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

Report on the audit of the financial statements

## Disclaimer of opinion

- 1. I was engaged to audit 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 2022, the statement of financial performance, statement of changes in net assets, and cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.
- 2. I do not express an opinion on the financial statements of the trading entity. Because of the significance of the matters described in the basis for disclaimer of opinion section of this auditor's report, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

## Basis for disclaimer of opinion

## Property, Plant and Equipment

3. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding amounts for property, plant and equipment in the financial statements, as described in note 37. The restatement was as a result of the trading entity reconstructing the asset register, overriding the one that was audited in the prior year. The restatement could not be substantiated by supporting audit evidence and I was unable to confirm the restatement by alternative means. As a results I was unable to determine whether any adjustments effected in the corresponding opening balance of R129.8 billion were necessary. Consequently I was unable to place reliance on the closing balance of property, plant and equipment stated at R129.6 billion.

## Payables from exchange transactions

4. The trading entity did not accrue for payables from exchange transactions, as required by the Standards of Generally Recognised Accounting Practice (GRAP) 19, Provisions, contingent liabilities and contingent assets. Goods and services were received before year end, however the trading entity did not correctly recognise the accrued expenses. As a result, payables from exchange transactions was understated by R245 million and expenditure was understated by 245 million.



## Payables from exchange transactions- Accrued expenses- Municipal services

5. The trading entity did not correctly recognise payables from exchange transactions in accordance with GRAP 104, financial instruments. Municipal services accruals were recorded at incorrect amounts. As a result, accruals was overstated by 217 million, expenditure was overstated by 133 million and revenue accrual-recoverable municipal services was overstated by 84 million.

## Payables from exchange transactions- Accrued expenses- Leases

6. The trading entity did not correctly recognise payables from exchange transactions in accordance with GRAP 104, financial instruments. Lease accruals were recorded at incorrect amounts. As a result, lease accrual was overstated by R172,9 million, revenue accrual-recoverable leases was overstated by R104,9 million and operating lease expense was overstated by R67.9 million.

#### **Emphasis of matters**

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

#### **Going Concern**

8. I draw attention to note 38 to the financial statements, which indicate that the trading entity as of 31 March 2022, has a bank overdraft of R1,02 billion (March 2021: R905 million) and the current liabilities exceed the current assets by R6,7 billion (March 2021: R4,4 billion)

#### Irregular expenditure

 As disclosed in note 32 to the financial statements, irregular expenditure of R188 832 000 that was incurred in the previous years was disclosed as amounts not recoverable and not condoned.

#### Receivables from exchange transactions- Impairments

 As disclosed in note 22 to the financial statements, material losses of R2 820 062 000 were incurred as a result of a lack of recoverability in long outstanding receivables.

## Responsibilities of the accounting officer for the financial statements

- 11. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the Generally Recognised Accounting Practice and the requirements of the Public Finance Management Act, 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.
- 12. In preparing the financial statements, the accounting officer is responsible for assessing the trading entity's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate



governance structure either intends to liquidate the trading entity or to cease operations, or has no realistic alternative but to do so.

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

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

#### Report on the audit of the annual performance report

15. Section 40(3)(a) of the PFMA, requires the trading entity to prepare an annual performance report. The trading entity's performance information was reported in the annual performance report of Department of Public Works and Infrastructure. The usefulness and reliability of the reported performance information was tested as part of the audit of Department of Public Works and Infrastructure and any audit findings are included in the management and auditor's reports of Department of Public Works and Infrastructure (DPWI).

## Report on the audit of compliance with legislation

#### Introduction and scope

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

#### **Expenditure Management**

- 18. Effective and appropriate steps were not taken to prevent irregular expenditure amounting to R133 474 million, as disclosed in note 32 to the financial statements, as required by section 38(1)(c)(ii) of the PFMA and treasury regulation 9.1.1. The majority of the irregular expenditure disclosed in the financial statements was caused by incorrect procurement processes followed by management
- 19. Effective internal controls were not in place for approval and processing of payments, as required by treasury regulation 8.1.1.



#### Annual Financial Statement, Performance and Annual Report

20. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework and supported by full and proper records as required by 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 disclaimer of opinion.

#### **Revenue Management**

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

#### **Consequence Management**

- 22. I was unable to obtain sufficient appropriate audit evidence that investigations were conducted into all allegations of financial misconduct committed by officials, as required by treasury regulation 4.1.1.
- 23. I was unable to obtain sufficient appropriate audit evidence that disciplinary steps were taken against officials who had incurred irregular expenditure as required by section 38(1)(h)(iii) of the PFMA.

#### Other information

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



#### Internal control deficiencies

- 28. I considered internal control relevant to my audit of the financial statements and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the disclaimer of opinion, and the findings on compliance with legislation included in this report.
- 29. The leadership did not perform due diligence on recording keeping to ensure that the overall financial statements are supported by readily available underlying records. This is evident from the significant restatements of prior year immovable assets which were not supported by readily available underlying records.
- 30. Due to the decentralised functions responsible for management of leases spread between Finance unit and Real Estate Management Services unit; there is lack of accountability and oversight to enable proactive implementation of mechanisms to address material misstatements on leases as well as the recurrence of overpayments.
- 31. Senior officials entrusted with significant elements of the financial statements lack adequate and critical skills fundamental for preparation of financial statements. This is indicated by numerous errors and misstatements that were identified in the submitted financial statements for audit.
- 32. Although majority of the allegations related to irregular expenditure were prioritise by the investigation structures, the implementation of recommendations from the finalised reports were not always prioritised by the senior management of the trading entity.

#### Material irregularities

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

## Material irregularities identified during the audit

34. The material irregularities identified are as follows:

Leeuwkop prison Asset not appropriately safeguarded during construction

- 35. After termination of the initial contractor, the boilers on site were not appropriately covered as they were exposed to severe weather conditions, the plastic covering the boilers was damaged. This had an impact on ancillary equipment as they became corroded and unusable.
- 36. PMTE appointed a service provider for the replacement and maintenance of boilers for a period of 24 months on 26 January 2012. Due to the service provider's continued inability to meet deadlines in relations to the supply and installation of the boilers as per the site programme of works, the contractor was first placed in *mora* on 18 October 2013 and then the contact was subsequently terminated with effect from 5 June 2014.



- 37. After termination of the initial contractor, the boilers on site were not appropriately covered as they were exposed to severe weather conditions, the plastic covering the boilers was damaged. This had an impact on ancillary equipment as they became corroded and unusable.
- 38. The Accounting Officer did not take full responsibility for the safeguarding of the boilers while they were on site and after the termination date of the initial contractor, as a result, more costs will be incurred to replace and refurbish critical equipment's that have corroded. This is a contravention of TR10.1.1 (a) which requires that the Accounting Officer of an institution must take full responsibility and ensure that proper control systems exist for assets and that preventative mechanisms are in place to eliminate theft, losses, wastage and misuse. The contravention of TR10.1.1(a) is likely to result in a material financial loss.
- 39. The Accounting Officer was notified of the MI on 26 August 2021 and invited to make a written submission on the actions taken and that will be taken to address the matter. The response was received on the 23 September 2021.
- 40. Even though the Accounting Officer disagreed with the finding and the MI, in their response they agreed that there was a subsequent deterioration of the boiler cover and corrosion of boiler components. As a result, the boilers were exposed to inevitable physical weather elements. Due to the disagreement the Accounting Officer did not implement any corrective actions.
- 41. A new Accounting Officer was appointed in April 2022 and was informed of the MI. The Accounting Officer was afforded the opportunity to respond as to whether he will uphold the view on the MI as their predecessor. The Accounting Officer confirmed that he support the view his predecessor. Based on the letter no actions were implemented by the trading entity to address the MI.
- 42. I recommend that the Accounting Officer should take the following actions to address the material irregularity, which should be implemented by 31 January 2023:
  - Appropriate action should be taken to investigate the non-compliance in order to determine if any official should be held responsible.
  - The financial loss relating to the boilers should be quantified and appropriate action should be taken to determine whether the responsible official(s) is liable by law for the losses suffered by the department for the purpose of recovery, as required by treasury regulation 12.7.1.
  - Effective and appropriate disciplinary steps should be initiated, without undue delay, against any official that the investigation found to be responsible, as required by section 38(1)(h) of the PFMA.
  - Reasonable steps should be taken to ensure that preventative mechanisms are in place
    to eliminate further losses on account of inadequate safeguarding or other damage in
    relation to construction site assets as required by TR section 10.1.1(a).
- 43. I will follow up on the implementation of the recommendation after the due date.

Lease No. 140280 Overpayment

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- 44. The PMTE appointed a service provider for the leasing of office accommodation and parking bays on behalf of the Department of Rural Development and Land Reform (DRDLR) for four (4) years. The lease commenced on 01 October 2015 with a commencement rental amount of R771 656.22 per month and an annual escalation rate 5.5%. The expiry date as per the lease agreement was set at 30 September 2019.
- 45. During the 2019/20 financial period, lease overpayments were reported as a result of internal controls weaknesses with regard to the payment processes These duplicate payments / overpayments mainly occurred between October 2017 and March 2019. The cumulative overpayments over this period amounted to R9 325 082.75.
- 46. During the 2020/21 financial period, the lease agreement was renewed with effect from 01 June 2019 while the old contract was still active (4 months before it expired). This renewal resulted in a lesser monthly rental payment as compared to the previous lease contract. Management continued to make payments based on the old lease contract which resulted in additional overpayments made since the renewal period of 01 June 2019 up to the end of 31 March 2021 amounting to R1 636 993, 88.
- 47. Effective internal controls were not in place for approval and processing of payments, as required by TR8.1.1 to ensure that correct rental payments for a lease agreement were made and to prevent the overpayments stated above. These controls would have provided management reasonable assurance that rental payments made were necessary for each month and appropriate. The PMTE was likely to incur a material financial loss of R10 962 076,63.
- 48. The Accounting Officer was notified of the MI on 27 August 2021 and invited to make a written submission on the actions that will be taken to address the MI. The response was received on 23 September 2021 which was retracted and reissued on 15 November 2021. The Accounting Officer indicated that the trading entity had already appointed an external service provider to review the extent of the overpayments on the leasing portfolio and recommend any changes necessary.
- 49. The appointment of mentioned service provider is part of the greater lease clean-up project undertaken by the trading entity with the objectives of ensuring:
  - Verification of data correctness on Archibus against lease agreements;
  - · Correction of historical and current data to ensure correct payments;
  - Upload all supporting documents on Archibus;
  - Implement delegations for any changes on the system especially on active leases;
  - Perform monthly reconciliation prior to the payment run to identify under / overpayments;
  - Perform final reconciliation after the payment run to confirm transactions processed;
- 50. In the progress follow up response received on 28 February 2022, the accounting officer reported that the trading entity had correctly captured the lease details on Archibus and implemented the use of credit notes to deduct any overpayments from future rentals. This function has resulted to a partial recovery of lease overpayments. The recovery process began in June 2021.
- 51. The response from the Accounting Officer and the supporting evidence presented, indicates that the following steps have been taken to address the MI:

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- Letters of consequence management have been issued to the lease management team to explain the lack of oversight on lease payments. A final written warning was issued in January 2022 to the supervisor responsible for oversight and ensuring due diligence with regards to lease payments.
- Management has initiated measures to recover the overpayments from the landlord and the recovery process is in progress. An amount of R9 681 612 has already been recovered from the landlord as at year end.
- 52. I will follow up on the implementation of further actions taken, including the recovery of the remaining los as well as the progress on the clean-up project, during my next audit.

Construction contract extension approved, incorrectly included contract value adjustment

- 53. The PMTE entered into a contract with a service provider on 28 November 2013 to construct a magistrate court building at Mamelodi (WCS 044028). The contract was for a period of 18 months for construction and the contract value was R94 742 592.85.
- 54. The construction of the Mamelodi magistrate court project has been significantly delayed and the expenditure paid to date exceed the initial contract amount. The practical completion date of the contract has been extended and PMTE has been approving the contract extensions with adjustments to the contract value with the daily rate of R24 283,26 charged by the contractor. Based on the approved claims 4, 5, 8 and 9, the delays resulted from civil unrest, riots, strikes and lockouts.
- 55. This was a contravention of the JBCC 2000 Principal Building Agreement Clause 29.1 which stipulates that the contractor is entitled to a revision of the date of practical completion but for which the contract value should not be adjusted if it pertains to delays related to civil unrest, riots or strikes. However, requests for extensions with a financial impact where the cause of the delay related to civil unrest, riots, strikes and related matters were approved.
- 56. The delegation of authority dated 08 December 2009, in paragraph 7.4 pertaining to the approval of the extension of contract periods as part of the general notes and condition 2 on the approved delegation, stipulates that any decision regarding the extension of the contract needs to be based on the conditions of the contract and that the decision-taker has no opportunity to exercise any discretion in reaching the decision. The approval of claims 4, 5, 8 & 9 were not in line with the conditions of the contract.
- 57. The approval of the listed claims in convention of the delegations resulted in a contravention of section 45(a) of the PFMA which requires that an official in a department, trading entity or constitutional institution must ensure that the system of financial management and internal controls established for that department, trading entity or constitutional institution is carried out within the area of responsibility of that official. These contraventions is likely to result in a material financial loss for the PMTE. as it may be possible to recover the amount from an external party.
- 58. The Accounting Officer was notified of the MI on 15 October 2021 and invited to make a written submission on the actions taken and that will be taken to address the matter. The Accounting Officer responded on the 17 November 2021. The response from management including the supporting annexures, indicates that the following steps have been taken to address the MI:

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- On 17 November 2021, letters of consequence management have been issued to the project management team to explain their actions in approving the claims and payments to the contractor.
- The Department of Public Works sent a letter to the Principal Agent requesting an explanation of the payments made. The letter to the Principal Agent was issued on the 17 November 2021.
- Based on the response of the Principal Agent, the department has resolved to issue a
  letter of demand to the contractor for the payments made. The letter to the Principal
  Agent was issued on the 17 November 2021 and the Principal Agent responded on 25
  November 2021.
- 59. The audit team made a determination on the appropriateness of actions taken on 07 December 2021 and concluded based on the representations made and the substantiating documents provided, that appropriate actions are being taken to address the material irregularity.
- 60. A follow up letter was sent on 23 February 2022 wherein we requested information on progress made in addressing confirmed material irregularity and the response was received on the 23 June 2022 detailing the actions already taken and the planned actions to address the MI.
- 61. The Accounting Officer communicated and presented evidence that the following progress has been made on the MI:
  - The Accounting Officer received responses from the four (4) persons identified as the responsible parties that caused the MI. On 25 March 2022, the Accounting Officer took further action and referred the matter to Labour Relations to conduct an investigation in order to prepare charge sheets and institute disciplinary action against the identified officials. The process is anticipated to be concluded in July 2022.
  - The Accounting Officer states that in addition to the clarification consultations and correspondence with the Principal Agent, the trading entity instructed the Principal Agents to recover the funds.
  - The trading entity has received training from the AGSA team to increase awareness on accountability and further there was a directive issued in June 2022 to empower the executing units. The trading entity implemented the workshops an intervention for preventing future MI's of a similar nature.
- 62. I will follow up on the implementation of further actions taken, which include the instigation of disciplinary actions and the recovery of the loss, during my next audit.

Lease no. 140227 Overpayment

63. The PMTE entered into a lease agreement on behalf of the Department of Defence (DoD). The original lease agreement was entered into on 24 April 2014 for a period of five (5) years and only took effect on occupation on 01 April 2015. The lease agreement was amended for additional space and parking bays based on the same terms and conditions as the main lease with effect from 01 April 2016 for a period of four (4) years.



- 64. Upon the implementation of the Archibus leasing system in September 2019, management commenced consistently making overpayments to the landlord. The overpayments amounting to R14 062 727 occurred from the implementation of Archibus leasing system up to 31 March 2021. Although some of the overpayments were recovered as at February 2022 the cumulative remaining not recovered overpayments amounted to R3 802 787.
- 65. Effective internal controls were not in place for approcval and processing of payments, as required by TR8.1.1 to ensure that correct rental payments for a lease agreement were made and to prevent the overpayments stated above. These controls would have provided management reasonable assurance that rental payments made were necessary for each month and appropriate. The PMTE is likely to incur a material financial loss of R3 802 787 as the amount was still not recovered as at year end as disclosed in note 3 prepaid expenses-leases of the financial statements.
- 66. The Accounting Officer was notified of the MI on 03 June 2022. The response was received on the 05 July 2022 detailing the actions already taken and the planned actions to address the MI. Based on the response from the Accounting Officer and supporting evidence provided, the following actions were taken:
  - Management captured the new lease and effected adjustments to prevent subsequent overpayments on 16 July 2021.
  - Management has taken steps to recover the financial loss by withholding payments to the landlord from July 2021 until the overpayment are recovered.
  - Management identified the person responsible and has taken appropriate
    consequence management actions. Management has provided evidence that the
    Portfolio Manager has been issued with a verbal warning on 12 July 2021. The
    Portfolio Manager has acknowledged receipt of the verbal warning on 14 July 2021.
  - Management undertook a lease data clean-up exercise to mitigate potential future lease overpayments. An external service provider was appointed in September 2021 to assess the extent of the lease overpayments and recommend improvements to the lease management processeses. The clean-up exercise is anticipated to be concluded by September 2022.
- 67 Based on the assessment of the response, I have determined that the Accounting Officer is taking appropriate steps to address the MI. I will follow up on the progress and implementation of further actions during my next audit,

#### Status of previously reported material irregularities

Unfair Procurement Process for the Beitbridge Borderline Infrastructure Project

68. The Accounting officer did not ensure an appropriate supply chain management process that is fair, equitable, transparent, competitive and cost effective is followed in the appointment of the contractor in order to prevent amounts charged to the trading entity for Beitbridge Borderline Infrastructure project being overpriced. This was in contravention with National Treasury Regulation (TR) 16A3.2 (a). The Accounting Officer was notified of the MI on 13 November 2020. The Response was received on the 10 December 2020 detailing the actions already taken and the planned actions to address the MI.

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- 69. The investigation on the Beitbridge project was initiated on 25 April 2020 as per the Minister of DPWI's request. The investigation was conducted by the GRC unit with the assistance of the SIU who were seconded on the investigation. The investigation was finalised on the 27 July 2020. The entity is currently implementing the recommendations stated on the investigation report. The SIU launched an application on 23 September 2020 to freeze the service providers' bank accounts. The Tribunal made an order by agreement that the service providers would not make any further claims for payment from the Department. On 17 November 2020, the SIU instituted legal action against the contractor with the Special Tribunal under case number GP17/2020. The Department has since initiated disciplinary actions against the employees of the Department for their role in the project. The disciplinary proceedings are still in progress.
- 70. Follow-ups on the progress were made and the Accounting Officer responded on 08 June 2022 with supporting evidence that indicated that the following progress was made on the MI:
  - The Accounting Officer reported that the trading entity has made significant progress in relation to consequence management for the persons responsible for the MI. The disciplinary hearing process against the employees that caused the MI was concluded on the 03 June 2022 with the Chairperson of the hearing finding the employees guilty of the charges raised. Disciplinary proceeding against the three senior managers (Former CFP, DDG-CPM and Director Special & Major Projects have been postponed indefinitely by the Chairperson of the hearing pending the judicial review outcome of the investigation report in the High Court. The DDG -CPM has since applied for termination by mutual agreement subject to the Ministers approval.
  - The National Treasury has placed both the consultant and the service provider on the list of restricted suppliers from September 2021 for a period of 10 years. The two companies were afforded an opportunity to make representation and the NT concluded on the process in January 2022 and has informed the trading entity of their decision to inform the companies of the taken decision.
  - The lead investigator from the SIU has managed to register a criminal case against the service provider on 22 July 2021 at SAPS Pretoria (Case: 359/07/2021), the investigation is still on-going. On 08 March 2022, the Special Tribunal Judgement was handed down on the matter. The judgement strips the contractor of any profits arising from the Beitbridge fence project.
  - The trading entity has implemented various initiatives to increase oversight on contract management for construction projects.
- 71. Based on the assessment of the response and evidence presented, I have determined that the Accounting Officer is taking appropriate steps to address the MI. I will follow up on the implementation of further actions taken during my next audit

Beitbridge Borderline Infrastructure Project Establishment Cost

72. The accounting officer did not ensure that internal control measures and procedures are in place to detect that the establishment cost is not included in the BOQ and therefore that it will not be paid. This was in contravention with National Treasury Regulation (TR) 8.1.1. The Accounting Officer was notified of the MI on 13 November 2020. The Response was received on the 10 December 2020 detailing the actions already taken and the planned actions to address the MI.

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- 73. The investigation on the Beitbridge project was initiated on 25 April 2020 as per the Minister of DPWI's request. The investigation was conducted by the GRC unit with the assistance of the SIU who were seconded on the investigation. The investigation was finalised on the 27 July 2020. The entity is currently implementing the recommendations stated on the investigation report. The SIU launched an application on 23 September 2020 to freeze the service providers' bank accounts. The Tribunal made an order by agreement that the service providers would not make any further claims for payment from the Department. On 17 November 2020, the SIU instituted legal action against the contractor with the Special Tribunal under case number GP17/2020. The Department has since initiated disciplinary actions against the employees of the Department for their role in the project. The disciplinary proceedings are still in progress. I will follow up on the implementation of the planned actions during my next audit.
- 74. Follow-ups on the progress were made and the Accounting Officer responded on 08 June 2022 with supporting evidence that indicated that the following progress was made on the MI:
  - The Accounting Officer reported that the trading entity has made significant progress in relation to consequence management for the persons responsible for the MI. The disciplinary hearing process against the employees that caused the MI was concluded on the 03 June 2022 with the Chairperson of the hearing finding the employees guilty of the charges raised. Disciplinary proceeding against the three senior managers (Former CFP, DDG-CPM and Director Special & Major Projects have been postponed indefinitely by the Chairperson of the hearing pending the judicial review outcome of the investigation report in the High Court. The DDG -CPM has since applied for termination by mutual agreement subject to the Ministers approval.
  - The National Treasury has placed both the consultant and the service provider on the list of restricted suppliers from September 2021 for a period of 10 years. The two companies were afforded an opportunity to make representation and the NT concluded on the process in January 2022 and has informed the trading entity of their decision to inform the companies of the taken decision.
  - The lead investigator from the SIU has managed to register a criminal case against the service provider on 22 July 2021 at SAPS Pretoria (Case: 359/07/2021), the investigation is still on-going. On 08 March 2022, the Special Tribunal Judgement was handed down on the matter. The judgement strips the contractor of any profits arising from the Beitbridge fence project.
  - The trading entity has implemented various initiatives to increase oversight on contract management for construction projects.
- 75. Based on the assessment of the response and evidence presented, I have determined that the Accounting Officer is taking appropriate steps to address the MI. I will follow up on the implementation of further actions taken during my next audit



## Other reports

- 76. In addition to the investigations relating to material irregularities, I draw attention to the following engagements conducted by various parties, which had, or could have, an impact on the matters reported in the trading entity's financial statements, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statement or my findings on the compliance with legislation.
- 77. Numerous allegations, mainly relating to alleged transgressions with regard to supply chain management, potential fraud and financial misconduct, are still being investigated on an ongoing basis by Special Investigation Unit. These investigation(s) were in progress at the date of this auditor's report.

Auditor-General

Pretoria

31 July 2022



Auditing to build public confidence

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

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

#### Financial statements

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

## Communication with those charged with governance

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

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independence and, where applicable, actions taken to eliminate threats or safeguards applied.

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# Explanatory information and examples

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