



AUDITOR-GENERAL  
SOUTH AFRICA

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# FINAL MANAGEMENT REPORT

## PROPERTY MANAGEMENT TRADING ENTITY

**31 March 2020**

**Communicated to the accounting officer on: 20 October 2020**





AUDITOR - GENERAL  
SOUTH AFRICA

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# MANAGEMENT REPORT

## PROPERTY MANAGEMENT TRADING ENTITY

31 March 2020

Discussed with the accounting authority/ officer on: 15 October 2020

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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 2020






### INTRODUCTION

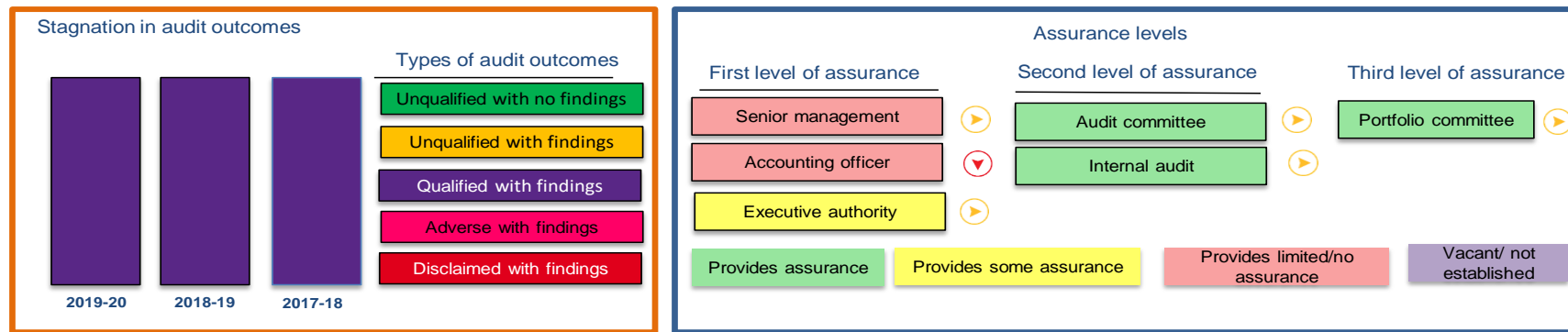
1. The purpose of the management report is to communicate audit findings and other key audit observations to the accounting officer and to provide a summary of the material irregularities and suspected material irregularities of which the accounting officer was notified. The report does not constitute public information.

The 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 2020. 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.

2. 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)
  - notify the accounting officer of any material irregularity or suspected material irregularities identified during the audit, and report on it in the auditor's report.
3. 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. Our engagement letter sets out our responsibilities and those of the accounting officer in detail.



7. 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<sup>1</sup> as well as the annexure to internal control deficiencies reported.
8. 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.
9. 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
10. Movement from the previous year is depicted as follows:
  -  Improved
  -    Unchanged / slight improvement / slight regression
  -  Regress



1

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

2

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

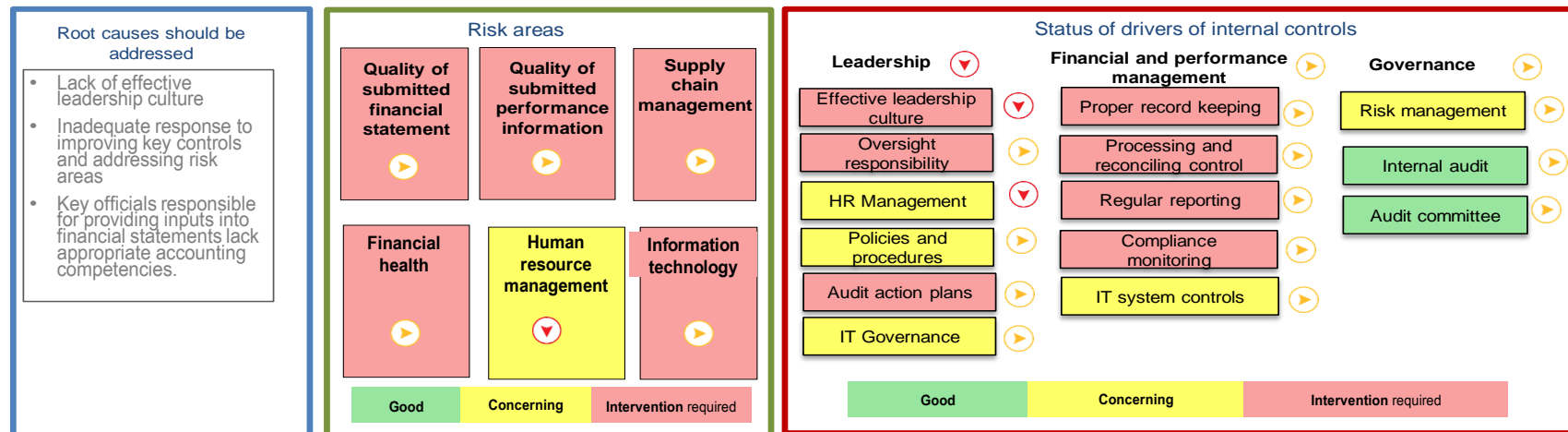
5

... the **root causes** are addressed ...

4

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

3

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


## OVERALL MESSAGE

14. 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 in the **annual financial statements** were identified with respect to immovable assets, irregular expenditure as well as operating lease revenue and expenditure, which formed the basis for the qualified audit outcome.
15. An improvement was noted for property plant and equipment in respect to the recognition of the assets for which the entity didn't retain proof of ownership, which resulted in that portion of the prior period qualification being resolved. However, while we noted a decrease in the amount of material misstatement with respect to the extents of the properties being valued in the current year compared to the prior year, the remaining misstatements on valuation of immovable assets remained material. In addition, these improvements were slightly offset by the recurrence of the issue of classification of assets under construction, which was previously resolved. This was as a result of a number of staff resources within the entity, including some within the Finance unit who played a key role in the preparation and review of annual financial statements in the prior period, who did not have their contracts renewed. The action plans aimed to address issues of immovable assets were partially adequate in resolving prior year findings. In certain instances, we noted that the review done by management was not adequate to ensure that inputs in immovable assets register (IAR) are reasonable and deemed cost calculations are correct.
16. Material misstatements were also identified in the amounts relating to operating leases, where the implementation of the new computerised accounting system resulted in numerous errors being made in the capturing of the lease information. The root causes of such regression was due to the entity not having adequate and sufficiently skilled resources in place to review the financial information prior to submission for audit, as significant number of positions were still vacant at the Finance division. Some senior management positions, including Chief Director: Financial Reporting and Chief Director: Revenue and debt management, were filled by acting incumbents quite late in process and very close to financial year end which further made the financial statement preparation more susceptible to errors. In prior periods, the Finance Unit has been dependent on a number of contracted staff resources who played a key role in the preparation and review of annual financial statements. These staff members did not have their contracts renewed when they came to an end during the financial period around December 2019.
17. In addition to the annual financial statements areas which form the basis of qualification, material misstatements were identified that the disclosure notes relating to irregular expenditure have been materially understated, as management did not disclose irregular expenditure identified relating to expired leases. In addition, material misstatements identified on receivables from exchange transactions and provisions with respect to municipal services and property rates (backlog) were subsequently corrected.
18. The trading entity did not effectively implement preventative controls and monitor recommendations relating to the **compliance with legislation**. In addition, investigations completed during the audit cycle revealed significant non-compliances with legislation which



resulted in irregular expenditure being incurred by the trading entity. Furthermore, the trading was also impacted by irregular expenditure that was incurred related to irregular appointment of senior officials of the entity. The above irregularities negatively affected the effectiveness of leadership culture as both investigation reports for the upgrades to Beitbridge border post and the public service commission cited that senior management of the entity were implicated on the irregularities noted, which resulted in material irregularities in certain instances. Non-compliances were also identified with Public Finance Management Act (PFMA), Preferential Procurement Regulations and Treasury Regulations. In certain instances, such non-compliances resulted in irregular, fruitless and wasteful expenditure being incurred. The entity will also need to perform some investigations to determine the extent of irregular expenditure on certain non-compliances identified during the audit.

19. Internal controls in relation to expenditure management have not been adequately implemented which resulted in the entity failing to have effective and appropriate steps to prevent irregular, fruitless and wasteful expenditure. In certain instances, we identified that payments were made in advance despite the fact that such advance payments were not required by contract. In other instances, different regions experienced shortage of staff within the finance department; as a result, invoices were not paid within 30 days. Overpayments made to landlords in terms of private leased properties continued in the current 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 continued to occur, this was a result of leases that were duplicated on the ARCHIBUS system. The implementation of a new computerised leases system in September 2019 resulted in numerous errors in operating leases, this was as a result of lack of review of the details of leases which were incorrectly captured on the system, Management should continue to strengthen their control environment to prevent such non-compliance.
20. Material findings were raised where the **reported information** was not useful and reliable. In other instances, inconsistencies were identified between the technical indicator description and the reported performance. Furthermore, in relation to the Number of EPWP work opportunities created through construction projects, we noted that supporting documents provided did not agree to the reported achievement and materially differed from the reported achievement. 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.
21. Management made progress in implementing action plans to address prior year audit findings on areas relating to information technology (IT) governance. However, there are still areas of concerns requiring attention. The ICT focus areas relating to user access management, security management and IT service continuity still require improvement. As previously reported, we still noticed some vacancies around key ICT positions. This resulted in capacity constraints, which was evident in slow progress to address prior year's findings.
22. The lack of implementing basic IT security and user access controls could further lead to unauthorised users gaining access to systems, resulting in data being compromised, denial of service attacks or data integrity issues and consequently overall disruption to business processes



23. The overall financial position of the trading entity remains a concern and requires intervention. The bank overdraft slightly decreased by 4% in the current year while the net current liability slightly improved. Significant concerns remain with respect the receivables, where the proportion of debtors that have been impaired has increased significantly when compared to the prior period. This is because the entity is struggling to collect receivables as they become due. Conversely, the entity continued to make significant upfront payments for implementation of projects, which combined with the issues identified on receivables, result in the over reliance on the bank overdraft. Overpayments were made to landlords in terms of private leased properties, 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 continued to occur.

## SECTION 1: INTERACTIONS WITH STAKEHOLDERS RESPONSIBLE FOR OVERSIGHT AND GOVERNANCE

24. 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 – 2018/19 Audit Outcomes and key messages</li> <li>Presentation of annual report by the Department</li> </ul> Oversight visit to Beitbridge	3
Standing committee on public accounts	<ul style="list-style-type: none"> <li>Annual report hearings</li> </ul> Oversight visit to Beitbridge	2
<ul style="list-style-type: none"> <li>Minister of Public Works</li> </ul>	<ul style="list-style-type: none"> <li>Presentation on amendments to Public Audit Act</li> <li>Presentation on audit outcomes and key messages</li> <li>Letter was sent to the Minister notifying her of critical matters identified during 2018-19 audit which should be addressed to improved outcomes within Public Works Portfolio</li> <li>Discussion on scope of COVID-19 special audit to be undertaken</li> <li>Audit progress on COVID-19 special audit</li> </ul>	5
Director-general	<ul style="list-style-type: none"> <li>Presentation on amendments to Public Audit Act</li> <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>Messages relating to COVID-19 special audits</li> <li>Follow up on completed investigations</li> </ul>	5
Audit committee	<ul style="list-style-type: none"> <li>Presentation on amendments to Public Audit Act</li> <li>Presentation of quarterly Status of Records Review</li> <li>Presenting the engagement letter and audit strategy</li> <li>Approval of the Department's Annual Financial Statements</li> </ul>	6

Key stakeholder	Purpose of interaction	Number of interactions
	<ul style="list-style-type: none"> <li>• Presentation of interim management report</li> <li>• Closed session between audit team and audit committee</li> </ul>	

25. At these interactions, we shared the following key matters affecting audit outcomes and the auditee:

- The status of key controls of the Department of Public Works and Infrastructure (DPWI) and its entities (PMTE, IDT, CBE, CIDB, ASA and ECSA) were discussed with the Portfolio Committee.
- Terms of the engagement for the current year 2019/20 audit cycle with specific emphasis on the amendments to the Public Audit Act, and its impact on the audit of DPWI
- 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. Included in this discussion was the impact on COVID-19 on the audit scope for 2019/20 audit cycle.
- Audit progress and findings were discussed on a continuous basis. The key issues discussed for PMTE related to Immovable assets.
- Interim management report was presented

26. Some stakeholders 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.

## SECTION 2: MATTERS RELATING TO THE AUDITOR'S REPORT

### AUDIT OF THE FINANCIAL STATEMENTS

27. We identified material misstatements in the financial statements during the audit. These misstatements were not prevented or detected by the Entity's system of internal control. These material misstatements also constitute non-compliance with section 40(1) of the Public Finance Management Act (PFMA).
28. The misstatements that were not corrected form the basis for the qualified on the financial statements.

Material misstatement			Impact R current year	Impact R prior year
Financial statement	Finding	Occurred in prior year		
<b>Material misstatements not corrected</b>				
<b>Non-Current Assets</b>				
Property, plant and equipment Depreciation and accumulated depreciation	In calculating deemed cost for immovable assets, the area of the property in m <sup>2</sup> (extents) is multiplied by the rate for the specific type of asset. Misstatements were identified in the immovable assets register (IAR) due to the incorrect extents being utilised for properties being measured. Furthermore, we identified misstatements on the properties valued using the Municipal valuation rolls (MVR) where management used MVRs that have values which did not reflect the market value of properties.  Additionally, we have identified assets under construction (AUC) projects which were not included on the AUC register. This was due to an incorrect classification of project as OPEX instead of being recognised as capital project(CAPEX). As a results the property plant and equipment (PPE) has been understated.	Yes	Estimated understatement of R2 751 732 745	Estimated overstatement of R16 344 728 202
<b>Revenue</b>				



Material misstatement			Impact R current year	Impact R prior year
Financial statement	Finding	Occurred in prior year		
Revenue from exchange transaction: Leasehold inter-governmental	Differences were identified between amounts calculated in the schedule supporting the annual financial statements (AFS) and the amount recalculated from the lease agreements	No	Estimated overstatement R159 624 735	0
<b>Expenditure</b>				
Operating lease expenditure	Differences were identified between amounts calculated in the schedule supporting the annual financial statements (AFS) and the amount recalculated from the lease agreements.	No	Estimated overstatement R161 810 300	0
Property maintenance (contracted services)	We have identified projects which are capital in nature which were incorrectly classified as operating expenditure (OPEX) instead of being recognized as capital projects (CAPEX). This has resulted in the overstatement of property maintenance.	No	Estimated overstatement R333 647 251	0
<b>Disclosure</b>				
Irregular Expenditure	During the audit of irregular expenditure (disclosure note 32), it was noted that the following irregular expenditure transactions were not adequately disclosed for the current financial year: <ul style="list-style-type: none"> <li>Irregular expenditure relating to internal investigations completed by Governance Risk and Compliance Unit</li> <li>Irregular expenditure relating to leases that are running on a month to month basis</li> </ul>	No	Understatement of R1 422 256 886	0
<b>Material misstatements corrected</b>				
<b>Current assets</b>				



Material misstatement			Impact R current year	Impact R prior year
Financial statement	Finding	Occurred in prior year		
Receivables from exchange transaction	Differences were identified in the impairment loss calculation for receivables: <ul style="list-style-type: none"> <li>Accommodation debtors – Municipal services</li> </ul>	No	Estimated understatement of R424 023 154	0
<b>Current Liabilities</b>				
Payables from exchange transactions	The incorrect classification of provisions (municipal services and property rates and maintenance) as stated above resulted in understatement of payables from exchange transactions.	No	Estimated understatement of R1 560 993 032	0
Provisions	In assessing the provision for municipal services and property rates (Backlog), we noted that there was no uncertainty on the amount or timing as the process conducted by management in verifying the amounts owed to municipality was confirmed. This resulted in the backlog amount incorrectly classified as a provision.  Furthermore, instances where noted on maintenance provision where the job was done and the trading entity was in a position of an invoice or quotation but these transactions were incorrectly included as provision.	No	Estimated overstatement of R1 514 190 231	0



## MATTERS TO BE BROUGHT TO THE ATTENTION OF USERS

### Emphasis of matter paragraphs

29. 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 of receivables

30. As disclosed in note 22 to the financial statement, material losses of R1 534 561 000 was incurred as a result of a write-off of irrecoverable receivables from exchange transactions.

#### Restatement of corresponding figures

31. As disclosed in note 37 to the financial statements, the corresponding figures for 31 March 2019 were restated as a result of an error in the financial statements of the entity at and for the year ended 31 March 2020

#### Going concern


32. I draw attention to note 38 to the financial statements, which indicate that the trading entity as of 31 March 2020, has a bank overdraft of R2, 6 billion (March 2019: R2,7 billion) and the current liabilities exceed the current assets by R8,8 billion (March 2019: R11,2 billion).

## AUDIT OF THE ANNUAL PERFORMANCE REPORT

33. 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

34. 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 2020

[Programmes/ objectives]	Pages in annual performance report	Opinion	Movement <sup>2</sup> .
Programme 3 – construction project management	x – x	Qualified	

35. 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*.
36. 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 opinion

37. In our opinion, except for the 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 as set out in annexure D to this report.

### Basis for qualified opinion

#### Percentage reduction of infrastructure projects backlogs

38. I was unable to obtain sufficient appropriate audit evidence that clearly defined the predetermined method of collection to be used when measuring the actual achievement for the indicators listed below. This was due to insufficient measurement definitions or processes. I was unable to test whether the indicator was well-defined by alternative means. As a result, the achievements reported in the annual performance report for the listed indicators, materially differed from the supporting evidence provided.

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

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

39. The reported achievement of 3609 of EPWP work opportunities created through construction projects was reported against target of 8200 of EPWP work opportunities created through construction projects in the annual performance report. However, the supporting evidence provided materially differed from the reported achievement.

### Other matters

40. We draw attention to the matters below. Our opinions are not modified in respect of these matters.

#### Achievement of planned targets

41. 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 of opinions expressed on the usefulness and reliability of the reported performance information in paragraph(s) [x; x; x] of this report.

#### Adjustment of material misstatements

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



## Responsibilities of accounting officer on the reported performance information

43. 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

44. 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.
45. Our procedures address the usefulness and reliability of the reported performance information, which must be based on the approved performance planning documents of the trading entity. We have not evaluated the appropriateness of the performance indicators measures established and included in the planning documents. Our procedures do not examine whether the actions taken by the trading entity enabled service delivery. Our procedures also 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.
46. 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

47. 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

48. 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.
49. 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

50. Effective and appropriate steps were not taken to prevent irregular expenditure, as required by section 38(1)(c)(ii) of the PFMA and treasury regulation 9.1.1. As reported in the basis for qualified opinion the value as disclosed in note 32 of the financial statements does not reflect



the full extent of the irregular expenditure incurred and in certain instances the full extent of the irregular expenditure could not be quantified. The majority of the irregular expenditure was as a result of irregularities noted on extension of contracts, irregular SCM processes followed in the appointment of suppliers and extension of lease contracts on a month to month basis that exceeded the set limit for extensions.

51. Effective internal controls were not in place for approval and processing of payments, as required by treasury regulation 8.1.1.
52. In certain instances, resources of the trading entity were not utilised economically, as required by section 38(1)(b) of the PFMA.
53. Payments were not made within 30 days or an agreed period after receipt of an invoice in certain instances, as required by treasury regulation 8.2.3
54. In certain instances, payments were made before services were received with respect to operating leases, in contravention of treasury regulation 15.10.1.2(c).

### **Procurement and contract management**

55. In certain instances, some of the contracts were not awarded in an economical manner and the prices of the goods and services were not reasonable as required by PFMA 38(1)(b) and PFMA 45(b).

### **OTHER INFORMATION**

56. The accounting office 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.
57. 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.
58. 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 during the audit or otherwise appears to be materially misstated.
59. 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

60. 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 x, 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

61. We commend the leadership of the entity for the demonstrated commitment to preventative controls around material irregularities which is evident by the numerous sessions that the members of the executive committee had on PAA amendments to bring about awareness of the implications of PAA. We however note with concern that the leadership was implicated in the investigation report on Beitbridge where the leadership members contributed to the non-compliance which resulted in irregular expenditure as disclosed in the notes for irregular expenditure. In addition, the Public Service Commission investigation report which was completed in the current year also cited senior management which were irregularly appointed which further resulted in irregular expenditure incurred by the entity. This lack of effective leadership culture sets an unwanted tone of non-compliance which may permeate throughout the department and its trading entity trading entity.
62. We have noted from our review of the work of internal audit as well as the review of progress in implementation of action plans that management has, in some instances, been slow to respond to the findings of internal audit (which also incorporates follow ups on finding raised by external audit), or not committed to timeous submission of the information as requested by internal audit. Consequently, the reports of internal audit in most instances cite findings relating to limitation of scope where information requested by internal audit is not always provided by management to enable the internal audit function to provide full assurance that will strengthen the operating effectiveness of internal controls of the entity. The internal audit unit will not be having the desired impact on control until management prioritises their findings, and embraces the value of preventative controls.

#### Oversight responsibility

63. The governance, risk and compliance (GRC) unit plays a key role in oversight for the department, as their functions include risk management as well investigations. The unit completed a number of investigations over the past two years such as the C-Max project investigation and the Beitbridge investigation which revealed irregularities that were subsequently disclosed by the trading entity and enabled the leadership to exercise relevant consequence management. However senior management has been slow to implement the other recommendations in these reports.
64. Senior management's responsibility towards quality checks have not always been fruitful. This is evidenced by the findings raised on non-compliance with legislations as well as slow response to address the prior year issues. The procurement and contract management processes have not been reviewed to ensure to compliance with Preferential Procurement Regulations and Treasury Regulations. Instances of overpayments on leases results from



minimum quality checks done to validate payments made on Archibus. Slow progress has been noted on the implementation of the action plans developed to address the prior year findings. The leadership role to monitor the implementation of such action plans have not yield the positive results for the entity.

### Human resource management

65. A slight regression was noted with the overall vacancy increasing from 9% as at 31 March 2019 to 10% at the time of performing this assessment. However, the most concern is on the Senior Management vacancy rate which is currently reported at 33% compared to 27.5% for 2019-year end.
66. The entity does not have adequate and sufficiently skilled resources in place, as a significant number of positions were still vacant at the financial accounting division. Some senior management positions, including Chief Director: Financial Reporting, were filled by acting incumbents. In prior periods, the Finance Unit has been dependent on a number of contracted staff resources who played a key role in the preparation and review of annual financial statements. These staff members did not have their contracts renewed when they came to an end during the financial period.

### Policies and procedures

67. The entity should ensure that the existing policies are implemented and the implementation is regularly monitored. Non-implementation of the existing policies and regulations with respect to payments was the root cause of overpayments continuing to be made on leases.
68. The entity should ensure that approved policies and procedures are adequately and timeously communicated to officials in the entity. The policies should also be reviewed regularly as most of the policies are old.

### Action plans to address internal control deficiencies

69. Implementation of the audit actions plan has not transpired in all instances. It is a concern that the some of the issues identified have been recurring for a number of years and have not yet been adequately addressed. The lack of an effective leadership culture and slow response by senior management to implement action plans has combined to create an environment where people are not held accountable for causing the entity to obtain negative audit outcomes.
70. Management should also review audit action plans currently in place to confirm their effectiveness, especially with regards to Immovable assets and performance information. Even though were unable to clear the qualification of immovable assets in the current financial year, an improvement was noted in respect to the recognition of the assets for which the entity didn't retain proof of ownership, which resulted in that portion of the prior period qualification being resolved. Furthermore, we noted a decrease in the amount of material misstatement of IAR in the current year compared to the prior year, however the remaining misstatements were confirmed to be material.

### Information technology governance framework

71. Information technology governance was found to be inadequately designed and implemented with the following internal control deficiencies to be considered by management:



- The ICT structure was recently approved, the new Minister requested a re-evaluation of the organisational structure to be align to the new mandate of DPWI. Following the re-evaluation of the organisational structure, ICT has started advertising the key positions. Furthermore, the department did not receive qualifying candidates for positions that were advertised. As a result, key vacancies within ICT remain a concern as two (2) key ICT vacancies were still not filled at the end of March 2020. If the ICT function is not fully capacitated, some ICT resources may be overloaded with more responsibilities. This may result in lack of ability by other ICT resources to perform critical ICT activities leading to an increase in the number and impact of incidents caused by unavailability of essential skills.

## Financial and performance management

### Proper record keeping

72. The trading entity has not yet fully implemented the new record management system. We experienced significant delays and limitations where supporting documentation were provided late, especially with respect to the regional audit. In certain instances, we noted that management did not adequately review the immovable assets register (IAR) to ensure that inputs are reasonable and deemed cost calculations are correct.
73. Management did not properly review the details of the leases that were recorded on ARCHIBUS, as a result significant differences were identified on the lease disclosed in the annual financial statements and the details of the lease as per the lease contract. This was exacerbated by the fact that lease information is decentralised, and regional officials did not take ownership of ensuring that latest available information is utilised when capturing on the system.

### Daily and monthly processing and reconciling of transactions

74. Management did not fully implement the daily and monthly reconciliation as duplicates of transactions were identified in provisions, accruals and immovable assets register (IAR). 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.
75. The implementation of a new computerised leases system in September 2019 resulted in numerous errors in operating leases. The amounts disclosed did not agree in certain instances with information per the signed lease agreements. As of the date of this auditor's report, management was still in the process of rectifying the system deficiencies and correcting the errors.
76. Overpayments made to landlords in terms of private leased properties continued in the current 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 continued to occur.

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

77. The reported achievements for predetermined objectives included in the annual performance report (APR) were not supported by appropriate audit evidence. We also noted that the manner in which the entity had planned to calculate the achievement for Programme 3:



Indicator 3.8 Percentage reduction of infrastructure projects backlog was not aligned to the description of the indicator as well as what the indicator aims to achieve. 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.

78. 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 fact that the supporting schedules to the annual financial statement submitted by management did not agree to the information disclosed on the AFS as a results, management had to resubmit the information. We have also identified completeness issues where capital projects were not included on the AUC register.

### Compliance monitoring

79. 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. Findings raised in procurement and contract management were similar to the issues raised in the prior year in certain instances. This indicates a lack of consequence management by leadership.
80. Internal controls in relation to expenditure management have not been adequately implemented which resulted in the entity failing to have effective and appropriate steps to prevent irregular, fruitless and wasteful expenditure. In certain instances, we identified that payments were made in advance despite the fact that such advance payments were not required by contract. In other instances, invoices were not paid within 30 days.

### Information technology systems

81. IT controls pertaining to service continuity, security management, user access management and change control management were not effectively designed and implemented due to the following key internal control deficiencies:
- As previously reported, the following deficiencies were noted with regard to the management and implementation of IT Service Continuity/ Disaster Recovery processes at the department:
    - Although Disaster Recovery Plan (DRP) was developed and approved, it was noted that the DRP was not tested in the financial year under review.
    - There was no formal backup policy and procedure.
    - There was no performance of periodic restoration of backups.
    - These matters were reported in 2018-19 financial year.
  - Without a comprehensively documented, tested and regularly updated Disaster Recovery and Business Continuity Plan, it might not be possible to recover the key business operations, critical systems, applications, their supporting infrastructure or



networking capability in the correct sequence and time, to ensure that the department's business operations could be sufficiently resumed at an alternative processing site without considerable loss to its financial well-being and negative impact of service delivery should a disaster occur.

- The following security management processes weaknesses were noted:
  - The ICT Security Policy was still in draft format;
  - There was no process in place to review the activity logs on active directory for security significant events;
  - Furthermore, the password security settings to the Archibus, EPWP, PMIS and SAGE systems were not in line with the department's ICT security policy.

Without an approved ICT security policy, the organisation might not be able to adequately and effectively support the overall objective of the organisation in terms of security. Furthermore, security breaches and incidents may not be timely detected, which may affect the confidentiality, integrity and availability of the systems.

- The Consolidated Information and Communication Technology Policy included user access management and it was noted that the policy does not explicitly indicate the systems and/or applications that are covered by the policy. Furthermore, as previously reported in 2018/19 it was noted that the current policy was still in draft and does not provide adequate guidance on the process to follow when performing the below user access management activities:
  - User account termination.
  - User transfer requests.
  - Monitoring of system controller actions on application security level (creation of IDs, user ID maintenance, allocating functions to users etc.)
  - Periodic reviews of access and logon violation
- Inadequate implementation of user access management controls around EPWP, Reapatala, Persal, GIS, SAGE, PMIS, WCS, Archibus and WORX4U. The following deficiencies were noted with regards to the administration of user access controls on the above DPW & PMTE systems:
  - Evidence of review performed to monitor user's access rights was not adequate as it did not entail users access, furthermore there was no evidence indicating that the report/list was reviewed to ensure that the functions allocated to the users commensurate with their job responsibilities.
  - Evidence of review performed to monitor activities performed system was not adequate as the audit logs did not detail activities performed by system controller such as user creation, user ID maintenance, allocation of functions, password resetting and termination of user accounts, furthermore there was no evidence indicating the logs were reviewed.

Inadequate user account management processes could lead to unauthorised access to the system, which could result in potential system breaches and therefore compromising the integrity of data.



- The ICT policy governing change management and access to Reapatala and EPWP applications was still in draft since August 2018, and does not provide adequate guidance on the process to be followed when:
  - Performing change management activities;
  - Migration of changes to production
  - Development of changes requested
  - Testing of changes (QA and user acceptance test); and
  - Implementation of changes.

Without adequate program change management policy, there might not be a process which provides a managed and orderly method in which changes to the information technology environment are requested, tested and approved prior to installation or implementation.

## Governance

### Risk management activities and risk strategy

82. We have noted that investigations relating to corruption and contravention with SCM regulations were conducted and completed and the unit made recommendations on those completed cases including disciplinary action to be taken against officials.
83. Some of the cases relating to corruption were referred to special investigation unit due to its complexity and management is still waiting for outcomes of those cases. Where follow up actions are required from the entity as a result of findings from investigations (e.g. disciplinary hearings, etc.), these are not taking place on time in some instances. In addition, we have noted that leadership has been slow to implement some of the recommendations in these reports, especially in relation to holding people accountable for causing the entity to incur irregular, and fruitless and wasteful expenditure. Inadequate consequence management increases the likelihood of similar transgressions recurring, and the entity not receiving value for the high costs incurred in conducting these investigations.

### Internal audit

84. While it was noted that internal audit performed a number of audits throughout the financial period, we have placed reliance of their report during interim audit to assess progress made on performance information implementation plan to address prior year findings and it is clear that internal audit does provide assurance to the trading entity. In our review of internal audit reports, we noted that in some instances, concerns were raised by internal audit relating to managements' efforts in place to improve control weaknesses through the implementation of agreed audit action plans. The action plans developed have not been fully implemented.
85. Many of the findings raised on the work performed on performance information related to limitation of scope, with management providing information to internal audit late, or not providing information at all. In other instances, management responses to the issues raised were not adequate to resolve the matters identified. While senior management has a responsibility to design and implement preventative controls, internal audit function can also play a fundamental role in identifying areas of vulnerability where there are no preventative controls or where such require improvement and report such to enable oversight responsibility by other role players such as the audit committee and the accounting officer.

## Audit committee

86. New members have been appointed to the audit committee after the term of the previous members expired mid-way through the 2019/20 financial year. Regardless, the audit committee has consistently reported concerns with the number of control issues raised by Internal Audit and the Auditor General.
87. The previous members concurred at the end of the previous financial year that there were inadequate control processes and procedures, by design and implementation, to ensure the accuracy and completeness of the financial statements and performance information.
88. The audit committee is currently effectively involved from a governance perspective in the oversight of the department, however improvements in outcomes can only follow from effective implementation of action plans by management. It is thus recommended that the implementation of the action plan monitoring responsibility and oversight is part of the key priorities that also aim to hold management accountable where the audit committee responsibilities are not addressed.
89. The Chairperson of the Audit Committee should meet and give regular feedback to the Minister of Public Works and Infrastructure.

## Summary

90. The matters above, as they relate to the basis for the qualified opinion, findings on the performance report, financial statement and compliance with legislation, will be summarised in the auditor's report as follows:
91. The entity does not have adequate and sufficiently skilled resources in place, as a significant number of positions were still vacant at the financial accounting division.
92. Leadership did not in some instances exercise oversight to ensure effective implementation of the audit action plans. The action plans aimed to address issues of immovable assets were partly adequate in resolving prior year findings. An improvement was noted for property plant and equipment in respect to the recognition of the assets for which the entity didn't retain proof of ownership, which resulted in that portion of the prior period qualification being resolved. However, while we noted a decrease in the amount of material misstatement with respect to the extents of the properties being valued in the current year compared to the prior year, the remaining misstatements on valuation of immovable assets remained material.
93. Financial statements items such as operating lease and operating lease revenue have regressed in the current year; such regression was due to the entity not having adequate and sufficiently skilled resources in place to review the financial information prior to submission for audit, as significant number of positions were still vacant at the financial finance division. Some senior management positions were filled by acting incumbents quite late in process and very close to financial year end which further made the financial statement preparation more susceptible to errors. In prior periods, the Finance Unit has been dependent on a number of contracted staff resources who played a key role in the preparation and review of annual financial statements.
94. Management did not properly review the details of the leases that were recorded on the new computerised lease system, which resulted in significant differences between the amounts



disclosed in the annual financial statements and the information per lease agreements. Lack of full implementation of the financial accounting system has resulted in the process of preparing financial statements being lengthy. As a result, the entity failed to produce credible financial reporting to enable leadership to review and take appropriate and timeous corrective action where required.

95. The review and monitoring of compliance with applicable laws and regulations by management were ineffective in certain instances, resulting in irregular expenditure being incurred by the entity.

## OTHER REPORTS

96. We draw attention to the following engagements conducted by various parties that have or could potentially have an impact on the trading entities' 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:
97. Numerous allegations, mainly relating to alleged transgressions with regard to supply chain management, potential fraud and financial misconduct, are still being investigated on an ongoing basis by Special Investigation Unit.

## SECTION 3: ASSURANCE PROVIDERS AND STATUS OF IMPLEMENTATION OF COMMITMENTS AND RECOMMENDATIONS

### ASSESSMENT OF ASSURANCE PROVIDERS

98. 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.
99. 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.
100. 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: provides limited assurance

- Senior management did not review and monitor compliance with applicable laws and regulations it is evidence by findings raised on procurement and contract management



- The controls around proper record keeping, processing and reconciling of transaction and regular still required major intervention, to ensure that overpayment on leases and duplicates of accruals does not continue even in the following financial year.
- Senior management should enhance the review process of annual financial statement and annual performance report before submission for audit purposes so that they do not have repetitive findings.

#### Accounting officer provides limited assurance

- The accounting officer was placed on suspension pending the outcome of a disciplinary process due to findings made against him in the investigations conducted by SIU, Public Service Commission as well as the department's internal investigations into state funerals.

#### Executive authority provides some assurance

- The executive authority has been receptive to recommendations from the auditors during engagements held with respect to enhancing preventative controls as well as on implementation of amendments to Public Audit Act.
- The executive authority had initiated the investigation into the construction of a fence at Beitbridge border post in response to COVID-19, due to possible irregularities in the procurement process. It will be critical that all recommendations of the Beitbridge investigation report are implemented timeously.

#### Internal audit: provides assurance

- Legislation in South Africa requires the establishment, roles and responsibilities of internal audit units. Internal audit unit forms part of the internal control and governance structures of the entity and play an important role in its monitoring activities. Internal audit provides an independent assessment of the entity's governance, risk management and internal control processes.
- The internal audit unit of the entity must prepare a risk-based audit plan and internal audit programme for each financial year. It must advise the accounting officer and report 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 unit must also perform such other duties as may be assigned by the accounting officer.
- While we note that the quality and scope of the internal audits performed were of the required standard, 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<sup>3</sup>

101. 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	Auditors comments	Status
1	<b>Immovable Assets</b> Differences in extent of structure. <ul style="list-style-type: none"> <li><input type="checkbox"/> Ensure correct extents are recorded and reviewed during the transfer from the source data (GIS system, DOD raw data/ building conditions and wheel measurement) to the Asset Register</li> <li><input type="checkbox"/> The population with unclear imagery in the IAR will be referred for wheel measurement.</li> <li><input type="checkbox"/> Review of updates to ensure correct alignment of data.</li> <li><input type="checkbox"/> Entire population of land extents in the IAR that do not agree to the extents as per Deeds to be confirmed</li> </ul>	DDG: REIRS	Partially addressed.  >Issues relating to the extents of structure were identified during the final audit.  Issues relating to unclear images were resolved. >We didn't identify any findings relating to the unclear images in the current audit.  > An issue raised in the prior year which relates to an alignment of input of IAR to the information captured in the GIS system was resolved.  >We identified issues where the land extent as per supporting document doesn't agree to the IAR.	Partially Resolved
2	<b>Immovable Assets</b> Buildings recorded on the immovable assets register (IAR) as State domestic facility (SDF) where ownership doesn't exist. <ul style="list-style-type: none"> <li><input type="checkbox"/> Additional buildings identified via GIS shall be aligned between the additional buildings to be added and the SDF conclusion for that particular site/ facility. This is to ensure that facilities which were to be removed as per SDF feedback are not included in the IAR erroneously.</li> <li><input type="checkbox"/> Confirmation of ownership of DPWI newly identified properties (from different sources such as Deeds Web, Section 42 of transfer acquisition, donation etc.). shall be obtained in the form of appropriate documents such as Title Deeds, SG Diagrams, acquisition documents, donation documents.</li> <li><input type="checkbox"/> In instances of disposals of land parcels, a verification is to be undertaken to determine whether the structures located on the land parcel belong to DPWI.</li> <li><input type="checkbox"/> The parcels that have been erroneously vested must be first physically verified to</li> </ul>	DDG: REIRS	We have noted that management were able to resolve the ownership issue raised in the prior year audit and contributed to the qualification of immovable assets. The action plans developed by the entity to address ownership were effective.  Ownership issues were identified during the final audit.	Resolved

	confirm the user department and that the parcel should be vested with DPWI.			
3	<b>Human Resource Management</b> Management of vacancy rate: <input type="checkbox"/> Implement approved organisational for PMTE and DPW (matching and placing) <input type="checkbox"/> Allocate sufficient compensation of employees; budget to fill vacant positions <input type="checkbox"/> Activate on Persal establishment the funded vacant positions for immediate advertising and filing.	DDG: CS, Ms T. Hlatshwayo	The HR plan for 2019/2020 was not approved in the current financial year  The entity is still experiencing challenges relating to vacant positions	Not resolved
4	<b>Non-compliance with SCM policies/prescripts</b> <input type="checkbox"/> Contract management – extensions/variations <input type="checkbox"/> Name of bidders not published <input type="checkbox"/> Information not submitted and contract not signed <input type="checkbox"/> Non-competitive bidding <input type="checkbox"/> Contract awarded to service provider that should have been disregarded <input type="checkbox"/> Quotations R10 000 – R500 000 Action: <input type="checkbox"/> Implement all administrative requirements as prescribed by National Treasury. Refer for investigation identified cases for appropriate action taken <input type="checkbox"/> Training of SCM officials and Bid committee members <input type="checkbox"/> Monitor and enhance existing internal controls, processes and procedures to enforce compliance	R. Naidoo (ADDG: Supply Chain Management)	We have identified instances of non-compliance with SCM laws and regulations during the current financial year. The nature of findings included: • Deviations that were not justifiable. • Incorrect procurement process followed • Possible splitting of quotations. The commitments made by management to address SCM issues did not yield fruitful results. Management should re-visit their internal controls to identify root causes for such non-compliances. The monitoring process by senior management to ensure compliance with SCM regulations should be strengthened.	Not resolved.

5	<p><b>Pre-determine objectives</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Differences between the annual performance report and supporting listings:</li> <li><input type="checkbox"/> Actual achievements not valid and accurate</li> <li><input type="checkbox"/> No supporting documentation for reported information</li> <li><input type="checkbox"/> WORX4U system</li> <li><input type="checkbox"/> Inadequate closure of calls</li> </ul> <p>Actions</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Identify and train Admin Officers who will assist in the preparation of quarterly performance reports (APP).</li> <li><input type="checkbox"/> Line functions at head office to engage Regional Office to ensure that the information reported information is accurate.</li> <li><input type="checkbox"/> Monthly meetings will continue to address the issue of document management to ensure that the issue of scope limitations is minimised</li> <li><input type="checkbox"/> Review of performance information to ensure correct alignment of supporting documentation</li> </ul>	<p>DDG: REMS</p> <p>DDG: CPM</p> <p>D DG:FM</p>	<p>No audit work was performed under Programme 04: Real Estate Management Services due to the reduction in scope of work.</p> <p>Programme 03: Construction project management</p> <p>During the final audit accuracy and validity issues were identified, furthermore differences between the annual performance report and supporting listings were still identified for programme 3 indicators therefore management commitments were not fully implemented</p> <p>No audit work was performed under Programme 04: Real Estate Management Services due to the reduction in scope of work.</p>	<p>Partially addressed</p>
6	<p><b>Operating Leases</b></p> <p>Overpayments and Underpayments of leases</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Archibus will be implemented on 1 September 2019. The calculations for straight-lining commitments etc. will be performed by Archibus as the source to the AFS.</li> <li><input type="checkbox"/> Prevent future overpayments by monitoring the successful implementation of Archibus.</li> </ul>	<p>M. Sithole (Chief Financial Officer)</p>	<p>Management have indicated that private leases have been paid using Archibus.</p> <p>Overpayments have been identified during the current financial year. This indicate that the implementation of Archibus has not resolved the overpayment issue raised in the prior years.</p>	<p>Not resolved</p>
7	<p><b>Non-compliance with PFMA on submission of financial statements</b></p>	<p>M. Sithole (Chief Financial Officer)</p>	<p>The financial statement and supporting information were</p>	<p>Resolved</p>

<input type="checkbox"/> Develop a project plan and communicate to regions and line functions. <input type="checkbox"/> Weekly monitoring of progress of specified tasks assigned to officials. <input type="checkbox"/> Provide training to regions and Head Office on Financial Statement aspect <input type="checkbox"/> Compile the 2019/2020 Financial Procedures document <input type="checkbox"/> Submit letters to Branch Heads and Regional Managers in relation to deadlines		submitted on the agreed time	
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- One audit recommendation accepted by management in the prior year on matters included in the auditor's report and other important matters were implemented, or alternative actions were taken to resolve the finding.
- Six recommendations are still being implemented and five have not been addressed, or very limited progress has been made.
- Details on the status of implementing the recommendations made in the previous year(s) are provided in section 10, which summarises the detailed audit findings.

## SECTION 4: SPECIFIC FOCUS AREAS

### FINANCIAL VIABILITY

102. 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 2020	AS AT 31 MARCH 2019
EXPENDITURE MANAGEMENT			
1.1	Creditor payment period	111 Days	106 Days
REVENUE MANAGEMENT			
2.1	Debtor-collection period (after impairment)	94 Days	116 Days



FINANCIAL VIABILITY ASSESSMENT			
		AS AT 31 MARCH 2020	AS AT 31 MARCH 2019
2.2	Debtors' impairment provision as a percentage of accounts receivable	28 %	16 %
	• Amount of debtors' impairment provision	R1 535 509 000	R740 734 000
	• Amount of accounts receivable	R5 419 917 000	R4 685 874 000
ASSET AND LIABILITY MANAGEMENT			
3.1	A deficit for the year was realised (total expenditure exceeded total revenue)	No	No
	• Amount of the surplus/(deficit) for the year	R2 372 075 000	R1 390 456 000
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	(R9 130 140 000)	(R11 239 944 000)
3.3	A net liability position was realised (total liabilities exceeded total assets)	No	No
	• Amount of the net asset/(liability) position	R145 730 654 000*	R146 475 279 000*
CASH MANAGEMENT			
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 572 780 000)	(R2 677 329 000)
4.2	Net cash flows for the year from operating activities were negative	No	No
	• Amount of net cash in/(out)flows for the year from operating activities	R3 075 337 000	R2 886 103 000
4.3	Creditors as a percentage of cash and cash equivalents	Bank in overdraft	Bank in overdraft
	• Amount of creditors (accounts payable)	R3 340 152 000	R2 912 667 000
	• Amount of cash and cash equivalents / (bank overdraft) at year-end	R2 572 780 000	R2 677 329 000
OVERALL ASSESSMENT			
Overall the financial viability is assessed as:		Red (Unfavourable – Intervention required)	Red (Unfavourable – Intervention required)
* These amounts 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

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

- Although the entity recorded a surplus for the year, key financial indicators are negative.





- Debtors' impairment provision doubled from the prior year, this is an indication that management are not able to collect debtors as they become due.
- The net current liability position has decreased compared to the prior year, this is mainly contributed by a decrease in deferred revenue. Days taken by the trading entity to pay its creditors has slightly increased compared to the prior year but still high.
- Although the overdraft facility has slightly decreased in the current year, management has entered into agreements with implementing agents which require significant upfront payments. As at 31 March 2020, prepayments in excess of R865 million were recognised. The above factors have negatively impacted the overdraft facility as at year end.

## PROCUREMENT AND CONTRACT MANAGEMENT

104. 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

105. R48 300 303 (75%) 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 R2 269 215 250 was also identified in the current year. 100% (100% in the prior year) of this irregular expenditure was identified during the audit process and not detected by the trading entity's monitoring processes. The root cause(s) 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

106. 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 the 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.
107. The findings were as follows (Include details on awards and interests identified as per the table below. Include all interests identified per CAATs reports, excluding false exceptions, even if no finding was raised):<sup>4</sup>

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 was involved in awarding the contract/quotation

Awards made to business partners and associates of officials of the trading entity	6 R352 723 599	1 Director: Facilities Management	6	0	0	0	0
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## Procurement processes

108. 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>	106	2 422 286 141	62	19 860 822	43	2 402 425 319
<b>Expenditure incurred on selected awards – current year</b>		1 165 774 611		15 599 729		1 150 174 881
<b>Limitations – awards selected but could not be tested</b>	0	0	0	0	0	0
<b>Awards on which non-compliance was identified</b>	15	362 626 014	7	2 545 582	8	360 080 432
<b>Irregular expenditure identified</b>	13	64 012 915	7	2 545 582	6	61 467 333
<b>Instances of irregular expenditure where goods/services were not received</b>	0	0	0	0	0	0

## Procurement processes – general

- Five awards with a value of R2 353 696 were procured without inviting at least the minimum prescribed number of written price quotations from prospective suppliers, and the deviation was approved even though it was possible to obtain the quotations.
- One contract to the value of R16 115 607 was procured from a supplier whose tax matters had not been declared by the South African Revenue Service to be in order.
- One contract with a value of R1 497 470 was procured without inviting competitive bids, and the deviations were approved even though it was practical to invite competitive bids.
- One quotation with a value of R191 886 was awarded to a bidder who did not comply with specified pre-qualification criteria requirement.
- Two contracts which failed to achieve the minimum qualifying score for functionality criteria were not disqualified as unacceptable.

## Construction contracts

- One construction contract with a total value of R49 930 723 was awarded to a contractor whose CIDB grading was below the required grading for the value of the particular contract.



## Contract management

- The contract performance and monitoring measures and methods applied in monitoring three contract with a total value of R210 537 756 was insufficient to ensure effective contract management.

## Internal control deficiencies

109. The accounting officer did not in some instances exercise oversight responsibility of the reporting and compliance with laws and regulations.
110. Reviewing and monitoring of compliance with relevant laws and regulations was insufficient and not properly monitored in some instances.

## FRAUD AND CONSEQUENCE MANAGEMENT

111. 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.
112. 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.
- Officials in high ranking positions who may take the opportunity to misuse their authority
113. The PFMA and its regulations clearly stipulate that matters such as incurring 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:

## Measures to manage consequences

114. The following measures were not implemented to ensure that the environment is conducive to effective consequence management:
- There was a lack of proper record keeping to ensure that complete, relevant and accurate information is accessible and available to support the processes followed for financial misconduct/transgressions committed by officials and suppliers of the auditee.

## Ongoing investigations

115. A total of 20 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	20
• Number of SCM-related investigations	9



• Number of fraud-related investigations	1
Number of investigations exceeding a period of six months	15

### Transgressions reported to management for investigation

116. 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.
117. The table below provides a summary of the transgressions reported in the 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	0	0	0	1	122 351 640
Other improper conduct in SCM by suppliers	2	2	2	3	880 927
<b>B: Improper conduct in SCM by officials/role players</b>					
Payments made to fictitious suppliers	0	0	0	1	unquantifiable
Other improper conduct in SCM by officials or SCM role players	5	5	5	3	231 245 720
<b>C: Financial misconduct</b>					
Other financial misconduct-related allegation	0	0	0	8	255 919 941
<b>D: Other fraud / corruption allegations (not included above)</b>					
(Add other possible fraud)	9	9	9	3	unquantifiable

118. Fruitless and wasteful expenditure disclosed in note 31 to the financial statements must be investigated to determine whether any official is liable for losses incurred as a result of the fruitless and wasteful expenditure. Disciplinary steps must be taken against officials who caused or permitted the fruitless and wasteful expenditure, and losses incurred as a result must be recovered from the person liable.<sup>5</sup>
119. Irregular expenditure disclosed in note 32 to the financial statements must be investigated to determine whether any official is liable for losses incurred as a result of the irregular expenditure. Disciplinary steps must be taken against officials who caused or permitted the irregular expenditure, and losses incurred as a result must be recovered from the person liable.

## SECTION 5. USING THE WORK OF INTERNAL AUDIT

120. The auditing standards allow external auditors the optional use of the work of internal auditors 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 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.

## SECTION 6: EMERGING RISKS

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

#### New pronouncements

#### Standards of GRAP

GRAP pronouncement	Effective date
GRAP 20 on <i>Related-party disclosures</i>	1 Apr 2021
GRAP 38 on <i>Disclosure of interests in other entities</i>	1 Apr 2020
GRAP 104 on <i>Financial instruments</i> (revised)	To be determined
GRAP 108 on <i>Statutory receivables</i>	1 Apr 2021
GRAP 109 on <i>Accounting by principals and agents</i>	1 Apr 2021
GRAP 110 on <i>Living and non-living resources</i>	1 Apr 2021
IGRAP 20 on <i>Accounting for adjustments to revenue</i>	1 Apr 2020
Guideline on <i>The application of materiality to financial statements</i>	Voluntary*

#### Subsequent events

121. In terms of the regulations and as confirmed by the Minister in the media release on 29 May 2020, the Department of Public Works and Infrastructure's (DPWI) role is to identify and make quarantine sites available to the Department of Health. The cost cannot be quantified at this stage, as the number of sites to be provided will vary based on escalating infections in the country.

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

122. The planned and reported performance information of selected programmes 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
  - customised indicators related to the core functions prioritised for the year under review are included in planning documents (provincial departments only).

123. 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.

124. No material findings were identified in respect of the additional criteria.

## SECTION 8: RATINGS OF DETAILED AUDIT FINDINGS

125. For 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

126. 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 remain committed to assist 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  
20 October 2020

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### **Distribution:**

Audit committee  
Head of internal audit unit  
Executive authority



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