DRAFT MANAGEMENT REPORT

Property Management Trading Entity

**31 March 2021**

**Communicated to the accounting officer on: 31 August 2021**

MANAGEMENT REPORT

**Property Management Trading Entity**

**31 March 2021**

**Discussed with the accounting officer on: 12 August 2021**

CONTENT

[MANAGEMENT REPORT TO THE ACCOUNTING OFFICER ON THE AUDIT OF THE property management trading entity FOR THE YEAR ENDED 31 march 2021 4](#_Toc79349480)

[INTRODUCTION 4](#_Toc79349481)

[OVERALL MESSAGE 7](#_Toc79349482)

[SECTION 1: Interactions with stakeholders responsible for oversight and governance 7](#_Toc79349483)

[SECTION 2: Matters relating to the auditor’s report 10](#_Toc79349484)

[AUDIT OF THE FINANCIAL STATEMENTS 10](#_Toc79349485)

[AUDIT OF THE ANNUAL PERFORMANCE REPORT 12](#_Toc79349486)

[AUDIT OF COMPLIANCE WITH LEGISLATION 13](#_Toc79349487)

[INTERNAL CONTROLS 14](#_Toc79349488)

[MATERIAL IRREGULARITIES 19](#_Toc79349489)

[OTHER REPORTS 19](#_Toc79349490)

[SECTION 3: Assurance providers and status of implementation of commitments and recommendations 20](#_Toc79349491)

[ASSESSMENT OF ASSURANCE PROVIDERS 20](#_Toc79349492)

[STATUS OF IMPLEMENTING COMMITMENTS AND RECOMMENDATIONS 22](#_Toc79349493)

[SECTION 4: Specific focus areas 22](#_Toc79349494)

[FINANCIAL VIABILITY 22](#_Toc79349495)

[PROCUREMENT AND CONTRACT MANAGEMENT 25](#_Toc79349496)

[FRAUD AND CONSEQUENCE MANAGEMENT 28](#_Toc79349497)

[BROAD-BASED BLACK ECONOMIC EMPOWERMENT (B-BBEE) ACT AND REGULATIONS REQUIREMENTS 33](#_Toc79349498)

[Covid-related procurement and transactions 33](#_Toc79349499)

[SECTION 5. Using the work of internal audit 33](#_Toc79349500)

[SECTION 7: Ratings of detailed audit findings 34](#_Toc79349501)

[SECTION 8: Conclusion 35](#_Toc79349502)

## MANAGEMENT REPORT TO THE ACCOUNTING OFFICER ON THE AUDIT OF THE property management trading entity FOR THE YEAR ENDED 31 march 2021

## INTRODUCTION

1. The purpose of the management report is to communicate audit findings and other key audit observations to the accounting officer and to provide a summary of the material irregularities and suspected material irregularities of which the accounting officer was notified. The report does not constitute public information.

The management report includes audit findings arising from the audit of the financial statements, performance information and compliance with legislation for the year ended 31 March 2021. These findings were communicated to management and this report details management’s response to these findings. The report includes information on the internal control deficiencies that we identified as the root causes of the matters reported. Addressing these deficiencies will help to improve the audit outcome.

1. In accordance with the terms of engagement, our responsibility in this regard is to:

* express an opinion on the financial statements
* express an opinion in the management report on the usefulness and reliability of the reported performance information for selected programmes, and report the material findings in the auditor’s report
* report on material findings relating to compliance with specific requirements in key applicable legislation, as set out in the general notice issued in terms of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA)
* notify the accounting officer of any material irregularity or suspected material irregularities identified during the audit, and report on it in the auditor’s report.

1. Our engagement letter sets out our responsibilities and those of the accounting officer in detail.
2. This management report consists of the overall message arising from the audit, summary of key findings and observations, annexures containing the detailed audit findings, annexures to the report on the audit of performance information as well as the annexure to internal control deficiencies reported.
3. The auditor’s report is finalised only after the management report has been communicated. All matters included in this report that relate to the auditor’s report remain in draft form until the final auditor’s report is signed. In adherence to section 50 of the PAA, we do not disclose any information obtained during the audit and contained in this management report.
4. The **figure** that follows provides a pictorial summary of the audit results and our key messages on how to improve the audit outcomes with the focus on the following:

* Status of the audit outcomes
* Status of the level of assurance provided by key role players
* Status of the drivers of internal controls
* Status of risk areas
* Root causes to be addressed/Best practices that should be maintained

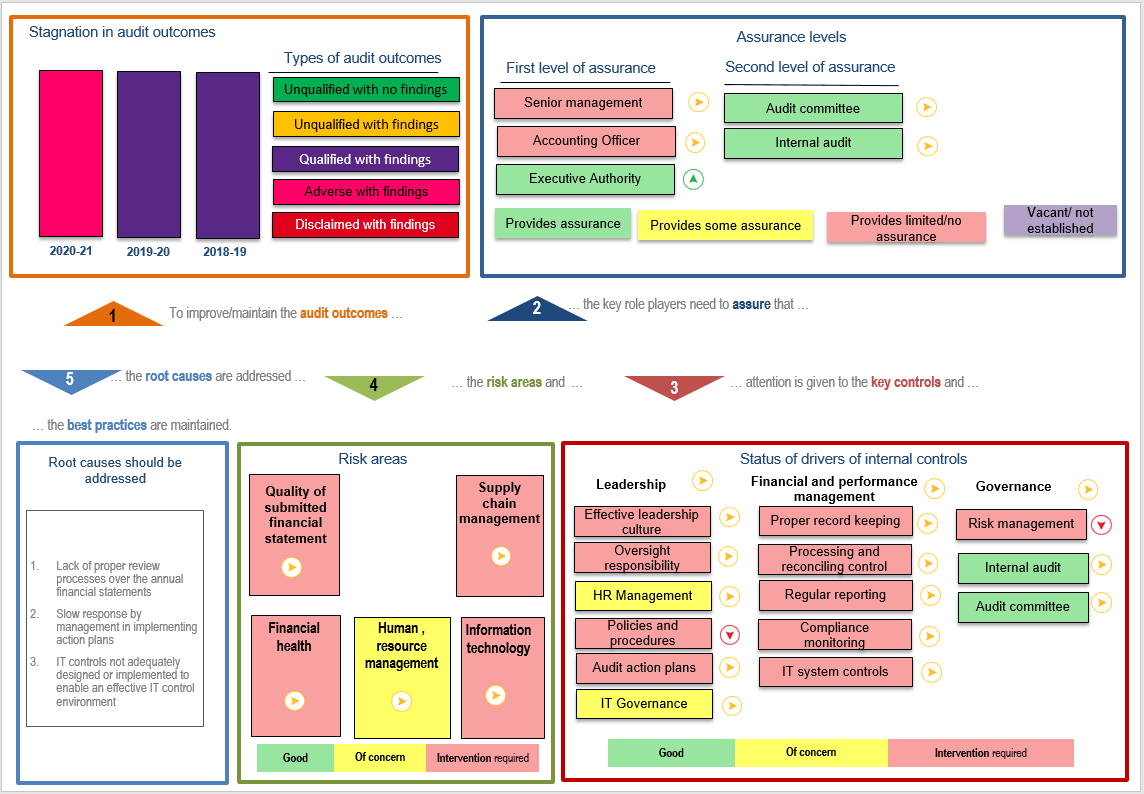
1. Movement from the previous year is depicted as follows:



Improved

Unchanged / slight improvement / slight regression

Regressed



## OVERALL MESSAGE

-

1. The audit outcome of the entity has regressed in the current period, with the entity obtaining an adverse audit outcome with findings on other areas. Material misstatements in the **annual financial statements** were identified with respect to immovable assets, operating lease revenue, expenditure and commitments, receivables from exchange transactions, payables from exchange transactions and irregular expenditure, which formed the basis for the adverse audit outcome.
2. An improvement was noted on the property, plant and equipment in respect to the classification of asset under construction, which contributed to the prior year qualification. This porton of qualification was resolved in the current financial period. However, it is regrettable to note that this improvement was offset by the re-occurrence of the ownership issue, which was previously resolved. Management recognised assets for which proof of ownership were not retained to confirm that the assets indeed belong to the trading entity. Furthermore, the trading entity used incorrect rates in calculating the value of land. We have also noted duplicate properties in the Immovable assets register (IAR) resulting in the overstatement of the assets. It is concerning that prior year issues were not adequately prevented and detected through implementation of the actions plans and the senior management reviews that ought to have taken place prior to submission of the Annual financial statements for audit. Consequently, the above issues have resulted in a qualification on Property, Plant and Equipment.
3. Material misstatements relating to operating leases remained unresolved in the current year. A number of existing leases were not correctly captured on Archibus, which resulted in numerous misstatements on recorded lease transactions. This resulted from concluded lease agreements by Real Estate Management Services (REMS) not being sent timely to the regional offices to be captured on Archibus system. Consequently, overpayments were made to landlords due to payments being processed on old lease agreement which were at higher rental fees. In addition, management did not use the correct schedule for lease commitments to form a basis of disclosure which resulted in amounts disclosed on the annual financial statements not agreeing to the amounts on the supporting schedules submitted for audit.
4. Notwithstanding the misstatements identified on leases, a regression was noted for Receivables from exchange transactions with respect to municipal services and prepaid expenses leases as amounts disclosed on the annual financial statements did not agree to the amounts on the supporting schedules submitted for audit. The root causes of such regression was due to system technical issues related to the SAGE system. Furthermore, adequate review of the financial information prior to submission for audit were not implemented to ensure that the financials are free from error.
5. In relation to the audit of payables from exchange transactions, material misstatements were identified with respect to accruals, as the amounts disclosed on the annual financial statements were overstated. Consequently, the trading entity further regressed into a qualification which had been resolved in the past years. This is concerning as it flagged inconsistency in the implementation of preventative controls or actions plans that ought to be implemented consistently to ensure sustainable improved audit outcomes.
6. Lastly, in relation to the financial statements, the disclosure note relating to irregular expenditure have been materially understated by an unquantifiable amount. Investigations conducted by the Governance and Risk Unit and concluded in the current financial period were not reported as irregular expenditure even though non-compliances were identified. SIU reports with recommendation on transactions concluded to be irregular expenditure were not considered on the irregular expenditure note. Furthermore, irregular expenditure identified by auditors, which were disclosed as “under assessment”, or “determination” in the previous year’s annual financial statements were not investigated and finalised as per the irregular expenditure framework. This results in the understatement of the irregular expenditure note and further negatively reflect as slow response by senior management and the accounting officer to enable consequence management.
7. The trading entity is not implementing preventative controls adequately to prevent non-compliances with laws and regulations. This has been evidence by the numerously non-compliances identified through the internal investigations as well as the audit process.. Non- compliances were identified with Public Finance Management Act (PFMA), Preferential Procurement Regulations and Treasury Regulations. Furthermore, numerous non-compliances were identified in relation to procurement of commodities designated for local content and production. In certain instances, such non-compliances resulted in irregular, fruitless and wasteful expenditure being incurred.
8. An improvement was noted with respect to payments made within 30 days, however the entity failed to implement effective and appropriate steps to prevent irregular expenditure. Overpayments made to landlords in terms of private leased properties continued in the current year as management made payments on old lease agreements which were at a higher rental fees. The process put into place to verify payment amounts before they are made have not yet made a significant difference as the overpayments have continued to occur. The control environment in relation to leases requires intervention.
9. The entity has also regressed in relation to safeguarding of their assets, which are still under construction. This is evidenced by audit findings raised in relation to Boilers at Leeuwkop prison which were left unprotected.
10. In the current year, we have noted that management have taken a decision to report the entity’s annual **performance information** in the Department of Public Works and Infrastructure. The usefulness and reliability of the reported performance information was tested as part of the audit of Department of Public Works and Infrastructure and any audit findings are included in the management and auditor’s report of Department of Public Works and Infrastructure.
11. Areas of concerns were noted which requires management attention especially on ICT service continuity and reviews of users access accounts on the financial systems. The ICT focus areas relating to user access management and Network security management still require improvement. The lack of implementing basic IT security and user access controls could further lead to unauthorised users gaining access to systems, resulting in data being compromised, denial of service attacks or data integrity issues and consequently overall disruption to business processes.

## SECTION 1: Interactions with stakeholders responsible for oversight and governance

1. During the audit cycle, we met with the following key stakeholders responsible for oversight and governance to communicate matters relating to the audit outcome and matters identified during our status of records review/s of the entity :

| Key stakeholder | Purpose of interaction | Number of interactions |
| --- | --- | --- |
| Portfolio committee on Public Works and Infrascture |  Meeting to share the audit outcomes and present the BRRR   Presentation of the Special audit report 1 on Covid-19 expenditure   Letter to the chairperson of the portfolio committee on DPWI presenting a summary of the issues on Special audit report 1 and 2 on Covid-19 expenditure | 3 |
| Minister |  Presentation on audit outcomes and key messages   Letter was sent following up on the progress made in the disciplinary of the minister’s special advisor   Presentation of the Special audit report 1 on Covid-19 expenditure   Presentation of the Special audit report 2 on Covid-19 expenditure | 5 |
| Director-general |  Refresher Presentation on amendments to Public Audit Act   Detail discussion on interim management report and Status of Records review.   Discussion of the engagement letter and audit Strategy   :Letters on Audit progress of the Public works portfolio   Discussion on progress made in addressing material irregularities communicated in the prior year  Meeting with DPWI, DPME & AGSA to discuss the challenges on EPWP indicator reporting   Meeting about the audit action plans to address both internal and external audit findings on AoPO and compliance subject matters. | 7 |
| Audit committee |  Discussion of the engagement letter and audit strategy   Communication of the interim management report and Status of Records review.   Approval of the Department’s Annual Financial Statements   Management presentation on the audit action plans to address both internal and external audit findings. | 4 |
| Senior Management |  Weekly Audit Steering Committee meeting   Presentation of the engagement letter and audit strategy   Presentation of the interim management report   Several presentations by management on the audit action plans to address both internal and external audit findings on AoPO and compliance subject matters. | 12 |

1. At these interactions, we shared the following key matters affecting audit outcomes and the auditee

* Audit engagement (with specific emphasis on the roles and responsibilities of the auditor and management as well as those charged with governance).
* Overall audit strategy including the proposed nature, timing and extent of audit procedures to be performed.
* Status of key controls, the weaknesses in the internal control environment identified through the Status of Records Review and interim audit process and actions to be taken to correct these.
* PAA Amendments with the focus on progress made in addressing the material irregularities reported in the prior year.

1. Some stakeholders made commitments to implement initiatives that can improve the audit outcome. The commitments given and the progress of previous commitments are included in section 3.2, which deals with the assessment of assurance providers.

## SECTION 2: Matters relating to the auditor’s report

### AUDIT OF THE FINANCIAL STATEMENTS

1. We identified material misstatements in the financial statements during the audit. These misstatements were not prevented or detected by the entity’s system of internal control. These material misstatements also constitute non-compliance with section 40(1) of the Public Finance Management Act (PFMA).
2. The misstatements that were not corrected form the basis for the qualified opinion on the financial statements.

| Material misstatement | | | Impact  R  current year | Impact  R  prior year |
| --- | --- | --- | --- | --- |
| Financial statement item | Finding  [Include a brief description of the misstatement as per the findings and the auditor’s report. Include the reasons for the auditee not correcting the misstatement where applicable.] | Occurred in prior year |
| Material misstatements not corrected | | | | |
| **Non-Current Assets** | | | | |
| Property, plant and equipment  Depreciation and accumulated depreciation | In calculating deemed cost for immovable assets, the area of the property in m² (extents) is multiplied by the rate for the specific type of asset. Misstatements were identified in the immovable assets register (IAR) due to the incorrect application of AVL rates when calculating property values. Furthermore, we noted instances were incorrect extents being utilised for properties being measured using measuring wheel.  Additionally, we identified misstatements in the IAR due to assets included in the IAR for which PMTE did not retain ownership. Furthermore, we identified assets which are duplicated in the IAR. | Yes | Estimated understatement of  R1 214 843 369  Actual overstatement of  R2 349 306 036 | Estimated understatement of  R2 818 767 125 |
| **Current Assets** | | | | |
| Receivables from exchange transactions: | Differences were identified between the amount disclosed on the AFS and the supporting schedules for municipal services.  Furthermore, we identified differences between the recalculated lease prepayment balance and amount disclosed on the AFS. | No | Estimated overstatement of  R429 766 447 | 0 |
| **Current liabilities** | | | | |
| Payables from exchange transactions | Differences were identified between auditor’s recalculated amounts and the balance disclosed on the AFS relating to Accrued expenses | No | Estimated overstatement of  R541 052 278 | 0 |
| **Revenue** | | | | |
| Revenue from exchange transaction: Leasehold inter-governmental | Differences were identified between amounts calculated in the schedule supporting the annual financial statements (AFS) and the amount recalculated from the lease agreements | Yes | Unquantifiable amount | Estimated overstatement of  R159 624 735 |
| **Expenditure** | | | | |
| Operating lease expenditure | Differences were identified between amounts calculated in the schedule supporting the annual financial statements (AFS) and the amount recalculated from the lease agreements. | Yes | Unquantifiable amount | Estimated overstatement of  R161 810 300 |
| **Disclosure** | | | | |
| Lease commitments: Lessee | Differences were identified between the auditor’s recalculated amounts and amounts on the supporting schedules. | No | Unquantifiable amount | 0 |
| Lease commitments: Lessor | No | Unquantifiable amount | 0 |
| Irregular expenditure | Irregular expenditure disclosure note not complete | No | Unquantifiable amount | 0 |
| **Material misstatements corrected** | | | | |
| No material misstatements were corrected. |  |  |  |  |

#### Emphasis of matter paragraphs

1. The following emphasis of matter paragraphs will be included in our auditor’s report to draw the users’ attention to matters presented or disclosed in the financial statements:

##### Restatement of corresponding figures

1. As disclosed in note 37 to the financial statements, the corresponding figures for 31 March 2020 were restated as a result of an error in the financial statements of the entity at, and for the year ended, 31 March 2021.

##### Impairments – Receivables from exchange transactions

1. As disclosed in note 22 of the notes to the annual financial statements, material losses of R956 612 000 were incurred as a result of a lack of recoverability in long outstanding receivables.

##### Going concern

1. We draw attention to note 38 to the financial statements, which indicates that the trading entity incurred a net loss of R905 million during the year ended 31 March 2021 and, as of that date the trading entity’s current liabilities exceeded its total assets by R 4.7 billion.

### AUDIT OF THE ANNUAL PERFORMANCE REPORT

1. In terms of the general notice issued in terms of the PAA, the opinion on the audit of reported performance information will be included in the management report. The report is included below to enable management and those charged with governance to see what the report will look like once it is published in the auditor’s report. We will report all the audit findings included under the basis for opinion and the other matter sections of this report in the auditor’s report.
2. Section 40(3) (a) of the PFMA for trading entities requires the trading entity to prepare an annual performance report. The trading entity’s performance information was reported in the annual performance report of Department of Public Works and Infrastructure. The usefulness and reliability of the reported performance information was tested as part of the audit of Department of Public Works and Infrastructure and any audit findings are included in the management and auditor’s report of Department of Public Works and Infrastructure.

### AUDIT OF COMPLIANCE WITH LEGISLATION

1. Included below are material findings on compliance with selected specific requirements of applicable legislation, as set out in the general notice issued in terms of the PAA.

#### Procurement and contract management

1. Some of the contracts and quotations were awarded to bidders based **on pre-qualification criteria** that differed from those stipulated in the original invitation for bidding and quotations, in contravention of the 2017 Preferential Procurement Regulation 4(1) and 4(2).
2. Some of the bid documentation for procurement of commodities designated **for local content and production**, did not stipulated the minimum threshold for local production and content as required by the 2017 Procurement Procurement Regulation 8(2).
3. Some of the commodities designated for **local content and production**, were procured from suppliers who did not submit a declaration on local production and content in accordance with paragraph 3.4 of NationalTreasury Instruction Note 4 of 2015/2016.
4. Some of the commodities designated for **local content and production**, were procured from suppliers who did not meet the prescribed minimum threshold for local production and content, as required by the 2017 Preferential Procurement Regulation 8(5).

**Annual financial Statements**

1. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework as required by section 40(1)(a) of the PFMA. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected, which resulted in the financial statements receiving an adverse opinion.

**Expenditure Management**

1. Effective and appropriate steps were not taken to prevent irregular expenditure, as required by section 38(1) (c) (ii) of the PFMA and treasury regulation 9.1.1. As reported in the basis for qualified opinion the value as disclosed in note 32 of the financial statements does not reflect the full extent of the irregular expenditure incurred. The majority of the irregular expenditure disclosed in the financial statements was caused by appropriate approval not obtained from a deligated authority.
2. Effective internal controls were not in place for approval and processing of payments, as required by treasury regulation 8.1.1.

**Assets Management**

1. Proper control systems were not in place at the trading entity to ensure the safeguarding of assets, as required by treasury regulation 10.1.1(a).

**Consequence Management**

1. I was unable to obtain sufficient appropriate audit evidence that investigations were conducted into all allegations of financial misconduct committed by officials, as required by treasury regulation 4.1.1.

**OTHER INFORMATION**

1. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report which includes the director’s report, the audit committee’s report and the company secretary’s certificate as required by the Companies Act of 2008(Act No. 71 of 2008). The other information does not include the financial statements, the auditor’s report and those selected programmes presented in the annual performance report that have been specifically reported on in the auditor’s report.
2. Our opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.
3. In connection with our audit, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected programmes presented in the annual performance report, or our knowledge obtained during the audit or otherwise appears to be materially misstated.
4. The following paragraphs will be included in the auditor’s report to highlight to the users whether any inconsistencies in the other information exist:
5. I did not receive I did not receive the other information prior to the date of this auditor’s report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor’s report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

### INTERNAL CONTROLS

1. The significant deficiencies in internal control which led to our overall assessment of the status of the drivers of key controls, as included in the figure in paragraph x, are described below. The detailed assessment of the implementation of the drivers of internal control in the areas of financial statements, performance reporting and compliance with legislation is included in annexure F.

#### Leadership

##### Effective leadership culture

1. We commend leadership on their role in development of appropriate action plans to address the Beitbrdge material irregularity raised in the prior period. The entity is currently implementing action plans and the progress is monitored. The leadership has continued to engage auditors for guidance in relation to the PAA amendments implementation. In light of consequence management, the entity is implementing the recommendations of the investigation reports on the irregularities on Public Services Commission (PSC) report on the irregular appointment of officials. Although management could not complete the implementation of these recommendations due to delays such as the court interdicts lodged by the implicated officials etc., the implementation of consequence management is emphasising that non-compliance with legislation will not be tolerable.
2. We have noted a slow response by leadership to address the lease overpayments raised in the previous financial period. Overpayments continued in the current year as the trading entity did not timeously update and capture lease agreements concluded by REMS on Archibus system.
3. However, there were inadequate oversight of the monitoring of the implementation of internal controls during the year, resulting in material misstatements in the financial statements as well as instances of irregular expenditure. This shows that the entity has not prioritised the implementation of preventative controls.

##### Oversight responsibility

1. The governance, risk and compliance (GRC) unit has continued to play a key role in oversight for the trading entity. Numerous investigations were conducted and concluded in the current year which identified non-compliances with laws and regulations to be reported on the annual financial statement. We have noted that management have failed to implement recommendations suggested by GRC in relation to irregular expenditure identified from non-compliances reported.
2. Senior management’s attitude towards implementing action plans developed has not yield fruitful results. We have noted non-compliance findings on procurement and contract management which are similar to the issues raised in the previous years. Furthermore, components (Immovable assets & Leases) which were qualified in the previous financial year have continued to have issues in the current year. This indicate slow response by management to address issues raised. In addition, we noted that issues that were resolved have re-occurred in the current financial year e.g. Ownership of assets.

##### Human resource management

1. A slight regression was noted with the overall vacancy increasing from 9% in the prior period to 12% at the time of performing this assessment. However, the most concern is on the Senior Management vacancy rate which regressed from 23% in the prior year to 57% in the current year.
2. Finance division and the Supply Chain Management (SCM) division vacancy rate’s remains a concern with a reported vacancy rate of 16%.A number of material misstatements were identified in the annual financial statements and significant issues were also identified on Supply Chain Management which then proves that the positions that are vacant have an impact.

##### Policies and procedures

1. Although internal policies and procedures of the trading entity have been established, it did not adequately address compliance with key legislation. This is evidenced by numerous non-compliance findings raised on procurement and contract management findings which proves that there are weakened control environment of the trading entity. Management should focus on developing procedures and policies which promote preventative controls.
2. The policies and procedures of the trading entity are not addressing the issues of overpayments as control environment is weak on capturing correct lease agreements. The procedure manual should address the overpayment issues which has been a problem for the entity. Furthemore, the trading entity used incorrect rates in calculating the value of land. The application of immovable assets deemed cost position paper was not properly followed resulting in the material findings raised.

##### Action plans to address internal control deficiencies

1. The trading entity developed a plan to address internal and external audit findings, but the appropriate level of management did not monitor adherence to the plan in a timely manner. This is evident by the repeat material misstatements and non-compliance findings identified during the audit.
2. We take note of management’s efforts to implement proper controls for the capturing and review of all leases loaded onto the Archibus system. Furthermore, a three-day training on capturing and review of lease agreements on Archibus for existing and new officials was attended. However, the actions plans were not effective as material misstatements have been reported in the current year. This indicates that portfolio managers did not take responsibility for incorrectly captured information and actions are not taken against transgressions that may result in financial losses.
3. The action plans developed to address immovable assets issued raised in the previous year were partially achieved. The entity was able to clear the classification issue on assets under construction, which contributed the qualification raised in the previous period. This indicate that the action plans developed to address the specific finding was sufficient. However, it should be noted that management did not adequately address findings on valuation. Furthermore, the entity fail to sustain good work done in relation to recognition of ownership of assets disclosed on the IAR
4. Action plan was developed to address issues on Supply Chain Management that were raised in the previous year was not achieved. A number of Supply Chain Management findings were raised in the current which were also raised in the current year which resulted irregular expenditure. Our report has increased number of non- compliance

##### Information technology governance framework

1. **Information technology governance** was found to be inadequately designed and implemented with the following internal control deficiencies to be considered by management
2. The ICT structure was approved on 30 September 2016; the Minister requested a re-configuration of the ICT structure to be align to the new mandate of DPWI. Following the re-evaluation of the organisational structure, ICT has started advertising the key positions. Two (2) key ICT vacancies were still not filled at the end of March 2021. If the ICT function is not fully capacitated, some ICT resources may be overloaded with more responsibilities. This may result in lack of ability by other ICT resources to perform critical ICT activities leading to an increase in the number and impact of incidents caused by unavailability of essential skills.

#### Financial and performance management

##### Proper record keeping

##### The trading entity has not yet fully implemented the new record management system. We experienced significant delays and limitations where supporting documentation were provided late, especially with respect to the regional audit. Furthermore, we noted that management did not review immovable assets register (IAR) to ensure that the deemed cost position paper was correctly applied when valuing properties. Management did not keep a record of supporting documents to confirm ownership of some assets disclosed on the annual financial statement.

##### Management did not properly review the details of the leases that were recorded on ARCHIBUS, as a result significant differences were identified on the leases disclosed in the annual financial statements and the details of the lease as per the lease contract. This was exacerbated by the fact that lease information is decentralised, and regional officials were not provided with recent lease agreements concluded by REMS timely, as a result latest lease agreements were not captured on Archibus system.

##### Daily and monthly processing and reconciling of transactions

1. Management did not fully implement the daily and monthly reconciliation as duplicates of immovable assets register (IAR). The process of initially accounting for the immovable assets acquired through the transfer of function was not adequately completed prior to the date of this report. Management did not reconcile the assets recorded on their immovable assets register against the deeds office to confirm the ownership those assets before disclosing them on the IAR.

##### Management did not perform adequate reconciliations of the financial information prior to submission for audit to ensure that the financials are free from error. Receivables from exchange transactions with respect to municipal services did not reconcile with the supporting schedules. The root causes of such regression was due to system technical issues related to the SAGE system.

##### Management implemented the contract, tender and quotation registers, however, the registers were not complete at all times and sometimes were in accurate i.e. quotations for the trading entity were recorded as if they were procured by the department and vice versa thus resulting into audit efficiencies

##### Overpayments made to landlords in terms of private leased properties continued in the current year as management made payments on old lease agreements that were at a higher rental fees. The process put into place to verify payment amounts before they are made, have not yet made a significant difference as the overpayments have continued to occur.

##### Regular, accurate and complete financial and performance reports

1. Recording, reviewing and reporting processes and controls over Immovable assets, operating leases, revenue from exchange transactions, trade payables and disclosure notes in the financial statements were not adequate.
2. As indicated in section 2.1, the financial statements contained misstatements. This was mainly due to the inadequate review and reconciliation of the annual financial statements to the underlying accounting records and inadequate controls to prevent and detect irregular expenditure to ensure that all irregular expenditure was disclosed in accordance with section 40(3) (i) of the PFMA.
3. There is a lack of full implementation of the financial accounting system which results in the process of preparing financial statements being lengthy. This is evident by the fact that the supporting schedules to the annual financial statement submitted by management did not agree to the information disclosed on the AFS as a results, material misstatements were identified. Completeness issues was also identified as tenders relating to lease agreements awarded in the current year where not included on the amounts disclosed in the annual financial statements.

##### Compliance monitoring

1. There is an increased in the number of issues of non-compliance with legislation. Non-compliance with legislation could have been prevented had compliance been properly reviewed and monitored. Findings raised in procurement and contract management were similar to the issues raised in the prior year in certain instances, which resulted to irregular expenditure. This indicates a lack of consequence management by leadership
2. Internal controls in relation to expenditure management have not been adequately implemented which resulted in the entity failing to have effective and appropriate steps to prevent irregular expenditure. In certain instances, we identified that Effective internal controls were not in place for approval and processing of payments.

##### Information technology systems

67. IT controls pertaining to service continuity, security management, user access management and change control management were not effectively designed and implemented due to the following key internal control deficiencies:

* IT controls pertaining to User Access Management, Change control management and Service Continuity were not effectively designed and implemented due to the following key internal control deficiencies.
* System generated list of users who had their access modified, password reset, audit trail which details activities performed by system controller and failed logon violations on GIS system could not be obtained due to system limitation
* Management have not resolved the 2019/2020 findings on the GIS system. The department is in the process of strengthening the controls and processes on the system to ensure that the weaknesses are eradicated.
* Users who had left the department were not timely communicated and removed on the systems.
* Management did not comply with their own process of removing of terminated users prescribe on page 10, par 8.4 of the user management policy.
* Management did not in all instances implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support Information Systems Audit reporting.
* Management oversight in determining the adequacy and level of detail’s required in the documentation of the reports used to review system controller’s activities and failed login violation
* Failure by management to ensure that reports used to review system controller’s activities and failed login violation adequately detail activities performed by the system controller and failed logon violations on system.
* The PMIS system does not record password reset and access violations due to infrastructure related issues.
* Management oversight to include the key program change management procedures on the approved policy.
* System limitations on GIS, SAGE, PMIS, WORX4U and WCS resulted in the inability to obtain a system generated list of changes.
* Lack of consequence management for not resolving prior audit findings.
* There was no space on the drive for backups.
* There was lack of consequence management for not resolving prior audit findings on IT Service Continuity, as there were not controls around backup management due to the department running out of space on the drive for backups due to the expired backup tool. The department has now finalized and signed off a DRP plan and is in the process of implementing it.
* Inadequate patch management could be attributed to lack of regular system monitoring and non-compliance to patch management processes.
* Weaknesses identified could be attributed to lack of system monitoring, which might have resulted in management not being aware when system are misconfigured.
* Inadequate implementation or configuration of the Windows operating system could be attributed to the non-compliance to, or lack therefore of, the Configuration Standard for Operating System Security.
* Weaknesses identified on SAGE SQL database server could be attributed to non-conformance to, or lack therefore of, the Configuration Standard for Database Security

#### Governance

##### Risk management activities and risk strategy

1. The trading entity conducted a risk assessment, as required by the PFMA. However, some of the investigations that were in progress of being finalised in the prior year have have still not yet been finalised.
2. Some of the cases relating to corruption were referred to special investigation unit due to its complexity and management is still waiting for outcomes of those cases. Where follow up actions are required from the entity as a result of findings from investigations (e.g. disciplinary hearings, etc.), these are not taking place on time in some instances. In addition, we have noted that leadership has been slow to implement some of the recommendations in these reports, especially in relation to holding people accountable for causing the entity to incur irregular, and fruitless and wasteful expenditure. Inadequate consequence management increases the likelihood of similar transgressions recurring, and the entity not receiving value for the high costs incurred in conducting these investigations.

##### Internal audit

1. The internal audit performed a number of audits throughout the financial period (relating to, inter alia, quarterly performance information and contract management controls) and thus effectively discharged its duties, while senior management has a responsibility to design and implement preventative controls, internal audit function can also play a fundamental role in identifying areas of vulnerability where there are no preventative controls i.e. the regression in the financial audit opinion to enable oversight responsibility by other role players such as the audit committee and the accounting officer.

##### Audit committee

1. The audit committee was in place, fully functional for the financial period, and complied with relevant legislation.
2. Audit committee vigorously interrogated the audit action plans that were designed to address audit findings from both internal and external auditors and consistently monitored the implementation thereof. The audit committee members are highly skilled and experienced which enables the robustness in the environment and the committee holds the executive as well as the accounting officer accountable for their actions that may hinder the department from obtaining the desired audit outcome

#### Summary

1. The matters above, as they relate to the basis for the adverse opinion, findings on financial statement and compliance with legislation, will be summarised in the auditor’s report as follows:
2. In some instances, leadership did not exercise oversight to ensure effective implementation of the audit action plans. This is evidenced by findings noted on the property, plant and equipment assets which contributed to the negative outcome reported. Even though an improvement was noted in relation to classification of assets under construction, the IAR included assets for which the entity did not retain proof of ownership as well as duplicated assets. Furthermore, valuation issues were noted due to incorrect application of deemed cost position paper. The entity did not adequately implement action plans to clear all assets findings.
3. Management did not properly review the details of the leases that were recorded on ARCHIBUS, as a result significant differences were identified on the leases disclosed in the annual financial statements and the details of the lease as per the lease contract. This was exacerbated by the fact that lease information is decentralised, and regional officials were not provided with recent lease agreements concluded by REMS timely, as a result latest lease agreements were not captured on Archibus system.
4. Management did not perform adequate reconciliations of the financial information prior to submission for audit to ensure that the financials are free from error. Receivables from exchange transactions with respect to municipal services did not reconcile with the supporting schedules. The root causes of such regression was due to system technical issues related to the SAGE system.
5. Management’s review and monitoring of compliance with applicable laws and regulations was ineffective, which resulted in material non-compliance findings on expenditure, procurement and contract management. Non-compliance with legislation could have been prevented had compliance been properly reviewed and monitored. Furthermore, management did not take effective steps to asses, evaluate and disclose all irregular expenditure in the annual financial statement.

### MATERIAL IRREGULARITIES

1. In accordance with the PAA and the material irregularity regulations, we have a responsibility to report on material irregularities identified during an audit and on the status of material irregularities reported in the previous year.
2. We have notified the accounting officer of material irregularities (MI) identified during the year and the actions the AGSA will take with regard to these material irregularities. We also assessed the progress made in resolving the material irregularities reported in the previous year.
3. The auditor’s report will include the following summarised information:

#### Status of previously reported material irregularities

#### Unfair Procurement Process For The Beitbridge Borderline Infrastructure Project

1. The accounting officer did not ensure that appropriate supply chain management process that is fair, equitable, transparent, competitive and cost effective is followed in the appointment of the contractor Mangwa Constructions and the consultant Profteam CC in order to prevent amounts charged to the trading entity for Beitbridge Borderline Infrastructure project being overpriced. This was in contravention with National Treasury Regulation (TR) 16A3.2 (a). The Accounting Officer was notified of the MI on 13 November 2020. The Response was received on the 10 December 2020 detailing the actions already taken and the planned actions to address the MI.
2. The investigation on the beitbridge project was initiated and 25 April 2020 on the Minister of DPWI request. The investigation was conducted by the GRC unit with the assistance of the ISU who were seconded on the investigation. The investigation was finalised on the 27 July 2020. The entity is currently implementing the recommendations stated on the investigation report. The SIU launched an application on 23 September 2020 to freeze the service providers’ bank accounts. The Tribunal made an order by agreement that the service providers would not make any further claims for payment from the Department. On 17 November 2020, the SIU instituted legal action against Caledon River Properties (Pty) Ltd t/a Magwa and Profteam CC with the Special Tribunal under case number GP17/2020. The case is still in progress. The Department has since initiated disciplinary actions against the employees of the Department for their role in the project. The disciplinary proceedings are still in progress. I will follow up on the implementation of the planned actions during my next audit.

#### Beitbridge Borderline Infrastructure Project Establishment Cost

1. The accounting officer did not ensure that internal control measures and procedures are in place to ensure that there are controls that will be able to detect that the establishment cost is not included in the BOQ and therefore that it will not be paid. This was in contravention with National Treasury Regulation (TR) 8.1.1. The Accounting Officer was notified of the MI on 13 November 2020. The Response was received on the 10 December 2020 detailing the actions already taken and the planned actions to address the MI.
2. The investigation on the beitbridge project was initiated and 25 April 2020 on the Minister of DPWI request. The investigation was conducted by the GRC unit with the assistance of the ISU who were seconded on the investigation. The investigation was finalised on the 27 July 2020. The entity is currently implementing the recommendations stated on the investigation report. The SIU launched an application on 23 September 2020 to freeze the service providers’ bank accounts. The Tribunal made an order by agreement that the service providers would not make any further claims for payment from the Department. On 17 November 2020, the SIU instituted legal action against Caledon River Properties (Pty) Ltd t/a Magwa and Profteam CC with the Special Tribunal under case number GP17/2020. The case is still in progress. The Department has since initiated disciplinary actions against the employees of the Department for their role in the project. The disciplinary proceedings are still in progress. I will follow up on the implementation of the planned actions during my next audit.

### OTHER REPORTS

1. We draw attention to the following engagements conducted by various parties that have or could potentially have an impact on the trading entity’s financial statements, reported performance information and compliance with applicable legislation and other related matters. The reports noted do not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation. The summarised other reports will be included in the auditor’s report as follows:
2. Numerous allegations, mainly relating to alleged transgressions with regard to supply chain management, potential fraud and financial misconduct, are still being investigated on an ongoing basis by Special Investigation Unit.

## SECTION 3: Assurance providers and status of implementation of commitments and recommendations

### ASSESSMENT OF ASSURANCE PROVIDERS

1. The annual report is used to report on the financial position of auditees, their performance against predetermined objectives and overall governance. One of the important oversight functions of Parliament is to consider auditees’ annual reports. To perform this oversight function, they need assurance that the information in the annual report is credible. To this end, the annual report includes our auditor’s report, which provides assurance on the credibility of the financial statements and the annual performance report, as well as on the auditee’s compliance with legislation.
2. Our reporting and the oversight processes reflect on past events, as it takes place after the end of the financial year. However, management, the leadership and those charged with governance contribute throughout the year to the credibility of financial and performance information and compliance with legislation by ensuring that adequate internal controls are implemented.
3. We assess the level of assurance provided by these assurance providers based on the status of internal controls (as reported in section 2.6) and the impact of the different role players on these controls. We provide our assessment for this audit cycle below.

##### Senior management: provides limited assurance

##### Although senior management is dedicated to achieving the goals of the remedial audit action plan and to the ongoing improvement of the internal control environment, an increased emphasis should be placed on the review and reconciliation of information that supports the financial statement. Management should focus on promoting preventative controls to avoid non-compliances with laws and regulations.

##### Senior management did not review the immovable assets register (IAR) submitted to ensure that the deemed cost position paper was applied accordingly. The reconciliation between IAR with the deeds office and/or provincial registers was noted conducted to confirm ownership of assets disclosed.

* The controls around proper record keeping, processing and reconciling of transaction still required major intervention, to ensure that overpayment on leases does not continue. The review of supporting documents against the information captured on ARCHIBUS conducted on a regular basis before payments are processed.
* The implementation of action plans by senior management were in certain instances not effective as it resulted in the trading entity financial audit opinion regressing. There is an increase on procurement and contract management findings which resulted in increased number of non- compliance paragraphs also material misstatements on irregular expenditure, as not all transactions have not been included in the irregular expenditure disclosure.

##### Accounting officer provides limited assurance

* We commend accounting officer on his role in development of appropriate action plans to address the Beitbrdge material irregularity raised in the prior period. The entity is currently implementing action plans and the progress is monitored. The leadership has continued to engage auditors for guidance in relation to the PAA amendments implementation

##### Though the acting accounting officers during the year under review attempted to implement the audit action plan, the efforts applied were not adequate towards achieving good governance based on the audit findings identified during the audit which include amongst other things the duplicate payments on leases and misstatement on immovable assets.

##### The accounting officer has put initiatives in place to provide assurance. The focus should be placed on ensuring that these initiatives are monitored regularly and management is held accountable where weaknesses are identified. Some of the interventions did not take place timeously, which contributed to the recurrence of non-compliances identified on the procurement and contract management.

##### Executive authority provides assurance

##### The executive authority has been receptive to recommendations from the auditors, and the Minister should continue to engage with the different assurance providers of the trading entity for continuous monitoring of commitments made toward improving audit outcomes of the entity. The minister was receptive to the issues communicated on special audit report 1 and 2, took a compliance approach to speedily resolve audit issues and hold responsible officials accountable. She also initiated compulsory training on the PAA amendments for all the executives to enforce the culture of performance with the understanding of the repercussions of non- compliance.

##### Internal audit provides assurance

* Legislation in South Africa requires the establishment, roles and responsibilities of internal audit units. Internal audit units form part of the internal control and governance structures of the trading entity and play an important role in its monitoring activities. Internal audit provides an independent assessment of the trading entity’s governance, risk management and internal control processes.
* The internal audit unit of the trading entity must prepare a risk-based audit plan and internal audit programme for each financial year. It must advise the accounting officer and report to the audit committee on the implementation of the internal audit plan and matters relating to internal audit, internal controls, accounting procedures and practices, risk and risk management, performance management, loss control and compliance with the PFMA. The internal audit unit must also perform such other duties as may be assigned by the accounting officer.
* The internal audit unit effectively discharges its duties and responsibilities, however, the full extent or benefit will be realised once management effectively and timeously implements the recommendations from the outcomes of these audits.

##### Audit committee: provides assurance

* The audit committee was in place, fully functional for the financial period, and complied with relevant legislation.
* Audit committee vigorously interrogated the audit action plans that were designed to address audit findings from both internal and external auditors and consistently monitored the implementation thereof. The audit committee members are highly skilled and experienced which enables the robustness in the environment and the committee holds the executive as well as the accounting officer accountable for their actions that may hinder the department from obtaining the desired audit outcome

### 

### STATUS OF IMPLEMENTING COMMITMENTS AND RECOMMENDATIONS

1. Below is our assessment of the progress in implementing the commitments made by the trading entity to address the prior and current year’s audit findings.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **No.** | **Commitment** | **Made by** | **Origin of commitment** | **Auditors comment** | **Status** |
| 1 | Non-compliance to SCM prescripts that resulted in Irregular Expenditure:  - Incorrect procurement process followed  - Extension of time with financial impact COFF 7 PTA  - Grading not suitable for the value of the contract  - Pre-qualifying criteria not met  - Splitting of quotations  - Deviation not justifiable | Henry Isaacs | 2019-120 management report | Similar non-compliance issues were identified during the audit | In progress |
| 2 | Management commitments to address the immovable assets findings raised.  Review of entire population on a 1 by 1 basis.  Digitise the buildings that move from the BI and AVL method due to the MVR being unreasonable  Update position paper to include how land extents are determined as this is part of deemed cost calculation.  Implement position paper in choosing the extent to be used  Identified population of buildings measured in 2018/19 to be remeasured.  Service provider and Management are reviewing the entire population  Review the classification of WCS projects | Ms. Sasa Subban | 2019-120 management report | The entity managed to resolve the AUC classification findings raised in the previous audit.  Improvements were noted on the extent recorded on the IAR as few findings were raised in relation to extents.  However, findings raised in relation to the deemed cost application on properties valued using AVL rates.  Findings were also raised in relation to ownership of assets disclosed on the IAR. Furthermore, duplicate assets were identified on the IAR. | In progress |

* One audit recommendations accepted by management in the prior year on matters included in the auditor’s report and other important matters were implemented, or alternative actions were taken to resolve the finding.
* Five recommendations are still being implemented and one have not been addressed, or very limited progress has been made.
* Details on the status of implementing the recommendations made in the previous year(s) are provided in section 10, which summarises the detailed audit findings.

## SECTION 4: Specific focus areas

### FINANCIAL VIABILITY

1. Our audit included a high-level overview of the Entity’s financial viability as at year-end. The financial viability assessment provides useful information for accountability and decision-making purposes and complements the financial statements by providing insights and perspectives thereon. The financial viability assessment is expected to enhance timely remedial decision-making and policy reforms where financial viability may be at risk. It will also highlight to management those issues that may require corrective action and the urgency and magnitude of the reforms and decisions necessary to maintain operations. The information should be used to complement, rather than substitute, management’s own financial assessment.

| **FINANCIAL VIABILITY ASSESSMENT** | | | |
| --- | --- | --- | --- |
|  | | **AS AT 31 MARCH 2021** | **AS AT 31 MARCH 2020** |
| **EXPENDITURE MANAGEMENT** | | | |
| 1.1 | Creditor payment period | **124 Days** | **111 Days** |
| **REVENUE MANAGEMENT** | | | |
| 2.1 | Debtor-collection period (after impairment) | **112 Days** | **94 Days** |
| 2.2 | Debtors’ impairment provision as a percentage of accounts receivable | **15.1 %** | **28 %** |
| * Amount of debtors’ impairment provision * Amount of accounts receivable | **R956 612 000**  **R6 324 524 000** | **R 1 535 509 000**  **R5 419 917 000** |
| **ASSET AND LIABILITY MANAGEMENT** | | | |
| 3.1 | A deficit for the year was realised (total expenditure exceeded total revenue) | **No** | **No** |
| * Amount of the surplus/(deficit) for the year | **R1 287 432 000** | **R2 372 075 000** |
| 3.2 | A net current liability position was realised (total current liabilities exceeded total current assets) | **Yes** | **Yes** |
| * Amount of the net current assets/(liability) position | **(R4 767 426 000)** | **(R9 130 140 000)** |
| 3.3 | A net liability position was realised (total liabilities exceeded total assets) | **No** | **No** |
| * Amount of the net asset/(liability) position | **R133 714 701 000** | **R145 730 654 000\*** |
| **CASH MANAGEMENT** | | | |
| 4.1 | The year-end bank balance was in overdraft | **Yes** | **Yes** |
| * Amount of year-end bank balance (cash and cash equivalents)/(bank overdraft) | **(R900 896 000)** | **(R2 572 780 000)** |
| 4.2 | Net cash flows for the year from operating activities were negative | **No** | **No** |
| * Amount of net cash in/(out)flows for the year from operating activities | **R4 317 220 000** | **R3 075 337 000** |
| 4.3 | Creditors as a percentage of cash and cash equivalents | **Bank in overdraft** | **Bank in overdraft** |
| * Amount of creditors (accounts payable) * Amount of cash and cash equivalents / (bank overdraft) at year-end | **R3 459 048 000**  **(R900 896 000)** | **R3 340 152 000**  **(R2 572 780 000)** |
| **OVERALL ASSESSMENT** | | | |
| Overall the financial viability is assessed as: | | **Red (Unfavourable – Intervention required)** | **Red (Unfavourable – Intervention required)** |
|  | | | |

#### High-level comments

1. We have expressed an adverse of audit opinion on the financial statements. Consequently, the information in the financial statements is not sufficiently reliable to enable us to perform meaningful analyses of individual financial viability indicators. Our assessment of the trading entity’s financial viability is therefore limited to an ‘unfavourable’ overall assessment, indicating that intervention is required.

### PROCUREMENT AND CONTRACT MANAGEMENT

1. The audit included an assessment of procurement processes, contract management and the related controls in place. These processes and controls must comply with legislation to ensure a fair, equitable, transparent, competitive and cost-effective supply chain management (SCM) system and to reduce the likelihood of fraud, corruption, favouritism, and unfair and other irregular practices. A summary of the findings from the audit are as follows:

##### Irregular expenditure

1. 59 853 000 (95%) of irregular expenditure incurred in the current financial year was as a result of the contravention of SCM legislation. Further irregular expenditure incurred in previous years amounting to R16 795 000, was also identified in the current year.60% (100% in the prior year) of this irregular expenditure was identified during the audit process and not detected by the trading entity’s monitoring processes. The root causes of the lack of effective prevention and detection are inadequate review and monitoring of compliance with SCM processes and requirements.

##### Awards to persons in the service of the state and their close family members

1. The audit included an assessment of the interests of officials and their close family members in suppliers to the trading entity. Legislation specific to procurement does not prohibit the Property Management Trading Entity from making such awards, but compliance with the legislation and policies was tested to ensure that conflicts of interest did not result in contracts being unfairly awarded or unfavourable price quotations being accepted, and that employees obtained approval for performing remunerative work outside their employment as required.
2. The findings were as follows :

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Finding | Number and value of awards made | Number and positions of official identified | Number of suppliers identified | Further non-compliance or irregularities regarding the awards | | | |
| Supplier did not submit declarations of interest | Supplier did not declare interest (false declaration) | Official did not declare interest | Official was involved in awarding the contract/ quotation |
| Awards made to business partners and associates of officials of the trading entity | 2  R 9 761 361 | 1  Deputy director financial accounting | 2 | 0 | 0 | 0 | No |

##### 

##### Procurement processes

1. The table below is a summary of findings identified on procurement processes:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | Total | | Quotations (below R500 000) | | Competitive bids (over R500 000) | |
| Number | Value  *R* | Number | Value  *R* | Number | Value  *R* |
| **Awards selected for testing** | *93* | *1 762 132 447* | *49* | *17 240 163* | *44* | *1 744 892 284* |
| **Expenditure incurred on selected awards – current year** |  | *273 016 503* |  | *13 246 486* |  | *259 770 017* |
| **Limitations – awards selected but could not be tested** | *1* | *0* | *0* | *0* | *1* | *500* 728 771 |
| **Awards on which non-compliance was identified** | *29* | *922 285 847* | *14* | *1 718 560* | *15* | *920 567 284* |
| **Irregular expenditure identified** | *29* | *176 436 190* | *14* | *3 809 360* | *15* | *172 626 830* |
| **Instances of irregular expenditure where goods/ services were not received** | *0* | *0* | *0* | *0* | *0* | *0* |

##### Procurement processes – general

* Three (3) awards with a value of 441 832.68 were procured without inviting at least the minimum prescribed number of written price quotations from prospective suppliers, and the deviation was approved even though it was possible to obtain the quotations.
* Three (3) quotations to the value of R517 244,80 were procured from suppliers whose tax matters had not been declared by the South African Revenue Service to be in order.
* One (1) contract with a value of R500 728 771,13 was procured without inviting competitive bids, and the deviations were not approved.
* One contract with a value of R157 995 881.50 was procured without inviting competitive bids, and the deviations were approved even though it was practical to invite competitive bids.
* Nine (9) contracts and One (1) quotation with a value of R235 917 650 were awarded to bidders who did not comply with specified pre-qualification criteria requirement.
* One (1) contract which failed to achieve the minimum qualifying score for functionality criteria were not disqualified as unacceptable.
* Two (2) contracts which achieved the minimum qualifying score for functionality criteria were not evaluated further.

##### Local content and production (designated sectors)

* Specifications for Seven (7) awards with a total value of R88 700 713, 02 did not stipulate the minimum threshold for local production and content.
* Five (5) contracts and two (2) quotations with a total value of R88 700 713, 02 were awarded to bidders that did not submit a declaration of local production and content.
* Five (5) contracts and two (2) quotations with a total value of R R88 700 713, 02 were awarded to bidders that did not meet the minimum threshold for local production and content.

##### Internal control deficiencies

1. The accounting officer did not in some instances exercise oversight responsibility of the reporting and compliance with laws and regulations.
2. Reviewing and monitoring of compliance with relevant laws and regulations was insufficient and not properly monitored in some instances.

### FRAUD AND CONSEQUENCE MANAGEMENT

1. The primary responsibility for preventing and detecting fraud rests with management and those charged with governance. We are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error, and to issue an auditor’s report that includes our opinion. Due to the inherent limitations of an audit, there is a risk that some material misstatements, including fraud, may not be detected.
2. Below is a summary of fraud risk factors that should be addressed to ensure that sufficient measures/controls are in place to prevent material misstatement due to fraud.

* Officials in high ranking positions who may take the opportunity to misuse their authority

1. The PFMA and its regulations clearly stipulate that matters such as incurring irregular as well as fruitless and wasteful expenditure, the possible abuse of the SCM system including fraud and improper conduct and allegations of financial misconduct should be investigated. Disciplinary steps should be taken based on the results of the investigations. Our audits included an assessment of the trading entity’s management of consequences. The significant findings are provided below :

##### Measures to manage consequences

1. The following measures were not implemented to ensure that the environment is conducive to effective consequence management:

* There was a lack of proper record keeping to ensure that complete, relevant and accurate information is accessible and available to support the processes followed for financial misconduct/transgressions committed by officials and suppliers of the auditee.

##### Ongoing investigations

1. 16 investigations were ongoing at year-end into allegations relating to financial misconduct, fraud and/or improper conduct in SCM. Some of these investigations have been ongoing for a period exceeding 12 months. The table below provides a summary of investigations which had not been completed as at year-end:

|  |  |  |
| --- | --- | --- |
|  | 2020-21 | 2019-20 |
| Total number of ongoing investigations as at year-end | 13 | 21 |
| * Number of SCM-related investigations | 8 | 9 |
| * Number of fraud-related investigations | 3 | 1 |
| Number of investigations exceeding a period of six months | 6 | 15 |

##### Failure to properly deal with allegations reported in the prior year

1. The table below provides a summary of findings from the previous year that were either not investigated or proper disciplinary steps were not taken after investigation.
2. Allegations of financial misconduct, fraud and improper conduct in SCM

| Finding (Not applicable findings should be deleted) | Number of instances |
| --- | --- |
| Allegations against other officials | |
| Allegations of financial misconduct were not investigated | 16 |

##### Transgressions reported to management for investigation

1. During the prior year audit, we reported findings relating to transgressions by officials or other role players for management to investigate. During the current year audit, we performed follow-up tests to determine whether the matters reported were dealt with by management.
2. The table below provides a summary of the transgressions reported in the prior year and an indication of how many were dealt with. It also provides a summary of transgressions identified in the current year that must be investigated and disciplinary steps taken based on the results of the investigations.

|  | Findings reported in prior year | | | Findings reported in current year | |
| --- | --- | --- | --- | --- | --- |
| Finding | Number of instances | Number of instances investigated | Number of instances resolved from those investigated | Number of instances | Value  (R) |
| A: Improper conduct in SCM by suppliers | | | | | |
| Supplier submitted false declaration of interest | 1 | 0 | 1 | 0 | 0 |
| Other improper conduct in SCM by suppliers | 3 | 3 | 1 | 6 | Unquantifiable as not all instances have amounts |
| B: Improper conduct in SCM by officials/role players | | | | | |
| Payments made to fictitious suppliers | 1 | 1 | 0 | 0 | 0 |
| Other improper conduct in SCM by officials or SCM role players | 3 | 1 | 1 | 9 | Unquantifiable as not all instances have amounts |
| C: Financial misconduct | | | | | |
| Other financial misconduct-related allegation | 8 | 1 | 1 | 0 | 0 |
| D: Other contravention of legislation | | | | | |
| (Add other contravention of legislation) |  |  |  |  |  |
| D: Other fraud / corruption allegations (not included above) | | | | | |
| (Add other possible fraud) | 3 | 1 | 1 | 3 | unquantifiable |

1. Irregular fruitless disclosed in note 32 to the financial statements must be investigated to determine whether any official is liable for losses incurred as a result of the irregular expenditure. Disciplinary steps must be taken against officials who caused or permitted the irregular expenditure, and losses incurred as a result must be recovered from the person liable.

### BROAD-BASED BLACK ECONOMIC EMPOWERMENT (B-BBEE) ACT AND REGULATIONS REQUIREMENTS

1. The audit included confirming whether the requirements as set out in the B-BBEE Act and Regulations were adhered to. The purpose of this value-add initiative is to highlight the requirements contained in the B-BBEE Act and Regulations. Below is the list of findings identified:

* The Entity did not submit the FORM B-BBEE 1, the approved audited annual financial statements and the approved annual report pertaining to the 2019-20 financial year to the B-BBEE Commission within 30 days as required by regulation 12(2) of the B-BBEE Regulations.
* The annual report of the trading entity did not include a report on compliance with broad-based black economic empowerment as required by section 13G (1) of the B-BBEE Act.

## SECTION 5. Using the work of internal audit

1. The auditing standards allow external auditors the optional use of the work of internal auditors for external audit purposes and for direct assistance. We have used internal audit as follows:
2. The following internal audit report was considered for risk identification purposes i.e.

* Follow up audits where Internal Audit assessed management’s progress in addressing internal and external audit findings from prior periods, procurement and contract management as well IT audit.

#### Accounting, performance management/reporting and compliance matters

###### New pronouncements

###### Standards of GRAP

1. The ASB has issued the following GRAP pronouncements, with effective dates as indicated:

| GRAP pronouncement | Effective date |
| --- | --- |
| GRAP 20 on Related party disclosures | 1 Apr 2021 |
| GRAP 32 on Service concession arrangements: Grantor | 1 Apr 2021 |
| GRAP 104 on Financial instruments (revised) | To be determined |
| GRAP 108 on Statutory receivables | 1 Apr 2021 |
| GRAP 109 on Accounting by principals and agents | 1 Apr 2021 |
| GRAP 110 on Living and non-living resources | 1 Apr 2021 |
| IGRAP 17 on Service concession arrangements where a grantor controls a significant residual interest in an asset | 1 Apr 2021 |
| Guideline on Accounting for arrangements undertaken in terms of the national housing programme | 1 Apr 2021 |
| Guideline on Accounting for landfill sites | To be determined |

#### Subsequent events

1. Management should consider the following sources to identify subsequent events and adequately account for the in accordance with the reporting framework

* Media reports
* Political initiatives
* Changes in oversight
* Transfer of functions

## SECTION 8: Ratings of detailed audit findings

1. For purposes of this report, the detailed audit findings included in annexures A to C have been classified as follows:

* Matters to be included in the auditor’s report: These matters should be addressed as a matter of urgency.
* Other important matters: These matters should be addressed to prevent them from leading to material misstatements of the financial statements or material findings on the performance report and compliance with legislation in future.
* Administrative matters: These matters are unlikely to result in material misstatements of the financial statements or material findings on the performance report and compliance with legislation.

## SECTION 9: Conclusion

1. [The matters communicated throughout this report relate to the three fundamentals of internal control that should be addressed to achieve sustained clean administration. Our staff remain committed to assist in identifying and communicating good practices to improve governance and accountability and to build public confidence in government’s ability to account for public resources in a transparent manner.] (Adapt the conclusion to the circumstances of the auditee.)

Yours faithfully

(Insert name and surname of corporate executive, business executive or senior manager responsible for signing the auditor’s report)

[Corporate Executive/Business Executive/Senior Manager]: [Business Unit]

[Date of signature]

Enquiries: Name and surname

Telephone: xxx xxx xxxx

Fax: xxx xxxx

Email: xxxxx@agsa.co.za

**Distribution:**

Audit committee

Head of internal audit unit

Executive authority

## SECTION 10: Summary of detailed audit findings

## 