**DETAILED AUDIT FINDINGS**

**ANNEXURE A: MATTERS AFFECTING THE AUDITOR’S REPORT**

Procurement and contract management

1. **Procurement: competitive bidding – Bidvest Managed Solution (Pty) Ltd**

**Audit finding**

Instruction note 32 section 3.2.1 states that within ten (10) working days after the closure of any advertised competitive bid, institutions must publish on its website the names of all bidders that submitted bids in relation to that particular advertisement. Where practical, institutions must also publish the total price and the preferences claimed by the respective bidders. The information should remain on the website for at least thirty (30) days. The details of the winning bidder, contract number and description, preference claimed and contract price must also be published in the government tender bulleting.

PPR 4(5) states that tender that achieve the minimum qualification score for functionality must be evaluated further in terms of preference point systems prescribed in regulation 5 and 6.

Preferential Procurement Regulation paragraph 6 (1) states that the 90/10 preference point system for acquisition of services, works or goods with a Rand value above R1 million. The following formula must be used to calculate the points for price in respect of tenders with a Rand value above R1 000 000 (all applicable taxes included):

|  |  |
| --- | --- |
| |  | | --- | | Ps= 90  1-  Pt – Pmin | |
| Pmin |

Ps     = Points scored for comparative price of tender or offer under consideration;

Pt      = Comparative price of tender or offer under consideration; and

Pmin = Comparative price of lowest acceptable tender or offer.

Preferential Procurement Regulation paragraph 6 (5) states that the contract must be awarded to the tenderer who scores the highest total number of points

Preferential Procurement Policy Framework Act 2(1)(f) states that if the supplier scoring the highest points was not selected, objective criteria was used to justify that reasonable grounds exist not to select the tender with the highest points.

The following discrepancies were identified:

|  |  |  |  |
| --- | --- | --- | --- |
| **Number** | **Name** | **Tender number** | **Tender amount** |
| 1 | Bidvest Managed Solution (Pty) Ltd | PT15/078 | R12 648 021.45 |

No evidence was provided that the names of all bidders who submitted bids in relation to the advertisement were published on the website within ten (10) working days after the closure of the advertised bid and remained on the website for a minimum of thirty (30) days.

The following two bidders achieved the minimum qualification score of 50%, but were not evaluated further in terms of preference point systems:

1. Just Design Landscaping and Maintenance: functionality score 89%
2. Biz Africa Consultants: functionality score 89%

Consequently the points calculated in terms of the preference point system were incorrectly calculated and the contract wasn’t awarded to the tenderer who scored the highest total number of points namely Just Design Landscaping and Maintenance:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Number** | **Name** | **Points allocated** | **Points recalculated** | **Difference** |
| 1 | Bidvest Managed Solution (Pty) Ltd | 99.00 | 91.95 | 7.05 |
| 2 | Elphan-te Trading (Pty) Ltd | 81.31 | 73.58 | 7.73 |
| 3 | Servest (Pty) Ltd | 89.07 | 81.32 | 7.75 |
| 4 | Just Design Landscaping and maintenance | - | 98.00 | (98.00) |
| 5 | Biz Africa Consultants | - | 96.40 | (96.40) |

**Risk**

Non-compliance with laws and regulations resulting in irregular expenditure

**Internal control deficiency**

## Leadership

Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored.

The entity does not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Although management did develop action plans to address internal control deficiencies, they were not effective to prevent non-compliance with applicable laws and regulations.

Financial and performance management

Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored.

**Recommendation**

Management should ensure that the entity complies with all applicable laws and regulations.

Management must develop policies and procedures to ensure compliance with all prescribed laws and regulations.

A compliance checklist should be completed and reviewed before the payment is approved to ensure that the correct procurement process was followed.

Should the expenditure be regarded as irregular expenditure, the department must follow up and take appropriate steps against the applicable individuals as section 38(i)(h)(iii) of the PFMA states that "the Accounting Officer for the department must take effective appropriate disciplinary steps against any official in the service of the department, trading entity or constitutional institution who— makes or permits an unauthorised expenditure, irregular expenditure or fruitless and  wasteful expenditure".

**Management response**

Awaiting management comments

**Auditor’s conclusion**

Awaiting management comments

1. **Procurement: Investigations not finalized timely**

**Audit finding**

Treasury Regulation 4.1 states that 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. The accounting officer must ensure that such an investigation is instituted within 30 days from the date of discovery of the alleged financial misconduct.

Treasury Regulation 16A9.1 (b) states that the accounting officer must investigate any allegations against an official or other role player of corruption, improper conduct or failure to comply with the supply chain management system, and when justified take steps against such official or other role player and inform the relevant treasury of such steps; and report any conduct that may constitute and offence to the South African Police Service.

Section 38 of the PFMA states 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 makes or permits an unauthorised expenditure, irregular expenditure or fruitless and wasteful expenditure.

Treasury regulation 16A3.2 (d)(iv) states that a supply chain management system must provide  at least regular assessment of supply chain performance.

During discussions held with the SCM unit we were informed that the supply chain management (SCM) unit performance is not regularly analysed and monitored to determine whether the proper processes have been followed and whether the desired objectives were achieved. This is substantiated by the number of non-compliances with laws and regulations identified.

The following cases per the allegation register (as at 15 January 2016) were not finalised timely:

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Status update on the investigations conducted from 2009/10 to 2015/16 financial years as at 15 January 2016** | | | | | | | | | |
| **Status** | **2009/10** | **2010/11** | **2011/12** | **2012/13** | **2013/14** | **2014/15** | **Total as at 31 March 2015** | **2015/16** | **Total from 1 April 2015 to current** |
| Finalised | 28 | 24 | 60 | 46 | 27 | 23 | 208 | 6 | **214** |
| Internal reporting stage | 0 | 0 | 2 | 2 | 4 | 5 | 13 | 5 | **18** |
| Field work | 0 | 0 | 1 | 4 | 7 | 7 | 19 | 17 | **36** |
| Referral - SIU | 7 | 3 | 4 | 1 | 7 | 3 | 25 | 13 | **38** |
| Referral - SAPS | 0 | 0 | 0 | 2 | 0 | 1 | 3 | 0 | **3** |
| Other departments | 0 | 0 | 1 | 2 | 0 | 0 | 3 | 0 | **3** |
| Referral - business Unit | 0 | 1 | 11 | 1 | 5 | 0 | 18 | 0 | **18** |
| Not started | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| **TOTAL** | **35** | **28** | **79** | **58** | **50** | **39** | **289** | **41** | **330** |

Notes about cases not being finalised timely:

1. Thirteen cases ranging from 2011/12 to 2014/15 are still at internal reporting stage. The five cases reported in 2015/16 were reported between June 2015 and July 2015 and are therefore almost 8 months ago old without being finalised
2. Nineteen cases are still in fieldwork stage ranging from 2011/12 to 2014/15. Of the 17 cases in 2015/16, 14 were reported between May 2015 and September 2015 and are between 4 and 9 months old without being finalised.
3. Twenty five cases ranging from 2009/10 to 2014/15 were referred to the SIU and is still not finalised. Of the 13 cases in 2015/16, 14 were reported between May 2015 and September 2015 and are between 4 and 9 months old without being finalised.
4. Three cases ranging from 2012/13 to 2014/15 were referred to the SAPS and is still not finalised.
5. Twenty one cases ranging from 2010/11 to 2013/14 were referred to other departments or business units and is still not finalised.

**Risk**

Losses or damages suffered by the department might not be recoverable due to investigations not being performed timeously.

None compliance with laws and regulations

**Internal control deficiency**

## Leadership

The entity does not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Financial and performance management

Non-compliance with Treasury Regulation 16A3.2 (d)(vi) which will result proper processes not being followed and the desired objectives will not be achieved.

Non-compliance with laws and regulations resulting in irregular and fruitless and wasteful expenditure.

**Recommendation**

Management should ensure that investigations are performed timeously in order to ensure that losses and damages are recovered where necessary.

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Long outstanding investigations should be monitored and reported to the accounting officer.

The supply chain management unit's performance must be regularly assessed and analysed to ensure the proper processes are being followed and the desired objectives are achieved.

**Management response**

The Department as part of its Turn-Around Strategy has built the necessary capacity to institute investigations within 30 days of receipt of allegations as per the Department of Public Works Annual Performance Plan; this is in accordance with the National Treasury Regulation which requires investigations to be instituted within 30 days of allegations being reported. Measures implemented include amongst others appointment of a panel of forensic services providers, use of secondments to expedite the investigations. The chart below seeks to emphasize the progress that has been achieved in terms of clearing the backlog of cases reported and finalised as a result of the implementation of the measures highlighted above.

The nature of investigations are that it is not always possible to complete them within the desired time frames as they are dependent on a number of factors that are not always under the control of the investigator which will have a major impact in terms of the completion period e.g lack of documents/information, absence/unavailability of key role players etc.

Of the total number of 334 allegations reported to the Unit responsible for investigations for the period 2009/10 financial year to date, 219 were finalised and 33 are at internal reporting stage, 16 are at field work and 66 were referred to the SIU/SAPS/Prov Department or Business Units.

Under the leadership of the Deputy Director General: Governance, Risk and Compliance regular engagements are currently held with the Special Investigating Unit (SIU) to ensure that cases referred to them are finalised and for those that will be transferred to the various Proclamations issued to them by the Presidency, close-out reports are submitted to the Department to enable this cases to be closed on the Register of Allegations maintained by the Department.

The Department has further sent correspondences to the South African Police Services (SAPS) to request feedback / progress update on all cases reported to them for further investigation.

Regardless of the above measures, it is worth indicating that unfortunately for the Department once matters are referred to SAPS and the SIU has no control in respect of the time-frames for completing such investigations. The Department does however conduct follow-ups with these Agencies from time to time to establish progress.

In respect of the matters indicated as being on the reporting stages primarily for the 2011/12 – 2013/14 financial years, it should be noted that the preliminary reviews conducted in respect of these matters revealed no evidence to substantiate the allegations made, delays in closing-off these matters on the register resulted from the fact that the Unit intended to ensure that no further evidence/information was available to warrant pursuing these matters further and that they were not hastily closed-off on the register.

For 2011/12 - Three (3) are at reporting stage and zero (0) at field-work.

For 2012/13 - Five (5) are at reporting stage and will be closed on the register, one (1) has been referred to the relevant Unit for resolution as it falls within their area of responsibilities and zero (0) at fieldwork.

For 2013/14 - Ten (10) are at a reporting stage and will be closed on the register, One (1) investigation has been finalised and will be provided to the Director-General to consider corrective measures recommended and zero (0) at field work.

For 2014/15 - Five (5) are at internal reporting, four (4) will be closed on the register and one (1) has been finalised and will be provided to the Director-General to consider corrective measures recommended. Three (3) are to referred to SAPS and one (1) to Provincial Government. One (1) is at fieldwork however it should indicated that phase one of the investigation was completed and a Memo submitted to the Director-General currently the Unit is finalizing phase 2 of the project.

For 2015/16 – Seven (7) at reporting stage, four (4) to be closed on the register and Three (3) reports to will be provided to the Director-General to consider corrective measures recommended. Fifteen (15) are at fieldwork.

|  |  |  |  |
| --- | --- | --- | --- |
| **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, the process followed to correct the population, including the internal controls put in place to ensure that the misstatement does not recur in future. | N/A | | |
| If yes and the population was adjusted, the proposed adjusting journal entries to correct the population, with the supporting documentation. | N/A | | |
| Acknowledgement that additional audit costs will be incurred in order to audit the proposed adjustments and that the financial statements will not be adjusted if material misstatements still exist. (Under these circumstances the misstatements identified originally will be reported by the auditor.) | **Yes** | | **No** |
|  | |  |
| 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. |  | |

Name: Matomo Mabotja

Position: Director: Fraud Awareness and Investigation

Date: 23/02/2016

**Auditor’s conclusion**

Management comment noted, however the audit finding remains. We are in agreement that investigations can’t be closed prematurely and a proper investigation needs to be done, however investigations take very long to finalise and is not finalised timely

1. **Procurement: competitive bidding – Bitupquip Construction CC**

**Audit finding**

Treasury Regulations 16A3.2 states that a supply chain management system must be fair, equitable, transparent, competitive and cost effective.

Practice note 7 of 2009/10 states that if a supply chain management official or other role player, or any close family member, partner or associate of such official or other role player, has any private or business interest in any contract to be awarded, that official or other role player must disclose that interest and withdraw from participating in any manner whatsoever in the process relating to that contract.  To give effect to the above, the National Treasury issued a standard bidding document (SBD 4) “Declaration of Interest” on 5 December 2003 as part of Supply Chain Management (SCM) Practice Note Number SCM 1 of 2003. In terms of this document the accounting officer is required to customize and utilize the form as part of their bidding documents so that bidders or their authorized representatives could declare their position in relation to any person employed by the principal institution.

Treasury Regulations 16A8.4 states that if a supply chain management official or other role player, or ay close family member, partner or associate of such official or other role player has any private or business interest in any contract to be awarded, that official or other role player must disclose the interest and withdraw from participating in any manner whatsoever in the process relating to the contract.

Public Finance Management Act section 50(3)(a) states that a member of an accounting authority must disclose to the accounting authority any direct or indirect personal or private business interest that that member or any spouse, partner or close family member may have in any matter before the accounting authority

Instruction note 32 section 3.2.1 states that within ten (10) working days after the closure of any advertised competitive bid, institutions must publish on its website the names of all bidders that submitted bids in relation to that particular advertisement. Where practical, institutions must also publish the total price and the preferences claimed by the respective bidders. The information should remain on the website for at least thirty (30) days. The details of the winning bidder, contract number and description, preference claimed and contract price must also be published in the government tender bulleting.

PPR 6 (2) states that points must be awarded to a tenderer for attaining the B-BBEE status level of contributor for procurement equal or above R1 million as follows:

|  |  |
| --- | --- |
| B-BBEE Level | Points |
| 1 | 10 |
| 2 | 9 |
| 3 | 8 |
| 4 | 5 |
| 5 | 4 |
| 6 | 3 |
| 7 | 2 |
| 8 | 1 |

PPR 6 (3) states that a maximum of 10 points may be allocated in accordance with PPR 6 (2)

Preferential Procurement Regulation paragraph 6 (1) states that the 90/10 preference point system for acquisition of services, works or goods with a Rand value above R1 million. The following formula must be used to calculate the points for price in respect of tenders with a Rand value above R1 000 000 (all applicable taxes included):

|  |  |
| --- | --- |
| |  | | --- | | Ps= 90  1-  Pt – Pmin | |
| Pmin |

Ps     = Points scored for comparative price of tender or offer under consideration;

Pt      = Comparative price of tender or offer under consideration; and

Pmin = Comparative price of lowest acceptable tender or offer.

PPR 4 states that the points scored by a tenderer in respect of the level of B-BBEE contribution must be added to the points scored for price

CIDB Regulations paragraph 24 preparation for construction procurement, states that every client or employer who is inviting calls for expression of interest or soliciting competitive tenders without first calling for expressions of interest in the construction industry must publish that invitation to tender on the CIDB’s website

The following discrepancies were identified:

|  |  |  |  |
| --- | --- | --- | --- |
| **Contractor** | **WCS** | **Tender No** | **Amount** |
| Bitupquip Construction CC | 044483 | MTHMTYP/14 | 16 661 449.75 |

The winning bidder furnished certain returnable documents on 9 October 2014 which is after the closing date of the bid on 10 September 2014. Furthermore the SBD4 (PA11) was signed on 12 September 2014 which is after the closing date on 10 September 2014.

No evidence was provided that the names of all bidders who submitted bids in relation to the advertisement were published on the website within ten (10) working days after the closure of the advertised bid and remained on the website for a minimum of thirty (30) days. Furthermore no evidence could be obtained that the details of the winning bidder was published in the government tender bulleting.

We could not obtain evidence that the tender was advertised on the CIDB website

Unsuccessful bidders

The unsuccessful bidders documentation was not provided and therefore we are unable to determine if the preference points and price points were correctly calculated for the unsuccessful bidder. We are consequently further unable to determine if the bid was awarded to the bidder with the highest points

CIDB requirements:

There was no proof in the file that the tender was advertised on CIDB website and also within 10 working days and before the closing date for tenders and at least 5 working days before any compulsory site meeting

**Risk**

Non-compliance with laws and regulations resulting in irregular expenditure.

**Internal control deficiency**

## Leadership

The entity does not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Financial and performance management

Non-compliance with Treasury Regulation 16A3.2 (d)(vi) which will result proper processes not being followed and the desired objectives will not be achieved.

Non-compliance with laws and regulations resulting in irregular and fruitless and wasteful expenditure.

**Recommendation**

Management should ensure that the entity complies with all applicable laws and regulations.

Management must develop policies and procedures to ensure compliance with all prescribed laws and regulations.

A compliance checklist should be completed and reviewed before the payment is approved to ensure that the correct procurement process was followed.

Should the expenditure be regarded as irregular expenditure, the department must follow up and take appropriate steps against the applicable individuals as section 38(i)(h)(iii) of the PFMA states that "the Accounting Officer for the department must take effective appropriate disciplinary steps against any official in the service of the department, trading entity or constitutional institution who— makes or permits an unauthorised expenditure, irregular expenditure or fruitless and  wasteful expenditure".

**Management response**

No management response received

**Auditor’s conclusion**

No management response received

1. **Procurement: competitive bidding – LDM Facilities Management Services (Pty) Ltd**

**Audit finding**

Treasury Regulation section 16A.6.3 (c) states that bids must be advertised in at least the Government Tender Bulletin for a minimum period of 21 days before closure, except in urgent cases when bids may be advertised for such shorter period as the accounting officer or accounting authority may determine.

Instruction note 32 section 3.2.1 states that within ten (10) working days after the closure of any advertised competitive bid, institutions must publish on its website the names of all bidders that submitted bids in relation to that particular advertisement. Where practical, institutions must also publish the total price and the preferences claimed by the respective bidders. The information should remain on the website for at least thirty (30) days. The details of the winning bidder, contract number and description, preference claimed and contract price must also be published in the government tender bulleting.

Treasury Regulations 16A3.2 states that a supply chain management system must be fair, equitable, transparent, competitive and cost effective.

Preferential Procurement Regulations (PPR) 4(4) states that no tender must be regarded as an acceptable tender if it fails to achieve the minimum qualifying score for functionality as indicated in the tender invitation. No

PPR 4(5) states that tender that achieve the minimum qualification score for functionality must be evaluated further in terms of preference point systems prescribed in regulation 5 and 6.

PPPFA section 10(2) states that tenderers other than Exempted Micro-Enterprises (EMEs) must submit their original and valid B-BBEE status levels verification certificate or a certified copy thereof, substantiating their B-BBEE rating.

PPR 6 (2) states that points must be awarded to a tenderer for attaining the B-BBEE status level of contributor for procurement equal or above R1 million as follows:

|  |  |
| --- | --- |
| B-BBEE Level | Points |
| 1 | 10 |
| 2 | 9 |
| 3 | 8 |
| 4 | 5 |
| 5 | 4 |
| 6 | 3 |
| 7 | 2 |
| 8 | 1 |

The following discrepancies were identified:

|  |  |  |  |
| --- | --- | --- | --- |
| **Contractor** | **Tender No** | **Number of days** | **Amount** |
| LDM Facilities Management Services (Pty) Ltd | H15/011 | 14 days | 22 017 515.86 |

The following tenders were not advertised for the required minimum period of 21 days (date of advertisement is 26 October 2012 – 8 November 2012). Furthermore the deviations were not approved in accordance with the SCM policy requirements and no reason was provided for the deviation.

No evidence was provided that the names of all bidders who submitted bids in relation to the advertisement were published on the website within ten (10) working days after the closure of the advertised bid and remained on the website for a minimum of thirty (30) days. Furthermore no evidence could be obtained that the details of the winning bidder was published in the government tender bulleting.

The register of receiving bids for bid number H15/011 was not provided and we are therefore unable to determine if the bid of the winning supplier was received before the closing date and time determined for the bid.

Insufficient supporting documentation (as well as no unsuccessful bidders’ documentation) was provided to enable us to recalculate and verify the score awarded for functionality and whether the functionality criteria were met. Consequently we are unable to determine if:

* only tenders which achieved the minimum qualifying score for functionality as indicated in the tender invitation were regarded as acceptable tenders and evaluated further in terms of the preference points.
* all tenders which achieved the minimum qualifying score for functionality were regarded as acceptable tenders and were evaluated further in terms of the preference points.

The original BBBEE verification certificate was provided which will expire on 22 April 2016. However only a uncertified copy of the BBBEE certificate was provided (validity date: 4 June 2012 to 3 June 2012) during the period in which the original award was made.

**Risk**

Non-compliance with laws and regulations resulting in irregular expenditure.

**Internal control deficiency**

## Leadership

The entity does not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Financial and performance management

Non-compliance with Treasury Regulation 16A3.2 (d)(vi) which will result proper processes not being followed and the desired objectives will not be achieved.

Non-compliance with laws and regulations resulting in irregular and fruitless and wasteful expenditure.

**Recommendation**

Management should ensure that the entity complies with all applicable laws and regulations.

Management must develop policies and procedures to ensure compliance with all prescribed laws and regulations.

A compliance checklist should be completed and reviewed before the payment is approved to ensure that the correct procurement process was followed.

Should the expenditure be regarded as irregular expenditure, the department must follow up and take appropriate steps against the applicable individuals as section 38(i)(h)(iii) of the PFMA states that "the Accounting Officer for the department must take effective appropriate disciplinary steps against any official in the service of the department, trading entity or constitutional institution who— makes or permits an unauthorised expenditure, irregular expenditure or fruitless and  wasteful expenditure".

**Management response**

We do not agree with the findings as stated for the following reasons:

1. The acquisition was through participation through a contract that is held by another state department – KZN Public Works in this case (Contract No: ZNT14/13/14) held with LDM (Pty) Ltd, in line with National Treasury Regulation 16A6.6.
2. Tender H15/011 was not advertised in the Government Tender Bulletin for a minimum period of 21 days because it was deviation, a negotiation process was approved by the NBAC in accordance with the SCM policy requirements and reasons for deviation were provided on the attached memo.
3. No names of bidders were published on the website within ten (10) working days after the closure of the advertisement as this tender was not advertised it was a negotiation process with one company. (*see paragraph 1 above)*
4. The register for receiving bids it’s part of the pink file and the copy is attached for your further perusal
5. There are no unsuccessful bidders documentation as this tender was a negotiation process with one bidder, there was no functionality criteria as well for this tender as it was a negotiation process

| **Description** | **Response** | | |
| --- | --- | --- | --- |
| Corrective action to be taken | N/a | | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** | |
|  |  | |
| If yes, what corrections will be made to the population | N/A | | |
| If yes, the process followed to correct the population, including the internal controls put in place to ensure that the misstatement does not recur in future. | N/A | | |
| If yes and the population was adjusted, the proposed adjusting journal entries to correct the population, with the supporting documentation. | N/A | | |
| Acknowledgement that additional audit costs will be incurred in order to audit the proposed adjustments and that the financial statements will not be adjusted if material misstatements still exist. (Under these circumstances the misstatements identified originally will be reported by the auditor.) | **Yes** | | **No** |
|  | |  |
| 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** |
|  | NO |
| If management does not agree with the root cause indicated, please provide the root cause according to management. |  | |

Name: Nancy Motloung

Position: Assistant Director

Date: 04/03/2016

**Auditor’s conclusion**

Management comment noted, however the audit finding remains. Should the entity opt to follow a competitive bidding process in accordance with Treasury Regulation 16A.6.6, the entity must ensure that the all laws and regulations were followed by the organ of state (KZN Public Works) prior to making a final decision on whether to participate in that bid. All non-compliances and irregular expenditure in relation to that bid will be reported in the entity as such.

1. **Procurement: competitive bidding – Bidvest Facilities Management**

**Audit finding**

Practice Note 8 of 2007/08 states that the accounting officer should invite competitive bids for all procurement above R 500 000. Should it be impractical to invite competitive bids for specific procurement, e.g. in urgent or emergency cases or in case of a sole supplier, the accounting officer may procure the required goods or services by other means, such as price quotations or negotiations in accordance with Treasury Regulation 16A6.4. The reasons for deviating from inviting competitive bids should be recorded and approved by the accounting officer are required to report within ten (10) working days to the relevant treasury and the Auditor-General all cases where goods and services above the value of R1 million (VAT inclusive) were procured in terms of Treasury Regulation 16A6.4. The report must include the description of the goods or services, the name/s of the supplier/s, the amount/s involved and the reasons for dispensing with the prescribed competitive bidding process

Treasury Regulations 16A6.1 states that procurement of goods and services, either by way of quotations or through a bidding process, must be within the threshold values as determined by the National Treasury.

Treasury regulation16A6.4  states that if in a specific case it is impractical to invite competitive bids, the accounting officer or accounting authority may procure the required goods or services by other means, provided that the reasons for deviating from inviting competitive bids must be recorded and approved by the accounting officer or accounting authority.

Practice note 6 of 2007/08 states that in instances where it would be impractical to invite competitive bids, Treasury Regulation 16A6.4 provides for such instances where accounting officers are allowed to dispense with competitive bidding processes to procure goods and services by other means. This provision is intended for cases of emergency where immediate action is necessary or if the goods and services required are produced or available from sole service providers. The reasons for such action must be recorded and approved by the accounting officer or accounting authority.

Practice note 6 of 2007/08 further states that an effective system of supply chain demand management requires an accounting officer or accounting authority to ensure that the resources required to support the strategic and operational commitments of an institution are properly budgeted for and procured at the correct time. Planning for the procurement of such resources must take into account the period required for competitive bidding processes. It must therefore be emphasized that a lack of proper planning does not constitute a reason for dispensing with prescribed bidding processes.

Practice Note 6 of 2007 states that the accounting officer must report within ten (10) working days to the relevant treasury and Auditor-General, all cases where goods and services above the value of R1 million (Vat Included) which were procured in terms of Treasury Regulation 16A6.4. The report must include the description of the goods or services, the names of the suppliers, the amounts involved and the reasons for dispensing with the prescribed competitive bidding processes.

The following discrepancy was identified:

|  |  |  |
| --- | --- | --- |
| **Contractor** | **Tender No** | **Award** |
| Bidvest Facilities Management | HP15/066 | 19 747 453 |

Deviation from competitive bidding:

Service above R500 000 was procured without inviting competitive bids. These instances didn’t relate to cases of emergency where immediate action was necessary or where the goods and services required were procured from sole service providers and a lack of proper planning does not constitute a reason for dispensing with prescribed bidding processes. Furthermore the deviation was not approved by the accounting officer

Uneconomical use of resources

We are therefore also unable to determine if the procurement was economical

The award was made on 23/09/2015. This was however communicated to the AGSA on 16 October 2015 which is more than 10 days after the deviations. Therefore the AGSA was not notified within 10 working days.

**Risk**

Non-compliance with laws and regulations resulting in irregular expenditure.

**Internal control deficiency**

## Leadership

The entity does not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Financial and performance management

Non-compliance with Treasury Regulation 16A3.2 (d)(vi) which will result proper processes not being followed and the desired objectives will not be achieved.

Non-compliance with laws and regulations resulting in irregular and fruitless and wasteful expenditure.

**Recommendation**

Management should ensure that the entity complies with all applicable laws and regulations.

Management must develop policies and procedures to ensure compliance with all prescribed laws and regulations.

A compliance checklist should be completed and reviewed before the payment is approved to ensure that the correct procurement process was followed.

Should the expenditure be regarded as irregular expenditure, the department must follow up and take appropriate steps against the applicable individuals as section 38(i)(h)(iii) of the PFMA states that "the Accounting Officer for the department must take effective appropriate disciplinary steps against any official in the service of the department, trading entity or constitutional institution who— makes or permits an unauthorised expenditure, irregular expenditure or fruitless and  wasteful expenditure".

**Management response**

We are not in agreement with the finding:

The procurement approach is a result of application of mind and strategic sourcing and not as a result of lack of planning. The DPW after due diligence and compliance to internal business processes acquired the building from TELKOM. DPW as part of its mandate to provide accommodation to government departments allocated the building to South African Police Services (SAPS). SAPS were due to occupy the building on the 1 September 2015.

After acquisition of the Telkom Towers building a process establishing the FM Contract for newly purchased building was started which by its nature would take in excess of six months to set up. Bidvest who was the current maintenance service provider was about to pull out their contractors on site by the end of August 2015. This would have exposed the acquired building to a huge risk that entailed amongst others the eminent spectra of Vandalism, unmanned Waste Water Treatment Works that must be managed, Illegal occupation etc. The acquisition of a Facilities Management Contractor became an urgent case – making it a high priority and best interest requirement that call for early delivery and could have a negative/material result/impact on service delivery/community/public if general procurement procedures were followed.

A Negotiated Procedure for an Interim Facilities Management Contract for 12 months was approved by a duly delegated authority which is the NBAC as per attached PA12. The approval for appointment of Bidvest Facilities Management through a negotiated procedure, which is a legitimate sourcing strategy, was a prudent and sound business decision that was based on the following:

* + Bidvest has been offering facilities management services to Telkom for about 15 years.
  + For purposes of ensuring continuation of services at required performance levels whilst a new procurement process was to unfold it became necessary to engage the services of the current Facilities Management Contractor on site.
  + Also Bidvest had all the documentation and records of the site operation, maintenance etc.
  + DPW requested some inside information from Telkom with regard to maintenance costs that Bidvest charged Telkom. That information was used by FM to budget for maintenance for those Towers and also for negotiate with Bidvest.
  + When Bidvest was asked to bid on the work to be done the cost were even lesser than what Telkom was paying before. The deal was found to be very economical considering the urgency and continue with the Interim Facilities Management Contract.

Award was done on 06 October 2015 as per attached appointment letter (find copy). National treasury and AGSA were notified on 16 October; therefore deviation was reported within 10 working days of reporting.

Name: Raymond Naidoo

Position: CD: SCM

Date: 04 March 2016

**Auditor’s conclusion**

Management comment noted, however the audit finding remains. The bid adjudication committee approved the acquisition of the building on 05 August 2015. The entity could have been anticipated that the facilities contract is coming to an end and therefore the bid should have been advertised and a competitive bidding process followed prior to the contract of Bidvest came to an end.

The award was approved by the bid adjudication committee on 10 September 2015 and approved by the accounting officer on 23 September 2015. No appointment letter was attached as indicated in management response. This was communicated to the AGSA on 16 October 2015 which is more than 10 days after the deviations. Therefore the AGSA was not notified within 10 working days.

1. **Procurement: competitive bidding – STATS SA**

**Audit finding**

Practice Note 8 of 2007/08 states that the accounting officer should invite competitive bids for all procurement above R 500 000. Should it be impractical to invite competitive bids for specific procurement, e.g. in urgent or emergency cases or in case of a sole supplier, the accounting officer may procure the required goods or services by other means, such as price quotations or negotiations in accordance with Treasury Regulation 16A6.4. The reasons for deviating from inviting competitive bids should be recorded and approved by the accounting officer are required to report within ten (10) working days to the relevant treasury and the Auditor-General all cases where goods and services above the value of R1 million (VAT inclusive) were procured in terms of Treasury Regulation 16A6.4. The report must include the description of the goods or services, the name/s of the supplier/s, the amount/s involved and the reasons for dispensing with the prescribed competitive bidding process

Treasury Regulations 16A6.1 states that procurement of goods and services, either by way of quotations or through a bidding process, must be within the threshold values as determined by the National Treasury.

Treasury regulation16A6.4  states that if in a specific case it is impractical to invite competitive bids, the accounting officer or accounting authority may procure the required goods or services by other means, provided that the reasons for deviating from inviting competitive bids must be recorded and approved by the accounting officer or accounting authority.

Practice note 6 of 2007/08 states that in instances where it would be impractical to invite competitive bids, Treasury Regulation 16A6.4 provides for such instances where accounting officers are allowed to dispense with competitive bidding processes to procure goods and services by other means. This provision is intended for cases of emergency where immediate action is necessary or if the goods and services required are produced or available from sole service providers. The reasons for such action must be recorded and approved by the accounting officer or accounting authority.

Practice note 6 of 2007/08 further states that an effective system of supply chain demand management requires an accounting officer or accounting authority to ensure that the resources required to support the strategic and operational commitments of an institution are properly budgeted for and procured at the correct time. Planning for the procurement of such resources must take into account the period required for competitive bidding processes. It must therefore be emphasized that a lack of proper planning does not constitute a reason for dispensing with prescribed bidding processes.

Practice Note 6 of 2007 states that the accounting officer must report within ten (10) working days to the relevant treasury and Auditor-General, all cases where goods and services above the value of R1 million (Vat Included) which were procured in terms of Treasury Regulation 16A6.4. The report must include the description of the goods or services, the names of the suppliers, the amounts involved and the reasons for dispensing with the prescribed competitive bidding processes.

Practice note 7 of 2009/10 states that if a supply chain management official or other role player, or any close family member, partner or associate of such official or other role player, has any private or business interest in any contract to be awarded, that official or other role player must disclose that interest and withdraw from participating in any manner whatsoever in the process relating to that contract.  To give effect to the above, the National Treasury issued a standard bidding document (SBD 4) “Declaration of Interest” on 5 December 2003 as part of Supply Chain Management (SCM) Practice Note Number SCM 1 of 2003. In terms of this document the accounting officer is required to customize and utilize the form as part of their bidding documents so that bidders or their authorized representatives could declare their position in relation to any person employed by the principal institution.

Treasury Regulations 16A9.2(a) states that the accounting officer or accounting authority may disregard the bid of any bidder if that bidder, or any of its directors—

1. have abused the institution’s supply chain management system;
2. have committed fraud or any other improper conduct in relation to such system; or
3. have failed to perform on any previous contract;

Treasury Regulation 16A(9)(1e) states that an accounting officer must reject a proposal for the award of a contract if the recommended bidder has committed a corrupt or fraudulent act in competing for the particular contract

Practice Note 8 of 2007 paragraph6.1 states that the accounting officer must be in possession of an original valid tax clearance certificate for all price quotations and competitive bids exceeding the value of R30 000 (VAT included). Paragraph 6.2 further states that if an accounting officer is in possession of a supplier’s original valid tax clearance certificate, it is not necessary to obtain a new tax clearance certificate each time a price quotation or bid is submitted from that specific supplier. This provision may be applied only if the closing date of the price quotation or bid falls within the expiry date of the tax clearance certificate that is in the accounting officer’s possession. Whenever this ruling is applied, cross-reference must be made to the original tax certificate for audit purposes

The following discrepancies were identified:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Number** | **Contractor** | **WCS number** | **Tender no** | **Award** |
| 1 | STATS SA | 052360-1 | WG04PEE1 | 20 002 336 |
| 2 | STATS SA | 052360-2 | WG04PEE1 | 34 517 259 |

Deviation from competitive bidding:

Service above R500 000 was procured without inviting competitive bids. These instances didn’t relate to cases of emergency where immediate action was necessary or where the goods and services required were procured from sole service providers

Uneconomical use of resources

We are therefore also unable to determine if the procurement was economical

No proof could be obtained on file that the deviation was reported to the AGSA within 10 working days.

Expenditure made in vain:

An amount of R13 701 351.24 was paid to City of Tshwane as per the service level agreement, however City of Tshwane was unable to render the services.

Declaration of interest:

The declaration of interest (SBD4) was not completed and signed by the winning supplier declaring whether the bidder or any person connected with the bidder is employed by the state or whether the bidder, or any person connected with the bidder, have any relationship (family, friend, other) with a person employed by the state and who may be involved with the evaluation and or adjudication of this bid.

Declaration of bidder's past SCM practices (SBD 8)

The declaration of bidder's past SCM practices (SBD 8) was not completed and signed by the winning supplier, therefore we were unable to confirm that the bidder had no fraud, abuse of the SCM system or non-performance in previous contracts.

Certificate of independent bid determination (SBD 9)

The certificate of independent bid determination (SBD 9) was not completed and signed by the winning supplier Consequently we are unable to determine whether the winning supplier or any of its directors have failed to perform on any previous contract or if the winning supplier, or any of its directors have committed a corrupt or fraudulent act in competing for the contract.

Tax clearance certificate

The supplier didn’t submit an original tax clearance certificate from SARS certifying that the tax affairs are in order on the day of the closing of the bid.

**Risk**

Non-compliance with laws and regulations resulting in irregular expenditure

**Internal control deficiency**

## Leadership

 Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored.

The entity does not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Although management did develop action plans to address internal control deficiencies, they were not effective to prevent non-compliance with applicable laws and regulations.

Financial and performance management

Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored.

**Recommendation**

Management should ensure that the entity complies with all applicable laws and regulations.

Management must develop policies and procedures to ensure compliance with all prescribed laws and regulations.

A compliance checklist should be completed and reviewed before the payment is approved to ensure that the correct procurement process was followed.

Should the expenditure be regarded as irregular expenditure, the department must follow up and take appropriate steps against the applicable individuals as section 38(i)(h)(iii) of the PFMA states that "the Accounting Officer for the department must take effective appropriate disciplinary steps against any official in the service of the department, trading entity or constitutional institution who— makes or permits an unauthorised expenditure, irregular expenditure or fruitless and  wasteful expenditure".

**Management response**

Awaiting management comments

**Auditor’s conclusion**

Awaiting management comments

1. **Procurement: quotations - testing R30 000 to R500 000**

**Audit finding**

Treasury Regulations 16A6.1 states that procurement of goods and services, either by way of quotations or through a bidding process, must be within the threshold values as determined by the National Treasury.

Practice Note 8 of 2007/08 paragraph 3.3 states that an accounting officer should invite and accept written price quotations for requirements up to an estimated value of R500 000 from as many suppliers as possible, that are registered on the list of prospective suppliers. Where no suitable suppliers are available from the list of prospective suppliers, written price quotations may be obtained from other possible suppliers. If it is not possible to obtain at least three (3) written price quotations, the reasons should be recorded and approved by the accounting officer or his / her delegate.

Paragraph 2.5 of Practice Note 6 of 2007/08 emphasized that a lack of proper planning does not constitute a reason for dispensing with prescribed procurement processes.

Treasury regulation 8.2.1 and 8.2.2 states that an official of an institution may not spend or commit public money except with the approval (either in writing or by duly authorised electronic means) of the accounting officer or a properly delegated or authorised officer.

Public Finance Management Act section 38(1)(a)(iv) states that the accounting officer for a department must ensure that the department has and maintains a system for properly evaluating all major capital projects prior to a final decision on the project and a proper needs assessment must be done prior to a final decision on a project.

Practice note 7 of 2009/10 states that if a supply chain management official or other role player, or any close family member, partner or associate of such official or other role player, has any private or business interest in any contract to be awarded, that official or other role player must disclose that interest and withdraw from participating in any manner whatsoever in the process relating to that contract.  To give effect to the above, the National Treasury issued a standard bidding document (SBD 4) “Declaration of Interest” on 5 December 2003 as part of Supply Chain Management (SCM) Practice Note Number SCM 1 of 2003. In terms of this document the accounting officer is required to customize and utilize the form as part of their bidding documents so that bidders or their authorized representatives could declare their position in relation to any person employed by the principal institution.

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
3. any staff member or representative of the auditee.

The following discrepancies were identified:

Three quotations not obtained:

Three price quotations were not obtained from different prospective suppliers. The reasons don’t appear reasonable/ justified on the basis that it was impossible/ impractical to obtain 3 written quotations. Furthermore the reasons were not recorded and approved by the delegated official:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **No** | **Name** | **Order number** | **Award** | **Description of service** |
| 1 | Posed Trading Projects | AH266678 | 444 212.40 | Service of air conditioners |
| 2 | Posed Trading Projects | AH266678 | 461 209.80 | Service of air conditioners |
| 3 | DS Molapo Projects Fire Services | 5432 | 499 844.40 | Repair sprinkler control valve |
| 4 | DS Molapo Projects Fire Services | 5056 | 498 453.60 | Repair leaking sprinkler pipes |
| 5 | Chibwe Architects SA (Pty) Ltd | P248573 | 159 429.02 | Construction of gate 3 |
| 6 | Weaveway Trade CC | P244409 | 131 360.11 | Construction of gate 3 |
| 7 | Weaveway Trade CC | P247879 | 117 378.39 | Construction of gate 3 |
| 8 | Seabo Consulting Engineers | P246053 | 74 525.25 | Construction of gate 3, 4 and 5 |
| 9 | Boleng Consulting Services | P247211 | 46 504.68 | Construction of gate 3, 4 and 5 |
| 10 | Manong and Associates | P248683 | 83 857.75 | Construction of gate 3 |

Consequently we are also unable to determine whether the procurement is economical

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **No** | **Name** | **Order number** | **Award** | **Description of service** |
| 1 | Posed Trading Projects | AH266678 | 444 212.40 | Service of air conditioners |
| 2 | Posed Trading Projects | AH266678 | 461 209.80 | Service of air conditioners |
| 3 | Chibwe Architects SA (Pty) Ltd | P248573 | 159 429.02 | Construction of gate 3 |
| 4 | Weaveway Trade CC | P244409 | 131 360.11 | Construction of gate 3 |
| 5 | Weaveway Trade CC | P247879 | 117 378.39 | Construction of gate 3 |
| 6 | Seabo Consulting Engineers | P246053 | 74 525.25 | Construction of gate 3, 4 and 5 |
| 7 | Boleng Consulting Services | P247211 | 46 504.68 | Construction of gate 3, 4 and 5 |
| 8 | Manong and Associates | P248683 | 83 857.75 | Construction of gate 3 |

Splitting of award into parts or items of lesser value

The servicing of air conditioners were split into two awards (floors 1 – 4 and floors 5 – 8 ) to avoid the transaction value exceeding the R500 000 threshold and have it being procured through a competitive bidding process (both were approved on the same date):

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **No** | **Name** | **Order number** | **Award** | **Description of service** |
| 1 | Posed Trading Projects | AH266678 | 444 212.40 | Service of air conditioners |
| 2 | Posed Trading Projects | AH266678 | 461 209.80 | Service of air conditioners |

Appointment:

The final decision on which quotation to accept was not made by an appropriately delegated official or committee.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **No** | **Name** | **Order number** | **Award** | **Description of service** |
| 1 | Chibwe Architects SA (Pty) Ltd | P248573 | 159 429.02 | Construction of gate 3 |
| 2 | Weaveway Trade CC | P244409 | 131 360.11 | Construction of gate 3 |
| 3 | Weaveway Trade CC | P247879 | 117 378.39 | Construction of gate 3 |
| 4 | Seabo Consulting Engineers | P246053 | 74 525.25 | Construction of gate 3, 4 and 5 |
| 5 | Boleng Consulting Services | P247211 | 46 504.68 | Construction of gate 3, 4 and 5 |
| 6 | Manong and Associates | P248683 | 83 857.75 | Construction of gate 3 |

Needs assessment:

A proper needs assessment was not done prior to a final decision on the project:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **No** | **Name** | **Order number** | **Award** | **Description of service** |
| 1 | DS Molapo Projects Fire Services | 5432 | 499 844.40 | Repair sprinkler control valve |
| 2 | DS Molapo Projects Fire Services | 5056 | 498 453.60 | Repair leaking sprinkler pipes |
| 3 | Chibwe Architects SA (Pty) Ltd | P248573 | 159 429.02 | Construction of gate 3 |
| 4 | Weaveway Trade CC | P244409 | 131 360.11 | Construction of gate 3 |
| 5 | Weaveway Trade CC | P247879 | 117 378.39 | Construction of gate 3 |
| 6 | Seabo Consulting Engineers | P246053 | 74 525.25 | Construction of gate 3, 4 and 5 |
| 7 | Boleng Consulting Services | P247211 | 46 504.68 | Construction of gate 3, 4 and 5 |
| 8 | Manong and Associates | P248683 | 83 857.75 | Construction of gate 3 |

Declaration of interest:

The declaration of interest (SBD4) was not completed and signed by the winning supplier declaring whether the bidder or any person connected with the bidder is employed by the state or whether the bidder, or any person connected with the bidder, have any relationship (family, friend, other) with a person employed by the state and who may be involved with the evaluation and or adjudication of this bid.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **No** | **Name** | **Order number** | **Award** | **Description of service** |
| 1 | Chibwe Architects SA (Pty) Ltd | P248573 | 159 429.02 | Construction of gate 3 |
| 2 | Weaveway Trade CC | P244409 | 131 360.11 | Construction of gate 3 |
| 3 | Weaveway Trade CC | P247879 | 117 378.39 | Construction of gate 3 |
| 4 | Seabo Consulting Engineers | P246053 | 74 525.25 | Construction of gate 3, 4 and 5 |
| 5 | Boleng Consulting Services | P247211 | 46 504.68 | Construction of gate 3, 4 and 5 |
| 6 | Manong and Associates | P248683 | 83 857.75 | Construction of gate 3 |

Construction contracts:

No supporting evidence was on file and consequently we are unable to determine whether:

* the tender invitation for a construction works contract stipulated the minimum category which the bidders must be registered at with the CIDB in order to qualify evaluation.
* the winning contractor is registered with the CIDB
* the winning contractor's grading is suitable for the value of contract
* if the contract was awarded to a contractor who is registered at a grade lower than the required grade
* the contractor is registered in the class of construction works that the projects relates to

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **No** | **Name** | **Order number** | **Award** | **Description of service** |
| 1 | Chibwe Architects SA (Pty) Ltd | P248573 | 159 429.02 | Construction of gate 3 |
| 2 | Weaveway Trade CC | P244409 | 131 360.11 | Construction of gate 3 |
| 3 | Weaveway Trade CC | P247879 | 117 378.39 | Construction of gate 3 |
| 4 | Seabo Consulting Engineers | P246053 | 74 525.25 | Construction of gate 3, 4 and 5 |
| 5 | Boleng Consulting Services | P247211 | 46 504.68 | Construction of gate 3, 4 and 5 |
| 6 | Manong and Associates | P248683 | 83 857.75 | Construction of gate 3 |

**Risk**

Non-compliance with laws and regulations resulting in irregular expenditure

**Internal control deficiency**

## Leadership

Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored.

The entity does not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Although management did develop action plans to address internal control deficiencies, they were not effective to prevent irregular expenditure as well as non-compliance with applicable laws and regulations.

Financial and performance management

Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored.

**Recommendation**

Management should ensure that the entity complies with all applicable laws and regulations.

Management must develop policies and procedures to ensure compliance with all prescribed laws and regulations.

A compliance checklist should be completed and reviewed before the payment is approved to ensure that the correct procurement process was followed.

Should the expenditure be regarded as irregular expenditure, the department must follow up and take appropriate steps against the applicable individuals as section 38(i)(h)(iii) of the PFMA states that "the Accounting Officer for the department must take effective appropriate disciplinary steps against any official in the service of the department, trading entity or constitutional institution who— makes or permits an unauthorised expenditure, irregular expenditure or fruitless and  wasteful expenditure".

**Management response**

Three quotations not obtained:

Management is not in agreement with the finding regarding:

* Posed Trading
* DS Molapo.

Posed Trading is on the approved deviation panel list of contractors which attend to an emergency & urgent unplanned maintenance in the state buildings. The approval was granted by the delegated authority and the reasons for deviation were furnished. (Deviation approval is attached)

Furthermore the transactions for both Posed Trading Projects and DS Molapo Projects Fire Services were done under an emergency delegation for an unplanned day to day maintenance hence only one quotation were obtained as per urgent and emergency delegation in line with Treasury Regulation 16A6.4. The 415 forms which are used for emergency reported cases are attached on the batch and the transactions were ratified by the Sub-Bid Adjudication Committee.

Splitting of award into parts or items of lesser value.

When there is an emergency, a call is logged by the client department and the complaint is registered on the system, Worx for U, and a complaint number is generated. Although the complaints were registered on the same day, however the client logged a call in different times which resulted in the system generating the two different authorization numbers for two separate complaints. It should further be noted that the appointed contractor is already appointed through deviation for a six month period for unplanned maintenance of the state buildings. Therefore, the work undertaken could not be regarded as splitting of award or circumventing SCM processes as it was awarded to a contracted service provider.

Management is also not in agreement with the finding regarding:

* Chibwe Ritschil Architects
* Weaveway Trade CC
* Manong and Associates
* Boleng consulting services
* Seabo consulting engineers.

The service providers in question were appointed in 2005 through Departmental Roster nomination, which was the method applicable to appoint consulting firms. Please refer to attached roster nominations and letter of acceptance from service providers.

It must further be noted that these were consultants (Professional Services) not CIDB registered contractors, therefore no CIDB were required.

The needs assessment to proof that the service was requested by the client is hereby provided, attached please find procurement instruction.

Name: M Dondashe

Position: Regional Manager

Date: 15/03/2016

**Auditor’s conclusion**

Three quotations not obtained and uneconomical procurement:

Management comment noted however the audit finding remains. Regarding the two suppliers that management disagreed with it was noted that the service providers were not part of the approved deviation panel list of contractors which attend to an emergency & urgent unplanned maintenance in the state buildings that was attached by the management. It was also noted that the procurement was not done under an emergency as the department had enough time to obtain three quotations:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **No** | **Item description** | **Order number** | **Award**  **R** | **Expenditure to date** | **Date services rendered** | **Date call logged** | **Days Lapsed** |
| 1 | DS Molapo Projects Fire Services | 5432 | 499 844.40 | 499 844.40 | 10 Dec 2015 | 08 July 2015 | 155 |
| 2 | DS Molapo Projects Fire Services | 5056 | 498 453.60 | 498 453.60 | 08 Dec 2015 | 11 March 2015 | 272 |
| 3 | Posed Trading projects. | 3767 | 444 212.40 | 444 212.40 | 16 Oct 2015 | 27 Aug 2015 | 20 |
| 4 | Posed Trading projects. | 3765 | 461 209.80 | 461 209.80 | 16 Oct 2015 | 27 Aug 2015 | 20 |

Splitting of award into parts or items of lesser value.

Management comment noted however the audit finding remains. The servicing of air conditioners were split into two awards (floors 1 – 4 and floors 5 – 8 ) to avoid the transaction value exceeding the R500 000 threshold and have it being procured through a competitive bidding process. Furthermore it was noted that the call was logged on the 27 Aug 2015 and approved on the 15 Oct 2015 but the Regional bid adjudication committee and the Job card (work executed ) was approved 16 Oct 2015. Therefore the department had enough time (20 days ) to obtain three quotations. It is also noted that the suppliers is not on a list of the contractor appointed through deviation for a six month period for unplanned maintenance of the state buildings.

The final decision on which quotation to accept was not made by an appropriately delegated official or committee.

Management comment noted, however the audit finding remains. A roster appointment is not in accordance with the required laws and regulations.

Declaration of interest:

No comments received and the finding remains.

Needs assessment:

No procurement instructions provided, and therefore the finding remains.

Construction contracts:

Management comments noted and the finding is resolved.

1. **Procurement: competitive bidding - Water Skills (Pty) Ltd**

**Audit finding**

Instruction note 32 section 3.2.1 states that within ten (10) working days after the closure of any advertised competitive bid, institutions must publish on its website the names of all bidders that submitted bids in relation to that particular advertisement. Where practical, institutions must also publish the total price and the preferences claimed by the respective bidders. The information should remain on the website for at least thirty (30) days. The details of the winning bidder, contract number and description, preference claimed and contract price must also be published in the government tender bulleting.

The following discrepancies were identified:

No evidence was provided that the names of all bidders who submitted bids in relation to the advertisement were published on the website within ten (10) working days after the closure of the advertised bid and remained on the website for a minimum of thirty (30) days. Furthermore no evidence could be obtained that the details of the winning bidder was published in the government tender bulleting.

|  |  |  |  |
| --- | --- | --- | --- |
| **No** | **Name** | **Tender number** | **Award** |
| 1 | Water Skills (Pty) Ltd | PT14/053 | 7 662 749.40 |

**Risk**

Non-compliance with laws and regulations

**Internal control deficiency**

## Leadership

Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored.

The entity does not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Although management did develop action plans to address internal control deficiencies, they were not effective to prevent irregular expenditure as well as non-compliance with applicable laws and regulations.

Financial and performance management

Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored.

**Recommendation**

Management should ensure that the entity complies with all applicable laws and regulations.

Management must develop policies and procedures to ensure compliance with all prescribed laws and regulations.

A compliance checklist should be completed and reviewed before the payment is approved to ensure that the correct procurement process was followed.

**Management response**

Management is in agreement with the finding.

From the 31 May 2015 from tender PT15/00 we have implemented this Instruction note 32 section 3.2.1. Therefore, on all tenders prior to the said date, we would not be able to provide evidence although we were advertising the names of the bidders in the website as required. (See attached screen-print from website with some PTA tenders.

Name: M Dondashe

Position: Regional manager

Date: 15/03/2016

**Auditor’s conclusion**

Management is in agreement with findings and the finding remains

1. **Procurement: competitive bidding - Tsekwane Investment CC**

**Audit finding**

Practice Note 8 of 2007/08 states that the accounting officer should invite competitive bids for all procurement above R 500 000. Should it be impractical to invite competitive bids for specific procurement, e.g. in urgent or emergency cases or in case of a sole supplier, the accounting officer may procure the required goods or services by other means, such as price quotations or negotiations in accordance with Treasury Regulation 16A6.4. The reasons for deviating from inviting competitive bids should be recorded and approved by the accounting officer are required to report within ten (10) working days to the relevant treasury and the Auditor-General all cases where goods and services above the value of R1 million (VAT inclusive) were procured in terms of Treasury Regulation 16A6.4. The report must include the description of the goods or services, the name/s of the supplier/s, the amount/s involved and the reasons for dispensing with the prescribed competitive bidding process

Treasury Regulations 16A6.1 states that procurement of goods and services, either by way of quotations or through a bidding process, must be within the threshold values as determined by the National Treasury.

Treasury regulation16A6.4  states that if in a specific case it is impractical to invite competitive bids, the accounting officer or accounting authority may procure the required goods or services by other means, provided that the reasons for deviating from inviting competitive bids must be recorded and approved by the accounting officer or accounting authority.

Practice note 6 of 2007/08 states that in instances where it would be impractical to invite competitive bids, Treasury Regulation 16A6.4 provides for such instances where accounting officers are allowed to dispense with competitive bidding processes to procure goods and services by other means. This provision is intended for cases of emergency where immediate action is necessary or if the goods and services required are produced or available from sole service providers. The reasons for such action must be recorded and approved by the accounting officer or accounting authority.

Practice note 6 of 2007/08 further states that an effective system of supply chain demand management requires an accounting officer or accounting authority to ensure that the resources required to support the strategic and operational commitments of an institution are properly budgeted for and procured at the correct time. Planning for the procurement of such resources must take into account the period required for competitive bidding processes. It must therefore be emphasized that a lack of proper planning does not constitute a reason for dispensing with prescribed bidding processes.

Practice Note 6 of 2007 states that the accounting officer must report within ten (10) working days to the relevant treasury and Auditor-General, all cases where goods and services above the value of R1 million (Vat Included) which were procured in terms of Treasury Regulation 16A6.4. The report must include the description of the goods or services, the names of the suppliers, the amounts involved and the reasons for dispensing with the prescribed competitive bidding processes.

Practice note 7 of 2009/10 states that if a supply chain management official or other role player, or any close family member, partner or associate of such official or other role player, has any private or business interest in any contract to be awarded, that official or other role player must disclose that interest and withdraw from participating in any manner whatsoever in the process relating to that contract.  To give effect to the above, the National Treasury issued a standard bidding document (SBD 4) “Declaration of Interest” on 5 December 2003 as part of Supply Chain Management (SCM) Practice Note Number SCM 1 of 2003. In terms of this document the accounting officer is required to customize and utilize the form as part of their bidding documents so that bidders or their authorized representatives could declare their position in relation to any person employed by the principal institution.

Treasury Regulations 16A9.2(a) states that the accounting officer or accounting authority may disregard the bid of any bidder if that bidder, or any of its directors—

* have abused the institution’s supply chain management system;
* have committed fraud or any other improper conduct in relation to such system; or
* have failed to perform on any previous contract;

Treasury Regulation 16A(9)(1e) states that an accounting officer must reject a proposal for the award of a contract if the recommended bidder has committed a corrupt or fraudulent act in competing for the particular contract

The following discrepancies were identified:

|  |  |  |  |
| --- | --- | --- | --- |
| **No** | **Name** | **WCS number** | **Award** |
| 1 | Tsekwane Investment CC | 052132 | 6 704 578.83 |

Deviation from competitive bidding:

Service above R500 000 was procured without inviting competitive bids. This relates to consultants appointed on a roster system These instances didn’t relate to cases of emergency where immediate action was necessary or where the goods and services required were procured from sole service providers. Furthermore no proof could be obtained that the deviation was approved by the accounting officer

Uneconomical use of resources

We are therefore also unable to determine if the procurement was economical

No proof could be obtained on file that the deviation was reported to the AGSA within 10 working days.

Declaration of interest:

The declaration of interest (SBD4) was not completed and signed by the winning supplier declaring whether the bidder or any person connected with the bidder is employed by the state or whether the bidder, or any person connected with the bidder, have any relationship (family, friend, other) with a person employed by the state and who may be involved with the evaluation and or adjudication of this bid.

Declaration of bidder's past SCM practices (SBD 8)

The declaration of bidder's past SCM practices (SBD 8) was not completed and signed by the winning supplier, therefore we were unable to confirm that the bidder had no fraud, abuse of the SCM system or non-performance in previous contracts.

Certificate of independent bid determination (SBD 9)

The certificate of independent bid determination (SBD 9) was not completed and signed by the winning supplier Consequently we are unable to determine whether the winning supplier or any of its directors have failed to perform on any previous contract or if the winning supplier, or any of its directors have committed a corrupt or fraudulent act in competing for the contract.

**Risk**

Non-compliance with laws resulting in irregular expenditure

**Internal control deficiency**

## Leadership

Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored.

The entity does not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Although management did develop action plans to address internal control deficiencies, they were not effective to prevent irregular expenditure as well as non-compliance with applicable laws and regulations.

Financial and performance management

Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored.

**Recommendation**

Management should ensure that the entity complies with all applicable laws and regulations.

Management must develop policies and procedures to ensure compliance with all prescribed laws and regulations.

A compliance checklist should be completed and reviewed before the payment is approved to ensure that the correct procurement process was followed.

Should the expenditure be regarded as irregular expenditure, the department must follow up and take appropriate steps against the applicable individuals as section 38(i)(h)(iii) of the PFMA states that "the Accounting Officer for the department must take effective appropriate disciplinary steps against any official in the service of the department, trading entity or constitutional institution who— makes or permits an unauthorised expenditure, irregular expenditure or fruitless and  wasteful expenditure".

**Management response**

Awaiting management comments

**Auditor’s conclusion**

Awaiting management comments

1. **Procurement: competitive bidding - ADI Investments Pty Ltd**

**Audit finding**

Practice Note 8 of 2007/08 states that the accounting officer should invite competitive bids for all procurement above R 500 000. Should it be impractical to invite competitive bids for specific procurement, e.g. in urgent or emergency cases or in case of a sole supplier, the accounting officer may procure the required goods or services by other means, such as price quotations or negotiations in accordance with Treasury Regulation 16A6.4. The reasons for deviating from inviting competitive bids should be recorded and approved by the accounting officer are required to report within ten (10) working days to the relevant treasury and the Auditor-General all cases where goods and services above the value of R1 million (VAT inclusive) were procured in terms of Treasury Regulation 16A6.4. The report must include the description of the goods or services, the name/s of the supplier/s, the amount/s involved and the reasons for dispensing with the prescribed competitive bidding process

Treasury Regulations 16A6.1 states that procurement of goods and services, either by way of quotations or through a bidding process, must be within the threshold values as determined by the National Treasury.

Treasury regulation16A6.4  states that if in a specific case it is impractical to invite competitive bids, the accounting officer or accounting authority may procure the required goods or services by other means, provided that the reasons for deviating from inviting competitive bids must be recorded and approved by the accounting officer or accounting authority.

Practice note 6 of 2007/08 states that in instances where it would be impractical to invite competitive bids, Treasury Regulation 16A6.4 provides for such instances where accounting officers are allowed to dispense with competitive bidding processes to procure goods and services by other means. This provision is intended for cases of emergency where immediate action is necessary or if the goods and services required are produced or available from sole service providers. The reasons for such action must be recorded and approved by the accounting officer or accounting authority.

Practice note 6 of 2007/08 further states that an effective system of supply chain demand management requires an accounting officer or accounting authority to ensure that the resources required to support the strategic and operational commitments of an institution are properly budgeted for and procured at the correct time. Planning for the procurement of such resources must take into account the period required for competitive bidding processes. It must therefore be emphasized that a lack of proper planning does not constitute a reason for dispensing with prescribed bidding processes.

Practice Note 6 of 2007 states that the accounting officer must report within ten (10) working days to the relevant treasury and Auditor-General, all cases where goods and services above the value of R1 million (Vat Included) which were procured in terms of Treasury Regulation 16A6.4. The report must include the description of the goods or services, the names of the suppliers, the amounts involved and the reasons for dispensing with the prescribed competitive bidding processes.

Practice note 7 of 2009/10 states that if a supply chain management official or other role player, or any close family member, partner or associate of such official or other role player, has any private or business interest in any contract to be awarded, that official or other role player must disclose that interest and withdraw from participating in any manner whatsoever in the process relating to that contract.  To give effect to the above, the National Treasury issued a standard bidding document (SBD 4) “Declaration of Interest” on 5 December 2003 as part of Supply Chain Management (SCM) Practice Note Number SCM 1 of 2003. In terms of this document the accounting officer is required to customize and utilize the form as part of their bidding documents so that bidders or their authorized representatives could declare their position in relation to any person employed by the principal institution.

Treasury Regulations 16A9.2(a) states that the accounting officer or accounting authority may disregard the bid of any bidder if that bidder, or any of its directors—

* have abused the institution’s supply chain management system;
* have committed fraud or any other improper conduct in relation to such system; or
* have failed to perform on any previous contract;

Treasury Regulation 16A(9)(1e) states that an accounting officer must reject a proposal for the award of a contract if the recommended bidder has committed a corrupt or fraudulent act in competing for the particular contract

Practice Note 8 of 2007 paragraph6.1 states that the accounting officer must be in possession of an original valid tax clearance certificate for all price quotations and competitive bids exceeding the value of R30 000 (VAT included). Paragraph 6.2 further states that if an accounting officer is in possession of a supplier’s original valid tax clearance certificate, it is not necessary to obtain a new tax clearance certificate each time a price quotation or bid is submitted from that specific supplier. This provision may be applied only if the closing date of the price quotation or bid falls within the expiry date of the tax clearance certificate that is in the accounting officer’s possession. Whenever this ruling is applied, cross-reference must be made to the original tax certificate for audit purposes

The following discrepancies were identified:

|  |  |  |  |
| --- | --- | --- | --- |
| **No** | **Name** | **WCS number** | **Award** |
| 1 | ADI Investments Pty Ltd | 052132 | 1215604.52 |

Deviation from competitive bidding:

Service above R500 000 was procured without inviting competitive bids. This relates to consultants appointed on a roster system These instances didn’t relate to cases of emergency where immediate action was necessary or where the goods and services required were procured from sole service providers. Furthermore no proof could be obtained that the deviation was approved by the accounting officer

Uneconomical use of resources

We are therefore also unable to determine if the procurement was economical

No proof could be obtained on file that the deviation was reported to the AGSA within 10 working days.

Declaration of interest:

The declaration of interest (SBD4) was not completed and signed by the winning supplier declaring whether the bidder or any person connected with the bidder is employed by the state or whether the bidder, or any person connected with the bidder, have any relationship (family, friend, other) with a person employed by the state and who may be involved with the evaluation and or adjudication of this bid.

Declaration of bidder's past SCM practices (SBD 8)

The declaration of bidder's past SCM practices (SBD 8) was not completed and signed by the winning supplier, therefore we were unable to confirm that the bidder had no fraud, abuse of the SCM system or non-performance in previous contracts.

Certificate of independent bid determination (SBD 9)

The certificate of independent bid determination (SBD 9) was not completed and signed by the winning supplier Consequently we are unable to determine whether the winning supplier or any of its directors have failed to perform on any previous contract or if the winning supplier, or any of its directors have committed a corrupt or fraudulent act in competing for the contract.

Tax clearance certificate

The supplier didn’t submit an original tax clearance certificate from SARS certifying that the tax affairs are in order on the day of the closing of the bid.

**Risk**

Non-compliance with laws resulting in irregular expenditure

**Internal control deficiency**

## Leadership

Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored.

The entity does not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Although management did develop action plans to address internal control deficiencies, they were not effective to prevent irregular expenditure as well as non-compliance with applicable laws and regulations.

Financial and performance management

Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored.

**Recommendation**

Management should ensure that the entity complies with all applicable laws and regulations.

Management must develop policies and procedures to ensure compliance with all prescribed laws and regulations.

A compliance checklist should be completed and reviewed before the payment is approved to ensure that the correct procurement process was followed.

Should the expenditure be regarded as irregular expenditure, the department must follow up and take appropriate steps against the applicable individuals as section 38(i)(h)(iii) of the PFMA states that "the Accounting Officer for the department must take effective appropriate disciplinary steps against any official in the service of the department, trading entity or constitutional institution who— makes or permits an unauthorised expenditure, irregular expenditure or fruitless and  wasteful expenditure".

**Management response**

Awaiting management comments

**Auditor’s conclusion**

Awaiting management comments

1. **Procurement: competitive bidding – COEGA Development Corporation**

**Audit finding**

Practice Note 8 of 2007/08 states

that the accounting officer should invite competitive bids for all procurement above R 500 000. Should it be impractical to invite competitive bids for specific procurement, e.g. in urgent or emergency cases or in case of a sole supplier, the accounting officer may procure the required goods or services by other means, such as price quotations or negotiations in accordance with Treasury Regulation 16A6.4. The reasons for deviating from inviting competitive bids should be recorded and approved by the accounting officer are required to report within ten (10) working days to the relevant treasury and the Auditor-General all cases where goods and services above the value of R1 million (VAT inclusive) were procured in terms of Treasury Regulation 16A6.4. The report must include the description of the goods or services, the name/s of the supplier/s, the amount/s involved and the reasons for dispensing with the prescribed competitive bidding process

Treasury Regulations 16A6.1 states that procurement of goods and services, either by way of quotations or through a bidding process, must be within the threshold values as determined by the National Treasury.

Treasury regulation16A6.4 states that if in a specific case it is impractical to invite competitive bids, the accounting officer or accounting authority may procure the required goods or services by other means, provided that the reasons for deviating from inviting competitive bids must be recorded and approved by the accounting officer or accounting authority.

Practice Note 6 of 2008 states that Treasury Regulation 16A6.4 is intended for cases of emergency or where goods and services are available from sole service providers. Taking cognizance of the above, accounting officers and accounting authorities are directed to ensure that Treasury Regulation 16A6.4 is utilized strictly to procure goods and services of critical importance and only in specific cases when it is impractical to invite competitive bids.

Practice Note 6 of 2007 states that the accounting officer must report within ten (10) working days to the relevant treasury and Auditor-General, all cases where goods and services above the value of R1 million (Vat Included) which were procured in terms of Treasury Regulation 16A6.4. The report must include the description of the goods or services, the names of the suppliers, the amounts involved and the reasons for dispensing with the prescribed competitive bidding processes.

Public Finance Management Act section 38(1)(a)(iv) states that the accounting officer for a department must ensure that the department has and maintains a system for properly evaluating all major capital projects prior to a final decision on the project and a proper needs assessment must be done prior to a final decision on a project.

Treasury Regulation 16A3.2 states that a supply chain management system must be fair, equitable, transparent, competitive and cost effective.

Practice note 7 of 2009/10 states that if a supply chain management official or other role player, or any close family member, partner or associate of such official or other role player, has any private or business interest in any contract to be awarded, that official or other role player must disclose that interest and withdraw from participating in any manner whatsoever in the process relating to that contract. To give effect to the above, the National Treasury issued a standard bidding document (SBD 4) “Declaration of Interest” on 5 December 2003 as part of Supply Chain Management (SCM) Practice Note Number SCM 1 of 2003. In terms of this document, accounting officers and accounting authorities are required to customize and utilize the form as part of their bidding documents so that bidders or their authorized representatives could declare their position in relation to any person employed by the principal institution.

Practice Note 8 of 2007 paragraph6.1 states that the accounting officer must be in possession of an original valid tax clearance certificate for all price quotations and competitive bids exceeding the value of R30 000 (VAT included). Paragraph 6.2 further states that if an accounting officer is in possession of a supplier’s original valid tax clearance certificate, it is not necessary to obtain a new tax clearance certificate each time a price quotation or bid is submitted from that specific supplier. This provision may be applied only if the closing date of the price quotation or bid falls within the expiry date of the tax clearance certificate that is in the accounting officer’s possession. Whenever this ruling is applied, cross-reference must be made to the original tax certificate for audit purposes

The following discrepancies were identified for the following supplier:

|  |  |  |  |
| --- | --- | --- | --- |
| **Number** | **Name** | **WCS number** | **Tender amount** |
| 1 | COEGA Development Corporation | 048582 | 30 443 000 |

Deviation from competitive bidding:

Service above R500 000 was procured without inviting competitive bids. This doesn’t constitute an emergency or services available from a sole supplier.

Reporting:

The tender was awarded based on a deviation from tender process, however National Treasury and the AGSA was not notified within 10 working days.

Uneconomical use of resources:

The procurement was not necessarily economical and obtained at a reasonable price as it didn’t go through a competitive bidding process.

Needs assessment

A needs assessment evaluating all major capital projects prior to a final decision on the project and a proper needs assessment was not performed prior to a final decision on a project

Declaration of interest

The SBD4 was not completed and signed by the winning supplier to declare

i) whether the bidder or any person connected with the bidder is employed by the state

ii) whether the bidder, or any person connected with the bidder, have any relationship (family, friend, other) with a person employed by the state and who may be involved with the evaluation and or adjudication of this bid

SBD8 and SBD 9 (Certificate of independent bid determination):

SBD 8 and SBD 9 were not completed. No documentation was on file to substantiate whether the accounting officer evaluated if the recommended bidder has committed a corrupt or fraudulent act in competing for the particular contract

Tax clearance certificate

The supplier didn’t submit an original tax clearance certificate from SARS certifying that the tax affairs are in order on the day of the closing of the bid.

**Risk**

Non-compliance with laws and regulations resulting in irregular expenditure

**Internal control deficiency**

Leadership

Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored.

The entity does not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Although management did develop action plans to address internal control deficiencies, they were not effective to prevent irregular expenditure as well as non-compliance with applicable laws and regulations.

Financial and performance management

Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored.

**Recommendation**

Management should ensure that the entity complies with all applicable laws and regulations.

Management must develop policies and procedures to ensure compliance with all prescribed laws and regulations.

A compliance checklist should be completed and reviewed before the payment is approved to ensure that the correct procurement process was followed.

Should the expenditure be regarded as irregular expenditure, the department must follow up and take appropriate steps against the applicable individuals as section 38(i)(h)(iii) of the PFMA states that "the Accounting Officer for the department must take effective appropriate disciplinary steps against any official in the service of the department, trading entity or constitutional institution who— makes or permits an unauthorised expenditure, irregular expenditure or fruitless and  wasteful expenditure".

**Management response**

Awaiting management comments

**Auditor’s conclusion**

Awaiting management comments

1. **Procurement: competitive bidding – Bono Infrastructure Facilities and Project Management**

**Audit finding**

Treasury Regulation section 16A.6.3 (c) states that bids must be advertised in at least the Government Tender Bulletin for a minimum period of 21 days before closure, except in urgent cases when bids may be advertised for such shorter period as the accounting officer or accounting authority may determine.

Instruction note 32 section 3.2.1 states that within ten (10) working days after the closure of any advertised competitive bid, institutions must publish on its website the names of all bidders that submitted bids in relation to that particular advertisement. Where practical, institutions must also publish the total price and the preferences claimed by the respective bidders. The information should remain on the website for at least thirty (30) days. The details of the winning bidder, contract number and description, preference claimed and contract price must also be published in the government tender bulleting.

Treasury Regulation 16A(9)(1e) states that an accounting officer must reject a proposal for the award of a contract if the recommended bidder has committed a corrupt or fraudulent act in competing for the particular contract

PPR 6 (2) states that points must be awarded to a tenderer for attaining the B-BBEE status level of contributor for procurement equal or above R1 million as follows:

|  |  |
| --- | --- |
| B-BBEE Level | Points |
| 1 | 10 |
| 2 | 9 |
| 3 | 8 |
| 4 | 5 |
| 5 | 4 |
| 6 | 3 |
| 7 | 2 |
| 8 | 1 |

The following discrepancies were identified for the following supplier:

|  |  |  |  |
| --- | --- | --- | --- |
| **Number** | **Name** | **WCS and tender number** | **Tender amount** |
| 1 | Bono Infrastructure Facilities and Project Management | 048332 and PT15/001 | R34 836 340.77 |

Advertisement:

No proof could be obtained in file that the tender was advertised in the Government Tender Bulletin.

No evidence was provided that the names of all bidders who submitted bids in relation to the advertisement were published on the website within ten (10) working days after the closure of the advertised bid and remained on the website for a minimum of thirty (30) days. Furthermore no evidence could be obtained that the details of the winning bidder was published in the government tender bulleting.

Certificate of independent bid determination (SBD 9)

The certificate of independent bid determination (SBD 9) was not completed and signed by the winning supplier Consequently we are unable to determine whether the winning supplier or any of its directors have failed to perform on any previous contract or if the winning supplier, or any of its directors have committed a corrupt or fraudulent act in competing for the contract.

Preference points

The winning bidder was a level 1 contributor and was incorrectly awarded 9 points instead of 10 points per the scoring model as per inspection of the PA-20. This didn’t result in the incorrect bidder being awarded the tender

**Risk**

Non-compliance with laws and regulations

**Internal control deficiency**

Leadership

Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored.

The entity does not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Although management did develop action plans to address internal control deficiencies, they were not effective to prevent irregular expenditure as well as non-compliance with applicable laws and regulations.

Financial and performance management

Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored.

**Recommendation**

Management should ensure that the entity complies with all applicable laws and regulations.

Management must develop policies and procedures to ensure compliance with all prescribed laws and regulations.

A compliance checklist should be completed and reviewed before the payment is approved to ensure that the correct procurement process was followed.

**Management response**

Awaiting management comments

**Auditor’s conclusion**

Awaiting management comments

1. **Procurement: contract management**

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

Treasury Regulations 16A6.3 (a) and (e) states that the accounting officer or accounting authority must ensure that bid documentation and the general conditions of a contract are in accordance with

1. the instructions of the National Treasury; or
2. the prescripts of the Construction Industry Development Board, in the case of a bid relating to the construction industry

Practice Note issued by National Treasury on 21 July 2010, Paragraph 3.2.2 states that accounting officers and accounting authorities are required to ensure that all bids are in future invited in terms of the revised General Conditions of Contract

The Public Finance Management Act 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.

PFMA section 38(1)(c) states that the accounting officer for a department, trading entity or constitutional institution must take effective and appropriate steps to—

 (i)  collect all money due to the department, trading entity or constitutional institution;

(ii) prevent unauthorised, irregular and fruitless and wasteful expenditure and losses resulting from criminal conduct; and

(iii) manage available working capital efficiently and economically;

Instruction Note 32 (dated 31 May 2011) paragraph 3.9.3 states that 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.

The following discrepancies were identified:

The contract file was provided for the following supplier; however no documentation was included in the file. Consequently we are unable to verify whether:

* The contract was prepared in accordance with the general conditions of contracts (GCC) as prescribed by National Treasury and the standard wording was not amended and / or if the contract was in accordance to the prescripts of the Construction Industry Development Board, in the case of a contract relating to the construction industry
* The contract details the same goods and services as those specified as part of the bidding process.
* The contract price is not above the tendered price
* Measures to monitor contract performance and delivery have been defined and implemented
* The contract performance measures and the methods whereby it is monitored are sufficient to ensure effective contract management.
* Problems / delays/ defects which were identified during project monitoring or inspections have been rectified.
* A project manager was appointed to monitor the project.
* If it is apparent that the supplier is not performing in accordance with the contract/ service level agreement the applicable penalties have been invoked and/ or the contract terminated for default (as per the GCC and SCC).
* Extension/ modification to the contract (including variation orders):  
  i) was done in accordance with the auditee's policies and procedures.

ii) was approved by a accounting officer / delegated official

iii) the renewal is justifiable and not indicative of a circumvention of procurement processes.

iv) Applicable from 31 May 2011  
Expansions/ variation orders did not exceed the following limits without prior approval by the accounting officer / authority :  
For construction contracts: The lesser of R20 million or 20% of the original contract amount.  
For other goods/ services: The lesser of 15% or R15 million of the original contract price

* The total payments made under the contract up to date do not exceed the original contract price plus any further approved extensions to the contract.
* Goods/services relating to contracts that were completed during the current year were actually received and are being utilised.
* Where the project is not complete retention fee was not paid to the contractor unless retention guarantee was in place
* Where the project/ contract relate to continued needs of the auditee, procurement process to appoint a new provider has commenced.

|  |  |  |  |
| --- | --- | --- | --- |
| **Contractor** | **Tender no** | **WCS number** | **Award** |
| Botsang Ledile/Texas Building JV | PT10/074 | WCS 033753 | 20 712 143.58 |

The contract was not signed by both the successful bidder and a delegated official.

|  |  |  |
| --- | --- | --- |
| **Contractor** | **WCS number** | **Award** |
| Sunrise Electrical Wholesalers | WCS 048811 | 13 759 000 |

The 2004 version of the General Conditions of the Contract (GCC) was used and not the revised GCC as per the Practice Note issued in July 2010 for the following supplier

|  |  |  |  |
| --- | --- | --- | --- |
| **Contractor** | **Tender no** | **WCS number** | **Award** |
| Ngaa Anglyn JV | PT10/049 | WCS 051920 | 21 948 734 |
| Ngaa Anglyn JV | PT14/063 | WCS 052574 | 31 338 885 |

The GCC/ SCC was not on file to enable us to determine if measures to monitor contract performance and delivery have been defined and implemented and if the contract performance measures and the methods whereby it is monitored are sufficient to ensure effective contract management. Furthermore we can also not determine if the supplier is not performing in accordance with the contract/ service level agreement whether the applicable penalties have been invoked and/ or the contract terminated for default (as per the GCC and SCC).

|  |  |  |
| --- | --- | --- |
| **Contractor** | **WCS number** | **Award** |
| Sunrise Electrical Wholesalers | WCS 048811 | 13 759 000 |

There were variation orders that increased the contract price from R17 897 993 to R24 027 360.These variation orders and the approval thereof were not provided. Consequently we can also not determine if these expansions/ variation orders did not exceed the following limits without prior approval by the accounting officer:  
- For construction contracts: The lesser of R20 million or 20% of the original contract amount.  
- For other goods/ services: The lesser of 15% or R15 million of the original contract price

|  |  |  |  |
| --- | --- | --- | --- |
| **Contractor** | **Tender no** | **WCS number** | **Award** |
| RAPDL Construction | PT13/051 | WCS 045856 | 17 897 993 |

**Risk**

Non-compliance with laws and regulations resulting in irregular expenditure

**Internal control deficiency**

## Leadership

Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored.

The entity does not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Although management did develop action plans to address internal control deficiencies, they were not effective to prevent non-compliance with applicable laws and regulations.

Financial and performance management

Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored.

**Recommendation**

The trading entity should update their General Condition of Contract with the latest version issued by the National Treasury and ensure the latest version is used in all contracts concluded going forward.

Management should ensure that the entity complies with all applicable laws and regulations.

Management must develop policies and procedures to ensure compliance with all prescribed laws and regulations.

A compliance checklist should be completed and reviewed before the payment is approved to ensure that the correct procurement process was followed.

Should the expenditure be regarded as irregular expenditure, the department must follow up and take appropriate steps against the applicable individuals as section 38(i)(h)(iii) of the PFMA states that "the Accounting Officer for the department must take effective appropriate disciplinary steps against any official in the service of the department, trading entity or constitutional institution who— makes or permits an unauthorised expenditure, irregular expenditure or fruitless and  wasteful expenditure".

**Management response**

We are not in agreement with the finding for the following reasons:

The contracts listed in the findings table shows that the cases referred to pertain to projects in the construction industry.  That being so, Treasury Regulation 16A6.3(a)(ii) is of particular relevance as it stipulates that documentation and conditions of contract are to be in accordance with the prescripts of the CIDB.

According to CIDB Standards for Uniformity (SfU), the Department is permitted to use only accredited contract formats.  In such regard the CIDB has accredited the following: NEC, FIDIC, GCC and JBCC.  In relation to the latter two formats, it must be stated that the CIDB accredited the JBCC 2005 and -2007 versions and for GCC it accredited the-2004 and- 2010 versions.

It is very important to appreciate that the GCC referred to in the Treasury Note is not the same as the GCC referred to by CIDB and therefore not the same as used in the projects listed in the tables above.

The Department rightfully used the GCC2004 on construction projects until 2013 at which stage it moved to the use of the GCC2010.

For ease of reference, the GCC2004 and -2010, as accredited by the CIDB, are “off-the-shelf” contract formats, both compiled by the South African Institution of Civil Engineering (SAICE).  The GCC referred to in the Practice note of July 2010 is a contract format compiled by National Treasury and is mostly used for general goods and services.

The reason why the Department only moved over to the GCC2010 version in 2013 is to be found in a delay occasioned in attempting to obtain Ministerial approval in respect of certain indemnities extended to the contractor.

Name: Papi Mekwa

Position: Chief Director

Date: 11 March 2016

**Auditor’s conclusion**

Management comments noted, however the audit finding remains.

Regarding management response relating to the GCC, the latest version of General Conditions of the Contract 2010 was only implemented late in September 2013 and the Practice Note issued by National Treasury on 21 July 2010, Paragraph 3.2.2 states that accounting officers and accounting authorities are required to ensure that all bids are in future invited in terms of the revised General Conditions of Contract.

1. **Procurement: contract management**

**Audit finding**

The General Conditions of contract 2010 (GCC) paragraph 21 states that should the supplier or its subcontractor(s) encounter conditions impeding timely delivery of the goods and performance of services at any time during performance of the contract, the supplier shall promptly notify the purchaser in writing of the fact of the delay, its likely duration and its cause(s). As soon as practicable after receipt of the supplier’s notice, the purchaser shall evaluate the situation and may at his discretion extend the supplier’s time for performance, with or without the imposition of penalties, in which case the extension shall be ratified by the parties by amendment of contract. The delay by the supplier in the performance of its delivery obligations shall render the supplier liable to the imposition of penalties, unless an extension of time is agreed upon.

The General Conditions of contract 2010 (GCC) paragraph 21 states that if the supplier fails to deliver any or all of the goods or to perform the services within the period(s) specified in the contract, the purchaser shall, without prejudice to its other remedies under the contract, deduct from the contract price, as a penalty, a sum calculated on the delivered price of the delayed goods or unperformed services using the current prime interest rate calculated for each day of the delay until actual delivery or performance. The purchaser may also consider termination of the contract.

The following discrepancies were identified:

The original contract completion date was 09/12/2015, however the original contract period has overrun. There is no evidence of extensions/modifications of the extension or variation orders and the approval thereof by the accounting officer

|  |  |  |
| --- | --- | --- |
| **Contractor** | **WCS number** | **Award** |
| Shaicon Tendering Services | WCS 053327 | 2 656 580.76 |

**Risk**

Non-compliance with laws and regulations resulting in irregular expenditure

**Internal control deficiency**

## Leadership

Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored.

The entity does not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Although management did develop action plans to address internal control deficiencies, they were not effective to prevent non-compliance with applicable laws and regulations.

Financial and performance management

Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored.

**Recommendation**

Management should ensure that the entity complies with all applicable laws and regulations.

Management must develop policies and procedures to ensure compliance with all prescribed laws and regulations.

A compliance checklist should be completed and reviewed before the payment is approved to ensure that the correct procurement process was followed.

Should the expenditure be regarded as irregular expenditure, the department must follow up and take appropriate steps against the applicable individuals as section 38(i)(h)(iii) of the PFMA states that "the Accounting Officer for the department must take effective appropriate disciplinary steps against any official in the service of the department, trading entity or constitutional institution who— makes or permits an unauthorised expenditure, irregular expenditure or fruitless and  wasteful expenditure".

**Management response**

Awaiting management comments

**Auditor’s conclusion**

Awaiting management comments

Asset and liability management

# Non-compliance with treasury regulations as bank account is in overdraft (COFF 9)

**Audit finding**

Treasury Regulations (TR) 19.2.3 states that trading entities allowed to open bank accounts may not borrow for bridging purposes and may not run overdrafts on their banking accounts.

During the audit it was noted that the PMTE PMG account (8033) is operating on a bank overdraft.

Furthermore the situation was reported in the prior year financial year and has since increased significantly:

|  |  |  |
| --- | --- | --- |
| **Description** | **Amount** | **Increase in overdraft**  **R** |
| Balance as at 31 March 2015 | R667 586 000 | R853 379 0000 |
| Balance as at 30 September 2015 | R1 520 965 000 |

The current business model of the entity requires PMTE to make payments on behalf of client departments, and only subsequently issue invoices to recover funds.

Impact of deviation

1. Non-compliance with TR 19.2.3
2. The bank overdraft may cast significant doubt on the entity's ability to continue as a going concern

**Internal control deficiency**

Leadership

The accounting officer does not exercise oversight and responsibility over reporting and compliance with laws and regulations and internal control.

**Recommendation**

National Treasury to be approached for intervention in recovering outstanding claims from client departments as provided for in the PFMA, Section 6(1)(b), “co-ordinate inter-governmental financial and fiscal relations.

Monthly reconciliations need to be performed and action taken to ensure timeous recovery of current debts from client departments.

Management needs to review this overdraft on a monthly basis to ensure the overdraft does not continually increase.

The entity should consider entering into agreements with the user departments to pay the PMTE upfront to alleviate the bank overdraft situation.

**Management response**

Management is in in agreement with the audit finding.

The Department acknowledges that in order to address the situation it is imperative to change the existing operating model. To this end various projects have been initiated to improve the cash flow of the PMTE, including:

* We are engaging all client departments to actively recover long outstanding debt, George Tembo from National Treasury is involved in the process where required. Numerous meetings were already held with client departments and George Tembo.
* We facilitated a meeting between National Treasury and clients not paying within 30 days, the purpose was to try and understand and then address the late payments from client departments.
* Management monitors the bank on a monthly basis.
* Meetings were held with National Treasury to discuss claiming private lease accommodation in advance. National Treasury is supporting the position, however the successful Archibus system implementation was set as a requirement.

The above interventions are bearing results as the bank balance as at the end of February 2016 is a positive balance of R1 316 143 688.36.

Just to note that the bank balance fluctuates dramatically due to very big cash inflows and outflows such as the augmentation received from DPW, reimbursement of DPW for salary expenses.

|  |  |  |  |
| --- | --- | --- | --- |
| **Description** | **Response** | | |
| Corrective action to be taken | To proceed with the projects currently underway, which is in agreement to the recommendations made by AG. | | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** | |
|  | X | |
| If yes, what corrections will be made to the population | X | | |
| If yes, the process followed to correct the population, including the internal controls put in place to ensure that the misstatement does not recur in future. | X | | |
| If yes and the population was adjusted, the proposed adjusting journal entries to correct the population, with the supporting documentation. | X | | |
| Acknowledgement that additional audit costs will be incurred in order to audit the proposed adjustments and that the financial statements will not be adjusted if material misstatements still exist. (Under these circumstances the misstatements identified originally will be reported by the auditor.) | **Yes** | | **No** |
|  | |  |
|  | | |
| 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. | The root cause is that the business | |

*Name: Andre Joubert*

*Position: Director: Revenue and Debt Management*

*Date: 16 March 2016*

**Auditor’s conclusion**

Management comment noted and cognisance is taken of the fact that management agrees with the finding. The non-compliance will be reported in the interim management report.

The measures put in place to address the finding will be followed up during the final audit.

Irregular expenditure

1. **Irregular expenditure: Completeness of irregular expenditure**

**Audit finding**

Section 40 of the 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;

**Nature**

The following communications of audit findings from the testing of procurement and contract management indicate that the irregular expenditure is not complete since the non- compliance identified through the audit process resulted in irregular expenditure.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **No:** | **COFF number** | **Issue in COFF** | **Region** | **Financial statement line item** | **Amount** |
| 1 | 3 CT | Goods for greater than R500 000 not obtained via open procedure | Cape town | Irregular expenditure | 27 738 285.63 |
| 2 | 5 CT | Incorrect CIDB grading | Cape town | Irregular expenditure | 15 571 315.06 |
| 3 | 6 CT | Incorrect composition of RBAC | Cape town | Irregular expenditure | 28 990 613.22 |
| 4 | 11 CT | Three quotations not obtained | Cape town | Irregular expenditure | 1 180 842.89 |
|  |  |  |  |  | 73 481 056.80 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Region** | **COFF** | **Component** | **Description** | **Amount** |
| Kimberly (PMTE) | 1 | Procurement and contract management | Testing competitive bidding – BBBEEE certificate | 14 820 962.00 |
| Kimberly (PMTE) | 2 | Procurement and contract management | Outdated General Condition of Contract used | 3 981 641.00 |
| Bloemfontein (PMTE) | 4 | Procurement and contract management | Consultants appointed on the roster system, competitive bidding process not followed. | 639 936.00 |
| Bloemfontein (PMTE) | 5 | Procurement and contract management | Winning bidder's details not published on Department's website | 32 288 254.00 |
| Bloemfontein (PMTE) | 6 | Contract management | Retention amount incorrectly calculated | 600 529.00 |
| Mmabatho (PMTE) | 5 | Procurement | Procurement: Declaration of interest on submitted for audit | 516 997.00 |
| Mmabatho (PMTE) | 6 | Procurement | invitation to tender not published on the website | 8 625 093.00 |
| Nelspruit (PMTE) | 3 | Procurement | Bid advertised for less than 21 days | 46 660 139.51 |
| Durban (PMTE) | 2 | Procurement | Contract management – information requested could not be provided | 33 504 000.00 |
| Durban (PMTE) | 5 | Procurement | Testing competitive bidding – names of bidders not published on website | 50 532 968.00 |
| Durban (PMTE) | 6 | Procurement | Testing competitive bidding – tax clearance certificate | 7 530 530.00 |
| Durban (PMTE) | 7 | Contract management | Approval of extension of time | 6 143 622.01 |
| Durban (PMTE) | 8 | Contract management | Measures to monitor contract performance and delivery have not been defined and implemented | 6 143 622.01 |
| Durban (PMTE) | 9 | Contract management | Projects not registered with CIDB within 21 days | 6 143 622.01 |
| Umthatha (PMTE) | 1 | Procurement | Limitation of scope | 30 038 762.41 |
| Umthatha (PMTE) | 1 | Procurement | Limitation of scope | 11 129 000.00 |
| Umthatha (PMTE) | 3 | Contract management | Limitation of scope | 14 758 428.61 |
|  |  |  |  | 324 058 106.56 |

**Impact**

This resulted in understatement of irregular expenditure.

|  |
| --- |
|  |

**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**

Management should investigate the population of expenditure for all irregular expenditure indicators and update the irregular expenditure register, in addition management should develop and implement internal control procedures to ensure the completeness of the irregular expenditure listing.

**Management response**

I am in/not in agreement with the finding for the following reasons:

|  |  |  |  |
| --- | --- | --- | --- |
| **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, the process followed to correct the population, including the internal controls put in place to ensure that the misstatement does not recur in future. |  | | |
| If yes and the population was adjusted, the proposed adjusting journal entries to correct the population, with the supporting documentation. |  | | |
| Acknowledgement that additional audit costs will be incurred in order to audit the proposed adjustments and that the financial statements will not be adjusted if material misstatements still exist. (Under these circumstances the misstatements identified originally will be reported by the auditor.) | **Yes** | | **No** |
|  | |  |
|  | | |
| 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:*

*Position:*

*Date:*

**Auditor’s conclusion**

Revenue

# Revenue from exchange– Overstatement of Accommodation Charges-Freehold inter-governmental (COFF 13)

**Audit finding**

Laws, rules and regulations

Public Finance Management Act section 40 states the following:

Section 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;
2. must prepare financial statements for each financial year in accordance with generally recognized accounting practice;”

Section 40(3)(a) states:

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

Per inspection of WCS listing supporting the interim financial statements for the period ending 30 September 2015, It was noted that some items of capital expenditure which are not recoverable from the client departments have been incorrectly classified as accommodation charges-freehold inter-governmental (revenue). This incorrect classification results in revenue being overstated by R60 938 782.14.

**The impact of the finding**

a) Non-compliance with Section 40 of the PFMA.

b) Revenue from exchange is overstated.

**Internal control deficiency**

The finding occurred as a result of the following:

Interim financial statements are not properly reviewed to ensure that only recoverable expenditure is classified as revenue in the financial statements.

Based on the aforementioned the matter is as a result of the following internal control deficiencies:

**Financial and Performance Management**

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

**Recommendation**

The entity should ensure that the interim financial statements are properly reviewed to ensure that only recoverable expenditure is classified as revenue in the financial statements.

**Management response**

Management is aware that there are projects posted to the Accommodation charges-freehold inter-government account but may not be recoverable from the user departments. Management is currently in the process of quantifying all projects which have been incorrectly posted to that account and have had the intensions of making all the necessary adjustments to correct the possible errors, during the preparation of the financial statements for the 31 March 2016 financial year end.

|  |  |  |  |
| --- | --- | --- | --- |
| **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 population will be adjusted for all projects that may possibly not be recoverable. | | |
| If yes, the process followed to correct the population, including the internal controls put in place to ensure that the misstatement does not recur in future. | Senior management supervision and review over the process. | | |
| If yes and the population was adjusted, the proposed adjusting journal entries to correct the population, with the supporting documentation. | Dr Accommodation charges-freehold inter-governmental (revenue) – R 60,938,782.14  Cr Deferred revenue ­– R 60,938,782.14 | | |
| Acknowledgement that additional audit costs will be incurred in order to audit the proposed adjustments and that the financial statements will not be adjusted if material misstatements still exist. (Under these circumstances the misstatements identified originally will be reported by the auditor.) | **Yes** | | **No** |
| X | |  |
|  | | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. | Not applicable | | |
| Position of official responsible to take corrective actions | CD: Finance | | |
| Estimated completion date for corrective action | 31 March 2016 | | |

|  |  |  |
| --- | --- | --- |
| **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. | Financial Statements are thoroughly reviewed by the relevant senior management and this is an isolated incident. | |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the internal control deficiencies indicated | **Yes** | **No** |
|  | X |
| If management does not agree with the internal control deficiency indicated, please provide the internal control deficiency according to management. | Financial Statements are thoroughly reviewed by the relevant senior management and this is an isolated incident. | |

*Name:* S G Sokhela

*Position: Director: Immovable Asset Register Management*

*Date: 02 February 2016*

**Auditor’s conclusion**

Management comment noted, and cognisance is taken of the fact that management agrees with the finding. This will be reported in the interim management report and followed up during final audit.

# Revenue from exchange– Misclassification of Augmentation to Accommodation charges-Freehold inter-governmental revenue (COFF 14)

**Audit finding**

Laws, rules and regulations

1. Public Finance Management Act section 40 states the following:

Section 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;
2. must prepare financial statements for each financial year in accordance with generally recognized accounting practice;”

Section 40(3)(a) states:

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

Per reconciliation of the state owned accommodation invoice listing supporting the interim financial statements and the amount disclosed in the interim financial statements as part of “Accommodations charges: freehold intergovernmental” for the period ending 30 September 2015, it was noted that the augmentation invoice of R719 501 000 was incorrectly posted in state owned accommodation revenue account. As a result Revenue from exchange transactions is overstated and Revenue from non-exchange is understated. The difference is as follows:

|  |  |  |
| --- | --- | --- |
| **Amount per Invoice Listing** | **Amount per Financial Statements** | **Difference** |
| 1 952 084 870.10 | 2 671 585 870.10 | 719 501 000 |

**The impact of the finding**

a) Non-compliance with Section 40 of the PFMA.

b) Revenue from exchange is overstated and Revenue from non- exchange is understated. This misstatement may materially impact the financial statements.

**Internal control deficiency**

The finding occurred as a result of the following:

The ledger accounts are not reviewed to ensure that the postings are correctly done in the accounts resulting revenue components being incorrectly classified in the financial statements.

Based on the aforementioned the matter is as a result of the following internal control deficiencies:

**Financial and Performance Management**

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

**Recommendation**

The entity should ensure that postings in the ledger accounts are properly reviewed to ensure that revenue components are correctly classified in the financial statements.

**Management response**

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

An invoice for Augmentation Revenue was incorrectly processed to State owned Revenue

|  |  |  |  |
| --- | --- | --- | --- |
| **Description** | **Response** | | |
| Corrective action to be taken | Correct classification of revenue | | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** | |
| √ |  | |
| If yes, what corrections will be made to the population | Revenue classification | | |
| If yes, the process followed to correct the population, including the internal controls put in place to ensure that the misstatement does not recur in future. | Review of the postings to ensure revenue components are classified correctly | | |
| If yes and the population was adjusted, the proposed adjusting journal entries to correct the population, with the supporting documentation. |  | | |
| Acknowledgement that additional audit costs will be incurred in order to audit the proposed adjustments and that the financial statements will not be adjusted if material misstatements still exist. (Under these circumstances the misstatements identified originally will be reported by the auditor.) | **Yes** | | **No** |
|  | | √ |
|  | | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. | This is only one invoice that was classified incorrectly (Augmentation) | | |
| Position of official responsible to take corrective actions | Director | | |
| 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. | Error in generating the invoice | |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the internal control deficiencies indicated | **Yes** | **No** |
|  | √ |
| If management does not agree with the internal control deficiency indicated, please provide the internal control deficiency according to management. |  | |

Name: Sipokazi Ngamlana

Position: Director

Date: 08 February 2016

**Auditor’s conclusion**

Management comment noted, and cognisance is taken of the fact that management agrees with the finding. This will be reported in the interim management report and followed up during final audit.

Deferred revenue

# Deferred Revenue – Difference between amount per WCS schedule and Interim Financial Statements (COFF 15)

**Audit finding**

Laws, rules and regulations

1. Public Finance Management Act section 40 states the following:

Section 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;
2. must prepare financial statements for each financial year in accordance with generally recognized accounting practice;”

Section 40(3)(a) states:

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

Upon auditing of Deferred revenue per interim financial statements for the period ending 30 September 2015, it was noted that the movement in deferred revenue balance between 31 March 2015 and 30 September 2015 does not agree to the WSC schedule supporting interim financial statements. Refer below for the detail of differences noted:

**Differences between WCS listing and Interim financial statements:**

|  |  |  |
| --- | --- | --- |
| **Amount per WCS listing (excluding status 6A, 7, 8 projects)** | **Amount per Financial Statements (movement in Deferred revenue account)** | **Difference** |
| 1 483 493 475.06 | 1 504 343 000 | 20 849 524.94 |

**Differences between Deferred Revenue Journals and Interim financial statements:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Amount per Journals** | | **Amount per Financial Statements (movement in Deferred revenue account)** | **Difference** |
| Total WCS payments for the period | 1 577 479 192.88 |  |  |
| Less: Amount transferred to Accom Charges: freehold | 194 549 250.41 |  |  |
| **Deferred revenue** | **1 382 929 942.47** | **1 504 343 000** | 1. **413 057.53** |

**The impact of the finding**

a) Non-compliance with Section 40 of the PFMA.

b) Deferred revenue is materially misstated.

**Internal control deficiency**

The finding occurred as a result of the following:

Interim financial statements are not properly reviewed to ensure that amounts in the financial statements are properly supported.

Based on the aforementioned the matter is as a result of the following internal control deficiencies:

**Financial and Performance Management**

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

**Recommendation**

The entity should ensure that the journals and interim financial statements are properly reviewed against the supporting schedules, for instance deferred revenue journals should be reviewed against the WCS supporting schedule.

**Management response**

Management is aware of the misstatement and necessary adjustments will be made in preparation of the annual financial statements.

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

|  |  |  |  |
| --- | --- | --- | --- |
| **Description** | **Response** | | |
| Corrective action to be taken | Reconciliation of the movement will be 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 | The population will be adjusted accordingly. | | |
| If yes, the process followed to correct the population, including the internal controls put in place to ensure that the misstatement does not recur in future. | A thorough review will be performed by senior management before the accounts are finalized. | | |
| If yes and the population was adjusted, the proposed adjusting journal entries to correct the population, with the supporting documentation. | Not applicable – no adjustment will be made in the interim. | | |
| Acknowledgement that additional audit costs will be incurred in order to audit the proposed adjustments and that the financial statements will not be adjusted if material misstatements still exist. (Under these circumstances the misstatements identified originally will be reported by the auditor.) | **Yes** | | **No** |
|  | | X |
|  | | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. | Management is still in a process of reviewing and analyzing the WCS amounts. | | |
| Position of official responsible to take corrective actions | Director | | |
| 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. | Management is still in the process of analyzing WCS and reconciling it to the GL accounts | |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the internal control deficiencies indicated | **Yes** | **No** |
|  | X |
| If management does not agree with the internal control deficiency indicated, please provide the internal control deficiency according to management. | Management is still in the process of analyzing WCS and reconciling it to the GL accounts | |

Name: Siboniso Sokhela

Position: Director

Date: 19/02/2016

**Auditor’s conclusion**

Management comment noted, and cognisance is taken of the fact that management agrees with the finding. This will be reported in the interim management report and followed up during final audit.

**ANNEXURE B: OTHER IMPORTANT MATTERS**

Procurement and contract management

# Procurement: competitive bidding – TP Construction / MC Bavu Construction JV

**Audit finding**

PPR 6 (2) states that points must be awarded to a tenderer for attaining the B-BBEE status level of contributor for procurement equal or above R1 million as follows:

|  |  |
| --- | --- |
| B-BBEE Level | Points |
| 1 | 10 |
| 2 | 9 |
| 3 | 8 |
| 4 | 5 |
| 5 | 4 |
| 6 | 3 |
| 7 | 2 |
| 8 | 1 |

PPR 6 (3) states that a maximum of 10 points may be allocated in accordance with PPR 6 (2)

Preferential Procurement Regulation paragraph 6 (1) states that the 90/10 preference point system for acquisition of services, works or goods with a Rand value above R1 million. The following formula must be used to calculate the points for price in respect of tenders with a Rand value above R1 000 000 (all applicable taxes included):

|  |  |
| --- | --- |
| |  | | --- | | Ps= 90  1-  Pt – Pmin | |
| Pmin |

Ps     = Points scored for comparative price of tender or offer under consideration;

Pt      = Comparative price of tender or offer under consideration; and

Pmin = Comparative price of lowest acceptable tender or offer.

PPR 4 states that the points scored by a tenderer in respect of the level of B-BBEE contribution must be added to the points scored for price.

PPR 7 states that contract may be awarded to a tenderer that did not score the highest total

number of points.

CIDB Regulations paragraph 24 preparation for construction procurement, states that every client or employer who is inviting calls for expression of interest or soliciting competitive tenders without first calling for expressions of interest in the construction industry must publish that invitation to tender on the CIDB’s website

CIDB Regulation 17 states that the winning contractor's grading must be suitable for the value of contract:

|  |  |
| --- | --- |
| **(A) - Grading** | **(B) - Tender value = R** |
| 1 | 200 000 |
| 2 | 650 000 |
| 3 | 2 000 000 |
| 4 | 4 000 000 |
| 5 | 6 500 000 |
| 6 | 13 000 000 |
| 7 | 40 000 000 |
| 8 | 130 000 000 |
| 9 | No limit |

CIDB Regulation 25(5) states if the contract was awarded to a contractor who is registered at a grade lower than the required grade the margin with which the tenderer exceeded his/her tender value range is reasonable (not more than 15%) and the award of the contract does not pose undue risk to the organ of state (there must be risk assessment done). Joint ventures are eligible to submit tender offers or expressions of interest if every member of the joint venture is a registered contractor in terms of these Regulations and the lead partner has a contractor grading designation in the class of construction works under consideration and possesses the required recognition status; and the category of registration of the joint venture, determined in accordance with sub-regulation (6) is equal to or higher than the category of registration specified in accordance with sub-regulation (3).

CIDB Regulation 25(7A) states that an organ of state may subject to its procurement policy and notwithstanding  anything to the contrary contained in this regulation, evaluate and award a tender offer from a tenderer who is registered but who tendered outside of his or her tender value range as contemplated in regulation 17, provided that –

* the margin with which the tenderer exceeded his or her tender value range contemplated in regulation 17, is reasonable;
* the award of the contract does not pose undue risk to the organ of state;
* the tender offer in all other aspects comply with these Regulations; and
* the report referred to in regulation 21 or 38(5)and (6), indicates whether this sub-regulation was applied in the award of the tender.

In terms of CIDB inform PN 3, 15% excess is considered reasonable.

The following discrepancies were identified:

|  |  |  |  |
| --- | --- | --- | --- |
| **Contractor** | **WCS** | **Tender No** | **Amount** |
| TP Construction/MC Bavu Construction JV | WCS 046766 | MTHMTFR/14 | 18 915 164.11 |

Unsuccessful bidders

The unsuccessful bidders’ documentation was not provided and therefore we are unable to determine if the preference points and price points were correctly calculated and awarded for the unsuccessful bidder. We are consequently further unable to determine if the bid was awarded to the bidder who scored the highest points.

CIDB requirements:

There was no proof in the file that the tender was advertised on CIDB website and also within 10 working days and before the closing date for tenders and at least 5 working days before any compulsory site meeting

CIDB grading:

The contract stipulated the grading as per advert is 7GB. TP Construction is registered on 6GB PE, 2GB PE, 4CE PE, while MC Bavu Construction is registered on 4GB PE and 1CE PE. Therefore the contractor is not registered in the required grade. Furthermore the contractor is a joint venture and we are unable to determine that the category of registration of the joint venture, is equal to or higher than the category of registration specified in the invitation to tender.

**Risk**

Non-compliance with laws and regulations resulting in irregular expenditure.

**Internal control deficiency**

## Leadership

The entity does not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Financial and performance management

Non-compliance with Treasury Regulation 16A3.2 (d)(vi) which will result proper processes not being followed and the desired objectives will not be achieved.

Non-compliance with laws and regulations resulting in irregular and fruitless and wasteful expenditure.

**Recommendation**

Management should ensure that the entity complies with all applicable laws and regulations.

Management must develop policies and procedures to ensure compliance with all prescribed laws and regulations.

A compliance checklist should be completed and reviewed before the payment is approved to ensure that the correct procurement process was followed.

Should the expenditure be regarded as irregular expenditure, the department must follow up and take appropriate steps against the applicable individuals as section 38(i)(h)(iii) of the PFMA states that "the Accounting Officer for the department must take effective appropriate disciplinary steps against any official in the service of the department, trading entity or constitutional institution who— makes or permits an unauthorised expenditure, irregular expenditure or fruitless and  wasteful expenditure".

**Management response**

Management is not in agreement with findings:

The unsuccessful bidders’ documentation was submitted to AGSA on 16/01/2016 received by Ms Doreen Thaga. (Find attached register)

The tender was advertised on CIDB website (find attached copy of advert extracted from CIDB website)

CIDB grading calculator was used and grade 7GP was recommended for the joint venture (find attached copy CIDB calculator)

Name: Raymond Naidoo

Position: CD: SCM

Date: 04/03/2016

**Auditor’s conclusion**

Unsuccessful bidders

The unsuccessful bidders’ documentation was provided and this matter is resolved regarding the non-submission of the unsuccessful bidders. However upon inspection of the unsuccessful bidders’ tender documentation we noted that there are indicators of possible bid rigging: one of the losing bidders (Intellec Construction) is related to the winning bidder (TP Construction) and they both also share the same address. Management must investigate the matter to determine if this was fraudulent and whether there was bid rigging present during the tender process

CIDB requirements:

Proof was subsequently provided and this matter is resolved

CIDB grading:

Proof was subsequently provided and this matter is resolved

1. **Procurement: contract management**

**Audit finding**

Treasury Regulations 16A6.3 (a) and (e) states that the accounting officer or accounting authority must ensure that bid documentation and the general conditions of a contract are in accordance with

1. the instructions of the National Treasury; or
2. the prescripts of the Construction Industry Development Board, in the case of a bid relating to the construction industry

Practice Note issued by National Treasury on 21 July 2010, Paragraph 3.2.2 states that accounting officers and accounting authorities are required to ensure that all bids are in future invited in terms of the revised General Conditions of Contract

CIDB Act section 22(3) states that all construction contracts above the prescribed tender value must be recorded in the register.

CIDB regulation 18(1A), (1) states that an employer must, within 21 working days from the date on which a contractor’s offer to perform a construction works contract is accepted in writing by the employer, apply on the approved form to the CIDB for the registration of every project, consisting of a single construction works contract, of which the contract value exceeds a value determined by the Minister by notice in the Gazette.

The following discrepancies were identified:

The 2004 version of the General Conditions of the Contract (GCC) was used and not the revised GCC as per the Practice Note issued in July 2010 for the following supplier

|  |  |  |
| --- | --- | --- |
| **Contractor** | **WCS number** | **Award** |
| Ruwacon | WCS 050196 | 12 113 063.27 |

No evidence was provided to indicate that the following construction contracts were registered with the CIDB within 21 days from the date the contractor offered to perform a construction works contract, which was accepted in writing by the entity:

|  |  |  |
| --- | --- | --- |
| **Contractor** | **WCS number** | **Award** |
| Shaicon Tendering Services | WCS 053327 | 2 656 580.76 |
| South Sound Civils / Exeo Kholeka Civil JV | WCS 047888 | 67 980 345.48 |

**Risk**

Non-compliance with laws and regulations.

**Internal control deficiency**

## Leadership

Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored.

The entity does not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Although management did develop action plans to address internal control deficiencies, they were not effective to prevent non-compliance with applicable laws and regulations.

Financial and performance management

Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored.

**Recommendation**

The trading entity should update their General Condition of Contract with the latest version issued by the National Treasury and ensure the latest version is used in all contracts concluded going forward.

Management should ensure that evidence is retained to indicate that construction contracts are registered with the CIDB within 21 days of written acceptance of the contractor by the entity.

**Management response**

Awaiting management comments

**Auditor’s conclusion**

Awaiting management comments

Leases

# Operating lease revenue and expenditure – Misstatements

**Audit Finding**

Laws, rules and regulations

1. Public Finance Management Act section 40(1)(a) and (b) states the following:

“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 the norms and standards;
2. must prepare financial statements for each financial year in accordance with generally recognized accounting practice;”
3. Generally Recognized Accounting Practice 1, paragraph 17, 18 and 19(b) states the following:

“17 Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the

faithful representation of the effects of transactions, other events and

conditions in accordance with the definitions and recognition criteria for

assets, liabilities, revenue and expenses set out in the Framework for the

Preparation and Presentation of Financial Statements. The application of

Standards of GRAP with additional disclosures when necessary is presumed

to result in financial statements that achieve a fair presentation.

18 An entity whose financial statements comply with Standards of GRAP shall

Make an explicit and unreserved statement of such compliance in the notes.

Financial statements shall not be described as complying with Standards of

GRAP unless they comply with all the requirements of Standards of GRAP.

19 In virtually all circumstances, a fair presentation is achieved by compliance

with applicable Standards of GRAP. A fair presentation also requires an entity

to present information, including accounting policies, in a manner which provides relevant, reliable, comparable and understandable information;”

During the audit of Operating leases Revenue/Expenditure the following issue was identified:

Differences were identified between amounts disclosed in the annual financial statements for revenue and expenditure amounts as per the schedule to the AFS, and the amount were recalculated using the lease agreement. This was as a result of inputs (lease term, operating cost, initial amount and escalation rates) differing between the schedule to the AFS and the actual lease agreement. The differences identified as a result of this finding are as follows:

| **No.** | **Region** | **File no.** | **Property Code** | **Income statement amount as per schedule to the AFS** | **Recalculated income statement amount** | **Difference** | **Reason for difference** |
| --- | --- | --- | --- | --- | --- | --- | --- |
| 1 | PTA | 6029/1377 | 41 | 4 957 038 | 4 793 460 | 163 577 | Difference in escalation rates -rate is 5.5 % per lease agreement however captured as 8.5% |
| 2 | PTA | 6029/4532 | 164637 | 3 158 229 | 1 625 078 | 1 533 151 | Difference in initial rental amount- 136 931.42 per lease agreement however captured as 414 579.79 |
| 3 | PTA | 6029/1073/1 | 318927 | 14 227 622 | 14 328 429 | (100 807) | Difference in cash flow amounts |
| 4 | PTA | 6029/6971/1 | 322776 | 5 776 255 | 6 454 296 | (678 041) | Difference in initial rental amount and escalation rate- amount- 885 979.5 per lease agreement ,escalation rate is 6% per lease agreement however captured as 798 221.84 and 5.5% respectively |
| 5 | PTA | 6029/7061 | 320139 | 3 073 900 | 3 074 878 | (978) | Difference in cash flow amounts |
| 6 | CTN | 6528/5122 | 59172 | 351 244 | 280 893 | 70 351 | Difference in cash flow amounts |
| 7 | CTN | 6502/6031 | 165122 | (1 086762) | 2 398 406 | (3 485169) | Difference in cash flow amounts |
| 8 | KIM | 6631/0091 | 293856 | 184 515 | 149 669 | 34 846 | Difference in cash flow amounts |
| 9 | NEL | 6024/0943 | 321346 | 450 673 | 357 986 | 92 688 | Difference in initial rental amount and lease term, initial rental amount per lease agreement - 52 186.83 but captured as 68740 and lease term per lease agreement is 4 years however captured as 3 years. |
| 10 | PLK | 6026/0481 | 215 | 1 202 685 | 982 339 | 220 346 | Difference in cash flow amounts |
| 11 | PE | 6425/6724 | 305952 | 3 294 981 | 3 587 901 | (292 920) |  |

*Reason for the deviation*

1. Differences identified are largely due to the different cash flows between the lease agreement and the schedule supporting the financial statements.
2. AFS supporting schedule data used to prepare the financial statements is not accurate.
3. The review of the schedules submitted for audit was not adequate.

*Impact of the Deviation*

1. *Revenue effect* 
   * 1. Accommodation charge – leasehold inter-governmental is understated.
     2. Operating lease asset is understated
2. *Operating lease expenditure effects*
   * 1. Operating lease expenditure is understated
     2. Operating lease liability is understated

**Internal control deficiency**

Financial and performance management

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

**Recommendation**

1. Financial statements should be prepared in line with the requirements of the financial reporting framework and should be free of any misstatements, this can be done by ensuring that schedules supporting the financial statement figures are reviewed and signed off by a relevant delegated official. All identified differences must be addressed before financial statements are issued.

1. Frequent reconciliations between schedules supporting the AFS and the lease agreement should be performed and differences followed-up and resolved.

**Management response**

Management is not in agreement with the finding, please refer to the below table with the difference according to management. Attached is a detailed annexure with calculations.

|  |  |  |
| --- | --- | --- |
| **Property Code** | **Description** | **Difference** |
|
| 41 | Ons tuis beleggers | 163 577.32 |
| 164637 | The Government Employee Pension Fund | 1 533 150.79 |
| 318927 | JR 209 Investments (Pty) Ltd | - |
| 322776 | Centpret Properties (Pty) Ltd | (678 041.40) |
| 320139 | Tiespro 230 (Pty) Ltd | (977.90) |
| 59172 | City of Cape Town | - |
| 165122 | Apexhi Properties Limited | (721 896.97) |
| 293856 | Botken (Pty) Ltd | - |
| 321346 | Aquarella Investments 5189 (Pty) Ltd | 25 859.99 |
| 215 | Changing Tides 132 (Pty) Ltd | - |
| 305952 | Slip Knot Investments 777 (Pty) Ltd | (292 920.39) |
| **Total** |  | **28 751.44** |

|  |  |  |  |
| --- | --- | --- | --- |
| **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 | The difference is not deemed to be significant | | |
| If yes, the process followed to correct the population, including the internal controls put in place to ensure that the misstatement does not recur in future. | N/A | | |
| If yes and the population was adjusted, the proposed adjusting journal entries to correct the population, with the supporting documentation. | N/A | | |
| Acknowledgement that additional audit costs will be incurred in order to audit the proposed adjustments and that the financial statements will not be adjusted if material misstatements still exist. (Under these circumstances the misstatements identified originally will be reported by the auditor.) | **Yes** | | **No** |
|  | |  |
|  | | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. | The difference is not deemed to be significant | | |
| Position of official responsible to take corrective actions | N/A | | |
| Estimated completion date for corrective action | N/A | | |
|  |  |  |  |

*Name: Andre Joubert*

*Position: Director: Revenue and Debt Management*

*Date: 04-03-2016*

**Auditor’s conclusion:**

Management comments noted. Further discussions were held with management to clarify calculations and subsequent to this engagement the following differences remain:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **No.** | **Region** | **File no.** | **Property Code** | **Difference** |
| 1 | PTA | 6029/1377 | 41 | 163 577 |
| 2 | PTA | 6029/4532 | 164637 | 1 533 151 |
| 4 | PTA | 6029/6971/1 | 322776 | (678 041) |
| 5 | PTA | 6029/7061 | 320139 | (978) |
| 7 | CTN | 6502/6031 | 165122 | (721 897) |
| 11 | PE | 6425/6724 | 305952 | (292 920) |
|  |  |  |  | **2 891** |

Movable assets

# Property, Plant and Equipment – Understatement of disclosures

**Audit finding**

Laws, rules and regulations

1. Public Finance Management Act section 40 states the following:

Section 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;
2. must prepare financial statements for each financial year in accordance with generally recognized accounting practice;”

Section 40(3)(a) states:

“The annual report and audited financial statements referred to in subsection (1)(d) must 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 when reconciling the total of net book value as per the asset register to the annual financial statements per category of assets for the period ending 30 September 2015.

|  |  |  |  |
| --- | --- | --- | --- |
| **Description** | **Asset Register** | **Financial Statements** | **Difference** |
| **PPE- movable Assets** |  |  |  |
| Furniture and office equipment | 68 374 259,60 | 69 496 000,00 | 1 121 740,40 |
| Computer Equipment | 166 627 166,93 | 165 833 000,00 | 794 166,93 |
| Other Machinery and Equipment | 35 707 193,78 | 46 100 000,00 | 10 392 806,22 |
| **Intangible assets** |  |  |  |
| Computer software | 6 455 868,00 | 10 911 000,00 | 4 455 132,00 |

The impact of the finding

a) Non-compliance with Section 40 of the PFMA.

b) Property, Plant and Equipment might be misstated.

**Internal control deficiency**

The finding occurred as a result of the following

Interim financial statements are not properly reviewed to ensure that asset register agrees to the amount disclosed in the interim financial statement.

Based on the aforementioned the matter is as a result of the following internal control deficiencies:

**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**

The department should ensure that the interim financial statements are properly reviewed to ensure that amounts disclosed under Property, plant and equipment note are accurate and agrees to the asset register.

**Management response**

Management is am not fully in agreement with the finding for the following reasons set out in the schedule below.

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Description** | **Asset Register** | **Financial Statements** | **Difference** | **Explained diffs** | **Reason** | | | | **unexplained diffs** | |
| **PPE- movable Assets** | |  |  |  |  | | | |  | |
| Furniture and office equipment | 68 374 260 | 69 496 000 | -1 121 740 | -711 769 | Account 3224 to be mapped to Computer equipment , to be unmapped from Furniture on Caseware. (A) | | | | -409 971 | |
| Computer Equipment | 166 627 167 | 165 833 000 | 794 167 | 711 769 | 82 398 | |
| Other Machinery and Equipment | 35 707 194 | 46 100 000 | -10 392 806 | -10 485 615 | Assets recognised as a result of finance leases. (B) | | | | 92 809 | |
|  |  |  |  |  |  | | | |  | |
| **Intangible assets** | |  |  |  |  | | | |  | |
| Computer software | 6 455 868 | 10 911 000 | 4 455 132 | 4 455 132 | The Working paper is correct and the AFS is incorrect. This is due to an Exco decision which resulted in the de-recognition of IEWorks as an intangible asset. ( C ) | | | | - | |
|  |  |  |  |  |  | | | |  | |
|  |  | Total | -6 265 248 | -6 030 483 |  | | | | -234 765 | |
| **Description** | | | | | | **Response** | | | |
| Corrective action to be taken | | | | | | In matters A and C, corrective action in terms of remapping and the loss on disposal journal will be processed for the AFS as at 631 March 2016. | | | |
| 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 corrective actions taken above will address the population. | | | |
| If yes, the process followed to correct the population, including the internal controls put in place to ensure that the misstatement does not recur in future. | | | | | | The working papers will be referenced to the AFS and management will ensure 100% agreement | | | |
| If yes and the population was adjusted, the proposed adjusting journal entries to correct the population, with the supporting documentation. | | | | | | Adjustments will be done for the 31 March 2016 AFS. | | | |
| Acknowledgement that additional audit costs will be incurred in order to audit the proposed adjustments and that the financial statements will not be adjusted if material misstatements still exist. (Under these circumstances the misstatements identified originally will be reported by the auditor.) | | | | | | **Yes** | | **No** | |
|  | | X | |
|  | | | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. | | | | | | The audit program for the 31 March 2016 automatically includes audit fees for movable and intangible assets | | | |
| Position of official responsible to take corrective actions | | | | | | Director: Financial Accounting | | | |
| Estimated completion date for corrective action | | | | | | 31 May 2016 | | | |

|  |  |  |
| --- | --- | --- |
| **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. |  | |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the internal control deficiencies indicated | **Yes** | **No** |
|  |  |
| If management does not agree with the internal control deficiency indicated, please provide the internal control deficiency according to management. |  | |

*Name:* HD Abrahams

*Position: DD: Financial Reporting*

*Date: 2016-01-28*

**Auditor’s conclusion**

Management comment received, and cognisance is taken of the fact that management agrees with some of the matters raised. Follow up will be performed once the final asset register is received.

Payables from exchange transactions

1. **Accrual: Differences between supporting schedules and amounts disclosed in the AFS (COFF 11)**

**Audit finding**

Section 40 of the 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;*

**Nature**

During the audit the following differences were identified between amounts on the Accrual schedule and amounts disclosed on the interim financial statements:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Number** | **Accrual line item** | **Amount as per supporting schedules (Rands)** | **Amount as per Interim Financial statements (Rands)** | **Difference (Rands)** |
| 1 | Assets | 312 588 863,00 | 364 594 000,00 | (52 005 137,00) |
| 2 | Scheduled maintenance | 1 03 228 000,00 | 78 311 707,00 | 24 916 293,00 |
| 3 | Other accruals | 79 816 745,00 | 51 010 000,00 | 28 806 745,00 |
|  | **TOTAL** | **495 633 608,00** | **493 915 707,00** | **1 717 901,00** |

**Impact**

Completeness: Understatement of Accrual by R1 171 901, 00

**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**

Management should review the Accrual schedules to ensure that Accrual is correctly accounted for.

**Management response**

Management is in agreement with the finding.

The schedules provided to the AGSA are correct and the Interim FS are incorrect.

We computed a set of preliminary accrual numbers and processed the journals to recognize them in SAGE. Subsequent to processing the preliminary values, we discovered errors and proceeded to reverse the preliminary values and process the final values. Unfortunately, the reversals of the “preliminary” values and the processing of the correcting journals resulted in an erroneous cumulative accrual balance.

|  |  |  |  |
| --- | --- | --- | --- |
| **Description** | **Response** | | |
| Corrective action to be taken | All accruals for 30 September 2015 will be reversed completely as at 1 October 2015.  The journal imports relating to accruals for 31 March 2016 will be assessed for accuracy and the closing balances will be verified against the supporting schedules. | | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** | |
| X |  | |
| If yes, what corrections will be made to the population | A journal will be passed to correctly reverse out the 30 September 2015 Accruals and correctly account for the 31 March 2016 accruals in the statutory AFS. | | |
| If yes, the process followed to correct the population, including the internal controls put in place to ensure that the misstatement does not recur in future. | The 31 March 2016 AFS will be referenced to the working papers prior to submission to the AGSA. | | |
| If yes and the population was adjusted, the proposed adjusting journal entries to correct the population, with the supporting documentation. | The proposed journals will be passed for the 31 March 2016 statutory AFs and not for the 30 September IFS. | | |
| Acknowledgement that additional audit costs will be incurred in order to audit the proposed adjustments and that the financial statements will not be adjusted if material misstatements still exist. (Under these circumstances the misstatements identified originally will be reported by the auditor.) | **Yes** | | **No** |
|  | | X |
| There is an Budget available for the audit of the 31 March 2016 AFS. | | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. | N/A as corrections will be made to 31 March 2016 AFS | | |
| Position of official responsible to take corrective actions | Director; Financial Reporting | | |
| Estimated completion date for corrective action | 31 May 2016 | | |

|  |  |  |
| --- | --- | --- |
| **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. |  | |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the internal control deficiencies indicated | **Yes** | **No** |
| X |  |
| If management does not agree with the internal control deficiency indicated, please provide the internal control deficiency according to management. |  | |

*Name:* HD Abrahams / A Joubert

*Position: DD: Financial Reporting / Director: Revenue and Debt*

*Date: 1 February 2016*

**Auditor’s conclusion**

Management response is noted, management has agreed to the finding. Therefore the finding remains. The finding will be resolved after the corrections have been effected in the financial statements and verified through the audit process.

1. **Misstatement of Accruals (COFF 16)**

**Audit Finding**

Laws, rules and legislation:

Section 40 of the 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 deviations pertaining to accruals were noted;

The following difference was noted between the amount per invoice and the amount listed on the accrual schedule submitted with the 30 September 2015 Interim financial statements. The following transaction invoice of R18 105 042.32 was paid before year end therefore it should not have been classified as an accrual.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Supplier name** | **Journal ref no** | **Invoice amount**  **R** | **Accrual amount**  **R** | **Difference**  **R** |
| Superway Construction (Pty) Ltd | 002282/10 | 673 938,90 | 18 105 042,32 | (17 431 103,42) |
| **Total** |  |  |  | 1. **431 103,42)** |

The amount of R 63 442.57 was incorrectly included in the workbooks instead of invoice total of R 72 324.53, inclusive of VAT.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Supplier name** | **Journal ref no** | **Invoice amount**  **R** | **Accrual amount**  **R** | **Difference**  **R** |
| Delta Built Enviroment Consultants | 004767/10 | 72 324,53 | 63 442,57 | 8 881,96 |
| **Total** |  |  |  | **8 881,96** |

**Impact**

The aforementioned findings may result in:

1. Accruals being overstated with an amount of R17 422 220.46

**Internal control deficiency**

Reasons for deviation:

The review of the financial statements was ineffective with regard to the review of accruals.

**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**

Management should review the accruals listing to ensure those accruals are correctly accounted for.

**Management response**

Management agrees with the finding.

|  |  |  |  |
| --- | --- | --- | --- |
| **Description** | **Response** | | |
| Corrective action to be taken | Management will be more vigilant with the reviews of the workbooks prior to submission thereof for the compilation of annual financial statements. | | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** | |
| X |  | |
| If yes, what corrections will be made to the population | None. | | |
| If yes, the process followed to correct the population, including the internal controls put in place to ensure that the misstatement does not recur in future. |  | | |
| If yes and the population was adjusted, the proposed adjusting journal entries to correct the population, with the supporting documentation. |  | | |
| Acknowledgement that additional audit costs will be incurred in order to audit the proposed adjustments and that the financial statements will not be adjusted if material misstatements still exist. (Under these circumstances the misstatements identified originally will be reported by the auditor.) | **Yes** | | **No** |
|  | | X |
|  | | |
| 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: Financial Accounting | | |
| Estimated completion date for corrective action | 31 May 2016 | | |
|  |  |  |  |

|  |  |  |
| --- | --- | --- |
| **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:* Calvin Sehlapelo

*Position:* Chief Director: Financial Accounting and Reporting

*Date:* 16 February 2016

**Auditor’s conclusion**

Management is in agreement with the finding and as such, the finding will remain. The non-compliance with Section 40 of the PFMA will be reported. The corrective action will be followed up during the final audit of the annual financial statements

1. **Accruals: Information requested could not be provided (COFF 10A)**

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

The following information was requested as per request no. 15A dated 26 January 2016 but to date the following information has not been provided for audit purposes:

Payment batches and all supporting documents for the following transactions:

**Accruals current year**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Number** | **PMIS Number** | **Date invoice received** | **Name of client Department** | **Name Service Provider** | **Description of service** | **Amount[R]** |
|
|
| 1 | PRE/0215/105008 | 2015/10/02 | Dept Of Public Works | MUSAN TRADING | Outs P/P:Contractd Maint | 10 159.68 |
| 2 | 47784 | 2015/10/20 | Dept Of Public Works | CITY OF TSHWANE | Municipal Services Expense | 153.90 |

**Accruals Restatement**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Number** | **Date invoice received** | **PMIS Number** | **Name of client Department** | **Name Service Provider** | **Description of service** | **Amount[R]** |
| 1 | 01/04/2015 | 4596 | Dept of International Relations | CITY OF TSHWANE | Rec:Dom:Clm:Recov Mun Srv:Dpw | 705 563.78 |

**Subsequent accrual payments after year end**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Number** | **Class** | **Account description** | **Accounting date** | **Asset code** | **Amount[R]** |
| 1 | Expenses - Operat Exp – Other | Outs P/P:Contractd Maint | 2015/04/02 | 30083 | 54 058.80 |
| 2 | Assets - Current - Trade Rec | Rec:Dom:Clm:Recov Mun Srv:Dpw | 2015/06/22 | 00004 | 1 017 016.55 |

**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.

**Risk**

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

**Recommendation**

The required information should be provided as a matter of urgency.

**Management response**

**Issue 1**

Management is in agreement with the finding regarding the Accrual Restatement batch;

The invoice was not supposed to be part of the accruals for 2014/2015 and therefore will request Finance to remove the transaction from the list of accruals for the financial year.

**Issue 2**

Management is not in agreement with regards to the following , please see the last columns below and also the attachment:

**Subsequent accrual payments after year end**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| 1 | Expenses - Operat Exp – Other | Outs P/P:Contractd Maint | 2015/04/02 | 30083 | 54 058.80 | **SIU - see attachment** |

**Subsequent accrual payments after year end**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| 2 | Assets - Current - Trade Rec | Rec:Dom:Clm:Recov Mun Srv:Dpw | 2015/06/22 | 00004 | 1 017 016.55 | **Polokwane Batch – it shows on the excel attachment under “Responsibility” - column “H”** |

**Accruals current year**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Number** | **PMIS Number** | **Date invoice received** | **Name of client Department** | **Name Service Provider** | **Description of service** | **Amount[R]** |  |
| 1 | PRE/0215/105008 | 2015/10/02 | Dept Of Public Works | MUSAN TRADING | Outs P/P:Contractd Maint | 10 159.68 | **SIU - see attachment** |
| 2 | 47784 | 2015/10/20 | Dept Of Public Works | CITY OF TSHWANE | Municipal Services Expense | 153.90 | **Provided to AGSA – see attachment** |

|  |  |  |  |
| --- | --- | --- | --- |
| **DESCRIPTION** | **RESPONSE** | | |
| Corrective action to be taken: | This transaction will be removed from The Accruals listing of 1415. | | |
| Does the finding affect an amount disclosed in the financial statements? | **Yes** | | **No** |
| **X** | |  |
| If yes, what corrections will be made to the population? | **HO will be requested to amend the AFS of 1415 with this transaction** | | |
| 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: | Deputy Director: Finance | | |
| Estimated completion date for corrective action: | 31 March 2016 | | |
| 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:* M Dondashe

*Position: RM*

*Date: 17 Mar 2016*

**Auditor’s Conclusion**

1. Management’s response has been noted .During the audit of accruals the supporting documentation of the above mentioned transaction of R 705 563.78 recorded as an accrual in the accrual listing for the period ending 31st March 2015 which was requested for audit purposes was not provided for by the entity as it could not be traced since the property could not be found on PMIS system as being paid..

With regards to management’s comments above, it was noted that they had stipulated that the invoice was not supposed to be part of the accruals for 2014/2015, however it was noted as per PMTE’s Day to Day accruals restatement listing as at 31st March 2015 that management has correctly recorded the invoice dated 25th March 2015 to have been received on the 1st April 2015 for services rendered from the 2nd February 2015 to 18th March 2015 and therefore it is an accrued expense. Therefore the finding will remain on the basis that the supporting documentation for the above transactions were not provided. The document will be requested from the SIU and audited at final stage of the audit.

1. Management’s comments noted. Finding will remain pending the audit of the batches currently not available during the final audit. We will request the batch through our Polokwane audit team at the final stage of the audit.
2. **Accruals: Incorrect classification and valuation (COFF11A)**

**Audit Finding**

Section 40 of the 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;

1. During the audit of accruals, the following transactions were for invoices received prior to the financial period ending 30th September 2015 for services rendered and received prior to the financial period end. Therefore the transaction amounts were incorrectly classified as an accrued expenses.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **No** | **Supplier Name** | **Invoice Number** | **Invoice date** | **Date when invoice received (PMTE/DPW Stamp)** | **Payment number** | **Invoice Amount** |
| **Property Maintenance** | | | | | | |
| 1 | Thamandla construction cc | WPD0628-15 | 11/09/2015 | 15/09/2015 | PRE/0515/109188 | R 128 508.48 |
| 2 | Lights Tshedza Electrical | 111029 | 16/09/2015 | 16/09/2015 | PRE/0715/111029 | R 2 986.56 |

**Cause**

This was due to insufficient management controls over the preparation of the financial statements and its supporting schedules.

**Impact**

Issue 1: Overstatement of accruals by an amount of R 131 495.04

**Recommendations**

Management should ensure that the financial statements and their supporting documentation include all the transactions that occurred and are complete and are at the appropriate amounts.

Management should review the accruals listing to ensure those accruals are correctly accounted for.

**Internal control deficiency**

**Leadership**

The accounting officer does not exercise oversight responsibility regarding financial and performance reporting, 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

**Management response**

I am not in agreement with the finding for the following reasons; the job cards were signed on or before 30th September 2015, meaning that the services were received before reporting date and only paid in October 2015. See attached PDF documents.

|  |  |  |  |
| --- | --- | --- | --- |
| **DESCRIPTION** | **RESPONSE** | | |
| Corrective action to be taken: | None | | |
| Does the finding affect an amount disclosed in the financial statements? | Yes | | No |
| X | |  |
| If yes, what corrections will be made to the population? | None | | |
| If yes, and no corrections will be made, the reason why such a conclusion has been reached | The transaction was correctly reported as an accrual. | | |
| Position of official responsible to take corrective action: | None | | |
| Estimated completion date for corrective action: | None | | |
| 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 | Nothing was wrong with the transaction being reported as an accrual. | | |

Name: M Dondashe

Position: RM

Date: 18 March 2016

**Auditors Conclusion**

Management’s comments have been noted. The finding has been resolved.

1. **Accruals Restatements: Incorrect classification and valuation**

**Audit Finding**

Section 40 of the 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;

1. During the audit of accruals restatements, the following transactions were for invoices received prior to the financial period ending 31st March 2015 for services rendered and received prior to the financial period end. Therefore the transaction amounts were incorrectly classified as accrued expenses.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **No** | **Supplier Name** | **Invoice Number** | **Invoice date** | **Date when invoice received (PMTE/DPW Stamp)** | **Payment number** | **Invoice Amount** |
| **Property Maintenance** | | | | | | |
| 1 | Malatje Trading Enterprise | 300050 | 09/02/2015 | 11/02/2015 | PTA/1014/101708 | R 8957 |
| 2 | Labeni Electrical & General Trading Pty Ltd | 114 | 29/07/2014 | 29/07/2014 | T05/03/13 | R 181 155.55 |
| 3 | Malota Electrical | INLF08 | 04/02/2015 | 02/03/2015 | PRE/114/102946 | R 57 106.33 |
| **Municipal Services** | | | | | | |
| 4 | Encha Properties Services | 4616/201504 | 24/03/2015 | 31/03/2015 | 300612 | R2 107 020.66 |

**Cause**

This was due to insufficient management controls over the preparation of the financial statements and its supporting schedules.

**Impact**

Issue 1: Overstatement of accruals by an amount of R 247 218.88

**Recommendations**

Management should ensure that the financial statements and their supporting documentation include all the transactions that occurred and are complete and are at the appropriate amounts.

Management should review the accruals listing to ensure those accruals are correctly accounted for.

**Internal control deficiency**

**Leadership**

The accounting officer does not exercise oversight responsibility regarding financial and performance reporting, 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

**Management response**

I am not in agreement with the finding for the following reasons; the job cards were signed on or before 30th September 2015, meaning that the services were received before reporting date and only paid in October 2015. See attached PDF documents.

|  |  |  |  |
| --- | --- | --- | --- |
| **DESCRIPTION** | **RESPONSE** | | |
| Corrective action to be taken: | None | | |
| Does the finding affect an amount disclosed in the financial statements? | Yes | | No |
| X | |  |
| If yes, what corrections will be made to the population? | None | | |
| If yes, and no corrections will be made, the reason why such a conclusion has been reached | The transaction was correctly reported as an accrual. | | |
| Position of official responsible to take corrective action: | None | | |
| Estimated completion date for corrective action: | None | | |
| 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 | Nothing was wrong with the transaction being reported as an accrual. | | |

Name: M Dondashe

Position: RM

Date: 18 March 2016

**Auditors Conclusion**

Management’s comments have been noted. The finding has been resolved.

1. **Accruals: Completeness (COFF 12A)**

**Audit Finding**

Section 40 of the 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 discrepancies were noted:

Inspected payment batch 8365\*6092\*AH261176 and noted that Invoice for the amount of R 307.80 was received on the 04 March 2015 prior to the financial year ending 31st March 2015.It was further noted on the job card that goods and services were certified to be received satisfactorily on the 25th September 2014 prior to financial year end.

Furthermore inspected PMTE'S accrual listing for the period ending 31st March 2015 and noted that the transaction amount of R 307.80 was accounted for as an accrual where as it is not an accrual as services were received prior to year end and the invoice received prior to year end. Therefore the amount of R 307.80 is incorrectly included in the accrual listing.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **No** | **Supplier Name** | **invoice307.8 Number** | **Invoice date** | **Date when invoice received (PMTE/DPW Stamp)** | **Advice number** | **Invoice Amount** |
| **Property Maintenance** | | | | | | |
| 1 | Nawa Construction cc | NAWSPOFF0020183/15 | 03/03/2015 | 04/03/2015 | AH-261176 | R 307.80 |

**Cause**

This was due to insufficient management controls over the preparation of the financial statements and its supporting schedules.

**Impact**

Issue 1: Understatement of accruals by an amount of R 307.80

**Recommendations**

1. Management should ensure that the financial statements and their supporting documentation include all the transactions that occurred and are complete and are at the appropriate amounts.
2. Management should review the accruals listing to ensure those accruals are correctly accounted for.

**Internal control deficiency**

**Leadership**

The accounting officer does not exercise oversight responsibility regarding financial and performance reporting,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

**Management response**

Management is not in agreement with the finding for the following reasons;

An accrual refers to an instance where goods or services have been delivered or rendered before the prescribed reporting date but payment has not occurred. This therefore means the receipt of the invoice does not necessarily have a bearing on the determination of the accrual.

This transaction was paid after 31st March 2015 for services received before 31st March 2015. See attachment.

|  |  |  |  |
| --- | --- | --- | --- |
| **DESCRIPTION** | **RESPONSE** | | |
| Corrective action to be taken: | None | | |
| Does the finding affect an amount disclosed in the financial statements? | Yes | | No |
| X | |  |
| If yes, what corrections will be made to the population? | None | | |
| If yes, and no corrections will be made, the reason why such a conclusion has been reached | This transaction was paid after 31st March 2015 for services received before 31st March 2015. | | |
| 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 | This transaction was paid after 31st March 2015 for services received before 31st March 2015. | | |

Name: M Dondashe

Position: RM

Date: 23 March 2016

**Auditors Conclusion**

Management’s comments have been noted. The finding has been resolved.

Expenditure

1. **Expenditure: Payment not made within 30 Days COFF 9C**

**Audit findings**

*Laws and regulations*

*PFMA section 38(1) (f) requires 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 38(1)(f) of the PFMA states that the accounting officermust settle all contractual obligations and pay all money owing, including inter-governmental claims, within the prescribed or agreed period.

*Treasury Regulation 8.2.3**states that:*

Unless determined otherwise in a contract or other agreement, all payments due to creditors must be settled within 30 days from receipt of an invoice or, in the case of civil claims, from the date of settlement or court judgement

*Instructions note number 34 of National Treasury dated 30 November 2011**require that:*

The accounting officer’s responsibility [in terms of section 38(1) (f)] to settle all

contractual obligations and to pay all money owing, including intergovernmental claims, within the prescribed (30 days) or agreed period is hereby re-iterated*.*

Within thirty days (30) days from the date of this Instruction Note, all departments are required to have in place systems (processes and procedures) that will enable the tracking of each invoice received from the various service providers.

The system referred to in paragraph above may either be manual or electronic in nature and such a system must also be able to track progress with the processing of each invoice.

At any given time, such a system must be able to provide information related to the date on which an invoice was received, the date on which it was paid and the time period between the date of receipt and the date of payment, if the invoice was indeed paid.

The accuracy of information must be confirmed by signature of the department’s accounting officer prior to its submission to the National Treasury.

**Nature**

During the testing of expenditure it was noted that the following payment was not made within 30 days from the date of receipt of the invoice.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Payment number** | **Supplier name** | **Invoice number** | **Total amount of payment** | **Payment date** | **Invoice receive date** | **Time lapse** |
| 1. | 939775 | Kanyisa Cleaning Projects | Invoice 2015/1142 | 13 383,44 | 08-Sept-15 | 08-Aug-15 | 31 |
| 2. | ZAPNV1509S1003129698 | City of CPT | 112070337 | 181 160.91 | 29-Sep-15 | 28-Aug-15 | 32 |
| 3. | ZAPNV1509S1003129698 | City Of CPT | 111640257 | 1110351.32 | 29-Sep-15 | 28-Aug-15 | 32 |
| 4. | ZAPNV1509S1003129698 | City Of CPT | 112228987 | 6281560.90 | 29-Sep-15 | 28-Aug-15 | 32 |
| 5. | ZAPNV1509S1003129360 | City Of CPT | 112257663 | 518 821.63 | 28-Sep-15 | 26-Aug-15 | 33 |
| 6. | ZAPNV1509S1003129360 | City Of CPT | 112228733 | 592 491.39 | 28-Sep-15 | 28-Aug-15 | 31 |
| 7. | ZAPNV1509S1003129363 | City Of CPT | 370000180016 | 250.25 | 28-Sep-15 | 04-Aug-15 | 55 |
| 8. | ZAPNV1509S1003129363 | City Of CPT | 370000670063 | 5.60 | 28-Sep-15 | 04-Aug-15 | 55 |

**Impact**

Non-compliance with laws and regulations

a) Non-compliance with Section 38 of the Public Finance Management Act

b) Non-compliance with Treasury Regulations 8.2.3

c) Non-compliance with Instruction Note 34 of National Treasury

Possible fruitless expenditure can occur as suppliers could charge interest on long outstanding invoices.

**Internal control deficiency**

**Leadership**

The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

**Financial and Performance Management**

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

**Recommendation**

Amounts owing to suppliers should be monitored on a regular basis to enable the entity to pay amounts outstanding on time, thereby avoid paying interest and penalties which will be regarded as fruitless and wasteful expenditure. This can be done through the review and updating of the order register on a regular basis to ensure that all payments are made to the suppliers within the acceptable timeframes.

Unit heads should ensure that there is minimum delay between the time they receive invoices and the time they submit the invoices to the finance division.

Management must develop policies and procedures to ensure compliance with all prescribed laws and regulations.

Sections responsible for payment to suppliers and the Transaction Processing Unit (finance section) should ensure that payments are captured and processed timely to ensure compliance with laws and regulations.

A tracking register should be implemented to track invoices from date of receipt and the movement of the invoices through the various divisional heads until ultimate payment date, to identify where the delays in approval are actually experienced. The register should also include comments where delays are experienced which will assist the department in noting valid explanations for delays or just inefficiencies in the approval process.

**Management response**

Management comments outstanding

**Auditor’s conclusion**

Management comments outstanding

Predetermined objective

1. **New Indicators are not well defined due to exclusions of baselines in the Annual Performance Plan. COFF 22**

**Audit finding**

Laws, rules and Regulations:

The *Performance management and reporting framework* issued by the National Treasury, which consists of the Framework for strategic plans and annual performance plans requires the following:

Programme performance indicators that are reliable, well defined, verifiable, cost effective, appropriate and relevant should be sought, with baseline information and targets expressed in terms of actual numbers. Performance targets should be SMART. The institution must have the management processes in place to collect the information required to track performance against each indicator.

Each objective should be written as a performance statement that is SMART and must set a performance target the institution can achieve by the end of the period of the Strategic Plan. The baseline and targets must be expressed in terms of numbers. If a percentage is used, then the absolute numbers must be presented as well.

In accordance with Chapter 3.3 of the Framework for managing programme performance information, performance targets must be specified relative to current baselines. The first step in setting a target is for an entity is to determine its baseline.

Institutions are expected to state the present baseline in respect of each strategic objective and programme performance indicator. In most instances, the baseline is the level of performance recorded in the year prior to the planning period. Where a system for managing performance information is being set up, initial baseline information is often not available. This should not be an obstacle and the entity should demonstrate alternative methods applied in setting baselines e.g. use of reliable statistical information, cost projections etc.

* During the review of the 16/17 Annual Performance Plan of PMTE, we noted that there is no clear identification of methods used to determine baselines for the new performance indicators as required by the National Treasury’s *Framework for managing programme performance information (FMPPI)*. Please refer below for the detail of performance indicators and targets affected by this deviation:

|  |  |
| --- | --- |
| **Programme 3: Construction Project Management** | |
| **Performance Indicator** | **Target** |
| Number of approved infrastructure project designs | 300 approved infrastructure project designs |
| Number of approved infrastructure projects ready for tender | 406 approved infrastructure projects ready for tender |
| Number of infrastructure sites handed over for construction | 216 infrastructure sites handed over for construction |
| Number of IPMPs for new construction projects submitted to the Project Management Office (PMO) | 3 IPMPs for new construction projects submitted to the Project Management Office (PMO) |
| Number of IPIPs for new construction projects submitted to the Project Management Office (PMO) | 3 IPIPs for new construction projects submitted to the Project Management Office (PMO) |
| Percentage reduction of backlogs in infrastructure projects. | 15% reduction of backlogs in infrastructure projects |

|  |  |
| --- | --- |
| **Programme 4:** **Real Estate Management** | |
| **Performance Indicators** | **Targets** |
| 15% reduction of backlogs in infrastructure projects | 20% (4 of 20) reduction of identified-in properties within the security cluster |
| Number of IPMPs for new leased accommodation submitted to the Project Management Office (PMO) | 3 IPMPs for new leased accommodation submitted to the Project Management Office (PMO) |
| Number of IPIPs for new leased accommodation submitted to the Project Management Office (PMO) | 3 IPIPs for new leased accommodation submitted to the Project Management Office (PMO) |
| Percentage of revenue increased through rentals of harbour related properties | 10% increase in revenue through rentals of harbour related properties |
| Percentage of DAFF certified Operation Pakisa Ocean economy leasing requests processed within agreed timeframes | 100% DAFF certified Operation Pakisa Ocean economy leasing requests processed within agreed timeframes |
| Percentage of approved list of immovable assets let out for revenue generation | 50% of approved list of immovable assets let out for revenue generation |

|  |  |
| --- | --- |
| **Programme 6: Facilities Management** |  |
| **Performance Indicators** | **Targets** |
| Number of IPMPs for new maintenance projects submitted to the Project Management Office (PMO) | 3 IPMPs for new maintenance projects submitted to the Project Management Office (PMO) |
| Number of IPIPs for new maintenance projects submitted to the Project Management Office (PMO) | 3 IPIPs for new maintenance projects submitted to the Project Management Office (PMO) |
| Percentage of SMME contracts awarded on the planned maintenance programme | 50% SMME contracts awarded on the planned maintenance programme |
| Number of kilowatt hours of renewable energy generated | 2,215,000kWh of renewable energy generated |

**Reason for the deviation**

The annual performance plan lacks inclusion of technical indicator descriptions or data definitions that have a clear meaning for the indicators and targets set.

**Impact of the finding**

Lack of baselines for new targets makes it difficult to determine whether set targets are achievable or realistic given existing capacity resulting in difficulty in monitoring and managing performance in order to improve service delivery.

**Internal control deficiency**

## Financial and performance management

The annual performance plan and the strategic plan were not adequately reviewed to ensure only inclusion of targets that are achievable and realistic given existing capacity.

**Recommendation**

Management should develop a policy to be implemented during strategic planning which will enforce thorough review of the annual performance plan and the strategic plan; this will also ensure designing of indicators and targets that only meet the criteria required by the National Treasury’s *Framework for managing programme performance information (FMPPI)*.

**Management response**

|  |  |  |  |
| --- | --- | --- | --- |
| **Description** | **Response** | | |
| Corrective action to be taken | Baselines information is not available since the PMTE has not measured performance in this specific manner in the prior years | | |
| 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, the process followed to correct the population, including the internal controls put in place to ensure that the misstatement does not recur in future. |  | | |
| If yes and the population was adjusted, the proposed adjusting journal entries to correct the population, with the supporting documentation. |  | | |
| Acknowledgement that additional audit costs will be incurred in order to audit the proposed adjustments and that the financial statements will not be adjusted if material misstatements still exist. (Under these circumstances the misstatements identified originally will be reported by the auditor.) | **Yes** | | **No** |
|  | | X |
|  | | |
| 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: Strategic Planning | | |
| Estimated completion date for corrective action |  | | |
|  |  |  |  |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the root cause indicated | **Yes X** | **No** |
| Most performance indicators are new and the department has not been measuring these areas in the prior years. Therefore the baseline information is not available. The PMTE will put in place the relevant systems to record the new performance in 2016/17 |  |
| If management does not agree with the root cause indicated, please provide the root cause according to management. | Systems to be introduced in 2016/17 to ensure proper recording of performance in the abovementioned areas | |

**Auditor’s conclusion**

Management comment was noted that the baselines information is not available since PMTE has not measured performance in this specific manner in the prior years, however this is not in according with the *Performance management and reporting framework* which state that *“Where a system for managing performance information is being set up, initial baseline information is often not available. This should not be an obstacle and the entity should demonstrate alternative methods applied in setting baselines e.g. use of reliable statistical information, cost projections etc”.*Therefore this finding is not resolved

1. **Short definitions not clear and no method of calculation for percentage indicators COFF 22**

**Audit finding**

The Performance management and reporting framework issued by the National Treasury, which consists of the Framework for strategic plans and annual performance plans requires the following:

Programme performance indicators that are reliable, well defined, verifiable, cost effective, appropriate and relevant should be sought, with baseline information and targets expressed in terms of actual numbers. Performance targets should be SMART. The institution must have the management processes in place to collect the information required to track performance against each indicator.

Each objective should be written as a performance statement that is SMART and must set a performance target the institution can achieve by the end of the period of the Strategic Plan. The baseline and targets must be expressed in terms of numbers. If a percentage is used, then the absolute numbers must be presented as well.

Institutions are expected to state the present baseline in respect of each strategic objective and programme performance indicator. In most instances, the baseline is the level of performance recorded in the year prior to the planning period.

*”.*

**Nature**

During our review of the Annual performance plan for 2015/16 (Technical description) the follow issues were identified:

1. Indicators/measures do not have a clear unambiguous definition and they are not defined so that data will be collected consistently refer to the table below

|  |  |
| --- | --- |
| **Programme 3 Construction** | |
| **Indicator title** | **Short definition** |
| Number of work opportunities created through construction projects (EPWP ) | The data from construction projects |
| Number of projects completed within agreed construction period | Rate of completion of projects |
| Number of projects completed within approved budget | Cost effectiveness in delivery of infrastructure projects |
| Number of projects in the current WCS project list cleared | Completion of building program |
| Number of construction contracts allocated towards BBBEE | Projects executed by BBBEE firms |
| Number of schools completed within planned construction period | A total of 919 schools will be beautified with the use of contractors appointed per cluster. |
| Number of Work Opportunities Created\* | Providing opportunities for the unemployed to contribute to the economy. |

|  |  |
| --- | --- |
| **PROGRAMME 4: REAL ESTATE MANAGEMENT** | |
| **Indicator title** | **Short definition** |
| Percentage occupancy rate increased for partially occupied property | The measure of growth in the utilization of partially occupied properties |
| Number of vacant land (Land Parcels) let out towards economic development initiatives | Development of vacant land parcels by private & public entities towards social-economic development initiatives |
| Number of surplus freehold office type properties let out for revenue generation | Measuring performance of the portfolio in relation to increasing revenue of office surplus properties |
| Number of surplus freehold residential properties let out for revenue generation | Measuring performance of the portfolio in relation to increasing revenue of residential surplus properties |
| Number of lease agreements reviewed according to the rental rate per square metre and escalations | Measuring performance of the portfolio in relation to lease agreements concluded and rental amounts saved |
| Percentage of leases renewed before expiry date | Measuring performance of the portfolio in relation to lease agreements concluded and renewal of lease agreements before the expiry date |
| Percentage of leased accommodation (lease in) provided within agreed time period | Measuring performance of the portfolio in relation to leased accommodation provided |
| Percentage of surplus freehold property allocated towards BBBEE | Surplus freehold property percentage allocated towards BBBEE compliant property developers |

|  |  |
| --- | --- |
| **PROGRAMME 6: FACILITIES MANAGEMENT** | |
| **Indicator title** | **Short definition** |
| Number of identified buildings with Facilities Management Contracts | Contracts signed off by the Facilities Practitioner for identified buildings |
| Reduction in kilowatt-hour (kWh) usage achieved on energy consumption | The indicator is measuring the kilowatt-hour (kWh) of electricity consumption in Government buildings |
| Reduction in kilolitre -(kl) usage achieved on water consumption | The indicator is measuring the water consumption in volumes. |
| Percentage efficiency (turnaround time) for unscheduled maintenance on freehold property within 5 days | Handling of incoming requests/complaints via telephone, emails and SMS’s from clients through a centralized help-desk |
| Number of work opportunities created through maintenance programmes (DPW’s EPWP Targets) | Enable creation of work opportunities through DPW/EPWP programme |
| Number of Building Management Systems installed | A computerized system that provides a single-point of managing all the building’s equipment(mechanical and electrical),energy management and environment |
| Percentage of Facilities Management contracts allocated towards BBBEE | Management contracts allocated in support of the BBBEE |

1. The method of calculation for indicators that are reported in percentages is not clear on how the percentage are calculated, i.e. the numerator and denominator. Refer to the table below

|  |  |  |
| --- | --- | --- |
| **PROGRAMME 6: FACILITIES MANAGEMENT** |  |  |
| **Indicator title** | **Short definition** | **Method of calculation** |
| Percentage efficiency (turnaround time) for unscheduled maintenance on freehold property within 5 days | Handling of incoming requests/complaints via telephone, emails and SMS’s from clients through a centralized help-desk | Turnaround time expressed as a percentage |
| Percentage of Facilities Management contracts allocated towards BBBEE | Management contracts allocated in support of the BBBEE | Amount spent on FM contract |

**Internal control deficiency**

## *Financial and performance management*

The department did not review and monitor compliance with applicable legislation

**Recommendation**

* . Management should develop a policy to be implemented during strategic planning which will enforce thorough review of the annual performance plan and the strategic plan; this will also ensure designing of indicators and targets that only meet the criteria required by the National Treasury’s *Framework for managing programme performance information (FMPPI)*.

**Management response**

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

|  |  |  |  |
| --- | --- | --- | --- |
| **Description** | **Response** | | |
| Corrective action to be taken | The Department did not have sufficient capacity in strategic planning to undertake the planning for PMTE. This is being addressed with the creation of a PMTE structure | | |
| 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, the process followed to correct the population, including the internal controls put in place to ensure that the misstatement does not recur in future. |  | | |
| If yes and the population was adjusted, the proposed adjusting journal entries to correct the population, with the supporting documentation. |  | | |
| Acknowledgement that additional audit costs will be incurred in order to audit the proposed adjustments and that the financial statements will not be adjusted if material misstatements still exist. (Under these circumstances the misstatements identified originally will be reported by the auditor.) | **Yes** | | **No** |
|  | | X |
|  | | |
| 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 Strategic Support PMTE | | |
| 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. |  | |

|  |  |  |
| --- | --- | --- |
| Description | Response | |
| Does management agree with the internal control deficiencies indicated | Yes X | No |
|  |  |
| If management does not agree with the internal control deficiency indicated, please provide the internal control deficiency according to management. | There is a Policy in place however there is limited capacity in the Strategic Planning Unit in terms of enforcing the Policy | |

*Name:* *Mr P Serote*

*Position: Head of PMTE*

*Date: 2016/03/04*

**Auditor’s conclusion**

The management comment was noted that department did not have sufficient capacity in strategic planning to undertake the planning for PMTE and that this is being addressed with the creation of a PMTE structure was noted. However the indicators/measures highlighted in the finding do not have a clear unambiguous definition and they are not defined so that data will be collected consistently. Therefore this finding still stands and will be reported in the management report.

1. **Supporting documents not sufficient to support the reported result COFF 26**

Laws, rules and Regulations:

The Performance management and reporting framework issued by the National Treasury, which consists of the Framework for strategic plans and annual performance plans requires the following:

Programme performance indicators that are reliable, well defined, verifiable, cost effective, appropriate and relevant should be sought, with baseline information and targets expressed in terms of actual numbers. Performance targets should be SMART. The institution must have the management processes in place to collect the information required to track performance against each indicator.

During the interim audit of the 15/16 reported performance information,the following deviation was noted:

The portfolio of evidence submitted for audit is not valid and also inadequate to support the achievements reported for each indicator as a result this imposes a limitation on the audit therefore we could not confirm whether the reported performance is valid, accurate and complete.

Please refer below for the detail of performance indicators and targets affected by the above deviations:

|  |  |  |  |
| --- | --- | --- | --- |
| **Programme 4: Real Estate Management** | |  |  |
| **Performance Indicator** | **Quarter 1 (Achievement)** | **Quarter 2 (Achievement)** | **Comment** |
| Number of lease agreements reviewed according the rental rate per square metre and escalations | 99 | Not reported on | No sound evidence was provided for audit, business process submitted is not providing required audit evidence. |
| Percentage of leases renewed before expiry date | 40% | Not reported on | No sound evidence provided for audit |
| Percentage of leased accommodation (lease in) provided within agreed time frame | 28% | Not reported on | No sound evidence provided for audit |
| Percentage of surplus freehold property allocated towards BBBEE | 25% of 300 | Not reported on | No sound evidence provided for audit |

|  |  |  |  |
| --- | --- | --- | --- |
| **Programme 6: Facilities Management** | |  |  |
| **Performance Indicator** | **Quarter 1 (Achievement)** | **Quarter 2 (Achievement)** | **Comment** |
| Number of identified buildings with Facilities Management Contract | 0 | 157 buildings identified for FM contract and 10 buildings are awarded FM contract | No evidence was provided for audit |
| Reduction in kilowatt-hour (Kwh) usage achieved on energy consumption | 18 065 380 | Shared savings of 48 706 478 were achieved | No sound evidence was provided for audit, progress reports and invoices submitted could not be linked to energy savings reported since there is no listing of savings per region. |
| Reduction in kilolitre (Kl) usage achieved on water consumption | 0 | 3 449 521 water savings achieved | No sound evidence was provided for audit, progress reports and invoices submitted could not be linked to water savings reported since there is no listing of savings per region. |
| Percentage efficiency (turnaround time) for unscheduled maintenance on freehold property within 5 days | 30% | 34% calls managed (logged and completed) | No supporting evidence was submitted for calls managed within 5 days; only a spreadsheet with the number of calls was received. |
| Number of work opportunities created through maintenance programmes (DPW & EPWP | 1 915 |  | Inadequate evidence was submitted, a listing of work opportunities was not submitted therefore documents submitted (contracts and IDs) cannot be linked to information reported. |

***Reason for the deviation***

Reason for the deviation:

a) The department does not have controls in place to ensure that actual achievements reported in the quarterly reports are supported by adequate portfolio of evidence.

b) This is due to the non-submission of valid and accurate portfolio of evidence from the various units to the Monitoring and Evaluation (M&E) unit.

c) A lack of adequate review of the portfolio of evidence by management and therefore the inability to timeously advise on any corrections if necessary.

d) The institution does not have management processes in place to collect the information required to track performance against each indicator.

***Impact of the finding***

1. Non-compliance with the National Treasury Framework for managing performance information.
2. The reported information as contained in the quarterly report may not be valid, accurate and complete therefore the actual achievements may be overstated and inaccurate.
3. This could result in material limitation for all the affected programme

**Internal control deficiency**

Based on the aforementioned the matter is as a result of the following internal control deficiencies:

*Leadership*

The Accounting Officer did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

**Financial and Performance Management**

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

**Recommendation**

1. The department should implement processes to ensure that actual achievements reported on the quarterly reports and ultimately the annual report is supported by adequate portfolio of evidence.
2. The departments should ensure that staff from all affected units is provided with the necessary training to alleviate any uncertainties with respect to the development of the portfolio of evidence.
3. Managers responsible for their respective sub-programme reporting should be held accountable for the reporting requirements against the relevant target.
4. Management responsible for their respective sub-programme reporting should review the portfolio of evidence against the reported information before submitting the information to Monitoring and Evaluation branch.

**Management response**

|  |  |  |  |
| --- | --- | --- | --- |
| **Description** | **Response** | | |
| Corrective action to be taken | To request detailed information from the regional offices.  Evidence comes in large quantities and lies with the regions. The regions will be requested to store the evidence so that AGSA can be able to verify the Evidence | | |
| 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, the process followed to correct the population, including the internal controls put in place to ensure that the misstatement does not recur in future. |  | | |
| If yes and the population was adjusted, the proposed adjusting journal entries to correct the population, with the supporting documentation. |  | | |
| Acknowledgement that additional audit costs will be incurred in order to audit the proposed adjustments and that the financial statements will not be adjusted if material misstatements still exist. (Under these circumstances the misstatements identified originally will be reported by the auditor.) | **Yes** | | **No** |
|  | | X |
|  | | |
| 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 | 31 March 2016 | | |
|  |  |  |  |

|  |  |  |
| --- | --- | --- |
| **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. |  | |

**Auditor’s conclusion**

Management comments were noted and we further reviewed the additional portfolio of evidence has been reviewed and it has been concluded the information submitted for audit is still not valid and also inadequate to support the achievements reported for each indicator, therefore the finding remains. Refer below for details:

**Programme 4: Real Estate Management**

|  |  |  |  |
| --- | --- | --- | --- |
| **Performance Indicator** | **Quarter 1 (Achievement)** | **Quarter 2 (Achievement)** | **Final Comment** |
| Number of lease agreements reviewed according the rental rate per square metre and escalations | The revised figure for Q1 is 20 | The revised figure for Q2 is 149 | No sound evidence was provided for audit, acceptance of offer letters for leases were submitted however they do not provide evidence of agreements reviewed. It was also confirmed that the achievement is reported for leases renewed instead of lease agreements reviewed. |
| Percentage of leases renewed before expiry date | The revised Q1 figure is 75% | The revised Q1 figure is 89.26% | No sound evidence was provided for audit, acceptance of offer letters for leases were submitted however they do not provide evidence of leases renewed before expiry date. It was further indicated that new lease agreements for renewals will be provided however no evidence is available to establish whether the leases were renewed before expiry date. |
| Percentage of leased accommodation (lease in) provided within agreed time frame | 28% | Not reported on | No sound evidence was provided for audit, acceptance of offer letters for leases were submitted however they do not provide evidence of leased accommodation provided within agreed timeframe. It was further indicated that new lease agreements for renewals will be provided however no evidence is available to establish whether the leased accommodation was provided within agreed timeframe. |
| Percentage of surplus freehold property allocated towards BBBEE | 25% of 300 | 7 New leases | No evidence was provided for audit of the freehold property allocated towards BBBEE. Some lease contracts were submitted however they do not provide evidence that leases were allocated towards BBBEE. |

**Programme 6: Facilities Management**

|  |  |  |  |
| --- | --- | --- | --- |
| **Performance Indicator** | **Quarter 1 (Achievement)** | **Quarter 2 (Achievement)** | **Final Comment** |
| Number of identified buildings with Facilities Management Contract | 526 buildings with Facilities Management Contracts. | 526 buildings with Facilities Management Contracts. | No evidence was provided for audit |
| Reduction in kilowatt-hour (Kwh) usage achieved on energy consumption | 18 065 380  The Revised figure for Q1 is 74 447 810.3 | Shared savings of 48 706 478 were achieved  The Revised figure for Q2 is 36 002 023.6 | Information submitted does not correspond to information reported. |
| Reduction in kilolitre (Kl) usage achieved on water consumption | 830 355 kl | 3 449 521 water savings achieved  The revised figure for Q2 is 966 887 kl | Evidence submitted corresponds to information reported therefore will be considered for detail testing. |
| Percentage efficiency (turnaround time) for unscheduled maintenance on freehold property within 5 days | 30% calls managed (logged and completed) | 34% calls managed (logged and completed) | The detailed spreadsheet submitted does not provide evidence that calls were managed within 5 days therefore evidence is still inadequate. |
| Number of work opportunities created through maintenance programmes (DPW & EPWP) | 1 915  The revised figure for Q1 is now 1 058 | The revise figure for Q2 is now 1 039 | Inadequate evidence was submitted, a clear listing of work opportunities was not submitted therefore documents submitted (contracts and IDs) cannot be linked to information reported. |

1. **Programme 3: Construction Project Management: Indicators not verifiable and targets not measurable. COFF 28**

**Audit finding**

Laws, rules and Regulations:

The Performance management and reporting framework issued by the National Treasury, which consists of the Framework for strategic plans and annual performance plans requires the following:

Programme performance indicators that are reliable, well defined, verifiable, cost effective, appropriate and relevant should be sought, with baseline information and targets expressed in terms of actual numbers. Performance targets should be SMART. The institution must have the management processes in place to collect the information required to track performance against each indicator.

During the interim audit of the 15/16 reported performance information,the following deviation was noted:

The portfolio of evidence submitted for audit is not valid and also inadequate to support the achievements reported for each indicator as a result this imposes a limitation on the audit therefore we could not confirm whether the reported performance is valid, accurate and complete.

Please refer below for the detail of performance indicators and targets affected by the above deviations:

**Programme 3: Construction project management**

|  |  |  |  |
| --- | --- | --- | --- |
| **Performance Indicator** | **Quarter 1 (achievement)** | **Quarter 2 (achievement)** | **Comments** |
| Number of work opportunities created through construction projects (EPWP and other) | 3841 | 1262 | Difficult to calculate total 3841 as the evidence provided includes list of beneficiaries which are not visible and no evidence provided for quarter 2. |
| Number of projects completed within agreed construction period | 23 | 25 | The completion certificates were provided therefore we cannot confirm whether the projects were completed within agreed construction period .Additional information needs to be provided (List of projects reported and implementation plans). |
| Number of projects completed within approved budget | 23 | 24 | Expenditure report/progress payment reports were provided, a list of projects reported needs to be provided. |
| Number of projects in the current WCS project list cleared | 45 | 33 | Site Hand Over Certificates were provided,(a list of projects reported needs to be provided. |
| Percentage of construction contracts allocated towards BBBEE | 23% | 38% | BBBEE certificates provided no evidence of how the % was determined and no confirmation that contracts were allocated to the submitted BBBEE certificates. Therefore additional evidence that needs to be provided is List of projects awarded for BBBEEE & evidence that the contracts were awarded to these BBBEE. |

***Reason for the deviation***

Reason for the deviation:

a) The department does not have controls in place to ensure that actual achievements reported in the quarterly reports are supported by adequate portfolio of evidence.

b) This is due to the non-submission of valid and accurate portfolio of evidence from the various units to the Monitoring and Evaluation (M&E) unit.

c) A lack of adequate review of the portfolio of evidence by management and therefore the inability to timeously advise on any corrections if necessary.

***Impact of the finding***

1. Non-compliance with the National Treasury Framework for managing performance information.
2. The reported information as contained in the quarterly report may not be valid and accurate therefore the actual achievements may be overstated and inaccurate.
3. This could result in material misstatements which could lead to a qualification of the relevant programme.

**Internal control deficiency**

Based on the aforementioned the matter is as a result of the following internal control deficiencies:

Leadership

The Accounting Officer did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Financial and Performance Management

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

**Recommendation**

1. The department should implement processes to ensure that actual achievements reported on the quarterly reports and ultimately the annual report is supported by adequate portfolio of evidence.
2. The departments should ensure that staff from all affected units is provided with the necessary training to alleviate any uncertainties with respect to the development of the portfolio of evidence.
3. Managers responsible for their respective sub-programme reporting should be held accountable for the reporting requirements against the relevant target.
4. Management responsible for their respective sub-programme reporting should review the portfolio of evidence against the reported information before submitting the information to Monitoring and Evaluation branch.

**Management response**

|  |  |  |  |
| --- | --- | --- | --- |
| **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, the process followed to correct the population, including the internal controls put in place to ensure that the misstatement does not recur in future. |  | | |
| If yes and the population was adjusted, the proposed adjusting journal entries to correct the population, with the supporting documentation. |  | | |
| Acknowledgement that additional audit costs will be incurred in order to audit the proposed adjustments and that the financial statements will not be adjusted if material misstatements still exist. (Under these circumstances the misstatements identified originally will be reported by the auditor.) | **Yes** | | **No** |
|  | |  |
|  | | |
| 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. |  | |

**Auditor’s conclusion**

Management comment was noted however no additional portfolio of evidence for the reported result was submitted, therefore this finding remains unresolved.

Property Plant and Equipment

1. **Assets: Shortcomings identified in the supporting documentation (COFF 32)**

**Audit finding**

Section 40 of the 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;*

**Nature**

During the audit the following was noted:

1. SDF listing was provided detailing the Immovable assets that were built or located in land that doesn’t belong to the Department of Public Works/PMTE/RSA government. The listing provided does not link to the Immovable Assets submission (Buckets) as it is not possible to trace the properties from the SDF to the buckets and from the buckets to the SDF.
2. The schedule provided as supporting evidence for the valuations assigned for building indices as completed by AECOM did not include dates that demonstrate when the valuations were undertaken, thus it is not possible to ascertain that the assigned values were at 1 April 2013.
3. On inspection of the Municipal valuation rolls provided, it was identified that the information provided was screen-prints and not obtained from a separately verifiable source wherein the complete municipal valuation roll could be provided and inspected.

**Impact**

Limitation of scope as we are unable to obtain sufficient and appropriate audit evidence to support the deemed values assigned to immovable assets.

**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 retain documents in the original form in order to submit reliable audit evidence for when requested for audit.

**Management response**

Management comments outstanding

**Auditor’s conclusion**

Management comments outstanding

1. **Immovable Assets: Assets owned by different custodians (COFF 33)**

**Audit finding**

Section 40 of the 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;*

**Nature**

The following assets detailed below are registered in the name of various custodians and are also recorded in the assets register (buckets) of the Property Management Trading Entity, These assets could not be traced to the list of the state domestic facilities.

Furthermore it was identified that these assets are recorded at the full value of the municipal valuation roll or the sales average comparable price, the values recorded are for the entire property which include the facility of the entity. There was no split for the value of the facility that belongs to the entity.

**Assets owned by private individuals**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Unique Property Code** | **Reference number** | **Combined values** | **Registered owner** | **Source** |
| 3139461 | 17174674 | R 295 000.00 | MASHILE AGNES NANZU | Lightstone MVR |
| 3139761 | 17169618 | R280 000.00 | MALATJIE SESINYANA GLADYS | Lightstone MVR |
| 200000060592 | 17098824 | R 53 000.00 | KE BARONA OLD AGE & DISABLED HOME | Lightstone MVR |
|  |  | R 628 000.00 |  |  |

**Assets owned by Municipalities**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Unique Property Code** | **Reference number** | **Combined values** | **Registered owner** | **Source** |
| S42\_31032015\_00942 | 17029418 | R34 916922.00 | City of Cape town | Lightstone MVR |
| 200000060508 | 17004140 | R 386 500.00 | EKURHULENI METROPOLITAN MUNICIPALITY | SCV |
| 597391 | 16939278 | R3 251 400.00 | City of Cape town | Lightstone MVR |
|  |  | R 38 554 822.00 |  |  |

**Assets owned by the Provincial Government**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Unique Property Code** | **Reference number** | **Combined values** | **Registered owner** | **Source** |
| 200000057517 | 16958952 | R 412 916.67 | PROVINCIAL GOVERNMENT OF KWAZULU-NATAL | SCV |
| 200000060710 | 16819907 | R15 430 000.00 | PROVINCIAL GOVERNMENT OF THE LIMPOPO PROVINCE | Lightstone MVR |
| 200000058345 | 16813754 | R 98 062 320.00 | PROVINCIAL GOVERNMENT OF THE LIMPOPO PROVINCE | Lightstone MVR |
| 200000000000 | 10534834 | R 77 000 000.00 | PROVINCIAL GOVERNMENT OF THE FREESTATE | Lightstone MVR |
| D\_3132013\_136765 | 10216815 | R 8 710 000.00 | PROVINCIAL GOVERNEMENT OF GAUTENG | Lightstone MVR |
| 1555451 | 15054419 | R 8 530 000.00 | PROVINCIAL GOVERNEMENT OF GAUTENG | Lightstone MVR |

R 113 905 236.67

**Assets owned by other**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Unique Property Code** | **Reference number** | **Combined values** | **Registered owner** | **Source** |
| D31032014\_90017 | 16979443 | R 3 019 975.85 | MINISTER OF REGIONAL & LAND AFFAIRS | SCV |
| 784461 | 16911139 | R12 300 000.00 | CAPE PENINSULA UNIVERSITY OF TECHNOLOGY | Lightstone MVR |
| DEEDS125108 | 9905363 | R 3 500 000.00 | MATSAMO COMMUNAL PROP ASSOC | Lightstone MVR |
| DEEDS125112 | 9931201 | R 19 400 000.00 | MATSAMO COMMUNAL PROP ASSOC | Lightstone MVR |
| DEEDS125136 | 9990830 | R 3 000 000.00 | MATSAMO COMMUNAL PROP ASSOC | Lightstone MVR |
| DEEDS124878 | 15444517 | 28 700 000.00 | MJEJANE TRUST | Lightstone MVR |
| 3159081 | 13864636 | 3 408 975.00 | Mokhachane Communial Property Association | SCV |
|  |  | R 73 328 950.85 |  |  |

**The following was also noted:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Tracking number** | **Details of Assets** | **Amount** | **Issued identified** |
| 17070302 | Erf 945 MALAMULELE-A THULAMELA LOCAL | 350 000.00 | Asset not found in the tracking document |
| 16990473 | Farm 2280 KING WILLIAM'S TOWN RD Reg Div: KING | - | Asset not found in the tracking document and no valuation amount on the light stone property report. |
| 16831472 | Ptn 179 Farm 103 WONDERFONTEIN Reg Div: IQ | 4 147 500.00 | Asset not found in the tracking document |

**Impact**

The recording of assets which are not owned by the entity will result in the overstatements of the immovable assets.

**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**

Management should ensure that only the assets which are owned by the entity are recorded in the books of the entity, where there is a state domestic facility the value of the facility should be clearly apportioned for the facility which belongs to the entity.

**Management response**

Management comments outstanding

**Auditor’s conclusion**

Management comments outstanding

1. **Immovable Assets: Property reports from Light-stone (COFF 34)**

**Audit finding**

Section 40 of the 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;*

**Nature**

All the property reports received for audit purposes that support the deemed cost values assigned to immovable assets contains the following disclaimer

*“Please note that Lightstone obtains data from a broad range of 3rd party sources and – despite the application of proprietary data cleaning processes – cannot guarantee the accuracy of the information provided in this report. It is expressly recorded that information provided in this report is not intended to constitute legal, financial, accounting, tax, investment, consulting or other professional advice. This report does not contain any confidential information relating to the property owner or any owners residing in the suburb. All bond, home loan and property registration information in the reports is from the Deeds Office where information on all property registrations, property transfers as well as all registered bonds / home loans are kept. This is public domain information and accessible by any person.”*

Based on the above disclaimer the reports cannot be relied on as sufficient and appropriate audit evidence because the accuracy of the information cannot be guaranteed and It is expressly recorded that information provided in these reports is not intended to constitute legal, financial, accounting, tax, investment, consulting or other professional advice.

**Impact**

The information contained in the reports is not necessarily accurate and cannot be relied on as sufficient and appropriate evidence resulting in the limitation of scope on the audit.

Therefore we cannot rely on the value of R 75 987 011 279 assigned to the immovable assets as deemed cost.

**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**

Management should ensure that the information used to support the deemed costs for the immovable assets is reliable information that has no negative disclaimer.

**Management response**

Management comments outstanding

**Auditor’s conclusion**

Management comments outstanding

1. **Immovable Assets: Valuation date older than 4 years (COFF 35)**

**Audit finding**

Section 40 of the 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;*

**Nature**

The valuation date as per municipal valuation roll is older than four years.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Unique Property Code** | **Reference number** | **Combined values** | **Registered owner** | **Source** | **Year of Valuation** |
| 1431421 | 13616909 | R 2 738 000.00 | FARM 15 PORTION 42 OF IR-WITFONTEIN | Lightstone MVR | 2007 |
|  |  |  |  |  |  |  |

**Impact**

The above asset is not valued correctly as it does not fall within the effective date of transfer being 1 April 2013. Municipal valuation roll is only valid for four years, and the asset falls outside the four years valuation period.

**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**

Management should ensure that the valuation date per municipal valuation roll is not older than 4 years.

**Management response**

Management comments outstanding

**Auditor’s conclusion**

Management comments outstanding

1. **Immovable Assets: Shortcomings identified on the Municipal Valuation Rolls submitted for audit. (COFF 36)**

**Audit finding**

Section 40 of the 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;*

**Nature**

Sufficient and appropriate audit evidence was not provided to support the valuation of assets below.

The evidence provided was a screenshot where the amount, date of valuation and rights to the asset could not be ascertained.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Bucket** | **Valuation method** | **Property code** | **Description of Asset** | **Site ID** | **Amount** |
| Bucket 1 - MVR | 2. MVR\_Values | 1033731 | FARM 925 PORTION 4 OF FT-BROUGHTON | 100000021967 | 420 000 000.00 |
| Bucket 1 - MVR | 2. MVR\_Values | 574511 | ERVEN 172 PORTION 0 OF KAROS SETT | 100000044457 | 30 000.00 |
| Bucket 1 - MVR | 2. MVR\_Values | 557331 | ERVEN 86 PORTION 0 OF KEIMOES | 100000035266 | 760 000.00 |
| Bucket 1 - MVR | 2. MVR\_Values | 535301 | ERVEN 84 PORTION 0 OF KEIMOES | 100000037945 | 760 000.00 |
| Bucket 2 - MVR | 2. MVR\_Values | 925751 | FARM 358 PORTION 31 OF HUMANSDORP RD-DIEP RIVIERS MOND | 100000018423 | 10 000.00 |
| Bucket 2 - MVR | 2. MVR\_Values | 944021 | FARM 487 PORTION 0 OF HUMANSDORP RD-FARM 487 | 100000018496 | 330 000.00 |
| Bucket 2 - MVR | 2. MVR\_Values | 912491 | FARM 158 PORTION 6 OF QUEENSTOWN RD-EVERTON | 100000018927 | 500.00 |
| Bucket 2 - MVR | 2. MVR\_Values | 877961 | FARM 50 PORTION 10 OF ALBERT RD-KARREEFOUNTAIN | 100000019272 | 113 000.00 |
| Bucket 2 - MVR | 2. MVR\_Values | 838642 | ERVEN 440 PORTION 0 OF LADY GREY | 100000019384 | 134 617.08 |
| Bucket 2 - MVR | 2. MVR\_Values | 1099621 | FARM 8816 PORTION 7 OF HT-KOPIJ ALEEN | 100000020974 | 10 000.00 |
| Bucket 2 - MVR | 2. MVR\_Values | 1008381 | FARM 7239 PORTION 30 OF HT-GARDENS | 100000021032 | 4 000.00 |
| Bucket 2 - MVR | 2. MVR\_Values | 1042741 | FARM 7239 PORTION 36 OF HT-GARDENS | 100000021034 | 1 000.00 |
| Bucket 3 - MVR | 2. MVR\_Values | DEEDS17259 | FARM 523 PORTION 0 OF HUMANSDORP RD-FARM 523 | 100000019865 | 3 503 000.00 |
| Bucket 3 - MVR | 2. MVR\_Values | DEEDS45272 | FARM 204 PORTION 0 OF BARKLY WES RD-GEKONSOLIDEERDE PLAAS DARLESTON | 100000017107 | 2 236 100.00 |
| Bucket 3 - MVR | 2. MVR\_Values | DEEDS45295 | FARM 300 PORTION 0 OF BARKLY WES RD-PLAAS 300 | 100000017114 | 1 105 587.00 |
| Bucket 3 - MVR | 2. MVR\_Values | 423171 | FARM 274 PORTION 17 OF JP-VERGENOEGD | 100000032042 | 8 800.00 |
| Bucket 3 - MVR | 2. MVR\_Values | DEEDS142645 | FARM 258 PORTION 109 OF JP-WONDERFONTEIN | 100000043955 | 7 450.00 |
| Bucket 3 - MVR | 2. MVR\_Values | 1429051 | FARM 273 PORTION 0 OF IR-STOMPIESFONTEIN | 100000034566 | 580 000.00 |
| Bucket 3 - MVR | 2. MVR\_Values | DEEDS17588 | FARM 291 PORTION 55 OF JOUBERTINA RD-KLIPHEUVEL | 100000019725 | 404 999.00 |
| bucket 4 - MVR | 2. MVR\_Values | 837931 | ERVEN 2656 PORTION 0 OF CRADOCK | 100000018206 | 3 499 300.00 |
| bucket 4 - MVR | 2. MVR\_Values | 530991 | ERVEN 5562 PORTION 0 OF UPINGTON | 100000035225 | 1 495 105.00 |
| bucket 4 - MVR | 2. MVR\_Values | DEEDS28769 | ERVEN 140 PORTION 0 OF SKANSKOP ISLAND SETT | 100000038204 | 54 000.00 |

**Impact**

Limitation of scope as we are unable to obtain sufficient and appropriate audit evidence to support the deemed values assigned to immovable assets.

**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**

Original municipal valuation rolls supporting the values above should be submitted for audit.

**Management response**

Management comments outstanding

**Auditor’s conclusion**

Management comments outstanding

1. **Immovable Assets: Inappropriate audit evidence (COFF 37)**

**Audit finding**

Section 40 of the 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;*

**Nature**

It was noted that the report date of the Lightstone property comparable sales price average is not on the 1 April 2013 as this is the effective date of transfer. There is no indication of the validity of Lightstone comparable sale price average on the effective date of transfer.

The following Lightstone document dates were verified.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Property code** | **Property description** | **Source** | **Site ID** | **Lightstone Tracking no** | **Report Date** |
| 1341461 | ERVEN 1969 PORTION 0 OF HIGHLANDS NORTH EXT 3 | 3. EY\_Compareble Sale Price Average | 100000010459 | 10808928 | 2015-11-17 |
| 378071 | ERVEN 299 PORTION 0 OF CAPITAL PARK | 3. EY\_Compareble Sale Price Average | 100000010575 | 13367406 | 2015-11-16 |
| 378981 | ERVEN 156 PORTION 0 CAPITAL PARK | 3. EY\_Compareble Sale Price Average | 100000010577 | 13576187 | 2015-11-17 |
| 381581 | ERVEN 151 PORTION 0 CAPITAL PARK | 3. EY\_Compareble Sale Price Average | 100000010583 | 12580507 | 2015-11-16 |
| 435301 | FARM 296 PORTION 71 OF JR-ZEEKOEGAT | 3. EY\_Compareble Sale Price Average | 100000010612 | 15385205 | 2015-11-17 |
| 490221 | LYTTELTON AGRICULTURAL HOLDINGS EXT 1 287 PORTION 0 | 3. EY\_Compareble Sale Price Average | 100000010451 | 11018534 | 2015-11-17 |
| 458251 | WATERVAL SMALL HOLDINGS 24 PORTION 1 | 3. EY\_Compareble Sale Price Average | 100000010492 | 14332580 | 2015-11-17 |
| 1443401 | FARM 385 PORTION 1 OF IS-RIVERSDALE | 3. EY\_Compareble Sale Price Average | 100000010608 | 12132095 | 2015-11-16 |
| 466591 | ERVEN 743 PORTION 2 OF ARCADIA | 3. EY\_Compareble Sale Price Average | 100000010740 | 12895614 | 2015-11-16 |
| 466061 | ERVEN 16 PORTION 0 OF DASPOORT ESTATE | 3. EY\_Compareble Sale Price Average | 100000010750 | 11626491 | 2015-11-18 |
| D\_3132013\_10442 | FARM 600 PORTION 0 OF CRADOCK RD-CRADOCK RD | 3. EY\_Compareble Sale Price Average | 100000047758 | 15750381 | 2015-11-16 |
| DEEDS32081 | FARM 236 PORTION 0 OF TARKA RD-STANFORD PARK | 3. EY\_Compareble Sale Price Average | 100000019900 | 9574545 | 2015-11-18 |
| D\_3132013\_10424 | FARM 527 PORTION 31 OF CRADOCK RD-VAN STADENS DAM | 3. EY\_Compareble Sale Price Average | 100000047753 | 12340758 | 2015-11-17 |
| D\_3132013\_161889 | FARM 54 PORTION 16 OF IP-RIETFONTEIN | 3. EY\_Compareble Sale Price Average | 100000047982 | 9083788 | 2015-11-17 |
| 871051 | FARM 328 PORTION 0 OF ALEXANDRIA RD-MAINFOR | 3. EY\_Compareble Sale Price Average | 100000018118 | 15296937 | 2015-11-16 |
| 906301 | FARM 396 PORTION 0 OF KNYSNA RD-FARM 396 | 3. EY\_Compareble Sale Price Average | 100000014607 | 15415041 | 2015-11-18 |
| DEEDS123085 | FARM 532 PORTION 0 OF IT-SARIE-PIET | 3. EY\_Compareble Sale Price Average | 100000041523 | 9454213 | 2015-11-19 |
| 3159081 | FARM 289 PORTION 0 OF WESSELSBRON-AVIGNON | 3. EY\_Compareble Sale Price Average | 100000037974 | 13864636 | 2015-11-17 |
| DEEDS141511 | FARM 110 PORTION 102 OF IR-KLIPPOORTJE | 3. EY\_Compareble Sale Price Average | 100000038811 | 11303750 | 2015-11-16 |
| DEEDS141061 | FARM 422 PORTION 0 OF IQ-KLIPDRIFT | 3. EY\_Compareble Sale Price Average | 100000032313 | 15095001 | 2015-11-17 |
| DEEDS149371 | FARM 13 PORTION 2 OF LT-KLEIN AUSTRALIE | 3. EY\_Compareble Sale Price Average | 100000030327 | 15141810 | 2015-11-17 |
| DEEDS 180194 | FARM 424 PORTION 64 OF JR-ONVERWACHT | 3. EY\_Compareble Sale Price Average | 100000039191 | 15449505 | 2015-11-18 |
| 1020331 | FARM 3693 PORTION 13 OF FU-LOT 51 | 3. EY\_Compareble Sale Price Average | 100000020372 | 15379085 | 2015-11-17 |
| DEEDS140978 | FARM 371 PORTION 192 OF IQ-ORANGE FARM | 3. EY\_Compareble Sale Price Average | 100000038732 | 10318091 | 2015-11-17 |
| DEEDS 180194 | FARM 424 PORTION 64 OF JR-ONVERWACHT | 3. EY\_Compareble Sale Price Average | 100000039191 | 15449505 | 2015-11-18 |

**Impact**

The Fixed Asset Register valuation based on comparable sale price average may be misstated as the comparable sales price average as at 1 April 2013 may differ from that of the current Lightstone reporting date, therefore assets values may be misstated.

**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**

Lightstone comparable sales price average must be reported on the effective date of transfer which is 1 April 2013

**Management response**

Management comments outstanding

**Auditor’s conclusion**

Management comments outstanding

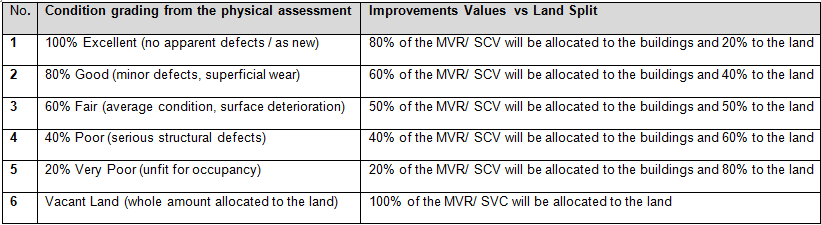
1. **Immovable Assets: Incorrect application of conditional assessment (COFF 38)**

**Audit finding**

Section 40 of the PFMA requires 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;

Conditional assessment requirements as per FV position paper



**Nature**

During the audit the following was identified:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Bucket**  **number** | **Unique Property Code** | **Reference number** | **Improvement values vs land spilt incorrectly applied** | **Correct Improvement values vs land spilt that should be applied** |
| 1 | 462701 | 11642634 | 50:50 | 80:20 |

It was noted that the property value assigned for “farm 321 portion 25 of JR Rietfontein” was incorrectly allocated. The property value was allocated in accordance with a 60% conditional assessment whilst the condition of the primary building was assessed as being 100%. The property has a value of R85 000 000 whilst the primary building was valued at R81 000 000. The remaining R4 000 000 is split between 17 remaining buildings.

|  |  |  |  |
| --- | --- | --- | --- |
| **Asset** | **Incorrect value allocated** | **Correct value to be allocated** | **Misstatements Identified** |
| Land | R 85 000 000 | R 34 000 000 | R51 000 000 |
| Building | R 85 000 000 | R136 000 000 | (R51 000 000) |

**Impact**

The recording of immoveable assets at incorrect deemed cost values.

Incorrect base utilized for the purposes of calculating of depreciation.

Overstatement of land by R51 000 000

Understatement of Buildings by R51 000 000

**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**

Management must ensure that the correct condition grading as per Fair Value position paper is selected and applied in allocating the value of the land and buildings.

**Management response**

Management comments outstanding

**Auditor’s conclusion**

Management comments outstanding