



AUDITOR-GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

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# DRAFT MANAGEMENT REPORT

## PROPERTY MANAGEMENT TRADING ENTITY

**31 March 2019**

**Communicated to the accounting officer on: 15 August 2019**

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## MANAGEMENT REPORT

Property Management Trading Entity

31 March 2019

Discussed with the accounting officer on: 15 August 2019

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## MANAGEMENT REPORT TO THE ACCOUNTING OFFICER ON THE AUDIT OF THE PROPERTY MANAGEMENT TRADING ENTITY FOR THE YEAR ENDED 31 March 2019

### INTRODUCTION

1. The purpose of the management report is to communicate audit findings and other key audit observations to the accounting officer and the report does not constitute public information. This management report includes audit findings arising from the audit of the financial statements, performance information and compliance with legislation for the year ended 31 March 2019.
  2. These findings were communicated to management and this report details management's response to these findings. The report includes information on the internal control deficiencies that we identified as the root causes of the matters reported. Addressing these deficiencies will help to improve the audit outcome.
  3. In accordance with the terms of engagement, our responsibility in this regard is to:
    - express an opinion on the financial statements
    - express an opinion in the management report on the usefulness and reliability of the reported performance information for selected programmes, and report the material findings in the auditor's report
    - report on material findings relating to compliance with specific requirements in key applicable legislation, as set out in the general notice issued in terms of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA).
- Our engagement letter sets out our responsibilities and those of the accounting officer in detail.
4. This management report consists of the overall message arising from the audit, summary of key findings and observations, annexures containing the detailed audit findings, annexures to the report on the audit of performance information as well as the annexure to internal control deficiencies reported.
  5. The auditor's report is finalised only after the management report has been communicated. All matters included in this report that relate to the auditor's report remain in draft form until the final auditor's report is signed. In adherence to section 50 of the PAA, we do not disclose any information obtained during the audit and contained in this management report.
  6. The **figure** that follows provides a pictorial summary of the audit results and our key messages on how to improve the audit outcomes with the focus on the following:
    - Status of the audit outcomes
    - Status of the level of assurance provided by key role players
    - Status of the drivers of internal controls
    - Status of risk areas
    - Root causes to be addressed

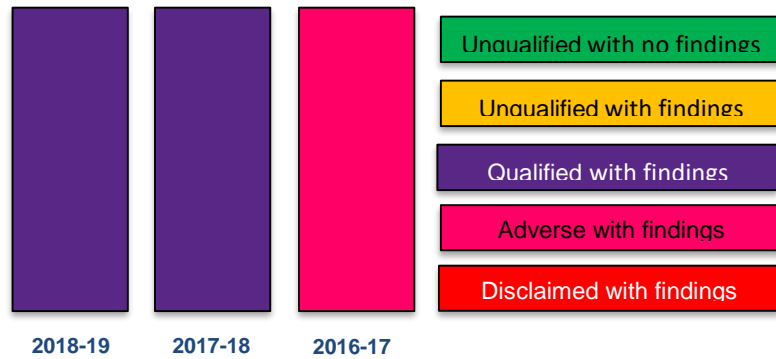
Movement from the previous year is depicted as follows:



- ↑ / Improved  
↔ / Unchanged / slight improvement / slight regression  
→ / Regressed  
↓ / Regressed

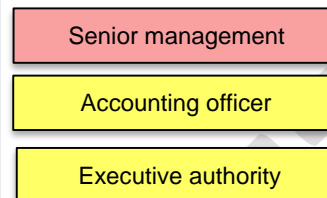
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### Stagnation in audit outcomes

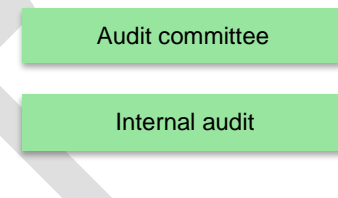


### Assurance levels

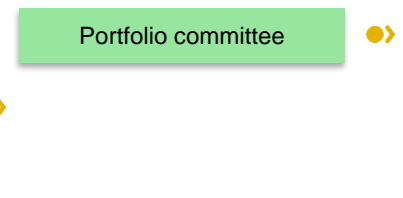
#### First level of assurance



#### Second level of assurance



#### Third level of assurance



Provides assurance

Provides some assurance

Provides limited/no assurance

Vacant/not established

To improve the **audit outcomes** ...

... the **key role players** need to assure that...

the **root causes** are addressed.

the **risk areas**, and ...

... attention is given to the **key controls**, and ...

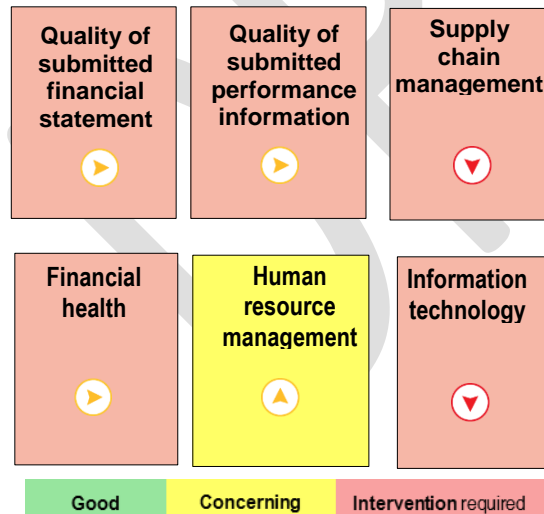
Root causes should be addressed

Inadequate response to improving key controls and addressing risk areas.

Instability in key positions.

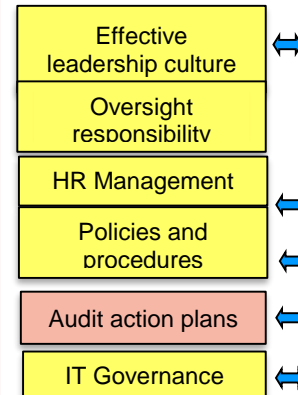
Lack of consequences for poor performance and transgressions.

### Risk areas

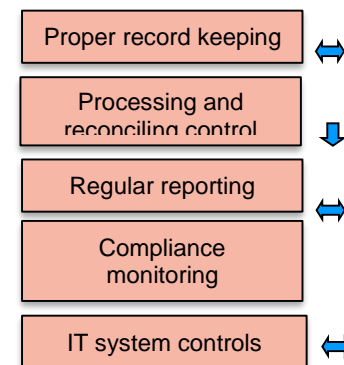


### Status of drivers of internal controls

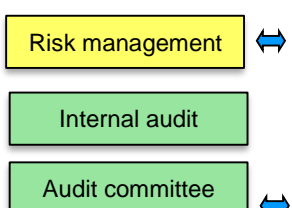
#### Leadership



#### Financial and performance management



#### Governance



Good

Concerning

Intervention required



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**OVERALL MESSAGE**

7. The audit outcome of the entity has remained unchanged in the current period, with the entity obtaining a qualified audit outcome with findings on other areas. Material misstatements recurred with respect to immovable assets, where the process of initially accounting for the immovable assets acquired through the transfer of function was not adequately completed prior to the date of this report. In addition, material misstatements were identified on receivables from exchange transactions and operating leases, which can be mainly attributed to the manual systems not having sufficient controls to identify errors. Material findings have also been noted with respect to compliance with legislation, with non-compliance with procurement prescripts was identified in the current year which resulted in the department incurring irregular expenditure. In addition, the quality of submitted performance information has not improved as material findings previously reported recurred in the current period.
8. The accounting officer and executive authority put action plans in place to address issues of concern raised during the audit in the prior period. The implementation of these plans was however not adequately monitored by senior management, which resulted in an unfavourable audit outcome.
9. We have raised concerns on the annual performance reports submitted for auditing. The misstatements that were not detected and corrected by management during the review process were mainly due to the instability in the position of branch heads. The issues identified in the current audit cycle are similar to the issues identified in the previous audit cycle, with the major concern being relevant information which supports the reported performance not being accessible.
10. The trading entity did not effectively monitor compliance, especially relating to supply chain management (SCM). Material findings were noted with respect to contract management, where we were unable to obtain sufficient appropriate evidence in relations to contract amendments. In addition, instances of irregular expenditure were identified during the audit which were not initially included in the irregular expenditure register. The entity didn't provide oversight on the procurement process followed by implementation agencies to ensure a compliance with the preferential procurement requirements in relation to designated sectors for local content.
11. The overall financial position of the trading entity remains a concern and requires intervention. The net current liability improved slightly in the current year, however the bank overdraft has increased by 15%.

12.

## SECTION 1: Interactions with stakeholders responsible for oversight and governance

13. During the audit cycle, we met with the following key stakeholders responsible for oversight and governance to communicate matters relating to the audit outcome and matters identified during our status of records review of the Property Management Trading Entity:

Key stakeholder	Purpose of interaction	Number of interactions
Portfolio committee on Public Works	<ul style="list-style-type: none"> <li>Budgetary review and recommendations report – 2017/18 Audit Outcomes and key messages</li> <li>Presentation of Action Plans by the Entity.</li> </ul>	2
Chairperson of the portfolio committee on Public Works	2017/18 Audit Outcomes and key messages	1
Minister of Public Works	<ul style="list-style-type: none"> <li>Presentation on audit outcomes and key messages</li> <li>Letter was sent to the Minister notifying him of critical matters identified during 2017-18 audit which should be addressed to improved outcomes within Public Works Portfolio.</li> <li>Presentation on sector audit outcomes for Minister and MEC's</li> <li>Audit progress and material issues identified were communicated to the new Minister via a formal letter.</li> </ul>	4
Director-General	<ul style="list-style-type: none"> <li>Detail discussion on quarterly Status of Records review and presentation of engagement letter and audit Strategy</li> <li>Audit progress of the Public works portfolio</li> <li>Use of the work of internal auditors</li> </ul>	7
Audit committee	<ul style="list-style-type: none"> <li>Presenting the engagement letter and audit strategy</li> <li>Presenting interim audit outcomes</li> <li>Presentation of quarterly Status of Records Review</li> <li>Approval of the Annual Financial Statements</li> </ul>	4
Head of Property Management Trading Entity	<ul style="list-style-type: none"> <li>Audit progress of the Property Management Trading Entity.</li> </ul>	5

14. At these interactions, we shared the following key matters:

- The status of key controls of the Trading entity of Public Works (DPW) and its entities (PMTE, IDT, CBE, CIDB, ASA and ECSA) were discussed with the Portfolio Committee.
- Terms of the engagement for the current year 2018/19 audit cycle with specific emphasis on the roles and responsibilities of the auditor and management as well as those charged with governance.





- Overall audit strategy including the proposed nature, timing and extent of audit procedures to be performed, risk assessment (Including fraud risk assessment) and the effectiveness of internal control.
  - Audit progress and findings were discussed on a continuous basis. The key issues discussed for PMTE related to immovable assets.
  - Audit progress is communicated to the Director-General bi-weekly.
15. Management made commitments to implement initiatives that can improve the audit outcome. The commitments given and the progress of previous commitments are included in section 3.2, which deals with the assessment of assurance providers.

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## SECTION 2: Matters relating to the auditor's report

### AUDIT OF THE FINANCIAL STATEMENTS

16. We identified material misstatements in the financial statements during the audit. These misstatements were not prevented or detected by the Entities system of internal control. These material misstatements also constitute non-compliance with section 40(1) of the Public Finance Management Act (PFMA).

17. The misstatements that were not corrected form the basis for the qualified opinion on the financial statements.

Material misstatement		Occurred in prior year	Impact R current year	Impact R prior year (Actual)
Financial statement item	Finding			
Material misstatements not corrected				
Non-current assets				
Property, plant and equipment Depreciation and accumulated depreciation	In calculating deemed cost for assets, the area of the property in m² (extents) is multiplied by the rate for the specific type of asset. Significant misstatements were identified in the IAR due to the incorrect extents being utilised for properties being measured. (COFF 24, COFF 25, COFF 26, COFF 29, COFF 58, COFF 67, COFF 78)  Significant misstatements were identified in the IAR due to assets included in the IAR for which the PMTE did not retain proof of ownership. (COFF 27, COFF 52, COFF 75)	Yes	estimated overstatement of 24 978 602 012	
Current assets				
Receivables from exchange transaction	Differences were identified in the calculation of expected future receipts from debtors. As a result, the present value of debtors is misstated for the following categories of receivables: <ul style="list-style-type: none"><li>Accommodation debtors – Leasehold intergovernmental (COFF 53)</li><li>Accommodation debtors – Municipal services (COFF 60)</li></ul>	No	estimated overstatement of 203 528 624	



	<ul style="list-style-type: none"> <li>Accommodation debtors – Freehold intergovernmental (COFF 61)</li> <li>Recoverable leases (COFF 47)</li> </ul> <p>In addition, interest was charged on overdue receivables. (COFF 65). Furthermore, instances were identified where payments for municipal services and backlog rates were disclosed as prepaid expenses where the invoice related to current year expenditure. (COFF 66)</p>			
<b>Operating leases</b>	Differences were identified between amounts calculated in the schedule supporting the annual financial statements (AFS) and the amount recalculated from the lease agreements. This resulted in misstatements in the following financial statement areas:			
	Revenue from exchange transaction: Leasehold inter-governmental (COFF 49)	No	estimated overstatement of 161 790 906	
	Operating lease expenditure (COFF 49)	No	estimated overstatement of 254 299 345	
	Operating lease asset (COFF 48)	No	estimated overstatement of 128 678 252	
	Operating lease accrual (COFF 47)	No	estimated overstatement of 137 356 818	
	Operating lease commitment (asset) (COFF 51)	No	estimated understatement of 195 263 650	
	Operating lease commitment (liabilities) (COFF 51)	No	estimated understatement of 195 263 650	
<b>Disclosure</b>				
Irregular expenditure	Irregular expenditure was identified during the audit. These amounts were not disclosed in the irregular expenditure disclosure note.	Yes	33 115 518	

## MATTERS TO BE BROUGHT TO THE ATTENTION OF USERS

### Emphasis of matter paragraphs

18. The following emphasis of matter paragraphs will be included in our auditor's report to draw the users' attention to matters presented or disclosed in the financial statements:

#### Material Impairment loss of receivables

19. As disclosed in note 22 to the financial statements, material losses of R224 904 000 was incurred as a result of a write-off of irrecoverable Receivables from exchange transactions.

#### Restatement of corresponding figures

20. As disclosed in note 36 to the financial statements, the corresponding figures for 31 March 2018 were restated as a result of an error in the financial statements of the entity at, and for the year ended, 31 March 2019.

### Material uncertainty relating to going concern

#### Going concern

21. I draw attention to note 37 to the financial statements, which indicate that the trading entity as of 31 March 2019, has a bank overdraft of R2.6 billion (March 2018: R2.3 billion) and the current liabilities exceed the current assets by R10.1 billion (March 2018: R11.4 billion)

## AUDIT OF THE ANNUAL PERFORMANCE REPORT

22. In terms of the general notice issued in terms of the PAA, the opinion on the audit of reported information will be included in the management report. The report is included below to enable management and those charged with governance to see what the report will look like once it is published in the auditor's report. We will report all the audit findings included under the basis for opinion and the other matter sections of this report in the auditor's report.

### Introduction and scope

23. We have undertaken a reasonable assurance engagement on the reported performance information for the following selected programmes presented in the annual performance report of the trading entity for the year ended 31 March 2019:

Programmes	Pages in annual performance report	Opinion	Mov.
Programme 3 – construction project management	x – x	Qualified	▲
Programme 4 – real estate management services	x – x	Disclaimer	▲

Programme 5 – real estate information and registry services	x – x	Qualified	⚠
Programme 6 – facilities management	x – x	Disclaimer	⚠

24. We conducted our reasonable assurance engagement in accordance with the International Standard on Assurance Engagements, ISAE 3000: *Assurance engagements other than audits or reviews of historical financial information*.

25. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

### Programme 3 – construction project management

#### Qualified of opinion

26. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion section of my report, the reported performance information for programme 3- construction project management is useful and reliable in accordance with the applicable criteria as developed from the performance management and reporting framework set out in annexure D to this report.

#### Basis for Qualified of opinion

##### Various indicators

27. 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 approved infrastructure projects ready for tender	135	149
Number of infrastructure projects completed within approved budget	68	88

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

28. The reported achievement of 5 607 for target 7 511 EPWP work opportunities created through construction projects is not reliable as the trading entity did not have an adequate performance management system to maintain records to enable reliable reporting on achievement of targets. As a result, I was unable to obtain sufficient appropriate audit evidence in some instances while in other cases the supporting evidence provided did not agree to the reported achievement. I was unable to further confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any further adjustments were required to the reported achievement.

## Programme 4 – real estate management services

### Disclaimer of opinion

29. I do not express an opinion on the reported performance information for programme 4- real estate management services of the trading entity. Because of the significance of the matters described in the basis for disclaimer of opinion section of my report, I have not been able to obtain sufficient appropriate evidence to provide a basis for an opinion on the reported performance information of the programme.

### Basis for Disclaimer of opinion

#### Various indicators

30. I was unable to validate the existence of the systems or to confirm the reasons for the variances and the reported achievements by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reasons for the variances and to the reported achievements in the annual performance report.

Indicator description	Reported achievement
Number of lease agreements signed within agreed timeframe	636
Saving realised on identified private leases	R257 000 000
Percentage new leases awarded to BBBEE companies	39%
Number of identified state vacant surplus state-owned properties let out	95
Percentage of revenue increased through rentals of state owned small harbours and coastal properties	5.3%
Number of state-owned properties` whose occupation status rectified	21
Percentage increase in revenue generation through letting of state owned properties(Excluding harbour properties)	21%
Number of state-owned properties verified to confirm occupation status	505
Number of SEDFs completed for identified rural coastal towns	0
Number of lease agreements signed within agreed timeframe	636

#### Various indicators

31. 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 state owned properties` occupation status rectified	21	2
Percentage new leases awarded to BBBEE companies	39%	56%

#### Various indicators



32. I was unable to obtain sufficient appropriate audit evidence for the reported achievements. Limitations were placed on the scope of my work as I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements in the annual performance report.

Indicator description	Target	Reported achievement
Number of lease agreements signed within agreed timeframe	600 lease agreements signed within scheduled timeframe	636
Saving realised on identified private leases	R200 mil Savings realized on identified private leases	R257 000 000

## Programme 5 – real estate information and registry services

### Qualified of opinion

33. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion section of my report, the reported performance information for programme 5- real estate information and registry services is useful and reliable in accordance with the applicable criteria as developed from the performance management and reporting framework set out in annexure D to this report.

### Basis for Qualified of opinion

#### Various indicators

34. I was unable to obtain sufficient appropriate audit evidence for the reported achievements. Limitations were placed on the scope of my work as I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements in the annual performance report.

Indicator description	Targets	Reported achievement
Number of immovable assets physically verified to validate existence	19708 of immovable assets physically verified to validate existence	9626
Number of National and Provincial Immoveable Asset Registers incorporated into the single repository	4 National and Provincial Immoveable Asset Registers incorporated into the single repository	4

## Programme 6 – facilities management

### Disclaimer of opinion

35. I do not express an opinion on the reported performance information for programme 4- real estate management services of the trading entity. Because of the significance of the matters described in the basis for disclaimer of opinion section of my report, I have not been able to obtain sufficient appropriate evidence to provide a basis for an opinion on the reported performance information of the programme.

### Basis for disclaimer of opinion



## Various indicators

36. I was unable to validate the existence of the systems or to confirm the reasons for the variances and the reported achievements by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reasons for the variances and to the reported achievements in the annual performance report.

Indicator description	Reported achievement
Number of facilities with maintenance contracts in place.	1036
Percentage of unscheduled reported maintenance incidents resolved within agreed timeframes	4%
Percentage of term contracts awarded to BBEE companies	87%
Reduction in energy consumption (kilowatt hours) for identified buildings	187 780 293kwh
Reduction in water consumption (kilolitres) for identified buildings	12 780 865 kls
Number of kilowatt hours of renewable energy generated	0

## Various indicators

37. 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 contracts in place	1036	1204
Percentage of term contracts awarded to BBEE companies	87%	97%

## Various indicators

38. I was unable to obtain sufficient appropriate audit evidence for the reported achievements. Limitations were placed on the scope of my work as I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements in the annual performance report.

Indicator description	Targets	Reported achievement
Percentage of unscheduled reported maintenance incidents resolved within agreed time	15% unscheduled reported maintenance incidents resolved within agreed timeframe	3.89
Reduction in energy consumption (kilowatt hours) for identified buildings	150 000 000kWh reduction in energy consumption for identified buildings	187 780 293,7kWh reduction in energy consumption for identified buildings
Reduction in water consumption (kilolitres) for identified buildings	8 000 000kl reduction in water consumption for identified buildings	12 780 865 KL

## Other matter

39. We draw attention to the matter below. Our opinions are not modified in respect of this matter.





### Achievement of planned targets

40. Refer to the annual performance report on page(s) x to x; x to x for information on the achievement of planned targets for the year and explanations provided for the under/overachievement of a significant number of targets. This information should be considered in the context of the qualified and adverse of opinions expressed on the usefulness and reliability of the reported performance information in paragraph(s) [x; x; x] of this report.

### Responsibilities of accounting officer on the reported performance information

41. The accounting officer is responsible for the preparation of the annual performance report in accordance with the prescribed performance management and reporting framework, as set out in annexure D to this report and for such internal control as the accounting officer – determines is necessary to enable the preparation of performance information that is free from material misstatement in terms of its usefulness and reliability.

### Auditor-general's responsibilities for the reasonable assurance engagement on the reported performance information

42. Our objectives are to obtain reasonable assurance about whether the reported performance information for the selected programmes presented in the annual performance report is free from material misstatement and to issue a management report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that the assurance engagement conducted in accordance with the relevant assurance standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if they could reasonably be expected to influence the relevant decisions of users taken on the basis of the reported performance information.
43. Our procedures address the reported performance information, which must be based on the approved performance planning documents of the trading entity. We have not evaluated the appropriateness of the performance indicators measures established and included in the planning documents. Our procedures do not extend to any disclosures or assertions relating to planned performance strategies and information relating to future periods that may be included as part of the reported performance. Accordingly, our opinion does not extend to these matters.
44. A further description of our responsibilities for the reasonable assurance engagement on reported performance information is included in annexure E to this report.

### AUDIT OF COMPLIANCE WITH LEGISLATION

45. Included below are material findings on compliance with selected specific requirements of applicable legislation, as set out in the general notice issued in terms of the PAA.

### Annual financial statements, performance and annual report

46. 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.

47. 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.

### **Expenditure management**

48. Effective and appropriate steps were not taken to prevent irregular expenditure amounting to R2 283 000, 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.
49. Payments were not made within 30 days or an agreed period after receipt of an invoice, as required by treasury regulation 8.2.3.
50. Payments were made before goods or services were received, in contravention of treasury regulation 15.10.1.2(c).

### **Procurement and contract management**

51. Sufficient appropriate audit evidence could not be obtained that all extensions or modifications to contracts were approved by a properly delegated official as required by section 44 of the PFMA and treasury regulations 8.1 and 8.2.

### **Revenue Management**

52. Effective and appropriate steps were not taken to collect all money due, as required by section 38(1)(c)(i) of the PFMA.
53. Interest was not charged on debts as required by treasury regulation 11.5.1.

### **OTHER INFORMATION**

54. The accounting authority 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 on in the auditor's report.
55. Our opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.
56. In connection with our audit, our 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 our knowledge obtained in the audit, or otherwise appears to be materially misstated.
57. 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 CONTROLS

58. The significant deficiencies in internal control which led to our overall assessment of the status of the drivers of key controls, as included in the figure in paragraph 6, are described below. The detailed assessment of the implementation of the drivers of internal control in the areas of financial statements, performance reporting and compliance with legislation is included in annexure F.

### Leadership

#### Effective leadership culture

59. The trading entity was impacted by the vacancies in some senior management positions for the majority of the financial year. It was noted that the critical positions of Chief Financial Officer and Chief Audit Executive have now been filled which will assist the trading entity's ability to establish an effective leadership culture going forward.

60. We have noted from our review of the work of internal audit that management has, in some instances, been slow to respond to the findings of internal auditor, or not submit the information as requested by internal audit. Addressing these findings will strengthen the control environment in the trading entity, and embed a culture of compliance within all officials.

#### Oversight responsibility

61. The governance, risk and compliance unit (GRC) plays a key role in oversight for the entity, as their functions include risk management as well investigations. The entity acknowledged that there were internal constraints within the GRC, which impacted their ability to conduct their own internal investigations.

62. There should be an increased level of oversight in the upcoming year over performance reporting against predetermined objectives. This includes controls to validate the information that is being collated and reported on a quarterly basis to ensure that the trading entity reports on performance against predetermined objectives that are reliable and useful.

#### Human resource management

63. Progress was noted with the overall vacancy rate decreasing from 37% as at 01 April 2018 to 9% as at 31 March 2019. Key positions such as Chief Financial Officer and Chief Audit Executive were filled as at 31 March 2019.

#### Policies and procedures

64. The entity should ensure that approved policies and procedures are adequately and timeously communicated to officials in the entity. It was determined that the immovable assets policy in line with GRAP was not correctly applied which resulted in the negative audit outcome. Accrual policy developed in the prior year to account for the accruals was not consistently applied to prevent misstatements.

### **Action plans to address internal control deficiencies**

65. Implementation of the audit actions plan has not transpired in all instances. It is a concern that not all the internal and external audit findings relating to 2017/18 financial period were addressed and we also noted that management did not monitor adherence to the plan in a timely manner. This is especially evident in the Immovable assets where action plans have not been successfully implemented to prevent misstatements.

### **Information technology governance framework**

66. The outcome on the audit of information systems are reported in the audit report of the Department of Public Works due to this being a shared function. The findings reported in this report relate to those information systems utilised exclusively by PMTE.

67. We also noted that the SAGE system purchased in the 2014-15 financial period has not yet commenced operating as intended for the 2018-19 financial period to record transactions in accordance with GRAP, mainly due to interfacing issues being experienced between SAGE (the accounting system) and the systems used for operations. This impacted the trading entity's ability to generate information within a reasonable time and accuracy.

68. The full implementation of SAGE and ARCHIBUS will also assist with the following:

- Immoveable assets – The asset register is currently maintained on Excel which does not have any controls over input changes etc.
- Accruals – These will automatically be updated on a fully implemented system, which will negate the need for the manual workbooks which are prone to human error.
- Leases – There are currently two systems being used for leases (i.e. PMIS for operational purposes and manual calculations for reporting purposes). If the relevant module of SAGE was properly utilized, this will possibly prevent the over and underpayments that are currently being made from the PMIS system.

## **Financial and performance management**

### **Proper record keeping**

69. The trading entity has not yet fully implemented the new record management system. Significant delays and limitations were experienced throughout the audit where supporting documentation was provided late or not provided at all, especially with respect to the audit of the annual performance report. The programmes for which sufficient appropriate supporting documents were not available resulted in the negative audit outcomes.

### **Daily and monthly processing and reconciling of transactions**



70. The process of initially accounting for the immovable assets acquired through the transfer of function was not adequately completed prior to the date of this report. The significant weaknesses identified in the immovable assets register submitted for audit was the main contributor to the entity receiving an unfavourable audit outcome.
71. Overpayments made to landlords in terms of private leased properties have increased by more than R100 million since the prior year, while management estimates that approximately half of all lease overpayments may not be recoverable. The process put into place to verify payment amounts before payments are made, have not yet made a significant difference since the overpayment has increased. This is a significant concern especially considering that a service provider has also been appointed to assist in this process. The lack of live accrual based system is the main contributing factor to the fact that these overpayments are not identified and resolved before they occur.
72. Initiatives were in place to prepare manual schedules or “workbooks” monthly to streamline the financial reporting process and ensure that data was available when required. However, due to the volume of transactions required to be processed manually, there was still a significant risk of human error which has contributed to the negative audit outcome.

### **Regular, accurate and complete financial and performance reports**

73. There is a lack of full implementation of the financial accounting system which results in the process of preparing financial statements being lengthy. The entity lacks credible financial reporting throughout the year to enable leadership to review and take appropriate and timeous corrective action where required. This is evident by the delay in submission of the Annual Financial Statements (AFS). Preparing financial statements on a more regular basis will also assist management in implementing the controls required in order to ensure regular, accurate and complete financial reporting.
74. Despite the fact that management delayed the submission of financial statements, material misstatements were identified in the AFS submitted for, even with respect to items that were qualified in the prior period.
75. Our audit of the APR revealed that there is insufficient co-ordination between the responsible branches and the Planning and Reporting sections, resulting in the documentation required to support achievements against the Annual Performance Plan (APP) not being sufficient to support the reported results.

### **Compliance monitoring**

76. Instances of non-compliance have been identified in the current audit cycle, as well by internal investigations and internal audits. The focus of the trading entity should be on the implementation of controls to prevent a recurrence of the situations which lead to the non-compliance with laws and regulations or deviations from prescribed supply chain management prescripts. In many instances we identified that deviations were used incorrectly.

77. There was inadequate progress made by management in investigating irregular and fruitless and wasteful expenditure that was reported in the previous year as under investigation specifically relating to key projects selected. This expenditure was only referred to the GRC unit for investigation at the end of November 2018.
78. The entity didn't provide oversight on the procurement process followed by implementation agencies to ensure a compliance with the preferential procurement requirements in relation to designated sectors for local content. This is evidenced by non-compliance of the Preferential Procurement Regulations by the IDD as an implementing agent.

### **Information technology systems**

79. During the follow up performed in the current period, it was noted that there was a lack of consequence management within as prior audit findings on IT systems were not addressed, due to the payment file in the staging area that was still not protected from being amended.
80. We also noted an overall lack of management oversight in the which resulted in control weaknesses identified in the SAGE system, as well as regarding IT service continuity and security processes.

## **Governance**

### **Governance, risk and compliance unit**

81. The unit is not sufficiently capacitated to handle investigations relating to both DPW and PMTE in its current structure. In addition, certain key positions (Such as head of risk management and chief investigator etc.) within GRC were vacant throughout the period which also impacted the unit's ability to adequately perform its risk management role.
82. We have noted that the majority of investigations are initiated within the required time, however investigations take extremely long to finalise depending on their complexities. Some investigations are referred to Special Investigations Unit or to SAPS where criminal activities are suspected. Where follow up actions are required from the trading entity as a result of findings from investigations (e.g. disciplinary hearings, etc.), these are not taking place on time in some instances.

### **Internal audit**

83. While it was noted that internal audit performed a number of audits throughout the financial period, it was noted with concern that a lot of findings raised related to limitation of scope. In other instances, management responses to the issues raised were not adequate to resolve the matter. The internal audit unit will not be having the desired impact on control until their findings are prioritised by management.

### **Audit committee**

84. The audit committee functions throughout the year and meets on a regular basis. The committee scrutinizes the annual financial statements and annual report and provide management with

meaningful inputs and recommendations. The audit committee reviews and approves the internal audit plan and internal audit reports.

85. During these oversight interactions with management, the committee made recommendations and obtained commitments to ensure improvement in audit outcomes. As noted above, the action plans were either not implemented in some instance, or not adequately effective which resulted in the regression in audit outcome.

## Summary

86. The matters above, as they relate to the basis for the qualified opinion, findings on the annual performance report and findings on compliance with legislation, will be summarised in the auditor's report as follows:

### Leadership

87. Leadership did not in all instances exercise effective oversight of the effective implementation of audit action plans resulting in the negative audit outcome. Inadequate monitoring of action plans to address the previous year's findings resulted in similar findings on immovable assets in the current year.

### Financial and performance management

88. 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.
89. Regular, accurate and complete financial and performance reports that were supported by reliable information were not prepared throughout the financial year.
90. The review and monitoring of compliance with applicable laws and regulations were ineffective in certain instances.

## OTHER REPORTS

91. We draw attention to the following engagements conducted by various parties that have or could potentially have an impact on the trading entity's financial statements, reported performance information and compliance with applicable legislation and other related matters. The reports noted do not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation. The summarised other reports will be included in the auditor's report as follows:
92. 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.



## SECTION 3: Assurance providers and status of implementation of commitments and recommendations

### ASSESSMENT OF ASSURANCE PROVIDERS

93. The annual report is used to report on the financial position of auditees, their performance against predetermined objectives and overall governance. One of the important oversight functions of Parliament is to consider auditees' annual reports. To perform this oversight function, they need assurance that the information in the annual report is credible. To this end, the annual report includes our auditor's report, which provides assurance on the credibility of the financial statements and the annual performance report, as well as on the auditee's compliance with legislation.
94. Our reporting and the oversight processes reflect on past events, as it takes place after the end of the financial year. However, management, the leadership and those charged with governance contribute throughout the year to the credibility of financial and performance information and compliance with legislation by ensuring that adequate internal controls are implemented.
95. We assess the level of assurance provided by these assurance providers based on the status of internal controls (as reported in section 2.6) and the impact of the different role players on these controls. We provide our assessment for this audit cycle below.

#### Senior management: limited assurance

- The controls around proper record keeping, processing and reconciling of transactions and regular reporting still requires major intervention from senior management. The internal controls around these areas together with compliance monitoring and IT systems controls is indispensable in ensuring information in the annual report is credible.
- Senior management should enhance the review process of annual financial statements and annual performance report before submission for audit purposes, as well as in year monitoring of compliance with legislation to reduce material audit findings.

#### Accounting officer: provides some assurance

- The audit action plans and initiatives developed were not effectively implemented and monitored, and as a result the required improvement in audit outcome has not yet realised.

#### Executive authority: provides some assurance

- The changes in the executive authority's office impacts their ability to follow through on interventions put in place.

#### Internal audit: provides assurance

- The internal audit unit of the trading entity prepared a risk-based audit plan and internal audit programme for the financial year. The unit reports to the audit committee on the



implementation of the internal audit plan and matters relating to internal audit, internal controls, accounting procedures and practices, risk and risk management, performance management, loss control and compliance with the PFMA. The internal audit is responsible for normal internal audits in terms of their internal audit charter.

- While we note that the quality and scope of the internal audits performed were of the required standard, the trading entity is yet to fully realise the benefits of this work, due to the fact that tangible improvements will only be realised once management effectively and timeously implements the recommendations from the outcomes of these audits.

#### Audit committee: provides assurance

- The audit committee met regularly throughout the year. The committee reviewed and approved the annual financial statements and annual report before submission. The audit committee also follows up with management on the implementation of internal and external audit recommendations. The impact of the interventions put in place by the audit committee is however limited by the fact that management has not timeously or adequately implemented these action plans.

## STATUS OF IMPLEMENTING COMMITMENTS AND RECOMMENDATIONS

96. Below is our assessment of the progress in implementing the commitments made by the trading entity to address the prior and current year's audit findings.

No.	Commitment	Made by	Date	Status
1.1	<p><b><u>Immovable assets</u></b></p> <p>Incorrect extents used in the calculation of deemed cost.</p> <ul style="list-style-type: none"> <li>• Identify the high risk areas</li> <li>• Review of GIS drawings against the IAR.</li> <li>• Perform physical verification.</li> <li>• Perform reasonability checks.</li> </ul>	DDG: REIRS, Ms S. Matthews	28-Feb-18	<p>Not addressed</p> <p>The finding recurred in the current period.</p>
1.2	<p><b><u>Immovable assets</u></b></p> <p>Incorrect classification of projects between CAPEX and OPEX</p> <ul style="list-style-type: none"> <li>• Develop an AUC Position Paper to address legacy issues and reengineering of the business processes.</li> <li>• Training of officials responsible for capturing projects on the Works Control System (WCS).</li> <li>• Procurement Instructions (PI) to include classification of projects and scope changes must be clearly captured on WCS.</li> <li>• Linking of CAPEX expenditure to immovable assets accounts (WIP and completed projects).</li> </ul>	DDG: REIRS, Ms S. Matthews	28-Feb-18	<p>Addressed</p> <p>No classification issue was raised in the current financial period.</p>

No.	Commitment	Made by	Date	Status
	<ul style="list-style-type: none"> <li>Physical verification of refurbishments projects, components and any other significant completed projects to be verified.</li> </ul>			
1.3	<p><b><u>Immovable assets</u></b></p> <p>Assets replaced /demolished through WCS not derecognised.</p> <ul style="list-style-type: none"> <li>Develop an AUC Position Paper to address legacy issues and reengineering of the business processes.</li> <li>Identify duplications between deemed cost and WCS expenditure.</li> <li>Roadshow by Finance and REIRS to identify and link replaced significant assets and components.</li> <li>REIRS to obtain list of all demolitions from REIMS and damaged properties from Legal Services.</li> <li>Linking of demolitions and damaged properties to the IAR for de-recognition.</li> <li>PI to include list of asset components and structures to be demolished.</li> </ul>	DDG: REIRS, Ms S. Matthews	28-Feb-18	<p>Addressed</p> <p>We didn't identify any assets on the IAR which were supposed to be demolished as per WCS report.</p>
1.4	<p><b><u>Immovable assets</u></b></p> <p>Depreciation policy incorrectly applied – review of useful lives not done correctly</p> <ul style="list-style-type: none"> <li>Archibus to calculate automatically in accordance with policy.</li> <li>Review of remaining useful lives (based on the condition assessment).</li> <li>Review of the basis for the allocation of Estimated Useful Lives.</li> </ul>	DDG: REIRS, Ms S. Matthews	28-Feb-18	<p>Not addressed</p> <p>The finding recurred in the current period.</p>
1.5	<p><b><u>Immovable assets</u></b></p> <p>Improvements included in the average vacant land rate calculation</p> <ul style="list-style-type: none"> <li>All properties used in the average vacant land database calculation to be reviewed to ensure</li> </ul>	DDG: REIRS, Ms S. Matthews	31-Oct-17	<p>Addressed</p> <p>Properties with improvements were not included in the average vacant land rate calculation.</p>

No.	Commitment	Made by	Date	Status
	that all are vacant. This is to be completed by GIS.			No findings identified during the current period.
1.6	<b><u>Immovable assets</u></b>  Differences in recalculation of replacement cost.  Low rise and high rise buildings differently defined between accounting policy and application of deemed cost model <ul style="list-style-type: none"> <li>BI calculations formula to be updated to reflect all buildings of 3 and 4 floors as low rise buildings and not high rise buildings</li> </ul>	DDG: REIRS, Ms S. Matthews	28-Feb-18	Addressed  No findings identified during the current period.
1.7	<b><u>Immovable assets</u></b>  Differences between assets physically verified and recorded on the Immovable Asset Register. <ul style="list-style-type: none"> <li>Physical verifications to be undertaken of the entire asset portfolio as in accordance to GIAMA the 5-year cycle has lapsed and thus verifications must be undertaken.</li> <li>A comparison to be completed between the physical verification data and the asset register.</li> </ul>	DDG: REIRS, Ms S. Matthews	31 Mar 18	Addressed  No findings identified during the current period.
2.	<b><u>Trade and other payables</u></b>  Overstatement and Understatement of accrued assets & other accruals <ul style="list-style-type: none"> <li>Full review of WCS accruals to identify misstatements and restate opening balances (2017/18)</li> <li>Updated payables management action plan developed</li> <li>Regional training</li> <li>Archibus project modules and SAGE to assist in identifying accruals and ensure no duplication.</li> <li>Implementation of Maintenance module on Archibus with full tracking of transactions</li> <li>PMIS system to assist in determining accruals for variable payments</li> <li>Develop reliable module to predict the amount due based on calls logged</li> </ul>	DDG: Finance, Ms B. Van der Merwe	31 Mar 18	In progress  The accruals issue recurred in the final period, however we have noted that training has taken place across all regions to workshop staff on how to account for accrued expenses.
3	<b><u>Human Resource Management:</u></b>  Management of vacancy rates <ul style="list-style-type: none"> <li>Implement approved organisational structures for PMTE and DPW (matching and placing).</li> </ul>	DDG: CS, Ms T. Hlatshwayo	31 March 18	In progress

No.	Commitment	Made by	Date	Status
	<ul style="list-style-type: none"> <li>Allocate sufficient compensation of employees' budget to fill vacant positions.</li> <li>Activate on Persal establishment the funded vacant positions for immediate advertising and filling.</li> </ul>			
4	<p><b><u>Non-Compliance to SCM policies/prescripts:</u></b></p> <ol style="list-style-type: none"> <li>contract management – extensions / variations</li> <li>Name of bidders not published</li> <li>information not submitted &amp; contract not signed;</li> <li>Noncompetitive bidding</li> <li>Contract awarded to a service Provider that should have been disregarded</li> <li>Quotations R10 000 to R500 000</li> </ol> <p>Action:</p> <ol style="list-style-type: none"> <li>Implement all administrative requirements as prescribed by National Treasury. Refer for investigation identified cases for appropriate actions to be taken.</li> <li>Training of SCM officials and Bid Committee members.</li> <li>Monitor and enhance existing internal controls, processes and procedures to enforce compliance.</li> </ol>	ADDG: SCM, Mr R. Naidoo	31-Mar-18	<p>In progress.</p> <p>There were instances of non-compliance with SCM laws and regulations identified during the current audit. The findings covered all the indicated non-compliances.</p>
5	<p><b><u>Pre –determined Objectives:</u></b></p> <ol style="list-style-type: none"> <li>Differences between the annual performance report and supporting listings:</li> <li>Actual achievements not valid and accurate; <ol style="list-style-type: none"> <li>Project completed during the year not reported in the annual report;</li> <li>No supporting documentation for reported information;</li> </ol> </li> <li>WORX4U system <ol style="list-style-type: none"> <li>Inadequate closure of calls</li> </ol> </li> </ol> <p>Action</p> <ol style="list-style-type: none"> <li>Engage Branches on a quarterly basis to discuss performance information and supporting evidence to ensure that the reported performance is valid, accurate and complete</li> <li>Line functions at head office to engage Regional Offices to ensure that the information reported information is accurate</li> </ol>	DDG: GRC, Mr I. Fazel	Quarterly (August, November February and May)	In progress, similar findings were identified during the current audit
6	<p><b><u>Operating leases</u></b></p> <p>Overpayments and Underpayments</p> <ol style="list-style-type: none"> <li>Perform quarterly reconciliation between PP38 vs Master database (MDB)</li> </ol>	DDG: REMS, Ms N. Makhebele	31 Mar 18	<p>Not addressed</p> <p>The finding recurred in the current period.</p>

No.	Commitment	Made by	Date	Status
	<ol style="list-style-type: none"> <li>2. Analyse trend on PP38 vs MDB recons to assess the improvements in correcting PMIS inputs.</li> <li>3. Follow up on the letters issued to landlords for the recoverability of the debt</li> <li>4. Appoint an accounting firm to:               <ol style="list-style-type: none"> <li>a) Perform a detail analysis reconciliation on the top 20 debtors,</li> <li>b) Engage with debtors to confirm the over/under payments and recovery"</li> </ol> </li> </ol>			
7	<p><b><u>Lease expenditure incurred on expired leases and non-compliance with special dispensation:</u></b></p> <ul style="list-style-type: none"> <li>• Issue a guideline on the extension of leases on a month-to-month basis</li> <li>• Approval of lease extensions for month to month limited to 12 months</li> <li>• Issue extension letters to landlords on leases extended</li> <li>• An analysis of the clause 4.3 of each lease agreement which indicates that upon expiry lease continue on a month to month basis</li> <li>• Engage AGSA on this matter to have a position for expired leases</li> </ul>	DDG: REMS, Ms N. Makhebele	31 Mar 18	<p>Addressed</p> <p>No findings identified during the current period</p>
8	<p><b><u>Non-compliance with the PFMA on submission of financial statements</u></b></p> <ol style="list-style-type: none"> <li>1. Ensure project plan for preparation of AFS is communicated in time</li> <li>2. Ensure accountability for all sections is assigned</li> <li>3. Weekly progress meetings to ensure effective monitoring and tracking of progress against the project plan</li> </ol>	DDG: Belinda Van Der Merwe	31 May 18	<p>Not addressed</p> <p>Material misstatements were identified on the submitted AFS.</p>
9	<p><b><u>Construction Project Management</u></b></p> <ol style="list-style-type: none"> <li>1. Planning will be done in line with Infrastructure Delivery Management System (IDMS) (Poor planning, scope creep, PI etc);</li> <li>2. The project scope not well defined - client departments to provide in-house technical capacity to provide guidance on matters pertaining to built environment in line with IDMS</li> <li>3. DBSA has been appointed to develop a standard and uniform filling system.</li> <li>4. In terms of the variation orders, an internal reporting and monitoring mechanism will be developed to ensure reporting of variation orders in excess of 20% to NT and AGSA.</li> </ol>	CD: Papi Mekwa	31 Mar 18	In progress

- Details on the status of implementing the previous year recommendations are provided in section 10, which summarises the detailed audit findings.

## SECTION 4: Specific focus areas

### FINANCIAL VIABILITY

97. Our audit included a high-level overview of the trading entity's financial viability as at year-end. The financial viability assessment provides useful information for accountability and decision-making purposes and complements the financial statements by providing insights and perspectives thereon. The financial viability assessment is expected to enhance timely remedial decision-making and policy reforms where financial viability may be at risk. It will also highlight to management those issues that may require corrective action and the urgency and magnitude of the reforms and decisions necessary to maintain operations. The information should be used to complement, rather than substitute, management's own financial assessment.

FINANCIAL VIABILITY ASSESSMENT			
		AS AT 31 MARCH 2019	AS AT 31 MARCH 2018
<b>EXPENDITURE MANAGEMENT</b>			
1.1	Creditor-payment period	148 Days	156 Days
<b>REVENUE MANAGEMENT</b>			
2.1	Debtor-collection period (after impairment)	177 Days	132 Days
2.2	Debtors impairment provision as a percentage of accounts receivable	3.6%	21.7%
	• Amount of debtors impairment provision	R 225 723	R1 053 610
	• Amount of accounts receivable	R6 280 010	R5 000 041
<b>ASSET AND LIABILITY MANAGEMENT</b>			
3.1	A deficit for the year was realised (total expenditure exceeded total revenue)	No	Yes
	• Amount of the surplus / (deficit) for the year	R1 694 629	(R217 907)
3.2	A net current liability position was realised (total current liabilities exceeded total current assets)	Yes	Yes
	• Amount of the net current assets / (liability) position	(R10 272 963)	(R11 317 114)
3.3	A net liability position was realised (total liabilities exceeded total assets)	No	No
	• Amount of the net asset / (liability) position	R151 567 851	R149 852 636
<b>CASH MANAGEMENT</b>			
4.1	The year-end bank balance was in overdraft	Yes	Yes
	• Amount of year-end bank balance (cash and cash equivalents) / (bank overdraft)	(R2 677 329)	(R2 332 518)

FINANCIAL VIABILITY ASSESSMENT			
		AS AT 31 MARCH 2019	AS AT 31 MARCH 2018
4.2	Net cash flows for the year from operating activities were negative	Yes	Yes
	• Amount of net cash in / (out)flows for the year from operating activities	R2 835 349	R2 738 873
4.3	Creditors as a percentage of cash and cash equivalents	Bank in overdraft	Bank in overdraft
	• Amount of creditors (accounts payable)	R4 132 499	R4 155 911
	• Amount of cash and cash equivalents / (bank overdraft) at year-end	R2 677 329	R2 332 518
OVERALL ASSESSMENT			
Overall the financial viability is assessed as:		Red (Unfavourable – Intervention required)	Red (Unfavourable – Intervention required)
* This (these) amount(s) has (have) been adjusted for uncorrected misstatements that resulted in the modification of the audit opinion and will therefore not agree with the financial statement amounts.			

### High-level comments

98. The overall financial position of the trading entity has remained largely unchanged since the prior period. The following matters were noted:

- Although the entity has recorded a surplus for the year, the key financial indicators are negative.
- The net current liability position has decreased compared to the prior year, this results from an increase in days taken by debtors to settle their debtors. Days taken by the entity to pay their creditors has slightly decreased compared to the prior year but it still high.
- This has been further exacerbated by the fact that management has entered into agreements with implementing agents which require significant upfront payments. In this regards prepayments in excess of R675 million were recognised as at 31 March 2019. The combined impact of the matters above has negatively impacted the overdraft which was R2 677 329 000 at 31 March 2019. The overdraft has worsened for five consecutive years since the 2013/14 financial year, when the overdraft balance was R433 108 000.

### PROCUREMENT AND CONTRACT MANAGEMENT

99. The audit included an assessment of procurement processes, contract management and the related controls in place. These processes and controls must comply with legislation to ensure a fair, equitable, transparent, competitive and cost-effective supply chain management (SCM) system and to reduce the likelihood of fraud, corruption, favouritism and unfair and other irregular practices. A summary of the findings from the audit are as follows:



## Irregular expenditure

100. R2 283 000 of irregular expenditure incurred in the current financial year was as a result of the contravention of SCM legislation. Further irregular expenditure incurred in previous years, amounting to R149 382 000 was also identified in the current year. R10 269 369 of this irregular expenditure was identified during the audit process and not detected by the Trading Entity monitoring processes. The root cause of the lack of effective prevention and detection are inadequate review and monitoring of compliance with SCM processes and requirements.

## Awards to persons in the service of the state and their close family members

101. The audit included an assessment of the interests of officials and their close family members in suppliers to the trading entity. Legislation specific to procurement does not prohibit Property Management Trading Entity from making such awards, but compliance with the legislation and policies was tested to ensure that conflicts of interest did not result in contracts being unfairly awarded or unfavourable price quotations being accepted, and that employees obtained approval for performing remunerative work outside their employment as required.

102. The findings were as follows:

Finding	Number and value of awards made	Number and positions of official identified	Number of suppliers identified	Further non-compliance or irregularities regarding the awards			
				Supplier did not submit declarations of interest	Supplier did not declare interest (false declaration)	Official did not declare interest	Official involved awarding contract/quotation
Awards made to officials of the trading entity	Two R1 177 527	Two Groundsman Quantity surveyor	Two	0	0	0	0
Awards made to close family members of officials of the trading entity	Three R534 473	Three Personal assistant Security officer Chief works manager	Three	0	Two	0	0
Awards made to business partners and associates of officials of the trading entity	11 R101 064 831	11 Director Deputy director	11	0	11	0	0



		Management and general support Chief works manager Secretary Quantity surveyor					
Awards to persons in the service of other state institutions	13 62 167 812	13	0				0

### Procurement processes

103. The table below is a summary of findings identified on procurement processes:

	Total		Quotations (below R500,000)		Competitive bids (over R500,000)	
	Number	Value R	Number	Value R	Number	Value R
<b>Awards selected for testing</b>	113	665 487 770	61	13 769 491	52	651 718 279
<b>Expenditure incurred on selected awards – current year</b>		290 422 559		10 887 331		279 535 228
<b>Limitations – awards selected but could not be tested</b>	Two(2)	15 789 883	0	0	Two(2)	15 789 883
<b>Awards on which non-compliance was identified</b>	Six (6)	10 549 999	1	0	5	10 269 369
<b>Irregular expenditure identified</b>	Six (6)	10 549 999	1	280 630	5	10 269 369

### Limitations on audit

104. As indicated in the table above, sufficient appropriate audit evidence could not be provided that two of the selected awards to the value of R 15 789 883 were made in accordance with the requirements of applicable SCM legislation. No alternative audit procedures could be performed to obtain reasonable assurance that the expenditure incurred on these awards was not irregular.

105. As a result of these limitations, the findings reported in the rest of this section may not reflect the true extent of irregularities and SCM weaknesses.

### Procurement processes – general

- One contract with a value of R639 978 was procured without inviting competitive bids, and the deviations was not approved.
- One contract was awarded to bidders who did not score the highest points in the bid evaluations, and there was no justification for the deviation.
- One quotation with a value of R280 630 were procured from suppliers whose tax matters had not been declared by the South African Revenue Services to be in order.

### Contract management

- Three contracts were amended or extended without approval by a delegated official. The total value of the extensions was R45 830 252.31
- The contract performance and monitoring measures and methods applied in three contracts with a total value of R62 482 444 were insufficient to ensure effective contract management.

### Local content and production (designated sectors)

- Specifications for three awards with a total value of R299 912 969 did not stipulate the minimum threshold for local production and content.

### Internal control deficiencies

106. The following internal control deficiencies should be addressed to improve procurement and contract management at the trading entity:

- Lack of proper procurement planning which resulted in deviations from the procurement process
- Reviewing and monitoring of compliance with applicable laws and regulations was insufficient and not properly monitored.

## FRAUD AND CONSEQUENCE MANAGEMENT

107. The primary responsibility for preventing and detecting fraud rests with management and those charged with governance. We are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error, and to issue an auditor's report that includes our opinion. Due to the inherent limitations of an audit, there is a risk that some material misstatements, including fraud, may not be detected.

108. Below is a summary of fraud risk factors that should be addressed to ensure that sufficient measures/controls are in place to prevent material misstatement due to fraud.

- Procurement and contract management:
  - i. Risk of fraud in the SCM environment
  - ii. Deviations from SCM prescripts not justified
  - iii. Awarding of contracts not in line with the SCM policies and regulations.

## iv. Conflict of interest and risk of preferential treatment of suppliers

109. The PFMA and its regulations clearly stipulate that matters such as incurring unauthorised, irregular as well as fruitless and wasteful expenditure, the possible abuse of the SCM system including fraud and improper conduct and allegations of financial misconduct should be investigated. Disciplinary steps should be taken based on the results of the investigations. Our audits included an assessment of the trading entity's management of consequences. The significant findings are provided below:

## Ongoing investigations

110. A total of 39 investigations were ongoing at year-end into allegations relating to financial misconduct, fraud and/or improper conduct in SCM. Some of these investigations have been ongoing for a period exceeding 12 months. The table below provides a summary of investigations which had not been completed as at year-end:

Total number of ongoing investigations as at year-end	39
• Number of SCM-related investigations	13
• Number of fraud-related investigations	26
Number of investigations exceeding a period of six months	25

## Failure to properly deal with allegations reported in the prior year

111. The table below provides a summary of findings from the previous year that were either not investigated or proper disciplinary steps were not taken after investigation.

## Irregular and fruitless and wasteful expenditure

Finding	Value R
<b>Irregular expenditure</b>	
Irregular expenditure identified in the previous year was not investigated to determine if a person was liable for the expenditure	739 573
<b>Fruitless and wasteful expenditure</b>	
Fruitless and wasteful expenditure identified in the previous year was not investigated to determine whether a person was liable for the expenditure	6 400 000

## Transgressions reported to management for investigation

112. During the prior year audit, we reported findings relating to transgressions by officials or other role players, for management to investigate. During the current year audit, we performed follow-up tests to determine whether the matters reported were dealt with by management.

113. The table below provides a summary of the transgressions reported in prior year and an indication of how many were dealt with. It also provides a summary of transgressions identified in the current year that must be investigated and disciplinary steps taken based on the results of the investigations.

Finding	Findings reported in prior year			Findings reported in current year	
	Number of instances	Number of instances investigated	Number of instances resolved from those investigated	Number of instances	Value (R)
<b>A: Improper conduct in SCM by suppliers</b>					
Supplier submitted false declaration of interest	One	0	0	0	
<b>B: Improper conduct in SCM by officials / role players</b>					
Other improper conduct in SCM by officials or SCM role players	Eleven	0	0	0	

114. Irregular and fruitless and wasteful expenditure disclosed in note 31 and 32 to the financial statements must be investigated to determine whether any official is liable for losses incurred as a result of the irregular and fruitless and wasteful expenditure. Disciplinary steps must be taken against officials who caused or permitted the irregular/fruitless and wasteful expenditure and losses incurred as a result must be recovered from the person liable.

## VALUE ADD MATTERS

115. The audit included an assessment of other focus areas to add additional value through our auditing. We focused on the following:

### Infrastructure

116. The complete project life cycle is tested, including planning, project management and commissioning. This includes testing the timelines, budget spending, compliance with procurement processes, appropriate recording of the transactions in the financial statements and that the quality of the goods and services delivered agreed with the initial requirements.

Summary of the key findings			
Key project name	Construction of Braai facilities	Rygersdal Apartments	
Planning and budgeting for the project			
Brief description of key project	Rondebosch, GSE : Nursery 1, 2 and House Gydo. Construction of Braai facilities	Upgrading of the Rygersdal Apartments in Cape Town	



Summary of the key findings			
Key project name	Construction of Braai facilities	Rygersdal Apartments	
Project commenced as planned	Yes Planned commencement date: 20 April 2017 - Actual commencement date: 20 April 2017	Yes - Planned commencement date: 9 May 2016 - Actual commencement date: 9 May 2016	
Project completed within defined duration (applicable if completed)	No- - Planned completion date: 19 October 2017 - Actual completion date: 31 October 2017	No - Planned completion date: 8 October 2017 - Actual completion date: 17 September 2018	
Total project budget (multi-year)	R675 911	R109 358 665,57	
Actual amount spent from initiation to date	R523 985,51	R104 687 630,84	
Significant overspending or underspending on total project budget (multi-year)	No	No	
Findings identified on the procurement of goods and services for the project	No	No	
Overall quality of the project management was poor or not acceptable	No	Yes	
Findings identified on consequence management	Yes	Yes	
Findings identified on fraud	No	No	
Goods and services delivered on project of poor or sub-standard quality	No	No	
Findings on commissioning of the completed project	No	No	
Findings identified on accounting for the project (annual financial statements)	No	No	
Spending not aligned to stage of completion	Yes	No	
Budget spent but project milestones not achieved	No	No	

Summary of the key findings			
Key project name	Construction of Braai facilities	Rygersdal Apartments	
Findings identified on grant spending	No	No	
Findings identified on fruitless and wasteful expenditure in relation to the project	No	No	
Findings identified on irregular expenditure incurred on the project	No	No	
Infrastructure not utilised for intended purpose	No	No	
Infrastructure not utilised at all or under utilised	No	No	

A summary of the significant findings from the audit are as follows:

#### Project administration

- 117. The Infrastructure Programmed Implementation Plan (IPIP) and Infrastructure Programme Management Plan (IPMP) were not developed.
- 118. The trading entity had not developed infrastructure procurement and delivery supply chain management policy to implement requirements of SIPDM.
- 119. The trading entity did not manage the project effectively by planning adequately to ensure that the sites were available for the contractor.

#### Time

- 120. There were delays on the project due to late project scope changes, late award of landscaping, issuing of late instructions, and design changes.
- 121. The principal agent failed to adhere to the timelines stipulated in the JBCC regarding granting, reducing or refusing of following extensions of time.

#### Cost

- 122. The project incurred additional expenditure of R9 209 870 as a result of poor planning. This was due to approved additional work and extension of time with cost as listed in the progress report (post completion).  
The project managers did not adequately manage the contractors claim to determine if the claims are accurate.

#### Quality

- 123. There were quality issues identified. Examples were the drain was not positioned at the lowest point where water can be collected and only one drain was placed to collect run off for the entire outside parking.

## Property Maintenance

124. A site visit was conducted by AGSA on the following properties:

- Pretoria Central Police Station on 6<sup>th</sup> June 2019.
- Trading entity of Agriculture and Rural Development on 5<sup>th</sup> June 2019.

125. The purpose of the site visit was to inspect and assess the condition of the building occupied by the South African Police Services officials. The condition of the building is considered to be important as its used to serve the community at large and safety of officials is of great importance. It is thus important to ensure that public buildings are as safe as possible and that maintenance of the building is carried out efficiently and effectively.

126. The approach which was adopted during the site visit focused on the following 5 Building Safety Elements:

- General Safety
- Fire and Electrical
- Structural Safety
- Egress Inspection
- Maintenance Inspection

127. The following were key focus areas under general safety:

- Adequacy and functionality of lighting in all the working areas
- Determine if elevators are in good working condition
- Determine whether the corridors and aisle are free of tripping hazards
- Determine if there is anything within ½ meter of fire sprinklers head
- If Material Safety Data Sheet (MSDSs) are available and accessible to all employees

128. A summary of the significant findings from the audit are as follows:

### Pretoria Central Police Station

- The lighting inside the building was inspected and it was discovered that there were areas where lights were not functioning accordingly (See Pic 1 and 2)
- The West Side elevators were not functioning (See Pic 3)
- The walkway contained obstacles (tables) which pose a threat in case of any emergencies (See Pic 4)
- The building is only equipped with fire sprinklers in one part of the building section. The section (West Side) building has suffered fire damage in 2017 and it was disclosed during the site visit that no structural assessment was conducted subsequent to the fire (See Pic 5, 6, 7, 8)
- There were no Material Safety Data Sheets (MSDS's) that were observed in the building and according to facility manager no such system in place for employees



Table 1: Pictures depicting general safety issues identified:



Picture 1 – walkway with insufficient lighting



Picture 2 – Corridor with insufficient lighting



Picture 3 – Elevator not functioning



Picture 4 - Corridor with obstacles



Picture 5 – Burned building section



Picture 6 – Burned building section





Picture 7 – Burned building section



Picture 8 – Burned building section

## Impact

- When a building has insufficient lighting, there exists a safety hazards with regard to occupancies tripping due to unforeseen obstacles. The employees may also be scared to walk through these dark corridors thus affecting their ability to conduct their daily activities, thereby adversely affecting service delivery
- The impact of elevators not operating results to employees using stairs which can be wearing if the building has multiple floors. It also becomes a challenge for elderly people and also those with disabilities to access other parts of the building
- Corridors that have obstacles and are cluttered pose a risk in case of emergencies with regard to effective evacuation drills
- When a building has been subjected to extreme temperatures and little to no maintenance, the concrete and steel reinforcement embedded within loss its integrity and thus pose a risk of collapsing.
- The absence of MSDS poses a risk that employees might not be aware of hazards and risks associated with their line of work.

## Department of Agriculture and Rural

- The officials work in confined spaces with little movement permitted. The working place is packed with documents because of insufficient storage (See Pic 2)
- The office space has electrical cords running on the floor (See Pic 1)
- There is little allowable space to move between office furniture, with exposure to various sharp pointy objects (See Pic 3 and 5)
- The outside stairs are not firmly in place (See Pic 5)
- The corridor contains various types of obstacles (See Pic 6)
- Poor housekeeping in the storeroom with heavy object on the verge of falling, including falling ceiling panels (See 8 and 9)

**Table 1: Pictures depicting issues identified:**



**Picture 1 – Electrical cords running on the floor**



**Picture 2 – Confined working space**



**Picture 3 – Tripping hazard**



**Picture 4 – Tripping sharp hazard**



**Picture 5 – Flabby staircase**



**Picture 6 – Storage units on the corridor**



Picture 7 – Storeroom



Picture 8 – Poor housekeeping



Picture 9 – Staking heavy object carelessly

## Impact

- A working environment which has confined space and is congested affects the working capabilities of the employees and may adversely affect the effectiveness of the emergency evacuation
- The impact of electrical cords running on the floor where employees work has the risk of tripping hazards and may lead to risk of falling
- The sharp office furniture edges may cause injury to the employees
- The flabby staircase can tilt or collapse when subjected to uneven weight and cause injury
- The corridors contain various types of obstacles thus posing a risk in terms of emergency evacuations
- The carelessly stacked boxes in the storeroom can call on people and cause injury



## Broad-Based Black Economic Empowerment (B-BBEE) Act reporting requirements

129. The audit included confirming whether the reporting requirements as set out in the B-BBEE Act were adhered to. The purpose of this value-add initiative is to highlight the reporting requirement contained in the B-BBEE Act. Below is the list of findings identified:

- The entity did not submit the relevant documentation pertaining to the 2017-18 financial year to the B-BBEE Commission within 30 days.

## SECTION 5. Using the work of internal audit

130. The auditing standards allow external auditors the optional use of the work of internal audit for external audit purposes and for direct assistance. We have used internal audit as follows:

- For risk identification the following internal audit reports were considered:
  - Follow up audits (DPW and PMTE) where Internal Audit assessed management's progress in addressing internal and external audit findings from prior periods.
- We placed reliance on the work of internal audit in the performance of our interim audit for the following areas:
  - Audit of the quarterly report (Q1) for all programmes scoped in.
  - Internal audit review of draft Annual Performance Plan for 2019/20.
- The internal audit function was used for direct assistance on the Nelspruit regional audit.

## SECTION 6: Emerging risks

### Accounting, performance management/reporting and compliance matters

#### New pronouncements

#### Standards of GRAP

The ASB has issued the following GRAP pronouncements, with effective dates as indicated:

Type of entity	GRAP pronouncement	Effective date
• Trading entities	GRAP 18 - <i>Segment reporting</i>	1 April 2019
	GRAP 34 - <i>Separate financial statements</i>	1 April 2020
	GRAP 35 - <i>Consolidated financial statements</i>	1 April 2020
	GRAP 36 - <i>Investments in associates and joint ventures</i>	1 April 2020
	GRAP 37 - <i>Joint arrangements</i>	1 April 2020
	GRAP 38 - <i>Disclosure of interests in other entities</i>	1 April 2020
	GRAP 105 - <i>Transfer of functions between entities under common control</i>	1 April 2019

Type of entity	GRAP pronouncement	Effective date
	GRAP 106 - <i>Transfer of functions between entities not under common control</i>	1 April 2019
	GRAP 107 - <i>Mergers</i>	1 April 2019
	IGRAP 1 <i>Applying the probability test on initial recognition revenue</i> (amendments)	1 April 2020
	IGRAP 17 - <i>Service concession arrangements where a grantor controls a significant residual interest in an asset</i>	1 April 2019
	IGRAP 18 - <i>Recognition and derecognition of land</i>	1 April 2019
	IGRAP 19 - <i>Liabilities to pay levies</i>	1 April 2019
	IGRAP 20 <i>Accounting for adjustments to revenue</i>	1 April 2020

## New legislation

### Treasury Regulations

- The treasury regulations are currently being revised, which may introduce a number of new requirements once effective.

### Subsequent events

- President appointed Ms P de Lille as the new minister, and an Infrastructure element was added to the Public Works Portfolio.

## Audit findings on the annual performance report that may have an impact on the audit opinion in future

131. The planned and reported performance information of selected [programmes/objectives] was audited against the following additional criteria as developed from the performance management and reporting framework:

- **Presentation and disclosure – Overall presentation:**
  - Overall presentation of the performance information in the annual performance report is comparable and understandable
- **Relevance – Completeness of relevant indicators:**
  - Completeness of relevant indicators in terms of the mandate of the auditee, including:
    - relevant core functions are prioritised in the period under review
    - relevant performance indicators are included for the core functions prioritised in the period under review

132. Material audit findings arising from the audit against the additional criteria do not have an impact on the audit opinions of the selected programmes in this report. However, it may impact on the audit opinion in future.

## SECTION 7: Ratings of detailed audit findings

133. For the purposes of this report, the detailed audit findings included in annexures A to C have been classified as follows:

- Matters to be included in the auditor's report: These matters should be addressed as a matter of urgency.
- Other important matters: These matters should be addressed to prevent them from leading to material misstatements of the financial statements or material findings on the performance report and compliance with legislation in future.
- Administrative matters: These matters are unlikely to result in material misstatements of the financial statements or material findings on the performance report and compliance with legislation.

## SECTION 9: Conclusion

134. The matters communicated throughout this report relate to the three fundamentals of internal control that should be addressed to achieve sustained clean administration. Our staff remains committed to assisting in identifying and communicating good practices to improve governance and accountability and to build public confidence in government's ability to account for public resources in a transparent manner.

Yours faithfully

Corne Myburgh  
Business Executive: National A  
31 August 2019

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### **Distribution:**

Executive authority  
Accounting officer  
Chief Financial Officer  
Audit committee  
Head of internal audit unit

## SECTION 10: Summary of detailed audit findings

Page no.	Finding	Classification					Rating			Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters		

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