

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

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Property Management Trading Entity set out on pages ... to ..., which comprise the statement of financial position as at 31 March 2018, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the annual financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the effect of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the Property Management Trading Entity as at 31 March 2018, and its financial performance and cash flows for the year then ended in accordance with Standards of Generally Recognised Accounting Practice (Standards of GRAP) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA).

Basis for qualified opinion

Property, plant and equipment

3. The trading entity did not correctly measure deemed costs for property, plant and equipment recognised in accordance with GRAP 17: *Property, plant and equipment* read in conjunction with GRAP directive 7: *The application of deemed cost*. The entity incorrectly utilised the source data in determining deemed costs of the properties being measured. Consequently, property, plant and equipment was overstated by R11 857 267 075 (2017: R12 608 837 806). Additionally, there was an impact on the surplus for the period and on the accumulated surplus.

Payables from exchange transactions

4. The trading entity did not recognise all outstanding amounts meeting the definition of a liability in accordance with GRAP 1, *Presentation of financial statements*. The system utilised by the trading entity to maintain records of outstanding payments for goods and services received but not yet paid at year-end was inadequate. Consequently accrued expenses for assets were understated by R295 166 123. Additionally, there was an impact on the surplus for the period.
5. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
6. I am independent of the trading entity in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and the

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ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of matters

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

Going concern

9. I draw attention to Note 1.25 to the financial statements, which indicates that the trading entity as of 31 March 2018, has a bank overdraft of R2.3 billion (2017: R1.9 billion) and the current liabilities exceed the current assets by R10.3 billion (2017: R9.3 billion).

Material impairments

10. As disclosed in note 22 to the financial statements, material impairments to the amount of R1 082 946 000 were provided for as a result of irrecoverable receivables from exchange transactions.

Restatement of corresponding figures

11. As disclosed in note 37 to the financial statements, the corresponding figures for 31 March 2017 were restated as a result of errors in the financial statements of the trading entity at, and for the year ended, 31 March 2018.

Responsibilities of the accounting officer-for the financial statements

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

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

14. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are

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considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

15. A further description of my responsibilities for the audit of the financial statements is included in the annexure to the auditor's report.

Report on the audit of the annual performance report

Introduction and scope

16. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected programmes presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
17. My procedures address the reported performance information, which must be based on the approved performance planning documents of the trading entity. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
18. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected programmes presented in the annual performance report of the trading entity for the year ended 31 March 2018:

Programmes	Pages in the annual performance report
Programme 2 - real estate investment services	x – x
Programme 3 – construction project management	x – x
Programme 4 – real estate management services	x – x
Programme 5 – real estate information and registry services	x – x
Programme 6 – facilities management	x – x

19. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
20. The material findings in respect of the usefulness and reliability of the selected programmes are as follows:

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Programme 3 – construction project management

Number of infrastructure projects completed

21. The achievement for target 106 infrastructure projects completed reported in the annual performance report was 148. However, the supporting evidence provided did not agree to the reported achievement and indicated an achievement of 178.

Programme 4 – real estate management services

Various indicators

22. I was unable to obtain sufficient appropriate audit evidence for the achievement as reported in the annual performance report for the indicators listed below. This was due to limitations placed on the scope of my work. I was unable to confirm the reported achievement taken by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements in the annual performance report of the indicators listed below:

Indicator description	Planned target	Reported achievement
Savings realised on identified private leases	R100 mil	R12,101,868.40
Percentage of new leases awarded to black owned companies	25%	67%
Number of private leases reduced within the security cluster	6	7

Programme 6 - facilities management

Various indicators

23. The reported achievement in the annual performance report did not agree to the supporting evidence provided for the indicators listed below. The supporting evidence provided indicated that the achievements of these indicators were as follows:

Indicator description	Reported achievement	Audited value
Number of facilities with maintenance contracts in place	742	1022
Percentage of term contracts awarded to black owned companies	65%	87%

Percentage of unscheduled reported maintenance incidents resolved within agreed timeframes

24. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of target 10% unscheduled reported maintenance incidents resolved within agreed timeframes. This was due to limitations placed on the scope of my work. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement of 5% as reported in the annual performance report.
25. I did not raise any material findings on the usefulness and reliability of the reported performance information for the following programmes:

All

- Programme 2 - real estate investment services
- Programme 5 - real estate information and registry services

Other matters

26. I draw attention to the matters below.

Achievement of planned targets

27. Refer to the annual performance report on pages x to x; x to x for information on the achievement of planned targets for the year and explanations provided for the under and over achievement of a number of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraph 21 to 24 of this report.

Adjustment of material misstatements

28. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of programme 2: real estate investment services, programme 3: construction project management, programme 5: real estate information and registry and programme 6: facilities management. As management subsequently corrected only some of the misstatements, I reported material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

Report on audit of compliance with legislation

Introduction and scope

29. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the trading entity with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
30. The material findings in respect of the compliance criteria for the applicable subject matters are as follows:

Annual financial statements, performance and annual reports

31. Financial statements were not submitted for auditing within two months after the end of financial year as required by section 40(1)(c)(i) of the PFMA.
32. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework in certain instances, and supported by full and proper records as required by section 40(1)(a) and (b) of the PFMA. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not be provided subsequently, which resulted in the financial statements receiving a qualified audit opinion.

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Expenditure management

- 33. Effective and appropriate steps were not taken to prevent irregular expenditure amounting to R152 077 000, as disclosed in note 32 to the annual financial statements as required by section 38(1)(c)(ii) of the PFMA and treasury regulation 9.1.1.
- 34. Payments were not made within 30 days or an agreed period after receipt of an invoice in certain instances as required by treasury regulation 8.2.3.
- 35. Payments were made before goods or services were received, in contravention of treasury regulation 15.10.1.2(c).

Revenue management

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

Other information

- 37. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and those selected programmes presented in the annual performance report that have been specifically reported in this auditor's report.
- 38. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
- 39. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected programmes presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
- 40. If, based on the work I have performed on the other information obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Internal control deficiencies

- 41. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

2011

Leadership

- 42. Leadership did not in all instances exercise effective oversight of the effective implementation of audit action plans resulting in the negative audit outcome.
- 43. Leadership did not institute effective measures to ensure that the issue of incorrect payments being made to suppliers in respect of private leases was adequately resolved.

Financial and performance management

- 44. Proper record keeping was not always implemented in a timely manner to ensure that complete, relevant and accurate information was accessible and available to support financial and performance reporting.
- 45. Regular, accurate and complete financial and performance reports supported by reliable information were not prepared throughout the financial year.
- 46. The review and monitoring of compliance with applicable laws and regulations were ineffective in certain instances.

Other reports

- 47. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the trading entity's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

Investigations

- 48. Numerous allegations, mainly relating to alleged transgressions with regard to supply chain management, potential fraud and financial misconduct, are still being investigated on an ongoing basis by the Special Investigating Unit. There are currently four active presidential proclamations covering various periods starting from 2003 to 2015.

Auditor - General

Pretoria

04 September 2018



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general's responsibility for the audit

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

Financial statements

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

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.