Detailed audit findings

ANNEXURE A: MATTERS AFFECTING THE AUDITOR'S REPORT

Immovable assets

Immovable assets: Differences in extent of footprint (COFF 33)

DETAILED AUDIT FINDING

Differences in extent of footprint

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

(a) must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;

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

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

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

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

Chapter 4.3.4 of the Model for applying municipal values, comparative municipal values/ sales and replacement costs as deemed cost of immovable assets of the Property Management Trading

Entity (PMTE) as at 1 April 2013 outlines the process for Determining the Buildin Value states that: "Building Cost information from reference sites such as "AECOM – Africa Property and Construction handbook" will be used in consultation with National DPW's Valuations unit.

a) Calculate the building value using the building indices and DPW's 2014/15 physical verification information.

b) From the building cost information sources obtain the rate per square meter of the type of improvement and multiply by the extent of the buildings to get the building value.

c) Use the condition assessment from the DPW 2014/15 physical assessment rating to adjust the calculated replacement cost to determine the value of the building"

Nature

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

The extent of footprint of the property does not agree to the extent as per the immovable asset register. Differences between extent of footprint as per GIS Maps and extent of footprint as per Immovable Asset Register (IAR) was noted when calculating replacement cost, this resulted in the following differences as shown in the table below:

No	Building Id	Extent Of footprint as per GIS Maps	Extent Of footprint as per IAR	Difference in extent	Recalculated depreciable replacement cost	Depreciable replacement cost IAR	Difference in deemed cost (Rand's)
1	201000724	426	131 229	(130 803)	R 1 145 408	R 352 841 974	(351 696 566)
2	DODBLD12615	147	1 698	(1 551)	R 22 573 688	R 260 792 517	(238 218 830)
3	201000704	233	83 163	(82 930)	R 626 479	R 223 604 516	(222 978 038)
4	201000744	243	63 621	(63 378)	R 653 366	R 171 060 964	(170 407 598)
5	DODBLD06013	1 009	3 892	(2 883)	R 53 123 850	R 204 908 535	(151 784 685)
6	201000709	363	55 485	(55 122)	R 976 016	R 149 185 294	(148 209 278)
7	201000906	278	51 761	(51 483)	R 747 473	R 139 172 389	(138 424 916)
8	201000849	687	13 275	(12 588)	R 6 383 948	R 123 357 938	(116 973 990)
9	201000734	391	43 150	(42 759)	R 1 051 301	R 116 019 563	(114 968 261)
10	201000865	468	12 642	(12 174)	R 4 348 890	R 117 475 785	(113 126 895)
11	DODBLD06140	1 707	33 885	(32 178)	R 6 222 015	R 98 351 213	(92 129 198)

No	Building Id	Extent Of footprint as per GIS Maps	Extent Of footprint as per IAR	Difference in extent	Recalculated depreciable replacement cost	Depreciable replacement cost IAR	Difference in deemed cost (Rand's)
12	201000799	296	29 365	(29 069)	R 795 870	R 78 955 144	(78 159 274)
13	DODBLD12628	278	3 043	(2 765)	R 7 318 350	R 80 118 251	(72 799 901)
14	201000679	254	47 661	(47 407)	R 379 413	R 71 193 619	(70 814 206)
15	201000794	508	25 511	(25 003)	R 1 365 885	R 68 592 701	(67 226 816)
16	200000118535	1 090	51 774	(50 684)	R 2 992 050	R 142 119 630	(139 127 580)
17	DODBLD07320	5 606	3 350	2 256	R 32 542 830	R 19 445 183	13 097 647
18	DODBLD07179	1 637	594	1 043	R 20 626 200	R 7 489 440	13 136 760
19	DODBLD09955	2 767	1 704	1 063	R 37 198 856	R 22 911 618	14 287 238
20	206900482	5 507	4 493	1 014	R 93 674 070	R 76 425 930	17 248 140
21	DODBLD05534	11 066	5 675	5 391	R 37 596 735	R 19 280 167	18 316 568
22	DODBLD12901	3 428	2 022	1 406	R 49 980 240	R 29 486 446	20 493 794
23	DODBLD08806	2 610	1 389	1 221	R 44 631 000	R 23 743 820	20 887 180
24	DODBLD07166	4 589	2 304	2 285	R 57 821 400	R 29 028 216	28 793 184
						Total	**(2 140 785 520)**

Impact

The aforementioned finding results in the following;

Property plant and equipment (Deemed cost) is overstated by R2 140 785 520.

Internal control deficiency

Leadership

Management did not exercise oversight responsibility regarding financial reporting.

Financial and Performance Management

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

Recommendation

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

Management should ensure that the immovable asset management policy, accounting policy and approved deemed cost model is correctly and consistently applied.

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

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

Management response

Management agrees with the finding with regards to 14 of the 24 buildings identified by the AG. Management disagrees with the buildings as listed below.

Building Id	Extent Of Structure as per IAR	Extent Of Structure as per DOD data
DODBLD12615	59 440	59 440
DODBLD12901	8 090	8 090
DODBLD07320	6 699	6 699
DODBLD12628	18 261	18 261
DODBLD06140	33 885	33 885

Building Id	Extent Of Structure as per IAR	Extent Of Structure as per DOD data
DODBLD08806	5 554	5 554
DODBLD05534	11 350	11 350
DODBLD07179	1 783	1 783
DODBLD07166	6 911	6 911
DODBLD09955	8 521	8 521

There is an inherent difference in how the data with regards to extents is captured for DOD properties which was collected by CSIR versus properties collected by DPW internally and through the Secondary Service Providers. DOD extents are correct at the extent of structure level whilst the other variables such as footprints are derived. AG has raised the finding on the basis of footprints which are not a correct figure as they are derived and not the source information which is the extent of structure.

The buildings relating to the DPW portfolio were found to be all correct except for one exception which will be revised in conjunction with any other errors identified in the transposing of the DOD data into the revised Immovable Asset Register.

Management thus disagrees with R 590 646 871.31 of the R2 140 785 520 raised by the AG.

Auditor's conclusion

Management submitted a revised IAR on 3 August 2018. Based on the audit procedures performed on the revised IAR, findings of similar nature have been identified. We will therefore revert back to the initial misstatement, as the population was not adequately corrected.

Immovable assets: Differences in extent of footprint (COFF 51)

DETAILED AUDIT FINDING

Differences in extent of footprint

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

(a) must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;

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

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

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

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

Chapter 4.3.4 of the Model for applying municipal values, comparative municipal values/ sales and replacement costs as deemed cost of immovable assets of the Property Management Trading Entity (PMTE) as at 1 April 2013 outlines the process for Determining the Building Value states that: “Building Cost information from reference sites such as **“AECOM – Africa Property and Construction handbook”** will be used in consultation with National DPW’s Valuations unit.
a) Calculate the building value using the building indices and DPW’s 2014/15 physical verification information.

b) From the building cost information sources obtain the rate per square meter of the type of improvement and multiply by the extent of the buildings to get the building value.

c) Use the condition assessment from the DPW 2014/15 physical assessment rating to adjust the calculated replacement cost to determine the value of the building"

Nature

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

The extent of footprint of the property as outlined in Table 1 below does not agree to the extent as per the immovable asset register. Differences between extent of footprint as per GIS Maps and extent of footprint as per Immovable Asset Register (IAR) was noted when calculating replacement cost, this resulted in the following differences as shown in the table below:

Table 1

Building Id	Extent Of footprint as per GIS Maps	Extent Of footprint as per IAR	Difference in extent	Recalculated depreciable replacement cost (Rand's)	Depreciable replacement cost IAR (Rand's)	Difference in deemed cost (Rand's)
217250718	110	9 451	(9 341)	1 022 175	87 823 418	(86 801 243)
200000118536	289	40 710	(40 421)	490 939	69 156 113	(68 665 174)
226200466	606	1 210	(604)	40 953 413	86 298 713	(45 345 300)
200000119374	634	1 212	(578)	30 189 510	60 621 210	(30 431 700)
237400503	108	4 359	(4 251)	290 385	11 720 261	(11 429 876)
227800688	4 766	6 183	(1 417)	29 775 585	38 628 293	(8 852 708)
200000082466	1 111	3 242	(2 131)	4 049 595	11 818 512	(7 768 917)
100000045122	1 912	2 356	(444)	32 122 364	39 674 804	(7 552 440)
100000025867	1 462	1 637	(175)	57 730 725	64 641 038	(6 910 313)
DODBLD22489	27	972	(945)	121 905	4 388 083	(4 266 178)
2109550219	3 040	3 192	(152)	66 051 418	69 498 778	(3 447 360)
200000029099	1 647	1 775	(128)	42 890 006	46 259 606	(3 369 600)

Building Id	Extent Of footprint as per GIS Maps	Extent Of footprint as per IAR	Difference in extent	Recalculated depreciable replacement cost (Rand's)	Depreciable replacement cost IAR (Rand's)	Difference in deemed cost (Rand's)
DODBLD35575	19	1 029	(1 010)	52 155	2 823 370	(2 771 215)
200000121994	3 347	3 424	(77)	114 216 375	116 844 000	(2 627 625)
DODBLD21381	933	1 027	(94)	24 817 800	27 318 200	(2 500 400)
229850337	3 378	3 407	(29)	271 077 534	273 452 634	(2 375 100)
DODBLD25581	706	1 407	(701)	2 049 165	4 083 063	(2 033 898)
200000068566	4 397	4 683	(286)	25 524 585	27 184 815	(1 660 230)
200000069376	39 087	39 963	(876)	66 399 041	67 887 146	(1 488 105)
203200425	2 343	2 404	(61)	48 762 675	50 100 863	(1 338 188)
200000027771	885	801	84	3 225 825	4 541 670	(1 315 845)
218700039	2 527	2 570	(43)	66 523 275	67 655 250	(1 131 975)
DODBLD29450	614	686	(72)	6 603 570	7 379 409	(775 839)
DODBLD20952	135	215	(80)	362 981	578 243	(215 261)
DODBLD11667	7 630	7 949	(319)	5 112 100	5 325 850	(213 750)
200000110076	2 557	2 600	(43)	11 544 855	11 739 000	(194 145)
DODBLD11741	6 132	6 179	(47)	17 798 130	17 934 867	(136 737)
DODBLD26286	151	172	(21)	406 001	461 739	(55 738)
DODBLD09362	2 438	2 448	(10)	7 350 570	7 380 539	(29 969)
DODBLD29053	3 821	3 839	(18)	5 707 619	5 734 387	(26 768)

Building Id	Extent Of footprint as per GIS Maps	Extent Of footprint as per IAR	Difference in extent	Recalculated depreciable replacement cost (Rand's)	Depreciable replacement cost IAR (Rand's)	Difference in deemed cost (Rand's)
200000110534	38	27	11	50 873	36 146	14 726
DODBLD32018	913	904	9	4 281 970	4 238 400	43 570
DODBLD25601	6 665	6 646	19	17 612 263	17 562 108	50 155
DODBLD34739	2 552	2 506	46	4 115 100	4 040 667	74 433
200000027770	526	508	18	2 199 995	2 124 710	75 285
DODBLD24188	4 988	4 960	28	15 038 820	14 954 611	84 209
DODBLD34868	328	309	19	1 763 820	1 662 615	101 205
DODBLD24361	4 773	4 749	24	19 963 073	19 861 312	101 760
DODBLD15276	371	342	29	1 995 053	1 836 524	158 529
DODBLD32469	3 867	3 757	110	6 569 066	6 381 388	187 678
DODBLD10403	2 298	2 228	70	7 807 455	7 569 613	237 842
DODBLD29151	301	170	131	809 314	457 088	352 226
200000061904	753	729	24	12 147 773	11 760 593	387 180
232550773	3 551	3 534	17	119 971 898	119 391 773	580 125
DODBLD19954	2 381	2 189	192	8 089 448	7 436 380	653 067
100000034967	2 170	2 044	126	12 596 850	11 866 755	730 095
200000084877	3 243	3 211	32	106 284 360	105 192 360	1 092 000
DODBLD11743	6 595	6 196	399	19 141 988	17 984 616	1 157 372

Building Id	Extent Of footprint as per GIS Maps	Extent Of footprint as per IAR	Difference in extent	Recalculated depreciable replacement cost (Rand's)	Depreciable replacement cost IAR (Rand's)	Difference in deemed cost (Rand's)
227500997	3 164	3 103	61	67 368 088	66 029 901	1 338 188
DODBLD31993	546	292	254	2 948 400	1 579 203	1 369 197
200000121456	2 024	1 990	34	97 683 300	96 042 375	1 640 925
200000028744	1 028	984	44	39 038 922	37 301 472	1 737 450
2109550125	1 338	1 288	50	68 278 140	65 726 640	2 551 500
DODBLD12629	2 089	1 738	351	22 561 200	18 774 180	3 787 020
211700191	978	898	80	48 990 841	44 908 441	4 082 400
DODBLD10273	2 055	1 238	817	11 929 275	7 184 907	4 744 368
DODBLD06230	1 339	681	658	14 400 945	7 322 864	7 078 081
DODBLD34747	1 735	1 366	369	34 613 250	27 259 015	7 354 235
DODBLD34751	3 027	1 893	1 134	24 416 539	15 270 272	9 146 267
DODBLD09961	1 370	1 159	211	72 130 500	60 997 307	11 133 194
100000040750	1 643	1 294	349	61 359 534	48 222 301	13 137 233
200000084462	9 028	8 514	514	415 688 703	391 332 813	24 355 890
200000089142	3 450	3 060	390	248 197 365	219 108 240	29 089 125
200000081711	5 671	4 944	727	268 570 029	233 837 604	34 732 425
218700037	4 901	4 130	771	308 006 145	257 420 835	50 585 310

Building Id	Extent Of footprint as per GIS Maps	Extent Of footprint as per IAR	Difference in extent	Recalculated depreciable replacement cost (Rand's)	Depreciable replacement cost IAR (Rand's)	Difference in deemed cost (Rand's)
					Total	**(91 787 331)**

The difference in deemed cost of buildings, result in the following component differences:

COMPONENT ID	BUILDING ID	COMPONENT DESCRIPTION	COST OF ASSETS AS AT 1 APRIL 2013	Recalculated Component value	Difference in deemed cost (Rand's)
226200472	226200466	Aircon	1 816 815	909 909	(906 906)
228550961	200000119374	Aircon	1 276 236	667 602	(608 634)
226200473	226200466	Generator	908 408	454 955	(453 453)
228550962	200000119374	Generator	638 118	333 801	(304 317)
226200518	226200466	Lift / Elevator	454 204	227 477	(226 727)
226200519	226200466	Lift / Elevator	454 204	227 477	(226 727)
226200520	226200466	Lift / Elevator	454 204	227 477	(226 727)
226200521	226200466	Lift / Elevator	454 204	227 477	(226 727)
228550963	200000119374	Lift / Elevator	319 059	166 901	(152 159)
228550964	200000119374	Lift / Elevator	319 059	166 901	(152 159)
228550965	200000119374	Lift / Elevator	319 059	166 901	(152 159)
228550966	200000119374	Lift / Elevator	319 059	166 901	(152 159)
202850702	100000045122	Lift / Elevator	400 756	325 231	(75 524)

COMPONENT ID	BUILDING ID	COMPONENT DESCRIPTION	COST OF ASSETS AS AT 1 APRIL 2013	Recalculated Component value	Difference in deemed cost (Rand's)
200000001026	2109550219	Aircon	1 447 891	1 378 944	(68 947)
200000001027	2109550219	Generator	723 946	689 472	(34 474)
200000001028	2109550219	Lift / Elevator	723 946	689 472	(34 474)
200000003263	200000029099	Lift / Elevator	467 269	433 573	(33 696)
203200429	203200425	Aircon	1 054 755	1 027 991	(26 764)
203200430	203200425	Lift / Elevator	527 378	513 996	(13 382)
203200431	203200425	Lift / Elevator	527 378	513 996	(13 382)
203200432	203200425	Generator	527 378	513 996	(13 382)
229850381	229850337	Lift / Elevator	558 067	553 316	(4 750)
229850382	229850337	Lift / Elevator	558 067	553 316	(4 750)
229850383	229850337	Lift / Elevator	558 067	553 316	(4 750)
229850384	229850337	Lift / Elevator	558 067	553 316	(4 750)
229850385	229850337	Lift / Elevator	558 067	553 316	(4 750)
229850386	229850337	Lift / Elevator	558 067	553 316	(4 750)
229850387	229850337	Lift / Elevator	558 067	553 316	(4 750)
229850388	229850337	Lift / Elevator	558 067	553 316	(4 750)
229850389	229850337	Lift / Elevator	558 067	553 316	(4 750)
229850390	229850337	Lift / Elevator	558 067	553 316	(4 750)

COMPONENT ID	BUILDING ID	COMPONENT DESCRIPTION	COST OF ASSETS AS AT 1 APRIL 2013	Recalculated Component value	Difference in deemed cost (Rand's)
232550782	232550773	Lift / Elevator	1 205 978	1 211 779	5 801
227501000	227500997	Lift / Elevator	453 814	462 735	8 921
227501001	227500997	Lift / Elevator	453 814	462 735	8 921
227501002	227500997	Lift / Elevator	453 814	462 735	8 921
226450749	200000084877	Generator	1 095 754	1 106 674	10 920
226450750	200000084877	Security/Access Control	1 095 754	1 106 674	10 920
227501003	227500997	Generator	680 721	694 103	13 382
207900232	200000028744	Lift / Elevator	388 557	405 932	17 375
207900263	200000028744	Generator	388 557	405 932	17 375
226450748	200000084877	Aircon	2 191 508	2 213 348	21 840
207900231	200000028744	Aircon	777 114	811 863	34 749
211700194	211700191	Generator	458 249	499 073	40 824
211700232	211700191	Lift / Elevator	458 249	499 073	40 824
211050007	100000040750	Lift / Elevator	487 094	618 466	131 372
227700391	200000084462	Lift / Elevator	4 034 359	4 277 918	243 559
227700392	200000084462	Lift / Elevator	4 034 359	4 277 918	243 559
227700393	200000084462	Security/Access Control	4 034 359	4 277 918	243 559
200000003035	200000089142	Generator	2 282 378	2 573 269	290 891

COMPONENT ID	BUILDING ID	COMPONENT DESCRIPTION	COST OF ASSETS AS AT 1 APRIL 2013	Recalculated Component value	Difference in deemed cost (Rand's)
200000003036	200000089142	Lift / Elevator	2 282 378	2 573 269	290 891
237300231	200000081711	Lift / Elevator	2 361 996	2 709 320	347 324
218700043	218700037	Lift / Elevator	2 709 693	3 215 546	505 853
218700044	218700037	Generator	2 709 693	3 215 546	505 853
218700046	218700037	Generator	2 709 693	3 215 546	505 853
225350084	200000089142	Aircon	4 564 755	5 146 538	581 783
218700045	218700037	Aircon	5 419 386	6 431 092	1 011 706
Total					**992 600**

Differences between extent of footprint as per GIS Maps and extent of footprint as per Immovable Asset Register (IAR) as outlined in Table 2 below was noted when calculating replacement cost, this resulted in the following differences as shown in the table below after taking PMTE COFF 20 (Incorrect replacement cost rate used to calculate deemed cost) into account.

Building Id	Extent Of footprint as per GIS Maps	Extent Of footprint as per IAR	Difference in extent	Recalculated depreciable replacement cost	COST OF ASSETS AS AT 1 APRIL 2013	Recalculated depreciable replacement cost COFF 20	Difference in deemed cost (Rand's)
230350020	3 323	3 424	(101)	60 013 380	93 475 200	61 837 440	(1 824 060)
200000032792	12 807	12 832	(25)	78 851 790	121 358 640	80 283 408	(1 431 618)

227150852	938	901	37	8 167 635	11 859 413	7 845 458	322 177
DODBLD07072	1 190	892	298	10 361 925	11 736 168	7 763 926	2 597 999
DODBLD18737	2 233	1 854	379	19 443 848	24 407 619	16 146 578	3 297 270
DODBLD36568	2 253	1 863	390	19 617 998	24 522 352	16 222 479	3 395 519
DODBLD11726	4 015	3 624	391	34 960 613	47 706 413	31 559 627	3 400 986
200000119561	10 978	10 630	348	127 454 580	186 556 500	123 414 300	4 040 280
DODBLD07373	1 681	1 160	521	14 637 308	15 273 195	10 103 806	4 533 502
DODBLD08644	967	714	253	17 464 020	19 502 574	12 901 703	4 562 317
DODBLD10572	2 921	2 030	891	52 753 260	55 406 442	36 653 492	16 099 768
DODBLD07347	3 923	1 514	2 409	34 159 523	19 928 201	13 183 271	20 976 252
DODBLD05553	8 964	5 140	3 824	78 054 030	67 649 634	44 752 835	33 301 195
						Total	**93 271 585**

Impact

The aforementioned finding results in the following;

Property plant and equipment (Deemed cost) is understated by R2 476 854.

Internal control deficiency

Leadership

Management did not exercise oversight responsibility regarding financial reporting.

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

Recommendation

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

Management should ensure that the immovable asset management policy, accounting policy and approved deemed cost model is correctly and consistently applied.

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

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

Management response

Management is in agreement with the finding raised. The building extents will be revised where errors have been identified.

Auditor's conclusion

Management submitted a revised IAR on 3 August 2018. Based on the audit procedures performed on the revised IAR, findings of similar nature have been identified. We will therefore revert back to the initial misstatement, as the population was not adequately corrected.

Immovable assets: Differences in extent of structure (COFF 54)

DETAILED AUDIT FINDING

Differences in extent of structure

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

(c) must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;

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

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

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

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

Chapter 4.3.4 of the Model for applying municipal values, comparative municipal values/ sales and replacement costs as deemed cost of immovable assets of the Property Management Trading Entity (PMTE) as at 1 April 2013 outlines the process for Determining the Building Value states that: “Building Cost information from reference sites such as **“AECOM – Africa Property and Construction handbook”** will be used in consultation with National DPW’s Valuations unit.
a) Calculate the building value using the building indices and DPW’s 2014/15 physical verification information.

b) From the building cost information sources obtain the rate per square meter of the type of improvement and multiply by the extent of the buildings to get the building value.

c) Use the condition assessment from the DPW 2014/15 physical assessment rating to adjust the calculated replacement cost to determine the value of the building”

Nature

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

Incorrect extent of structure was used to calculate the replacement cost (Building Indices).

1. During physical verification, the number of floors counted per building differed from the number of floors recorded on the immovable asset register. This result in an incorrect extent of structure used to calculate building values based on the replacement cost method (Building indices).

   This resulted in the following differences as outlined in Table 1 below.

Table 1

BUILDING ID	Number of floors as per physical verification	Number of floors as per IAR	Difference	Recalculated depreciable replacement cost (Rand's)	Depreciable replacement cost IAR (Rand's)	Difference in deemed cost (Rand's)
200000084721	7	5	2	184 411 500	131 722 500	52 689 000
243600359	12	11	1	189 949 990	173 518 330	16 431 660
200000144356	2	1	1	24 011 820	12 005 910	12 005 910
200000068151	2	1	1	23 795 438	11 897 719	11 897 719
200000046367	2	3	(1)	4 109 963	6 164 944	(2 054 981)
200000061586	1	2	(1)	2 998 283	5 996 565	(2 998 283)
DODBLD37433	1	2	(1)	5 783 783	11 567 565	(5 783 783)
200000028510	3	7	(4)	10 558 338	38 216 178	(27 657 840)
DODBLD37197	1	3	(2)	21 798 872	65 396 615	(43 597 743)

200000119882	7	9	(2)	179 328 752	231 232 877	(51 904 125)
					Total	**(40 972 466)**

The difference in deemed cost of buildings, result in the following component differences:

Table 1.1

COMPONENT ID	BUILDING ID	COMPONENT DESCRIPTION	COST OF ASSETS AS AT 1 APRIL 2013 (Rand's)	Recalculated Component value (Rand's)	Difference in deemed cost (Rand's)
235800213	200000119882	Lift / Elevator	2 335 686	1 816 644	(519 041)
228550061	200000028510	Lift / Elevator	386 022	109 444	(276 578)
243600364	243600359	Generator	1 807 483	1 971 799	164 317
243600362	243600359	Lift / Elevator	1 807 483	1 971 799	164 317
243600363	243600359	Aircon	3 614 965	3 943 598	328 633
				Total	**(138 353)**

2. Differences between extent of footprint as per GIS Maps and extent of footprint as per the Immovable Asset Register (IAR) as outlined in Table 2 below was noted, furthermore during physical verification, the number of floors counted per building differed from the number of floors recorded on the immovable asset register. This results in an incorrect extent of structure used to calculate building values based on the replacement cost method (Building indices).

   This resulted in the following differences as outlined in Table 2 below.

Table 2

NO	BUILDING ID	Extent Of footprint as per GIS Maps	Extent Of footprint as per IAR	Difference in extent	Number of floors as per physical verification	Number of floors as per IAR	Difference	Recalculated depreciable replacement cost excl component (Rand's)	Depreciable replacement cost excl component per asset register (Rand's)	Difference in deemed cost (Rand's)
1	200000028332	2 393	2 138	255	4	5	(1)	51 848 748	58 187 808	(6 339 060)
2	DODBLD21853	2 410	1 261	1 149	1	2	(1)	4 093 988	4 284 214	(190 226)
3	DODBLD32377	251	494	(243)	2	1	1	1 355 400	1 334 934	20 466
4	DODBLD05572	3 652	6 236	(2 584)	2	1	1	21 199 860	18 100 512	3 099 348
5	DODBLD31077	1 528	1 503	25	3	2	1	12 325 230	8 080 447	4 244 783
6	203200383	1 553	1 560	(7)	5	4	1	42 966 126	34 319 376	8 646 750
7	200000028513	1 325	2 042	(717)	22	1	21	127 895 625	5 926 905	154 106 280

NO	BUILDING ID	Extent Of footprint as per GIS Maps	Extent Of footprint as per IAR	Difference in extent	Number of floors as per physical verification	Number of floors as per IAR	Difference	Recalculated depreciable replacement cost excl component (Rand's)	Depreciable replacement cost excl component per asset register (Rand's)	Difference in deemed cost (Rand's)
	200000028513	741			5		5	16 254 810		
	200000028513	724			5		5	15 882 750		
									Total	**163 588 341**

The difference in deemed cost of buildings, result in the following component differences:

COMPONENT ID	BUILDING ID	COMPONENT DESCRIPTION	COST OF ASSETS AS AT 1 APRIL 2013 (Rand's)	Recalculated Component value (Rand's)	Difference in deemed cost (Rand's)
228550023	200000028332	Aircon	1 212 246	1 085 465	(126 781)
228550024	200000028332	Lift / Elevator	404 082	361 822	(42 260)
228550025	200000028332	Lift / Elevator	404 082	361 822	(42 260)
228550026	200000028332	Lift / Elevator	404 082	361 822	(42 260)
203200391	203200383	Lift / Elevator	353 808	440 276	86 468
203200410	203200383	Aircon	707 616	880 551	172 935

Total	**5 840**

3. During physical verification, the number of floors counted per building differed from the number of floors recorded on the immovable asset register for the various properties as outlined in Table 3 below was noted when calculating replacement cost, this resulted in differences below after taking PMTE COFF 33 (Differences in extent of footprint) into account.

Table 3

BUILDING ID	Number of floors as per physical verification	Number of floors as per IAR	Difference	(A) Recalculated depreciable replacement cost	(B) COST OF ASSETS AS AT 1 APRIL 2013	(C) Recalculated depreciable replacement cost COFF 33	(A-C) Difference in deemed cost (Rand's)
DODBLD07166	1	3	(2)	19 273 800	29 028 216	57 821 400	(38 547 600)
DODBLD06013	7	12	(5)	30 988 913	204 908 535	53 123 850	(22 134 938)
DODBLD05534	1	2	(1)	18 798 368	19 280 167	37 596 735	(18 798 368)
DODBLD07179	4	3	1	27 501 600	7 489 440	20 626 200	6 875 400
DODBLD06140	25	1	24	187 236 563	98 351 213	6 222 015	181 014 548
						Total	**175 390 200**

Impact

The aforementioned finding results in the following;

Property plant and equipment (Deemed cost) is understated by R297 873 562.

Internal control deficiency

Leadership

Management did not exercise oversight responsibility regarding financial reporting.

Financial and Performance Management

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

Recommendation

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

Management should ensure that the immovable asset management policy, accounting policy and approved deemed cost model is correctly and consistently applied.

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

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

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

Management response

Management is in agreement with the finding raised. The building extents will be revised where errors have been identified.

Auditor's conclusion

Management submitted a revised IAR on 3 August 2018. Based on the audit procedures performed on the revised IAR, findings of similar nature have been identified. We will therefore revert back to the initial misstatement, as the population was not adequately corrected.

Immovable assets: Incorrect replacement cost rates used (COFF 20)

DETAILED AUDIT FINDING

Incorrect replacement cost rates used to calculate Deemed Cost

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

(a) must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;

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

Immovable Asset Management Policy Annexure 3: Table of asset classes (categories), components and original useful lives states that: "Building Low rise (max 4 floors)"

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

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

Chapter 4.3.4 of the Model for applying municipal values, comparative municipal values/ sales and replacement costs as deemed cost of immovable assets of the Property Management Trading Entity (PMTE) as at 1 April 2013 outlines the process for Determining the Building Value states that: "Building Cost information from reference sites such as **"AECOM – Africa Property and Construction handbook"** will be used in consultation with National DPW's Valuations unit.
a) Calculate the building value using the building indices and DPW's 2014/15 physical verification information.

b) From the building cost information sources obtain the rate per square meter of the type of improvement and multiply by the extent of the buildings to get the building value.

c) Use the condition assessment from the DPW 2014/15 physical assessment rating to adjust the calculated replacement cost to determine the value of the building"

Nature

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

Incorrect replacement cost rates were used to calculate the deemed cost. The Multi-storey office rate of R9 750 was incorrectly applied to office buildings which are considered to be low rise office buildings as they have four or less floors. A rate of R6 450 (Low rise office building rate) should have been used.

This resulted in the following differences:

Building Id	Accommodation type	Number Of Floors	Extent Of Structure	COST OF ASSETS AS AT 1 APRIL 2013	Recalculated Deemed cost less components	Difference
226450018	OFFICE	3	16 245	R 71 274 938	R 47 151 113	R 24 123 825
227150852	OFFICE	3	2 703	R 11 859 413	R 7 845 458	R 4 013 955
200000064250	OFFICE	3	4 164	R 28 131 864	R 18 610 305	R 9 521 559
200000068280	OFFICE	3	1 734	R 11 834 550	R 7 829 010	R 4 005 540
200000096391	OFFICE	3	45 813	R 312 673 725	R 206 845 695	R 105 828 030
DODBLD07347	OFFICE	3	4 542	R 19 928 201	R 13 183 271	R 6 744 929
DODBLD05553	OFFICE (MULTI STOREY REINFORCED CONCRETE)	3	15 419	R 67 649 634	R 44 752 835	R 22 896 799
DODBLD07072	OFFICE (MULTI STOREY REINFORCED CONCRETE)	3	2 675	R 11 736 168	R 7 763 926	R 3 972 241
DODBLD07373	OFFICE (MULTI STOREY REINFORCED CONCRETE)	3	3 481	R 15 273 195	R 10 103 806	R 5 169 389
DODBLD08817	OFFICE (MULTI STOREY REINFORCED CONCRETE)	3	1 667	R 7 312 032	R 4 837 190	R 2 474 842
DODBLD11726	OFFICE (MULTI STOREY REINFORCED CONCRETE)	3	10 873	R 47 706 413	R 31 559 627	R 16 146 786

Building Id	Accommodation type	Number Of Floors	Extent Of Structure	COST OF ASSETS AS AT 1 APRIL 2013	Recalculated Deemed cost less components	Difference
DODBLD18737	OFFICE (MULTI STOREY REINFORCED CONCRETE)	3	5 563	R 24 407 619	R 16 146 578	R 8 261 040
DODBLD36568	OFFICE (MULTI STOREY REINFORCED CONCRETE)	3	5 589	R 24 522 352	R 16 222 479	R 8 299 873
230350020	OFFICE	4	13 696	R 93 475 200	R 61 837 440	R 31 637 760
200000032792	OFFICE	4	51 328	R 121 358 640	R 80 283 408	R 41 075 232
200000034710	OFFICE	4	49 732	R 218 199 150	R 144 347 130	R 73 852 020
200000061587	OFFICE	4	1 548	R 6 723 932	R 4 448 139	R 2 275 792
200000119561	OFFICE	4	42 520	R 186 556 500	R 123 414 300	R 63 142 200
DODBLD10572	OFFICE	4	8 118	R 55 406 442	R 36 653 492	R 18 752 950
DODBLD08644	OFFICE (MULTI STOREY REINFORCED CONCRETE)	4	2 858	R 19 502 574	R 12 901 703	R 6 600 871
200000145614	OFFICE	4	17 548	R 116 172 147	R 79 229 220	R 36 942 927
			Total			**R 495 0738 561**

The difference in deemed cost of buildings, result in the following component differences:

BUILDING ID	COMPONENT DESCRIPTION	COST OF ASSETS AS AT 1 APRIL 2013	Recalculated deemed cost (Components)	Difference
200000061587	Lift / Elevator	R 67 919	R 44 931	R 22 988
200000064250	Generator	R 284 160	R 187 983	R 96 177
200000032792	Lift / Elevator	R 1 251 120	R 827 664	R 423 456
200000032792	Lift / Elevator	R 1 251 120	R 827 664	R 423 456
200000032792	Generator	R 1 251 120	R 827 664	R 423 456
200000145614	Lift / Elevator	R 1 197 651	R 792 292	R 405 359
200000145614	Aircon	R 2 395 302	R 792 292	R 1 603 010
			Total	**R 3 397 902**

Impact

The aforementioned finding results in the following;

Property plant and equipment (Deemed cost) is overstated by R 495 738 561.

Internal control deficiency

Leadership

Management did not exercise oversight responsibility regarding financial reporting.

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

Recommendation

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

Management should ensure that the immovable asset management policy, accounting policy and approved deemed cost model is correctly and consistently applied.

Management response

Management are in agreement with the finding. The coding in the script of the engine (deemed cost model) will be adjusted to avoid the override that occurs for office buildings should they be 3 or 4 floors.

Auditor's conclusion

Management submitted a revised IAR on 3 August 2018. Based on the audit procedures performed on the revised IAR, findings of similar nature have been identified. We will therefore revert back to the initial misstatement, as the population was not adequately corrected.

Immovable assets: Difference in accommodation type (COFF 52)

DETAILED AUDIT FINDING

Differences in extent of footprint

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

(a) must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;

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

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

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

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

Chapter 4.3.4 of the Model for applying municipal values, comparative municipal values/ sales and replacement costs as deemed cost of immovable assets of the Property Management Trading Entity (PMTE) as at 1 April 2013 outlines the process for Determining the Building Value states that: "Building Cost information from reference sites such as **"AECOM – Africa Property and Construction handbook"** will be used in consultation with National DPW's Valuations unit.
a) Calculate the building value using the building indices and DPW's 2014/15 physical verification information.

b) From the building cost information sources obtain the rate per square meter of the type of improvement and multiply by the extent of the buildings to get the building value.

c) Use the condition assessment from the DPW 2014/15 physical assessment rating to adjust the calculated replacement cost to determine the value of the building"

Nature

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

Incorrect function of structure/accommodation type was used to determine the replacement cost rate.

During physical verification, the function of structure differed from the one recorded in the immovable asset register for the assets listed below. This resulted in an incorrect rate used to calculate building value.

This resulted in the following differences as outlined in Table 1 below.

Table 1

BUILDING ID	Accommodation type as per physical verification	Accommodation type as per IAR	Recalculated depreciable replacement cost excl component (Rand's)	Depreciable replacement cost excl component per asset register (Rand's)	Difference in deemed cost (Rand's)
DODBLD21545	OFFICE	MEDIA CENTRE	18 597 571	59 541 043	(40 943 472)
DODBLD29466	BUNKER	OFFICE	7 550 570	19 501 472	(11 950 902)
200000141569	PARKING	AIRFORCE BASE	5 518 328	11 964 105	(6 445 778)
DODBLD11625	Storage	SHELTER	7 526 754	11 913 206	(4 386 452)
200000062899	Generator room	OFFICE	106 650	229 298	(122 648)
200000028512	Retail	OFFICE	48 818 700	38 556 810	10 261 890
				Total	**(53 587 362)**

During physical verification, the function of structure differed from the one recorded in the immovable asset register for the various properties, furthermore differences between extent of footprint as per GIS Maps and extent of footprint as per IAR was noted and resulted in the following differences as outlined in Table 2 below.

Table 2

BUILDING ID	Extent Of footprint as per GIS Maps	Extent Of footprint as per IAR	Difference in extent	Accommodation type as per physical verification	Accommodation type as per IAR	Recalculated depreciable replacement cost excl component	Depreciable replacement cost excl component per asset register	Difference in deemed cost (Rand's)
200000082458	549	8 119	(7 570)	Conference centre	OFFICE BUILDING	5 101 583	23 564 237	(18 462 654)
200000028511	21 606	19 076	2 530	Retail	OFFICE	158 804 100	110 736 180	48 067 920
							Total	**29 605 266**

Impact

The aforementioned finding results in the following;

Property plant and equipment (Deemed cost) is overstated by R 23 982 096.

Internal control deficiency

Leadership

Management did not exercise oversight responsibility regarding financial reporting.

Financial and Performance Management

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

Recommendation

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

Management should ensure that the immovable asset management policy, accounting policy and approved deemed cost model is correctly and consistently applied.

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

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

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

Management response

Management is not in agreement with the finding.

The Auditor General has not taken into account that the function and use of structure as at 1 April 2013 may at times not be the same use of structure as at 31 March 2018. It must be noted that client departments who are the users of the PMTE's building may change the function of the structure to meet their operational needs that may differ over a 5-year period. Defence may have initially utilised the building as an office however due to their increase in capacity may need to convert an office into a bunker.

On engagement with DOD, it has been established that the dominant use of structure for building ID DODBLD21545 was previously a Media Centre, this has however been changed in order to accommodate more office space.

AG should not use the current function of structure as at 31 March 2018 as a determinant of the use as at 1 April 2013 due to the time based shortcomings as discussed above.

Auditor’s conclusion

Management comment noted. However, no evidence was provided to auditors to confirm that there was a change in use of structure for identified buildings as stated in the management response. The finding will remain.

Immovable assets: Improvements included in the average vacant land rate calculation (COFF 17)

DETAILED AUDIT FINDING

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

(e) must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;

(f) must prepare financial statements for each financial year in accordance with generally recognized accounting practice"

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

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

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

Chapter 4.3.3 of the Model for applying municipal values, comparative municipal values/ sales and replacement costs as deemed cost of immovable assets of the Property Management Trading Entity (PMTE) as at 1 April 2013 outlines the process for Determining the Land Value:

I. Land Value – use the comparable method to value the land - calculate average vacant land value per average extent for each town using the MVRs (vacant land value/ vacant land extent).

II. Where there is no vacant land in a specific area, a similar area/ township with vacant land will be used to calculate the vacant land ratio.

III. Distinguish the land between Erf's, Farms or Agricultural Holdings in obtaining the average vacant land rates.

IV. Apply the average vacant land to the actual extent in the IAR to calculate land value (average vacant land x actual IAR extent for the land parcel = land value)

Nature

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

Management has applied the deemed cost model in the determination of the average vacant land ratio principles incorrectly.

As per the deemed cost model, the value of land for properties that are of a specialized nature will be determined via average vacant land ratios, where municipal values or comparable values are not available. The ratios would be applied through determining the value of land and buildings separately. The land value would be derived from the average price of vacant land parcels in the same or similar area as the land being valued.

Management used land parcels that have improvements/structures on them; thus resulting in the values used to determine the average vacant land ratio being misstated.

Properties included in the Average Vacant Land Masterfile with improvements or structures:

Unique Property Code	Property Description	Local Municipality	Extent of land parcels in hectares	Land value (as per AVL Masterfile)
DEEDS93 859	ERF 2926 PORTION 0 OF LOVU	ETHEKWINI METROPOLITAN MUNICIPALITY	0.22	R 120 000.00
3127851	ERF 8130 PORTION 0 OF SALDANHA	SALDANHA BAY LOCAL MUNICIPALITY	2.40	R 26 750 000.00

This impact the calculation of the average vacant land ratio’s in the following areas:

Region	Rate including improvements	Rate excluding improvements	Difference
Kwa-Zulu Natal - Rate Below 10 000sqm	R 1 701 984,14	R 1 708 776.19	-R 6 792.05
Western Cape - Above 10 000sqm	R 46 602,07	R 43 438,79	R 3 163.28

The difference in rates results in the following differences in deemed cost based on the sample tested: Property, Plant and Equipment.

Unique Property Code	Local Municipality	X-Extent of land parcels in hectares	Deemed cost as per assets register	Recalculated Land value	Differences
S42_31032015_00888	CITY OF CAPE TOWN METROPOLITAN MUNICIPALITY	4 208.75	R 196 136 462	R 182 823 002	R 13 313 460
780521	CITY OF CAPE TOWN METROPOLITAN MUNICIPALITY	1 234.67	R 57 538 284	R 53 632 669	R 3 905 615
713091	CITY OF CAPE TOWN METROPOLITAN MUNICIPALITY	60.64	R 2 825 796	R 2 633 985	R 191 811
797221	SALDANHA BAY LOCAL MUNICIPALITY-WC	18.26	R 850 814	R 793 062	R 57 752
2857011	SALDANHA BAY LOCAL MUNICIPALITY	47.81	R 222 804	R 207 681	R 15 124
3162971	CITY OF CAPE TOWN METROPOLITAN MUNICIPALITY	32.99	R 152 221	R 141 800	R 10 422
739181	STELLENBOSCH LOCAL MUNICIPALITY	2 040.71	R 95 101 057	R 88 645 736	R 6 455 321
DEEDS4133	STELLENBOSCH LOCAL MUNICIPALITY	1 889.19	R 88 040 424	R 82 064 369	R 5 976 055
728671	STELLENBOSCH LOCAL MUNICIPALITY	1 512.43	R 70 482 498	R 65 698 249	R 4 784 249
954652	MSUNDUZI LOCAL MUNICIPALITY-KZN	0.24	R 408 476	R 410 106	-R 1 630
972533	ETHEKWINI METROPOLITAN MUNICIPALITY	0.24	R 399 115	R 400 708	-R 1 593
998471	ETHEKWINI METROPOLITAN MUNICIPALITY	0.16	R 278 274	R 279 385	-R 1 110
9524919	ETHEKWINI METROPOLITAN	0.015	R 267 092	R 25 632	R 241 461

Unique Property Code	Local Municipality	X-Extent of land parcels in hectares	Deemed cost as per assets register	Recalculated Land value	Differences
	MUNICIPALITY				
Total					**R 34 946 935**

Heritage assets

Unique Property Code	Local Municipality	X-Extent of land parcels in hectares	Deemed cost as per assets register	Recalculated Land value	Differences
739451	STELLENBOSCH LOCAL MUNICIPALITY	1 882.28	R 87 718 297	R 81 764 107	R 5 954 190
732601	STELLENBOSCH LOCAL MUNICIPALITY	1 776.01	R 82 765 499	R 77 147 497	R 5 618 001
733041	STELLENBOSCH LOCAL MUNICIPALITY	1 238.46	R 57 714 715	R 53 797 124	R 3 917 590
729501	STELLENBOSCH LOCAL MUNICIPALITY	1 186.14	R 55 276 690	R 51 524 589	R 3 752 101
732161	STELLENBOSCH LOCAL MUNICIPALITY	819.67	R 38 198 174	R 35 605 337	R 2 592 836
729111	STELLENBOSCH LOCAL MUNICIPALITY	715.41	R 33 339 377	R 31 076 348	R 2 263 028
730831	STELLENBOSCH LOCAL MUNICIPALITY	668.07	R 31 133 342	R 29 020 056	R 2 113 286
607891	CITY OF CAPE TOWN METROPOLITAN MUNICIPALITY	475.84	R 22 175 171	R 20 669 952	R 1 505 218
731261	STELLENBOSCH LOCAL MUNICIPALITY	285.89	R 13 323 285	R 12 418 920	R 904 365
2658842	DRAKENSTEIN LOCAL MUNICIPALITY	0.33	R 1 984 026	R 2 004 066	-R 20 041
1640983	MSUNDUZI LOCAL MUNICIPALITY	0.35	R 593 141	R 595 509	-R 2 367
1640982	MSUNDUZI LOCAL MUNICIPALITY	0.35	R 592 290	R 594 654	-R 2 364
3005511	MAKANA LOCAL MUNICIPALITY	0.23	R 337 278	R 340 685	-R 3 407
873831	TSOLWANA LOCAL MUNICIPALITY	0.23	R 336 358	R 343 222	-R 6 864

Unique Property Code	Local Municipality	X-Extent of land parcels in hectares	Deemed cost as per assets register	Recalculated Land value	Differences
1640985	MSUNDUZI LOCAL MUNICIPALITY	0.086	R 146 711	R 147 297	-R 585
Total					**R 28 584 987**

Investment Property

During the performance of the Investment property we also identified that the extent of the land as per the assets register differs from the land extent as per the supporting documents submitted (Aktext).

The difference in extent is as follows;

Unique Property Code	Local Municipality	Extent of land parcels in Hectares as per asset register	Extent of land parcels in Hectares as per Aktext	Differences
507961	BA-PHALABORWA LOCAL MUNICIPALITY	2 265	2 249	17

The difference in extent results in the following differences in deemed cost based on the sample tested:

Unique Property Code	Local Municipality	X-Extent of land parcels in hectares	Deemed cost as per assets register	Recalculated Land value	Differences
507961	BA-PHALABORWA LOCAL MUNICIPALITY	2 249	R 9 535 989	R 9 864 763	-R 328 774

Impact

The aforementioned findings result in the following:

Property, plant and equipment (Land) is overstated by R 34 946 935.

Heritage assets (Land) is overstated by R 28 584 987.

Investment Property (Land) is understated by R 328 774.

Internal control deficiency

Financial and performance management

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

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

Recommendation

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

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

Management should scrutinize the average vacant land Masterfile to identify all improvements and structures included and remove it from the Masterfile. The average vacant land ratios should then be recalculated and applied to the immovable asset register.

Management response

Management is partially in agreement with the finding.

1. **Properties included in the Average Vacant Land Masterfile with improvements or structures:**

1.1 Unique property code DEEDS93859 of Illovu has been confirmed to be vacant. The structures as viewed by the AGSA from the Lightstone report are moveable structures. Please see annexure A attached providing images of the moveable structures (illegally occupied) that are located on the site identified. This thus renders the site to be correctly classified as vacant.

1.2 Unique property code 3127851 of Saldanha has been confirmed to be improved. Management have revisited the entire population and determined all other sites which are improved.

2. **Investment Property:**

   The extent of 2 265 hectares as reflected for the site of property code 507961 has been correctly accounted for. The difference as identified by the AGSA is due to a conversion error by Deeds in arriving at the extent of 2 249 hectares. Management identified the error and utilised the extent as per Surveyor General to arrive at the correctly reflected extent. Please find attached (annexure B) the extent as per the GIS completed based on the Surveyor General polygon.

Auditor's conclusion

Management submitted a revised IAR on 3 August 2018. Based on the audit procedures performed on the revised IAR, findings of similar nature have been identified. We will therefore revert back to the initial misstatement, as the population was not adequately corrected.

Incorrect classification of project cost (COFF 42)

1. Overstatement of Assets Under-Construction

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

“The accounting officer for a department, trading entity or constitutional institution-

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

Generally Recognised Accounting Practice (GRAP) 1, paragraph 19(b) states the following:

“fair presentation requires an entity to present information including accounting policies, in a manner which provides relevant, reliable, comparable and understandable information.”

GRAP 17 paragraph 6 states that:

Property, plant and equipment are tangible items that:

(a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and

(b) are expected to be used during more than one reporting period.

Nature

During the performance of our audit we identified the following projects have been classified as Capital Expenditure (Capex) for purposes of assets under-construction (AUC); however based on the assessment of the work done on the projects supports that these are in fact, projects which are Operating expenditure: Maintenance (Opex) projects and thus should not have been included on the assets under construction schedule:

No	WCS No	Description	Classification per AUC schedule	Classification per Support documentation	Amounts [R]
1	48186	Ficksburg Bridge and Caledonspoort Ports of Entry: BCOCC: Maintenance and servicing of building, Civil, Mechanical Electrical Infrastructure installations	CAPEX	Opex	25 545 607

No	WCS No	Description	Classification per AUC schedule	Classification per Support documentation	Amounts [R]
2	52727	Lebombo Port: BCOCC: Maintenance and Servicing of Buildings, Civil Mechanical and Electrical infrastructure installations (36 Months)	CAPEX	Opex	22 056 558
3	48193	Department of Public of Works: Beitbridge port of entry: appointment of contractors: Maintenance and servicing of buildings of CONTRACTORS: MAINTENANCE AND SERVICING OF BUILDINGS, CIVIL, MECHANICAL AND ELECTRICAL INFRASTRUCTURE AND INSTALLATION.	CAPEX	Opex	50 411 461
4	48176	Department of Public of Works: Land Ports of entry:Ramatlabama Bray and Makgobistad: Appointment of contractor: Maintenance and servicing of building of building, civil, Mechanical electrical infrastructure and installations	CAPEX	Opex	30 457 921
5	49251	Skilpadshek: BCOCC: Appointment of contractor: Maintenance and servicing of building of building, civil, Mechanical electrical infrastructure and electrical installations and mechanical equipment	CAPEX	Opex	24 333 604
6	50195	Pontdrift, Platjan and Zanzibar Ports of entry: 36 Months Maintenance and servicing of Building civil: Mechanical and Electrical installations	CAPEX	Opex	22 178 103
7	52982	Bray, Makgobistad and swartkopfontein:Appointment of contractor: Maintenance and servicing of building of building, civil, Mechanical electrical infrastructure and installations	CAPEX	Opex	15 565 137
8	49255	Maseru Bridge port of entry BOCC: Appointment of contractor: Maintenance and servicing of building of building, civil, Mechanical electrical infrastructure and installations	CAPEX	Opex	30 818 041

No	WCS No	Description	Classification per AUC schedule	Classification per Support documentation	Amounts [R]
9	48177	Department of Public of Works: Land Ports of entry: Wepener Border Post: Appointment of contractor: Maintenance and servicing of building of building, civil, Mechanical electrical infrastructure and installations	CAPEX	Opex	18 143 992
10	48189	Department of Public of Works: Appointment of contractor: Maintenance and servicing of building of building, civil, Mechanical electrical infrastructure and installations	CAPEX	Opex	14 758 948
11	47931	Department of Public of Works: Sanis pass and Qacha's Nek ports of entry: Appointment of contractor: Maintenance and servicing of building of building, civil, Mechanical electrical infrastructure and installations	CAPEX	Opex	26 066 982
12	48183	Department of Public of Works: Kosi Bay Port of Entry: Appointment of contractor: Maintenance and servicing of building of building, civil, Mechanical electrical infrastructure and installations	CAPEX	Opex	7 758 571
13	48182	Swartkopfontein Port of entry - replacing missing roof tiles with similar, aletrations and repairs to existing wall structures, painting of previously painted surfaces, supply and installation of underground sanitary drainange pipes	CAPEX	Opex	36 013 618
14	49254	Mahamba Port Entry maintenance and servicing of buildings, civil, mechanical, electrical infrastructure and installations	CAPEX	Opex	27 074 859
		Total			**351 183 402**

The following project have been classified as Operating expenditure: Maintenance (Opex) for purposes of assets under-construction (AUC) and not included in the AUC register; however based on the assessment of the work done on the projects supports that these are in fact, projects which are Capital expenditure (Capex) projects and thus should have been included on the assets under construction schedule:

No	WCS No	Description	Classification per AUC schedule	Classification per Support documentation	Amounts [R]
1	044254	'Repair and maintenance operations of water and sewerage works	OPEX	CAPEX	(30 166 141)
		Total			**(30 166 141)**

Impact of the finding

- Overstatement of Assets Under-Construction of **R 321 017 261**
- Understatement of Planned Maintenance Expenditure of **R 321 017 261**

Internal control deficiency

Leadership

Inadequate implementation of action plans to address internal control deficiencies.

Financial and performance management

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

Recommendation

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

Management response

No management response was provided by PMTE.

Auditor's conclusion

In terms of paragraph 44 of our engagement letter, audit findings concerning control deficiencies, identified misstatements in the financial statements and non-compliance with laws and regulations will be communicated during the course of the audit and management will be requested to address these. Submission of a response to these communications, whether it be comments, information or documentation in support of action taken, will be required within a reasonable time, which should not exceed five working days from the date of the communication of the finding, unless a different timeline is expressly agreed in writing with the auditors.

Management responses were not submitted within the agreed five days and as such will no longer be taken into consideration in finalising the audit.

Immovable assets – Ownership of buildings (COFF 35)

DETAILED AUDIT FINDING

No evidence provided to confirm the ownership of buildings recorded on the Immovable Assets Register (IAR)

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

(g) must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;

(h) must prepare financial statements for each financial year in accordance with generally recognized accounting practice"

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

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

The following assets are included in the immovable asset register; however, no supporting documents were provided by management to confirm the ownership of these assets.

The buildings are located on land parcels not owned by the PMTE, which is allowed in terms of the Immovable Asset Guide, referred to as State Domestic Facilities.

For the assets listed below we are unable to confirm the custodianship based on what is deemed to belong to the Department of Public Works in terms of the Immovable Asset Guide. Furthermore, no agreement or other supporting documentation were provided to proof ownership.

We are therefore unable to determine if the PMTE has the rights to these assets.

No	Building Id	Site ID	FACILITY/ GROUPING NAME/ ASSETS CLASS	Accommodation Type	CARRY VALUE FOR THE YEAR 2017/182
1	200000028512	100000049073	BLOED STREET MALL	OFFICE	R 36 243 401
2	200000028511	100000049073	BLOED STREET MALL	OFFICE	R 104 092 009
3	234050150	200000064946	JOHANNESBURG RAILWAY STATION	OFFICE	R 267 162 919
4	200000119882	200000065263	DEPARTMENT OF TRANSPORT	OFFICE	R 222 561 644
5	200000084721	200000056878	NON RESIDENTIAL PROPERTY	OFFICE	R 125 136 375
6	240600104	200000077734	EDUCATION AND TRAINING	SCHOOL	R 90 271 584
7	200000082466	200000059576	SATELLITE STATION	UNKNOWN	R 11 109 401
8	230900852	100000047586	TZANEEN CENTER	OFFICE	R 3 803 320

No	Building Id	Site ID	FACILITY/ GROUPING NAME/ ASSETS CLASS	Accommodation Type	CARRY VALUE FOR THE YEAR 2017/182
9	234550694	200000062784	RESIDENTIAL ACCOMODATION	RESIDENTIAL ACCOMMODATION	R 1 875 349
Total					**R 862 256 002**

Impact

This impacted immovable assets in the following areas:

- We are unable to perform the procedures to verify the owner of the building.
- This will result in the limitation of scope on the immovable assets.
- In the absence of supporting documentation to proof ownership, the immovable assets may be overstated by R 862 256 002.

Internal control deficiency

Financial and performance management

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

Recommendation

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

It is recommended that the management submit relevant information to confirm the ownership of properties disclosed in the immovable assets register.

Management should ensure that agreements are in place where facilities are constructed and used on land where DPW is not the custodian/owner.

Management response

Management is partially in agreement with the findings. Management agrees with 6 of the 9 findings raised by the AG. However, management disagrees with the following 3 building IDs:

a. 200000119882 with a carrying value of R 222 561 644. The building identified by the AG is building is being used by the National Department of Transport. This building belongs to the PMTE in line with National Treasury's Immovable Asset Guide and the State Domestic Facilities Framework.
b. 200000084721 with a carrying value of R125 136 375. The building identified by the AG is being used by the National Department of Labour. This building belongs to the PMTE in line with National Treasury's Immovable Asset Guide and the State Domestic Facilities Framework.
c. 200000082466 with a carrying of value R11 109 401. Management has engaged with the AG and confirmed that this property belongs to PMTE as it is a police station that the AG has physically verified.

Auditor's conclusion

Management submitted a revised IAR on 3 August 2018. Based on the audit procedures performed on the revised IAR, findings of similar nature have been identified. We will therefore revert back to the initial misstatement, as the population was not adequately corrected

Immovable assets: Depreciation differences (COFF 56)

DETAILED AUDIT FINDING

Depreciation differences

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

(a) must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;

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

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

GRAP 17, paragraph 55 states that: “The depreciable amount of an asset shall be allocated on a systematic basis over it’s useful life.”

GRAP 17, paragraph 6 states that: “Useful life is the period over which an asset is expected to be available for use by an entity.”

Nature

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

1. The differences identified in deemed cost results in the following depreciation differences (Refer to Annexure A for detail assets):

Table 1

Asset	Correct accumulated depreciation as per COFF 16	Auditors recalculated accumulated depreciation	Difference – Accumulated depreciation	Correct 17/18 depreciation as per COFF 16	Auditors recalculated 17/18 depreciation	Difference – Current year depreciation
Buildings	R 868 819 957	R 582 165 484	-R 286 654 473	R 217 204 989	R 145 541 371	-R 71 663 618
Components	R 29 787 590	R 30 624 051	R 836 460	R 7 446 898	R 7 656 013	R 209 115
		Total	**-R 285 818 012**		**Total**	**-R 71 454 503**

2. The estimated useful lives used on the immovable asset register to calculate depreciation do not agree to the estimated useful lives as per the immovable asset management policy. This resulted in the following depreciation differences:

Table 2

Building Id	Accommodation Type	Useful live as per Policy	SUGGESTED USEFUL LIFE	Correct accum depreciation as per COFF 16	Auditors recalculated accumulated depreciation	Difference – Accumulated depreciation	Correct 17/18 depreciation as per COFF 16	Auditors recalculated 17/18 depreciation	Difference – current year depreciation
200000141569	AIRFORCE BASE	50	80	R997 008,75	R735 777,00	-R261 231,75	R249 252,19	R183 944,25	-R65 307,94
237500002	CELL	100	80	R15 446 868,75	R12 357 495,00	-R3 089 373,75	R3 861 717,19	R3 089 373,75	-R772 343,44
240600752	HALL	50	80	R2 813 304,38	R4 501 287,00	R1 687 982,63	R703 326,09	R1 125 321,75	R421 995,66
200000144356	HALL	50	80	R1 000 492,50	R3 201 576,00	R2 201 083,50	R250 123,13	R800 394,00	R550 270,88
200000145614	OFFICE	50	80	R7 260 759,19	R7 563 626,70	R302 867,51	R1 815 189,80	R1 890 906,68	R75 716,88
100000042524	PARKING	50	80	R2 142 209,18	R3 427 534,69	R1 285 325,51	R535 552,29	R856 883,67	R321 331,38
240600549	STORAGE	60	80	R908 689,69	R1 211 586,25	R302 896,56	R227 172,42	R302 896,56	R75 724,14
DODBLD25601	STORE	60	50	R1 756 210,79	R1 467 688,54	-R288 522,24	R439 052,70	R366 922,14	-R72 130,56
DODBLD11585	STORE	60	50	R1 183 377,56	R986 147,97	-R197 229,59	R295 844,39	R246 536,99	-R49 307,40
DODBLD11582	STORE	60	50	R1 183 023,47	R985 852,89	-R197 170,58	R295 755,87	R246 463,22	-R49 292,64
DODBLD11551	STORE	60	50	R1 182 109,16	R985 090,97	-R197 018,19	R295 527,29	R246 272,74	-R49 254,55
DODBLD11554	STORE	60	50	R1 180 452,32	R983 710,26	-R196 742,05	R295 113,08	R245 927,57	-R49 185,51
DODBLD11553	STORE	60	50	R1 179 950,24	R983 291,87	-R196 658,37	R294 987,56	R245 822,97	-R49 164,59

Building Id	Accommodation Type	Useful live as per Policy	SUGGESTED USEFUL LIFE	Correct accum depreciation as per COFF 16	Auditors recalculated accumulated depreciation	Difference – Accumulated depreciation	Correct 17/18 depreciation as per COFF 16	Auditors recalculated 17/18 depreciation	Difference – current year depreciation
DODBLD11622	STORE	60	50	R1 004 285,15	R836 904,29	-R167 380,86	R251 071,29	R209 226,07	-R41 845,21
DODBLD11619	STORE	60	50	R1 004 085,83	R836 738,19	-R167 347,64	R251 021,46	R209 184,55	-R41 836,91
DODBLD11617	STORE	60	50	R998 271,57	R831 892,98	-R166 378,60	R249 567,89	R207 973,24	-R41 594,65
DODBLD16478	STORE	60	50	R734 995,52	R612 496,27	-R122 499,25	R183 748,88	R153 124,07	-R30 624,81
DODBLD32469	STORE	60	50	R850 851,78	R729 896,25	-R120 955,53	R212 712,95	R182 474,06	-R30 238,88
DODBLD10403	STORE	60	50	R1 009 281,74	R867 495,00	-R141 786,74	R252 320,43	R216 873,75	-R35 446,68
DODBLD19954	STORE	60	50	R991 517,34	R898 827,50	-R92 689,84	R247 879,34	R224 706,88	-R23 172,46
DODBLD21853	STORE	60	50	R571 228,47	R454 887,50	-R116 340,97	R142 807,12	R113 721,88	-R29 085,24
					Total	R60 829,75		**Total**	R15 207,44

3. The remaining useful lives for the assets that had a change in condition was not revised. This resulted in the following depreciation differences:

Table 3

Building ID per mastefile	CONDITION GRADING PRIOR TO CHANGE*	CONDITION GRADING AFTER CHANGE*	Change in condition	Remaining useful life as at 1 April 2017	Reassessed useful life as at 1 April 2017	Depreciation - 2017/18 financial year	Recalculated depreciation based on revised useful life	Difference
100000008098	60%	40%	20%	26	20	R 1 344,59	R 1 747,97	R 403,38
100000008097	60%	40%	20%	26	20	R 6 060,41	R 7 878,53	R 1 818,12
100000005822	80%	40%	40%	36	20	R 10 184,76	R 18 332,58	R 8 147,81
100000005823	80%	40%	40%	36	20	R 3 506,23	R 6 311,21	R 2 804,98
2000042179	80%	40%	40%	36	20	R 3 121,24	R 5 618,23	R 2 496,99
2000042174	80%	40%	40%	36	20	R 10 513,64	R 18 924,55	R 8 410,91
2100750635	80%	40%	40%	36	20	R 361,06	R 649,92	R 288,85
100000003310	80%	40%	40%	36	20	R 536,44	R 965,59	R 429,15
2100750632	80%	40%	40%	36	20	R 3 538,43	R 6 369,17	R 2 830,74
2100750175	80%	40%	40%	36	20	R 60,02	R 108,03	R 48,01
2100750143	60%	40%	20%	26	20	R 215,44	R 280,07	R 64,63
2100750150	80%	40%	40%	36	20	R 360,09	R 648,17	R 288,08
2100750133	80%	40%	40%	36	20	R 1 163,38	R 2 094,08	R 930,70

Building ID per mastefile	CONDITION GRADING PRIOR TO CHANGE*	CONDITION GRADING AFTER CHANGE*	Change in condition	Remaining useful life as at 1 April 2017	Reassessed useful life as at 1 April 2017	Depreciation - 2017/18 financial year	Recalculated depreciation based on revised useful life	Difference
100000001449	80%	40%	40%	36	20	R 1 301,88	R 2 343,38	R 1 041,50
2100750160	60%	40%	20%	26	20	R 929,47	R 1 208,31	R 278,84
2100750165	60%	40%	20%	26	20	R 61,55	R 80,02	R 18,47
2100750196	60%	40%	20%	26	20	R 196,97	R 256,07	R 59,09
2100750181	80%	40%	40%	36	20	R 55,40	R 99,72	R 44,32
2100750201	60%	40%	20%	26	20	R 36,93	R 48,01	R 11,08
2100750138	60%	40%	20%	26	20	R 954,09	R 1 240,32	R 286,23
2100750155	80%	40%	40%	36	20	R 50,78	R 91,41	R 40,63
200000123593	80%	40%	40%	36	20	R 4 977,00	R 8 958,60	R 3 981,60
100000008585	80%	40%	40%	36	20	R 2 518,14	R 4 532,65	R 2 014,51
100000008586	80%	40%	40%	36	20	R 874,72	R 1 574,50	R 699,78
100000028967	60%	20%	40%	26	10	R 2 261,91	R 5 880,95	R 3 619,05
100000025875	80%	60%	20%	36	30	R 1 730,60	R 2 076,72	R 346,12
100000025880	60%	40%	20%	26	20	R 196 028,40	R 254 836,92	R 58 808,52
100000025878	60%	40%	20%	26	20	R 21 583,71	R 28 058,83	R 6 475,11
100000025828	60%	40%	20%	26	20	R 281 974,18	R 366 566,43	R 84 592,25
100000025874	60%	40%	20%	44	32	R 83 814,39	R 115 244,78	R 31 430,40
100000028549	60%	40%	20%	26	20	R 361,38	R 469,80	R 108,41

Building ID per mastefile	CONDITION GRADING PRIOR TO CHANGE*	CONDITION GRADING AFTER CHANGE*	Change in condition	Remaining useful life as at 1 April 2017	Reassessed useful life as at 1 April 2017	Depreciation - 2017/18 financial year	Recalculated depreciation based on revised useful life	Difference
100000028546	60%	40%	20%	26	20	R 17 813,64	R 23 157,73	R 5 344,09
100000028547	60%	40%	20%	26	20	R 30 078,77	R 39 102,40	R 9 023,63
100000028548	60%	40%	20%	32	24	R 790,91	R 1 054,54	R 263,64
100000028533	60%	40%	20%	26	20	R 7 702,21	R 10 012,87	R 2 310,66
200000031928	80%	20%	60%	36	10	R 102 186,50	R 367 871,40	R 265 684,90
200000049650	40%	20%	20%	16	10	R 40 000,00	R 64 000,00	R 24 000,00
100000040689	40%	20%	20%	16	10	R 221 400,00	R 354 240,00	R 132 840,00
100000034505	40%	20%	20%	16	10	R 20 118,37	R 32 189,39	R 12 071,02
100000036227	40%	20%	20%	20	12	R 2 434,29	R 4 057,14	R 1 622,86
100000036234	40%	20%	20%	16	10	R 7 991,81	R 12 786,89	R 4 795,08
100000036225	40%	20%	20%	16	10	R 16 865,47	R 26 984,75	R 10 119,28
100000036235	40%	20%	20%	16	10	R 8 653,20	R 13 845,12	R 5 191,92
100000036232	40%	20%	20%	16	10	R 10 306,68	R 16 490,68	R 6 184,01
100000036230	40%	20%	20%	16	10	R 17 361,51	R 27 778,42	R 10 416,91
100000036226	40%	20%	20%	16	10	R 17 581,98	R 28 131,16	R 10 549,19
100000036228	40%	20%	20%	16	10	R 21 770,79	R 34 833,26	R 13 062,47
100000036229	40%	20%	20%	20	12	R 18 739,41	R 31 232,35	R 12 492,94
							Total	R 748 790,88

Impact

The aforementioned finding result in the following:

- The Property, plant and equipment – accumulated depreciation has been overstated by R 285 757 183.
- The current year depreciation has been overstated by R 70 690 505.

Internal control deficiency

Financial and performance management

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

The entity did not review and monitor compliance with applicable GRAP standards.

Recommendation

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

Management should ensure that assets are depreciated over the correct estimated useful life.

Management response

Management are in agreement with the finding. The depreciation differences are as a result of cost differences raised by the AG in prior findings.

Auditor’s conclusion

Management submitted a revised IAR on 3 August 2018. Based on the audit procedures performed on the revised IAR, findings of similar nature have been identified. We will therefore revert back to the initial misstatement, as the population was not adequately corrected

Immovable assets: Incorrect depreciation calculation based on remaining useful lives (COFF 16)

DETAILED AUDIT FINDING

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

(a) must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;

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

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

GRAP 17, paragraph 6 states that: "Useful life is the period over which an asset is expected to be available for use by an entity."

GRAP 17, paragraph 55 states that: "The depreciable amount of an asset shall be allocated on a systematic basis over it's useful life."

Chapter 4.5 of the Model for applying municipal values, comparative municipal values/ sales and replacement costs as deemed cost of immovable assets of the Property Management Trading Entity (PMTE) as at 1 April 2013 outlines the process for allocation of the estimated useful life to buildings taking into account the condition assessment:

No.	Condition grading from the DPW 2014/15 physical assessment	Percentage allocation of the Estimated Useful Life (EUL)
1	100% Excellent (no apparent defects / as new)	100% of EUL
2	80% Good (minor defects, superficial wear)	80% of EUL
3	60% Fair (average condition, surface deterioration)	60% of EUL
4	40% Poor (serious structural defects)	40% of EUL
5	20% Very Poor (unfit for occupancy)	20%of EUL

Nature

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

Management have applied the deemed cost model principles incorrectly by not using the details in the table above in calculating estimated useful lives. Useful lives used to calculate depreciation are those disclosed on the Immovable Asset Register Management Policy and were not adjusted based on the condition grading of the building to get to remaining useful lives.

As per management calculations, conditional grading of the property was used to discount the deemed cost of the property rather than discounting the useful lives to get to the remaining useful lives of the property as outlined in the table above.

The following depreciation differences as disclosed in the table below resulted from estimated useful lives.

GRAP 17

	Accumulated depreciation as at 31 March 2017	Auditors accumulated depreciation as at 31 March 2017	Difference in accumulated depreciation as at 31 March 2017	Depreciation for the year ended 31 March 2018	Auditors depreciation for the year ended 31 March 2018	Difference in Depreciation for the year ended 31 March 2018
Buildings	3 431 728 310	7 613 530 187	4 181 801 877	856 378 423	1 903 382 547	1 047 004 124
Components	56 334 064	115 886 952	59 552 888	17 501 584	28 971 738	11 470 154
Total			**4 241 354 765**			**1 058 474 278**

GRAP 16

	Accumulated depreciation as at 31 March 2017	Auditors accumulated depreciation as at 31 March 2017	Difference in accumulated depreciation as at 31 March 2017	Depreciation for the year ended 31 March 2018	Auditors depreciation for the year ended 31 March 2018	Difference in Depreciation for the year ended 31 March 2018

Buildings	329 116 001	339 240 188	10 124 187	82 279 000	84 810 047	2 531 047
Components	44 329 354	55 454 182	11 124 828	11 082 339	13 863 546	2 781 207
Total			**21 249 015**			**5 312 254**

Impact

The aforementioned findings result in the following:

Property, plant and equipment (GRAP 17)

As at 31 March 2017, accumulated depreciation is understated by R 4 241 354 765 and statement of changes in net asset is overstated by R 4 241 354 765. Accumulated depreciation, and depreciation for the 2017/18 financial year is understated by R 1 058 474 278.

Investment property (GRAP 16)

As at as at 31 March 2017, accumulated depreciation is understated by R 21 249 015 and statement of changes in net asset is overstated by R 21 249 015. Accumulated depreciation and depreciation for the 2017/18 financial year is understated by R 5 312 254.

Internal control deficiency

Financial and performance management

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

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

Recommendation

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

Management should ensure that the remaining useful life of each asset is recorded on the immovable asset register.

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

Management response

Management agrees with the finding.

The finding is as a result of management not transferring correct depreciation calculations performed on a separate workbook to the final IAR. The cause was an error in the formula to extract the depreciation values. The amounts as recalculated by the AGSA were confirmed to be correct except for the ones shown in the below table.

Auditor's conclusion

Management submitted a revised IAR on 3 August 2018. Management corrected the depreciation calculation in the revised IAR.

Payables from exchange transactions

Accrued expenses: understatement of accrual asset

Laws, rules and Regulations:

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

Property Management Trading Entity Payables Management Systems
6.9.2 states:
The accrued goods and services received prior to the reporting date need to be accounted in the current financial year.
6.9 Apportionment of accruals

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

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

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

Accrual assets

COF F No.	Region	Supplier Name	Date of receipts of goods and services	Apportioned amount per recalculation	Apportioned amount disclosed as per accrual listing	Difference between accrual listing amount and recalculation
5	Cape Town	Siyakhathala Safety cc	16/01/2018-15/03/2018	56 087.11		56 087.11
5	Cape Town	Zana Manzi services	14/03/2018-24/04/2018	332 959.47	-	332 959.47
5	Cape Town	Bidvest Facilities management	16/03/2018-13/04/2018	410 907.78	-	410 907.78
15	Head Office	Ingerop south africa	2018/02/28	186 117.48	-	186 117.48
15	Head Office	King civil engineering	2018/04/01	2 671145.74	-	2 671 145.74
4	Mmabatho	Extilie 454 Cc	2018/03/15-2018/04/23	654 498.03	-	654 498.03
3	Johannesburg	Lance Management Services	2018/03/20-2018/04/18	316 185,66	-	316 185.66
3	Johannesburg	Sebushi Somo Construction	2018/03/15-2018/04/16	1 287 041,13	-	1 287 041.13
8	Durban	Amabhakabhaka Trading	2018/02/28-2018/03/31	191 028.28	-	191 028.28
8	Durban	Urban Architects CC	2017/11/22-2018/04/23	187 707.50	-	187 707.50
8	Durban	Tauris Garden Trading	2017/11/22-2018/04/23	1 442 618.21	-	1 442 618.21
8	Durban	Siyaxhasana Construction CC	2018/02/28-2018/04/17	989 851.06	-	989 851.06
10	Polokwane	SEGABOKENG BUILDING CONSTRUCTION	2017/11/03-2018/05/04	1 218 148.00	-	1 218 148.00

COF F No.	Region	Supplier Name	Date of receipts of goods and services	Apportioned amount per recalculation	Apportioned amount disclosed as per accrual listing	Difference between accrual listing amount and recalculation
16	Pretoria	COOL BREEZE AIRCONDITIONING & REFRIGERATION CC	2018/02/28-2018/05/08	2805977.52	-	2 805 977.52
2	Kimberly	Sigma Lifts & escalators (Pty) Ltd	2018/03/19	90 356.83	-	90 356.83
19	Pretoria	Maunga Projects cc	2018/03/12	3 469 633.09	2 110 347.59	1 359 285.50
						14 199 915.30

Impact

This will result in an understatement of accruals asset by R 14 199 915.30
Understatement of Assets under-construction by R 14 199 915.30

Internal control deficiency
Financial and performance management

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

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

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

Management response

Management agrees with the audit finding.

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

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

Auditor’s conclusion
Management is in agreement with the finding therefore it will be reported in the management report.

Accrued expenses: overstatement of accrual assets

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

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

6.9 Apportionment of accruals

6.9.4 The process to be followed to accurately apportion accruals includes:
- Obtain all the supporting documentation relating to the particular payment; and
- Calculate the apportioned amount based on the total period covered by the service charge and the portion relating to the period under review. "

Nature
During the performance of our audit we identified that the following transaction relates to services received before year end and paid for during the year and should have not been accounted for as an accrual amount. Furthermore, transaction was not apportioned according to the Payables Management policy of the entity

COFF No.	Region	Supplier Name	WCS Number	Valuation Date	Invoice amount	Amount per recalculation	Amount per accrual listing	Difference between accrual listing amount and recalculation
9	Durban	Amabhakabhaka Construction	046982	28/02/2018	60 885.19	0	R60 885.19	60 885.19
5	Mmabatho	Ngaatendwe Trading Cc	050728	2018/01/29-2018/04/17	2 634 009.74	2 078000.26	2 634 009.74	556 009.48
								R 616 894.67

Impact
This will result in an overstatement of accruals asset by **R 616 894.67**

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

Recommendation
Management must ensure that the Payables Management policy is applied when preparing the accrual schedule

Management should enhance 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 update and adjust the accrual listings and annual financial statements, based on their determination and audit finding raised.

Management response

Management is in agreement with the finding.

The apportionment of the transaction was incorrectly done. This was due to inadequate review in finalizing the workbook for submission purposes. Management reviewed the whole population and will submit a revised listing for audit purposes on 27 July 2018.

Auditor's conclusion

Management comments are noted and the finding remains

Property rates

Property Rates expenditure is understated

DETAILED AUDIT FINDING

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

(c) must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;

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

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

Treasury Regulation 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.”

In terms of the Local Government Municipal Property Rates Act 6 of 2014:
Section 2 (1) – “A metropolitan or local municipality may levy a rate on property in it’s area”
Section 12(1) – “When levying rates, a municipality must levy the rate for a financial year.
Section 24 (1) – “A rate levied by a municipality on a property must be paid by the owner of the property, subject to Chapter 9 of the Municipal Systems Act.”

Nature

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

Property rates are not paid or accrued for properties owned by the National Department of Public Works.

The properties listed in the table below are included in the immovable asset register (Land) of the Property Management Trading Entity (PMTE). We noted that there were no current year property rates payments for these properties listed.

As property rates are levied on an annual basis, we further confirmed that no accrual was raised relating to the property rates on these listed properties.

A request for information (RFI 125) was issued on 24 July 2018 to afford management the opportunity to investigate if any reasons may exist why property rates are not paid on these properties, however no response has been received from management to date.

As no payment has been identified, we are unable to determine the estimated understatement of property rates expenditure for the current year.

No.	LPI code	Property Code	Property Description as per Land IAR	Title Deed number as per IAR	Regional Office
1	T0IR04220000110700000	124546	ERF 1107 PORTION 0 OF MARSHALLS TOWN	T10471/1967	JOHANNESBURG
2	T0IR04550000010700000	127582	ERF 107 PORTION 0 OF MULBARTON	T26268/1983	JOHANNESBURG
3	T0IQ02670000011600000	129320	ERF 116 PORTION 0 OF NATURENA	T7741/1989	JOHANNESBURG
4	T0IR00000000010600121	134523	FARM 106 PORTION 121 OF IR-KLIPRIVIERSBERG	T32618/1963	JOHANNESBURG
5	T0IR02910000006500000	135259	ERF 65 PORTION 0 OF HADDON	T620/924	JOHANNESBURG
6	C06700000000018300017	747111	FARM 183 PORTION 17 OF STELLENBOSCH RD-FARM 183	T10573/1957	CAPE TOWN
7	C05500000000103100000	S42_31032015_00875	FARM 1031 PORTION 0 PAARL	UNREGISTERED	CAPE TOWN
8	C06700220000491800000	DEEDS30228	ERF 4918 PORTION 0 OF STELLENBOSCH	T27693/1973	CAPE TOWN
9	C06700220000338300000	DEEDS30215	ERF 3383 PORTION 0 OF STELLENBOSCH	T129/1953	CAPE TOWN
10	C06700220000613300000	609532	ERF 6133 PORTION 0 OF STELLENBOSCH		CAPE TOWN
11	C06700000000028300008	802461	FARM 283 PORTION 8 OF STELLENBOSCH RD-VREEDENBURG	T32275/1973	CAPE TOWN
12	C06700000000018300035	DEEDS30275	FARM 183 PORTION 35 OF STELLENBOSCH RD-FARM 183	T32275/1973	CAPE TOWN
13	C06700000000002000017	699111	FARM 20 PORTION 17 OF STELLENBOSCH RD-FARM 20	T2617/1943	CAPE TOWN
14	C05500000000102300000	S42_31032015_00874	FARM 1023 PORTION 0 PAARL	UNREGISTERED	CAPE TOWN
15	C07600000000059600000	899551	FARM 596 PORTION 0 OF UITENHAGE RD-FARM 596	T46/1852	PORT ELIZABETH

No.	LPI code	Property Code	Property Description as per Land IAR	Title Deed number as per IAR	Regional Office
16	T0LU0001000011460000 0	190201	ERF 1146 PORTION 0 OF PHALABORWA EXT 2	T1070/1989	POLOKWANE
17	T0LU0001000021470000 0	190171	ERF 2147 PORTION 0 OF PHALABORWA EXT 6	T50969/1984	POLOKWANE
18	T0LU0001000030260000 0	133801	ERF 3026 PORTION 0 OF PHALABORWA EXT 7	BC27813/1998	POLOKWANE
19	T0LU0001000033730000 0	400401	ERF 3373 PORTION 0 OF PHALABORWA EXT 7	T49104/1980	POLOKWANE
20	T0LU0001000022990000 0	165101	ERF 2299 PORTION 0 OF PHALABORWA EXT 8	T17226/1981	POLOKWANE
21	T0LU0000000000300000 0	443671	FARM 30 PORTION 0 OF LU-WEGSTEEK	T79581/2014	POLOKWANE
22	T0IQ0026000001880000 0	1320501	ERF 188 PORTION 0 OF BANK	T2313/1945	JOHANNESBURG
23	T0IQ0055000001160000 0	1292381	ERF 116 PORTION 0 OF CARLETONVILLE	T27168/1961	JOHANNESBURG
24	T0IQ0129000001950000 0	141591	ERF 195 PORTION 0 OF FOCHVILLE	T17169/1920	MMABATHO
25	T0IQ0129000002580000 0	DEEDS13698 4	ERF 258 PORTION 0 OF FOCHVILLE	T17169/1920	MMABATHO
26	T0IQ0129000007300000 0	483411	ERF 730 PORTION 0 OF FOCHVILLE	T17169/1920	MMABATHO
27	T0IQ0528000003640000 0	439491	ERF 364 PORTION 0 OF KOKOSI	TL50310/1993	MMABATHO
28	T0IQ0129000006060000 0	487181	ERF 606 PORTION 0 OF FOCHVILLE	T17169/1920	MMABATHO
29	T0IQ0129000007560000 0	DEEDS13699 1	ERF 756 PORTION 0 OF FOCHVILLE	T150334/2001	JOHANNESBURG
30	T0IQ0129000007570000 0	DEEDS13699 2	ERF 757 PORTION 0 OF FOCHVILLE	T150334/2001	JOHANNESBURG
31	T0IQ0129000007580000 0	DEEDS13699 3	ERF 758 PORTION 0 OF FOCHVILLE	T150334/2001	JOHANNESBURG
32	T0IQ0129000007590000 0	DEEDS13699 4	ERF 759 PORTION 0 OF FOCHVILLE	T150334/2001	JOHANNESBURG
33	T0IQ0129000007600000 0	DEEDS13699 5	ERF 760 PORTION 0 OF FOCHVILLE	T150334/2001	JOHANNESBURG
34	T0IQ0129000007610000 0	DEEDS13699 6	ERF 761 PORTION 0 OF FOCHVILLE	T150334/2001	JOHANNESBURG
35	T0IQ0129000007620000 0	DEEDS13699 7	ERF 762 PORTION 0 OF FOCHVILLE	T150334/2001	JOHANNESBURG
36	T0IQ0129000007630000 0	1534151	ERF 763 PORTION 0 OF FOCHVILLE	T150334/2001	MMABATHO
37	T0IQ0000000005610003 3	DEEDS14131 0	FARM 561 PORTION 33 OF IQ-ELANDSFONTEIN	T40037/1948	MMABATHO
38	T0IQ0055000021600000 0	DD30082014_ 106130	ERF 2160 PORTION 0 OF CARLETONVILLE EXT 4	T15412/1959	JOHANNESBURG
39	T0IQ0129000002590000 0	DEEDS13698 5	ERF 259 PORTION 0 OF FOCHVILLE	T17169/1920	MMABATHO
40	T0IQ0129000003100000 1	13121	ERF 310 PORTION 1 OF FOCHVILLE	T38411/1971	MMABATHO
41	T0IQ0129000001960000	481701	ERF 196 PORTION 0 OF	T17169/1920	MMABATHO

No.	LPI code	Property Code	Property Description as per Land IAR	Title Deed number as per IAR	Regional Office
	0		FOCHVILLE		
42	C07100020000098000000	817042	ERF 980 PORTION 0 OF STUTTERHEIM	T536/1918	PORT ELIZABETH
43	C07100020000340500000	1593631	ERF 3405 PORTION 0 OF STUTTERHEIM	T115/1990	PORT ELIZABETH
44	C03800050000001600000	836181	ERF 16 PORTION 0 OF KEI ROAD	T799/1935	PORT ELIZABETH
45	C03800000000001500000	3089831	FARM 15 PORTION 0 OF KING WILLIAM'S TOWN RD-GONBRIDGE	T6522/1995	PORT ELIZABETH
46	C03800000000002800000	DEEDS31032 015_0011431	FARM 28 PORTION 0 OF KING WILLIAM'S TOWN RD-FARM 28	T512/1978	PORT ELIZABETH
47	C03800000000002800005	DEEDS31032 015_0011432	FARM 28 PORTION 5 OF KING WILLIAM'S TOWN RD-FARM 28	T512/1978	PORT ELIZABETH
48	C03800000000002800015	DEEDS31032 015_0011433	FARM 28 PORTION 15 OF KING WILLIAM'S TOWN RD-FARM 28	T512/1978	PORT ELIZABETH
49	C07100000000022400000	DEEDS54922	FARM 224 PORTION 0 OF STUTTERHEIM RD-FORESTHILL	T1974/2003	PORT ELIZABETH
50	C07100000000022500000	DEEDS54924	FARM 225 PORTION 0 OF STUTTERHEIM RD-PLUMSTOCK	T1974/2003	PORT ELIZABETH
51	C07100000000022500001	3116831	FARM 225 PORTION 1 OF STUTTERHEIM RD-PLUMSTOCK	T7586/2003	PORT ELIZABETH
52	C07100000000056100003	1625751	FARM 561 PORTION 3 OF STUTTERHEIM RD-FARM 561	T142/1989	PORT ELIZABETH
53	C07100000000057200002	892361	FARM 572 PORTION 2 OF STUTTERHEIM RD-IVY COTTAGE	T731/1974	PORT ELIZABETH
54	C07100000000061500001	883751	FARM 615 PORTION 1 OF STUTTERHEIM RD-BRIDGEBANK	T4066/1988	PORT ELIZABETH
55	C07100000000061600008	946741	FARM 616 PORTION 8 OF STUTTERHEIM RD-FARM 616	T4066/1988	PORT ELIZABETH
56	C07100000000061600009	940001	FARM 616 PORTION 9 OF STUTTERHEIM RD-FARM 616	T2346/1989	PORT ELIZABETH
57	C07100000000061600010	896321	FARM 616 PORTION 10 OF STUTTERHEIM RD-FARM 616	T637/1989	PORT ELIZABETH
58	C07100000000061800009	871351	FARM 618 PORTION 9 OF STUTTERHEIM RD-FARM 618	T2234/1987	PORT ELIZABETH
59	C07100000000071000000	944501	FARM 710 PORTION 0 OF STUTTERHEIM RD-REQUEST	T2628/1986	PORT ELIZABETH
60	C02700000000005500004	907391	FARM 55 PORTION 4 OF GEORGE RD-KYKOE	T67194/1988	CAPE TOWN
61	C02700000000010000000	895721	FARM 100 PORTION 0 GEORGE RD	G37/1951	PORT ELIZABETH

No.	LPI code	Property Code	Property Description as per Land IAR	Title Deed number as per IAR	Regional Office
62	C0270000000001270000 0	945351	FARM 127 PORTION 0 OF GEORGE RD-KLEIN PLAAS SCHOOL SITE	G108/1934	CAPE TOWN
63	C0270000000001290000 0	894491	FARM 129 PORTION 0 GEORGE RD	G182/1950	PORT ELIZABETH
64	C0270000000001300000 0	897921	FARM 130 PORTION 0 GEORGE RD	G182/1950	PORT ELIZABETH
65	C0270000000001860002 0	925351	FARM 186 PORTION 20 OF GEORGE RD-DRIE VALLEYEN	T32946/1983	CAPE TOWN
66	C0770004000004100000 0	823831	ERF 410 PORTION 0 OF UNIONDALE	T1961/1891	CAPE TOWN
67	C0270009000004220000 0	907541	ERF 422 PORTION 0 OF WILDERNESS	T21009/1985	CAPE TOWN
68	C0270009000004240000 0	920681	ERF 424 PORTION 0 OF WILDERNESS	T21009/1985	CAPE TOWN
69	C0270009000004280000 0	880331	ERF 428 PORTION 0 OF WILDERNESS	T24660/1980	CAPE TOWN
70	C0770004000005530000 0	864281	ERF 553 PORTION 0 OF UNIONDALE	T14674/1959	CAPE TOWN
71	C0770004000005380000 0	817871	ERF 538 PORTION 0 OF UNIONDALE	T12217/1957	CAPE TOWN
72	C0770004000005390000 0	830571	ERF 539 PORTION 0 OF UNIONDALE	T12217/1957	CAPE TOWN
73	C0770004000005400000 0	881511	ERF 540 PORTION 0 OF UNIONDALE	T16816/1959	CAPE TOWN
74	C0770004000005410000 0	817931	ERF 541 PORTION 0 OF UNIONDALE	T16816/1959	CAPE TOWN
75	C0770004000005420000 0	817941	ERF 542 PORTION 0 OF UNIONDALE	T16816/1959	CAPE TOWN
76	C0770004000005430000 0	817981	ERF 543 PORTION 0 OF UNIONDALE	T16816/1959	CAPE TOWN
77	C0770004000005510000 0	864321	ERF 551 PORTION 0 OF UNIONDALE	T14876/1964	CAPE TOWN
78	C0770004000005610000 0	864361	ERF 561 PORTION 0 OF UNIONDALE	T11092/1953	CAPE TOWN
79	C0770004000005640000 0	864401	ERF 564 PORTION 0 OF UNIONDALE	T11092/1953	CAPE TOWN
80	C0770004000005670000 0	922911	ERF 567 PORTION 0 OF UNIONDALE	T2435/1969	CAPE TOWN
81	C0770004000005680000 0	926831	ERF 568 PORTION 0 OF UNIONDALE	T2435/1969	CAPE TOWN
82	C0770004000006240000 0	885391	ERF 624 PORTION 0 OF UNIONDALE	T15387/1963	CAPE TOWN
83	C0770004000006250000 0	930991	ERF 625 PORTION 0 OF UNIONDALE	T14978/1963	CAPE TOWN
84	C0270002000006580000 0	847351	ERF 658 PORTION 0 OF GEORGE	T3679/1930	CAPE TOWN
85	C0270002000006580000 0	847351	ERF 658 PORTION 0 OF GEORGE	T3679/1930	CAPE TOWN
86	C0770004000009100000 0	2908321	ERF 910 PORTION 0 OF UNIONDALE	T22108/1976	CAPE TOWN
87	C0270009000009630000 0	880701	ERF 963 PORTION 0 OF WILDERNESS	T39517/1986	CAPE TOWN
88	C0270009000010940000 0	921961	ERF 1094 PORTION 0 OF WILDERNESS	T21009/1985	CAPE TOWN
89	C0270002000011310000 0	866121	ERF 1131 PORTION 0 OF GEORGE	T32156/1970	CAPE TOWN
90	C0270009000012690000 0	883521	ERF 1269 PORTION 0 OF WILDERNESS	T33082/1982	CAPE TOWN

No.	LPI code	Property Code	Property Description as per Land IAR	Title Deed number as per IAR	Regional Office
91	C0270009000012720000 0	892151	ERF 1272 PORTION 0 OF WILDERNESS	T10600/1983	CAPE TOWN
92	C0270009000012730000 0	936761	ERF 1273 PORTION 0 OF WILDERNESS	T2663/1982	CAPE TOWN
93	C0270009000012780000 0	900271	ERF 1278 PORTION 0 OF WILDERNESS	T31794/1988	CAPE TOWN
94	C0270009000012820000 0	877851	ERF 1282 PORTION 0 OF WILDERNESS	T22497/1983	CAPE TOWN
95	C0270009000012830000 0	929811	ERF 1283 PORTION 0 OF WILDERNESS	T24000/1982	CAPE TOWN
96	C0270002000027390000 0	847591	ERF 2739 PORTION 0 OF GEORGE	T5315/1969	CAPE TOWN
97	C0270002000034300000 0	866081	ERF 3430 PORTION 0 OF GEORGE	T18895/1969	CAPE TOWN
98	C0270002000034310000 0	851631	ERF 3431 PORTION 0 OF GEORGE	T18895/1969	CAPE TOWN
99	C0270007000037870000 0	3015341	ERF 3787 PORTION 0 OF PACALTSDORP	T99704/2002	CAPE TOWN
100	C0270002000038930000 0	851431	ERF 3893 PORTION 0 OF GEORGE	T32361/1970	CAPE TOWN
101	C0270002000038940000 0	851571	ERF 3894 PORTION 0 OF GEORGE	T32361/1970	CAPE TOWN
102	C0270002000038950000 0	851511	ERF 3895 PORTION 0 OF GEORGE	T32361/1970	CAPE TOWN
103	C0270002000042990000 0	851781	ERF 4299 PORTION 0 OF GEORGE	T7364/1969	CAPE TOWN
104	C0270002000045040000 0	847691	ERF 4504 PORTION 0 OF GEORGE	T23281/1972	CAPE TOWN
105	C0270002000046580000 0	851741	ERF 4658 PORTION 0 OF GEORGE	T29042/1970	CAPE TOWN
106	C0270002000050330000 0	865641	ERF 5033 PORTION 0 OF GEORGE	T8391/1986	CAPE TOWN
107	C0270002000052930000 0	847641	ERF 5293 PORTION 0 OF GEORGE	T29831/1972	CAPE TOWN
108	C0270002000052940000 0	847601	ERF 5294 PORTION 0 OF GEORGE	T29831/1972	CAPE TOWN
109	C0270002000052960000 0	847651	ERF 5296 PORTION 0 OF GEORGE	T29831/1972	CAPE TOWN
110	C0270002000052970000 0	847621	ERF 5297 PORTION 0 OF GEORGE	T29831/1972	CAPE TOWN
111	C0270002000052990000 0	847231	ERF 5299 PORTION 0 OF GEORGE	T29831/1972	CAPE TOWN
112	C0270002000053000000 0	883061	ERF 5300 PORTION 0 OF GEORGE	T29831/1972	CAPE TOWN
113	C0270002000053420000 0	832281	ERF 5342 PORTION 0 OF GEORGE	T61723/2008	CAPE TOWN
114	C0270002000069490000 0	866861	ERF 6949 PORTION 0 OF GEORGE	T28965/1989	CAPE TOWN
115	C0270002000089450000 0	1637091	ERF 8945 PORTION 0 OF GEORGE	T75891/1994	CAPE TOWN
116	C0270002000089460000 0	1635721	ERF 8946 PORTION 0 OF GEORGE	T75891/1994	CAPE TOWN
117	C0270002000089500000 0	847671	ERF 8950 PORTION 0 OF GEORGE	T75890/1994	CAPE TOWN
118	C0270002000089510000 0	847681	ERF 8951 PORTION 0 OF GEORGE	T75890/1994	CAPE TOWN
119	C0270002000089520000 0	847661	ERF 8952 PORTION 0 OF GEORGE	T75890/1994	CAPE TOWN
120	C0770000000000140002 2	886731	FARM 14 PORTION 22 OF UNIONDALE RD-	T27783/1974	CAPE TOWN

No.	LPI code	Property Code	Property Description as per Land IAR	Title Deed number as per IAR	Regional Office
			GORGIDA		
121	C0770000000000180000 1	919651	FARM 18 PORTION 1 OF UNIONDALE RD-ANNEX MISGUND	T12474/1963	CAPE TOWN
122	C0770000000000190000 2	925091	FARM 19 PORTION 2 OF UNIONDALE RD-WANHOOP	T17529/1953	CAPE TOWN
123	C0770000000000190000 4	896171	FARM 19 PORTION 4 OF UNIONDALE RD-WANHOOP	T30494/1979	CAPE TOWN
124	C0770000000000670000 4	939331	FARM 67 PORTION 4 OF UNIONDALE RD-PIETS LAAGTE	T16652/1971	CAPE TOWN
125	C0770000000000860000 0	892101	FARM 86 PORTION 0 OF UNIONDALE RD-DES DUIVELS SPEELPLAATS	T6933/1923	CAPE TOWN
126	C0770000000000910000 0	897641	FARM 91 PORTION 0 OF UNIONDALE RD-KOUGA BRONNEN	T2286/1934	CAPE TOWN
127	C0770000000000920000 0	903081	FARM 92 PORTION 0 OF UNIONDALE RD-UITZIGT	T11033/1961	CAPE TOWN
128	C0770000000000930000 0	901251	FARM 93 PORTION 0 OF UNIONDALE RD-BUITEN GEBRUIK	T11033/1961	CAPE TOWN
129	C0270000000001860002 2	929261	FARM 186 PORTION 22 OF GEORGE RD-DRIE VALLEYEN	T32946/1983	CAPE TOWN
130	N0GU001400000059000 00	950891	ERF 59 PORTION 0 OF BABANANGO	T4819/1975	DURBAN
131	N0GU001400000022000 00	DEEDS71892	ERF 22 PORTION 0 OF BABANANGO	T25963/1999	DURBAN
132	N0GU001400000056000 00	1007451	ERF 56 PORTION 0 OF BABANANGO	T18787/1993	DURBAN
133	N0GU001400000067000 00	DEEDS71897	ERF 67 PORTION 0 OF BABANANGO	T13429/1976	DURBAN
134	T0IQ0075000003670000 0	1272731	ERF 367 PORTION 0 OF DAN PIENAARVILLE EXT 1	T3064/1978	JOHANNESBURG
135	T0JQ0000000005050000 0	1538611	FARM 505 PORTION 0 OF JQ-BLAAUWBANK	T12428/1925	JOHANNESBURG
136	T0JQ0000000005170000 9	1411531	FARM 517 PORTION 9 OF JQ-WELTEVREDEN	T705/1951	JOHANNESBURG
137	T0IQ0004000000440000 0	1448551	ERF 44 PORTION 0 OF AGAVIA	T3622/1955	JOHANNESBURG
138	T0IQ0000000001770000 2	1438861	FARM 177 PORTION 2 OF IQ-PAARDEPLAATS	T5610/1906	DURBAN

Impact

The aforementioned finding result in the following:

The property rates expenditure is understated by an undeterminable amount.

Internal control deficiency

Financial and performance management

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

The Property Management Information System (PMIS) does not integrate with the immovable asset register.

Recommendation

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

2. Management should ensure that they record all property rates expenditure relating to properties owned by the PMTE.

3. Management should ensure that the operational (Archibus) and accounting (SAGE) systems are fully implemented and integrated.

Management response

No management response provided

Auditor's conclusion

No management response provided

Predetermined objectives
Programme 3: construction project management

Reported information contained in the annual report is not complete - (COFF 55)

Audit Finding
Laws, rules and legislation:

In terms of the Public Finance Management Act section 40. Accounting officers' reporting responsibilities. — (1) The accounting officer for a department, trading entity or constitutional institution—

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

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

Nature
During the audit of the reported performance information relating to programme 3: construction project management we could not trace the below listed infrastructure projects that were completed during the year under review to the list supporting the reported performance for the indicator" Number of Infrastructure Projects Completed"

No	WCS NO	DESCRIPTION
Indicator :Number of Infrastructure Projects Completed		
1	46418	Additional Accommodation
2	49332	Rehabilitation Of A House For SANDF (2 Maksi Street)
3	52787	5 Midi Street Postmasburg Rehabilitation
4	51944	Supply And Installation Of Kitchen Equipment And Replacement Of Roof And Ceiling Of The Kitchen
5	52107	Upgrading Of Five (05) Calorifiers
6	54026	Construction Of Facilities For People With Disabilities: Grou P5: Belfast, Secunda And Davel
7	50187	Heritage-Implementation Of Security Maintenance Contract At Union Buildings And Brynterion Estates
8	39074	Sealing of roofs of residential block, replacement of down pipes and upgrading of wet services

Impact
The reported information as contained in the annual performance report is not complete

Internal control deficiency

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

Recommendation

The trading entity should implement processes to ensure that actual achievements reported on the quarterly reports and ultimately the annual performance report is supported by adequate portfolio of evidence.
Management must ensure that the annual performance report result is supported by reliable and accurate listings.

Management response
Management does entirely agree with the finding based on the following reasons:
73% (30) of the projects listed by AG as not appearing on the completed list are either falling outside the year under review or they were acquisitions of property such as houses and land. All these have nothing to do with construction. (See Annexure A)
13% (5) of the projects listed by AG as not appearing on the list of completed projects are actually appearing in the list. (See Annexure B)

Management agrees with AG that 14% (6) of projects completed in the year under review do not appear on the list provided to AG. Two of the six that did not appear on the schedule/list, had practical completion certificates in the file (Of the annual performance report).
This is administrative mistake and the performance is definitely supported by portfolio of evidence

Auditor's conclusion
Management comments were noted; it was noted that eight project were not reported. Therefore, the finding remains and will be reported in the management report.

Differences between auditor's calculation and the reported result -COFF 83

Audit Finding

Laws, rules and legislation:

In terms of the Public Finance Management Act section 40. Accounting officers' reporting responsibilities. — (1) The accounting officer for a department, trading entity or constitutional institution—

(a) must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;

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

(3) The annual report and audited financial statements referred to in subsection (1) (d) must—

(a) Fairly present the state of affairs of the department, trading entity or constitutional institution, its business, its financial results, its performance against predetermined objectives and its financial position as at the end of the financial year concerned;

Nature

During the audit of performance information relating to programme 3: construction project management, a calculation for actual performance as per management and the actual performance as per the auditor`s recalculations:

Indicator 3.8-Percentage reduction of infrastructure project backlog			
No.	**Actual performance reported**	**Recalculated actual performance**	**Difference**
1	231%(74/32)	100%	131%

Impact

The reported information as contained in the annual performance report is inaccurately reported.

Internal control deficiency

Financial and performance management

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

Recommendation

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

Management must ensure that the report result is supported by reliable supporting documents.

Management response

No management response received.

Auditor's conclusion

In terms of paragraph 44 of our engagement letter, audit findings concerning control deficiencies, identified misstatements in the financial statements and non-compliance with laws and regulations will be communicated during the course of the audit and management will be requested to address these. Submission of a response to these communications, whether it be comments, information or documentation in support of action taken, will be required within a reasonable time, which should not exceed five working days from the date of the communication of the finding, unless a different timeline is expressly agreed in writing with the auditors.

Management responses were not submitted within the agreed five days and as such will no longer be taken into consideration in finalising the audit.

Programme 4 Real Estate Management

Limitation of scope (Coff 71)

Audit Finding
Laws, rules and legislation:

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

(i) 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;

(j) must prepare financial statements for each financial year in accordance with generally recognized accounting practice"

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

Nature
The following information was requested as per request no. 118 dated 20 July 2018 but to date the information has not been provided for audit purposes:

Indicator 4.4*: Number of private leases reduced in the security cluster*
Actual achievement: 7 private leases reduced in the security cluster

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

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

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

Management response
No management response received.

Auditor's conclusion
In terms of paragraph 44 of our engagement letter, audit findings concerning control deficiencies, identified misstatements in the financial statements and non-compliance with laws and regulations will be communicated during the course of the audit and management will be requested to address these. Submission of a response to these communications, whether it be comments, information or documentation in support of action taken, will be required within a reasonable time, which should not exceed five working days from the date of the communication of the finding, unless a different timeline is expressly agreed in writing with the auditors.
Management responses were not submitted within the agreed five days and as such will no longer be taken into consideration in finalising the audit.

Limitation of scope (COFF 72)

Audit Finding
Laws, rules and legislation:
Section 40 of the Public Finance Management Act (PFMA) states that: "The accounting officer for a department, trading entity or constitutional institution –

(a) must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;

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

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

Nature
The following information was requested as per request no. 122 dated 23 July 2018 but to date the information has not been provided for audit purposes:

Indicator 4.3: Percentage of new leases awarded to black owned companies
Actual achievement: 67% leases awarded to black owned companies

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

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

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

Management response
No management response received.

Auditor's conclusion
In terms of paragraph 44 of our engagement letter, audit findings concerning control deficiencies, identified misstatements in the financial statements and non-compliance with laws and regulations will be communicated during the course of the audit and management will be requested to address these. Submission of a response to these communications, whether it be comments, information or documentation in support of action taken, will be required within a reasonable time, which should not exceed five working days from the date of the communication of the finding, unless a different timeline is expressly agreed in writing with the auditors.

Management responses were not submitted within the agreed five days and as such will no longer be taken into consideration in finalising the audit.

Limitation of scope – (COFF 73)

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

(a) must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;

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

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

Nature
The following information was requested as per request no. 121 dated 23 July 2018 but to date the information has not been provided for audit purposes:

Indicator 4.2: Saving realised on identified private leases
Actual achievement- R12 101 868.40 saving realised on private leases

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

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

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

Management response
No management response received.

Auditor’s conclusion
In terms of paragraph 44 of our engagement letter, audit findings concerning control deficiencies, identified misstatements in the financial statements and non-compliance with laws and regulations will be communicated during the course of the audit and management will be requested to address these. Submission of a response to these communications, whether it be comments, information or documentation in support of action taken, will be required within a reasonable time, which should not exceed five working days from the date of the communication of the finding, unless a different timeline is expressly agreed in writing with the auditors.
Management responses were not submitted within the agreed five days and as such will no longer be taken into consideration in finalising the audit.

Programme 6: Facilities Management

Reported achievement per the APR may not be valid and accurate -COFF 67

Audit Finding
Laws, rules and legislation:
In terms of the Public Finance Management Act, section 40. Accounting officers' reporting responsibilities. — (1) The accounting officer for a department, trading entity or constitutional institution—
(a) must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;
(b) must prepare financial statements for each financial year in accordance with generally recognized accounting practice;

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

Nature
During the audit of performance information relating to programme 6: facilities management, it was noted that: the following projects facilities management contracts were entered into in the current reporting cycle and not included in the listing for actual performance:

No	Supplier	Region	Number of facilities per contract	Date contract signed
Indicator: Number of facilities with maintenance contracts in place				
1	Bidvest Facilities Management	Cape Town	1	01-Feb-18
2	Matebello Cleaning and Catering	Pretoria	3	19-Dec-17
3	Walking Tall Trading and Projects	Pretoria	1	19-Dec-17
4	Healthcare Cleaning and Catering	Pretoria	1	19-Dec-17
5	Ezinhle and Fikoh Pty Ltd	Durban	1	21-Sep-17
6	Ntiza Business Solutions	Durban	1	24-Jul-17
7	Ziyanda Ibusiso Pty Ltd	Durban	1	21-Jul-17
8	Bafokeng Ba Heso Construction and Civils CC	Johannesburg	1	26-Jun-17
9	Lebato Development Projects CC	Johannesburg	1	14-Jun-17
10	O GARATILE HOLDINGS (PTY) LTD	Mmabatho	1	26-Mar-18
11	Ketshabamang trading and projects (PTY)LTD	Mmabatho	1	25-Jul-17
12	Dikuku civil projects (Pty)Ltd	Mmabatho	1	24-Jul-17
13	One way Supply cc	Mmabatho	1	24-Jul-17
14	Dinim Landscaping & Horticultural services	Mmabatho	1	25-Jul-17
15	Morama Trading cc	Polokwane	1	27-Oct-17
16	Mafro Trading Enterprise	Polokwane	1	11-Dec-17

Impact
The reported information as contained in the annual performance report may not be valid and accurate therefore the actual achievements may be overstated and inaccurate.

Internal control deficiency

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

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

Management must ensure that the report result is supported by reliable supporting documents.

Management response
AG collated data directly from the Regions and some of this data was not included as the Branch performance due to lateness or accuracy. The branch will be collating data from regions monthly and aggregate and quality assure quarterly

Some of the data collected and sampled from the regions might not have been part of the final performance due to lateness or accuracy data from regions. We are aware that AG was testing for completeness and we made a point that there is a need to align the collection and submission of performance for the FM Branch. The branch requested AG to provide the listing of information sourced from the regions as part of baseline to improve performance.

Auditor's conclusion
Management response noted, the finding remains and will be reported in the management report.

Reported achievements in the APR may be not be valid and accurate -COFF 70

Audit Finding
Laws, rules and legislation:
In terms of the Public Finance Management Act section 40. Accounting officers' reporting responsibilities. — (1) The accounting officer for a department, trading entity or constitutional institution—
(a) must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;
(b) must prepare financial statements for each financial year in accordance with generally recognized accounting practice;
(3) The annual report and audited financial statements referred to in subsection (1) (d) must—
(a) Fairly present the state of affairs of the department, trading entity or constitutional institution, its business, its financial results, its performance against predetermined objectives and its financial position as at the end of the financial year concerned;

Nature
During the audit of performance information relating to programme 6: facilities management, it was noted that:
The following projects facilities management contracts were awarded to black-owned companies in the current reporting cycle and not included in the listing for actual performance:

No	Supplier	% Black ownership	Date contract signed
Indicator: Percentage of term contracts awarded to black owned companies			
1	Matebello Cleaning and Catering	100%	19-Dec-17
2	Walking Tall Trading and Projects	100%	19-Dec-17
3	Healthcare Cleaning and Catering	100%	19-Dec-17
4	Matebello Cleaning and Catering	100%	19-Dec-17
5	Ezinhle and Fikoh Pty Ltd	100%	21-Jul-17
6	Ntiza Business Solutions	100%	24-Jul-17
7	Ziyanda Ibusiso Pty Ltd	100%	21-Jul-17
8	Bafokeng Ba Heso Construction and Civils CC	100%	26-Jun-17
9	Mosomedi Refrigeration	100%	20-Mar-18
10	Firozis Park	100%	16-Mar-18
11	MDP Planning and Events (Pty) Ltd	100%	24-Jan-18
12	Morama Trading CC	100%	27-Oct-17
13	Mafro Trading Enterprise	100%	11-Dec-17

Impact
The reported information as contained in the annual performance report may not be valid and accurate therefore the actual achievements may be overstated and inaccurate.

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

Recommendation

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

Management must ensure that the report result is supported by reliable supporting documents and schedule

Management response
Some of the data collected and sampled from the regions might not have been part of the final performance due to lateness or accuracy data from regions. We are aware that AG was testing for completeness and we made a point that there is a need to align the collection and submission of performance for the FM Branch. The branch requested AG to provide the listing of information sourced from the regions as part of baseline to improve performance.

Auditor’s conclusion
Management response noted, the finding remains and will be included in the management report.

Differences between the schedule and Annual performance report COFF 49

Audit Finding

Laws, rules and legislation:
In terms of the Public Finance Management Act, section 40. Accounting officers' reporting responsibilities. —
(1) The accounting officer for a department, trading entity or constitutional institution—
(a) must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;
(b) must prepare financial statements for each financial year in accordance with generally recognized accounting practice;

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

Nature

During the audit of performance information relating to Programme 6: Facilities Management the following issues were noted

The actual reported performance as per the annual performance report does not agree to the listing submitted for audit:

Indicator 6.3:Percentage term contract awarded to black owned companies			
No.	**Actual performance reported**	**Recalculated performance per listing**	**Difference**
1	94% (16/17)	65%(108/164)	29%

Below are the examples of contracts that were concluded in the 2017/18 financial year relating to the indicator percentage of term contracts awarded to black owned companies however these were not reported in the annual performance report:

No	Quarter	Supplier	Black owned company
1	1	Richroot Services Pty Ltd	No
2	1	Robele Trading Enterprise	No
3	1	SDM Business Enterprise Pty Ltd	No
4	1	Mosengone Trading and Projects	No
5	1	Mosadingwanto Trading Enterprise Pty Ltd	No
6	1	Mphiwafela General Trading	No
7	1	Efficiency Engineering Services	No
8	1	Top 10 Enterprises	Yes
9	1	Sky Ground Enterprise	Yes
10	1	Oomanqoba Trading (Pty) Ltd	Yes
11	2	Cocondela General Trading (Pty)Ltd	Yes

12	2	Doyi Enterprise (Pty)Ltd	Yes
13	2	Kagos General Enterprises (Pty)Ltd	Yes
14	2	Ndangis Petrus Enterprise (Pty)Ltd	Yes
15	2	Cardois Events and Maintenance (Pty)Ltd	Yes
16	2	Manala Construction and Projects (Pty)Ltd	Yes
17	2	Sdikadika and Projects (Pty)Ltd	Yes
18	2	Dazbacos	Yes
19	2	Miluwani Electrical and Housewiring	Yes
20	2	Blessed Engineering Solutions	Yes
21	3	CP General Tracing Services Pty LTD	Yes
22	3	Dulang Cleaning Services and Enterprise	Yes
23	3	Bonke Laundry and Cleaning Services cc	Yes
24	3	Qwanini Trading and Projects cc	Yes
25	3	BD Hlalele Catering & Cleaning Service	Yes
26	3	Precy Construction	Yes
27	3	Xoltha Trading (Pty) Ltd	Yes

Impact

The reported information as contained in the annual performance report is not complete and accurately recorded

Internal control deficiency

Financial and performance management

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

Recommendation

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

Management must ensure that the report result is supported by reliable supporting documents.

Management response

The performance has been understated as annual report only Q4 information, and not the annual performance.

Auditor’s conclusion

Management responses noted and the finding remains and will be included in the management Report.

Programme 5: real estate information and registry services

Differences between auditor's calculation and the reported result-COFF 59

Audit Finding

Laws, rules and legislation:

In terms of the Public Finance Management Act section 40. Accounting officers' reporting responsibilities. — (1) The accounting officer for a department, trading entity or constitutional institution—
(a) must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;
(b) must prepare financial statements for each financial year in accordance with generally recognized accounting practice;
(3) The annual report and audited financial statements referred to in subsection (1) (d) must—
(a) Fairly present the state of affairs of the department, trading entity or constitutional institution, its business, its financial results, its performance against predetermined objectives and its financial position as at the end of the financial year concerned;

Nature
During the audit of performance information relating to Programme 5: Real Estate Information and Registry Services, it was noted that the actual reported performance as per the Annual Performance Report does not agree to performance as per the listing submitted for audit due to land transferred to municipality not yet lodged at Deeds office as at 31 March 2018 included as property that is processed for transfer:

Indicator 5.1:Percentage of approved disposal (Socio-Economic) processed for transfer			
No.	**Actual performance reported**	**Recalculated performance per listing**	**Difference**
1	70% (2.8/4)	50% (2/4)	20%

Impact
The reported information as contained in the annual performance report is inaccurately reported.

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

Recommendation
The department should implement processes to ensure that actual achievements reported on the quarterly reports and ultimately the annual performance report is supported by adequate portfolio of evidence.
Management must ensure that the report result is supported by reliable supporting documents.

Management response

No management response received.

Auditor's conclusion

In terms of paragraph 44 of our engagement letter, audit findings concerning control deficiencies, identified misstatements in the financial statements and non-compliance with laws and regulations will be communicated during the course of the audit and management will be requested to address these. Submission of a response to these communications, whether it be comments, information or documentation in support of action taken, will be required within a reasonable time, which should not exceed five working days from the date of the communication of the finding, unless a different timeline is expressly agreed in writing with the auditors.
Management responses were not submitted within the agreed five days and as such will no longer be taken into consideration in finalising the audit.

Information systems audit

WORX4U system - Inadequate controls related to closure and cancelling of calls- COFF 69

Audit finding

Inadequate system configuration allows closed and cancelled calls to be updated.

Impact

If the system allows closed and cancelled calls to be updated, the integrity of reported results relating to the indicator "*Percentage of unscheduled reported maintenance incidents resolved within prescribed timeframes"* may not be accurate.

Financial and performance management: Information Technology systems

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

Recommendation

Management should ensure that the system is adequately configured not to allow closed and cancelled status call to be updated and changed. Furthermore, if a call is cancelled, it should be re-opened with a new incident ID.

Management response

Management acknowledges and appreciate the findings of the auditor. The Worx4U system was developed using a Rapid Application Development Model. This approach is to create an adaptive system usually using a prototype. This is done so that there is an opportunity for users and developers to arrive at a working solution within a short space of time. Therefore, functionality like the ability to update closed calls were influenced by this approach. However, the key thing was that such anomalies must be logged for audit trail. This scenario in particular is reflective of the realities inherent in how the business is conducted on the ground. Wherein a call can be logged and closed today but tomorrow the same call is opened because issues have not been thoroughly addressed for example if the initial diagnosis was incorrect. What has been described above should not affect the validity of the system because reports are reflective of the situation at a particular point in time.

In general, modifications and enhancements on Worx4U were collected and since ICT is implementing the Reactive Maintenance Module of Archibus. These changes including findings on this report will be addressed on Archibus.

Auditor's conclusion

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

Non-compliance

Non-compliance with the PFMA on submission of financial statements

Audit finding

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

The following non-compliance was identified:

The financial statements for the Property Management Trading Entity for the year ended 31 March 2018 were submitted for audit to the Auditor General on 30 June 2018. This was not within two months of year end as required by the PFMA.

Reason for the deviation

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

Impact of deviation

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

Internal control deficiency

Financial and performance management

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

Recommendation

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

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

Management response

No management response received

Auditor's conclusion

No management response received. The finding remains

Operating expenditure – Invoices not paid within 30 days from receipt of the invoice

Laws, rules and legislation:

a) Public Finance Management Act (PFMA) section 38(1)(f) requires that;

"The accounting officer for a department, trading entity or constitutional institution must settle all contractual obligations and pay all money owing, including inter-governmental claims, within the prescribed or agreed period;"

b) 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."

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

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

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

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

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

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

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

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

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

Sundry expenses

Region	Supplier	Batch number/FA number	Date invoice received	Payment date	No. of days	Amount [R]
Mmabatho	Travel with fair	TWF-3000163	2017/03/23	2017/05/05	43	3 195,00
Head Office	TWF Confrence and events	ZINTP1705S1001001879	2017/02/23	2017/05/09	75	22 066,60
Head Office	HD Cabling	ZINTP170751001003235	2017/04/25	2017/07/21	87	129,00
Pretoria	State Attorney	11001060	2017/04/21	2017/06/08	48	380,00

Property maintenance

Region	Supplier	Batch number/FA number	Date invoice received	Payment date	No. of days	Amount [R]
Durban	Umbusi consulting serv	ZAPNV1704S1004336791	2017/03/16	2017/04/20	36	57 276,81
Durban	Schoombie hartmann	ZAPNV1705S1004347287	2017/04/06	2017/05/12	37	19 670,17
Mmabatho	NGAATENDWE TRADING CC	8769*5776*AH146917	2017/02/22	2017/05/10	77	1 692,90
Mmabatho	MORWA WA KGOSI TRADING AND GENERAL CONSTRUCTION	8769*7549*AI107834	2017/06/08	2018/01/17	79	26 152,60
Mmabatho	MAKUKU TRADING	8869*0812*AI108226	2017/10/10	2018/01/17	99	20 587,29
Mmabatho	PHEMELO REGIONALD SETHEPO	8869*1367*AI199148	2018/01/15	2018/03/13	67	2 693,52
Kimberly	Gaoza logistics pty lt	ZAPNV1801S1006455122	2017/12/12	2018/01/23	42	34 594,12

Scheduled maintenance / Assets (WCS)

Region	Supplier	Batch number/FA number	Date invoice received	Payment date	No. of days	Amount [R]
Bloemfontein	MPS Consulting Engineers	ZINTP180551001000049	2018/03/07	2018/04/23	47	473 683,41
Joburg	Shumane Property Management Services	ZAP50794528/5/18	2018/03/16	2018/05/23	65	706 646,62
Head Office	BMK Electronics	P-266475	2018/04/19	2018/01/25	84	134 405,46
Pretoria	Civil Concepts	P-266187	2018/01/24	2017/12/14	41	26 790,00
Port Elizabeth	Aquaproof cc	2234	2018/02/02	2018/04/18	72	1 108 525,71
Port Elizabeth	Telegenix Trading (Sub contractor - RJN Projects)	2189	2018/03/16	2018/06/22	98	149 097,75
Johannesburg	Moreti Malatji and Associates	P-269312	2018/06/14	2018/07/19	35	1 259 519,82
Durban	Rambros Construction CC	P-268380	2018/03/26	2018/05/22	57	529 398,36
Durban	Enza Consruction (Pty) Ltd	050300	2018/04/06	2018/05/17	41	5 152 597,50

Accruals – Day to Day Maintenance and Other Accruals, Municipal services

Region	Supplier	Batch number/FA number	Date invoice received	Payment date	No. of days	Amount [R]
Mmabatho	Pule Wa Mmapule (PTY) LTD	1600	2018/03/05	2018/05/06	62	101 850,00
Umtata	BlackHealth Investments (Pty) Ltd	1014	2018/04/06	2018/05/28	52	18 100,00
Polokwane	Henven Verkoeling	7892	2018/03/01	2018/04/18	48	8 332,00
Johannesbuerg	Mogale Municipality	312 716	2018/01/22	2018/03/09	46	5 588,00
Cape Town	Stanmad	003536	2018/03/29	2018/05/21	53	105 559,98
Cape Town	S&M PLUMBLING & DRAINAGE	44732	2017/11/17	2018/04/24	168	19 237,50
Cape Town	LBC ELECTRICAL SOLUTIONS	56936	2018/02/19	2018/04/06	46	3 633,79
Cape Town	COMET PLUMBING	19798	2018/03/18	2018/05/18	61	19 674,86

Impact

The aforementioned findings may result in:

a) Non-compliance with Section 38 of the Public Finance Management Act
b) Non-compliance with Treasury Regulations 8.2.3
c) Non-compliance with Instruction Note 34 of National Treasury

Internal control deficiency

Leadership

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

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

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

The department should ensure that the implementation and roll out of the invoice tracking system occurs timeously.

Management response:

Management acknowledges with the finding and wishes to respond as follows:
Rates and taxes
Rates and taxes ought to be levied by municipalities on a monthly basis and paid within the prescribed period. However, in case of the Department and municipalities on rates and taxes, municipalities bill the department at the beginning of the municipal financial year after the tariffs have been approved by the respective councils. The department then pays the rates and taxes for the whole financial year as once off payments. While section 38(1)(f) enjoins the accounting office 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"*, the contractual obligations cannot be said about rates and taxes that the department pay in advance on an annual basis. The pre-paid amounts with respect to rates and taxes are disclosed as such in the annual financial statements of the PMTE.

Property maintenance
Non-compliance is monitored on a monthly basis by EXCO and reported on up to portfolio committee level. Measures are continuously implemented to reduce the number of invoices not paid within 30 days. This is included as a strategic objective in the strategic plan of the PMTE and also in the operational plans of the different business units. The next step is to ensure that the performance agreements of all branch heads and regional managers includes 30 day payments as a goal.
Management is in the process of implementing systems to enable the measurement of non-compliance based on the value chain and business processes. Once this process has been completed, it will enable measurement of non-compliance up to individual level. Dependencies to ensure effective implementation includes building sufficient capacity in the PMTE to deal with payments in a timely manner and implementing SAGE/Archibus procurement module.

Auditor's conclusion
Management comment is noted, the matter remains unresolved and will be included in the management report.

Operating leases – Overpayments made in contravention of Treasury Regulations

Laws, rules and Regulations:

Treasury Regulations 15.10.1.1 and 15.10.1.2 state the following:

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

Nature

During the audit of operating leases we noted that overpayment of leases are still being made.

I. We identified instances where leases that were overpaid in the prior periods were still being overpaid in the current period. The overpayments made were already more than the total payment needed for the whole lease period.

No.	Region	Property code	Previous Year Impairment loss (As per AFS) (R)	Current Year Impairment loss (As per AFS) (R)
1	Kimberley	308671	-18 016.00	-29 795.51
2	Johannesburg	311053	-124 806.00	-261 119.17
3	Pretoria	103	-40 640.00	-475 678.02

There is a system being put in place where by management is trying to prevent incorrect payments being made. It is comparing system generated payments to actual payments required in terms of the lease agreement on a monthly basis.

In some instances overpayments were made to the extent that the total amount paid in respect of the lease, was greater than the total payments required in terms of the lease agreement.

II. Through inquiry we noted that there is a system being developed to prevent overpayments being made however in the following instances we could not find evidence of effective steps being taken to recover the overpayments.

No.	Region	Property codes	Impairment loss (As per AFS)
1	Bloemfontein	301752	-554 696
2	Durban	300653	-54 770
3	Durban	312641	-33 035
4	Johannesburg	299693	-1 214

No.	Region	Property codes	Impairment loss (As per AFS)
5	Johannesburg	301040	-145 847
6	Johannesburg	174029	-632 226
7	Johannesburg	308088	-271 541
8	Port Elizabeth	301226	-610 622
9	Pretoria	17	-2 775 941
10	Pretoria	301668	-271 326
11	Pretoria	301670	-1 224 847
12	Pretoria	36	-672 570
13	Pretoria	39	-5 861 206
14	Pretoria	103	-475 678
15	Pretoria	301745	-120 421
16	Pretoria	303487	-1 615 337
Total			**-15 321 279**

III. In addition, the provision for impairment of prepayments (where the overpayments exceed the total amount payable as per lease) has significantly increased to R256 092 786.35 compared to R150 479 094 in 2016/17. The amount keeps increasing annually from R75 451 669 in 2015/16 which further indicates that amounts owing are not being recovered from lessors.

Reason for the deviation

- Weaknesses in the PMIS system are not adequately addressed and processes actioned to ensure overpayments do not occur.
- The process to recover funds from landlords is not properly initiated

Impact

- Non-compliance with PFMA sec 38(1) (c) (i) and Treasury Regulation 15.10.1
- Prepayments are overstated as they include payments made to landlords that are not required in terms of lease agreements.

Internal control deficiency

Leadership

Leadership didn't exercise oversight responsibility regarding internal controls as the system to stop overpayments are not effective to stop it from occurring.

Recommendation

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

Management response

Management comments outstanding

Auditor’s conclusion

Management comments outstanding

Supply chain management

Interest not disclosed by employee (Coff 1UMT, Coff 6PLK, Coff 14CPT)

Laws, rules and regulations

Public Service Act 30 (1) states that no employee shall perform or engage himself or herself to perform remunerative work outside his or her employment in the relevant department, except with the written permission of the executive authority of the department.

Public Service Regulation 18 (1) states that SMS members, except for a head of department shall, not later than 30 April of each year, disclose to the relevant head of department, in a form prescribed for this purpose by the Minister, particulars of all his or her interests in respect of the period 1 April of the previous year to 31 March of the year in question

Public Service Regulation 18 (3) states that any other designated employee not contemplated in sub-regulations (1) and (2) shall submit to the relevant head of department, on a date and form directed by the Minister, particulars of all his or her interests for the period as may be directed by the Minister.

Public Service Regulation 18 (4) states that any person who assumes duty as a designated employee on or after 1 April in a year shall make such disclosure within 30 days after assumption of duty in respect of the period from 1 April to date of disclosure.

Public Service Regulation 13 (c) states that an employee shall not conduct business with any organ of state or be a director of a public or private company conducting business with an organ of state, unless such employee is in an official capacity a director of a company listed in schedule 2 and 3 of the Public Finance Management Act;

Audit Finding

The following discrepancies were identified:

Mthatha Region

During the audit of procurement, it was noted that the following employees who are employed by the National Department of Public Works, did not declare their interest in the below mentioned entity on their 2017/18 declaration.

Surname and Initials	Persal Number	Region where person employed	Company Name where interest is held	Amount of award [R]
L Golela	28372379	Mthatha	Gamiz Trading	8 500.00
L Golela	28372379	Mthatha	Gamiz Trading	17 000.00
NV Landu	53751809	Cape Town	M and I Fire Services	40 800.00
NV Landu	53751809	Cape Town	Umsama Investment	12 750.00
Total				**79 050.00**

Cape Town Region

During the audit of procurement, we noted that the supplier listed below did not declare that a member/director of the close corporation had partnership with an employee of the Department of Public Works furthermore the employee did not declare their interest in the below mentioned entity:

Tender Number	Name of person employed by the Department	Name of close family member/ partner/ associate	Supplier name	Relationship to person in service of the auditee	Date from when person had interest	Period of awarding	Total rand-value of award
CPTC 001/12	MI MATUTLE DDG: Intergovernmental	SIPHO PUWANI	EQUITY STUDIO	PARTNER in MBALI INVESTMENT HOLDINGS	10/06/2005	2012/13	1 886 300.00

Polokwane Region

During the audit we noted that the suppliers listed below did not declare that the director of the supplier is a partner or associate of employees in service of National Department of Public Works at the time of the award furthermore the employee did not declare their interest in the below mentioned entity:

No.	Batch no.	Name of person employed by the state	Position	Supplier name	Date from when person had interest	Period of awarding	Total rand-value of award
1	8785*2794AG8534	MC MORULA	LEARNER	KGOPOTSO SEWING BUS ENTER CC	12/06/2005	29/03/2017	6 219.04
2	8785*2795AG8534	MC MORULA	LEARNER	KGOPOTSO SEWING BUS ENTER CC	12/06/2005	29/03/2017	15 511.32
3	8785*2764AG8434	P NKWINIKA	LEARNER	NGB 85 TRADING AND PROJECTS (P	07/09/2013	26/04/2017	13 778.77
4	8785*2759AG8435	P NKWINIKA	LEARNER	NGB 85 TRADING AND PROJECTS (P	07/09/2013	10/05/2017	13 979.96
5	8785*3105AG8483	P NKWINIKA	LEARNER	NGB 85 TRADING AND PROJECTS (P	07/09/2013	24/05/2017	14 598.01

Impact

This will result in:

Non-compliance with laws and regulations.
The finding also results in irregular expenditure.

Internal control deficiency

Leadership

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

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

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

Financial and performance management

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

Recommendation

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

Declarations should be signed on an annual basis by each employee to ensure that any interests held by employees are disclosed prior to 30 April of each year.

Management response

<u>Mthatha Region</u>
No management response received.

<u>Cape Town Region</u>

Management is not agreement with the findings.

a) Management takes note of the finding and would like to respond as thus:

Practice note 7 of 2009/10 is quoted correctly by the audit team that it *"states that if a **<u>supply chain management official or other role player</u>**, or **<u>any close family member, partner or associate of such official or other role player</u>**, has any private or business interest in any contract to be awarded, **<u>that official or other role player must disclose that interest and withdraw from participating in any manner whatsoever in the process relating to that contract.</u>** To give effect to the above, the National Treasury issued a standard bidding document (SBD 4) "Declaration of Interest" on 5 December 2003 as part of Supply Chain Management (SCM) Practice Note Number SCM 1 of 2003. In terms of this document the accounting officer is required to customize and utilize the form as part of their bidding documents so that bidders or their authorized representatives could declare their position in relation to any person employed by the principal institution."*

SBD4 must therefore been seen to be achieving this. It has not been proven nor is there evidence, that any of the officials stated in this audit finding participated in the award of any of the bid. The question in the SBD4 which ask if the bidder is connected with any state employees must be seen within this prism, and not as a question on its own. Therefore the suggestion by the audit team that these companies did not comply – this within the context provided above – is therefore incorrect. The points highlighted and bolded above must be taken into account.

It must be noted by the audit team that management fully complies with the recommendation of the audit team in that all payments and bids / quotations are reviewed before award and payment. Management has developed policies and procedures that prescribe with all laws and regulations. For this reason, the audit team did not raise any finding with regard to the deficiencies of the policies during planning and execution stages of the audit.

Furthermore, *Instruction note 32 states that any legal person, including persons employed by the state, or persons having a kinship with persons employed by the state, including a blood relationship, may make an offer or offers in terms of this invitation to bid (includes a price quotation, advertised competitive bid, limited bid or proposal). In view of possible allegations of favouritism, should the resulting bid, or part thereof, be awarded to persons employed by the state, or to persons connected with or related to them, it is required that the bidder or his/her authorised representative declare his/her position in relation to the evaluating/adjudicating authority where:*

1. *the bidder is employed by the state; and/or*
2. *the legal person on whose behalf the bidding document is signed, has a relationship with persons/a person who are/is involved in the evaluation and or adjudication of the bid(s), or where it is known that such a relationship exists between the person or persons for or on whose behalf the declarant acts and persons who are involved with the evaluation and or adjudication of the bid.*

Treasury Regulations 16A8.4 states that if a supply chain management official or other role player, or any close family member, partner or associate of such official or other role player has any private or business interest in any contract to be awarded, that official or other role player must disclose the interest and withdraw from participating in any manner whatsoever in the process relating to the contract.

Given the above, there is no possibility for fraudulent activities since the said *"employee"* did not participate in the award of the bid and this would not require management to investigate this matters.

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

The same impracticality was further demonstrated when National Treasury issued Instruction Note 4A of 2016/2017 (Attached as Annexure C) wherein it was stated that CSD capability of verification of suppliers' key information with regard to state employment was limited to Persal and that verification with regard to other state-owned entities was to be done with effect from 01 October 2016. To this end, National Treasury has not issued any further update with regard to whether such extended verification was effected on CSD post 01 October 2016.

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

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

Auditor's conclusion

Mthatha Region
No management response was received, therefore finding remains unresolved.

Cape Town Region
Management comments are noted. Management has a responsibility to take action where an employee has not disclosed an interest. This is regardless of whether the employee participated in the award. The finding will remain.

Polokwane Region
Management comments noted and the finding remains for management to follow up the matter and take the necessary action.

Interest not disclosed by employee who participated in award (Coff 1 DBN)

Public Service Act states 30 (1) states that no employee shall perform or engage himself or herself to perform remunerative work outside his or her employment in the relevant department, except with the written permission of the executive authority of the department.

Public Service Regulation 18 (1) states that SMS members, except for a head of department shall, not later than 30 April of each year, disclose to the relevant head of department, in a form prescribed for this purpose by the Minister, particulars of all his or her interests in respect of the period 1 April of the previous year to 31 March of the year in question

Public Service Regulation 18 (3) states that any other designated employee not contemplated in sub-regulations (1) and (2) shall submit to the relevant head of department, on a date and form directed by the Minister, particulars of all his or her interests for the period as may be directed by the Minister.

Public Service Regulation 18 (4) states that any person who assumes duty as a designated employee on or after 1 April in a year shall make such disclosure within 30 days after assumption of duty in respect of the period from 1 April to date of disclosure.

Public Service Regulation 13 (c) states that an employee shall not conduct business with any organ of state or be a director of a public or private company conducting business with an organ of state, unless such employee is in an official capacity a director of a company listed in schedule 2 and 3 of the Public Finance Management Act;
The following discrepancies were identified:

During the audit of procurement it was noted that following employee who is employed by the National Department of Public Works: Durban Regional Office, did not declare their interest in the below mentioned entity on their 2017/18 declaration.

Surname and Initials	Payment Batch number	Company Name where employee has interest	Company Name of Partners Business	Amount of award [R]
VM Makhanya	485273	Montwood Sports and Recreational Club Co-operative Limited	Ngokusa Trading 800 CC	R6 100,00

We further inspected the PA-12(Approval by the RBAC) where an award of was made to Ngokusa Trading 800 CC for the servicing of the fire extinguishers, fire hose reels, nose reels, fire hydrants and fire blankets and noted that the employee Mr VM Makhanya was also involved in the Bid adjudication committee meeting held on 28/02/2017 and voted during the meeting where an award was made to Ngokusa Trading 800 CC even though the employee had interest in Ngokusa Trading 800 CC.

Impact

This will result in:

Non-compliance with laws and regulations

Irregular Expenditure amounting to R6 100.00

Internal control deficiency

Leadership

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

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

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

Financial and performance management

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

Recommendation

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

Declarations should be signed on an annual basis by each employee to ensure that any interests held by employees are disclosed prior to 30 April of each year.

Before every Bid Adjudication committee meeting all members of the Bid Adjudication committee should declare if they have any interest with any of the suppliers being evaluated for an award, should they have any interest the member should be excluded from the meeting.

Management response
Awaiting management response

Auditors Conclusion
Awaiting management response

Quotation awarded to a bidder whose tax affairs were non-compliant (PTA – Coff 5)

Laws, rules and regulations

Treasury Regulations 16A9.1(d) states that the accounting officer or accounting authority must reject any bid from a supplier who fails to provide written proof from the South African Revenue Service that that supplier either has no outstanding tax obligations or has made arrangement to meet outstanding tax obligations;

Audit Finding

The following discrepancies were identified:

The supplier was selected from National Treasury's central supplier database, however the supplier's tax status was confirmed to be invalid at the time of award but the supplier was still awarded the quotation:

No	Supplier name	Quotation number	Contract amount (R)	Expenditure (R)
1	Matlolobe Business Enterprise	PTQ17/217	405 000.00	45 000.00

Internal control deficiency

Leadership

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

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

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

Impact

Non-compliance with laws and regulations resulting in irregular expenditure

Recommendation

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

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

A compliance checklist should be completed and reviewed before the payment is approved to ensure that the correct procurement process was followed.

Should the expenditure be regarded as irregular expenditure, the department must follow up and take appropriate steps against the applicable individuals as section 38(i)(h)(iii) of the PFMA states that "the Accounting Officer for the department must take effective 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".

Management response

Management is in agreement with the finding since the CSD system is a "live" and up to date tax status. This was an oversight on the part of SCM official during the period of award as they relied on the tax clearance certificate that was attached.

Management will ensure that SCM officials verify the CSD report is tax compliant before award. The transaction will be reported to Internal Control as Irregular Expenditure and also it will be referred to Labour Relations to institute disciplinary actions against the affected official(s).

Auditor's conclusion

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

Procurement process not followed on quotations (CT – Coff 1)

Laws, rules and Regulations:

a) Treasury regulation 16A6.4 states that "If in a specific case it is impractical to invite competitive bids, the accounting officer or the accounting authority may procure the required goods or services by other means, provided that the reasons for deviating from inviting competitive bids must be recorded and approved by the accounting officer or accounting authority."

b) 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."

c) Practice Note 8 of 2007/8 paragraph 3.5 states that "goods, works or services may not deliberately be split into parts or items of lesser value merely for the sake of procuring the goods, works or services otherwise than through the prescribed procurement process. When determining transaction values, a requirement for goods, works or services consisting of different parts or items must as far as possible be treated and dealt with as a single transaction."

d) d) Treasury Regulations 16A.6.1 states that procurement of goods and services, either by way of quotations or through a bidding process, must be between threshold values as determined by the National Treasury.

e) Public Finance Management Act paragraph 38(1)(c)(ii) states that the accounting officer for a department, trading entity or constitutional institution must take effective and appropriate steps to prevent unauthorized , irregular and fruitless and wasteful expenditure and losses resulting from criminal conduct; and
f) Public Finance Management Act Paragraph 38(1)(a)(i) and 38(1)(a)(iii) states that the accounting officer for a department, trading entity or constitutional institution must ensure that the department, trading entity or constitutional institution 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;"

Audit Finding

During the performance of our audit we identified that a deviated process was followed for sewerage works: site supervision and plant operation. The reason for the deviation provided was that the department would be in contravention of the Department of Water and Sanitation's rules and regulations if there is no site supervision.
The department should have started the procurement process before the current supplier's contract came to an end.
The awards were in effect just an extension of four months to the current supplier to allow for the procurement process to take place; therefore it was not impractical and impossible to follow the proper procurement process if planned properly.

Order number	Supplier	Description	Amount (R)
A – 325840	Zana Mani Services	Paarberg Prison: Sewerage Works – Site	341 644.32

		supervision and plant operation (June, July, August and September 2017)	
A – 325842	Zana Mani Services	Drakenstein Prison: Sewerage Works – Site supervision and plant operation (June, July, August and September 2017)	417 708.54
A – 325843	Zana Mani Services	Helderstroom Prison: Sewerage Works – Site supervision and plant operation (June, July, August and September 2017)	436 433.04
A – 325844	Zana Mani Services	Riebeeck West Prison: Sewerage Works – Site supervision and plant operation (June, July, August and September 2017)	403 892.88
		Total	**1 599 678.78**

Furthermore, from the table above the procurement of sewerage works –site supervision and plant operation appears to have been deliberately split into different parts to avoid going out on a tender process. The total value is above R 500 000 for the same supplier and for the same service.

Impact

a) Non – compliance with laws and regulations.
b) Irregular Expenditure of R 1 599 678.78

Internal control deficiency

Leadership

The entity does 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

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

A compliance checklist should be completed and reviewed before the payment is approved to ensure that the correct procurement process was followed.

Management response:

Management disagrees with the finding for the following reasons:

- All four prison facilities are in different areas which are wide apart, it would have been impractical to combine the areas. The reason for using same service provider was that Zana Manzi was already on site at all plants of which a project for a service contract had expired. It must also be noted that at the time Zana Manzi was the only service provider accredited by the department of Water and Sanitation. Due to the fact that this is a specialized service, the negotiated procedure was entered into with Zana Manzi to ensure continuity of the service to curb potential health hazard.

- It must also be highlighted that the department didn't follow the normal procurement processes due to the fact the scope of works had to be reviewed hence as an interim measure the department negotiated with the service provider already on site.

Auditor's conclusion

Management comments are noted however based on the documents inspected and the reasons provided by the official the expenditure is split to avoid going on open procedure, the auditors have concluded that the finding remains for the management report.

Tender which was non-compliant was not cancelled and re-advertise (DBN – Coff 2)

Laws, rules and legislation

a) Treasury Regulation 16A6.3(b) states that: The Accounting Officer must ensure that the bid document include the evaluation and adjudication criteria including the criteria prescribed in terms of the Preferential Policy Framework Act.

(b) PPPFA Act Section 2(1)(a) Framework for implementation of preferential procurement policy states that "an organ of state must determine its preferential procurement policy and implement it."

(c) PPR paragraph 5 and 6 state:

(i) "The 80/20 preference point system for acquisition of services, works or goods up to a Rand value of R1 million

(ii) The 90/10 preference point system for acquisition of services, works or goods with Rand value above R1 million"

(d) PPR 8(2)(a) of 2011 states the following:

(i) "In the application of the 90/10 preference point system, if all bids received are equal to or below R1 000 000, the bid must be cancelled.

(ii) If one or more of the acceptable bid(s) received are above the R1 000 000 threshold, all bids received must be evaluated on the 90/10 preference point system"

Audit Finding

During of our audit on procurement, the following non-compliance was identified:

Through inspection of the tender file DBN16/04/32, It was noted that the scoring model used was 90/10 preference point system. However, all the bids received relating to this tender were all below R1 000 000.00 and thus the tender should have been cancelled and re-advertised. In this case the tender process still continued and was awarded.

Supplier Name	Tender Number	Tender Description	Award Value (R)
True Space (Pty) Ltd	DBN16/04/32	Ladysmith 5 S.A.I Battalion, Updgrading of kitchen equipment : Architectural Services	515 565.96

List of bids received:

Supplier Name	Tender value (R)
Iqhayiya Design Workshop (Pty) Ltd	694 607.96
Baganala Consulting (Pty) Ltd	991 372.50
MG Architects & Projects Manager cc	641 176.58
Ukuza Consulting (Pty) Ltd	507 598.13
Sakhisizwe Architecs	641 176.59
Muller Neumeister Internal Mini Architects	748 039.34
Creative Axis Architects KZN	853 293.20
Bartsch Consulting (Pty) Ltd	748 039.33
Tru Space (Pty) Ltd	515 565.96
Timocraft Consulting (Pty) Ltd	566 370.63
Izingodla Engineering (Pty) Ltd	782 662.50 .
True Space (Pty) Ltd	515 565.96

Impact

The aforementioned findings may result in:

a) Non-compliance with PPPFA Sec 2(1)(e)

b) Non-compliance with PPPR

c) Irregular expenditure of R515 565.96

Internal control deficiency

Leadership

Management did not exercise oversight responsibility regarding compliance with laws and regulations.

Financial and performance management

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

Recommendation

Management should ensure that that if all bids received are equal to or below R1 000 000, the bid are cancelled.

A compliance checklist should be completed and reviewed before bids are awarded to ensure that the correct procurement process is followed.

Management response

Management agrees with the finding in that this project should have been lapsed and re-advertised indicating a correct preference point system of 80/20. This was an oversight which SCM will avoid going forward by ensuring that all submissions for approval by the delegated authorities are verified by an SCM official from an ASD level upwards to ensure

compliance with all SCM prescript and that processes are correctly followed.

However, this is an isolated case as all services or tenders advertised within this financial year comply with all SCM regulations and prescripts from strategy to award.

Auditor's conclusion

Management comments are noted and therefore the finding remains and will be included in the management letter.

Reason for deviation not justifiable (PLK – Coff 7)

Laws, rules and regulations

a) Public Finance Management Act section 40(1) (a), and 40(1)(b) of the PFMA states that "the accounting office must prepare financial statements for each financial year in accordance with generally recognized accounting practice;"

b) 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."

c) Maintenance Guidelines on Day to day maintenance paragraph 7.2.2 states that "the facilities management section and project management section should instruct the identified contractor to report on site, needs to render work or makes safe within a maximum of 24 hour from date when the complaint was register at the call centre on emergency cases."

d) The total completion of the needs to be concluded within 5 days of which the Department of Public Work has 21 days to complete all internal processes and effect payment within 30 Days upon receipts of certification

Audit finding

1) During the audit we noted that the following transactions were considered to be emergency cases which required immediate attention, however the client did not conform to the requirements and timeframes of an emergency case as the complaints below were not attended and completed with the pre-set timeframe of 5 days for emergency cases as per Maintenance Guidelines. Therefore this transaction does not qualify to be considered and classified as emergency cases as it took more than a month for the contractor to commence with work and the time it took is sufficient source at least three quotations from different supplier.

No	Batch no.	Suppliers	Date the complaint was logged	Date the contractor commenced with the work	Date the contractor completed the work	Amount (R)
1	8785*3858*AG 844470	Mohlalerwa and Boledi Construction cc	27/03/2017	14/05/2017	18/05/2017	79 187.88
2	8785*2474**A G849243	Mohlalerwa & boledi co	22/09/2016	10/02/2017	24/03/2017	46 990.80
Totals						126 178.68

2) There is no evidence of the date the contractor commenced and completed the work as per form signed by the client department detailing days and hours the contractor reported at the client department

No.	Batch no.	Suppliers	Date the complaint was logged	Amount (R)
1	8785*2608*AG849244	Mohlaba-malesela steel	13/12/2016	16 263.00

Impact

The impact of the finding is that irregular expenditure might be understated by R126 178.68

Internal control deficiency

Leadership

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

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

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

Financial and performance management

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

Recommendation

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

Should the expenditure be regarded as irregular expenditure, the department must follow up and take appropriate steps against the applicable individuals as section 38(i)(h)(iii) of the PFMA states that "the Accounting Officer for the department must take effective appropriate disciplinary steps against any official in the service of the department, trading entity or constitutional institution who— makes or permits an unauthorized expenditure, irregular expenditure or fruitless and wasteful expenditure".

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

Management response

Some of emergencies are practically impossible to complete within 5 days, it depends on the nature of work that need to be done or executed on site.

Some emergency contractors need to procure spares which are not readily available and need to be ordered with prescribed delivery period.

Service provider will liaise with the works manager with regard to details of work on site and spares required. Works Manager will make recommendation of time period given the completion of work also to instruct the contractors to report on site make safe or temporary measures while waiting delivery of spares

Auditor's conclusion

Management comments noted however the finding remains as the reason for not obtaining quotations was not justified in this case.

Three quotations not obtained (DBN – Coff 3)

Laws, rules and regulations

a) Practice Note 8 of 2007/08 par 3.3.3 & Treasury Regulations16A6.4 states that "*If three written price quotations were not obtained, the reasons:-*

i. *were recorded and approved by a delegated official;*

ii. *appears reasonable/ justified on the basis that it was impossible/ impractical to obtain 3 written quotations;"*

Audit Finding

During the audit of procurement, we noted the following:

As per the payment batch, three quotations were received however one of the three quotes were received after the closing date. Therefore, resulting in only two quotations received.

No	Supplier	Description	Amount (R)
1	Kemba Enterprise (Pty) Ltd	Purchase of movable assets: Grinder large angle grinder metabo W 25*230	44 007.35

Impact

The aforementioned findings may result in:

a) Non-compliance resulting in irregular expenditure

Internal control deficiency

Financial and performance management

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

Recommendation

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

A compliance checklist should be completed and reviewed before the payment is approved to ensure that the correct procurement process was followed.

Management response

Management is in agreement with the finding as there is no proof that the 3rd quotations from Lentshwe Risk Solutions was delivered on time. Reasons provided that this quotation was deposited in the wrong box *(box number 16 instead of box number 6)*, was not accepted by AG.

SCM will disregard all documents received late if it cannot be proven that they were received on time by the department. For services closing on the same day, SCM will record all documents received from each quotation box and that will serve as proof.

Auditor's conclusion

Management comments are noted and the finding remain unresolved. Therefore, will be included in the management letter.

Further note that in the absence of three quotations as it cannot be proved that the third quotation was received before the closing date, this non-compliance results in irregular expenditure and thus will affect the financial statements.

Material adjustment to the financial statements

Provision-unscheduled maintenance

Provisions- Provision raised for calls that were paid (Coff 31)

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

a) Generally Recognized Accounting Practice 1, paragraph 17, states the following:

"17 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 set out in the Framework for the Preparation and Presentation of Financial Statements. The application of Standards of GRAP with additional disclosures when necessary is presumed to result in financial statements that achieve a fair presentation.

b) Generally Recognized Accounting Practice 19, paragraph 18, 20 and 21 states the following

"18 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"

"21. A 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."

c) Generally Recognized Accounting Practice 14, paragraph 3 and 7 states the following

"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). "

"07.An entity shall adjust the amounts recognised in its financial statements to reflect adjusting events after the reporting date."

Nature
During the audit of provisions, we identified the following:
A provision was raised using the "new approach" for calls logged that were noted to have been paid before year end, indicating that there was no obligation regarding these calls at

year end, therefore resulting in overstatement of Provisions as the calculations used in estimating the provision did not adequately account for the possibility of calls being paid before year-end and not updated accordingly on works4u.We further agreed the details on PMIS i.e.- Property codes, client department to the details on Works4u and confirmed the inclusion of paid calls in the provisions.

Calls paid before year-end:

Count of Ref No	Column Labels			
Row Labels	Emergency	Normal	Urgent	Grand Total
Civil	106	22	1201	1329
Electrical	65	9	210	284
General		12	75	90
Horticultural	3		3	3
Mechanical	56	39	814	909
Grand Total	**230**	**82**	**2303**	**2615**

Average invoice amount per AFS schedule(2018)	Emergency	Normal	Urgent
Civil	34 778.80	37 794.08	35 684.66
Electrical	25 743.79	19 445.39	29 089.81
General	48 691.26	47 807.65	55 511.50
Horticultural	-	14 440.85	24 227.55
Mechanical	28 611.67	26 663.37	32 931.74

Estimated amount	Emergency	Normal	Urgent	Total
Civil	3 686 553	831 470	42 857 273	47 375 296
Electrical	1 673 346	175 008	6 108 860	7 957 215
General	3 164 932	573 692	4 163 363	7 901 986
Horticultural			72 683	72 683
Mechanical	1 602 254	1 039 872	26 806 434	29 448 560
TOTAL				**92 755 740**

Notwithstanding the calculations above, We also identified payments on PMIS which we could not link to works4u as they did not include the call ref# and there is a possibility that those payments might relate to calls included in the provision therefore we are thus unable to reliably estimate the overstatement of provisions as at 31 March 2018.

Impact of deviation

- This result in an overstatement of provisions by an indeterminable amount for both the current and prior year.

Internal control deficiency

Financial and performance management

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

Recommendation

- The calculations for estimating provisions should adequately account for all probable outcomes.
- The system utilised to log and track calls for day to day maintenance should be regularly and accurately updated to fairly present the status of all calls.
- Financial statements should be prepared in line with the requirements of the financial reporting framework and should be free of any misstatements, this can be done by ensuring that schedules supporting the financial statement figures are reviewed and signed off by a relevant delegated official. All identified differences must be addressed before financial statements are issued.
- Payments made on PMIS should be linked to works4u to identify calls that have been paid

Management response

Management is in agreement with the fact that calls were paid before year end but the status on workx4u have not been updated to “Closed”.

We have re-performed the linking of payments to works4u calls from the PMIS payment reports as well as Reapatala invoice tracking system. We have identified that 5.6% (2017:14.3%) of payments made were on calls that have not yet been closed. The number of calls included in the provision will be reduced with this percentage to address the above finding. The percentage calculated was applied to the whole population to address the non-linking of the PMIS to worx4u.

Management made significant stride towards cleaning the status on worx4u which is evident from the reduction in the percentage of paid calls that has not been closed. The implementation of a fully integrated system is well on its way and controls have been implemented to avoid this problem going forward. However, the risk will not be fully eliminated until full integration between the payment system and the call log system has been implemented.

The provision was adjusted to address the above finding, refer to attached documents for the updated S102 General Provision.

Auditor’s conclusion

Management submitted revised schedule after adjusting with the above percentages 5.6% (14.3% 2017)
Therefore, the finding is not resolved and differences were identified which are not material.

Provisions-Opening balance: Provision raised for cancelled calls (COFF 21)

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

a) Generally Recognized Accounting Practice 1, paragraph 17, 18 and 19(b) states the following:

"17 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 set out in the Framework for the Preparation and Presentation of Financial Statements. The application of Standards of GRAP with additional disclosures when necessary is presumed to result in financial statements that achieve a fair presentation.

b) Generally Recognized Accounting Practice 19, paragraph 18, 20 and 21 states the following

"18 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"

"21. A 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."

c) Generally Recognized Accounting Practice 14, paragraph 3 and 7 states the following

"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). "
"07.An entity shall adjust the amounts recognised in its financial statements to reflect adjusting events after the reporting date."
During the audit of provisions, we identified the following:

A provision was raised using the "new approach" for calls logged that were noted to have been subsequently cancelled, indicating that there was no obligation regarding these calls at year end.

Although the call logged status was "job completed/in progress" at 31/03/2017, the calls were subsequently cancelled therefore resulting in overstatement of opening balance as the calculations used in estimating the provision did not adequately account for the possibility of calls being cancelled subsequent to year end.

Calls cancelled:

Row Labels	Civil	Electrical	General	Horticultural	Mechanical
Emergency	278	294	29	2	182
Normal	144	129	77	10	345
Urgent	3283	1287	396	37	3777
Grand Total	**3705**	**1710**	**502**	**49**	**4304**

Average invoice amount per AFS schedule(2017)	Emergency	Normal	Urgent
Civil	33 506	36 410	34 378
Electrical	24 801	18 734	28 025
General	46 909	46 057	53 479
Horticultural	-	13 912	23 341
Mechanical	27 564	25 687	31 726

Total provision amount:

Estimated amount	Emergency	Normal	Urgent	Total
Civil	9 314 554	5 243 109	112 863 902	
Electrical	7 291 593	2 416 623	36 068 001	
General	1 360 353	3 546 425	21 177 799	
Horticultural	-	139 122	863 603	
Mechanical	5 016 690	97 020 775	119 829 646	
Total	**22 983 191**	**108 366 055**	**290 802 950**	**422 152 196**

Impact of deviation

- This result in an overstatement of provisions by an estimated amount of R 422 152 196 for the prior year and 55 for current year

Internal control deficiency

Financial and performance management

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

Recommendation

- The calculations for estimating provisions should adequately account for all probable outcomes.
- The system utilised to log and track calls for day to day maintenance should be regularly and accurately updated to fairly present the status of all calls.
- Financial statements should be prepared in line with the requirements of the financial reporting framework and should be free of any misstatements, this can be done by ensuring that schedules supporting the financial statement figures are reviewed and signed off by a relevant delegated official. All identified differences must be addressed before financial statements are issued.

Management response
Management is in agreement with the fact that calls are subsequently cancelled.

We have analysed Works4U data as at 16 July 2018 to determine the ratio or calls closed vs cancelled. 25.2% of calls logged were closed and 74.8% of calls were closed. This percentage will be applied to calls not yet finalised to determine the value of the provision.

The provision will be recalculated to address the above finding, however this is dependent on the population for Day2Day maintenance accruals.

Refer to attached documents for analysis of Works4U data.

Auditor's conclusion

Management submitted the revised schedule and the provision amount was adjusted with the cancelled calls percentage therefore the finding is now resolved.

Prepaid expenses

Differences on prepaid expenses between recorded amounts and confirmations from implementing agents (Coff 53)

Audit finding

Laws, rules and Regulations:

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

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

Nature

1. The schedule for prepaid expenses for implementing agents does not agree to the trial balance and financial statements:

Implementing agent	Amount per schedule	Amount per trial balance	Difference
COEGA	205 114 218.89		
DBSA	32 729 472.52		
Total	**237 843 691.41**	**243 881 445.72**	**6 037 754.31**

2. Confirmations were obtained from implementing agents regarding prepayments received from PMTE. Differences were identified between confirmations and amounts according to PMTE

Implementing agent	Amount per PMTE schedule	Amount per confirmation	Difference
COEGA	205 114 218.89	202 987 685.31	2 126 533.58
DBSA	32 729 472.52	79 767 078.63	-47 037 606.10
Total	**237 843 691.41**	**282 754 763.94**	**-44 911 072.52**

3. A difference between the amount for prepaid expenses – implementing agents per the prior year financial statements and comparative in the current year was noted:

Item	Per 2016/17 financial statements	Per current year comparative	Difference
Prepaid expenses	247 451 976.64	146 450 000.00	101 001 976.64

Impact

This finding results in understatements of prepaid expenses – implementing agents by R38 873 318 and R101 001 976 in 2017 and 2018 respectively.

Internal control deficiency

Financial and performance management

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

Recommendation

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

Confirmations should be obtained from implementing agents by PMTE to confirm amounts to be disclosed in the financial statements as prepaid expenses.

Management response

Management partially agrees with the audit finding as follows:

2018

DBSA
Management agrees with the audit finding and will adjust in line with the prepaid expense confirmation received from the implementing agent.

Coega
Management does not agree with the prepaid expense confirmation letter received from Coega. The Coega was unable to confirm or deny the rand values proposed by the PMTE within the stipulated timeline required to respond to the CoFF. The PMTE has sufficient documentations supporting the values proposed by the PMTE. The PMTE's recalculated amount differs to the Coega confirmation letter with R3 436 885 and PMTE's calculation values will be utilized for the 31 March 2018 financial statements.

Management has agreed with the Coega to resolve this matter by the time that the 30 September 2018 IFS is prepared.

IDT
Management has met with IDT and recalculated with the IDT that a prepayment amount of R26 618 874 37 exists as at 31 March 2018.

Total correcting value management is in agreement with:

Implementing Agent	Submission 1	Revised Submission	Difference
Coega	205 114 219	199 550 800	
DBSA	32 729 472	79 767 079	
IDT	0	26 618 874	
Total	237 843 691	305 936 753	68 093 062

2017
Management agrees with the audit finding and will pass the following journal as at 31 March 2017:

Account name	Acc number	Debit	Credit
Outs P/P:Contractd Maint	002197		68 796 544.35
C/P Bus&Adv Ser Rese&Advisor	002648		32 205 427.67
Prepaid expense – Implementing agents	100103	101 001 972.02	
Narration: Accounting for the prepaid expense for DBSA			

Name: S Stipec
Position: Director: Financial Reporting
Date: 15 August 2018

Reviewed by:

Name: Belinda van der Merwe
Position: Technical Finance Expert
Date: 16 August 2018

Auditor's conclusion

Management agrees with the finding. The finding will remain and the necessary adjustments will be confirmed to the final financial statements.

Commitments

Increase in VAT rate not considered for commitments (Coff 86)

Audit finding

Laws, rules and Regulations:

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

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

Nature

The Minister of Finance announced the increase in VAT rate to 15% in February 2018 which was effective from 1 April 2018. The impact of the increase in the VAT was not accounted for in the commitments disclosed. PMTE has committed itself to future transactions that will result in the outflow of cash at the VAT rate of 15% and therefore the impact of the 1% increase in the VAT rate should be accounted for in the 31 March 2018 financial statements.

Item	**R**
Gross commitments (incl 14% VAT)	10 319 979 195.06
Gross commitments (Excl 14% VAT)	9 052 613 329.00
Gross commitments (incl 15% VAT)	10 410 505 328.35
Estimated increase in commitments as a result of 1% increase in VAT.	**90 526 133.29**

Impact

This finding results in understatement of commitments by **R90 526 133.**

Internal control deficiency

Financial and performance management

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

Recommendation

Management should consider the impact of the increase in the VAT rate on commitments and adjust the disclosure for commitments as appropriate.

Management response

Management agrees with the audit finding and will adjust the Commitments population. Management would like to advise that due to the limited time at their disposal between the announcement and the date of extraction of the Commitments report (3 April 2018), it was not possible to perform the WCS system update as it required ICT development.

The increase in the WCS Commitment correction is as a result of the increase in VAT which was however subsequently implemented and effective for the 2018/19 financial year.

Management will adjust the population to cater for the increase in VAT from 14% to 15%

Name: S Stipec
Position: Director: Financial Reporting
Date: 8 August 2018

Reviewed by:

Name: Belinda van der Merwe
Position: Technical Finance Expert
Date: 8 August 2018

Auditor's conclusion

Management agrees with the finding. The finding therefore remains. The adjustments will be confirmed to the revised financial statements.

Irregular expenditure

Irregular expenditure amount incorrectly disclosed as not recoverable not condoned. (Coff 26)

Audit finding

Laws, rules and Regulations:

The updated Guideline on irregular expenditure provides the following:
Paragraph 24:
Irregular expenditure must be removed from the balance of the irregular expenditure notes when it is either
(a) condoned by the relevant authority if no official was found to be liable in law;
(b) recovered from an official liable in law;
(c) written-off if it's irrecoverable from an official liable in law; or

(d) written-off if it's not condoned and not recoverable.

Paragraph 25:
In line with paragraph 24(d) above, irregular expenditure that is not recoverable because no official was found to be liable in law for such a transgression and was also not condoned by the relevant authority must be de-recognised in the balance of the irregular expenditure note. The accounting officer or accounting authority must only de-recognise the irregular expenditure referred to in paragraph 24(d) above when he or she is satisfied that:

(a) reasonable steps have been taken to confirm that such irregular expenditure did not result in any loss or damages to the state and that the state did obtain value from such a transaction, condition or event;

(b) the non-compliance that lead to the irregular expenditure is being addressed; and

(c) transactions, conditions or events of a similar nature are regularly reviewed to ensure that there are no possible future non-compliance cases reported.

Paragraph 26:
The accounting officer or accounting authority may proceed with the "write-off" of the irregular expenditure after confirmation of the controls indicated in paragraph 25 above have been met and by informing the relevant delegated official in writing to de-recognise the irregular expenditure in the notes to the financial statements.

Nature

During the performance of our audit the following was identified:
An amount of R147 827 940.29 was disclosed as not recoverable not condoned. Per inspection of the memorandum for the approval of this disclosure dated 15 December 2017 per the table below, it was not that the amounts that form part of the R147 827 940.29 relate to projects under investigation by Special Investigations Unit (SIU).
The amount is under investigations by SIU and therefore should not be disclosed as not recoverable not condoned. There is also no approval from the accounting officer to write off this amount in line with the irregular expenditure guideline. The memorandum supporting this

disclosure also does not demonstrate that requirements per paragraph 25 of the Irregular Expenditure Guideline were met before the write off as not recoverable not condoned.

Disclosure per financial statements	Amount	Supporting documentation Reference number
Investigations conducted by the SIU on procurement processes	R147 827 940.29	**PMTE-CT/IE - 0060**

Impact

This finding results in understatement of irregular expenditure by R147 827 940.29.

Internal control deficiency

Financial and performance management

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

Recommendation

Management should strictly apply the National Treasury's Irregular Guideline when dealing with irregular expenditure.
The amount of irregular expenditure should be adjusted in the financial statements.

Management response

Management takes note of the finding.

The transactions that were classified as Not Recoverable Not Condoned amounting to R147 827 940.29 were investigated by the SIU. Upon performing a reconciliation against the SIU Report: Proclamation 54 of 2014 as amended by Proclamation 44 0f 2015, it was found that R32 676 743.83 from the population was concluded and no irregularities were found, while R376 708.62 are cases where disciplinary proceedings were instituted against the project manager. The amount of R147 827 940.29 will be reversed and added back to the balance of irregular expenditure, as these cases have not yet been finalized in totality by the SIU. This was an isolated matter and further errors were found.

Auditor's conclusion
Management agrees with the finding. The finding remains and adjustments will be checked against the revised irregular expenditure register and financial statements.