# Report of the auditor-general to Parliament on vote no. 13: Property Management Trading Entity

## Report on the audit of the financial statements

### Qualified opinion

1. I have audited the financial statements of the Property Management Trading Entity set out on pages xx to xx, which comprise the Statement of Financial Performance, statement of financial position as at 31 March 2023, Statement of Financial Performance statement of changes in net assets and cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, **except for the effects** of the matters described in the basis for qualified opinion section of this auditor’s report, the financial statements present fairly, in all material respects, the financial position of the Property Management Trading Entity as at 31 March 2023, financial performance and cash flows for the year then ended in accordance with the Generally Recognised Accounting Practice(Standards of GRAP) and the requirements of thePublic Finance Management act 1 of 1999 (PFMA).

### Basis for qualified opinion

#### Payables from exchange transactions

1. All outstanding amounts meeting the definition of a liability were not recognised in accordance with GRAP 1, *Presentation of financial statements*. Adequate records of outstanding payments for goods and services received but not yet paid at year-end were not maintained. I was unable to determine the full extent of the understatement of trade creditors and accruals, as it was impracticable to do so.

#### Payables from exchange transactions

1. Payables from exchange transactions were not classified as payables where services were rendered before year end and no payments have been made by the trading entity in accordance to GRAP 19, Provisions, contingent liabilities and contingent assets. The trading entity received services from the service providers before year end that meet the definition of an accrual, which were accounted for as provisions. Consequently, payables from exchange transactions Accrued expenses: Opex projects was understated by 199 million, provisions was overstated by 594million and accumulated surplus was overstated by 395 million.

#### Payables from exchange transactions

1. The trading entity derecognised a financial liability at the end of the financial year without assessing if the liability is extinguished in line with **Prescription Act No. 68 of 1969** and GRAP 104, financial instruments. The trading entity applied a standard formula to all lease accruals existing on 31 March 2023 as no assessment was conducted on each lease agreement with an outstanding balance to ensure that the requirements of the Prescription Act were met year end. As a result, lease accrual was understated by R899 million, revenue accrual- recoverable leases was understated by R879 million and operating lease expense was understated by R20 million.

#### Payables from exchange transactions

1. In addition to the individually material uncorrected misstatement on payables from exchange transaction as disclosed in note 12, total payables from exchange transaction was materially misstated by 211 million due to cumulative effect of individually immaterial uncorrected misstatements in payables from exchange transactions

* Debtors with credit balance was overstated by 38 million
* Trade payables was overstated by 91 million
* Revenue claimed in advance

#### Accommodation charges – freehold inter-governmental revenue and receivables from exchange transactions

1. Items that did not meet the definition of revenue in accordance with GRAP 9, *Revenue from exchange transactions* were recognised in the financial statements.  The National Treasury approved tariffs for properties in accordance with the itemised billing, however when these properties were removed from the asset register of the trading entity, the user departments were still billed for these properties.  I was **unable to determine the full extent** of the overstatement of accommodation charges- freehold inter-governmental, stated at R6 336 608 000 (2022: R6 888 081 000) in note 17 to the financial statements, and related receivable from exchange transaction, stated at R297 664 000 (2022: R648 845 000) in note 3 of the financial statements, as it was impracticable to do so.  Consequently this also has an impact on the related parties’ disclosure in note 34 of the financial statements.

#### Total minimum lease receipts- PMTE as lessor: straight line Freehold Accommodation charges

1. Commitments were not accounted for in terms of GRAP 13, *Leases.* The trading entity did not disclose the future lease payments under non-cancellable operating lease contracts for accommodation charges. I was unable to determine the full extent of the understatement of operating lease commitments, stated at R549 217 000 (2022: R589 492 000) in note 5 to the financial statements, as it was impracticable to do so.

**PPE Commitments**

1. Contractual commitments for the acquisition of property, plant and equipment were not disclosed in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) 17, Property plant and equipment. The trading entity included cancelled projects as part of the disclosed contractual commitments on the AFS. Consequently, the contractual commitments for the acquisition of property, plant and equipment as disclosed in Note 7 of the AFS is overstated by R 2 725 984 915. This also has an impact on Note 33 of the AFS (Risk Management) for the current financial year period.

**Bank overdraft**

1. Included in bank overdraft balance is R433 400 360 relating to outstanding payments. Adequate internal controls were not in place to maintain records of outstanding payments. I was unable to obtain sufficient appropriate audit evidence to substantiate the overdraft disclosed in Note 6 to the financial statements. Consequently, I was unable to determine whether any further adjustments to the financial statements were required.
2. Since overdraft is included in the determination of cash and cash equivalents reported in the statement of cash flows. I was unable to determine whether any adjustments were necessary in the cash and cash equivalents stated at R1 820 471 000.

### Context for opinion

1. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the responsibilities of the auditor-general for the audit of the financial statements section of my report.
2. I am independent of the trading entity in accordance with the International Ethics Standards Board for Accountants’ *International code of ethics for professional accountants (including International Independence Standards)* (IESBA code) as well as other ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
3. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### Emphasis of matters

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

#### Going concern

1. As disclosed in note 36 to the financial statements, which indicate that the trading entity as of 31 March 2023, bank overdraft of R1.843 billion (2022: R851 million) and the current liabilities exceed the current assets by R7.739 billion (2022: R7.213 billion).

#### Receivables from exchange transactions- Impairments

1. As disclosed in note 22 to the financial statements, material losses of R1 672 610 000 were incurred as a result of a lack of recoverability in long outstanding receivables.

#### Restatement of corresponding figures

1. As disclosed in note 35 to the financial statements, the corresponding figures for 31 March 2022 were restated as a result of an error in the financial statements of the trading entity at, and for the year ended, 31 March 2023

### Other matter

#### National Treasury Instruction Note No.4 of 2022-23: FPMA compliance and reporting framework

1. On 23 December 2022 National Treasury issued Instruction Note No. 4: PFMA Compliance and Reporting Framework of 2022-23 in terms of section 76(1)(b), (e) and (f), 2(e) and (4)(a) and (c) of the PFMA, which came into effect on 3 January 2023. The PFMA Compliance and Reporting Framework also addresses the disclosure of unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure. Among the effects of this framework is that irregular and fruitless and wasteful expenditure incurred in previous financial years and not addressed is no longer disclosed in the disclosure notes of the annual financial statements, only the current year and prior year figures are disclosed in note 31 to the financial statements. The movements in respect of irregular expenditure and fruitless and wasteful expenditure are no longer disclosed in the notes to the annual financial statements of Property Management Trading Entity (PMTE).The disclosure of these movements (e.g. condoned, recoverable, removed, written off, under assessment, under determination and under investigation) are now required to be included as part of other information in the annual report of the auditees.I do not express an opinion on the disclosure of irregular expenditure and fruitless and wasteful expenditure in the annual report.

### Responsibilities of the Accounting Officer for the financial statements

1. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the standards of GRAP and the requirements of the PFMA and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
2. In preparing the financial statements, the accounting officer is responsible for assessing the trading entity’s ability to continue as a going concern; disclosing, as applicable, matters relating to going concern; and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the trading entity or to cease operations, or has no realistic alternative but to do so.

### Responsibilities of the auditor-general for the audit of the financial statements

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

## Report on the audit of the annual performance report

1. Section 40(3)(a) of the PFMA, requires the trading entity to prepare an annual performance report. The trading entity’s performance information was reported in the annual performance report of Department of Public Works and Infrastructure. The usefulness and reliability of the reported performance information was tested as part of the audit of Department of Public Works and Infrastructure and any audit findings are included in the management and auditor’s reports of Department of Public Works and Infrastructure (DPWI).

## Report on compliance with legislation

1. In accordance with the PAA and the general notice issued in terms thereof, I must audit and report on compliance with applicable legislation relating to financial matters, financial management and other related matters. The accounting officer is responsible for the trading entity’s compliance with legislation.
2. I performed procedures to test compliance with selected requirements in key legislation in accordance with the findings engagement methodology of the Auditor-General of South Africa (AGSA). This engagement is not an assurance engagement. Accordingly, I do not express an assurance opinion or conclusion.
3. Through an established AGSA process, I selected requirements in key legislation for compliance testing that are relevant to the financial and performance management of the trading entity , clear to allow consistent measurement and evaluation, while also sufficiently detailed and readily available to report in an understandable manner. The selected legislative requirements are included in the annexure to this auditor’s report.
4. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

#### Expenditure management

1. Effective and appropriate steps were not taken to prevent irregular expenditure amounting to R57 million, as disclosed in note 31 to the financial statements, as required by section 38(1)(c)(ii) of the PFMA and treasury regulation 9.1.1. The majority of the irregular expenditure disclosed in the financial statements was caused by incorrect procurement processes followed by management.
2. Effective internal controls were not in place for approval and processing of payments, as required by treasury regulation 8.1.1.

#### Consequence management

1. I was unable to obtain sufficient appropriate audit evidence that disciplinary steps were taken against officials who had incurred irregular expenditure as required by section 38(1)(h)(iii) of the PFMA.

#### Asset management

1. Preventative mechanisms were not in place to eliminate misuse of assets, as required by treasury regulation 10.1.1(a).

#### Revenue management

1. Effective and appropriate steps were not taken to collect all money due, as required by section 38(1)(c)(i) of the PFMA

#### Annual Financial Statement, Performance and Annual Report

#### The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework, as required by section 40(1) (b) of the PFMA.

#### Material misstatements of non- current assets identified by the auditors in the submitted financial statements were corrected, but the uncorrected material misstatements resulted in the financial statements receiving a qualified opinion.

## Other information in the annual report

1. The accounting officer is responsible for the other information included in the annual report which includes the accounting officers the audit committee’s report. The other information referred to does not include the financial statements, the auditor’s report that have been specifically reported on in this auditor’s report.
2. My opinion on the financial statements and the report on compliance with legislation, do not cover the other information included in the annual report and I do not express an audit opinion or any form of assurance conclusion on it.
3. My responsibility is to read this other information and, in doing so, consider whether it is materially inconsistent with the financial statements, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
4. The other information I obtained prior to the date of this auditor’s report are Irregular expenditure and fruitless and wasteful expenditure register and Ministers foreword, Deputy Minister’s statement and governance are expected to be made available to us after 21 August 2023.
5. If, based on the work I have performed on the other information that I obtained prior to the date of this auditor’s report, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.
6. When I do receive and read the Ministers foreword, Deputy Minister’s statement and governance if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor’s report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

## Internal control deficiencies

1. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.
2. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion and the material findings on compliance with legislation included in this report
3. Management did not develop effective action plan to adequately address prior year findings relating to payables from exchange transaction which resulted in the modified auditor’s opinion reported in the prior year. Similar material misstatements were identified during the audit which resulted to the trading entity receiving a qualified audit opinion. Furthermore similar material compliance findings were identified to confirm effective action plan was not developed by management.
4. Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information as numerous material misstatements were identified that resulted in the modification of the auditor’s opinion.
5. Management did not review and monitor compliance with applicable laws and regulations as numerous material compliance findings were identified in the current year that resulted in the material findings on compliance.
6. Management did not exercise oversight responsibility regarding financial and compliance and related internal controls as material misstatements and material compliance findings were identified which resulted 7in the modification of the auditor’s opinion.

## Material irregularities

1. In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities identified during the audit and on the status of material irregularities as previously reported in the auditor’s report.

### Material irregularities identified during the audit

1. The material irregularities identified are as follows:

#### Lease No. 139901 overpayment

1. The trading entity entered into a lease agreement with the landlord on 01 October 2012. Between June 2015 and December 2017, while the entity was still using Property Management Information System (PMIS) for lease payments, overpayments to the landlord were made due to various reasons.
2. The leasing module on the Archibus system was implemented in September 2019 and all lease data was migrated from PMIS into the new system. The monthly lease obligation at the time was R 737 735, however it was captured as R 857 965 on the system. Management did not identify and rectify the error in time; this has resulted in the system escalating an incorrect amount and resulted in consistent, monthly overpayments.
3. As at 31 March 2022, the calculated cumulative overpayments made to the landlord, amounted to R 4 452 528.
4. The overpayments stated above indicate that management did not ensure that internal procedures and internal control measures were in place for the approval and processing of rental payments. These controls would have provided management reasonable assurance that rental payments to be made were necessary for each month and appropriate. This control deficiency resulted in non-compliance with TR 8.1.1.
5. The non-compliance is likely to result in a material financial loss for the PMTE as the overpayments can still be recovered from the landlord.
6. The Accounting Officer was notified of the material irregularity on 10 November 2022 and the following have been taken to resolve the material irregularity:

* Identified the parties responsible for the overpayments and issued warning letters.
* Management sent an email to the landlord to notify them

### Status of previously reported material irregularities

#### Status of previously reported material irregularities

Unfair Procurement Process for the Beitbridge Borderline Infrastructure Project

1. The Accounting officer did not ensure an appropriate supply chain management process that is fair, equitable, transparent, competitive and cost effective is followed in the appointment of the contractor in order to prevent amounts charged to the trading entity for the Beitbridge Borderline Infrastructure project being overpriced. This was in contravention with National Treasury Regulation (TR) 16A3.2 (a). The Accounting Officer was notified of the MI on 13 November 2020.
2. In response to the notification, an investigation into the Beitbridge project was initiated on the 25th of April 2020 and finalised on the 27th of July 2020 by the Governance and Risk Committee unit with the assistance of Special Investigation Unit. The SIU also launched a legal action against the contractor and principal agent with the special tribunal (CAS no: G17/2020) on the 17th of November 2020. The special tribunal down the judgement on the 9th of March 2022 that stripped off the contractor and principal agent’s profits from the project. The disciplinary action against some of the employees that were involved in the cause of the MI is still in progress. Lastly a criminal case that was registered at SAPS Pretoria (Case: 359/07/2021) by SIU against the contractor is still in progress.
3. Follow-ups on the progress were made with the Accounting Officer who responded on 30 June 2023 with supporting evidence that indicated that the following progress on the MI:

* Eight (8) members of NBAC (3 Chief directors, 4 Directors and 1 Deputy director) received final written warnings and were suspended without pay for various periods, with effective from 01 November 2022. They have since all returned to work.
* One (1) of the three (3) senior officials who are implicated in the investigation report has filed a notice to oppose his answering affidavit filed on the 6th of June 2022 and the state attorney has since applied for a hearing date with the Registrar of the Labour Court. The filing is underway so that the Registrar may issue a hearing date.
* The disciplinary action against the other two senior officials is on hold pending the finalisation of the High court application for review of the report based on the ruling made by the previous chairperson which was extended to the two officials.
* On the 1st of December 2022, the Council of the Engineering Council of South Africa(ECSA) resolved to adopt the recommendations from the investigation conducted on professional engineers within and contracted or sub-contracted to the DPWI and its entities. On 14 June 2023, the ECSA extended the scope of the investigation to potential improper misconduct by registered person employed by the Department. The investigation is in progress.
* On the 7th of September 2022, the Special Tribunal Court dismissed with costs the leave to appeal by the contractor and principal agent. SIU has since informed the Department of both parties’ intention to appeal to the High Court.
* The Department appointed a new restriction committee on the 31st of March 2023 that will decide on whether the restriction of doing business with state by contractor and principal agent is imposed or not as recommended by National Treasury. The deliberations are in progress.
* The trading entity has implemented various initiatives to increase oversight on contract management for construction projects.

1. Based on the assessment of the response and evidence presented, I have determined that the Accounting Officer is taking appropriate steps to address the MI. I will follow up on the implementation of further actions taken during my next audit.

Beitbridge Borderline Infrastructure Project Establishment Cost

1. The accounting officer did not ensure that internal control measures and procedures were in place to detect that the establishment cost is not included in the BOQ and therefore that it will not be paid. This was in contravention with National Treasury Regulation (TR) 8.1.1 and is likely to result into a financial loss of R1 099 500. The Accounting Officer was notified of the MI on 13 November 2020. The Response was received on the 10 December 2020 detailing the actions already taken and the planned actions to address the MI.
2. In response to the notification, an investigation into the Beitbridge project was initiated on the 25th of April 2020 and finalised on the 27th of July 2020 by the Governance and Risk Committee unit with the assistance of Special Investigation Unit. The SIU also launched a legal action against the contractor and principal agent with the special tribunal (CAS no: G17/2020) on the 17th of November 2020. The special tribunal down the judgement on the 9th of March 2022 that stripped off the contractor and principal agent’s profits from the project. The disciplinary action against some of the employees that were involved in the cause of the MI is still in progress. Lastly a criminal case that was registered at SAPS Pretoria (Case: 359/07/2021) by SIU against the contractor is still in progress.
3. Follow-ups on the progress were made with the Accounting Officer who responded on 30 June 2023 with supporting evidence that indicated that the following progress on the MI:

* Eight (8) members of NBAC (3 Chief directors, 4 Directors and 1 Deputy director) received final written warnings and were suspended without pay for various periods, with effective from 01 November 2022. They have all returned to work
* One (1) of the three (3) senior officials who are implicated in the investigation report has filed a notice to oppose his answering affidavit filed on the 6th of June 2022 and the state attorney has since applied for a hearing date with the Registrar of the Labour Court. The filing is underway so that the Registrar may issue a hearing date.
* The disciplinary action against the other two senior officials is on hold pending the finalisation of the High court application for review of the report based on the ruling made by the previous chairperson which was extended to the two officials.
* On the 1st of December 2022, the Council of the Engineering Council of South Africa resolved to adopt the recommendations from the investigation conducted on professional engineers within and contracted or sub-contracted to the DPWI and its entities. On 14 June 2023, the ECSA extended the scope of the investigation to potential improper misconduct by registered person employed by the Department. The investigation is in progress.
* On the 7th of September 2022, the Special Tribunal Court dismissed with costs the leave to appeal by the contractor and principal agent. SIU has since informed the Department of both parties’ intention to appeal to the High Court.
* The Department appointed a new restriction committee on the 31st of March 2023 that will decide on whether the restriction of doing business with state by contractor and principal agent is imposed or not as recommended by National Treasury. The deliberations are in progress.
* The trading entity has implemented various initiatives to increase oversight on contract management for construction projects.

1. Based on the assessment of the response and evidence presented, I have determined that the Accounting Officer is taking appropriate steps to address the MI. I will follow up on the implementation of further actions taken during my next audit

Construction contract extensions approved, incorrectly included contract value adjustment

1. PMTE has approved several contract extensions claims by the contractor with respect to the construction of the Mamelodi magistrate court due to delays in the project. The project is significantly delayed, and the expenditure paid to date exceeds the initial contract amount. The PMTE is obligated to pay a daily rate of R24 283,26 for any contract extension of time claims with adjustment to the contract value. Extension of time claims 4, 5, 8 and 9 were approved with adjustment to the contract value and the delays resulted from civil unrest, riots, strikes and lockouts.
2. This was a contravention of the JBCC 2000 Principal Building Agreement Clause 29.1 which stipulates that the contractor is entitled to a revision of the date of practical completion but for which the contract value should not be adjusted if it pertains to delays related to civil unrest, riots or strikes.
3. The approval of the listed claims resulted in a contravention of section 45(a) of the PFMA. The non-compliance is likely to result in a material financial loss of R3 011 124,24 as it is possible for the PMTE to recover the amount from an external party.
4. The accounting officer was notified of the material irregularity on 15 October 2021. The following action have been taken to resolve the material irregularity:

* The Accounting Officer commenced with disciplinary steps against the four (4) implicated officials from 17 November 2021, by issuing letters of consequence management in order to afford the officials an opportunity to explain their actions in approving the claims and payments to the contractor. Subsequently, the matter was referred to the Labour Relations on 25 March 2022 for investigation in order to prepare charge sheets and institute disciplinary action against the identified officials.
* On 17th August 2022, Labour Relations requested clarification on additional documentation and the scope of the charges. Both the Internal Control Directorate and later the DPWI's Anti-Corruption Unit (ACU) were requested to investigate. The review of the information by the ACU concluded that the matter does not warrant a forensic investigation as the facts of the matter are already at the disposal of the Department to enable resolution of the matter' as the information required by Labour Relations can be sourced from the relevant Line Functions within the Department.
* Following the receipt of the ACU report of 16th May 2023, the Pretoria Regional Office is dispatching the additional information required for Labour Relations.
* Initial activities to recover the funds through the Principal Agent, in line with the JBCC contract was not successful. This resulted in the department, issuing a letter of non-compliance to the Principal Agent. On the 7th September 2022, the Principal Agent wrote to the department indicating that they are terminating their contract agreement with the department.
* The Department of Public Works and Infrastructure sent a letter of demand to the service provider on 27 March 2023, requesting a refund for R 3 011 124,24(VAT exclusive) due to application for extension of contract which were erroneously approved within cost. In this regard, the service provider was requested to make such payments or arrangements for payments thereof within 14(fourteen) days of receipt of the letter. However, the service provider failed to execute any action and the Department referred the matter to the office of the state attorney for recovery.

1. Based on the assessment of the actions taken, I have determined that the Accounting Officer is taking appropriate actions to address the MI. I will follow-up on the implementation of the planned actions during my next audit.

Leeuwkop prison asset not appropriately safeguarded during construction

1. After termination of the initial contractor, the boilers on site were not appropriately covered as they were exposed to severe weather conditions, the plastic covering the boilers was damaged. This had an impact on ancillary equipment as they became corroded and unusable.
2. PMTE appointed a service provider for the replacement and maintenance of boilers for a period of 24 months on 26 January 2012. Due to the service provider's continued inability to meet deadlines in relations to the supply and installation of the boilers as per the site programme of works, the contractor was first placed in mora on 18 October 2013 and then the contact was subsequently terminated with effect from 5 June 2014.
3. After termination of the initial contractor, the boilers on site were not appropriately covered as they were exposed to severe weather conditions, the plastic covering the boilers was damaged. This had an impact on ancillary equipment as they became corroded and unusable.
4. The Accounting Officer did not take full responsibility for the safeguarding of the boilers while they were on site and after the termination date of the initial contractor, as a result, more costs will be incurred to replace and refurbish critical equipment's that have corroded. This is a contravention of TR10.1.1 (a) which requires that the Accounting Officer of an institution must take full responsibility and ensure that proper control systems exist for assets and that preventative mechanisms are in place to eliminate theft, losses, wastage and misuse. The contravention of TR10.1.1(a) is likely to result in a material financial loss.
5. The Accounting Officer was notified of the MI on 26 August 2021 and invited to make a written submission on the actions taken and that will be taken to address the matter. The response was received on the 23 September 2021.
6. Even though the Accounting Officer disagreed with the finding and the MI, in their response they agreed that there was a subsequent deterioration of the boiler cover and corrosion of boiler components. As a result, the boilers were exposed to inevitable physical weather elements. Due to the disagreement the Accounting Officer did not implement any corrective actions.
7. A new Accounting Officer was appointed in April 2022 and was informed of the MI. The Accounting Officer was afforded the opportunity to respond as to whether he will uphold the view on the MI as their predecessor. The Accounting Officer confirmed that he support the view his predecessor. Based on the letter no actions were implemented by the trading entity to address the MI.
8. I recommend that the Accounting Officer should take the following actions to address the material irregularity, which should be implemented by 31 January 2023:

* Appropriate action should be taken to investigate the non-compliance in order to determine if any official should be held responsible.
* The financial loss relating to the boilers should be quantified and appropriate action should be taken to determine whether the responsible official(s) is liable by law for the losses suffered by the department for the purpose of recovery, as required by treasury regulation 12.7.1.
* Effective and appropriate disciplinary steps should be initiated, without undue delay, against any official that the investigation found to be responsible, as required by section 38(1)(h) of the PFMA.

1. Reasonable steps should be taken to ensure that preventative mechanisms are in place to eliminate further losses on account of inadequate safeguarding or other damage in relation to construction site assets as required by TR section 10.1.1(a).
2. I will follow up on the implementation of the recommendation after the due date.

**Lease No. 140280 Overpayment**

1. Duplicate payments / overpayments mainly occurred between October 2017 and March 2019 and the cumulative overpayments over this period amounted to R9 325 082.75. Furthermore, the lease agreement was renewed with effect from 01 June 2019 while the old contract was still active (4 months before it expired) and this renewal resulted in a lesser monthly rental payment as compared to the previous lease contract. Management continued to make payments based on the old lease contract which resulted in additional overpayments made since the renewal period of 01 June 2019 up to the end of 31 March 2021 amounting to R1 636 993, 88.
2. Effective internal controls were not in place for approval and processing of payments, as required by TR8.1.1 to ensure that correct rental payments for a lease agreement were made and to prevent the overpayments stated above. These controls would have provided management reasonable assurance that rental payments made were necessary for each month and appropriate. The PMTE was likely to incur a material financial loss of R10 962 076,63.
3. The Accounting Officer was notified of the material irregularity on 27 August 2021 and the following have been taken to resolve the material irregularity:

* Consequence management has been implemented to the lease management team as they explained the lack of oversight on lease payments and a final written warning was issued and accepted by the two responsible officials in January 2022.
* As of February 2022, management captured the lease details on the system correctly for this specific lease agreement, and the lease is currently paid in accordance with the valid lease agreement.
* Management implemented the use of credit notes to deduct any overpayments from future rentals to recover the overpayments. As of June 2022, the amount of R10 962 076,63 was fully recovered. No further overpayments have been identified since the correction.
* The lease clean-up process was concluded in June 2022 by an external service provider, and as of March 2023, management has implemented controls to detect any lease overpayments, however, concerns in the control environment remain due to the fact that the controls are not effective in preventing overpayments as similar instances were noted on other lease contracts.

1. I will follow up on the implementation of controls, during my next audit

**Lease no. 140227 Overpayment**

1. Upon the implementation of the Archibus leasing system in September 2019, management commenced consistently making overpayments to the landlord. The overpayments amounting to R14 062 727 occurred from the implementation of Archibus leasing system up to 31 March 2021. Although some of the overpayments were recovered as at February 2022 the cumulative remaining not recovered overpayments amounted to R3 802 787.
2. Effective internal controls were not in place for approval and processing of payments, as required by TR8.1.1 to ensure that correct rental payments for a lease agreement were made and to prevent the overpayments stated above. These controls would have provided management reasonable assurance that rental payments made were necessary for each month and appropriate. The trading entity is likely to incur a material financial loss of R3 802 787.
3. The Accounting Officer was notified of the material irregularity on 03 June 2022 and the following steps have been taken to resolve the material irregularity:

* Consequence management has been implemented to the lease management team as they explained the lack of oversight on lease payments and a verbal warning was issued and accepted by the portfolio manager responsible in July 2021.
* As of July 2021, management captured the lease details on the system correctly for this specific lease agreement, and the lease is currently paid in accordance with the valid lease agreement.
* Management implemented the use of credit notes to deduct any overpayments from future rentals to recover the overpayments. As of February 2023, the amount of R3 802 787 was fully recovered. No further overpayments have been identified since the correction.
* The lease clean-up process was concluded in June 2022 by an external service provider, and as of March 2023, management has implemented controls to detect any lease overpayments, however, concerns in the control environment remain due to the fact that the controls are not effective in preventing overpayments as similar instances were noted on other lease contracts.

1. I will follow up on the implementation of controls, during my next audit.

## Other reports

1. In addition to the investigations relating to material irregularities, I draw attention to the following engagements conducted by various parties. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
2. Numerous allegations, mainly relating to alleged transgressions with regard to supply chain management, potential fraud and financial misconduct, irregularities on day to day maintenance and leases, are still being investigated on an ongoing basis by Special Investigation Unit. These investigation(s) were in progress at the date of this auditor’s report.

Pretoria

21 August 2023



Annexure to the auditor’s report

The annexure includes the following:

* the auditor-general’s responsibility for the audit
* the selected legislative requirements for compliance testing.

### Auditor-general’s responsibility for the audit

#### Professional judgement and professional scepticism

As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements and on the trading entity’s compliance with selected requirements in key legislation.

#### Financial statements

In addition to my responsibility for the audit of the financial statements as described in this auditor’s report, I also:

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

#### Communication with those charged with governance

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

I also provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.

**Compliance with legislation – selected legislative requirements**

The selected legislative requirements are as follows:

| Legislation | Sections or regulations |
| --- | --- |
| Public Finance Management Act No.1 of 1999 (PFMA) | Section 38(1)(a)(iv); 38(1)(b); 38(1)(c); 38(1)(c)(i); 38(1)(c)(ii); 38(1)(d); 38(1)(h)(iii);  Section 39(1)(a); 39(2)(a);  Section 40(1)(a); 40(1)(b); 40(1)(c)(i)  Section 43(4); 44; 44 (1) and (2) ; 45(b);  Section 50(3); 50(3)(a) |
| Treasury Regulations for departments, trading entities, constitutional institutions and public entities (TR) | Treasury Regulation 4.1.1; 4.1.3  Treasury Regulation 5.1.1; 5.2.1; 5.2.3(a); 5.2.3(d); 5.3.1  Treasury Regulation 7.2.1  Treasury Regulation 8.1.1; 8.2.1; 8.2.2; 8.2.3; 8.4.1  Treasury Regulation 9.1.1; 9.1.4  Treasury Regulation 10.1.1(a); 10.1.2  Treasury Regulation 11.4.1; 11.4.2; 11.5.1  Treasury Regulation 12.5.1  Treasury Regulation 15.10.1.2(c')  Treasury Regulation 16A 3.1; 16A 3.2; 16A 3.2(a); 16A 6.1; 16A6.2(a) & (b) & (e); 16A 6.3(a) & (d); 16A 6.3(a)(i); 16A 6.3(b); 16A 6.3(c); 16A 6.3(e); 16A 6.4; 16A 6.5; 16A 6.6; 16A 8.3; 16A8.2 (1) and (2); 16A 8.3(d); 16A 8.4; 16A 9; 16A 9.1;  16A9.1(c); 16A9.1(b)(ii); 16A 9.1(d); 16A 9.1(e); 16A9.1(f); 16A 9.2(a)(ii) &(iii)  Treasury Regulation 17.1.1  Treasury Regulation 18.2  Treasury Regulation 19.6.1  Treasury Regulation 19.8.4 |
| Public service regulation | Public service regulation 13(c );18; 18 (1) and (2); |
| Prevention and Combating of Corrupt Activities Act No.12 of 2004 (PRECCA) | Section 34(1) & section 29 |
| Construction Industry Development Board Act No.38 of 2000 (CIDB) | Section 18(1) |
| CIDB Regulations | CIDB regulation 17; 25(1); 25 (5) & 25(7A) |
| PPPFA | Section 1(i); 2.1(a); 2.1(b); 2.1(f) |
| PPR 2017 | Paragraph 4.1; 4.2  Paragraph 5.1; 5.3; 5.6; 5.7  Paragraph 6.1; 6.2; 6.3; 6.5; 6.6; 6.8  Paragraph 7.1; 7.2; 7.3; 7.5; 7.6; 7.8  Paragraph 8.2; 8.5  Paragraph 9.1; 9.2  Paragraph 10.1; 10.2  Paragraph 11.1; 11.2  Paragraph 12.1 and 12.2 |
| PPR 2022 | Paragraph 3.1  Paragraph 4.1; 4.2; 4.3; 4.4  Paragraph 5.1; 5.2; 5.3; 5.4 |
| PFMA SCM Instruction no. 09 of 2022/2023 | Paragraph 3.1; 3.3 (b); 3.3 (c ); 3.3 (e ); 3.6 |
| National Treasury Instruction No.1 of 2015/16 | Paragraph 3.1; 4.1; 4.2 |
| NT SCM Instruction Note 03 2021/22 | Paragraph 4.1; 4.2 (b); 4.3; 4.4 (a) -(d); 4.6  Paragraph 5.4  Paragraph 7.2; 7.6 |
| NT SCM Instruction 4A of 2016/17 | Paragraph 6 |
| NT SCM Instruction Note 03 2019/20 | Par 5.5.1(vi); Paragraph 5.5.1(x); |
| NT SCM Instruction Note 11 2020/21 | Paragraph 3.1; 3.4 (a) and (b); 3.9; 6.1;6.2;6.7 |
| NT SCM Instruction note 2 of 2021/22 | Paragraph 3.2.1; 3.2.2; 3.2.4(a) and (b) ; 3.3.1; 3.2.2  Paragraph 4.1 |
| PFMA SCM Instruction 04 of 2022/23 | Paragraph 4(1); 4(2); 4(4) |
| Practice Note 5 of 2009/10 | Paragraph 3.3 |
| PFMA SCM instruction 08 of 2022/23 | Paragraph 3.2  Par. 4.3.2; 4.3.3 |
| Competition Act | Section 4(1)(b)(ii) |
| NT instruction note 4 of 2015/16 | Paragraph 3.4 |
| NT instruction 3 of 2019/20 - Annexure A | Section 5.5.1 (iv) and (x) |
| Second amendment of NTI 05 of 2020/21 | Paragraph 4.8; 4.9 ; 5.1 ; 5.3 |
| Erratum NTI 5 of 202/21 | Paragraph 1 |
| Erratum NTI 5 of 202/21 | Paragraph 2 |
| Practice note 7 of 2009/10 | Paragraph 4.1.2 |
| Practice note 11 of 2008/9 | Paragraph 3.1  Paragraph 3.1 (b) |
| NT instruction note 1 of 2021/22 | Paragraph 4.1 |
| Public Service Act | Section 30 (1) |
|  |  |