

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

Report on the audit of the financial statements

Adverse opinion

1. I have audited the financial statements of the Property Management Trading Entity set out on pages ... to ..., which comprise the statement of financial position as at 31 March 2017, the statement of financial performance and other comprehensive income, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, because of the significance of the matters described in the basis for adverse opinion section of my report, the financial statements do not present fairly, in all material respects, the financial position of the Property Management Trading Entity as at 31 March 2017, its financial performance and its cash flows for the year then ended in accordance with Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA).

Basis for adverse opinion

Property, plant and equipment

3. The trading entity did not correctly measure deemed costs for property, plant and equipment recognised in accordance with GRAP 17: *Property, plant and equipment* read in conjunction with GRAP directive 7: *The application of deemed cost*. The entity incorrectly utilised the source data in determining the deemed costs of the properties being measured. The entity also incorrectly recognised expenditure as additions to property, plant and equipment. Furthermore, the useful lives utilised in calculating depreciation were not reflective of the actual condition of the assets being depreciated. Consequently, there was an impact on the following items in the financial statements:
 - Property, plant and equipment was overstated by R26 361 644 474 (2016: R23 331 552 021).
 - Depreciation, amortisation and impairments on assets was understated by R2 406 789 457.
 - Loss on disposal/transfer of assets was understated by R263 663 433.
 - Property maintenance (contracted services) expenditure was understated by R359 639 563.
 - Additionally, there was a resultant impact on the surplus for the period and on the accumulated surplus.

Payables from exchange transactions

4. I was unable to obtain sufficient appropriate audit evidence regarding the outstanding amounts meeting the definition of a liability in accordance with GRAP 1: *Presentation of financial statements*, as the entity did not have adequate systems to maintain records of accruals for goods and services received but not yet paid for. I was unable to confirm these amounts by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the following items in the financial statements:
- Accrued expenses - assets of R401 191 000 (2016: R252 819 000) included in payables from exchange transactions stated at R3 368 380 000 (2016: 2 827 220 000) in note 12.
 - Accrued expenses - schedule maintenance of R221 144 000 (2016: R109 704 000) included in payables from exchange transactions stated at R3 368 380 000 (2016: 2 827 220 000) in note 12.

Receivables from exchange transactions

5. I was unable to obtain sufficient appropriate audit evidence regarding the outstanding amounts meeting the definition of revenue accrual in accordance with GRAP 1: *Presentation of financial statements*, due to the relationship between accrued expenses and revenue accrual. The outstanding amounts for the goods and services received, for which I was unable to obtain sufficient appropriate audit evidence, were recoverable from client departments. I was unable to confirm these amounts by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to revenue accrual of R1 986 446 000 (2016: R1 539 672 000) included in receivables from exchange transactions stated at R4 618 039 000 (2016: R3 784 046 000) in note 3 to the financial statements.

Provisions

6. I was unable to obtain sufficient appropriate audit evidence that the unscheduled maintenance provision for the year under review had been properly accounted for, due to the status of the accounting records. I was unable to confirm the unscheduled maintenance provision by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the unscheduled maintenance provision of R511 407 000 included in provisions and stated at R1 474 670 000 in note 16 to the financial statements.
7. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of my report.

8. I am independent of the trading entity in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
9. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my adverse opinion.

Emphasis of matters

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

Going concern

11. Note 1.25 to the financial statements indicates that as of 31 March 2017, the Property Management Trading Entity had a bank overdraft of R1,9 billion (2016: R1,5 billion) and the current liabilities exceeded the current assets by R8,8 billion (2016: R8,2 billion).

Material impairments

12. As disclosed in note 22 to the financial statements, material impairments to the amount of R300 050 000 were provided for as a result of irrecoverable receivables from exchange transactions.

Restatement of corresponding figures

13. As disclosed in note 37 and note 38 to the financial statements, the corresponding figures for 31 March 2016 were restated. This was as a result of errors discovered during 2017 in the financial statements of the Property Management Trading Entity at, and for the year ended, 31 March 2016 as well as adjustments made to provisional amounts resulting from the transfer of functions.

Transfer of functions

14. The Department of Public Works (DPW) transferred certain property management functions, including the related assets, liabilities and staff, to the Property Management Trading Entity. The effective dates of control of the functions transferred were 18 November 2013 and 30 March 2015. The effect of these transfers is detailed in note 1.28 and note 38 to the financial statements.

Responsibilities of the accounting officer for the financial statements

15. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the PFMA and for such internal control as the accounting officer determines is necessary to

enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

16. In preparing the financial statements, the accounting officer is responsible for assessing the Property Management Trading Entity's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless there is an intention either to liquidate the trading entity or to cease operations, or there is no realistic alternative but to do so.

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

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

Report on the audit of the annual performance report

Introduction and scope

19. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected programmes presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
20. My procedures address the reported performance information, which must be based on the approved performance planning documents of the trading entity. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
21. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected programmes presented in the annual performance report of the trading entity for the year ended 31 March 2017:

Programmes	Pages in the annual performance report
Programme 3 – construction project management	x – x
Programme 4 – real estate management services	x – x
Programme 5 – real estate information and registry services	x – x
Programme 6 – facilities management	x – x

22. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
23. The material findings in respect of the usefulness and reliability of the selected programmes are as follows:

Programme 3 – construction project management

24. Number of approved infrastructure project designs

I was unable to obtain sufficient appropriate audit evidence for the reported achievement of target 300 approved infrastructure designs. This was due to limitations placed on the scope of my work. 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 achievement of 210 approved infrastructure project designs.

25. Number of approved infrastructure projects ready for tender

I was unable to obtain sufficient appropriate audit evidence for the reported achievement of the target of 406 approved infrastructure projects ready for tender. This was due to limitations placed on the scope of my work. 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 achievement of 144 approved infrastructure projects ready for tender.

26. Number of infrastructure sites handed over for construction

I was unable to obtain sufficient appropriate audit evidence for the reported achievement of the target of 216 infrastructure sites handed over for construction. This was due to imitations placed on the scope of my work. 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 achievement of 186 infrastructure sites handed over for construction.

27. Percentage of infrastructure projects completed within agreed construction period

I was unable to obtain sufficient appropriate audit evidence for the reported achievement of the target of 60% of infrastructure projects completed within agreed construction period. This was due to limitations placed on the scope of my work. 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 achievement of 57% of infrastructure projects completed within agreed construction period.

28. Percentage of infrastructure projects completed within budget

I was unable to obtain sufficient appropriate audit evidence for the reported achievement of the target of 60% of infrastructure projects completed within budget. This was due to limitations placed on the scope of my work. 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 achievement of 53% of infrastructure projects completed within budget.

29. Number of EPWP work opportunities created through construction projects

I was unable to obtain sufficient appropriate audit evidence for the reported achievement of the target of 16 500 number of work opportunities created through construction projects. This was due to limitations placed on the scope of my work. 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 achievement of 8 959 work opportunities created through construction projects.

Programme 4 – real estate management services

30. Percentage of approved list of immovable assets let out for revenue generation

The reported achievement of the target of 50% of approved list of immovable assets let out for revenue generation was misstated as the evidence provided indicated 31.25% and not 50% of approved list of immovable assets let out for revenue generation as reported.

31. Percentage of DAFF-certified Operation Phakisa Ocean Economy leasing requests processed within agreed timeframes

The reasons for variances between the planned targets were not reported in the annual performance report, as required by the *Annual report guide for national and provincial departments*.

Programme 5 - real estate information and registry services

32. Percentage of immovable assets updated on the immovable assets register for completed infrastructure projects.

The reported achievement for target of 100% of immovable assets updated on the immovable assets register for completed infrastructure projects was misstated as the evidence provided indicated 70% and not 100% of immovable assets updated on the immovable assets register for completed infrastructure projects as reported.

Programme 6 - facilities management

33. Percentage of unscheduled reported maintenance incidents resolved within prescribed timeframes

I was unable to obtain sufficient appropriate audit evidence for the reported achievement of target 70% of unscheduled reported maintenance incidents resolved within prescribed timeframes. This was due to limitations placed on the scope of my work. 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 achievement of 8% of unscheduled reported maintenance incidents resolved within prescribed timeframes.

34. Reduction in energy consumption (kilowatt hours) in identified property portfolio

I was unable to obtain sufficient appropriate audit evidence for the reported achievement of a target of 250 000 000 kWh of reduction in energy consumption. This was due to limitations placed on the scope of my work. 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 achievement of a 274 316 368.2 kWh reduction in energy consumption.

35. Reduction in water consumption (kilolitres) in identified property portfolio

The reported achievement for target 4, namely a 100 000kl reduction in water consumption for identified property portfolio was misstated as the evidence provided indicated a 3 347 496 kl and not 4 459 707 kl reduction in water consumption (kilolitres) in identified property portfolio as reported.

36. Various indicators

The reasons for variances between the planned targets were not reported in the annual performance report, as required by the *Annual report guide for national and provincial departments* for the following indicators:

- Number of buildings with scheduled maintenance contracts in place.
- Number of work opportunities created through maintenance projects.
- Reduction in energy consumption (kilowatt hours) in identified property portfolio.
- Reduction in water consumption (kilolitres) in identified property portfolio.
- Number of kilowatt hours of renewable energy generated.

Other matters

37. I draw attention to the matters below.

Achievement of planned targets

38. Refer to the annual performance report on pages 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 number of targets.

Adjustment of material misstatements

39. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of programme 4 - real estate management services. As management subsequently corrected only some of the misstatements, I reported material findings on the usefulness and reliability of the reported performance information.

Report on audit of compliance with legislation

Introduction and scope

40. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the trading entity with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
41. The material findings in respect of the compliance criteria for the applicable subject matters are as follows:

Annual financial statements

42. 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.
43. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework in certain instances, and were not 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, which resulted in the financial statements receiving an adverse audit opinion.

Procurement and contract management

44. Contracts were extended or modified in certain instances without the approval of a properly delegated official as required by treasury regulation 8.1 and 8.2. / section 44 of the PFMA.
45. Measures for combating the abuse of the supply chain management (SCM) system were not implemented in certain instances as required by Treasury Regulations 16A9.1 in that awards were made to providers who committed a corrupt or fraudulent act in competing for the contract.

Consequence management

46. Disciplinary hearings were not held in certain instances for confirmed cases of financial misconduct committed by officials, as required by treasury regulation 4.1.1.

Expenditure management

47. Effective steps were not taken to prevent irregular expenditure, as required by section 38(1)(c)(ii) of the Public Finance Management Act and treasury regulation 9.1.1
48. Money owed by the trading entity were not settled within 30 days, as required by section 38(1)(f) of the PFMA and treasury regulation 8.2.3.
49. Payments were made in advance of the receipt of goods or services in certain instances, in contravention of treasury regulation 15.10.1.2.

Revenue management

50. Effective and appropriate steps were not taken to collect all money due, as required by section 38(1)(c)(i) of the PFMA and treasury regulations 11.2.1, 15.10.1.2(a) and 15.10.1.2(e).

Other information

51. The Property Management Trading Entity's accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report thereon and those selected programmes presented in the annual performance report that have been specifically reported on in the auditor's report.
52. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
53. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected programmes presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work I have performed on the other information obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Internal control deficiencies

54. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for

adverse opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

- 55. Leadership did not in all instances exercise effective oversight of the effective implementation of audit action plans resulting in a regression in audit outcome.
- 56. Leadership did not institute effective measures to ensure that the issue of incorrect payments being made to suppliers in respect of private leases was adequately resolved.

Financial and performance management

- 57. 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.
- 58. Regular, accurate and complete financial and performance reports supported by reliable information were not prepared throughout the financial year.
- 59. The review and monitoring of compliance with applicable laws and regulations were ineffective in certain instances.

Governance

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

Other reports

- 61. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the trading entity's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

Investigations

62. 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 and the Governance, Risk and Compliance unit of the department.

Auditor-General

Pretoria

22 September 2017



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general's responsibility for the audit

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

Financial statements

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

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and here applicable, related safeguards.