**DETAILED AUDIT FINDINGS**

**Irregular Expenditure**

1. **Irregular Expenditure - Completeness of irregular expenditure cannot be confirmed.** **EX62**

**Audit Finding**

Laws, rules and legislation:

a) Public Finance Management Act sections 40 and 41 states the following:

1. section 40(1)

*“The accounting officer for a department, trading entity or constitutional institution-*

*(a) must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;”*

1. section 41

*“An accounting officer for a department, trading entity or constitutional institution must submit to the relevant treasury or the Auditor-General, such information, returns, documents, explanations and motivations as may be prescribed or as the relevant treasury or the Auditor-General may require”*

b) Treasury Regulations 17.2.1 states:

*“Accounting officers of institutions must, subject to the provisions of the relevant national or provincial legislation, retain all financial information in its original form, as follows-*

1. *information relating to one financial year – for one year after the audit report for the financial year in question has been tabled in Parliament or the provincial legislature; or*
2. *information relating to more than one financial year – for one after the date of the audit report for the last of the financial years to which the information relates.”*

The following matters pertaining to the completeness of irregular expenditure of prior years were noted:

During the 2009-10 and the 2010-2011 financial year’s sufficient appropriate audit evidence to determine the completeness of irregular expenditure could not be obtained.

In the audit conclusion meeting with the department of 21 September 2011 it was confirmed that the department has to go through the populations of the 2009-10 and 2010-2011 financial years to identify other irregular expenditure that were not disclosed in the financial statements. The department was advised to get internal audit involved in the aforementioned. The department was also requested to inform the auditors once the process was completed so that the team can audit the completeness of irregular expenditure pertaining to the prior years.

The information listed in the paragraphs below, pertaining to the aforementioned, was requested with RFI 63 on 7 February 2012 and was due on 9 February 2012. As at 13 February 2012, the information has not yet been provided.

1. The status with regard to the review of prior year’s population of procurement to confirm the completeness of irregular expenditure. Thus how much of the 2009-10 and 2010-2011’s population were tested to date. Indication of the remaining populations per region that still need to be investigated.
2. When it is planned that the process will be completed.
3. Who is responsible for the review? A list of the officials name, entity (if for example a consultant or audit firm), the indication of the region, indication if a report has been issued.
4. A list of all reports issued pertaining to the follow up of prior year irregular expenditure.
5. A list of all irregular expenditure condoned in the current financial year. The latter should contain the supporting documentation as evidence thereof.

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The aforementioned findings may result in:

Up until the point that the process is completed by the department and the audit team was granted the opportunity to audit the completeness of irregular expenditure of the 2009-10 and 2010-2011 financial years again, we will not be able to confirm the completeness of irregular expenditure as disclosed in the disclosure notes of the financial statements pertaining to prior years.

Reason for the deviation:

The department is still acquiring the information.

**Internal control deficiency**

Financial and performance management

*Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting*

**Recommendation**

1. It is recommended that all information requested be provided to the AGSA within three days from the date of request.
2. The processes and methodology followed to arrive at the conclusions reached in the reports requested in paragraph (d) should also be provided.

**Management response**

1. The department agrees with the audit finding. The department has started with the process of reviewing all payments processed during financial years 2009/10 to 2011/12. Due to the urgency of the project and limited financial resources, the department has solicited officials from Finance and Supply Chain Management units to run with the process.
2. It is anticipated that the process will be completed by 31 May 2012 and will be submitted together with the annual financial statements for the year ended 31 March 2012.
3. The project is run by Director: Inspectorate & Compliance from head office and each head of Finance and Supply Chain Management serves as project manager for their respective regional office. The overall project manager however remains Director: Inspectorate & Compliance.

*Name:* Lesetja Toona

*Position: Director Inspectorate & Compliance*

*Date: 30/04/2012*

**Auditor’s conclusion**

Management agrees with the findings. As the populations were not assessed the completeness of irregular expenditure pertaining to the 2009-2010 and 2010-2011 financial years could not be confirmed.

1. **Irregular Expenditure** 

**Audit Finding**

Laws, rules and legislation:

1. Public Finance Management Act sections 40 and 41 state the following:
2. section 40(1) states:

*“The accounting officer for a department, trading entity or constitutional institution-*

*(a) must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;”*

1. section 41 states:

*“An accounting officer for a department, trading entity or constitutional institution must submit to the relevant treasury or the Auditor-General, such information, returns, documents, explanations and motivations as may be prescribed or as the relevant treasury or the Auditor-General may require”*

1. Treasury Regulations:
2. 17.2.1 states:

*“Accounting officers of institutions must, subject to the provisions of the relevant national or provincial legislation, retain all financial information in its original form, as follows-*

1. *information relating to one financial year – for one year after the audit report for the financial year in question has been tabled in Parliament or the provincial legislature; or*
2. *information relating to more than one financial year – for one after the date of the audit report for the last of the financial years to which the information relates.”*
3. 9.1.1 states:

*“The accounting officer of an institution must exercise all reasonable care to prevent and detect unauthorised, irregular, fruitless and wasteful expenditure, and must for this purpose implement effective, efficient and transparent processes of financial and risk management.”*

1. 9.1.2 states:

*“When an official of an institution discovers unauthorised, irregular or fruitless and wasteful expenditure, that official must immediately report such expenditure to the accounting officer. In the case of a department, such expenditure must also be reported in the monthly report, as required by section 40 (4) (b) of the Act. Irregular expenditure incurred by a department in contravention of tender procedures must also be brought to the notice of the relevant tender board or procurement authority, whichever is applicable.”*

1. 9.1.3 states:

*“When an accounting officer determines the appropriateness of disciplinary steps against an official in terms of section 38 (1) (g) of the Act, the accounting officer must take into account—*

*(a) the circumstances of the transgression;*

*(b) the extent of the expenditure involved; and*

*(c) the nature and seriousness of the transgression.”*

1. 9.1.4 states:

*“The recovery of losses or damages resulting from unauthorised, irregular or fruitless and wasteful expenditure must be dealt with in accordance with* [*regulation 12*](http://agintranet/nxt/gateway.dll/jilc/kilc/xjsg/lwsg/pwsg/j2ri/k2ri/w2ri?f=templates$fn=document-frameset.htm#0)*.”*

1. 4.1.1 states:

*“If an official is alleged to have committed financial misconduct, the accounting officer of the institution must ensure that an investigation is conducted into the matter and if confirmed, must ensure that a disciplinary hearing is held in accordance with the relevant prescripts and agreements applicable in the public service.”*

1. 4.1.2  State that:

*“The accounting officer must ensure that such an investigation is instituted within 30 days from the date of discovery of the alleged financial misconduct.”*

1. Practice Note 4 of 2008/2009 paragraph 2.2 states:

*“As part of the enclosed procedures, provision is made for accounting officer and accounting authorities to forward submissions to the National Treasury or the relevant authority to request condonation for non – compliance with the PFMA or other legislation respectively. In this regard, it must be emphasised that the aforementioned submission must contain detailed motivation as to why the irregular expenditure in question should be considered for condonations as well as steps taken to avoid the reoccurrence of this type of irregular expenditure.”*

1. Departmental Irregular Expenditure Management Policy paragraph 9.2 and 13.2 state that:

“*9.2 Any other irregular expenditure incurred by the department must be condoned by the accounting officer or delegated authority and reported to the national treasury*

*13.2 Approval for ex-post facto/condonation limit:*

*Central loss committee = R1 to R500 000.00*

*Chief Financial Officer = R500 000.00 to R1 mil*

*Accounting Officer = >R1 mil”*

The following information relates to the request for information:

1. The irregular expenditure transactions listed in the table below were condoned as at 31 March 2012 by the department; however no supporting documentation was provided evidencing that investigations were conducted, the necessary steps were taken by the accounting officer or action plans drafted and implemented to avoid non occurrence of the irregular expenditure as required by TR 4.1.1. In some cases the department merely used the management response provided on the audit findings raised as reasons for condoning the expenditure.

We therefore could not determine if the matter was investigated within 30 days from the date of identification by the Office of the Auditor General or the department or for that matter whether any investigation was performed at all.

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| **SERVICE PROVIDER** | **PAYMENT NUMBER** | **DATE OF IDENTIFICATION** | **YEAR-END** | **DIFFERENCE** | **R** |
| INTER WASTE (PTY) LTD | OR-050611 | 14 July 2011 | 31 March 2012 | 261 | 1 173 000,00 |
| MOILA BUSINESS ENTERPRISE | PM-130226 | 29 June 2011 | 31 March 2012 | 276 | 287 286 84 |
| MTKR MARKETING AND COMMUNICATION | PM-122474 | 31 March 2010 | 31 March 2012 | 731 | 61 560,00 |
| CTR MARKETING | 000091763 AP | 31 March 2010 | 31 March 2012 | 731 | 192 995,00 |
| S A D C ADVERTISING | 000090112 AP | 31 March 2010 | 31 March 2012 | 731 | 267 894,30 |
| ULTIMATE RECRUITMENT SOLUTION | PM-115539 | 31 March 2010 | 31 Mar0ch 2012 | 731 | 197 844,72 |
| REYGAN PUBLICATIONS | PM-115532 | 31 March 2010 | 31 March 2012 | 731 | 38 304,00 |
| PETTY CASH-DPW | None | 24 March 2011 | 31 March 2012 | 373 | 120 000,00 |
| CARLAMANI CONFERENCE & EVENTS | PM-116967 | 31 March 2010 | 31 March 2012 | 731 | 114 000,00 |
| ORATUWE TRADING CC | PM-122259 | 31 March 2012 | 31 March 2012 | 731 | 207 425,99 |

1. The following irregular expenditure transactions were not condoned however again no documentation was provided indicating that the department has/is investigating the matter. Please note that more than 30 days has lapsed since the date of identification.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **SERVICE PROVIDER** | **PAYMENT NUMBER** | **DATE OF PAYMENT PER SCHEDULE** | **YEAR-END** | **DIFFERENCE** | **R** |
| MASINYONA INDUSTRIAL SUPPLIERS | PM-025491 | 13 October 2011 | 31 March 2012 | 170 | 24 851,13 |
| SHISAKA DEVELOPMENT MANA SERV | 153570 | 28 May 2011 | 31 March 2012 | 308 | 241 123,68 |
| KAREN BRAND ENTERPRISE CC T/A ARABON INVESTMENTS | PM-127508 | 31 July 2011 | 31 March 2012 | 244 | 54 000,00 |

c) The following irregular expenditure was condoned, however no condonation letter or similar document was provided indicating that the expenditure was condoned by the accounting officer or relevant authority.

|  |  |  |
| --- | --- | --- |
| **SERVICE PROVIDER** | **PAYMENT NUMBER** | **R** |
| MOILA BUSINESS ENTERPRISE | PM-130226 | 287 286,84 |
| MTKR MARKETING AND COMMUNICATION | PM-122474 | 61 560,00 |
| PETTY CASH-DPW | None | 120 000,00 |
| ORATUWE TRADING CC | PM-122259 | 207,425.99 |

d) The following expenditure was condoned by the CFO/ Acting CFO. However per the Departmental Policy: Irregular Expenditure Management Section 13.2 the CFO does not have authority to condone the expenditure above R1 000 000,00.

|  |  |  |
| --- | --- | --- |
| **SERVICE PROVIDER** | **PAYMENT NUMBER** | **AMOUNT**  **R** |
| INTER WASTE (PTY) LTD | OR-050611 | 1 173 000,00 |

e) As per RFI232 due on 12 June 2012 and Communication of audit findings 203 of 2011/12 dated 14 June 2012, it was indicated that the supplier Malekoto/Motjoadi Joint Venture tender number H08/042 amounting to R2 545 947,32 relates to PMTE, therefore irregular expenditure is overstated by R2 545 947,32.

Please note however that the PMTE irregular expenditure schedule does not disclose the above mentioned irregular expenditure, therefore the PMTE irregular expenditure is understated by R2 545 947,32. If this expenditure is recovered from DPW it should be in the irregular expenditure of DPW.

f) It was noted that the payments to Maserumule Attorney of R742 590,17 was included in the irregular expenditure disclosure note, although the expenditure was only paid in the 2012-2013 financial year – thus overstating the disclosure note with the said amount.

The finding occurred as a result of the fact that:

1. Per discussion with the DD: Inspectorate and Compliance it was noted that the department does conduct the investigation as soon as the matter was identified, however for the matters that relates to financial misconduct are handed over to internal audit to do a detailed investigation report, therefore no supporting document is applicable relating to matters that are investigated by the compliance section.
2. As per discussion with the DD: Inspectorate and Compliance it was noted that the CFO did condone the irregular expenditure however the condonation relates to a consolidated expenditure schedule rather than a single expenditure.
3. As per discussion with the DD: Inspectorate and Compliance it was noted that the CFO is the relevant official to condone the irregular expenditure.
4. As per discussion with the DD: Inspectorate and Compliance it was noted that the expenditure relates to PMTE and it will have to move to PMTE’s financial statements.

Impact of the finding:

1. In instances where no documentation was provided indicating that the department has conducted an investigation within 30 days from the date of identification, it will result in a scope limitation as we cannot confirm whether or not an investigation was conducted.
2. Non-compliance with Treasury Regulations, Public Finance Management Act, Practice Note 4 and Departmental Irregular Expenditure Management Policy.
3. Overstatement of the DPW irregular expenditure by R2 545 947,32 and understatement of the irregular expenditure of PMTE by R2 545 947,32.
4. Irregular expenditure for the current year was overstated with R742 590,17.

**Internal control deficiency**

Financial and performance management

Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting

Leadership

Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls

**Recommendation**

1. It is recommended that all information requested be provided to the AGSA within three days from the date of request.
2. Investigation for irregular expenditure should take place within 30 days of identification of the irregular expenditure.
3. All supporting documentation relating to the investigation and necessary steps taken by the accounting officer in investigating the irregular expenditure as well as action plans taken to avoid non occurrence of the irregular expenditure as required by Treasury Regulation paragraph 4.1.1 should be provided to AGSA for audit purposes.
4. All condoned expenditure should be supporting by a condonation letter and an investigation report.
5. All condonations should be performed in accordance with the Departmental Irregular Expenditure Management Policy paragraph 9.2 and 13.2.
6. Irregular expenditure should be reviewed by management before they are classified as irregular expenditure to ensure completeness, occurrence and accuracy.
7. The irregular expenditure disclosure note needs to be corrected. If management agrees with the finding then the proposed correction need to be included in management’s comment.

**Management response**

1. I am not in agreement with the finding for the following reasons

As per discussion with the AGSA Manager (Ms H Noeth), it was agreed that the Department will only respond to the financial year under review.

Therefore the following cases will be addressed in this response:

Inter waste Pty LTD – A submission is attached with supporting documentation clearly indicating how the Department arrived at the decision to condone the transaction. The matter was actually regarded as irregular while it was a deviation and was approved by the delegated authority.

Moila Business Enterprise – A submission is attached with supporting documentation clearly indicating how the Department arrived at the decision to condone the transaction. The matter should not have been regarded as irregular expenditure and the Department disagreed with the finding.

These cases were concluded on the basis of information provided. The Department always endeavors to finalise all cases of Irregular expenditure as soon as detected.

The Inspectorate and Compliance Unit has been established as soon as detected. The Inspectorate and Compliance Unit has been established to deal with such matters. There is no legislative requirement which indicates that cases of irregular expenditure must be investigated/ assessed within 30 days.

Irregular Expenditure has been included in the Departments Audit Intervention action plan. Inspectorate and Compliance conducts pre-inspection on payments before authorization in an effort to detect and prevent further occurrence of Irregular expenditure.

|  |  |  |
| --- | --- | --- |
| **DESCRIPTION** | **RESPONSE** | |
| Corrective action to be taken |  | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** |
|  |  |
| If yes, what corrections will be made to the population |  | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. |  | |
| Position of official responsible to take corrective actions |  | |
| Estimated completion date for corrective action |  | |

|  |  |  |
| --- | --- | --- |
| **DESCRIPTION** | **RESPONSE** | |
| Does management agree with the root cause indicated | **Yes** | **No** |
|  |  |
| If management does not agree with the root cause indicated, please provide the root cause according to management. | There is no legislative requirement that say irregular expenditure must be investigated within 30 days | |

*Name:* *L Toona*

*Position: Director*

*Date: 14/08/2012*

1. I am not in agreement with the finding for the following reasons [and supply the following/attached information in support of this]:

The Department assesses all cases reported as soon as practical to ensure that such cases are finalised and concluded. There is no legislative requirement which indicates that cases of irregular expenditure must be investigated/ assessed within 30 days.

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| --- | --- | --- |
| **DESCRIPTION** | **RESPONSE** | |
| Corrective action to be taken |  | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** |
|  |  |
| If yes, what corrections will be made to the population |  | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. |  | |
| Position of official responsible to take corrective actions |  | |
| Estimated completion date for corrective action |  | |

|  |  |  |
| --- | --- | --- |
| **DESCRIPTION** | **RESPONSE** | |
| Does management agree with the root cause indicated | **Yes** | **No** |
|  |  |
| If management does not agree with the root cause indicated, please provide the root cause according to management. |  | |

*Name:* *L Toona*

*Position: Director*

*Date: 14/08/2012*

1. I am not in agreement with the finding for the following reasons [and supply the following/attached information in support of this]:

The proof confirming the condonment of the irregular expenditure was submitted to the Office of the Auditor General.

Moila business enterprise – financial year under review (see attached copy)

There other three are old cases and as agreed with the Audit Manager it will not be necessary for the Department to provide a response, as they were audited in prior year.

|  |  |  |
| --- | --- | --- |
| **DESCRIPTION** | **RESPONSE** | |
| Corrective action to be taken |  | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** |
|  |  |
| If yes, what corrections will be made to the population |  | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. |  | |
| Position of official responsible to take corrective actions |  | |
| Estimated completion date for corrective action |  | |

|  |  |  |
| --- | --- | --- |
| **DESCRIPTION** | **RESPONSE** | |
| Does management agree with the root cause indicated | **Yes** | **No** |
|  |  |
| If management does not agree with the root cause indicated, please provide the root cause according to management. | Approved submission for condonment was submitted to the AG | |

*Name:* *L Toona*

*Position: Director*

*Date: 14/08/2012*

1. I am not in agreement with the finding for the following reasons [and supply the following/attached information in support of this]:

The threshold of R1 000 000 relates to individual transactions and the total amount f of R 1 173 000 is for three different payment numbers with the following order numbers:

1. 50613 amounting to R 482 000
2. 50611 amounting to R 441 000
3. 50612 amounting to R 250 000

|  |  |  |
| --- | --- | --- |
| **DESCRIPTION** | **RESPONSE** | |
| Corrective action to be taken |  | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** |
|  |  |
| If yes, what corrections will be made to the population |  | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. |  | |
| Position of official responsible to take corrective actions |  | |
| Estimated completion date for corrective action |  | |

|  |  |  |
| --- | --- | --- |
| **DESCRIPTION** | **RESPONSE** | |
| Does management agree with the root cause indicated | **Yes** | **No** |
|  |  |
| If management does not agree with the root cause indicated, please provide the root cause according to management. | Three different payment with three different order numbers | |

*Name:* *L Toona*

*Position: Director*

*Date: 14/08/2012*

1. I am not in agreement with the finding for the following reasons [and supply the following/attached information in support of this]:

The amount of R 2 545 947,32 is included in the DPW irregular expenditure schedule and not on the PMTE schedule. This matter was also confirmed by the AG that the amount relates to DPW irregular expenditure schedule.

|  |  |  |
| --- | --- | --- |
| **DESCRIPTION** | **RESPONSE** | |
| Corrective action to be taken |  | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** |
|  |  |
| If yes, what corrections will be made to the population |  | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. |  | |
| Position of official responsible to take corrective actions |  | |
| Estimated completion date for corrective action |  | |

|  |  |  |
| --- | --- | --- |
| **DESCRIPTION** | **RESPONSE** | |
| Does management agree with the root cause indicated | **Yes** | **No** |
|  |  |
| If management does not agree with the root cause indicated, please provide the root cause according to management. | The amount is disclosed correctly in the DPW schedule | |

*Name:* *L Toona*

*Position: Director*

*Date: 14/08/2012*

1. I am in agreement with the finding for the following reasons [and supply the following/attached information in support of this]:

The amounts were disclosed in March 2012 during the pre-inspection of payments before they were authorized on the system. It was an oversight from the Department. The amount will be adjusted as part of overs and unders.

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| --- | --- | --- |
| **DESCRIPTION** | **RESPONSE** | |
| Corrective action to be taken |  | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** |
|  |  |
| If yes, what corrections will be made to the population |  | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. | Will be part of overs and unders | |
| Position of official responsible to take corrective actions |  | |
| Estimated completion date for corrective action |  | |

|  |  |  |
| --- | --- | --- |
| **DESCRIPTION** | **RESPONSE** | |
| Does management agree with the root cause indicated | **Yes** | **No** |
|  |  |
| If management does not agree with the root cause indicated, please provide the root cause according to management. | The amount is disclosed correctly in the DPW schedule | |

*Name:* *L Toona*

*Position: Director*

*Date: 14/08/2012*

**Auditor’s conclusion**

1. Cognisance is taken of management’s comment, and although they have indicated that they are not in agreement with the finding the following has been noted:
2. With regards to Inter-waste, the reasons for condonment noted as follows:

* It was indicated that there were only a few suppliers that can provide the service the therefore the department opted to engage with Inter-waste. Even though there were only a few suppliers available the department should have gone out on the open tender process.
* The fact that the employees were not aware suppliers needed to submit an original tax clearance certificate is not reason enough to condone the expenditure. It is not evident if the department did obtain the tax certificate subsequently.
* According to item 8 paragraph 40 of the delegations the DG must approve unsolicited bids. The delegations states in item 9 paragraph 45 that verbal approval to conduct urgent and/or emergency acquisitions for goods and services needs the approval from the CD:SCM head office or the RM regional office. As this does not constitute an emergency the deviations had to be approved by the DG. Therefore the CFO was not in a position to condone the irregular expenditure.

The matter therefore remains unresolved.

1. The following items were condoned in the current financial year but is was noted that it was disclosed as being condoned in the prior financial year:

|  |  |  |  |
| --- | --- | --- | --- |
| **SERVICE PROVIDER** | **PAYMENT NUMBER** | **AMOUNT**  **R** | **CONDONED DATE** |
| REYGAN PUBLICATION | PM-115532 | 38 304,00 | 4 May 2011 |
| CARLAMANI CONFERENCE & EVENTS | PM-116967 | 114 000,00 | 4 May 2011 |

The matter therefore remains unresolved.

1. The following items have been resolved:

|  |  |  |
| --- | --- | --- |
| **SERVICE PROVIDER** | **PAYMENT NUMBER** | **AMOUNT**  **R** |
| MTKR MARKETING AND COMMUNICATION | PM-122474 | 61 560,00 |
| MOILA BUSINESS ENTERPRISE | PM-130226 | 287 286,84 |
| CTKR MARKETING | 00091763 AP | 192 995,00 |
| S A D C ADVERTISING | 00090112 AP | 267 894,30 |
| ULTIMATE RECRUITMENT SOLUTION | PM-115532 | 197 844,72 |
| PETTY CASH – DPW | NONE | 120 000,00 |
| ORATUWE TRADING CC | PM-122259 | 207 425,99 |

1. Although it is acknowledged that there is no legislative requirement to start the investigation within 30 days the department cannot determine if any actions need to be implemented in terms of TR 9.1.3 in the absence of the investigation.

The matter therefore remains unresolved.

1. The condonement letter was provided subsequently with management’s response. The matter is therefore resolved.
2. Although management is not in agreement with the finding, cognisance is taken of their comments and the following is noted:

As indicated in paragraph (a)(i) the department should have gone out on an open tender for this procurement. As three consecutive orders were created, for this procurement it is evident that the orders were split as to not obtain a tender. The total is in excess of a million. The expenditure should therefore have been condoned by the accounting officer.

1. 50611 amounting to R 441 000
2. 50612 amounting to R 250 000
3. 50613 amounting to R 482 000

The tender as whole was considered as irregular and not a single payment. The threshold should therefore be applied to the total tender amount and not to each payment.

The matter therefore remains unresolved.

1. This matter was raised by the AGSA in the prior year and do pertain to DPW as the funds are recovered from them. The matter is therefore resolved.

Management is in agreement with the finding. The financial statements were however not adjusted with this amount. The matter is therefore still unresolved.

1. **Prior year disclosure of irregular expenditure Ex 222**

**Audit Finding**

Laws, rules and legislation:

PFMA paragraph 40(3)(a) states:

*“The annual report and audited financial statements referred to in subsection (1)(d) must -*

*(a) fairly present the state of affairs of the department, trading entity or constitutional   
 institution, its business, its financial results, its performance against predetermined objectives and its financial position as at the end of the financial year concerned;*

*(b) include particulars of –*

*(i) any material losses through criminal conduct, and any unauthorized expenditure, irregular expenditure and fruitless and wasteful expenditure, that occurred during the financial year;”*

Background:

During the 2009-10 and the 2010-2011 financial years sufficient appropriate audit evidence to determine the completeness of irregular expenditure could not be obtained.

In the audit conclusion meeting with the department of 21 September 2011 it was confirmed that the department has to go through the populations of the 2009-10 and 2010-2011 financial years to identify other irregular expenditure that was not disclosed in the financial statements. The department was advised to get internal audit involved in the aforementioned. The department was also requested to inform the auditors once the process was completed so that the team can audit the completeness of irregular expenditure pertaining to the prior years.

Information pertaining to the aforementioned progress made to the aforementioned was requested on 7 February 2012. The information was not submitted and the matter reported with communication of factual finding number 62.

After the submission of the financial statements it was noted that irregular expenditure relating to the prior years is incomplete as management has only added the irregular expenditure pertaining to the prior years, of R16 552 000, that was identified by the audit team. Management has not assessed the populations of 2009/2010 and 2010/2011 years in order to determine completeness of irregular expenditure. The extent to which disclosure note 35.1 has been restated therefore is limited to irregular expenditure of R16 552 000 relating to the prior year as identified by AGSA.

The finding occurred as a result of the fact that:

The deviation arose as management has not timeously started the process to assess the populations of the 2009-10 and 2010-2011 financial years in order to determine completeness of irregular expenditure.

The impact of the finding:

Up until the point that the process is completed by the department and the audit team was granted the opportunity to audit the completeness of irregular expenditure of the 2009-10 and 2010-2011 financial years again, we will not be able to confirm the completeness of irregular expenditure as disclosed in the disclosure notes of the financial statements pertaining to prior years.

**Internal control deficiency**

*Leadership*

*Management did not effectively exercise their oversight responsibility regarding financial and performance reporting and compliance and related internal controls.*

**Recommendation**

1. Management should assess the populations of the 2009/10 and 2012/2011 financial years in order to determine completeness of irregular expenditure.
2. For irregular expenditure identified the appropriate actions needs to be instigated against transgressors.

**Management response**

1. The department agrees with the audit finding. The populations from financial years 2009/10 to 2011/12 has assessed by management and is herewith attached to the audit response. The relevant disclosure note of irregular expenditure has been updated and a copy is attached hereto.
2. Each case will be assessed by management to ensure that appropriate action is taken against the transgressor(s), if necessary.

|  |  |  |  |
| --- | --- | --- | --- |
| **DESCRIPTION** | | **RESPONSE** | |
| Corrective action to be taken | | The department has already taken corrective action. | |
| Does the finding affect an amount disclosed in the financial statements | | **Yes** | **No** |
| X |  |
| If yes, what corrections will be made to the population | | The department has already gone through the population to assess the irregular expenditure. | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. | | N/A | |
| Position of official responsible to take corrective actions | | N/A | |
| Estimated completion date for corrective action | | N/A | |
| **DESCRIPTION** | **RESPONSE** | | | |
| Does management agree with the root cause indicated | **Yes** | | **No** | |
| X | |  | |
| If management does not agree with the root cause indicated, please provide the root cause according to management. |  | | | |

*Name: Lesetja Toona*

*Position: Director: Inspectorate & Compliance*

*Date: 09/07/2012*

**Auditor’s conclusion**

Although management agrees with the finding and submitted a schedule the latter will not be audited and will only be followed up in the 2012-2013 audit.

The following was indicated:

In the audit conclusion meeting with the department of 21 September 2011 it was confirmed that the department has to go through the populations of the 2009-10 and 2010-2011 financial years to identify other irregular expenditure that were not disclosed in the financial statements. The department was advised to get internal audit involved in the aforementioned. The department was also requested to inform the auditors once the process was completed so that the team can audit the completeness of irregular expenditure pertaining to the prior years.

The information listed in the paragraphs below, pertaining to the aforementioned, was requested with RFI 63 on 7 February 2012 and was due on 9 February 2012. As at 13 February 2012, the information has not yet been provided.

Management agreed with the finding and indicated that the information would have been provided to the auditors with the financial statements on 31 May 2012. The latter did not occur and a schedule was only submitted on 9 July 2012.

The matter therefore remains unresolved.

**Related party transactions**

1. **The Property Management Trading Account transactions not appropriately recorded in the records and financial statements of the Department of Public Works Ex 41**

**Audit Finding**

Laws, rules and regulation requirements:

a) Public Finance Management Act No. 1 of 1999

(i) Section 2 – Objective of the PFMA:

The objective of this Act is to secure transparency, accountability, and sound management of the revenue, expenditure, assets and liabilities of the institutions to which this Act applies.

(ii) Section 38(1)(d) – General responsibilities of the accounting officer:

The accounting officer for a department, trading entity or constitutional institution is responsible for the management, including safe-guarding and the maintenance of assets, and for the management of the liabilities, of the department, trading entity or constitutional institution.

b) The accounting framework – Chapter 8 – paragraph 37(c) – related party transactions guidance state the following:

*“However for the 2011/12 financial year the following applies:*

1. *a department need only disclose those related party transactions that in terms of the above qualify for disclosure, between itself and the public entities falling under its Minister/MEC’s portfolio. The disclosures exclude transfers & subsidies paid to public entities where these have been included in the annexures to the financial statements. However, the fact that the public entity is a related party should be included in this note; (e.g. the National Treasury will only list the ASB, FSB, IRBA, StatsSA, SARS etc);* ***but***
2. *where a department transacts with another party other than those under (a) above and these transactions were not at arms length**then the relationship and the transaction must be disclosed. (e.g. if the National Treasury occupied a building owned by DPW without paying for this service then the relationship and the fact that a building is provided free of charge would have to be disclosed in the notes to the National Treasury’s AFS).*

*The disclosure of any related party transactions is limited to transactions between the department and another related party and should not include transactions between the related parties of the department. (e.g. National Treasury shall not disclose transactions between ASB and FSB, both of which are National Treasury related parties)*

*Examples of indications of related party transactions:*

* *arrangements where one party expenses on behalf of another party (these costs may or may not be recovered);*
* *lease arrangements at more or less than market value or for no consideration;*
* *sales without substance (funds are transferred to an entity for goods or services that were never rendered/delivered);*
* *services or goods are purchased at nominal or no cost;*

*Disclosure of:*

* *Name of the entity that entered into related party transactions with the department*
* *The types of the related party relationship*
* *The types of transactions that have occurred*
* *The elements of the transactions necessary to clarify the significance of these transactions to its operations and sufficient to enable the Annual Financial Statements to provide relevant and reliable information for decision-making and accountability purposes.*

*The above excludes transfer payments and subsidies, as that is disclosed in the annexures to the Financial Statements.*

*The AFS makes specific provision for the disclosure of information regarding key management personnel and family members in a separate note. Refer to the section on key management personnel for further guidance on the disclosure requirements.”*

Deviations noted pertaining to the aforementioned:

For the period until 31 December 2011 the payments to PMTE listed below were extracted from the general ledger.

|  |  |
| --- | --- |
| **ITEM** | **R** |
| ASSETS | (1 565 180 210,67) |
| LIABILITIES | 22 428 797,65 |
| PAYMENTS | 252 149 149,69 |
| PUR/CONST CAPITAL ASSETS | 652 609 763,33 |
| TRANSFERS AND SUBSIDIES | 637 992 500,00 |

Although the fact that PMTE is a related party has been disclosed in the interim AFS of December 2011 the detail of the following transactions were not disclosed:

a) The payments of R252 149 149,69 and the capital purchases of R652 609 763,33 were not included in the related party disclosure note. As these transactions will not be disclosed in an annexure that should have been disclosed in the detail of the related party transaction note.

b) The employee cost paid for PMTE employees was also not disclosed in the related party transaction disclosure note.

c) The extent to which the accruals and commitments pertaining to PMTE transactions are not accounted for in one of the annexures, the related party transaction note may be understated with these accruals and commitments.

Impact of the findings:

The related party disclosure note may be materially misstated.

**Internal control deficiency**

## Financial and performance management

*a) The department did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.*

*b) The department did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.*

**Recommendation**

1. The transactions indicated should be disclosed as related party transactions.
2. The impact on comparative amounts should also be considered.
3. The impact on the accrual and commitment disclosure notes should also be addressed.

**Management response**

The department acknowledges the finding but we are not entirely in agreement with it. The principle of disclosing all transaction of a related party we agree with, but the audit finding includes amount that were transferred from Assets and Liabilities items. Those transactions relate to amount incorrectly paid into the DPW’s bank account from clients departments that owes PMTE. Transfers and Subsidies transaction were disclosed.

During the December 2011 interim financial statements the department performed reconciliation for payments paid to all entities that we are related to. It was an oversight from the department not to include all transactions transferred to PMTE. The matter has been noted and it will be corrected during the year end reporting. We are currently reconciling all transaction that where processed during the previous financial year to ensure that our comparatives are adjusted.

*Name:* Lesiba Ledwaba

*Position: DD Financial Reporting*

*Date:17/02/2012*

**Auditor’s conclusion**

a) All procurement through PMTE other than the transfer payments, which is disclosed in annexures, should form part of the related party transaction note. If management agrees with this finding the comparative figures also need to be restated. The schedules to support the restatements should be timeously prepared and submitted for audit purposes.

b) Management must ensure that commitments and accruals are correctly accounted for the disclosure notes and the annexures

c) Management must ensure that the related party transactions for all the related parties listed in the disclosure note are included in the related party note to the extent that it is not disclosed in an annexure.

d) The matters identified above were followed up at year end. Matters were again noted and separate findings were issued. Management must ensure that procedures are put in place to ensure that information pertaining to related party transactions is accumulated throughout the year to enable proper review thereof. The latter should also result in the number of errors being reduced with the compilation of the year-end financial statements.

Year end follow up: Although this matter was brought to management’s attention in February 2012, material errors were noted pertaining to the PMTE information disclosed in the related party disclosure note. Management must ensure that the review controls of the financial statements are enhanced to timeously identify and correct errors. Management must also ensure that any matter on uncertainty pertaining to disclosure is timeously discussed with National Treasury to ensure that it is resolved and confirmed what need to be disclosed

1. **Related party transactions** **EX 8**

**Audit Finding**

**Laws, rules and legislation:**

1. Public Finance Management Act contains the following provisions**:**

“*38(1) The accounting officer for a department   trading entity or constitutional institution—*

(*a*) *must ensure that that department   trading entity or constitutional institution has and maintains—*

*(i) effective   efficient and transparent systems of financial and risk management and internal control;”*

*“38(2) An accounting officer may not commit a department, trading entity or constitutional institution to any liability for which money has not been appropriated.”*

*“13  Deposits into National Revenue Fund.—(1) All money received by the national government must be paid into the National Revenue Fund”*

1. Practice note 4 of 2006/07:

5. Illegal transfer payments by departments

5.3 In the past few years a trend of excessive spending in the last month of the financial year has been noticeable. This expenditure often relates to transfer payments that are intended to create an impression that actual expenditure has been incurred when in fact no goods and services are received in return. Such payments are sometimes for goods and services receivable in the future which conceals under-spending by a department.

5.4 This arrangement supports TR 15.10.1.2(b) & (c) which discourages the use of funds earlier than necessary and the payment for goods/services in advance.

5.5 These practices do not only constitute bad financial management but also contravene an essential principle in the PFMA that is of transparency.

7.1 This practice note therefore serves to inform stakeholders that:

a) Departments may not request public entities to undertake departmental functions on their behalf nor shall they request public entities to employ personnel on their behalf, the expenses for which are to be met by the public entity;

b) Public entities may not grant donations and sponsorships to departments, whether in cash or in kind, to augment the budget of the department;

c) Departments may not transfer funds to a bank account that has not been approved by the relevant treasury and only bank accounts approved after 1 April 2001 shall be regarded as valid, as per Treasury Regulation 15.10.3.1; and

d) Departments may not transfer funds to another department, public entity, constitutional institution and any other government institution other than as prescribed by Parliament through the Appropriation Act or through the virement process.

e) Any irregular expenditure must be dealt with in accordance with the prescripts issued by the National and provincial treasuries.

Although an audit opinion will not be expressed pertaining to the September 2011 interim financial statements they were utilised as basis for the confirmation of the business processes. The following deviations were identified pertaining to prepayments made to the Independent Development Trust [IDT] and the related party transaction information disclosed in the financial statements:

1. It was noted from the IDT schedules that interest amounting to R2 641 842,08 was received pertaining to the prepayments made to them by the department. In terms of section 38(2) of the PFMA an accounting officer may not commit a department to any liability for which money has not been appropriated.

As a result, this interest may not be utilised for further costs incurred in terms of the funds transferred to IDT pertaining to energy efficiency and the alternative schools programme.

Furthermore, this interest needs to be paid back to DPW, who then need to deposit it into the National Revenue Fund as required by section 13 of the PFMA.

1. It is not evident why these transactions, other than the transfer payments as per the Appropriation and Adjustment Estimate Act should not be considered as being irregular in terms of practice note 4 of 2006/07.

1. Schedules were obtained pertaining to cost incurred by IDT since 1 April 2011. As indicated in the schedule below these transactions were not reflected in the interim AFS resulting in them being materially misstated:

| **Description** | **Alternative schools programme** | **Energy efficiency** | **Total** |
| --- | --- | --- | --- |
|  | **R** | **R** | **R** |
| Original amount transferred | 130 000 000,00 | 75 000 000,00 | 205 000 000,00 |
| Accounted for in the 2010-2011 financial year | (18 983 204,63) | (16 490 000,00) | (35 473 204,63) |
| **Balance as per 31 March 2011** | **111 016 795,37** | **58 510 000,00** | **169 526 795,37** |
|  |  |  |  |
| Total expenditure per schedule - from IDT | 71 165 614,13 | 67 757 312,88 | 138 922 927,01 |
| Bank charges | 1 161,20 | 1 525,60 | 2 686,80 |
| Management fees | 119 373,37 | 3 790 261,56 | 3 909 634,93 |
| **Sub - total for expenditure per IDT** | **71 286 148,70** | **71 549 100,04** | **142 835 248,74** |
| Less already recorded at 31 March 2011 | (18 983 204,63) | (16 490 000,00) | (35 473 204,63) |
|  |  |  |  |
| **Expenditure not yet accounted** | **52 302 944,07** | **55 059 100,04** | **107 362 044,11** |
|  |  |  |  |
| Interest earned | 2 043 242,86 | 598 599,22 | 2 641 842,08 |
| **Balance per IDT of prepayments made** | **60 757 094,16** | **4 049 499,18** | **64 806 593,34** |
|  |  |  |  |
| Balance per the Trial balance | 111 016 795,37 | 58 510 000,00 | 169 526 795,37 |
|  |  |  |  |
| **Difference** | **(50 259 701,21)** | **(54 460 500,82)** | **(104 720 202,03)** |

1. An extract of all payments made to IDT was made from the general ledger and, as indicated in the table below, amounts were identified that were neither included in the related party disclosure note nor Annexure 1 C - statement of transfers to departmental agencies and accounts in the interim financial statements.

|  |  |  |
| --- | --- | --- |
| **ITEM DESCRIPTION** | **ITEM LEVEL 4** | **R** |
| C/P:BUS&ADV SER:PRJ MANAGEMENT | GOODS AND SERVICES | 9 179 999,71 |
| C/P:BUS&ADV SER:PRJ MANAGEMENT | GOODS AND SERVICES | 20 177 940,83 |
| NPI:NON STATE SECTOR | NON PROFIT INSTITUTIONS (NPI) | 76 413 000,00 |
| NPI:NON STATE SECTOR | NON PROFIT INSTITUTIONS (NPI) | 77 957 000,29 |
| **TOTAL** |  | **183 727 940,83** |

1. The commitments disclosed in the related party transactions of R99 924 million is still the same as that at the end of March 2011. The commitments as at September 2011 at IDT pertaining to DPW projects were therefore not obtained and correctly disclosed in the interim financial statements.
2. On the electronic template of the interim financial statements a journal of R38 768 million was processed between goods and services and receivables. This amount was however included in both goods and services and receivables in the related party disclosure note.
3. Differences between the electronic templates and the printed September 2011 interim financial statements were noted:

|  |  |  |  |
| --- | --- | --- | --- |
| **Description** | **Electronic template** | **Printed** | **Difference** |
| **R** | **R** | **R** |
| Goods and services | 38 768 000 | - | 38 768 000 |
| Receivable | 208 790 000 | 170 027 000 | 38 763 000 |

1. Although the department recently implemented a related party transaction policy the policy does not address matters such as the compilation of the related party note and the review of the information to ensure that it is correct. It further does not outline when information needs to be submitted in order to enable the department to produce complete and accurate related party disclosure. A business process addressing the mentioned matters was also not provided.
2. It was noted that the supporting file submitted to support the interim financial statements did not contain any printout pertaining to payments made to IDT. There were also no schedules from IDT included in the supporting files. It is therefore not evident how the reviewers of financial statements ensured that the disclosure was correct and complete.
3. There was no evidence of the printed financial statements that disclosure note 37 pertaining to related party transactions were reviewed and compared with the supporting documentation.

The finding occurred as a result of the fact that:

A proper review of the financial statements with all the relevant supporting information was not performed. All relevant supporting information was not included in the audit files supporting the interim financial statements.

Matters pertaining to incorrect disclosure pertaining to related party transactions and prepayments and advances were also reported in the prior year. The matters pertaining to related party transactions were also reported in the audit report.

The impact of the finding:

Due to non disclosure of the expenditure incurred and the interest not accounted for the following misstatements will occur:

1. Prepayments were overstated with R104 720 202,03
2. Expenditure was understated with R107 359 357,31
3. Non–compliance with section 13 of the PFMA pertaining to the interest received
4. The expenditure disclosed in the related party disclosure note or the transfers to departmental agencies and accounts may be understated with R183 727 940,83
5. Goods and services were overstated with R38 768 million.
6. The department may not be able to hold officials accountable if the policy does not stipulate the roles and responsibilities specific officials in both head office and the regions.
7. In the absence of a thorough review process material errors as listed above may again go undetected at year end.

**Internal control deficiency**

*Leadership*

*Management did not exercise their oversight responsibility regarding financial and performance reporting and compliance and related internal controls*

*Financial and performance management*

*Monitoring controls to ensure that the department prepares regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information were not effective.*

**Recommendation**

1. Management should request that the interest earned be paid over on a monthly basis. The money should then be deposited into the Revenue Fund and the transactions appropriately recorded in the records of the department.
2. The department must request schedules with supporting documentation from IDT on a monthly basis to ensure that all transactions pertaining to the prepayments made are timeously recorded in the financial statements.
3. Detail reports with all payments to IDT should be printed and reconciled back the financial statements to ensure that the information disclosed in the financial statements is correct and complete.
4. It should be clearly indicated in the file supporting the financial statements what review functions were performed. The relevant officials should then sign as confirmation that the functions have been performed.
5. The policy needs to make provision for the assigning of responsibility for the compilation and reviewing of related party information.
6. Management should motivate in their response why these transactions should not be seen as irregular expenditure

**Management response**

a) I am in agreement with the finding as responded below from a) to f). The early warning controls as recommended will be implemented.

*Name:* Cathy Motsisi

*Position: Chief Financial Officer*

*Date: 20 February 2012*

Recommendation by AGSA

a) Management should request that the interest earned be paid over on a monthly basis. The money should then be deposited into the Revenue Fund and the transactions appropriately recorded in the records of the department.

Management Response

The department has received the schedules for November, December 2011 and January 2012. The department has agreed with the entity that accumulated interest will be paid over to the department before the end of the financial year.

MOU signed by the department did not specifically deal with the period when interest must be paid back.

The meeting held by the CFO and the CFO of IDT resolved that in future al advances to the IDT will include a clause dealing with accumulated interest.

Recommendation by AGSA

b) The department must request schedules with supporting documentation from IDT on a monthly basis to ensure that all transactions pertaining to the prepayments made are timeously recorded in the financial statements.

Management Response

The department has received the schedules for November, December 2011 and January 2012. The department has agreed with the entity that accumulated interest will be paid over to the department before the end of the financial year.

Recommendation by AGSA

c) Detail reports with all payments to IDT should be printed and reconciled back the financial statements to ensure that the information disclosed in the financial statements is correct and complete.

Management Response

We agree with the proposal and have also included the schedules received.

Recommendation by AGSA

d) It should be clearly indicated in the file supporting the financial statements what review functions were performed. The relevant officials should then sign as confirmation that the functions have been performed.

Management Response

We have already engaged the relevant managers and they have signed off work done in the previous financial year. The CFO has already started to request progress reports on the operational performance of funds transferred.

Recommendation by AGSA

e) The policy needs to make provision for the assigning of responsibility for the compilation and reviewing of related party information.

Management Response

We are in the agreement with the finding. While the CFO is ultimately the person responsible for the review of all Financial Statements, the policy will be reviewed to include other relevant managers.

Recommendation by AGSA

f) Management should motivate in their response why these transactions should not be seen as irregular expenditure

Management Response

The transactions are not irregular. Please see attached the letter from National Treasury.

g) I am in agreement with the finding for the following reasons

This was an oversight the R38m was updated on the electronic template after printing. The error was corrected during the interim financial statements for 31 December 2011.

*Name:* Lesiba Ledwaba

*Position: DD*

*Date: 03/04/2012*

1. I am not in agreement with the finding for the following reasons

The policy that the department implemented addresses the compilation and review of the related party note please refers to 9.2 delegations on the policy. The submission date are not incorporated on the policy as they are not fixed, however an e-mail communication is circulated quarterly for Interim Financial Statements and annually for the Annual Financial Statements

*Name:* Lesiba Ledwaba

*Position: DD*

*Date: 03/04/2012*

1. I am in agreement with the finding for the following reasons

This was corrected during the December interim financial statements

*Name:* Lesiba Ledwaba

*Position: DD*

*Date: 03/04/2012*

1. I am not in agreement with the finding for the following reasons

The disclosure note was reviewed using the disbursement report for all payments paid to entities the only error was that we did not include the narrative note of the function and supporting documents used to review the related party disclosure note.

*Name:* Lesiba Ledwaba

*Position: DD*

*Date: 03/04/2012*

**Auditor’s conclusion**

a) The department agrees with the finding. It will be confirmed at year end if the interest was received from IDT, recorded in the records of DPW and paid into the National Revenue Fund.

Year end follow up: Interest amounting to R3 831 162,53 has not been received at year end.

| **Programme** | **Month** | **R** | **Total** |
| --- | --- | --- | --- |
| Energy efficiency | Mar-11 | 69 910,97 | 872 743,43 |
| Apr-11 | 251 176,23 |
| May-11 | 155 649,36 |
| Jun-11 | 51 840,25 |
| Jul-11 | 29 620,36 |
| Aug-11 | 22 263,84 |
| Sep-11 | 18 138,21 |
| Oct - March 2012 | 274 144,21 |
| Alternative method SBP | Mar-11 | 70 821,92 | 2 958 419,10 |
| Apr-11 | 408 579,68 |
| May-11 | 347 711,48 |
| Jun-11 | 329 980,50 |
| Jul-11 | 304 905,30 |
| Aug-11 | 302 349,44 |
| Sep-11 | 278 894,54 |
| Oct-11 | 246 282,10 |
| Nov-11 | 221 764,91 |
| Dec-11 | 170 256,07 |
| Jan-12 | 118 151,47 |
| Feb-12 | 90 347,39 |
| Mar-12 | 68 374,30 |
| **Total** | | | **3 831 162,53** |

b) Cognisance is taken of management’s comment. It was however confirmed that the transfers to IDT and the work performed on behalf of DPW do not constitute irregular expenditure.

c) The department agrees with the finding. Management must ensure that interim financial statements submitted are also correct. Although this finding was issued to management on 2 December 2011 the management comment was only received on 20 February 2012. The transactions were still not recorded in the December 2011 financial statements as is evident from the balance as disclosed in disclosure note 37.

|  |  |
| --- | --- |
| **Description** | **R** |
| Opening balance | 169 526 795,37 |
| Expenditure in current year transferred to pre-payment account | 38 763 148,00 |
| Expenditure in current year transferred to pre-payment account | 52 000 000,00 |
| **Closing balance - 31 December 2011** | **260 289 943,37** |

Management should take this expenditure into account in determining if they are still within the budgeted amounts for the current financial year.

d) Management agrees with the finding. In the December 2011 financial statements the transactions per the general ledger pertaining to the statement of financial performance agree with that in disclosure note 37. The aforementioned exclude the expenditure not yet accounted for in paragraph (c). It is however not evident why transfers to IDT, classified as “NON PROFIT INSTITUTIONS (NPI)” of R154 370 000,29 was included in the related party disclosure note and not included in Annexure 1C as the Departmental Financial Reporting Framework Guide, Chapter 8, section 37(c) states that:

*“The above excludes transfer payments and subsidies, as that is disclosed in the annexures to the Financial Statements. “*

Year end follow up: Although it was confirmed that the amounts transferred were included in annexure 1 c at year end.

e) Management agrees with the finding. In the December 2011 financial statements no commitments were disclosed.

f) Management agrees with the finding. In the December 2011 financial statements the differences was corrected. Matter appears to be resolved.

g) Management agrees with the finding. In the December 2011 financial statements the differences was corrected. Matter appears to be resolved.

1. Management agrees with the finding. The matter will be followed up in the 2012-2013 audit.
2. Management agrees with the finding. There were still no supporting schedules included in the December 2011 interim financial statements.
3. Management agrees with the finding. Inspected the December 2011 interim financial statement’s supporting file and noted that the department has referenced to their workings but it was not signed by the compiler or reviewer.
4. **Leases paid on behalf of client department not disclosed in the related party disclosure note Ex 224**

**Audit Finding**

Laws, rules and legislation:

1. PFMA paragraph 40(3)(a) states:

*“The annual report and audited financial statements referred to in subsection (1)(d) must -*

*(a) fairly present the state of affairs of the department, trading entity or constitutional   
 institution, its business, its financial results, its performance against predetermined objectives and its financial position as at the end of the financial year concerned;*

1. *Departmental Financial Reporting Framework Chapter 8 defines related parties as:*

*“parties are considered to be related if one party has the ability to control the other party or   
 exercise significant influence over the other party in making financial and operating decisions   
 or if the related party entity and another entity are subject to common control.*

*In addition departments are related parties because they are subject to common control”*

1. *Departmental Financial Reporting Framework Chapter 8 states that the following should be disclosed:*

*“As a general rule, a department should disclose all transactions with its related parties other than those under taken at arm’s length.*

*However, for the 2011/12 financial year the following applies:*

1. *a department need only disclose those related party transactions that in terms of the above qualify for disclosure, between itself and the public entities falling under its Minister/MEC’s portfolio.*
2. *where a department transacts with another party other than those under (a) above and these transactions were not at arm’s length**then the relationship and the transaction must be disclosed. (e.g. if the Department A occupied a building owned by DPW without paying for this service then the relationship and the fact that a building is provided free of charge would have to be disclosed in the notes to the Department A’s AFS) ”*

The following has been identified upon inspection of the annual financial statements:

Upon inspection of the annual financial statements it has been identified that the client departments listed below, whose lease expenditure accounts are claimed from the Department of Public Works has not been disclosed as part of the related party disclosure note 37. The guide indicate that if transactions are not at arm’s length they should have been disclosed in the related party disclosure note. The guide only gives an example of department’s A disclosure requirement, but did not exclude the DPW disclosure.

1. From a list obtained the following expenditure has been indicated as being paid by the department on behalf of other departments.

|  |  |
| --- | --- |
| **CLIENT DEPARTMENT** | **R** |
| ENVIRONMENTAL AFFAIRS | 71 114,10 |
| GENDER EQUALITY COMMISSION | 283 756,55 |
| HOME AFFAIRS | 43 039 993,27 |
| HUMAN RIGHTS COMMISSION | 840 667,61 |
| NATIONAL PROSECUTING AUTHORITY | 19 261 211,15 |
| PARLIAMENT | 1 162 430,65 |
| PUBLIC PROTECTOR | 9 079 157,14 |
| THE PRESIDENCY | 7 595 740,15 |
| **Grand Total** | **81 334 070,62** |

1. The expenditure incurred in the prior year pertaining to leases paid on behalf of other departments could not be determined / provided by the department. The extent to which the comparative was understated could therefore not be determined.
2. Per the lease commitments schedules obtained it was determined that the lease commitment listed below existed at year end pertaining to the leases of other departments which were payable by DPW. The lease commitment was however not disclosed in the related party disclosure note. From the lease commitment register submitted it is estimated that the lease commitment in the related party note may be understated with R302 247 984,58
3. Per the lease commitments schedules obtained for the prior year, it was determined that the lease commitment listed below existed at the end of the prior year pertaining to the leases of other departments which were payable by DPW. The lease commitment was however not disclosed in the related party disclosure note. From the lease commitment register submitted it is estimated that the lease commitment in the related party note may be understated with R378 242 061,19.

The finding occurred as a result of the fact that:

The deviation arose as management has not adequately considered the requirements of the departmental financial reporting framework, and more specifically the requirements for the 2011/12 financial year’s paragraph (b).

The impact of the finding:

Related party disclosure note as disclosed in note 37 were understated as follows:

a) Lease expenditure of the current year was understated with R81 334 070,62

b) The extent to which the lease expenditure pertaining to the 2010-11 financial year was understated could not be determined.

c) The lease commitment of the current year was understated with R302 247 984,58

d) The lease commitment of the prior year was understated with R378 242 061,19

**Internal control deficiency**

*Leadership*

*Management did not effectively exercise their oversight responsibility regarding financial and performance reporting and compliance and related internal controls.*

**Recommendation**

1. Management should disclosetransactionswhichare not at arm’s lengthas well as the relationshipwith the transacting partyfor the 2011/2012 financial years.
2. Management should disclosetransactionswhichare not at arm’s lengthas well as the relationshipwith the transacting partyfor the 2010/2011 financial years. The fact of the restatement should also be disclosed.
3. For all changes to the financial statements detail schedules with references to the relevant contracts, buildings or property being lease, the periods as well as the actual expenditure as well as the lease commitments should be attached.
4. If management indicates that they will correct the financial statements then the proposed changed financial statements should also be attached.
5. Matters for which management are unsure pertaining to the exact disclosure requirements should be clarified with NT well in advance of the financial statements being submitted for audit purposes.

**Management response**

a) I am not in agreement with the finding for the following reasons: the preparation guide clearly states that for the 2011/12 financial year the following applies:

* + 1. Where a department transacts with another party other those under (a) in the preparation guide page 61 and these transactions were not at arms-length then the relationship and the transaction must be disclosed ( e.g. if the department A occupied a building owned by DPW without paying for this service then the relationship and the fact that a building is provided free of charge would have to be disclosed in the notes to the Department A’s AFS.

While we agree with the principle in terms of accounting standards concerning the disclosure of related party, the prep guide provide an exception for the 2011/12 financial year in terms of who should disclose the related party transaction. The argument of the example not excluding DPW, the prep guide should have indicated that both departments should disclose the related party transaction.

*Name:* Mandla Sithole

*Position: Financial accounting*

*Date: 09/07/2012*

b) I am not in agreement with the finding for the following reason:

* + 1. Refer to management response above

*: Name:* Mandla Sithole

*Position: Financial accounting*

*Date: 09/07/2012*

1. I am not in agreement with the finding for the following reason:
   * 1. Refer to management response (a) above

*Name:* Mandla Sithole

*Position: Financial accounting*

*Date: 09/07/2012*

1. I am not in agreement with the finding for the following reason:
   * 1. Same as management response in (a)

*Name:* Mandla Sithole

*Position: Financial accounting*

*Date: 09/07/2012*

**Auditor’s conclusion**

1. Management indicated that they disagree based on the example provided as indicated below. It should be noted that requirement for the 2011/12 financial year states that transactions not at arm’s length and the transactions should be disclosed. They used an example to demonstrate what type of transactions for example should be disclosed. The example did not exclude DPW from also reporting the related party transaction. The matter therefore remains unresolved and the fact that the related party disclosure note was understated with an estimated amount of R81 334 070,62 will be reported.

*“However, for the 2011/12 financial year the following applies:*

1. *a department need only disclose those related party transactions that in terms of the above qualify for disclosure, between itself and the public entities falling under its Minister/MEC’s portfolio.*
2. *where a department transacts with another party other than those under (a) above and these transactions were not at arm’s length**then the relationship and the transaction must be disclosed. (e.g. if the Department A occupied a building owned by DPW without paying for this service then the relationship and the fact that a building is provided free of charge would have to be disclosed in the notes to the Department A’s AFS) ”*
3. Management indicated that they disagreed with the finding based on the same principle as indicated in paragraph (a). Similarly as responded to in paragraph (a) the matter remains unresolved. Alternative audit procedures were performed and from payment testing batches that pertain to payments of lease expenditure of other departments were identified. They were utilised to get an estimation of the amounts paid on behalf of other departments pertaining to the prior year. The extent to which the related party disclosure note was therefore understated pertaining to the comparative could therefore be estimated.
4. Management indicated that they disagreed with the finding based on the same principle as indicated in paragraph (a). Similarly as responded to in paragraph (a) the matter remains unresolved. It will therefore be reported that the lease commitment of the current year was understated with R302 247 984,58 in the related party disclosure note.
5. Management indicated that they disagreed with the finding based on the same principle as indicated in paragraph (a). Similarly as responded to in paragraph (a) the matter remains unresolved. It will therefore be reported that the lease commitment of the prior year was understated with R378 242 061,19 in the related party disclosure note.

**Management revised response**

a) I am not in agreement with the finding, the lease expenditure was included in the disclosure note no 37(related party) under PMTE i.e. the disclosed amount represent all payments made to PMTE for the current financial year. The total amount of R1.2b for payments made to PMTE includes payments relating to leases paid on behalf of other clients. However the Department will include a narrative note explaining the above due to limitation on the template. Annexure A

b) I am not in agreement with the finding, the lease expenditure was included in the disclosure note no 37( related party) under PMTE i.e. the disclosed amount represent all payments made to PMTE for the current financial year The total amount of R1.2b for payments made to PMTE includes payments relating to leases paid on behalf of other clients. However the Department will include a narrative note explaining the above due to limitation on the template. Annexure A

*c)*  I am in agreement with the finding that lease commitment was not disclosed on related party disclosure note. The financial statements will be updated with the amount identified by AG. However the amount will charge due to other findings that are still being finalized by the Department. Annexure B

*d)* I am in agreement with the finding that lease commitment was not disclosed on related party disclosure note. The financial statements will be updated with the amount identified by AG. However the amount will charge due to other findings that are still being finalized by the Department. Annexure B

*Name:* Mandla Sithole

*Position: Financial accounting*

*Date: 17/07/2012*

**Final auditor’s conclusion**

1. The total payments to PMTE were agreed to the amounts included in the expenditure. The matter is therefore resolved.
2. The total payments of the prior year to PMTE were agreed to the amounts included in the expenditure. The matter is therefore resolved.
3. Management agreed with the finding and the financial statements was changed. Management must however ensure that accurate and complete financial statements are submitted for audit purposes.
4. Management agreed with the finding and the financial statements was changed. Management must however ensure that accurate and complete financial statements are submitted for audit purposes.
5. **Related Party Disclosure Note (Direct costs: PMTE) Ex 283**

**Audit Finding**

Laws, rules and Regulations:

1. PFMA
2. Section 38(1)(a)(i):

*“The accounting officer for a department, trading entity or constitutional institution must ensure that that department, trading entity or constitutional institution has and maintains effective, efficient and transparent systems of financial and risk management and internal control.”*

1. Section 40(1)(a) and 40(1)(b) state:

*“The accounting officer for a department, trading entity or constitutional institution –*

1. *must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards.*
2. *must prepare financial statements for each financial year in accordance with generally recognized accounting practice.”*
3. Departmental Financial Reporting Framework Guide Chapter 8 – Disclosure notes

Paragraph 37 – Related Party: Disclosure-related party transactions

*“As a general rule, a department should disclose all transactions with its related parties other than those undertaken at arm’s length (i.e. where the transactions are consistent with a normal supplier or client/recipient relationship and are undertaken on terms and conditions that are normal for such transactions in the circumstances).*

*Examples of indications of related party transactions*

* *Arrangements where one party expenses on behalf of another party (these costs may or may not be recovered);*

*Disclosure of:*

* *Name of the entity that entered into related party transaction with the department*
* *The types of the related party relationship*
* *Types of transactions that have occurred*
* *The elements of the transaction necessary to clarify the significance of these transactions to its operations and sufficient to enable the Annual Financial Statements to provide relevant and reliable information for decision-making and accountability purposes.”*

The following matters were noted whilst performing our audit on the related party disclosure note

The following narrative disclosure has been included in note 27 (Related party transactions) to the financial statements: *“The total amount of related party transaction between PMTE and DPW is R732 million for the current financial year and R622 million for the prior the aforementioned amounts are not included in the above disclosure note, these amounts relates to transactions other than amount.”*

Upon a request for supporting evidence for the amounts included in aforementioned narrative disclosure the following breakdown was provided of the amounts:

|  |  |  |
| --- | --- | --- |
| **Related Party Transactions** | **2011/12** | **2010/11** |
| Direct | 506 836 117,00 | 454 204 138,00 |
| Indirect (Assumed 30%)[[1]](#footnote-1) | 225 184 417,00 | 167 819 639,00 |
| **TOTAL** | **732 020 534,00** | **622 023 777,00** |

.

a) The direct costs were not included in the related party transactions (*“Payments made”*) in the disclosure note. Please see the table below for a further breakdown of the direct costs involved:

| **Component** | **2011/12**  **R** | **2010/11**  **R** |
| --- | --- | --- |
| Goods and services | 34 433 627,00 | 34 700 433,00 |
| Interest on rent on land | 389 185,00 | 384 983,00 |
| Purchases of capital assets | 3 834 233,00 | 5 484 337,00 |
| Compensation of Employees | 468 179 072,00 | 386 029 085,00 |
| **TOTAL** | **506 836 117,00** | **454 204 138,00** |

Related party disclosure note (disclosure of payments made) was therefore understated by R506 836 117,00 in the current year and R454 204 138,00 in the prior year.

It is noted that compensation of employees is not a standard line item disclosure under “payments made” in the related party disclosure note on the standard financial statements template issued by National Treasury. The department should however have approached National Treasury to amend the standard template given the fact that employee costs that can be directly attributed to PMTE meets the related party definition for disclosure in the financial statements of the department.

Potential impact:

a) Non- compliance with PFMA Section 38(1)(a)(i) and Section 40(1)(a) and 40(1)(b).

b) Related party transactions being understated by R506 836 117,00 in the current year and R454 204 138,00 in the prior year.

Reasons for the deviations:

As per discussion with the D: Finance, it was noted that through an internal memorandum issued by the Department which was approved by the Acting Director General M Fatyela-Lindie dated 2012-05-31 the following was noted:

*“In the absence of a system to accurately determine the value of the related party transactions between PMTE and the Department, it is proposed that a value be determined based on apportioned costs for all indirect costs.*

*The basis for this in respect of direct costs is because the activities of the identified functional units are specific to execution of PMTE functions but such activities are being funded by the Department funds directly from its appropriation as well as the Department also accounting for these in financial statements”.*

Therefore the D: Finance noted that since these amounts are an estimation and the actual amounts are unknown, it does not seem fit that these amounts be included in the related party transactions but rather that a note be included in the financials indicating the estimated amount the D: Finance also indicated that the reason why the compensation of employees was not indicated on the disclosure note was due to Treasury not including the component on the disclosure note.

**Internal control deficiency**

1. *Leadership*

*Management did not exercise their oversight responsibility regarding financial and performance reporting and compliance and related internal controls*

1. *Financial and performance management*

*Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information*

**Recommendation**

1. The department should adjust the financial statements to include the disclosure of the direct costs above in the related party transactions (*“Payments made”*).
2. The Department should request for the inclusion of compensation of employees in their related party disclosure note from National Treasury.

**Management Response**

a) I am in agreement with the finding; the department acknowledges the finding. The department did approach National Treasury to amend the standard template given. However due to the response received from National treasury, adjustment will be made to the available items under the sub note payments made; the department will enhance the narrative to ensure it gives a more detailed of the item that are not part of the template. Any change to the standard template the department will communicate in time with National treasury going forward.

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Corrective action to be taken |  | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** |
| X |  |
| If yes, what corrections will be made to the population | N/A | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. | Template cannot be amended as instructed by National treasury | |
| Position of official responsible to take corrective actions | N/A | |
| Estimated completion date for corrective action | N/A | |
| Does management agree with the root cause indicated | **Yes** | **No** |
| X |  |
| If management does not agree with the root cause indicated, please provide the root cause according to management. |  | |

Name: Mandla Sithole

Position: Director

Date:17/08/2012

**Auditor’s conclusion**

It was confirmed that management added the detail to the payments pertaining to goods and services, interest on rent on land and purchases for capital expenditure for both the current and the prior year as per the table included under paragraph (a). As the template does not make provision for compensation of employee cost only a narrative was added. It is recommended that the compensation of employee cost is added on the Word financial statements.

The following correction was made to the financial statements.

| **Component** | **2011/12**  **R** | **2010/11**  **R** |
| --- | --- | --- |
| Goods and services | 34 433 627,00 | 36 662 803,00 |
| Interest on rent on land | 389 185,00 | 417 252,00 |
| Purchases of capital assets | 3 834 233,00 | 3 870 628,00 |
| Compensation of Employees | 468 179 072,00 | 411 486 676,00 |
| **TOTAL** | **506 836 117,00** | **452 437 359,00** |

The corrections made will be reported as material changes to the financial statements.

1. **Related party transactions misstated Ex 254**

**Audit Finding**

Laws, rules and legislation:

1. PFMA
2. Section 2 - objective of the PFMA

*“The object of this Act is to secure transparency, accountability, and sound management of the revenue, expenditure, assets and liabilities of the institutions to which this Act applies.”*

(ii) Section 40(1) of PFMA requires that:

*“The accounting officer for a department, trading entity or constitutional institution -*

*(a) must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;*

*(b) must prepare financial statements for each financial year in accordance with generally recognized accounting practice.”*

The following misstatement was noted with regards to the related party disclosure note on goods and services:

|  |  |  |  |
| --- | --- | --- | --- |
| **Related Party** | **Amount as per the disclosure note 37** | **Amount as per Related parties schedule and general ledger** | **Differences** |
| PMTE | 382 993 000,00 | 392 173 000,00 | 9 180 000,00 |
| IDT | 31 728 000,00 | 31 728 000,00 | 0 |
| **TOTAL** | **414 721 000,00** | **423 901 000,00** | **9 180 000,00** |

As per inspection of the financial statement disclosure note 37 as indicate above the amount does not agree to the amount as disclosed in the general ledger as at 31 March 2012, the amount disclosed (indicated) relates to goods and services.

Potential impact:

a) Non compliance with PFMA section 2 and section 40(1)

b) Understatement of related party transactions - goods and services in disclosure note 37 with R9,18 million.

Reason for the deviation:

As per the discussion with the DD: Financial Reporting it was noted that the disclosure note was formula driven, however it could not be determined how the amount on the disclosure note was incorrectly calculated and how there was no formula on the goods and services amount on the disclosure. The DD: Financial Reporting noted that this was probably due to management oversight.

**Internal control deficiency**

*Leadership*

Management did not effectively exercise their oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

## Financial and Performance Management

The department did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

**Recommendation**

a) The process of compiling related party disclosure should be monitored and reviewed by management before the compilation of the financial statements

b) The disclosure note need to be corrected with amounts omitted due to management oversight.

**Management response**

I am in agreement with the finding that there is an understatement of related party transactions - goods and services in disclosure note 37 with R9, 18 million. The understatement is due to erroneous formulas when adding PMTE and IDT.

The necessary adjustments have already been effected. see annexure A and B

|  |  |  |
| --- | --- | --- |
| **DESCRIPTION** | **RESPONSE** | |
| Corrective action to be taken |  | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** |
| X |  |
| If yes, what corrections will be made to the population | The total will be adjusted | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. |  | |
| Position of official responsible to take corrective actions | DD: Financial Reporting | |
| Estimated completion date for corrective action | Already done | |
| Does management agree with the root cause indicated | **Yes** | **No** |
|  | x |
| If management does not agree with the root cause indicated, please provide the root cause according to management. | Oversight | |

*Name:* Mandla Sithole

*Position: Director*

*Date: 27 July 2012*

**Auditor’s conclusion**

Management is in agreement with the finding. The financial statements were corrected. Management must ensure that the reviewing controls are enhanced to ensure that errors are timeously identified. This matter pertaining to related party disclosure note together with the other findings with regard to the disclosure note will be reported as material corrections to the financial statements.

1. **Related party transaction: IDT transactions incorrectly disclosed in the related party disclosure note Ex 266**

**Audit Finding**

Laws, rules and legislation:

1. PFMA paragraph 40(3)(a) states:

*“The annual report and audited financial statements referred to in subsection (1)(d) must -*

*(a) fairly present the state of affairs of the department, trading entity or constitutional   
 institution, its business, its financial results, its performance against predetermined objectives and its financial position as at the end of the financial year concerned;*

The following differences were identified upon inspection of the related party disclosure note 27 in relation to the audit of the Independent Development Trust:

1. Classification of expenditure included in the related party disclosure note:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Programme** | **Goods and services** | **Purchases for capital assets: Other machinery and equipment** | **Purchases for capital assets: Buildings and other fix structures** | **Financial transactions in assets and liabilities** | **Total** |
| **R** | **R** | **R** | **R** | **R** |
| Alternative Method Project | 3 773 176,35 |  | 126 220 003,65 |  | 129 993 180,00 |
| Energy efficiency (Project) | 106 899 584,49 |  |  |  | 106 899 584,49 |
| Project Management Support (EPWP) | 31 860 025,37 |  |  |  | 31 860 025,37 |
| Project Management Support (EPWP) | 323 026,13 |  |  |  | 323 026,13 |
| Project Management Support (EPWP) | 4 811 821,95 | 497 170,69 |  |  | 5 308 992,64 |
| Food for Waste (EPWP) | 20 177 940,83 |  |  |  | 20 177 940,83 |
| Black Economic Empowerment (Policy) | 2 370 000,00 |  |  |  | 2 370 000,00 |
| **Sub - total** | **170 215 575,12** | **497 170,69** | **126 220 003,65** |  | **296 932 749,46** |
| Amount included in the related party disclosure note | 31 728 000,00 |  |  | 138 850 000,00 | 170 578 000,00 |
| **Differences** | **138 487 575,12** | **497 170,69** | **126 220 003,65** | **(138 850 000,00)** | **126 354 749,46** |

1. Included in the related party disclosure note an amount of R33 992 000 was disclosed as a commitment. This amount is equal to the pre-payment balance. From a schedule obtained from IDT it was determined that the only commitments at year end pertained to the alternative method project and amounted to R7 658 825,31.
2. Interest, net of bank charges receivable from IDT was not disclosed in the related party disclosure note

|  |  |  |  |
| --- | --- | --- | --- |
| **INTEREST NOT YET RECIVED** | **INTEREST NOT YET RECEIVED** | **BANK CHARGES PER STATEMENT OF ACC** | **TOTAL** |
| **R** | **R** | **R** |
| ACM | 2 958 419,10 | 1 405,44 | 2 957 013,66 |
| ENERGY EFFECIENCY | 872 743,43 | 1 597,06 | 871 146,37 |
| **TOTAL** | **3 831 162,53** | **3 002,50** | **3 828 160,03** |

The finding occurred as a result of the fact that:

a) Management did not obtain the required clarity from national treasury pertaining to the required information to be disclosed prior to the submission of the financial statements.

b) The review of the financial statements was ineffective as it did not reveal the differences reported above.

The impact of the finding:

1. Non-compliance with PFMA paragraph 40(3)(a) and paragraph 40(3)(b).
2. Goods and services per the related party disclosure note 27 was understated with R138 487 575,12.
3. Purchases capital assets per the related party disclosure note 27was understated with R497 170,69.
4. Purchases capital assets per the related party disclosure note 27was understated with R126 220 003,65
5. Financial transactions in assets and liabilities per the related party disclosure note 27was overstated R138 850 000,00
6. Receivable for departmental revenue per the related party disclosure note 27 of R3 828 160,03 was not disclosed.
7. Commitments pertaining to IDT as disclosed in the related party disclosure note was overstated R26 333 174,69

**Internal control deficiency**

1. *Leadership*

*Management did not effectively exercise their oversight responsibility regarding financial and performance reporting and compliance and related internal controls.*

1. *Financial and performance management*

*Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information*

**Recommendation**

1. Management must obtain clarity pertaining to any uncertainty with regard to disclosure in the financial statements prior to the submission thereof.
2. Management must ensure that the detail disclosure reported in the financial statements reconcile back to supporting schedules as well as financial information, as the general ledger.

**Management response**

1. I am in agreement with the finding for the following reasons: the amounts were incorrectly classified adjustment have being made on the financial statements. The department takes note of the finding and will consult National Treasury for clarity before submitting the financial statements. See annexure attached

|  |  |  |
| --- | --- | --- |
| **DESCRIPTION** | **RESPONSE** | |
| Corrective action to be taken | Adjust financials | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** |
| X |  |
| If yes, what corrections will be made to the population |  | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. |  | |
| Position of official responsible to take corrective actions | DD Financial Reporting | |
| Estimated completion date for corrective action | 01/08/2012 | |
| Does management agree with the root cause indicated | **Yes** | **No** |
|  |  |
| If management does not agree with the root cause indicated, please provide the root cause according to management. |  | |

1. I am not in agreement with the finding for the following reasons: the amount that the department disclosed is correct and was confirmed by IDT there is an email attached from IDT confirming the commitment of R33m.

|  |  |  |
| --- | --- | --- |
| **DESCRIPTION** | **RESPONSE** | |
| Corrective action to be taken | Adjust financials | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** |
| X |  |
| If yes, what corrections will be made to the population |  | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. |  | |
| Position of official responsible to take corrective actions | DD Financial Reporting | |
| Estimated completion date for corrective action | 01/08/2012 | |
| Does management agree with the root cause indicated | **Yes** | **No** |
|  |  |
| If management does not agree with the root cause indicated, please provide the root cause according to management. |  | |

1. I am not in agreement with the finding for the following reasons: the amounts were incorrectly classified adjustment have being made on the financial statements. The department takes note of the finding and will consult National Treasury for clarity before submitting the financial statements. See annexure attached

| **DESCRIPTION** | **RESPONSE** | |
| --- | --- | --- |
| Corrective action to be taken | Adjust financials | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** |
| X |  |
| If yes, what corrections will be made to the population |  | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. |  | |
| Position of official responsible to take corrective actions | DD Financial Reporting | |
| Estimated completion date for corrective action | 01/08/2012 | |
| Does management agree with the root cause indicated | **Yes** | **No** |
|  |  |
| If management does not agree with the root cause indicated, please provide the root cause according to management. |  | |

*Name:* Mandla Sithole

*Position: Director*

*Date: 02/08/2012*

**Final auditors conclusion**

1. Management has agreed with the finding and has adjusted the financial statements. The adjustment has been inspected and the matter will be reported as a material error corrected in the management report. The review controls of the financial statements need to be enhanced to ensure that errors are timeously detected to avoid material errors in the financial statements submitted. Management should also ensure that information from IDT is timeoulsy recorded and accumulated for the interim and year end financial statements. This will give officials sufficient time to detect errors and to make the necessary corrections before the submission thereof.
2. Management’s comments have been received and it was confirmed with IDT that the commitment is correctly reflected as R33 million. The matter is now considered to be resolved.
3. Management has added the amount as a receivable of R3 828 160,03 for the current year and R140 732,89 to the related party disclosure note. Management must however ensure that this funds are recovered from IDT, recorded in the general ledger and paid over to the revenue fund. The matter therefore remains unresolved.

1. **Related Party Disclosure Note (Direct and Indirect costs) Ex 299**

**Audit Finding**

Laws, rules and Regulations:

a) PFMA

Chapter 5 of the Public Finance Management Act (PFMA) Section 38(1)(a)(i) states that *the accounting officer for a department, trading entity or constitutional institution must ensure that that department, trading entity or constitutional institution has and maintains effective, efficient and transparent systems of financial and risk management and internal control.*

Section 40(1) furthermore states that *the accounting officer for a department, trading entity or constitutional institution*

1. *must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards.*
2. *must prepare financial statements for each financial year in accordance with generally recognized accounting practice.*

b) Departmental Financial Reporting Framework Guide chapter 8

1. Paragraph 37(a) – definitions

“***Related party transaction*** *is a transfer of resources or obligations between related parties, regardless of whether a price is charged.*

1. Paragraph 37(c) - guidance

“Disclosure of:

Name of the entity that entered into related party transactions with the department

The types of the related party relationship

The types of transactions that have occurred

The elements of the transactions necessary to clarify the significance of these transactions to its operations and sufficient to enable the Annual Financial Statements to provide relevant and reliable information for decision-making and accountability purposes. “

**The following deviations were noted whilst performing our audit on the related party disclosure note:**

The following narrative disclosure has been included in note 14 (Related Parties) to the financial statements: *“National Department of Public Works: Expenditure incurred on behalf of Property Management Trading Entity (PMTE) in the current financial year is R732m (2011 – R 622 M).”*

Upon a request for supporting evidence for the amounts included in aforementioned narrative disclosure the following breakdown was provided:

|  |  |  |
| --- | --- | --- |
| **Related Party Transactions** | **2011/12** | **2010/11** |
| Direct | R 506 836 117,00 | R 454 204 138,00 |
| Indirect (Assumed 30%) | R 225 184 417,00 | R 167 819 639,00 |
| **TOTAL** | **R 732 020 534,00** | **R 622 023 777,00** |

1. The detailed breakdown of the amounts which makes up the total of the direct and indirect costs as indicated above were not disclosed in note 14 (PMTE) or note 27 (DPW) (Related parties) of the financial statements for PMTE and DPW:

| ***Direct Costs*** | | |
| --- | --- | --- |
| **Component** | **2011/12** | **2010/11** |
| Compensation of employees | R 468 179 072,00 | R 411 486 676,00 |
| Goods and services | R 34 433 627,00 | R 36 662 803,00 |
| Interest and rent on land | R 700 276,00 | R 538 053,00 |
| Transfers and subsidies | R 1 780 303,00 | R 1 766 779,00 |
| Purchases of capital assets | R 1 742 839,00 | R 3 749 827,00 |
| **TOTAL** | **R 506 836 117,00** | **R 454 204 138,00** |

| ***Indirect Costs*** | | |
| --- | --- | --- |
| **Component** | **2011/12** | **2010/11** |
| Compensation of employees | R 114 405 884,00 | R 86 246 871,00 |
| Goods and services | R 100 157 634,00 | R 75 612 808,00 |
| Interest and rent on land | R 242 779,00 | R 1 440 870,00 |
| Transfers and subsidies | R 391 801,00 | R 746 712,00 |
| Purchases of capital assets | R 9 986 319,00 | R 3 772 378,00 |
| **TOTAL** | **R 225 184 417,00** | **R 167 819 639,00** |

1. A recalculation of the indirect costs was performed and the following differences were noted:

For the 2011/2012 financial year:

|  |  |  |  |
| --- | --- | --- | --- |
| **Component** | **2011/12** | | |
| **Amount as per schedule** | **Recalculated amount** | **Difference** |
| Compensation of employees | R 114 405 883,74 | R 105 299 624,66 | R 9 106 259,08 |
| Goods and services | R 100 157 634,42 | R 94 180 267,57 | R 5 977 366,85 |
| Interest and rent on land | R 242 779,10 | R 239 129,58 | R 3 649,52 |
| Transfers and subsidies | R 391 801,00 | R 405 068,66 | -R 13 267,67 |
| Purchases of capital assets | R 9 986 319,14 | R 9 954 267,00 | R 32 052,13 |
| Software and intangible assets |  | R 10 504,98 | -R 10 504,98 |
| **TOTAL** | **R 225 184 417,39** | **R 210 088 862,45** | **R 15 095 554,94** |

For the 2010/2011 financial year:

|  |  |  |  |
| --- | --- | --- | --- |
| **Component** | **2010/2011** | | |
| **Amount as per schedule** | **Recalculated amount** | **Difference** |
| Compensation of employees | R 86 246 870,85 | R 86 906 306,69 | - R 659 435,85 |
| Goods and services | R 75 612 808,08 | R 75 607 266,46 | R 5 541,62 |
| Interest and rent on land | R 1 440 870,40 | R 3 806 039,54 | -R 2 365 169,14 |
| Transfers and subsidies | R 746 711,64 | R 746 711,31 | R 0,33 |
| Purchases of capital assets | R 3 772 378,44 | R 1 463 173,81 | R 2 309 204,63 |
| Software and intangible assets |  |  | - |
| **TOTAL** | **R 167 819 639,41** | **R 168 529 497,81** | **-R 709 858,40** |

Disclosure note 14 (Related parties) for PMTE and disclosure note 27 (Disclosure of payments made) for DPW was therefore understated by R 210 088 862,45 in the current year and by R 168 529 497,81 in the prior year.

1. Furthermore, we noted the following deviations with regards to the basis of estimate used to calculate the indirect costs:
2. The estimation uncertainty based on the calculation of indirect costs was not disclosed in the AFS of either DPW or PMTE.

Inspected the Internal Memorandum regarding the Disclosure of related party transactions between PMTE and DPW which was captured by Mandla Sithole (Director: Financial Accounting & Reporting) on 30 May 2012, recommended by Sue Mosegomi (Acting CFO) on 30 May 2012 and approved by Mandisa Fatyela-Lindie (Acting Director General) on 31 May 2012, whereby management indicated that since the inception of PMTE, the Department has been funding all PMTE activities either directly or indirectly. Therefore, PMTE does not have a functional structure and operates within the departmental structure. The nature of the relationship thus results in a dilemma in calculating the amount to be disclosed as related party costs. In the absence of a Business Case and operating directives, identification of such transactions will remain a challenge.

The internal memorandum inspected indicates the presence of the estimation uncertainty.

1. There was no additional information disclosed which would be relevant to users in understanding the accounting estimates recognized or disclosed in the financial statements.
2. The method used to measure the accounting estimate is not generally accepted - a blanket rate was used for all types of expenditure accounts. The department did not identify the cost driver for a specific cost item.
3. Significant assumptions used by management do not appear to be reasonable and appropriate. Assumptions do not appear reasonable when considered collectively - a blanket rate was used for all the accounts in calculating the indirect cost estimate, however the relevant costs accounts are significantly different in nature.

Potential impact:

1. Non- compliance with PFMA Section 38(1)(a)(i) and Section 40(1)(a) and 40(1)(b)
2. The disclosure made in note 14 (Related parties) was understated by R210 088 862,45 in the current year and by R 168 529 497,81 in the prior year.
3. Due to the fact that a flat rate was used and the cost drivers not identified the extent to which the amounts disclosed are misstated in addition to the factual amounts identified in point b cannot be determined.

Reasons for the deviations:

As per discussion with the D: Finance, it was noted that through an internal memorandum issued by the Department which was approved by the Acting Director General M Fatyela-Lindie dated 2012-05-31 the following was noted:

*“In the absence of a system to accurately determine the value of the related party transactions between PMTE and the Department, it is proposed that a value be determined based on apportioned costs for all indirect costs.*

*The basis for this in respect of direct costs is because the activities of the identified functional units are specific to execution of PMTE functions but such activities are being funded by the Department funds directly from its appropriation as well as the Department also accounting for these in financial statements”.*

Therefore the D: Finance noted that since these amounts are estimation and the actual amounts are unknown, it does not seem fit that these amounts be included in the related party transactions but rather that a note be included in the financials indicating the estimated amount

Management was urged early on in the 2011/12 audit to approach National Treasury to partner with them in finding an acceptable solution to the allocation of the indirect costs. This intervention did not occur.

**Internal control deficiency**

*Leadership*

Management did not exercise their oversight responsibility regarding financial and performance reporting and compliance and related internal controls

*Financial and performance management*

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information

**Recommendation**

1. DPW should adjust their financial statements to include the disclosure of the indirect costs above in the related party transactions (*“Payments made”*).

b) The CFO should perform reviews of financial statements (including ensuring that it agrees with underlying supporting documentation) before submission to the auditors.

1. The resolution of the matter should receive priority going forward; management should comprehensively document and disclose their assumptions for allocating indirect costs making provision for the individuality of different transactions/balances.

**Management Response**

No management response has been received

**Auditor’s Response**

Although no management response corrections were to the related party disclosure note.

a) The following indirect cost was added to the payments made in the related party disclosure note

|  |  |  |
| --- | --- | --- |
| **Payments made** | **2011-2012** | **2010-2011** |
| **R** | **R** |
| Goods and services | 100  157 634,40 | 75 612 808,08 |
| Interest and rent of land | 242 779,10 | 1 440 870,40 |
| Purchases of capital assets | 9 986 319,14 | 3 772 378,44 |
| **Total** | **110 386 733,00** | **80 826 057,00** |

The compensation cost for the current year of R114 million and R86 million for the prior year was discloses as a narrative was added to disclose the compensation of employee cost as the payments section of the template does not make provision for compensation of employee cost. These corrections will be reported as material corrections to the financial statements.

b) The differences reported were not corrected and no management response has been received. The matter as indicated in the table below therefore remains unresolved.

|  |  |  |
| --- | --- | --- |
| **Payments made** | **2011-2012** | **2010-2011** |
| **R** | **R** |
| Goods and services | (5 977 366,83) | (5 541,62) |
| Interest and rent of land | (3 649,52) | 2 365 169,14 |
| Purchases of capital assets | (21 547,16) | (2 309 204,63) |
| **Total** | **(6 002 563,51)** | **50 422,89** |

c) No management response has been received. The matter therefore remains unresolved.

1. **Related party disclosure note understated with planned and unplanned maintenance Ex 302**

**Audit Finding**

Laws, rules and legislation:

PFMA paragraph 40(3)(a) states:

*“The annual report and audited financial statements referred to in subsection (1)(d) must –*

*(a) fairly present the state of affairs of the department, trading entity or constitutional   
 institution, its business, its financial results, its performance against predetermined objectives and its financial position as at the end of the financial year concerned;*

DPW is the owner of the state owned immovable assets. PMTE incurred planned and unplanned maintenance cost pertaining to state owned buildings which are not recovered from DPW. The following deviations pertaining to these services received from PMTE were noted:

1. The planned and unplanned maintenance paid by PMTE pertaining to state owned buildings was not disclosed in the related party disclosure note as indicated in the table below:
2. Planned maintenance

|  |  |  |
| --- | --- | --- |
| **Description** | **2011-2012**  **R** | **2010-2011**  **R** |
| OWN&LEAS PROP EXP:CON REFUR/REHA | 557 280 860,26 | 1 707 253 211,64 |
| OWN&LEAS PROP EXP:UPGRADE&ADDITI | 149 717 648,50 | 303 799 353,46 |
| **Total** | **706 998 508,76** | **2 011 052 565,10** |

1. Unplanned maintenance

|  |  |  |
| --- | --- | --- |
| **Description** | **2011-2012**  **R** | **2010-2011**  **R** |
| OWN&LEAS P/EXP: CONTRAC PROP MAIN | 2 194 849 299,57 | 812 908 548,97 |

1. At year end PMTE has already committed funds pertaining to planned and unplanned maintenance. The future benefit that the department will receive pertaining to planned and unplanned maintenance was not disclosed in the related party disclosure note.

|  |  |  |
| --- | --- | --- |
| **Description** | **2011-2012**  **R** | **2010-2011**  **R** |
| PLANNED AND UNPLANNED MAINTENANCE | 365 250 809,13 | 565 294 601,97 |

Potential impact of the findings raised above:

1. Non-compliance with PFMA paragraph 40(3)(a) and paragraph 40(3)(b).
2. Related party disclosure note of the current year pertaining to benefits received from PMTE as disclosed in disclosure note 27 was understated with R706 998 508,76 in the current year and R2 011 052,10 for the prior year.
3. Related party disclosure note of the current year pertaining to benefits received from PMTE as disclosed in disclosure note 27 was understated with R2 194 849 299,57 for the current financial year and R812 908 548,97 for the prior year..
4. The future benefit pertaining to maintenance at year end amounting to R365 250 809,13 for the current financial year and R565 294 601,97 for the prior year.

Reason for the deviation:

1. The review of the financial statements was ineffective as it did not reveal the discrepancies reported above.
2. The department does not evaluate all transactions between the department and PMTE to ensure that all related party transactions are identified and appropriately disclosed in the financial statements.

**Internal control deficiency**

1. *Leadership*

*Management did not effectively exercise their oversight responsibility regarding financial and performance reporting and compliance and related internal controls.*

1. *Financial and performance management*

*Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information*

**Recommendation**

1. Management need to ensure that all the related party transactions are disclosed.

b) The financial statements need to be corrected. If management agrees with the finding the proposed correction should be submitted with management’s response.

1. Management must put proper measures in place to identify and disclose all related party transactions.

**Management response**

No management response has been received**.**

**Auditor’s conclusion**

Although no management comment has been received management has added the following narrative to the related party disclosure note as the template does not make any other provision for the disclosure of the items.

The PMTE pays planned and unplanned maintenance costs on immovable assets being reflected in the annual financial statements of the department (note 45). The planned maintenance amounted to R706,988 million (2010/11: R2 011,052 million) while the unplanned maintenance amounted to R2 194,849 million (2010/11: R812,909 million). These costs are not recovered from DPW by PMTE. . An amount of R 365,350 million (2011/10 R 565,294 million) was committed for planned and unplanned maintance by PMTE on behalf of DPW.

These changes will be reported as material corrections to the financial statements.

All transactions with PMTE need to accessed to determine if they should be reported as related party transactions in the related party disclosure note.

1. **Differences pertaining to confirmed and unconfirmed balances Ex 263**

**Audit Finding**

Laws, rules and Regulations:

1. PFMA
2. Section 38(1) (a)(i):

*“The accounting officer for a department, trading entity or constitutional institution must ensure that that department, trading entity or constitutional institution has and maintains effective, efficient and transparent systems of financial and risk management and internal control.”*

1. S40(1)(a) and 40(1)(b) states:

*“The accounting officer for a department, trading entity or constitutional institution –*

1. *must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards.*
2. *must prepare financial statements for each financial year in accordance with generally recognized accounting practice.”*
3. Treasury Regulations – 13.1.4

“The accounting officer must report all known contingent liabilities of the department in its annual report.”

1. Chapter 8 – Disclosure notes

(i) Paragraph 29.1 – Contingent liabilities – Guidance

*“A liability is a present obligation arising from past events, the settlement of which is expected to result in an outflow of resources embodying economic benefits or service potential. There are two types of obligations:*

*A legal obligation is an obligation that derives from a contract (through its explicit or implicit terms, legislation or other operation of law).*

*A constructive obligation is an obligation that derives from an entity’s actions that have created a valid expectation on the part of other parties that it will discharge those responsibilities. This valid expectation could arise as a result of an established pattern of past practice, published policies or sufficiently specific current statement indicating that the entity will accept certain responsibilities.*

*To understand a contingent liability it is important to first understand the concept of a liability and a provision.*

*In an accrual environment, a liability is recognised when it is either virtually certain or probable (more likely than not) that the entity has a present obligation and the amount can be determined with absolute certainty.*

*A provision is a liability and it is recognised when the entity has a present obligation to transfer resources to another party, but there may not be absolute certainty about when it will happen and it is measured at an amount that represents at least a reasonable estimate of the liability.*

*With a contingent liability, there is a greater measure of uncertainty about the fulfilment of the obligation (i.e. it is possibly a liability) or there is uncertainty as to when or how much the present obligation will cost the entity.”*

(ii) Paragraph 31 – Accruals – Guidance

“*This amount represents goods/services that have been delivered prior to year-end, but no invoice has been received from the supplier at year-end, OR an invoice has been received but has not been approved for payment at the reporting date. These amounts are not recognised in the statement of financial position as a liability or as expenditure in the statement of financial performance as the financial statements are prepared on the cash basis of accounting. All such amounts should be disclosed in the disclosure note.*

*It is required that ALL invoices that have not been approved for payment (but relate to the current financial year) at year-end must be disclosed, regardless of whether payment was made subsequent to year-end*.

*Where goods/services have been delivered and no invoice has been received at year-end, an estimate of the invoice amount should be made based on the order, quote, copy of invoice or goods received note.*

*Accruals should be disclosed as listed by economic classification as well as by programme level. Note that “Confirmed balances with other departments” per annexure 5, also form part of the accrual note. In summary, receipt/delivery of goods/service triggers accruals”*

d) Practice note 31 of 2011-2012 – month-end closure procedures for 2011/12, to meet the reporting requirements in terms of section 32 of the Public Finance Management Act and Interim Financial Statements.

1. Paragraph 2

*“Section 40 (1) (a) requires Accounting Officers to maintain full and proper records of the financial affairs of the department in accordance with any prescribed norms and standards. To ensure the completeness and accuracy of the information supplied in terms of section 40 (4) (c), all Accounting Officers must certify on a monthly basis, before the closure of the accounting month that they have complied with the minimum financial performance indicators in* ***Annexure B****.*

1. Paragraph 9

*“This Practice Note applies to all national and provincial departments. Failure to comply with this Practice Note shall be regarded as financial misconduct in terms of the Treasury Regulations.”*

1. Annexure B – Minimum financial management performance indicators to be complied with:

* *All transactions are supported by authentic and verifiable source documents.*
* *All Inter-departmental balances and debts have been recorded, reconciled and paid within the prescribed or agreed period.*
* *Monthly reconciliation of all control or suspense accounts is performed to confirmed and unconfirmed balances in the confirmation letters (issued and received) and available supporting documentation.*

The following deviations pertaining to the confirmed and unconfirmed balances between DPW and PMTE were noted:

1. Upon inspection of the supporting documentation provided for audit purposes it was identified that the amount as disclosed in note 14 to the PMTE financial statements (Related party balances) amounting to R186 964 199,13 does not agree to the amount as disclosed in the DPW annexure 5 of the financials of R80 647 000,00. As a reconciliation of the difference, of R106 315 937,13, was not included in the either the supporting files for the AFS submitted pertaining to the DPW or PMTE it is not evident how the completeness of contingent liabilities and accruals was confirmed prior to the submission of the financial statements by either DPW or PMTE.
2. Related party outstanding balances as per the financial statements of PMTE:

|  |  |
| --- | --- |
| **Details** | **R** |
| Accommodation Charges – State Owned | NIL |
| Accommodation Charges – Private leases | 51 431 521,61 |
| Municipal Services | 26 910 064,69 |
| Project Accelerated expenses | 103 227 740,38 |
| Current Assets | 5 394 872,45 |
| **TOTAL** | **186 964 199,13** |

.

1. Amount disclosed in annexure 5 of DPW’s financial statement as at 31 March 2012.

| **GOVERNMENT ENTITY** | **Confirmed balance outstanding** | **Unconfirmed balance outstanding** | **Total**  **R** |
| --- | --- | --- | --- |
| Property Management Trading Entity (PMTE) | 57 928 000,00 | 22 719 000,00 | **80 647 000,00** |

1. Furthermore it was noted that DPW provided a confirmation letter signed by the CFO for the amount disclosed by DPW, however the confirmation letter for PMTE was not signed by CFO.

c) As indicated in the table below a difference between the amount reported in annexure 5 pertaining to the unconfirmed balance and the confirmation schedule attached to the confirmation letter of R93 388,48 was noted.

|  |  |  |
| --- | --- | --- |
| **No** | **Details** | **R** |
| 1 | Trading entity statement - Opening balance 1 April 2011 - municipal services claimed | 4 988 093,65 |
| 2 | Trading entity statement - February 2012 - municipal services claimed | 12 429 422,38 |
| 3 | Recoverable claims CA - | 5 394 872,45 |
| **Sub-total** | | **22 812 388,48** |
| **Amount as per Annexure 5** | | **22 719 000,00** |
| **Difference** | | **93 388,48** |

d) The table below illustrate the schedule for recoverable claims that was attached to the confirmation letter signed by the acting CFO. The schedule does not cross cast. The balances were cross casted and a difference of R463,822,02 was noted.

| **Month** | **Claimed amount** | **Received amount** | **Balance** | **Recalculated total** | **Difference** |
| --- | --- | --- | --- | --- | --- |
| **R** | **R** | **R** | **R** | **R** |
| Opening balance - 1 April 2011 |  |  | 4 569 256,34 | 4 569 256,34 | - |
| Jul-11 | 42 856,28 | - | (1 864 495,73) | 42 856,28 | (1 907 352,01) |
| Aug-11 | - | - | (395 102,75) | - | (395 102,75) |
| Oct-11 |  | 85 967,95 | (85 967,95) | (85 967,95) | - |
| Nov-11 | 876 045,39 |  | 962 012,34 | 876 045,39 | 85 966,95 |
| Dec-11 | 20 203,14 | 772 957,82 | (752 754,68) | (752 754,68) | - |
| Jan-12 |  |  | 2 680 309,83 | - | 2 680 309,83 |
| Mar-12 | 281 614,05 |  | 281 614,05 | 281 614,05 | - |
| **Total** | **1 220 718,86** | **858 925,77** | **5 394 871,45** | **4 931 049,43** | **463 822,02** |

e) It was noted that, included in the unconfirmed balances as reported in paragraph (c), there are balances amounting to R9 557 349,99 from 1 April 2011 that was still not resolved at 31 March 2012. The latter is not in line with Practice note 31 of 2011-2012.

|  |  |
| --- | --- |
| **Detail** | **R** |
| Trading entity statement - Opening balance 1 April 2011 - municipal services claimed | 4 988 093,65 |
| Recoverable claims CA - Opening balance - 1 April 2011 | 4 569 256,34 |
| **Total** | **9 557 349,99** |

f) It was also noted that the confirmed and unconfirmed balances of the prior year differ with R5 252 000 as follows between annexure 5 of DPW and the financial statements of PMTE:

1. Related party outstanding balances as per the financial statements of PMTE:

|  |  |
| --- | --- |
| **Description** | **R** |
| Private lease | 42 417 000,00 |
| Municipal charges | 28 375 000,00 |
| Project accelerated expenses | 23 129 000,00 |
| Current assets | 4 569 000,00 |
| **31 March 2011 total debt** | **98 490 000,00** |

1. Amount disclosed in annexure 5 of DPW’s financial statement as at 31 March 2011.

| **GOVERNMENT ENTITY** | **Confirmed balance outstanding** | **Unconfirmed balance outstanding** | **Total**  **R** |
| --- | --- | --- | --- |
| Property Management Trading Entity (PMTE) | 51 412 000,00 | 52 330 000,00 | **103 742 000,00** |

The finding occurred as a result of the fact that:

a) As per discussion with the DD: Financial reporting(DPW), the DD did not understand why there were differences in the outstanding balances of PMTE and DPW and suggested that the matter should be followed up with the PMTE.

b) The D: Financial Reporting (PMTE) was not available for comment.

Impact of the finding:

a) Non- compliance:

1. PFMA Section 38(1)(a)(i) and Section 40(1)(a) and 40(1)(b)
2. Treasury regulations 13.1.4

b) In the absence of the reconciliation the extent to which contingent liabilities and accruals may be misstated for the current year could not be determined due to the un reconciled difference of R106 315 937,13.

c) Accruals and contingent liabilities of the prior year may be overstated with R5,252 million.

d) Contingent liabilities and unconfirmed balances in annexure 5 may be understated with R93 388,48.

e) Contingent liabilities and unconfirmed balances in annexure 5 may be overstated with R463 822,02

f) The department did not comply with practice note 31 as opening balances amounting to R9 557 349,99 was not reconciled and paid within the prescribed timeframes. In terms of the said practice note this is regarded as financial misconduct.

**Internal control deficiency**

1. *Leadership*

*Management did not exercise their oversight responsibility regarding financial and performance reporting and compliance and related internal controls*

1. *Financial and performance management*

*Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information*

**Recommendation**

a) The department should follow up all requests for balance confirmations timeously before and/or after year end to ensure no unconfirmed balance exist.

b) The department should ensure that confirmations are signed as evidence of approval.

1. The department should also ensure validate, accurate, pertinent and complete schedules and confirmations are used to prepare the annual financial statements.
2. Differences should be timeously followed up to ensure accurate and complete disclosure in the financial statements.

**Management Response**

The department has noted all audit findings relating to PMTE transactions, full attention will be given to these transactions.

a) I am not in full agreement with the finding for the following reasons: PMTE submitted a request for DPW to confirm all balances as at 31 March 2012 which the department disclosed in the AFS. The finding of the AG is noted, PMTE will be engaged to determine the accuracy and correctness of the amounts identified by AG. It would be risky for the department to adjust the AFS in the absence of proper engagement with PMTE.

|  |  |  |
| --- | --- | --- |
| **Details** | **R** | **Management response** |
| Accommodation Charges – State Owned | NIL |  |
| Accommodation Charges – Private leases | 51 431 521,61 | The department will adjust with concerns as this amount was not presented in the confirmation letter for the fact that PMTE is still reconciling leases. The amount that will be disclosed as unconfirmed is R 22 896 470.03 and confirmed amount is R 28 535 051.58 because it was paid in April 2012. |
| Municipal Services | 26 910 064,69 | The department will adjust accordingly after consultation with PMTE that at the time of sending confirmation letters the balances were correct and there were adjustments made during the audit. |
| Project Accelerated expenses | 103 227 740,38 | The department consulted with PMTE and the correct amount for pace is R 101 504 633.00 that will be disclosed as confirmed amount because it was paid in April 2012. |
| Current Assets | 5 394 872,45 |  |
| **TOTAL** | 1. **964 199,13** |  |

b) I am not in agreement with the finding for the following reasons: the confirmation letter was signed by the CFO, it is unfortunate that CFO of PMTE is the same CFO of DPW. We understand the confusion created by the structural challenge with regards to CFO writing to herself. However the confirmation letter received from PMTE was signed by the CFO. See copy attached.

c) I am in agreement with the finding for the following reasons, the confirmed amount was incorrectly rounded up and it will be adjusted. See attached adjustment

1. I am in agreement with the finding for the following reasons: AG did not have the full statement as some columns were hidden. See attached full statement with all relevant columns. No adjustments will be made.
2. I am not in agreement with the finding for the following reasons: the department communicated with PMTE through a confirmation letter indicating the disputes with reasons, PMTE had a responsibility to provide proof of the claim which the department was disputing.
3. I am in agreement with the finding for the following reasons, it is a fact that PMTE AFS and confirmation letter is different, it is a common practice for organization to place reliance on the confirmation letter and PMTE has a responsibility to confirm the correct balance. No adjustments will be processed as the department relied on the confirmation letter that was provided. Transactions from PMTE will be thoroughly scrutinized to ensure all discrepancies are resolved between the two entities. It is not practical for the department to take annual reports of all potential creditors and disclosed based on such annual reports. Confirmation letters are the tools to achieve fair disclosure.

*Name:* Mandla Sithole

*Position: Director*

*Date: 01/08/2012*

**Auditor’s conclusion**

a) Management agrees with the finding. The financial statements were corrected as indicated in the table below. Amounts paid subsequent to year end were now disclosed as confirmed and the remaining balance as unconfirmed.

PMTE was not able to explain the difference of R1 723 107,38 and the amount was therefore not included as an unconfirmed balance in the financial statements of DPW.

It does however remain a concern that balances between the department and their trading was “confirmed” as a confirmation letter was provided for DPW, yet these differences were not identified. It is therefore further recommended that when the confirmation is signed by the CFO that printouts of the accounts as per the records of PMTE is provided to the CFO together with proof of payments subsequent to year end, to support the classification between confirmed and unconfirmed.

It is further recommended that these confirmations are also performed on a monthly basis to resolve all unconfirmed matters timeously.

Management’s reviews need to be enhanced to timeously identify and correct differences to this extent.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Details** | **Amount Disclosed by PMTE** | **Agreed amounts after consultation with PMTE** | **Difference** | **Confirmed** | **Unconfirmed** | **Total** |
| Accommodation Charges – Private leases | 51 431 521,61 | 51 431 521,61 | - | 28 535 051,58 | 22 896 470,03 | 51 431 521,61 |
| Municipal Services | 26 910 064,69 | 26 910 064,69 | - | 18 904 957,60 | 8 005 107,09 | 26 910 064,69 |
| Project Accelerated expenses | 103 227 740,38 | 101 504 633,00 | 1 723 107,38 | 101 504 633,00 |  | 101 504 633,00 |
| Current Assets | 5 394 872,45 | 5 394 872,45 | - |  | 5 394 872,45 | 5 394 872,45 |
| **TOTAL** | **186 964 199,13** | **185 241 091,75** | **1 723 107,38** | **148 944 642,18** | **36 296 449,57** | **185 241 091,75** |

b) Although cognisance is taken of management’s comment it must be ensured that one confirmation letter between DPW and PMTE is compiled for signature of the CFO. As recommended in the previous paragraph sufficient supporting documentation for both PMTE and DPW need to be attached. The matter therefore remains unresolved.

c) Management agrees with the finding and corrected the AFS. Management’s reviews need to be enhanced to timously identify and correct differences to this extent.

d) Although management indicated that they do not agree with the finding however the schedule indicated was not provided with the response. The matter therefore remains unresolved.

e) Although it is acknowledged that PMTE must proof these amounts, the department and PMTE are related parties. If matters are identified through the monthly confirmations that do not get resolved, they must be escalated and specifically brought to the attention of the CFO so that they can get resolved. The matter therefore remains unresolved.

f) Management agrees with the finding. Although management indicated that they rely on the confirmation letter received from PMTE for the disclosure in their AFS and not the amounts as per the PMTE AFS, and no explanation for the difference was provided. The matter therefore remains unresolved.

**Commitments**

1. **Commitments and accruals understated Ex 252**

**Audit Finding**

**Laws and Regulations**

1. PFMA Section 40(1) requires that:

“The accounting officer for a department, trading entity or constitutional institution—

(*a*) must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;

(*b*) must prepare financial statements for each financial year in accordance with generally recognized accounting practice;

The following issues were identified

1. The commitments of Cape Town, per the schedule submitted to support the amounts disclosed in the disclosure notes, were reduced with the amounts listed in the table below, indicating that the amounts were transferred to accruals. Per inspection of the accrual listing it was confirmed that these amounts were not included in accruals.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **NO** | **SUPPLIER NAME** | **PROJECT DESCRIPTION** | **WCS NO** | **ACCRUAL AMOUNT**  **R** |
| 1 | VUSELA CONSTRUCTION (PTY)LTD | REFURBISHMENT OF RESIDENCES OF SESSIONAL OFFICIALS IN THE THREE PARLIAMENTARY VILLAGES. | 045661 | 69 136,66 |
| 3 | LIBRA JOINERS AND INTERIORS CC | HERITAGE - BERGSIG UPGRADE OF KITCHEN AND BATHROOMS,REPAIR DAMP WALLS,R EPLACE WINDOW FRAMES AND REPAIR TINT ON GLASS | 046576 | 27 991,42 |
| 4 | PREMA RACITI CONSTRUCTION CC | DEMOLISH 5 BUILDINGS ON CORNER OF ROELAND AND PLEIN STREETSFOR FUTURE EXTENSIONS TO PARLIAMENT | 047066 | 196 887,92 |
| 5 | R JUMAT | Muizenberg Western Cape: Baileys Cottage: REPAIRS TO BUILDING | 045618 | 7 341,82 |
| **TOTAL** | | | | **301 357,82** |

1. Commitments were reduced with transactions indicated in the table below. The payment was however cancelled due to the fact that the x-ray machine was not delivered. Therefore the amounts should have been included in commitments.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **NO** | **SUPPLIER NAME** | **PROJECT DESCRIPTION** | **WCS NO** | **ACCRUAL AMOUNT**  **R** |
| 1 | BRAINWAVE PROJECTS 1323 CC | HERITAGE - REPLACE 25 X-RAY MACHINES IN ALL BUILDINGS ON PRECINCT | 047289 | 698 531,84 |

The finding occurred as a result of the fact that:

Insufficient controls over management, supervision and monitoring of information recorded in the financial statement.

The impact of the finding:

1. Non-compliance on section 40 of the Financial Management Act 1 of 1999.
2. Accruals as disclosed in the disclosure note 21 of the financial statement was understated with R301 357,82.
3. Commitments as disclosed in the disclosure 20 was understatement of commitments with R698 531,84.

**Internal control deficiency**

Financial and performance management

*Monitoring controls to ensure that the department prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information, were ineffective.*

**Recommendation**

1. Management should ensure that all the amounts identified as accruals are properly recorded and included on the accrual list disclosed on the disclosure note in the financial statements.
2. The department should enhance reviewing controls and procedures to guide officials to accurately disclose information in the financial statements.

**Management response**

a) I am not in agreement with the finding: No 1, 3 and 5, these accruals are for planned maintenance; therefore PMTE does not recover this expenditure from DPW. It is PMTE responsibility to pay for these services. However management agrees with no: 4 and acknowledge that it was an oversight from the department; adjustment has been made see attached annexure A and the workings.

|  |  |  |  |
| --- | --- | --- | --- |
| **DESCRIPTION** | **RESPONSE** | | |
| **Corrective action to be taken:** |  | | |
| Does the finding affect an amount disclosed in the financial statements? | **Yes** | | **No** |
| **x** | |  |
| If yes, what corrections will be made to the population? | Adjustment has been made | | |
| If yes, and no corrections will be made, the reason why such a conclusion has been reached | **N/A** | | |
| Position of official responsible to take corrective action: | DD: Financial reporting: L. Ledwaba | | |
| Estimated completion date for corrective action: | **27 July 2012** | | |
| Does management agree with the root cause indicated | **Yes** | **No** | |
|  | **X** | |
| If management does not agree with the root cause indicated, please provide the root cause according to management | Oversight from the department | | |

*Name:*

*Position:*

*Date:*

b) I am in agreement with the finding the payment was cancelled due to the fact that the x-ray machine was not delivered. Adjustment has been made see attached annexure B

|  |  |  |  |
| --- | --- | --- | --- |
| **DESCRIPTION** | **RESPONSE** | | |
| **Corrective action to be taken:** |  | | |
| Does the finding affect an amount disclosed in the financial statements? | **Yes** | | **No** |
| **x** | |  |
| If yes, what corrections will be made to the population? | Adjustment has been made | | |
| If yes, and no corrections will be made, the reason why such a conclusion has been reached | **N/A** | | |
| Position of official responsible to take corrective action: | DD: Financial reporting: L. Ledwaba | | |
| Estimated completion date for corrective action: | 27 July 2012 | | |
| Does management agree with the root cause indicated | **Yes** | **No** | |
|  | **X** | |
| If management does not agree with the root cause indicated, please provide the root cause according to management | Oversight from the department | | |

*Name:*

*Position:*

*Date:*

**Auditor’s conclusion**

1. Management’s comments were followed up and the following were confirmed:
2. According to the project type on the commitment schedule the commitment to Vusela Construction (Pty) Ltd pertains to the maintenance of the residence of the sessional officials in the three parliamentary villages. The matter is therefore resolved.
3. According to the project type on the commitment schedule the commitment to Libra Joiners and Interiors CC pertains to the maintenance of the Heritage Bersig . The matter is therefore resolved.
4. Management agrees with the finding and corrected the financial statements. Management must however enhance the review procedures of the financial statements to ensure that errors are timeously detected to avoid corrections being made to the financial statements after submission.

b) Management agrees with the finding and corrected the financial statements. Management must however enhance the review procedures of the financial statements to ensure that errors are timeously detected to avoid corrections being made to the financial statements after submission.

1. **Commitments overstated Ex 274**

**Audit Finding**

Laws, rules and legislation:

1. PFMA paragraph 40(3)(a) states:

*“The annual report and audited financial statements referred to in subsection (1)(d) must -*

*(a) fairly present the state of affairs of the department, trading entity or constitutional   
 institution, its business, its financial results, its performance against predetermined objectives and its financial position as at the end of the financial year concerned;*

Although it was indicated that neither planned nor unplanned maintenance are recovered from DPW, it was noted that the following commitments pertaining to maintenance were included in the commitments disclosure note of DPW.

1. Commitments pertaining to the 2011-2012 financial year

|  |  |  |  |
| --- | --- | --- | --- |
| **Regions** | **Project type Maintenance** | **Project type Maintenance current** | **Total** |
| **R** | **R** | **R** |
| BLOEMFONTEIN | 79 569,71 | 11 545 238,53 | 11 624 808,24 |
| CAPE TOWN | 123 269 368,21 | 50 273 062,54 | 173 542 430,75 |
| DURBAN | 6 285 364,74 | 6 001 161,85 | 12 286 526,59 |
| HEAD OFFICE | 1 744 113,35 | 5 346 894,40 | 7 091 007,75 |
| JOHANNESBURG | 58 441 445,13 |  | 58 441 445,13 |
| KIMBERLEY | 4 106 982,04 | - | 4 106 982,04 |
| MMABATHO |  | 5 914 958,60 | 5 914 958,60 |
| NELSPRUIT | 1 090 605,34 |  | 1 090 605,34 |
| POLOKWANE | 1 344 923,24 | 1 611 222,86 | 2 956 146,10 |
| PORT ELIZABETH |  | 58 312 275,46 | 58 312 275,46 |
| PRETORIA | 256 041,69 | 28 906 741,35 | 29 162 783,04 |
| **Grand Total** | **196 618 413,45** | **167 911 555,59** | 1. **529 969,04** |

1. Commitments pertaining to the 2010-2011 financial year

| **Region** | **Planned maintenance** |
| --- | --- |
| **R** |
| Bloemfontein | 21 900 277,22 |
| Cape Town | 152 680 495,43 |
| Durban | 18 518 859,02 |
| Head office | 27 277 213,62 |
| Johannesburg | 44 677 184,39 |
| Kimberley | 10 107 684,92 |
| Mafikeng | 6 221 813,94 |
| Nelspruit | 4 034 516,10 |
| Polokwane | 3 336 187,90 |
| Port Elizabeth | 49 299 671,44 |
| Pretoria | 56 422 420,08 |
| Umtata | 1 539 690,68 |
| **Total** | **396 016 014,74** |

Potential impact of the findings raised above:

1. Non-compliance with PFMA paragraph 40(3) (a) and paragraph 40(3) (b).
2. Commitments as disclosed in disclosure note 20 was overstated with R364 529 969, 04.
3. Commitments pertaining to the prior year as disclosed in disclosure note 20 was overstated with R396 016 017,74

Reason for the deviation:

The schedules received from PMTE to support disclosure in the financial statements of the department were not effective reviewed as it did not reveal the discrepancies reported above.

**Internal control deficiency**

1. *Leadership*

*Management did not effectively exercise their oversight responsibility regarding financial and performance reporting and compliance and related internal controls.*

1. *Financial and performance management*

*Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information*

**Recommendation**

1. Management need to thoroughly review all schedules received to ensure that the information is accurate and in line with the disclosure requirements.
2. Management must confirm that all the commitments listed are recoverable from DPW.
3. The impact on the overstatements pertaining to the commitment disclosure note on the related party disclosure note should also be considered.
4. The financial statements need to be corrected. If management agrees with the finding the proposed correction should be submitted with management’s response.

**Management response**

1. I am in agreement with the finding, however recalculated amount by Auditor General omitted Umtata regional office and amount of R104 469.90 which clearly stated as accruals for Cape Town regional office, hence was added on AG calculations as commitments. Taking above mentioned into consideration total overstatement amount is R365 250 809.13. See annexure D

|  |  |  |
| --- | --- | --- |
| **DESCRIPTION** | **RESPONSE** | |
| Corrective action to be taken |  | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** |
| X |  |
| If yes, what corrections will be made to the population | Adjusting the commitments | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. |  | |
| Position of official responsible to take corrective actions | DD: Financial reporting | |
| Estimated completion date for corrective action | 03/08/2012 | |
| Does management agree with the root cause indicated | **Yes** | **No** |
| X |  |
| If management does not agree with the root cause indicated, please provide the root cause according to management. |  | |

1. I am in agreement with the finding however recalculated amount is 565, 294,601.97. The financial statement has been adjusted. See annexure D

|  |  |  |
| --- | --- | --- |
| **DESCRIPTION** | **RESPONSE** | |
| Corrective action to be taken |  | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** |
|  | X |
| If yes, what corrections will be made to the population | N/A | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. | N/A | |
| Position of official responsible to take corrective actions | N/A | |
| Estimated completion date for corrective action | N/A | |
| Does management agree with the root cause indicated | **Yes** | **No** |
|  |  |
| If management does not agree with the root cause indicated, please provide the root cause according to management. |  | |

Name: Mandla Sithole

Position: Director

Date: 03/08/2012

**Auditor’s response**

1. Management has agreed with the finding and added on AG calculations the Umtata regional office amount of R104 469,90 which stated as accruals for Cape Town regional office as commitments. Taking above mentioned into consideration the total overstatement amount is R365 250 809,13. Inspected annexure D and confirmed the above change. Management must however ensure that reviewing controls are enhanced to ensure that information is properly reviewed are errors to this extent is timeously identified to avoid material corrections to the financial statements submitted. The matter will be reported as a material change to the financial statements.
2. Management has agreed with the finding an recalculated an amount of R565 294 601,97. Inspected annexure D and confirmed that the change has been made.

Management must however ensure that reviewing controls are enhanced to ensure that information is properly reviewed are errors to this extent is timeously identified to avoid material corrections to the financial statements submitted. The matter will be reported as a material change to the financial statements.

1. **CPAP commitment limitation EX 291**

**Audit Finding**

Laws and Regulations

**a)** Public Finance Management Act sections 40 and 41 state the following:

1. section 40(1)

*“The accounting officer for a department, trading entity or constitutional institution-*

*(a) must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;”*

1. section 41

*“An accounting officer for a department, trading entity or constitutional institution must submit to the relevant treasury or the Auditor-General, such information, returns, documents, explanations and motivations as may be prescribed or as the relevant treasury or the Auditor-General may require”*

b) Treasury Regulations 17.2.1 states:

*“Accounting officers of institutions must, subject to the provisions of the relevant national or provincial legislation, retain all financial information in its original form, as follows-*

1. *information relating to one financial year – for one year after the audit report for the financial year in question has been tabled in Parliament or the provincial legislature; or*
2. *information relating to more than one financial year – for one after the date of the audit report for the last of the financial years to which the information relates.”*

The following matters have been identified during the audit of commitments:

The following commitments selected for testing includes an amount for contract price adjustment provisions (CPAP). The CPAP is calculated by a quantity surveyor due to its complexity. The CPAP is updated on a regular basis as and when payments are made against the contract. The department uses a number of different quantity surveyors to calculate the CPAP. No supporting schedules or any calculations to support these amounts could be obtained. As a result, the audit team is unable to confirm the CPAP amount. As these amounts form part of the contracted amount on the commitment schedule and can only be identified when the detail supporting documentation is requested, the total amount pertaining to CPAP included in the commitments could not be determined.

| **No** | **TENDER NO** | **R** |
| --- | --- | --- |
| 1 | H08/008 | 29 317 482,55 |
| 2 | H08/009 | 6 807 139,22 |
| 3 | H11/052 | 1 043 243,27 |
| 4 | H11/043 | 45 477 181,15 |
| 5 | H08//007 | 44 927 114,95 |
| 6 | PT09/026 | 1 046 975,26 |
| **Total** | | **128 619 136,40** |

Potential impact of the findings raised above:

a) Non compliance with Section 40 and 41 of the Public Finance Management Act.

b) Non compliance with Treasury Regulations 17.2.1.

c) The accuracy and valuation and completeness relating to CPAP of R128 619 136,40 that forms part of the commitment cannot be verified. It should be noted that this represents the total population selected for audit purposes. Thus if extrapolated it means that this limitation is applicable to the total CPAP included in commitments.

d) As the aforementioned commitments should also form part of the related party disclosure note 27, the same limitation will apply.

Reason for the deviation:

In the initial request for information 230 and 253, requesting for supporting documentation relating to commitments, we have not been provided with supporting documentation relating to the CPAP.

**Internal control deficiency**

*Financial and performance management*

The department has not implemented proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting

**Recommendation**

1. It is recommended that all information requested be provided to the AGSA within three days from the date of request to enable the recalculation and validation of the CPAP included in commitments disclosed.
2. Management’s response should include the total CPAP included in the commitments as disclosed in disclosure note 37 pertaining to commitments.

**Management response**

No management comment has been received

**Auditor’s conclusion**

No management comment has been received. The matter is therefore unresolved. It should be noted that it is not possible to identify from the information submitted the portion pertaining to the extent of the limitation cannot be determined.

1. **IDT commitment not included as part of commitments Ex 282**

**Audit Finding**

Laws, rules and legislation:

PFMA paragraph 40(3)(a) states:

*“The annual report and audited financial statements referred to in subsection (1)(d) must -*

*(a) fairly present the state of affairs of the department, trading entity or constitutional   
 institution, its business, its financial results, its performance against predetermined objectives and its financial position as at the end of the financial year concerned;*

The following differences were identified upon inspection of the related party disclosure noteand the commitment disclosure note in relation to the audit of the Independent Development Trust:

1. Included in the related party disclosure note is an amount of R33 992 000 which was disclosed as a commitment. However, this amount has not been disclosed as a commitment in the commitment disclosure note. From a schedule obtained from IDT it was determined that the only commitments at year end pertained to the alternative method project and amounted to R7 658 825,31. This has been issued as a finding as part of communication to management of audit findings 266.

Potential impact of the findings raised above:

1. Non-compliance with PFMA paragraph 40(3)(a).
2. Commitments pertaining to IDT not disclosed in the commitment disclosure note 20 was understated R7 658 825,31.

Reason for the deviation:

The review of the financial statements was ineffective as it did not reveal the differences reported above.

**Internal control deficiency**

1. *Leadership*

*Management did not effectively exercise their oversight responsibility regarding financial and performance reporting and compliance and related internal controls.*

1. *Financial and performance management*

*Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information*

**Recommendation**

1. Management must ensure that the detail disclosure reported in the financial statements reconcile back to supporting schedules as well as financial information, as the general ledger.
2. The financial statements need to be corrected. If management agree with the finding the proposed correction of the financial statements need to be included with management’

**Management response**

1. I am in agreement with the finding the amount of 33 992 has been paid in advance to IDT and disclosed on the Statement of Financial Position, on current assets; prepayments and advances. The disclosed amount on the related party disclosure note is a commitment by IDT to deliver on the amount received by them in advance. Subsequently the funds remain unspent it should have been considered as a commitment on DPW. See Annexure A for amendments.

|  |  |  |
| --- | --- | --- |
| **DESCRIPTION** | **RESPONSE** | |
| Corrective action to be taken |  | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** |
| X |  |
| If yes, what corrections will be made to the population |  | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. | Adjustment will be effected | |
| Position of official responsible to take corrective actions | DD: Financial Reporting | |
| Estimated completion date for corrective action | Done | |
| Does management agree with the root cause indicated | **Yes** | **No** |
| X |  |
| If management does not agree with the root cause indicated, please provide the root cause according to management. |  | |

*Name:* Mandla Sithole

*Position: Director*

*Date: 08/08/2012*

**Auditors conclusion**

Management has agreed with the finding. We inspected annexure and the relevant adjustment has been made. The department must however ensure that the review procedures of the financial statements are enhanced to timously detected errors. Management must also ensure that interim financial statements are prepared correctly to reduce the number of errors at year end. The matter will be reported as a material change to the financial statements

2. **Commitments in the related party disclosure note understated Ex 273**

**Audit Finding**

Laws, rules and legislation:

PFMA paragraph 40(3)(a) states:

*“The annual report and audited financial statements referred to in subsection (1)(d) must -*

*(a) fairly present the state of affairs of the department, trading entity or constitutional   
 institution, its business, its financial results, its performance against predetermined objectives and its financial position as at the end of the financial year concerned;*

The commitments pertaining to PMTE was not disclosed in the related party disclosure note 27. It should be noted that the amounts listed in the tables below still include the maintenance incorrectly included in commitments as reported in factual finding 274.

a) Commitments pertaining to the 2011-2012 financial year

|  |  |
| --- | --- |
| **REGIONS** | **R** |
| HEAD OFFICE | 1 458 416 071,93 |
| BLOEMFONTEIN | 23 910 670,12 |
| NELSPRIUT | 1 345 740,29 |
| MMABATHO | 10 638 468,81 |
| POLOKWANE | 13 229 805,80 |
| PRETORIA | 92 008 192,03 |
| PORT ELIZABERTH | 84 545 765,90 |
| UMTATA | 19 076 100,94 |
| JOHANNESBURG | 70 660 889,81 |
| KIMBERLY | 25 515 634,56 |
| DURBAN | 213 263 578,02 |
| CAPE TOWN | 268 298 055,09 |
| **TOTAL** | 1. **280 908 973,30** |

b) Commitments pertaining to the 2010-2011 financial year

| **Region** | **R** |
| --- | --- |
| Head office | 471 001 396,62 |
| Pretoria | 316 000 949,89 |
| Bloemfontein | 45 987 931,29 |
| Nelspruit | 19 897 008,35 |
| Mafikeng | 501 609 160,64 |
| Polokwane | 12 526 655,98 |
| Port Elizabeth | 83 609 143,15 |
| Umtata | 42 686 266,34 |
| Johannesburg | 57 022 454,05 |
| Kimberley | 16 775 654,97 |
| Durban | 358 168 489,60 |
| Cape Town | 296 293 510,61 |
| **Total** | **2 221 578 621,49** |

Potential impact of the findings raised above:

a) Non-compliance with PFMA paragraph 40(3)(a) and paragraph 40(3)(b).

b) Related party disclosure note of the current year pertaining to commitments as disclosed in disclosure note 27 was understated with R2 280 908 973,30.

c) Related party disclosure note of the current year pertaining to commitments as disclosed in disclosure note 27 was understated with R2 221 578 621,49

Reason for the deviation:

The review of the financial statements was ineffective as it did not reveal the discrepancies reported above.

**Internal control deficiency**

*Leadership*

*Management did not effectively exercise their oversight responsibility regarding financial and performance reporting and compliance and related internal controls.*

*Financial and performance management*

*Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information*

**Recommendation**

a) Management need to ensure that all the related party transactions are disclosed.

b) The impact on the overstatements pertaining to the commitment disclosure, on the related party disclosure note should also be considered.

c) The financial statements need to be corrected. If management agrees with the finding the proposed correction should be submitted with management’s response.

**Management response**

a) I am in agreement with the finding; the recalculated amount pertaining to the 2011/12 for planned maintenance is R365,250,809.13, Capital 1 903 566 724.01, Damages and losses R1 269 472.64 and recoverable R11 520 499.36. The related party disclosure note has been adjusted with the total commitment amount of R2 281 607 505.14 that include an amount of R698 531.84 Coff 252. See annexure E

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Corrective action to be taken |  | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** |
| X |  |
| If yes, what corrections will be made to the population | Adjustment on the disclosure note:37 | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. | N/A | |
| Position of official responsible to take corrective actions | DD: financial reporting | |
| Estimated completion date for corrective action |  | |
| Does management agree with the root cause indicated | **Yes** | **No** |
| X |  |
| If management does not agree with the root cause indicated, please provide the root cause according to management. | N/A | |

b) I am in agreement with the finding; recalculated amount for 2010/11 is 2 221 578 621.49. The disclosure note has been adjusted see annexure E.

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Corrective action to be taken |  | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** |
| X |  |
| If yes, what corrections will be made to the population | Adjustment on the disclosure note:37 | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. | N/A | |
| Position of official responsible to take corrective actions | DD: financial reporting | |
| Estimated completion date for corrective action |  | |
| Does management agree with the root cause indicated | **Yes** | **No** |
| X |  |
| If management does not agree with the root cause indicated, please provide the root cause according to management. | N/A | |

Name: Mandla Sithole

Position: Director Finance

Date: 03/08/2012

**Auditor’s conclusion**

1. Management has agreed with the finding and have made an adjustment to the financial statements. As a result the matter will be reported in the management report as a material adjustment made to the financial statements that have been corrected. The review controls of the financial statements need to be enhanced to ensure that errors are timeously detected to avoid material errors in the financial statements submitted. It cannot be acceptable that errors to this magnitude were not detected through the review process.
2. Management has agreed with the finding and the adjustment has been inspected and considered to be correct. As a result the matter will be reported as a material adjustment corrected in the management report. The review controls of the financial statements need to be enhanced to ensure that errors are timeously detected to avoid material errors in the financial statements submitted. It cannot be acceptable that errors to this magnitude were not detected through the review process.
3. **Variation orders deviations not reported to National Treasury and AGSA. Ex 288**

**Audit finding**

Laws and Regulations

1. Public Finance Management Act sections 40 and 41 states the following:
2. section 40(1)

*“The accounting officer for a department, trading entity or constitutional institution-*

*(a) must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;”*

1. section 41

*“An accounting officer for a department, trading entity or constitutional institution must submit to the relevant treasury or the Auditor-General, such information, returns, documents, explanations and motivations as may be prescribed or as the relevant treasury or the Auditor-General may require”*

1. Treasury Regulations 17.2.1 states:

*“Accounting officers of institutions must, subject to the provisions of the relevant national or provincial legislation, retain all financial information in its original form, as follows-*

1. *information relating to one financial year – for one year after the audit report for the financial year in question has been tabled in Parliament or the provincial legislature; or*
2. *information relating to more than one financial year – for one after the date of the audit report for the last of the financial years to which the information relates.”*
3. National Treasury instruction note on enhancing compliance monitoring and improving transparency and accountability in supply chain management

*“3.9 Management of expansions or variation of orders against the original*

*Contract*

* + 1. *It is recognized that, in exceptional cases, an accounting officer or accounting authority may deem it necessary to expand or vary orders against the original*

*contract.*

* + 1. *The absence of a prescribed threshold for the expansion or variation of orders*

*against the original contract has, however, led to gross abuse of the current SCM system.*

* + 1. *In order to mitigate against such practices, accounting officers and authorities are directed that, from the date of this instruction note taking effect, contracts may be expanded or varied by not more than 20% or R20 million (including all applicable taxes) for construction related goods, works and/or services and 15% or R15 million (including all applicable taxes) for all other goods and/or services of the original value of the contract, whichever is the lower amount. The relevant treasuries may, however, decrease these thresholds for institutions reporting to them.*
    2. *Any deviation in excess of these thresholds will only be allowed subject to the*

*prior written approval of the relevant treasury. Whilst provision is made for*

*deviations, it is imperative to note that requests for such deviations may only be submitted to the relevant treasury where good reasons exist.”*

d) Supply chain management circular

*Postponing implementation of sub-paragraph 3.9.4 in instruction note number 32 dated 31 May 2011, related to enhancing compliance monitoring and improving transparency and accountability in supply chain management (SCM) states:*

*3.3 Institutions are, however, required to forward motivations for all expansions in excess of the thresholds to the relevant treasuries and to the Auditor-general within 10 (ten) working days after the Accounting Officer or Accounting Authority has granted approval for the deviation.*

The following issues have been identified relating to RFI 306 during the audit of commitments:

Evidence that the below variations in excess of the thresholds as per the Supply Chain Management Circular pertaining to the postponement of implementation of sub-paragraph 3.9.4 in instruction noted number 32 dated 31 May 2011, were submitted within 10 working days of approval by the accounting officer to National Treasury and to the AGSA has not been received as requested in RFI 306. This pertain to contract number PT08/038

|  |  |  |  |
| --- | --- | --- | --- |
| **No** | **DESCRIPTION** | **Approval** | **R** |
| 1 | Variation no 17-22 | Approved by Mr Dongwana DG on 2011/06/14 | 14 867 542,15 |
| 2 | Variation no 23 to 25 | Mr S Vukela as the acting DG on 19 July 2011 | 4 825 368,53 |
| 3 | Variations | Approved by Mr Dongwana ADG on 2011/06/17 | 12 394 129,64 |
| **Total** | | | 32 087 040,32 |

The total variation orders approved pertaining to this contract are as follows:

| **Description** | **Variation order number** | **Approval of variation orders** | **R** | **R** | **Percentage of original tender** |
| --- | --- | --- | --- | --- | --- |
| Original tender amount |  |  | 68 155 082,98 | 68 155 082,98 |  |
| Variation orders approved prior to the effective date of the practice note | Variation no 1  and 2 | Approved by Mrs Noloyiso Director on the 2010/02/09 | 113 641 041,11 | 142 621 543,60 | 209% |
| Variation no 3 to 5 | Approved by Mrs Noloyiso Ntwana Director on the 2010/05/14 | 15 235 243,55 |
| Variation no 6 and 12 | Approved by Mr S Vukela ADG on the 2010/12/15 | 1 047 790,97 |
| Variation no 13 to 16 | Approved by Mr S Vukela ADG on the 2011/05/19 | 12 697 467,97 |
| Variation orders approved after the effective date of the practice note | Variation no 17-22 | Approved by Mr Dongwana DG on the 2011/06/14 | 14 867 542,15 | 32 087 040,32 | 47% |
| Variation no 23 to 25 | It was also approve on Mr S Vukela as the acting DG o 19/07/2011 | 4 825 368,53 |
| Variations | Approved by Mr Dongwana ADG on the 2011/06/17 | 12 394 129,64 |
| **Total variation orders approved** |  |  | **174 528 583,92** |  | **256%** |

Potential impact of the findings raised above:

1. Non compliance with section 40 and 41 of the Public Finance Management Act
2. Non compliance with Treasury Regulations 17.2.1.
3. It could not be confirmed if the deviation pertaining to the variation orders amounting to R32 087 040,32 was reported to NT and the AGSA.

**Internal control deficiency**

*Financial and performance management*

The department has not implemented proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting

*Financial management*

The department does not effectively review and monitor compliance with applicable laws and regulations

**Recommendation**

1. It is recommended that all information requested be provided to the AGSA within three days from the date of request.
2. Deviations should be reported within ten working days from the date of approval to National Treasury and AGSA.

**Management response**

I am not in agreement with the finding. The requirement to report variation orders in terms of the Practice note quoted, had been withdrawn at the time of the approval. Therefore the requirement to report to national treasury was no longer applicable.

|  |  |  |
| --- | --- | --- |
| **DESCRIPTION** | **RESPONSE** | |
| Corrective action to be taken | n/a | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** |
| n/a | n/a |
| If yes, what corrections will be made to the population | n/a | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. | n/a | |
| Position of official responsible to take corrective actions | n/a | |
| Estimated completion date for corrective action | n/a | |

*Name: Eulala Kruger:*

*Position: Acting CD: SCM*

*Signature:\_\_\_\_\_\_\_\_\_\_\_*

*Date:*

**Auditor’s conclusion**

National Treasury’s instruction note on enhancing compliance monitoring and improving transparency and accountability in supply chain management was effective from 31 May 2011.

The first circular issued by national treasury to postponed the following paragraphs pertaining to instruction note 32 dated 31 May 2011 was approved on 28 September 2011. This circular only dealt with paragraphs 3.3, 3.4 and 3.5.

The second circular issued by national treasury pertaining to the postponing of the implementation of sub-paragraph 3.9.4 in instruction note 32 dated 31 May 2011 was approved on 24 April 2012.

This circular stated in paragraph 2.3 that after consultation with departments and provincial treasuries, it has since come to the light that sub-paragraph 3.9.4, as contained in instruction 32 dated 31 May 2011, is also problematic for implementation.

Paragraph 3.1 states that taking cognisance of paragraph 2.3, sub-paragraph 3.94, as contained in instruction note 32 is also postponed for implementation pending the issuance of a revised instruction note.

As indicated under laws and regulations, paragraph 3.9.4 per instruction note 32 required that any deviation in excess of the thresholds will only be allowed subject to the prior written approval of the relevant treasury. Whilst provision is made for deviations, it is imperative to note that requests for such deviations may only be submitted to the relevant treasury where good reasons exist.

In paragraph 3.1 of circular pertaining to the postponement for implementation of paragraph 3.9.4 it was stated that the implementation of sub-paragraph 3.9.4 as contained in instruction note 32 is also postponed for implementation.

Paragraph 3.3 of the circular pertaining to the postponement of the implementation of paragraph 3.9.4, however requires that institutions must forward motivations for all expansions in excess of the threshold to the relevant treasuries and to the AGSA within ten working days after the accounting officer has granted approval for the deviation.

Paragraph 3.4 requires that the mentioned motivation must include the contract number, the description of the contract, the name of the contractor, the original contract amount, the value and the percentage of the deviation and the reason for the deviation.

Paragraph 3.5 states that the relevant treasury will scrutinise these reports and take appropriate actions where necessary. It indicates that the latter may include the investigation of any system of financial management and internal control in terms of sections 6(2)(e) and 18(2)(f) of the PFMA and the institution of financial misconduct proceedings in terms of chapter 10 of the PFMA and chapters 4 and 33

The matter therefore remains unresolved.

**Contingent Liabilities**

1. **Labour relations matters not considered for disclosure in the financial statements Ex 270**

**Audit Finding**

Laws, rules and legislation:

1. Public Finance Management Act sections 38(1)(a)(i), 40 and 41 states the following:
2. Section 38(1)(a)(i)

*“The accounting officer for a department, trading entity or constitutional institution must ensure that that department, trading entity or constitutional institution has and maintains effective, efficient and transparent systems of financial and risk management and internal control.”*

1. Section 40(1)

*“The accounting officer for a department, trading entity or constitutional institution-*

*(a) must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;”*

1. Treasury Regulations – 13.1.4

“The accounting officer must report all known contingent liabilities of the department in its annual report.”

1. The preparation guide chapter 8  states the following:
2. Guidance

*“A liability is a present obligation arising from past events, the settlement of which is expected to result in a outflow of resources embodying economic benefits or service potential.”*

1. Claims

*“Civil claims against the state (department/province) that have not been settled (by a court or mutually between the parties) must be included in contingent liabilities. Certain types of claims are normally overstated. The amount disclosed is not necessarily the claim amount, but rather the amount determined as the most likely amount that the court will settle on. The “Most likely” outcome of the settlement must be determined by a qualified legal person (such as the State Attorney or an department’s internal legal services). Departmental/provincial history can also assist in determining such an estimate. The department should have processes in place that corroborate how the “most likely” outcome is determined and how the “most likely amount” is arrived at.”*

The following labour related matters were not considered with the compilation of the financial statements.

1. As per inspection of the Annual financial statement as submitted on 31 May 2012 for audit purposes the following matter were not included or considered for inclusion as contingent liabilities:

|  |  |  |  |
| --- | --- | --- | --- |
| **Persal Number** | **Description of matter** | **Date** | **Amount Claimed**  **R** |
| 18702309 | Grievances (Acting allowance) | 26/01/2012 | 130 513,00 |
| 22322221 | Grievance (Post upgrade) | 02/03/2012 | 56 212,58 |
| **Total** | | | **186 725,58** |

1. As the amount and timing of the following matter is know it should have been disclosed as an accrual.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Persal Number** | **Description of matter** | **Date** | **Amount Claimed** | **Payment date** |
| Security Officers (Cape Town Regional Office) | Grievances (unpaid Overtime) | 21/02/2012 | 24 640,23 | 10 May 2012 |

The finding occurred as a result of the fact that:

As per discussion with DD:Finance it was noted that the department was not aware that there are litigation cases that relates to labour relations which are contingent in nature.

The impact of the finding:

a) Contingent liabilities may be understated with R186 725,58.

b) Accruals may be understated with R24 640,23.

1. Non-compliance with the PFMA Section 38(1)(a)(i), 40(1).
2. Non-compliance with the Treasury Regulation paragraph 13.1.4.

**Internal control deficiency**

## Financial and Performance Management

The department did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information

**Recommendation**

1. The department should ensure that contingent liabilities are disclosed as per Departmental Financial Reporting Framework Guide Chapter 8 paragraph 29.1.
2. The department should ensure that at year end all pending cases or claims relating to contingent liability are assessed to determine the probability outcomes of the future event on each claim. The pertinent detail of the person who provides the aforementioned should be indicated together with the supporting documentation to the arrival of the assessment.
3. The department should ensure that before a litigation claim is disclosed as a contingent liability the definition of a contingent liability is met.
4. All contingent liability disclosed in the financial statement should be reviewed by the delegated official in finance department to ensure accuracy, completeness, occurrence and classification.
5. The financial statements need to be adjusted.
6. If management agrees with the finding the proposed change to the financial statements should be attached to management’s response.

**Management response**

1. I am in agreement with the finding; it was an oversight from the department not to include liabilities that relates to labour relations that should have been considered for inclusion as contingent liabilities, financial statement has been adjusted. See annexure A

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Corrective action to be taken |  | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** |
| X |  |
| If yes, what corrections will be made to the population | Adjustment on contingent liabilities | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. |  | |
| Position of official responsible to take corrective actions | DD: Financial reporting | |
| Estimated completion date for corrective action | 08/08/2012 | |
| Does management agree with the root cause indicated | **Yes** | **No** |
| X |  |
| If management does not agree with the root cause indicated, please provide the root cause according to management. |  | |

1. I am in agreement with the finding it was an oversight from the department not to include liabilities that were concluded and the department agreed to settle matters that relates to labour relations that should have been considered for inclusion as an accrual, financial statement has been adjusted. See annexure B

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Corrective action to be taken |  | |
| Does the finding affect an amount disclosed in the financial statements | Yes | No |
| X |  |
| If yes, what corrections will be made to the population | Adjustment on Employee benefits | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. |  | |
| Position of official responsible to take corrective actions | DD: Financial reporting | |
| Estimated completion date for corrective action | 08/08/2012 | |
| Does management agree with the root cause indicated | **Yes** | **No** |
| X |  |
| If management does not agree with the root cause indicated, please provide the root cause according to management. |  | |

*Name:* Mandla Sithole

*Position: Director*

*Date:*

**Auditor’s conclusion**

a) Management agrees with the finding. However this correction was not made to the financial statements and the matter therefore remains unresolved.

b) Management agrees with the finding. However this correction was not made to the financial statements and the matter therefore remains unresolved.

1. **Contingent liabilities Ex 201**

**Audit Finding**

Laws, rules and legislation:

a) Public Finance Management Act sections 40 and 41 states the following:

(i) section 40(1)

*“The accounting officer for a department, trading entity or constitutional institution-*

*(a) must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;”*

(ii) section 41

*“An accounting officer for a department, trading entity or constitutional institution must submit to the relevant treasury or the Auditor-General, such information, returns, documents, explanations and motivations as may be prescribed or as the relevant treasury or the Auditor-General may require”*

b) Treasury Regulations 17.2.1 states:

*“Accounting officers of institutions must, subject to the provisions of the relevant national or provincial legislation, retain all financial information in its original form, as follows-*

1. *information relating to one financial year – for one year after the audit report for the financial year in question has been tabled in Parliament or the provincial legislature; or*
2. *information relating to more than one financial year – for one after the date of the audit report for the last of the financial years to which the information relates.”*

c) The preparation guide chapter 8 states the following:

Guidance

*“A liability is a present obligation arising from past events, the settlement of which is expected to result in a outflow of resources embodying economic benefits or service potential.”*

Claims

*“Civil claims against the state (department/province) that have not been settled (by a court or mutually between the parties) must be included in contingent liabilities. Certain types of claims are normally overstated. The amount disclosed is not necessarily the claim amount, but rather the amount determined as the most likely amount that the court will settle on. The “Most likely” outcome of the settlement must be determined by a qualified legal person (such as the State Attorney or an department’s internal legal services). Departmental/provincial history can also assist in determining such an estimate. The department should have processes in place that corroborate how the “most likely” outcome is determined and how the “most likely amount” is arrived at.”*

Directive: Contingent Liability and Assets approved on 23 December 2011 paragraph 7.4 state:

*“Legal service must document the method used for the assessment and file the documentations with the summons received on the Audit File”*

The following matter relates to the contingent liability disclosed in the annual financial statements for the financial year ended 31 March 2012:

a) As per inspection of the annual financial statements, as submitted on 31 May 2012 for audit purposes, the following matter was noted with regard to contingent liabilities:

(i) The amount as disclosed in the disclosure note 19.1. “Claims against the department” is R11 957 000,00 for the 2011/12 financial year and R11 957 000,00 for the 2010/11 financial year. Although the opening balance was restated, we noted that the full restated amount does not relate to the opening balance or the event that occurred as at 31 March 2011. The following cases as indicated in the table below took effect after the 31 March 2011; they therefore do not form part of the opening balance but rather the movement for the year. As a result the opening balance is overstated by R2 954 806,51:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Name of Claimant** | **Nature of Claim** | **Amount Claimed** | **Assessed Amount** | **Date per summons** | **Date of the event** |
| Ismyline (Pty) ltd | Damages as a result of fire to several farms | 8 718 907,00 | 2 906 302,33 | 08/08/ 2011 | 31/08/2008 |
| Steg Kruger | Claim for damages from a motor vehicle accident | 28 504,18 | 28 504,18 | 05/05/ 2011 | 25/02/2009 |
| Ziwekhaya IT Solution and Trading CC | Breach of contract | 87 360,00 | 20 000,00 | 13/01/2012 | 1/06/2011 |
| **Total** |  | **8 834 771,18** | **2 954 806,51** |  |  |

(ii) Furthermore, it was noted per inspection of the summons as well as the assessment of claim relating to Steg Kruger; see the table above; that at 31 March 2012 the state attorney recommended the department to settle the matter as claimed amounting to R28 504,18. The claim therefore does not meet the definition of a contingent liability as at 31 March 2012 as the amount can be measured reliably and it is probable that the outflow of resources embodying economic benefits will be required to settle the obligation. Therefore the amount should be recognised as an accrual and not a contingent liability.

b) The contingent liability file, as submitted on 31 May 2012 for audit purposes, does not include the documentation and method used for the assessment of the litigation claims. Although a note was indicated for the assessment, it is not sufficient to enable the auditors to establish how the legal service came to the conclusion of the matter and the basis used to assess the matter.

Reason for the deviation:

a) As per discussion with D:Finance it was noted that the department restated the entire amount without considering any movement thereof or assessing if the litigation claims do meet the definition of the contingent liabilities.

b) As per discussion with the D: Finance it was noted that the audit file submitted have enough and necessary documentation used for the assessment of the contingent liability.

Potential impact of the findings raised above:

a) Overstatement of the opening balance of the contingent liability disclosure note amounting to R2 954 806,51.

b) Overstatement of the closing balance of the Contingent Liability disclosure note with R28 504,18 and understatement of accruals with R28 504,18.

c)     Non-compliance with the Directive: Contingent Liability and Assets approved on 23 December 2011 paragraph 7.4

d) The valuation of contingent liabilities amounting to R11,957 million could not be confirmed in the absence of documentation pertaining to the valuation of contingent liabilities.

Similar matters were also reported in the prior year. The Directive: Contingent Liability and Assets approved on 23 December 2011 was issued to address this matter. However it was not effectively implemented.

**Internal control deficiency**

## Financial and Performance Management

The department did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information

**Recommendation**

a) The department should ensure that contingent liabilities are disclosed as per Departmental Financial Reporting Framework Guide Chapter 8 paragraph 29.1.

b) The department should ensure that at year end all pending cases or claims relating to contingent liability are assessed and a legal opinion should be done indicating the probability outcomes of the future event on each claim. The pertinent detail of the person who provides the aforementioned should be indicated together with the supporting documentation to the arrival of the assessment.

c) The department should ensure that before a litigation claim is disclosed as a contingent liability the definition of a contingent liability is met.

d) All contingent liability disclosed in the financial statements should be reviewed by the delegated official in finance department to ensure that it is correctly valued, it meets the definition of a contingent liability.

**Management response**

a)(i) I am in agreement with the finding the opening balance was overstated by R2 926 302,33 excluding R28 504,18 which remain part of the opening balance because the reference number on the state attorney’s letter is dated 2009 which represent the date the summon was issued. Adjustment has been made, see annexure xxxxxxxxxx****

|  |  |  |
| --- | --- | --- |
| **DESCRIPTION** | **RESPONSE** | |
| Corrective action to be taken |  | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** |
| X |  |
| If yes, what corrections will be made to the population | Adjustment will be made | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. |  | |
| Position of official responsible to take corrective actions | DD: Financial Reporting | |
| Estimated completion date for corrective action | **Xxxxxxxxxxxxxxxxx** | |
| Does management agree with the root cause indicated | **Yes** | **No** |
| X |  |
| If management does not agree with the root cause indicated, please provide the root cause according to management. |  | |

*Name:*

*Position:*

*Date:*

(ii) I am in agreement with the finding of the claim relating to Steg Kruger amounting to R28 504.18 should be disclosed as an accrual not contingent liability.

|  |  |  |
| --- | --- | --- |
| **DESCRIPTION** | **RESPONSE** | |
| Corrective action to be taken |  | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** |
| X |  |
| If yes, what corrections will be made to the population | Adjustment will be made | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. |  | |
| Position of official responsible to take corrective actions | DD: Financial Reporting | |
| Estimated completion date for corrective action | Xxxxxxxxxxxxxxxxx | |
| Does management agree with the root cause indicated | **Yes** | **No** |
| X |  |
| If management does not agree with the root cause indicated, please provide the root cause according to management. |  | |

*Name:*

*Position:*

*Date:*

b)I am not agreement with the finding that contingent liability file submitted does not include the documentation and method used to assess the litigation claims, because the file that was submitted contained all documentation used to assess the litigation claim .

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **DESCRIPTION** | **RESPONSE** | | | |
| Corrective action to be taken |  | | | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | | | **No** |
|  | | | X |
| If yes, what corrections will be made to the population | N/A | | | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. | N/A | | | |
| Position of official responsible to take corrective actions | N/A | | | |
| Estimated completion date for corrective action | N/A | | | |
| Does management agree with the root cause indicated | | **Yes** | **No** | |
|  |  | |
| If management does not agree with the root cause indicated, please provide the root cause according to management. | | N/A | | |

*Name:*

*Position:*

*Date:*

**Auditor’s conclusion**

a)(i) Management is in agreement with the finding and corrected the financial statements. Management should adequately review the financial statements before being submitted for audit purposes to ensure that such matters are identified and corrected before submission thereof.

(ii) Management is in agreement with the finding and corrected the financial statements. Management should adequately review the financial statements before being submitted for audit purposes to ensure that such matters are identified and corrected before submission thereof.

b) The required information was obtained the matter is therefore resolved.

1. **Limitation of scope – possible contingent liabilities Ex 271**

**Audit Finding**

Laws, rules and legislation:

a) Public Finance Management Act sections 40 and 41 state the following:

1. section 40(1)

*“The accounting officer for a department, trading entity or constitutional institution-*

*(a) must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;”*

1. section 41

*“An accounting officer for a department, trading entity or constitutional institution must submit to the relevant treasury or the Auditor-General, such information, returns, documents, explanations and motivations as may be prescribed or as the relevant treasury or the Auditor-General may require”*

1. Treasury Regulations 17.2.1 states:

*“Accounting officers of institutions must, subject to the provisions of the relevant national or provincial legislation, retain all financial information in its original form, as follows-*

1. *information relating to one financial year – for one year after the audit report for the financial year in question has been tabled in Parliament or the provincial legislature; or*
2. *information relating to more than one financial year – for one after the date of the audit report for the last of the financial years to which the information relates.”*

The following deviation pertaining to contingent liabilities was noted:

As per inspection of the annual financial statements as submitted on 31 May 2012 for audit purposes it was noted that matters relating to labour relations were not considered for inclusion in the contingent liabilities disclosure note. From information obtained the matter listed in the table below was identified for which no supporting documentation could be provided. It therefore not be confirmed whether or not the amount should have been disclosed is a contingent liability at 31 March 2012.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Persal Number** | **Description matter** | **Date** | **Amount claimed** | **Status** |
| 16256395 | Absconduct (re-instatement) | 20/03/2009 | 208 787,66 | Pending |

The finding occurred as a result of the fact that:

As per discussion with D:Labour Relations it was noted that the submission is still with the authorities for the Minister’s consideration. Unfortunately we did not make copies when we forwarded the submission to Minister’s office.

Impact of the finding:

The completeness of contingent liabilities could not be confirmed due to the unavailability of supporting documentation for a labour related matter amounting to R208 787,66.

**Internal control deficiency**

## Financial and Performance Management

The department did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information

**Recommendation**

1. The department should ensure that contingent liabilities are disclosed as per Departmental Financial Reporting Framework Guide Chapter 8 paragraph 29.1.
2. The department should ensure that at year end all pending cases or claims that could potentially result in a contingent liability are assessed and a legal opinion should be obtained indicating the probability outcomes of the future event on each claim. The pertinent detail of the person who provides the aforementioned should be indicated together with the supporting documentation to the arrival of the assessment.
3. The department should ensure that before a litigation claim is disclosed as a contingent liability the definition of a contingent liability is met.
4. All contingent liability disclosed in the financial statement should be reviewed by the delegated official in finance department to ensure accuracy, completeness, occurrence and classification.

**Management response**

No management response has been received

**Auditor’s Response**

No management response has been received. The matter therefore remains unresolved.

Accruals

1. **Accruals - Deviations pertaining to accruals EX7**

**Audit finding**

a) PFMA section 40(1) (a) states:

“40(1)   *the accounting officer for a department, trading entity or constitutional institution-*

(a)  must *keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;”*

b) Treasury Regulations 9.1.1 states:

*“9.1.1      The accounting officer of an institution must exercise all reasonable care to prevent and detect unauthorised, irregular, fruitless and wasteful expenditure, and must for this purpose implement effective, efficient and transparent processes of financial and risk management.”*

c) Department financial reporting framework guide – chapter 8 – disclosure notes

(i)            Paragraph 31(a) – definition

*“Accruals represent goods/services that have been received, but where no invoice has been received from the supplier at the reporting date, or where an invoice has been received but final authorisation for payment has not been effected on the system.”*

(ii)           Paragraph 31(c) – guidance

*“Where goods/services have been delivered and no invoice has been received at year-end, an estimate of the invoice amount should be made based on the order, quote, copy of invoice or goods received note.”*

The following deviations were noted:

Although an opinion will not be expressed on the interim financial statements they were utilised to confirm the business process for the accrual disclosure note. The following deviations were noted:

a) The department does not have proper processes in place to identify instances where the services were rendered to PMTE for services pertaining to DPW, but an invoice has not yet been received by DPW.

b) Although it was confirmed with the December 2011 interim financial statements that the accruals did include certain instances where services were rendered but no invoices were received, the verification process prescribed by the department (quoted below) does not specifically address these instances.

*“Verification procedures:*

-      *Agree line items per the Accruals worksheet to the supporting documentation (invoices /delivery note/other valid supporting documentation):*

- *Agree invoice amounts as per the schedule to actual invoices (supporting docs)*

- *Ensure total number of invoices/ supporting docs equal to the total number of line items on the worksheet.*

- *Ensure that all columns per the worksheet are filled in. Where delivery notes and other forms of supporting documentation is present in place of invoices, those reference number are required to be used*

-  *Inspect the invoice date & the date of receipt of invoices & agree the following:*

- *Invoice is for the current financial year end.*

*- For invoices dated after year end, ensure evidence that the services/goods were rendered prior to year end are present.*

- *Recast the worksheet to ensure totals are correct”*

c) It was further noted that Annexure 5 – Inter-government payables was not completed as part of the December 2011 interim financial statements. The extent to which the accruals may be understated due to confirmed balances not being included can therefore not be determined. The balance as at 31 March 2011, pertaining to confirmed balances, was stated at R51, 412 million.

d) Although the schedules, which were submitted in support of the accrual disclosure note in the financial statements for the period ended 31 December 2011, were signed by the compiler and the reviewer at head office there is no indication as to which functions were performed as part of the review process, for example if the schedules were casted and cross casted or whether the consolidated schedule was independently agreed with the respective individual schedules of the regions.

e)   Although the individual accrual schedules of the regions were in the files submitted with the December 2011 financial statements it was not signed by the compiler and the reviewer. Similar to the previous paragraph it was also not indicted for example which review procedures were performed. For example cast, cross casted and agreed with supporting documentation.

Reason for the deviation:

As per discussion with the deputy director: finance it was noted that DPW only discloses accruals on the AFS once they receive an invoice from the PMTE or other third parties. If no invoice is received, no disclosure will be made on the Annual Financial Statements. It was also noted that the department does not take necessary steps to ensure that reconciliation is performed on a monthly basis of outstanding invoices, nor consult the supplier or third parties to obtain an estimation of expenditure incurred prior to year end.

Potential impact of the findings raised above:

a)  Accruals may be understated to the extent to which services were provided prior to year end but invoices were not yet received.

b)  Accruals may be understated to the extent that confirmed balances are not included in the accrual disclosure note.

c) Casting (including cross casting) errors may go undetected, resulting in incorrect financial statements being submitted.

d) Detail of the regions incorrectly consolidated into the head office schedule may go undetected resulting in incorrect financial statements being submitted.

e) Responsibility may not be assigned for incorrect information being compiled and submitted if officials do not clearly indicate which functions were performed by them.

**Internal control deficiency**

Financial and Performance management

Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

The department does not have a proper system in place to ensure complete and accurate disclosure of accruals.

**Recommendation**

a) Management should take reasonable steps to reconcile all outstanding invoices as well as commitments entered into by a third party (PMTE) on behalf of DPW to ensure that they are complete, correctly valued and disclosed and classified in the financial statements.

b)  Management should also take reasonable steps to ensure that where services were rendered but no invoice has been received the value of the service is estimated.

c)  Officials reviewing the financial statements should clearly indicate which functions were performed by them. Thus to assign responsibility for incorrect financial statements.

d)   The department should include a specific procedure in their procedures manual to ensure that accruals are raised for all instances where goods and/or services have been received prior to year-end but the invoice has not yet been received.  To that end the specific LOGIS report that indicates goods and services received for which there is not an invoice, “RR103-4 – Accruals – Received not yet invoiced”, can be utilised to assist in the process.

**Management response**

1. The department acknowledges that not all accrual transaction between DPW and PMTE for the period ended 31/12/2011 was disclosed. The department has since developed the     framework to ensure correctness and completeness of all inputs to the financial statements. The framework will be fully implemented at year end. Training has already started. The meeting has been scheduled with PTME before 02/03/2012

b)    Management is not in agreement with the finding for the following reasons:

As quoted in the audit finding, the department disclosed accruals for, Instances where services were delivered but no invoice received at the end of the reporting period. Furthermore the verification procedure outlined on the accruals schedules requires regional offices and all units to ensure that there is proof of service delivery in all instances where the invoices have not been received. Estimates are used on contractual accruals where invoices has not been received

c)    The department did not complete the Inter-governmental annexure because no confirmation of balances was received at the end of reporting period. The department does not have control over the non-compliance by other department in terms of confirmation of balances

d)   The review process is in line with the verification procedure outlined on the schedule for Accruals and Commitments

e)   Upon receipt of financial statements inputs, the financial statement team perform quality check in terms of the verification procedure outlined on the Accrual schedules before consolidation. Confirmation letters have been requested from the regional offices to confirm all the inputs. In future regional offices will present all the inputs and sign off the schedules here at Head Office.

Name:   Lesiba Ledwaba

Position:  DD Financial Reporting

Date: 27 February 2012

**Auditor’s conclusion**

a)  Management agrees with the finding. Although an opinion is not expressed on the interim financial statements as indicated, management must ensure that interim financial statements are also accurate, complete and in line with the reporting framework.

b)   As indicated in the finding and stated in the management’s comment instances were listed where services were received but no invoices were received. The matter raised was to include the verification procedures, procedures to specifically indicate to the regions and compilers of the schedules what information to consider pertaining to instances where invoices have not been received.

c)  Annexure 5 contains confirmed and unconfirmed balances. The prior year’s balances were also not completed. The department did not even indicate the balance of PMTE. It is not evident how the department could not confirm the balance of their own trading entity. If measures are not put in place to obtain this information the accruals disclosure note submitted at year end may not be complete.

d) The functions performed need to be indicated to held officials responsible for errors, incomplete and inaccurate information.

1. Management’s response is perceived as being in agreement with the finding. Officials from the regions must sign for the functions performed. The latter will enable the department to pin point responsibility and to hold officials accountable for information submitted.

**Public Private Partnerships**

1. **Public Private Partnership - Incorrect and incomplete disclosure of public private partnership information the interim financial statements Ex 20**

**Audit finding**

a) PFMA section 40(1) (b) states:

“40*(1)     The accounting officer for a department, trading entity or constitutional institution—*

(*b*) *Must prepare financial statements for each financial year in accordance with generally recognized accounting practice;*

b)   Departmental Financial Reporting Framework Guide, Chapter 8, section 39(c) – accounting policy stipulates:

*“A description of the PPP arrangement, the contract fees and current and capital expenditure relating to the PPP arrangement is included in the disclosure notes. “*

c)  Departmental Financial Reporting Framework Guide, Chapter 8, paragraph 39 stipulates:

*“For each PPP the department has entered into, the following must be disclosed for the current and prior financial year:*

*A description of the arrangement “*

*“Departments must take care to provide information about all obligations they might have in terms of these agreements. Where the line items provided does not make provision for items specific to a department, details must be provided in the item “Other obligations” with a corresponding explanation.”*

The following deviation was noted:

Although an opinion will not be expressed on the interim financial statements they were utilised to confirm the business process for the public private partnership disclosure note.

An extract was made from the general ledger as at 31 December 2011 pertaining to all payments to the service providers listed in paragraph (a) below. The latter was then summarised in line with the items disclosed in the financial statements in paragraphs (b) – (d).

1. Goods and services - extract per service provider:

|  |  |
| --- | --- |
| **Service Provider** | **Amount** |
| PHAKISAWORLD FLEET SOLUTIONS | 9 914 287,74 |
| PHAKISAWORLD FLEET SOLUTIONS (PT | 30 328 854,76 |
| PHAVISWORLD FLEET SOLUTIONS | 631 924,25 |
| PHAVISWORLD FLEET SOLUTIONS PTY | 308 786,38 |
| **TOTAL** | **41 183 853,13** |

1. Goods and services – per item:

| **ITEMLEVEL5D** | **Amount** |
| --- | --- |
| COM:TEL/FAX/TELEGRAP&TELEX | 70 195,96 |
| FINANCE LEASES | 13 985 982,25 |
| FLEET SERVICES | 3 800 385,24 |
| INV F&G:FUEL, OIL & LUBRICANTS | 19 175 968,18 |
| O/P:CLEANING SERVICES | 11 560,00 |
| O/P:NONLIFE INSRNC PRM-TRY12.1.2 | 9 120,00 |
| OPERATING LEASES | 107 816,80 |
| T&S:DOMESTIC | 4 022 824,70 |
| **TOTAL** | **41 183 853,13** |

1. Finance leases – asset classification:

|  |  |
| --- | --- |
| **ASSET LEVEL** | **Amount** |
| LEASES:CELLULAR PHONES | 5 739,47 |
| LEASES:MOTOR VEHICLES | 13 970 763,63 |
| NON-ASSETS RELATED | 9 479,15 |
| **TOTAL** | **13 985 982,25** |

1. Interest:

|  |  |
| --- | --- |
| **ITEM** | **Amount** |
| INT PAID:FINANCE LEASES | 561 163,36 |
| INT PAID:OVERDUE ACCOUNTS | 407,58 |
| **TOTAL** | **561 570,94** |

The following information has been disclosed in the December 2011 interim financial statements.

1. Analysis of indexed component

| **Description** | **31-Dec-11** | **31-Mar-11** |
| --- | --- | --- |
| **R** | **R** |
| Goods and Services(excluding lease payments) | 18 860 000 | 17 405 000 |
| Finance leases | 9 556 000 | - |
| Interest | 432 000 | 1 028 000 |
| **Total** | **28 848 000** | **18 433 000** |

b)    Other obligation

|  |  |  |
| --- | --- | --- |
| **Description** | **31-Dec-11** | **31-Mar-11** |
| **R** | **R** |
| Other obligations | 83 361 000 | - |

As per inspection of the financial statements dated 31 December 2011, the following were noted pertaining to the disclosure of public private partnership.

a)  There was no signature from the reviewer to indicate that the information pertaining to the public private partnership has been reviewed.

b)   Although the schedules to support the public private partnership expenditure for the current year were signed by the compiler, there is no indication of what functions were performed by the compiler.

c)   In the December 2011 financial statements an amount of R83 361 million pertaining to other obligations was disclosed. There was no supporting schedule in the audit file submitted to support the financial statements. There was a soft copy schedule submitted with the financial statements. There is however no evidence of what work was performed on the schedule, for example cast and cross casting, recalculation checks, confirmation of detail information of leases with lease agreements, etc.

d)   There were no references between the other obligation lease schedule and the actual lease agreements.

e)   There was no corresponding explanation pertaining to the other obligations as required by chapter 8 - paragraph 39 of the reporting framework.

f)    A description of the arrangement as required by chapter 8 - paragraph 39 of the reporting framework.

g)   During the 2009-10 financial year it was reported that the neither the finance lease expenditure nor the lease obligations were disclosed in the disclosure note. As the latter has not been corrected in the interim financial statements the matters remain unresolved in the current financial year.

h)   The expenditure excluding interest according to an extract of the general ledger amounted to R41 183 853, while interest amounted to R561 570, 94. The total expenditure per the December 2011 interim financial statements amounted to R28 848 000.

Reason for the deviation:

The interim financial statements were not appropriately reviewed pertaining to the public private partnership disclosure note prior to the submission thereof.

Matters pertaining to the disclosure of public private partnership information were also raised in the prior financial year. On page 16 of the National Department of Public Works management action plan on the audit report for the year ending 31 March 2011, management indicated that the PPP arrangement of the fleet rental contract would be analysed and disclosed accordingly. It was indicated in the action plan that the target date of August 2011 was achieved. It was further indicated in the progress to date that the disclosure for the 2012 financial statements will be correct.

 Potential impact of the findings raised above:

a)   Understatement the public private partnership disclosure note pertaining to the current financial year.

b)   Prior year errors reported pertaining to expenditure and obligations were not corrected.

c)   Casting (including cross casting) errors may go undetected, resulting in incorrect financial statements being submitted.

d)   Responsibility may not be assigned for incorrect information being compiled and submitted if officials do not clearly indicate which functions were performed by them.

**Internal control deficiency**

Leadership

Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls

Monitoring controls and reviews by the appropriate level of management to ensure that reported information is correct and complete are not effective.

## Financial and performance management

The department did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information,

**Recommendation**

a) Officials reviewing the financial statements should clearly indicate which functions were performed by them and sign as evidence that these functions have been performed. Thus to assign responsibility for incorrect financial statements.

b) Detail BAS and/or LOGIS reports should be printed to support the detail disclose in the disclosure notes. Reconciliations between the mentioned reports and the disclosure note schedule should be performed.

c) The prior year discrepancies should be corrected, the fact of the restatement disclosed and the supporting schedules and documentation submitted.

d) Copies of the lease agreements for all the leases listed in the schedules supporting the other obligations disclosed should be obtained and included in the supporting file. There should be an indication that the compiler and reviewer reviewed the detail capturing to calculate the obligation against the lease agreements.

e) Confirmation of the interest rates utilised for the different periods should be included. The compiler and reviewer should also verify that the correct interest rates for the respective periods were utilised in computing the obligation.

It should be considered to place a copy of the reporting framework in front of the relevant disclosure note and require the compiler and reviewer to sign that the disclosure made comply with the requirements

**Management response**

1. I am in agreement with the finding for the following reasons

The department has noted the Auditor’s view and will ensure that during the compilation of the annual financial statement the functions performed by the compiler and reviewer are documented and form part of the Audit file.

Name:   Lesiba Ledwaba

Position: DD Financial Reporting

Date: 02 March 2012

1. I am in agreement with the finding for the following reasons

The department has noted the Auditor’s view and will ensure that during the compilation of the annual financial statement the functions performed by the compiler are documented and form part of the Audit file.

Name:   Lesiba Ledwaba

Position: DD Financial Reporting

Date: 02 March 2012

**Auditor’s conclusion**

a) Management agrees with the finding. It was confirmed that the reviewer signed the schedule on 31 May 2012. It was however not indicated which functions were performed by the reviewer. The latter need to be indicated to be able to determine which functions are not performed and errors not timeously identified.

b) Management agrees with the finding. Although the compiler signed the schedule it was still not indicated which functions were performed. The latter need to be indicated to be able to determine which functions are not performed and errors not timeously identified.

c) The contract in place was extended for two years until November 2013. The matter will be again followed up at year end.

d) Management agrees with the finding. The schedule indicated the vehicle registration number. There was also a Phakisa fleet vehicle compliance checklist included with the information of the lease, a detail lease schedule from Phakisa and an the Phakisa fleet order form. The matter was therefore resolved with the year-end financial statements. Management must ensure that this information is also collated for the interim financial statements to reduce the work to be performed at year end.

e) Management agrees with the finding. Management must however ensure that interim financial statements also comply with the requirements of the reporting framework. The department did not disclose information pertaining to other obligations as required. The matter therefore remains unresolved.

f) Management agrees with the finding. Management must however ensure that interim financial statements also comply with the requirements of the reporting framework. It was indicated in the accounting officers report that The National Department of Transport appointed Phakisa World as a PPP Fleet Service Provider to respective Government Departments. Management must however ensure that all required information is also disclosed in the interim financial statements in preparation for the year-end financial statements. The latter should reduce the number of correction required at year end.

g) Information was not provided in time for consideration in the 2010-2011 audit. The department must indicate the restatement prior to 31 May 2012 and submit the supporting schedules to enable to the audit team to audit it. The amounts were included in the disclosure at year-end. Management must however ensure that all required information is also disclosed in the interim financial statements in preparation for the year-end financial statements. The latter should reduce the number of correction required at year end.

h) Further follow ups were performed and matter resolved.

1. **Duplication in Public, Private, Partnership disclosure Ex 265**

**Audit Finding**

**Laws and Regulations**

1. PFMA Section 40(1) requires that:

“The accounting officer for a department, trading entity or constitutional institution—

(*a*) must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;

(*b*) must prepare financial statements for each financial year in accordance with generally recognized accounting practice;

The following issue was noted during the audit of PPP:

The following expenses have been duplicated in the PPP disclosure note. Please see the table below for the list of duplications:

|  |  |  |
| --- | --- | --- |
| **DISBURSEMENT NUMBER** | **DESCRIPTION** | **AMOUNT**  **R** |
| 61484 | DISALL DAMAGE&LOSSES: RECOVER: CA | 21 171,74 |
| 61484 | FINANCE LEASES | 781 586,40 |
| 61484 | INT PAID: FINANCE LEASES | 3 007,02 |
| 61484 | INV F&G: FUEL OIL & LUBRICANTS | 216 172,70 |
| 61484 | T&S DOM WITHOUT OP: CAR RENTAL | 49 075,86 |
| 61828 | PAYABLE: ADV: N/DEPT: ADV ACC:CL | 1. 071 013,72 |

Potential impact of the findings raised above:

Overstatement of the PPP note by R1 071 013,72.

Reason for the deviation:

The initial payment to the supplier (Phakisa) was rejected due to the banking details on the LOGIS system being incorrectly captured. As a result the expenditure accounts were debited and the payable account was credited. The department then re-processed the payment to the supplier, crediting bank and debiting the payable account. The amounts captured in the expenditure accounts as well as the amount captured in the payable account was disclosed in the PPP note, resulting in duplication.

**Internal control deficiency**

Financial and performance management

*Monitoring controls to ensure that the department prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information, were ineffective.*

**Recommendation**

1. When payments are rejected the department should consider the accounting entries affected to ensure that the information in the public private partnership note is not duplicated.

1. The department should consider adjusting the above discrepancy.

**Management response**

I am in agreement with the finding the tabled amount of 1 071 013.72 was recaptured when the payment was rejected; from PAYABLE: ADV: N/DEPT: ADV ACC: CL. Currently rejected payments are no longer journalized to a suspense, but back to the vote the duplicate on the disbursement report will be identifiable on the detail report of the item in question and we have made an arrangement with reporting to get a list of all rejected payments that may affect the financial statement (disclosure notes). See annexure A for correction made.

|  |  |  |  |
| --- | --- | --- | --- |
| **DESCRIPTION** | **RESPONSE** | | |
| Corrective action to be taken: |  | | |
| Does the finding affect an amount disclosed in the financial statements? | **Yes** | | **No** |
| **x** | |  |
| If yes, what corrections will be made to the population? | Adjustment will be made | | |
| If yes, and no corrections will be made, the reason why such a conclusion has been reached |  | | |
| Position of official responsible to take corrective action: | DD: Financial Reporting | | |
| Estimated completion date for corrective action: |  | | |
| Does management agree with the root cause indicated | **Yes** | **No** | |
|  | **x** | |
| If management does not agree with the root cause indicated, please provide the root cause according to management | The report used for reporting shows disbursed payment to the beneficiary captured and authorized on BAS | | |

*Name:* Mandla

*Position: Sithole*

*Date: 31/07/2012*

**Auditor’s conclusion**

Management is in agreement with the finding and adjusted the final set of financial statements. Management must ensure that review controls are enhanced to ensure that errors are timously detected.

**Accounts payable**

1. **Accounts payables reconciling items not timeously cleared Ex 4**

**Audit Finding**

Laws, rules and legislation:

a) PFMA section 38(1) states that**:**

*“38(1) The accounting officer for a department, trading entity or constitutional institution—*

(*a*) *Must ensure that that department, trading entity or constitutional institution has and maintains—*

*(i) effective, efficient and transparent systems of financial and risk management and internal control;”*

*“38(2)  An accounting officer may not commit a department, trading entity or constitutional institution to any liability for which money has not been appropriated.”*

b) PFMA section 40(1) (a) requires that:

*“The accounting officer for a department, trading entity or constitutional institution must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;”*

c) TR 15.8.1 requires the following pertaining to the surrendering of funds:

*“At the end of each financial year, and after the books of account of a department have been closed, the accounting officer must surrender to the relevant treasury any unexpended voted money, for re-depositing into the Exchequer bank account of the relevant revenue fund.”*

d) TR 17.1. requires the following pertaining to the use of clearing and suspense accounts:

*“17.1.1  All the transactions of an institution must be supported by authentic and verifiable source documents, clearly indicating the approved accounting allocation.*

*17.1.2   Should it be necessary, in exceptional cases, to account for revenue and expenditure transactions in a clearing or suspense account because the classification has not been resolved, the accounting officer must ensure that—*

*(a) The sources of the transactions are readily identifiable;*

*(b) Amounts included in clearing or suspense accounts are cleared and correctly allocated to the relevant cost centres on a monthly basis;*

*(c) Monthly reconciliation’s are performed to confirm the balance of each account; and*

*(d) Reports are provided to the accounting officer about uncleared items on a monthly basis.*

*17.1.3  In each month’s section 40 (4) report, the accounting officer must certify that the forecast/projection for the remainder of the financial year adequately makes provision for all amounts not yet cleared from clearing and suspense accounts.”*

Although an opinion will not be expressed on interim financial statements they were utilized for the business process verification:

a) Detail reconciliations for payables were not timeously prepared on a monthly basis.

b) The periods for which the amounts were outstanding were not indicated in note 26 of the December 2011 interim financial statements.

c) Outstanding items are not timeously followed up and the required actions taken to clear them as indicated in the table below. The department did therefore not comply with the requirements of TR17.1

|  |  |  |
| --- | --- | --- |
| **Name of the department** | **Payment received from client department** | **Balance at 31 December 2011** |
|  |  | **R** |
| Arts and culture | An amount of R12 272 762 were transferred to DPW on 16 March 2006  Another transfer of R4 587 553 made on 3 October 2005. | 3 309 264,98 |
| Home affairs | Of this balance an amount of R18 058 000 was already paid 28 March 2008. From the aforementioned amount R4 014 483,10 is still included in the closing balance and pertains to leases that must be paid over to PMTE.  Included in the balance is also an amount of R1 772 632,63. According to a fax included in the creditors reconciliation file, dated 21 November 2005, this amount was for the refugee reception office renovations in Port Elizabeth. It was indicated that PE confirmed that the amount was incorrectly paid from expenditure. The remaining credit therefore has to be surrendered back to the Revenue Fund. | 6 437 728,56 |
| Correctional Services | This includes a balance of R5 100 280,66 which were transferred from Pace. The report included in the creditors reconciling file indicated that R1 169 436,03 and R2 986 216,52 of the mentioned balance pertain to conversion balances which were recorded on 1 December 2008. This means that these may consist of transactions that have originated even before 2008.  As this transaction was transferred from Pace to the current account in the prior year the aging further now incorrectly indicates that the age of this balance is less than 1 year. The aging of the creditors balance as per the interim AFS is therefore incorrect. | 7 175 407,61 |

d) As DPW did not perform the reconciliations timeously, possible prepayments were not identified and paid back to the other departments, for them to adhere to TR15.8.1.

The finding occurred as a result of the fact that:

As per discussion with the Deputy Director: Finance: it was noted that they are in a process of reconciling all accounts payable, however a monthly reconciliation for accounts payables was not yet performed as at 01 November 2011 It was noted that the reconciliation is not yet available as the department will need to reconcile back to 2003. The reconciliations up until the 31 December 2011 were compiled and submitted in January 2012.

Impact of the finding:

a) Errors may not be detected timeously.

b) Departmental revenue to be surrendered may be understated to the extent that the department does not have a liability towards a department to repay the amounts to them.

c) The department did not adhere to TR17and TR15

d) Due to the period since when the amounts are outstanding the obligation may no longer exist.

**Internal control deficiency**

*Financial and performance management*

*The department did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.*

**Recommendation**

a) Management should perform reconciliations on a monthly basis, for all creditors and advances. These reconciliations must be reviewed to ensure that all long outstanding items are adequately followed up and the required steps taken to clear or resolve them.

b) Corrective actions need to be taken to clear long outstanding items. If liabilities for amounts received do not exist the amounts must be surrendered back to National Treasury.

c) Management must ensure that they adhere to section 38(2) when clearing these accounts. Thus if a department did not have sufficient voted funds for current years expenditure, overpayments of prior years that may still be in the above mentioned accounts cannot be utilized to fund the current years expenditure. Accounts can therefore not just be off set against other accounts of the same department.

d) Detail reconciliations must be performed and reviewed monthly.

e) The action required to clear the item or the reason for the item still appearing on the reconciliation must be documented.

**Management response**

a) The department acknowledges that creditors’ reconciliations were not performed monthly for the period April – July 2011. However, the department performed a comprehensive creditor’s reconciliation at year end 2010/2011. The reconciliation involved identification of amounts per clients department, splitting of receivables from payables, identifying misallocations and matching fields that where in correctly linked to various clients department. The reconciliation process also involved identification of verifiable supporting documents to authenticate all transactions.

Subsequent to year end, a task team was established in August 2011 to investigate all transactions in order to identify specific projects which the funds were earmarked for as most of these projects were running under PMTE. The first progress report for the task team was done on the 13 September 2011 which included both the Receivables and Payables. The creditors’ schedules have been signed-off from November 2011 and updated in the subsequent months.

The department completed these investigations at end of January 2012 and appropriate action to clear the outstanding amounts will be taken before the end of the financial year 2011/2012

Furthermore the amount of R12 272 762 identified in the audit finding for Arts and Culture is captured incorrectly, the correct amount is R12 772 762

b) The creditors schedule provided for AG was Aged as follows: 30 Days & 30 Days plus as was required by the preparation guide. All balances where aged as 30 days plus as there were no new transactions. The Age Analysis schedules per client per transaction have the actual dates.

c) The department acknowledges that the transactions identified have not been cleared timeously.

The investigations on all the long outstanding balance have been completed at the end of January 2012 and appropriate action to clear the outstanding amounts will be taken before the end of the financial year 2011/2012

d) The department cannot rule out the possibility of not refunding client departments. This must be always contextualized, clients departments used to pay the department for different services including advance for projects. It is not a simple decision that the department can just refund client departments without proper engagement with PMTE. Furthermore, these transactions cannot therefore be interpreted as a normal payable.

The department is very cautious to refund client departments, and such decision will be taken once PMTE confirmed whether to refund or not. The inception of PMTE confused client departments where the DPW account was used instead of PMTE.

*Name:* Mr. K Mashapha

*Position: Deputy Director Accounts Receivable*

*Date: 15/02/2012*

**Auditor’s conclusion**

a) Management agrees with the finding. The progress made with the creditors was noted with the creditor files submitted for the verification process of the business process. The amount pertaining to Arts and Culture should be R12 772 762.

b) Departmental Financial Reporting Framework Guide, Chapter 6, section 25(a) defines current payables as payables that comprise of all money owed by an entity which is due within one year after the reporting date. Section 26(a) defines non-current payables as payables that comprise of all money owed by an entity which is due in a period longer than one year after the reporting date. Although managements response is acknowledged management must ensure that the payables at year end is correctly classified between current and non-current.

c) Management agrees with the finding. Matter therefore remains unresolved.

d) During the prior year an amount of R48,688 million was written off. The motivation for the write off of the aforementioned amounts was indicated as follows by the department:

“*After thorough investigation of the transactions in the suspense account the following was determined:*

*Due to insufficient information on the suspense account, transactions amounting to* ***R24 108 719,00*** *could not be identified and therefore no documents could be traced regarding these transactions.*

*Transactions amounting to* ***R17 401 797,89*** *could be identified but no supporting documents could be traced and these transactions could not be allocated to Client Departments”*

Therefore although cognisance is taken of management’s comment that they are cautious to refund departments and that a decision will be taken once PMTE confirmed whether to refund or not, if the reconciliations are not performed at year end by PMTE it will result in a limitation being placed on the confirmation of the existence of the obligations.

**Final Auditor’s conclusion, after year end follow up**

During the follow up performed at year end it was confirmed that all the accounts listed in paragraph (c) above had zero balances at year end. It was then also noted that an amount of R3 309 264,98 pertaining to Arts and Culture was paid over to PMTE.

The amounts transferred from DPW to PMTE were made as a result of a decision taken by the department, to transfer all national advances to PMTE. We have inspected supporting documentation relating to the decision and confirmed that the decision has been approved by the CFO.

As a result, the matter has now been resolved. Management must however ensure that reconciliations are timeously performed and cleared.

1. **Journals not approved by appropriately delegated official (Ex 242)**

**Audit Finding**

Laws and Regulations

1. Section 44 of the Public Finance Management Act states:

*“(1) The accounting officer for a department, trading entity or constitutional institution may:*

*(a) in writing  delegate any of the powers entrusted or delegated to the accounting officer in terms of this Act, to an official in that department, trading entity or constitutional institution; or*

*(b) instruct any official in that department, trading entity or constitutional institution to perform any of the duties assigned to the accounting officer in terms of this Act.*

1. Department of Public Works delegation of powers in terms of the Public Finance Management Act dated 17 January 2005, signed by the then Accounting Officer; Themba Meveli James Maseko make provision in item 24 on page 22 pertaining to Treasury Regulation 8.2.2 for the authority to authorise payments or transfers to the following limits within areas of competence and budgetary limits:

|  |  |
| --- | --- |
| **LOWEST RANK OF OFFICIAL PER DELEGATIONS** | **LIMIT**  **R** |
| Senior Admin Officer | 100 000,00 |
| Assistant Director or Equivalent | 1 000 00,00 |
| Deputy Director or Equivalent | 5 000 000,00 |
| Directors | 10 000 000,00 |
| Chief Directors | 20 000 000,00 |
| Regional Managers (Regardless of Rank) | 20 000 000,00 |
| DDG’s | Unlimited |

The following issues were identified:

During the audit of payables, it was confirmed that the following journals were not authorised by delegated officials. Journals for the year ended 31-March-2012. Although the delegations listed above pertain to payments it was indicated in the prior year that the same delegations apply for the approval of journals.

| **JOURNAL NO** | **JOURNAL DESCRIPTION** | **AMOUNT** | **AUTHORISED BY** |
| --- | --- | --- | --- |
| 29141 | REJECTED FOREIGN PAYMENT | 1 492 480,18 | E Tseuoa ASD |
| 30951 | PAIR OFF NO PROJECT ADVANCE | 12 000 000,00 | S Pool (AsD) |
| 29344 | REJECTED CREDIT TRANSFER BUSHBAC | 1 192 000,00 | E Teuoa ASD |
| 30135 | CLEARING OF ADVANCES | 15 175 838,48 | Mr Mashapha DD |
| 29391 | REJECTED TT PHAKISAWORLD FLEET S | 1 071 013,72 | E Teuoa ASD |
| 32705 | CLEARING OF SA POLICE SERVICE:CA | 43 963 906,70 | S Pool (AsD) |
| 29790 | REJECTED CREDIT TRANSFER KWAZULU | 118 585 000,00 | E Teuoa ASD |
| 34351 | CLEAR ADV EPWP | 7 074 407,39 | Mr Mashapha DD |
| 30134 | CLEARING OF ADVANCES | 15 067 450,57 | Mr Mashapha DD |
| 29126 | CLEARING OF ADVANCES CA | 13 694 384,36 | Mr Mashapha DD |
| **TOTAL** |  | **229 316 481,40** |  |

Potential impact of the findings raised above:

1. The absence of delegations relating to the authorisation of journals may result in the passing of invalid and inaccurate journals.
2. The occurrence of journals R229 316 481,40 could not be confirmed.

**Reason for the deviation:**

As per discussion with Mr Mashapha, it was noted that the department does not use delegations for journals but there are officials who are allowed to authorised journals and he also confirmed that delegations are only used for authorisation of payments.

**Internal control deficiency**

*Leadership*

The department did not effectively exercise its oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

**Recommendation**

1. It is recommended that there should be specific delegations relating to journals.
2. All journals should be authorised by an official with the appropriate rank as indicated by the delegation issued by the Accounting Officer: Department of Public Works.
3. Actions need to be taken against officials who fail to comply with these delegations.

**Management response**

I am not in agreement with the finding for the following reasons:

The department does not have delegations for journals as it is a functional area, in terms of *PMFA sec 38(1)(a)(i) must ensure that department, trading entity or constitutional institution has and maintains – effective, efficient and transparent systems of financial and risk management and internal control;* the department developed and implemented business processes. See attached process. The journals sampled by AG were even approved by ASDs/DDs beyond what the process requires.

All journals are approved at the supervisory level

|  |  |  |
| --- | --- | --- |
| **DESCRIPTION** | **RESPONSE** | |
| Corrective action to be taken |  | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** |
|  |  |
| If yes, what corrections will be made to the population |  | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. |  | |
| Position of official responsible to take corrective actions |  | |
| Estimated completion date for corrective action |  | |
| Does management agree with the root cause indicated | **Yes** | **No** |
|  |  |
| If management does not agree with the root cause indicated, please provide the root cause according to management. |  | |

*Name:* Mandla Sithole

*Position: Director Financial accounting*

*Date: 18/07/2012*

**Auditor’s conclusion**

Management’s comments have been noted and more specifically the statement made that the department does not currently have delegations for journals resulting in the finding that the journals selected for testing were not authorised by delegated officials.

Upon inspection of the business process received, the following weaknesses have been identified and possible recommendations have been made in order to mitigate the potential risks:

a) The lack of delegations pertaining to journals may result in unauthorised journals being passed. In order to avoid this possible risk, management should set and incorporate in the business process relevant thresholds pertaining to journals. This would act as an important internal control in reducing the risk of unauthorised journals being processed and enhance the strength of the internal control environment.

b) It has also been identified that there is a lack of segregation of duties as the state accountant compiles the journal, captures the journal and performs the reconciliation once the journal has been passed. This may result in errors not being identified.

As a result the matter is not resolved.

1. **Incorrect classification of a payable Ex 272**

**Audit Finding**

**Laws and Regulations**

PFMA section 40(1) requires that:

*“The accounting officer for a department, trading entity or constitutional institution—*

*(a) must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;*

*(b) must prepare financial statements for each financial year in accordance with generally recognized accounting practice;*

The following issue has been identified during the audit of payables:

During the auditing of payables, it was identified that an amount of R13 173,70, which was a claim by the Department of Public Works to Social Development relating to an amount that was erroneously paid to Mr M Bongani persal number 5306345 who was transferred to the Social Department, was incorrectly recognised as a payable. The credit entry should have been allocated to recoverable revenue.

Potential impact of the findings raised above:

1. Non compliance on section 40 of the Public Financial Management Act 1 of 1999.
2. Overstatement of payables and understatement of recoverable revenue with R13 173,70.

**Reason for the deviation:**

The deviation arose as the amount was incorrectly captured as a payable and management has not adequately reviewed the amounts that have been recognised as payables.

**Internal control deficiency**

*Leadership*

*Management did not effectively exercise their oversight responsibility regarding financial and performance reporting and compliance and related internal controls.*

**Recommendation**

a) Management should ensure that only amounts that meet the definition of a payable are included in the payable account.

b) The department should establish controls and procedures to guide the operation of the entity to comply with relevant legislation and regulations.

**Management response**

I am in agreement with the finding: The amount will be adjusted against revenue previous financial year. The error can be attributed to conversion of balances from the old BAS. The amount received from Social Development was correctly allocated to the receivable account, see attached journal (Annexure A). The amount was then journalized to payable account as the account had a credit balance at the end of the financial year. The amount will cleared against revenue previous financial year.

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Corrective action to be taken |  | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** |
| x |  |
| If yes, what corrections will be made to the population | Amount will be adjusted revenue previous year | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. | N/A | |
| Position of official responsible to take corrective actions | DD; Accounts receivable | |
| Estimated completion date for corrective action | 31 August 2012 | |
| Does management agree with the root cause indicated | **Yes** | **No** |
| x |  |
| If management does not agree with the root cause indicated, please provide the root cause according to management. | N/A | |

*Name:* Mr. K Mashapha

*Position: DD Accounts Receivable*

*Date:06 August 2012*

**Auditor’s conclusion**

Management agrees with the finding. The matter remains unresolved. The correction will be followed up in the 2012/13 financial year.

**Contingent Assets**

1. **Contingent Assets – overstated** **Ex 241**

**Audit Finding**

a) Public Finance Management Act sections 38, 40 and 41 states the following:

1. Section 38(1) (a)(i):

*“The accounting officer for a department, trading entity or constitutional institution must ensure that that department, trading entity or constitutional institution has and maintains effective, efficient and transparent systems of financial and risk management and internal control.”*

1. Section 40(1)

*“The accounting officer for a department, trading entity or constitutional institution-*

*(a) must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;”*

1. Section 41

*“An accounting officer for a department, trading entity or constitutional institution must submit to the relevant treasury or the Auditor-General, such information, returns, documents, explanations and motivations as may be prescribed or as the relevant treasury or the Auditor-General may require”*

b) Treasury Regulations 17.2.1 states:

*“Accounting officers of institutions must, subject to the provisions of the relevant national or provincial legislation, retain all financial information in its original form, as follows-*

1. *information relating to one financial year – for one year after the audit report for the financial year in question has been tabled in Parliament or the provincial legislature; or*
2. *information relating to more than one financial year – for one after the date of the audit report for the last of the financial years to which the information relates.”*

c) Chapter 8 of the Department Financial Reporting Framework Guide

1. Paragraph 29.2(a) – definition

*“A Contingent Assets is a possible asset that arises from past event, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity”*

1. Paragraph 29.2(b) – Accounting policy

*“Contingent assets are included in the disclosure notes to the financial statements when it is probable that an inflow of economic benefits will inflow to the entity.”*

d) Directive: Contingent Liability and Assets approved on 23 December 2011 paragraph 4.4.1 and 4.7 states:

*4.4.1 “A Contingent Assets is a possible asset that arises from past event, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity”*

*4.7 “Similar to contingent liability, due to the uncertainty with the amount and future outcome, a contingent asset is only disclosed in the disclosure note and not recognised in the statement of financial position. The accounting treatment of contingent assets is also the same in an accrual environment”*

The following matter relates to the contingent assets

a) As per inspection of the contingent assets schedule submitted on 31 May 2012 for audit purposes the following matter where noted with regard to contingent assets listed in the table below:

| **State Attorney Ref:** | **Name of Defended** | **Nature of Claim** | **Amount Claimed** | **Assessed Amount** | **Date per summons** |
| --- | --- | --- | --- | --- | --- |
| 3603/06/z36jb | Academy Brushware and Mr Madlopha | Damage to rental motorvehicle where the state has assumed the risk of damage | 65 568,56 | 65 568,56 | November 2006 |
| 33/2008/c | Shawshank Construction | Damage to state property | 25 385,00 | 25 385,00 | 1. May 2008 |

Per inspection of the summons as well as the contingent asset schedule it was noted that no assessment was made by the internal legal service regarding the probability of inflow of future economic benefits. However, in the schedule supporting the amounts disclosed in the disclosure note, it was noted that in a column named “*Action Required NEXT STEP TO BE TAKEN*” the following where documented:

1. Case 1 - Academy Brushware and Mr Madlopha:

“*The state attorney has to for file a “Rule 24(9) notice (expert notice) before the matter is set down to prove the quantum. The defendant has conceded the merit*”

As the department did not yet obtained experts value as was required and the last time that the state attorney worked on the file was 13 September 2005 which is seven years ago, it may be an indication that the contingent asset is no longer probable and the recovery of the funds after seven years is considered to be remote. The contingent asset should therefore not have been included in the disclosure in the financial statements.

1. Case2: Shawshank Construction

*“The claim has been written off. The matter was settled on the basis that the department withdraws its claims against the defendant*”

It was also noted that the last date that the state attorney worked on this matter was 05 August 2008.-

Based on the aforementioned it is clear that there is not a probable/possible chance for the inflow of economic benefits to the department. Therefore this matter does not constitute a contingent asset and should not have been included in the disclosure note.

The finding occurred as a result of the fact that:

As per discussion with D: Finance it was noted that the department recognises a contingent asset once they have a valid case against the defended. Furthermore it was noted that the contingent assets are recognised at the full cost based on the claims, assessment are not required at year end as the litigation depends on the merit of the case as well the last date on which the state attorney worked on the case.

The impact of the finding:

Overstatement of the opening and closing balance of contingent assets by R90 953.56.

**Internal control deficiency**

## Financial and Performance Management

The department did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information

**Recommendation**

a) The department should ensure that contingent assets are disclosed as per Departmental Financial Reporting Framework Guide Chapter 8 paragraph 29.2.

b) The department should ensure that at year end all pending cases or claims relating to contingent assets are assessed by an expert. The assessment should indicate the probability outcomes of the future event on each claim. The pertinent detail of the person who provides the aforementioned should be indicated together with the supporting documentation to the arrival of the assessment.

c) The department should ensure that before a litigation claim is disclosed as a contingent asset the definition of a contingent asset is met.

d) All contingent assets disclosed in the financial statement should be reviewed by the delegated official in finance department to ensure accuracy, valuation, occurrence and classification.

**Management response**

a) I am not in agreement with the finding for the following reasons and supply the following/attached information in support of this:

**Case 1 – Academy Brushware and Mr. Madlopha**

* The Defendant proposed a settlement offer to pay 70% of the claimed amount on 23 March 2011, but the offer was rejected because the department had a solid case on the merits (the defendant was clearly 100% negligent).
* The matter was set down for the trial on the 24 March 2011 and the defendant conceded the merits on the same day, as informed by the State Attorney. Since the merits have already been conceded, only the quantum is in dispute.
* The state Attorney forwarded a pro-forma expert notice [Rule 24(9)] on 7 September 2011, requesting us to complete the notice the notice by supplying the details of the experts. The letter dated 7 September 2011 was also the last written communication received from the State Attorney (a copy is attached hereto). It is therefore not correct to state that the State Attorney last worked on the file on 13 September 2005 (seven years ago).
* The department traced and obtained the details of the experts who compiled the initial accident and damages reports.
* The expert notices were completed and forwarded to the State Attorney on 4 April 2012 and the State Attorney was requested to advice on the prospects of success and on whether the settlement offer of the Defendant was still open for acceptance (See the attached copy).

|  |  |  |
| --- | --- | --- |
| **DESCRIPTION** | **RESPONSE** | |
| Corrective action to be taken | N/A | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** |
|  | X |
| If yes, what corrections will be made to the population | N/A | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. | N/A | |
| Position of official responsible to take corrective actions | N/A | |
| Estimated completion date for corrective action | N/A | |
| Does management agree with the root cause indicated | **Yes** | **No** |
|  | X |
| If management does not agree with the root cause indicated, please provide the root cause according to management. | N/A | |

*Name:* Ivan Ka-Mbonare

*Position:* Chief Director: Legal Service

*Date:*18/07/2012

b) I am not in agreement with the finding for the following reasons and supply the following/attached information in support of this:

**Case 2: Shawshank Construction**

* The Department wrote off the claim in December 2011 after it became clear that the department will not be able to prove its claim against the Defendant.
* The State Attorney was then requested to propose a settlement to the defendant`s attorneys on the basis that the Department withdraws its claim and that each party pays its own costs.
* The State Attorney confirmed on 14 February 2012 that it proposed such a settlement to the Defendant and confirmed on 10 April 2012 that the settlement offer was accepted. (Please see the attached copies). It is therefore not correct to state that the State Attorney last worked on the file on August 2008.

|  |  |  |  |
| --- | --- | --- | --- |
| **DESCRIPTION** | **RESPONSE** | | |
| Corrective action to be taken |  | | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** | |
|  |  | |
| If yes, what corrections will be made to the population |  | | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. |  | | |
| Position of official responsible to take corrective actions |  | | |
| Estimated completion date for corrective action |  | | |
| Does management agree with the root cause indicated | **Yes** | **No** |
|  |  |
| If management does not agree with the root cause indicated, please provide the root cause according to management. |  | |

*Name:* Ivan Ka-Mbonare

*Position:* Chief Director: Legal Service

*Date:*18/07/2012

**Auditor’s conclusion:**

1. Since the case has been conceded by the defendant based on merits, we agree that the amount per the summons, included in contingent assets, is a reasonable estimate of the amount that may be received by the department.

The matter is therefore resolved.

1. As the department has withdrawn their claim they should expect to receive an amount from the defendant.

Management has erroneously included this as part of contingent assets.

The matter remains unresolved.

**Operating lease**

1. **Assessment of operating lease Ex 280**

**Audit Finding**

Laws, rules and legislation:

1. Public Finance Management Act sections 40 and 41 states the following:
   * + 1. section 40(1)

*“The accounting officer for a department, trading entity or constitutional institution-*

*(a) must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;”*

* + - 1. section 41

*“An accounting officer for a department, trading entity or constitutional institution must submit to the relevant treasury or the Auditor-General, such information, returns, documents, explanations and motivations as may be prescribed or as the relevant treasury or the Auditor-General may require”*

1. Preparation Guide, chapter 8 (lease commitments) states:

*“Although the following are examples of* ***situations****, which would normally lead ti a lease being classified as a finance lease, a lease does not need to meet all these criteria in order to be classified as a finance lease:*

* *The lease transfers ownership of the asset to the lessee by the end of the lease term;*
* *The lessee has the option to purchase the asset which is expected to be sufficiently lower that the fair value at the date the option becomes exercisable, so that at the inception of the lease it is reasonably certain that the option will be exercised;*
* *The lease term is for the major part of the economic life (i.e. 75%) of the asset even if title is not transferred;*
* *At the inception of the lease the present value of the minimum lease payments amounts to at least 90% of the fair value of the asset;”*

Issues noted:

An assessment performed by management, whereby management considered the present value of the minimum lease payments against fair value, for the following lease agreements was requested by RFI 282. The information was requested on 26 July 2012 and was due on 30 July 2012. To date, no information has yet been received.

List of agreements for which the assessment was required:

| **No.** | **Region** | **File number** | **Lease commitment for 2011/12** | **Lease commitment for 2010/11** |
| --- | --- | --- | --- | --- |
| **R** | **R** |
| 1 | PTA | 6029/7015 | - | 3,805,489,00 |
| 2 | JHB | 6109/4967 | 16 084 960,00 | 9,596,141,00 |
| 3 | PTA | 6029/6798 | - | 3,089,803,00 |
| 4 | PTA | 6029/6799 | - | 964,018,00 |
| 5 | PRETORIA | 6029/0059 | 218 977 518,69 | 28,410,286,97 |
| 6 | CAPE TOWN | 6508/7632 | 15 996 372,00 | 16,157,952,00 |
| 7 | CAPE TOWN | 6508/7414 | 10 143 808,00 | 9,392,415,00 |
| 8 | PRETORIA | H6029/1603/1 | 6 043 943,00 | 4,417,300,00 |
| 9 | PRETORIA | 6029/6662 | 3 303 673,00 | 1,064,574,00 |
| 10 | CAPE TOWN | 6502/6062 | 218 143,00 | 634,597,00 |
| 11 | CTN | 6538/5976 | 96 000,00 | 576,000,00 |
| 12 | DBN | H6301/2862 | 4 491 613,00 | 1,494,102,01 |
| 13 | MMA | H6088/0435 | 5 440 533,00 | 4,014,874,00 |
| 14 | NSP | 6024/0722 | - | 1,535,799,00 |
| 15 | UMT | 6458/5372 | 314 207,00 | 314,207,00 |
| 16 | MMA | H6088/0436 | 1 573 562,00 | 1,161,219,00 |
| 17 | PLK | 6026/1450 | - | 2,501,275,00 |
| 18 | JHB | 6109/4967 | 3 609 834,00 | 1,213,431,00 |
| 19 | DBN | H6301/4434 | 844 496,00 | 858,713,00 |
| 20 | NSP | 6024/0854 | - | 39,000,00 |
| 21 | PRETORIA | 6029/6756/1 | - | 361,988,00 |
| 22 | PRETORIA | 6029/7054 | 483 899,00 | 1,899,751,00 |
| 23 | CAPE TOWN | 6508/7638 | 81 912,00 | 321,579,00 |
| 24 | PORT ELIZABETH | 6428/7709 | 360 813,00 | 454,357,00 |
| 25 | PORT ELIZABETH | 6428/7716 | - | 548 274,00 |
| 26 | POLOKWANE | 6026/1287 | - | 268 103,00 |
| 27 | PRETORIA | 6029/0059 | 23 315 168,78 | 3 024 925,00 |
| 28 | PRETORIA | 6029/6662 | 19 349 497,27 | 6 235 171,00 |
| 29 | MMABATHO | 6088/0416 | 329 717,00 | 220 400,00 |
| 30 | PORT ELIZABETH | 6425/6856 | 2 383 108,00 | 436 042,00 |
| 31 | NELSPRUIT | H6024/0827 | 62 162,00 | 341 083,00 |
| 32 | BLOEMFONTEIN | 6706/2496 | - | 257 153,00 |
| **TOTAL** | | | **333 504 939,73** | **105 610 021.98** |

The aforementioned findings may result in:

1. The classification of operating leases amounting to R333 504 939,73 for the current year and R105 610 021,98 of the prior year could not be confirmed.
2. If the assessments were not performed it is also not evident how management ensured the correct classification of the operating lease expenditure.

Reason for the deviation:

Management is not sure if they have performed an assessment or not.

**Internal control deficiency**

*Financial and performance management*

Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting

**Recommendation**

1. At the inception of the lease the department should perform an assessment of whether the lease should be classified as a finance or operating lease, in accordance with preparation guide.
2. The assessment performed should be filed and readily available for audit purposes.
3. All information requested should be provided within three days of request. Where the information is not available the department should inform the auditors accordingly.

**Management response**

I am not in agreement with the finding on the tabled files numbered 1-32 on the assessment of office buildings and based on the below indicators:

* The lease transfers ownership of the asset to the lessee by the end of the lease term; most of the lease that the department entered into there in no transfer of ownership at the end of the lease contract.
* The lessee has the option to purchase the asset which is expected to be sufficiently lower that the fair value at the date the option becomes exercisable, so that at the inception of the lease it is reasonably certain that the option will be exercised; as part of the lease more often the option that is listed is the cancelation option not the purchase of such assets
* The lease term is for the major part of the economic life (i.e. 75%) of the asset even if title is not transferred; the major; Most leases are for a period of five year or less and the economic life span of a building can be more than 30 years .

From the preparation guide of a finance lease defined as a lease that transfers substantially all risks and rewards incident to ownership of an asset. The leases that the department has entered into are not of the array of a finance lease.

|  |  |  |
| --- | --- | --- |
| **DESCRIPTION** | **RESPONSE** | |
| Corrective action to be taken |  | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** |
|  | x |
| If yes, what corrections will be made to the population | N/A | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. | N/A | |
| Position of official responsible to take corrective actions | N/A | |
| Estimated completion date for corrective action | N/A | |
| Does management agree with the root cause indicated | **Yes** | **No** |
|  | N/A |
| If management does not agree with the root cause indicated, please provide the root cause according to management. | N/A | |

*Name:* Mandla Sithole

*Position: Director*

*Date: 08/08/2012*

**Management response**

The same finding was issued to PMTE, communication 214, who is responsible for the maintenance of the PMIS data. The latter was reported:

“*The above is a result of the PMTE not having an appropriate accounting system, policies and procedures in place to evaluate and assess the classification of leases as either finance or operating leases.*

*The above results in a possible overstatement of operating lease expenditure, operating lease commitment note, understatement of finance lease asset and liability as well as finance cost and rental income.*  “

Management commented as follows:

“I am in agreement with the finding. Leases will be reviewed and assessed in order to determine their proper classification as either as an operating or finance lease.

The assessments performed to support the classification of leases will be documented, reviewed and filed by management as supporting evidence to the financial statements.

National Treasury is currently busy with the review of all leases which inform the process.”

The department did not provide any documentation of any assessments performed and the matter therefore remains unresolved.

1. **Commitments operating lease revenue Ex 244**

## Audit finding

Laws, rules and legislation:

a) Public finance management act section 40(1)(a) and (b) states the following:

*“40(1) The accounting officer for a department, trading entity or constitutional institution-*

1. *must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;”*

b) Chapter 8 of the Departmental Financial Reporting Framework Guide states the following in paragraph 33(a) pertaining to lease commitments:

*"****Lease commitments*** *represent amounts owing from the reporting date to the end of the lease contract.*

The following issues were identified during the audit of the leases:

1. The following differences were noted in the calculation of finance lease commitments:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **No.** | **CONTRACT / SERIAL NUMBER** | **AMOUNT PER THE FINANCE LEASE SCHEDULE**  **R** | **AMOUNT PER THE RECALCULATION**  **R** | **DIFFERENCE**  **R** |
| 1 | D042011577 | 89 305,03 | 102 324,55 | 13 019,52 |
| 2 | D12753NPW0001(DELL) | 1 319 361,37 | 1 338 247,20 | 18 885,83 |
| 3 | D12753NPW0001 (HP FINANCIAL SERVICE) | 175 777,43 | 177 407,85 | 1 630,42 |
| 4 | D12753NPW0001 (RENTWORKS) | 859 836,04 | 866 686,49 | 6 850,45 |
|  | **TOTAL** | **2 444 279,87** | **2 484 666,09** | **40 386,22** |

\* *Please the amount per the finance lease schedule was calculated by adding all of the amounts in the capital column and subtracting all of the amounts in the interest column for each lease agreement listed above.*

b) Although the template issued by National Treasury allows for the disclosure of operating lease revenue the department has not disclosed the future income to be received from leases. As no schedules were provided and the fact that a complete immovable asset register was not provided the extent to which this disclosure may be understated could not be determined.

The finding occurred as a result of the fact that:

The review performed on the lease disclosure note is inadequate.

Impact of the finding:

1. Understatement of finance lease commitments.
2. The extent to which operating lease revenue note may be understated could not be determined.

## Internal control deficiency

## Financial and performance management

The department did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

## Recommendation

a) From the information received for audit purposes it appears as if the department is disclosing the capital portion of the lease as the total lease payments.

The total amount paid (capital and interest) should be disclosed as the lease commitment amount before subtracting the interest charge.

b) The delegated official signing off on the finance lease commitment disclosure note should check all calculations prior to signing to the schedule.

c) The department should determine all lease agreements from which they receive revenue and disclosure the future income to be received in terms of that agreement as operating lease revenue.

d) If management agrees with the findings and want to adjust the financial statements a copy of the proposed changes should be attached with management’s comment.

**Management response**

1. I am not in agreement with the finding: The amounts shown on the audit finding table are not the amounts calculated for finance lease commitments and disclosed by the department, below is a table illustrating the actual finance lease commitments amounts disclosed by the department.

|  |  |  |
| --- | --- | --- |
| **No.** | **CONTRACT / SERIAL NUMBER** | **AMOUNT PER THE FINANCE LEASE SCHEDULE** |
| **R** |
| 1 | D042011577 | 102 056.56 |
| 2 | D12753NPW0001(DELL) | 1 331 965.26 |
| 3 | D12753NPW0001 (HP FINANCIAL SERVICE) | 177 013 .78 |
| 4 | D12753NPW0001 (RENTWORKS) | 865 321 .29 |
|  | **TOTAL** | **2 476 356.89** |

|  |  |  |
| --- | --- | --- |
| **DESCRIPTION** | **RESPONSE** | |
| Corrective action to be taken |  | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** |
|  | X |
| If yes, what corrections will be made to the population | N/A | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. | N/A | |
| Position of official responsible to take corrective actions | N/A | |
| Estimated completion date for corrective action | N/A | |
| Does management agree with the root cause indicated | **Yes** | **No** |
|  | X |
| If management does not agree with the root cause indicated, please provide the root cause according to management. | N/A | |

*Name:* Mandla Sithole

*Position: Director*

*Date: 18/07/2012*

b) I am in agreement with the finding for the following reasons: the schedule will be submitted tomorrow (19 July 2012).

*Name:* Mandla Sithole

*Position: Director*

*Date: 18/07/2012*

**Auditor’s conclusion**

1. Although management has indicated that they are not in agreement with the finding, it was noted that the amounts per management’s response is the amount included in lease commitments per the disclosure note and the amount in the finding represents the present value of lease liabilities (lease commitments less finance charges).

The matter therefore remains unresolved.

1. Management is in agreement with the finding. This finding was issued on 16 July 2012 and the response received from management on 18 July 2012. Attached to management’s comment was a schedule with the lease revenue schedule. This schedule contains the detail future lease income calculations for 2 341 leases. The information was downloaded from PMIS and the calculations performed without confirming the information with the lease contracts and not taking into account escalations. The lease revenue were restated with R83,915 million for the current year and R112,397 million for the prior year.

The correction will be reported as a material change to the financial statements. Management must enhance the review controls of the financial statements to ensure that errors are timeously identify and corrected. It is recommended that the preparation guide is printed and placed in front of each file as a checklist with a reference for correct disclosure and signed off by the compilers and reviewers.

1. **Lease commitments deviations Ex 38**

Laws and Regulations

a) Public Finance Management Act sections 40 and 41 states the following:

i) section 40(1)

*“The accounting officer for a department, trading entity or constitutional institution-*

*(a) must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;”*

ii) section 41

*“An accounting officer for a department, trading entity or constitutional institution must submit to the relevant treasury or the Auditor-General, such information, returns, documents, explanations and motivations as may be prescribed or as the relevant treasury or the Auditor-General may require”*

b) Treasury Regulations 17.2.1 states:

*“Accounting officers of institutions must, subject to the provisions of the relevant national or provincial legislation, retain all financial information in its original form, as follows-*

* 1. *information relating to one financial year – for one year after the audit report for the financial year in question has been tabled in Parliament or the provincial legislature; or*
  2. *Information relating to more than one financial year – for one after the date of the audit report for the last of the financial years to which the information relates.”*

The following deviations were noted pertaining to lease commitments:

1. During the auditing of operating lease commitment, it was noted that the following lease does not have a valid contract:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Nr** | **Region name** | **Contract no.** | **Start Date** | **End date** | **Lease Commitment per schedule**  **R** |
| 2 | PTA | 6029/6799 | 01/08/2008 | 31/07/2011 | * 1. 018,00 |

b) It was also noted that with regard to the following contract, an addendum to extend the contract was provided however it was not signed by both the lessor and the lessee.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Nr** | **Region name** | **Contract no.** | **Start Date** | **End date** | **Lease Commitment per schedule**  **R** |
| 1 | UMT | 6458/5372 | 01/04/2005 | 31/03/2010 | 314 207,00 |
| 2 | PTA | 6029/6798 | 01/09/2008 | 31/08/2011 | 3 089 803,00 |

Potential impact of the findings raised above:

a) Non compliance with Section 40 and 41 of the Public Finance Management Act

b) Non compliance with Treasury Regulations 17.2.1.

c) Assertions affected are occurrence and rights and obligation, completeness, accuracy and valuation, classification.

**Reason for the deviation:**

1. It was indicated that if the route form was signed by the required personnel therefore that serves as a legal binding agreement between the lessor and the lessee.
2. It was indicated that with regard to the addendum that was not signed, the initial agreement was signed.

**Internal control deficiency**

Financial and performance management

The department has not implemented proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting

**Recommendation**

1. It is recommended that all information requested be provided to the AGSA within three days from the date of request.
2. Management should ensure that all documents are signed by appropriately delegated officials.

**Management response**

a) I am not in agreement with the finding: The department has a constructive obligation to commit by virtue of us occupying the premises and paying the monthly rental and the landlord still invoicing the department for the monthly rental for the said period that created an obligation to commit. According to GRAP a constructive obligation is created, inferred or construed from the facts in a particular situation rather than contracted by agreement with another entity

|  |  |  |
| --- | --- | --- |
| **DESCRIPTION** | **RESPONSE** | |
| Corrective action to be taken |  | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** |
|  | x |
| If yes, what corrections will be made to the population | N/A | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. | N/A | |
| Position of official responsible to take corrective actions | N/A | |
| Estimated completion date for corrective action | N/A | |
| Does management agree with the root cause indicated | **Yes** | **No** |
|  | X |
| If management does not agree with the root cause indicated, please provide the root cause according to management. | N/A | |

*Name:* Mandla Sithole

*Position: Director Financial Accounting*

*Date: 18/07/2012*

**Auditors Conclusion:**

1. Although management does not agree with the finding no lease agreement was provided. We therefore cannot determine the amount to be charged per the leases agreement or the end of the lease term. We therefore cannot confirm if the amount disclosed in the operating lease commitments is correct and accurate.

Furthermore, without a valid lease agreement we cannot determine if the department has a right to occupy the building or an obligation to make payments.

The matter therefore remains unresolved.

1. Since the department has made payments in terms of the contract, the amount of the commitment in terms of the contract will be accepted. However management needs to ensure that all contracts are signed by both parties as evidence that both parties agree with the terms and conditions of the contract.

The matter therefore remains unresolved.

1. **Operating Lease commitments Ex 137**

**Audit finding**

Laws and Regulations

a) PFMA paragraph 40(3) (a) states:

*“The annual report and audited financial statements referred to in subsection (1)(d) must -*  
*(a) fairly present the state of affairs of the department, trading entity or constitutional institution, its business, its financial results, its performance against predetermined objectives and its financial position as at the end of the financial year concerned;*

b) Directive: Financial Statements working files frameworks (9) (1) (2) states:

*“9.1 The financial statements are compiled by the Deputy Director Financial Reporting and checked by the Director Financial Accounting. The Directorate Inspectorate and compliance will be responsible for reviewing the financial statements and submitting to the CFO for the final review.*

*9.2 Inputs to financial statements: Operating lease commitments: is compiled by the ASD1, ASD2 and DD1, DD2, reviewed by DD3 and D1, D2 and verified by DD: Financial Reporting.”*

During the audit of operating lease commitments,

1. Differences in the recalculations of operating lease commitments were noted:
2. Current year – less than 1 year

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Nr.** | **Region name** | **Contract no.** | **Start date** | **End date** | **2011/12(less than 1year) per Schedule** | **Recalculated** | **Difference** |
| **R** | **R** | **R** |
| 1. | PTA | 6029/6662 | 01-12-2005 | 30-11-2014 | 1 157 724,00 | 1 619 280,76 | ( 461 556,76) |
| 2. | MMA | H6088/0435 | 01-07-2008 | 30-06-2013 | 4 336 064,00 | 4 014 874,59 | 321 189,41 |
| 3. | MMA | H6088/0436 | 01-07-2008 | 30-06-2013 | 1 254 117,00 | 1 168 522,78 | 92 897,49 |
| 4. | NSP | 6024/0854 | 01-06-2010 | 31-05-2012 | 0,00 | 42 120,00 | ( 42 120,00) |
| 5. | PE | 6425/6856 | 01-03-2011 | 28-02-2016 | 441 849,00 | 473 780,02 | ( 31 931,02) |
| 6 | JHB | 6109/4967 | 01-09-2008 | 30-09-2013 | 2 368 916,00 | 2 387 657,50 | ( 18 741,50) |
| 7 | UMT | 6458/5372 | 01-04-2005 | 31-03-2010 | 314 207,00 | 0,00 | 314 207,00 |
| **Overstatement** | | | | | | | **173 944,62** |

1. Current year – more than 1 year less than 5 years

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Nr.** | **Region name** | **Contract no.** | **Start date** | **End date** | **more than 1year less than 5years per Schedule** | **Recalculated** | **Difference** |
| **R** | **R** | **R** |
| 1 | PTA | 6029/6662 | 01-12-2005 | 30-11-2014 | 2 145 949,00 | 3 001 487,68 | ( 855 538.68) |
| 2 | MMA | H6088/0435 | 01-07-2008 | 30-06-2013 | 1 104 469,00 | 1 022 656,74 | 81 812,26 |
| 3 | MMA | H6088/0436 | 01-07-2008 | 30-06-2013 | 319 445,00 | 295 782,33 | 23 662,67 |
| 4 | PE | 6425/6856 | 01-03-2011 | 28-02-2016 | 1 941 259,00 | 1 607 767,22 | 333 491,78 |
| **Understatement** | | | | | | | **( 416 572,09)** |

1. Prior year – Less than 1 year

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Nr.** | **Region name** | **Contract no.** | **Start date** | **End date** | **Less than 1 year per Schedule** | **Recalculated** | **Difference** |
| **R** | **R** | **R** |
| 1 | PTA | 6029/6662 | 01-12-2005 | 30-11-2014 | 1 064 574,00 | 1 488 993,80 | ( 424 419,80) |
| 2 | MMA | H6088/0435 | 01-07-2008 | 30-06-2013 | 4 014 874,00 | 3 717 476,89 | 297 397,20 |
| 3 | NSP | 6024/0722 | 01-09-2009 | 31-08-2011 | 1 535 799,00 | 1 422 036,00 | 113 763,00 |
| 4 | JHB | 6109/4967 | 01-09-2008 | 30-09-2013 | 1 213 431,00 | 2 170 597,75 | ( 957 166,75) |
| 5 | NSP | 6024/0854 | 01-06-2010 | 31-05-2012 | 39 000,00 | 249 600,00 | ( 210 600,00) |
| 6 | PE | 6425/6856 | 01-03-2011 | 28-02-2016 | 436 042,00 | 438 586,80 | ( 2 643,20) |
| 7 | MMA | H6088/0436 | 01-07-2008 | 30-06-2013 | 1 161 219,00 | 1 081 965,28 | 79 253,72 |
| 8 | NSP | H6024/0824 | 01-06-2007 | 31-05-2012 | 341 083,00 | 368 369,66 | ( 27 286,66) |
| 9 | UMT | 6458/5372 | 01-04-2005 | 31-03-2010 | 314 207,00 | 0,00 | 314 207,00 |
| **Understatement** | | | | | | | **( 817 495.49)** |

1. A difference between the Supporting Schedule and Annual Financial Statements was noted as indicated below. The amount forms part of the R98 199 000 disclosed in note 23.1

|  |  |  |
| --- | --- | --- |
| **Office Building per Schedule** | **Office Building per AFS**  **Note 23.1** | **Difference** |
| R 21 716 718,00 | R 21 813 000,00 | R 96 382,00 |

1. Although the schedules were reviewed and verified for the purpose of compiling financial statements, the errors noted indicate that there are weaknesses in the internal controls. The following are the personnel that compiled, reviewed and verified the schedules:
2. Penny Sambo - ASD: Financial Statements - compiled
3. Lesiba Ledwaba - DD: Financial Statements - verified
4. Nompumelelo Maimela - DD: Financial Reporting - reviewed

The above indicates that management did not fully implement the directive of financial statements working files framework put in place by the Chief Financial Officer.

The finding occurred as a result of the fact that:

1. On discussion with management and on review of the excel worksheet used for clients calculations, it was noted and agreed that the formulas used did not populate properly hence differences arose.
2. Management indicated that the schedule submitted that has office buildings is not the correct one and the correct one with will be submitted for audit purposes

During the 2010/11 financial year audit, matters relating to inadequate review of financial statements were also reported. More specifically it was noted that the department erroneously did not include operating lease commitments in the comparative of the prior year financial statements. The directive: financial statements working files frameworks was implemented by the previous CFO to address this matter. It does however appear as if the review process is still not effective as the errors reported above were not picked up before the submission of the financial statements.

Impact of the finding:

a) Non compliance with Section 40(3)(a) of the Public Finance Management Act

b) The financial statements were incorrect with regard to operating leases:

1. Current year less than 1 year is overstated by R173 944,62
2. Current year more than 1 year less than 5 year is understated by R 416 571,97
3. Prior year less than 1 year is understated by R 817 495.49
4. Current year office buildings was overstated by R96 382.00

c) Although the officials signed that functions had been performed, they were ineffective as errors still went undetected.

**Internal control deficiency**

Financial and performance management

The department did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

**Recommendation**

1. It is recommended that management must ensure that all lease calculations are re-visited and corrected were necessary.
2. It is also recommended that all supporting schedules used to prepare annual statements be properly reviewed and verified.
3. Should management indicate that they want to correct the financial statements a copy of the proposed corrected financial statements should be attached to the response.

**Management response**

a)(i) I am in agreement with the finding as indicated on reason for deviation it was noted and agreed that the formulas used did not populate properly hence differences arose .PTA contract 6029/662 corrected see no.7b on the attached schedule Annexure B. MMA contract H6088/0435 and H6088/0436 corrected see no.10 & 11 on the attached schedule Annexure A. NSP contract 6024/0854 corrected see no.13 on the attached schedule Annexure A.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| (ii)            Current year – more than less than a year | | | | | | | |  |
|  |  |  |  |  |  |  |  |  |
| **Nr** | **Region name** | **Contract no.** | **Start date** | **End date** | **2011/12(less than 1year) per Schedule** | **Recalculated** | **Difference** | **Reason** |
| **R** | **R** | **R** |  |
| 1 | PTA | 6029/6662 | 01-12-2005 | 30-11-2014 | 1 157 724,00 | 1 619 280,76 | ( 461 556,76) | amount not escalated |
| 2 | MMA | H6088/0435 | 01-07-2008 | 30-06-2013 | 4 336 064,00 | 4 014 874,59 | 321 189,41 | An escalated amount was used before escalation |
| 3 | MMA | H6088/0436 | 01-07-2008 | 30-06-2013 | 1 254 117,00 | 1 168 522,78 | 92 897,49 | An escalated amount was used before escalation |
| 4 | NSP | 6024/0854 | 01-06-2010 | 31-05-2012 | 0,00 | 42 120,00 | ( 42 120,00) | Calculation stopped before end date |
| **Overstatement** | | | | | | | **89 589.86** |  |

|  |  |  |
| --- | --- | --- |
| **DESCRIPTION** | **RESPONSE** | |
| Corrective action to be taken |  | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** |
| x |  |
| If yes, what corrections will be made to the population | Adjustment will be effected | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. | N/A | |
| Position of official responsible to take corrective actions | DD:Financial Reporting | |
| Estimated completion date for corrective action | XXX | |
| Does management agree with the root cause indicated | **Yes** | **No** |
| x |  |
| If management does not agree with the root cause indicated, please provide the root cause according to management. | N/A | |

iii) I am not in agreement with the finding the calculation disclosed was done and verified per lease agreement at hand.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Nr.** | **Region name** | **Contract no.** | **Start date** | **End date** | **2011/12(less than 1year) per Schedule** | **Recalculated** | **Difference** |  |
| **R** | **R** | **R** |  |
| 5 | PE | 6425/6856 | 01-03-2011 | 28-02-2016 | 441 849,00 | 473 780,02 | ( 31 931,02) |  |
| 6 | JHB | 6109/4967 | 01-09-2008 | 30-09-2013 | 2 368 916,00 | 2 387 657,50 | ( 18 741,50) |  |
| 7 | UMT | 6458/5372 | 01-04-2005 | 31-03-2010 | 314 207,00 | 0,00 | 314 207,00 | The building is still occupied committed for 1 month |

|  |  |  |
| --- | --- | --- |
| **DESCRIPTION** | **RESPONSE** | |
| Corrective action to be taken |  | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** |
|  | X |
| If yes, what corrections will be made to the population | N/A | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. | N/A | |
| Position of official responsible to take corrective actions | N/A | |
| Estimated completion date for corrective action | N/A | |

|  |  |  |
| --- | --- | --- |
| **DESCRIPTION** | **RESPONSE** | |
| Does management agree with the root cause indicated | **Yes** | **No** |
|  | X |
| If management does not agree with the root cause indicated, please provide the root cause according to management. | N/A | |

vi) I am in agreement with the finding as indicated on reason for deviation it was noted and agreed that the formulas used did not populate properly hence differences arose. PTA contract 6029/662 corrected see no.7b on the attached schedule Annexure B. MMA contract H6088/0435 and H6088/0436 corrected see no.10 & 11 on the attached schedule Annexure A.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| i)            Current year – more than 1 year less than 5 years | | | | | | | |  |
|  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
| **Nr** | **Region name** | **Contract no.** | **Start date** | **End date** | **more than 1year less than 5years per Schedule** | **Recalculated** | **Difference** | **Reason** |
| **R** | **R** | **R** |  |
| 1 | PTA | 6029/6662 | 01-12-2005 | 30-11-2014 | 2 145 949,00 | 3 001 487,68 | -855 538.68 | amount not escalated |
| 2 | MMA | H6088/0435 | 01-07-2008 | 30-06-2013 | 1 104 469,00 | 1 022 656,74 | 81 812,26 | An escalated amount was used before escalation |
| 3 | MMA | H6088/0436 | 01-07-2008 | 30-06-2013 | 319 445,00 | 295 782,33 | 23 662,67 | An escalated amount was used before escalation |
| **Understatement** | | | | | | | **750 063.80** |  |

|  |  |  |
| --- | --- | --- |
| **DESCRIPTION** | **RESPONSE** | |
| Corrective action to be taken |  | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** |
| x |  |
| If yes, what corrections will be made to the population | Adjustment will be effected | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. | N/A | |
| Position of official responsible to take corrective actions | DD:Financial Reporting | |
| Estimated completion date for corrective action | XXX | |
| Does management agree with the root cause indicated | **Yes** | **No** |
| x |  |
| If management does not agree with the root cause indicated, please provide the root cause according to management. | N/A | |

ii) I am not in agreement with the finding the calculation disclosed was done and verified per lease agreement at hand.

|  |  |
| --- | --- |
| iii)            Current year – more than 1 year less than 5 years |  |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Nr.** | **Region name** | **Contract no.** | **Start date** | **End date** | **more than 1year less than 5years per Schedule** | **Recalculated** | **Difference** |  |
| **R** | **R** | **R** |  |
| 4 | PE | 6425/6856 | 01-03-2011 | 28-02-2016 | 1 941 259,00 | 1 607 767,22 | 333 491,78 | The disclosed amount is 1 499 409 (477 197 + 515 576 +506 840 ) |

|  |  |  |
| --- | --- | --- |
| **DESCRIPTION** | **RESPONSE** | |
| Corrective action to be taken |  | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** |
|  | X |
| If yes, what corrections will be made to the population | N/A | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. | N/A | |
| Position of official responsible to take corrective actions | N/A | |
| Estimated completion date for corrective action | N/A | |
| Does management agree with the root cause indicated | **Yes** | **No** |
|  | X |
| If management does not agree with the root cause indicated, please provide the root cause according to management. | N/A | |

iv) I am in agreement with the finding as indicated on reason for deviation it was noted and agreed that the formulas used did not populate properly hence differences arose. PTA contract 6029/662 corrected see no.7b on the attached schedule Annexure B. MMA contract H6088/0435 corrected see no.11 on the attached schedule Annexure A. NSP contract 6024/0722 corrected see no.12 on the attached schedule Annexure B. JHB contract 6109/4967 corrected see no.9 on the attached schedule Annexure A. NSP contract 6024/0854 corrected see no.13 on the attached schedule Annexure A

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| (vi)            Prior year – Less than 1 year | | | | | | | |  |
|  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
| **Nr** | **Region name** | **Contract no.** | **Start date** | **End date** | **Less than 1 year per Schedule** | **Recalculated** | **Difference** | **Reason** | |
| **R** | **R** | **R** |  | |
| 1 | PTA | 6029/6662 | 01-12-2005 | 30-11-2014 | 1 064 574,00 | 1 488 993,80 | ( 424 419,80) | amount not escalated | |
| 2 | MMA | H6088/0435 | 01-07-2008 | 30-06-2013 | 4 014 874,00 | 3 717 476,89 | 297 397,20 | An escalated amount was disclosed before escalation | |
| 3 | NSP | 6024/0722 | 01-09-2009 | 31-08-2011 | 1 535 799,00 | 1 422 036,00 | 113 763,00 | An escalated amount was disclosed before escalation | |
| 4 | JHB | 6109/4967 | 01-09-2008 | 30-09-2013 | 1 213 431,00 | 2 153 405 | ( 957 166,75) | Sum of the total before escalation and total after escalation incorrectly calculated | |
| 5 | NSP | 6024/0854 | 01-06-2010 | 31-05-2012 | 39 000,00 | 249 600,00 | ( 210 600,00) | Calculation stopped before end date | |
| **Understatement** | | | | | | | **1 181 026.35** |  | |

|  |  |  |
| --- | --- | --- |
| **DESCRIPTION** | **RESPONSE** | |
| Corrective action to be taken |  | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** |
| x |  |
| If yes, what corrections will be made to the population | Adjustment will be effected | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. | N/A | |
| Position of official responsible to take corrective actions | DD:Financial Reporting | |
| Estimated completion date for corrective action | XXX | |
| Does management agree with the root cause indicated | **Yes** | **No** |
| x |  |
| If management does not agree with the root cause indicated, please provide the root cause according to management. | N/A | |

vi) I am not in agreement with the finding the calculation disclosed was done and verified per lease agreement at hand.

| **Nr.** | **Region name** | **Contract no.** | **Start date** | **End date** | **Less than 1 year per Schedule** | **Recalculated** | **Difference** | **Reason** |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **R** | **R** | **R** |  |
| 6 | PE | 6425/6856 | 01-03-2011 | 28-02-2016 | 436 042,00 | 438 586,80 | ( 2 643,20) |  |
| 7 | MMA | H6088/0436 | 01-07-2008 | 30-06-2013 | 1 161 219,00 | 1 081 965,28 | 79 253,72 | The recalculated amount should be 1 075 203 |
| 8 | NSP | H6024/0824 | 01-06-2007 | 31-05-2012 | 341 083,00 | 368 369,66 | ( 27 286,66) |  |
| 9 | UMT | 6458/5372 | 01-04-2005 | 31-03-2010 | 314 207,00 | 0,00 | 314 207,00 |  |

|  |  |  |
| --- | --- | --- |
| **DESCRIPTION** | **RESPONSE** | |
| Corrective action to be taken |  | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** |
|  | X |
| If yes, what corrections will be made to the population | N/A | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. | N/A | |
| Position of official responsible to take corrective actions | N/A | |
| Estimated completion date for corrective action | N/A | |
| Does management agree with the root cause indicated | **Yes** | **No** |
|  | X |
| If management does not agree with the root cause indicated, please provide the root cause according to management. | N/A | |

b) I am not in agreement with the finding the disclosed amount of R 21 813 000 is a consolidated amount for the year for office building, living quarters and Land. The consolidated amount was misinterpreted to be representing only office buildings.

|  |  |  |
| --- | --- | --- |
| **DESCRIPTION** | **RESPONSE** | |
| Corrective action to be taken |  | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** |
|  | X |
| If yes, what corrections will be made to the population | N/A | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. | N/A | |
| Position of official responsible to take corrective actions | N/A | |
| Estimated completion date for corrective action | N/A | |
| Does management agree with the root cause indicated | **Yes** | **No** |
|  | X |
| If management does not agree with the root cause indicated, please provide the root cause according to management. | N/A | |

*Name:* Mandla Sithole

*Position: Director Financial Accounting*

*Date: 17/07/2012*

**Auditor’s conclusion**

1. (i) Management is in partial agreement with the finding. The errors were corrected as

indicated in the table below. Management must ensure that the review controls are enhanced to ensure the errors are timeoulsy detected and corrected.

The following errors were corrected:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Nr.** | **Region name** | **Contract no.** | **Start date** | **End date** | **2011/12(less than 1year) per Schedule** | **Recalculated** | **Difference** |
| **R** | **R** | **R** |
| 1 | PTA | 6029/6662 | 1/12/2005 | 30-11-2014 | 1 157 724,00 | 1 619 280,76 | (461 556,76) |
| 2 | MMA | H6088/0435 | 1/7/2008 | 30-06-2013 | 4 336 064,00 | 4 014 874,59 | 321 189,41 |
| 3 | MMA | H6088/0436 | 1/7/2008 | 30-06-2013 | 1 254 117,00 | 1 161 219,51 | 92 897,49 |
| 4 | NSP | 6024/0854 | 1/6/2010 | 31-05-2012 | 0,00 | 42 120,00 | (42 120) |
| **Overstatement** | | | | | | | **(89 589,86)** |

For items five and six per the finding, management has not indicated the reasons for not agreeing. The matter therefore remains unresolved.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Nr.** | **Region name** | **Contract no.** | **Start date** | **End date** | **2011/12(less than 1year) per Schedule** | **Recalculated** | **Difference** |
| **R** | **R** | **R** |
| 5 | PE | 6425/6856 | 1/3/2011 | 28-02-2016 | 441 849,00 | 473 780,02 | (31 931,02) |
| 6 | JHB | 6109/4967 | 1/9/2008 | 30-09-2013 | 2 368 916,00 | 2 387 657,50 | (18 741,50) |
| **Overstatement** | | | | | | | **(50 672,52)** |

For item seven management’s comment is noted, they have entered into an addendum to the lease agreement, allowing them to extend the agreement on a month to month basis. The matter pertaining to this agreement is therefore resolved.

a)(ii) Management is in partial agreement with the finding. The errors were corrected as

indicated in the table below. Management must ensure that the review controls are enhanced to ensure the errors are timeously detected and corrected.

The following errors were corrected:

| **Nr,** | **Region name** | **Contract no,** | **Start date** | **End date** | **more than 1year less than 5years per Schedule** | **Recalculated** | **Difference** |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **R** | **R** | **R** |
| 1 | PTA | 6029/6662 | 1/12/2005 | 30-11-2014 | 2 145 949,00 | 3 001 487,68 | (855 538,68) |
| 2 | MMA | H6088/0435 | 1/7/2008 | 30-06-2013 | 1 104 469,00 | 1 022 656,74 | 81 812,26 |
| 3 | MMA | H6088/0436 | 1/7/2008 | 30-06-2013 | 319 445,00 | 295 782,33 | 23 662,67 |
| **Understatement** | | | | | | | **(750 063,75)** |

The following errors were not corrected

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Nr,** | **Region name** | **Contract no,** | **Start date** | **End date** | **more than 1year less than 5years per Schedule** | **Recalculated** | **Difference** |
| **R** | **R** | **R** |
| 4 | PE | 6425/6856 | 1/3/2011 | 28-02-2016 | 1 499 410,00 | 1 607 767,22 | (108 357,22) |
| 5 | PTA | 6029/6662 | 1/12/2005 | 30-11-2014 | 12 568 749,00 | 11 919 412,71 | 649 336,29 |
| **Understatement** | | | | | | | **540 979,07** |

For item four where management is not in agreement, management’s comment is noted. The error identified for item number four is no longer R333 491,78 but rather R108 357,22. The total uncorrected error will be extrapolated

The total uncorrected error for the current year amount to R490 307,51 resulting in an extrapolated error is an overstatement of operating leases of R492 758,67 for the errors reported in paragraphs (a)(i) and (a)(ii),

1. (iii) Management is partially in agreement with the finding, For the items for which management is in agreement the error will be extrapolated and considered for the schedule of unadjusted differences,

The following errors were corrected:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Nr.** | **Region name** | **Contract no.** | **Start date** | **End date** | **Less than 1 year per Schedule** | **Recalculated** | **Difference** |
| **R** | **R** | **R** |
| 1 | PTA | 6029/6662 | 1/12/2005 | 30-11-2014 | 1 064 574,00 | 1 488 993,80 | (424 419,80) |
| 2 | MMA | H6088/0435 | 1/7/2008 | 30-06-2013 | 4 014 874,00 | 3 717 476,89 | 297 397,11 |
| 3 | NSP | 6024/0722 | 1/9/2009 | 31-08-2011 | 1 535 799,00 | 1 422 036,00 | 113 763,00 |
| 5 | NSP | 6024/0854 | 1/6/2010 | 31-05-2012 | 39 000,00 | 249 600,00 | (210 600,00) |
| **Understatement** | | | | | | | **(223 858,99)** |

Management incorrectly corrected the lease below form R1 213 431 to R2 153 405, instead of to R2 170 597,75. According to the lease agreement the starting date of the lease is 1 September 2008 and not 1 October 2008 as recorded. Due to the aforementioned the error as indicated below remains.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Nr.** | **Region name** | **Contract no.** | **Start date** | **End date** | **Less than 1 year per Schedule** | **Recalculated** | **Difference** |
| **R** | **R** | **R** |
| 4 | JHB | 6109/4967 | 1/9/2008 | 30-09-2013 | 2 153 405,00 | 2 170 597,75 | (17 192,75) |

For item seven it is acknowledged that the amount should have been R1 075 203,00. The amount was corrected accordingly by management.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Nr.** | **Region name** | **Contract no.** | **Start date** | **End date** | **Less than 1 year per Schedule** | **Recalculated** | **Difference** |
| **R** | **R** | **R** |
| 7 | MMA | H6088/0436 | 1/7/2008 | 30-06-2013 | 1 161 219,00 | 1 075 203,00 | 86 016 |

Although management indicated in their comment that they do not agree with item number six no explanation was provided and the schedule was not corrected. The matter therefore remains unresolved.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Nr.** | **Region name** | **Contract no.** | **Start date** | **End date** | **Less than 1 year per Schedule** | **Recalculated** | **Difference** |
| **R** | **R** | **R** |
| 6 | PE | 6425/6856 | 1/3/2011 | 28-02-2016 | 436 042,00 | 438 685,20 | (2 643,20) |
| 8 | NSP | H6024/0827 | 1/6/2007 | 31-05-2012 | 341 083,00 | 368 369,66 | (27 286,66) |
| Total | | | | |  |  | **(29 929,86)** |

The total remaining errors for the prior year is therefore R470 470,60 :

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Nr,** | **Region name** | **Contract number** | **Start date** | **End date** | **Prior year less than 1 year** | **2011-2012 - less than 1 year** | **2011-2012 more than one year less than 5 years** | **Total** |
| **R** | **R** | **R** | **R** |
| 4 | PE | 6425/6856 | 1/3/2011 | 28/02/2016 | (2 643,20) | (31 931,02) | (108 357,22) | (142 931,44) |
| 5 | PTA | 6029/6662 | 1/12/2005 | 30/11/2014 |  |  | 649 336,29 | 649 336,29 |
| 6 | JHB | 6109/4967 | 1/9/2008 | 30/09/2013 | (17 192,75) | (18 741,50) | - | (35 934,25) |
| 8 | NSP | H6024/0827 | 1/6/2007 | 31/05/2012 | (27 286,66) |  |  | (27 286,66) |
| **Total** | | | | | **(47 765,81)** | **(50 672,52)** | **540 979,07** | **443 183,94** |

The total extrapolated error pertaining to the prior year is an over statement of operating lease of R449 392,93.

1. Management’s comment is noted, The matter is resolved,
2. Management response not received, Matter therefore remains unresolved
3. **Discrepancies pertaining to operating leases Ex 237**

**Audit Finding**

Laws, rules and legislation:

a) Public Finance Management Act sections 40 and 41 states the following:

i) section 40(1)

*“The accounting officer for a department, trading entity or constitutional institution-*

*(a) must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;”*

ii) section 41

*“An accounting officer for a department, trading entity or constitutional institution must submit to the relevant treasury or the Auditor-General, such information, returns, documents, explanations and motivations as may be prescribed or as the relevant treasury or the Auditor-General may require”*

1. Treasury Regulations 17.2.1 states:

*“Accounting officers of institutions must, subject to the provisions of the relevant national or provincial legislation, retain all financial information in its original form, as follows-*

1. *information relating to one financial year – for one year after the audit report for the financial year in question has been tabled in Parliament or the provincial legislature; or*
2. *information relating to more than one financial year – for one after the date of the audit report for the last of the financial years to which the information relates.”*

The following matters were noted:

During the audit of lease payments to PMTE it was noted that some of the invoices are for periods as far back as 2006. Due to the time lapse between the occurrence of these transactions and them only being paid in the 2011-2012 financial year it was necessary to confirm that they have not previously been paid by the department.

A detail debtors reconciliation performed by the department for operating leases charged on the private leases not devolved from 1 May 2006 till to date with regard to the batches mentioned in the paragraphs (a), (c), (d), (e) and (f) below, was requested with RFI 268 on 25 June 2012 and was due on 27 June 2012 however as at 6 July 2012, the information has not yet been provided.

1. Payment to PMTE - Fano 150304

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Client department** | **Region** | **Facility type** | **No** | **Period for the lease payment** | **No.**  **of months** | **Amount per pertaining to building indicated** | **R** |
| **R** |
| Department of Public Works | Bloem | Civilia building Elizabeth Street 14 | 307372 | 1 May 2006 – 31 March 2007 | 11 | 451 000,00 | 2 394 939,00[[2]](#footnote-2) |
|  | Durban | BP Centre  214 West Street | 307403 | 1 June 2006 – 31 June 2007 | 10 | 29 768,00 |
|  | Durban | BP Centre  214 West Street | 308573 | 1 October 2006 – 31 March 2007 | 4 | 297 164,00 |
|  | Jhb | Mineralia 78 CNR de Beer Korte Street | 307640 | Not indicated | 3 | 1 617 007,00 |
| Department of Public Works | Jhb | Braamfontein 78 De Korte Street | 307640 | 1 October 2008 – 31 March 2009 | 6 | 847 503,36 | 847 503,36 |
| Department of Public Works | Jhb | Liberty Towers | Not indicated | 1 April 2008 - 28 February 2009 | 11 | 620 730,00 | 1 725 076,64 |
|  | Jhb | Liberty Towers | Not indicated | 1 March 2009 - 31 March 2009 | 1 | 60 944,40 |
|  | Jhb | Liberty Towers PT if 12th Floor | Not indicated | 1 April 2008 - 30 November 2008 | 8 | 677 533,92 |
|  | Jhb | Liberty Towers PT if 12th Floor | Not indicated | 1 December 2008 - 31 March 2009 | 4 | 365 868,32 |
| Parliament |  | Ipopeng One Stop Centre, Polokwane |  | 1 November 2007 - 31 March 2008 | 5 | 49 500,00 | 49 500,00 |
| Total | | | | | | | 5 017 019,00 |

1. It was further noted that the invoice mentioned in paragraph (a) does not correctly cast resulting in an overpayment to PMTE of R66 491.

| **Client department** | **Number** | **Number of months** | **Monthly accommodation charge** | **Recalculated total** | **Amount charged per the invoice** | **Difference** |
| --- | --- | --- | --- | --- | --- | --- |
| **R** | **R** | **R** | **R** |
| Department of Public Works | 307372 | 11 | 40 088,00 | 440 968,00 | 451 000,00 | (10 032,00) |
|  | 307403 | 10 | 2 977,00 | 29 770,00 | 29 768,00 | 2,00 |
|  | 307640 | 3 | 520 182,00 | 1 560 546,00 | 1 617 007,00 | (56 461,00) |
| **Total** | | | | | | **(66,491.00)** |

1. Payment to PMTE - Fano 150301- for the period April 2010 – March 2011

| **Client department** | **Region** | **Facility type** | **Number** | **Number of months** | **Amount per pertaining to building indicated** | **Total for client department** |
| --- | --- | --- | --- | --- | --- | --- |
| **R** | **R** |
| Agriculture Forest and Fisheries | Johannesburg | Wildlife | 299722 | 6 | 36 214,17 | 36 214,17 |
| Termininal building |
| Gender Equality | Cape Town | ABSA building | 302352 | 12 | 303 376,80 | 1 133 617,27 |
| Mafikeng | 38 Molopo Road | 304438 | 12 | 180 903,96 |
| Polokwane | Library gardens | 300249 | 12 | 304 057,18 |
| Pietersburg | C-O Grobler and Schoeman |
| East London | Permanent Building | 300482 | 12 | 345 279,33 |
| Health | Pretoria | Hallmark | 44 | 12 | 21 337 759,37 | 21 390 427,37 |
| Vermeulen street 226 |
| Hall mark | 301804 | 6 | 52 668,00 |
| Proes |
| Home Affairs | Pretoria | Hallmark | 44 | 6 | 7 181 459,88 | 7 181 459,88 |
| Vermeulen street 226 |
| Human Rights Commission | Cape Town | ABSA building FLS 7 | 178398 | 12 | 256 665,66 | 1 148 723,56 |
| Adderley street 136 |
| Durban | 136 Victoria Embankment | 303837 | 12 | 475 865,85 |
| Polokwane | Library gardens | 300248 | 12 | 416 192,05 |
| Pietersburg | C-O Grobler and Schoeman |
| Human Settlements | Pretoria | 114 Vermeulen Street | 314683 | 6 | 6 563 526,66 | 6 563 526,66 |
| Not indicated | Pretoria | Sancardia Building Church Street | 303658 | 6 | 2 923 584,72 | 2 923 584,72 |
| National Prosecuting Authority | Cape Town | 115 Buitenbracht Street | 301653 | 12 | 16 058 211,21 | 23 287 754,02 |
|  | Durban | 325 Pietermaritz Street | 302168 | 12 | 712 003,40 |
| Pietermaritzburg |
|  | Nelspruit | Prosec Building | 303332 | 12 | 201 825,00 |
| Middelburg | President Kruger Street 21A |
|  | Port Elizabeth | Tourism Board Building | 300287 | 12 | 729 312,87 |
| Bisho | Phalo House |
|  | Port Elizabeth | RMO Building | 297751 | 12 | 1 509 578,40 |
| East London | 17 Fleet Street |
|  | Port Elizabeth | 5 Bird Street | 301271 | 12 | 469 153,44 |
|  | Port Elizabeth | Wool house | 303701 | 12 | 427 662,53 |
| 18 Grahamstown Road |
|  | Port Elizabeth | TRinder Villas | 304443 | 12 | 697 907,97 |
| 1 Trinder Square |
|  | Umtata | Broadcast House | 301343 | 12 | 2 482 099,20 |
| CNR Sission and Sutherland Street |
| NDPW Prestige | Cape Town | Bordeaux Flat 605 & 606 | 67768 | 6 | 5 015,33 | 7 912 917,38 |
| Cape Town | Parliament Towers | 222123 | 12 | 7 880 367,65 |
| 103 Plein Street |
| Cape Town | St Martini Gardens Flat A638 | 303439 |  | 1 346,65 |
| Queen Victoria Street |
| Cape Town | Avenue Fresnaye 34 | 314788 | 6 | 22 721,63 |
| Milnerton | Shambala House | 316077 |  | 3 466,12 |
| Parliament | Cape Town | Tygerhill Office Park | 302792 | 12 | 290 706,78 | 920 706,78 |
| Bellville |
| Cape Town | Erf 95185 | 162657 | 6 | 630 000,00 |
| De Goede Hoop Parking |
| Public Protector | Kimberley | Pretmax Building | 302515 | 12 | 334 397,16 | 9 635 512,04 |
| Sydney street |
| Mmabatho | 55 Market Street | 303321 | 12 | 91 996,42 |
| Vryburg |
| Nelspruit | Pinnacle Building | 303015 | 12 | 922 228,40 |
| 1Parking Street |
| Polokwane | Wyndom Park | 12 | 300563 | 875 987,97 |
| Pietersburg | 23 Rabie Street |
| Pretoria | Hillcrest Office Park | 12 | 304406 | 7 410 902,09 |
| Duncan Lynwood and Dyer Street |
| Public Works | Bloemfontein | Civilia Building | 12 | 113113 | 4 333 433,63 | 74 978 736,14 |
| 14 Elizabeth Street |
| Cape Town | Plot 95135 |  | 162660 | 197,78 |
| Cape Town | Nelson Mandela Gateway | 12 | 300641 | 150 952,63 |
| Waterfront |
| Cape Town | Fairholt | 12 | 304355 | 720 684,95 |
| Forest Drive 30 |
| Durban | Liberty Towers Parking | 12 | 307403 | 248 889,80 |
| 214 West Street |
| Durban | Liberty Towers Ground floor | 12 | 312152 | 789 839,40 |
| 214 West Street |
| Durban | Liberty Towers 12th floor | 12 | 308573 | 1 407 044,22 |
| 214 West Street |
|  | Johannesburg | Mineralia Building | 12 | 307640 | 10 907 521,36 |
| CNR De Koker and De Beer |
| Mmabatho | Dada Motors | 12 | 312703 | 1 001 819,74 |
| Mafikeng | Aerodrome cresent |
| Mmabatho | Albert Hall | 12 | 311884 | 3 463 756,08 |
| Site 810 |
| Nelspruit | Nedbank building | 299475 | 12 | 2 873 295,69 |
| 30 Brown Street |
| Nelspruit | Nebo Parking Building | 300239 | 6 | 41 040,00 |
| 15 Suikerriet Street |
| Nelspruit | Units 3 and 4 | 316696 | 12 | 263 250,00 |
| Rocky Drift |
| Polokwane | Old Mutual Building | 299658 | 12 | 1 297 696,01 |
| Pietersburg | 78 Hans van Rensburg Street |
| Polokwane | Sanlam Building | 310887 | 12 | 3 578 213,22 |
| Hans van Rensburg |
| Polokwane | Old Mutual Building | 316815 |  | 7 639,46 |
| 78 Hans van Rensburg Street |
| Pretoria | Unit 7 Manhattan Office Park | 308993 | 12 | 592 093,64 |
| Centurion | No 16 Pieter Street |
|  | Pretoria | Poytons | 301673 | 6 | 249 520,00 |
| Church |
| Pretoria | AVN Ingenieurswerke Pty Ltd | 304445 | 12 | 3 641 745,33 |
| Skinner and Andries street |
| Pretoria | Pretoria Parkade | 305446 | 12 | 144 208,96 |
| Schoeman Street |
| Pretoria | Schoeman and Andries Street | 307861 | 12 | 133 760,00 |
| Pretoria | Oranje Nassau | 310493 | 12 | 16 020 461,71 |
| Schoeman street |
| Pretoria | Nipilar House | 310903 | 12 | 4 538 530,68 |
| Hamilton Street |
| Pretoria | Aluane Town Lodge | 312368 | 12 | 11 651 871,60 |
| 418 Anton van Niekerk Drive |
| Pretoria | 117 Herbert Baker Street | 312379 | 12 | 2 989 138,28 |
| Groenkloof |
| Pretoria | 345 Galtonia Street | 317009 | 12 | 68 400,00 |
| Umtata | PRD 2 Building | 296038 | 12 | 3 863 731,97 |
| Sutherland Street |
| The Presidency | Johannesburg | Rochester Place | 309202 | 12 | 219 399,84 | 6 270 516,60 |
| 173 Rivonia Road |
| Pretoria | Pretoria | 310637 | 12 | 1 899 466,44 |
| Standard and General building |
| 215 Proes Street |
| Pretoria | 535 Proes Street | 312646 | 12 | 3 791 650,32 |
| Erf 1214 |
| Pretoria | Waterkloof Ridge | 316995 | 6 | 360 000,00 |
| Portion 1 if ERF 855 Aquila Street |
| **Sub – total** | | | | | | 163 383 696,59 |
| **Amount paid in 2010-2011** | | | | | | 155 245 388,08 |
| **Balance paid with batch** | | | | | | 8 138 308,51 |

1. Payment to PMTE - Fano 153688 – for the period 1 April 2010 – 31 March 2011

| **Client department** | **Region** | **Facility type** | **Number** | **Number of months** | **Amount per pertaining to building indicated** | **Total for client department** |
| --- | --- | --- | --- | --- | --- | --- |
| **R** | **R** |
| Independent Complaints Directorate | Kimberley | Upington 3 Robinson Street | 308118 | 12 | 45 600,00 | 45 600,00 |
| Justice Construction Development | Bloemfontein | Burger Centre | 14013 | 12 | 4 080,00 | 3 242 222,32 |
| Bloemfontein | Colonial Building | 313132 | 12 | 202 771,80 |
| Cape town | Rawsonvillie Police Station | 165122 | 12 | 572 432,76 |
| Cape town | Belville Commissioner house | 178335 | 12 | 79 800,00 |
| Cape town | Plein Park Building Justice | 178467 | 12 | 34 800,00 |
| Durban | Encr Security Boom | 158943 | 12 | 20,00 |
| Durban | Deloitte and Touch | 316697 | 12 | 182 331,60 |
| Johannesburg | Old Junior Library Boksburg | 124018 | 12 | 48,00 |
| Mmabatho | Tirelo building | 276930 | 12 | 569 295,16 |
| Port Elizabeth | Building 1 , Periodical | 81322 | 12 | 3 337,92 |
| Pretoria | Hallmark building | 308656 | 12 | 450 899,88 |
| Pretoria | Mamelodi Old Fire Station | 314792 | 12 | 60 900,06 |
| Umtata | Metlife place | 301273 | 12 | 73 419,58 |
| Umtata | Aliwal North | 316865 | 12 | 1 008 085,56 |
| National Prosecuting Authority | Bloemfontein | Waterfall centre building | 297210 | 6 | 3 317,31 | 3 313 897,94 |
| Bloemfontein | Waterfall centre | 300896 | 6 | 8 571,08 |
| Bloemfontein | Waterfall centre | 303340 | 6 | 73 276,28 |
| Bloemfontein | Waterfall centre | 315122 | 6 | 1 823 878,00 |
| Cape town | Belville Commissioner house | 309640 | 6 | 326 334,90 |
| Johannesburg | Witness protection unit | 303001 | 6 | 317 791,80 |
| Johannesburg | Standard Bank Galleries | 310526 | 6 | 693 974,97 |
| Nelspruit | Caltex building | 315635 | 6 | 66 753,60 |
| **Total** | | | | | | **6 601 720,26** |

1. State owned buildings:

The department paid the following pertaining to state owned properties to PMTE:

|  |  |  |  |
| --- | --- | --- | --- |
| **FANO** | **REF\_NO\_HD** | **TRANSDATE** | **R** |
| 150300 | BATCH :0000129156 | 4/18/2011 | 7 844 725,00 |
| 163193 | BATCH :0000139613 | 8/17/2011 | 7 844 725,00 |
| 171954 | BATCH :0000147241 | 10/26/2011 | 7 844 725,00 |
| 185075 | BATCH :0000157966 | 2/21/2012 | 7 844 725,00 |
| **Total** | | | **31 378 900,00** |

Congnisance is taken of the following principles as per the Framework for the Devolution of Budgets and Introduction of Accommodation charges:

Paragraph 2.1(i) – transparency of costs

All costs associated with delivery of a service by a department should be reflected on the budget of a department, including the full cost of immovable assets utilised in the delivery of the service.

Paragraph 2.1(ii) – Incentives for efficiency

There should be incentives for departments to utilse immovable assets and related resources more efficiently. For example, departments should be allowed to reallocate and utilise savings achieved through more efficient use of space or through reduced consumption of water and electricity.

Paragraph 2.1(iv) – Accountability for the use of immovable assts

Accounting officers must be accountable for the use of immovable assets as prescribed by the PFMA and the GIAMA.

Paragraph 3.1 (i) – Maintenance and property rates

The devolved maintenance and property rates budgets will be ring-fenced and will appear on a user department’s as part of its administration budget under the line item accommodation which can only be used to pay accommodation charges to DPW for state-owned properties occupied by that department.

Paragraph 4.2 – The accommodation charge will be used to pay property rates, maintenance and rehabilitation, and major refurbishment or replacement of existing state-owned properties. Any surplus accrued on the accommodation charge will be used to build up capital which may in time be used to finance (or partially finance) the acquisition of additional properties.

Paragraph 4.5 – Due to the large number of properties involved, it will therefore not be practical to for DPW to issue an accommodation invoice per property. The formula proposed below will enable the DPW to implement charges per type of facility per department. Once the accommodation charge system is bedded down, DPW will investigate the possible introduction of more disaggregated methods of calculating the accommodation charges.

Paragraph 4.7 – The monthly square metre rate per type of facility in 2006/07 (based on DPW’s baseline for 2006/07) is provided in Table 1 below (see Annexure G for calculations). These rates are used to calculate the accommodation charge per facility type for each user department.

The following matters were noted pertaining to the payment of accommodation charges for state owned buildings:

Payment to PMTE - Fano 150300 – R7 844 725 - 1 April 2011 to 30 June 2011

In the absence of a detail schedule and a detailed reconciliation per project code, it is not evident how the department confirmed the accuracy of the amount charged and if they did receive the services, therefore the occurrence of the amounts paid. It is also not evident how they ensure that there were not any prepayments pertaining to leases at year end.

There was no detail list attached listing the properties for which the department was paying the accommodation charges attached. In the absence of a detail schedule and a detailed reconciliation per project code, it is not evident how the department confirmed the accuracy of the amount charged and if they did receive the services, therefore the occurrence of the amounts paid.

I t is also not evident how they ensure that there were not any prepayments pertaining to the accommodation charges at year end or amount still due to PMTE as a memo attached dated 4 April 2011 the following was indicated:

“*Near the end of 2010, the PMTE embarked on an exercise with client departments to verify occupation of state-owned facilities. It was reported in these meeting that the 2011/2012 baseline will be re-calculated and future invoices would be based on these re-calculated amounts. Due to various technical problems, the exercise was not completed in the envisaged timeframe.*

*The exercise has now been completed and the PMTE will meet with National Treasury Shortly to discuss the change in the baseline. If National Treasury agrees, the changes will be affected during the Adjustments Estimate.*

*As the PMTE does not receive an appropriation from National Treasury, it is reliant on its revenue for sustainability. Therefore, the first quarter invoices for 2011/12 are still based on the amounts devolved as reflected on your baseline. Any difference between these amounts and the re-calculated amounts will be corrected in future invoices and/ or credit notes.”*

As DPW are the custodians of the immovable assets, they cannot pay PMTE leases. The expenditure cannot therefore be allocated to operating leases.

It is also further not evident if the amounts charged were approved by cabinet.

The department was requested with request for information number 138 issued on 23 March 2012 to provide a list of entities who partially pay for accommodation/ who do not pay for accommodation. They were also required to indicate the parties responsible for bearing the remainder of the cost or the total cost. The information should have included the total amounts for the current and the prior year. The departments or entities identified from the invoices listed above were not included in the information submitted pertaining the mentioned request. The information disclosed pertaining to lease commitments as well as the disclosure in the related party disclosure note pertaining to lease expenditure and lease commitments were therefore incomplete.

Payment to PMTE – FANO number Fano 150301- for the period April 2010 – March 2011

| **Client department** | **Region** | **Facility type** | **Number** | **Number of months** | **Amount per pertaining to building indicated** | **Total for client department** |
| --- | --- | --- | --- | --- | --- | --- |
| **R** | **R** |
| Agriculture Forest and Fisheries | Jhg | Wildlife | 299722 | 6 | 36 214,17 | 36 214,17 |
| Termininal building |
| Health | Pretoria | Hallmark | 44 | 12 | 21 337 759,37 | 21 390 427,37 |
| Vermeulen street 226 |
| Hall mark | 301804 | 6 | 52 668,00 |
| Proes |
| Human Settlements | Pretoria | 114 Vermeulen Street | 314683 | 6 | 6 563 526,66 | 6 563 526,66 |
| Parliament | Cape Town | Tygerhill Office Park | 302792 | 12 | 290 706,78 | 920 706,78 |
| Bellville |
| Cape Town | Erf 95185 | 162657 | 6 | 630 000,00 |
| De Goede Hoop Parking |
| **Sub – total** | | | | | | **28 910 874,98** |

1. Payment to PMTE – FANO number Fano 150301- for the period April 2010 – March 2011

As the client department pertaining to the following transaction was not indicated it could not be determined if this amounts should not also be disclosed in the comparative of the related party disclosure note

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Client department** | **Region** | **Facility type** | **Number** | **Number of months** | **Amount per pertaining to building indicated** | **Total for client department** |
| Not indicated | Pretoria | Sancardia Building Church Street | 303658 | 6 | 2 923 584,72 | 2 923 584,72 |

1. Payment to PMTE – FANO number Fano 153688 - for the period April 2010 – March 2011

| **Client department** | **Region** | **Facility type** | **Number** | **Number of months** | **Amount per pertaining to building indicated** | **Total for client department** |
| --- | --- | --- | --- | --- | --- | --- |
| **R** | **R** |
| Independent Complaints Directorate | Kimberley | Upington 3 Robinson Street | 308118 | 12 | 45 600,00 | 45 600,00 |
| Justice Construction Development | Bloemfontein | Burger Centre | 14013 | 12 | 4 080,00 | 3 242 222,32 |
|  | Bloemfontein | Colonial Building | 313132 | 12 | 202 771,80 |
|  | Cape town | Rawsonvillie Police Station | 165122 | 12 | 572 432,76 |
|  | Cape town | Belville Commissioner house | 178335 | 12 | 79 800,00 |
|  | Cape town | Plein Park Building Justice | 178467 | 12 | 34 800,00 |
|  | Durban | Encr Security Boom | 158943 | 12 | 20,00 |
|  | Durban | Deloitte and Touch | 316697 | 12 | 182 331,60 |
|  | Johannesburg | Old Junior Library Boksburg | 124018 | 12 | 48,00 |
|  | Mmabatho | Tirelo buildig | 276930 | 12 | 569 295,16 |
|  | Port Elizabeth | Building 1 , Periodical | 81322 | 12 | 3 337,92 |
|  | Pretoria | Hallmark building | 308656 | 12 | 450 899,88 |
|  | Pretoria | Mamelodi Old Fire Station | 314792 | 12 | 60 900,06 |
|  | Umtata | Metlife place | 301273 | 12 | 73 419,58 |
|  | Umtata | Aliwal North | 316865 | 12 | 1 008 085,56 |
| **Total** | | | | | | **3 287 822,32** |

1. The department was requested with request for information number 138 issued on 23 March 2012 to provide a list of entities who partially pay for accommodation/ who do not pay for accommodation. They were also required to indicate the parties responsible for bearing the remainder of the cost or the total cost. The information should have included the total amounts for the current and the prior year. The departments or entities identified from the invoices listed above were included in the information submitted pertaining the mentioned request. However, the amount of expenditure paid in the prior year was not provided and the extent to which the related party disclosure note was understated pertaining to the comparative could not be determined. From the information on the invoices as indicated below expenditure incurred on behalf of other client departments or entities pertaining to the prior year were identified.
2. Payment to PMTE – FANO number Fano 150301- for the period April 2010 – March 2011

| **Client department** | **Region** | **Facility type** | **Number** | **Number of months** | **Amount per pertaining to building indicated** | **Total for client department** |
| --- | --- | --- | --- | --- | --- | --- |
| **R** | **R** |
| Gender Equality | Cape Town | ABSA building | 302352 | 12 | 303 376,80 | 1 133 617,27 |
| Mafikeng | 38 Molopo Road | 304438 | 12 | 180 903,96 |
| Polokwane | Library gardens | 300249 | 12 | 304 057,18 |
| Pietersburg | C-O Grobler and Schoeman |
| East London | Permanent Building | 300482 | 12 | 345 279,33 |
| Home Affairs | Pretoria | Hallmark | 44 | 6 | 7 181 459,88 | 7 181 459,88 |
| Vermeulen street 226 |
| Human Rights Commission | Cape Town | ABSA building FLS 7 | 178398 | 12 | 256 665,66 | 1 148 723,56 |
| Adderley street 136 |
| Durban | 136 Victoria Embankment | 303837 | 12 | 475 865,85 |
| Polokwane | Library gardens | 300248 | 12 | 416 192,05 |
| Pietersburg | C-O Grobler and Schoeman |
| National Prosecuting Authority | Cape Town | 115 Buitenbracht Street | 301653 | 12 | 16 058 211,21 | 23 287 754,02 |
|  | Durban | 325 Pietermaritz Street | 302168 | 12 | 712 003,40 |
| Pietermaritzburg |
|  | Nelspruit | Prosec Building | 303332 | 12 | 201 825,00 |
| Middelburg | President Kruger Street 21A |
|  | Port Elizabeth | Tourism Board Building | 300287 | 12 | 729 312,87 |
| Bisho | Phalo House |
|  | Port Elizabeth | RMO Building | 297751 | 12 | 1 509 578,40 |
| East London | 17 Fleet Street |
|  | Port Elizabeth | 5 Bird Street | 301271 | 12 | 469 153,44 |
|  | Port Elizabeth | Wool house | 303701 | 12 | 427 662,53 |
| 18 Grahamstown Road |
|  | Port Elizabeth | TRinder Villas | 304443 | 12 | 697 907,97 |
| 1 Trinder Square |
|  | Umtata | Broadcast House | 301343 | 12 | 2 482 099,20 |
| CNR Sission and Sutherland Street |
| Parliament | Cape Town | Tygerhill Office Park | 302792 | 12 | 290 706,78 | 920 706,78 |
| Bellville |
| Cape Town | Erf 95185 | 162657 | 6 | 630 000,00 |
| De Goede Hoop Parking |
| Public Protector | Kimberley | Pretmax Building | 302515 | 12 | 334 397,16 | 9 635 512,04 |
| Sydney street |
|  | Mmabatho | 55 Market Street | 303321 | 12 | 91 996,42 |
| Vryburg |
|  | Nelspruit | Pinnacle Building | 303015 | 12 | 922 228,40 |
| 1Parking Street |
|  | Polokwane | Wyndom Park | 12 | 300563 | 875 987,97 |
| Pietersburg | 23 Rabie Street |
|  | Pretoria | Hillcrest Office Park | 12 | 304406 | 7 410 902,09 |
| Duncan Lynwood and Dyer Street |
| The | Johannesburg | Rochester Place | 309202 | 12 | 219 399,84 | 6 270 516,60 |
| Presidency | 173 Rivonia Road |
|  | Pretoria | Pretoria | 310637 | 12 | 1 899 466,44 |
| Standard and General building |
| 215 Proes Street |
|  | Pretoria | 535 Proes Street | 312646 | 12 | 3 791 650,32 |
| Erf 1214 |
|  | Pretoria | Waterkloof Ridge | 316995 | 6 | 360 000,00 |
| Portion 1 if ERF 855 Aquila Street |
| **Sub – total** | | | | | | 49 578 290,15 |

1. Payment to PMTE – FANO number Fano 153688 - for the period April 2010 – March 2011

| **Client department** | **Region** | **Facility type** | **Number** | **Number of months** | **Amount per pertaining to building indicated** | **Total for client department** |
| --- | --- | --- | --- | --- | --- | --- |
| National Prosecuting Authority | Bloemfontein | Waterfall centre building | 297210 | 6 | 3 317,31 | 3 313 897,94 |
| Bloemfontein | Waterfall centre | 300896 | 6 | 8 571,08 |
| Bloemfontein | Waterfall centre | 303340 | 6 | 73 276,28 |
| Bloemfontein | Waterfall centre | 315122 | 6 | 1 823 878,00 |
| Cape town | Belville Commissioner house | 309640 | 6 | 326 334,90 |
| Johannesburg | Witness protection unit | 303001 | 6 | 317 791,80 |
| Johannesburg | Standard Bank Galleries | 310526 | 6 | 693 974,97 |
| Nelspruit | Caltex building | 315635 | 6 | 66 753,60 |
| **Total** | | | | | | 3 313 897,94 |

The finding occurred as a result of the fact that:

As per discussion with ASD: Compliance it was noted that the finance department are busy preparing a reconciliation for the lease payments between the department and PMTE.

The aforementioned findings may result in:

a) Non compliance with Section 40 and41 of the Public Finance Management Act

b) Non compliance with Treasury Regulations 17.2.1.

c) The occurrence and accuracy of lease payments amounting to R5 017 019 could not be confirmed in the absence of a detailed reconciliation as the amounts may have been paid by the department in the financial years since these transactions occurred.

d) Lease commitment of the prior year may be understated with R5 017 019 if these transactions were not included.

e) Lease expenditure paid to PMTE may be overstated with R66 491.

f) The occurrence and accuracy of lease payments amounting to R8 138 308,51 could not be confirmed in the absence of a detailed reconciliation as the amounts may have been paid by the department in the financial years since these transactions occurred.

g) Lease commitment of the prior year may be understated with R8 138 308,51 if this difference was not included.

h) The occurrence and accuracy of lease payments amounting to R6 601 720,26 could not be confirmed in the absence of a detailed reconciliation as the amounts may have been paid by the department in the financial years since these transactions occurred.

i) Lease commitment of the prior year may be understated with R6 601 720,26 if this difference was not included.

j) The occurrence, classification and accuracy of lease payments amounting to R31 378 900,00 could not be confirmed in the absence of a detailed reconciliation as well as the fact that there was no detail list of how this amount was made up.

k) It could not be confirmed if the department may have made prepayments in terms of the payments made in the aforementioned paragraph in the absence of the mentioned reconciliation.

l) Related party expenditure of the prior year may be understated with R28 910 874,98 due to the fact that lease paid on behalf of other departments were not included in the related party disclosure note.

m) The lease disclosure note may be understated to the extent that the lease commitments pertaining to the departments listed in paragraph (f)(i) were not included in the lease commitment disclosure note.

n) Related party expenditure of the prior year may be understated with R2 923 584,72 if the lease payment to PMTE as reported in paragraph (f) (ii) pertain to another department or entity as it was not included in the related party disclosure note.

o) The lease disclosure note may be understated, if the lease payment to PMTE as reported in paragraph (f) (ii) pertain to another department or entity, to the extent that the lease commitments pertaining to other department or entity were not included in the lease commitment disclosure note.

1. Related party expenditure of the prior year may be understated with R3 287 822,32 due to the fact that lease paid on behalf of other departments were not included in the related party disclosure note.
2. The lease disclosure note may be understated to the extent that the lease commitments pertaining to the departments listed in paragraph (f)(iii) were not included in the lease commitment disclosure note.
3. Related party expenditure of the prior year may be understated with R49 578 290,15 due to the fact that lease paid on behalf of other departments as indicated in paragraph (g)(i) were not included in the related party disclosure note.
4. Related party expenditure of the prior year may be understated with R3 313 897,94 due to the fact that lease paid on behalf of other departments as indicated in paragraph (g)(ii) were not included in the related party disclosure note.

**Internal control deficiency**

Financial and performance management

Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting

**Recommendation**

a) The detail reconciliation proving that these amounts were not previously paid to PMTE should be submitted.

b) The lease commitments in the prior year pertaining to instances where the department paid the leases on behalf of other departments or entities should be included in the lease commitment note.

c) If the reconciliation reveals that these amounts were in fact paid, then the expenditure needs to be credited to the extent that this expenditure was previously paid and a receivable for PMTE debited.

d) The funds then need to be recovered from PMTE.

e) Officials from DPW must ensure that the department does have the liability to pay an expense even though it is from their own trading entity.

f) The related party disclosure note needs to be corrected to the extent that the lease expenditure and lease commitments of the prior year were not included.

g) The related party disclosure note needs to be restated to the extent that the lease expenditure and lease commitments of the departments not previously indicated for which the department pay their leases, were not included in the current years information.

h) The department needs to identify all non-arms length transactions, if not appropriately disclosed the impact on both the current and the prior year need to be determined and the financial statements restated accordingly.

i) Evidence that the accommodations charges were approved by cabinet should be provided.

**Management response**

a) I am not in agreement with the finding for the following reasons:

In the 2006/07 financial year, funds were devolved to client departments (including DPW) by National Treasury for the payment of rent on State-owned facilities occupied by the relevant departments. These devolved amounts were to be recovered by the PMTE in four quarterly instalments annually.

The amounts that were devolved to client departments were calculated per facility using the DPW asset register information as in 2006 and a costing model developed by consultants with the view that all future quarterly invoices would be based on an itemised bill displaying the accommodation charges per facility.

Due to the 2006 DPW asset register information not being completely accurate, and the information deteriorating in subsequent financial periods due to capacity problems and the very large number of properties on the DPW asset register making it near impossible to keep the information up to date, it was decided that for the interim, these invoices would not be based on an itemised bill. The decision was then taken to rather grow the 2006/07 baseline by a certain percentage each year without the information being based on a detailed list and that these amounts would then be claimed back from client departments quarterly. The percentage growth during the last two years was 15% as agreed on in the Framework on the devolution of budgets.

In 2011, the PMTE embarked on an exercise of verifying client department occupancy of state-owned buildings and re-calculating and re-apportioning the accommodation charges accordingly. This exercise was not finalised as the Department is also busy with another exercise with Ernest & Young to verify the completeness and correctness of the Asset Register.

The invoices issued to the department of Public Works for state-owned accommodation charges for the 2011/12 financial period were not based on a list of properties. The amount devolved to the Department of Public Works for state-owned accommodation charges by National Treasury as in the ENE, was only claimed back in four quarterly instalments.  This is done for all Client Departments and all pay us on the same principle. See attached letter approving the framework and ENEs reflecting the amounts devolved to Public Works.

b) I am in agreement with the finding. The department has reconciled all leases which the department is paying on behalf of other state organization, and adjustment has been processed for lease commitment and related party. The expenditure for related party was disclosed as part of PMTE, no adjustment will be made for expenditure. We will only adjust related party for other obligations.

|  |  |  |
| --- | --- | --- |
| **DESCRIPTION** | **RESPONSE** | |
| Corrective action to be taken |  | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** |
| X |  |
| If yes, what corrections will be made to the population |  | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. | The department put control measures to monitor all payments and leases to ensure full disclosure. | |
| Position of official responsible to take corrective actions | CFO | |
| Estimated completion date for corrective action | 1. September | |

c) I am in agreement with the finding. The department has reconciled all leases which the department is paying on behalf of other state organization, and adjustment has been processed for lease commitment and related party. The expenditure for related party was disclosed as part of PMTE, no adjustment will be made for expenditure. We will only adjust related party for other obligations.

d) I am in agreement with the finding. The department has reconciled all leases which the department is paying on behalf of other state organization, and adjustment has been processed for lease commitment and related party. The expenditure for related party was disclosed as part of PMTE, no adjustment will be made for expenditure. We will only adjust related party for other obligations.

e) I am in agreement with the finding. The department has reconciled all leases which the department is paying on behalf of other state organization, and adjustment has been processed for lease commitment and related party. The expenditure for related party was disclosed as part of PMTE, no adjustment will be made for expenditure. We will only adjust related party for other obligations.

**Auditor’s conclusion**

a), c), d) Management agrees with the finding. The schedules submitted with management’s comment did not list all the properties for which leases were paid. It is therefore still not evident how management ensured that the leases for these properties were not paid. The matter therefore remains unresolved.

Management must implement a system to list all properties for which they are responsible to pay leases to PMTE. On a monthly basis, with every payment made the payment number need to be recorded and the total paid reconciled between this register and the property schedule. This will enable to immediately determine if they have already paid for a lease.

This matter therefore remains unresolved. The occurrence and accuracy of lease payments amounting to R17 134 967,77 could not be confirmed. The estimated limitation amounts to R167 614 766,93

b) Management response does not pertain to the error on the invoices as listed. Therefore the matter remains unresolved.

e) Although cognisance is taken of management’s comment, the letter indicated by management was not submitted. The occurrence, accuracy and classification of leases amounting to R31 378 000 could not be confirmed. As this pertains to property that belongs to DPW, and you cannot lease your own assets, it is not considered to have an impact on the lease commitments.

f)(i) The total payments made to PMTE in the current and the prior year were extracted from BAS and agrees to the disclosure in the AFS. The expenditure is therefore not understated in the related party note. The matter pertaining to the expenditure is resolved.

The leases were followed through to the operating lease schedules and the matters noted as indicated in the comment column.

| **Client department** | **Region** | **Facility type** | **Number** | **Number of months** | **Amount per pertaining to building indicated** | **Total for client department** | **Commitment schedule**  **Operating leases** |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **R** | **R** |  |
| Agriculture Forest and Fisheries | Jhg | Wildlife | 299722 | 6 | 36 214,17 | 36 214,17 | Not in schedule unresolved |
| Termininal building |
| Health | Pretoria | Hallmark | 44 | 12 | 21 337 759,37 | 21 390 427,37 | Was in the schedule  Number  6029/0059  Matter is resolved |
| Vermeulen street 226 |
| Hall mark | 301804 | 6 | 52 668,00 | Was in the schedule  Number  6029/0059  Matter is resolved |
| Proes |
| Human Settlements | Pretoria | 114 Vermeulen Street | 314683 | 6 | 6 563 526,66 | 6 563 526,66 | Not in schedule unresolved |
| Parliament | Cape Town | Tygerhill Office Park | 302792 | 12 | 290 706,78 | 920 706,78 | Was in the schedule  Number  6502/6062  Matter is resolved |
| Bellville |
| Cape Town | Erf 95185 | 162657 | 6 | 630 000,00 | Was in the schedule  Number  6508/6625  Matter is resolved |
| De Goede Hoop Parking |  |
| **Sub – total** | | | | | | **28 910 874,98** |  |

Lease commitment for the 2010-2011 financial year was therefore understated with R6 599 740,83. Similarly the related party disclosure note pertaining to operating lease commitments were also understated.

f)(ii) The total payments made to PMTE in the current and the prior year were extracted from BAS and agrees to the disclosure in the AFS. The expenditure is therefore not understated in the related party note. The matter pertaining to the expenditure is resolved.

The lease could however not be traced to the operating lease commitment schedule. The operating leases of the 2010-2011 financial year is therefore understated with this R2 923 584,72. Similarly the related party disclosure note pertaining to operating lease commitments were also understated R2 923 584,72

f)(iii) The total payments made to PMTE in the current and the prior year were extracted from BAS and agrees to the disclosure in the AFS. The expenditure is therefore not understated in the related party note. The matter pertaining to the expenditure is resolved.

The leases were followed through to the operating lease schedules and the matters noted as indicated in the comment column.

| **Client department** | **Region** | **Facility type** | **Number** | **Amount per pertaining to building indicated** | **Total for client department** | **Commitment schedule**  **Operating leases** |
| --- | --- | --- | --- | --- | --- | --- |
| **R** | **R** |  |
| Independent Complaints Directorate | Kimberley | Upington 3 Robinson Street | 308118 | 45 600,00 | 45 600,00 | Not in schedule unresolved |
| Justice Construction Development | Bloemfontein | Burger Centre | 14013 | 4 080,00 | 3 242 222,32 | Not in schedule unresolved |
|  | Bloemfontein | Colonial Building | 313132 | 202 771,80 | Not in schedule unresolved |
|  | Cape town | Rawsonvillie Police Station | 165122 | 572 432,76 | Not in schedule unresolved |
|  | Cape town | Belville Commissioner house | 178335 | 79 800,00 | Not in schedule unresolved |
|  | Cape town | Plein Park Building Justice | 178467 | 34 800,00 | Not in schedule unresolved |
|  | Durban | Encr Security Boom | 158943 | 20,00 | Not in schedule unresolved |
|  | Durban | Deloitte and Touch | 316697 | 182 331,60 | Not in schedule unresolved |
|  | Johannesburg | Old Junior Library Boksburg | 124018 | 48,00 | Not in schedule unresolved |
|  | Mmabatho | Tirelo building | 276930 | 569 295,16 | Not in schedule unresolved |
|  | Port Elizabeth | Building 1 , Periodical | 81322 | 3 337,92 | Not in schedule unresolved |
|  | Pretoria | Hallmark building | 308656 | 450 899,88 | Not in schedule unresolved |
|  | Pretoria | Mamelodi Old Fire Station | 314792 | 60 900,06 | Not in schedule unresolved |
|  | Umtata | Metlife place | 301273 | 73 419,58 | Not in schedule unresolved |
|  | Umtata | Aliwal North | 316865 | 1 008 085,56 | Not in schedule unresolved |

The lease could however not be traced to the operating lease commitment schedule. The operating leases of the 2010-2011 financial year is therefore understated with this R3 287 822.32. Similarly the related party disclosure note pertaining to operating lease commitments were also understated R3 287 822,32.

g)(i) The total payments made to PMTE in the current and the prior year were extracted from BAS and agrees to the disclosure in the AFS. The expenditure is therefore not understated in the related party note. The matter pertaining to the expenditure is resolved.

However, the listed transactions leases were traced to the operating lease schedule submitted for audit purposes. As indicated in the comment column lease were identified that was not included in the operating lease commitment schedule. The operating lease commitments of the prior year were therefore understated with R1 101 716,47 Similarly the related party disclosure note pertaining to operating lease commitments were also understated R1 101 716,47.

| **Client department** | **Region** | **Facility type** | **Number** | **Amount per pertaining to building indicated** | **Total for client department** | **Commitment schedule**  **Operating leases** |
| --- | --- | --- | --- | --- | --- | --- |
| **R** | **R** |
| Gender Equality | Cape Town | ABSA building | 302352 | 303 376,80 | 1 133 617,27 | Was in the schedule  Number  6508/7638  Matter is resolved |
| Mafikeng | 38 Molopo Road | 304438 | 180 903,96 | Was in the schedule  Number  6088/0416  Matter is resolved |
| Polokwane | Library gardens | 300249 | 304 057,18 | Was in the schedule  Number  6026/1289  Matter is resolved |
| Pietersburg | C-O Grobler and Schoeman |
| East London | Permanent Building | 300482 | 345 279,33 | Not in schedule unresolved |
| Home Affairs | Pretoria | Hallmark | 44 | 7 181 459,88 | 7 181 459,88 | Was in the schedule  Number  6029/0059  Matter is resolved |
| Vermeulen street 226 |
| Human Rights Commission | Cape Town | ABSA building FLS 7 | 178398 | 256 665,66 | 1 148 723,56 | Was in the schedule  Number  6508/7425  Matter is resolved |
| Adderley street 136 |
| Durban | 136 Victoria Embankment | 303837 | 475 865,85 | Was in the schedule  Number  H6301/2596  Matter is resolved |
| Polokwane | Library gardens | 300248 | 416 192,05 | Was in the schedule  Number  6026/1287  Matter is resolved |
| Pietersburg | C-O Grobler and Schoeman |
| National Prosecuting Authority | Cape Town | 115 Buitenbracht Street | 301653 | 16 058 211,21 | 23 287 754,02 | Was in the schedule  Number  6508/7632  Matter is resolved |
|  | Durban | 325 Pietermaritz Street | 302168 | 712 003,40 | Was in the schedule  Number  H6221/0272  Matter is resolved |
| Pietermaritzburg |
|  | Nelspruit | Prosec Building | 303332 | 201 825,00 | Was in the schedule  Number  6023/0672  Matter is resolved |
| Middelburg | President Kruger Street 21A |
|  | Port Elizabeth | Tourism Board Building | 300287 | 729 312,87 | Was in the schedule  Number  6465/5117  Matter is resolved |
| Bisho | Phalo House |
|  | Port Elizabeth | RMO Building | 297751 | 1 509 578,40 | Was in the schedule  Number 6425/6610  Matter is resolved |
| East London | 17 Fleet Street |
|  | Port Elizabeth | 5 Bird Street | 301271 | 469 153,44 | Was in the schedule  Number  6428/7682  Matter is resolved |
|  | Port Elizabeth | Wool house | 303701 | 427 662,53 | Was in the schedule  Number  6428/7709  Matter is resolved |
| 18 Grahamstown Road |
|  | Port Elizabeth | TRinder Villas | 304443 | 697 907,97 | Was in the schedule  Number  6428/7716  Matter is resolved |
| 1 Trinder Square |
|  | Umtata | Broadcast House | 301343 | 2 482 099,20 | Was in the schedule  Number  6458/5397  Matter is resolved |
| CNR Sission and Sutherland Street |
| Parliament | Cape Town | Tygerhill Office Park | 302792 | 290 706,78 | 920 706,78 | Was in the schedule  Number  6502/6062  Matter is resolved |
| Bellville |
| Cape Town | Erf 95185 | 162657 | 630 000,00 | Was in the schedule  Number  6508/6625  Matter is resolved |
| De Goede Hoop Parking |
| Public Protector | Kimberley | Pretmax Building | 302515 | 334 397,16 | 9 635 512,04 | Was in the schedule  Number  6611/1726  Management only showed lease commitment of R29 956,41, while an amount of R334 397,16 was paid. Therefore and understatement of R304 440,75 |
| Sydney street |
|  | Mmabatho | 55 Market Street | 303321 | 91 996,42 | Not in schedule unresolved |
| Vryburg |
|  | Nelspruit | Pinnacle Building | 303015 | 922 228,40 | Was in the schedule  Number  6024/0769  Matter is resolved |
| 1Parking Street |
|  | Polokwane | Wyndom Park | 300563 | 875 987,97 | Was in the schedule  Number  H6026/1292  Matter is resolved |
| Pietersburg | 23 Rabie Street |
|  | Pretoria | Hillcrest Office Park | 304406 | 7 410 902,09 | Was in the schedule  Number  6029/6662  Matter is resolved |
| Duncan Lynwood and Dyer Street |
| The | Johannesburg | Rochester Place | 309202 | 219 399,84 | 6 270 516,60 | Was in the schedule  Number  6116/1198  Matter is resolved |
| Presidency | 173 Rivonia Road |
|  | Pretoria | Pretoria | 310637 | 1 899 466,44 | Was in the schedule  Number  6029/7054  Matter is resolved |
| Standard and General building |
| 215 Proes Street |
|  | Pretoria | 535 Proes Street | 312646 | 3 791 650,32 | Was in the schedule  Number  H6029/1603/1  Matter is resolved |
| Erf 1214 |
|  | Pretoria | Waterkloof Ridge | 316995 | 360 000,00 | Not in schedule unresolved |
| Portion 1 if ERF 855 Aquila Street |

g)(ii) The total payments made to PMTE in the current and the prior year were extracted from BAS and agrees to the disclosure in the AFS. The expenditure is therefore not understated in the related party note. The matter pertaining to the expenditure is resolved.

However, the listed transactions leases were traced to the operating lease schedule submitted for audit purposes. As indicated in the comment column lease were identified that was not included in the operating lease commitment schedule. The operating lease commitments of the prior year were therefore understated with R3 313 897,94. Similarly the related party disclosure note pertaining to operating lease commitments were also understated R3 313 897,94.

| **Client department** | **Region** | **Facility type** | **Number** | **Amount per pertaining to building indicated** | **Total for client department** | **Commitment schedule**  **Operating leases** |
| --- | --- | --- | --- | --- | --- | --- |
| **R** | **R** |
| National Prosecuting Authority | Bloemfontein | Waterfall centre building | 297210 | 3 317,31 | 3 313 897,94 | Not in schedule unresolved |
| Bloemfontein | Waterfall centre | 300896 | 8 571,08 | Not in schedule unresolved |
| Bloemfontein | Waterfall centre | 303340 | 73 276,28 | Not in schedule unresolved |
| Bloemfontein | Waterfall centre | 315122 | 1 823 878,00 | Not in schedule unresolved |
| Cape town | Belville Commissioner house | 309640 | 326 334,90 | Not in schedule unresolved |
| Johannesburg | Witness protection unit | 303001 | 317 791,80 | Not in schedule unresolved |
| Johannesburg | Standard Bank Galleries | 310526 | 693 974,97 | Not in schedule unresolved |
| Nelspruit | Caltex building | 315635 | 66 753,60 | Not in schedule unresolved |

1. **Operating lease - restated amounts - (opening balance) overstated** **(Ex 246)**

**Audit Finding**

a) Public finance management act section 40(1) (a) and (b) states the following:

*“40 (1) the accounting officer for a department, trading entity or constitutional institution-*

1. *must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;”*

b) Chapter 8 of the Departmental Financial Reporting Framework Guide states the following in paragraph 33(a) pertaining to lease commitments:

*"****Lease commitments*** *represent amounts owing from the reporting date to the end of the lease contract.*

*A* ***finance lease*** *is a lease that transfers substantially all risks and rewards incident to ownership of an asset. Title may or may not eventually be transferred.*

*An* ***operating lease*** *is a lease other than a finance lease."*

c) Chapter 3 of the Basic Accounting Handbook for Government Departments states the following pertaining to the payment transactions for goods and services in paragraph 3.1.2:

*“This item refers to all government payments for goods and services, excluding purchases of capital assets. This item would in most instances be the second largest spending item for departments.*

*Goods and services exclude the following payments:*

* *Payments for capital assets (classified as “expenditure for capital assets”)”*

The following deviations pertaining to operating leases were noted:

1. The following leases payments were recorded in operating leases in BAS, but relate to finance leases:

|  |  |  |  |
| --- | --- | --- | --- |
| **Batch Number** | **Contract/ Serial Number** | **Beneficiary Name** | **Amount per Payment Batch** |
| 187842 | AJM3036366 | OLI-PRO OFFICE | 3 100,00 |
| 187892 | AGH3201043 | OLI-PRO OFFICE AUTOMATION | 1 006,10 |
| 154597 | AJM3035576 | OLI-PRO OFFICE AUTOMATION | 2 623,36 |
| 154576 | ACC3019275 | OLI-PRO OFFICE AUTOMATION | 3 298,08 |
| 155939 | 57BN02095 | MINOLCO | 1 603,80 |
| 188290 | 57AN30742 | MINOLCO | 493,54 |
| 188289 | 57AN31251 | MINOLCO | 493,54 |
| 188279 | 57AN30131 | MINOLCO | 429,67 |
| **Total** | | | **13 048,09** |

1. The finance lease commitment schedule does not include the leases listed below.

|  |  |  |  |
| --- | --- | --- | --- |
| **Batch Number** | **Contract/ Serial Number** | **Beneficiary Name** | **Amount per Payment Batch** |
| 187842 | AJM3036366 | OLI-PRO OFFICE | 3 100,00 |
| 187892 | AGH3201043 | OLI-PRO OFFICE AUTOMATION | 1 006,10 |
| 154597 | AJM3035576 | OLI-PRO OFFICE AUTOMATION | 2 623,36 |
| 154576 | ACC3019275 | OLI-PRO OFFICE AUTOMATION | 3 298,08 |

1. Although the following leases ended on the dates listed below, the department has continued to make payments to the service provider for those leases. The extended lease term has not been updated in the finance lease schedule, resulting in finance lease commitment being understated.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Batch Number** | **Batch Number** | **Rental Period for which the Payment was made** | **Beneficiary Name** | **End Date of Contract per Schedule** | **Amount per Payment Batch** |
| 155939 | 57BN02095 | March 2011 | MINOLCO | January 2010 | 1 603,80 |
| 188290 | 57AN30742 | February 2012 | MINOLCO | August 2011 | 493,54 |
| 188289 | 57AN31251 | February 2012 | MINOLCO | October 2011 | 493,54 |
| 188279 | 57AN30131 | February 2012 | MINOLCO | February 2011 | 429,67 |

The finding occurred as a result of the fact that:

The review performed over the preparation of the lease disclosure note is inadequate.

The impact of the finding:

1. Understatement of finance lease commitments.
2. Incorrect allocation of capital expenditure, pertaining to finance leases, to goods and services. The latter will have an impact on the appropriation statement, statement of financial performance, notes to the financial statements and to the disclosure notes.

## Internal control deficiency

## Financial and performance management

The department did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

## Recommendation

a) All finance lease payments should be disclosed as capital expenditure and not as operating lease expenditure.

b) In cases where journals are passed to change incorrect allocations, the payment batch should be referenced to the relevant journal.

c) The lease commitment disclosure note should be updated with any extensions or other pertinent changes made to the lease agreement.

d) An appropriately delegated official should ensure that for all lease payments being made, where the lease agreement has not expired during the financial year, a lease commitment is calculated based on the circumstances of the lease agreement at year-end.

e) The population of operating lease expenditure need to be assessed to determine if there were more incorrect allocations. Once the process is completed the audit team needs to be informed to make another selection for testing.

f) If the department agrees with the finding, the suggested changed to the financial statements should be attached with the management comment.

**Management response**

1. I am in agreement with the finding for the following reasons:

The rental agreement for the leases referred to is no longer a finance lease but operating lease since the contract is now on a month to month basis. The department is will be participating in the next RT transversal contract arranged by the National Treasury which is scheduled to commence around November 2012. It would therefore not have been economical to enter into a new lease contract.

|  |  |  |
| --- | --- | --- |
| **DESCRIPTION** | **RESPONSE** | |
| Corrective action to be taken | Enter into a new lease agreement | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** |
|  | x |
| If yes, what corrections will be made to the population | n/a | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. | n/a | |
| Position of official responsible to take corrective actions | n/a | |
| Estimated completion date for corrective action | n/a | |
| Does management agree with the root cause indicated | **Yes** | **No** |
|  |  |
| If management does not agree with the root cause indicated, please provide the root cause according to management. | n/a | |

*Name****:*** Lesole Matsotso

*Position: Deputy Director: Provisioning Administration*

*Date:18 July 2012*

b)I am in agreement with the finding for the following reasons:

The rental agreement for the leases referred to had since expired and they are now being treated as operating leases hence they are not included in the finance lease commitment.

|  |  |  |
| --- | --- | --- |
| **DESCRIPTION** | **RESPONSE** | |
| Corrective action to be taken | Enter into a new lease agreement. | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** |
|  | x |
| If yes, what corrections will be made to the population | n/a | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. | n/a | |
| Position of official responsible to take corrective actions | n/a | |
| Estimated completion date for corrective action | n/a | |
| Does management agree with the root cause indicated | **Yes** | **No** |
|  |  |
| If management does not agree with the root cause indicated, please provide the root cause according to management. | n/a | |

*Name:* Lesole Matsotso

*Position: Deputy Director: Provisioning Administration*

*Date:18 July 2012*

1. I am not in agreement with the finding for the following reasons:

The rental agreement for the lease referred to, was treated, paid and reported as finance lease as the lease period had not expired at the time.

|  |  |  |
| --- | --- | --- |
| **DESCRIPTION** | **RESPONSE** | |
| Corrective action to be taken | n/a | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** |
|  | x |
| If yes, what corrections will be made to the population | n/a | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. | n/a | |
| Position of official responsible to take corrective actions | n/a | |
| Estimated completion date for corrective action | n/a | |
| Does management agree with the root cause indicated | **Yes** | **No** |
|  |  |
| If management does not agree with the root cause indicated, please provide the root cause according to management. | n/a | |

*Name:* Lesole Matsotso

*Position: Deputy Director: Provisioning Administration*

*Date:18 July 2012*

**Auditor’s conclusion**

1. Management is not in agreement with the finding. Management’s comment is noted, however since the lease agreements were originally classified as finance leases, the extension cannot now be regarded as operating leases.

The lease payments should be discounted monthly to the start date of the original lease agreement. The interest and capital portion should therefore be recorded in accordance with the SCOA’s.

1. & c) Management’s comment has been noted. The matter is resolved.
2. **Operating lease commitments - restated amounts Ex 243**

**Audit Finding**

a) Public finance management act section 40(1) (a) and (b) states the following:

*“40 (1) the accounting officer for a department, trading entity or constitutional institution-*

1. *must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;”*

b) Chapter 8 of the preparation guide on operating lease states the following:

*"Lease commitments represent amounts owing from the reporting date to the end of the lease contract."*

The following issues were identified during the audit of the lease commitments:

The following lease commitments commenced after the prior year-end, 31 March 2011 but was included in the 2010/2011 lease commitments disclosure notes:

|  |  |  |  |
| --- | --- | --- | --- |
| **Region** | **Contract Number** | **Commencement Date** | **Total Commitments Disclosed in the Comparative** |
| MMABATHO | 6088/0416 | 2011/06/01 | 550 117,15 |
| CAPE TOWN | 6508/7425 | 2011/08/01 | 587 413,88 |
| CAPE TOWN | 6508/7676 | 2011/06/15 | 28 490,00 |
| CAPE TOWN | 6538/5976 | 2011/12/01 | 672 000,00 |
| **TOTAL** | | | **1 838 021,03** |

Reason for the deviation:

The review performed on the lease commitments note is inadequate.

Potential impact of the findings raised above:

Overstatement of the prior year operating leases by R1 838 021,03

## Internal control deficiency

## Financial and performance management

The department did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

## Recommendation

a) The department should only disclose a lease commitment at year-end if the department has already entered into the agreement at year-end.

b) The delegated official signing off on lease commitment disclosure note should check all calculations prior to signing to the schedule.

c) The department should consider adjusting the financial statements. If management want to correct the financial statements the management comment should include the proposed correction.

**Management response**

I am in agreement with the finding, as at 31 March 2011 the contracts were not in place to be included as commitment for the year 2011/12; however the amounts disclosed see the table below is different from the finding. Corrections have been effected see no.10, 23, 27 Annexure B and Annexure C no.5

|  |  |  |  |
| --- | --- | --- | --- |
| **Region** | **Contract Number** | **Commencement Date** | **Total Commitments Disclosed in the Comparative** |
|  |
| MMABATHO | 6088/0416 | 2011/06/01 | 220 400,00 |
| CAPE TOWN | 6508/7425 | 2011/08/01 | 188 274,00 |
| CAPE TOWN | 6508/7676 | 2011/06/15 | 28 490,00 |
| CAPE TOWN | 6538/5976 | 2011/12/01 | 576 000,00 |
| **TOTAL** | | | **1 013 164.10** |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Corrective action to be taken |  | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** |
| x |  |
| If yes, what corrections will be made to the population | Adjustment will be effected | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. |  | |
| Position of official responsible to take corrective actions | DD:Financial Reporting | |
| Estimated completion date for corrective action | xxx | |
| Does management agree with the root cause indicated | **Yes** | **No** |
| x |  |
| If management does not agree with the root cause indicated, please provide the root cause according to management. |  | |

Name: Mandla Sithole

Position: Director Financial Accounting

Date: 17 July 2012

**Auditor’s conclusion**

Although management is in agreement with the finding, their comments are noted. The amounts noted by management is the lease commitment for less than one year as at 31 March 2011, the amount actually disclosed in the comparative figure is the total lease commitment amount and not just the commitment for less than one year.

The financial statements were adjusted. Management must however ensure that the financial statements are timeously prepared to ensure that there is enough time to properly review the financial statements before submission

1. **Commitments: Operating lease revenue Ex 295**

Public finance management act section 40(1)(a) and (b) states the following:

*“40(1) The accounting officer for a department, trading entity or constitutional institution-*

1. *must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;”*

The following issues were identified during the audit of the commitments for operating lease revenue:

1. The following differences were identified pertaining to the 2010 – 2011 restated amount:

| **No.** | **LESSEE** | **NUMBER** | **2010-2011** | **2010-2011** | **2010-2011** | **COMMENT** |
| --- | --- | --- | --- | --- | --- | --- |
| **PER MANAGEMENT SCHEDULE** | **RECALCULATED** | **DIFFERENCE** |
| **R** | **R** | **R** |
| 1 | QUINNETH MOLAPISI | 404591 | 240 000,00 | 293 040,00 | (53 040,00) | Escalation not included in management calculation |
| 2 | ATC S.A. WIRELESS(PTY)LTD | 392458 | 137 384,76 | 6 752,34 | 130 632,42 | Month to month lease. Thus future lease revenue incorrectly calculated |
| 3 | REGINALD SENZO SHABANE | 403760 | 107 800,00 | 136 974,64 | (29 174,64) | Escalation not included in management calculation |
| 4 | CELL-C PTY LTD SITE 6035A | 390189 | 109 966,14 | 113 742,99 | (3 776,85) | The lease end date incorrect and escalation not considered in calculation |
| 5 | MS MAPADI ANNA RAMPAI | 401591 | 85 530,06 | 91 994,76 | (6 464,70) | The lease end date incorrect and escalation not considered in calculation |
| 6 | MTN(PTY)LTD-SITE T3659/5575 | 391521 | 248 727,24 | - | 248 727,24 | The lease end date incorrect as lease expired and escalation not considered in calculation |
| 7 | TALLIE MARINE (PTY) LTD | 361251 | 462 042,68 | 493 469,36 | (31 426,68) | The lease end date incorrect and escalation not considered in calculation |
| 8 | CHRISTINE MONAISA | 403762 | 110 880,00 | 124 670,16 | (13 790,16) | The lease end date incorrect and escalation not considered in calculation |
| 9 | VODACOM | 390244 | 285 638,40 | 310 256,34 | (24 617,94) | The lease end date incorrect and escalation not considered in calculation |
| 10 | AIRTON TIMBERS | 136047 | 649 128,00 | - | 649 128,00 | The lease end date incorrect as lease expired and escalation not considered in calculation |
| 11 | MTN (PTY) LTD | 386053 | 435 517,20 | 351 996,00 | 83 521,20 | The lease end date incorrect and escalation not considered in calculation |
| 12 | AQUAFARM DEVELOPMENT (PTY) LTD | 377438 | 1 131 800,64 | 1 322 413,80 | (190 613,16) | The lease end date incorrect and escalation not considered in calculation |
| 13 | SENTECH LTD | 401198 | 1 931 965,14 | 2 720 703,74 | (788 738,60) | The lease end date incorrect and escalation not considered in calculation |
| 14 | DE VILLIERS PARTNERS | 397153 | 351 384,00 | 380 868,36 | (29 484,36) | The lease end date incorrect and escalation not considered in calculation |
| 15 | MTM LEKGOLOKWE FUNERAL SERVICE | 364467 | 241 054,99 | 314 907,25 | (73 852,26) | The lease end date incorrect and escalation not considered in calculation |
| 16 | SEA HARVEST CORPORATION LTD | 359919 | 5 143 182,00 | 7 773 904,65 | (2 630 722,65) | The lease end date incorrect and escalation not considered in calculation |
| 17 | GANSBAAI MARINE (PTY) LTD | 391721 | 387 024,18 | 50 380,44 | 336 643,74 | The lease end date incorrect as lease expired and escalation not considered in calculation |
| 18 | HOUT BAY HARVEST CENTRE | 404723 | 1 730 295,00 | 1 403 168,66 | 327 126,34 | The lease end date incorrect and escalation not considered in calculation |
| 19 | DEPARTMENT OF HEALTH | 22710 | 258 397,20 | 129 198,60 | 129 198,60 | The lease end date incorrect and escalation not considered in calculation |
| 20 | RHEINMETAL DENEL MUNITION | 377914 | 3 513 840,00 | 4 656 634,33 | (1 142 794,33) | The lease end date incorrect and escalation not considered in calculation |
| 21 | OZOFLEX (PTY) LTD | 400701 | 270 681,84 | 135 340,92 | 135 340,92 | The lease end date incorrect as lease expired and escalation not considered in calculation |
| 22 | MUSA DRAMONELLAR GWICANA | 400760 | 33 250,00 | - | 33 250,00 | The lease period or starting date note indicated in lease. Thus there is no future lease revenue |
| 23 | AUTOPAX PASSENGER SERVICES | 400915 | 3 927 115,50 | 3 949 592,16 | (22 476,66) | The lease end date incorrect and escalation not considered in calculation |
| 24 | MBMSA AUTOMOTIVE | 403077 | 473 903,32 | 549 644,92 | (75 741,60) | The lease end date incorrect and escalation not considered in calculation |
| 25 | DEPT OF HEALTH – WITBANK | 157181 | 459 945,60 | 518 882,40 | (58 936,80) | The lease end date incorrect and escalation not considered in calculation |
| 26 | IZAMIX (PTY) LTD | 400619 | 2 317 870,08 | 3 748 096,00 | (1 430 225,92) | The lease end date incorrect and escalation not considered in calculation |
| 27 | EASTGATE AIRPORT | 388271 | 3 021 316,76 | 3 565 597,06 | (544 280,30) | The lease end date incorrect and escalation not considered in calculation |
| 28 | MSOKA MINING PTY LTD | 400943 | 1 172 083,01 | 970 000,00 | 202 083,01 | The lease end date incorrect and escalation not considered in calculation |
| 29 | DEPARTMENT OF HEALTH | 352264 | 368 953,20 | 521 105,18 | (152 151,98) | The lease end date incorrect and escalation not considered in calculation |
| **TOTAL** | | | | | **(5 026 658,12)** |  |  |

The extrapolated error amounts to an understatement of R13 284 003,43.

1. The following differences were identified pertaining to the 2011 – 2012 restated amount:

| **No.** | **LESSEE** | **NUMBER** | **2011-2012** | **2011-2012** | **2011-2012** | **COMMENT** |
| --- | --- | --- | --- | --- | --- | --- |
| **PER MANAGEMENT SCHEDULE** | **RECALCULATED** | **DIFFERENCE** |
| **R** | **R** | **R** |
| 1 | QUINNETH MOLAPISI | 404591 | 192 000,00 | 249 040,00 | (57 040,00) | Escalation not included in management calculation |
| 2 | ATC S.A. WIRELESS(PTY)LTD | 392458 | 102 307,80 | 3 536,94 | 98 770,86 | Month to month lease. Thus future lease revenue incorrectly calculated |
| 3 | REGINALD SENZO SHABANE | 403760 | 81 400,00 | 108 154,64 | (26 754,64) | Escalation not included in management calculation |
| 4 | CELL-C PTY LTD SITE 6035A | 390189 | 61 092,30 | 65 979,81 | (4 887,51) | The lease end date incorrect and escalation not considered in calculation |
| 5 | MS MAPADI ANNA RAMPAI | 401591 | 61 092,90 | 68 668,38 | (7 575,48) | The lease end date incorrect and escalation not considered in calculation |
| 6 | MTN(PTY)LTD-SITE T3659/5575 | 391521 | 193 454,52 | - | 193 454,52 | The lease end date incorrect as lease expired and escalation not considered in calculation |
| 7 | TALLIE MARINE (PTY) LTD | 361251 | 336 031,04 | 375 094,76 | (39 063,72) | The lease end date incorrect and escalation not considered in calculation |
| 8 | CHRISTINE MONAISA | 403762 | 87 120,00 | 102 350,16 | (15 230,16) | The lease end date incorrect and escalation not considered in calculation |
| 9 | VODACOM | 390244 | 226 540,80 | 255 171,54 | (28 630,74) | The lease end date incorrect and escalation not considered in calculation |
| 10 | AIRTON TIMBERS | 136047 | 324 564,00 | - | 324 564,00 | The lease end date incorrect as lease expired and escalation not considered in calculation |
| 11 | MTN (PTY) LTD | 386053 | 362 931,00 | 351 996,00 | 10 935,00 | The lease end date incorrect and escalation not considered in calculation |
| 12 | AQUAFARM DEVELOPMENT (PTY) LTD | 377438 | 990 325,56 | 1 206 776,64 | (216 451,08) | The lease end date incorrect and escalation not considered in calculation |
| 13 | SENTECH LTD | 401198 | 1 695 397,98 | 2 489 513,12 | (794 115,14) | The lease end date incorrect and escalation not considered in calculation |
| 14 | DE VILLIERS PARTNERS | 397153 | 245 968,80 | 278 647,56 | (32 678,76) | The lease end date incorrect and escalation not considered in calculation |
| 15 | MTM LEKGOLOKWE FUNERAL SERVICE | 364467 | 170 502,31 | 232 772,18 | (62 269,87) | The lease end date incorrect and escalation not considered in calculation |
| 16 | SEA HARVEST CORPORATION LTD | 359919 | 4 582 107,60 | 7 238 333,61 | (2 656 226,01) | The lease end date incorrect and escalation not considered in calculation |
| 17 | GANSBAAI MARINE (PTY) LTD | 391721 | 339 144,90 | 3 902,71 | 335 242,19 | The lease end date incorrect as lease expired and escalation not considered in calculation |
| 18 | HOUT BAY HARVEST CENTRE | 404723 | 1 400 715,00 | 1 232 321,25 | 168 393,75 | The lease end date incorrect and escalation not considered in calculation |
| 19 | DEPARTMENT OF HEALTH | 22710 | 129 198,60 | 129 198,60 | - | The lease end date incorrect and escalation not considered in calculation |
| 20 | RHEINMETAL DENEL MUNITION | 377914 | 3 034 680,00 | 4 195 624,33 | (1 160 944,33) | The lease end date incorrect and escalation not considered in calculation |
| 21 | OZOFLEX (PTY) LTD | 400701 | 135 340,92 | - | 135 340,92 | The lease end date incorrect as lease expired and escalation not considered in calculation |
| 22 | MUSA DRAMONELLAR GWICANA | 400760 | 17 290,00 | - | 17 290,00 | The lease period or starting date note indicated in lease . Thus there is no future lease revenue |
| 23 | AUTOPAX PASSENGER SERVICES | 400915 | 2 580 675,90 | 2 715 355,86 | (134 679,96) | The lease end date incorrect and escalation not considered in calculation |
| 24 | MBMSA AUTOMOTIVE | 403077 | 324 249,64 | 390 014,34 | (65 764,70) | The lease end date incorrect and escalation not considered in calculation |
| 25 | DEPT OF HEALTH – WITBANK | 157181 | 344 959,20 | 407 078,40 | (62 119,20) | The lease end date incorrect and escalation not considered in calculation |
| 26 | IZAMIX (PTY) LTD | 400619 | 1 108 546,56 | 2 576 816,00 | (1 468 269,44) | The lease end date incorrect and escalation not considered in calculation |
| 27 | EASTGATE AIRPORT | 388271 | 2 480 185,40 | 3 057 261,54 | (577 076,14) | The lease end date incorrect and escalation not considered in calculation |
| 28 | MSOKA MINING PTY LTD | 400943 | 1 027 083,05 | 850 000,00 | 177 083,05 | The lease end date incorrect and escalation not considered in calculation |
| 29 | DEPARTMENT OF HEALTH | 352264 | 245 968,80 | 399 219,62 | (153 250,82) | The lease end date incorrect and escalation not considered in calculation |
| TOTAL | | |  |  | (6 101 953,41) |  |

The extrapolated error amounts to an understatement of R20 654 250,77.

1. The lease contract of “MR WE UNGERER ELLERINES LTD”, number 386471, of R2 147 082 for 2010 -2011 could not be obtained. The accuracy and the classification of the operating lease revenue could therefore not be confirmed. The extrapolated error amounts to R5 674 116,68.
2. The lease contract of “MR WE UNGERER ELLERINES LTD”, number 386471, of R1 910 706 for 2011 -2012 could not be obtained. The accuracy and the classification of the operating lease revenue could therefore not be confirmed. The extrapolated error amounts to R6 467 470.04.
3. As the department does not have a complete immovable asset register it is not evident how management ensure that assets are properly managed in so far as to ensure that for each asset there is lease agreements in place, and if not that the reasons thereof is documented, for example if the property is unoccupied. Due to the aforementioned the operating lease revenue may be incomplete.

This statement is confirmed with the rentals received in April 2012 and May 2012 as per the general ledger, which were not included in the lease schedule supporting the restatement amounts in the financial statements.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **REGION** | **LESSEE** | **Apr-12** | **May-12** | **TOTAL** |
| **R** | **R** | **R** |
| BLOEMFONTEIN REGIONAL OFFICE | J.V VAN HEERDEN,E.VENTER&R.POTG |  | (180,00) | (180,00) |
| BLOEMFONTEIN REGIONAL OFFICE | MTHETHWA |  | (240,00) | (240,00) |
| BLOEMFONTEIN REGIONAL OFFICE | NATIONAL MUSEUM | (3 911,44) | (3 891,21) | (7 802,65) |
| BLOEMFONTEIN REGIONAL OFFICE | PHUROE |  | (90,00) | (90,00) |
| BLOEMFONTEIN REGIONAL OFFICE | SALEMANE | (90,00) |  | (90,00) |
| BLOEMFONTEIN REGIONAL OFFICE | SAPS PARKING MAITLAND |  | (570,00) | (570,00) |
| BLOEMFONTEIN REGIONAL OFFICE | SAPS PARKING: MAITLAND |  | (600,00) | (600,00) |
| CAPE TOWN REGIONAL OFFICE | GROOTTE SCHUUR | (200,00) | (300,00) | (500,00) |
| PRETORIA REGIONAL OFFICE | M R RAMUEDZISI | (2 600,00) |  | (2 600,00) |

1. As the information was not disclosed in the prior year, the financial statements must include an indication that the comparisons were restated.

The finding occurred as a result of the fact that:

The review performed on the lease disclosure note is inadequate. The detail of the lease schedule was not agreed with the lease contracts when to ensure that the schedule is correct.

Impact of the findings:

a) Commitments for operating lease revenue for 2010-2011 was understated with R5 026 658,12resulting in an estimated understatement of R13 284 003,43.

b) Commitments for operating lease revenue for 2011-2012 was understated with R6 101 953,41resulting in an estimated understatement of R20 654 250,77

c) The accuracy and the classification of the commitments for operating lease revenue of R2 147 082 for 2010 -2011 could not be confirmed. The accuracy, existence and the aging of the operating lease revenue could therefore not be confirmed, resulting in the accuracy and the classification of operating leases amounting to R5 674 116,68 not being confirmed

d) The accuracy and the classification of commitments for operating lease revenue of R1 910 706 for 2011 -2012 could not be confirmed. The accuracy, existence and the aging of the operating lease revenue could therefore not be confirmed. The accuracy, existence and the aging of the operating lease revenue could therefore not be confirmed, resulting in the accuracy and the classification of operating leases amounting to R6 467 470.04 not being confirmed.

## Internal control deficiency

## Financial and performance management

The department did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

## Recommendation

a) Management must ensure that all information as required by the reporting framework is disclosed when the financial statements are submitted.

b) All the lease agreements should be obtained the reviewers of the schedule should ensure that the information agree with the information as per the lease agreements.

c) The compilers and reviewers of the schedule should sign and indicate the functions performed by them.

d) This work should be performed throughout the year. Management must therefore ensure that the information is correctly disclosed in the interim financial statements in preparation for the year-end financial statements.

e) If management agrees with the findings and want to adjust the financial statements a copy of the proposed changes should be attached with management’s comment.

**Management response**

a) I am in agreement with the finding with regard to the omission of the escalation percentages. The whole lease template has been updated and a provision of one month has been made for all month to month leases. The lease periods (lease start) date and end date has been updated with information from the Lease agreements) Copy of the revised template is available)

| **No.** | **Lessee** | **Number** | **2010-2011** | **2010-2011** | **2010-2011** | **Comment** | **Management comment** |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Per Management Schedule** | **Recalculated** | **Difference** |
| **R** | **R** | **R** |
| 1 | QUINNETH MOLAPISI | 404591 | 240 000,00 | 293 040,00 | (53 040,00) | Escalation not included in management calculation | The escalation is updated |
| 2 | ATC S.A. WIRELESS(PTY) LTD | 392458 | 137 384,76 | 6 752,34 | 130 632,42 | Month to month lease. Thus future lease revenue incorrectly calculated | Month to month lease, end date updated 30/4/2012 |
| 3 | REGINALD SENZO SHABANE | 403760 | 107 800,00 | 136 974,64 | (29 174,64) | Escalation not included in management calculation | The escalation is updated |
| 4 | CELL-C PTY LTD SITE 6035A | 390189 | 109 966,14 | 113 742,99 | (3 776,85) | The lease end date incorrect and escalation not considered in calculation | The escalation and the lease end date updated |
| 5 | MS MAPADI ANNA RAMPAI | 401591 | 85 530,06 | 91 994,76 | (6 464,70) | The lease end date incorrect and escalation not considered in calculation | The escalation and the lease end date updated |
| 6 | MTN(PTY)LTD-SITE T3659/5575 | 391521 | 248 727,24 | - | 248 727,24 | The lease end date incorrect as lease expired and escalation not considered in calculation | The escalation and the lease end date updated  (Month to Month) |
| 7 | TALLIE MARINE (PTY) LTD | 361251 | 462 042,68 | 493 469,36 | (31 426,68) | The lease end date incorrect and escalation not considered in calculation | The escalation and the lease end date updated |
| 8 | CHRISTINE MONAISA | 403762 | 110 880,00 | 124 670,16 | (13 790,16) | The lease end date incorrect and escalation not considered in calculation | The escalation and the lease end date updated |
| 9 | VODACOM | 390244 | 285 638,40 | 310 256,34 | (24 617,94) | The lease end date incorrect and escalation not considered in calculation | The escalation and the lease end date updated |
| 10 | AIRTON TIMBERS | 136047 | 649 128,00 | - | 649 128,00 | The lease end date incorrect as lease expired and escalation not considered in calculation | The escalation and the lease end date updated  (Month to Month) |
| 11 | MTN (PTY) LTD | 386053 | 435 517,20 | 351 996,00 | 83 521,20 | The lease end date incorrect and escalation not considered in calculation | The escalation and the lease end date updated |
| 12 | AQUAFARM DEVELOPMENT (PTY) LTD | 377438 | 1 131 800,64 | 1 322 413,80 | (190 613,16) | The lease end date incorrect and escalation not considered in calculation | The escalation and the lease end date updated |
| 13 | SENTECH LTD | 401198 | 1 931 965,14 | 2 720 703,74 | (788 738,60) | The lease end date incorrect and escalation not considered in calculation | The escalation and the lease end date updated |
| 14 | DE VILLIERS PARTNERS | 397153 | 351 384,00 | 380 868,36 | (29 484,36) | The lease end date incorrect and escalation not considered in calculation | The escalation and the lease end date updated |
| 15 | MTM LEKGOLOKWE FUNERAL SERVICE | 364467 | 241 054,99 | 314 907,25 | (73 852,26) | The lease end date incorrect and escalation not considered in calculation | The escalation and the lease end date updated |
| 16 | SEA HARVEST CORPORATION LTD | 359919 | 5 143 182,00 | 7 773 904,65 | (2 630 722,65) | The lease end date incorrect and escalation not considered in calculation | The escalation and the lease end date updated |
| 17 | GANSBAAI MARINE (PTY) LTD | 391721 | 387 024,18 | 50 380,44 | 336 643,74 | The lease end date incorrect as lease expired and escalation not considered in calculation | The escalation and the lease end date updated  (Month to Month) |
| 18 | HOUT BAY HARVEST CENTRE | 404723 | 1 730 295,00 | 1 403 168,66 | 327 126,34 | The lease end date incorrect and escalation not considered in calculation | The escalation and the lease end date updated |
| 19 | DEPARTMENT OF HEALTH | 22710 | 258 397,20 | 129 198,60 | 129 198,60 | The lease end date incorrect and escalation not considered in calculation | The escalation and the lease end date updated |
| 20 | RHEINMETAL DENEL MUNITION | 377914 | 3 513 840,00 | 4 656 634,33 | (1 142 794,33) | The lease end date incorrect and escalation not considered in calculation | The escalation and the lease end date updated |
| 21 | OZOFLEX (PTY) LTD | 400701 | 270 681,84 | 135 340,92 | 135 340,92 | The lease end date incorrect as lease expired and escalation not considered in calculation | The escalation and the lease end date updated  (Month to Month) |
| 22 | MUSA DRAMONELLAR GWICANA | 400760 | 33 250,00 | - | 33 250,00 | The lease period or starting date note indicated in lease. Thus there is no future lease revenue | Lease has been removed from the template |
| 23 | AUTOPAX PASSENGER SERVICES | 400915 | 3 927 115,50 | 3 949 592,16 | (22 476,66) | The lease end date incorrect and escalation not considered in calculation | The escalation and the lease end date updated |
| 24 | MBMSA AUTOMOTIVE | 403077 | 473 903,32 | 549 644,92 | (75 741,60) | The lease end date incorrect and escalation not considered in calculation | The escalation and the lease end date updated |
| 25 | DEPT OF HEALTH - WITBANK | 157181 | 459 945,60 | 518 882,40 | (58 936,80) | The lease end date incorrect and escalation not considered in calculation | The escalation and the lease end date updated |
| 26 | IZAMIX (PTY) LTD | 400619 | 2 317 870,08 | 3 748 096,00 | (1 430 225,92) | The lease end date incorrect and escalation not considered in calculation | The escalation and the lease end date updated |
| 27 | EASTGATE AIRPORT | 388271 | 3 021 316,76 | 3 565 597,06 | (544 280,30) | The lease end date incorrect and escalation not considered in calculation | The escalation and the lease end date updated |
| 28 | MSOKA MINING PTY LTD | 400943 | 1 172 083,01 | 970 000,00 | 202 083,01 | The lease end date incorrect and escalation not considered in calculation | The escalation and the lease end date updated |
| 29 | DEPARTMENT OF HEALTH | 352264 | 368 953,20 | 521 105,18 | (152 151,98) | The lease end date incorrect and escalation not considered in calculation | The escalation and the lease end date updated |
| **TOTAL** | | | | | **(5 026 658,12)** |  |  | |  |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Corrective action to be taken |  | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** |
| X |  |
| If yes, what corrections will be made to the population | Financial Statements will be adjusted | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. | N/A | |
| Position of official responsible to take corrective actions | DD Financial Reporting/ Accounts Receivable | |
| Estimated completion date for corrective action | 25 August 2012 | |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the root cause indicated | **Yes** | **No** |
| X |  |
| If management does not agree with the root cause indicated, please provide the root cause according to management. |  | |

1. I am in agreement with the finding with regard to the omission of the escalation percentages. The whole lease template has been updated and a provision of one month has been made for all month to month leases. The lease periods (lease start) date and end date has been updated with information from the Lease agreements) Copy of the revised template is available)

| **No.** | **LESSEE** | **Number** | **2011-2012** | **2011-2012** | **2011-2012** | **Comment** | **Regional office comment** |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Per management schedule** | **Recalculated** | **Difference** |
| **R** | **R** | **R** |
| 1 | QUINNETH MOLAPISI | 404591 | 192 000,00 | 249 040,00 | (57 040,00) | Escalation not included in management calculation | The escalation is updated |
| 2 | ATC S.A. WIRELESS(PTY)LTD | 392458 | 102 307,80 | 3 536,94 | 98 770,86 | Month to month lease. Thus future lease revenue incorrectly calculated | Month to month lease, end date updated  30/4/2012 |
| 3 | REGINALD SENZO SHABANE | 403760 | 81 400,00 | 108 154,64 | (26 754,64) | Escalation not included in management calculation | The escalation is updated |
| 4 | CELL-C PTY LTD SITE 6035A | 390189 | 61 092,30 | 65 979,81 | (4 887,51) | The lease end date incorrect and escalation not considered in calculation | The escalation and the lease end date updated |
| 5 | MS MAPADI ANNA RAMPAI | 401591 | 61 092,90 | 68 668,38 | (7 575,48) | The lease end date incorrect and escalation not considered in calculation | The escalation and the lease end date updated |
| 6 | MTN(PTY)LTD-SITE T3659/5575 | 391521 | 193 454,52 | - | 193 454,52 | The lease end date incorrect as lease expired and escalation not considered in calculation | The escalation and the lease end date updated  (Month to Month) |
| 7 | TALLIE MARINE (PTY) LTD | 361251 | 336 031,04 | 375 094,76 | (39 063,72) | The lease end date incorrect and escalation not considered in calculation | The escalation and the lease end date updated |
| 8 | CHRISTINE MONAISA | 403762 | 87 120,00 | 102 350,16 | (15 230,16) | The lease end date incorrect and escalation not considered in calculation | The escalation and the lease end date updated |
| 9 | VODACOM | 390244 | 226 540,80 | 255 171,54 | (28 630,74) | The lease end date incorrect and escalation not considered in calculation | The escalation and the lease end date updated |
| 10 | AIRTON TIMBERS | 136047 | 324 564,00 | - | 324 564,00 | The lease end date incorrect as lease expired and escalation not considered in calculation | The escalation and the lease end date updated  (Month to Month) |
| 11 | MTN (PTY) LTD | 386053 | 362 931,00 | 351 996,00 | 10 935,00 | The lease end date incorrect and escalation not considered in calculation | The escalation and the lease end date updated |
| 12 | AQUAFARM DEVELOPMENT (PTY) LTD | 377438 | 990 325,56 | 1 206 776,64 | (216 451,08) | The lease end date incorrect and escalation not considered in calculation | The escalation and the lease end date updated |
| 13 | SENTECH LTD | 401198 | 1 695 397,98 | 2 489 513,12 | (794 115,14) | The lease end date incorrect and escalation not considered in calculation | The escalation and the lease end date updated |
| 14 | DE VILLIERS PARTNERS | 397153 | 245 968,80 | 278 647,56 | (32 678,76) | The lease end date incorrect and escalation not considered in calculation | The escalation and the lease end date updated |
| 15 | MTM LEKGOLOKWE FUNERAL SERVICE | 364467 | 170 502,31 | 232 772,18 | (62 269,87) | The lease end date incorrect and escalation not considered in calculation | The escalation and the lease end date updated |
| 16 | SEA HARVEST CORPORATION LTD | 359919 | 4 582 107,60 | 7 238 333,61 | (2 656 226,01) | The lease end date incorrect and escalation not considered in calculation | The escalation and the lease end date updated |
| 17 | GANSBAAI MARINE (PTY) LTD | 391721 | 339 144,90 | 3 902,71 | 335 242,19 | The lease end date incorrect as lease expired and escalation not considered in calculation | The escalation and the lease end date updated  (Month to Month) |
| 18 | HOUT BAY HARVEST CENTRE | 404723 | 1 400 715,00 | 1 232 321,25 | 168 393,75 | The lease end date incorrect and escalation not considered in calculation | The escalation and the lease end date updated |
| 19 | DEPARTMENT OF HEALTH | 22710 | 129 198,60 | 129 198,60 | - | The lease end date incorrect and escalation not considered in calculation | The escalation and the lease end date updated |
| 20 | RHEINMETAL DENEL MUNITION | 377914 | 3 034 680,00 | 4 195 624,33 | (1 160 944,33) | The lease end date incorrect and escalation not considered in calculation | The escalation and the lease end date updated |
| 21 | OZOFLEX (PTY) LTD | 400701 | 135 340,92 | - | 135 340,92 | The lease end date incorrect as lease expired and escalation not considered in calculation | The escalation and the lease end date updated  (Month to Month) |
| 22 | MUSA DRAMONELLAR GWICANA | 400760 | 17 290,00 | - | 17 290,00 | The lease period or starting date note indicated in lease . Thus there is no future lease revenue | Lease has been removed from the template |
| 23 | AUTOPAX PASSENGER SERVICES | 400915 | 2 580 675,90 | 2 715 355,86 | (134 679,96) | The lease end date incorrect and escalation not considered in calculation | The escalation and the lease end date updated |
| 24 | MBMSA AUTOMOTIVE | 403077 | 324 249,64 | 390 014,34 | (65 764,70) | The lease end date incorrect and escalation not considered in calculation | The escalation and the lease end date updated |
| 25 | DEPT OF HEALTH - WITBANK | 157181 | 344 959,20 | 407 078,40 | (62 119,20) | The lease end date incorrect and escalation not considered in calculation | The escalation and the lease end date updated |
| 26 | IZAMIX (PTY) LTD | 400619 | 1 108 546,56 | 2 576 816,00 | (1 468 269,44) | The lease end date incorrect and escalation not considered in calculation | The escalation and the lease end date updated |
| 27 | EASTGATE AIRPORT | 388271 | 2 480 185,40 | 3 057 261,54 | (577 076,14) | The lease end date incorrect and escalation not considered in calculation | The escalation and the lease end date updated |
| 28 | MSOKA MINING PTY LTD | 400943 | 1 027 083,05 | 850 000,00 | 177 083,05 | The lease end date incorrect and escalation not considered in calculation | The escalation and the lease end date updated |
| 29 | DEPARTMENT OF HEALTH | 352264 | 245 968,80 | 399 219,62 | (153 250,82) | The lease end date incorrect and escalation not considered in calculation | The escalation and the lease end date updated |
| TOTAL | | |  |  | (6 101 953,41) |  |  |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Corrective action to be taken |  | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** |
| X |  |
| If yes, what corrections will be made to the population | Financial Statements will be adjusted | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. | N/A | |
| Position of official responsible to take corrective actions | DD Financial Reporting/ Accounts Receivable | |
| Estimated completion date for corrective action | 25 August 2012 | |
| Does management agree with the root cause indicated | **Yes** | **No** |
| X |  |
| If management does not agree with the root cause indicated, please provide the root cause according to management. |  | |

1. I am in agreement with the finding. The lease contract of “MR WE UNGERER ELLERINES LTD”, number 386471 has been transferred to the department of Rural Development. The lease was included in the template by error. The lease has since been removed from the template.

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Corrective action to be taken |  | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** |
| X |  |
| If yes, what corrections will be made to the population | Financial Statements will be adjusted | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. | N/A | |
| Position of official responsible to take corrective actions | DD Financial Reporting/ Accounts Receivable | |
| Estimated completion date for corrective action | 25/08/2012 | |
| Does management agree with the root cause indicated | **Yes** | **No** |
| X |  |
| If management does not agree with the root cause indicated, please provide the root cause according to management. | N/A | |

1. I am in agreement with the finding. The lease contract of “MR WE UNGERER ELLERINES LTD”, number 386471 has been transferred to the department of Rural Development. The lease was included in the template by error. The lease has since been removed from the template:

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Corrective action to be taken |  | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** |
| X |  |
| If yes, what corrections will be made to the population | Financial Statements will be adjusted | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. | N/A | |
| Position of official responsible to take corrective actions | DD Financial Reporting/ Accounts Receivable | |
| Estimated completion date for corrective action | 25/08/2012 | |
| Does management agree with the root cause indicated | **Yes** | **No** |
| X |  |
| If management does not agree with the root cause indicated, please provide the root cause according to management. | N/A | |

1. Partially in agreement with the finding. The department Immovable asset is not yet complete. There is however a project in the department focusing on updating the Immovable Asset registers. It is important to note that there are lease agreements in place for all properties that has been leased out, the department will in future endeavour to document reasons for the properties that are currently not occupied or leased.

The amount received according to the April and May Bloemfontein is for parking. There is no lease agreement for National Museum. Amount received from Pretoria office is included in the schedule.

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Corrective action to be taken |  | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** |
|  | X |
| If yes, what corrections will be made to the population | N/A | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. | N/A | |
| Position of official responsible to take corrective actions | N/A | |
| Estimated completion date for corrective action | N/A | |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the root cause indicated | **Yes** | **No** |
|  |  |
| If management does not agree with the root cause indicated, please provide the root cause according to management. |  | |

1. I am in agreement with the finding.

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Corrective action to be taken |  | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** |
| X |  |
| If yes, what corrections will be made to the population | Note will be made in the financial statements | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. | N/A | |
| Position of official responsible to take corrective actions | DD: Financial Reporting | |
| Estimated completion date for corrective action | 25 August 2012 | |
| Does management agree with the root cause indicated | **Yes** | **No** |
| X |  |
| If management does not agree with the root cause indicated, please provide the root cause according to management. | N/A | |

**Auditor’s conclusion**

It should be noted that management’s response was submitted on 23 August 2012 only in hard copy. It did not contain any schedules. The schedules was only provided on 28 August 2012, therefore any corrections indicated by management were not submitted timeously and will not be subjected to audit for the 2011-2012 audit.

1. Management agrees with the finding. As indicated in the introductory paragraph of the auditor’s conclusion the corrected schedule was not submitted timeously and will not be subjected to audit. The matter therefore remains unresolved.
2. Management agrees with the finding. As indicated in the introductory paragraph of the auditor’s conclusion the corrected schedule was not submitted timeously and will not be subjected to audit. The matter therefore remains unresolved.
3. Management agrees with the finding. As indicated in the introductory paragraph of the auditor’s conclusion the corrected schedule was not submitted timeously and will not be subjected to audit. It should however be noted that although the official was transferred to another department, DPW remains the owner of the building and the lease revenue, rental debtor and the future operating lease revenue must be included in the financial statements of the department. The department can therefore not remove the lease from the template just because the official was transferred.
4. Management agrees with the finding. As indicated in the introductory paragraph of the auditor’s conclusion the corrected schedule was not submitted timeously and will not be subjected to audit. It should however be noted that although the official was transferred to another department, DPW remains the owner of the building and the lease revenue, rental debtor and the future operating lease revenue must be included in the financial statements of the department. The department can therefore not remove the lease from the template just because the official was transferred.
5. Management is contradicting themselves in their management comment. In the first paragraph it is stated that “*It is important to note that there are lease agreements in place for all properties that has been leased out*”, whilst in the second paragraph it is no lease agreement for the National Museum and for the parking received in Bloemfontein

Management indicated in paragraphs (c) and (d) that they have removed an official who was transferred to another department from the schedule. This implies that only officials who are in the service of DPW and rent properties from DPW are included in the schedule.

A list of officials renting state properties was obtained from the National Prosecuting Authority. From this list assets were traced to the immovable asset register. The property codes could however not be traced to the lease schedules provided with communication of factual finding 244. It should be noted that this is a list obtained from only one entity. The schedules are therefore not complete resulting in the completeness of the operating lease revenue commitments not being confirmed.

As the immovable asset register is not a reliable source at this point in time, the lease schedules obtained are incomplete and rent deducted from official’s salaries in other departments or entities are not paid over to DPW, there are no other alternative audit procedures that could be performed to determine the extent of which the commitments for operating lease revenue is understated.

| **No** | **Unique Property Code** | **Property Code** | **Property File Number** | **Land/Facility Description** | **Registered Owner  (As it appears on the Aktex / Title Deed)** | **Street Name** | **Responsible Department** |
| --- | --- | --- | --- | --- | --- | --- | --- |
| 1 | 1161492 | 116149 | 6760/0012/7 | HOUSE | NATIONAL GOVERNMENT OF THE REPUBLIC OF SOUTH AFRICA | 29 LOUIS BOTHA STREET | JUSTICE AND CONSTITUTIONAL DEVELPM |
| 2 | 1174331 | 117433 | 6708/0022/9 | HOUSE | NATIONAL GOVERNMENT OF THE REPUBLIC OF SOUTH AFRICA | SMITH STREET | JUSTICE AND CONSTITUTIONAL DEVELPM |
| 3 | 521681 | 52168 | Not indicated | COMPLEX: SAPS PRIESKA | REPUBLIEK VAN SUID-AFRIKA | ARBECKSTR | SA POLICE SERVICES |
| 4 | 545311 | 54531 | 6601/0020 | WATERBOERSTR 29 | REPUBLIEK VAN SUID-AFRIKA | WATERBOERSTR 29 | JUSTICE AND CONSTITUTIONAL DEVELPM |
| 5 | 545312 | 54531 | 6601/0020 | WATERBOERSTR 29 | REPUBLIEK VAN SUID-AFRIKA | WATERBOERSTR 29 | JUSTICE AND CONSTITUTIONAL DEVELPM |
| 6 | 546811 | 54681 | 6607/0085 | GROENEWALDSTR 11 | REPUBLIEK VAN SUID-AFRIKA | GROENEWALDSTR 11 | SA POLICE SERVICES |
| 7 | 850241 | 85024 | 6418/5136/1 | ROSS CRESCENT 18 | REPUBLIC OF SOUTH AFRICA | ROSS CRESCENT 18 | JUSTICE AND CONSTITUTIONAL DEVELPM |
| 8 | 869691 | 86969 | 6410/5098/9 | BELLSTR 28 | REPUBLIC OF SOUTH AFRICA | BELLSTR | JUSTICE AND CONSTITUTIONAL DEVELPM |
| 9 | 2221091 | 222109 | Not indicated | ERF 87 HOUSE | GOVERNMENT OF TRANSKEI | SOGA STREET | JUSTICE AND CONSTITUTIONAL DEVELPM |
| 10 | 656321 | 65632 | 6501/6451/2 | THOMPSONSTR 29 | REPUBLIEK VAN SUID-AFRIKA | THOMPSONSTR | JUSTICE AND CONSTITUTIONAL DEVELPM |
| 11 | 662641 | 66264 | 6534/5043/5 | GRENSSTR 23 | REPUBLIEK VAN SUID-AFRIKA | GRENSSTR | JUSTICE AND CONSTITUTIONAL DEVELPM |
| 12 | 686301 | 68630 | 6513/5480/3 | MARKSTR 8 | REPUBLIEK VAN SUID-AFRIKA | MARKSTR | JUSTICE AND CONSTITUTIONAL DEVELPM |
| 13 | 686781 | 68678 | 6507/5083/7 | ROBERTSONSTR 4 DROSDY | REPUBLIEK VAN SUID-AFRIKA | ROBERTSONSTR | JUSTICE AND CONSTITUTIONAL DEVELPM |
| 14 | 850761 | 85076 | 6543/0192 | AGNARSTR 3 DROSTDY | REPUBLIC OF SOUTH AFRICA | AGNARSTR | JUSTICE AND CONSTITUTIONAL DEVELPM |
| 15 | 850762 | 85076 | 6543/0192 | AGNARSTR 3 DROSTDY | REPUBLIC OF SOUTH AFRICA | AGNARSTR | JUSTICE AND CONSTITUTIONAL DEVELPM |
| 16 | 850763 | 85076 | 6543/0192 | AGNARSTR 3 DROSTDY | REPUBLIC OF SOUTH AFRICA | AGNARSTR | JUSTICE AND CONSTITUTIONAL DEVELPM |
| 17 | 850764 | 85076 | 6543/0192 | AGNARSTR 3 DROSTDY | REPUBLIC OF SOUTH AFRICA | AGNARSTR | JUSTICE AND CONSTITUTIONAL DEVELPM |
| 18 | 155281 | 15528 | Not indicated | HOUSE | NATIONAL GOVERNMENT OF THE REPUBLIC OF SOUTH AFRICA | VOORTREKKERSTR 43 | JUSTICE AND CONSTITUTIONAL DEVELPM |
| 19 | 983921 | 98392 | 6217/0129 | 31 PALM STREET : ERF 2656 | R S A | PALM STREET | PUBLIC WORKS |
| 20 | 997371 | 99737 | 6302/0194 | EBONY CRESCENT : LOT 333 | R S A | N/A | PUBLIC WORKS |
| 21 | 997551 | 99755 | 6222/0053 | 82 VICTORIA STREET : ERF 414 | R S A | VICTORIA STREET | PUBLIC WORKS |
| 22 | 1001801 | 100180 | 6217/0232 | 7 HOLMES STREET : ERF 11885 | R S A | HOLMES STREET | PUBLIC WORKS |
| 23 | 1638531 | 163853 | 6318/0034 | 1 MEADOWLANDS DRIVE :ERF 74 | RSA | 1 MEADOWLANDS DRIVE : 3740W | PUBLIC WORKS |

1. Management agrees with the finding. The matter has however not been corrected in the financial statements and therefore remains unresolved.

**Finance Lease**

1. **Audit Finding Scope limitation on finance leases Ex 115**

Laws and Regulations

1. Public Finance Management Act sections 40 and 41 states the following:
   * 1. section 40(1)

*“The accounting officer for a department, trading entity or constitutional institution-*

*(a) must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;”*

* + 1. section 41

*“An accounting officer for a department, trading entity or constitutional institution must submit to the relevant treasury or the Auditor-General, such information, returns, documents, explanations and motivations as may be prescribed or as the relevant treasury or the Auditor-General may require”*

1. Treasury Regulations 17.2.1 states:

*“Accounting officers of institutions must, subject to the provisions of the relevant national or provincial legislation, retain all financial information in its original form, as follows-*

*information relating to one financial year – for one year after the audit report for the financial year in question has been tabled in Parliament or the provincial legislature; or*

*information relating to more than one financial year – for one after the date of the audit report for the last of the financial years to which the information relates.”*

1. Directive: Financial Statements working files frame work: finance lease commitments (6.5.1) states: *documents that must be on the working file for lease commitments of cell phone and 3g cards:*
2. *Contract between the service provider and the department*
3. *Request forms from employees*
4. *Letters requesting to upgrade after expiry from the service provider*
5. *List of interest rates*
6. *Asset value confirmed by the service provider*
7. *Hand over certificates*
8. *Disclosure template*

During the audit of finance leases, we have not been provided with the lease agreement that has been entered into between the department and Vodacom on behalf of the employees with regard to cell phones and 3G mobile cards.

|  |  |  |  |
| --- | --- | --- | --- |
| **REGION** | **SERIAL/CELLULAR NUMBER** | **TOTAL LEASE COMMITMENT FOR LESS THAN A YEAR** | **TOTAL LEASE COMMITMENT FOR MORE THAN ONE YEAR LESS THAN FIVE YEARS** |
| **R** | **R** |
| PRETORIA | 0767920368 | 744,06 | 464,04 |
| PRETORIA | 833261303000 | 1 541,06 | 269,77 |
| PRETORIA | P041000340 | 32 148,28 | 0,00 |
| HEAD OFFICE | 082 727 3443 | 1 210,78 | 83,46 |

Potential impact of the findings raised above:

a) Non compliance with Section 40 and41 of the Public Finance Management Act

b) Non compliance with Treasury Regulations 17.2.1.

c) Non compliance to Directive: Financial Statements working files framework 6.5.1

d) Assertions affected are occurrence and rights and obligations, accuracy and valuation, classification. for the following:

|  |  |
| --- | --- |
| **TOTAL LEASE COMMITMENT FOR LESS THAN A YEAR** | **TOTAL LEASE COMMITMENT FOR MORE THAN ONE YEAR LESS THAN FIVE YEARS** |
| R35 644,18 | R817,27 |

Reason for the deviation:

During a discussion with management, it was indicated that the employees are informed regarding the terms and conditions of the cell phones and 3G cards contract by the cell phone policy that the department has adopted. The department indicated they do not have the contracts.

**Internal control deficiency**

Financial and performance management

*The department has not implemented proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting*

**Recommendation**

1. It is recommended that all information requested be provided to the AGSA within three days from the date of request.
2. Officials responsible for the review of the files need to ensure that all information is available to ensure that the information disclosed is correct.

**Management response**

I am not in agreement with the finding for the following reasons:

The department of Public Works enters into a contract/ appoints a mobile communication service provider on behalf of its officials and therefore there will be no individual contracts. (See attached appointment letter and an extension of the contract) 

|  |  |  |
| --- | --- | --- |
| **DESCRIPTION** | **RESPONSE** | |
| Corrective action to be taken | N/A | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** |
|  | X |
| If yes, what corrections will be made to the population |  | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. |  | |
| Position of official responsible to take corrective actions |  | |
| Estimated completion date for corrective action |  | |
| Does management agree with the root cause indicated | **Yes** | **No** |
|  | X |
| If management does not agree with the root cause indicated, please provide the root cause according to management. | No corrective action to be taken | |

*Name: Eulala Kruger*

*Position: Acting Chief Director: SCM*

*Date: 17 July 2012*

**Auditor’s conclusion**

Although management is not in agreement with the finding no contract or similar document was provided to enable to be able to recalculate the amount per the lease agreement to be included in the lease commitment disclosure note.

The matter is therefore unresolved.

**Unauthorised Expenditure**

1. **Unauthorised expenditure: Unauthorised expenditure of the previous yea****r’s not effectively followed up Ex 247**

**Audit Finding**

a) PFMA Section 38(1)(h) requires that:

*“The accounting officer for a department, trading entity or constitutional institution—*

*must take effective and appropriate disciplinary steps against any official in the service of the department, trading entity or constitutional institution who—*

1. *contravenes or fails to comply with a provision of this Act;*
2. *commits an act which undermines the financial management and internal control system of the department, trading entity or constitutional institution; or*
3. *makes or permits an unauthorised expenditure, irregular expenditure or fruitless and wasteful expenditure;”*

b) National Treasury Regulation 9.1.3 states that:

“*When an accounting officer determines the appropriateness of disciplinary steps against an official in terms of section 38 (1) (g) of the Act, the accounting officer must take into account—*

*(a) the circumstances of the transgression;*

*(b) the extent of the expenditure involved; and*

*(c) the nature and seriousness of the transgression.”*

The following matters were identified during the audit process:

During the audit of unauthorised expenditure for the year ended 31-March-2012, it was determined that the department did not make a proper follow up with National Treasury pertaining to the unauthorised expenditure that was previously reported (as indicated in the table below).

It is acknowledged that the standard process entails the National Treasury’s Public Finance in consultation with the Budget Office submitting a report to Parliament (SCOPA) on unauthorised expenditure as reported in the departmental annual report and advice on the approval or non-approval thereof with additional funds or as a charge against funds allocated for future financial years. However one would expect the department to track the matter and take all action possible to ensure a resolution.

The unauthorised expenditure in question originated in 2007 and 2008. There is no evidence that the matter has been followed up by the Department since the initial report (reporting the unauthorised expenditure) was submitted to National Treasury on 4 August 2010.

|  |  |  |
| --- | --- | --- |
| **Description** | **Year which it relates** | **R** |
| Overspending | 1 August 2007 | 9 600 000,00 |
| Overspending | 1 September 2008 | 48 800 000,00 |
| **TOTAL** | | **58 400 000,00** |

Potential impact of the findings raised above:

Unauthorized expenditure of prior years is not effectively followed up to ensure that it is resolved by either becoming a charge against future funds of the department or by receiving additional funds.

Reason for the deviation:

As per discussion with the management, the department has made a request to SCOPA requesting condonation of unauthorised expenditure through the Acting DD in May 2010. As per SCOPA protocols, the department was expecting to be summoned to the committee to explain the matter at hand but the department has not been requested to appear before SCOPA in relation to this matter. Based on discussion, the department does not have influence on the parliament committee process to conclude its business.

**Internal control deficiency**

Leadership

Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls

**Recommendation**

This matter needs to be followed up with National Treasury. If the department does not receive feedback the matter must to be escalated to the Minister so that it can be concluded.

**Management response**

I am in agreement with the finding for the following reasons [and supply the following/attached information in support of this]:

Once the submission is made to Parliament and Treasury department wait to be summoned to the Parliament to explain the matter at hand and not enquire from National Treasury.

Treasury will submit its report on unauthorised expenditure to Parliament and not department where the matter will be discussed and concluded.

Department has reported the unauthorised expenditure to Treasury in line with PFMA and it is expected that the condonement will be done once department has been summoned. The department will only be able to make enquiries with Treasury after presenting the unauthorised expenditure to SCOPA and not before..

I am [not] in agreement with the finding for the following reasons [and supply the following/attached information in support of this]:

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Corrective action to be taken |  | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** |
|  |  |
| If yes, what corrections will be made to the population |  | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. |  | |
| Position of official responsible to take corrective actions |  | |
| Estimated completion date for corrective action |  | |
| Does management agree with the root cause indicated | **Yes** | **No** |
|  |  |
| If management does not agree with the root cause indicated, please provide the root cause according to management. |  | |

*Name:* Aaron Mazibuko

*Position: Director*

*Date: 24 July 2012*

**Auditor’s conclusion**

Management agrees with the finding. As indicated in the recommendation this matter needs to be followed up with National Treasury. If the department does not receive feedback the matter must to be escalated to the Minister so that it can be concluded.

1. **Unauthorised expenditure: Unauthorised expenditure not disclosed Ex 238**

**Audit Finding**

1. PFMA section 43 states the following pertaining to virement between main divisions within votes:

*“(1) An accounting officer for a department may utilise a saving in the amount appropriated under a main division within a vote towards the defrayment of excess expenditure under another main division within the same vote, unless the relevant treasury directs otherwise.*

*(2) The amount of a saving under a main division of a vote that may be utilised in terms of subsection (1) may not exceed eight per cent of the amount appropriated under that main division.*

*(3) An accounting officer must within seven days submit a report containing the prescribed particulars concerning the utilisation of a saving in terms of subsection (1), to the executive authority responsible for the department and to the relevant treasury.*

*(4) This section does not authorise the utilisation of a saving in—*

*(a) amount specifically and exclusively appropriated for a purpose mentioned under a main division within a vote;*

*(b) an amount appropriated for transfer to another institution; and*

*(c) an amount appropriated for capital expenditure in order to defray current expenditure.”*

1. Adjustment Appropriation Act, Act no 23 of 2011 states the following in section 5:

*“(1) Notwithstanding section 43(4)(b) and (c) of the Public Finance Management Act, the National Treasury may, in order to expedite service delivery, approve the utilisation of a saving in -*

*(a) an amount appropriated for transfer to another organ of state or to an organization or body outside of government, provided that the expenditure will be utilised for the same purpose as that of the main division within the vote in which it was originally appropriated.*

*(b) an amount appropriated for payments for capital assets, if the saving is to be utilised in the same vote for other categories of expenditure, other that for the compensation of employees.*

*(2) The approval of the utilisation of savings in terms of subsection (1) must be reported in the next quarterly expenditure report to both the Standing and Select Committees on Appropriations.”*

The following deviations were noted:

The matters listed below pertaining to the virements applied in the appropriation statements were noted. This, together with other matters already raised resulted in unauthorised expenditure being incorrectly calculated and overstated in the financial statements.

1. Incorrect virement applied pertaining to transfer payments

The PFMA states in section 43(4) (b) that an underspending on a transfer to another institution may not be utilised in terms of section 43(1). The Adjustment Estimate Act states in section 5 that contrary to the requirements of section 43 of the PFMA departments may obtain approval from NT to use a saving on a transfer to another organ of state or to an organisation or body outside of government provided that the expenditure is utilised for the same purpose as that of the main division within the vote in which it was originally appropriated.

An under spending on transfers to foreign governments and international organisations was utilised to defray over spending on other transfer payments as indicated in the table below. As the purpose of these transfer payments were not the same as that of the transfer payments from which the funds were transferred these virements were not allowed in terms of the legislation and National Treasury does not have the power to authorise the approval of the virement as the funds will not be utilised for the same purpose as that of the main division within the vote in which it was originally appropriated.

|  |  |  |
| --- | --- | --- |
| **Programme** | **Description** | **R** |
| Programme 5 | Funds were appropriated as a transfer payment to foreign governments &   international organisations - commonwealth war graves | (2 526 000,00) |
| Programme 4 | Transfers to non-profit institutions. This amount was paid to Agrement South Africa. | 2 363 000,00 |
| Programme 4 | Transfers to households. | 81 000,00 |
| Programme 2 | Transfers to households. | 82 000,00 |

1. Due to the aforementioned, as well as the fact that the department reported certain instances as unauthorised expenditure whereas it should have been classified as irregular expenditure (refer to communication of factual finding 96), a recalculation of unauthorised expenditure has been performed and the difference as indicated in the tables below were identified.
2. Programme 1

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Economic classification** | **Variance between final appropriation and actual expenditure per the appropriation statement** | **Amount included in the unauthorised expenditure disclosed by the department for the current year** | **Recalculated amount that should have been disclosed as unauthorised expenditure** | **Comment** |
| **R** | **R** |
| Current expenditure: Compensation of employee cost | (18 013 000) | (18 013 000) | (18 013 000) | The overspending on compensation of employee cost was correctly disclosed as unauthorized expenditure as it contributed to the overspending of the programme. |
| Transfers and subsidies: Provinces and municipalities | 8 000 |  |  | Although section 5 of the Adjustment Estimate Act states that the department may obtain approval from NT to use a saving on a transfer to another organ of state or to an organisation or body outside of government provided that the expenditure is utilised for the same purpose as that of the main division within the vote in which it was originally appropriated, the latter did not occur and the saving can therefore not be utilised to reduce the overspending of other votes. |
| Transfers and subsidies: Households | 21 000 |  | 21 000 | As this is bursaries and not a transfer to another institution the department could have used this saving to reduce the overspending |
| **Total** | **(17 984 000)** | **(18 013 000)** | **(17 992 000)** |  |

1. Programme 2

| **Economic classification** | **Variance between final appropriation and actual expenditure per the appropriation statement** | **Amount included in the unauthorised expenditure disclosed by the department for the current year** | **Recalculated amount that should have been disclosed as unauthorised expenditure** |  |
| --- | --- | --- | --- | --- |
| **R** | **R** | **R** | **Comment** |
| Current expenditure: Compensation of employee cost | (280 000) | (280 000) | (280 000) | The overspending on compensation of employee cost was correctly disclosed as unauthorized expenditure as it contributed to the overspending of the programme. |
| Current expenditure: Goods and services | (4 181 000) | (4 181 000) | (4 181 000) | The department did request and obtain approval to utilise a capital saving to defray current expenditure amounting to R15,2 million. This remaining overspending was correctly reported as unauthorised |
| Transfers and subsidies: Households | 1 000 |  | (81 000) | As indicated in paragraph (a) the department was not allowed to use the saving on transfer payments of programme 5 to defray the overspending on transfer to household as the purpose is not the same. The virements needs to be reversed. The overspending on transfers to household also contribute to unauthorised expenditure |
| Transfers and subsidies: Households - reversal of the virement as mentioned in paragraph (a) | (82 000) |
| Payment for capital expenditure | 461 575 400 |  |  | The department did not have permission to utilise the remaining saving on capital to defray the other over spending in this vote. |
| **Total** | **457 033 400** | **(4 461 000)** | **(4 542 000)** |  |

1. Programme 4

| **Economic classification** | **Variance between final appropriation and actual expenditure per the appropriation statement** | **Amount included in the unauthorised expenditure disclosed by the department for the current year** | **Recalculated amount that should have been disclosed as unauthorised expenditure** | **Comment** |
| --- | --- | --- | --- | --- |
| **R** | **R** | **R** |  |
| Current expenditure: Compensation of employees | 1 264 000 |  | (2 267 000) | This is the overspending excluding the capital underspending of R23 000  [R2 224 000 + R23 000] |
| Current expenditure: Goods and services | 5 962 000 |  |  | Saving could be utilised to defray overspending on employee cost |
| Current expenditure: interest and rent on land | 19 000 |  |  | Saving could be utilised to defray overspending on employee cost |
| Transfers and subsidies: Non-profit institution | (7 068 000) | (7 068 000) |  | TR 6.3.1 (b) New transfers and subsidies to other institutions may not be introduced without the approval of the relevant treasury.  As the overspending is less than the total overspending on transfer payments this overspending should be recorded as irregular expenditure as reported in communication of factual finding 96 |
| Transfers and subsidies: Non-profit institution | (2 363 000) |  |  | Reversal of incorrect virement as reported in paragraph (a)  Refer to paragraph (c) for the calculation of the amount to be included in irregular expenditure. |
| (81 000) |  |  | Reversal of incorrect virement as reported in paragraph (a) |
| Payment for capital assets | 23 000 |  |  | Did not request to utilise this saving. Thus not considered in calculation for unauthorized expenditure |
| **Total** | **(2 244 000)** | **(7 068 000)** | **(2 267 000)** |  |

1. Programme 5

| **Economic classification** | **Variance between final appropriation and actual expenditure per the appropriation statement** | **Amount included in the unauthorised expenditure disclosed by the department for the current year** | **Recalculated amount that should have been disclosed as unauthorised expenditure** | **Comment** |
| --- | --- | --- | --- | --- |
| **R** | **R** | **R** |  |
| Current expenditure: Goods and services | 215 000 |  | 215 000 | As the department were not allowed to use the transfer payment they were allowed to use this saving |
| Transfers and subsidies: Departmental agencies and accounts | 2 204 000 |  |  | Cannot use the saving unless utilised for same purpose |
| Transfers and subsidies: Foreign governments and international organizations | 1 433 000 |  |  | Reversal of incorrect virement as reported in paragraph (a)  Cannot use the saving unless utilised for same purpose |
| 2 526 000 |
| Transfers and subsidies: Households | 1 000 |  | 1 000 | As this is bursaries and not a transfer to another institution the department could have used this saving to reduce the overspending |
| **Total** | **6 379 000** | **-** | **215 000** |  |

1. Total

|  |  |  |  |
| --- | --- | --- | --- |
| **Programme** | **Amount included in the unauthorised expenditure disclosed by the department for the current year** | **Recalculated amount that should have been disclosed as unauthorised expenditure** | **Difference** |
| **R** | **R** | **R** |
| Programme 1 | (18 013 000) | (17 992 000) | (21 000) |
| Programme 2 | (4 461 000) | (4 542 000) | 81 000 |
| Programme 4 | (7 068 000) | (2 267 000) | (4 801 000) |
| Programme 5 | - | 215 000 | (215 000) |
| **Total** | **(29 542 000)** | **(24 586 000)** | **(4 956 000)** |

1. Recalculation of amount to be reported as irregular expenditure on programme 4
2. Calculation of amount to be reported as irregular expenditure pertaining to amount reversed as reported in paragraph (a)

|  |  |
| --- | --- |
| **Description** | **Response** |
| Unauthorised expenditure for the programme | (2 267 000) |
| This portion was due to bursaries. Thus not a transfer to another organ of state, department or entity. Therefore TR 6 does not apply. Should not be considered in the determination of the irregular expenditure | (81 000) |
| **Sub - total - increase in transfer payments included in amount reported as unauthorised expenditure. The amount cannot also be reported as irregular expenditure** | **(2 186 000)** |
| Additional increase in transfer payments overspending due to matter reported in paragraph (a) | (2 363 000) |
| **Amount of increase in transfer payments not included in unauthorized expenditure that should be disclosed as irregular expenditure as the department did not have approval from NT to increase the transfer in terms of TR 6** | **177 000** |

1. Calculation of total irregular expenditure of programme 4

| **Description** | **Response** |
| --- | --- |
| Increase in transfer payment to Agrement South Africa as reported in communication of factual finding 96 | 7 068 000 |
| Increase in transfer payment to Agrement South Africa as reported in previous paragraph | 177 000 |
| **Total to be reported as irregular expenditure** | **7 245 000** |

1. The department does not have separate delegations for journals. It has been indicated that they use the same thresholds as that as per the financial delegations pertaining to payments. The journal pertaining to the unauthorised expenditure amounted to R29,452 million and was approved by the deputy director. As indicated below the journal should have been approved by the deputy director general.

According to the financial delegations signed by Themba Mveli Maseko DG/Accounting Officer Dept. Of Public Works dated 17 January 2005.

- Deputy Director General - Unlimited

- Regional Manager (Regardless of Rank) - 20 000 000

- Chief Directors - R20 000 000

- Director - R10 000 000

- Deputy Director or equivalent - R5 000 000

- Assistant Director or equivalent - R1 000 000

1. Upon inspection of the analysis of unauthorised expenditure awaiting authorisation per economic classification, as disclosed in note 9.2, it was noted that the total amount of unauthorized expenditure was classified as current, while according to note 9.4 pertaining to the detail of unauthorised expenditure of the current year there was an amount of R7 068 000 pertaining to transfer payments.

Reason for the deviation:

The review of the calculations of irregular expenditure was ineffective as the errors above went undetected.

Potential impact of the findings raised above:

a) Unauthorized expenditure was overstated with R4 956 000.

b) Irregular expenditure was understated with R7 245 000

c) The journal was not approved by an appropriately delegated official.

d) Incorrect classification per economic classification in note 9.2.

## Internal control deficiency

Leadership

The accounting officer did not effectively exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls

## Recommendation

a) The virement must be reversed and the unauthorised expenditure recalculated.

b) The financial statements should be corrected. If management agrees they must submit with the response a proposal of the amendments to the financial statements.

c) Management must ensure that the journals are approved by the appropriate officials.

d) When the calculations of unauthorized expenditure is made a detail schedule, with reference to the relevant laws and regulations should be prepared to support the determination of the unauthorised expenditure amount.

e) When the financial statements are reviewed care should be taken to ensure that all the information disclosed, which include the economic classification, is correct.

**Management response**

1. I am in agreement with the finding for the following reasons [and supply the following/attached information in support of this]:

The amount of transfers utilized as virement will be reversed

|  |  |  |  |
| --- | --- | --- | --- |
| **Description** | **Response** | | |
| Corrective action to be taken | Adjust the virement from programme five | | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** | |
| X |  | |
| If yes, what corrections will be made to the population | Adjusting the appropriation statement | | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. |  | | |
| Position of official responsible to take corrective actions | Director | | |
| Estimated completion date for corrective action | 18 July 2012 | | |
| Does management agree with the root cause indicated | **Yes** | | **No** |
| X | |  |
| If management does not agree with the root cause indicated, please provide the root cause according to management. |  | | |

Name: Aaron Mazibuko

Position: Director

Date: 12 July 2012

I am in agreement with the finding for the following reasons [and supply the following/attached information in support of this]:

Expenditure for R82 000 will be classified as unauthorized expenditure.

Other amounts were already disclosed as such.

|  |  |  |  |
| --- | --- | --- | --- |
| **DESCRIPTION** | **RESPONSE** | | |
| Corrective action to be taken | Adjustment to statement of financial position and appropriation statement | | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** | |
| X |  | |
| If yes, what corrections will be made to the population | Adjust the financial statements | | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. |  | | |
| Position of official responsible to take corrective actions | Director | | |
| Estimated completion date for corrective action |  | | |
| Does management agree with the root cause indicated | **Yes** | | **No** |
| X | |  |
| If management does not agree with the root cause indicated, please provide the root cause according to management. |  | | |

*Name:* Aaron Mazibuko

*Position: Director*

*Date:12 April 2012*

b)iii) I am in agreement with the finding for the following reasons [and supply the following/attached information in support of this]:

The amount if virement will be reversed and overspending disclosed as irregular expenditure.

|  |  |  |  |
| --- | --- | --- | --- |
| **DESCRIPTION** | **RESPONSE** | | |
| Corrective action to be taken | Adjust the appropriation statement | | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** | |
| X |  | |
| If yes, what corrections will be made to the population | Adjustment of the appropriation statement | | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. |  | | |
| Position of official responsible to take corrective actions | Director | | |
| Estimated completion date for corrective action | 18 July 2012 | | |
| Does management agree with the root cause indicated | **Yes** | | **No** |
| X | |  |
| If management does not agree with the root cause indicated, please provide the root cause according to management. |  | | |

*Name:* Aaron Mazibuko

*Position: Director*

*Date: 12 July 2012*

b)iv) I am in agreement with the finding for the following reasons [and supply the following/attached information in support of this]:

|  |  |  |  |
| --- | --- | --- | --- |
| **DESCRIPTION** | **RESPONSE** | | |
| Corrective action to be taken | Reversal of the appropriation statement | | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** | |
| X |  | |
| If yes, what corrections will be made to the population | Adjustment to the appropriation statement | | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. |  | | |
| Position of official responsible to take corrective actions | Director | | |
| Estimated completion date for corrective action |  | | |
| Does management agree with the root cause indicated | **Yes** | | **No** |
| X | |  |
| If management does not agree with the root cause indicated, please provide the root cause according to management. |  | | |

*Name:* Aaron Mazibuko

*Position: Director*

*Date: 12 July 2012*

b)v) I am not in agreement with the finding for the following reasons [and supply the following/attached information in support of this]:

Programme five did not overspend on any of its economic classification and therefore no expenditure should be disclosed as unauthorized.

*Name:* Aaron Mazibuko

*Position: Director*

*Date: 12 July 2012*

c)i) I am [not] in agreement with the finding for the following reasons [and supply the following/attached information in support of this]:

c)ii) I am [not] in agreement with the finding for the following reasons [and supply the following/attached information in support of this]:

d) I am not in agreement with the finding for the following reasons [and supply the following/attached information in support of this]:

Thefinancial delegationreferred to relate to the finding is for authorisation of the payments and not journals. Department does not use financial delegation to process journals

e) I am not in agreement with the finding for the following reasons [and supply the following/attached information in support of this]:

|  |  |  |  |
| --- | --- | --- | --- |
| **DESCRIPTION** | **RESPONSE** | | |
| Corrective action to be taken | Adjust the notes to the disclosure | | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** | |
| X |  | |
| If yes, what corrections will be made to the population | Adjustment of the disclosure notes | | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. |  | | |
| Position of official responsible to take corrective actions | Director | | |
| Estimated completion date for corrective action |  | | |
| Does management agree with the root cause indicated | **Yes** | | **No** |
| X | |  |
| If management does not agree with the root cause indicated, please provide the root cause according to management. |  | | |

*Name:* Aaron Mazibuko

*Position: Director*

*Date: 12 July 2012*

**Auditor’s conclusion**

a) Management agrees with the finding and indicated that the amount of transfer utilised as a virement will be reversed. The corrections were however not submitted and the matter remains unresolved. Management must enhance the review controls of the financial statements to ensure that errors are timeously detected and corrected. All relevant laws and regulations, for example the PFMA, TR and the Adjustment Estimate, should be taken into account with the calculation of unauthorise and irregular expenditure.

b) The appropriation statement was corrected and unauthorise expenditure was reduced to R24 587 000. Therefore a correction of R4,955 million. The matter will be reported as a material changed to the financial statements. Management must ensure that the review controls of the financial statements are enhanced to timeously identify errors before the submission of the financial statements.

c) The irregular expenditure pertaining to the transfer payment overspending in programme 4 was recorded in the irregular disclosure note, these matter will reported as a material correction to the financial statements.

|  |  |
| --- | --- |
| **Description** | **R** |
| Transfer to Agrement South Africa - no NT approval | (9 431 000) |
| Less: amount accounted for in the overspending | 2 268 000 |
| **Irregular expenditure understated** | **(7 163 000)** |

d) Cognisance is taken of the fact that management indicated that they do not use the financial delegations for the approval of journals. No delegations indicating the level or the rank of officials up to which levels journals could be approved was provided. The occurrence on journals amounting to R29,452 million cannot be confirmed.

e) Although management indicated that they do not agree with the finding, they indicated in the corrective action to be taken is to adjust the disclosure note. The latter is therefore perceived that management do in fact agree with the finding. The financial statements were corrected.

1. **Unauthorised expenditure not disclosed Ex 228**

Laws, rules and legislation:

1. PFMA section 38 states:

*“(1)* *the accounting officer for a department, trading entity or constitutional institution-*

*(c)* *must take effective and appropriate steps to*-

*(ii)* *prevent unauthorized, irregular and fruitless and wasteful expenditure   
 and losses resulting from criminal conduct*;

(2) *An accounting officer may not commit a department, trading entity or constitutional institution to any liability for which money has not been appropriated.”*

1. The PFMA defines unuathorised expenditure as:

*“ unauthorized expenditure” means*

*a) overspending of a vote or a main division within a vote;*

*b) expenditure not in accordance with the purpose of a vote, in the case of a main division, not in accordance with the purpose of the main division”*

1. PFMA section 39 requires the following pertaining to the accounting officer’s responsibility relating to budgetary control:

*“(2)  An accounting officer, for the purposes of subsection (1), must—*

*(a) take effective and appropriate steps to prevent any overspending of the vote of the department or a main division within the vote;*

*(b) report to the executive authority and the relevant treasury any impending—*

*(iii) overspending of the department’s vote or a main division within the vote;”*

The matters reported below were noted pertaining to the amount specifically appropriated under programme 2 for energy efficiency:

|  |  |  |  |
| --- | --- | --- | --- |
| **Description** | **2010-2011** | **2011-2012** | **Transferred to IDT** |
| **R** | **R** | **R** |
| Amount appropriated 2010-2011 | 75 000 000,00 |  | 75 000 000,00 |
| Amount appropriated 2011-2012 |  | 70 000 000,00 | 52 000 000,00 |
| Amount spend by IDT– 2010-2011 | (16 489 884,93) |  | (16 489 884,93) |
| Amount spend in 2011-2012  by IDT | (58 510 115,07)[[3]](#footnote-3) | (48 389 469,54) | (106 899 584,61) |
| **Closing balance as at 31 March 2012** | **-** | **21 610 530,46** | **3 610 530,46** |

1. During the 2010-2011 financial year an amount of R75 million was transferred to IDT. Of this amount an amount of R58 510 115,07 was not spent at year end. The department requested for a roll-over but the latter was not approved by National Treasury. However as indicated in the table above the department however did spend this amount during the 2011-2012 financial year.

As this amount was not appropriated for the 2011-2012 financial year it should have been surrendered to National Treasury. The spending of R58 510 115,07 is therefore considered to be unauthorised.

1. During the 2011-2012 financial year the department received an amount of R70 million specifically appropriated for the energy efficiency programme. Of this amount only R48 389 469,54 was spent. Resulting in an unspent amount of   
   R21 610 530,46.

According to the appropriation statement of programme 2 per economic classification, there was an overspending of R4,181 million pertaining to goods and services.

Cognisance is taken of the fact that there was an overall saving on programme 2 of R424 746 000, this saving however relates to capital expenditure and in line with section 43(4)(c) of the PFMA the department is not authorised to utilise a saving pertaining to an amount appropriated for capital expenditure in order to defray current expenditure.

The department has therefore utilised the energy efficiency funds for other purposes.

c) The explanation in note 4 to the appropriation statement for the variance between budgeted and actual expenditure on programme 2 makes no mention of deviations pertaining to the energy efficiency programme as highlighted in the table above and is thus not a true reflection of the reasons for the overspending on current expenditure on programme 2, the department has only referred to the saving realised under capital expenditure.

Reason for the deviation:

Transfers made to the Independent Development Trust were not timeously accounted for in the records of the department.

Potential impact of the findings raised above:

a) Unauthorised expenditure was understated with R58 510 115,07

b) Unauthorised expenditure was understated with R21 610 530,46

c) Note 4 to the appropriation statement does not contain sufficient disclosure on the true reason for overspending on current expenditure on programme 2 and as a result is misleading the user of the financial statements.

## Internal control deficiency

## Financial and performance management

*Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting*

## Recommendation

1. The information for the energy efficiency programme being implemented by IDT on behalf of the department should be accumulated on a monthly basis to ensure that transactions are timeously accounted for in the records of DPW.
2. The amounts identified should be disclosed as unauthorised expenditure
3. Note 4 to the appropriation statement pertaining to programme 2 must be enhanced to reflect the reasons for overspending on current expenditure on programme 2 and should specifically explain matters relating to the energy efficiency programme.

**Management response**

a) The department disagrees with the audit finding in as far as unauthorized expenditure incurred is concerned. The unspent amount of R58,510,115.07 was surrendered at the end of financial year 2010/2011. The department requested roll over of the amount surrendered which was not approved. The spending of R58,510,115.07 made was off set with a saving of goods and services.

|  |  |  |
| --- | --- | --- |
| **DESCRIPTION** | **RESPONSE** | |
| Corrective action to be taken: | No corrective action to be taken. | |
| Does the finding affect an amount disclosed in the financial statements? | **Yes** | **No** |
|  | **X** |
| If yes, what corrections will be made to the population? |  | |
| If yes, and no corrections will be made, the reason why such a conclusion has been reached |  | |
| Position of official responsible to take corrective action: |  | |
| Estimated completion date for corrective action: |  | |
| Does management agree with the root cause indicated | **Yes** | **No** |
|  | **X** |
| If management does not agree with the root cause indicated, please provide the root cause according to management | The department disagreed with the audit finding. | |

b) The department disagrees with the audit finding. The department utilized the funds appropriated for energy efficiency for the purpose of energy efficiency. The expenditure for 2011/12 on energy efficiency programme was R106,899,584.61 while the appropriated amount was R70 million. The department utilized savings on goods and services to defray expenditure on energy efficiency programme. However the department recognizes that the overspent amount of R4 million on goods and services on Programme 2 will be recognized as irregular expenditure and will be updated together with the annual financial statement as part of overs and unders.

|  |  |  |  |
| --- | --- | --- | --- |
| **DESCRIPTION** | **RESPONSE** | | |
| Corrective action to be taken: | No corrective action to be taken. | | |
| Does the finding affect an amount disclosed in the financial statements? | **Yes** | | **No** |
|  | | **X** |
| If yes, what corrections will be made to the population? |  | | |
| If yes, and no corrections will be made, the reason why such a conclusion has been reached |  | | |
| Position of official responsible to take corrective action: |  | | |
| Estimated completion date for corrective action: |  | | |
| Does management agree with the root cause indicated | **Yes** | **No** | |
|  | **X** | |
| If management does not agree with the root cause indicated, please provide the root cause according to management | The department disagreed with the audit finding. | | |

c) The department agrees with the audit finding. The narrative is enhanced to indicate that the department overspent on the energy efficiency programme in financial year 2011/2012 and the virement performed and is attached hereto with the response. The overspending on goods and services on Programme 2 will be disclosed as irregular expenditure.

|  |  |  |  |
| --- | --- | --- | --- |
| **DESCRIPTION** | **RESPONSE** | | |
| Corrective action to be taken: | Explanation note in note 4 to the appropriation statement will be updated to reflect the overspending on the energy efficiency programme and the virement performed. | | |
| Does the finding affect an amount disclosed in the financial statements? | **Yes** | | **No** |
|  | | **X** |
| If yes, what corrections will be made to the population? |  | | |
| If yes, and no corrections will be made, the reason why such a conclusion has been reached |  | | |
| Position of official responsible to take corrective action: | Director: Management Accounting | | |
| Estimated completion date for corrective action: | 29 July 2012 | | |
| Does management agree with the root cause indicated | **Yes** | **No** | |
|  |  | |
| If management does not agree with the root cause indicated, please provide the root cause according to management |  | | |

*Name:* Mr A Mazibuko

*Position: Director: Management Accounting*

*Date:*

**Auditor’s conclusion**

a) It was confirmed with note 14 that an amount of R749 702 000 of the R749 722 000 was surrendered to National Treasury. Therefore except for the R10 000 the total amount was surrendered. As the R58,510,115.07 formed part of the voted funds to be surrendered the amount was surrendered to National Treasury. The department therefore utilised their own funds to pay for the R58,510,115.07. The matter is therefore considered to be resolved.

b) It was confirmed that the department spent R106 899 584,61 in the current year. Therefore the amount unspent at IDT pertain to other funds of DPW and will therefore not contribute further to unauthorised expenditure seeing that there already was an overspending in programme 2. The matter is therefore considered to be resolved.

c) The department agrees with the audit finding. The narrative is enhanced to indicate that the department overspent on the energy efficiency programme in financial year 2011/2012 and the virement performed and is attached hereto with the response.

Changes were made to the appropriation statement based on factual finding 238. The latter will be reported as a material change to the financial statements.

**Fruitless and Wasteful Expenditure**

1. **Fruitless Expenditure: Construction Contracts Ex 297**

Upgrading of essential Infrastructure at the Skilpadshek Border Post Residential Component

**Audit Finding**

Laws, rules and regulations

1. Section 1 of the PMFA states the following**: “fruitless and wasteful expenditure”** *means expenditure which was made in vain and would have been avoided had reasonable care been exercised*;”
2. Section 38 (1)(c)(ii) of the PFMA states the following under the general responsibilities of the accounting officers: "*The accounting officer for a department, trading entity or constitutional institution, must take effective and appropriate steps to prevent unauthorised, irregular and fruitless and wasteful expenditure and losses resulting from criminal conduct.”*

**1. *OVERVIEW***

***1.1 Need determination***

*The need to upgrade the infrastructure of the Skilpadshek Border Post (SBP) and to establish a residential area for the employees was already identified in 2001. The process to upgrade the infrastructure has started but was not finished by 31 July 2012. The residential area of SBP has not progressed, as the contract therefore was cancelled.*

***1.2 Roles and responsibilities of the role-players***

*The major role players in the infrastructure delivering process were the client departments (BCIP) and the Department of Public Works (DPW).*

***Roles and responsibilities of the BCIP:***

* *Identify the need for infrastructure.*
* *Prioritise needs.*
* *Compile a cost estimate.*
* *Include in the MTEF budget.*
* *Liaise with other role players such as the municipality to ensure that the related services are available.*
* *Identify and obtain ownership of the land earmarked for the project.*
* *Brief the DPW on the project requirements.*
* *Consider and approve the planning documentation.*
* *Transfer funds to the DPW in accordance with cash flow forecast.*
* *Attend site and other relevant meetings.*
* *Consider and approve additional funding.*
* *Ensure utilisation of building soon after first handover.*
* *Report deficiencies to the DPW.*
* *Ensure that adequate staff and equipment are available to ensure full commissioning.*
* *Monitor utilisation.*

***Roles and responsibilities of the DPW:***

* *Plan project according to the BCIP brief.*
* *Submit the planning documentation for approval by the BCIP.*
* *Appoint the technical team, including the principle agent who is responsible for coordination and supervision on the project, quantity surveyors, engineers, architects etc.*
* *Advertise tenders, evaluate tenders and appoint the successful tenderer.*
* *Obtain surety from the contractor before site handover.*
* *Site handover to contractor.*
* *Project management and technical inspection.*
* *Attend site and other meetings.*
* *Consider requests for variation orders.*
* *Consider and approve requests for extension of contract period.*
* *Consider progress report and effect progress payments to the contractor and consultants.*
* *Charge penalties on late completion of work, if required.*
* *Take timely action to institute corrective action where the contractor does not progress satisfactorily or the quality of workmanship is not up to the required standard.*
* *Where necessary, replace the contractor and call up the surety to cover additional costs.*
* *At first handover compile a snag list.*
* *Monitor the completion.*
* *Issue final handover certificate.*
* *Refund retention monies.*
* *Compile a close-out report.*

***1.3 Implementing agent***

*The BCIP entered into agreements with the DPW to act as implementing agent for this project. According to the Programme Implementing Agent Agreement (PIAA) between the BCIP and the DPW, the responsibility rests with the DPW to ensure that the infrastructure project is facilitated and monitored in the most economical, efficient and effective manner.*

**2. BACKGROUND AND FINDINGS ON THE UPGRADING OF ESSENTIAL INFRASTRUCTURE AT THE SKILPADSHEK BORDER POST**

**2.1 Residential area for the current and prospective employees of the Skilpadshek Border Post**

**2.1.1 Background**

2.1.1.1 Following a request by the BCIP in 2000, a pre-design investigation was undertaken in-house by the North West Department of Public Works Directorate: Project Information and Analysis (PIA) with regard to the accommodation requirements at the Skilpadshek Border Post.

2.1.1.2 Various alternatives, including the upgrading of existing infrastructure and the feasibility to construct entire new facilities were investigated.

2.1.1.3 The Directorate: PIA of the DPW undertook a site survey in 2001 to establish ownership and to determine whether the accommodation requirements would fit on the present site. Cost estimates to the various options were calculated. The cost for the building work was estimated at R7 753 600 and the total capital cost for the project was estimated at R29 917 756. The BCIP was in the process to source funds from the various stakeholders (client departments) which included the South African Revenue Services; the South African Police Services and the department of Home Affairs.

2.1.1.4 A planning instruction was issued on 22 April 2002 to DPW to proceed with a master plan design for the project. Brink and Schoeman Quantity Surveyors that was appointed during June 2002 was the project manager.

2.1.1.5 A planning instruction was issued on 14 September 2005 to the Mmabatho Regional office of DPW to proceed with the development of the essential infrastructure as well as the acquiring of additional land at Skilpadshek. The BCIP requested on 6 July 2007 that the project be returned to head office to prevent further delays to the project.

2.1.1.6 Mvela Phanda Construction Pty (Ltd) (MPC) the successful bidder was awarded the contract for the construction of the residential component of the Skilpadshek Border Post Project on 27 August 2008. The total value of the contract amounted to R374 392 624. The planned contract period was set for 20 months and the completion date was set at 30 April 2010.

2.1.1.7 Project construction was put on hold since then for a number of reasons:

A geotechnical survey in 2006 indicated that the site was located on dolomite and that no new extensions should be permitted on the land until detailed investigations clarify the inherent risk classification of the area.

In December 2008, the site that was identified for the residential area was furthermore discovered to be located within an area where past mining activities of necessity preclude such development.

Problems with the acquisition of additional land needed to accommodate the new border also delayed the progress with the project.

* + 1. **Findings**

* + - 1. The construction of the new residential area of the SBP was hampered by an ineffective co-ordination process, which contributed to the delays experienced with the project. For example, more than eleven years have elapsed since September 2000 to commence with the construction of the residential area of the project, when the need to upgrade the SBP was initiated by means of the Border Control Improvement Programme. Since May 2004 when the final changes to the masterplan was accepted at a cost of R1 299 315 to compile various delays have been experienced with the result that the site for the construction of the new residential area was only handed over to the contractor, MPC, on 23 September 2008. The project was part of the 2010 initiative and had to be completed by the end of April 2010 or before the Soccer World Cup had commenced. The project was classified as of a high priority. Delays that contributed to the project starting late include the following:

The previous project manager indicated on 11 August 2005 that no further instructions have been received from the client department regarding, inter alia, the acquiring of additional land for the project since May 2004 and the process therefore came to a stop. According to him the total area that required for the new development by far exceeded the available land. The BCOCC indicated on 6 June 2007 that a planning instruction dated 14 September 2005 was issued to the Mmabatho Regional Office to proceed with the acquiring of additional land at SBP. The BCOCC also indicated in the same letter that due to capacity problems experienced by the Mmabatho Regional office it has been agreed by DPW to return the project to head office.

The ownership issue and rezoning of an additional 120 hectares of land identified to accommodate the new project, contributed to the delays of the project. Negotiations between DPW and the rightful owners, Gopane Tribal Authority started in May 2006. The land is registered state land, but was allocated to the Gopane Tribal Authority. A tavern and guest house was located on the property. In exchange for the 120 hectares the Gopane Tribal Authority accepted the option of alternative land that was outside their jurisdiction. This process was not finalised on 9 February 2009 when the Town Planner requested that the project be put on hold to avoid more fruitless expenditure.

* + - 1. No proper geotechnical survey on the soil was conducted before the project commenced and contractors were appointed. This resulted in huge delays, the contract with the construction company to be cancelled coupled with fruitless expenditure as is indicated in paragraph 6.1.2.3 below.

According to site meeting 10 held on 11 April 2006 the first soil investigation done in the project area was done in-house by the DPW and did not detect any dolomite.VGI Consultants was appointed to undertake an assessment to compile a Risk Management Strategy for the assets located on dolomite in South Africa. It was recommended in their report dated April 2006 that the Skilpadshek site be assessed as a Category 1 site. A site is classified as a Category 1 site when it is located on dolomite. As the site is located on dolomite additional detailed investigations was required to clarify the Inherent Risk Classification of the area before new planning or extensions are permitted in the area. The site handover to the contractor MPC took place on 28 October 2008. Shortly thereafter two large holes were detected in the area by the contractor that was identified as entrances to underground mine shafts. Refer to the pictures below that was taken by the audit team during a walkthrough at SBP on 25 January 2012.

**Two pictures of surface holes reflecting unstable soil conditions at the planned residential area of SBP**





**Evidence of previous mining activities on the residential land earmarked for development**



The Mineral Corporation was thereafter appointed by DPW to carry out a technical investigation of mine workings and their possible impact on the residential development of the project. The Mineral Corporation indicated in their report dated December 2008 that the residential development is mostly located within an area where past mining activities preclude such development. They furthermore, recommended to moving the planned residential area to a new area.

Quantity Surveyors Brink and Schoeman reported to DPW on 4 December 2008 that the unknown mining activities on the site and the possibility that the residential component might have to be moved to a new site will cause delays and fruitless expenditure to be incurred on the project. Two scenarios were submitted as indicated in the table below:

**Two scenarios with comparable costs to be considered by DPW due to the mining activities that were identified on the residential area of the project**

|  |  |  |  |
| --- | --- | --- | --- |
| **Scenario** | **Original project**  **Cost**  **R** | **Cost of project on hold**  **R** | **Extra cost**  **R** |
| **Put contract on hold**  **for seven months** | 480 656 483 | 556 003 520 | 75 347 037 |
| **Cancel the contract**  **and re-tender(seven**  **months to date of**  **site handover)** | 480 656 483 | 576 175 108 | 95 518 625 |

Fruitless expenditure of R75 347 037 and R95 518 625 will be incurred for both scenarios. Should the contract be cancelled the cost would, however, be R20 171 588 more. Brink and Schoeman Quantity Surveyors furthermore indicated that both comparisons only compare construction costs and the fees of the consultants directly involved in the project. No provision was made in these calculations for other costs such as town planning, environmental impact reports, procurement of the land, surveying the land, dolomite studies, costs to the DPW or to other user clients. The contract was cancelled on 13 March 2009 as no alternative land as indicated in paragraph 6.1.2.1 could be obtained.

**2.1.2.3 Forensic investigation into alleged irregularities with the Skilpadshek settlement at the DPW**

The Special Investigation Unit was mandated to conduct an investigation in accordance with the terms of reference set out in Proclamation R38 of 2010.The allegations for the investigation relates to an irregular and or unlawful settlement between the DPW and (MPC with regard to the cancellation of the SBP main contract for the upgrading of essential infrastructure, i.e. the residential component. This investigation reflects on various control weaknesses that were identified, which resulted in possible irregular actions and fruitless expenditure as summarised below:

The senior DPW official who agreed to the quantum of the settlement between DPW and MPC misused his authority to bind the DPW to the settlement amount of R33 726 705.90 which is regarded as unreasonably excessive and unjustified and was irregularly/unlawfully disbursed.

MPC did not submit appropriate supporting documentation to enable DPW to correctly quantify the amount of the claim, which should therefore have been rejected and no payment should have been made.

A number of misrepresentations were made by the main contractor in their invoices, which resulted in an amount of R11 459 882,60 being overstated and claimed by the main contractor.

An amount of R1 118 008,86 was found to have been duplicated and claimed for material on site as part of “value of work done” and also as part of progress payment no.5. Material found in a storeroom on the premises of the project was paid by DPW as part of payment no. 5. These materials was never utilised in execution of the contract as MPC was the sole custodian to these keys. MPC used these materials on their other contract at SBP even though it belonged to DPW.

An amount of R3 862 696,47 also appeared to be incorrectly claimed after the contract with MPC had been terminated.

DPW‘s Legal Department was never consulted for legal advice regarding the settlement paid to MPC.

The Chief Financial Officer of DPW was never informed of the settlement fees paid to MPC as a result of the cancellation of the contract.

**Fruitless and wasteful expenditure that was incurred at SBP residential project is as follows:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Progress payment** | **Date of payment** | **Amount paid**  **R** | **Note** |
| 1 | 27-11-2008 | 13 636 857,82 | 1 |
| 2 | 15-12-2008 | 4 791 841,83 |  |
| 3 | 04-03-2009 | 5 763 080,58 |  |
| 4 | 29-09-2009 | 5 987 491,37 |  |
| 5 | 14-10-2009 | 38 638 935,96 | 2 |

Note 1: The claim for works insurance, liability insurance and security was inflated by R11 049 164,37

Note 2: Includes the cancellation fee of R 33 726 706,17

The total amount of Fruitless and wasteful expenditure therefore amounts to

R68 818 207,56

The above deviations from the prescripts are a result of management not implementing the necessary monitoring measures and exercising oversight to ensure compliance with the relevant laws and regulations. Measures were in place to establish if the tenant vacated the building under the agreed terms when the lease was terminated to avoid fruitless and wasteful expenditure. The PMTE did not ensure measures where in place to monitor the space utilised by tenants.

**Internal control deficiency**

*Leadership*

The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control

**3. POSSIBLE AREAS FOR IMPROVEMENT**

3.1 The accounting officer of DPW should comply with the following sections of the PFMA:

* Section 38(c) regarding effective and appropriate steps to prevent unauthorised, irregular and fruitless and wasteful expenditure
* Section 38(h) which stipulates that the accounting officer should take effective and appropriate disciplinary steps against any official who makes or permits irregular expenditure.

3.2 The reasons why actions were not taken against contractors and consultants to recover possible losses due to delays in completing projects or incomplete or inferior work performed for which they had been paid, should be determined. Appropriate action should be instituted.

3.3 A proper needs determination policy should be compiled and implemented to ensure needs are accordingly met. Surveys should be conducted on the proposed land for development before the contractor is appointed.

* 1. The recommendations made by the SIU should be considered for implementation.

**Management response**

As the audit team is aware that batches and files are with the Special Investigation Unit (SIU), and the department does not and will not have access to those batches and files, the Department is not in a position to agree or disagree with the audit finding relating to these transactions

|  |  |  |  |
| --- | --- | --- | --- |
| **Description** | **Response** | | |
| Corrective action to be taken: |  | | |
| Does the finding affect an amount disclosed in the financial statements? | **Yes** | | **No** |
|  | |  |
| If yes, what corrections will be made to the population? |  | | |
| If yes, and no corrections will be made, the reason why such a conclusion has been reached |  | | |
| Position of official responsible to take corrective action |  | | |
| Estimated completion date of corrective action: |  | | |
| Does management agree with the root cause indicated | **Yes** | **No** | |
|  |  | |
| If management does not agree with the root cause indicated, please provide the root cause according to management |  | | |

Name: Lesetja Toona

Position: Director: Inspectorate & compliance

Date: 23/08/2012

**Auditor’s conclusion**

Management’s response is noted. The AGSA had to audit the supporting documentation at the SIU premises in order to avoid a limitation of scope. In the absence of management providing any evidence to contradict the audit findings raised the matters will remain valid and therefore the impact as indicated remains unchanged.

1. Please note that a separate audit finding will be issued in relation to the indirect costs. [↑](#footnote-ref-1)
2. Please note that as this is the only item that was in the sample. This is therefore the error and the amount that will be extrapolated [↑](#footnote-ref-2)
3. Although the department requested a roll-over for the R58 510 115,07 – National Treasury did not approve this. [↑](#footnote-ref-3)