A close-up of hands typing on a keyboard

Description automatically generated with medium confidence

**MANAGEMENT REPORT**

Property Management Trading Entity

2022-23

*Date: xx*

CONTENTS

[Introduction 3](#_Toc141103476)

[Section 1: Audit outcomes and material irregularities 4](#_Toc141103477)

[Overall audit outcomes 4](#_Toc141103478)

[Material irregularities 5](#_Toc141103479)

[Section 2: Significant matters 6](#_Toc141103480)

[Financial statements 6](#_Toc141103481)

[Financial management and performance 12](#_Toc141103482)

[Performance planning, management and reporting 16](#_Toc141103483)

[Other information in annual report 16](#_Toc141103484)

[Key projects 16](#_Toc141103485)

[INFRASTRUCTURE theme 17](#_Toc141103486)

[Broad-based black economic empowerment (B-BBEE) 17](#_Toc141103487)

[Information security management 18](#_Toc141103488)

[Information technology projects 18](#_Toc141103489)

[Procurement and contract management 20](#_Toc141103490)

[Irregular expenditure 22](#_Toc141103491)

[Consequence management 22](#_Toc141103492)

[Fraud risk. 23](#_Toc141103493)

[Section 3: Control environment 24](#_Toc141103494)

[Overall control environment 24](#_Toc141103495)

[Accountability ecosystem 25](#_Toc141103496)

[Recommendations and responses 26](#_Toc141103497)

[Section 4: Overall recommendations 27](#_Toc141103498)

[Conclusion 28](#_Toc141103499)

[Annexure A: Financial assessment 29](#_Toc141103500)

[Annexure B: Procurement and contract management 31](#_Toc141103501)

[Annexure C: Assessment of internal control 34](#_Toc141103502)

[Annexure D: Material irregularities 36](#_Toc141103503)

[Annexure E: Summary of detailed audit findings 39](#_Toc141103504)

# Introduction

1. The purpose of this management report is to communicate the outcomes of the audit for the financial year ended 31 March 2023, as well as the insights and significant matters that require the attention of the accounting officer. The report should be read with the engagement letter, which sets out our responsibilities as well as the standards and processes we apply in performing our audits.
2. 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 has been signed.
3. We communicated our audit findings and recommendations for improvement to management and obtained their responses throughout the audit. This report is a comprehensive summary of what we shared with management. In **annexure E**, we provide a summary of detailed findings communicated to management.
4. The management report is structured as follows:

* In **section 1** we share the overall audit outcomes and the status of material irregularities. We also summarise the material irregularities in **annexure D**.
* In **section 2** we provide the most significant matters from the audit and their impact, which we detail further in the annexures. Where appropriate, we also include the following:
  + Significant deficiencies in internal control that caused the findings we report. Significant deficiencies occur when internal controls do not exist; are not appropriately designed or implemented; or are not operating as intended to prevent – or to promptly detect and correct – material misstatements, non-compliance or non-performance. In **annexure C** we expand on the state of internal control.
  + Key recommendations and the responses received from management on implementing the recommendations.
* In **section 3** we include observations on the overall internal control environment and the role of the accountability ecosystem. Key recommendations and responses from management are also included.
* In **section 4** we provide our view of the root causes of deficiencies in the overall internal control environment and provide recommendations for the accounting officer to address the root causes.
* We end the report with a **conclusion**.

1. We trust the insights and recommendations in this report will be of value in your pursuit towards building and leading a trading entity that is accountable and transparent, has institutional integrity, and performs at a level that has a positive impact on the lives of South Africans.

# Section 1: Audit outcomes and material irregularities

## Overall audit outcomes

1. The overall audit outcome of the trading entity is qualified with findings. This is an improvement from the previous year’s audit outcome.

Audit results per outcome area

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Outcome area | Movement | 2022-23 | 2021-22 | 2020-21 |
| Financial statements |  |  |  |  |
| Annual performance report | | | | |
| The predetermined objectives are reported by the National Department of Public Works |  |  |  |  |
| **Compliance with legislation** | | | | |
| Procurement and Contract Management |  |  |  |  |
| Consequence Management |  |  |  |  |
| Asset Management |  |  |  |  |
| Revenue Management |  |  |  |  |
| Expenditure Management |  |  |  |  |
| Annual Financial Statements |  |  |  |  |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Unqualified / No material findings |  | Qualified |  | Adverse |  | Disclaimed |  | Material findings |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Improvement |  | Regression |  | Unchanged |

1. Material misstatements in the annual financial statements were identified with respect to payables from exchange transactions , revenue and receivables from exchange transactions and commitments . This formed the basis for the qualified audit outcome. The unfavourable audit outcome is mainly attributable to a lack of effective information systems, adequate review processes in the preparation of the financial statements and appropriate interpretation of the GRAP standards. In addition, a lack of co-ordination within regional offices in tracking when a service was rendered and the invoice is received continues to be the entity’s vunerability in ensuring that the consolidated accruals schedules which comprises of submission from all the regional offices is complete. Lastly, we note that in some regional offices, management applies the Modified Cash Standard in accounting for accrued services instead of Generally Recognised Accounting Practice (GRAP).
2. We provide further insight into the audit outcomes, the root causes of weaknesses and our recommendations in the remainder of this report.

## Material irregularities

1. Since the implementation of the material irregularity process, we have identified seven (7) material irregularities at the trading entity.

Status of material irregularities

| Year of notification | Total | Appropriate actions | AGSA further actions |
| --- | --- | --- | --- |
| 2020 | 2 | 2 | 0 |
| 2021 | 3 | 2 | 1 |
| 2022 | 2 | 2 | 0 |
| **Total** | 7 | 6 | 1 |

1. The material irregularities reported to the accounting officer relate to construction project management (3), contravention of SCM regulations (1) and lease overpayment (3). The trading entity is taking appropriate actions to address the reported material irregularities indicated above, with the exception of one (1) construction project management wherein management is in disagreement with the irregularity. The AGSA Material Irregularity Committee was still evaluating further information submitted by the accounting officer at the completition of this audit.
2. Appropriate actions include taking steps to stop the irregularity, recovery of any losses, prevent re-occurrence of the material irregularity by improving the control environments and implementation of consequence management on officials identified to be responsible for the irregularity.
3. We commend management for responding to the call to action and taking robust steps in stopping the irregularities reported and recover losses incurred. Furthermore, we acknowledge the action plans and initiatives designed by management to improve the control environment and identify the responsible officials. However, we remain concerned with the slow progress in the implementation of consequence management for responsible officials. Lastly, the control environment has not improved in order to prevent the re-occurrence of other similar irregularities. For example, despite three (3) material irregularities issued on lease overpayments, management has not been able to successfully prevent the re-occurrence of further lease overpayments.
4. The auditor’s report will detail all material irregularities. **Annexure D** lists the material irregularities that will be included in the auditor’s report.

# Section 2: Significant matters

## Financial statements

### Audit results

1. The financial statements were submitted to us for auditing on 31 May 2023.
2. We identified material misstatements in the financial statements submitted for auditing. The material misstatements constitute non-compliance with legislation. The non-compliance will be reported as a material finding in the auditor’s report.

Material misstatements not corrected

| Accounting standard / legislation | Nature | Value | Description | Prior-year misstatements | |
| --- | --- | --- | --- | --- | --- |
| **2021-22** | **2020-21** |
| **Accrued expenses –Leases** | | | | | |
| GRAP 104/ Prescription Act of 1969 | Understatement | Undetermined | Management wrote off a significant portion of accrued expenses-leases by incorrect application of the prescription Act. |  |  |
| **Accrued expense- Completeness** | | | | | |
| GRAP 104 | Understatement | R325 638 029 | Management did not recognise accrued expenses where expenses were incurred and not paid at year end. |  |  |
| **Accrued expenses- Opex** | | | | | |
| GRAP 104 | Understatement | R199 000 000 | Management did not recognise accrued expenses where services were received before year end and no uncerainity existed. Management however recognised a provision which is not in accordance with GRAP 19 |  |  |
| **Payables from exchange transactions - aggregation** | | | | | |
| GRAP 104 | Overstatement | R211 000 000 | Individually immaterial uncorrected misstatement on payables from exchange transaction as disclosed in note 12, total payables from exchange transaction was materially misstated by 129 million due to cumulative effect of individually immaterial uncorrected misstatements in payables from exchange transactions   * Debtors with credit balance was overstated by 38 million * Trade payables was overstated by 91 million * Revenue claimed in advance R82 million |  |  |
| **Accommodation Charges- Freehold inter-governmental** | | | | | |
| GRAP 09/GRAP 13 | Overstatement | Undetermined | Management recognised revenue for properties that were not owned by the trading entity. |  |  |
| **Operating lease commitments: PMTE as a lessor: Straight-line Freehold** | | | | | |
| GRAP 13 | Understatement | Undetermined | Differences were noted between the lease commitment disclosed in the AFS and the recalculated amount per the supporting documentation. |  |  |
| GRAP 13 | Understatement | Undetermined | Differences were noted between the lease commitment disclosed in the AFS and the recalculated amount per the supporting documentation. .(2021/22 comparative) |  |  |
| **Commitments** | | | | | |
| GRAP 17 | Overstatement | R2 725 984 915 | Management disclosed commitments that did not give rise to future contractual obligations. |  |  |
| **Bank overdraft** | | | | | |
| PFMA 40(1) | Overstatement | R433 000 000 | supporting documentation for the transactions that make up the balance, to corroborate their status as “Outstanding” not sufficient. |  |  |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Uncorrected |  | Corrected |  | No prior-year misstatement |

1. The material misstatements that were not corrected formed the basis for the modified opinion on the financial statements and will be reported in the auditor’s report.

Corrected Material misstatements

| Accounting standard / legislation | Nature | Value | Description | Prior-year misstatements | |
| --- | --- | --- | --- | --- | --- |
| **2021-22** | **2020-21** |
| Investment Property | | | | | |
| GRAP 16 | Overstatement | R4 458 127 897 | FNB stadium and land were incorrectly classified as an investment property. |  |  |
| GRAP 16 | Understatement | R193 586 914 | Unauthorized disposal of property |  |  |
| **Property Plant and Equipment** | | | | | |
| GRAP 17 | Overstatement | R1 964 922 242 | Incorrect calculations of PPE land deemed costs, due to management applying the revised average vacant land rates (AVL) that were incorrect. |  |  |
| GRAP 17 | Overstatement | R 881 418 949 | The immovable assets register included land parcels that were not owned by the entity. |  |  |
| GRAP 17 | Overstatement | R 786 543 369 | Management disclosed an incorrect carrying amount amount on the assets under construction sub note 7 of the AFS. |  |  |
| GRAP 17 | Overstatement | R 4 228 486 843 | Management disclosed an incorrect carrying amount on the assets under construction sub note 7 of the AFS with respect to significantly delayed projects. |  |  |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Uncorrected |  | Corrected |  | No prior-year misstatement |

**Lease related balances**

1. Repeat findings were identified with respect to lease related balances and disclosure notes thereof. The main root causes of these misstatements are as a result of incorrect lease data captured on the Archibus system and poor record keeping of historical information used to support the accrued lease expense and prepaid expense-leases line items.
2. Efforts made by management to renegotiate lease agreements, such that monthly rentals are reduced and addendums are made for additional space were only captured on the system after year end. This is as a result of a lack of a review process to ensure that lease agreements are captured correctly and timeously.
3. The accrued expenses- leases line item was decreased by almost R900 million, by reason of prescription Act, where debt is said to be more than 3 years however there was no assessment done for each lease accrual before it was written off. This meant that there were instances where the prescription Act was incorrectly applied.

**Impact**

1. While the trading entity is making an effort to reduce the monthly lease rentals through renegotiating expired leases, the late capturing or incorrect capturing of lease agreements leads to the trading entity paying the landlords more than what they were required to be paid. Such overpayments are not immediately recovered from the landlords and result in unnecessary leakages out of an already pressured fiscus. In certain instances, this has resulted in the trading entity not being able to recover the overpayments as the prepaid balance significantly increased in the current year.
2. Further, incorrectly derecognising payables means that the financial statements do not present a fair picture of the trading entities financial position. The derecognised payables means landlords may not be paid amounts due to them which may lead to legal action for the trading entity.

**Accrued expenses- completeness**

1. Completeness of accrued expenses remained a material issue in the current financial year as management did not recognise liabilities that existed at year end. As in the prior years we noted that management has not put systems and processes in place to identify goods/services received at year end where payment has not been made, especially where invoices had not been received at year end.

**Impact**

1. The trading entity did not provide the public, oversignt and other stakeholders with reliable information on their finances and compliance with legislation as the trading entity did not have procedures and processes in place to account for transactions where services were rendered during the year and payments have not been made in the financial statements according to GRAP 19.

**Accrued expenses- Opex**

1. Incorrect accounting treatment of day to day transactions as provisions where calls were made and services providers were allocated to attend to the call, job card to confirm the services were rendered was provided and invoices and quotations were also provided to the trading entity which were incorrectly classified as provisions instead of an accrual. Furthermore certain instances were identified where these transactions were paid but still classified as a provision.

**Impact**

The trading entity did not provide the public, oversignt and other stakeholders with reliable information on their finances and compliance with legislation as the trading entity did not have procedures and processes in place to correctly classify the transactions as provisions or accruals according to GRAP

**Revenue from exchange transactions**

1. Management recognised revenue from exchange transactions for properties that were not in the asset register of the trading entity. These properties were derecognised due to various reasons some were transferred to other organs of state, some buildings were merged and some properties did not exist. When these properties were removed from the asset register, the billing was not updated for these changes and user departments continued to be billed when the trading entity was no longer entitled to such revenue. This is mainly due to management not having a credible immovable asset register and also not being able to track all changes made.

**Impact**

1. When user departments pay these user charges to the trading entity the expectation is that the trading entity will provide maintenance services for those buildings. No maintenance was provided by the trading entity on these buildings, while the affected state organs were paying the user charges which is inclusive of maintenance. Furthermore, user departments were paying for buildings that do not exist and such funds could have been diverted to the user departments critical service delivery needs.

**Lease commitments- Freehold intergovernmental**

1. Management entered into an agreements with user departments in line with itemised billing and signed lease agreements that span from 5 years to 9 years 11 months. Non-cancellable commitments were not fully disclosed in the financial statements as management incorrectly interpreted the requirements of GRAP 13 leases.

**Impact**

1. The financial statements do not provide a fair presentation of the trading entitys future commitments, therefore not allowing the users full and accurate information of the trading entity’s position.

**Immovable assets and related disclosure**

1. The submission of sufficient appropriate evidence on the restatements of corresponding amounts for property plant and equipment, which was a material stumbling block in the prior year was resolved during the current financial period. This has seen the entity resolve the material limitation of scope reported in the prior year, including the limitation identified during the interim audit on completed South African Police Services projects transferred to the entity.
2. Material misstatements were identified in relation to the valuation of land parcels with no market value. This was mainly due to inconsistent application of sources (municipal valuation rolls and deedsdownload) used to determine the average vacant land rate as documented on the management’s position paper. The aforementioned led to the trading entity using incorrect rates in calculating the value of land. Furthermore, material misstatements were noted on the recognition of assets on the IAR, for which ownership rights have not been passed to the trading entity yet. These issues are similar to those which were identified and reported in the prior years.
3. In addition, material misstatements were noted on capital commitments disclosed as note 7 of the AFS. This is a new issue which was identified in the current year and emanated from management not identifying and removing terminated contracts from the commitments schedule.
4. Lastly, the incorrect application of the GRAP standards with respect to investment property resulted to an inappropriate classification of a material asset.

**Impact**

1. The inconsistent application of the assumptions set out on the immovable asset position paper has resulted in the incorrect valuation of all land which uses the AVL Masterfile as a key input.
2. The inclusion of properties that do not belong to the entity in the immovable asset register (IAR), resulted in the overstatement of land parcels. Consequently, this is likely to have an impact on the trading entity and Department of Agriculture and Land Reform priorities for land re-distribution in accordance with the revised medium term strategic framework. Furthermore, the duplication of land parcels will not result in a true reflection of the country’s consolidated immovable assets at the National Treasury level.
3. In addition, we highlight that the lack of having an accurate and credible asset register hinders national government plans with respect to infrastructure maintenance, expansion and addressing service delivery needs.
4. Lastly, there is a direct relationship between the entity’s PPE commitments and the service delivery with respect to planned and on-going infrastructure projects. Therefore, the inclusion of the cancelled projects under commitments distorts the user’s understanding of the entity’s commitments when analysed together with the construction project management programme that is reported under the Department’s annual performance report.

**Bank overdraft**

1. Findings identified with respect to bank overdraft balance relate to outstanding payments. The main root cause of this is inadequate process to clear the suspense account within reasonable time.

**Impact**

1. While management has indicated that a process will be implemented zto clear the suspense account, the delay has resulted in the trading entity not being able to provide sufficient appropriate documents to support the transactions that form part of the balance.

Significant deficiencies – financial statements

| Deficiency | Prior years reported | |
| --- | --- | --- |
| 2021-22 | 2020-21 |
| Management did not perform adequate reviews on the vacant land population (Masterfile) to ensure that   * Land extents are correctly casted to calculate the total extent of land under other municipalities grouping. * Municipality groupings on the Masterfile is supported by underlying records (deedsdownload reports and municipal valuation rolls) for the calculation of AVL rates | - | √ |
| Management did not perform adequate reviews to ensure that the land parcels included in the immovable asset register (IAR) are owned by the trading entity. | - | √ |
| Management did not adequately review the lease schedules to ensure that the amounts recorded in the schedules agree to the amounts per the supporting documentation | √ | √ |
| Management did not review the available evidence in order to assess the classification of the immovable assets against the requirements of GRAP 16. | - | - |
| Management did not perform adequate reviews to ensure that the immovable assets commitments schedule only includes projects that the trading still has a future obligation for and cancelled projects are excluded. | - | - |
| Management did not correctly apply the requirements of GRAP 13 in recognising the lease commitments for state owned properties where contracts have been signed with the user department. | √ | √ |
| Lack of appropriate application of the prescription Act in diminishing lease accruals balance. | - | - |
| Management did not implement the required systems to ensure that all accrued expenses are recorded as they are incurred. | √ | √ |
| Management did not provide oversight and monitoring of clearing and suspense accounts at the trading entity. | √ | - |

1. Next we summarise our key recommendations to senior management and their responses. Some of these recommendations were also made in prior years but have not been implemented or have not been fully implemented yet.

Key recommendations and responses – financial statements

| Recommendation and management response | Year originally recommended | Status of implementation |
| --- | --- | --- |
| **Recommendation:** Management should bring stability to the IAR in order to limit material restatements, year on year due to the identification of prior period errors.  They should further ensure that the land parcels used on the AVL Masterfile agree to the municipality grouping. Furthermore, management should ensure that the castings of land extents and total rand values are adequately reviewed before calculating the deemed costs of land parcels.  The use of computer assisted audit techniques should be encouraged in order to ensure that properties are not duplicated between the PMTE, Provincial Department of Public works and other designated custodians such as the Department of Rural Development and Land Reform.  Management should evaluate the classification of assets based on the purpose they are held for and other available information in order to ensure compliance with relevant GRAP standards.  **Response:** Management will review the AVL rates used in the valuation of land parcels which do not use the market-based approach in the 2022/23 financial year.  In addition, they will perform a detailed analysis on the interim and final deeds download consisting of all registered properties in South Africa in order to identify properties owned by the entity. | 2020-21 | In progress |
| **Recommendation:** Management should implement sufficient reviews to ensure that the annual financial statements sufficiently comply with the Standards of Generally Recognized Accounting Practices.  Management should ensure that Real Estate Management Services (REMS) at regional plays a bigger role in ensuring that all lease data is correctly and timeously captured and supported by the appropriate documentation. Furthermore, the finance unit should enhance the review processes to ensure that the information presented in the financial statements is free from errors before they are submitted for audit.  **Response:** Management implemented a lease clean-up project through the appointment of Morar incorporation to unearth errors on the Archibus system and provide recommendations on correcting the errors. | 2020-21 | Completed |

1. Although management has developed action plans to respond to our prior-year recommendations, these have not been effective to address the real root causes which led to the material misstatements identified by AGSA. As such, the entity continues to obtain repeat findings on similar matters which have been reported on in prior years.

### Information to be included in auditor’s report

1. We may communicate matters relating to the audit, the auditor’s responsibilities and the auditor’s report in the auditor’s report that are important for users of the financial statements to know about. The following matter will be included as ‘other matters’ in the auditor’s report:

* *National Treasury Instruction No. 4 of 2022/2023: PFMA Compliance and Reporting Framework*

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

We do not express an opinion on the disclosure of irregular expenditure and fruitless and wasteful expenditure in the annual report.

1. We will include an ‘emphasis of matter’ paragraph in the auditor’s report to draw the attention of users of the financial statements to the following matter which we deem to be fundamental to their understanding of the financial statements:

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

### Matters affecting future financial statements

1. The entity should ensure that systems and controls are in place to implement the following upcoming changes in the accounting standards, pronouncements or legislation that will have an impact on the financial statements:

Changes – accounting standards, pronouncements or legislation

| Description. | Effective date |
| --- | --- |
| GRAP 1 on *Presentation of Financial Statements* (revised) | 1 Apr 2023 |
| GRAP 25 on *Employee benefits* (revised) | 1 Apr 2023 |
| GRAP 103 on *Heritage assets* (revised) | To be determined |
| GRAP 104 on *Financial instruments* (revised) \* | 1 Apr 2025 |
| IGRAP 7 on *The limit on a defined benefit asset, minimum funding requirements and their interaction* (revised) | 1 Apr 2023 |
| IGRAP 21 on *The effect of past decisions on materiality* | 1 Apr 2023 |
| *\*GRAP 104 (revised) was substantially changed. As a result, an entity may not use the revised version to formulate accounting policies alone. GRAP 104 (revised) must be adopted and applied in totality, partial adoption or application is not permitted.* | |

## Financial management and performance

### Going concern

1. Our audit included an evaluation of the appropriateness of management’s use of the going concern basis of accounting in the preparation of the financial statements and whether any material uncertainties exist about the trading entity’s ability to continue as a going concern.
2. We did not identify any events or conditions that cast significant doubt on the trading entity’s ability to continue as a going concern. We agreed with the disclosures made in the financial statements on the material uncertainties and the events and conditions identified by management.

Going concern – events or conditions

| Event or condition | Prior years reported | |
| --- | --- | --- |
| 2021-22 | 2020-21 |
| Property Management Trading Entity has a bank overdraft of R1.843 billion (2022: R851 million) and the current liabilities exceed the current assets. The main reason for the increase in the bank overdraft was due to the increase in the amounts owed by client departments. This indicates the inability of management to collect outstanding debts. | - | - |
| In the Current financial year, the entity reported a deficit of R 1 440 429 000 which indicates that total expenditure exceed total revenue. Furthermore, the entity also reported a deficit in the prior year amounting to R 1 548 689 000  As a result, this would indicate that the entity has had recurring operating losses in the previous 2 financial years. | - | - |

1. The following other concerning indicators were further noted:

* The entity operates in a net current liability position which is an indication that the entity may not be able to fulfil its short term commitments, this may be also the contribution factor to the high creditor’s payment period.
* The overdraft facility increased from prior year to current year which has a negative impact on the cash flow position of the entity.
* The entity has an operating cash flow ratio of 0, 1 which indicates that the entity’s normal operations will not be sufficient to cover its current liabilities in the short term period. Furthermore, management prepared a budget forecast for the next 3 financial years thereby indicating forecast operating cash flow ratio of 0,2 in each of the 3 financial years. To this effect, management stated that PMTE will not be generating enough cash to cover its current liabilities in the next three financial years.
* Working capital ratio of 0, 3 in the 2022/23 financial period indicating difficulty in the entity paying off its obligations in the short term. Management further prepared a budget forecast for the next 3 financial years thereby indicating forecast working capital ratio of 0,4 in each of the 3 financial years.
* The above indicators have a negative effect on the entity’s ability to carry out its mandate which creates a material uncertainty on the continuity of the entity.

1. **Impact:** PMTE is responsible for providing and managing properties used for public service delivery (e.g. government offices, public infrastructure, Police stations, etc.), a negative going concern assessment raises concerns about the continuity and quality of services provided for those properties. It may impact the ability to maintain and upgrade the properties adequately.
2. We will include an “emphasis of matter” paragraph in the auditor’s report to draw the attention of users of the financial statements to the note included in the financial statements on the going concern.

### Financial assessment and compliance

1. Our audit included a high-level assessment of the financial position and key financial ratios of the trading entity based on its financial results to assess its going concern (as detailed earlier) and also to highlight to management those issues that may require corrective action to maintain financial stability. The assessment is intended to complement, rather than substitute, management’s own financial assessment.
2. The detailed assessment is included in **annexure A**. We used the amounts and information in the financial statements to perform the assessment.
3. Next we summarise key matters from the assessment.

Financial assessment – key matters

|  |
| --- |
| Revenue management |
| Effective steps were not taken to recover monies due to the entity.  Management did not ensure that long outstanding receivables are recovered from the debtors which are mainly government departments. Significant portions of receivables that were outstanding in the prior year have not been recovered. This shows that management has not taken action to ensure that these receivables are recovered. These have a negative impact on the liquidity of the trading entity as these have been paid and not recovered. |
| Asset and liability management |
| The trading entity is operating at a deficit and this indicates that it may be unable to fund monthly operational expenditure and to continue effectively rendering services. This may negatively impact on the entity’s financial viability and its ability to continue operating optimally at its current capacity. Continued operations may have to be funded by some other means.  A deficit may signify debt collection problems, which show that the way the auditee creates and manages its revenue may not provide it with sufficient cash to cover all operational expenses. Total expenditure exceeds total revenue, it may also correlate to an over-spending of the auditee’s operating expenditure budget. Consequently, measures must be implemented to address this situation to ensure sustainable service delivery and financial viability. |
| Cash management |
| The trding entity’s bank balance is in overdraft it may be vulnerable and at a higher risk in the event of financial set-backs and its ability to meet its obligations to provide basic services or its financial commitments is compromised. |

1. We concluded that the financial status of the trading entity is unfavourable, which is the same as the previous year.
2. We did not identify material non-compliance with legislation on financial management for reporting in the auditor’s report.

### Losses

1. It is crucial for the trading entity to implement the necessary disciplines to ensure that value is derived from money spent and that assets and resources are safeguarded. We identified findings to highlight in this area of financial management.

Disclosures and findings on losses

| Nature | Description | Rand value | | |
| --- | --- | --- | --- | --- |
| 2022-23 | 2021-22 | 2020-21 |
| Fruitless and wasteful expenditure | Interest paid on overdue account  No show penalties | R4 000 | R405 000 | R139 000 |
| Finding | | | | |
| The current year fruitless and wasteful expenditure incurred is due to an official not showing up for a training. This expenditure incurred includes venue and meals which was charged after the official has applied for a training. | | | | |

1. The fruitless and wasteful expenditure incurred was disclosed in the financial statements and annual report as required. As detailed in the section on financial statements, the material misstatement in the financial statements will be reported in the auditor’s report. Our findings on the disclosure of fruitless and wasteful expenditure in the annual report are as follows:

* Interest paid on overdue account
* No show penalties

1. **Impact:** The fruitless and wasteful expenditure incurred constitutes non-compliance with legislation. The non-compliance will be reported as a material finding in the auditor’s report.

### Internal control and recommendations

1. We identified significant internal control deficiencies, which caused the weaknesses in financial management and performance as reported.

Significant deficiencies – financial management

| Deficiency | Prior years reported | |
| --- | --- | --- |
| 2021-22 | 2021-20 |
| There was no system embedded controls on the Archibus system to prevent the duplicate/multiple renewal of the same lease. Without this preventative control being in place on the system duplicate renewal of leases might results in overpayments being made to the landlords consequently resulting in financial losses to the entity.  The internal control deficiency could be attributed to reliance on manual process for validation processes, inadequate input controls embedded into the system to validate the information captured against the information that already exist on the system. | - | - |
| The interface between the Archibus system and SAGE system was ineffectively implemented thus not functioning as intended. There were differences noted in the control totals and record counts of transactions that had interfaced. In addition the error handling mechanism of the interface was not effectively implemented to allow management to timeously pick up any error to facilitate the necessary investigations to be carried out to timeously rectify the errors. This interface issue could result in Archibus data not being accurately and completely reflected in Sage which may impact financial reporting.  The internal control deficiency could be attributed to management not engaging the service provider who was responsible for the interface to assist in addressing the issues. | √ | - |
| Management did not ensure that long outstanding receivables are recovered from the debtors which are mainly government departments. | √ | √ |

1. Next we summarise our key recommendations to senior management and their responses. Some of these recommendations were also made in prior years but have not been implemented but have not been fully implemented yet.

Key recommendations and responses – financial management

| Recommendation and management response | Year originally recommended | Status of implementation |
| --- | --- | --- |
| **Recommendation:** Management should implement input controls to adequately validate information that is being captured on the system, as manual controls are often prone to human error.  **Response:** ICT to prepare a proposal to business on the process to mitigate against lease renewal duplication and advise business to submit a system enhancement request to ICT if the proposal is accepted by business. | 2022-23 | In- progress |
| **Recommendation** Management should engage the vendor responsible for the interface between Archibus and Sage to do a deep dive on all issues being experienced. Thereafter, management should design and implement controls such as a reconciliation to confirm accuracy and completeness of transactions between Archibus and Sage. In addition, management should investigate the reasons for the inaccurate information on the Sage payment report and resolve these as per the results of the investigation.  **Response:** The difference was due to a Lease code which did not interface into Sage and the IGN (Interface Programme). This was a one-time issue | 2021-22 | Limited progress |
| Management should implement effective and appropriate steps to collect al revenue due to maintain the positive cashflow of the trading entity. | 2020-21 | Limited progress |

### Information to be included in auditor’s report

1. We can include an ‘emphasis of matter’ paragraph in the auditor’s report to draw the attention of users of the financial statements to important disclosures in the financial statements. The following matters that relate to the financial performance of the trading entity will be emphasised:

**Going concern**

* As disclosed in note 36 of the Annual Financial Statements, the PMTE has a bank overdraft of R1.843 billion (2022: R851 million) and the current liabilities exceed the current assets by R7.739 billion (2022: R7.213 billion).
* The main reason for the increase in the bank overdraft was due to the increase in the amounts owed by client departments. Management has engaged in robust discussions with the relevant departments and National Treasury to resolve the issues around non-payment and to ensure payment is received on outstanding amounts.

**Receivables from exchange transactions -impairment provision**

* As disclosed in note 3 of the Annual Financial Statements, the R3,611 billion (2022: R4,268 billion) reported on Receivables from exchange, is the rand value after taking into account the impairment values of R9,251 billion (2022: R7,968 billion).

## Performance planning, management and reporting

### Overall performance planning and management

1. In terms of section 40(3) (a) of the PFMA for departments, trading entities and constitutional institutions, the trading entity is required to prepare an annual performance report. In the current year, the entity’s annual performance information will be reported in the Department of Public Works and Infrastructure as one annual performance plan and strategic plan were combined. Therefore, the usefulness and reliability of the reported performance information will be 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.

## Other information in annual report

1. We did not audit the information in the annual report except for the financial statements and the information on irregular and fruitless and wasteful expenditure.
2. However, the auditing standards require us to read the unaudited information and consider whether it is materially inconsistent with the information we audited, the knowledge we obtained during the audit or otherwise appears to be materially misstated. We did not identify material findings to report in the auditor’s report.

## Key projects

1. We selected, tested and reported on key projects over the project life cycle of the projects. We tested timelines, budget spending, compliance with procurement processes, recording of transactions in the financial statements, and the quality of the goods and services delivered against the initial requirements.

## INFRASTRUCTURE theme

1. The trading entity has been identified as a critical role-player and enabler in as far as our national infrastructure is concerned. In this section, which should be considered in conjunction with the preceding section pertaining to key projects, we summarise our insights and significant matters that required the attention of the accounting officer relating to processes surrounding infrastructure.
2. This section will cover the following topics:

* Infrastructure planning
* Return on investment (effective utilisation of resources)
* State-owned accommodation vs. leasing from private sector
* Delayed infrastructure projects
* Cancelled/abandoned infrastructure projects.
* Infrastructure repairs and maintenance
* Impact on the South African citizen
* Impact on the fiscus
* Impact on other government objectives in the pursuit of service delivery

## Broad-based black economic empowerment (B-BBEE)

1. Our audit included confirming whether the Trading entity complied with selected reporting requirements in the B-BBEE Act and Regulations. We identified non-compliance with the selected requirements tested.

Findings on B-BBEE

| Finding | Prior years reported | |
| --- | --- | --- |
| 2021-22 | 2020-21 |
| The Property Management Trading Entity (PMTE) did not submit the relevant documentation pertaining to the 2021-22 financial year to the B-BBEE Commission, as required by section 13G(1) of the B-BBEE Act and B-BBEE regulation 12(2). | √ | √ |

1. **Impact:** Non- submission of the relevant documentation precludes the objectives of the Broad-Based Black Economic Empowerment Act which aim to facilitate broad-based black economic empowerment by promoting economic transformation in order to enable meaningful participation of black people in the economy;
2. Management is of the view that the entity does not need to be evaluated for B-BBEE rating. The only responsibility of the entity is to comply with section 10 and the implementation of a preferential procurement policy for B-BBEE compliance. Lastly the SCM keeps stats of all B-BBEEE procurement that is reflected in the Annual Performance Report.
3. Next we summarise our key recommendations to senior management and their responses. Some of these recommendations were also made in prior years but have not been implemented or have not been fully implemented yet.

Key recommendations and responses – B-BBEE

| Recommendation and management response | Year originally recommended | Status of implementation |
| --- | --- | --- |
| **Recommendation:** Management must ensure that B-BBEE form, audited annual financial statements are submitted to the B-BBEE commission within 30 days after approval  **Response:** | 2022-23 | Not started |

## Information security management

1. The information system audit included an assessment of the adequacy of the information technology (IT) security controls that prevents unauthorised access to key information systems and safeguards the department against business interruptions. The assessed controls encompassed the review and approval of the IT security policy, adherence to password parameters in line with company or industry standards, installation of antivirus software for protection against viruses and worms, and implementation of patch management software to ensure up-to-date security across all systems.
2. Information System Audit did not identify significant deficiencies in the IT security controls.

## Information technology projects

1. The deficiency was previously reported in the 2019-2020 audit period, the PMTE had embarked on the process of implementing its Enterprise Resource Planning (ERP) system “Archibus” which was intended to manage the operational aspects of asset management and to provide a platform on which financial transactions take place. The project started in August 2015 with a planned duration of completion of 10 months, starting from 01August 2015 to 30 May 2016. An approved business case relating to the extension of the initial project for the implementation of ERP system was provided, and through review of the document is was noted that the ERP system implementation date was extended from 2016 to 2019 an additional three years. The ERP system implementation project was not yet completed and not all modules of the ERP were deployed for usage. In the current year under review, only three (3) out of eight (8) planned modules of the Archibus ERP solution are live/operational. Furthermore, it was established that mangement did not reflect the correct status of the following module for Archibus ( Infrastructure budgeting and Construction & Project management Module) (COFF 63)

Findings on Archibus ERP system

| Finding | Prior years reported | |
| --- | --- | --- |
| 2021-22 | 2020-21 |
| During the testing of Archibus ERP system project there were payment vouchers which were not provided by management from RFI 85, the RFI 85 was requested on 02 June 2023, the non-submission of documents results in a limitation of scope of R 9 456 000.43. also on other payment vouchers the invoices did not have supporting documents which resulted to another limitation of scope of R 7 543 363.77 | - | - |
| Software licensing management standard or procedure aimed at managing the acquisition, maintenance, renewal, and periodic monitoring of software licenses was not implemented at the entity which resulted in fruitless and wasteful expenditure due to purchase of software licences on the Archibus system which were not compatible with the current version in use thus these licenses procured were not utilised payment of these software license were in 2019/20 and 2022/23 financial years with R 988 125.10 being spent in the 2019/20 and R 2 771 464.32 being spent in the 2022/23 financial year. PMTE may continue overspending unnecessarily on software licenses if the adequate controls are not implemented to minimise software related risks.  The internal control deficiency could be attributed to management failure to implement proper project management process to ensure a return on investment. | - | - |

1. **Impact:** The above financial impact is attributed to management failure to implement proper project management process for the implementation of the archibus ERP system to ensure a return on investment. This has resulted in the ERP system not fully meeting the PMTE primary objectives.

**Recommendations**

1. IT Management should implement proper project management process and formalise processes relating to Benefits Realisation & Return on Investment (ROI). This is to enable the department to increase the effectiveness of their governance and oversight on all IT spending and align with its strategic goals, including the maximisation of their investments.
2. As a minimum, a benefits relation plan / program should be formally documented and monitored for each IT investment or project. Management should continually evaluate the portfolio of IT-enabled investments, services and assets to determine the likelihood of achieving departmental objectives and delivering value at a reasonable cost. This would help in identifying and making judgment on any changes in direction that need to be given to management to optimise value creation.

Findings on SAGE ERP system

1. In the implementation of SAGE it was noted that the following issues incurred by the entity which caused delays, poor project governance, unavailability of approved business processes, inadequate change management,costs overruns and poor project finance management.

| Finding | Prior years reported | |
| --- | --- | --- |
| 2021-22 | 2020-21 |
| During the audit we noted that Deloitte had purchased Archibus end user licences in 2014 and through review of the Deloitte contract it was noted that the firm was only appointed to develop the SAGE ERP system not Archibus. However, during that period, the modules on Archibus (lease in and lease out) had not yet been developed. Nothing was done relating to development of Archibus system during this period moreover the subscription fees for these licenses were classified under SAGE and not Archibus development costs. This will result in a fruitless & wasteful expenditure of R 786 600 and also will results in a classification issue relating to development costs of R786 600, as an understatement Archibus development costs and overstatement SAGE development costs**.** Also it was noted that there was no variation order for an amount spent on SAGE above the contracted amount , this resulted in an irregular expenditure of R2 349 676.44 | - | - |
| During the audit the professional fees paid to the service providers could not be verified as there was no supporting documents as to what makes up the amount and proof of work performed, however management provided the approved project charter it was then noted that an over spending was made above the approved project charter and the approved SLA therefore this will be regarded as irregular expenditure of R 7 453 831.26 | - | - |

1. **Impact:** The above financial impact is attributed to management failure to implement proper project management process for the implementation of the SAGE ERP system to ensure a return on investment. This has resulted in the ERP system not fully meeting the PMTE primary objectives.

**Recommendations**

1. IT Management should implement proper project management process and formalise processes relating to Benefits Realisation & Return on Investment (ROI). This is to enable the department to increase the effectiveness of their governance and oversight on all IT spending and align with its strategic goals, including the maximisation of their investments.
2. As a minimum, a benefits relation plan / program should be formally documented and monitored for each IT investment or project. Management should continually evaluate the portfolio of IT-enabled investments, services and assets to determine the likelihood of achieving departmental objectives and delivering value at a reasonable cost. This would help in identifying and making judgment on any changes in direction that need to be given to management to optimise value creation.
3. Next we summarise our key recommendations to senior management and their responses. Some of these recommendations were also made in prior years but have not been implemented or have not been fully implemented yet.

## Procurement and contract management

1. Section 217(1) of the Constitution envisages supply chain management systems that are fair, equitable, transparent, competitive and cost effective to achieve optimal value for public money spent and ensure equitable opportunities for suppliers to participate in government business. Meticulous contract management and rigorous payment control mechanisms should be in place to ensure that payments are made only upon the supplier's timely delivery, adherence to agreed-upon pricing, and compliance with specified quality standards.
2. We continued to focus on procurement and contract management processes, recognising that public procurement is the area at greatest risk of fraud, financial loss and irregular practices. We identified findings. The findings on material non-compliance with legislation will be reported in the auditor’s report.
3. Next we summarise the areas in procurement and contract management processes where we identified findings – these are the areas at greatest risk of fraud and financial loss. Details on the findings are included in **annexure B**.

Findings on procurement and contract management

| Area | Findings | | |
| --- | --- | --- | --- |
| 2022-23 | 2021-22 | 2020-21 |
| Audit limitations |  |  |  |
| Deviations |  |  |  |
| Conflict of interest |  |  |  |
| Non-compliance: competitive bidding process |  |  |  |
| Non-compliance: quotation process |  |  |  |
| Contract management |  |  |  |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Material non-compliance with legislation |  | Findings |  | No findings |

1. **Impact:** Findings identified under procurement and contract management have resulted in non-compliance with legislation, however the non-compliance is not material
2. One award with a value of R244 563.61 was procured without inviting at least the minimum prescribed number of written price quotations from prospective suppliers, the deviation was approved even though it was possible to obtain the quotations.
3. One contract with a value of R1 400 000 was procured without inviting competitive bids, the deviations was approved even though it is not justifiable as to why competitive bidding process was not followed.
4. One contract with a total value of R4 500 000 which failed to achieve the minimum qualifying score for functionality criteria were not disqualified as unacceptable.
5. Two major projects to the value of R210 314 517.68 were procured after 01 October 2019 without the review of quality of the documentation, deliverability, affordability and value for money by a gateway review team.
6. Two contracts were amended or extended without approval by a delegated official. The total value of the extensions was R5 175 957.91.
7. The contract performance and monitoring measures and methods applied in monitoring four contracts with a total value of R789 695 462 were insufficient to ensure effective contract management.
8. Procurement and contract management findings previously raised in prior year were identified in the current financial year. This indicates that leadership does not prioritise mechanisms to address causes reported in the prior year by internal and external auditors
9. The information systems audit included an assessment of the design of the IT Governance oversight structure which oversee IT Procurement and contract management but did not identify issues pertaining to the procurement process.

## Irregular expenditure

1. Non-compliance with legislation resulted in irregular expenditure of **R57 000 000**. The irregular expenditure incurred constitutes non-compliance with legislation. The non-compliance will be reported as a material finding in the auditor’s report.
2. The irregular expenditure incurred was not disclosed in the financial statements and annual report as required. As detailed in the section on financial statements, the material misstatement in the financial statements will be reported in the auditor’s report. Our findings on the disclosure of irregular expenditure in the annual report are as follows:

* Irregular expenditure of R36.6 million under assessment in the prior financial year and confirmed current year was not included in comparatives as required by National treasury instruction no.04 of 2022/23.
* Irregular expenditure of R696 707 identified in 2021/2022 financial year was still recorded as under assessment.

## Consequence management

1. Legislation stipulates that matters such as incurring unauthorised, irregular, and fruitless and wasteful expenditure; the possible abuse of the supply chain management system (including fraud and improper conduct); and allegations of financial misconduct should be investigated. Disciplinary steps should be taken based on the results of these investigations. Our audit included an assessment of the trading entity’s management of consequences.
2. We identified findings. The findings on material non-compliance with legislation will be reported in the auditor’s report.

Findings on consequence management

| Finding | Material non-compliance | Value | Prior years reported | |
| --- | --- | --- | --- | --- |
| 2021-22 | 2020-21 |
| Category – Irregular expenditure | | | | |
| We were unable to obtain sufficient appropriate audit evidence that disciplinary steps were taken against officials who had incurred irregular expenditure as required by section 38(1)(h)(iii) of the PFMA. | Yes | R829 848 621 | √ | √ |

1. The irregular expenditure incurred in the prior years is still reflecting on the irregular expenditure register as under determination. Furthermore we were unable to obtain sufficient appropriate audit evidence that determination tests and investigations into irregular expenditure were performed to determine whether disciplinary steps should be taken against officials who had incurred irregular expenditure.
2. During prior-year audits, we reported findings on transgressions by officials or other role players for management to investigate. During the current year’s audit, we performed follow-up tests to determine whether management has dealt with these matters. Some of the reported transgressions were investigated and resolved.

Prior-year transgressions

| Prior-year finding | Instances reported | Instances investigated | Instances resolved through investigation | Prior years reported | |
| --- | --- | --- | --- | --- | --- |
| 2022-21 | 2020-21 |
| Improper conduct in supply chain management process by suppliers | | | | | |
| Other improper in SCM by suppliers | 1 | 1 | 1 | √ | √ |
| **Improper conduct in supply chain management process by officials/ role players** | | | | | |
| Payment to suppliers who fail to deliver | 1 | 1 | 1 | √ | √ |
| Other improper conduct in SCM by officials or SCM role players | 4 | 4 | 4 | √ | √ |
| **Financial misconduct** | | | | | |
| Other UIFWE (not included above) | 5 | 4 | 4 | √ | √ |

1. The instances of transgressions reported in the prior year were properly investigated, some allegations constituted an offence of fraud and involved amount were above R100 000. Furthermore, disciplinary hearing on prior year transgressions were held and some are still in progress.
2. **Impact:** The governance, risk and compliance identified irregularities on some prior year transgressions and recommended that be disclosed as irregular, fruitless and wasteful expenditure. The irregular expenditure identified amounts to R3 071 839 and fruitless and wasteful expenditure amount to R377 548.
3. We did not identify significant internal control deficiencies in the consequence management processes. Where we identified possible improvements, we reported these to management.

## Fraud risk

1. Our auditing standards define fraud as an intentional act by one or more individuals who are employees, management, those charged with governance or third parties, and that involves the use of deception to obtain an unjust or illegal advantage. Fraud risk factors are events or conditions that indicate an incentive or pressure to commit fraud or that provide an opportunity to commit fraud. We did not identity fraud risk factors.

# Section 3: Control environment

## Overall control environment

1. The significant internal control deficiencies as reported in **section 2** were caused by weaknesses in the overall control environment, for which the accounting officer and senior management are responsible.
2. The following are the main weaknesses that need urgent attention to improve the overall control environment:

Significant deficiencies – overall control environment

| Deficiency | Prior years reported | |
| --- | --- | --- |
| 2021-22 | 2020-21 |
| Management did not exercise oversight responsibility regarding financial reporting and compliance as material misstatements were identified in the financial statements and material findings on compliance with laws and regulations, this is evident by a number of repeat findings that were identified in the previous years and also identified in the current year  This indicates that the processes in place does not address the internal control deficiencies that have been identified and reported in the prior years by external and internal auditors. The entity has not successfully implemented preventative controls. | √ | √ |
| Management internal policies and procedures did not adequately address compliance with key legislation as evidenced by non-compliance findings raised on procurement and contract management. Instances of non-compliance for procurement and contract management identified in the current year were also identified in the previous financial year which is an indication that the policies do not enhances preventative controls. | √ | √ |
| Management internal policies and procedures are not effective to ensure all transactions were accounted for appropriately and in line with the applicable GRAP standards. This resulted in similar issues being identified on leases and accruals as in the prior years due to the GRAP standards not being applied correctly. | √ | √ |
| 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 on leases, accruals and assets and non-compliance findings identified during the audit.  Furthermore it was noted that the action plans do not deal with the real root causes of the findings that are identified during the audit this is evident by a number of lease overpayments the entity is still making to the landlords.  Management did not develop an action plan for accrued expense - completeness qualification area, and similar issues were identified in the interim audit and final audit | √ | √ |

1. The trading entity’s internal control environment did not improve in the current year as similar material findings were identified during the audit on both the annual financial statements and compliance. The material findings were raised in the previous year and there’s no controls in place that management developed to ensure that the real root causes are addressed and the action plan developed by the entity is not effective as similar issues with the similar nature were identified again in the current year.
2. In **annexure C** we provide a more detailed view of the overall state of internal control.

## Accountability ecosystem

1. The accountability ecosystem is the collection of role-players that have a part to play in enabling and institutionalising a culture of performance, transparency, accountability and integrity at the trading entity. These role-players include the officials, senior management and accounting officer, supported by the internal audit until and the audit committee.
2. We observed strengths and weaknesses in the contributions to the ecosystem by leadership and management as well as the governance structures of the trading entity. We share our observations with the intention to contribute to strengthening the overall control environment, performance and accountability.

### Accounting officer and senior management

1. There is no stability in the position of the Accounting officer. The previous Accounting officer who was on suspension for two (2) years resigned in the current year and an acting Accounting officer had to be appointed. There has been three (3) acting Accounting officers in the previous two years. The impact of instability in the position is that recommendations and commitments made by previous officers might not be followed through.
2. We commend Senior Management for submitting the asset register and the supporting schedules that support the adjustments that were made on immovable assets. However there is stagnation in both the financial statements and compliance as similar material findings were identified in both the financial statements and compliance as detailed under section 2.

### Audit committee

1. The audit committee is an independent advisory body to the accounting authority and the management and staff of the entity on matters relating to internal financial control and internal audits; risk management; accounting policies; adequacy, reliability and accuracy of financial reporting and information; effective governance; the PFMA, Treasury Regulations and any other applicable legislation; and any other issues.
2. The audit committee was established and fully functional in the current year. The audit committee was established accordingly in terms of the legislation.
3. The audit committee is also expected to review the annual financial statements to provide an authoritative and credible view of the trading entity, its efficiency and effectiveness and its overall level of compliance with the applicable legislation.
4. During the year under review, the audit committee effectively discharged its responsibilities as they reviewed the financial statements submitted for audit and provided their inputs to management for implementation. The members of the audit committee were well capacitated in terms of the skills and experience required to execute their duties. The audit committee interacted with both internal and external auditors on the audit matters. The committee is able to hold the executive as well as the accounting officer accountable for their actions that may hinder the department from obtaining the desired audit outcome

### Internal audit unit

1. The internal audit performed several 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. to prevent the regression in the financial audit opinion to enable oversight responsibility by other role players such as the audit committee and the accounting officer.
2. The auditing standards allow us to use the work of internal audit unit for external audit purposes and for direct assistance. We have used internal audit work as follows:

* All internal audit reports for the current year were used for risk assessment.

## Recommendations and responses

1. Next we summarise our key recommendations to senior management and their responses. Some of these recommendations were also made in prior years but have not been implemented or have not been fully implemented yet.

Key recommendations and responses – control environment

| Recommendation and management response | Year originally recommended | Status of implementation |
| --- | --- | --- |
| **Recommendation:** The development of an **Intergraded system** which will allow all transactions to be digitalised ,integrated and accessible on real time to reduce the reliance on manual processes of compiling the supporting schedules used to prepare the AFS. Also vital is intensive training of employees on the use of these systems to eliminate errors due to human error in capturing and processing transactions  **Response:** A contract for an ERP system was awarded in May 2023 | 2022-23 | In progress |
| **Recommendation:** An enhancement of the **review processes** involved in the preparation of the AFS and supporting schedules thereof. This includes management ensuring that the supporting schedules from regional offices are timeously submitted to Head Office in order to allow the reporting unit sufficient time to perform adequate reviews of supporting schedules which feed into the AFS reporting. | 2022-23 | In progress |
| **Recommendation: Effective co-ordination** between the head office and the regional offices in order to ensure all parties involved in the financials eco-system strive to achieve a common goal of producing AFS which are free from error. This includes continuous engagements with the regional officials and empowering regional offices with required skilled force to enhance the quality of schedules submitted to head office for reporting | 2022-23 | Not started |
| **Recommendation:** **Annual skills training** on the relevant reporting framework (GRAP) with respect to the transactions which result in material misstatements such as accruals. This should incorporate AGSA recommendations on the findings raised and planned audit action plan | 2022-23 | Not started |

# Section 4: Overall recommendations

1. We provided recommendations to senior management to rectify the weaknesses identified in financial management, compliance with legislation and service delivery. Our recommendation for the Accounting officer is to focus on addressing the underlying root causes of these weaknesses, which stem from deficiencies in the overall control environment and failures in the accountability ecosystem.
2. In our view the main root causes that need attention are as follows:

* Lack of sufficient and adequate reviews
* Lack of effective implementation of audit action plans
* Lack of inter-departmental co-ordination between key divisions
* Lack of efficient and effective information systems used in the preparation of financial statements.

1. Addressing these root causes requires a focused and systematic approach. We have found that an action plan that is focused on addressing root causes, with SMART targets and disciplined monitoring and implementation, is fundamental to success.
2. The following are our three main recommendations to address the identified root causes. We have shared some of these before and ask for urgent action to ensure their implementation.

Overall recommendations

|  | Recommendation | Year originally recommended |
| --- | --- | --- |
| 1. | An enhancement of the review processes and levels within the respective branches and regional offices responsible for submitting schedules to be used by the Finance unit in the preparation of the AFS. This will reduce reliance on the finance unit to detect and correct errors, during the compilation of the AFS. | 2020-21 |
| 2. | The implementation and monitoring of audit action plans should be intensified in order to reduce reliance on the audit process to identify misstatements that should be corrected prior to the submission of the AFS for audit. This will assist in improving the trading entity’s audit opinion in the following years and prevent a regression. | 2020-21 |
| 3. | Interdepartmental co-ordination in the collection of information for the financial statements will be critical in ensuring that the information in the financial statements is accurate, reliable and complete. The trading entity should also enhance the co-ordination between the head office and regions, regions as the main source of the information are critical in the preparation of the financial statements. Therefore, it is recommended that management ensure that the contributing departments and regions fully understand the purpose of the information. It will be critical that key divisions within the organisation refrain from operating in isolation and establish co-ordination in order to support the organisations’ goal of achieving a clean audit opinion. | 2022-23 |
| 4. | Management should create and implement efficient systems and processes that allow for the timely recording and updating of financial information. These systems should be sufficient for the collection and corroborating of information that is included in the financial statements. The effective utilisation of these systems will assist the trading entity in preventing material misstatements. | 2022-23 |

**Conclusion**

1. Management made progress in ensuring that the financial statements are not disclaimed, however the quality of the annual financial statements submitted for audit remains a challenge that management needs to address immediately as numerous material misstatements were identified during the audit. We encourage management to implement the recommendations mentioned in this report to see the desired improvements in the financial statements as well as the audit opinion.
2. We urge management to thoroughly consider  the challenges that are faced by the trading entity and compile clear and achieveable action plans that will address the defeciencies identified during the audit and throughout the year.
3. We note that the trading entity is making commendable efforts to ensure that the finance department is well capacitated with qualified and experienced individuals. These resources should assist management in improving the quality of the annual financial statements going forward.  We encourage management to enforce a culture of performance, accountability and high ethical standards as this will be reflected in the quality of annual financial statements submitted for audit.
4. The AGSA would like to appreciate the support and co-operation provided by leadership and officials during the audit and look forward to future engagements with the trading entity.

# Annexure A: Financial assessment

We included a summary of the financial assessment we did as part of the audit in the section on financial performance. This annexure includes the detailed ratios and information used for the assessment.

Financial assessment – entities other than departments

|  | | Current year | Previous year |
| --- | --- | --- | --- |
| Expenditure management | | | |
| 1.1 | Creditor-payment period | 108,1 | 162,2 |
| Revenue management | | | |
| 2.1 | Debt-collection period (after impairment) | 77,8 | 89 |
| 2.2 | Debtors’ impairment provision as percentage of accounts receivable | 71,9% | 65,1% |
| * Amount of debtors’ impairment provision * Amount of accounts receivable | R 9 250 588 000  R 12 863 060 000 | R 7 968 073 000  R 12 237 799 000 |
| Asset and liability management | | | |
| 3.1 | Deficit was realised for the year (total expenditure exceeded total revenue) | Yes | Yes |
| * Amount of surplus/(deficit) for the year | (R 1 440 429 000) | (R 1 548 689 000) |
| 3.2 | Net current liability position was realised (total current liabilities exceeded total current assets) | Yes | Yes |
| * Amount of net current asset/(liability) position | (R 7 775 371 000) | (R 7 213 106 000) |
| 3.3 | Net liability position was realised (total liabilities exceeded total assets) | No | No |
| * Amount of net asset/(liability) position | R 167 290 501 000 | R 168 807 050 000 |
| Cash management | | | |
| 4.1 | Year-end bank balance was in overdraft | Yes | Yes |
| * Amount of year-end bank balance (cash and cash equivalents) / (bank overdraft) | (R 1 820 471 000) | (R 848 691 000) |
| 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 | R 1 254 077 000 | R 2 927 219 000 |
| 4.3 | Creditors as 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 | R 3 369 539 000  (R 1 820 471 000) | (R 5 134 040 000)  (R 848 691 000) |
| *\* [This/These] amount[s] [has/have] been adjusted for uncorrected misstatements that resulted in the modification of the audit [opinion / conclusion] and will therefore not agree with the financial statement amounts.* | | | |

# Annexure B: Procurement and contract management

1. We included a summary of our findings and their impact in the section on procurement and contract management. This annexure provides the detailed findings.

### Deviations

1. Supply chain management legislation and policy prescribe the processes that apply for procuring specific goods and services as well as their threshold values, including competitive bidding, obtaining quotations or participating in transversal contracts. It also defines the requirements for deviating from the prescribed processes. We identified deviations where the stipulated requirements for such deviations were not complied with.

Findings on deviations from prescribed procurement processes

| Contract/quotation | Value and date of award | Finding | Material non-compliance |
| --- | --- | --- | --- |
| Repair peeling and cracking walls at the building (Wasima Construction) | **Value:** R244 563.61  **Date**: 22 June 2022 | Emergency not justifiable | No |
| Red Security- Hout bay harbour: 24hr tactical security services | Value: R1 437 500  Date: 25 May 2022 | Emergency not justifiable | No |

1. **Impact:** The non-compliance will result in additional irregular expenditure to be disclosed by the Trading Entity.
2. One (1) award with a value of R244 563.61 was procured without inviting at least the minimum prescribed number of written price quotations from prospective suppliers, the deviation was approved even though it was possible to obtain quotations.
3. One (1) contract with a value of R1 400 000 was procured without inviting competitive bids, the deviation was approved even though it is not justifiable as to why competitive bidding process was not followed.

### Competitive bidding and quotation processes

1. Supply chain management legislation and policy prescribe the manner in which bidding and quotation processes should be performed to enable fair, competitive and equitable procurement. We identified non-compliance with the requirements for bidding processes.

Findings on competitive bidding process

| Finding | Value | Instances | Material non-compliance | Prior years reported | |
| --- | --- | --- | --- | --- | --- |
| 2022-21 | 2020-21 |
| Non-compliance to Tender conditions (CPT COFF 06) | R510 565 626 | 1 | No | - | - |
| Functionality calculation differences (CPT COFF 07) | 4 500 000 | 1 | No | √ | √ |
| Local content not reported to DTIC (MMB COFF 08) | 210 314 518 | 1 | No | √ | √ |
| CIDB Gateway reviews (MMB COFF 09) | 210 314 518 | 1 | No | - | - |
| Subcontractor’s BBEEE certificates (MMB COFF 10) | 210 314 518 | 1 | No | - | - |

1. **Impact:** The non-compliance will result in control deficiencies and additional irregular expenditure being disclosed by the trading entity.
2. One (1) contract with a total value of R4 500 000, the service provider failed to achieve the minimum qualifying score for functionality criteria were not disqualified as unacceptable.
3. Two (2) major projects to the value of R210 314 517.68 were procured after 01 October 2019 without the review of quality of the documentation, deliverability, affordability and value for money by a gateway review team.
4. The Department of Trade, Industry and Competition (DTIC) was not notified of the successful bidders and provided with copies of the two (2) contracts and SBD 6.2 certicate. The total value of the contracts is R210 314 518.
5. The subcontractor’s BBBEE certicates for two (2) contracts with a total value of R210 314 518 were not submitted by the bidders, we could not confirm whether subcontractors have an equal or higher B-BBEE status level than that of the bidders as stipulated under the Preferential Procurement Regulation.
6. One (1) contract with a total value of R510 565 626 did not met subcontracting conditions before approval of the award. The subcontractors submitted by the winning bidder (TEFLA) were allocated work not within their CIDB grading as per CIDB regulations.

### Contract management

1. Supply chain management legislation and policy prescribe the manner in which contracts should be managed to ensure that payments are only made for goods and services that have been received and that have been delivered at the right quality. We identified non-compliance with these requirements.

Findings on contract management

| Finding | Value | Instances | Material non-compliance | Prior years reported | |
| --- | --- | --- | --- | --- | --- |
| 2021-22 | 2020-21 |
| Contract management extension of time with cost (JHB COFF 09). | R474 115.90 | 1 | No | √ | √ |
| Contract management delays in Completion of the Water Canal Project (BLM COFF 09) | R16 195 890.94 | 1 | No | √ | √ |
| Extension of time with financial impact (PE COFF 04) | R497 025.45 | 1 | No | √ | √ |
| Non-performance by contractor (CPT COFF 09) | R29 148 165.55 | 1 | No | √ | √ |

1. **Impact:** The non compliance will result in additional irregular expenditure being disclosed by the trading entity.
2. One (1) contract was amended or extended without approval by a delegated official. The total value of the extension was R5 175 957.91.
3. Two (2) contracts with a total value of R670 813 067 were extended with financial impact. The approved extension of time with financial impact were not justifiable and not in line with Joint Building Construction Committee (JBCC) requirements.
4. The contract performance and monitoring measures and methods applied in monitoring four (4) contracts with a total value of R789 695 462 were insufficient to ensure effective contract management.

### Conflict of interest

1. We assessed the interests of officials and their close family members and/or business partners or associates in suppliers to the Trading Entity as well as the interests of persons in the service of other public sector institutions. Procurement legislation does not prohibit awards to such suppliers, but we performed testing to ensure that conflicts of interest did not result in contracts being unfairly awarded or in unfavourable price quotations being accepted, and to share the information with management as potential risks. We did not identify such interests.
2. The Public Service Act and Regulations prohibit employees of departments from doing business with the state and from performing remunerative work outside their employment in the department, except with the written permission of the executive authority of the department or in an official capacity as a director of a public entity. We did not identify non-compliance with this legislation

### Internal control and recommendations

1. We identified significant internal control deficiencies, which caused the weaknesses in the procurement and contract management processes as reported.

Significant deficiencies – procurement and contract management

| Deficiency | Prior years reported | |
| --- | --- | --- |
| 2021-22 | 2020-21 |
| Management internal policies and procedures did not adequately address compliance with key legislation as evidenced by non-compliance findings raised on procurement and contract management. Instances of non-compliance for procurement and contract management identified in the current year were also identified in the previous financial year which is an indication that the policies do not enhances preventative controls. | √ | √ |
| Management did not ensure compliance with laws and regulations as to ensure that the evaluation of the bidding process is fair and transparent and is in compliant with SCM laws and regulations. Instances of non-compliance for deviations from competitive bidding process identified in the current year were also identified in the previous financial year. | √ | √ |
| Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored. Instances of non-compliance for contract management where necessary information required to execute the projects were not always submitted on time to the contractor to avoid delays which will results in the financial loss for the entity. The requirements of the JBCC contract were not adequately applied when approvals for the extensions of time were granted. | √ | √ |

1. Next we summarise the key recommendations we made to senior management and their responses. Some of these recommendations were also made in prior years but have not been implemented or have not been fully implemented yet.

Key recommendations and responses – procurement and contract management

| **Recommendation and management response** | **Year originally recommended** | **Status of implementation** |
| --- | --- | --- |
| **Recommendation:** Training of all BACs, SCM Practitioners .together with RM's, Line Function PMs involved in the SCM procurement value chain.  **Response:** TBC | 2021-22 | In progress |
| **Recommendation:** Accurate completion of Compliance Irregularity Checklists (IE) for all recommendations for adjudication and award - the approving authority must undertake due diligence and satisfy themselves that there has been compliance in all respects.  **Response:** TBC | 2020-21 | In progress |
| **Recommendation:** Consequence Management to be implemented where instances of non compliance with any of the above requirements are identified.  **Response:** TBC | 2020-21 | In progress |
| **Recommendation:** Management should ensure that projects are monitored consistently and all the necessary information and documents are provided to the supplier timeously to avoid delays. Assess the reasons for the delays against the JBCC contract in order to avoid making unnecessary payments where delays are covered under JBCC clauses.  **Response:** TBC | 2022-23 | In progress |

# Annexure C: Assessment of internal control

1. This annexure provides our assessment of the main internal controls in the areas of **leadership**, **financial and performance management** and **governance** that should enable credible financial statements and performance reports and compliance with legislation.
2. The assessments are rated as follows:

|  |  |
| --- | --- |
|  | The required preventative or detective controls were in place. |
|  | Progress was made in implementing preventative or detective controls, but improvement is still required or actions taken were not sustainable. |
|  | Internal controls were not in place, were not properly designed, were not implemented or were not operating effectively. Intervention is required to design and/or implement appropriate controls. |

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

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Improvement |  | Regression |  | Unchanged |

Internal control assessment

|  | Financial statements | | Performance reporting | | Compliance with legislation | |
| --- | --- | --- | --- | --- | --- | --- |
| Current | Previous | Current | Previous | Current | Previous |
| Leadership |  | | **N/A** | |  | |
| Provide effective leadership based on a culture of honesty, ethical business practices and good governance, and protect and enhance the interests of the entity |  |  | **N/A** | **N/A** |  |  |
| Exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls |  |  | **N/A** | **N/A** |  |  |
| Implement effective human resource management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored |  |  | **N/A** | **N/A** |  |  |
| Establish and communicate policies and procedures to enable and support the understanding and execution of internal control objectives, processes and responsibilities |  |  | **N/A** | **N/A** |  |  |
| Develop and monitor the implementation of action plans to address internal control deficiencies |  |  | **N/A** | **N/A** |  |  |
| Establish and implement an information technology governance framework that supports and enables the business, delivers value and improves performance |  |  | **N/A** | **N/A** |  |  |
| Financial and performance management |  | | **N/A** | |  | |
| 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 |  |  | **N/A** | **N/A** |  |  |
| Implement controls over daily and monthly processing and reconciling of transactions |  |  | **N/A** | **N/A** |  |  |
| Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information |  |  | **N/A** | **N/A** |  |  |
| Review and monitor compliance with applicable legislation |  |  | **N/A** | **N/A** |  |  |
| Design and implement formal controls over information technology systems to ensure the reliability of the systems and the availability, accuracy and protection of information relating to user access management, programme change control and service continuity |  |  | **N/A** | **N/A** | **N/A** | **N/A** |
| Governance |  | | **N/A** | |  | |
| Implement appropriate risk management activities to ensure that regular risk assessments, including the consideration of information technology risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored |  |  | **N/A** | **N/A** |  |  |
| Ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively |  |  | **N/A** | **N/A** |  |  |
| Ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and overseeing the effectiveness of the internal control environment, including financial and performance reporting and compliance with legislation |  |  | **N/A** | **N/A** |  |  |

# Annexure D: Material irregularities

This annexure lists the material irregularities (MIs) that will be included in the auditor’s report.

| Notified | Type | MI description | Status description | |
| --- | --- | --- | --- | --- |
| Actions taken | Actions planned / in progress |
| In progress | | | | |
| 13 November 2020 | Financial loss | Competitive bidding processes were not followed to appoint contractors and consultants for the Beitbridge borderline infrastructure project in March 2020. As a result, market-related prices were not secured.  **Irregularity**: Non-compliance with TR 16A3.2(a)  **Impact**: Likely Material financial loss of R17 million | Accounting officer has taken appropriate steps:   * Eight officials received suspension without pay and final written warning sanctions. The employees have since returned to work. * Eight (8) members of NBAC (3 Chief directors, 4 Directors and 1 Deputy director) received final written warnings and were suspended without pay for various periods, with effective from 01 November 2022. They have since all returned to work. * One (1) of the three (3) senior officials who are implicated in the investigation report has filed a notice to oppose his answering affidavit filed on the 6th of June 2022 and the state attorney has since applied for a hearing date with the Registrar of the Labour Court. The filing is underway so that the Registrar may issue a hearing date. * The disciplinary action against the other two senior officials is on hold pending the finalisation of the High court application for review of the report based on the ruling made by the previous chairperson which was extended to the two officials. * On the 1st of December 2022, the Council of the Engineering Council of South Africa(ECSA) resolved to adopt the recommendations from the investigation conducted on professional engineers within and contracted or sub-contracted to the DPWI and its entities. On 14 June 2023, the ECSA extended the scope of the investigation to potential improper misconduct by registered person employed by the Department. The investigation is in progress. * On the 7th of September 2022, the Special Tribunal Court dismissed with costs the leave to appeal by the contractor and principal agent. SIU has since informed the Department of both parties’ intention to appeal to the High Court. * The Department appointed a new restriction committee on the 31st of March 2023 that will decide on whether the restriction of doing business with state by contractor and principal agent is imposed or not as recommended by National Treasury. The deliberations are in progress. * The trading entity has implemented various initiatives to increase oversight on contract management for construction projects. | AO actions in progress |
| 13 November 2020 | Financial loss | Establishment costs were incorrectly included in the bill of quantities due to ineffective internal controls to prevent the inclusion and payment thereof.  **Irregularity**: Non-compliance with TR 8.1.1  **Impact**: Likely Material financial loss of R1,09 million. | AO actions in progress |
| 27 August 2021 | Financial loss | Payments made on the lease of office accommodation and parking (lease no:140280) were based on the expired lease agreements which had higher rates than those provided for in the renewed lease agreement  Irregularity: Non-compliance with TR 8.1.1  Impact: Likely Material financial loss of R10,9 million | Accounting officer has taken appropriate steps:   * As at 31 March 2023, the full financial loss of R10,9 million was recovered. * Disciplinary action taken Two middle management officials were identified to be responsible for the MI. They were issued with final written warning letters in January 2022 (and the matter was closed). | AO actions in progress |
| 15 October 2021 | Financial loss | PMTE approved the contract extensions in the construction of the Mamelodi Magistrate’s Court, with adjustments to the contract value, which were not in line with the contract Joint Building Construction Committee (JBCC).  Irregularity: Non-compliance with section 45(a) of the PFMA  Impact: Likely Material financial loss of R3,0 million. | Accounting officer has taken appropriate steps:   * The Accounting officer commenced with disciplinary steps against the four (4) implicated officials from 17 November 2021, by issuing letters of consequence management in order to afford the officials an opportunity to explain their actions in approving the claims and payments to the contractor. Subsequently, the matter was referred to the Labour Relations on 25 March 2022 for investigation in order to prepare charge sheets and institute disciplinary action against the identified officials. * On 17th August 2022, Labour Relations requested clarification on additional documentation and the scope of the charges. Both the Internal Control Directorate and later the DPWI's Anti-Corruption Unit (ACU) were requested to investigate. The review of the information by the ACU concluded that the matter does not warrant a forensic investigation as the facts of the matter are already at the disposal of the Department to enable resolution of the matter' as the information required by Labour Relations can be sourced from the relevant Line Functions within the Department. * Following the receipt of the ACU report of 16th May 2023, the Pretoria Regional Office is dispatching the additional information required for Labour Relations. * Initial activities to recover the funds through the Principal Agent, in line with the JBCC contract was not successful. This resulted in the department, issuing a letter of non-compliance to the Principal Agent. On the 7th September 2022, the Principal Agent wrote to the department indicating that they are terminating their contract agreement with the department. * The Department of Public Works and Infrastructure sent a letter of demand to the service provider on 27 March 2023, requesting a refund for R 3 011 124,24(VAT exclusive) due to application for extension of contract which were erroneously approved within cost. In this regard, the service provider was requested to make such payments or arrangements for payments thereof within 14(fourteen) days of receipt of the letter. However, the service provider failed to execute any action and the Department referred the matter to the office of the state attorney for recovery. | AO actions in progress |
| 03 June 2022 | Financial loss | Between September 2019 and March 2021, payments made on lease of office accommodation and parking (lease no: 140277) were higher than those provided for in the lease agreement.  Irregularity: Non-compliance with TR 8.1.1  Impact: Likely Material financial loss of R3,8 million | Accounting officer has taken appropriate steps:   * Middle management official identified to be responsible for the cause of the MI was given a verbal warning in July 2021. * As at March 2023, the full lease overpayment amount was recovered. * The lease was correctly capture. | AO actions in progress |
| 10 November 2022 | Financial loss | Between September 2019 and July 2021, payments made on lease of office accommodation and parking (lease no: 139901) were higher than those provided for in the lease agreement. | Accounting officer has taken appropriate steps:   * Disciplinary action of the identified officials is in progress * Recovery of the financial loss is in progress | AO actions in progress |
| Further AGSA actions | | | | |
| 21 August 2021 | Financial loss | Boilers at Leeuwkop Prison were not appropriately safeguarded during construction, resulting in them being damaged due to exposure to severe weather conditions.  Irregularity: Non-compliance with TR 10.1.1(a)  Impact: Likely Material financial loss of R1,8 million. | **AGSA action:** The MI is under evaluation by the AGSA Material Irregularity Committee. | |

# Annexure E: Summary of detailed audit findings

1. This annexure summarises the findings that were communicated to management during the audit. The detailed findings are available on request.
2. The findings are rated as follows:

|  |  |
| --- | --- |
|  | Matters that will be reported in the auditor’s report and should be addressed urgently. |
|  | Matters that should be addressed to prevent material misstatements in the financial statements or material findings on the annual performance report and compliance with legislation in future. Also includes matters that significantly affected auditee performance. |
|  | Matters that do not have a direct impact on the audit outcome or a significant impact on auditee performance, but were communicated to assist with improving processes and mitigating risks. |

Summary of audit findings

| **Finding** | **Rating** | **Classification** | | | | | **Number of times reported in previous two years** |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Financial** | **Performance** | **Compliance** | **Internal control** | **Delivery** |
| **Immovable assets** | | | | | | | |
| Overstatement of land parcels dueIncorrect AVL Masterfile rates were used to calculate the deemed costs of land parcels with no market or acquisition value. **(COFF 42)** |  | √ | - | - | √ | - | 1 |
| FNB stadium was incorrectly classified as investment property, however, it is not held for rentals and capital appreciation. **(COFF 45)** |  | √ | - | - | - | - | 0 |
| SAFA House disposed without following the appropriate policies and procedures. This resulted in an understatement of property, plant and equipment. **(COFF 43)** |  | √ | - | - | √ | - | 0 |
| Various land parcels were recognised prior to obtaining a section 42 transfer from DALRRD. In addition, it was identified that some land parcels under the custodianship of DALRRD were recorded in the entity’s IAR. **(COFF 72)** |  | √ | - | - | √ | - | 2 |
| A narration was not included for R1,3 billion PPE prior period error. The prior period error note 35 does not achieve fair presentation. **(COFF 27)** |  | √ | - | √ | √ | - | 0 |
| A R1.3 billion reconciliation for PPE prior period error was not submitted for audit. **(COFF 26)** |  | √ | - | - | √ | - | 1 |
| Overstatement of AUC carrying value and significantly delayed project value for the current year in the disclosure sub-note 7. **(COFF 25)** |  | √ | - | √ | √ | - | 0 |
| Overstatement of PPE due to management recognising land parcels that are not registered under the name of the entity. **(COFF 49)** |  | √ | - | - | √ | - | 2 |
| Overstatement of PPE due to inclusion of a demolished building and incorrect classification of a warehouse shop as PPE instead of investment property. **(COFF 56)** |  | √ | - | - | √ | - | 2 |
| Components identified during physical verifications of FNB Stadium were not included in the IAR. **(COFF 67)** |  | √ | - | - | √ | - | 0 |
| The value of the land parcels as per the immovable asset register did not agree to the municipal valuation roll (MVR) Lightstone report, as a result PPE land is overstated. **(COFF 48)** |  | √ | - | - | √ | - | 1 |
| The extents of the land parcels did not agree to the supporting documents provided which is the CSG Diagram or CSG Layer, as a result PPE land is overstated. **(COFF 50)** |  | √ | - | - | √ | - | 1 |
| Changes in the extent on the improvements did not agree with the management expert report for multi-story buildings extent, as a result PPE buildings is understated. **(COFF 59)** |  | √ | - | - | √ | - | 1 |
| Buildings which had material indicators of impairment due to physical damage are still carried at an unimpaired carrying value. This was due to management not having assessed the buildings for impairment at each reporting date as required by GRAP 21. **(COFF 51)** |  | √ | - | - | √ | - | 1 |
| The investigation report and refurbishment resolutions for the burnt down parliament were not submitted for audit. **(COFF 74)** |  | √ | - | - | √ | - | - |
| Incorrect AECOM rate was applied by management to calculate deemed cost. **(COFF 86)** |  | √ | - | - | √ | - | - |
| Unjustified extension of time where given for Standerton SAPS project whilst the contractor was in penalties, this resulted to a possible financial loss noting that the department had already released a significant retention portion prior to the project reaching its practical completion stage. **(NEL COFF 15)** |  | - | - | - | √ | - | 0 |
| General safety concerns were identified during the conditional assessment of Barberton prison (damaged ceiling, cracks in the building plaster, no sprinklers), non-compliance with GIAMA and OHS Act. **(NEL COFF 05)** |  | - | - | √ | - | - | 0 |
| General safety were identified during the conditional assessment of Westanoria Police station (buildings with no fire alarms, no clear marks of exit, cracks and ceiling with mould and watermarks), resulting to non-compliance with GIAMA and OHS act. **(NEL COFF 14)** |  | - | - | √ | - | - | 0 |
| Variations were not approved and amounts were paid for the work that was not performed for SA Army College: Upgrade of Kitchen Equipment Project, thus resulting to irregular and fruitless and wasteful expenditures. **(PTA COFF 15)** |  | √ | - | - | √ | - | 2 |
| For the Parys correctional facility, we noted that the contractor went into default because of failure to proceed with the works in accordance with the approved programme and was given notice of termination by the DBSA to the contractor on 17 February 2023 when the project was 42% completed.  The DBSA has not yet compiled the Final Account which would reflect amounts owning by / amounts owed to the contractor after the re-measurement and conditions assessment have been quantified. Likely material financial losses resulting from the termination amounting to R28 278 026,69 were identified by the auditors. Furthermore, additional price escalations amounting to R56 644 504,48 (VAT Excl.) will be incurred with the appointment of a new contractor due to the project already being delayed by 16 months since the original planned completion date. **(BLM COFF 10)** |  | - | - | √ | -. | - | 1 |
| The Park Road SAPS repair and maintenance works project has been delayed by at least 1023 (470+553) calendar days due to a delay in appointing a replacement contractor and default payments by the client. This has impacted the service delivery of SAPS. **(COFF 08)** |  | - | - | - | √ | - | 0 |
| The prior year findings on Port Shepstone Magistrate Court were not addressed due to the litigation process being in progress. Furthermore, the prior year findings reported were not included in the action plan of the department. **(COFF 07)** |  | √ | - | - | - | - | 1 |
| Reasons/explanations as to why parliament appointed DBSA to be responsible for refurbishments and the minutes where the resolutions were made to appoint DBSA to be responsible for refurbishments of parliament **and** the **investigation report** on the **burnt down parliament** were not submitted for audit **(COFF 74)** |  | - | - | - | √ | - | 0 |
| Non-compliance with Section 38 of the Public Finance Management Act and Section 10 of the National Treasury Regulations due to management not ensuring that the Telkom Towers complex is being utilized in an effective, efficient and economical manner. **(COFF 52)** |  | - | - | √ | - | - | 0 |
| ***Commitments*** | | | | | | | |  |
| Projects that did not give rise to future obligations for the entity were included as commitments. Additionally, we identified misstatements on the commitments disclosure notes for PPE and heritage assets due to omissions and incorrect calculations – HO and regions. |  | √ | - | - | √ | - | 0 |
| **Movable assets** | | | | | | | |
| Movable assets that were donated by Telkom Retirement Fund were not been accounted for in the accounting records of the new owner (PMTE). **(COFF 29)** |  | √ | - | - | √ | - | 0 |
| The laptop with barcode of 10312121 could not be traced to the Moveable asset Register. **(COFF 37)** |  | √ | - | - | √ | - | 0 |
| **Intangible assets** | | | | | | | |
| Management did not perform an impairment assessment for the Archibus system that is still under development. This is not consistent with requirement of par 108 of GRAP 31 as well as para 21 of GRAP 21. **(COFF 53)** |  | √ | - | - | √ | - | 0 |
| ***Deferred Revenue*** | | | | | | | |
| Casting errors were noted on the sub-note of deferred revenue. **(COFF 28)** |  | - | - | - | √ | - | 0 |
| **Bank Overdraft** | | | | | | | |
| Supporting information substantiating “outstanding” status of reconciling items not provided. **(COFF 76)** |  | √ | - | - | √ | - | 0 |
| **Receivables from exchange transactions** | | | | | | | |
| Differences were noted between the amounts confirmed by implementing agents and the amounts disclosed in the annual financial statements **(COFF 41)** |  | √ | - | - | √ | - | 1 |
| Some receivables balances were not assessed for impairment in line with GRAP 104 & 36 **(COFF 36)** |  | √ | - | - | √ | - | 2 |
| Process followed to recognise prior period error for municipal services and property rates (backlog) was not substantiated by sufficient appropriate documentation **(COFF 61)** |  | √ | - | - | √ | - | 2 |
| Differences were noted between interest on bank balance disclosed on the AFS and interest per the bank confirmation **(C0FF 89)** |  | √ | - | - | √ | - | 1 |
| The trading entity billed client departments rentals for properties that were not in their custodianship. Some of these properties were under the custodianship of provincial public works. **(COFF 88)** |  | √ | - | - | √ | - | 0 |
| We could not confirm the existence of the creditors with debit balances. **(COFF 93)** |  | √ | - | - | √ | - | 0 |
| Impairment assessment for freehold private, was not in line with the revenue and receivables policy **(COFF 65)** |  | √ | - | - | √ | - | 0 |
| **Lease related line items** | | | | | | | |
| Write off of accrued expenses leases was not in accordance with the requirements prescription Act **(COFF 32)** |  | √ | - | - | √ | - | 0 |
| Differences were identified between amount disclosed in the schedules and the recalculated amounts per supporting documents for operating lease asset and operating lease liability **(COFF 40)** |  | √ | - | - | √ | - | 2 |
| Differences were identified between amount disclosed in the schedules and the recalculated amounts per supporting documents for operating lease expense and revenue – leasehold intergovernmental **(COFF 38)** |  | √ | - | - | √ | - | 0 |
| Differences were identified between amount disclosed in the schedules and the recalculated amounts per supporting documents for operating lease commitments – PMTE as a lessor and PMTE as a lessee **(COFF 39)** |  | √ | - | - | √ | - | 2 |
| Differences were noted between the amounts per the lease schedule and recalculated amounts per the supporting documents for lease accruals and prepayments (opening and closing balance) – All regions |  | √ | - | - | √ | - | 2 |
| Operating lease expense, revenue, asset, liability and commitment not recognised for where client is still in occupation of the leased building etc **(COFF 60)** |  | √ | - | - | √ | - | 0 |
| **Trade payables** | | | | | | | |
| We identified transactions in the AP suspense account dating way back to 2018. These transaction were not supported by the underlying records to demonstrate the existence of payables. **(COFF 92)** |  | √ | - | - | √ | - | 0 |
| **Accrued expenses** | | | | | | | |
| Opening balance- Items selected from the floor could not be traced to the accruals schedules even though expense was incurred and not paid by 31 March 2022 – All regions |  | √ | - | - | √ | - | 0 |
| Closing balance- Items selected from the floor could not be traced to the accruals schedules even though expense was incurred and not paid by 31 March 2023- All regions |  | √ | - | - | √ | - | 2 |
| **Provisions (Maintenance and legal claims)** | | | | | | | |
| Incorrect classifications of provisions, instances where work is done and invoices have been received or where court has ruled in favour of plaintiff however amounts are still classified as provisions and not payables |  | √ | - | - | √ | - | 2 |
| **Prior period errors** | | | | | | | |
| Prior period error note does not comply with GRAP 3 requirements. **(HO COFF 55)** |  | √ | - | √ | - | - | 1 |
| Management incorrectly processed a prior period error to adjust the bank-overdraft. **(COFF 75)** |  | √ | - | - | √ | - | 0 |
| **Irregular, Fruitless and Wasteful expenditure** | | | | | | | |
| Management incorrectly disclosed the change in Irregular, Fruitless and wasteful expenditure frameworks as a prior period error instead of change in accounting policy. **(COFF 84)** |  | √ | - | - | √ | - | 0 |
| The comparative year for fruitless and wasteful expenditure note is understated. This relates to the fruitless and wasteful expenditure that was incurred during the beautification of schools project. **(COFF 77)** |  | √ | - | - | √ | - | 0 |
| Management did not disclose fruitless and wasteful expenditure that was identified during the SCM audit. **(COFF 91)** |  | √ | - | - | √ | - | 2 |
| Management did not finalise the assessment process within the legislative timelines for irregular expenditure that was identified in the prior year. **(COFF 87)** |  | √ | - | - | √ | - | 1 |
| **Risk Management disclosure** |  |  |  |  |  |  |  |
| The amounts on the risk management note did not agree to the amounts on the respective financial statements line items. **(COFF 90)** |  | √ | - | - | √ | - | 0 |
| **Procurement and contract management** | | | | | | | |
| Emergency not justifiable **(PLK COFF 06)** |  | - | - | √ | - | - | 1 |
| Emergency not justifiable **(CPT COFF 08**) |  | - | - | √ | - | - | 1 |
| Irregularities in the competitive bidding process **(CPT COFF 05)** |  | - | - | √ | - | - | 1 |
| Non-compliance to Tender conditions **(CPT COFF 06)** |  | - | - | √ | - | - | 1 |
| Functionality calculation differences **(CPT COFF 07)** |  | - | - | √ | - | - | 1 |
| Non-compliance with Preferential Procurement reg. **(MMB COFF 07)** |  | - | - | √ | √ | - | 1 |
| Local content not reported to DTIC **(MMB COFF 08)** |  | - | - | - | √ | - | 2 |
| CIDB Gateway reviews **(MMB COFF 09)** |  | - | - | √ | √ | - | 1 |
| Subcontractor’s BBEEE certificates **(MMB COFF 10)** |  | - | - | √ | √ | - | 1 |
| Discrepancies on SCM registers **(HO COFF 24)** |  | - | - | √ | √ | - | 1 |
| Contract management extension of time with cost **(JHB COFF 09)** |  | - | - | √ | √ | - | 1 |
| Contract management delays in Completion of the Water Canal Project **(BLM COFF 09)** |  | - | - | √ | √ | - | 1 |
| Extension of time with financial impact **(PE COFF 04)** |  | - | - | √ | √ | - | 1 |
| Non-performance by contractor **(CPT COFF 09)** |  | - | - | √ | √ | √ | 1 |
| **Consequence Management** | | | | | | | |
| I was unable to obtain sufficient appropriate audit evidence that disciplinary steps were taken against officials who had incurred irregular expenditure as required by section 38(1)(h)(iii) of the PFMA. **(COFF 83)** |  | - | - | √ | √ | - | 2 |
| **Administrative** |  |  |  |  |  |  |  |
| Non-compliance with B-BBEE Acts and regulations **(COFF 94)** |  | - | - | √ | √ | - | 0 |
| **IT Governance** | | | | | | | |
| Software licensing management standard or procedure aimed at managing the acquisition, maintenance, renewal, and periodic monitoring of software licenses was not implemented at the entity which resulted in fruitless and wasteful expenditure due to purchase of software licences on the Archibus system which were not compatible with the current version in use thus these licenses procured were not utilised payment of these software license were in 2019/20 and 2022/23 financial years with R 988 125.10 being spent in the 2019/20 **(COFF 62)**and R 2771 464.32 being spent in the 2022/23 financial year (**COFF 34).** PMTE may continue overspending unnecessarily on software licenses if the adequate controls are not implemented to minimise software related risks.  Management had showed the incorrect status of the Infrastructure Budgeting and Construction & Project module in their strategic documents for the Archibus system. |  | √ | - | √ | √ | - | 0 |
| **User access management** | | | | | | | |
| There were users who had left the entity but were not timely deactivated on the WCS system. **(COFF 23)** |  | √ | - | √ | √ | - | 2 |
| Inadequate user account management controls were found on Works4u system the reviews of user access and system administrator activities were not performed. In addition, the reviews of access and logon violations were not performed due to system limitation, the system does not record any failed login attempt. **(COFF 23)** |  | √ | - | - | √ |  | 2 |
| Inadequate user account management controls were found on the GIS system the reviews of user access and system administrator activities were not performed. In addition, the system did not have capability to log the changes made to existing access rights and password resets performed on the system. (**COFF 23)** |  | √ | - | - | √ | - | 2 |
| Inadequate user account management controls were found on PMIS system as the reviews of system administrator activities and access and logon violations were not performed. In addition the system did not have the capability to log the password resets performed on the system. (**COFF 23)** |  | √ | - | - | √ |  | 2 |
| **Change management** | | | | | | | |
| The system generated list of all changes implemented on the GIS and Archibus system during the period under review was not provided due to system limitation. On PMIS and Works4u insufficient evidence was provided to validate that indeed there were no changes implemented on the system. (**COFF 23)** |  | √ |  |  | √ |  | 2 |
| **IT service continuity** | | | | | | | |
| There was no evidence to confirm that data restoration tests were performed on GIS, WCS and PMIS systems. (**COFF 23)** |  | √ |  |  | √ |  | 2 |
| **Application Controls** | | | | | | | |
| There was no system embedded control on the Archibus system to prevent the duplicate/multiple renewal of the same lease. Without this preventative control being in place on the system duplicate renewal of leases might results in overpayments being made to the landlords consequently resulting in financial losses to the entity. (**COFF 33)** |  | √ |  |  | √ |  | 0 |
| The interface between the Archibus system and SAGE system was ineffectively implemented thus not functioning as intended. There were differences noted in the control totals and record counts of transactions that had interfaced. In addition the error handling mechanism of the interface was not effectively implemented to allow management to timeously pick up any error to facilitate the necessary investigations to be carried out to timeously rectify the errors. (**COFF 44)** |  | √ |  |  | √ |  | 0 |
| The system administrator Rosel Meyers was granted excessive access rights on the system which enabled her to perform conflicting roles on the system. It was noted that the system administrator had access to operational business functions on the leases as well as administrative privileges e.g. she had access to approve leases, amend lease information and delete lease information on the back end on the data tables. She also had access to grant users’ access to the system, amend user functions and delete users on the system. Furthermore what exacerbates the risk is that there is no log to record all the changes implemented on the system. (**COFF 33)** |  | √ |  |  | √ |  | 0 |
| For unscheduled maintenance it was noted through the analysis that the system does not restrict the user profile for verifiers and supervisors based on their area of speciality/expertise, as the verifiers and supervisors had the capability to verify and approve all requests on all specialities (mechanical, Electrical & building) even though the request did not fall in the area of their discipline. (**COFF 64)** |  | √ |  |  | √ |  | 0 |
| For unscheduled maintenance there was no audit trail/ logging of the changes that the verifier had made on the system regarding a logged work request. The verifier had the ability to change the work request priority from urgent to emergency, and the system did not record a trail of such a change on the work request. The impact of this weakness could result in incorrect classification of the work requests in order to deviate from the SCM processes which may results in irregular appointments of service providers. (**COFF 64)** |  | √ |  |  | √ |  | 0 |
| SCM regulations were not considered when adding service provider to the Archibus service provider list and when selecting a prospective service provider.**(COFF 69)** |  | √ |  | √ | √ |  | 0 |
| The Archibus ERP system did not make provision for a descriptive box field for SCM personnel to comment with the reasons why a specific service provider was selected in accordance with following priorities (Emergency, Urgent, and Normal & Term Contract) and also for SCM personnel to provide details regarding the deviation and thus necessitate the appropriate approval. This may results in irregular appointment resulting to irregular expenditure. **(COFF 69)** |  | √ |  | √ | √ |  | 0 |
| The Archibus ERP system does not have an upload field for SCM personnel to upload the CSD documents of the prospective service provider during the selection process to ensure that the stated key information required have been verified as per regulation requirements and ensure that other role players can verify the information before the selection of the service provider is approved. This will results in incorrect selection of service provider being made and some service providers being favoured over the others. **(COFF 69)** |  | √ |  | √ | √ |  | 0 |