**ANNEXURE B: MATERIAL FINDINGS RELATING TO OTHER FINANCIAL STATEMENT AREAS**

**PROPERTY MANAGEMENT TRADING ENTITY**

**31 March 2016**

**CONTENT**

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**Section 1: Matrix of detailed audit findings**

| **Page no.** | **Finding** | **Classification** | | | | | **Rating** | | | **Number of times reported in previous three years** | **Status of implementation of previous year(s) recommendation** |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Misstatements in financial statements** | **Misstatements in annual performance report** | **Non-compliance with legislation** | **Internal control deficiency** | **Service delivery** | **Matters affecting the auditor’s report** | **Other important matters** | **Administrative matters** |
| **Capital commitments** | | | | | | | | | | | |
|  | COFF 44A - Capital commitments overstated: Cancelled contracts that are disclosed as commitments | **X** |  |  |  |  | **X** |  |  |  |  |
|  | COFF 8TJ - Capital commitments overstated: Cancelled contracts that are disclosed as commitments | **X** |  |  |  |  | **X** |  |  |  |  |
|  | COFF 6TU - Capital commitments overstated: Cancelled contracts that are disclosed as commitments | **X** |  |  |  |  | **X** |  |  |  |  |
| **Deferred revenue** | | | | | | | | | | | |
|  | COFF 13D - Deferred revenue not transferred to revenue for completed project | **X** |  |  |  |  | **X** |  |  |  |  |
| **Accrued expenses** | | | | | | | | | | | |
|  | Expenditure incurred in the current year not accrued for in the current financial year | **X** |  |  |  |  | **X** |  |  | 3 | In progress |
|  | Accruals: Proof of services rendered for WCS Accruals not submitted for audit purposes | **X** |  |  |  |  | **X** |  |  | 3 | In progress |
|  | Accruals: Payment advices for Accrual assets not submitted for audit purposes | **X** |  |  |  |  | **X** |  |  | 3 | In progress |
|  | Municipal Services: Invalid accrual raised and included in accruals listing | **X** |  |  |  |  | **X** |  |  | 3 | In progress |

**SECTION 2: DETAILED FINDINGS**

Capital commitments

1. **Capital commitments overstated: Cancelled contracts that are disclosed as commitments**

**Audit finding**

Public Finance Management Act section 40(1)(a), and 40(1)(b) of the PFMA states that the accounting officer for a department, trading entity or constitutional institution  must prepare financial statements for each financial year in accordance with generally recognized accounting practice;”

Generally Recognised Accounting Policy 1, paragraph 19(b) states the following:

*“fair presentation requires an entity to present information including accounting policies, in a manner which provides relevant, reliable, comparable and understandable information.”*

Generally Recognised Accounting Policy 17, paragraph 81(c) states the following

*The financial statements shall also disclose for each class of property, plant and equipment recognised in the financial statements, the amount of contractual commitments for the acquisition of property, plant and equipment*

During the audit of capital commitments we noted the following:

The capital commitments relating to the projects below were disclosed in the annual financial statements (AFS) of 31 March 2016. Upon inspection of the supporting documents relating to these projects, it has been confirmed that they were cancelled prior to year end.

WCS 046424 (Pretoria - COFF 44A)

The contractor had been placed *In Mora1* on 20 June 2013. A notice of intention to terminate the contractor was then issued on 22 August 2014. After the contractor failed to implement their recovery plan that they had committed to, a final notice to cancel the contract was issued on 15 September 2014.

As per discussion with the project manager, DPW along with DCS (client department) is currently in the process of preparing for a replacement new contractor to be on site.

WCS 046705 (Umtata – COFF 6TU)

Upon inspection of the supporting documents relating to project WCS 046705, it has been determined that the project was cancelled. We have further inspected an internal memorandum from legal services to the regional manager, which states that this project was subject of litigation after it was awarded to TBP Civils Building & Civils (Pty) Ltd and after the site was handed over to TBP on 04/03/2011. Azcon Projects then launched an application in the Mthatha High Court challenging the award of the tender to TBP. Azcon was successful in its challenge and the award was thus set aside by the court on 28/07/2011

WSC 046647 (Johannesburg – COFF 8TJ))

Mercy Civils and Building cc did not diligently carry out contractual responsibilities of completing the repairing and renovations of the Brakpan Police Station and was finally removed from the site before the work could be completed and replaced by Risimati Stevens Constructions cc. There should be no commitment for Tender JHB11/30 as the Contractor were removed

|  |  |  |  |
| --- | --- | --- | --- |
| **WCS Number** | **Supplier Name** | **Project description** | **Total Commitments per Schedule** |
| 046424 | Keren Kula Construction (Pty) Ltd | Upgrading of an Existing C-MAX Facility | R30 535 662 |
| 046705 | TBP Civil Building (Pty) Ltd | Repairs and renovation of police camp including electrical and civil works | R100 170 507.59 |
| 046647 | Mercy Civils and Building | Repair and renovation to barracks at police station | R8 978 932.18 |
| **TOTAL** | | | **R139 685 101.77** |

The aforementioned findings result in the overstatement of capital commitments by R139 685 101.77.

**Internal control deficiency**

Financial and performance management

The entity 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.

**Recommendation**

The schedules supporting capital commitments the financial statements should be reviewed for accuracy and completeness by senior management prior to submission for audit.

**Management response**

WCS 046424 (Pretoria)

Management is in agreement with the finding for the following reasons:

The previous contract was cancelled due to non-performance by the contractor and the contractor was eventually liquidated, the Project Manager then advertised a replacement contract in November 2016 with the plan to award it early January 2016. The commitment was left with the intension to award and spend on it, in the fourth quarter of 201516 of the year, but due to external processes the award of the tender was delayed as a result the commitment was reported.

*Name:* M Dondashe

*Position: Acting RM*

*Date: 2016/07/18*

WCS 046705 (Umtata)

The Management is not in agreement with the finding but the following should be noted:

* The commitment amount for the Contractor will remain as a commitment until a replacement Contractor is appointed. It is after the replacement Contractor that the commitment funds will be removed and used on contract two (2).
* It should be noted that by cancelling the first contract does not mean that the project has been closed.
* Works Control System does not allow de-commitment of funds on first contract until the second contractor is appointed.
* The process of appointing second contractor is on evaluation stage

*Name:* Mr. R. Matlala

*Position: Acting RM*

WSC 046647 (Johannesburg)

I am in agreement with the finding for the following reasons:

Contractor one defaulted and was removed on site. Contractor two was appointed but Projects Budget Administration and Projects Management incorrectly updated contract amount for completion of the project as additional funds and never moved residue funds from contract one as required.

*Name:* I Molosi

*Position:* Director Projects

*Date:* 24/06/2016

**Auditor’s response**

Deferred Revenue

1. **Deferred revenue not transferred to revenue for completed project (COFF 13D)**

**Audit finding**

Public Finance Management Act section 40(1) (b) of the PFMA states that*, “the*

*Accounting officer must prepare financial statements for each financial year in accordance with generally recognized accounting practice.”*

During the audit of deferred revenue the following misstatement was noted:

The project below was disclosed as being at status 5B (construction stage) in the schedule accompanying the financials. It was thus included in deferred revenue for the 2015/16 financial year.

As per inspection of the final completion certificate, we noted that the project had been completed prior to year end, as the completion certificate indicated that final delivery of service was taken on 30 November 2015. Thus all amounts recognised as deferred revenue in relation to this project should have been recognised as revenue in the 2015/16 financial period.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **WCS Numbers** | **Client Department** | **2016 Status** | **Restated Expenditure for**  **FY 2015/ 2016** | **Total expenditure incurred in relation to this project** |
| 25759 | SA POLICE SERVICE | 5B | 3 533 407 | 125 974 364 |

This will result in the overstatement of Deferred revenue, and an understatement of Accommodation charges: freehold intergovernmental to the amount of R125 974 364.00.

**Internal control deficiency**

Financial and performance management

The WCS system is not timeously updated as projects are completed.

**Recommendation**

Management should ensure that the WCS system is updated as soon a project reaches a new stage and a completion certificate is signed,

**Management response**

Management is in agreement with the finding and as a result management has reviewed the correctness of statuses for the entire population of assets under construction. As a result of the review, the following projects with incorrect statuses were identified and the statuses will be adjusted on WCS and AUC, PPE and depreciation will be adjusted accordingly:

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **No.** | **WCS No** | **REGION** | **PROJECT DESCRIPTION** | **Status on WCS 2016/03/31** | **Correct Status** | **Date of practical completion** | **Period capitalised** | **Amount Capitalised** | **Depreciation 2015** | **Depreciation 2016** |
| 1 | 051650 | CPT | 120 PLEIN: 11TH FLOOR COGTA - CONVERT ABLUTION TO DISABLED FRIENDLY ABLUTION | 5B | 6A | 2015-12-03 | 2016 | R 5 463 348,75 | 0 | R 59 373,38 |
| 2 | 025759 | CPT | REPAIR AND RENOVATION TO STATION. UPGRADING OF EXISTING CELL S. DEMOLISH STRUCTURES. CONSTRUCTION OF FACILITIES. | 5B | 7 | 26-Nov-14 | 2015 | R 125 974 364.00 | R 1 501 604.09 | R 4 199 145.48 |
| 3 | 037644 | DBN | SECURITY MEASURES, FENCING AND LIGHTING | 5B | 7 | 07-Jul-15 | 2016 | R 20 206 848,23 | 0 |  |
| 4 | 51564 | BFN | EDENBURG,,PRISON,IMPLEMENTATION OF EMERGENCY BACK-UP POWER SUPPLY | 5B | 7 | 2015-03-30 | 2015 | R 494 283,99 | R 54,17 |  |
| 5 | 51565 | BFN | FAURESMITH,,PRISON,IMPLEMENTATION OF EMERGENCY BACK-UP POWER SUPPLY | 5B | 7 | 2015-04-02 | 2016 | R 401 387,30 |  | R 16 011,50 |
| 6 | 51566 | BFN | FICKSBURG,,PRISON,IMPLEMENTATION OF EMERGENCY BACK-UP POWER SUPPLY | 5B | 7 | 2015-11-30 | 2016 | R 507 585,00 |  | R 6 786,34 |
| 7 | 51571 | BFN | HENNENMAN,,PRISON,IMPLEMENTATION OF EMERGENCY BACK-UP POWER SUPPLY | 5B | 7 | 2015-04-01 | 2016 | R 624 307,64 |  | R 24 972,31 |
| 8 | 51576 | BFN | LADYBRAND,,PRISON,INSTALLATION OF BACK UP POWER GENERATOR | 5B | 7 | 2015-04-01 | 2016 | R 395 204,15 |  | R 15 808,17 |
| 9 | 51587 | BFN | WINBURG,,PRISON,INSTALLATION OF BACK UP POWER GENERATOR AT WINBURG PRISON | 5B | 7 | 2015-11-30 | 2016 | R 399 847,89 |  | R 5 345,91 |
| 10 | 49914 | BFN | BLOEMFONTEIN,,,TEMPE AREA MILITARY HEALTH UNIT: REPAIR & RENOVATION TO BUIL DINGS 427 & 537 | 5B | 6A | 2015-12-22 | 2016 | R 454 545,68 |  | R 4 981,32 |
|  |  |  |  |  |  |  |  | **R 154 921 722.63** | **R 1 501 658.26** | **R 4 332 424.41** |

Name: N Vilakazi

Position: Regional Manager

Date: 2016-07-12

**Auditor’s response**

Accrued Expenses

1. **Expenditure incurred in the current year not accrued for in the current financial year**

**Audit finding**

Laws, rules and Regulations:

Chapter 5 of the Public Finance Management Act (PFMA) Section 40 stipulates 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;

Paragraph 37 of the GRAP Framework for the Preparation and Presentation of Financial Statements states –

Financial statements should be prepared on the accrual basis of accounting. Under this basis, the effects of transactions and other events are recognised when they occur (and not as cash or its equivalent are received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate.

**Nature**

The following payments made after year end were not included in the accrual listing for the financial year ended 31 March 2016, although the services were rendered / goods received prior to year end:

*Property maintenance*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Region** | **Number** | **Description** | **Date services rendered / goods received** | **Amount** |
| Durban | ZAPNV1604S1004192383 | Invoice Mthulisi Msimang archi | 19-Nov-15 | 507 976.44 |
| Durban | ZAPNV1604S1004195534 | Invoice Skhula sazi trading (p | 17-Mar-16 | 20 358.00 |
| Durban | AG450593 | Repairs to carrier chiller cooling tower - Muzansi Trading Enterprise cc | 12-Jun-15 | 626 478.00 |
| Mthatha | NHP03 | Nhuse Construction | 12-Jan-16;19-Feb-16 | 8 105.18 |
| Cape Town | DPI 35724741 | EOH Security and Building Technologies | 11/26/2016 | 35 999.11 |
| Cape Town | C03414 | Roy’s Oil & Gas cc | 2/8/2016 | 11 525.42 |
| Cape Town | 901396 | Gsiv System Pty Ltd | 1/23/2016 | 96 808.80 |
| Cape Town | 901425 | Gsiv System Pty Ltd | 3/23/2016 | 48 564.00 |
| Cape Town | J1499 | Andy’s Boiler and Burner Services cc | 2/25/2016 | 20 064.00 |
| Cape Town | IN10251 | Majiet Builders cc | 10/19/2015 | 48 705.00 |
| Cape Town | J1470 | Andy’s Boiler and Burner Services cc | 2/25/2016 | 20 064.00 |
| Cape Town | 0398 | M Batchelor Building Services | 2/22/2016 | 98 915.00 |
| Cape Town | D9005168 | Dhanesh Electrical | 6/27/2012 | 2 129.18 |
| Cape Town | C03421 | Roy’s Oil & Gas cc | 3/8/2016 | 7 167.83 |
| Cape Town | 2583 | Inyameko Trading 1442 cc | 5/4/2016 | 40 459.32 |
| Cape Town | IN10264 | Majiet Builders cc | 2/2/2016 | 49 145.00 |
| Cape Town | 901394 | Gvis Systems Pty Ltd | 2/24/2014 | 58 140.00 |
| Cape Town | PC3240 | A.E. Electrical | 1/22/2016 | 19 199.03 |
| Cape Town | PC3234 | A.E. Electrical | 1/28/2016 | 20 839.20 |
| Cape Town | G048030 | Kroucamp plumbers cc | 2016/02/18 | 30 438.00 |
| Cape Town | F999621 | Stainless concept | 2015/11/26 | 197 701.94 |
| Cape Town | G053522 | Stainless concept | 2016/02/08 | 175 618.37 |
| Cape Town | G053432 | Gsiv system | 2016/03/30 | 130 600.00 |
| Pretoria | G 019318 | Lefatshe la Rona trading 7 project 324 | 2015/11/03 | 400 796.34 |
| Pretoria | G 019318 | Lefatshe la Rona trading 7 project 324 | 2015/10/01 | 398 493.57 |
| Mmabatho | 82 | Shimai construction & projects | 31/03/2016 | 188 981.69 |
| Mmabatho | 2 | Sheppads Ave Media Productions | 22/03/2016 | 415 540.00 |
|  |  |  | **Total** | **3 678 812.42** |

*Accrual Assets*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Region** | **Number** | **Description** | **Date services rendered / goods received** | **Amount** |
| Durban | 253224 | Rehabilitation of old bulwer prison – Aimqs | 01-Mar-16 | 449 552.25 |
| Cape Town | P-252853 | MV Abayili | 2016/03/31 | 160 202.03 |

*Rates and Taxes*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Region** | **Number** | **Description** | **Date services rendered / goods received** | **Amount** |
| Durban | 02315574-16-03 | City of uMhlathuze | 18-Dec-15 | 3 989.97 |
| Durban | 7003044 | Kwadukuza Municipality | 07-Aug-15 | 31 703.40 |
| Durban | 83230900824 | Ethekwini municipality | 10-Jul-15 | 5 435.63 |
| Cape Town | 3192137 | George Municipality | 2016/03/22 | 118 468.07 |
| Cape Town | 3192137 | George Municipality | 2016/03/22 | 12 632.31 |
| Cape Town | 3192494 | Mossel Bay Municipality | 2016/03/16 | 1 949.88 |
| Cape Town | 3192494 | Mossel Bay Municipality | 2016/03/16 | 3 143.12 |
| Nelspruit | 255884 | Steve Tshwete Municipality (1557) | 1 Jul 15 – 30 Jun 16 | 67 233.30 |
| Nelspruit | 292972 | Steve Tshwete Municipality (1557) | 1 Jul 15 – 30 Jun 16 | 319 390.75 |
| Mmabatho | 113 | Ventersdorp local municipality | 3/18/2016 | 7 041 373.00 |
| Port Elizabeth | 509589 | TSOLWANA LOCAL MUNICIPALITY | 1 Jul 15 – 30 Jun 16 | 4 753.18 |
| Port Elizabeth | 544445 | BUFFALO CITY METROPOLITAN MUNI | 1 Jul 15 – 30 Jun 16 | 6 185.19 |
|  |  |  | **Total** | **7 616 257.80** |

**Risk and impact**

a)

1. Understatement of Property Maintenance Expenditure and Accrued expenses - Maintenance
2. Understatement of Accrual Assets
3. Understatement of Property rates expenses and Accrued expenses-property rates

b) Non-compliance with Public Finance Management Act paragraph 40.

**Internal control deficiency**

*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 implementation of a full accrual accounting system should be expedited to ensure all transactions are accounted for in terms of GRAP.
2. Management should review the accruals listing to ensure that all required transactions have been correctly accounted for.
3. Management should enhance review of the financial statements prior to submission for audit purposes and ensure that all information that is included in the financial statements is complete and presented fairly.
4. Management should update and adjust the accrual listings and annual financial statements, based on their determination and audit finding raised.

**Management response**

**Durban**

There is agreement with the audit finding. Due to oversight the invoices were not recorded as accruals. The department is in the process of rolling out an ERP accounting system. This will ensure that all accruals are identified and recorded.

**Mthatha**

Agree with the audit finding, the Invoices were erroneously missed on the compilation of Accruals which resulted to understatement of accruals in the Annual Financial Statements. Finding is an isolated event and the annual financial statements will be adjusted, journals crediting Accruals will be raised.

**Cape Town**

I am in agreement with the finding. The amounts as indicated above were erroneously omitted from the accruals listing due to high volumes of transactions that had to be captured.

**Nelspruit**

All the amounts on the above tables are correctly classified as they are restated amounts for invoices processed before the end of the 2014/2015 financial year. It should be noted that we can only account for only three months of the financial year due to the fact that by 31/03/2015, the amounts were already processed and paid.

**Mmabatho**

I am in agreement with the finding for the following reasons: Payment processing was compiled during the financial year end; the authorization was effected in the subsequent financial year, submission of documentation to Finance for accounting was periodically delayed due to afore grounds.

**Port Elizabeth**

Management is partially in agreement with the finding.

These amounts were omitted in the amount provided for back log rates and taxes. Management will evaluate its processes to ensure all known outstanding balances are included when raising its accruals.

1. **Accruals: Proof of services rendered for WCS Accruals not submitted for audit purposes**

**Audit finding**

Chapter 5 of the Public Finance Management Act (PFMA) section 40(1)(a) stipulates that:

*“the accounting officer for a department must keep full and proper records of the financial affairs of the department in accordance with any prescribed norms and standards, section 41 furthermore states that an accounting officer of a department 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*”.

Paragraph 15 of the Public Auditing Act states that:

*“the Auditor-General has at all reasonable times full unrestricted access to:*

1. *Any document, book or written or electronic record or information of the auditee or which reflects or may elucidate the business, financial results, financial position or performance of the auditee;*
2. *any of the assets of or under the control of the auditee; or*

*any staff member or representative of the auditee”*.

**Nature**

The accruals were requested as per Request 34A of 2015/16 on 14 June 2016.

The documents proving that the services were rendered have not been received for audit purposes to date for the following:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Number** | **Invoice date** | **WCS Number** | **Name Service Provider** | **Type of accrual** | **Date when services were rendered** | **Accrual Amount [R]** |
|
|
| 1 | 2016/02/23 | 041658 | KM Architects | WCS Accruals | Not indicated | 37 524.24 |
| 2 | 2015/11/30 | 053347 | Coega Development Corporation | WCS Accruals | Not indicated | 3 620 542.50 |
| 3 | 2016/03/11 | 053347 | Coega Development Corporation | WCS Accruals | Not indicated | 284 708.00 |

**Impact**

More findings of this nature could have a limitation of scope impact on the audit report.

**Internal control deficiency**

## Financial and performance management

Proper record keeping and record management could be a problem within the department as requested information was not available and supplied within a reasonable timeframe.

The contractors responsible for the project do not sign and send through the proof of services being rendered to the department within a reasonable time frame.

**Recommendation**

* Management should provide the required information as a matter of urgency.
* Management should follow up and ensure that the contractors and client departments send through the Proof of services being rendered within a reasonable time frame

**Management response:**

Management is in agreement that the batches was not provided at the time that the auditors requested for it. However, the batches has been been located and are available for auditing (please refer to the attachment)

Attached are the documents in question.

**Revised management response**

During discussions with the AG held on the 27 July 2016, the AG indicated that the supporting documents provided to them only reflected the invoices associated with these accruals. The AG was not satisfied with only invoices as proof that a valid obligation exists.

Management is not in agreement with the AG’s assessment.

One of the sources utilised by management to identify and record accruals is valid invoices. Where it is not clear when the work has been performed, then the invoice date should be utilised. This is in accordance with PMTE’s Accruals Apportionment policy, paragraph 5.1.4 states:

*Where an invoice is received subsequent the end of the reporting period for services delivered, and it is not clear from the relevant source documentation that the services was rendered during th*e current period, then the full invoice is allocated to the period per the date of the invoice.

In addition, it should be noted that the accrual amounting to R 37 524.24 for WCS 041658 was not included in the RFI 24A dated 14 June 2016, however management provided the supporting invoice for the item in response to the finding.

1. **Accruals: Payment advices for Accrual assets not submitted for audit purposes**

**Audit finding**

Chapter 5 of the Public Finance Management Act (PFMA) section 40(1)(a) stipulates that:

*“the accounting officer for a department must keep full and proper records of the financial affairs of the department in accordance with any prescribed norms and standards, section 41 furthermore states that an accounting officer of a department 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*”.

Paragraph 15 of the Public Auditing Act states that:

*“the Auditor-General has at all reasonable times full unrestricted access to:*

1. *Any document, book or written or electronic record or information of the auditee or which reflects or may elucidate the business, financial results, financial position or performance of the auditee;*
2. *any of the assets of or under the control of the auditee; or*

*any staff member or representative of the auditee”*.

**Nature**

The following payments were requested as per Request 39A of 2015/16 on 24 June 2016.

The payments have therefore not been received to date.

| **Number** | **WCS No** | **PROVINCE** | **Client Department** | **DESCRIPTION** | **Link to IAR - Property Code** | **2014/ 2015 Accrual based on payments post capitalisation date[R]** |
| --- | --- | --- | --- | --- | --- | --- |
| 1 | 45856 | PRETORIA | DEFENCE | GENERAL PIET JOUBERT TRAINING AREA: MURRAY HILL: SPECIAL FOR CES SCHOOL: REPAIR AND RENOVATIONS TO SEWERAGE, ELECTRICAL A ND WATER SUPPLY SYSTEMS | 029880 | 3 545 819.93 |
| 2 | 45639 | PRETORIA | DPW - PRESTIGE | HERITAGE - CONSTRUCTION OF OUTER BOUNDARY FENCE | 3120100 | 6 711 849.78 |
| 3 | 47901 | PRETORIA | DPW - DEPARTMENTAL | DPW MINNAAR STREET WORKSHOPS - PHASE ONE UPGRADE AND REFURBISHMENT | 017511 | 585 803.07 |
| 4 | 50745 | PRETORIA | GOVERNMENT PRINTING WORKS | SECURITY WALL FOR GOVERNMENT PRINTING WORKS AT VISAGIE STREET | 2778260 | 1 601 072.51 |
| 5 | 48495 | PRETORIA | ARTS AND CULTURE | HERITAGE - UPGRADING OF FIRE PROTECTION SYSTEM AND REFURBISH MENT OF HVA C AND RELATED INSTALLATIONS | 042280 | 42 567 150.48 |
| 6 | 48985 | PRETORIA | CORRECTIONAL SERVICES | ZONDERWATER MED A, ZONDERWATER MED B AND ZONDERWATER TRAININ G COLLEGE : IMPLEMENTATION OF EMERGENCY BACK-UP POWER SUPPLY | 028520 | 109 689.27 |
| **Total** | | | | | | **55 121 385.04** |

**Impact**

More findings of this nature could have a limitation of scope impact on the audit report.

**Internal control deficiency**

## **Financial and performance management**

Proper record keeping and record management could be a problem within the department as requested information was not available and supplied within a reasonable timeframe.

**Recommendation**

Management should provide the required information as a matter of urgency.

**Management response:**

Management is in agreement that the documents were not provided at the time that the auditors requested for it. However, the documents have been located and are available for auditing. The documents can be audited is room 445 and 435 AVN.

1. **Municipal Services: Invalid accrual raised and included in accruals listing.**

**Audit finding**

Laws, rules and Regulations:

Chapter 5 of the Public Finance Management Act (PFMA) Section 40 stipulates 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 department’s Payable management system states that:

*“Municipal services: an accrual is raised on municipal accounts issued in arrears for electricity, water, refuse and sewerage for state owned and leased properties.*

*a) To ensure completeness, the total database of municipal service payments made during the reporting period is analysed in order to identify the period of the financial year that municipal services was not paid for. A best estimate is then assessed to raise an accrual thereon.”*

**Nature**

An accrual was not raised based on the last invoice received during the year as prescribed by the payables management system and payment had already been made before the year end 31 March 2016 for the following:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Number** | **Supplier name** | **Accrual Description** | **Invoice number** | **Invoice received date** | **Date when goods and services received** | **Payment date** | **Accrual amount [R]** |
| 1 | DELTA PROPERTY FUND LTD - HALL | Municipal services: Electricity | 05910001/201507 | 18-Jun-15 | 16/04/2015-14/05/2015 | 26-Jun-15 | 5 805 746.61 |
| 2 | DELTA PROPERTY FUND LTD - HALL | Municipal services: Electricity | 05910001/201604 | 22-Mar-16 | 12/01/2016-10/02/2016 | 24-Mar-16 | 1 148 395.68 |

**Impact**

This will result in an overstatement of accruals by R 6 954 142.29

**Internal control deficiency**

## Financial and performance management

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

Management did not review the supporting documentation on the payment batch prior to populating the accrual listing

**Recommendation**

* Management should ensure that all information is captured correctly in the schedules supporting the financial and all schedules are reviewed by a second person to ensure that it has been recorded correctly.
* The supporting documentation for the items on the accrual listing should be reviewed prior to populating the accrual listing

**Management response**

*Management is in agreement with the finding as indicated in the table below and will make the necessary adjustments in the financial statements of 31 March 2016.*

***Journal Entry:***

*DT: Accounts Payables – R 6 954 142.29*

*CT: Municipal services: Electricity – R 6 954 142.29*