

# 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 2020, 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 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 2020, its financial performance and its cash flows for the year then ended, in accordance with the South African Standards of Generally Recognised Accounting Practice (SA 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 and property maintenance (contracted services)

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 used the source data in determining the deemed costs of the properties being measured. Furthermore, the entity incorrectly recognised additions to property, plant and equipment as expenditure. Consequently, property, plant and equipment was understated by R2 818 767 125 (2019: overstated by R9 663 512 844) and property maintenance (contracted services) expenditure was overstated by R452 489 422 in the financial statements. Additionally, there was a resultant impact on the surplus for the period and on the accumulated surplus.

#### Operating leases expenditure

4. The implementation of a new computerised leases system in September 2019 resulted in numerous errors in operating leases. In certain instances, the amounts disclosed did not agree with information from the signed lease agreements. As of the date of this auditor's report, management was still rectifying the system deficiencies and correcting the errors. Consequently, operating leases expenditure was overstated by R161 810 300. Additionally, there was a resultant impact on the surplus for the period.

## Revenue from exchange transactions – accommodation charges – leasehold intergovernmental

5. The implementation of a new computerised leases system in September 2019 resulted in numerous errors in operating leases. In certain instances, the amounts disclosed did not agree with information from the signed lease agreements. As of the date of this auditor's report, management was still rectifying the system deficiencies and correcting the errors. Consequently, revenue from exchange transactions was overstated by R159 624 735. Additionally, there was a resultant impact on the surplus for the period.

### Context for the opinion

6. 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.
7. I am independent of the trading entity in accordance with sections 290 and 291 of the *Code of ethics for professional accountants* and parts 1 and 3 of the *International Code of Ethics for Professional Accountants (including International Independence Standards)* of the International Ethics Standards Board for Accountants (IESBA codes), as well as the 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 codes.
8. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### Emphasis of matters

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

#### Material impairment of receivables

10. As disclosed in note 22 to the financial statements, material losses of R1 455 133 000 was incurred as a result of a write-off 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 2019 were restated as a result of an error in the financial statements of the trading entity at, and for the year ended, 31 March 2020.

#### Going concern

12. I draw attention to note 38 to the financial statements, which indicates that as of 31 March 2020, the trading entity has a bank overdraft of R2,6 billion (2019: R2,7 billion) and the current liabilities exceed the current assets by R9 billion (2019: R11,2 billion).

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

13. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA 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.
14. 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**

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

<b>Report on the audit of the annual performance report</b>
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## **Introduction and scope**

17. 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 on the usefulness and reliability of the reported performance information against predetermined objectives for selected programmes presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
18. My procedures address the usefulness and reliability of 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 / measures included in the planning documents. My procedures do not examine whether the actions taken by the trading entity enabled service delivery. My procedures also do 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.
19. 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 2020:

Programmes	Pages in the annual performance report
Programme 3: construction project management	x – x

20. 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.

21. The material findings in respect of the usefulness and reliability of the selected programmes are as follows:

### Programme 3: construction project management

#### Percentage reduction of infrastructure projects backlogs

22. The source information and method of calculation for the achievement of the planned indicator were not clearly defined, and the percentage reduction of infrastructure projects backlogs was not specified. The trading entity reported an achievement of 8,5% reduction of infrastructure projects backlogs against a planned target of 30%. However, the supporting evidence provided materially differed from the reported achievement.

Indicator description	Planned target	Reported achievement
Percentage reduction of infrastructure projects backlogs	30%	8,50%

#### Number of EPWP work opportunities created through construction projects

23. The entity reported an achievement of 3 609 expanded public works programme (EPWP) work opportunities created through construction projects against a target of 8 200 in the annual performance report. However, the supporting evidence provided materially differed from the reported achievement.

Indicator description	Planned target	Reported achievement
Number of EPWP work opportunities created through construction projects	8 200	3 609

## Other matters

24. I draw attention to the matters below.

### Achievement of planned targets

25. Refer to the annual performance report on pages ... to ... for information on the achievement of planned targets for the year and explanations provided for the underachievement of a significant 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 paragraphs 22 to 23 of this report.

### Adjustment of material misstatements

26. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of programme 3: construction project management. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

## Report on the audit of compliance with legislation

### Introduction and scope

27. 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.

28. The material findings on compliance with specific matters in key legislation are as follows:

### Annual financial statements, performance and annual report

29. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework in certain instances, 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, which resulted in the financial statements receiving a qualified audit opinion.

### Expenditure management

30. Effective and appropriate steps were not taken to prevent irregular expenditure, as required by section 38(1)(c)(ii) of the PFMA and treasury regulation 9.1.1. The value, as disclosed in note 32 to the financial statements, is not complete as management was still in the process of quantifying the full extent of the irregular expenditure. The majority of the irregular expenditure was due to irregularities noted on extension of contracts and irregular supply chain management processes followed in appointing suppliers.

31. Effective internal controls were not in place for approval and processing of payments, as required by treasury regulation 8.1.1.

32. The resources of the trading entity were not utilised economically, as required by section 38(1)(b) of the PFMA.
33. Payments were not made within 30 days or an agreed period after receipt of an invoice, as required by treasury regulation 8.2.3
34. Payments were made before services were received with respect to operating leases, in contravention of treasury regulation 15.10.1.2(c).

#### **Procurement and contract management**

35. Some of the contracts were not awarded in an economical manner and the prices of the goods and services were not reasonable as required by PFMA 38(1)(b) and PFMA 45(b).

#### **Other information**

36. 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.
37. 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.
38. 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.
39. 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**

40. 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 the qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
41. The trading entity does not have adequate and sufficiently skilled resources in place, as a significant number of positions were still vacant at the financial accounting division.
42. In some instances, leadership did not exercise oversight to ensure effective implementation of the audit action plans. This resulted in recurring findings in property, plant and equipment and in

performance information, which resulted in negative outcomes as cited above. I noted an improvement for the recognition of property, plant and equipment assets for which the entity did not retain proof of ownership, which resulted in that portion of the prior period qualification being resolved. However, while I noted a decrease in the number of material misstatements relating to the extent of valuation of properties in the current year compared to the prior year, the remaining misstatements on valuation of immovable assets were material.

43. Financial statement items such as operating leases and operating lease revenue have regressed in the current year. This was because the entity did not have enough sufficiently skilled resources in place to review the financial information before submitting for audit, as a significant number of positions in the finance division were still vacant. Some senior management positions were filled by acting incumbents quite late in process and very close to financial year-end, which made the preparation of financial statements more susceptible to errors. In prior periods, the finance division depended on a number of contracted resources who played a key role in the preparation and review of the annual financial statements.
44. Management did not properly review the details of the leases that were recorded on the new computerised lease system, which resulted in significant differences between the amounts disclosed in the annual financial statements and the information per the signed lease agreements. The process of preparing financial statements is lengthy because the financial accounting system has not been fully implemented. As a result, the trading entity failed to produce credible financial reporting to enable leadership to review and take appropriate and timeous corrective action where required.
45. Management's review and monitoring of compliance with applicable laws and regulations was ineffective in certain instances, which resulted in material non-compliance findings on expenditure, procurement and contract management.

### **Material irregularities**

46. In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities identified during the audit.

### **Material irregularities in progress**

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

### **Other reports**

48. 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, 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.

49. The Special Investigating Unit was authorised to investigate the affairs of the Property Management Trading Entity for supply chain management irregularities in the period 2003-04 to 2010-11. The report was finalised in 2018-19. The investigation was then extended to cover the period 2010-11 to 2015-16, and further extended to cover the period 2015-16 to 2019-20. These investigations were still in progress at the date of this auditor's report.

Auditor-General

Pretoria

13 November 2020



*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 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 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, actions taken to eliminate threats or safeguards applied.