

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE PROPERTY MANAGEMENT TRADING ENTITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Property Management Trading Entity (PMTE) set out on pages ... to ..., which comprise the statement of financial position as at 31 March 2014, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the notes comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements 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), 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.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified opinion

Irregular expenditure

6. I was unable to obtain sufficient and appropriate audit evidence for irregular expenditure as the entity did not have an adequate system for identifying and recognising all irregular expenditure. Furthermore, the irregular expenditure amount of the entity was based on actual payments and not those recorded when a transaction, condition or event linked to the non-compliance was recognised as expenditure in the statement of financial performance in accordance with the SA Standards of GRAP. I was unable to confirm the balances by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the irregular expenditure stated at R34 417 205 000 and

the restated corresponding figures stated at R3 848 600 000 in note 26 to the financial statements.

Operating leases

7. I was unable to obtain sufficient appropriate audit evidence that management had accurately accounted for operating leases due to the status of the accounting records. The amounts disclosed were based on data from the manual lease schedules, which did not agree in all instances with information per the signed lease agreements. I was unable to confirm the balances by alternative means. Consequently, I was unable to determine whether any further adjustment was necessary to the following items in the financial statements:

Operating lease assets and receivables

- Operating lease assets stated at R886 212 000 (2013: R807 852 000) in note 6.1
- Prepaid expenses stated at R559 081 000 (2013: R752 561 000) in note 3
- Operating lease asset commitments stated at R7 235 528 000 (2013: R7 383 331 000) in disclosure note 6.1

Operating lease expenditure and associated liabilities

- Operating lease liabilities stated at R847 349 000 (2013: R809 658 000) in note 6.2
- Operating lease expenditure stated at R3 346 389 000 (2013: R3 158 730 000) in note 20
- Provisions stated at R2 211 377 000 (2013: R1 741 624 000) in note 16
- Operating lease commitments stated at R7 128 905 000 (2013: R7 407 717 000) in disclosure note 6.2

Accruals

8. The trading entity did not recognise all outstanding amounts meeting the definition of a liability in accordance with GRAP 1: *Presentation of financial statements*. As the entity did not have adequate systems to identify and record outstanding payments for goods and services received but not yet paid at year-end, I was not able to determine the full extent of the understatement of accruals, as it was impracticable to do so.

Qualified opinion

9. In my opinion, except for the effects of the matters described in the basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Property Management Trading Entity as at 31 March 2014 and its financial performance and cash flows for the year then ended, in accordance with the SA Standards of GRAP and the requirements of the PFMA.

Emphasis of matters

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

Transfer of functions

11. The Department of Public Works transferred certain property management functions, including the related assets, liabilities and staff, to the PMTE as at 1 April 2013. The effect of this transfer is detailed in note 36 to the financial statements.

Restatement of corresponding figures

12. As disclosed in note 32 to the financial statements, the corresponding figures for 31 March 2013 were restated as a result of errors discovered during 2014 in the financial statements of the PMTE at, and for the year ended, 31 March 2013.

Material impairments

13. As disclosed in note 3 to the financial statements, potential losses of R649 000 000 were incurred as a result of impairments of irrecoverable trade debtors.

Going concern

14. Note 1.5 to the financial statements indicates that as of 31 March 2014, the PMTE had a bank overdraft of R433 000 000 and the current liabilities exceeded the current assets.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

15. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives, non-compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

16. I did not audit performance against predetermined objectives, as the PMTE does not report separately on performance against predetermined objectives. The performance against predetermined objectives is reported in the annual report of the Department of Public Works.

Compliance with legislation

17. I performed procedures to obtain evidence that the trading entity had complied with applicable legislation regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Strategic planning and performance management

18. The accounting officer of the Department of Public Works did not formulate a policy and reporting framework for the head of the trading entity, in accordance with the requirements of treasury regulation 19.3.1.

Financial statements, performance report and annual report

19. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework and were not supported by full and proper records, as required by section 40(1)(a) and (b) of the PFMA. The uncorrected material misstatements and supporting records that were not provided form the basis for the qualified audit opinion on the financial statements.

Procurement and contract management

20. Sufficient appropriate audit evidence could not be obtained that all contracts and quotations were awarded in accordance with the legislative requirements, as the entity did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information was accessible and available to evaluate compliance.
21. Goods and services with a transaction value below R500 000 were, in certain instances, procured without obtaining the required number of price quotations, as required by treasury regulation 16A6.1.
22. Goods and services with a transaction value above R500 000 were, in certain instances, procured without inviting competitive bids, as required by treasury regulation 16A6.1. A

number of deviations were approved even though it was not impractical to invite competitive bids, in contravention of treasury regulation 16A6.4.

23. Invitations for competitive bids were not always advertised for the required minimum period of 21 days, as required by treasury regulation 16A6.3(c).
24. Construction projects were not always registered with the Construction Industry Development Board (CIDB), as required by section 22 of the CIDB Act of South Africa, 2000 (Act No. 38 of 2000) and CIDB regulation 18.
25. Sufficient appropriate audit evidence could not be obtained that invitations for competitive bidding were always advertised in the government tender bulletin, as required by treasury regulation 16A6.3(c).

Expenditure management

26. Effective steps were not taken to prevent irregular and fruitless and wasteful expenditure, as required by section 38(1)(c)(ii) of the PFMA and treasury regulation 9.1.1.

Revenue management

27. Effective and appropriate steps were not taken to collect all money due, as required by section 38(1)(c)(i) of the PFMA and treasury regulations 11.2.1, 15.10.1.2(a) and 15.10.1.2(e).
28. Immovable state property was not let at market-related tariffs, in contravention of treasury regulation 16A7.4.

Asset management and liability management

29. The entity's main bank account was overdrawn throughout the reporting period, in contravention of treasury regulation 19.2.3.

Consequence management

30. Effective and appropriate disciplinary steps were not, in certain instances, taken against officials who had made or permitted irregular expenditure and fruitless and wasteful expenditure, as required by section 38(1)(h)(iii) of the PFMA and treasury regulation 9.1.3.
31. Some allegations of corruption, improper conduct or failure to comply with the supply chain management system had not yet been investigated, as required by treasury regulation 16A9.1(b).

Internal control

32. I considered internal control relevant to my audit of the financial statements and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion and the findings on non-compliance with legislation included in this report.

Leadership

33. Certain critical positions were filled by acting incumbents for the entire financial year. Instability in key leadership positions for the first part of the financial year thus had a negative impact on effective leadership in the trading entity.
34. The leadership did not effectively oversee financial and performance reporting and compliance as well as related internal controls.
35. The leadership did not apply effective consequence management for transgressions

with regard to non-performance and non-compliance throughout the financial year.

36. The leadership did not, in all instances, establish and communicate policies and procedures to enable and support the understanding and execution of internal objectives, processes and responsibilities.

Financial and performance management

37. 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.
38. Implemented controls over daily and monthly processing and reconciling of transactions were not effective in all instances.
39. Regular, accurate and complete financial and performance reports that were supported and evidenced by reliable information were not prepared throughout the year.
40. The reviewing and monitoring of compliance with applicable laws and regulations were ineffective.

Governance

41. Leadership must continue to focus on expanding capacity in the risk management and internal audit units to ensure optimal functioning in terms of addressing of risks and internal control deficiencies across all locations within the department.

OTHER REPORTS

Investigations

42. Numerous internal allegations, mainly relating to transgressions with respect to supply chain management, potential fraud and financial misconduct, are being investigated on an ongoing basis.
43. An ongoing investigation is being conducted to probe the alleged abuse of urgent and emergency procurement as well the utilisation of sole suppliers. The investigation aims to establish whether there was collusion between officials and service providers and to determine any reckless spending of funds. The investigation is being conducted in phases, with 19 investigations underway, of which 15 have been finalised and are in the reporting phase. The department is instituting disciplinary action in respect of the finalised reports on an ongoing basis.

Auditor-General

Pretoria
6 August 2014



AUDITOR - GENERAL
SOUTH AFRICA

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