulent transactions being processed.

Failure to ensure that user access rights are regularly reviewed may lead to the inability to detect users that have inappropriate access rights, which may lead to the performance of functions that are not commensurate with those user's job functions, which may lead to unauthorised transactions compromising the integrity and availability of financial information.

Duplication of user IDs makes it impossible to apportion accountability in the event when unauthorised or fraudulent transactions are processed. These could negatively impact data integrity of information systems.

## Internal control deficiency

Financial and performance management: Design and implement formal controls over IT systems:

There was no resource capacity to review the user profiles due to a huge number of users across the regions.

Lack of system control to restrict duplication of User ID.

## Recommendation

Management should ensure that:

Management should decentralise the user access management administration across the regions to enable the effectiveness of user profiles.

Management should ensure that users are created on the system after they have been authorised, furthermore the evidence of the authorisation should be filed and kept for audit purpose.

Management should ensure that the password reset are done by the system controller after they have been authorised, furthermore the evidence of the authorisation should be filed and kept for audit purpose.

Management should ensure that there are consequence management are implemented for the business supervisors that do not confirm the user profiles under them.

Management should ensure that each user is assigned with a unique user ID.

## Management response

Management comment on the audit finding: Management noted the finding.

User 23780223 does not exist hence password reset form cannot be provided. Users IDs on WCS start with OPW...

Communication has been send to business to facilitate the review of user access. POE attached.

The users on the finding are inactive and only the Administrator account is active.

OPW000 is used by System Administrator and it is active. Dimitri Georgedes's access was terminated in 2007/09/13, hence this is not a duplication.

OPW001 is used by System Administrator and it is active. Namhla Mayekiso's access was terminated in 2007/09/13, hence this is not a duplication.

User access accounts for Chris DeRidder was terminated in 2007/09/13, hence this is not a duplication.

User access accounts for Mahlaku Molete was terminated in 2007/09/13, hence this is not a duplication.

Management comment on internal control deficiencies:

Review the policy to allow System Admins to change their profile as part of the day to day system support. The control will be the periodic reviews of the Admin activities.						
Management comment on recommendation:						
Management notes the recommendation						
<p>Remedial action:</p> <table border="1"> <tr> <td>What actions will be taken?</td> <td>By whom?</td> <td>By when?</td> </tr> <tr> <td>Review the policy to allow Admins to change profiles. The control will be the periodic reviews of the Admin activities.</td> <td>Khathu Nekhumbe</td> <td>30 April 2022</td> </tr> </table>	What actions will be taken?	By whom?	By when?	Review the policy to allow Admins to change profiles. The control will be the periodic reviews of the Admin activities.	Khathu Nekhumbe	30 April 2022
What actions will be taken?	By whom?	By when?				
Review the policy to allow Admins to change profiles. The control will be the periodic reviews of the Admin activities.	Khathu Nekhumbe	30 April 2022				

#### Auditor's conclusion

The password reset form which was not provided for a specific user noted above was for OPWBTW. Thus the correct form was still not provided subsequent to the finding being raised thus the finding is not resolved.

Communication sent to business to facilitate the review of user access was noted, however the response by business management on the review was not obtained, therefore the finding will remain and management comments will be required from business.

According to the user list provided, the following users were found to be still active

OPW000

OPW001

Therefore, the finding on the duplication of those accounts will remain.

## **1.2 Inadequate implementation of user access management controls around WORX4U system**

### Audit finding

As previously reported in the 2020-21 financial year, the following deficiencies were noted with regards to the administration of user access controls on the WORX4U system:

The ICT Business Systems User Access Policies and Procedures refers to the process of access modification on page 8, paragraph 8.2 that “All changes/updates of user information/profile must be approved by line manager or director of the unit on the request form or by writing a letter/email”. However, system generated list of users who had their access modified during the period under review was not provided, consequently testing could not be performed to assess whether access modification was formally requested and approved prior to modifications being done by the system controller.

Cognizance was taken of the fact that ICT Application Management division reminds all the managers and supervisors to review active user profile reports to confirm if users have the correct profiles aligned to their roles. However, evidence of the review performed by the managers and supervisors was not provided for audit purpose, thus assurance could not be provided on whether reviews were performed by the managers and supervisors.

Process of review to monitor activities performed by the system administrator (such as user creation, user ID maintenance, allocation of functions and deletion of user accounts.) on the system was not performed due to system limitation, the system does not record any activities performed by the system administrator.

There was a generic account which was not renamed and linked to a specific user for accountability purposes. The details of the generic account are listed on the table below:

Username	Name	Captured date	Status
Admin	Admin	1900/01/02	Active

Reviews to monitor access and logon violations were not performed due to system limitation, the system does not record any failed login attempt.

### Risks

Failure to ensure that user access rights are regularly reviewed may lead to the inability to detect users that have inappropriate access rights, which may lead to the performance of functions that are not commensurate with those user's job functions, which may lead to unauthorised transactions compromising the integrity and availability of financial information.

Lack of reviews of system controller activities might result in unauthorised system activities such as creating of unauthorised user accounts, deleting or modifying information and unauthorised attempts to access the system may not be timely detected and resolved.

If user accounts were not linked to a specific user, it would make impossible to apportion accountability in the event that unauthorised or irregular transactions are processed. These could negatively impact data integrity of information systems.

Without the monitoring of access and logon violations, it may be difficult to assess the effectiveness of the security controls. Attempts to breach security may remain undetected, enabling knowledge of security loopholes to be exploited for malicious purposes.

#### Internal control deficiency

Financial and performance management: Design and implement formal controls over IT systems:

There was no resource capacity to review the user profiles due to a huge number of users across the regions.

Management did not in all instances implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support Information Systems Audit reporting.

The system does not record any activities performed by the system administrator, furthermore the system is in the process of being phased out through the implementation of Archibus.

Management oversight in ensuring that user ids are renamed and linked to specific user.

System limitation, the system is not recording any failed login attempt, furthermore the system is in the process of being phased out through the implementation of Archibus.

#### Recommendation

Management should ensure that:

Management should decentralise the user access management administration across the regions to enable the effectiveness of user profiles.

All information requested for audit purposes is submitted on time in line with the agreed turnaround times.

The list of user ids on the system are reviewed to ascertain whether each user-id is linked to a specific user and that key system accounts are renamed so that they remain protected.

Management should speed up full migration to Archibus system. Furthermore, verifications should be performed on the system to ensure that the control on the system allows for /is conducive to effectively record of all the activities performed on the system e.g., the implementation of audit logs/ audit trails such as the list of new users created, list of password resets, list of amendment of functions, activities of system administrator, access and logon violation etc.

#### Management response

Management comment on the audit finding: Management does not agree with the finding.

POEs for the 11 sample users were provided to the AG. Please see attached Worx4u User Forms POEs.

No user amendments requests were received by ICT in the period under review. Please see attached Worx4u Modification or Access Change POE as provided to the AG.

Communication has been send to business to facilitate the review of user access. See attached POE

Admin account has been assigned to a resource within ICT and it cannot be renamed due to the system requiring this admin account to function.

Management agrees with the following:

Process of review to monitor activities performed by the system administrator (such as user creation, user ID maintenance, allocation of functions and deletion of user accounts.) on the system was not performed due to system limitation, the system does not record any activities performed by the system administrator.

Reviews to monitor access and logon violations were not performed due to system limitation.

Management comment on internal control deficiencies:

Management notes that AGSA is aware that the Woerx4U system is in the process of being phased out through the implementation of Archibus.

It is important to note that 10/11 regional offices have been migrated to Archibus and currently only 1 regional office is outstanding.

Management comment on recommendation: Management agrees to facilitate through Management notes the recommendations and further confirms that DPWI is in the process the migration of the remaining region to Archibus.

Remedial action:

What actions will be taken?	By whom?	By when?
Fast track the migration to Archibus	Mr Khathu Nekhumbe	31 March 2023

#### Auditor's conclusion

User creation request forms were provided and therefore the finding will be removed.

Management comment on amendments on user profile was noted and the finding will be removed.

Communication sent to business to facilitate the review of user access was noted, however the response by business management on the review was not obtained, therefore the finding will remain and management comments will be required from the business.

Management comment on the admin account was noted, however.

Management comments on the review of system controller's activities and logon violations were noted and corrective controls will be reviewed on the next audit cycle.

## **Inadequate implementation of user access management controls around SAGE X3 system**

### Audit finding

As previously reported in the 2020-21 financial year, the following deficiencies were noted with regards to the administration of user access controls on the Sage X3 system:

Although reminders were sent to line managers to review user access rights on different business systems, there was no evidence in place to confirm that the managers confirmed if the user access rights were still in alignment with their job responsibilities.

There was one generic user ID named "SYS7" on the SAGE system and the account was found to be active.

### Risk

Failure to ensure that user access rights are regularly reviewed may lead to the inability to detect users that have inappropriate access rights, which may lead to the performance of functions that are not commensurate with those user's job functions, which may lead to unauthorised transactions compromising the integrity and availability of financial information.

If user accounts were not linked to a specific user, it would make impossible to apportion accountability in the event that unauthorised or irregular transactions are processed. These could negatively impact data integrity of information systems.

### Internal control deficiency

Financial and performance management: Design and implement formal controls over IT systems:

There was no resource capacity to review the user profiles due to a huge number of users across the regions.

Management oversight in ensuring that user ids are renamed and linked to specific user.

### Recommendation

Management should decentralise the user access management administration across the regions to enable the effectiveness of user profiles.

Management should ensure that the list of user ids on the system are reviewed to ascertain whether each user-id is linked to a specific user and that key system accounts are renamed so that they remain protected.

### Management response

Management comment on the audit finding: Management noted the finding.
Communication has been sent to business to facilitate the review of user access. See Attached POE
Management comment on internal control deficiencies: Not provided.

management comment on recommendation: Not provided.
Remedial action: Not provided.
What actions will be taken?      By whom?      By when?

#### Auditor's conclusion

Communication sent to business to facilitate the review of user access was noted, however the response by business management on the review was not obtained, therefore the finding will remain and management comments will be required from business.

Inadequate implementation of user access management controls around GIS system

#### Audit finding

As previously reported in the 2020-21 financial year the following deficiencies were noted with regards to the administration of user access controls on the GIS system:

The ICT Business Systems User Access Policies and Procedures refers to the process of access modification on page 8, paragraph 8.2 that "All changes/updates of user information/profile must be approved by line manager or director of the unit on the request form or by writing a letter/email " however testing of change of existing access/access modification on GIS could not be assessed as, the system generated list of all user access modifications performed during the period under review could not be obtained due to system limitation.

The ICT Business Systems User Access Policies and Procedures refers to the process of password reset on page 8, paragraph 8.2, testing of password resets on GIS could not be assessed as the system generated list of all password resets performed during the period under review could not be obtained due to system limitation.

Cognizance was taken of the fact that ICT Application Management reminds all the managers and supervisors to review active user profile reports to confirm if users have the correct profiles aligned to their roles, however evidence of the review performed by the managers and supervisors was not provided for audit purpose, thus assurance could not be provided on whether review were performed by the managers and supervisors.

The ICT Business Systems User Access Policies and Procedures refers to the process of review of system administrator/controller activities on Page 12, Par 8.7 that "access management will institute a review of system administrator/controller activities at least twice a year, for any seriously suspicious behaviour or critical events must be assessed and acted on' However reviews were not performed to monitor activities (such as user creation, user ID maintenance, allocation of functions and deletion of user accounts.) that were performed by the system controller on the system.

The ICT Business Systems User Access Policies and Procedures refers to the process of review of system administrator/controller activities on Page 13, par 9 that “The best practice for access management will institute a review of system access violation at least four times a year, for any suspicious behaviour or critical events must be assessed and acted on.” However, reviews were not performed to monitor access and logon violations on the system due to system limitation.

## Risk

If functions granted to a specific user are not recorded on the system and authorised, this can result in users having access rights, which are in excess of what is required to perform their job responsibilities. This increases the chances of irregularities being performed or unauthorised amendments being made.

Inadequate controls around the resetting of user passwords might result in unauthorised users being granted access to the system.

Failure to ensure that user access rights are regularly reviewed may lead to the inability to detect users that have inappropriate access rights, which may lead to the performance of functions that are not commensurate with those user's job functions, which may lead to unauthorised transactions compromising the integrity and availability of financial information.

Lack of regular reviews of system controller activities might result in unauthorised system activities such as creating of unauthorised user accounts, deleting or modifying information and unauthorised attempts to access the system may not be timely detected and resolved.

Without the monitoring of access and logon violations, it may be difficult to assess the effectiveness of the security controls. Attempts to breach security may remain undetected, enabling knowledge of security loopholes to be exploited for malicious purposes.

## Internal control deficiency

Financial and performance management: Design and implement formal controls over IT systems:

There was no resource capacity to review the user profiles due to a huge number of users across the regions.

System generated list of users who had their access modified, password reset, audit trail which details activities performed by system controller and failed logon violations could not be obtained due to system limitation.

Furthermore, the findings on the GIS system had not been resolved due to the fact that it is aged. The department has procured the services of a service provider to upgrade the system and an upgraded solution is still at testing phase.

## Recommendation

Management should expedite the implementation of any upgraded solution to address the legacy issues on the GIS system, management should also consider the inclusion their acceptance of the risks around the GIS system in the risk register for continuous monitoring and tracking.

Management should decentralise the user access management administration across the regions to enable the effectiveness of user profiles.

## Management response

Management comment on the audit finding: Management does not agree with finding on bullet 3

Communication has been send to business to facilitate the review of user access.

Management Agree with the following findings:

The ICT Business Systems User Access Policies and Procedures refers to the process of access modification that all changes/updates of user information/profile must be approved by line manager or director. Please see attached GIS Modification or Access Change.

ICT Business Systems User Access Policies and Procedures refers to the process of password reset. Please see attached GIS Password Reset.

Process of review to monitor activities performed by the system administrator (such as user creation, user ID maintenance, allocation of functions and deletion of user accounts.) on the system was not performed due to system limitation, the system does not record any activities performed by the system administrator. Please see attached GIS Admin Activity Review.

Reviews to monitor access and logon violations were not performed due to system limitation. Please see attached GIS Login Failed Attempts.

Management comment on internal control deficiencies:

Management has noted the deficiencies. A process is already underway to implement a solution that will enable the GIS physical verification system to mitigate the identified deficiencies.

Management comment on recommendation: Management notes the recommendations.

Remedial action:

What actions will be taken?

By whom?

By when?

Implement a solution that enable the GIS Physical verification system allow the following;

the system generated list of all user access modifications performed.

system generated list of all password resets performed

log admin activities

Mr Khathu  
Nekhumbe/Mr Mobin  
Patel

31 March 2023

log logon violations		
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#### Auditor's conclusion

Communication sent to business to facilitate the review of user access was noted, however the response by business management on the review was not obtained, therefore the finding will remain and management comments will be required from business.

Management comments on the modification of user profile and password reset findings were noted, however the finding was relating to the system limitation on extracting the system generated lists and not the policies/procedures.

Management comments on the review of system controller's activities and logon violations were noted and corrective controls will be reviewed on the next audit cycle.

### **Inadequate implementation of user access management controls around PMIS system**

#### Audit finding

As previously reported in the 2020-21 financial year, the following deficiencies were noted with regards to the administration of user access controls on the PMIS system:

List of users who requested password resets during the period under review was not provided due to system limitation, consequently testing could not be performed to assess whether the controls around password resets was adequately implemented.

Cognizance was taken of the fact that ICT Application Management reminds all the managers and supervisors to review active user profile reports to confirm if users have the correct profiles aligned to their roles, however evidence of the review performed by the managers and supervisors was not provided for audit purpose, thus assurance could not be provided on whether review were performed by the managers and supervisors.

The ICT Business Systems User Access Policies and Procedures refers to the process of review of system administrator/controller activities on Page 13, par 9 that "The best practice for access management will institute a review of system access violation at least four times a year, for any suspicious behaviour or critical events must be assessed and acted on." However, reviews were not performed to monitor access and logon violations on the system due to system limitation.

Although management committed to perform regular review of system administrator activities which was implemented, however the control was not adequately performed as the reports did not detail admin activities performed by the system administrator such as user creation, user ID maintenance, and allocation of functions and deletion of user accounts.

#### Risk

Inadequate controls around the resetting of user passwords might result in unauthorised users being granted access to the system.

Failure to ensure that user access rights are regularly reviewed may lead to the inability to detect users that have inappropriate access rights, which may lead to the performance of functions that are not commensurate with those user's job functions, which may lead to unauthorised transactions compromising the integrity and availability of financial information.

Without the monitoring of access and logon violations, it may be difficult to assess the effectiveness of the security controls. Attempts to breach security may remain undetected, enabling knowledge of security loopholes to be exploited for malicious purposes.

Inadequate review of system controller activities might result in unauthorised system activities such as creating of unauthorised user accounts, deleting or modifying information and unauthorised attempts to access the system may not be timely detected and resolved.

#### Internal control deficiency

Financial and performance management: Design and implement formal controls over IT systems:

The system does not record system admin activities, login activities and password reset logs due to system limitation.

Lack of consequence management for non-compliance to the User Access Management policy requirements.

#### Recommendation

Management should ensure that:

Management should ensure that they liaise with the service provider to enable them to be able to access the reports that should be used for system controller activities reviews and login activities reviews.

Management should implement consequence management for non-compliance to the User Access Management policy requirements.

#### Management response

Management comment on the audit finding: Management noted the following findings:

List of users who requested password resets during the period under review. No password reset form were requested. Please see PMTE COFF 2 POE.

Communication has been sent to business to facilitate the review of user access.

Management agree with the following findings:

Monitoring and Logon violations were not performed due infrastructure limitations.

System administrator/controller activities were not recorded due to infrastructure.

Management comment on internal control deficiencies: Management has noted the deficiencies and is in the process to migrate the PMIS solution into a new environment that will enable the system to record admin activities, login activities and password reset logs.

Management comment on recommendation: Management notes the recommendations.

Remedial action:

What actions will be taken?	By whom?	By when?
Migrate system to new sever where the following will be addressed  to record admin activities, login activities and password reset logs	Mr Khathu Nekhumbe	31 June 2022

#### Auditor's conclusion

Evidence of the password reset was not included on the POEs, therefore the finding will remain.

Communication sent to business to facilitate the review of user access was noted, however the response by business management on the review was not obtained, therefore the finding will remain and management comments will be required from business.

#### **1.6. Inadequate implementation of user access management controls around ARCHIBUS system**

Deficiencies relating to the administration of user access controls on the ARCHIBUS system were raised since 2018-19 and there was no progress made in ensuring that the deficiencies identified in the previous years were remediated.

#### Audit finding

The following deficiency was noted with regards to the administration of user access controls on the ARCHIBUS system:

Cognizance was taken of the fact that ICT Application Management reminds all the managers and supervisors to review active user profile reports to confirm if users have the correct profiles aligned to their roles, however; evidence of the review performed by the managers and supervisors was not provided for audit purpose, thus assurance could not be provided on whether review were performed by the managers and supervisors.

#### Risk

Failure to ensure that user access rights are regularly reviewed may lead to the inability to detect users that have inappropriate access rights, which may lead to the performance of functions that are not commensurate with those user's job functions, which may lead to unauthorised transactions compromising the integrity and availability of financial information.

#### Internal control deficiency

Financial and performance management: Design and implement formal controls over IT systems:

Management is not responding with the required urgency to recommendations made in prior years on addressing risks and improving the internal control environment within IT. There was a lack of consequence management process to enforce accountability concerning failure to implement action plans.

#### Recommendation

Management should ensure that they develop and establish a consequence management process that will enforce accountability concerning failure in implementing action plans.

Management comment on audit finding: Management acknowledges the finding, however.

Management does not agree with the below finding

Although the control for monitoring and reviewing of system controller's activities was implemented and performed, however the control was not adequately performed as the reports did not detail admin activities performed by the system administrator such as user creation, user ID maintenance, allocation of functions and deletion of user accounts.

POEs provided for the following activities: user creation, user ID maintenance, allocation of functions and deletion of user accounts.

Management comment on internal control deficiencies: Noted.

Management comment on recommendation: Noted.

Remedial action:

Action Plan:	Name: Mr Khathu Nekhumbe	Date: 30 September 2022
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#### Auditor's conclusion

POEs provided were evaluated and the paragraph of monitoring and review of system controller's activities was removed. No evidence was provided for the reviews of the user active user profile reports, therefore the finding will remain.

## **PROGRAM CHANGE MANAGEMENT**

Program change management controls ensure that any proposed changes to an existing information systems environment would be coordinated, scheduled, authorised and tested to prevent unnecessary disruptions, erroneous changes and unauthorised and inappropriate access to programs.

As previously reported in the 2020-21 financial year, deficiencies were noted with regards to the program change management controls on the PMIS, WORX4U, SAGE, GIS, ARCHIBUS systems:

### **2.1 Inadequate implementation of change controls around PMIS, WORX4U, SAGE, GIS, ARCHIBUS and WCS**

#### **Audit finding**

The deficiencies noted with regards to the administration of the change management process were as follows:

Although page 59, paragraph ix of the policy stated that "A Change Management Log must be maintained for all changes. The log must contain, but is not limited to; Date of submission and date of change, Owner and custodian contact information, Nature of the change and Indication of success or failure," however system generated logs of all changes implemented on PMIS, WORX4U, SAGE, GIS, ARCHIBUS during the period under review was not provided due to system limitation, thus assurance could not be provided on whether all changes implemented on the systems followed a proper change management process (i.e. changes were formally requested, approved and tested prior implementation into production).

On the WCS system there was a change implemented on 14/12/2021 and through inspection of the change request documentation provided for this change it was noted that the documentation did not specify the person who requested the change and there was no evidence of authorisation of the change request.

#### **Risk**

Without the change logs it would be difficult to trace if any changes were made on the system, by whom and why the changes were required/needed and whether the change were properly authorised by management.

If changes are implemented on the system without the proper authorisation, this could compromise the integrity of data and systems.

#### **Internal control deficiency**

Financial and performance management: Design and implement formal controls over IT systems:

System limitations on GIS, SAGE, PMIS, WORX4U and ARCHIBUS resulted in the inability to obtain a system generated list of changes.

#### **Recommendation**

Management should ensure that:

Management should communicate their minimum security requirements on the system to the service providers and verifications should be performed by ICT to ensure that the controls on the system makes provision for activity logging, thus all changes made to the system should be logged preferably with the following details; change number, change description and change implementer. Furthermore, management should ensure that a proper change management process is followed for all changes/upgrades prior implementation. Management should ensure that change request documentations are completed and approved and appropriate tests are implemented prior to migration into production.

Management response

Management comment on the audit finding  Management noted the finding. All requested information on the stated systems was provided to the AG as part of the RFI. Please see attached POE.		
Management comment on internal control deficiencies: Noted		
Management comment on recommendation: Noted		
Remedial action:		
What actions will be taken?	By whom?	By when?

Auditor's conclusion

The evidence on Sage, EPWP, Worx4u, GIS were noted, however, evidence to substantiate that there were no changes on the systems was not provided. Therefore the finding will remain.

Evidence on the Archibus systems was reviewed and it was noted that there was system limitation, therefore the finding will remain.

## **IT service continuity**

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 IT continuity planning, disaster recovery plans and backups.

### **3.1 Ineffective implementation of the backup process on PMIS, WORX4U, SAGE, GIS, ARCHIBUS and WCS.**

#### **Audit finding**

As previously reported in the 2020-21 financial year, the following deficiencies were noted with regards to the IT Service Continuity controls:

Although evidence was provided to confirm that the data on PMIS, WORX4U, SAGE, ARCHIBUS and WCS was backed up, the evidence provided was only for the last quarter of the financial year thus there was no evidence to confirm that data was successfully backed throughout the financial year (i.e. 1 April 2021 to 31 March 2022.). For the GIS system it was indicated that the backups were performed by SITA however there was no corroborating audit evidence provided to confirm that the backups were performed.

There was no evidence to confirm that data restoration test were performed on GIS, WCS, PMIS and the Archibus system. Although a data restoration test was performed on the Sage system on 21/01/2022 it was noted that the restoration test on the “SAGEX3APP01PRD” server had failed and there was no evidence to confirm that the necessary investigation and remediation was performed to ensure the successful restoration of the data.

Evidence of the replication of the backups to the offsite storage location was not provided for audit purposes.

#### **Risk**

Failure to ensure that backups are effectively managed may result in the inability to recover critical information systems in the event of a disaster, which may lead to financial losses and reputational damage for the department.

Failure to ensure that regular restoration testing is performed by the department it may result in the inability to recover data that has been backed up, which may compromise the availability of financial information, leading to financial losses and reputational damage for the department.

#### **Internal control deficiency**

Financial and performance management: Design and implement formal controls over IT systems:

IT Service continuity management controls were not effectively implemented as the department was in the process of enhancing the backup management process. A service provider has been appointed to assist with the enhancement process and this Backup and Recovery project is currently at the planning stage of implementation. The department is waiting for the installation and configuration of hardware and software.

#### **Recommendation**

IT management should ensure that:

Backups are adequately performed in line with the department's Recovery Point Objective (RPO) and that evidence of the success/failure of backups performed is adequately maintained and documented; and

Regular restoration testing is performed and the results of the restoration testing are adequately documented.

The replication link between the primary and secondary data centre is adequately configured and that adequate documentation of the up-time of the replication link is maintained.

#### Management response

Management comment on the audit finding: Finding is acknowledged as evidence submitted was partial.		
Management comment on internal control deficiencies: The backups for WCS, PMIS, WORX4U, GIS, SAGE & ARCHIBUS have POE's for Q3 & Q4. During Q1 & 2 there were hardware and software challenges. The planning testing for those systems will be done accordingly as there is a working backup and recovery service implemented.		
Management comment on recommendation: The recommendation is noted and will be part of the remedial action.		
Remedial action: A process is available to run backups and do testing as required.		
What actions will be taken? All processes will be adhered to.	By whom? Pakiso Mphuthi	By when? September 2022

#### Auditor's conclusion

Management comments are noted and acknowledged. The action plans will be followed up during the 2022/23 audit and the outcome of the assessment will be communicated at completion of the audit.

## Operating leases application control review

### Accuracy, completeness and security of the interface between Archibus and Sage

#### Audit finding

There is an automated interface in place between Archibus and Sage using a Simple Object Access Protocol (SOAP) web service. We tested controls to verify the accuracy, completeness and security of transactions that interface between the two applications.

We obtained the Archibus Payments Enquiry report for November 2021 and the Sage Payment Report for the same month and noted that even though the record count matched, the total amount paid on Archibus and Sage reports had a difference of R126 300 812.25.

	Archibus Payment Enquiry Report	Sage Payment Report
Record count	6454 (with three transactions with 0 on amount paid), therefore 6451 transactions	6451
Control total	R452 169 269.41	R578 470 081.66

Management noted that they are aware of issues with the Sage payment report that seems to be reporting duplicated transactions and the vendor is already investigating for remediation.

Management further noted that due to this issue with the Sage payment report, they have implemented a Structured Query Language (SQL) script as a compensating control to verify whether the transactions interfaced correctly from Archibus to Sage on a month basis. We tested the results of the SQL query for November 2021 and confirmed that the SQL script results also had differences in terms of record count and control total when compared to the Archibus Payment Enquiry report as per table below.

	Archibus Payment Enquiry Report	SQL script results
Record count	6454 (with three transactions with 0 on amount paid), therefore 6451 transactions	3275
Control total	R452 169 269.41	R215 194 886.20

In addition, management was unable to provide evidence to illustrate that the automated interface is secure.

#### Risk

As a result, data in Archibus (source system) may not be accurately and completely reflected in Sage which may impact financial reporting. In addition, lack of secure controls over the interface may render it vulnerable to interception.

#### Internal control deficiency

There is a problem with the interface resulting in incorrect information between the two applications.

#### Recommendation

Management should engage the vendor responsible for the interface between Archibus and Sage to do a deep dive on all issues being experienced. Thereafter, management should design and implement controls such as a reconciliation to confirm accuracy and completeness of transactions between Archibus and Sage. In addition, management should investigate the reasons for the inaccurate information on the Sage payment report and resolve these as per the results of the investigation.

Management should implement security controls like encryption on the interface to ensure that information is not susceptible to being intercepted.

#### Management response

Management comment on the audit finding: Management partially agrees with the finding.

Management agrees with the finding around the Sage payment report. ICT is currently working with the Service Provider to improve the reporting and Payment Sync between Archibus and Sage.

Management does not agree with the below finding that indicates that management was unable to provide evidence to illustrate that the automated interface is secure.

The information was provided to AG.

Management comment on internal control deficiencies: Management agrees with the finding. ICT is currently working with the Service Provider to improve the reporting and Payment Sync between Archibus and Sage.

Management comment on recommendation: Management agrees with the finding. ICT is currently working with the Service Provider to improve the reporting and Payment Sync between Archibus and Sage.

Remedial action: To improve the Archibus Payment Inquiry report and Sage Archibus integration reports

What actions will be taken: Service Provider to make necessary enhancements on reports and Payment Sync tasks between Archibus and Sage.	By whom: ICT Applications	By when: 31 July 2022
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#### Auditor's conclusion

Management comments noted. Information relating to the security of the interface was provided to audit on 5 July 2022 and confirmation was provided to management that the evidence would be accepted and the related audit issue was removed from the list. Management comments for the rest of the finding noted and will be assessed upon completion of resolution.

#### Automated VAT verification process

## Audit finding

When a new lease is captured on Archibus, the capturer manually captures whether VAT is required to be levied or not based on Schedule B of the lease agreement. The Archibus system does not have a validation control in place to assess the supplier VAT status against SARS and or Central Customer Database (CSD).

## Risk

As a result, the manual capturing of VAT information may result in suppliers who are VAT registered not being charged VAT resulting in inaccurate payments of suppliers.

## Internal control deficiency

There is no automated VAT validation process implemented on the Archibus system.

## Recommendation

Management should implement an automated validation process against SARS and/or CSD to verify whether suppliers are VAT registered or not.

## Management response

### Management comment on the audit finding:

Management partially agrees with the finding.

It must be noted that Supplier details are managed on Sage and not Archibus

Sage system currently has an active interface with the CSD system. The CSD system is understood to already interface with SARS, so interfacing directly with SARS might be redundant.

VAT cannot be automatically calculated as not all leases can have VAT applied even if the landlord is VAT registered.

VAT levy is dependent on the service being rendered and not just on the supplier VAT registration status alone. Example: VAT cannot be charged on rental for residential properties (dwelling), VAT cannot be charged on interest for late payments etc.

Thus the only validation that can be implemented is to block VAT where the supplier is not VAT registered. We cannot enforce that all payments to VAT registered suppliers must have VAT. The landlord will notify the department if he does not receive the full rental, thus the risk of underpayments is reduced.

### Management comment on internal control deficiencies:

Management notes the AG comment however, VAT validation cannot be applied on Archibus as the Supplier information is maintained on SAGE.

### Management comment on recommendation:

Management notes the recommendation

### Remedial action:

REMS and Finance to provide requirements/process and/or procedures on;

<p>How the VAT validation process can be applied</p> <p>What services or transactions this must be validated on</p> <p>For ICT to develop and implement on the relevant systems.</p>		
What actions will be taken:  REMS and Finance to provide requirements/ process and/or procedures on;  How the VAT validation process can be applied  What services or transactions this must be validated on  For ICT to develop and implement on the relevant systems.	By whom:  Rosel Meyer, Rita Mc Sherry, Andre Joubert and Edward Nkuna	By when:  31/09/2023

#### Auditor's conclusion

Management comment noted and audit is in agreement that automatic VAT validation should be thoroughly investigated to ensure it is applied correctly. Management comment will be assessed upon completion of resolution.

## OPERATING LEASES DATA ANALYTICS

### Incomplete and inaccurate payment information between Archibus and Sage applications

#### Audit finding

There is an automated interface between the Archibus and Sage applications for the transfer of data between the two systems to ensure that they remain in sync. This includes ensuring that payment information is accurately and completely transferred from the Sage application to Archibus.

During the audit, the following payment differences between the Archibus and Sage applications were noted:

No	Date Paid	Payment Number	Sage Payment	Archibus Payment	Payment Variance
1.	2021/05/26	ZINTP2105S1001005362	2 311,33	1 600,08	711,25
2.	2021/12/06	ZINTP2112S1001000352	(814 632,25)	(1 206 208,49)	(391 576,24)
3.	2021/11/04	ZINTP2111S1001001007	20 548,17	(13 784,44)	6 763,73
4.	2022/02/02	ZINTP2201S1001004009	(1 340 805,70)	253 853,30	1 086 952,40
5.	2022/02/02	ZINTP2201S1001004010	(519 629,80)	11 923,20	507 706,60
6.	2021/09/29	ZINTR2109S1001000060	(1 582 380,34)	791 190,17	791 190,17
7.	2021/10/13	ZINTP2110S1001002835	(28 486 717,04)	(28 276 383,79)	210 333,25
8.	2021/07/13	ZINTP2107S1001002087	431 283,37	397 041,66	34 241,71
9.	2021/08/05	ZINTP2108S1001002844	(34 241,71)		34 241,71
10.	2021/08/10	ZINTP2108S1001003333	7 559,02	15 118,04	(7 559,02)
11.	2021/05/26	ZINTP2105S1001005362	8 835,77	6 117,27	2 718,50
12.	2021/05/26	ZINTP2105S1001005362	3 566,84	848,34	2 718,50
13.	2021/07/28	ZINTP2107S1001004068	65 632,66	83 638,46	18 005,80
14.	2021/10/05	ZINTP2110S1001000333	7 758,02	168 000,68	160 242,66
15.	2021/05/26	ZINTP2105S1001005362	13 194,60	15 787,35	2 592,75
16.	2021/10/05	ZINTP2110S1001000284	14 803,24	6 631,30	8 171,94
17.	2021/05/26	ZINTP2105S1001005362	8 427,39	5 834,64	2 592,75
18.	2021/12/03	ZINTP2112S1001000024	27 472,02	13 878,72	13 593,30

#### Risk

As a result, data in Archibus (source system) may not be accurately and completely reflected in Sage which may impact financial reporting.

#### Internal control deficiency

There is a persistent issue with the interface resulting in incorrect information being reported between the two applications.

## Recommendation

Management should engage the vendor responsible for the interface between Archibus and Sage to do a deep dive on all issues being experienced. Thereafter, management should design and implement controls such as a reconciliation to confirm accuracy and completeness of transactions between Archibus and Sage. In addition, management should investigate the reasons for the inaccurate information on the Sage payment report and resolve these as per the results of the investigation.

## Management response

Management comment on the audit finding: Management agrees with the finding.		
Management comment on internal control deficiencies: Management notes the finding. AG will also need to note that this is simply a reporting issue and the department is working to resolve the issue. It does not impact functionality of the system.		
Management comment on recommendation: ICT is currently working with the Service Provider to improve the reporting and Payment Sync from Sage to Archibus.		
Remedial action: To improve the Archibus Payment Inquiry report.		
What actions will be taken:  Service Provider to make necessary enhancements on reports and Payment Sync tasks from Sage to Archibus.	By whom:  Rita Mc Sherry and Rosel Meyers	By when:  31 November 2022

## Auditor's conclusion

Management comments noted. An assessment of corrective action agreed upon by management will be performed in the next audit cycle.

## **Lease payments made using invalid date – Repeat finding**

### **Audit finding**

Analysis of the Archibus Payment Enquiry report for the period 1 April 2021 to 31 March 2022 revealed that an invalid date which was not an official part of the financial year period was used to make a lease payment to the lessor. Our results identified a total of 38 transactions and 14 unique payment numbers with an invalid date. The following payments were identified using an invalid date

LandLord Name	Amount Expense - Total (Payment)	Date Paid	Payment Number	Cost Status
City of Tshwane Metropolitan Munici	1,01	1753/01/01	ZINTP1909S100100 1075	PAID
J Vermeulen	597,31	1753/01/01	ZINTP2009S100100 0157	PAID
J Vermeulen	597,31	1753/01/01	ZINTP2009S100100 0157	PAID
J Vermeulen	597,31	1753/01/01	ZINTP2009S100100 0157	PAID
J Vermeulen	597,31	1753/01/01	ZINTP2009S100100 0157	PAID
J Vermeulen	597,31	1753/01/01	ZINTP2009S100100 0157	PAID
J Vermeulen	597,31	1753/01/01	ZINTP2009S100100 0157	PAID
J Vermeulen	-13 000,00	1753/01/01	ZINTP2009S100100 0157	PAID
Medentco (Pty) Ltd	11 019,16	1753/01/01	ZINTP1909S100100 0682	PAID
Free Gold Properties	3,19	1753/01/01	ZINTP1909S100100 0170	PAID
Mankweng Tribal Authority	850	1753/01/01	ZINTP1909S100100 1163	PAID
Mankweng Tribal Authority	850	1753/01/01	ZINTP1909S100100 1163	PAID
Medentco (Pty) Ltd	26 676,80	1753/01/01	ZINTP1909S100100 0682	PAID
Medentco (Pty) Ltd	2 306,00	1753/01/01	ZINTP1909S100100 0682	PAID
Caroto	7 945,84	1753/01/01	ZINTP1909S100100 0684	PAID
Mbombela Local Municipality	5 400,00	1753/01/01	ZINTP1909S100100 0683	PAID
Sa Academy Science & Arts	8 759,40	1753/01/01	ZINTP1909S100100 1111	PAID
Absa Property Development	5 316,85	1753/01/01	ZINTP1909S100100 1131	PAID

Bester Sm	13 299,90	1753/01/01	ZINTP1909S1001000383	PAID
Bizzah Trust	66 520,47	1753/01/01	ZINTP1909S1001000681	PAID
Bizzah Trust	6 644,90	1753/01/01	ZINTP1909S1001000681	PAID
Bizzah Trust	3 232,80	1753/01/01	ZINTP1909S1001000681	PAID
City of Tshwane Metropolitan Munici	8 980,72	1753/01/01	ZINTP1909S1001001075	PAID
City of Tshwane Metropolitan Munici	1 015,84	1753/01/01	ZINTP1909S1001001075	PAID
Broll Property Group Pty Ltd -	96 913,52	1753/01/01	ZINTP1909S1001000680	PAID
Broll Property Group Pty Ltd -	6 622,07	1753/01/01	ZINTP1909S1001000680	PAID
Broll Property Group Pty Ltd -	18 171,27	1753/01/01	ZINTP1909S1001000680	PAID
Intersite Prop Mngmnt Services	45,83	1753/01/01	ZINTP1909S1001000169	PAID
Prasa (Passanger Rail Agency O	550	1753/01/01	ZINTP1909S1001000169	PAID
J Vermeulen	13 780,00	1753/01/01	ZINTP2009S1001000157	PAID
J Vermeulen	13 780,00	1753/01/01	ZINTP2009S1001000157	PAID
J Vermeulen	13 780,00	1753/01/01	ZINTP2009S1001000157	PAID
J Vermeulen	13 780,00	1753/01/01	ZINTP2009S1001000157	PAID
J Vermeulen	13 780,00	1753/01/01	ZINTP2009S1001000157	PAID
Factory Carpets Properties	810,22	1753/01/01	ZINTP1909S1001000587	PAID
Factory Carpets Properties	19 756,02	1753/01/01	ZINTP1909S1001000587	PAID
Medentco (Pty) Ltd	105 130,85	1753/01/01	ZINTP1909S1001000682	PAID

Management have noted that even though these transactions are indicated as "Paid" on the payment report, they were never submitted to Bankserv for payment however this information could not be corroborated by audit.

## Risk

This may lead to lease payments not accounted for in the correct financial year, therefore resulting in inaccurate reporting.

#### Internal control deficiency

Root cause is unclear even though management is of the view that this is due to the payments not being submitted to Bankserve and therefore not paid.

#### Recommendation

Management should investigate the root cause for the transactions being reflected as "Paid" when they have not been paid. Management to implement resolution based on the investigation to ensure that the "Cost Status" reports the correct payments status.

#### Management response

Management comment on the audit finding:

Management partially agrees with the finding.

It must be noted that the identified payments with the 1753-01-01 date are payments that did not clear. The date is a default clearing date if the payment was not picked up by the Bank. The accounting will be correct and the payment will appear in the correct period that it was intended for. It also be noted that the AG report has multiple duplicates which may seem that this affects a large number of payments when it only affects 14 payments as per the AG report.

Management comment on internal control deficiencies:

Management comment on recommendation:

Remedial action:

What actions will be taken: Investigate to ensure that the "Cost Status" reports the correct payments status.

By whom: Rita Mc Sherry,  
Thomas Seletela

By when:  
31 November 2022

#### Auditor's conclusion

Management comments noted. An assessment of corrective action agreed upon by management will be performed in the next audit cycle.

## **Lease payments made before the start date of the lease**

### Audit finding

Our analysis of the Archibus Payment Enquiry report identified that there were payments made to lessors before the start date of the lease. Our results identified 243 transactions (from 22 unique lease codes) that had payments made before the lease start date. Please refer to Annexure A for the results.

### Risk

This may result in invalid and unauthorised payments being made which may further result in revenue leakage for the PMTE.

### Internal control deficiency

The lease audit trail reveals that the start date for the leases was changed after payments were created.

### Recommendation

Management should implement an exception report that will identify any changes that have been made on lease information. In addition, this exception report should be reviewed by the relevant level of management to ensure that the changes are authorised.

### Management response

Management comment on the audit finding: Management does not agree with the finding.

The payment was not made before the lease start date, the lease start date was incorrectly amended the lease start to a later date. Please see attached POE.

Management also had meetings with the AG and explained that this is a data issue and not that payments were made before the lease start date. It would have been understandable for this finding to have been around data rather than how the finding currently reads especially with background provided during the meeting between AGSA and DPWI.

### Current Control

Management has implemented controls to prevent the lease start date from being modified to a date after the original start date.

Management is correcting the affected lease transactions to reflect the correct lease start date.

Management comment on internal control deficiencies:

Management comment on recommendation:

Remedial action:

What actions will be taken:	By whom:	By when:
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## Auditor's conclusion

Management comments noted. An assessment of corrective action agreed upon by management will be performed in the next audit cycle.

## Annexure A (Payment before lease start date)

No	Lease Code	Lease Start Date	Date Paid	Amount Expense - (Payment)	Total
1.	11842	2021/12/01	2021/04/08	25 787,03	
2.	11842	2021/12/01	2021/05/06	25 787,03	
3.	11842	2021/12/01	2021/06/07	25 787,03	
4.	11842	2021/12/01	2021/07/14	25 787,03	
5.	11842	2021/12/01	2021/08/05	25 787,03	
6.	11842	2021/12/01	2021/08/13	55 685,58	
7.	11842	2021/12/01	2021/09/06	25 787,03	
8.	11842	2021/12/01	2021/10/05	25 787,03	
9.	11842	2021/12/01	2021/11/04	25 787,03	
10.	12477	2022/01/01	2021/04/08	105 639,01	
11.	12477	2022/01/01	2021/04/08	19 807,73	
12.	12477	2022/01/01	2021/04/08	7 218,03	
13.	12477	2022/01/01	2021/05/06	115 141,96	
14.	12477	2022/01/01	2021/05/06	21 590,35	
15.	12477	2022/01/01	2021/05/06	7 867,67	
16.	12477	2022/01/01	2021/06/07	21 590,35	
17.	12477	2022/01/01	2021/06/07	115 141,96	
18.	12477	2022/01/01	2021/06/07	7 867,67	
19.	12477	2022/01/01	2021/07/14	7 867,67	
20.	12477	2022/01/01	2021/07/14	115 141,96	
21.	12477	2022/01/01	2021/07/14	21 590,35	
22.	12477	2022/01/01	2021/08/05	7 867,67	
23.	12477	2022/01/01	2021/09/06	7 867,67	
24.	12477	2022/01/01	2021/10/05	7 867,67	
25.	12477	2022/01/01	2021/11/04	7 867,67	
26.	12477	2022/01/01	2021/12/06	7 867,67	
27.	12695	2022/02/01	2021/04/08	58 190,14	

28.	12695	2022/02/01	2021/04/08	3 730,32
29.	12695	2022/02/01	2021/04/08	4 246,38
30.	12695	2022/02/01	2021/05/06	3 730,32
31.	12695	2022/02/01	2021/05/06	58 190,14
32.	12695	2022/02/01	2021/05/06	4 246,38
33.	12695	2022/02/01	2021/06/07	58 190,14
34.	12695	2022/02/01	2021/06/07	3 730,32
35.	12695	2022/02/01	2021/06/07	4 246,38
36.	12695	2022/02/01	2021/07/14	4 246,38
37.	12695	2022/02/01	2021/07/14	58 190,14
38.	12695	2022/02/01	2021/07/14	3 730,32
39.	12695	2022/02/01	2021/08/05	3 935,48
40.	12695	2022/02/01	2021/09/06	3 935,48
41.	12695	2022/02/01	2021/10/05	3 935,48
42.	12695	2022/02/01	2021/11/04	3 935,48
43.	12695	2022/02/01	2021/12/06	3 935,48
44.	12695	2022/02/01	2022/01/05	3 935,48
45.	12874	2021/12/01	2021/04/08	56 951,14
46.	12874	2021/12/01	2021/04/08	3 263,94
47.	12874	2021/12/01	2021/05/06	56 951,14
48.	12874	2021/12/01	2021/05/06	3 263,94
49.	12874	2021/12/01	2021/06/07	56 951,14
50.	12874	2021/12/01	2021/06/07	3 263,94
51.	12874	2021/12/01	2021/07/14	3 263,94
52.	12874	2021/12/01	2021/07/14	56 951,14
53.	12874	2021/12/01	2021/08/05	3 263,94
54.	12874	2021/12/01	2021/09/06	3 263,94
55.	12874	2021/12/01	2021/10/05	3 263,94
56.	12874	2021/12/01	2021/11/04	3 263,94
57.	12881	2021/12/01	2021/04/09	128 543,55
58.	12881	2021/12/01	2021/04/09	2 133,25
59.	12881	2021/12/01	2021/05/07	128 543,55

60.	12881	2021/12/01	2021/05/07	2 133,25
61.	12881	2021/12/01	2021/06/08	136 256,16
62.	12881	2021/12/01	2021/06/08	2 261,25
63.	12881	2021/12/01	2021/07/14	2 261,25
64.	12881	2021/12/01	2021/07/14	136 256,16
65.	12881	2021/12/01	2021/08/06	2 261,25
66.	12881	2021/12/01	2021/09/07	2 261,25
67.	12881	2021/12/01	2021/10/06	2 261,25
68.	12881	2021/12/01	2021/11/05	2 261,25
69.	13166	2021/08/01	2021/04/09	518 833,17
70.	13166	2021/08/01	2021/05/07	518 833,17
71.	13166	2021/08/01	2021/06/08	518 833,17
72.	13166	2021/08/01	2021/07/15	518 833,17
73.	13307	2021/10/01	2021/04/08	40 775,09
74.	13307	2021/10/01	2021/04/08	7 429,81
75.	13307	2021/10/01	2021/05/06	40 775,09
76.	13307	2021/10/01	2021/05/06	7 429,81
77.	13307	2021/10/01	2021/06/07	40 775,09
78.	13307	2021/10/01	2021/06/07	7 429,81
79.	13307	2021/10/01	2021/07/14	40 775,09
80.	13307	2021/10/01	2021/07/14	7 429,81
81.	13307	2021/10/01	2021/08/05	7 429,81
82.	13307	2021/10/01	2021/09/06	7 429,81
83.	13338	2021/08/01	2021/04/08	365,7
84.	13338	2021/08/01	2021/04/08	402,27
85.	13338	2021/08/01	2021/04/08	2 681,80
86.	13338	2021/08/01	2021/05/06	365,7
87.	13338	2021/08/01	2021/05/06	2 200,00
88.	13338	2021/08/01	2021/05/06	318
89.	13338	2021/08/01	2021/05/06	300
90.	13338	2021/08/01	2021/05/06	330
91.	13338	2021/08/01	2021/05/06	2 332,00

92.	13338	2021/08/01	2021/05/06	2 681,80
93.	13338	2021/08/01	2021/05/06	349,8
94.	13338	2021/08/01	2021/05/06	402,27
95.	13338	2021/08/01	2021/06/07	-318
96.	13338	2021/08/01	2021/06/07	2 332,00
97.	13338	2021/08/01	2021/06/07	-2 332,00
98.	13338	2021/08/01	2021/06/07	-349,8
99.	13338	2021/08/01	2021/06/07	365,7
100.	13338	2021/08/01	2021/06/07	349,8
101.	13338	2021/08/01	2021/06/07	318
102.	13338	2021/08/01	2021/06/07	2 681,80
103.	13338	2021/08/01	2021/06/07	402,27
104.	13338	2021/08/01	2021/07/14	2 681,80
105.	13338	2021/08/01	2021/07/14	402,27
106.	13338	2021/08/01	2021/07/14	365,7
107.	13338	2021/08/01	2021/07/14	318
108.	13338	2021/08/01	2021/07/14	2 332,00
109.	13338	2021/08/01	2021/07/14	349,8
110.	13417	2021/06/01	2021/04/08	7 978,14
111.	13417	2021/06/01	2021/04/08	1 111,73
112.	13417	2021/06/01	2021/05/06	1 111,73
113.	13417	2021/06/01	2021/05/06	7 978,14
114.	13671	2021/05/01	2021/04/08	90 555,14
115.	13671	2021/05/01	2021/04/08	3 835,02
116.	13674	2021/05/01	2021/04/08	792,83
117.	13674	2021/05/01	2021/04/08	21 549,96
118.	13729	2022/01/01	2021/04/08	12 429,20
119.	13729	2022/01/01	2021/04/08	501 074,21
120.	13729	2022/01/01	2021/05/06	501 074,21
121.	13729	2022/01/01	2021/05/06	12 429,20
122.	13729	2022/01/01	2021/06/07	501 074,21
123.	13729	2022/01/01	2021/06/07	12 429,20

124.	13729	2022/01/01	2021/07/14	501 074,21
125.	13729	2022/01/01	2021/07/14	12 429,20
126.	13729	2022/01/01	2021/10/05	13 048,36
127.	13729	2022/01/01	2021/10/13	526 126,27
128.	13729	2022/01/01	2021/10/13	13 048,36
129.	13729	2022/01/01	2021/11/04	13 048,36
130.	13729	2022/01/01	2021/12/06	13 048,36
131.	13778	2021/12/01	2021/04/08	1 104,00
132.	13778	2021/12/01	2021/04/08	20 412,50
133.	13778	2021/12/01	2021/05/06	20 412,50
134.	13778	2021/12/01	2021/05/06	1 104,00
135.	13778	2021/12/01	2021/06/07	20 412,50
136.	13778	2021/12/01	2021/06/07	1 104,00
137.	13778	2021/12/01	2021/07/13	1 104,00
138.	13778	2021/12/01	2021/07/13	20 412,50
139.	13778	2021/12/01	2021/08/06	1 104,00
140.	13778	2021/12/01	2021/09/06	1 104,00
141.	13778	2021/12/01	2021/10/05	1 104,00
142.	13778	2021/12/01	2021/11/04	1 104,00
143.	13811	2021/08/19	2021/04/13	951 193,98
144.	4037	2021/10/01	2021/04/08	13 066,64
145.	4037	2021/10/01	2021/04/08	49 994,09
146.	4037	2021/10/01	2021/05/06	13 066,64
147.	4037	2021/10/01	2021/05/06	49 994,09
148.	4037	2021/10/01	2021/06/07	13 066,64
149.	4037	2021/10/01	2021/06/07	49 994,09
150.	4037	2021/10/01	2021/07/13	13 066,64
151.	4037	2021/10/01	2021/07/13	49 994,09
152.	4037	2021/10/01	2021/08/05	49 994,09
153.	4037	2021/10/01	2021/09/06	49 994,09
154.	4038	2021/08/01	2021/04/08	76 105,37
155.	4038	2021/08/01	2021/04/08	15 587,85

156.	4038	2021/08/01	2021/05/06	15 587,85
157.	4038	2021/08/01	2021/05/06	76 105,37
158.	4038	2021/08/01	2021/06/07	15 587,85
159.	4038	2021/08/01	2021/06/07	76 105,37
160.	4038	2021/08/01	2021/07/13	15 587,85
161.	4038	2021/08/01	2021/07/13	76 105,37
162.	4261	2021/06/01	2021/04/08	39 144,57
163.	4261	2021/06/01	2021/05/06	39 144,57
164.	7220	2021/12/01	2021/04/09	1 082 724,56
165.	7220	2021/12/01	2021/05/20	1 234 255,58
166.	7220	2021/12/01	2021/05/20	1 142 841,01
167.	7220	2021/12/01	2021/05/20	-1 002 522,75
168.	7220	2021/12/01	2021/05/20	-928 261,80
169.	7220	2021/12/01	2021/05/20	-1 082 724,56
170.	7220	2021/12/01	2021/05/20	1 058 205,74
171.	7220	2021/12/01	2021/05/20	1 082 724,56
172.	7220	2021/12/01	2021/06/09	-1 234 255,58
173.	7220	2021/12/01	2021/06/09	-1 142 841,01
174.	7220	2021/12/01	2021/06/09	1 234 305,99
175.	7220	2021/12/01	2021/06/09	-1 082 724,56
176.	7220	2021/12/01	2021/06/09	1 234 306,00
177.	7220	2021/12/01	2021/06/09	1 234 255,58
178.	7220	2021/12/01	2021/06/09	-1 058 205,74
179.	7220	2021/12/01	2021/06/09	1 082 724,56
180.	7220	2021/12/01	2021/06/09	1 333 050,47
181.	7220	2021/12/01	2021/06/09	1 333 050,48
182.	7220	2021/12/01	2021/06/09	1 058 218,44
183.	7220	2021/12/01	2021/06/09	1 439 694,51
184.	7220	2021/12/01	2021/06/09	1 142 875,92
185.	7220	2021/12/01	2021/07/14	1 082 724,56
186.	7220	2021/12/01	2021/07/14	1 234 305,99
187.	7220	2021/12/01	2021/07/14	1 333 050,48

188.	7220	2021/12/01	2021/07/14	1 234 255,58
189.	7220	2021/12/01	2021/07/14	1 439 694,51
190.	7657	2022/01/01	2021/04/08	69 121,90
191.	7657	2022/01/01	2021/05/06	69 121,90
192.	7657	2022/01/01	2021/06/07	69 121,90
193.	7657	2022/01/01	2021/07/14	69 121,90
194.	7657	2022/01/01	2021/08/05	69 121,90
195.	7657	2022/01/01	2021/09/06	69 121,90
196.	7657	2022/01/01	2021/10/05	69 121,90
197.	7657	2022/01/01	2021/11/04	69 121,90
198.	7657	2022/01/01	2021/12/06	73 271,10
199.	7774	2021/09/01	2021/04/08	115 396,29
200.	7774	2021/09/01	2021/04/08	458 497,36
201.	7774	2021/09/01	2021/05/06	458 497,36
202.	7774	2021/09/01	2021/05/06	115 396,29
203.	7774	2021/09/01	2021/06/08	115 396,29
204.	7774	2021/09/01	2021/06/08	458 497,36
205.	7774	2021/09/01	2021/07/14	458 497,36
206.	7774	2021/09/01	2021/07/14	115 396,29
207.	7774	2021/09/01	2021/08/06	115 396,29
208.	8773	2021/12/01	2021/06/01	-89 705,89
209.	8773	2021/12/01	2021/06/01	-110 877,89
210.	8773	2021/12/01	2021/06/01	-85 029,28
211.	8773	2021/12/01	2021/06/01	-94 639,71
212.	8773	2021/12/01	2021/06/01	4 897,08
213.	8773	2021/12/01	2021/06/01	4 897,09
214.	8773	2021/12/01	2021/06/01	105 097,53
215.	8773	2021/12/01	2021/06/01	99 618,51
216.	8773	2021/12/01	2021/06/01	110 877,89
217.	8773	2021/12/01	2021/06/01	94 639,71
218.	8773	2021/12/01	2021/06/07	-94 639,71
219.	8773	2021/12/01	2021/06/07	110 877,89

220.	8773	2021/12/01	2021/06/07	-110 877,89
221.	8773	2021/12/01	2021/06/07	94 639,71
222.	8773	2021/12/01	2021/06/07	4 897,09
223.	8773	2021/12/01	2021/06/07	4 897,08
224.	8773	2021/12/01	2021/06/07	-4 897,09
225.	8773	2021/12/01	2021/07/28	110 877,89
226.	8773	2021/12/01	2021/07/28	94 639,71
227.	8773	2021/12/01	2021/07/28	-4 897,09
228.	8773	2021/12/01	2021/07/28	-110 877,89
229.	8773	2021/12/01	2021/07/28	4 897,08
230.	8773	2021/12/01	2021/07/28	-94 639,71
231.	8773	2021/12/01	2021/07/28	4 897,09
232.	9882	2021/12/01	2021/04/08	2 170,84
233.	9882	2021/12/01	2021/04/08	102 193,51
234.	9882	2021/12/01	2021/05/06	102 193,51
235.	9882	2021/12/01	2021/05/06	2 170,84
236.	9882	2021/12/01	2021/06/07	102 193,51
237.	9882	2021/12/01	2021/06/07	2 170,84
238.	9882	2021/12/01	2021/07/13	2 170,84
239.	9882	2021/12/01	2021/07/13	102 193,51
240.	9882	2021/12/01	2021/08/05	2 170,84
241.	9882	2021/12/01	2021/09/06	2 170,84
242.	9882	2021/12/01	2021/10/05	2 170,84
243.	9882	2021/12/01	2021/11/04	2 170,84

## **Security Management**

### **Network security: Internal Vulnerability assessment**

An internal vulnerability assessment was performed on the Department of Public Works Infrastructure' (DPWI) network.

During the audit, it was noted that management did not address the following findings which are reoccurring in three (3) audit cycles in succession 2019/20, 2021 and 2021/22 financial years:

An excess of six hundred and seventy six (76) internal systems were detected and scanned for vulnerabilities. The systems included production servers, switches and routers. Thirty (30) of the identified hosts contained reportable vulnerabilities i.e., (20) had missing patches or were running unsupported software, and sixty-four (10) contained weak/vulnerable configurations. To exploit the identified vulnerabilities, an attacker would require access to the LAN, i.e., be inside a DPW and plugged into a network point via Ethernet cable or have access to a Wireless Access Point.

With this access, an attacker may exploit one of the identified vulnerabilities (note: exploits available freely online) that would primarily disrupt services provided by the affected hosts. Information disclosure exploits and default access vulnerabilities were also available, providing attackers with opportunities to attempt privileged access exploits. In certain cases, an attacker may be able to access one or more of the affected hosts without the need for credentials.

#### **6.1. Missing security updates and unsupported software on various systems**

##### **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.

Twenty (20) internal were either running unsupported software, operating systems and/or databases, or missing critical and/or high-risk security updates with exploits available.

The issues detected included:

Missing security updates on operating systems

Unsupported operating system software

Missing security updates on internetworking operating systems

Unsupported or missing security updates on web enabling software

Missing security updates on virtual software

Missing security updates on remote server management software

Unsupported or missing security updates on file sharing software

## Risk

An attacker could use the enumerated vulnerabilities to cause unapproved/malicious activities within the confines of the network, directly/indirectly affecting critical business applications. Exploits (note: exploits available freely online) would primarily disrupt services provided by the affected systems. Information disclosure exploits and default access vulnerabilities were also detected. If used, attackers may successfully conduct privileged access attacks.

The following section details the vulnerabilities and their prevalence:

### Internal control deficiency

Inadequate patch management could be attributed to lack of regular system monitoring and non-compliance to patch management processes.

## Recommendation

Management should ensure that organisation comply with patch management processes and monitoring controls be implemented to ensure compliance to the policy. The roles and responsibilities to ensure that the ICT environment patch management is up-to-date, ICT vulnerability monitoring and detection tools that will allow enumeration of vulnerabilities within the environment are in-place and the ICT infrastructure is up-to-date with minimum security requirements to meet the business objectives, should be allocated to an Information Security Officer (ISO) to promote accountability and custodianship of Information Security programs undertaken by the entity.

ICT management should consider the following remedial actions:

Ensure all systems are patched in accordance to the respective policies;

Ensure the ICT risk register is updated with the acceptable patch related risks and the reasons for not patching specific systems.

Should the decision be taken not to apply a particular security update, approval should be sought at a strategic level to accept the risk.

Ensure all systems are patched in accordance with the respective policies.

Developing a vulnerability management process to assess critical technologies on a continuous basis for vulnerabilities. Vulnerabilities that are identified should be prioritised based on system criticality and remediated in a timely manner (normally within 30 days). Compensating controls should be identified, that adequately protect the system against known exploits until the corresponding security patch can be loaded.

End of life software should be placed in a secure environment isolated from other systems. Additional controls should be implemented to safeguard against potential exploits, as the vendor may no longer provide security patches for these technologies.

## Management response

Management comment on the audit finding: The management disagrees with the finding.
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Management comment on internal control deficiencies: Patches are deployed periodically as they are released	
Management comment on recommendation: Management agree with the recommendation.	
<p>Remedial action:</p> <p>a. All OS Systems upgrades applied periodically.</p> <p>b. Upgrade of the servers was started and will be completed by 31/03/2022</p> <p>c. These are Cisco Codec Appliances and were upgraded to latest available software on Cisco website</p> <p>d. These are Cisco Codec Appliances and were upgraded to latest available software on Cisco website.</p> <p>(ii) The department is in a process of decommissioning servers that are no longer used.</p> <p>(iii) Chassis firmware will be upgraded at City Centre.</p> <p>(iv) The department is busy with an upgrade process and will be completed by 31-Mar-2022.</p> <p>e. The Virtual software project will address this issue.</p> <p>f. ICT does not have a GIS specialist resource on the approved structure. Run patch updates for the Flexera FlexNet Publisher.</p> <p>g. Management disagree with the finding. The server was decommissioned</p>	

#### Auditor's conclusion

Management responses are noted however, a re-scan of the environment using the Nessus tool was performed (mainly on the production servers, switches, routers) to determine whether the prior year issues were resolved it was found that the issues were not resolved.

#### Insecure configurations on internal networked systems

## Audit finding

Ten (10) internal systems (e.g., production servers, switches, routers, etc.) were vulnerable because of weak configuration settings.

Open unencrypted ports

Inadequately configured encryption

Simple Network Management Protocol vulnerabilities

Unauthenticated access

Inadequately configured file sharing software

## Risk

An attacker may be able to use these vulnerabilities to access the affected systems, disrupt services provided by the affected systems or gather sensitive/ confidential information generated by the entity. In addition, an attacker may use the enumerated issues to conduct unapproved/ malicious activities in the confines of the network.

## Management response

Management comment on the audit finding: Management agree with the finding		
Management comment on internal control deficiencies:  a) Telnet access is being blocked and only available from a specifically Secured managed Network to systems that are not capable off other means of connection,  b) Server and Application team to comment  c) No oracle Installation on Server referred to  d) All Cisco VC units have been configured with correct SNMP community name and strings,  e) Server team to comment  f) Applications to comment		
Management comment on recommendation: Management agree with the recommendation		
What actions will be taken:	By whom:	By when: 31-Mar-2022

Install all missing updates	Pakiso Mphuthi	
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#### Auditor's conclusion

Management responses are noted, and the corrective action will be assessed in the next audit cycle.

## **NETWORK SECURITY: OPERATING SYSTEM AND DATABASE**

### **6.3. Inadequately configured SQL database for SAGE**

#### Audit finding

SQL Server can provide a wide range of features and services. Some of the features and services, provided by default, may not be necessary to support essential operations, and enabling them could adversely affect the security of the system. It is detrimental for SQL server to provide, or install by default, functionality exceeding requirements or mission objectives. SQL servers must adhere to the principles of least functionality by providing only essential capabilities.

The following issues on SAGE SQL database server at DPW were identified:

The built-in default accounts have not been changed / renamed

Inadequate password policies configuration

Insecure remote access configuration was enabled on the database

Insecure authentication mode was enabled on the database

Insecure CRL was enabled on the database

#### Internal control deficiency

#### Financial and performance management:

Weaknesses identified on SAGE SQL database server could be attributed to non-conformance to, or lack therefore of, the Configuration Standard for Database Security.

#### Recommendation

Management should ensure that the Information security hardening standards for database are updated, approved, and implemented. In addition, monitoring controls should be implemented to ensure compliance to the database standards.

Management should consider adopting the following measures to ensure that the weaknesses identified are addressed:

Rename "Administrator", SA, and Guest account to a name other than "Administrator".

Set 'CHECK\_POLICY' and 'CHECK\_EXPIRATION' options to 'ON' or '1' for All SQL Authenticated Logins,

Restrict 'Remote Access' to authorized users / accounts or disable it when not required - unless specifically required and approved (i.e., there is a valid business reason for this feature),

Disable Mixed authentication mode and use instead Windows authentication mode,

Disable or restrict CRL code to only the SAFE or EXTERNAL\_ACCESS permissions, preferably the SAFE permission.

## Management response

Management comment on audit finding:	Management does not agree with this finding			
Root Cause:				
Except for the SA account all other identified accounts are system accounts that allow other programs dependent on the database to function.				
The identified accounts can't be allowed to expire as that would impact system/services availability of programs linked to the accounts.				
For embedded programs, the Service provider has highlighted that it is not advisable to change such accounts configurations to ensure alignment to Check_Policy as it may impact some functionality of the system and dependent programs.				
Sage solution uses Microsoft Visual C# and the .Net Framework hence CRL code must be allowed.				
Mixed mode authentication is a required configuration for Sage solution and thus may not be disabled.				
Sage application, reporting tool and ESB tool solutions are require remote access to the database.				
Management comment on recommendation:				
SA account has already been disabled.				
Sage is an off the shelf solution and the identified accounts are system accounts and changing their configuration may affect system functionality.				
Remote access is required to enable solutions hosted on separate servers to function.				
Mixed mode authentication is a required configuration for Sage solutions,				
Sage solution uses Microsoft Visual C# and the .Net Framework.				
Remedial action:				
What actions will be taken:	By whom:	By when:		

## Auditor's conclusion

Management responses are noted however, the "guest" account is enabled and not renamed audit mode was not set and trace was not set as a compensating control, consideration is taken of the highlighted reasons for the mixed mode, the enabling CRL mode as well as the inadequate password policy on accounts. As highlighted the risks still prevails management should consider including the highlighted risks and justifications/business rational in the risk register and acknowledge therein the acceptance of the risks highlighted.