**FINAL MANAGEMENT REPORT**

**MANAGEMENT REPORT**

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**FINAL MANAGEMENT REPORT TO THE ACCOUNTING OFFICER ON THE AUDIT OF THE PROPERTY MANAGEMENT TRADING ENTITY FOR THE YEAR ENDED 31 MARCH 2011**

##### INTRODUCTION

1. This management report includes audit findings arising from the audit of the financial statements, reporting on compliance with laws and regulations for the year ended 31 March 2011 which were communicated to management and includes their response to these findings. The report also includes information on the internal control deficiencies that were identified. Addressing these deficiencies will assist in ensuring an improvement in the audit outcomes.
2. The management report consists of an executive summary and detailed audit finding which are contained in annexures A, B and C.

##### THE AUDITOR-GENERAL’S RESPONSIBILITIES

1. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 40(2) of the Public Finance Management Act of South Africa (PFMA), our responsibility is to express an opinion on the financial statements and to report on findings relating to our audit of the report on compliance with material matters in laws and regulations applicable to the entity. Our engagement letter sets out our responsibilities in detail. These include the following:

* Performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements, the report on compliance with laws and regulations applicable to the entity. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, the report on material non-compliance with laws and regulations.
* Considering internal controls relevant to the entity’s preparation and fair presentation of the financial statements, the report on compliance with laws and regulations.
* Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management.
* Evaluating the appropriateness of systems and processes that ensure the accuracy and completeness of the financial statements, the report on compliance with laws and regulations.

1. Because of the test nature and other inherent limitations of an audit, we do not guarantee the completeness and accuracy of the financial statements or compliance with all applicable laws and regulations.
2. Having formed an opinion on the financial statements, we may include additional communication in the auditor’s report that does not have an effect on the auditor’s opinion. These may include:

* an emphasis of matter paragraph to draw users’ attention to a matter presented or disclosed in the financial statements which is of such importance that it is fundamental to their understanding of the financial statements.
* an additional matter paragraph to draw users’ attention to any matter, other than those presented or disclosed in the financial statements, that is relevant to users’ understanding of the audit, the auditor’s responsibilities or the auditor’s report.

##### THE ACCOUNTING OFFICER’SRESPONSIBILITIES

1. The accounting officer responsibilities are set out in detail in the engagement letter. These include the following:

* The preparation and fair presentation of the financial statements in accordance with the South African Statements of Generally Accepted Accounting Practice.
* Planning, monitoring of and reporting on performance against predetermined objectives.
* Review and monitoring of compliance with laws and regulations and disclosing known instances of non-compliance or suspected non-compliance with laws and regulations.
* Designing, implementing and maintaining proper record keeping and internal controls necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error, and compliance with laws and regulations.
* Designing and implementing formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information.
* Implementing appropriate risk management activities to ensure that regular risk assessments are conducted.
* Disclosing all matters concerning any risk, allegation or instance of fraud.
* Accounting for and disclosing related-party relationships and transactions.
* Providing access to all information that is relevant to the preparation of the financial statements and performance information, such as records and documents.

**EXECUTIVE SUMMARY**

**SECTION 1: Meetings with oversight bodies and those charged with governance**

1. During the audit cycle we met with key stakeholders to communicate matters relating to the audit outcomes of the Property Management Trading Entity and emerging risks. Insight was provided on the key controls that impact these audit outcomes to enable corrective action to be taken.
2. Meetings were conducted as follows:

* Portfolio Committee: 1 March 2011, 7 April 2011 and 8 June 2011
* Executive Authority: 27 September 2010, 13 July 2010, 27 May 2011,15 June 2011, 25 July 2011 and 29 July 2011
* Accounting Officer: 13 July 2010, 30 June 2011, 14 July 2011 and 25 July 2011
* Audit Committee: 24 May 2010, 27 September 2010, 14 March 2011 and 27 May 2011

1. At these meetings commitments were made to address improvements in the internal control environment with the objective of achieving clean administration. Progress made on these commitments is discussed later in this report.

**SECTION 2: MATTERS RELATING TO THE AUDITOR’S REPORT**

**PART A – MISSTATEMENTS IN THE FINANCIAL STATEMENTS**

1. Material misstatements in the financial statements were identified during the audit. These misstatements were not prevented or detected by the Property Management Trading Entity’s system of internal control. These material misstatements also constitute non-compliance with the PFMA. The misstatements not corrected form the basis for the disclaimed opinion on the financial statements.

| **Financial statement item** | **Finding**  (brief description of misstatements as per findings and audit report) | **Impact**  **R** | **Internal control deficiency** |
| --- | --- | --- | --- |
| **Material misstatements not corrected** | | | |
| Trade and Other Receivables | *Debtors reconciliations*  Reconciliations were not done for Claims Recoverable, Claims Recoverable PACE, Claims Recoverable CA, Disallowances, Accommodation Debtors Private Leases and Municipal Deposits. In the absence of detailed reconciliation we were unable to verify the authenticity of the year end balances and prior year movement due to the reconstruction of the year end balances.  Accommodations Debtor’s State Owned and for Debtors Municipal Services supporting documentation to substantiate the transaction balances were not available in support of the reconstruction of the year end balances.  *Provision for Impairment*  Due to the lack of a proper accounting system to recognise “Trade and Other Receivables” the impairment provision had not been determined in accordance with IAS 39 (AC 133). Further to this the entity does not have an Impairment Policy in place for the period under review. The entity considered the “Disallowances” to be the only account balances subject to impairment.  *Discounting of Accounts Receivable (IFRS 9 Financial Instruments)*  The discounting of Accounts Receivable recognised in the Statement of Comprehensive Income amounted to R111 023 818. The assumptions applied for the discount rate and period could not be substantiated to assist us in performing sufficient audit work on the methodology applied. Therefore we disagree with the total of interest recognised in the Statement of Comprehensive Income. | 1 305 848 000  220 296 000  111 023 818 | The entity did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.  The entity did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting. |
| Trade and Other Payables | Due to the lack of an accrual accounting system journals are passed at year-end to account for the movement for the year in “Trade and Other Payables” in the BAS to SA GAAP trail balance for the preparation of the Annual Financial Statements. The entry this adjusts the opening balance brought forward from the 2009/10 Annual Financial Statements to the closing balance presented in the 2010/11 Annual Financial Statements.  No supporting documentation were provided to verify the movements and adjustments made in the “Advance Account” (which has been included as part of Trade and Other Payables). We where this not able to confirm the accuracy, validity and completeness of this balance due to a scope limitation. | 460 920 130 | The entity did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.  The entity did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting. |
| Trade and Other Payables: Deferred Income | The schedule provided to support Note 5 “Trade Payables” specifically “Deferred Income” indicated an amount of R6 161 000. The schedule indicated this as an “movement” without providing any reasons for this or any other supporting detail. This amount changed from the 31 March version to the 7th July 2011 versions of the Annual Financial Statements. | 6 161 000 | The entity did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information  The entity did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting. |
| Trade and Other Payables | A journal has been passed on the conversion from the BAS to the SA GAAP Trial Balance by debiting “Accumulated Funds” and crediting of “Suspense Account” for which no supporting information were provided to substantiate the entry. | 2 916 874 | The entity did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information |
| Discounting of Bank Overdraft | *Discounting of Bank Overdraft (IFRS 9 Financial Instruments)*  The discounting of the Bank Overdraft recognised in the Statement of Comprehensive Income amounted to 84 510 107. The assumptions applied for the discount rate and period could not be substantiated to assist us in performing sufficient audit work on the methodology applied. Therefore we disagree with the total recognised in the Statement of Comprehensive Income. | 84 510 107 | The entity did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information  The entity did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting. |
| Discounting of Trade and Other Payables | *Discounting of Trade and Other Payables (IFRS 9 Financial Instruments)*  The discounting of the Trade and Other Payables recognised in the Statement of Comprehensive Income amounted to R39 013 913. The assumptions applied for the discount rate and period could not be substantiated to assist us in performing sufficient audit work on the methodology applied. Therefore we disagree with the total recognised in the Statement of Comprehensive Income. | 39 013 913 | The entity did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information  The entity did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting. |
| Note 14: Contingent Liabilities | Contingent liabilities are not accounted for in terms of SA GAAP. Legal counsel did not assess the probability of the “outflow of future economic benefits”. This resulted in a “limitation on the audit” as we could not determine the appropriateness of recognising the underlying transactions as “contingent liabilities” or whether a provision should have been raised. | 129 436 000 | The entity does not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls. |
| Contingent Liabilities - Prior Period Error | A prior period error on the contingent liabilities was not presented and disclosed as required by IAS 8 (AC 103) Accounting Policies, Changes in Accounting Estimates and Errors. The claim against the Department of Public Works was erroneously included in the contingent liabilities of the Property Management Trading Entity. This required restatement of the comparative to adjust the incorrect comparative and a similar revision should have been made in the Annual Financial Statements of the Department of Public Works. | 320 728 000 | The entity does not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls |
| Note 10:Restatement of Comparatives | The note for the restatement of comparatives is factually incorrect and has not been disclosed in terms of by IAS 8 (AC 103) Accounting Policies, Changes in Accounting Estimates and Errors. The note do not provide a narrative description to explain to the user of the financial statements the reason for the revision of the comparatives and the impact on other “items” presented in the Annual Financial Statements and a reconciliation of the balance as per the previous financial statements to the current year Annual Financial Statements. We were not provided with supporting documentation to able to verify the movements as disclosed. These movements are:   1. Trade and Other Receivables 2. Trade and Other Payables | 139 788 000  1 673 000 | The entity does not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls |
| Note 12: Irregular Expenditure | We could not confirm completeness due to the register not been kept and instances not reported to National Treasury. The accumulation of transaction through the register is the responsibility of the Regional managers. These were not done, not received either used the incorrect formats for documentation. The amount condoned could not be supported by evidence of this “condonement by the Accounting Officer. Monthly reports are not prepared and submitted to National Treasury. | 370 009 293 | The entity did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting  The entity did not review and monitor compliance with applicable laws and regulations. |
| Note 12:Fruitless and Wasteful Expenditure | We could not confirm completeness due to register not been kept and instances not reported to National Treasury. The accumulation of transaction through the register is the responsibility of the Regional managers. These were not done, not received either used the incorrect formats for documentation. The amount condoned could not be supported by evidence of this “condonement by the Accounting Officer. Monthly reports are not done to National Treasury. | 6 772 000 | The entity did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.  The entity did not review and monitor compliance with applicable laws and regulations. |
| Revenue | Revenue: Accommodation Charges: State Owned has been understated due to offsetting of “planned maintenance apparently of a capital nature”.  We were unable to confirm the “calculation” of Revenue: Accommodation Charges: Private Owned as levied to client departments based on the documentation provided. By implication this quarterly Z59 Interdepartmental Claim might be materially misstated. Therefore the accuracy of the recorded amount could not be confirmed.  We did not receive the invoices for “Revenue:Accommodation Charges” thus we were unable to confirm the authenticity of the revenue recognised in the Statement of Comprehensive Income.  Amounts received for “Revenue: Accommodation Charges: Private Owned” relating to the prior year are included in “current year income” resulting from the BAS system recording transactions on the modified cash basis of accounting. The departmental procedures to convert from the modified cash to the accrual basis of accounting failed to identify these transactions for correction in the 2009/10 reporting period. | 2 011 052 565  332 092 248  50 049 287  24 607 164 | Ongoing monitoring and supervision are not undertaken to enable management to determine whether internal control over financial reporting is present and functioning.  The entity does not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.  Requested information was not available and supplied  The entity did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting. |
| Property, Plant and Equipment | The “Planned Maintenance of a Capital Nature” offsetting (See Revenue: Accommodation Charges above) were not capitalised and depreciated over the economic useful life of the improvements. Accordingly this results in an understatement of Property, Plant and Equipment and an unquantified understatement of depreciation for the period on the assets capitalised. We were unable to determine the possible understatement of the depreciation due to an unresolved disagreement with management on the accounting treatment of the transaction. | 2 011 052 565,10 | Ongoing monitoring and supervision are not undertaken to enable management to determine whether internal control over financial reporting is present and functioning. |
| Other Operating Expenditure | *Impairment of Debtors: Other Operating Expenses*  Included in the Operating Expenses of R392 415 724 as per the Statement of Comprehensive Income is an amount of R166 017 095 which appears to be the “prior year movement” on the impairment provision. We were unable to satisfy ourselves of the accounting entry passed for this amount in “Operating Expenses” and thus cannot satisfy ourselves of the authenticity of this transaction. (Could not identify the other side of the entry)  *Amortisation of receivables, payables and bank overdraft (IFRS 9 Financial Instruments)*  The assumptions applied for the discount rate and period could not be substantiated to assist us in performing sufficient audit work on the methodology applied. Therefore we disagree with the total recognised in the Statement of Comprehensive Income. The following pertaining to the specific transactions:   1. Receivables R111 023 818 2. Payables R39 013 913 3. Bank Overdraft R84 510 107 | 166 017 095  111 023 818  39 013 913  84 510 107 | The entity did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting. |
| Note 13: Other Commitments | Schedules supporting the information disclosed for “Other Commitments” specifically pertaining to some of the Regional offices were not provided to ascertain the completeness, accuracy and validity of the underlying detailed transactions. | 1 271 080 802. | The entity did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information. |
| Trade and Other Payables, Trade and Other Receivables, | *Straight lining of Operating Leases*  The calculation in support of the “straight liming” of leases were done incorrectly. The calculation included expired leases and used the incorrect escalation rate. | 56 716 614 | The entity did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information. |
| Revenue | Understatement of Revenue and overstatement of “Trade and Other Payables” due to the transfer by the Department of Public Works at year end been recorded in the “advance account” and not recorded as “Revenue: Accommodation Charges”. | 150 593 391 | The entity did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information. |
| Lease commitment | A recalculation of the lease commitment was performed based on the lease commitment scheduled provided by management. The calculations performed by management were based on straight-line lease payments instead of taking the actual payments and calculation the lease commitments taking the escalation rates into account as well. The result is that the lease commitment disclosed is understated by a projected amount of R2,651,968,215.26 | 2,651,968,215.26 | The entity did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information. |
| **Material misstatements corrected** | | | |
| The financial statements were resubmitted and material corrections were made. There were still a large number of misstatements, material in value identified in the corrected financial statements as evidenced by the audit opinion. Thus effectively none of the “corrections” made an impact on the disclaimed audit opinion. | | |  |

**PART B – MATTERS TO BE BROUGH TO THE ATTENTION OF THE USERS**

**EMPHASIS OF MATTER PARAGRAPHS**

**An emphasis of matter paragraph will be included in our auditor’s report to highlight the following matters to the users of the financial statements:**

1. We are not aware of any matters that need to be incorporated in this section of the Report.

**PART C – REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

**FINDINGS ON THE REPORT ON PREDETERMINED OBJECTIVES**

1. The audit of the report on predetermined objectives was conducted by the Department of Public Works. This will be reported on in the management report and/or the audit report of the Department of Public Works.

**FINDINGS ON COMPLIANCE WITH LAWS AND REGULATIONS**

1. Included below are findings on material non-compliance with laws and regulations applicable to the Property Management Trading Entity.

**Strategic Planning and Performance Management**

1. The then Director-General approved on 16 September 2008 the Draft for Discussion: Business Case for the Property Management Trading Account, Version 3 dated 15 December 2007. The Business Case for the Interim Mechanism has been granted by National Treasury on 14 March 2006. This approval has been subjected to the specific conditions of which we were unable to confirm implementation, some being:
2. Financial control measures/issues are in place;
3. The accounting officer of Public Works must formulate a policy and reporting framework for the trading entity. This must also provide for the generating of quarterly reporting and monthly management systems to track both commitments and cash;
4. Likewise, a proper set of delegations must :
5. be operational by 1 April 2006 specifying the responsibility for each of the departmental key account managers;
6. All people and institutional arrangements must be put in place as soon as possible but not later than 31 March 2006;
7. During the first year of operation of the trading entity, Public Works must seek approval from National Treasury to establish a full-fledge trading entity by 1 April 2007, which would comply with all the conditions for trading entities contained in Treasury Regulations 19.
8. Subsequent to this the Department applied to National Treasury for a departure from Treasury Regulation 18.2, which was granted for two years; that is for 2007/08 and 2008/09 financial years. Some conditions and requirements were again imposed on the Department, amongst others that the departure for 2008/09 financial year end will be subject to the department submitting a plan on how the Property Management Trading Entity will comply with the requirements of Treasury Regulation 18.2 for 2009/10 financial year and progress to date. The plan should have been submitted by 30 June 2008 and progress every quarter.
9. The Department requested National Treasury “for an extension of the departure from Treasury Regulation 18.2 for 2009/10 financial year” which were declined by the Accountant-General on 28 April 2010. He commented that “the National Department of Public Works has shown very little progress in ensuring that the PMTE complies fully with Treasury Regulation 18.2 for 2009/10 financial year end”.
10. We were unable to confirm progress made in moving towards a “fully-fledge” trading entity in terms of Treasury Regulation 18.2.

**Annual Financial Statement**

1. The financial statement submitted for audit did not comply with section 40(1)(c)(i) of the PFMA. Material misstatements were identified during the audit, certain of these were correct by management and those that were not are included in the basis for the disclaimer of opinion paragraph.

**Procurement and Contract Management**

1. Goods and services with a transactions value of above R500 000 were not procured in terms of Treasury Regulation 16A6.4 and Practice Note No. 8 of 2007/2008. The policy of the department states that consultants will be appointed up to a value of R2million on a Roster system. This is in contravention of the Supply Chain Management requirement that contracts exceeding a value of R500 000 should be procured through an open tender process.
2. Supporting documentations required to verify the accuracy, completeness and authenticity of transaction were not provided by management which contravenes Section 41 of the PFMA.
3. Bid advertised for less than the minimum of 21 days which is not in terms of Treasury Regulation 16A6.3(c).
4. The conditions of a contract were not prepared to be complaint with Treasury Regulation 16A6.3 and Practice Note 7 of 09/10, some example of typical clauses not provided are definitions, application, general, standards, use of contract document and information and inspection, patent rights, inspections tests and analysis, contract amendments, assignment, sub-contracts, delays in suppliers performance, penalties, termination for default, dumping and countervailing duties, force majeure, termination for insolvency, settlement of disputes, limitation of liability, governing language, applicable law, notices and taxes and duties.
5. The General Condition of Contract was not available for Core Focus (Pty) Ltd(HP10/027) with tender amount of R1 008 786.
6. Declarations of Interest not given by the supply chain management officials which are not in terms of Treasury Regulation 16A8.4.
7. Declaration of interest requirements were not taken into account in terms of Practice Note 7 of 2009/2010. The minimum requirements of SBD4 for declaration of interests for the bidders have not been taken into account in the departmental equivalent, PA-11.
8. Training as required in terms of the Treasury Regulation 16A5 to Supply Chain Management officials were not given.
9. Construction contracts were awarded to contactors not registered with the Construction Industry Development Board (CIBD), as per the requirements of CIDB Regulations and the CIDB Act, (Act No 38 of 2000)
10. There were no tax clearance certificates for lease contracts and winning bidders did not supply an original tax clearance certificate which is a non compliance with Treasury Regulations 16A9.1(d) and Practice note 8 of 2007/08 paragraph 6.
11. No proper justification for treating the tender as an emergency as they did not comply with the principles of fairness as reflected in Treasury Regulations 16A3.2.
12. Winning bidders were not advertised which is a non compliance with Treasury Regulation 16A6.3
13. Less than 3 quotations were received from bidders which is a non compliance with Treasury Regulation 16A6.1 and Practice Note 8 of 2007/08 paragraph 3.3.1, 3.3.3 and 3.5
14. Declaration of interest requirements were not taken into account in terms of Practice Note 7 of 2009/2010 and Treasury Regulation 16A9.2(a). The minimum requirements of SBD8 for declaration of interests for the bidders have not been taken into account.
15. Tender invitations were made for contracts that were not advertised on CIDB website which is a non compliance with section 18(1) of the CIDB Act.
16. Construction contracts were awarded to contractors who had a lower CIDB grading than was a required which constitutes a non compliance with paragraph 25(7A) of the CIDB regulations and paragraph 17 of the Regulation.
17. Contracts that had expired were extended on a month to month basis without sourcing new bids or quotations which is a non compliance with Treasury Regulation 16A6.1 and Practice Note 8 of 2007/08 paragraph 3.3.1, 3.3.3 and 3.5
18. No proof that supplier is a registered VAT vendor which is a non compliance with the Treasury Regulation 16A9.1(d) and Practice Note 8 of 2007/08 paragraph 6.
19. No site inspection certificates submitted as part of the bid documentation which is a contravention of Treasury Regulation 16A3.2 (a)
20. There is no integration between PMIS and WCS which is a contravention of Section 40(1)(a) of the Public Finance Management Act, 1999 (Act No.1 of 1999) (PFMA)
21. There is no Regional Bid Adjudication Committee approval for negotiated leases which is a contravention of Treasury Regulations 16A6.2(a).
22. Incorrect preference point system was used for the evaluation of tender which is in contravention of section 2(a) of the Preferential Procurement Policy Framework Act 5 of 2000.
23. No declaration of interest by Bid Evaluation and Adjudication Committees which is a non compliance with paragraph 56 of the Supply Chain Management Policy.
24. Prohibited suppliers not checked on the National Treasury website which is contravention of Treasury Regulations TR16A9.1(c)

**Expenditure management**

1. The entity did not exercise all reasonable care to prevent and detect unauthorised, irregular, fruitless and wasteful expenditure in terms sections 38 (1) (g) and 76 (2) (e) of the PFMA
2. The entity did not report expenditure that resulted in irregular, fruitless and wasteful expenditure to National Treasury as required by section 40 (4) (b) of the PFMA Act. The monthly reports were not submitted to the National Treasury.
3. The accounting officer did not take effective appropriate steps to prevent irregular expenditure, as per the requirements of section 38(1)(c)(ii) of the PFMA.. The monthly reports were not submitted to the National Treasury.
4. All payments due to creditors were not settled within 30 days from receipt of an invoice, as per the requirements of section 38(1)(f) of the PFMA and TR 8.2.3.
5. Variation orders were not approved in terms of delegated authority which is a contravention of Treasury Regulations 8.2.1 and 8.2.2.
6. Approval of expenditure was not in terms of sections 38 (1) ( f ) and 76 (4) (b) of the PFMA Act.

**Revenue management**

1. The accounting officer of the entity did not manage revenue efficiently and effectively by developing and implementing appropriate processes that provide for the identification, collection, recording, reconciliation and safeguarding of information about revenue in terms of Treasury Regulation 7.2.1.
2. The accounting officer did not review the scale and tariffs for fees and charges at the time of preparing the budget and did not obtain approval from the relevant treasury for the proposed tariff structure, as required by Treasury Regulation 7.3.1.
3. The accounting officer of an entity did not take effective and appropriate steps to timorously collect all money due to the institution and maintenance of proper accounts and records for all debtors, including amounts received in part payment in terms of Treasury Regulation 11.2 and section 38 (1) (c) (i) and (d) of the PFMA.

**Banking, cash management and investment**

1. The Property Management Trading Entity has a bank overdraft which is non compliance with Treasury Regulations 19.2.3.

**Use of clearing and suspense accounts**

1. The PMTE did not clear the suspense accounts as required in terms of Practice Note 1 of 2010/2011 and Treasury Regulations 17.1 and section 40 (1) (a) of the PFMA.
2. Compliance certificates in terms of Practice Note 1 of 2010/2011 were not submitted within the required time frame.

**INTERNAL CONTROL**

**Achievement of internal control objectives**

1. Significant deficiencies that resulted in the basis for the disclaimed opinion, and findings on compliance with laws and regulations are summarised below. Detailed information on significant internal control deficiencies is provided in section 5 of this report.

* **Leadership**

***Ethical Business Practices***

1. The Entity did not provide effective leadership based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the interests of the entity.

***Oversight Responsibility regarding Reporting and Compliance***

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

***Effective Human Resource Management***

1. The entity did not implement effective Human Resource Management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored. Although staff members were suitable candidates when they were appointed due to Trading Entity reporting in terms of SA GAAP, the current staff compliment is not adequate to ensure compliance.

***Implementation of Policies and Procedures***

1. The entity did not establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes, and responsibilities. There are no documented policies and procedures, yearend closure plans and initiatives to ensure compliance with SA GAAP throughout the reporting period.

***Status of SCOPA Oversight Resolutions***

1. Develop and monitor the implementation of action plans to address internal control deficiencies,

***Establishment of an IT Governance Framework***

1. The entity is in progress of establishing an IT governance framework that supports and enables the business, delivers value and improves performance. They are currently in the process of addressing findings raised on the Information Systems audit for 2009/10 financial year. There is no financial system to support business in compliance with SA GAAP throughout the reporting period.

* **Financial and performance management**

***Availability of expected Information (both Financial and Performance)***

1. The entity did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

***Controls over daily and monthly processing and reconciling of transactions***

1. The entity did not implement controls over daily and monthly processing and reconciling of transactions.

***Adoption of accounting policies/accounting estimates; Use of Consultants for Financial Statement Preparation; Related Party Transactions and Accuracy and Completeness of Financial Statements***

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

***Monitoring of Compliance with Laws and Regulations***

1. The entity did not review and monitor compliance with applicable laws and regulations.

***Formal Control over ITS Systems***

1. The entity is in process of designing and implementing formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information.

***Risk Management***

1. The entity did not implement appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored.

***Fraud Prevention, Detection and Response***

***Internal Audit***

1. The entity did not ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively. The capacity for internal controls is strained as results where investigations are conducted remedial actions are not taken to address the outcomes of the investigations. Oversight and supervision are not evident from the daily transaction.

**PART D – OTHER REPORTS**

**INVESTIGATIONS**

1. Investigations in progress:

| **Description (include information on types of transgressions being investigated)** | **Reason** | | |
| --- | --- | --- | --- |
| **Supply chain management** | **Fraud** | **Financial misconduct** |
| The Special Investigations Unit is currently conducting investigations in the following areas:   1. Alleged irregular and unlawful settlement paid in lieu of cancellation of a contract “Award of RAMP” based on an inflated bill of quantities and possible corruption between contractor, consultant and departmental officials. 2. Irregular appointment of programme Managers (flawed tender documentation, irregularities in the tender evaluation process, non performance by programme managers). 3. Tender irregularities. 4. Possible fraudulent claims submitted by the contractor. 5. Possible fruitless and wasteful expenditure being incurred through the intervention of the Senior Departmental Officials in seeking fulfilment of the tender. 6. Fraud, corruption and maladministration. 7. Possible irregularities in awarding and administering of leases. 8. Allegations of budget over expenditure and excessive use of variation orders. 9. Alleged irregular appointment of consulting engineers. 10. BEE fronting. | Abusing the provision made in Supply Chain Management policies regarding urgent, emergency and sole supplier. | Collusion between officials and service providers | Reckless spending of public funds |
| Public Protector Investigations into complaints and allegations of maladministration, improper and unlawful conduct by the Department of Public Works and the South African Police (SAPS) relating to the leasing of the SAPS office accommodation in Durban.[[1]](#footnote-1)  The following were some of the issues highlighted by the Public Protector in the report from the investigations:  There was no legitimate justification for a deviation from the prescribed tender processes.  In violation of Treasury Regulations, the Department did not record and report reasons for deviating from a competitive process as required by SCM.  The procurement process did not comply with the requirements of fairness, equitability and transparency.  The lease agreement entered into by the Department and the Roux Property Fund (Pty) Ltd was invalid as the procurement of the lease was done in a manner that did not comply with the requirements of the Constitution, the PFMA and the Treasury Regulations and the instructions for the procurement by the organs of state. | The involvement of SAPS officials was improper as it failed to implement proper controls as required by PFMA and relevant procurement prescripts.  The procurement by the Department of the lease was not in accordance with a system that is cost effective, competitive, as is required by section 217 of the constitution, the relevant provisions of the PFMA, Treasury Regulations and Supply Chain Management Rules and Policies. | The conduct of the SAPS and Departmental officials was improper and unlawful. | The failure of the National Commissioner to ensure that the procurement process complies with the said legal requirements and transcript, resulted in invalid conclusions of the lease agreement to the detriment of the State, and therefore constitutes maladministration resulting in “reckless spending” of public funds. |
| Internal audit investigations are currently underway as follows:   1. Irregular expenditure incurred in leasing of properties. 2. Allegations of irregular award of tender and incapacity of a contractor to fulfil his duties. | Still to be assessed pending the outcome of the investigation. | Still to be assessed pending the outcome of the investigation. | Still to be assessed pending the outcome of the investigation. |

1. Investigations completed during the financial year:

| **Description (include information on types of transgressions being investigated)** | **Reason** | | |
| --- | --- | --- | --- |
| **Supply chain management** | **Fraud** | **Financial misconduct** |
| Internal audit completed the following investigations:   1. Irregularities in awarding of the renovations and repairs contracts. 2. Overpayment of a lease. 3. Allegations that procurement officials at the Regional office tempered with quotes received from suppliers with the view of unfairly disadvantaging them from being awarded contracts by increasing amounts quoted. | Abusing the provision made in Supply Chain Management policies regarding urgent, emergency and sole supplier. | Collusion between officials and service providers | Reckless spending of public funds |
| Public Protector investigation into complaints and allegations of maladministration, improper and unlawful conduct by the Department of Public Works and the South African Police Service relating to the leasing of office accommodation in Pretoria. The report was issued on 22 February 2011.  The following were some of the issued highlighted by the Public Protector in the report from the investigations:   1. The procurement of the lease was not in accordance with a system that is cost effective as required by the Constitution. 2. The urgency claimed by SAPS in respect of the procurement of the lease, which resulted in a deviation from an open tender process, only related to a small part of the accommodation need. 3. The Department failed to record the reasons for deviating from a competitive tender process, as is required by the SCM prescripts. | The constitutional requirements of fairness, equitability and transparency were not complied with. | The conduct was improper, unlawful and amounted to mal-administration. | Improper conduct and maladministration which results in reckless spending of public funds. |

**PERFORMANCE AUDITS**

1. The performance audit progress will be reported on in the Report to Management for the Department of Public Works.
2. Predetermined objectives are reported on in the management report and audit report of the Department of Public Works.

**SECTION 4: SPECIFIC FOCUS AREAS**

**PART A – SIGNIFICANT FINDINGS FROM THE AUDIT OF PROCUREMENT AND CONTRACT MANAGEMENT**

**Significant findings from the audit of procurement and contract management**

1. The audit included an assessment of procurement processes, contract management and controls of the Property Management Trading Entity, which should ensure a fair, equitable, transparent, competitive and cost-effective supply chain management (SCM) system that complies with legislation and minimises the likelihood of fraud, corruption, favouritism and unfair and irregular practices.
2. The assessment has indicated the following deficiencies:

* **Irregular expenditure**

1. R 777 001 689,17f irregular expenditure were incurred in the period as a result of the contravention of SCM legislation. 85% of the irregular expenditure was identified during the audit process. The incomplete identification of SCM irregular expenditure was as a result of inadequate processes/procedures to identify irregular expenditure with regards to SCM.

* **Limitations on audit**

1. Sufficient appropriate audit evidence could not be provided that 49 of the 250 of selected contracts awarded in accordance with the requirements of the SCM legislation. No alternative audit procedures could be performed to obtain reasonable assurance that the expenditure incurred on these awards was not irregular due to for example, documents not retained for filling purposes and not available when requested.
2. The limitations experienced were as a result of missing documentation and inadequate documents management systems. As a result of the limitations experienced, the findings reported in the rest of this section might not reflect the true extent of irregularities and SCM weaknesses at the entity.

* **Award was made to supplier in which the following person in service of the state had a business or private interest:**

1. Asraf Mohamed Adam was appointed on 1 March 2010 with persal no 23523115 as Chief Operations Officer and he had an interest in HHO Consulting Engineers providing services to the Property Management Trading Entity. He did not disclose his interest in HHO Consulting Engineers on the yearly declaration as required by PSR3/C.1 and Chapter 4 of the SMS handbook.
2. As result of the above is non-compliance with the following laws and regulations:

* The Public Service Regulations Chapter 3C1
* Treasury Regulations 16A8.3
* Practice note 7 of 2009/2010
* **Procurement processes and contract management**

1. The following findings on procurement processes and contract management relate to 250 contracts with a total value of R2 290 390 070. These findings have been summarised into the following categories:

* **Procurement need and economy**

1. The needs assessment of 99% of the contracts tested were not provided to verify the proper evaluation of major capital projects prior to a final decision on the project.

* **Procurement process - competitive bidding**

1. The following suppliers were awarded tenders without following the “competitive bidding process for procurement above R1 million”. The deviation was not reported to the National Treasury and the Auditor-General of South-Africa within 10 days:

* Yikusasa Building Contractors-Tender value of R 34914627,81
* Grinaker LTA/Keren Kula Joint Venture- Tender value of R5 506 103,01
* Core Focus (Pty) Ltd- Tender value of R1 008 786,00
* Sikona building contractors-Tender value of R16 038 825,80
* Fullimput 1418CC value of R1 795 055,97
* **Contracts, contract management and payments**

1. Payments are not settled within 30 days from receiving the invoice.
2. The specific contract referred to be awarded to JV Runway and the conditions of the contract participating goal is to sub-contract 70% of the work to targeted “enterprises”. This condition was not met and the project manager has not enforced this on the contractor to meet compliance with this requirement.
3. Variation orders were not approved in terms of the “Delegation of Authority”.
4. Payments were not approved in terms of the delegation.
5. Tender files of consultants were not provided as requested.
6. Leases are paid on a month to month basis after the leases have expired
7. Leases to be renewed are not tracked and identified in advance.
8. Payments are made on leases without a valid contract in place.
9. Contractors are removed and replaced with “other contractors” without attempting to recover from them, such as the Heidelberg contract.

**PART B – SERVICE DELIVERY MATTERS IN RESPECT OF THE SECTOR**

1. The audit included an assessment of specific service delivery aspects relevant to the department. The outcomes of this focus area have been covered in the Report to Management on the Department of Public Works.

**SECTION 5: SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL**

**PART A – ASSESSMENT OF THE ACHIEVEMENT OF CONTROL OBJECTIVES**

1. The achievement of the objectives of internal control is demonstrated by the implementation of key controls. The assessment below is based on significant deficiencies relating to the fair presentation of the financial statements, material misstatements corrected as a result of the audit, and findings on non-compliance with laws and regulations. Significant deficiencies occur when internal controls either do not exist or are not appropriately designed to address the risk or are not implemented and which either had or could cause the financial statements to be materially misstated and material non-compliance with laws and regulations to occur. When a significant deficiency is not applicable, it is assessed with a , to indicate that the deficiency still exists but significant progress had been made to address it, while indicates that urgent attention to the matter is required. Part B gives additional information on the deficiencies that should be addressed. Other deficiencies in internal control, which require the attention of management, are included in the detailed findings attached to this report.

| **3 Audit dimensions**  **Fundamentals**  **of internal control** | **Financial** | **Performance objectives** | **Compliance with laws and regulations** |
| --- | --- | --- | --- |
| **Assessment** | | |
| **Leadership** | | | |
| * Provide effective leadership based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the best interests of the entity |  |  |  |
| * Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls |  |  |  |
| * Implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored |  |  |  |
| * Establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes, and responsibilities |  |  |  |
| * Develop and monitor the implementation of action plans to address internal control deficiencies |  |  |  |
| * Establish an IT governance framework that supports and enables the business, delivers value and improves performance |  |  |  |
| **Financial and performance management** | | | |
| * 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 |  |  |  |
| * Implement controls over daily and monthly processing and reconciling of transactions |  |  |  |
| * Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information |  |  |  |
| * Review and monitor compliance with applicable laws and regulations |  |  |  |
| * Design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information |  |  | **\*** |
| **Governance** | | | |
| * Implement appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored |  |  |  |
| * Ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively |  |  |  |
| * Ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and providing oversight over the effectiveness of the internal control environment including financial and performance reporting and compliance with laws and regulations |  |  |  |

**PART B – DETAILS CONCERNING THE ACHIEVEMENT OF INTERNAL CONTROL OBJECTIVES**

**LEADERSHIP**

**Ethical business practices**

1. Management established a formal code of conduct which addressed appropriate ethical and moral behaviour, but the code was not communicated to all staff. Not all the employees were aware of the code of conduct. Further in view of irregular expenditure, ongoing investigations as well as material adjustments identified, this concept is not understood by all and is not embedded in the entity’s values.

**Oversight responsibility regarding reporting and compliance**

1. Although the Accounting Officer did perform some review of the Annual Financial Statements for SA GAAP compliance, accuracy, tie in of supporting schedules to the Annual Financial Statements, castings and additions prior to their submission for audit the matters listed hereunder were identified during the audit which led to our assessment that the “Annual Financial Statements were not properly reviewed prior to their submission”::

* On 31 May 2011, we received the first version of the financial statements without any supporting documentation/scheduled for the financial statements. We communicated to management on 2 June 2011 indicating the supporting schedules were not submitted with the financial statements.
* We received the supporting schedules from 2 June 2011 but they were not complete and accurate. We therefore communicated to management (CoF 25) in which we indicated the differences between the schedules submitted and the financial statements thereby creating a limitation on us as we could not work and select samples on schedules that were not tying up with the financial statements.
* We then held a meeting on 15 June 2011 with the Department and the Consultant to discuss problems with “tie-in” of schedules to the financial statements. [Clarification meeting did not resolve our concerns]. A High level review was conducted on the financial statement and we issued the Communication of Findings (CoF) 50 on 8 July 2011 after discussing the issues with the Chief Financial Officer.
* On 1 July 2011 AGSA called a meeting with CFO to discuss problems with the financial statements, supporting schedules and documentation. On 07 July 2011, we received second version of the financial statements from which we issued CoF 56 on the issues identified from our high level review.
* On 12 July 2011 we had a meeting with the CFO in which we discussed the high level review from CoF 56. Subsequent to the meeting the managers had meetings with the consultant to resolve the issues from this CoF.
* On 15 July 2011 we received version 3 of the Annual Financial Statements which were considered for the audit but the schedules provided were not considered as these would have resulted in further audit work. It was concluded that this version will be used to conclude the audit on.
* The following challenges were experienced during the audit:
  + The department did not make a “mark-up” on changes made to the financial statements requiring the auditors to compare “revised sets” to earlier versions to identify changes.
  + Supporting documentation would not be included with reasons for the revisions which then had to be specifically requested by the auditors.
  + Documentation was not submitted within the required timelines. Response not given timely, within the 3 day period.
  + Management respond to CoFs but do not provide the documentation supporting the responses which require a further request from the auditors.
  + Management provide incorrect information and then audit time is spent in auditing these only to receive new versions, for example, lease commitments, contingent liabilities, revenue fines, etc.
  + The Department gives responses to CoFs and then afterwards provide documentation and dispute their “own comments.
  + Numerous requests had been made to the department to provide electronic response to queries for easy incorporation in the Teammate file and not all electronic responses were provided.
* A total of approximately 100 CoF’s were issued during the audit.

1. The Property Management Trading Entity did not have sufficient monitoring controls to ensure the proper implementation of the overall process of planning/budgeting/ implementation/ reporting. Included in this is the approval of accounting policies and other matters of judgement such as accounting estimates and fair value measurements.

**Effective human resource management**

1. An assessment of human resource management revealed that that the entity does not have sufficiently skilled and adequate resources. We identified the following deficiencies:

* **Appointment processes**

1. The verification process for new appointments did not always take place and did not cover criminal record checks/citizenship verifications/financial record checks/qualification verifications reference checks.

* **Acting positions**

1. Senior managers acted in positions for more than 6 months.

* **Overtime**

1. Written authorisation was not provided in advance for the overtime to be worked.

* **Leave administration**

1. Employees received more sick leave and than they were entitled to.
2. Processes and procedures for monitoring sick leave were not always applied.
3. Employees received more family responsibility and other special leave than they were entitled.

* **Performance management**

1. SMS member did not sign a performance agreement for the current performance period.

**Implementation of policies and procedures**

1. Management does not have documented policies and procedures to guide the operations of the Property Management Trading Entity, resulting in numerous instances of non-compliance with the PFMA, as detailed under the ‘reporting on compliance with laws and regulations section’ of this report neither did the Entity have documented and approved internal policies and procedures to address the process of collection/recording/processing/ monitoring.
2. In addition, management did not take corrective action on the following internal control deficiencies identified during our audit:
3. The entity did not establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes and responsibilities.
4. Processes were not in place to prevent and detect unauthorised, irregular and fruitless and wasteful expenditure. There were no registers maintained to record these expenditures. Furthermore, there is no specific person who oversees the process of recording and reporting of the unauthorised, irregular and fruitless and wasteful expenditure.
5. Information security policy of the department not fully implemented and complied with.
6. Formulation of new database requirements as a result of integration of PMIS and WCS project that is currently underway.
7. Information Service management team failure to update information procedure manual and implementing of adequate user account management procedures for IT applications (e.g. WCS, IE-Works and PMIS).
8. Management did not implement adequate user account management processes for Logis that would ensure that designed controls top mitigate the department’s business risks are continuously improved.
9. The department’s Information Service management is still in the process of implementing new backup and retention strategy which forms part of the DR processes.
10. The Business Case for the establishment of the trading entity is in draft since December 2007. National Treasury approved an exemption for reporting in terms of SA GAAP based on an “Interim Mechanism” for trading account for the reporting periods 2007/08 and 2008/09. This approval had been signed by the Accountant General on 14 March 2006 based on stipulations being met. The conditions had not been met and required the following from the Accounting Officer:

* The trading entity to operate a set of accounts (separate from the departmental account) with its own Paymaster- General’s account.
* Financial controls measures/issues are in place.
* The accounting officer of Public Works must formulate a policy and reporting framework for the trading entity. This must also provide for the generating of the quarterly reporting and monthly management systems to track both commitments and cash.
* Likewise, a proper set of delegations must be operational by 1 April 2006 specifying the responsibility for each of the departmental key account managers.
* All people and institutional arrangements must be in place as soon as possible but no later than 31 March 2006.
* During the first year of operation of the trading entity, Public Works must seek approval from National Treasury to establish a full-fledged trading entity by 1 April 2007, which would comply with all the conditions for the trading entity contained in Treasury Regulation 19.

1. To date, the conditions have not been met. The department’s request to departure from the trading entity reporting requirements set out in Treasury Regulation 18.2 has been declined on 28 April 2010 by the Accountant General of National treasury. The OAG has indicated that it is willing to assist the entity on accounting related matters that may arise during the PFMA reporting cycle.

**Establishment of an IT governance framework**

1. Information security policy of the department not fully implemented and complied with.
2. Formulation of new database requirements as a result of integration of PMIS and WCS project that is currently underway
3. Information Service management team failure to update information procedure manual and implementing of adequate user account management procedures for IT applications (e.g. WCS, IE-Works and PMIS)
4. Management did not implement adequate user account management processes for Logis that would ensure that designed controls top mitigate the department’s business risks are continuously improved
5. The department’s Information Service management is still in the process of implementing new backup and retention strategy which forms part of the DR processes.

**Status of SCOPA resolutions**

1. The department attended a SCOPA hearing in respect of the year ended 2008/09. As a result of this hearing, SCOPA passed a number of resolutions on 25 August 2010 requiring certain actions by the department. The status of these actions is as follows

| **No.** | **Details** | **Progress** |
| --- | --- | --- |
|  | The committee recommended the following: |  |
|  | Disciplinary action is taken against staff who fail to perform their duties as required | The performance agreements and work plans of officials have been improved to enable disciplinary action on poor performance. So far no official was found to be under performing. |
|  | Reasonable steps are taken to recover debts before they are written off | * Poor billing remains a challenge due to lack of a financial system. The department has however, initiated the process of acquiring a system. It is anticipated that the system will be implemented during the 2011/12 financial year. * Almost 98% of debtors account has been reconciled. * The Department is currently addressing the discrepancies which resulted from poor accounting in the past. * The Department are also validating client occupation in our building to enable improved billing.[[2]](#footnote-2) * The department has implemented compensating controls whilst a proper system is in the process of being procured. These controls include:  1. Reviewing of the interfaces from the PMIS, WCS to BAS. 2. Reconciliations of the invoices to clients 3. Intensified debt collection by scheduling one on one meeting with client department to resolve any disagreements leading to non payments. 4. Capacitating the billing section to manage revenue collection 5. Drafting of a “Revenue Management Policy. |
|  | Management understands and exercises oversight in respect of finances and related internal controls | * The Top Management Conference (TMC) has been resuscitated to provide a platform for managers to engage and report on their performance * Various forums such as the “Property and Projects Management Forums” are used to share best practice as well as to educate managers on their financial responsibility. * Manager’s responsibilities with regards to the PFMA will be enhanced during the 2011/12 financial year through appointing them in writing as “programme and responsibility manager’s”. |

1. We only received the progress report on the implementation of SCOPA resolutions after numerous requests and on 29 June 2011.
2. The report has not been signed by the Deputy Minister: Mrs H Bogopane-Zulu neither the Minister of Public Works: Mrs G.L. Mahlangu-Nkabinde.
3. The audit process could not confirm the progress report statement that “98% of the debtors have been reconciled”. We have qualified “Trade and Receivables“, due to management not being successful in providing reconciliations supporting Claims recoverable, Claims recoverable: PACE, Claims recoverable: CA, Disallowances, Accommodation debtors: Private leases and Municipal deposits to us.

**FINANCIAL AND PERFORMANCE MANAGEMENT**

**Availability of expected information**

1. Significant delays were experienced in management providing required information. As indicated in our engagement letter, we agreed that all information requested for purposes of the audit would be submitted within 3 working days of the request by the auditors. Despite this agreement, management did not supply the documentation requested in the following instances:

| **Request number** | **Information Requested** | **Number of days outstanding** |
| --- | --- | --- |
| 2 | Risk assessment information, policies and procedures and exception reports. | Not submitted to date |
| 17 | Declaration of interest from political office bearers, accounting authority and senior managers. | 84 days |
| 27 | Evidence of “follow-up” to recover the municipal services claims that were settled after more than the stipulated 30 days. | 9 days |
| 30 | Executive Committee Charter .and Budget charter. | 9 days |
| 34 | WCS report for all projects on the database. | 9 days |
| 43 | Bank reconciliations for December 2010, January 2011, February 2011 and March 2011. | 36 days |
| 45 | To provide the documents that must be submitted before or with the submission of the first claim for payment to comply with Contract Participation Goal for JV Runway Contractors (File H03-003). | Not submitted to date |
| 54 | Monthly reconciliations performed between BAS and PMIS and BAS and WCS. | 40 days |
| 56 | 1. Custodian Immovable Asset Management Plan of which includes the users department. 2. Schedule of rates and taxes in arrears which shows the amount outstanding for the year under review. 3. Some tender files | 15 days |
| 57 | MOU’s relating to accommodation charges for the client departments | 13 days |
| 63 | Need Assessments (requisitions, minutes of meetings, project plans and or budgets) relating to the projects as indicated in the request | Not submitted to date |
| 72 | Correspondence submitted to the state attorney for the long outstanding debt: | 15 days |
| 74 | The provision or plan for training as required by the Supply Chain Management practice note 4 of 2005 | Not submitted to date |
| 78 | Consultants files | Not submitted to date |

1. The information requested was only supplied after 4 July 2011. Due to the late receipt of the information and given the legislated deadlines for the submission of the auditor’s report, the information was not taken into consideration in the finalisation of this report. A disclaimer has been raised based on the fact that there was a limitation of scope as information was not submitted to enable us to perform our audit. The following list provides a summary of information subjected to this decision:

* Schedule for Claims recoverable: PACE
* Schedule for Disallowances
* Supporting documents for Debtors: Municipal services relating to 2006/07 and 2007/08 financial years

**Controls over daily and monthly processing and reconciling of transactions**

1. A recurring issue in recent years is the number of “clearing, interface, control and suspense accounts” that are not reconciled and cleared in a timely manner. The impact of these uncleared accounts is a potential misstatement of:

* accounts receivable and payables
* revenue
* expenditure

1. The balances on these accounts are as follows:

* Trade and Other payables: Suspense account R2 917 000,00
* Claims recoverable R113 515 000,00
* Claims recoverable- PACE R216 595 000,00
* Claims recoverable- CA R143 911 000,00
* Disallowances R220 313 000,00
* Debtors- Municipal services R539 070 000,00

**Adoption of accounting policies/accounting estimates**

1. Financial reporting frameworks ordinarily allow the entity to make accounting estimates and judgement regarding accounting policies and financial statement disclosures. Herewith our comment on some of the more significant accounting practices applied by management contributing to the disclaimed audit opinion.

* Selection of accounting policies:
  1. There is no depreciation policy and impairment policy for the assessment of capitalised expenditure.
  2. There is no policy for revenue recognition for the revenue fines
  3. There is no policy for the write off of state debts and the impairment of accounts receivable balances.
* Accounting estimates:
  1. Incorrect application of IFRS 9 regarding discounting of accounts payables and receivables.
  2. Depreciation estimate not computed for the capitalised expenditure due to the lack of policy.
  3. The impairment was not assessed in terms of IAS 36 due to the lack of an appropriate policy
* Related matters: There was no assessment of litigations against PMTE in order determines whether a provision should have been raised or a contingent liability.
* Accuracy and completeness of financial statements: As indicated in section 1, part A of this report; the financial statements contained numerous misstatements that were corrected. This was mainly due to staff members not fully understanding the requirements of the financial reporting framework.

**Use of consultants for financial statement preparation**

1. Consultants were appointed to assist with the compilation of the Annual Financial Statements (AFS) for the 2010/2011 financial year. This is due to the fact that PMTE does not have a financial system in place to facilitate compliance with accrual basis of accounting. There is also no adequately skilled staff to prepare the financial statements in terms of SA GAAP. During the audit of the Annual Financial Statements and the supporting schedules, there were numerous discrepancies and inconsistencies identified. . Based on the audit work performed on the Annual Financial Statements submitted it is evident that the work performed by the consultants were not monitored and evaluated prior to submission to the AGSA.

**Related-party transactions**

1. No related party transaction were identified other than those disclosed by management, however we were not able to verify amounts disclosed due to the lack of a proper accounting system for the trade receivables and un-reconciled individual trade receivable balances at year end.

**Accuracy and completeness of financial statements**

1. The financial statements were submitted on 31 May 2011, however, management did not submit the schedules supporting amounts in the 2010/11 Annual Financial Statements, nor did they submit any journals to support the adjustments between the BAS trial balance and the trial balance supporting the Annual Financial Statement. Some, of the schedules were subsequently submitted on 2 June 2011, 14 July 2011 and 3 July 2011 respectively.
2. Upon perusal of the schedules that were subsequently submitted as indicated above, it was noted that the total figures reflected in the financial statements do not agree with the figures reflected in the schedules. As a result, it was later identified that either the schedules were incorrect or the financial statements reflected inaccurate/incorrect information. Please refer to the detailed audit findings presenting the specifics to these comments.
3. Management revised the financial statements and resubmitted the financial statements on 7 July 2011. Upon perusal of the revised financial statements there were still a significant number of discrepancies, such as, incorrect information being submitted, reference being made in the financial statements to schedules that do not exist, casting errors, etc. (refer to the detailed audit findings). Management resubmitted the financial statements on 15 July 2011 which were still not of an appropriate quality and the same type of discrepancies exist than in the previous set of financial statement.
4. As indicated in section 1, part A of this report, the financial statements contained numerous misstatements that were corrected. This was mainly due to staff members not fully understanding the requirements of the financial reporting framework. The Property Management Trading Entity does not have a sufficient staff compliment that is knowledgeable and experienced in SA GAAP accounting matters. The Property Management Trading Entity used consultants to assist in this area however there is inadequate evidence of skills transfer at this point in time.
5. Accounting policies are not reviewed regularly for relevancy to the entity to ensure that they comply with requirements of the accounting framework as well as comply with changes/ amendments to the accounting standards.

**Monitoring of compliance with laws and regulations**

1. Compliance with laws and regulations was not properly reviewed and monitored by management during the current financial year.
2. Below is an example of instances of non compliance that could have been avoided had management reviewed and monitored compliance:
3. The use of PA 11, which is not in terms of the Practice Note 7 of 2009/2010
4. Declaration of interest by the Bid Adjudication Committee.
5. Submission of compliance certificate to National Treasury
6. Non-compliance with laws and regulations could have been prevented had compliance been properly reviewed and monitored.

**Formal control over IT systems**

1. It was noted that the entity has an IT steering committee which has an approved terms of reference. No IT Steering committee has been convened in the current financial year. Absence of IT steering committee meeting indicates that the IT steering committee is not carrying out its responsibilities and functions as set out in the terms of reference.

**Adequacy of IT systems for the preparation of the financial statements**

1. There is currently no financial system in place to facilitate compliance with accrual basis of accounting. Presently the entity is recording transactions on the modified cash basis of accounting and the entity does not have a formal system in place to identify and record transactions on the accrual basis of accounting. The BAS trial balances is exported and through a process of “adjusting journals” converted to a SA GAAP trial balance for the compilation of Annual Financial Statements based on SA GAAP.
2. Further to the above the Property Management Trading Entity does not have reliable information systems for recording on:
3. Commitments
4. Contingent Liabilities
5. Accruals
6. Accounts Receivables

**GOVERNANCE**

**Risk management**

1. Risk assessments are being conducted but they are not done timeously and as required by the PFMA, Sections 38(1)(a)(i) and 76(4)(e) . There is no separate evaluations of the risks identified by the different heads of units other than the risks assessed by Internal Audit Unit. Consequently, a number of control deficiencies were identified. These include a failure to:

* Implement appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored.
* Comprehensively identify risks using various methodologies as appropriate
* Ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively pertaining to issues specific to Property Management Trading Entity.
* Consideration has not been given to risks indicated by a history of unauthorised, irregular and fruitless and wasteful expenditure, or other statutory non-compliance

**Fraud prevention, detection and response**

1. The following audit findings indicate that the deficiencies in the respective controls would not prevent or detect fraudulent activities:

* An approved policy did not exist for the impairment of long-outstanding debtors. Management has not made adequate provision for impairment so as not to incur a net operating loss for the financial year.
* The Property Management Trading Entity does not have a delegation of authority for the approval of journals. This is due to lack of policies and procedures to govern the operations of the Trading Entity.

**Internal audit**

1. Although the trading entity has an internal audit division, it is not adequate for the purposes of the audit for the following reasons :

* The scope of the work of the internal auditors is different from the external auditor’s scope.
* Currently only 10 internal audit reports have been submitted, the total number of reports that needed to be submitted is 39. Therefore only 26% of the reports have been submitted and as a result, we could not effectively assess whether any reliance would be placed on their work.

1. The internal auditors did not achieve the outcomes as indicated in the internal audit plan.
2. Most of the investigation under the internal audit section have not been either started or completed due to inadequate capacity resources.
3. As a result, the internal auditors have not been effective during the current financial year.

**Audit committee**

1. The audit committee has been effective throughout the year. They have held meetings as required by PFMA and have performed their oversight functions as prescribed. The major challenge that the committee members have raised on a continuous basis is the issue of the Department placing limitations in their oversight role. They have indicated that the audit committee documentation is not received timeously to allow them the opportunity to prepare for the meetings. Most of the documentation is presented on the date of the audit committee meeting.
2. The committee did approve the internal audit plan and has exercised any oversight of the implementation of the matters reported by the internal audit function.
3. The audit committee did meet prior to the submission of the Annual Financial Statements to the Auditor-General on 26 May 2011 to review the adequacy, reliability and accuracy of the financial statements.

**PART C – ACTIONS TAKEN TO ADDRESS MATTERS PREVIOUSLY REPORTED**

**Executive authority**

1. The following commitments have been made by Accounting Officer during the current financial period:
2. Key management positions have been advertised and appointments will be made before the end of the financial year. These people will be skilled in the correct areas required. Support staff will be advertised shortly to complement theses appointments
3. The entity is in the process of developing and implementing key accounting policies. It will be finalized by the end of the financial year before the AFS is prepared.
4. The reviews (of the compliance with laws and regulations) are done by internal audit as per their audit plan. Furthermore the finance team has been visiting regions inspecting compliance issues. The business processes of each function also ensures that work is done in compliance with applicable policies
5. The outcomes presented in this Report to Management clearly indicate that the commitments made by the Accounting Officer did not materialise in the reporting period subjected to our review.

**Chief financial officer**

1. Management has not taken any action to clear audit findings. The following material issues should be attended to as soon as possible.

* Non compliance with IAS 39 (AC133) and inability to verify completeness, valuation, rights and obligations of related-party balances which was reported as a result of the following:

1. Lack of proper accounting systems and capacity
2. Lack of monthly Reconciliations of the creditors and debtors reconciliations
3. Lack of compliance with GAAP
4. Lack of financial management policies

* Despite management’s efforts to address previously reported deficiencies, many of these have been reported again in the current year. Refer detailed findings in annexures below.

**PART D – EMERGING RISKS**

**Accounting and compliance matters**

**New pronouncements/requirements**

1. Management should take note of the National Treasury instruction note effective from 31 May 2011 on enhancing compliance monitoring and improving transparency and accountability in supply chain management as issued in terms of section 76(4)(c) of the PFMA.
2. The department should take note of the new requirements envisaged regarding the treatment of library books in the future. This has been communicated in classification circular 9 which is effective from 1 April 2011.

**Susceptibility and subjectivity of complex accounting estimates and fair values**

1. The financial records are prepared and retained in excel spreadsheets in the absence of a SA GAAP based accounting system.
2. The absence of an accounting system to record transactions when initialised on SA GAAP principles results in transactions continuously being identified by the audit processes not correctly recorded and this not properly presented and disclosed in the Annual Financial Statements. Inherent to “business processes” to be defined addressing the peculiarities

**Subsequent events**

**Media reports**

1. There are media reports that Roux Shabangu is to institute litigation against the Minister of Public works relating to the compromised deal for the leases. He is suing the Minister for R1.1 billion according to the media reports. The Sunday Times reported this on 25 July 2011.
2. On 10 June 2011, the Minister announced a six-month moratorium on all new property deals to allow a “clean-up” operation in the department.
3. Pressure on the Director General by the Minister to approve the SAPS leases: The former Director General admitted that he signed the R1.6 billion lease contracts for SAPS Pretoria and Durban after the threats by the Minister Gwen Mahlangu-Nkabinde to sign, regardless of the fact that the leases were invalid. This confirms that the minister might be liable for the possible obligations arising from the two leases. This is per the report on Mail and Guardian- 19 June 2011.
4. Contract scandals emerging: The Department of Public Works has been revealed to have been involved in dodgy contracts worth R35.4 million, adding to the list of other dodgy tenders which were awarded by the department. They include two high-profile Soccer World Cup projects to build new border posts that are now being investigated by the Special Investigating Unit (SIU). The other case involves raw sewage being pumped into the Vaal River from a dysfunctional waste water treatment plant. The awarding of fictitious tenders results in incurrence of Irregular expenditure. This was reported on the Mail and Guardian Centre for Investigative Journalism-6 May 2011.
5. Public Works Minister Gwen Mahlangu-Nkabinde announcement of a six month moratorium :The moratorium refers to the legal postponement of entering into the dealings of fixed property by the department of Public Work for the period of six months. It is reported that the delay could stall business deals worth more than half a billion rands. It is currently estimated that the department concludes property lease deals valued at more than R1-billion annually. Further the delay may result in the lessors suing the department for loss of business for all the contracts which were on the pipeline. The report was on the Mail and Guardian- 13 June 2011.
6. Another lease with Roux Shabangu :Lease of a property on behalf of the Independent Complaints Directorate (ICD) from Roux Properties in Pretoria CBD was reported to be below market value. The department entered into a R137-million, 10-year lease which is considered to be way bigger than the space needed by ICD which could be obtained at a lesser cost. This is considered reckless spending of taxpayers’ money and may result in Fruitless and Wasteful expenditure. This was reported on the Mail and Guardian- 13 June 2011
7. SIU investigations : The media report stated that among other investigations of the SIU, the Public Works department is apparently riddled with corruption, with millions paid out to companies in which staff has interests. Other than the lease contracts investigations, the department is also involved in the questionable construction of about 33 police stations. The department procures goods and services without complying with the laws and regulations, which may result in incurrence of irregular expenditure. This issue was published by the Mail and Guardian- 1 April 2011.

**SECTION 6: RATINGS OF DETAILED AUDIT FINDINGS**

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

* Matters to be included in the auditor’s report - These matters should be addressed as a matter of urgency.
* Other important matters – These matters should be addressed to achieve clean administration.
* Administrative matters – These matters are unlikely to affect the decisions of the users of the financial statements or performance information and should be addressed at the discretion of the entity.

**SECTION 7: CONCLUSION**

1. The matters communicated throughout this report relate to the three fundamentals of internal control which should be addressed to achieve sustained clean administration. The AGSA staff remains committed to assisting in the process of identifying and communicating good practices to improve governance and accountability, so as to build public confidence in government’s ability to account for public resources in a transparent manner.

Yours sincerely

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12 August 2011

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DG

CFO

Audit committee

Head of internal audit

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[254. Prospective suppliers list not appropriately compiled 662](#_Toc301512007)

[255. Letter of renewal not sent to lessor 664](#_Toc301512008)

[256. Procurement checklist - SCM policy (missing information – limitation of scope) 665](#_Toc301512009)

[257. Leases agreement not submitted for audit 668](#_Toc301512010)

[258. Project Execution Plan not attached in the file 669](#_Toc301512011)

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| **SUMMARY OF DETAILED AUDIT FINDINGS** |

|  |  | **Classification** | | | | | **Rating** | | | **In which years was it reported** | | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Page. no.** | **Finding** | **Misstatements in financial statements** | **Misstatements in annual performance report** | **Non-compliance with laws & regulations** | **Internal control deficiency** | **Service delivery** | **Matters affecting the auditor’s report** | **Other important matters** | **Administrative matters** | **2009/10** | **2008/09** | **2007/08** |
|  | | | | | | | | | | | | |
| 75 | Irregular expenditure incomplete- | **✓** |  |  | **✓** |  | **✓** |  |  | **✓** | **✓** |  |
| 79 | Contingent Liabilities not recognised in terms of SA GAAP | **✓** |  |  | **✓** |  | **✓** |  |  |  |  |  |
| 84 | Incorrect straight lining of leases | **✓** |  |  | **✓** |  | **✓** |  |  |  |  |  |
| 92 | Completeness of fruitless and wasteful expenditure | **✓** |  |  | **✓** |  | **✓** |  |  | **✓** | **✓** |  |
| 97 | Discounting of Payables not done in accordance with SA GAAP | **✓** |  |  | **✓** |  | **✓** |  |  |  |  |  |
| 100 | Information not made available to support the “Advance Account” in the “Trade and Other Payables | **✓** |  |  | **✓** |  | **✓** |  |  |  |  |  |
| 103 | Other | **✓** |  |  | **✓** |  | **✓** |  |  | **✓** | **✓** |  |
| 105105 | Winning supplier did not supply an original Tax Clearance Certificate. |  |  | **✓** | **✓** |  | **✓** |  |  | **✓** | **✓** |  |
| 107 | No tax clearance certificate |  |  | **✓** | **✓** |  | **✓** |  |  | **✓** | **✓** |  |
| 109 | Original tax clearance certificates not available for consultants |  |  | **✓** |  |  | **✓** |  |  |  |  |  |
| 110 | Justification for treating the tender as an emergency |  |  | **✓** | **✓** |  | **✓** |  |  | **✓** | **✓** |  |
| 112 | Bid advertised for less than 21 days |  |  | **✓** | **✓** |  | **✓** |  |  | **✓** |  |  |
| 114 | Variation orders not approved in terms of the Supply Chain Management delegations |  |  | **✓** | **✓** |  | **✓** |  |  | **✓** |  |  |
| 117 | Variation orders not approved in terms of the delegations |  |  | **✓** | **✓** |  | **✓** |  |  | **✓** |  |  |
| 119 | Payment not approved in terms of the delegation |  |  | **✓** | **✓** |  | **✓** |  |  | **✓** |  |  |
| 121 | Actual expenditure exceeding contract amount |  |  | **✓** | **✓** |  | **✓** |  |  | **✓** |  |  |
| 126**Error! Bookmark not defined.** | Roster appointments of consultants**Error! Reference source not found.** |  |  | **✓** | **✓** |  | **✓** |  |  |  |  |  |
| 129 | No supporting documentation for consultant appointed for planned maintenance |  |  | **✓** | **✓** |  | **✓** |  |  |  |  |  |
| 133**Error! Bookmark not defined.** | No supporting documents for consultants appointed for construction**Error! Reference source not found.** |  |  | **✓** | **✓** |  | **✓** |  |  |  |  |  |
|  | Overstatement in Trade and Other Payables | **✓** |  |  | **✓** |  | **✓** |  |  |  |  |  |
| 139 | Incorrect accounting treatment of capital expenditure | **✓** |  |  | **✓** |  | **✓** |  |  |  |  |  |
| 141 | Insufficient information to re-perform the calculation of accommodation charges | **✓** |  |  | **✓** |  | **✓** |  |  |  |  |  |
| 157 | Amortisation of Receivables | **✓** |  |  | **✓** |  | **✓** |  |  |  |  |  |
| 159 | Amortisation of bank overdraft | **✓** |  |  | **✓** |  | **✓** |  |  |  |  |  |
| 161 | Trade and Other Receivables misstated in the Annual Financial Statements | **✓** |  |  | **✓** |  | **✓** |  |  |  |  |  |
| 163 | Completeness of Revenue 5% Management Fee | **✓** |  |  | **✓** |  | **✓** |  |  |  |  |  |
| 166 | 5% Management Fee overstated with prior period accrual receipts | **✓** |  |  | **✓** |  | **✓** |  |  |  |  |  |
| 168 | Completeness of Revenue 5% management fee | **✓** |  |  | **✓** |  | **✓** |  |  |  |  |  |
| 170 | Accommodation charges overstated with prior period accrual | **✓** |  |  | **✓** |  | **✓** |  |  |  |  |  |
| 172 | **Error! Reference source not found.** | **✓** |  |  | **✓** |  | **✓** |  |  |  |  |  |
| 173 | Overstatement of operating expenses | **✓** |  |  | **✓** |  | **✓** |  |  |  |  |  |
| 174 | Understatement of the “Provision for Impairment | **✓** |  |  | **✓** |  | **✓** |  |  |  |  |  |
| 176 | Outstanding supporting documentation for Accommodation Charges | **✓** |  |  | **✓** |  | **✓** |  |  |  |  |  |
| 178 | Completeness of Revenue 5% Management Fee | **✓** |  |  | **✓** |  | **✓** |  |  |  |  |  |
| 180180 | High-level review of PMTE Annual Financial | **✓** |  |  | **✓** |  | **✓** |  |  |  |  |  |
| 204 | Management of debtors | **✓** |  |  | **✓** |  | **✓** |  |  |  |  |  |
| 205 | Supporting schedules and adjustments to accounting records | **✓** |  |  | **✓** |  | **✓** |  |  |  |  |  |
| 207 | Information requested from the State Attorneys not received |  |  | **✓** | **✓** |  | **✓** |  |  |  |  |  |
| 209 | Prior period accruals for “Accommodation Charges” recognised in current year | **✓** |  |  | **✓** |  | **✓** |  |  |  |  |  |
| 212 | Supporting information for “Deferred Income | **✓** |  |  | **✓** |  | **✓** |  |  |  |  |  |
| 214 | Disallowance Suspense Accounts | **✓** |  |  | **✓** |  | **✓** |  |  |  |  |  |
| 216 | No delegation for approval of journals |  |  | **✓** | **✓** |  | **✓** |  |  |  |  |  |
| 219 | Debt Write-off Policy not disclosed included in the Accounting Policy |  |  | **✓** | **✓** |  | **✓** |  |  |  |  |  |
| 220 | SCOPA resolutions |  |  | **✓** | **✓** |  | **✓** |  |  |  |  |  |
| 222 | All officials not informed on the Code of Conduct |  |  | **✓** | **✓** |  | **✓** |  |  |  |  |  |
| 224 | Information not submitted for disclosed debtors balances |  |  | **✓** | **✓** |  | **✓** |  |  |  |  |  |
| 228 | Supporting schedules for the Related Parties disclosure not provided | **✓** |  |  | **✓** |  | **✓** |  |  |  |  |  |
| 230 | Supporting schedules for the restatement of prior year figures |  |  | **✓** | **✓** |  | **✓** |  |  |  |  |  |
| 232 | High-level review of PMTE annual financial statements | **✓** |  |  | **✓** |  | **✓** |  |  |  |  |  |
| 236 | No financial system in place and a lack of documented policies and procedures |  |  | **✓** | **✓** |  | **✓** |  |  |  |  |  |
| 241 | Lack of supporting documentation for construction |  |  | **✓** | **✓** |  | **✓** |  |  |  |  |  |
| 243 | Winning bidders not advertised for “Planned Maintenance” |  |  | **✓** | **✓** |  | **✓** |  |  | **✓** |  |  |
| 246 | Less than three price quotations were received from suppliers |  |  | **✓** | **✓** |  | **✓** |  |  | **✓** |  |  |
| 248 | Irregular expenditure incurred not disclosed |  |  | **✓** | **✓** |  | **✓** |  |  | **✓** |  |  |
| 251 | Planned maintenance variation orders not authorised by delegated official |  |  | **✓** |  |  |  |  |  |  |  |  |
| 253 | SBD 4 has not been submitted with the bid documentation |  |  | **✓** |  |  |  |  |  |  |  |  |
| 255 | SBD 8 forms not submitted with the bid documentation |  |  | **✓** |  |  |  |  |  |  |  |  |
| 257 | PA-01 Procurement Strategy not attached |  |  | **✓** |  |  |  |  |  |  |  |  |
| 259 | Construction: No SBD 4 and SBD 8 |  |  | **✓** |  |  |  |  |  |  |  |  |
| 261 | SBD 8 not submitted for leases |  |  | **✓** |  |  |  |  |  |  |  |  |
| 264 | SBD 4 declaration of interest forms not completed by the supplier |  |  | **✓** |  |  |  |  |  |  |  |  |
| 266 | The declaration of interest (SBD4) not completed |  |  | **✓** |  |  |  |  |  |  |  |  |
| 268 | SBD 4 declaration of interest for planned maintenance not available |  |  | **✓** |  |  |  |  |  |  |  |  |
| 269 | Declaration of interest not signed by suppliers |  |  | **✓** |  |  |  |  |  |  |  |  |
| 270 | Employee engaged in other remunerative work |  |  | **✓** | **✓** |  | **✓** |  |  |  |  |  |
| 272 | Official performing additional remunerative work without written approval |  |  | **✓** | **✓** |  | **✓** |  |  |  |  |  |
| 274 | No tender and procurement documentation provided |  |  | **✓** | **✓** |  | **✓** |  |  |  |  |  |
| 277 | Tender invitations for contracts not advertised on CIDB website |  |  | **✓** | **✓** |  | **✓** |  |  |  |  |  |
| 279 | Construction contracts awarded to contractors with lower CIDB grading |  |  | **✓** | **✓** |  | **✓** |  |  |  |  |  |
| 281 | Tender invitation for contracts not advertised on CIDB website |  |  | **✓** | **✓** |  | **✓** |  |  |  |  |  |
| 283 | Non compliance with CIDB regulations |  |  | **✓** | **✓** |  | **✓** |  |  |  |  |  |
| 285 | Non-publishing of winning tenders |  |  | **✓** | **✓** |  | **✓** |  |  |  |  |  |
| 287 | Procurement procedures not followed |  |  | **✓** | **✓** |  | **✓** |  |  |  |  |  |
| 289 | Lack of authorisation for price adjustments planned maintenance |  |  | **✓** | **✓** |  | **✓** |  |  |  |  |  |
| 291 | Open tender not advertised for planned maintenance: |  |  | **✓** | **✓** |  | **✓** |  |  |  |  |  |
| 293 | Tender file not provided for planned maintenance |  |  | **✓** | **✓** |  | **✓** |  |  |  |  |  |
| 294 | Consultants' files not availed for audit purposes |  |  | **✓** | **✓** |  | **✓** |  |  |  |  |  |
| 297 | Payments made on leases without a contract |  |  | **✓** | **✓** |  | **✓** |  |  |  |  |  |
| 299 | Payments made on lease that expired |  |  | **✓** | **✓** |  | **✓** |  |  |  |  |  |
| 301 | Leases up for renewal not identified in advance |  |  | **✓** | **✓** |  | **✓** |  |  |  |  |  |
| 304 | Contract extended without requesting new bids/quotations |  |  | **✓** | **✓** |  | **✓** |  |  |  |  |  |
| 306 | No proof that lessor is registered for VAT |  |  | **✓** | **✓** |  | **✓** |  |  |  |  |  |
| 308 | No Site Inspection Certificate |  |  | **✓** | **✓** |  | **✓** |  |  |  |  |  |
| 310 | Insufficient filing system for planned maintenance- |  |  | **✓** | **✓** |  | **✓** |  |  |  |  |  |
| 312 | IFRS 9: Classification in accordance with accounting policy |  |  | **✓** | **✓** |  | **✓** |  |  |  |  |  |
| 313 | Expenditure paid on WCS not capitalised to the cost of property on PMIS |  |  | **✓** | **✓** |  | **✓** |  |  |  |  |  |
| 316 | Incorrect formula was used to calculate preference points awarded for price |  |  | **✓** | **✓** |  | **✓** |  |  |  |  |  |
| 319 | Property expense could not be linked to the property |  |  | **✓** | **✓** |  | **✓** |  |  |  |  |  |
| 321 | No integration between PMIS and WCS to link maintenance to properties |  |  | **✓** | **✓** |  | **✓** |  |  |  |  |  |
| 323 | No integration between PMIS and WCS to link unplanned maintenance to properties |  |  | **✓** | **✓** |  | **✓** |  |  |  |  |  |
| 325 | Renewed lease agreements not on file/signed and acceptance letters outstanding |  |  | **✓** | **✓** |  | **✓** |  |  |  |  |  |
| 329 | Leases due for renewal not identified 6 months prior to expiry |  |  | **✓** | **✓** |  | **✓** |  |  |  |  |  |
| 332 | Lease that are up for renewal not identified 6 months prior to expiry. |  |  | **✓** | **✓** |  | **✓** |  |  |  |  |  |
| 334 | No Regional Bid Adjudication Committee approval for negotiated leases |  |  | **✓** | **✓** |  | **✓** |  |  |  |  |  |
| 335 | Leases not straight lined in accordance with IAS 17 |  |  | **✓** | **✓** |  | **✓** |  |  |  |  |  |
| 337 | Incorrect preference point system used for evaluation of tender |  |  | **✓** | **✓** |  | **✓** |  |  |  |  |  |
| 339 | Inaccurate amounts reflected in the schedule of contingent liabilities |  |  | **✓** | **✓** |  | **✓** |  |  |  |  |  |
| 341 | List of prospective suppliers resulting in non compliance |  |  | **✓** | **✓** |  | **✓** |  |  |  |  |  |
| 342 | Month to month leasing without renewing the contract |  |  | **✓** | **✓** |  | **✓** |  |  |  |  |  |
| 345 | Lease agreement not signed |  |  | **✓** | **✓** |  | **✓** |  |  |  |  |  |
| 347 | Information not submitted for audit purposes |  |  | **✓** | **✓** |  | **✓** |  |  |  |  |  |
| 348 | Receivables batch not received for audit purposes | **✓** |  | **✓** | **✓** |  | **✓** |  |  |  |  |  |
| 349 | Lease Commitments incorrectly calculated | **✓** |  |  |  |  | **✓** |  |  |  |  |  |
| 353 | Contingent liability disclosure note discrepancy | **✓** |  |  |  |  | **✓** |  |  |  |  |  |
| 355 | Tender scoring and preference point system |  |  | **✓** | **✓** |  | **✓** |  |  |  |  |  |
| 359 | Receivables: Incorrect classification of receivables | **✓** |  |  | **✓** |  | **✓** |  |  |  |  |  |
| 362 | Planned maintenance consultant file not submitted |  |  | **✓** | **✓** |  | **✓** |  |  |  |  |  |
| 363 | Insufficient documentation in support of a lease agreement |  |  | **✓** | **✓** |  | **✓** |  |  |  |  |  |
| 365 | Disclosure of designated employees’ interests |  |  | **✓** | **✓** |  |  | **✓** |  |  |  |  |
| 368 | Schedule for proposed subcontractors not complete for “Planned Maintenance” |  |  | **✓** | **✓** |  |  | **✓** |  |  |  |  |
| 370 | Deviations from the “normal bidding process” |  |  | **✓** | **✓** |  |  | **✓** |  | **✓** |  |  |
| 373 | Accruals not correctly accounted for |  |  | **✓** | **✓** |  |  | **✓** |  | **✓** |  |  |
| 377 | Preference Point System contract participation goals not complied with |  |  | **✓** | **✓** |  |  | **✓** |  |  |  |  |
| 380 | Statement of Comprehensive Income indicates a deficit at year end |  |  | **✓** | **✓** |  |  | **✓** |  | **✓** |  |  |
| 383 | Documents requested during the planning stage of the audit still outstanding |  |  | **✓** | **✓** |  |  | **✓** |  | **✓** |  |  |
| 384 | Insufficient policies and procedures in place |  |  | **✓** | **✓** |  |  | **✓** |  | **✓** |  |  |
| 387 | Declaration of interest by the Bid Evaluation and Adjudication Committees |  |  | **✓** | **✓** |  |  | **✓** |  | **✓** |  |  |
| 390 | Supply Chain Management Policy |  |  | **✓** | **✓** |  |  | **✓** |  | **✓** |  |  |
| 392 | General condition of contract not available |  |  | **✓** | **✓** |  |  | **✓** |  | **✓** |  |  |
| 394 | Procurement deviation not reported to Treasury and AGSA |  |  | **✓** | **✓** |  |  | **✓** |  | **✓** |  |  |
| 396 | Procurement deviation not reported to Treasury and AGSA |  |  | **✓** | **✓** |  |  | **✓** |  | **✓** |  |  |
| 398 | Procurement deviation not reported to Treasury and AGSA |  |  | **✓** | **✓** |  |  | **✓** |  | **✓** |  |  |
| 400 | Declarations of Interest not provided by supply chain management officials |  |  | **✓** | **✓** |  |  | **✓** |  |  |  |  |
| 402 | Certificate of independent bid determination not completed by bidder |  |  | **✓** | **✓** |  |  | **✓** |  | **✓** |  |  |
| 404 | Training for the Supply Chain Management officials |  |  | **✓** | **✓** |  |  | **✓** |  |  |  |  |
| 405 | Training of Supply Chain Management Officials |  |  | **✓** | **✓** |  |  | **✓** |  |  |  |  |
| 407 | Contracts attached to the WCS consulting payment advice |  |  | **✓** | **✓** |  |  | **✓** |  |  |  |  |
| 408 | Payments not made within 30 days of receipt of invoice |  |  | **✓** | **✓** |  |  | **✓** |  | **✓** |  |  |
| 411 | Invoice not paid within 30 days |  |  | **✓** | **✓** |  |  | **✓** |  | **✓** |  |  |
| 413 | Invoice not paid within 30 days |  |  | **✓** | **✓** |  |  | **✓** |  | **✓** |  |  |
| 415 | Rotation of prospective suppliers |  |  | **✓** | **✓** |  |  | **✓** |  | **✓** |  |  |
| 416 | No proof of review of the prohibited supplier list |  |  | **✓** | **✓** |  |  | **✓** |  | **✓** |  |  |
| 419 | Sector Audit - Deficiencies identified during the sector audit |  |  |  | **✓** | **✓** |  | **✓** |  |  |  |  |
| 431 | Sector Audit: Extensive maintenance backlog |  |  |  | **✓** | **✓** |  | **✓** |  |  |  |  |
| 433 | Sector Audit: There is no action plan addressing maintenance backlog |  |  |  | **✓** | **✓** |  | **✓** |  |  |  |  |
| 435 | Sector Audit: No utilisation inspections carried out |  |  |  | **✓** | **✓** |  | **✓** |  |  |  |  |
| 437 | Sector Audit: Inspection Reports/Conditional Assessments |  |  |  | **✓** | **✓** |  | **✓** |  |  |  |  |
| 439 | Sector Audit: Need assessments not provided |  |  |  | **✓** | **✓** |  | **✓** |  |  |  |  |
| 441 | Sector Audit: Signed assessment reports not obtained for audit purposes |  |  |  | **✓** | **✓** |  | **✓** |  |  |  |  |
| 443 | Sector Audit: Budget submission documentation not |  |  |  | **✓** | **✓** |  | **✓** |  |  |  |  |
| 444 | Sector Audit: Updated of the immovable asset register with “user” details |  |  | **✓** | **✓** | **✓** |  | **✓** |  |  |  |  |
| 445 | Sector Audit: Incomplete immovable asset register |  |  | **✓** | **✓** | **✓** |  | **✓** |  |  |  |  |
| 448 | Sector Audit: Not all client Departments are included in the Custodian Asset Management Plans |  |  |  | **✓** | **✓** |  | **✓** |  |  |  |  |
| 451 | Sector Audit: No utilisation carried out |  |  |  | **✓** | **✓** |  | **✓** |  |  |  |  |
| 452 | Insufficient management of contractor’s |  |  |  | **✓** |  |  | **✓** |  |  |  |  |
| 456 | Sector Audit: Immovable asset management plan not in place |  |  |  | **✓** | **✓** |  | **✓** |  |  |  |  |
| 457 | Sector Audit: Immovable assets register does not have minimum information |  |  |  | **✓** | **✓** |  | **✓** |  |  |  |  |
| 459 | Sector Audit: Weaknesses identified in information on WCS |  |  |  | **✓** | **✓** |  | **✓** |  |  |  |  |
| 470 | Sector Audits: Monitoring of capital projects |  |  |  | **✓** | **✓** |  | **✓** |  |  |  |  |
| 474 | Sector Audit: Project not completed within approved completion date |  |  |  | **✓** | **✓** |  | **✓** |  |  |  |  |
| 476 | Non compliance with Treasury Regulations: Bank overdraft |  |  | **✓** | **✓** |  |  | **✓** |  |  |  |  |
| 478 | No creditors reconciliations |  |  | **✓** | **✓** |  |  | **✓** |  |  |  |  |
| 479 | Bank reconciliations and compliance certificates not provided |  |  | **✓** | **✓** |  |  | **✓** |  |  |  |  |
| 480 | Delays in submitting compliance certificates |  |  | **✓** | **✓** |  |  | **✓** |  |  |  |  |
| 483 | Regular clearing of suspense account |  |  | **✓** | **✓** |  |  | **✓** |  |  |  |  |
| 490 | Memorandums of Understanding not provided |  |  | **✓** | **✓** |  |  | **✓** |  |  |  |  |
| 492 | Projects not registered with the Construction Industry Development Board |  |  | **✓** | **✓** |  |  | **✓** |  |  |  |  |
| 494 | Incorrect classification of expenditure used for rent of land |  |  |  | **✓** |  |  | **✓** |  |  |  |  |
| 496 | Non-compliance with Construction Industry Development Board requirement |  |  | **✓** | **✓** |  |  | **✓** |  | **✓** |  |  |
| 498 | Lease agreements not signed by the lessor |  |  | **✓** | **✓** |  |  | **✓** |  | **✓** |  |  |
| 499 | Municipal services overpayment |  |  |  | **✓** |  |  | **✓** |  |  |  |  |
| 500 | Amount paid for municipal services not agree to amount recorded on BAS |  |  |  | **✓** |  |  | **✓** |  |  |  |  |
| 502 | Understatement of accruals |  |  |  | **✓** |  |  | **✓** |  |  |  |  |
| 504 | Contracts awarded to prohibited suppliers |  |  | **✓** | **✓** |  |  | **✓** |  | **✓** |  |  |
| 505 | Suppliers documentation not being made available |  |  |  | **✓** |  |  | **✓** |  |  |  |  |
| 507 | Non compliance with CIDB Regulations |  |  | **✓** | **✓** |  |  | **✓** |  | **✓** |  |  |
| 516 | Evaluation and adjudication criteria not complete |  |  | **✓** | **✓** |  |  | **✓** |  | **✓** |  |  |
| 518 | No link between PMIS and WCS |  |  |  | **✓** |  |  | **✓** |  | **✓** |  |  |
| 520 | Contract not signed by both parties for unplanned maintenance |  |  |  | **✓** |  |  | **✓** |  | **✓** |  |  |
| 521 | Invoices not paid within 30 days |  |  | **✓** | **✓** |  |  | **✓** |  | **✓** |  |  |
| 523 | Payments are not stamped as paid for unplanned maintenance |  |  | **✓** | **✓** |  |  | **✓** |  | **✓** |  |  |
| 524 | Report of commitments does not agree\* to disclosure schedule |  |  |  | **✓** |  |  | **✓** |  |  |  |  |
| 525 | Penalties not charged for projects not completed on time |  |  | **✓** | **✓** |  |  | **✓** |  |  |  |  |
| 529 | Contracts signed by non delegated official |  |  | **✓** |  |  |  | **✓** |  | **✓** |  |  |
| 532 | No progress minutes and reports for construction of facilities (municipal services) |  |  |  | **✓** |  |  | **✓** |  |  |  |  |
| 534 | Not all accruals were raised |  |  |  | **✓** |  |  | **✓** |  |  |  |  |
| 539 | Transactions incorrectly classified and disclosed as commitments | **✓** |  |  | **✓** |  |  | **✓** |  |  |  |  |
| 541 | Arrear rental incorrectly recognised as contingent liabilities | **✓** |  |  | **✓** |  |  | **✓** |  |  |  |  |
| 543 | Contingent liabilities not raised | **✓** |  |  | **✓** |  |  | **✓** |  |  |  |  |
| 545 | Incomplete supporting documentation provided for Tender: 65/08 |  |  | **✓** | **✓** |  |  | **✓** |  |  |  |  |
| 546 | Incorrect preference point system used for evaluation of tender |  |  | **✓** | **✓** |  |  | **✓** |  | **✓** |  |  |
| 548 | Non-compliance with laws and regulations pertaining to leases |  |  | **✓** | **✓** |  |  | **✓** |  | **✓** |  |  |
| 551 | Prohibited suppliers not checked on the National Treasury website |  |  | **✓** | **✓** |  |  | **✓** |  | **✓** |  |  |
| 553 | Three quotations not obtained for procurement of goods and services |  |  | **✓** | **✓** |  |  | **✓** |  | **✓** |  |  |
| 555 | Procurement deviation not reported to National Treasury and AGSA |  |  | **✓** | **✓** |  |  | **✓** |  | **✓** |  |  |
| 556 | Schedule of Irregular expenditure could not be obtained | **✓** |  | **✓** | **✓** |  |  | **✓** |  | **✓** |  |  |
| 558 | Information Technology Governance |  |  |  | **✓** |  |  | **✓** |  |  |  |  |
| 559 | Security Management |  |  |  | **✓** |  |  | **✓** |  |  |  |  |
| 560 | User Access Control |  |  |  | **✓** |  |  | **✓** |  |  |  |  |
| 561 | Information Technology Service Continuity |  |  |  | **✓** |  |  | **✓** | **✓** | **✓** |  |  |
| 562 | Property could not be traced to the immovable asset register |  |  |  | **✓** |  |  | **✓** | **✓** | **✓** |  |  |
| 565 | Information not submitted for audit purposes |  |  | **✓** | **✓** |  |  | **✓** |  |  |  |  |
| 566 | Payments made on leases that expired |  |  | **✓** | **✓** |  |  | **✓** |  |  |  |  |
| 569 | Accruals list overstated | **✓** |  |  | **✓** |  |  | **✓** |  |  |  |  |
| 571 | Understatement of accruals | **✓** |  |  | **✓** |  |  | **✓** |  |  |  |  |
| 573 | Supporting documentation outstanding for rates and taxes |  |  | **✓** | **✓** |  |  | **✓** |  |  |  |  |
| 575 | Supplier uses the vendor number of its subsidiary to claim VAT |  |  | **✓** | **✓** |  |  | **✓** |  |  |  |  |
| 578 | Information not submitted |  |  | **✓** | **✓** |  |  | **✓** |  |  |  |  |
| 579 | Straight lining of operating lease not done | **✓** |  |  | **✓** |  |  | **✓** |  |  |  |  |
| 580 | Lease invoice not received |  |  | **✓** | **✓** |  |  | **✓** |  |  |  |  |
| 582 | Transactions recorded in incorrect period | **✓** |  |  | **✓** |  |  | **✓** |  |  |  |  |
| 583 | Rates and taxes outstanding documentation |  |  | **✓** | **✓** |  |  | **✓** |  |  |  |  |
| 585 | Fruitless and wasteful expenditure: No supporting documentation received |  |  | **✓** | **✓** |  |  | **✓** |  |  |  |  |
| 586 | Accruals listing not complete for municipal services | **✓** |  |  | **✓** |  |  | **✓** |  |  |  |  |
| 588 | Liabilities incorrectly classified as contingent liabilities | **✓** |  |  | **✓** |  |  | **✓** |  |  |  |  |
| 590 | Manual changes to lease agreements |  |  | **✓** | **✓** |  |  | **✓** |  |  |  |  |
| 592 | Supporting documents for accruals could not be obtained for audit purposes. |  |  | **✓** | **✓** |  |  | **✓** |  |  |  |  |
| 594 | Expenses recorded in the accrual listing does not agree with supporting documents | **✓** |  |  | **✓** |  |  | **✓** |  |  |  |  |
| 596 | Payment vouchers not obtained for unplanned maintenance |  |  | **✓** | **✓** |  |  | **✓** |  |  |  |  |
| 597 | No policy in place for rotation of suppliers |  |  | **✓** | **✓** |  |  | **✓** |  |  |  |  |
| 598 | Municipal service amounts per BAS not agreeing to supporting documentation | **✓** |  |  | **✓** |  |  | **✓** |  |  |  |  |
| 599 | Owned and leasehold expenditure supporting documents not attached to payments |  |  | **✓** | **✓** |  |  | **✓** |  |  |  |  |
| 601 | Accruals payment batch not submitted for audit purposes |  |  | **✓** | **✓** |  |  | **✓** |  |  |  |  |
| 602 | Amounts on BAS could not be traced to PMIS | **✓** |  |  | **✓** |  |  | **✓** |  |  |  |  |
| 604 | Municipal services: Differences identified between schedules and invoices | **✓** |  |  | **✓** |  |  | **✓** |  |  |  |  |
| 605 | Lease escalation not taken into account |  |  | **✓** | **✓** |  |  |  | **✓** | **✓** |  |  |
| 607 | Rental payments in vain resulting in fruitless and wasteful expenditure |  |  | **✓** | **✓** |  |  |  | **✓** |  |  |  |
| 609 | SCM officials have not formally signed the code of conduct |  |  | **✓** | **✓** |  |  |  | **✓** |  |  |  |
| 611 | Supporting documents not stamped as paid |  |  |  | **✓** |  |  |  | **✓** |  |  |  |
| 613 | IT steering committee meetings not taking place |  |  |  | **✓** |  |  |  | **✓** | **✓** |  |  |
| 615 | Deficiencies identified in the risk assessment process |  |  |  | **✓** |  |  |  | **✓** |  |  |  |
| 619 | Deficiencies identified in Supply Chain Management Unit |  |  |  | **✓** |  |  |  | **✓** |  |  |  |
| 621 | Contract Sum (VAT inclusive) |  |  |  | **✓** |  |  |  | **✓** |  |  |  |
| 622 | Claims recoverable municipal services |  |  |  | **✓** |  |  |  | **✓** |  |  |  |
| 625 | Discrepancy identified from debtors confirmation |  |  |  | **✓** |  |  |  | **✓** |  |  |  |
| 627 | Incorrect classification of transactions | **✓** |  |  | **✓** |  |  |  | **✓** |  |  |  |
| 629 | Payments not stamped paid |  |  |  | **✓** |  |  |  | **✓** |  |  |  |
| 630 | Incorrect classification of transactions | **✓** |  |  | **✓** |  |  |  | **✓** |  |  |  |
| 631 | Internal control weaknesses pertaining to municipal services |  |  |  | **✓** |  |  |  | **✓** |  |  |  |
| 632 | Follow-up of reconciliation exceptions between PMIS and BAS not performed |  |  |  | **✓** |  |  |  | **✓** | **✓** |  |  |
| 634 | List of vacant buildings not indicating vacancy period |  |  |  | **✓** |  |  |  | **✓** |  |  |  |
| 635 | Inadequate controls over contracts for completed project |  |  |  | **✓** | **✓** |  |  | **✓** |  |  |  |
| 637 | Rates and insurance payments incorrectly classified as lease payments |  |  |  | **✓** |  |  |  | **✓** |  |  |  |
| 637 | Discrepancies noted between supporting documentation and accruals listing | **✓** |  |  | **✓** |  |  |  | **✓** | **✓** |  |  |
| 641 | No supporting documentation provided for lease commitment | **✓** |  | **✓** | **✓** |  |  |  | **✓** |  |  |  |
| 643 | Lease agreements not signed by both parties |  |  | **✓** | **✓** |  |  |  | **✓** | **✓** |  |  |
| 645 | No complaints register / file kept |  |  |  | **✓** |  |  |  | **✓** |  |  |  |
| 647 | Differences identified between schedules and invoices for rates and taxes | **✓** |  |  | **✓** |  |  |  | **✓** |  |  |  |
| 649 | Transactions not recorded and disclosed for revenue fines | **✓** |  |  | **✓** |  |  |  | **✓** |  |  |  |
| 652 | VAT numbers not obtained |  |  |  | **✓** |  |  |  | **✓** |  |  |  |
| 654 | Prior year fruitless and wasteful expenditure not disclosed | **✓** |  |  | **✓** |  |  |  | **✓** |  |  |  |
| 657 | Arrear rates and taxes not reconciled or adequately disclosed | **✓** |  |  | **✓** |  |  |  | **✓** |  |  |  |
| 659 | Claims recoverable could not be verified | **✓** |  |  | **✓** |  |  |  | **✓** |  |  |  |
| 661 | Lease agreement has no evidence for authorisation by a delegated official |  |  | **✓** | **✓** |  |  |  | **✓** | **✓** |  |  |
| 662 | Lease agreement not signed by a delegated official underpayment |  |  | **✓** | **✓** |  |  |  | **✓** | **✓** |  |  |
| 663 | VAT paid to non vendor |  |  |  | **✓** |  |  |  | **✓** | **✓** |  |  |
| 664 | Invoices not paid within 30 days |  |  | **✓** | **✓** |  |  |  | **✓** | **✓** | **✓** |  |
| 666 | Cut off of transactions incorrect | **✓** |  |  | **✓** |  |  |  | **✓** |  |  |  |
| 667 | No records found per SARS VAT vendor search |  |  | **✓** | **✓** |  |  |  | **✓** |  |  |  |
| 669 | Prospective suppliers list not appropriately compiled |  |  | **✓** | **✓** |  |  |  | **✓** |  |  |  |
| 671 | Letter of renewal not sent to lessor |  |  | **✓** | **✓** |  |  |  | **✓** |  |  |  |
| 672 | Procurement checklist - SCM policy (missing information – limitation of scope) |  |  | **✓** | **✓** |  |  |  | **✓** |  |  |  |
| 675 | Leases agreement not submitted for audit |  |  | **✓** | **✓** |  |  |  | **✓** |  |  |  |
| 676 | Project Execution Plan not attached in the file |  |  | **✓** | **✓** |  |  |  | **✓** |  |  |  |

DETAILED AUDIT FINDINGS

ANNEXURE A: MATTERS AFFECTING THE AUDITOR’S REPORT

# Irregular expenditure incomplete

## Audit finding

Section 38(1)(g) of PFMA states that on “discovery of any unauthorized, irregular or fruitless and wasteful expenditure, must immediately report, in writing, particulars of the expenditure to the relevant treasury and in the case of irregular expenditure involving the procurement of goods or services, also to the relevant tender board."

Public Finance Management Act section 40(4)(b) states that “the accounting officer of a department must each month submit information in the prescribed format on actual revenue and expenditure for the preceding month and the amounts anticipated for the month.”

Treasury Regulation 9.1.1 states that accounting officer of an institution must exercise all reasonable care to prevent and detect unauthorised, irregular, fruitless and wasteful expenditure, and must for this purpose implement effective, efficient and transparent processes of financial and risk management.

Treasury Regulation 9.1.2 states that “When an official of an institution discovers unauthorised, irregular or fruitless and wasteful expenditure, that official must immediately report such expenditure to the accounting officer. In the case of a department, such expenditure must also be reported in the monthly report, as required by section 40(4) (b) of the Act. Irregular expenditure incurred by a department in contravention of tender procedures must also be brought to the notice of the relevant tender board or procurement authority, whichever applicable.”

Treasury Regulation 9.1.3 states that “When an accounting officer determines the appropriateness of disciplinary steps against an official in terms of section 38(1)(g) of the Act, the accounting officer must take into account (a) the circumstances of the transgression; (b) the extent of the expenditure involved; and (c) the nature and seriousness of the transgression”

Treasury Regulation 9.1.4 states that “The recovery of losses or damages resulting from unauthorised, irregular or fruitless and wasteful expenditure must be dealt with in accordance with regulation 12.”

Treasury Regulation 9.1.5 states that “The amount of the unauthorised, irregular, fruitless and wasteful expenditure must be disclosed as a note to the Annual Financial Statements of the institution.”

Treasury Regulation 11.4.1 states that “An accounting officer may only write off debts owed to the State if he or she is satisfied that (a) all reasonable steps have been taken to recover the debt and the debt is irrecoverable, or, (b) he or she is convinced that, recovery of the debt would be uneconomical; recovery would cause undue hardship to the debtor or his or her dependants; or it would be to the advantage of the state to effect a settlement of its claim or to waive the claim”.

Treasury Regulation 11.4.2 states that “An accounting officer must ensure that all debts written off are done in accordance with a write off policy determined by the accounting officer”.

Treasury Regulation 11.4.3 states “All debts written off must be disclosed in the annual financial statements, indicating the policy in terms of which the debt was written off”.

The National Treasury Financial Reporting Framework Guidelines Chapter 8 disclosure notes states that irregular expenditure is expenditure incurred as a result of the following:

* Public Private Partnership expenditure without prior approval by relevant treasury (TR16.4.2)
* Purchase exceeding threshold (TR16A6.1)
* Procuring without inviting competitive bids (TR16A6.4)
* Non-compliance with Delegations of Authority
* Non-compliance with legislation e.g. Public Service Regulations “

The following are matters identified relating to irregular expenditure:

Monthly reporting of irregular expenditure

Management identified and disclosed irregular expenditure to the value of R364,049,000 in the 2011 Annual Financial Statements. Based on the review of the irregular expenditure reports and enquiry with management the expenditure was not reported on a monthly basis as required by the Treasury Regulations. This was also confirmed by the Assistant Director: Financial Reporting and Reconciliation that no reports were submitted to Treasury.

It is the responsibility of management to prepare, review and submit irregular expenditure on a monthly basis to the National Treasury. Registers are not properly maintained. The following are issues identified with regards to the registers:

* Individuals irregular expenditure registers received from some Regional offices are signed however the monthly consolidated registers are not signed by the preparer and the reviewer for following months.

|  |  |
| --- | --- |
| **Period** | **Amount**  **R** |
| 30 June 2010 | 3,247,774.26 |
| 31 October 2010 | 7,111,450.09 |
| 30 November 2010 | 36,248,967.29 |
| 31 March 2011 | 17,250,913.13 |

* According to the consolidated irregular expenditure register, the Regional offices listed below have not submitted their registers in certain months.

| **Region** | **Period** |
| --- | --- |
| Pretoria | 31 March 2011 |
| Polokwane | 31 March 2011 |
| Pretoria | 28 February 2011 |
| Polokwane | 28 February 2011 |
| Pretoria | 31 January 2011 |
| Mmabatho | 31 December 2010 |
| Pretoria | 31 December 2010 |
| Polokwane | 31 December 2010 |
| Pretoria | 30 November 2010 |
| Polokwane | 30 November 2010 |
| Kimberley | 30 November 2010 |
| Polokwane | 31 October 2010 |
| Pretoria | 31 October 2010 |
| Polokwane | 30 September 2010 |
| Pretoria | 31 August 2010 |
| Polokwane | 31 August 2010 |
| Mmabatho | 31 July 2010 |
| Polokwane | 31 July 2010 |
| Cape Town | 30 June 2010 |
| Nelspruit | 30 June 2010 |
| Polokwane | 30 June 2010 |
| Pretoria | 30 June 2010 |

In addition to the above an email was sent on 15 June 2011 to management by Assistant Director: Customer Billing stating some of the facts identified on reporting of the irregular, fruitless and wasteful expenditure by Regional offices. The following were stated in the email:

* Some regional offices ignore the reporting completely
* Some regional offices report to DPW at Head office instead of PMTE
* Some regional offices report on incorrect formats, even though templates were created
* Some regional offices do not request extension and delay inputs to National Treasury
* Some regional offices inputs were not signed
* Some regional offices do not balance their inputs back to the trial balance.

Approval of condoned expenditure

Included in note 12 of the entity’s Annual Financial Statements is irregular expenditure to the value of R38,768,000 condoned during the year. Request number 87 was issued to the auditee for approval of the condoned expenditure however the document was not provided for audit purposes.

Completeness of the disclosure note

Based on audit work performed in various components it is evident that management do not have processes, procedures and a system in place to identify, record, managed and report on irregular expenditure.

The monthly reporting to National Treasury is not done on a “monthly basis” based on a register not properly maintained thus the completeness of irregular expenditure could not be determined by management.

This constitutes non compliance with Treasury Regulation and PFMA results in irregular expenditure.

The Completeness of irregular expenditure will be reported as a qualification.

## Internal control deficiency

Leadership

The accounting officer/accounting authority exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

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

**Recommendation**

* Management should ensure that all financial transactions are identified timeously, recorded appropriately and completely**.**
* Consideration should be taken by management to review the existing policy and effect changes where necessary

## Management response

1. Monthly reporting of irregular expenditure

I am in agreement with this finding; the irregular was not reported to National Treasury. This was identified as a short coming during the year under review and it took some time to get reporting systems, etc in place. These measures are now in place and the PMTE will ensure that the irregular expenditure is reported on monthly basis.

1. Approval of condoned expenditure

The original response to RFI 87 was that the information can be obtained in the regions, subsequent to the approval for the condonement was submitted to AG on 12 July 2011.

1. Completeness of the disclosure note

I am not in agreement with the finding as the irregular expenditure disclosed in the financial statements was inclusive of all the irregular expenditure discovered during the year. The amount disclosed was based on inputs received from the regions, consolidated for the whole year.

## Auditor’s conclusion

Management comments have been noted. A material amount for irregular expenditure was identified through the audit process and management did not identify and/or report the irregular expenditure. This is a clear indication that the processes or systems in place to identify, record, manage and report on irregular expenditure.

# Contingent Liabilities not recognised in terms of SA GAAP

## Audit finding

The International Accounting Standards (IAS) 37 (AC103) states the following:

* Paragraph 10 states that “a provisionis a liability of uncertain timing or amount”.
* A contingent liability is:

1. A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
2. A present obligation that arises from past events but is not recognized because:
3. It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
4. The amount of the obligation cannot be measured with sufficient reliability.”

* Paragraph 30 states that “contingent liabilities may develop in a way not initially expected”. Therefore, they are assessed continually to determine whether an outflow of resources embodying economic benefits has become probable. If it becomes probable that an outflow of future economic benefits will be required for an item previously dealt with as a contingent liability, a provision is recognised in the financial statements of the period in which the change in probability occurs (except in the extremely rare circumstances where no reliable estimate can be made)”
* Paragraph 38 further states that “The estimates of outcome and financial effect are determined by the judgment of the management of the entity, supplemented by experience of similar transactions and, in some cases, reports from independent experts. The evidence considered includes any additional evidence provided by events after the reporting period.”

During the audit of the Contingent liabilities disclosed in the financial statements, the following was noted:

1. Opening balances do not agree to the closing balances of the prior year financial statements

The closing balance for the prior financial statements (31 March 2010) does not agree with the opening balance for the current year financial statements (31 March 2011). The differences are as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Closing Balance @ 31 March 2010  R'000** | **Opening Balance @ 1 April 2010 R'000** | **Difference**  **R‘000** |
| **Contingent liabilities** | 70,276 | 65,776 | 65,705 |

In comparing the detail for contingent liabilities for 2009/10 with that for 2010/11 we identified various differences between the schedules where litigations were included in the prior year but excluded from the current year and *vice versa.* Sufficient explanations were not provided to facilitate a proper reconciliation and ascertaining ourselves as to the completeness of the 2010/11 schedule supporting the disclosure made in the Annual Financial Statements.

1. Prior Period Error not accounted for in terms of IAS 18 (AC 103) Accounting Policies, Changes in Accounting Estimates and Errors states the following:

***“Prior period*** *errors* are omissions from, and misstatements in, the entity’s financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

* was available when financial statements for those periods were authorised for issue; and
* could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.”

The prior year financial statements erroneously included the claims against the Department of Public Works in the Annual Financial Statements of the PMTE. The prior period financial statements were therefore misstated by R320,728,000 as these amounts relates to the claims against the Department of Public Works and not PMTE. This is a prior period error and should be disclosed as such in terms of SA GAAP.

In the current financial statements, management have left out the line item (Other Departments (Interdepartmental Unconfirmed Balances)) realising that it should not be included in the Annual Financial Statements of the PMTE. This is not applying prudent accounting principles and thus results in an error in the Annual Financial Statements.

1. The Litigations and claims per the representation from Legal services dated 5 July differ from the Contingent liabilities per the financial statements.

On 5 July 2011, the representation was requested from the entity’s Legal Service unit, to detail the description of the matter, the estimate of the financial exposure and the contract details of the state attorney/legal counsel that represents the case, and the following was noted:

* A number of contingent liabilities in the schedule that ties up to the Annual Financial Statements were not disclosed in the representation letter from Legal services for which the difference amounts to R30 157 987 000.[[3]](#footnote-3)
* Some of the contingent liabilities appeared in the representation letter but were not disclosed in the schedule of contingent liabilities totaling to R11 244 284.
* Some of the amounts of contingent liabilities in the schedule did not agree with the amounts estimated in the representation for which the difference amounts to R23 819 045.
* The contingent liability for the following liability/claim has been duplicated amounting to an overstatement of R2 443 472.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Nature of liability** | **Opening balance**  **1 April 2009** | **Liabilities incurred during the year** | **Liabilities paid/ cancelled/ reduced during the year** | **Closing balance**  **31 March 2011** |
| KE SONS INVESTMENT: Claim for breach of contract | R2 443 472,00 |  |  | R2 443 472,00 |
| KE SONS : Breach of Contact |  | R2 443 472,00 |  | R2 443 472,00 |
| **Totals** | **R2 443 472,00** | **R2 443 471,00** | **-** | **R4 886 943,00** |

A meeting was held with officials from Legal Services to discuss the differences (as indicated above) on 14 July 2011. The legal representatives agreed to “re-submit an accurate representation letter” to the auditors before the end of business on the same day. We received the information on 18 July after enquiry from the CFO. The information was therefore not considered for audit purposes. This is considered to be an unnecessary delay in our as the information was not submitted within the agreed time period.

1. The litigations and claims are not assessed for recognition in terms of IAS 37 for provisions

Based on the discussion during the meeting between the auditors and Legal Services officials held on 14 July 2011, we noted that all the litigations and claims against the entity are disclosed as Contingent Liabilities. No assessment is made to establish the probability of the success of the claim and outflow of future economic resources. This is a non compliance with the requirements of the standard.

The estimates of outcome and financial effect have not been determined by the judgment of the management of the entity. The evidence including any additional evidence provided by events after the reporting period have not been taken into account in adjusting the expected financial exposure. Instead, the amounts as per the claim by the person suing the entity are taken on in the schedules. Furthermore, we requested the legal advisors to provide us with the “details” of the court cases that have been finalised to date. This was to confirm whether there are confirmed litigations against the department for which they have a present obligation to settle the claim, in which case a provision should be raised.

The legal advisors indicated that such information is not available at the Head office level but at the Regions. This is a clear indication that the Trading Entity does not assess their litigations to ensure compliance with IAS 37. Head office should take the responsibility for this assessment as part of the Annual Financial Statement preparation process. This creates a limitation on our work as we cannot determine whether a provision should have been raised or whether the contingent liabilities disclosed is accurate, complete and valid.

We have sent legal confirmation to the legal representatives as indicated in the letter from the legal counsel of PMTE in order to confirm the details of the contingent liabilities as indicated in the financial statements. We have not received the responses as yet.

Management did not design processes that will ensure that the financial statements are prepared in terms of SA GAAP. Based on the non compliance issues identified, this will result in a qualification of the contingent liabilities.

## Internal control deficiency

*Financial and Performance management*

Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information

*Control activities*

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

## Recommendation

* Management should ensure compliance with the Statements of GAAP on presentation and disclosure of Provisions and Contingent Liabilities.
* Information furnished for audit purposes must be reviewed for accuracy and validity prior submission

## Management response

1. I am in agreement with the finding. The initial representation submitted included cases which did not have financial implications and was subsequently corrected and submitted on the 18th July 2011.

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Closing Balance @ 31 March 2010  R'000** | **Opening Balance @ 1 April 2010 R'000** | **Difference**  **R‘000** |
| **Contingent liabilities** | 70,276 | 65,776,125 | -65,705,849 |

1. The difference between the opening balance is not R65 705 849 it is R4,5million and is still being investigated.
2. The department agrees that the assessment of the contingent liabilities was not done for the AFS as per IAS 37. This requirement will be implemented during the interim AFS..

*Name:* Cathy Motsisi

*Position: Chief Financial Officer*

*Date: 22 July 2011*

## Auditor’s conclusion

Management has agreed with our findings.

The fact that the contingent liabilities are not treated in terms of SA GAAP, i.e, not assessed in terms of IAS 37, will be reported on in the audit report and forms a basis for the audit opinion.

The prior period error that has not been accounted for in terms if IAS 18, will be reported on in the audit report as a non compliance.

# Incorrect straight lining of leases

## Audit Finding

Section 40(1) of Public Finance Management Act states that “the accounting officer for a department, trading entity or constitutional institution:

* must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;
* must prepare financial statements for each financial year in accordance with generally recognized accounting practice”

Section 41 of the Public Finance Management Act, 1999 (Act no.1 of 1999) state that “an accounting officer for a department must submit to the relevant treasury and the Auditor General such information, returns, documents, explanations and motivations as may be prescribed or as the relevant treasury or the Auditor General may require.

IAS17.33 states that lease payments under an operating lease shall be recognised as an expense on a straight line basis over the lease term unless another systematic basis is more representative of the time pattern of the user’s benefit.\*

IAS17.50 states that lease income from operating leases shall be recognised in income on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished.

We reviewed the lease straight-lining schedule and noted that the lease straight-lining schedule is incorrect and that management did not reviewed the work performed to ensure the accuracy thereof and make corrections when necessary. Further to this we identified lease contracts with “0% escalation clause” included in the straight lining calculation.

1. Lease expenses can only be straight-lined when the lease contracts specify a fixed escalation.

|  |  |  |
| --- | --- | --- |
| **Number of lease contracts with 0% escalation** | **Total amount recognised in AFS as deferred operating lease expense** | **Amount recognised as deferred lease expense with 0% escalation** |
| 1446 contracts | R443,059,421.93 | R203,829,730.83 |

1. The following are examples of the lease contracts on office buildings affected.

| **REGION** | **PROP CODE** | **LEASE START** | **LEASE END** | **LESSOR NAME** | **CLIENT DEPARTMENT** | **DIFF/DEFERRED LEASE EXPENSE** |
| --- | --- | --- | --- | --- | --- | --- |
| PRETORIA | 19 | 2011/01/02 | 2012/01/31 | SUMMERMANIA SEVEN (PTY) LTD | WATER AFFARS | R 15 222 008.77 |
| PRETORIA | 164235 | 2011/01/02 | 2011/07/31 | INVESTEC PROPERTY | INTER RELATIONS & COOPERATIONS | R 10 789 365.65 |
| PRETORIA | 138382 | 2011/01/02 | 2012/01/31 | REDEFINE PROPERTIES LIMITED | SA POLICE SERVICES | R 10 722 376.79 |
| PRETORIA | 301675 | 2011/01/03 | 2012/02/29 | TUFFSAN 89 INVESTMENT HOLDINGS | SA POLICE SERVICES | R 9 936 331.60 |
| PRETORIA | 124 | 2011/01/05 | 2012/04/30 | SILVER MEADOW PROPERTIES 142 ( | SA POLICE SERVICES | R 9 496 452.23 |
| MMABATHO | 165217 | 2011/01/03 | 2012/02/29 | HERMANS & ROMAN PROPERTY SOL | HOME AFFAIRS | R 7 850 147.70 |
| PORT ELIZABETH | 307203 | 2011/01/04 | 2012/03/31 | SLIP KNOT INVESTMENTS 777 PTY | SA SOCIAL SECURITY AGENCY | R 7 257 086.00 |
| CAPE TOWN | 222123 | 2011/01/04 | 2012/03/31 | REDEFINE PROPERTIES LIMITED | RURAL DEVELOPMENT LAND & REFORM | R 6 864 990.07 |
| PRETORIA | 23 | 2011/01/02 | 2012/01/31 | NEW HEIGHTS 326 PTY LTD | DEFENCE & MILITARY VET | R 5 351 823.22 |
| PRETORIA | 42 | 2011/01/02 | 2012/01/31 | INVESTEC PROPERTY | PUBLIC ENTERPRISES | R 4 633 816.53 |
| POLOKWANE | 276838 | 2011/01/02 | 2012/01/31 | APEXHI PROPERTIES LIMITED | JUSTICE AND CONSTITUTIONAL DEVELPM | R 3 536 353.76 |
| JOHANNESBURG | 135594 | 2010/01/10 | 2010/10/31 | EKURHULENI METROPALITAN MUNICI | JUSTICE AND CONSTITUTIONAL DEVELPM | R 3 225 689.28 |
| MMABATHO | 301990 | 2011/01/04 | 2012/03/31 | HERMANS & ROMAN PROPERTY SOL | WATER AFFARS | R 3 186 427.17 |
| BLOEMFONTEIN | 140110 | 2011/01/04 | 2012/03/31 | METROPOLITAN PROPERTIES | SA POLICE SERVICES | R 2 935 327.11 |
| POLOKWANE | 162860 | 2011/01/03 | 2012/02/29 | TIRADE PROPERTIES 136 (PTY) LT | SA POLICE SERVICES | R 2 886 436.65 |
| BLOEMFONTEIN | 315122 | 2011/01/04 | 2012/03/31 | THE MICHAEL FAMILY TRUST | NATIONAL PROSECUTING AUTHORITY | R 2 723 980.63 |
| DURBAN | 138048 | 2011/01/04 | 2011/09/30 | IMA RENT COLLECTOR 4 CC | HOME AFFAIRS | R 2 705 229.68 |
| NELSPRUIT | 297138 | 2011/01/05 | 2012/04/30 | GEORGE LOWE PROPERTY TRUST CC. | SA POLICE SERVICES | R 2 480 711.42 |
| CAPE TOWN | 158884 | 2011/01/01 | 2011/12/31 | PADDY S PAD 2509 (PTY) LTD | RURAL DEVELOPMENT LAND & REFORM | R 2 272 626.96 |
| BLOEMFONTEIN | 302095 | 2010/01/04 | 2011/03/31 | RURAL DEVELOPMENT LAND & REFORM |  | ( R 388 950.56) |
| JOHANNESBURG | 317077 | 2010/01/11 | 2012/10/31 | BROLL-REDEFINE (LH) | JUSTICE AND CONSTITUTIONAL DEVELPM | ( R 497 855.82) |
| BLOEMFONTEIN | 316842 | 2010/01/08 | 2011/07/31 | THE GEORGE NICOLAS TRUST | RURAL DEVELOPMENT LAND & REFORM | ( R 511 970.40) |
| CAPE TOWN | 296307 | 2000/01/10 | 2010/09/30 | MAVIS SERVICE STATION CC | SA POLICE SERVICES | ( R 520 824.53) |
| BLOEMFONTEIN | 302092 | 2010/01/04 | 2011/03/31 | THE GEORGE NICOLAS TRUST | RURAL DEVELOPMENT LAND & REFORM | ( R 521 030.82) |
| BLOEMFONTEIN | 302089 | 2010/01/04 | 2011/03/31 | THE GEORGE NICOLAS TRUST | RURAL DEVELOPMENT LAND & REFORM | (R 551 642.66) |
| DURBAN | 295427 | 2010/01/11 | 2011/04/30 | ERIS PROPERTY GROUP |  | ( R 557 363.35) |
| DURBAN | 297725 | 2010/01/09 | 2011/08/31 | SWISH PROPERTY EIGHT (PTY)LTD | SA POLICE SERVICES | ( R 559 390.70) |
| PRETORIA | 301804 | 2008/01/05 | 2010/11/30 | MANAKA PROPERTY INVESTMENTS (P | HEALTH | ( R 579 348.00) |
| JOHANNESBURG | 305393 | 2005/01/08 | 2010/07/31 | HERMANS & ROMAN PROPERTY SOLUT | SA POLICE SERVICES | ( R 634 277.64) |
| PORT ELIZABETH | 312248 | 2009/01/09 | 2010/08/31 | VDZ PROPERTIES CISKEI (PTY) | HUMAN SETTLEMENTS | ( R 643 091.00) |
| PRETORIA | 316995 | 2010/10/01 | 2011/03/31 | MOTLA CONRADIE INCORPORATED | THE PRESIDENCY | ( R 678 400.00) |
| PRETORIA | 301660 | 2007/01/05 | 2011/06/30 | SERVEST (PTY) LTD |  | ( R 731 181.58) |
| PRETORIA | 277850 | 2007/01/07 | 2010/06/30 | FOUR RIVERS TRADING 422 (PTY) | SA POLICE SERVICES | ( R 784 001.22) |
| PRETORIA | 296910 | 2009/01/10 | 2010/09/30 | GENSEC PROP SERVICES | JUSTICE AND CONSTITUTIONAL DEVELPM | ( R 896 250.88) |
| UMTATA | 303277 | 2010/01/08 | 2011/07/31 | KEI TRANSPORT (PTY) LTD |  | (R 1 443 661.50) |
| UMTATA | 301243 | 2010/01/01 | 2010/12/31 | MARKET DEVELOPMENT PTY LTD | SA POLICE SERVICES | ( R 1 665 84.92) |
| PRETORIA | 316525 | 2009/01/06 | 2011/05/31 | RENT ASSURED TRUST ACCOUNT | CORRECTIONAL SERVICES | ( R 1 959 464.22) |
| POLOKWANE | 299289 | 2008/01/10 | 2010/05/31 | NORTHERN TRAINING TRUST | SA POLICE SERVICES | ( R 2 183 306.36) |
| MMABATHO | 316781 | 2010/01/07 | 2010/09/30 | LESEGO B MAKWATI RETAIL | HOME AFFAIRS | ( R 7 081 737.81) |

1. Expired lease contracts were taken into account in straight lining the lease expense and the effect is as follows.

|  |  |  |
| --- | --- | --- |
| **Number of lease contracts expired** | **Amount recognized in AFS as deferred operating lease expense** | **Amount recognized with 0% escalation** |
| 132 contracts | R 443 059 421.93 | R 4 635 916.31 |

1. The following are examples of the expired lease contracts on office buildings where lease straight lining has been taken into account.

| **REGION** | **PROP CODE** | **LEASE START** | **LEASE END** | **LESSOR NAME** | **CLIENT DEPARTMENT** | **DIFF/DEFERRED LEASE EXPENSE** |
| --- | --- | --- | --- | --- | --- | --- |
| PRETORIA | 302645 | 2007/01/02 | 2010/07/31 | DREAMFAIR PROPERTIES 26 (PTY) | EDUCATION | (R 2 474 614.45) |
| PRETORIA | 35 | 2005/01/07 | 2010/06/30 |  | WATER AFFAIRS AND FORESTRY | (R 1 509 761.46) |
| PRETORIA | 307296 | 2006/01/04 | 2011/03/31 |  | SA POLICE SERVICES | (R 1 396 119.52) |
| NELSPRUIT | 277204 | 2007/01/09 | 2010/08/31 |  | RURAL DEVELOPMENT LAND & REFORM | ( R 868 155.14) |
| CAPE TOWN | 303263 | 2009/01/04 | 2011/03/31 | RMB PROPERTIES | LABOUR | ( R 708 364.88) |
| MMABATHO | 306340 | 2006/01/04 | 2011/03/31 | SHAMA INVESTMENTS PTY LTD | RURAL DEVELOPMENT LAND & REFORM | ( R 666 781.82) |
| PRETORIA | 310903 | 2008/01/03 | 2011/02/28 |  | PUBLIC WORKS | ( R 626 061.41) |
| CAPE TOWN | 306290 | 2006/01/04 | 2011/03/31 |  | HOME AFFAIRS | ( R 482 202.32) |
| POLOKWANE | 303018- | 2009/01/12 | 2010/11/30 |  | LABOUR | ( R 432 158.66) |
| PRETORIA | 312900 | 2009/01/03 | 2011/02/28 |  | CORRECTIONAL SERVICES | ( R 405 242.88) |
| PRETORIA | 174630 | 2009/01/11 | 2010/10/31 |  | SA POLICE SERVICES | ( R 393 535.20) |
| CAPE TOWN | 298583 | 2009/01/06 | 2010/05/31 |  | CORRECTIONAL SERVICES | ( R 318 112.98) |
| BLOEMFONTEIN | 305432 | 2008/01/07 | 2010/06/30 |  | SA POLICE SERVICES | ( R 270 161.18) |
| JOHANNESBURG | 300451 | 2007/01/11 | 2010/04/30 |  | SA POLICE SERVICES | ( R 265 897.60) |
| UMTATA | 310928 | 2007/01/11 | 2010/10/31 |  | SA SOCIAL SECURITY AGENCY | ( R 250 664.29) |
| PRETORIA | 154722 | 2008/01/04 | 2010/10/30 | REDEFINE PROPERTIES LIMITED | RURAL DEVELOPMENT LAND & REFORM | ( R 248 730.69) |
| MMABATHO | 300423 | 2009/01/09 | 2011/03/31 | PRIME SPACE PROPERTIES CC | RURAL DEVELOPMENT LAND & REFORM | ( R 243 283.33) |
| BLOEMFONTEIN | 113132 | 2008/01/05 | 2010/04/30 |  | JUSTICE AND CONSTITUTIONAL DEVELPM | ( R 215 700.56) |
| JOHANNESBURG | 124120 | 2009/01/04 | 2011/03/31 | ALCHEMY PROPERTY MANAGEMENT | LABOUR | ( R 215 232.35) |
| JOHANNESBURG | 299654 | 2006/01/03 | 2011/02/28 | BEDFORD AVENUE (LH) | SA POLICE SERVICES | R 105 090.46 |
| JOHANNESBURG | 301192 | 2008/01/12 | 2010/11/30 | DICKINSON ESTATE LETTING | LABOUR | R 113 931.34 |
| JOHANNESBURG | 297225 | 2007/01/05 | 2010/04/30 | FINESSE ENTERPRISES (LH) | CORRECTIONAL SERVICES | R 121 269.52 |
| JOHANNESBURG | 311762 | 2008/01/09 | 2010/08/31 | BILL CARR PROPERTIES CC | SA SOCIAL SECURITY AGENCY | R 133 145.82 |
| JOHANNESBURG | 312320 | 2008/01/08 | 2010/07/31 | TOMBOY PROPERTY INVESTMENTS(PT | SA SOCIAL SECURITY AGENCY | R 141 199.69 |
| JOHANNESBURG | 301193 | 2008/01/12 | 2010/11/30 | RICHMAN POORMAN FINANCE (LH) | SA POLICE SERVICES | R 145 661.14 |
| JOHANNESBURG | 136710 | 2008/01/10 | 2010/09/30 | LESLIE DIAB PTY LTD | SA POLICE SERVICES | R 196 284.66 |
| PORT ELIZABETH | 299320 | 2011/01/04 | 2011/01/05 | JUTE/SCHOEMAN TRUST | SA POLICE SERVICES | R 256 728.05 |
| JOHANNESBURG | 312319 | 2008/01/08 | 2010/07/31 | TOMBOY PROPERTY INVESTMENTS(PT | SA SOCIAL SECURITY AGENCY | R 311 093.78 |
| JOHANNESBURG | 299098 | 2009/01/06 | 2010/05/31 | EERSBEWOOND BELEGGINGS (PTY) L | HOME AFFAIRS | R 369 849.87 |
| PORT ELIZABETH | 155075 | 2011/01/04 | 2011/01/05 | MURRAY P.H | SA POLICE SERVICES | R 386 210.39 |
| JOHANNESBURG | 311053 | 2008/01/11 | 2010/10/31 | J.T. ROSS PROPERTY SERVICES (P | HOME AFFAIRS | R 426 298.02 |
| JOHANNESBURG | 124112 | 2008/01/05 | 2010/04/30 | GRAND LAKE PROPERTY INVESTMENT | LABOUR | R 539 637.70 |
| JOHANNESBURG | 158454 | 2005/01/03 | 2010/06/30 | DIPULA PROPERTY INVESTMENT TRU | FINANCIAL & FISCAL COMMISSION | R 737 166.51 |
| JOHANNESBURG | 164586 | 2008/01/07 | 2010/06/30 | AMARYLLIS INV | JUSTICE AND CONSTITUTIONAL DEVELPM | R 1 030 340.52 |
| JOHANNESBURG | 300966 | 2008/01/05 | 2010/04/30 | HOSTPROPS 85 (PTY) LTD | STATISTICS SOUTH AFRICA | R 2 054 913.91 |
| JOHANNESBURG | 314767 | 2009/01/03 | 2011/02/28 | OCTODEC INV LTD | JUSTICE AND CONSTITUTIONAL DEVELPM | R 2 509 786.18 |
| POLOKWANE | 301943 | 2010/01/04 | 2011/03/31 | PUBLIC WORKS LIMPOPO PROVINCE | HOME AFFAIRS | R 18 023.04 |

1. In the re-calculations of deferred operating lease expenses for a few properties and comparison thereof to the lease register, the following differences were identified.

* Incorrect formulas
* Straight lining determined on lease contracts with 0% escalation
* Straight lining determined on expired lease contract.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Property No** | **Property Name** | **Start period** | **End Period** | **Deferred lease expense : Recalculated**  **(A)** | **Deferred lease expense : Per lease register**  **(B)** | **Difference (A)-(B)** |
| 305206 | Gallagher Estate | 2011/01/03 | 2015/02/28 | ( R 1 069 849.62) | R 31 262 257.88) | (R 32 332 107.49) |
| 99 | Forum building | 2010/01/11 | 2020/10/31 | ( R 25 322 843.16) | ( R 36 379 372.39) | R 11 056 529.23 |
| 39 | Poynton | 2009/01/12 | 2012/11/30 | ( R 2 361 741.70) | ( R 12 482 379.14) | R 10 120 637.44 |
| 139713 | Foretrust | 2008/01/01 | 2017/11/30 | ( R 41 350 959.18) | ( R 18 516 712.57) | (R 22 834 246.61) |
| 303716 | Siemens Building | 2009/01/10 | 2011/09/30 | ( R 1 439 640.03) | ( R 1 595 822.59) | R 156 182.57 |
| 301684 | De Bruyn Park | 2009/01/06 | 2013/05/31 | ( R 16 821 671.63) | ( R 4 211 597.55) | (R 12 610 074.08) |
| 301653 | 115 Buitengracht street | 2003/01/06 | 2013/04/30 | ( R 16 821 671.63) | ( R 2 232 151.03) | (R 14 589 520.60) |
| 314683 | 114 Vermeulen street | 2009/07/07 | 2019/05/31 | ( R 192 495 508.92) | ( R 297 945 340.44) | R 105 449 831.51 |
| 94855 | Halifax House | 2007/01/04 | 2017/02/28 | ( R 6 436 338.04) | ( R 3 582 169.48) | (R 2 854 168.57) |
| 313496 | The Wheel Mall - 2nd Floor | 2009/01/03 | 2014/02/28 | ( R 1 979 336.42) | ( R 2 883 239.51) | R 903 903.10 |
| **TOTAL** |  |  |  | **( R 306 099 560,34)** | **( R 348 566 526,82)** | **42 466 966,48** |

1. Summary

|  |  |
| --- | --- |
| **Description** | **Value (R)** |
| Error amount | 42,466,966.48 |
| Sample total | 331,743,875.00 |
| Error rate | 12.80% |
| Population | 443,059,421.93 |
| Projected error | **56,716,614.95** |

Based on the above operating leases are misstated in the Annual Financial Statements resulting in a qualification in the Audit Report. No proper reviews are conducted by management on work performed by consultants and IAS 17 principles are incorrectly applied.

## Internal control deficiency

*Financial and Performance management*

* 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
* 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
* Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information

*Control activities*

* Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting
* Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting
* Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information

## Recommendation

Management should ensure that financial statements and supporting schedule are reviewed and deficiencies are resolved timeously.

## Management response

I agree with the finding. However, we have already addressed the errors relating to leases with 0 escalations and the only thing that changed is the formula in the calculations and everything else in the list remains the same.

Juanita Prinsloo

CD: Trading Account

22 July 2011

## Auditor’s conclusion

Management has agreed with our finding. The difference identified between management’s calculation and our calculation is material and will therefore have an impact on our audit report. This is a material disagreement with management.

# Completeness of fruitless and wasteful expenditure

## Audit finding

Section 38(1)(g) of PFMA states that on discovery of any unauthorised, irregular or fruitless and wasteful expenditure, the accounting officer must immediately report, in writing, particulars of the expenditure to the relevant treasury and in the case of irregular expenditure involving the procurement of goods or services, also to the relevant tender board."

Public Finance Management Act section 40(4)(b) states that **“**the accounting officer of a department must each month submit information in the prescribed format on actual revenue and expenditure for the preceding month and the amounts anticipated for the month.”

Treasury Regulation 9.1.1 states that accounting officer of an institution must exercise all reasonable care to prevent and detect unauthorised, irregular, fruitless and wasteful expenditure, and must for this purpose implement effective, efficient and transparent processes of financial and risk management.

Treasury Regulation 9.1.2 states that “When an official of an institution discovers unauthorised, irregular or fruitless and wasteful expenditure, that official must immediately report such expenditure to the accounting officer. In the case of a department, such expenditure must also be reported in the monthly report, as required by section 40(4) (b) of the Act. Irregular expenditure incurred by a department in contravention of tender procedures must also be brought to the notice of the relevant tender board or procurement authority, whichever applicable.”

Treasury Regulation 9.1.3 states that “When an accounting officer determines the appropriateness of disciplinary steps against an official in terms of section 38(1)(g) of the Act, the accounting officer must take into account (a) the circumstances of the transgression; (b) the extent of the expenditure involved; and (c) the nature and seriousness of the transgression”.

Treasury Regulation 9.1.4 states that “The recovery of losses or damages resulting from unauthorised, irregular or fruitless and wasteful expenditure must be dealt with in accordance with regulation 12.”

Treasury Regulation 9.1.5 states that “The amount of the unauthorised, irregular, fruitless and wasteful expenditure must be disclosed as a note to the Annual Financial Statements of the institution.”

The Departmental Financial Reporting Framework Guide Chapter 8 of the Disclosure Notes states that, "Fruitless and wasteful expenditure is recognised as expenditure in the statement of financial performance according to the nature of the payment and not as a separate line item on the face of the statement. If the expenditure is recoverable it is treated as an asset until it is recovered from the responsible person or written off as irrecoverable in the statement of financial performance." The guide also states the following: “From 2008/09, fruitless and wasteful expenditure is shown as a disclosure note.

* On **discovering** a possible fruitless and wasteful expenditure, the department must record the alleged fruitless and wasteful expenditure in the relevant register.
* The department must **evaluate** if the alleged fruitless and wasteful expenditure is valid. If the fruitless and wasteful expenditure is **valid**, the relevant register must be updated stating that the expenditure is in actual fact fruitless and wasteful expenditure. These amounts must be included in the disclosure notes.
* If the fruitless and wasteful expenditure is **not valid**, the relevant register must be updated stating that the alleged fruitless and wasteful expenditure was found not to be valid.
* Validity of fruitless and wasteful expenditure must be determined before submission of the Annual Financial Statements for audit purposes. If fruitless and wasteful expenditure that occurred in the year under review is discovered during the audit, validity thereof must be determined before the audit is concluded.

If the fruitless and wasteful expenditure relates to the current financial year, expenditure meets the definition of fruitless and wasteful expenditure (after an investigation) and it is recoverable from a responsible official. The following entries must be processed.”

|  |  |  |
| --- | --- | --- |
| **Accounts** | **Debit** | **Credit** |
| Debt account (staff debt) (POS) | XXXX |  |
| Appropriate expenditure item |  | XXXX |

1. Payments made through the fruitless and wasteful expenditure account

Through inspection of the “fruitless and wasteful expenditure account” it was noted that payments were made from the fruitless and wasteful expenditure account, i.e. processed a transaction to this account. This is in contradiction with the reporting guideline. Fruitless and wasteful expenditure should be included as a disclosure note.

|  |  |  |  |
| --- | --- | --- | --- |
| **No.** | **Payment Number** | **Description** | **Amount**  **R** |
| 1 | 286102 | Payment Upgrade of Kitchen: Capital Amount | 33 265.50 |
| 2 | 286102 | Payment Upgrade of Kitchen: Interest | 33 265.50 |
| 3 | 289796 | Payment For Upgrading Kitchen | 9 707.15 |
|  |  |  | **76 238.15** |

1. Monthly reporting of fruitless and wasteful expenditure

During the year management identified and disclosed an amount of R6 772 000 in the 2011 Annual Financial Statements. The monthly reports were not submitted to the National Treasury. Request for Information 82 was issued and management confirmed that they have not submitted the monthly reports for fruitless and wasteful expenditure to National Treasury.

1. Interest on overdue account

Through inspection of interest on overdue account, the entity made payment relating to interest which were charged on the overdue accounts. This interest is expenditure that is fruitless and wasteful as defined. Management did not disclose the amount as fruitless and wasteful expenditure in Disclosure Note 12. As a result, the fruitless and wasteful expenditure is understated by R1 705 313as reflected in the table below.

|  |  |
| --- | --- |
| **Region** | **Amount (R)** |
| Nelspruit | 1 526 888.55 |
| Durban | 1 374,37 |
| Port Elizabeth | 177 050,34 |
| **Total** | **1 705 313,26** |

1. Fruitless and wasteful expenditure register.

Registers are not properly maintained and reviewed by management. Individuals fruitless and wasteful expenditure registers received from Regional offices are signed however the monthly consolidated registers were not signed by the preparer and the reviewer for the following periods.

|  |  |
| --- | --- |
| **Period** | **Amount**  **R** |
| 28 February 2011 | 851 027.91 |
| 31 December 2010 | 917 653.91 |
| 30 November 2010 | 788 403.91 |
| 31 August 2010 | 744 292.07 |
| 30 June 2010 | 286 565.76 |

1. According to the consolidated fruitless and wasteful expenditure register some of the regional offices have not submitted their registers in certain months. Refer to the details as indicated below.

|  |  |
| --- | --- |
| **Region** | **Period** |
| Pretoria | 31 March 2011 |
| Polokwane | 31 March 2011 |
| Pretoria | 31 January 2011 |
| Polokwane | 31 January 2011 |
| Johannesburg | 30 November 2010 |
| Kimberly | 30 November 2010 |
| Pretoria | 30 November 2010 |
| Pretoria | 31 July 2010 |
| Polokwane | 31 July 2010 |
| Pretoria | 30 June 2010 |
| Polokwane | 30 June 2010 |
| Pretoria | 31 October 2010 |
| Polokwane | 31 October 2010 |
| Johannesburg | 31 October 2010 |
| Mmabatho | 31 December 2010 |
| Pretoria | 31 December 2010 |

In addition to the above an email was sent on the 15 June 2011 to regional office by Assistant Director: Customer Billing indicating to the regions that are not complying with reporting requirements of fruitless and wasteful expenditure. The following were stated in the email:

* Some regional offices ignore the reporting completely
* Some regional offices report to DPW at Head office instead of PMTE
* Some regional offices report on incorrect formats, even though templates were created
* Some regional offices do not request extension and delay inputs to National Treasury
* Some regional offices inputs were not signed
* Some regional offices do not balance their inputs back to the trial balance.

The schedule of fruitless and wasteful expenditure and register are not reviewed by management for correctness and completeness. The completeness of the fruitless and wasteful expenditure in the financial statement is therefore a concern as there are not proper controls in place to ensure the completeness and accuracy of the amounts disclosed in the Annual Financial Statement.

Monthly reporting offruitless and wasteful expenditure is not done. This could result in non-compliance with Treasury Regulation and PFMA. A qualification for the fruitless and wasteful expenditure will be raised in the audit report.

## Internal control deficiency

*Leadership*

The accounting officer/accounting authority exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

*Oversight responsibility*

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

*Financial and performance management*

Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information

*Control activities*

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

## Recommendation

* Management should ensure that all financial transactions are recorded appropriately and completely.
* The fruitless and wasteful expenditure register should be compiled on monthly basis and management should review the register to ensure compliance with Treasury Regulation and PFMA.

## Management response

I am in agreement with the finding and appropriate action has been taken to ensure that all matters mentioned in the finding are attended to and resolved for future financial period. During the 2009/10 financial year, certain functions previously performed by the DPW Finance team were transferred to the PMTE team. The functions and people were transferred with approval of the Minister. Unfortunately, the function of reporting on Fruitless and Wasteful were not transferred correctly and for that period no reporting was done on PMTE Fruitless and Wasteful expenditure. This was identified during the Audit which concluded in July 2010. An official was nominated to take over this function and he immediately started with the implementation. This took time and no reports were submitted during this time. Monthly reporting will be done in future.

Name: Juanita Prinsloo

Position: CD:TA

Date: 22 July 2011

## Auditor’s conclusion

Management has agreed with our finding. The fact that the completeness of the fruitless and wasteful expenditure could not be confirmed will be reported on in the audit report as it forms a basis of our audit opinion.

# Discounting of Payables not done in accordance with SA GAAP

## Audit finding

Section 40(1) of Public Finance Management Act states that “the accounting officer for a department, trading entity or constitutional institution:

* must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;
* must prepare financial statements for each financial year in accordance with generally recognised accounting practice

Definitions relating to recognition and measurement

* The amortised *cost of a financial asset or financial liability* is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.
* The *effective interest method* is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.
* The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the **expected life** of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.
* When calculating the effective interest rate, an entity shall **estimate cash flows considering all contractual terms of the financial instrument** but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate

Through inspection of Schedules C2 of Payables Discounting, it was noted that the discounting of payables was based on the value of R596 355 529 which is the balance for the payables .The expected life of the financial instrument as well as the contractual terms of the financial instrument has not been taken into account on the individual basis of each transaction.. The payables were calculated as indicated hereunder which is not in terms of SA GAAP.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Account** | **Closing balance**  **R** | **Interest** | **Discount period**  **R** | **Interest expense**  **R** |
| Other liabilities | 596 355 529,29 | 7% | 557 341 616,16 | 39 013 913,13 |

The management calculation is incorrect. The heading for discounting period includes amounts and not a period. The source of the closing balance used in the calculation is not known. Trade and Payables have been misstated and the effect of discounting has not been properly taken into account. Furthermore, we inspected the Annual Financial Statements and supporting schedule submitted for audit on the 7th July 2011 and identified that the amount as per the advance schedule does not agree to the amount as per trial balance.

|  |  |  |  |
| --- | --- | --- | --- |
| **Description** | **Amounts as per the advance schedule** | **Amount as per trial balance** | **Difference** |
| Advance account | R 460 920 131.18) | (R 451 229 051.97) | ( R 9 691 079.21) |

The supporting documentation that would have enabled us to audit the advance account has not been submitted and therefore resulted in a limitation of scope.

Management did not review financial statement and has a lack of capacity in terms with relevant experience in SA GAAP accounting. This constitutes a qualification of Trade and Other payable.

## Internal control deficiency

*Financial and Performance Management*

* 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.
* 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.
* Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

*Control activities*

* Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting
* Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information

## Recommendation

* Management should ensure that financial statements and supporting schedule are reviewed and deficiencies are resolved timeously.
* Financial statement submitted to the Auditor-General should be supplemented by complete and accurate accounting records with the necessary supporting schedules to serve as an audit trail.
* The financial statements should be prepared in terms of SA GAAP.

## Management response

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

1. The breakdown of the amount making up the R R596 355 529,29 was given to the auditors on 18 July 2011, upon request from the auditors. Explanations were also provided to the auditors on the basis for the calculations and the fact that the PMTE payables have no fixed terms of payment except for the legislative 30 days enshrined in the PFMA; as a result an assumption was made that the payables will be paid within a period of 12 months. Most of the amounts reflected in payables relate to advance receipts from client departments which are normally used within a period of 12 months, hence the use of the 12 months period in the discounting calculations.
2. We accept the finding on the difference between the advance account and the amount in the trial balance and wish to submit that it will be corrected through the audit adjustments.
3. Management does try their best to review the financial statements before submission to the AG.

*Name: Cathy Motsisi*

*Position: Chief Financial Officer*

*Date: 22 July 2011*

## Auditor’s conclusion

Management comment noted, however the application of the accounting standards is incorrect due to the following:

1. As per Treasury Regulation 8.3.2 all creditors should be paid within 30 days, based on this regulation the trading entity would be required to pay the creditors within 30 days.
2. The period over which the amount is amortised cannot be 360 days for all amounts, because assessment needs to be made for specific amounts payable.
3. We also could not verify the effective interest rate used as no basis was given of how the 7% was calculated.

The reconciliations of the individual debtor’s accounts was not complete, we could not recalculate the balance at amortised cost.

# Information not made available to support the “Advance Account” in the “Trade and Other Payables”

## Audit finding

Section 41 of the PFMA state that “an accounting officer for a department must submit to the relevant treasury or the Auditor General such information, returns, documents, explanations and motivations as may be prescribed or as the relevant treasury or the Auditor General may require. “

Supporting documentation and actual journal entries for adjustments made on advances disclosed in payables have not been provided therefore the valuation of payables could not be determined. The following adjustments were made:

| **Name of Payee** | **Total payables before adjustments** | **Total Adjustments: Moved to advance account , include payables before adjustment** | **Total Adjustments: Moved from advance account** | **Total payables as disclosed in the Financial Statement.** |
| --- | --- | --- | --- | --- |
|
|  |
| Agriculture, Forest and Fish | ( R 13 184.00) | (R 764 025.99) | R 575 860.00 | ( R 188 165.99) |
| Art & Culture | ( R 13 217 425.93) | ( R 22 649 534.41) | R 9 432 108.48 | ( R 13 217 425.93) |
| Communication | ( R 1 042 455.11) | (R 4 552 281.68) | R 3 509 648.57 | ( R 1 042 633.11) |
| Corporate Gorv Trading Affairs | (R 4 871 458.95) | ( R 4 871 458.95) | R 0.00 | ( R 4 871 458.95) |
| Correctional Services | ( R 11 266 476.93) | ( R 72 240 073.27) | R 72 240 073.27 | - |
| Environmental Affairs | ( R 1 727 049.21) | ( R 1 727 049.21) | R 0.00 | ( R 1 727 049.21) |
| Health | ( R 1 891 868.81) | ( R 1 891 868.81) | R 0.00 | ( R 1 891 868.81) |
| Home Affairs | ( R 45 291 454.54) | ( R 55 757 159.02) | R 13 941 174.54 | ( R 41 815 984.48) |
| Human Settlement | ( R 2 259 162.18) | ( R 3 520 431.27) | R 1 261 269.09 | ( R 2 259 162.18) |
| Independent Compliance | ( R 196 276.12) | ( R 196 276.12) | R 88 136.64 | ( R 108 139.48) |
| International Relation | ( R 799 562.45) | ( R 2 364 959.40) | R 5 897 063.90 | R 3 532 104.50 |
| Justice & Constitutional | ( R 22 570 399.04) | ( R 22 570 399.04) | R 31 554 642.78 | R 8 984 243.74 |
| Labour | ( R 14 018 991.73) | ( R 15 723 773.40) | R 8 130 804.64 | ( R 7 592 968.76) |
| Minerals Resources | ( R 49 901.73) | ( R 49 901.73) | R 0.00 | ( R 49 901.73) |
| Palama | ( R 29 504.14) | ( R 29 504.14) | R 29 504.14 | - |
| Police | ( R 1 557 227.43) | ( R 1 557 227.43) | R 4 643 290.43 | R 3 086 063.00 |
| Presidency | ( R 620 655.52) | ( R 620 655.52) | R 620 655.52 | - |
| Public Service Admin | ( R 621 937.53) | ( R 621 937.53) | R 0.00 | ( R 621 937.53) |
| Police Service | ( R 30 172 897.96) | ( R 30 172 897.96) | R 0.00 | ( R 30 172 897.96) |
| Rural Development | ( R 4 650 284.36) | ( R 17 709 712.49) | R 2 892 862.77 | ( R 14 816 849.72) |
| Social Development | ( R3 212 934.38) | ( R 3 212 934.38) | R 155 328.28 | ( R 3 057 606.10) |
| Sport | ( R 1 253 082.31) | ( R 1 542 290.40) | R 289 208.09 | ( R 1 253 082.31) |
| Statistics | ( R 78 390.57) | ( R 148 004.91) | R 0.00 | ( R 148 004.91) |
| Trade & Industry | ( R 705 055.57) | (R 705 055.57) | R 415 561.38 | ( R 289 494.19) |
| Transport | ( R 1 011.77) | ( R 45 290.13) | R 0.00 | ( R 45 290.13) |
| Human Rights | ( R 19 177.42) | ( R 264 309.97) | R 245 132.55 | ( R 19 177.42) |
| Public Entity Prosecution Authority | ( R 10 861 304.90) | ( R 11 212 334.57) | R 351 029.67 |  |
| No Projects | ( R 405 260 625.30) | ( R 329 712 919.69) | R 0.00 | ( R 329 712 919.69) |
| No Project | ( R 5 229 826.34) | ( R 5 229 826.34) | R 0.00 | ( R 5 229 826.34) |
| Government Printing | ( R 1 363 283.70) | ( R 1 363 283.70) | R 0.00 | ( R 1 363 283.70) |
| South African Revenue Services | ( R 409 870.94) | ( R 409 870.94) | R 0.00 | ( R 409 870.94) |
| Water Affairs |  | ( R 5 400 738.09) | R 2 399 204.55 | ( R 3 001 533.54) |
| Parliament |  | ( R 250 767.91) | R 250 767.91 | - |
| Public Protector |  | (R 708 007.28) | R 708 007.28 | - |
| Public Service Commission |  | ( R 202 714.80) | R 0.00 | ( R 202 714.80) |
| SAMAF |  | ( R551 988.61) | R 0.00 | ( R 551 988.61) |
| **Totals** | **( R 585 262 736.87)** | **( R 620 551 464.66)** | **R 159 631 334.48** | **( R 460 920 130.18)** |

Due to the supporting documentation not being provided, we could not determine why the adjustments were made to the advance account and where the amounts were transferred from the advance account to.

Lack of proper review of the financial statement and the schedules submitted by management resulting into a modification in the audit report pertaining to “Trade and Other Payables”.

## Internal control deficiency

*Financial and performance management*

* 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.
* Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

*Control activities*

* Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting
* Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting

## Recommendation

Management should ensure that financial statements and supporting schedule are reviewed and deficiencies resolved before submitting the Annual Financial Statements to the Auditor-General for audit purposes.

## Management response

Management response outstanding.

## Auditor’s conclusion

This limitation will result in the modification of the audit report and is a non compliance with Section 41 of the PFMA.

# Other commitments incorrectly recognised

## Audit finding

Section 40(1) of the Public Finance Management Act states that “the accounting officer for a department, trading entity or constitutional institution:

* must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;
* must prepare financial statements for each financial year in accordance with generally recognised  accounting practice"

Section 41 of the Public Finance Management Act, 1999 (Act no.1 of 1999) state that “an accounting officer for a department must submit to the relevant treasury or the Auditor General such information, returns, documents, explanations and motivations as may be prescribed or as the relevant treasury or the Auditor General may require.“

1. Through inspection of the commitments schedule the following issues were identified.

Compared the total amounts as per the commitments consolidated schedule and found that these do not agree to the amounts in the supporting commitments sub-schedule.

|  |  |  |  |
| --- | --- | --- | --- |
| **Regional Office** | **Consolidated Schedule amount** | **Recalculated amount** | **Difference** |
| Kimberly | R 113 158 524,00 | R 110 413 461,75 | R 2 745 062,25 |

1. Some supporting schedules not provided for Pretoria and Head office.

Included in the commitments consolidated schedule is commitment values for the Pretoria and Head offices. The schedules submitted did not contain the sub-schedule for the mentioned offices. The outstanding sub-schedule is the capital expenditure schedule for the Pretoria Regional office and current expenditure sub-schedule for the Head office. As a result of the outstanding schedules the following differences were identified.

|  |  |  |  |
| --- | --- | --- | --- |
| **OFFICE** | **Total as per consolidated schedule** | **Total as per sub schedule** | **Difference** |
|
| **Head Office** | R 2 467 080 983.04 | R 2 462 233 417.12 | R 4 847 565.92 |
| **Pretoria** | R 1 335 435 271.20 | R 69 202 034.20 | R 1 266 233 237.00 |
|  | **R 3 802 516 254.24** | **R 2 531 435 451.32** | **R 1 271 080 802.92** |

These resulted in us not being able to confirm the validity, completeness and accuracy of the “Other Commitments” disclosed in the Annual Financial Statements due to the non submission of these schedules resulting in a scope limitation with the effect of a modification to the audit report.

The schedules are not reviewed by management before submitted for audit purpose.

## Internal control deficiency

*Financial and Performance management*

Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information

*Control activities*

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

## Recommendation

Management should ensure that financial statements and supporting schedule are reviewed and deficiencies are resolved timeously.

## Management response

I am not in agreement with the finding that the sub-schedule of Kimberley does not agree to the amount reflected in the consolidated schedule. The schedules submitted on 7 July 2011 both indicate an amount of R 113 158 524.

I am in agreement that the sub-schedules were not included for Pretoria and Head Office as listed. They were erroneously omitted and submitted later with the AFS of the 15th July.

Name: Juanita Prinsloo

Position: CD:TA

Date: 22 July 2011

## Auditor’s conclusion

The non submission of the schedules for Pretoria and Head office results in a limitation of scope. Due to the significance of the balances, this will be reported in the audit report and will form basis of our audit opinion.

# Winning supplier did not supply an original Tax Clearance Certificate.

#### Nelspruit Regional Office

## Audit finding

National Treasury Practice Note 8 of 2007/2008: “*6.1 the accounting officer/authority must be in possession of an original valid tax clearance certificate for all price quotations and competitive bids exceeding the value of R30 000 (VAT included).*

Treasury Regulations: 1*6A9.1 requires that “the accounting officer or accounting authority must reject any bid from a supplier who fails to provide written proof from the South African Revenue Service that that supplier either has no outstanding tax obligations or has made arrangements to meet outstanding tax obligations”.*

A tender was awarded to a joint venture between Multi Net Stelsels (Pty) Ltd and Mao Lela Business Enterprises CC for the upgrading and expansion of the Witbank Prison. The tender was awarded to the joint venture despite the fact that Mao Lela Business Enterprises CC did not submit an original tax clearance certificate. Failure to do so should have resulted in the rejection of the bid.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Consultant** | **Consultant Payment** | **Tender number** | **Contractors** | **Property** | **Total payments to date** | **Total payments for the current year** |
| Hardstone Mthethwa | R82 985 | NST 07/034 | Multi Net Stelsels (Pty) Ltd and Mao Lela Business Enterprises CC | Witbank Prison | R1 622 568 | R417 433 |

Per discussions with Lunga Mbukushe, the Head of Finance, no tax clearance were obtained due to the fact that:

* Mao Lela Business Enterprise CC’s annual income was less than R300 000 and therefore the they were not registered for VAT, and
* It is not a requirement to obtain a Tax clearance certificate during the procurement process but only before a payment is made to the contractor.

Potential impact of the finding rose above:

1. Non compliance with Treasury Practice Note 8 of 2007.
2. Non compliance with Treasury Regulation 16A9.1.
3. Possible understatement of irregular expenditure amounting to R1 622 568.

## Internal control deficiency

*Financial and performance management*

Review and monitor compliance with applicable laws and regulations.

## Recommendation

* Management must ensure that the department abides by the laws and regulations as specified by Treasury Practice Note 8 of 2007 and National Treasury Regulation 16A9.1, thereby ensuring that a consistent, fair, equitable, transparent, competitive and cost effective bidding process be carried out.
* Potential suppliers and contractors that submitted a tender should be excluded from the tender process if the tender documentation is not accompanied by an original tax clearance certificate.

## Management response

I am not in agreement with the finding for the following reasons: The contractor Mao Lela Business enterprise was a CIDB Grade 1 contractor and Multi Net a Grade 7. As per the procurement requirements for the project a Grade 3 was required. In essence only Multi Net Systems Pty Ltd qualified for further consideration on the tender. The office could not disqualify the bidder on the basis of Mao Lela Bus Enterprise non submission of the TCC. It should be further noted that all payment for the project were made to Multi Net Systems only. The JV agreement was between the contractors and as such does not form part of any contract. The discussions with the Auditors were specific to VAT registration of service providers on bidders when submitting bid in light of the fact that our form of offer and acceptance attached to a bid document does not allow space for VAT to be separated.

I do not recall saying that TCC is not a requirement, noting that legislation requires submission of such; however I can recall saying that bidders who are not registered for VAT cannot charge VAT, and if they do, they must be meet certain requirements as set by SARS. SARS only allow registration after proof that the contractor meets the requirements.

*Name:* Lunga Mbukushe

*Position: DD: Finance/SCM*

*Date: 2011/06/09*

## Auditors conclusion

We do not agree with management’s comment since the tender documents clearly indicates that Multi Net Stelsels (Pty) Ltd and Mao Lela Business Enterprises CC tendered for the contract as a joint venture and this is the basis on which the tender was evaluated and awarded. The fact that payments were only made to Multi Net Stelsels (Pty) Ltd does not impact the finding since a JV is not a separate entity and therefore payment must be made to one of the parties which will then be divided according to the joint venture contract. As a joint venture all the parties had to supply original tax clearance certificates irrespective of their grading. This finding is still valid and the expenditure on the tender constitutes irregular expenditure.

# No tax clearance certificate for leases

#### Bloemfontein

## Audit finding

Paragraph 6 of Practice Note 8 of 2007/08 SCM Threshold values for procurements states the following: "*The Accounting officer must be in possession of an original valid tax clearance certificate for all price quotations and competitive bids exceeding the value of R30 000 (VAT included)."* Contrary to the provision of this section, the following was found whilst auditing leases:

No tax clearance certificates were found in the following leasing files:

|  |  |  |  |
| --- | --- | --- | --- |
| **Description:** | **Tender amount (R):** | **Lease file number:** | **Expenditure incurred for the year under review (R):** |
| RENTAL LEASE | 2 047 881,60 | 6706/3519 | 1 998 690,33 |
| ARREAR RENT AUG-SEPT 2010R187660 | 2 251 920,00 | 6706/0778 | 2 127 504,70 |
| RENTAL LEASE | 9 053 658,93 | 6704/0605 | 1 471 995,56 |
| District: Bethlehem SA Police services NAFI Shopping Complex | 416 602,91 | 6704/0532 | 416 602,91 |
| District: Welkom Dept of land affairs | 386 202,84 | 6758/0093 | 386 202,84 |
| District: Kroonstad Dept of Labiur Suzman Building | 1 252 831,09 | 6731/0855 | 235 642,11 |
| POST OFFICE BUILDING | 5 697 461,49 | 6758/0307 | 960 469,25 |
| FNB BUILDING | 1 073 587,98 | 6835/0091 | 133 572,78 |
| District: Kroonstad SA police services | 869 413,20 | 6731/0878 | 869 413,20 |
|  | **23 049 560,04** |  | **8 600 093,68** |

The cause of the above is that management did not designate a responsible person to ensure that all SCM practice notes are complied with. The impact of this is:

* Non-compliance with SCM practice notes resulting in irregular expenditure that should be disclosed as such in the annual financial statements.
* Limitation of scope on the audit.
* Irregular expenditure as disclosed in the Annual Financial Statements could be misstated.

## Internal control deficiency

*Financial and performance management*

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 is not implemented.

*Monitoring: Ongoing monitoring*

Monitoring controls to ensure that the trading entity complied with the relevant laws, rules and regulations and that all required bid documents were obtained were not effective.

## Recommendation

* The bid adjudication committee must verify that the recommended bidder has submitted all the required bid documentation, including the tax clearance certificate and invitation for bids must stipulate as a condition to tender that bidders must submit a tax clearance certificate.
* Management should ensure that all tender documentation is properly filed and easily retrievable for audit purposes.

## Management response

This office agrees with the finding of the AGSA, however it should be noted that the department has been in occupation of these building for a number of years and that these leases are not new procurements. This office has highlighted concerns regarding Tax Clearance Certificates to Head Office and a directive is expected soon. In the interim this office will take the necessary steps that valid tax clearance certificates are obtain. A copy of the Tax Clearance Certificate for lease 6731/0878 is attached to this response indicative of the commitment by this office to ensure compliance.

Name: N Zulu

Position: Acting Regional Manager

Date: 22 July 2011

## Auditor’s conclusion

Management is in agreement with the audit finding. The matter is therefore not resolved and is reported on in the management report.  This is a non compliance and will be reported on in the audit report and therefore forms a basis of our audit opinion.

# Original tax clearance certificates not available for consultants appointed

#### Pretoria

## Audit finding

In terms of paragraph 6.1 of Practice Note 8 of 2007/08, the accounting officer/ authority must be in possession of an original tax clearance certificate for all price quotations and competitive bids exceeding the value of R30 000 (VAT included).

The following contracts were awarded to consultants who did not submit their original SARS Tax clearance certificates confirming that their tax matters are in order:

|  |  |  |  |
| --- | --- | --- | --- |
| Consultant | WCS number | Invoice date | Amount of Payment |
| Maree Els & Partners | 043918 | 09 December 2010 | R2 005 751,46 |
| Maree Els & Partners | 043918 | 30 July 2010 | R2 310 451,19 |
| Risimati Consulting Engineers | 046919 | 10 August 2010 | R1 042 839,15 |
| TOTAL |  |  | **R5 359 041,80** |

## Internal control deficiency

*Leadership*

Tone at the top - an environment that is conducive to good accountability and service delivery through; positive attitude; integrity; competence; and ethical behaviour.

## Recommendation

Management should abide to the requirements of the supply chain management and relevant practice notes.

## Management response

Management response outstanding.

## Auditors’ conclusion

The impact of this finding to be reported on in the audit report.

# Justification for treating the tender as an emergency

## Audit finding

Practice Note 8 of 2007/2008 paragraph 3.4.3 states that “Should it be impractical to invite competitive bids for specific procurement, e.g. in urgent or emergency cases or in case of a sole supplier, the accounting officer / authority may procure the required goods or services by other means, such as price quotations or negotiations in accordance with Treasury Regulation 16A6.4”.

The reasons for deviating from inviting competitive bids should be recorded and approved by the accounting officer / authority or his / her delegate. Accounting officers / authorities are required to report within ten (10) working days to the relevant treasury and the Auditor-General all cases where goods and services above the value of R1 million (VAT inclusive) were procured in terms of Treasury Regulation 16A6.4. The report must include the description of the goods or services, the name/s of the supplier/s, the amount/s involved and the reasons for dispensing with the prescribed competitive bidding process.

While inspecting the tender file number H09/074, it was noted that the tender process was initially scheduled to take place at the Pretoria Regional office but cancelled due to the increase in scope of work which require a higher CIDB Grading.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **TENDER NUMBER** | **SUPPLIER** | **Contract Date** | **Tender Amount (R)** | **Total expenditure until 31 March 2011 (R)** | **Total payments for the current financial year (R)** |
| H09/074 | Yikusasa Building Contractors | 30-Dec-09 | 34 914 627,81 | 39 472 636,87 | 34 720 549,43 |

The procurement instruction was issued to the Pretoria Regional office to procure the services and their approach per the instruction was “to unbundled into four specialised services”. The process to appoint the contractor was stopped by the Acting Director General and acting COO on recommendation that the project is transferred to Head office to restart the procurement process and the approach is to merge the four services and award tender to one main contractor.

The tender was re-advertised on 22 of December 2009 and the closing date was 29 December 2009. The acting DG approved the emergency of services on the 22 December 2009. Due to the history of cancellation and restarting of the whole tender process, we ascertain that this was not an emergency as stated in the Treasury Regulations but became an emergency as a result of poor execution of the tender by the Department.

We have identified approval by the Bid Adjudication for deviating from inviting competitive bids for the value of above R1 million and the case was not reported within (10) working days to the Auditor-General of South Africa and the National Treasury. The reasons for deviating from inviting competitive bids were only received from the department on 20 October 2010 signed by CD: SCM, resulting in non compliance with Practice Note No. 8 of 2007/2008. Management indicated that considering the number of regions that the PMTE has it is impractical for them to collate all the information from the regions and still report the deviations to the AGSA and the National Treasury within 10 working days. Management indicated further that they are not clear when does the 10 working days commence i.e., from the date the tender was awarded or from the date when expenditure is incurred.

Non compliance with Practice Note No. 8 of 2007/2008 issued by the National Treasury in terms of section 76(4)(c) of the Public Finance Management Act which could result in irregular expenditure

## Internal control deficiency

*Leadership - Oversight responsibility*

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

## Recommendation

* Management should ensure that all deviations in terms of Treasury Regulation 16A.6.4 are reported to the Auditor-General of South Africa within 10 working days.
* Management should obtain clarity from the National Treasury on the reporting timelines.
* Management should assign an official who will be responsible to collate all the information from the regions on a weekly basis and steps should be taken against regions that do not comply.

## Management response

Management is in agreement with the finding. The department has since put in measures to rectify this by appointing an official who will be solely responsible for reporting matters to the AGSA and NT within the stipulated time frames

## Auditors conclusion

Management has not responded to the issue of treating the tender as an emergency. This tender results in an irregular expenditure due to non compliance with the Treasury Regulations. An amount of R34 720 549 must be disclosed as an irregular expenditure. This will be included in the audit report and forms a basis of our audit opinion.

# Bid advertised for less than 21 days

## Audit finding

Treasury Regulation paragraph 16A6.3(c) states the following under procurement of goods and services: "*The accounting officer or authority must ensure that bids are advertised in at least the Government Tender Bulletin for a minimum period of 21 days before the closure, except in urgent cases when bids may be advertised for a shorter period as the accounting officer or accounting authority may determine*..."

The following tender was obtained for audit purposes:

|  |  |  |  |
| --- | --- | --- | --- |
| **Tender number** | **WCS number** | **Supplier's name** | **Tender value (R)** |
| H08/042 | 46141 | Malekoto / Motjoadi Joint Venture | 15 764 986.24 |

Upon perusal of the tender the following was noted:

* The procurement strategy (PA-01 Form) for the tender stipulated that the tender would be procured on an open procedure where suppliers were invited to compete on the bid.
* The advert was published on the Government Gazette-Tender bulletin number 2546 and the advertisement period was as follows:

|  |  |  |
| --- | --- | --- |
| **Advertisement date** | **Closing date** | **No of days advertised** |
| 08 August 2008 | 25 August 2008 | 18 |

The tender was evaluated and it was noted that the tender was awarded after the approval of the Bid Adjudication Committee on 9 September 2008.

The necessary approval to deviate from the normal advertising period of 21 days were not documented and signed by the delegated officials. This therefore constitutes a non compliance with the Treasury Regulations and the PFMA.

The procument officials responsible for the specifications of the tender do not monitor the compliance with the minimum advertising period of 21 days as stipulated in the Treasury Regulation.

Non compliance with Treasury Regulation and PFMA which could result in irregular expenditure.

## Internal control deficiency

*Financial and performance management*

Review and monitor compliance with applicable laws and regulations - Management did not review and monitor compliance with the applicable laws and regulations

## Recommendation

* The officials responsible for the tender process should ensure that all bids procured on the competitive bidding process are advertised for the minimum of 21 days as required by the regulations. All deviations must be documented and approved by the delegated officials
* This amount should be disclosed as an irregular expenditure.

## Management response

Management is in agreement with the finding. There was an error in the calculation of days. This matter has been reported as irregular expenditure and in future due diligence will be done in the calculation of days before the advert is issued to the public

## Auditor’s conclusion

There is no irregular expenditure disclosed by management for Head office and will be reported on in the audit report and will form a basis of our audit opinion.

# Variation orders not approved in terms of the Supply Chain Management delegations

## Audit finding

Treasury Regulations 8.2.1 and 8.2.2 states that: “an official of an institution may not spend or commit public money except with the approval (either in writing or by duly authorised electronic means) of the accounting officer or a properly delegated or authorised officer and, before approving expenditure or incurring a commitment to spend, the delegated or authorised official must ensure compliance with any limitations or conditions attached to the delegation or authorisation”. The Supply Chain Management delegations for variation orders states that the approval should be treated as “authorisation of non-scheduled contract variation orders”, as indicated hereunder.

|  |  |
| --- | --- |
| **Delegated official** | **Percentage of contract amount** |
| Project manager | 0 to 5% of the adjudicated contract price |
| Bid Adjudication Committee | Above 5% but not more than 30%- |
| Director General | Above 30% of the adjudicated contract price |

During the audit, the following was noted:

* We inspected the projects listed below and it was noted that the total payments made as per the WCS reports on 31 May 2011 exceeded the contract price.
* We then made a request for all the variation orders for the projects where it was identified that the payments exceed the contract price.
* Either of the following issues was noted in the projects listed below:

1. Variation orders were not approved in terms of the delegation as the projects listed below were approved by the Project Managers. (Project numbers 43766; 45279; 042453; 047386)
2. The expenditure paid to date on the projects exceeds the contract price and the excess has not been approved as a variation order. (All projects)
3. Not all the variation orders requested have been submitted for audit purposes. This was sent as part of request for information number 53. (Project number 45279; 046007)
4. The project was approved by the Bid Adjudication Committee but was not in terms of the Supply Chain Management delegation for the variation orders.(Project number 40041)
5. The percentage of total amount of approved variation orders submitted and variation orders not submitted exceed delegated percentage as per Supply Chain Management delegations for variation orders. (All projects)

| **Project (WCS number)** | **Supplier** | **Contract amount R (Incl VAT)** | **Payments to date at 31 March 2011(R)** | **Difference between amounts paid and contract value** | **Approved variation Orders submitted(R)** | **Excess payments not approved** | **The approved variation orders %** | **% of Excess payments not approved** |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 043766 | Superway (Pty) Ltd | 5,250,000.00 | 6,301,204.17 | 1,051,204.17 | 314,061.57 | 737,142.60 | 5.98 | 14.04 |
| 040041 | Grinaker LTA/Keren Kula JV | 275,668,007.00 | 706,838,043.25 | 431,170,036.25 | 315,412,771.20 | 115,757,265.05 | 114.42 | 41.99 |
| 045279 | Ruwacon (Pty) Ltd | 27,594,200.00 | 30,355,263.39 | 2,761,063.39 | 0 | 2,761,063.39 | 0.00 | 10.01 |
| 042571 | Otis Ltd | 24,951,216.75 | 28,919,366.93 | 3,968,150.18 | 859,445.45 | 3,108,704.73 | 3.44 | 15.90 |
| 042453 | Superway (Pty) Ltd | 95,104,000.00 | 195,141,258.41 | 100,037,258.41 | 73,409,912.27 | 26,627,346.14 | 77.19 | 105.19 |
| 047386 | Yikusasa Building Construction | 34,914,627.81 | 39,472,636.87 | 4,558,009.06 | 3,521,396.23 | 1,036,612.83 | 10.09 | 13.05 |
| 046007 | Runway JV | 699,821,937.45 | 817,990,324.34 | 118,168,386.89 | R 2,965,216.85 | 115,203,170.04 | 0.42 | 16.89 |
| **TOTAL** |  |  |  | **661,714,108.35** | **396,482,803.57** | **265,231,304.78** |  |  |

The tenders are not properly planned to include all the work that needs to be executed. There is no established method of monitoring the progress and performance of the contractors. Management should not use the lack of proper planning as an excuse for non compliance with the Regulation. This is a non compliance with the Treasury Regulation which could result in irregular expenditure.

## Internal control deficiency

*Leadership*

Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls

*Oversight responsibility*

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

## Recommendation

* Management should ensure that additional payments are evaluated authorised and the supporting documentation is filed appropriately.
* The amounts above the approved variation should be disclosed as irregular expenditure
* Management should identify all expenses incurred for projects that are above the approved contract amount and for those that the variation order is not in terms of the supply chain management should be disclosed as irregular expenditure.

## Management response

PM does not agree with the audit findings. Tender amount does not include Contract Price Adjustments. These projects were subject to contract price adjustments as per the tender documents that is why the progress payments certificates include Contract Price Adjustments with its CPA calculation sheet attached to the progress payments certificates. Therefore, one cannot compare the tender amount vs. the progress payments with CPA. CPA gets adjusted through our Project Budget Administrator.

No variation order issued for project WCS 045279 to date and there will be no future variation orders will be issued to this project, no future meetings will be held, this project was completed on December 2010, Consulting Engineers busy with the final account.

Variation order for project WCS 042571 was to the amount of R859 445.45 and was 3,93% of the contract amount (Non schedule tariffs) and was approved within the delegation of Director Projects, refer to the attached PRM039 and Variation order Annexure A.

When the project WCS 042571 was extended for maintenance, all the financial implication was incorporated in the submission that was incorporated in the submission that was approved by the Bid Adjudication Committee. Refer to attached submission, Annexure B.

It was however noticed that the variation order has been re-measured with actual quantities at the final stage from R859 445.45 to R1 110 159.07 for final measurements which increases the percentage from 3,93% to 5.07%. Final account is in the process of finalisation. PM is in the process of preparing submission to NBAC to request approval for exceeding 5.07% (Non schedule tariffs) of the contract amount due to final measurements at the final account stage

## Auditor’s conclusion

The supply chain guidelines states that “If the accounting officer / authority resolves to allow price escalation as part of the contract, this should be specified in the bid documents, including the formula and the time frames at which intervals such price adjustments should be considered.”

In terms of supply chain guidelines the definition of Prices charged by the supplier for goods delivered and services performed under the contract shall not vary from the prices quoted by the supplier in his bid, with the exception of any price adjustments authorised in SCC or in the purchaser’s request for bid validity extension, as the case may be.

The contract price adjustments (CPA) must be approved by the Bid Adjudication Committee as well and there is no documentation of CPA approvals. Management did not provide proper explanation to substantiate excess amounts other that CPA. The finding is valid and will form the basis of our audit opinion

| **WCS** | **Contractor** | **Auditors responses** |
| --- | --- | --- |
| 43766 | Superway (Pty) Ltd | The information still outstanding |
| 40041 | Grinaker LTA/Keren Kula JV | Management submitted the same information which they provided for audit purpose but not for additional amount exceeded |
| 45279 | Ruwacon (Pty) Ltd | The information still outstanding |
| 42571 | Otis Ltd | The information still outstanding |
| 42453 | Superway (Pty) Ltd | The contract price adjustments must be approved by Bid adjudication committee as well and there is no documentation of CPC |
| 47386 | Yikusasa Building Construction | The information still outstanding |
| 46007 | Runway JV | The information still outstanding |

# Variation orders not approved in terms of the delegations

## Audit finding

Treasury Regulations 8.2.1 and 8.2.2 states that: “an official of an institution may not spend or commit public money except with the approval (either in writing or by duly authorised electronic means) of the accounting officer or a properly delegated or authorised officer and, before approving expenditure or incurring a commitment to spend, the delegated or authorised official must ensure compliance with any limitations or conditions attached to the delegation or authorisation”. The Supply Chain Management delegations for variation orders states that the approval should be treated as Authorisation of non-scheduled contract variation orders:

|  |  |
| --- | --- |
| **Delegated official** | **Percentage of contract amount** |
| Project manager | 0 to 5% of the adjudicated contract price |
| Bid Adjudication Committee | Above 5% but not more than 30%- |
| Director General | Above 30% of the adjudicated contract price |

1. Malekoto/Motjoadi Joint Venture - HP08/42 (WCS 046141)

Variation orders for Malekoto/Motjoadi Joint Venture revealed that the aggregated percentage approved by the Project Manager exceed the delegated percentage of the contract amount as per Supply Chain Management delegations. The total payments made to date is R15 803 634.

|  |  |  |  |
| --- | --- | --- | --- |
| **Variation order Nr** | **Variation order amount** | **Contract Amount** | **% of variation from the contract price** |
| 1 | 8,247,498.51 | R15 764 986,24 | 52% |
| 2 | 318,284.58 | R15 764 986,24 | 2% |
| 3 | 47,272.62 | R15 764 986,24 | 0% |
| 4 | 1,254.00 | R15 764 986,24 | 0% |
| 5 | 652,013.98 | R15 764 986,24 | 4% |
| 6 | 956,021.52 | R15 764 986,24 | 6% |
| **Total Amount** | **R10,222,345.21** | **Total Percentage** | **65%** |

1. Variation order not approved

Variation order no 1 was not signed by delegated official and contractor. The variation order was recommended and signed by Consultant only on 04 August 2009.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Tender number** | **Supplier name** | **WCS Number** | **Variation order amount (**R) | **Contract Amount (R)** | **% of A/B** | **Expenditure paid at 31 March 2011 (R)** |
| H05/054 | M Mokgawa Mtshali & Associates | 042166 | 1 318 000,00 | 30 050 834,34 | 4% | 33 049 848 |
|

The tenders are not properly planned to include all the work that needs to be executed. There is no established method of monitoring the progress and performance of the contractors. Variation orders are not reviewed by senior official. Management should not use the lack of proper planning as an excuse for non compliance with the Regulation. This is a non compliance with the Treasury Regulation and results in irregular expenditure.

## Internal control deficiency

*Leadership*

Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls

*Oversight responsibility*

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

## Recommendation

* Management should ensure that additional payments are evaluated authorised and the supporting documentation is filed appropriately.
* The amounts above the approved variation should be disclosed as irregular expenditure
* Management should identify all expenses incurred for projects that are above the approved contract amount and for those that the variation order is not in terms of the supply chain management it should be disclosed as irregular expenditure.

## Management response

I’m not in agreement with the following reasons, attached information in support of this:

Name: Keketso Masilo

Position: Senior Project Manager

Date: 13 July 2011

## Auditor’s conclusion

The finding pertaining to Malekoto/Motjoadi Joint Venture has been cleared after assessing the information submitted by management.

The variation order for M Mokgawa Mtshali & Associates was not approved in terms of the delegation and therefore results in irregular expenditure of R1 318 000,00.

Management subsequently submitted a variation order that was signed, which is in conflict with the variation order that was included in the file and submitted as audit evidence. We could not consider the variation order provided as there is no evidence of whether that variation order was signed after the audit query or at the time of approval of the variation order.

# Payment not approved in terms of the delegation

## Audit finding

Treasury Regulations 8.2.1 and 8.2.2 states that an official of an institution may not spend or commit public money except with the approval (either in writing or by duly authorised electronic means) of the accounting officer or a properly delegated or authorised officer and, before approving expenditure or incurring a commitment to spend, the delegated or authorised official must ensure compliance with any limitations or conditions attached to the delegation or authorisation.

The delegation of authority for the Department states the following limits:

* Director Generals - Unlimited
* Regional managers (regardless of rank)- R 20,000,000
* Chief Directors – R 20,000,000
* Deputy Directors or equivalent - R 5,000,000
* Assistant director or equivalent - R 1,000,000
* Senior Admin officer or equivalent - R 100,000

1. Approvals by Deputy Directors is not in terms delegated authority.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Payment no.** | **Further description** | **Supplier** | **Delegated official** | **WCS Number** | **Payment approved as per BAS** |
| 284038 | Department of Home Affairs: Upgrading of Government Printing Works Second Pavilion | Yikusasa building contractors SA CC | DD:PMS | 47386 | R6 839 605,00 |
| 255631 | Department of Home Affairs: Upgrading of Government Printing Works Second Pavilion | Yikusasa building contractors SA CC | DD:PMS | 47386 | R6 839 605, 00 |
| **Total** | | | | | **R13 679 210,00** |

1. No supporting documentation to substantiate the excess amount, above the invoice amount, that has been paid.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Payment no.** | **WCS Number** | **Supplier** | **Amount Paid** | **Invoice Amount** | **Difference** |
| 255631 | 47386 | Yikusasa building contractors SA CC | R6 839 605,00 | R4 184 731,00 | R 2 654 874 ,00 |

Project manager approves any amount and these approvals are not reviewed by a more senior official. This is a non compliance with the Treasury Regulation and therefore results in irregular expenditure.

## Internal control deficiency

*Leadership*

Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls

*Oversight responsibility*

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

## Management response

Management response outstanding.

## Auditors conclusion

The payments made to date must be disclosed as an irregular expenditure as the payments were not in terms of the delegation and is therefore a non compliance with the Treasury Regulations. An amount of R16 334 084 will be included as irregular expenditure.

# Actual expenditure exceeding contract amount

#### Bloemfontein

## Audit finding

Treasury Regulation 9.1.1 states that: *"The accounting officer of an institution must exercise all reasonable care to prevent and detect unauthorised, irregular, fruitless and wasteful expenditure, and must for this purpose implement effective, efficient and transparent processes of financial and risk management."*

Furthermore, section 38 of the Public Finance Management Act, 1999 (Act No.1 of 1999) (PFMA) states that: *“The accounting officer for a trading entity - (a) must ensure that that trading entity has and maintains - (iii) an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost-effective; and (iv) a system for properly evaluating all major capital projects prior to a final decision on the project."*

In contrast to the provisions of these sections, the WCS expenditure reports were compared to the initial tender amounts and it was found that for the contracts listed hereunder, expenditure paid to date exceeded the initial tender amount. Management explained that this was due to a “variation orders approval of additional funds” applied for, etc. However, tender files were inspected, and variation orders and additional funds approved did not tie to the amounts in excess of the initial tender amount. Therefore, it could not be confirmed that management explanations are valid.

|  |  |  |  |
| --- | --- | --- | --- |
| **WCS No:** | **Contract Amount:** | **Expenditure to date:** | **Over-expenditure:** |
| 22417 | R51 537 836,15 | R78 984 817,23 | R27 446 981,08 |
| 22598 | R2 685 609,83 | R2 904 969,24 | R219 359,41 |
| 015214 | R1 947 535,61 | R1 968 072,30 | R20 536,69 |
| 022599 | R4 929 945,59 | R4 994 328,60 | R64 383,01 |
| 030145 | R19 893 000 00 | R21 308 795,83 | R1 415 795,83 |
|  |  |  | **R29 167 056,02** |

The cause of the above is that management did not designate a responsible person to ensure that all relevant authorisation letters, reasons for increased expenditure and increased budget are properly filed and easily retrievable for audit purposes.

The impact of the above is:

* Payments could be made for the projects which were not initially budgeted for, that might lead to irregular expenditure.
* Irregular expenditure as disclosed in the Annual Financial Statements could be misstated.

## Internal control deficiency

*Financial and performance management*

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 is not implemented. Controls over daily and monthly processing and reconciling of transactions are not implemented.

*Monitoring: Ongoing monitoring*

Monitoring controls to ensure that the budget was properly monitored and that no overspending occurred were not effective.

## Recommendation

Management should ensure that when the initial tender amount has to increase for the project, due to unforeseen reasons, all relevant authorisation letters, reasons for increased expenditure and increased budget, should be kept in the tender files and readily available for audit purposes.

## Management response

This office cannot agree with the finding of the AGSA.

**WCS 022417**

The project funding was authorised as follows:

Contract Amount                    R51 537 836,15

Plus: Unforeseen                    R2 576 891,81 (5%)

* During the course of the project Variation Orders were approved in the amount of R14 864 091,04 and CPAP included in the amount of R12 232 200,00
* The authorised amount was increased accordingly (to R81 211 019,00). This is still in excess of the payments made to date of R78 984 817,23. There is thus no overpayment.
* The final adjustment of amounts will be made as soon as the Final Account is submitted and approved in terms of the contract conditions.

**WCS 022598**

The project funding was authorised as follows:

Contract Amount                    R2 685 609,83

Plus: Unforeseen                    R134 280,49 (5%)

* During the course of the project Variation Orders were approved to the amount of R127 827,66 and CPAP included in the amount of R196 860,74.
* The authorised amount was increased accordingly (to R3 016 751,06). This is still in excess of the payments made to date of R2 904 969,24. There is thus no overpayment.
* The final adjustment of amounts will be made as soon as the final account is submitted and approved in terms of the contract conditions.

**WCS 015214**

The project funding was authorised as follows:

Contract Amount                    R1 947 535,61

Plus: Unforeseen                    R97 376,78  (5%)

Plus: CPAP                             R100 000,00

* During the course of the project a variation order was approved in the amount of R43 523,77.
* The contract amount was increased accordingly (to R1 991 059,40) and the unforeseen amount correspondingly reduced, without affecting the total authorized amount.
* The authorised amount presently reflected for the contract amount is R1 991 059,40. This is still in excess of the payments made to date of R1 968 072,30. There is thus no overpayment.
* The final adjustment of amounts will be made as soon as the final account is submitted and approved in terms of the contract conditions.

**WCS 022599**

The project funding was authorized as follows:

Contract Amount                    R4 929 945,00

Plus: Unforeseen                    R246 497,25  (5%)

Plus: CPAP                             R414 115,00

* During the course of the project a Variation Order was approved in the amount of R65 442,84.
* The Contract Amount was increased accordingly and the unforeseen amount correspondingly reduced, without affecting the total authorized amount.
* When the Final Account was presented and approved, the CPAP and balance of the Unforeseen was removed from WCS and the Contract Amount amended to R4 994 328,60 all as indicated in the Final Account. The total contract payments were R4 994 328,60 all in agreement with the Final Contract Amount as reflected on the Final Account.
* The payments made are in excess of the initial tender amount, all in accordance with the Final Account.

**WCS 030145**

The project funding was authorised as follows:

Contract Amount                    R19 893 000,00

Plus: Unforeseen                    R994 650,00  (5%)

Plus: CPAP                             R1 989 300,00

* During the course of the project variation orders was approved in the amount of R1 161 731,22.
* The contract amount was increased accordingly (to R21 054 731,22) and the unforeseen amount  and CPAP correspondingly reduced, without affecting the total authorised amount.
* The authorised amount presently reflected for the contract amount is R21 054 731,22. Including the remaining CPAP authorized amount the total authorized amount for this service is R21 576 950,00. This is still in excess of the payments made to date of R21 308 795,83. There is thus no overpayment.
* The final adjustment of amounts will be made as soon as the final account is submitted and approved in terms of the contract conditions.

Name: N Zulu

Position: Regional Manager

Date: 17 June 2011

## Auditor’s conclusion

Management comments are noted.  According to our analysis that is based on management’s comment for which no supporting documentation were provided, unforeseen expenses (R4 million), Variation orders (R16 million) and CPAP (R15 million) were added to the initial tender amounts. The matter is therefore not resolved and included in the audit report as no supporting documentation was submitted to substantiate the management comments.

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **WCS No:** | **Contract Amount (R):** | **Unforeseen Expenses (R):** | **Variation Orders Approved (R):** | **CPAP Included (R):** | **Total Approved Amount (R):** | **Management's Final Amount (R):** | **Calculation Error (R):** | **Explainable (R):** | **AMOUNTS ALREADY PAID (R):** | **Recalculated Amount (R):** | **Management Amount (R):** |
| WCS 022417 | 51,537,836.15 | 2,576,891.81 | 14,864,091.04 | 12,232,200.00 | 81,211,019.00 | 81,211,019.00 | - | N/A | 78,984,817.23 | 2,226,201.77 | 2,226,201.77 |
| WCS 022598 | 2,685,609.83 | 134,280.49 | 127,827.66 | 196,860.74 | 3,144,578.72 | 3,016,751.06 | 127,827.66 | - | 2,904,969.24 | 239,609.48 | 111,781.82 |
| WCS 015214 | 1,947,535.61 | 97,376.78 | 43,523.77 | 100,000.00 | 2,188,436.16 | 1,991,059.40 | 197,376.76 | - | 1,968,072.30 | 220,363.86 | 22,987.10 |
| WCS 022599 | 4,929,945.59 | 246,497.25 | 65,442.84 | 414,115.00 | 5,656,000.68 | 4,994,328.60 | 661,672.08 | 660,612.25 | 4,994,328.60 | 661,672.08 | - |
| WCS 030145 | 19,893,000.00 | 994,650.00 | 1,161,731.22 | 1,989,300.00 | 24,038,681.22 | 21,054,731.22 | 2,983,950.00 | - | 21,308,795.83 | 2,729,885.39 | (254,064.61) |
| **TOTALS** | **80,993,927.18** | **4,049,696.33** | **16,262,616.53** | **14,932,475.74** | **116,238,715.78** | **112,267,889.28** | **3,970,826.50** | **660,612.25** | **110,160,983.20** | **6,077,732.58** | **2,106,906.08** |
| Differences | 29,167,056.02 |  |  |  |  |  |  |  |  |  |  |

# Roster appointments of consultants

## Audit finding

The revised policy (2001) for selection of consultants from the roster states that the policy establishes the general principles and procedures for computer assisted operation of a roster system in support of a Preferential Procurement Policy for statutory tariff appointments of consultants on fees “where fees do not exceed R2 000 000,00 excluding Value Added Tax”. Consultants for projects where fees exceed “R2 000 000,00” will be appointed by means of competitive selection.

Practice Note 8 of 2007/8 paragraph 3.4.1 Accounting officers should invite competitive bids for all procurement above R 500 000.

During the audit; the following matters were noted on the audit of consultant’s payments:

The request for information number 23 was issued to the entity; requesting the supporting documentation for the consultants. Management indicated that supporting documentation is at the Region and not at the Head office. Enquiry was made with the Regional office and it was confirmed that the Regions do not have tender documents for the consultants as listed below.

| **Consultants name** | **WCS No** | **Consultants Tender estimate per the Payment Batch and WCS report** | **Payments made since contract was awarded to 31 March 2011** | **Payments made in current period ending 31 March 2011** |
| --- | --- | --- | --- | --- |
| VGI Consult Projects (Pty) Ltd | 46346 | R7 626 537,30 | R4 843 035,22 | R2 211 165,09 |
| SJN Development planning consultants | 47371 | R696 369,00 | R319 371,42 | R154 498,82 |
| Setplan EL Trust | 46959 | R212 000,00 | R211 799,04 | R134 369,22 |
| UWP Consulting (Pty) Ltd | 43237 | R275 952,11 | R339 929,53 | R43 990,32 |
| Phumelela Africa Professional Engineering | 36771 | R13 765 390,00 | R47 687 618,62 | R10 801 908,77 |
| Chauke Quantity Surveyors and Project management | 44803 | R50 129 797,61 | R75 571 093,62 | R38 164 278,73 |
| Vision Plan CC TA | 46344 | R584 303,81 | R566 647,89 | R229 697,26 |
| Precint Facilities Management | 40145 | R1 300 000,00 | R39 007 718,40 | R1 104 293,97 |
| Ukhukhula Consulting | 44336 | R2 800 000,00 | R2 615 106,91 | R439 201,65 |
| **Total payments** | | | **R171 162 320,65** | **R53 283 403,83** |

The requests for information number 78 was issued to the entity; requesting the supporting documentation for the consultants tabled below but information has not been submitted to date.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Consultants name** | **WCS No** | **Consultants Tender estimate per the Payment Batch and WCS report** | **Payments made since contract was awarded to 31 March 2011** | **Payments made in current the period ending 31 March 2011** |
| Virtual Consulting | 47036 | R2 000 000,00 | R944 865,64 | R840 384,40 |
| Mokgawa Mtshali and Associates | 42166 | R6 250 000,00 | R6 854 914,12 | R1 557 779,38 |
| Ukhukhula Consulting | 46112 | R3 230 000,00 | R3 073 346,37 | R805 458,07 |
| Virtual Consulting | 42307 | R7 142 143,50 | R7 253 989,33 | R565 538,09 |
| Afroteq Facilities management | 45931 | R89 000 000,00 | R42 905 689,28 | R14 894 461,85 |
| **Total Payments** | | | **R61 032 804,74** | **R18 663 621,8** |

The meeting was held with management on 27 June 2011 to discuss the tender documents relating to consultants, they confirmed that the requested consultant services were procured on an open tender procedure, therefore tender files are available but the files have not been submitted to date.

The email was received on 27 June 2011 stating that files are ready at Legal services, upon inspection of the tender files submitted, it was determined that the files were for contractors who perform construction or planned maintenance and not consultants as requested.

Furthermore the consultant’s file relating to Mokgawa Mtshali and Associates listed above (WCS number 045931) was submitted for audit, however on inspection of the file, it only consisted of a nomination letter, tax clearance certificate and acceptance letter from the consultant. Even though the estimated fee of consultant’s services was R89 000 000,00 (above R2 000 000,00) the consultant was selected on the roster and not procured on a competitive bidding process.

The open procedure was not followed instead Nomination procedure was used to procure the services of consultant.

Non compliance with Treasury Regulations could result in irregular expenditure and a limitation in scope modification in the audit report.

## Internal control deficiency

*Leadership*

Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls

*Oversight responsibility*

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

**Financial and Performance management**

* 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.
* Proper record keeping and record management; the documents supporting the above are not properly filed and easily retrievable*.*
* Requested information was not available *a*nd supplied without any significant delay.

## Recommendation

Management should ensure that all information requested is easily retrievable and supplied to the auditors for audit purposes within the three days. The information should be submitted for audit purposes.

## Management response

Management response outstanding.

## Auditor’s conclusion

The fact that the information has not been provided could be an indication of non compliance with the Treasury Regulations regarding the appointment of the consultants. This results in irregular expenditure of R71 947 025,63 and will be reported on in the audit report.

# No supporting documentation for consultant appointed for planned maintenance

#### Bloemfontein

## Audit finding

Section 40(1)(a) of the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) states that: “The accounting officer for a trading entity must keep full and proper records of the financial affairs of the trading entity in accordance with any prescribed norms and standards.” Furthermore, the invitation of the consultant clause 1.8 states that: "The consultants should submit a Project Execution Plan.” and clause 1.10 states that: "A Tax Clearance Certificate should also be submitted."

Contrary to the provisions of these requirements, the following discrepancies were found during the audit of consultant appointments:

a) The following consultant files were provided for audit purposes, but no proof of the following could be found in the file:

* Tax Clearance Certificate;
* SBD4 declaration of interest;
* Execution plan; and
* Project briefing without any specific detail for the project.

|  |  |  |
| --- | --- | --- |
| **Description of project:** | **WCS number:** | **Amount:** |
| Goedemoed Prison: Follow on contract and maintenance | 44741 | R2 122 467,51 |
| Kroonstad: Correctional Services: Repairs and upgrade of electrical and mechanical installations | 45512 | R260 477,44 |
| Hobhouse, Magistrate's office Repairs and Renovation | 42357 | R355 386,80 |
|  |  | **R2 738 331,75** |

b) The following files were provided, but no proof of the following information could be provided as the file does not contain anything regarding the consultants:

* Appointment Letter;
* Tax Clearance Certificate;
* SBD4 declaration of interest;
* Execution plan; and
* Project briefing.

|  |  |  |
| --- | --- | --- |
| **Description of project:** | **WCS number:** | **Amount:** |
| Boshoff SAPS: Repairs & Renovations to buildings: NYS | 14928 | R10 126,72 |
|  | 40698 | R47 363,43 |
|  |  | **R57 490,15** |

The cause of the above is that management did not designate a responsible person to ensure that all relevant documentation regarding consultants appointments are obtained before appointments are made and that these documentation are properly filed and easily retrievable.

The impact of the above is irregular expenditure as disclosed in the Annual Financial Statements could be misstated.

## Internal control deficiency

*Leadership*

Policies and procedures to enable and support understanding and execution of internal control objectives, processes and responsibilities is not established and communicated.

*Control activities: Operational*

Preventive controls to ensure all required documentation was obtained prior to the incurring of the costs were not effective.

## Recommendation

Management should ensure that all relevant information / documentation, for example: appointment letter, tax clearance certificate, SDB4 declarations of interest, execution plan and project briefing are obtained prior to the appointment of consultants and these supporting documentation should be properly filed and readily available for audit purposes.

## Management response

The following response is provided regarding issues raised under point 1:

| **Description of project:** | **Management response 1.1:** | **Management response 1.2:** | **Management response 1.3:** | **Management response 1.4:** |
| --- | --- | --- | --- | --- |
| Goedemoed Prison: Follow on contract and maintenance | This office agrees with the audit finding.  Procedures will be put in place to ensure compliance.  Before payment is made, the tax details are verified on the SARS website before finalization of the payment. | This is a new form and was not available previously but during the new appointment this form will form part of the Appointment letter | The execution plan is on file (6746/0021/26/20) | Project briefing minutes on file (6746/0021/26/20/C3) – Volume 1 |
| Kroonstad: Correctional Services: Repairs and upgrade of electrical and mechanical installations | Tax Clearance Certificate was not on file. | This is a new form and was not available previously but during the new appointment this form will form part of the Appointment letter | The execution plan is not on file, but WCS has been updated regularly with milestone dates. | Project briefing minutes on file (6731/0070/22/4/C3) |
| Hobhouse, Magistrate's office Repairs and Renovation | Tax Clearance certificate not on file. This office agrees with the audit finding. | This is a new form and was not available previously but during the new appointment this form will form part of the Appointment letter | The execution plan is not on file, but WCS has been updated regularly with milestone dates. | This office agrees with the audit finding. |

The following response is provided regarding issues raised under point 2:

| **Description of project:** | **Management response 2.1:** | **Management response 2.2:** | **Management response 2.3:** | **Management response 2.4:** | **Management response 2.5:** |
| --- | --- | --- | --- | --- | --- |
| Boshoff SAPS: Repairs & Renovations to buildings: NYS | NYS appointment was done from Head Office. Payments were done at Regional Office. | Tax Clearance certificate not on file. This office agrees with the audit finding. | This is a new form and was not available previously but during the new appointment this form will form part of the Appointment letter | NYS appointment was done from Head Office. | NYS appointment was done from Head Office. |
| Bethlehem Prison-Repairs & Maintenance | Appointment Letter on file 6706/0151/26/4/C3 folio 5 | Tax Clearance certificate not on file. This office agrees with the audit finding. | This is a new form and was not available previously but during the new appointment this form will form part of the Appointment letter | Project Execution Plan on file 6704/0151/26/4 vol  1 | On file 6704/0151/26/4 vol 1 folio 34A |

## Auditor’s conclusion

Management comments are noted and assessed as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Description of project:** | **Auditor’s response 1.1:** | **Auditor’s response 1.2:** | **Auditor’s response 1.3:** | **Auditor’s response 1.4:** |
| Goedemoed Prison: Follow on contract and maintenance | Management is in agreement with the finding, therefore not resolved. | No form, therefore not resolved. | Execution plan is on file, therefore resolved. | Project briefing minutes on file, therefore resolved. |
| Kroonstad: Correctional Services: Repairs and upgrade of electrical and mechanical installations | Management is in agreement with the finding, therefore not resolved. | No form, therefore not resolved. | Execution plan not on file, therefore not resolved. | Project briefing minutes on file, therefore resolved. |
| Hobhouse, Magistrate's office Repairs and Renovation | Management is in agreement with the finding, therefore not resolved. | No form, therefore not resolved. | Execution plan not on file, therefore not resolved. | Management is in agreement with the finding, therefore not resolved. |

| **Description of project:** | **Auditor’s response 2.1:** | **Auditor’s response 2.2:** | **Auditor’s response 2.3:** | **Auditor’s response 2.4:** | **Auditor’s response 2.5:** |
| --- | --- | --- | --- | --- | --- |
| Boshoff SAPS: Repairs & Renovations to buildings: NYS | Appointment done at Head Office, therefore not resolved. | Management is in agreement with the finding, therefore not resolved. | No form, therefore not resolved. | Appointment done at Head Office, therefore not resolved. | Appointment done at Head Office, therefore not resolved. Head Office to follow-up. |
| Bethlehem Prison-Repairs & Maintenance | Appointment letter on file, therefore resolved. | Management is in agreement with the finding, therefore not resolved. | No form, therefore not resolved. | Project Execution Plan on file, therefore resolved. | On file, therefore resolved. |

The matter is therefore not resolved and is reported in the management report.

# No supporting documents for consultants appointed for construction

#### Bloemfontein

## Audit finding

Section 40(1)(a) of the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) states that: “The accounting officer for a trading entity must keep full and proper records of the financial affairs of the trading entity in accordance with any prescribed norms and standards.” The invitation of the consultant clause 1.8 states that: "The consultants should submit a Project Execution Plan."; and clause 1.10 states that: "A Tax Clearance Certificate should also be submitted."  Contrary to the provisions of these requirements consultant files were provided, but no proof of the following could be found in the file:

* Appointment Letter;
* Tax Clearance certificate;
* SDB4 declaration of interest;
* Execution plan; and
* Project briefing.

|  |  |  |
| --- | --- | --- |
| **Description of project:** | **WCS number:** | **Amount:** |
| Consultant Payment (Quanpro) | 042220 | R574 095,70 |
| Consultant Payment (MVD Consultants) | 035644 | R17 543,78 |
|  |  | **R591 639,48** |

The cause of the above is that management did not designate a responsible person to ensure that all relevant documentation regarding consultants appointments are obtained before appointments are made and that these documentation are properly filed and easily retrievable.

The impact of the above is irregular expenditure as disclosed in the Annual Financial Statements could be misstated.

## Internal control deficiency

*Leadership*

Policies and procedures to enable and support understanding and execution of internal control objectives, processes and responsibilities is not established and communicated.

*Control activities: Operational*

Preventive controls to ensure all required documentation was obtained prior to the incurring of the costs were not effective.

## Recommendation

Management should ensure that all relevant information / documentation, for example: appointment letter, tax clearance certificate, SDB4 declarations of interest, execution plan and project briefing are obtained prior to the appointment of consultants and these supporting documentation should be properly filed and readily available for audit purposes.

## Management response

The following responses are provided to the AGSA:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Description of project:** | **Management response 1.1:** | **Management response 1.2:** | **Management response 1.3:** | **Management response 1.4:** | **Management response 1.5:** |
| Consultant Payment (Quanpro) | Appointment Letter on file 6747/0519/1/2/C2. | Tax Clearance certificate not on file. This office agrees with the audit finding. | This is a new form and was not available previously but during the new appointment this form will form part of the Appointment letter. | On file 6747/0519/1/2 folio 11. | On file 6747/0519/1/2 folio 1 and 7. |
| Consultant Payment (MVD Consultants) | No management response. | No management response. | This is a new form and was not available previously but during the new appointment this form will form part of the Appointment letter. | No management response. | No management response. |

## Auditor’s conclusion

Management comments are noted and assessed as follows:

| **Description of project:** | **Auditor’s response 1.1:** | **Auditor’s response 1.2:** | **Auditor’s response 1.3:** | **Auditor’s response 1.4:** | **Auditor’s response 1.5:** |
| --- | --- | --- | --- | --- | --- |
| Consultant Payment (Quanpro) | Appointment letter on file, therefore resolved. | Management is in agreement with the finding, therefore not resolved. | No form, therefore not resolved. | On file, therefore resolved. | On file, therefore resolved. |
| Consultant Payment (MVD Consultants) | No management response, therefore not resolved. | No management response, therefore not resolved. | No form, therefore not resolved. | No management response, therefore not resolved. | No management response, therefore not resolved. |

The matter is therefore not resolved and is reported in the management report.

# Overstatement in Trade and Other Payables

## Audit finding

Section 40(1) of Public Finance Management Act states that “the accounting officer for a department, trading entity or constitutional institution:

* must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;
* must prepare financial statements for each financial year in accordance with generally recognised accounting practice"

The transactions listed below were allocated through the Advances account under “Trade and Other Payable account”. The advance account is supposed to reflect the amounts that have been received in advance.

The nature of the amounts included in this advance account is as follows:

* The amount received from Statistic South Africa relates to accommodation charges and the invoice was attached to the journals. This amount has already been received and it is clear what the amount is for. Therefore, this should be reflected as Revenue - Accommodation Charges and not included as an advance. This has resulted in an overstatement of the Trade and Payables: Advance and understatement of Revenue: Accommodation Charges. A correcting Journal entry as follows should be done: Debit Trade and Payables: Advance and Credit Revenue: Accommodation Charges.
* The amount received from Department of Public Works relates to claims recoverable that client departments erroneously paid directly to Department of Public Works bank account. Department of Public Works performed the reconciliation of all amounts to be transferred from DPW to PMTE. This amount was subsequently transferred to the PMTE bank account. PMTE incorrectly accounted for this amount as Trade Payables: Advance. A correcting Journal entry as follows should be done: Debit Trade and Payables: Advance account and Credit Receivables: Claims Recoverable.

| **NO** | **DESCRIPTION** | **JOURNAL** | **AMOUNT** |
| --- | --- | --- | --- |
| 1 | Amount Received from STATS | 3623 | R57 762 467,74 |
| 2 | Amount Received from STATS | 3623 | R26 082 000,00 |
| 3 | Amount received from Public Works | 3726 | R60,973,596.34 |
| 4 | Amount received from Public Works | 3726 | R15 067 450,00 |
| 5 | Amount received from Public Works | 3726 | R4 504 815,04 |
| 6 | Amount received from Public Works | 3726 | R14 652 440,38 |
| 7 | Amount received from Public Works | 3726 | R290 839,80 |
| 8 | Amount received from Public Works | 3726 | R1 261 269,09 |
| 9 | Amount received from Public Works | 3726 | R5 897 063,90 |
| 10 | Amount received from Public Works | 3726 | R16 518 024,94 |
| 11 | Amount received from Public Works | 3726 | R5 137 856,87 |
| 12 | Amount received from Public Works | 3726 | R4 846 135,41 |
| 13 | Amount received from Public Works | 3726 | R250 767,91 |
| 14 | Amount received from Public Works | 3726 | R1 230 153,16 |
| 15 | Amount received from Public Works | 3726 | R5 467 003,86 |
| 16 | Amount received from Public Works | 3726 | R289 208,09 |
| 17 | Amount received from Public Works | 3726 | R7 821 000,00 |
| 18 | Amount received from Public Works | 3726 | R3 986 561,97 |
| 19 | Amount received from Public Works | 3726 | R2 399 204,55 |
| **TOTAL** | | | **R234 437 859,05** |

* The Payables are overstated with the amount received, Revenue: Accommodation Charges are understated and the Receivables: Claims Recoverable amount is overstated by the amounts as reflected in the tables below:

|  |  |
| --- | --- |
| **Account Class/Balance** | **Amount Overstated/(Understated)** |
| Revenue: Accommodation charges | (R83 844 467,74\_ |
| Receivables: Claim recoverable | R150 593 391,31 |
| Trade and Payables: Advance | R234 437 859,05 |

The senior officials do not review the journals processed and assess the impact of allocating amount to incorrect accounts in financial Statement.  This resulted in a modification to the audit report on “Trade and Other Payables”.

## Internal control deficiency

*Financial and Performance Management*

Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

*Control activities*

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

## Recommendation

Management should ensure that financial statements and supporting schedule are reviewed and adjusted correctly.

## Management Response

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

* The amounts received for Stats SA is for the period 01 April 2011 to March 2012 (as indicated on the invoices attached to the journal). This does not relate to the period under review and represents an advance received from the client. It is therefore correctly allocated against advances
* The amount received from Public Works was received at the end of the financial year. The PMTE did not have time to reconcile all the amounts with invoices issued as some of these amounts dates back to prior years. It would be incorrect to just set of Claims Recoverable. Some of these amounts might be over payments which have to be paid back to the clients. A proper reconciliation is underway and funds will be allocated accordingly
* Management has been closely involved with these transactions and the journals were done on advice from management

## Auditor’s conclusion

The amounts received from Public Works pertain to the current financial year and as a result, should be allocated to the correct account. The Trade and Other Payables has therefore been overstated and Revenue is therefore understated by an amount of R150 593 391. This resulted to a modification in the audit report and will form a basis of our audit opinion.

# Incorrect accounting treatment of capital expenditure

## Audit finding

IAS 1 paragraph 32 states that “An entity shall not offset assets and liabilities or income and expenses, unless required or permitted by an IFRS.” IAS 16 paragraph 7 states that “The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:

* it is probable that future economic benefits associated with the item will flow to the entity; and
* the cost of the item can be measured reliably.”

We identified the following journal:

Cr 12007 OWN&LEAS PROP EXP:CON REFUR/R R1 707 253 211,64

Cr 12011 OWN&LEAS PROP EXP:UPGRADE&ADD R 303,799,353,46

Dr 12020 ACCOMM CHRGS - STATE OWNED R 2 011 052 565,10

A representation was requested from management for the reason for this journal. On 15 July 2011 we received the response entailing that “In terms of IAS 16 paragraph 12 – 14, the costs of major improvements and refurbishment should be capitalised to the cost of the asset concerned. PMTE does not have any immovable assets recorded in its accounting records; all state owned immovable assets are recorded by the Department of Public Works. PMTE also does not directly benefit from the improved assets as the rental charged by PMTE on those assets is set at a level that enables PMTE to receive enough money for the day to day maintenance of the assets, no profit is made by PMTE from the rental of state owned assets. The assets therefore do not meet the asset definition in PMTE’s accounting records.”

After assessing the response received from management and in consultation with our technical department we concluded on the matter. Offsetting that was done in the journal above is not allowed as per IAS 32 and therefore the Revenue and Operating Expenditure is understated with R2 billion. Some of the payments are of a capital nature and not current and should be capitalised if they meet recognition criteria.  The entity can measure the cost of these items and future economic benefits in the form of rentals flowing to the entity, therefore the two recognition requirements are met.

The payments for capital works should be recorded in the financial statements of the entity and depreciated over the useful life of the related asset.  PMTE can include a descriptive note in the financial statements explaining that the immovable asset/building is recognised in the Immovable Asset Register and Disclosure Notes to the Annual Financial Statement of the Department.

## Internal control deficiency

*Financial and performance management*

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

## Recommendation

* The Entity need to engage in a scrutiny of business transactions and process peculiar to the environment and define the accounting treatment thereof in the context of SA GAAP.
* Engage with National Treasury to assist in defining a set-off accounts specific to the trading entity and provide for this in BAS Core Data.
* The journal done must be reversed.
* The accounts above should be analysed to split between capital and expenditure (e.g. costs of consultants might not be of capital nature).
* The expenditure should be disclosed under operating expenditure in the financial statements.
* The amount for capital expenditure must be reclassified as Property, plant and equipment.
* The entity should assess the useful lives of these assets and depreciate the asset over the useful lives.
* All necessary disclosures should be made in accordance with SA GAAP. Management can include a descriptive note in the financial statements explaining that the immovable asset/building is recognised in the financial statements of the department.
* Comparative amounts need to be amended and disclosed accordingly.

## Management response

I am not in a position to confirm if I agree or disagree due to the fact that in the previous financial year the auditors concurred with our approach and rationale which is consistent with this year. Much as I am willing to cooperate with your recommendation, I would like request around the table discussion to further discuss the practicality and ramifications the proposed approach given the fact that the PMTE operates almost like an agent of DPW in renovating DPW assets. acts as an agent on behalf of the National Department of public Works in renovating DPW

*Name: Cathy Motsisi*

*Position: Chief Financial Officer*

*Date: 22 July 2011*

## Auditor’s conclusion

Management comment is noted; however the finding is still valid and will be reported as a misstatement in the annual financial statements in the audit report.

# Insufficient information to re-perform the calculation of accommodation charges

## Audit finding

In terms of section 41 of the Public Finance Management Act, 1999 (Act no.1 of 1999): *“An accounting officer for a department must submit to the relevant treasury or the Auditor General such information, returns, documents, explanations and motivations as may be prescribed or as the relevant treasury or the Auditor General may require.”*

We were unable to recalculate the “private owned charges” for the transactions selected and listed below based on the documentation provided.

| **NO** | **ITEMLEVELD** | **INV No.** | **DEPT** | **TRANSAMTCR** | **FANO** |
| --- | --- | --- | --- | --- | --- |
| 1 | ACCOMM CHRGS - PRIVATE - REV | DPW-1-1011 | PUBLIC WORKS - REV | R623 340,22 | 2869 |
| 2 | ACCOMM CHRGS - PRIVATE - REV | DPW-2-1011 | PUBLIC WORKS - REV | R188 397,94 | 2869 |
| 3 | ACCOMM CHRGS - PRIVATE - REV | Publ.Ent-03-Final | PUBLIC ENTERPRISES - REV | R331 681,90 | 2869 |
| 4 | ACCOMM CHRGS - PRIVATE – REV | 2-4th Quarters | HUMAN SETTLEMENTS - REV | R4 441 083,65 | 2869 |
| 5 | ACCOMM CHRGS - PRIVATE – REV | 1.2 Quarters | HUMAN SETTLEMENTS - REV | R5 825 129,92 | 2869 |
| 6 | ACCOMM CHRGS - PRIVATE – REV | GCIS-Add1-1011 | GCIS - REV | R3 828 643,44 | 2869 |
| 7 | ACCOMM CHRGS - PRIVATE – REV | Communication-Add1-1011 | COMMUNICATION - REV | R1 163 354,38 | 2913 |
| 8 | ACCOMM CHRGS - PRIVATE – REV | Transport-Add1-1011 | TRANSPORT - REV | R1 356 722,74 | 2957 |
| 9 | ACCOMM CHRGS - PRIVATE – REV | Public Ent-Add1-1011 | PUBLIC ENTERPRISES - REV | R401 951,07 | 2957 |
| 10 | ACCOMM CHRGS - PRIVATE – REV | 21-01-0407 | RURAL DEVELOP&LAND REFORM - REV | R1 738 675,00 | 2983 |
| 11 | ACCOMM CHRGS - PRIVATE – REV | NPA-03-Final | NATIONAL PROSECUTING AUTH – REV | R16 688,40 | 3001 |
| 12 | ACCOMM CHRGS - PRIVATE – REV | Arts-Add1-1011 | ARTS AND CULTURE - REV | R4 040 810,55 | 3019 |
| 13 | ACCOMM CHRGS - PRIVATE – REV | Agriculture-Add1-1011 | AGRIC,FOREST&FISH - REV | R476 938,45 | 2996 |
| 14 | ACCOMM CHRGS - PRIVATE – REV | 02-11-07-10-01 | HUMAN SETTLEMENTS - REV | R3 752 151,96 | 2996 |
| 15 | ACCOMM CHRGS - PRIVATE – REV | 02-9-10-10-01 | HEALTH - REV | R1 838 958,54 | 3020 |
| 16 | ACCOMM CHRGS - PRIVATE – REV | 02-33-10-10-01 | NATIONAL TREASURY - REV | R7 632 068,85 | 3038 |
| 17 | ACCOMM CHRGS - PRIVATE – REV | 02-1-10-10-01 | AGRIC,FOREST&FISH - REV | R4 926 839,49 | 3037 |
| 18 | ACCOMM CHRGS - PRIVATE – REV | 02-3-10-10-01 | COMMUNICATION - REV | R2 524 664,22 | 3037 |
| 19 | ACCOMM CHRGS - PRIVATE – REV | 02-40-07-10-01 | SA SOCIAL SECURITY AGENCY - REV | R2 803 648,69 | 3057 |
| 20 | ACCOMM CHRGS - PRIVATE – REV | Parliament-1-1011 | PARLIAMENT - REV | R122 238,72 | 3057 |
| 21 | ACCOMM CHRGS - PRIVATE – REV | 02-31-07-10-01 | INDEPENDENT COMPLAINTS DIR - REV | R3 035 844,87 | 3057 |
| 22 | ACCOMM CHRGS - PRIVATE – REV | 02-4-10-10-01 | COOPERATIVE GOV&TRAD AFF - REV | R3 869 321,37 | 3057 |
| 23 | ACCOMM CHRGS - PRIVATE – REV | 02-35-10-10-01 | PALAMA - REV | R681 578,39 | 3057 |
| 24 | ACCOMM CHRGS - PRIVATE – REV | 02-35-10-10-01 | PALAMA - REV | R999 900,00 | 3057 |
| 25 | ACCOMM CHRGS - PRIVATE – REV | 02-35-10-10-01 | PALAMA - REV | R999 900,00 | 3057 |
| 26 | ACCOMM CHRGS - PRIVATE – REV | 02-35-10-10-01 | PALAMA - REV | R999 900,00 | 3057 |
| 27 | ACCOMM CHRGS - PRIVATE – REV | 02-25-10-10-01 | TRANSPORT - REV | R2 289 087,47 | 3105 |
| 28 | ACCOMM CHRGS - PRIVATE – REV | 02-40-07-10-05 | SA SOCIAL SECURITY AGENCY - REV | R3 819 252,29 | 3105 |
| 29 | ACCOMM CHRGS - PRIVATE – REV | Advance | PUBLIC SERVICE COMMISSION - REV | R1 677 556,38 | 3105 |
| 30 | ACCOMM CHRGS - PRIVATE – REV | Palama-Add1-1011 | PALAMA - REV | R 999 900,00 | 3130 |
| 31 | ACCOMM CHRGS - PRIVATE – REV | Palama-Add1-1011 | PALAMA - REV | R999 900,00 | 3130 |
| 32 | ACCOMM CHRGS - PRIVATE – REV | 02-8b-10-10-01 | TOURISM - REV | R129 617,31 | 3130 |
| 33 | ACCOMM CHRGS - PRIVATE – REV | 02-35-10-10-01 | PALAMA - REV | R999 900,00 | 3163 |
| 34 | ACCOMM CHRGS - PRIVATE – REV | 02-35-10-10-01 | PALAMA - REV | R999 900,00 | 3163 |
| 35 | ACCOMM CHRGS - PRIVATE – REV | 02-16-12-10-01 | PUBLIC ENTERPRISES - REV | R1 287 446,04 | 3186 |
| 36 | ACCOMM CHRGS - PRIVATE – REV | 02-01-12-10-01 | AGRIC,FOREST&FISH - REV | R3 818 314,86 | 3185 |
| 37 | ACCOMM CHRGS - PRIVATE – REV | 02-35-12-10-01 | PALAMA - REV | R938 894,61 | 3199 |
| 38 | ACCOMM CHRGS - PRIVATE – REV | 02-35-12-10-01 | PALAMA - REV | R938 894,61 | 3199 |
| 39 | ACCOMM CHRGS - PRIVATE – REV | 02-35-12-10-01 | PALAMA - REV | R938 894,61 | 3199 |
| 40 | ACCOMM CHRGS - PRIVATE – REV | 02-35-12-10-01 | PALAMA - REV | R938 894,61 | 3199 |
| 41 | ACCOMM CHRGS - PRIVATE – REV | 02-9-12-10-01 | HEALTH - REV | R4 780 107,57 | 3222 |
| 42 | ACCOMM CHRGS - PRIVATE – REV | 02-3-12-10-01 | COMMUNICATION - REV | R2 726 637,36 | 3222 |
| 43 | ACCOMM CHRGS - PRIVATE – REV | 02-8b-12-10-01 | TOURISM - REV | R132 033,99 | 3222 |
| 44 | ACCOMM CHRGS - PRIVATE – REV | 02-2-10-10-01 | ARTS AND CULTURE - REV | R4 929 920,18 | 3222 |
| 45 | ACCOMM CHRGS - PRIVATE – REV | 02-37-12-10-01 | PUBLIC SERVICE COMMISSION - REV | R3 287 056,17 | 3236 |
| 46 | ACCOMM CHRGS - PRIVATE – REV | PALAMA-Add1-1011 | PALAMA - REV | R999 900,00 | 3265 |
| 47 | ACCOMM CHRGS - PRIVATE – REV | Water Affairs-03-Final | WATER AFFAIRS - REV | R785 641,98 | 3270 |
| 48 | ACCOMM CHRGS - PRIVATE – REV | 02-12-10-10-01 | INTER RELATION & COOP - REV | R7 233 088,00 | 3298 |
| 49 | ACCOMM CHRGS - PRIVATE – REV | 02-40-01-10-05 | SA SOCIAL SECURITY AGENCY - REV | R1 560 516,31 | 3301 |
| 50 | ACCOMM CHRGS - PRIVATE – REV | 02-33-12-10-01 | NATIONAL TREASURY - REV | R7 790 854,25 | 3301 |
| 51 | ACCOMM CHRGS - PRIVATE – REV | 02-16-10-10-01 | PUBLIC ENTERPRISES - REV | R1 502 700,50 | 3340 |
| 52 | ACCOMM CHRGS - PRIVATE - REV | 02-21-10-10-02 | SOCIAL DEVELOPMENT - REV | R3 196 293,63 | 3340 |
| 53 | ACCOMM CHRGS - PRIVATE - REV | PALAMA-Add1-1011 | PALAMA - REV | R999 900,00 | 3388 |
| 54 | ACCOMM CHRGS - PRIVATE - REV | PALAMA-Add1-1011 | PALAMA - REV | R345 739,44 | 3388 |
| 55 | ACCOMM CHRGS - PRIVATE - REV | 02-40-07-10-01 | SA SOCIAL SECURITY AGENCY - REV | R611 038,14 | 3314 |
| 56 | ACCOMM CHRGS - PRIVATE - REV | 02-40-10-10-01 | SA SOCIAL SECURITY AGENCY - REV | R1 126 865,53 | 3314 |
| 57 | ACCOMM CHRGS - PRIVATE - REV | 02-22-10-10-01 | SPORT AND RECREATION - REV | R2 158 176,39 | 3314 |
| 58 | ACCOMM CHRGS - PRIVATE - REV | 02-31-12-10-01 | INDEPENDENT COMPLAINTS DIR - REV | R2 083 160,69 | 3314 |
| 59 | ACCOMM CHRGS - PRIVATE - REV | 02-40-10-10-03 | SA SOCIAL SECURITY AGENCY - REV | R1 754 806,90 | 3373 |
| 60 | ACCOMM CHRGS - PRIVATE - REV | 02-40-10-10-03 | SA SOCIAL SECURITY AGENCY - REV | R754 806,90 | 3373 |
| 61 | ACCOMM CHRGS - PRIVATE - REV | 02-8b-07-10-02 | TOURISM - REV | R241 929,01 | 3373 |
| 62 | ACCOMM CHRGS - PRIVATE - REV | 02-7-12-10-01 | HIGHER EDUCATION&TRAINING-REV | R3 282 822,15 | 3373 |
| 63 | ACCOMM CHRGS - PRIVATE - REV | 02-5-12-10-01 | CORRECTIONAL SERVICES - REV | R19 756 204,20 | 3387 |
| 64 | ACCOMM CHRGS - PRIVATE - REV | 02-11-10-10-01 | HUMAN SETTLEMENTS - REV | R3 461 142,90 | 3387 |
| 65 | ACCOMM CHRGS - PRIVATE - REV | 02-11-12-10-01 | HUMAN SETTLEMENTS – REV | R3 517 521,38 | 3387 |
| 66 | ACCOMM CHRGS - PRIVATE - REV | 02-2-12-10-01 | ARTS AND CULTURE - REV | R4 912 488,09 | 3474 |
| 67 | ACCOMM CHRGS - PRIVATE - REV | 02-3-07-10-01 | COMMUNICATION - REV | R3 885 974,06 | 3517 |
| 68 | ACCOMM CHRGS - PRIVATE - REV | 02-40-10-10-05 | SA SOCIAL SECURITY AGENCY - REV | R4 651 416,46 | 3517 |
| 69 | ACCOMM CHRGS - PRIVATE - REV | 02-21-10-10-03 | SOCIAL DEVELOPMENT – REV | R9 930 120,36 | 3186 |
| 70 | ACCOMM CHRGS - PRIVATE - REV | 02-35-12-10-01 | PALAMA - REV | R938 894,61 | 3199 |
| 71 | Private owned | **No invoice** | TRADE AND INDUSTRY - REV - | R5 943 000,00 | 2378 |
| 72 | Private owned | **No invoice** | CORRECTIONAL SERVICES - | R32 868 396,75 | 2549 |
| 73 | Private owned | SASSA-03-005 | SA SOCIAL SECURITY AGENCY - | R172 727,15 | 2609 |
| 74 | Private owned | 02-29-07-10-01 | GCIS - REV | R3 970 691,98 | 2609 |
| 75 | Private owned | 02-19-07-10-01 | 'RURAL DEVELOP&LAND REFORM - REV | R35 162 737,15 | 2609 |
| 76 | Private owned | 02-33-07-10-01 | NATIONAL TREASURY - REV | R12 862 934,06 | 2609 |
| 77 | Private owned | 02-21-07-10-01 | SOCIAL DEVELOPMENT – REV | R6 733 826,73 | 2609 |
| 78 | Private owned | 02-25-07-10-01 | TRANSPORT – REV | R5 085 305,06 | 2609 |
| 79 | Private owned | 02-14-07-10-01 | LABOUR - REv | R45 557 986,51 | 2637 |
|  |  |  |  | R332 092 248,09 |  |

We determined from the discussions we had with management that the amount claimed on the invoice to client departments is an estimated amount for the first two quarters of the year and then the estimated amount is adjusted in the third and fourth quarters with actual expenditure paid to private owners. However, there was no proof of how the yearly estimated amount or other yearly amounts on the invoices were arrived at. In requesting this information we were supplied with schedules of actual payments made to the private owners relating to the leases, which did not agree with the amounts on the invoices.

With the information supplied, we tried to determine whether all amounts paid to private owners were in fact claimed from client departments, but on the schedule is only one amount that agrees to the amount claimed and no proof if these differences were actually corrected in BAS. Furthermore, information provided were raw PMIS data converted into excel pivot tables. Due to this and the fact that the pivot tables are prepared by the client, the integrity of the data is unknown and therefore we cannot place reliance on it.

The entity currently uses a manual system whereby it’s based on PMIS date converted into excel pivot tables. The invoices are thus calculated manually on excel. A proper billing system would allow us to follow a reliable trail whereby reliance can be placed on it. This would also improve the billing process as the time taken to reconcile invoices and PMIS will be minimised.

Possible misstatement of Revenue: Accommodation Charges (Private) as we were unable to recalculate the claims with the information provided.

## Internal control deficiency

*Financial and performance management*

The entity did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

## Recommendation

* Management should ensure that IE-Works has a functionality that facilitates proper billing to departments.
* Before implementing this functionality a dual billing system should be run, to ensure billing is accurate and complete.
* In the interim all quarterly invoices sent to client should be supported by calculations, as currently there is a significant risk of misstatement as the data used cannot be verified.
* The required information should be submitted within the required time to ensure that amounts included in the AFS are accurate and complete.

## Management response

I am in agreement with certain aspects of the finding for the following reasons:

* Invoices are prepared from raw data downloaded from PMIS as we don’t currently have a billing system.
* We have completed the specification of the system and have submitted it to National Treasury for approval. However, the PMIS download is reconciled with BAS on a monthly basis before it is used as a basis for invoicing clients.
* The client as indicated on PMIS is the actual tenant. This is interfaced to BAS. In certain instances, the client is not responsible for the payment of the lease (e.g. funds were devolved to DPW or Justice instead of NPA, Macro re-organisation of Government “moved” new Clients into existing leases while the budget remained on the original client’s vote).
* This is not adjusted on BAS as the information on BAS will then not reconcile with the information on PMIS. The source of invoices is PMIS and not BAS.
* I am not in agreement that invoices are not supported by calculations and details. Below, please find a schedule with explanations of the amounts as invoiced.

| **NO** | **INV No.** | **DEPT** | **TRANSAMTCR** | **COMMENT** |
| --- | --- | --- | --- | --- |
| 1 | DPW-1-1011 | PUBLIC WORKS - REV | R623 340,22 | We agree with the finding. The invoices will be investigated further on return of the responsible official who is currently on sick leave |
| 2 | DPW-2-1011 | PUBLIC WORKS - REV | R188 397,94 |
| 3 | Publ.Ent-03-Final | PUBLIC ENTERPRISES - REV | R331 681,90 | During the financial year, invoices to the amount of R4 712 000 were issued based on estimates and reconciliations. At the end of the financial year, reconciliation was done between the estimate and the actual expenditure as at year-end. The difference was R331 681.90 |
| 4 | 2-4th Quarters | HUMAN SETTLEMENTS - REV | R4 441 083,65 | During the 2009/10 financial year, invoices to the amount of R17 559 020 were issued to the Client. These invoices included amounts for a property known as 114 Vermeulen Street. The Client disputed this and gave us proof that they never took occupation of the building. An analysis of the final cost paid for the 12 months (excl the disputed property) came to R10 266 213.57. The Client was issued with a letter stating that this is the only amount to be paid. The Client paid this in two amounts of R4 441 083.65 and R5 825129.92 totaling to R10 266 213.57. The outstanding amount against 114 Vermeulen street was claimed from DPW as agreed with the then act DG. The property is now occupied by ICD. |
| 5 | 1.2 Quarters | HUMAN SETTLEMENTS - REV | R5 825 129,92 |
| 6 | GCIS-Add1-1011 | GCIS - REV | R3 828 643,44 | The first invoice issued was based on the estimate (PMIS download) for the year. This amounted to R3 970 691.98. After the first 3 months, a recon was done between the initial estimate and the actual expenditure. It was found that the expenditure and new estimate were R3 828 643.44 more than the original estimate |
| 7 | Communication-Add1-1011 | COMMUNICATION - REV | R1 163 354,38 | The first invoice issued was based on the estimate (PMIS download) for the year. This amounted to R3 885 974.06. After the first 3 months, a recon was done between the initial estimate and the actual expenditure. It was found that the expenditure and new estimate were R1 163 354.38 more than the original estimate |
| 8 | Transport-Add1-1011 | TRANSPORT – REV | R1 356 722,74 | The first invoice issued was based on the estimate (PMIS download) for the year. This amounted to R5 085 305.06. After the first 3 months, a recon was done between the initial estimate and the actual expenditure. It was found that the expenditure and new estimate were R3 726 639.50 more than the original estimate |
| 9 | Public Ent-Add1-1011 | PUBLIC ENTERPRISES - REV | R401 951,07 | The first invoice issued was based on the estimate (PMIS download) for the year. This amounted to R2 098 300.37. After the first 3 months, a recon was done between the initial estimate and the actual expenditure. It was found that the expenditure and new estimate were R401 951.07 more than the original estimate |
| 10 | 21-01-0407 | RURAL DEVELOP&LAND REFORM - REV | R1 738 675,00 | This invoice was based on additional leases that were entered into after the budgets to be devolved were calculated. As they were not part of the baseline, they were not part of the devolution |
| 11 | NPA-03-Final | NATIONAL PROSECUTING AUTH – REV | R16 688,40 | During the year, invoices are issued based on estimates and progressively actual expenditure. At the end of the financial year, a full expenditure report was used and the total reconciled against the invoices issued during the year. It was found that the total expenditure for the year was R18 616 266.12, while the invoices only amounted to R15 673 836.71. This left a shortfall of R2 942 429.41. The Client for some reason only paid R16 688,40 |
| 12 | Arts-Add1-1011 | ARTS AND CULTURE - REV | R4 040 810,55 | The first invoice issued was based on the estimate (PMIS download) for the year. This amounted to R5 766 733.53. After the first 3 months, a recon was done between the initial estimate and the actual expenditure. It was found that the expenditure and new estimate were R4 040 810.55 more than the original estimate |
| 13 | Agriculture-Add1-1011 | AGRIC,FOREST&FISH - REV | R476 938,45 | The original invoice issued to the Client based on the estimate for the first six months amounted to R5 633 529.03. Based on the expenditure for the first 3 months, this estimate was adjusted to R6 110 467.48 and an additional invoice to the value of R476 938.45 was issued. |
| 14 | 02-11-07-10-01 | HUMAN SETTLEMENTS - REV | R3 752 151,96 | The amount was invoices based on the estimated cost for the year as downloaded from PMIS (please see attached). The amount on the spreadsheet was for the whole year while the invoice was only for six months. The Client disputed occupation of 114 Vermeulen street and deducted this amount from the invoice. |
| 15 | 02-9-10-10-01 | HEALTH - REV | R1 838 958,54 | The first two invoices issued were based on the actual expenditure for the first quarter and the revised estimate for the 2nd quarter. This amounted to R22 885 045.62. After the first 6 months, a recon was done between the initial estimate and the actual expenditure. It was found that the expenditure and new estimate were R2 941 149.03 less than the original estimate. Added to that was the estimate for the 3rd quarter that amounted to R4 780 107.57. The total of the surplus plus the estimate is R1 838 958.54 |
| 16 | 02-33-10-10-01 | NATIONAL TREASURY - REV | R7 632 068,85 | The invoice is based on the estimate for the third quarter which is in turn based on the actual expenditure for the period 1 April 2010 to 30 September 2010 |
| 17 | 02-1-10-10-01 | AGRIC,FOREST&FISH - REV | R4 926 839,49 | The first invoices issued were based on an estimate for the 1st and 2nd quarter. This amounted to R6 110 467.48. After the first 6 months, a recon was done between the initial estimate and the actual expenditure. It was found that the new estimate were R3 379 236.89 more than the original estimate. Added to that was the estimate for the 3rd quarter that amounted to R3 251 031.58. The total is R6 630 268.47. Unfortunately the Client did not pay the full amount due. |
| 18 | 02-3-10-10-01 | COMMUNICATION - REV | R2 524 664,22 | The first two invoices issued were based on the actual expenditure for the first quarter and the revised estimate for the 2nd quarter. This amounted to R5 049 328.44. After the first 6 months, a recon was again done between the initial estimate and the actual expenditure. It was found that the expenditure and new estimate were correct. An estimate was done for the 3rd quarter based on the previous expenditure and that amounted to R2 524 664.22 |
| 19 | 02-40-07-10-01 | SA SOCIAL SECURITY AGENCY - REV | R2 803 648,69 | This amount relates to invoice 02-40-07-10-0**2.** The amount was invoices based on the estimated cost for the year as downloaded from PMIS (please see attached). The amount on the spreadsheet was for the whole year while the invoice was only for six months. This amount was only for the Durban office. |
| 20 | Parliament-1-1011 | PARLIAMENT - REV | R122 238,72 | This invoice was originally issued to DPW, but later credited as Parliament is responsible for the payment. The amount is based on the actual expenditure for the first quarter and estimate for the second quarter (equal to actual exp for 1st quarter) |
| 21 | 02-31-07-10-01 | INDEPENDENT COMPLAINTS DIR - REV | R3 035 844,87 | The amount was invoices based on the estimated cost for the year as downloaded from PMIS (please see attached). The amount on the spreadsheet was for the whole year while the invoice was only for six months. |
| 22 | 02-4-10-10-01 | COOPERATIVE GOV&TRAD AFF - REV | R3 869 321,37 | The first two invoices issued were based on the actual expenditure for the first quarter and the revised estimate for the 2nd quarter. This amounted to R14 917 062.88. After the first 6 months, a recon was done between the initial estimate and the actual expenditure. It was found that the expenditure and new estimate were R1 786 277.43 less than the original estimate. Added to that was the estimate for the 3rd quarter that amounted to R5 655 598.80. The total of the surplus plus the estimate is R3 869 321.37 |
| 23 | 02-35-10-10-01 | PALAMA - REV | R681 578,39 | A download from PMIS was used to determine the actual expenditure. Based on this, an estimate was made for the 4th quarter. As these leases’ escalation date was in January of that year a factor was brought in for the increase. |
| 24 | 02-35-10-10-01 | PALAMA - REV | R999 900,00 |
| 25 | 02-35-10-10-01 | PALAMA - REV | R999 900,00 |
| 26 | 02-35-10-10-01 | PALAMA - REV | R999 900,00 |
| 27 | 02-25-10-10-01 | TRANSPORT - REV | R2 289 087,47 | The first invoices issued were based on an estimate for the 1st and 2nd quarter. This amounted to R8 811 944.56. After the first 6 months, a recon was done between the initial estimate and the actual expenditure. It was found that the new estimate were R1 099 028.28 less than the original estimate. Added to that was the estimate for the 3rd quarter that amounted to R3 568 837.55. The total is R2 469 809.27. |
| 28 | 02-40-07-10-05 | SA SOCIAL SECURITY AGENCY - REV | R3 819 252,29 | The amount was invoices based on the estimated cost for the year as downloaded from PMIS (please see attached). The amount on the spreadsheet was for the whole year while the invoice was only for six months. This amount was only for the Pretoria office. |
| 29 | Advance | PUBLIC SERVICE COMMISSION - REV | R1 677 556,38 | The Client requested in December 2010 to be allowed to pay an advance on the invoice still to be issued. The invoice was delayed as we realized that one of the properties was being invoiced against DPSA as it was incorrectly registered on PMIS. As this delay was caused by us, we allowed the advance (see e-mail from Client attached to 4th quarter invoice) |
| 30 | Palama-Add1-1011 | PALAMA - REV | R 999 900,00 | The first invoice issued was based on the estimate (PMIS download) for the year. This amounted to R4 845 943.25. After the first 3 months, a recon was done between the initial estimate and the actual expenditure. It was found that the expenditure and new estimate were R2 100 853.33 more than the original estimate |
| 31 | Palama-Add1-1011 | PALAMA - REV | R999 900,00 |
| 32 | 02-8b-10-10-01 | TOURISM - REV | R129 617,31 | This invoice was based on the actual expenditure against properties occupied by the client for the first six months. |
| 33 | 02-35-10-10-01 | PALAMA - REV | R999 900,00 | See comment against no 23 to 26 |
| 34 | 02-35-10-10-01 | PALAMA - REV | R999 900,00 | See comment against no 23 to 26 |
| 35 | 02-16-12-10-01 | PUBLIC ENTERPRISES - REV | R1 287 446,04 | This is the fourth quarter invoice that was based on the actual expenditure of the first two quarters and the estimate for the 3rd quarter |
| 36 | 02-01-12-10-01 | AGRIC,FOREST&FISH - REV | R3 818 314,86 | This invoice was based on the 3rd quarter estimate. Some of the properties were escalated by the percentage stipulated in the contract as the escalation dates were in the 4th quarter |
| 37 | 02-35-12-10-01 | PALAMA - REV | R938 894,61 | See comment against no 23 to 26 |
| 38 | 02-35-12-10-01 | PALAMA - REV | R938 894,61 | See comment against no 23 to 26 |
| 39 | 02-35-12-10-01 | PALAMA - REV | R938 894,61 | See comment against no 23 to 26 |
| 40 | 02-35-12-10-01 | PALAMA - REV | R938 894,61 | See comment against no 23 to 26 |
| 41 | 02-9-12-10-01 | HEALTH - REV | R4 780 107,57 | This amount is based on the estimate as calculated based on the expenditure during the first two quarters. It is the same amount that was used for the 3rd quarter invoice. |
| 42 | 02-3-12-10-01 | COMMUNICATION - REV | R2 726 637,36 | A download from PMIS was used to determine the actual expenditure. Based on this, an estimate was made for the 4th quarter. As these leases’ escalation date was in January of that year a factor was brought in for the increase. |
| 43 | 02-8b-12-10-01 | TOURISM - REV | R132 033,99 | This invoice was based on the actual expenditure for the first two quarters and the estimate of the 3rd. The amount was escalated on “Millbarn Centre” as the contractual escalation date was in January of that year. |
| 44 | 02-2-10-10-01 | ARTS AND CULTURE – REV | R4 929 920,18 | The first two invoices issued were based on the actual expenditure for the first quarter and the revised estimate for the 2nd quarter. This amounted to R9 807 544.08. After the first 6 months, a recon was done between the initial estimate and the actual expenditure. It was found that the expenditure and new estimate were R17 432.09 more than the original estimate. Added to that was the estimate for the 3rd quarter that amounted to R4 912 488.09. The total of the shortfall plus the estimate is R4 929 920.18 |
| 45 | 02-37-12-10-01 | PUBLIC SERVICE COMMISSION - REV | R3 287 056,17 | The invoice was based on the estimate for the full year. This includes actual expenditure for the first two quarters, estimate of the 3rd and escalated estimate for the 4th. The invoice amounted to R4 964 612.55. The Client paid the difference between the invoiced amount and the advance of R1 677 556.38 paid previously |
| 46 | PALAMA-Add1-1011 | PALAMA - REV | R999 900,00 | See comment against no 30 |
| 47 | Water Affairs-03-Final | WATER AFFAIRS - REV | R785 641,98 | This invoice is based on the difference between invoices issued during the year (based on estimates and later reconciliation with actual expenditure) and the actual expenditure as at 31 March 2010. |
| 48 | 02-12-10-10-01 | INTER RELATION & COOP - REV | R7 233 088,00 | This invoice was calculated based on the expenditure for the first 6 months. The Client paid the invoice in two installments of which R7 233 088.00 was one. |
| 49 | 02-40-01-10-05 | SA SOCIAL SECURITY AGENCY - REV | R1 560 516,31 | The invoice is based on a quarter’s expenditure for the Prodinsa building where SASSA’s Head Office is situated. The estimate was based on the expenditure for the first six months |
| 50 | 02-33-12-10-01 | NATIONAL TREASURY - REV | R7 790 854,25 | This invoice was based on the third quarter estimate escalated by 8% in accordance to the contract as the escalation date is January |
| 51 | 02-16-10-10-01 | PUBLIC ENTERPRISES - REV | R1 502 700,50 | The first invoices issued were based on an estimate for the 1st and 2nd quarter. This amounted to R2 500 251.44. After the first 6 months, a recon was done between the initial estimate and the actual expenditure. It was found that the new estimate were R215 254.46 more than the original estimate. Added to that was the estimate for the 3rd quarter that amounted to R1 287 446.04. The total is R1 502 700.50. |
| 52 | 02-21-10-10-02 | SOCIAL DEVELOPMENT - REV | R3 196 293,63 | Amount calculated by Client based on their records and agreed upon by PMTE officials. (See attached documentation) |
| 53 | PALAMA-Add1-1011 | PALAMA - REV | R999 900,00 | See comment against no 30 |
| 54 | PALAMA-Add1-1011 | PALAMA - REV | R345 739,44 | See comment against no 30 |
| 55 | 02-40-07-10-01 | SA SOCIAL SECURITY AGENCY - REV | R611 038,14 | The amount was invoices based on the estimated cost for the year as downloaded from PMIS (please see attached). The amount on the spreadsheet was for the whole year while the invoice was only for six months. This amount was only for the Bloemfontein office. |
| 56 | 02-40-10-10-01 | SA SOCIAL SECURITY AGENCY - REV | R1 126 865,53 | The first invoice was based on the estimate for the first two quarters as downloaded from PMIS. After 6 months, reconciliation was done between the estimate and the actual expenditure. The first invoice was to the amount of R611 038.14. The actual expenditure for this period amounted to R1 158 602.46. This left a shortfall of R547 564.32. Added to that is the estimate for the third quarter of R579 301. This adds up to an amount of R1 126 865.55 |
| 57 | 02-22-10-10-01 | SPORT AND RECREATION – REV | R2 158 176,39 | The amount was invoiced based on the estimated cost for the year as downloaded from PMIS (please see attached). The amount on the spreadsheet was for the whole year while the invoice was only for six months. |
| 58 | 02-31-12-10-01 | INDEPENDENT COMPLAINTS DIR – REV | R2 083 160,69 | Based on the expenditure for the first 6 months (R7 530 943.45) the estimate for the year was calculated at R15 061 886. Invoices previously issued totaled to R12 978 326.21 on the Client overpaid this by R400.00. The net effect of this is R2 083 160.69 |
| 59 | 02-40-10-10-03 | SA SOCIAL SECURITY AGENCY - REV | R1 754 806,90 | The first invoice was based on the estimate for the first two quarters as downloaded from PMIS. After 6 months, reconciliation was done between the estimate and the actual expenditure. The first invoice was to the amount of R2 157 427.55. The actual expenditure for this period amounted to R4 150 078.02. This left a shortfall of R1 992 650.47. Added to that is the estimate for the third quarter of R2 075 039.01. This adds up to an amount of R4 067 689.48. Unfortunately, the Clients do not always pay the amount as invoiced. This is a partial payment of the invoice. |
| 60 | 02-40-10-10-03 | SA SOCIAL SECURITY AGENCY - REV | R754 806,90 | See comment against no 59 |
| 61 | 02-8b-07-10-02 | TOURISM - REV | R241 929,01 | The amount was invoiced based on the estimated cost for the year as downloaded from PMIS (please see attached). The amount on the spreadsheet was for the whole year while the invoice was only for six months. |
| 62 | 02-7-12-10-01 | HIGHER EDUCATION&TRAINING-REV | R3 282 822,15 | The estimate for the 4th quarter was based on the expenditure in the first two quarters. This was escalated by 10% as stipulated in the contract. The amounts claimed during the year assumed occupation of all the buildings listed, but the Client moved out during the year. This resulted in an amount of R553 397.25 claimed in excess. The difference between the estimate (R3 836 219.40) and the surplus amounted to R3 282 822.15 |
| 63 | 02-5-12-10-01 | CORRECTIONAL SERVICES - REV | R19 756 204,20 | This is the fourth quarter invoice and was based on the expenditure for the first 6 months of the year |
| 64 | 02-11-10-10-01 | HUMAN SETTLEMENTS - REV | R3 461 142,90 | The first invoice was based on the estimate for the first two quarters as downloaded from PMIS. After 6 months, reconciliation was done between the estimate and the actual expenditure. The first invoices were to the amount of R7 658 582.44. The actual expenditure for this period amounted to R7 996 450.52. This left a shortfall of R337 868.08. Added to that is the estimate for the third quarter of R5 648 985.12 (This was based on the 6 months expenditure minus the disputed property) This added up to R5 986 853. A transaction relating to the disputed property was overlooked and included in the invoice. The Client deducted this and only paid the amount due which was R3 461 142.90. This amount was credited to the Client. |
| 65 | 02-11-12-10-01 | HUMAN SETTLEMENTS – REV | R3 517 521,38 | This invoice is based on the expenditure during the first six months taking into account an 8% escalation as these lease contracts escalated in January 2011. |
| 66 | 02-2-12-10-01 | ARTS AND CULTURE - REV | R4 912 488,09 | This amount is based on the estimate as calculated based on the expenditure during the first two quarters. It is the same amount that was used for the 3rd quarter invoice. |
| 67 | 02-3-07-10-01 | COMMUNICATION - REV | R3 885 974,06 | The amount was invoices based on the estimated cost for the year as downloaded from PMIS (please see attached). The amount on the spreadsheet was for the whole year while the invoice was only for six months. |
| 68 | 02-40-10-10-05 | SA SOCIAL SECURITY AGENCY - REV | R4 651 416,46 | The first invoice was based on the estimate for the first two quarters as downloaded from PMIS. After 6 months, reconciliation was done between the estimate and the actual expenditure. The first invoice was to the amount of R3 819 252.29. The actual expenditure for this period amounted to R5 647 112.50. This left a shortfall of R1 827 860.21. Added to that is the estimate for the third quarter of R2 823 556.25. This adds up to an amount of R4 651 416.46. |
| 69 | 02-21-10-10-03 | SOCIAL DEVELOPMENT – REV | R9 930 120,36 | Amount calculated by Client based on their records and agreed upon by PMTE officials. (See attached documentation) A full recon based on the actual lease contracts was done at a later stage by the CD:TA and discussed with the client. It was agreed that an amount of R129 216. was still outstanding for the period 2006 to 2010. This was invoiced subsequently |
| 70 | 02-35-12-10-01 | PALAMA - REV | R938 894,61 | See comment against no 23 |
| 71 | **No invoice** | TRADE AND INDUSTRY - REV - | R5 943 000,00 | This amount represents the amount devolved to the Client for the 2009/10 financial year. They pay this amount every year at the beginning of the next year irrespective of the amounts invoiced to them. The Client will be engaged on high level to resolve this. |
| 72 | **No invoice** | CORRECTIONAL SERVICES - | R32 868 396,75 | The amount was invoiced based on the estimated cost for the year as downloaded from PMIS (please see attached). The amount on the spreadsheet was for the whole year while the invoice was only for six months. |
| 73 | SASSA-03-005 | SA SOCIAL SECURITY AGENCY - | R172 727,15 | During the 2009/10 financial year, leases were invoiced based on the devolution amount plus any additional information received from the Region in terms of refurbishments. This amount relates to refurbishments done at 38 Masonic Street, Port Alfred as indicated on the schedule received from PE Regional office |
| 74 | 02-29-07-10-01 | GCIS - REV | R3 970 691,98 | The amount was invoiced based on the estimated cost for the year as downloaded from PMIS (please see attached). The amount on the spreadsheet was for the whole year while the invoice was only for six months. |
| 75 | 02-19-07-10-01 | 'RURAL DEVELOP&LAND REFORM - REV | R35 162 737,15 | The amount was invoiced based on the estimated cost for the year as downloaded from PMIS (please see attached). The amount on the spreadsheet was for the whole year while the invoice was only for six months. |
| 76 | 02-33-07-10-01 | NATIONAL TREASURY - REV | R12 862 934,06 | The amount was invoiced based on the estimated cost for the year as downloaded from PMIS (please see attached). The amount on the spreadsheet was for the whole year while the invoice was only for six months. |
| 77 | 02-21-07-10-01 | SOCIAL DEVELOPMENT – REV | R6 733 826,73 | The amount was invoiced based on the estimated cost for the year as downloaded from PMIS (please see attached). The amount on the spreadsheet was for the whole year while the invoice was only for six months. |
| 78 | 02-25-07-10-01 | TRANSPORT – REV | R5 085 305,06 | The amount was invoiced based on the estimated cost for the year as downloaded from PMIS (please see attached). The amount on the spreadsheet was for the whole year while the invoice was only for six months. |
| 79 | 02-14-07-10-01 | LABOUR - REv | R45 557 986,51 | The amount was invoiced based on the estimated cost for the year as downloaded from PMIS (please see attached). The amount on the spreadsheet was for the whole year while the invoice was only for six months. |
|  |  |  | R332 092 248,09 |  |

*Name:* Juanita Prinsloo

*Position: CD: Trading Account*

*Date: 14 July 2011*

## Auditors Conclusion

Management’s comments have been noted and evaluated. The responses for items 10, 21, 29 and 45 could be confirmed and recalculated, however (based on the information received) we could not recalculate invoices for an amount of R322 353 115,67.

# Amortisation of Receivables

## Audit finding

Section 40(1) of Public Finance Management Act states that “the accounting officer for a department, trading entity or constitutional institution *“(a) must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards; and (b) must prepare financial statements for each financial year in accordance with generally recognised accounting practice”*

In terms of IFRS 9 definitions relating to recognition and measurement:

* “The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.
* The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.
* The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the **expected life** of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.
* When calculating the effective interest rate, an entity shall **estimate cash flows considering all contractual terms of the financial instrument** but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate”

Through inspection of schedules C2, submitted on 7 July 2011 (see below) of debtors and payables discounting, it was noted that the discounting of receivables was based on the closing balance of the total value of each account. The expected life of the financial instrument and contractual terms of financial instrument has not been taken into account. The receivables were calculated as follows which is not in terms of SA GAAP:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Account** | **Closing balance** | **Discount rate** |  | **Discount period** | **Interest expense** |
| Municipal | R698 266 715,67 | 7% | 1 | R 652 585 715,58 | R45 681 000,09 |
| State owned | R61 306 824,74 | 7% | 1 | R 57 296 097,89 | R4 010 726,85 |
| Private leases | R551 335 868,21 | 7% | 1 | R 515 267 166,55 | R36 068 701,66 |
| CA | R154 412 160,95 | 7% | 1 | R 144 310 430,79 | R10 101 730,16 |
| PACE | R231 756 797,93 | 7% | 1 | R 216 595 138,26 | R15 161 659,68 |
| **Total** | **R1 697 078 367,50** |  |  | **R1 586 054 549,07** | **R111 023 818,43** |

Management does not review the financial statement and do not have adequate resources to prepare and record transactions without a system in terms of SA GAAP.

Trade and other receivables may be misstated and this result in a modification to the audit report.

## Internal control deficiency

*Financial and Performance management*

* Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.
* Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

## Recommendation

Management should ensure that financial statements and supporting schedule are reviewed and deficiencies are resolved timeously and in accordance with the SA GAAP accounting framework.

## Management response

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

* The debtors and creditors have no fixed contractual terms, as a result, management made a best estimate of the expected timing of the cash flows.
* Based on management estimates the debtors are expected to be recovered within a period of 12 months as management is engaging with all the client departments to speed up the process of recovering debtors.

*Name:* Juanita Prinsloo

*Position: CD:TA*

*Date: 22 July 2011*

## Auditors response

Management comment noted, however the application of the accounting standards is incorrect due to the following:

1. All claims recoverable transactions are interdepartmental debts. As per Treasury Regulation 8.3.2 all creditors should be paid within 30 days, based on this regulation all client department would be required to pay the trading entity within 30 days.
2. The period over which the amount is amortised cannot be 360 days for all amounts, because assessment needs to be made for specific amounts receivable. Management indicated previously that their current debtors are received in approximately 90 days. Management also indicated that amounts that have been outstanding for longer periods have to be recovered from the budgets of client departments and the entity has not communicated these details to National Treasury of what needs to be recovered. Due to the fact that this need to be recovered through a formal budget process and the timing of these processes by National Treasury, it is unlikely that these amounts will be recovered before 1 April 2012.
3. We also could not verify the effective interest rate used as no basis was given of how the 7% was calculated.
4. The reconciliations of the individual debtor’s accounts was not complete, we could not recalculate the balance at amortised cost.

# Amortisation of bank overdraft

## Audit Finding

Section 40(1) of Public Finance Management Act states that “the accounting officer for a department, trading entity or constitutional institution: *“(a) must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards; and (b) must prepare financial statements for each financial year in accordance with generally recognised accounting practice”*

In terms of IFRS 9 definitions relating to recognition and measurement

* “The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.
* The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.
* The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the **expected life** of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.
* When calculating the effective interest rate, an entity shall **estimate cash flows considering all contractual terms of the financial instrument** but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate”

Inspection of schedules C2, submitted on 7 July 2011 (see below) of debtors and payables discounting, it was noted that the discounting of receivables was based on the closing balance of the total value of each account. The expected life of the financial instrument and contractual terms of financial instrument has not been taken into account. The receivables were calculated as follows which is not in terms of SA GAAP:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Account** | **Closing balance**  **R** | **Discount rate** |  | **Discount period**  **R** | **Interest income**  **R** |
| Bank overdraft | -1 291 797 347,89 | 7% | 1 | 1 207 287 241,02 | 84 510 106,87 |

Management did not review financial statement and insufficient resources to account for transactions based on SA GAAP without having a proper accounting system in place.

Trade and other receivables may be misstated and result in a modification of the audit report.

## Internal control deficiency

*Financial and Performance management*

* Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.
* Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information

## Recommendation

* Management should ensure that financial statements and supporting schedule are reviewed and deficiencies are resolved timeously.
* The financial statements should be prepared in terms of the SA GAAP reporting framework.

## Management response

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

* The debtors and creditors have no fixed contractual terms. As a result, management made a best estimate of the expected timing of the cash flows.
* Based on management estimates the debtors are expected to be recovered within a period of 12 months as management is engaging with all the client departments to speed up the process of recovering debtors.

*Name:* Juanita Prinsloo

*Position: CD:TA*

*Date: 22 July 2011*

## Auditors response

* Management comment noted, however the application of the accounting standards is incorrect due to the following:
* The bank overdraft is a significant amount (R1,2 billion) it is unlikely that this amount will be repaid within the next year and management did not supply us with proof (e.g. action plan) that they are planning to repay the amount within one year.
* We also could not verify the effective interest rate used as no basis was given of how the 7% was calculated.
* Based on above reasons we were not able to recalculate the balance.

# Trade and Other Receivables misstated in the Annual Financial Statements

## Audit finding

In terms of section 41 of the Public Finance Management Act, 1999 (Act no.1 of 1999): *“An accounting officer for a department must submit to the relevant treasury or the Auditor General such information, returns, documents, explanations and motivations as may be prescribed or as the relevant treasury or the Auditor General may require.”* The following discrepancies were identified between Note 3 of the Annual Financial Statements and the accounting records:

| **Description as per Note 3 of the financial statements** | **Amount as per Note 3 of the financial statements** | **Description as per trial balance** | **Amounts as per trial balance and Statement of Financial Position** | **Difference** |
| --- | --- | --- | --- | --- |
|  | **R’000** | **R’000** | **R’000** | **R’000** |
| *Claims recoverable* | *739 362* |  |  |  |
|  |  | *REC:DOM:CLMS:N/DEPT:CLAIM RECOV* | *158,292* |  |
|  |  | *REC:DOM:CLMS:NAT PACE:CLAIM RECO* | *245,647* |  |
|  |  | *DISALL DAMAGE&LOSSES:RECOVER:CA* | *35,660* |  |
|  |  | *DISALL DAMAGES & LOSSES:CA* | *46,087* |  |
|  |  | *DISALLOWANCE MISCELLANEOUS:CA* | *138,549* |  |
|  |  | *DEP MUNICIPALITIES:DOM:CA* | *6,404* |  |
| ***Total for claims recoverable*** | ***739 362*** |  | ***630 639*** | ***108 723*** |
|  |  |  |  |  |
| *Accommodation debtors – State owned* | *61 310* |  |  |  |
| *Accommodation debtors – Private leases* | *551 339* |  |  |  |
|  |  | *Debtors* | *534 809* |  |
| ***Total for accommodation debtors*** | ***612 649*** |  | ***534 809*** | ***77 840*** |
|  |  |  |  |  |
| ***Debtor operating lease*** | ***440 495*** | ***Debtor operating lease*** | ***440 495*** | ***0*** |
|  |  |  |  |  |
| ***Debtors – Municipal services*** | ***539 070*** | ***REC:DOM:CLMS RECOVER MUN SRV:DPW*** | ***648,239*** | ***(109 169)*** |
|  |  |  |  |  |
| **Total** | **2 331 576** |  | **2 254 182** | **77 394** |
|  |  |  |  |  |
| Provisions for impairment | (220 296) | Provision for impairment | (220 296) | 0 |
|  |  |  |  |  |
| **Total** | **2 111 280** |  | **2 033 886** | **77 394** |

Due to above differences we were unable to verify existence, rights, completeness and valuation of abovementioned debtors

## Internal control deficiency

*Financial and performance management*

Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting

## Recommendation

* All receivable balances should be reconstructed based on actual supporting documents (e.g. invoices, Z59’s, PACE reports, bank statements etc).
* Reconciliations should be performed between this factual data and the accounting records.
* All differences should be investigated and addressed by management.

## Management response

“I am in agreement with the finding for the following reason: “The amounts stated in the AFS dated 31 May 2011 did not tie up to the supporting notes and schedules. This is the reason why the statements were redone and resubmitted on 7 July 2011”.

*Name: J Prinsloo*

*Position: CD: TA*

*Date: 14 July 2011*

## Auditor’s conclusion

Management agrees with the finding. Subsequently revised financial statements was resubmitted by management on 7 July 2011 and new findings was issued to management on the revised set of financial statements, therefore this finding is cleared. We will however report this as a non compliance to section 40(1)(c) of the PFMA in the audit report.

# Completeness of Revenue 5% Management Fee

## Audit finding

International Accounting Standards 18 paragraph 20 requires that: *“When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction shall be recognised by reference to the stage of completion of the transaction at the end of the reporting period. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:*

(a) *the amount of revenue can be measured reliably;*

*(b) it is probable that the economic benefits associated with the transaction will flow to the entity;*

*(c) the stage of completion of the transaction at the end of the reporting period can be measured reliably; and*

*(d) the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.”*

Z59’s relating to claims recoverable municipal services was inspected for 5% municipal management fees. The amount as per the Z59 for 5% municipal service management fees was traced to BAS, however the amounts detailed below were not included on BAS.

| **NO** | **CLIENT DEPARTMENT** | **DATE AS PER Z59** | **TRANSACTION DESCRIPTION** | **AMOUNT** |
| --- | --- | --- | --- | --- |
| 1 | Department of Labour | 10-Nov | Management fees | R7 728,97 |
| 2 | Department of Justice & Const Dev | 10-Jul | Management fees | R16 965,71 |
| 3 | Department of SAPS | 11-Jan | Management fees | R2 110 611,17 |
| 4 | SASSA | 10-Sep | Management fees | R 8 495,41 |
| 5 | Department of Defence and Military Vet | 10-Dec | Management fees | R2 391 783,07 |
| 6 | Department of Defence and Military Vet | 11-Feb | Management fees | R2 823 116,23 |
| 7 | Gender Equality Commission | 10-Aug | Management fees | R957,60 |
| 8 | Department of Correctional Services | 11-Mar | Management fees | R2 421 969,49 |
| 9 | Independent Complaints Directorate | 11-Mar | Management fees | R4 601,08 |
| 10 | Department of Human settlements | July 10, August 10, September 10, January 11,February 11 | Management fees | R624 123,55 |
| 11 | Department Human Rights Commission | 11-Mar | Management fees | R1 347,74 |
| 12 | SASSA | 11-Jan | Management fees | R2 034,22 |
| 13 | SASSA | 11-Feb | Management fees | R8 306,64 |
| 14 | Department of Public Works | 10-Aug | Management fees | R724,57 |
| 15 | Department of Rural Development | 10-Sep | Management fees | R151 870,66 |
| 16 | Department of Statistics | 11-Mar | Management fees | R59 445,72 |
| 17 | Cooperative Governance & Traditional Affairs | 11-Mar | Management fees | R44 239,97 |
| 18 | Department of Arts & Culture | 11-Mar | Management fees | R120 515,50 |
| 19 | Agriculture, Forestry and Fishing | 11-Mar | Management fees | R21 573,08 |
| 20 | Department of Water Affairs | 11-Feb | Management fees | R45 306,66 |
| 21 | Department of Trade and Industry | 10-Sep | Management fees | R3 224,12 |
| 22 | Department of Home Affairs | 11-Mar | Management fees | R251 731,58 |
| 23 | Department of Health | 11-Mar | Management fees | R117 218,30 |
| **Totals** | | | | **R11 237 891,04** |

There are no policies and procedures in place to facilitate the accrual basis of accounting outside of a proper accounting system. The above may result in revenue 5% municipal services management fee being understated and inclusion of a modification in the audit report.

## Internal control deficiency

*Financial and performance management*

Proper record keeping is not implemented in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting

## Recommendation

* The entity should develop individuals to understand the SA GAAP financial reporting framework and accounting for transactions on the accrual basis of accounting.
* Policies and procedures for accounting for revenue should be designed and implemented to facilitate the recognition and measurement of revenue.
* Management to determine the full impact of this omission pertaining to the 2010/11 reporting period for correction as a prior year error in the 2011/12 financial statements to remove this qualification.

## Management response

We agree with the fact that there are currently no policies in this regard; however, the management fee disclosed in the AFS is based on the municipal services amount paid on behalf of client departments as processed in the BAS system.

The shortcoming in the entire process is attributable to the fact that the BAS system recognizes management fee when payment is received from clients as opposed to when payment is made to the municipalities by DPW. This situation then defies GAAP compliance requirements.

Therefore at year end the 5% management fee is calculated manually outside the system based on the payments made. The difference between the manually calculated management fee and the one reflecting on BAS is then adjusted through a journal to correct the system reports.

Although the AFS shows the correct amount as per the year end computation, the correction journal was not processed on the system and hence the difference. It would be appreciated if we could be given the opportunity through the audit adjustment journals to pass the correction journals.

*Name:* Cathy Motsisi

*Position: Chief Financial Officer*

*Date: 22 July 2011*

## Auditors responses

We perceive management response as being in agreement with the finding, therefore the finding remains and a misstatement will be reported

# 5% Management Fee overstated with prior period accrual receipts

## Audit finding

*Section 22 of the framework for the preparation and presentation of financial statements states that: “Under the accrual basis, the effects of transactions and other events are recognised when they occur (and not as cash or its equivalent is received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate. Financial statements prepared on the accrual basis inform users not only of past transactions involving the payment and receipt of cash but also of obligations to pay cash in the future and of resources that represent cash to be received in the future. Hence, they provide the type of information about past transactions and other events that is most useful to users in making economic decisions”*

The PMTE has received amounts for revenue 5% management fee relating to the prior year in the current financial year. These amounts were incorrectly recorded in the 2010/11 financial year as revenue 5% management fees. As the PMTE is reporting in terms of SA GAAP, the amounts listed below should have been recorded as an accrual in the prior year and a debtor should have been raised.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **No** | **Transaction Description** | **Transaction Date** | **Journal No.** | **Amount** |
| 1 | Municipal services-Management fee-Revenue | 03 August 2010 | 2447 | R 1 688 477,88 |
| 2 | Municipal services-Management fee-Revenue | 03 August 2010 | 2447 | R 1 634 743,50 |
| **Total** | | | | **R 3 323 221,38** |

This error therefore leads to an overstatement in Revenue for the current year and an understatement of Revenue and Trade receivables for the prior year. The error is caused due to the fact that the current financial accounting system is on the modified cash basis and not an accrual accounting system as well as the lack of policies and procedures.

## Internal control deficiency

*Financial and performance management*

Proper record keeping in a timely manner is not implemented to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting

## Recommendation

* Approval must be obtained for the procurement of an accrual financial accounting system
* On a monthly basis management should review amounts received and ensure that have been recorded in terms of requirements of SA GAAP. Due to the fact that the financial accounting system does not facilitate the accrual basis a record should be kept of all transactions that need to be recorded in terms of SA GAAP. These transactions should be correctly accounted for during the preparation of the financial statements.
* Ongoing monitoring and supervision should be undertaken to enable an assessment of the effectiveness of internal control over financial reporting.
* In the prior year the revenue that had not been received should have been raised as a Debtor. The journal entry should have been Dr Municipal Debtors and Cr Revenue
* A journal needs to be processed to correct the transactions processed in the current year. The journal would be Dr Revenue and Cr Municipal Debtors.
* The amount received in the current year should been processed as Dr Bank and Cr Municipal Debtors
* Management need to determine the impact of this error in considering revising the comparatives in the 2011/12 Annual Financial Statements to resolve this potential qualification.

## Management response

I am in agreement with the finding for the following reasons: “The management fee accrual for last year (2010) amounting to R7 679 688.24 was supposed to be reversed in the current year and was erroneously not reversed, resulting in overstated of management fee income. However, as the accrual for management fee amounting to R7 679 688.24 was raised in the prior year, receivables for the prior year were not misstated.” A journal will be processes to correct the current year transactions.

Name: Cathy Motsisi

Position: Chief Financial Officer

Date: 22 July 2011

## Auditors response

Management agrees with the finding. The finding is still valid and will be reported as a misstatement in the audit report.

# Completeness of Revenue 5% management fee

## Audit finding

Section 22 of the framework for the preparation and presentation of financial statements states that*: “Under the accrual basis, the effects of transactions and other events are recognised when they occur (and not as cash or its equivalent is received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate. Financial statements prepared on the accrual basis inform users not only of past transactions involving the payment and receipt of cash but also of obligations to pay cash in the future and of resources that represent cash to be received in the future. Hence, they provide the type of information about past transactions and other events that is most useful to users in making economic decisions”*

International Accounting Standards 18 states that: *“20 when the outcome of a transaction involving rendering of services can be estimated reliably, then the revenue associated with the transaction shall be recognised according to the stage of completion of the transaction at the end of the accounting period. The outcome of the transaction can be reliably estimated when all the following conditions are satisfied:*

*(a) The amount of revenue can be measured reliably,*

*(b) It is probable that the economic benefits associated with the transaction will flow to the entity.*

*(c) The stage of completion of the transaction at the end of the reporting period can be measured reliably, and*

*(d) The costs incurred and to complete the transaction can be measured reliably.”*

The PMTE earns a management fee for the management of municipal services for client departments. The revenue management fee earned is based on 5% of expenditure incurred.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **NO.** | | **MONTH** | **TOTAL MUNICIPAL SERVICE EXENDITURE (a)** | **MANAGEMENT FEE CALCULATION = (a) X 5%** | |
| 1 | | Apr-10 | R144 646 440,11 | R7 232 322,01 | |
| 2 | | May-10 | R177 685 022,22 | R8 884 251,11 | |
| 3 | | Jun-10 | R157 701 803,63 | R7 885 090,18 | |
| 4 | | Jul-10 | R166 523 547,99 | R8 326 177,40 | |
| 5 | | Aug-10 | R196 714 669,43 | R9 835 733,47 | |
| 6 | | Sep-10 | R212 626 766,49 | R10 631 338,32 | |
| 7 | | Oct-10 | R197 447 017,58 | R9 872 350,88 | |
| 8 | | Nov-10 | R194 908 889,22 | R9 745 444,46 | |
| 9 | | Dec-10 | R192 118 645,30 | R9 605 932,27 | |
| 10 | | Jan-11 | R188 967 528,60 | R9 448 376,43 | |
| 11 | | Feb-11 | R207 874 464,93 | R10 393 723,25 | |
| 12 | | Mar-11 | R194 413 486,19 | R9 720 674,31 | |
| **TOTAL** | | | **R2 231 628 281,72** | **R111 581 414,09** | |
| The total expenditure incurred for the period was requested and a recalculation was performed above. The recalculated figure was compared to the amount disclosed in the Annual Financial Statements and a significant variance noted.   |  |  |  | | --- | --- | --- | | **Total revenue 5% management fee based on actual expenditure** | **Management fee as per trial balance and AFS** | **Variance** | | R111 581 414,09 | R113 915 000,00 | R2 333 585,91 | | | | |  |  |

The finding is due to the BAS recording transactions on the “modified cash basis of accounting”; the system does not provide for recording transactions on the “accrual basis of accounting” therefore manual adjustments need to be processed to account for the accrual based transactions. The above finding is also due to the lack of approved policies and procedures and results in a overstatements of revenue and a modification in the audit report.

## Internal control deficiency

*Financial and performance management*

Proper record keeping is not implemented in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting

*Ongoing monitoring*

Ongoing monitoring and supervision are undertaken to enable management to determine whether internal control over financial reporting is present and functioning.

## Recommendation

* Ongoing monitoring and supervision should be undertaken to enable an assessment of the effectiveness of internal control over financial reporting.
* Management needs to recalculate the management fee based on the actual expenditure incurred and process a journal entry needs to be processed to reduce the overstatement of revenue.
* Management should ensure an approval for an accrual accounting system obtained.

## Management response

I am in agreement with the finding for the following reasons; the management fee was erroneously overstated in the 2011 financial statements.

*Name:* Juanita Prinsloo

*Position: CD:TA*

*Date: 22 July 2011*

## Auditors response

Management agrees with the finding. The finding is still valid and will be reported as a misstatement. It should however be noted that the payment of municipal services might not be complete due to the fact that the entity only recognise payments once they are made and therefore this might not be the only misstatement of management fees.

# Accommodation charges overstated with prior period accrual

## Audit finding

Section 22 of the framework for the preparation and presentation of financial statements states that: *“Under the accrual basis, the effects of transactions and other events are recognised when they occur (and not as cash or its equivalent is received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate. Financial statements prepared on the accrual basis inform users not only of past transactions involving the payment and receipt of cash but also of obligations to pay cash in the future and of resources that represent cash to be received in the future. Hence, they provide the type of information about past transactions and other events that is most useful to users in making economic decisions”*

The PMTE has received amounts for revenue accommodation charges relating to the prior year in the current financial year. These amounts were incorrectly recorded in the 2010/11 financial year as revenue accommodation charges. The PMTE is reporting in terms of SA GAAP, the amounts listed below should have been recorded as an accrual in the prior year and a debtor should have been raised.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **NO** | **ITEM LEVEL DETAIL** | **TRANS DATE** | **TRANSACTION DESCRIPTION** | **INV NO.** | **JOURNAL NO.** | **TRANS AMT CR** |
| 1 | ACCOMM- CHRGS - PRIVATE – REV | 06/04/2011 | ACCOMM CHRG REC FRM CORR SERVICE | 18-02-0409 | 3554 | R4 702 241,72 |
| 2 | ACCOMM CHRGS - PRIVATE – REV | 06/04/2011 | ACCOMM CHRG REC FRM CORR SERVICE | 18-02-0709 | 3554 | R4 702 241,72 |
| 3 | ACCOMM CHRGS - PRIVATE – REV | 06/04/2011 | ACCOMM CHRG REC FRM CORR SERVICE | 02-05-09-09-02 | 3554 | R4 721 768,00 |
| 4 | ACCOMM CHRGS - PRIVATE – REV | 06/04/2011 | ACCOMM CHRG REC FRM CORR SERVICE | 02-05-01-10-02 | 3554 | R4 769 624,50 |
| 5 | ACCOMM CHRGS - PRIVATE – REV | 06/04/2011 | ACCOMM CHRG REC FRM CORR SERVICE | 02-05-01-09-01 | 3554 | R2 388 067,79 |
| **Total** | | | | | | **R21 283 943,73** |

This error results in an overstatement of revenue for the current year and an understatement of Revenue and Trade receivables for the prior year. The error is caused due to the fact that the current financial accounting system is on the cash modified basis and not an accrual accounting system as well as the lack of policies and procedures.

## Internal control deficiency

*Financial and performance management*

Proper record keeping in a timely manner is not implemented to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting

*Control Environment*

The entity has individuals competent in financial reporting and related oversight roles.

## Recommendation

* Approval must be obtained for the procurement of an accrual financial accounting system
* On a monthly basis management should review amounts received for prior periods and ensure that have been recorded in terms of requirements of SA GAAP. Due to the fact that the financial accounting system does not facilitate the accrual basis a record should be kept of all transactions that need to be recorded in terms of SA GAAP. These transactions should be correctly accounted for during the preparation of the financial statements
* Ongoing monitoring and supervision should be undertaken to enable an assessment of the effectiveness of internal control over financial reporting
* In the prior year the revenue that had not been received should have been raised as a Debtor. The journal entry should have been Dr Accommodation Debtors and Cr Revenue
* A journal needs to be processed to correct the transactions processed in the current year. The journal would be Dr Revenue and Cr Accommodation Debtors.
* The amount received in the current year should been processed as Dr Bank and Cr Accommodation Debtor

## Management response

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

* At the beginning of the year all prior year accruals are reversed. The amount stated as Revenue for accommodation charges is based on the actual invoices issues with an adjustment for straight-lining.
* Any amounts received during the current for prior years will be correctly accounted for.

Name: Juanita Prinsloo

Position: CD:TA

Date: 22 July 2011

## Auditors response

Management comment has been noted however the supporting information has not been provided in this response, therefore the finding is still valid

# Insufficient supporting details for Debtors: Municipal Services

## Audit finding

Section 41 of the PFMA: *“An accounting officer for a department must submit to the relevant treasury or the Auditor General such information, returns, documents, explanations and motivations as may be prescribed or as the relevant treasury or the Auditor General may require.”* Information supporting claims recoverable municipal services requested on 4 July 2011 per RFI 91 was not received within the required time frame and thus not considered for audit purposes:

**Table 1**

|  |  |  |  |
| --- | --- | --- | --- |
| **NO.** | **YEAR** | **CLAIM** | **AMOUNT RECEIVED** |
| 1 | 0607 | R861 920 139,27 | R919 854 049,39 |
| 2 | 0708 | R492 393 183,27 | R492 392 927,16 |
| **Total** | | **R1 354 313 322,54** | **R1 412 246 976,55** |

**Table 2**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **NO** | **MONTH** | **CLIENT DEPARTMENT** | **DESCRIPTION** | **AMOUNT** |
| 1 | 09-Mar | Correctional Services | Municipal services | R41 813 567,44 |
| **TOTAL** | | | | **R41 813 567,44** |

This resulted from information supporting the financial statements not being readily available and may result in a modification to the audit report.

## Internal control deficiency

*Financial and performance management*

Proper record keeping in a timely manner is not implemented to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

## Recommendation

All supporting documentation needs to be properly filed and easilyidentifiable

## Management response

I am in agreement that the information was submitted on the 12 July 2011 instead of the 7 July 2011 as per the auditors’ deadline. The delays were due to the fact that the information required was not easily available as it related to 2006/07 and 2008/09 financial years.

Name: Cathy Motsisi

Position: Chief Financial Officer

Date: 22 July 2011

## Auditor’s conclusion

Management is in agreement with the finding and will be reported on as a scope limitation.

# Overstatement of operating expenses

## Audit finding

Section 40(1) of Public Finance Management Act states that “the accounting officer for a department, trading entity or constitutional institution: *“(a) must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards; and (b) must prepare financial statements for each financial year in accordance with generally recognized accounting practice”*

We noted from the Annual Financial Statements submitted on 15 July 2011 that included under “Other Operating Expenses”, is an amount of R166 017 095,95 relating to “Debtors Impairment”. Supporting information for the amount was not provided for audit purposes therefore we could not conclude that this is for “debtor’s impairment. The above finding is due to information supporting changes to the Annual Financial Statements not being submitted for audit purposes. This error resulted in expenditure being overstated.

## Internal control deficiency

*Financial and performance management*

Proper record keeping in a timely manner is not implemented to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

## Recommendation

* Management should have a policy and procedure in place indicating the process to be followed for impairments.
* Information supporting the Annual Financial Statements should in following years be submitted with the Annual Financial Statements.

## Management response

I am in agreement with the finding as this was erroneously expensed in the 2011 financial statement. This error will be corrected as an audit adjustment.

Name: Juanita Prinsloo

Position: CD:TA

Date: 22 July 2011

## Auditor response

Management agrees with the finding, therefore the finding resulted in modification of the audit report.

# Understatement of the “Provision for Impairment”

## Audit finding

Section 41 of the PFMA: *“An accounting officer for a department must submit to the relevant treasury or the Auditor General such information, returns, documents, explanations and motivations as may be prescribed or as the relevant treasury or the Auditor General may require.”* In the prior year management created a provision for impairment including R96 597 982 for “Claims Recoverable: Municipal Services”. In the current year this provision had been reversed. Management informed as that they discussed the long outstanding debts from client departments with officials at National Treasury

National Treasury confirmed that the amounts in respect of “claims not paid” to the PMTE should have been surrendered to National Treasury. National Treasury requested management to submit details of the amounts owed by client departments. National Treasury further indicated that the outstanding amounts will be paid over to the department or if no money was surrendered to them they would reduce the future budgets of client departments to recover the money owed to the PMTE.

We requested documentary evidence to substantiate these discussions with National Treasury. Management indicated that “they had “verbal discussions” with officials at National Treasury and details for the outstanding debtors’ balances were not submitted to National Treasury. Based on this we could substantiate the recoverable of this debtors balance and justify not considering the balance for impairment.

## Internal control deficiency

*Financial and Performance Management*

Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting

## Recommendation

Management should identify all balances owed by client and forward relevant details to National Treasury. Due to the budget processes for departments, management needs to take into account the time frame for the 2011/2012 budget process to enable National Treasury to recover monies from client department’s budgets before the next reporting period Annual Financial Statements are due.

## Management response

I am in agreement with the finding that the impairment amount of R96 597 982 was reversed in the current year financial statements. This was done after management performed a detailed analysis of the debtors and an impairment analysis as required by IAS 39. As this is based on management judgment, we will do the necessary adjustments should future circumstances change.

Name: Juanita Prinsloo

Position: CD: TA

Date: 22 July 2011

## Auditor’s conclusion

Management comments noted, however in the prior year it was assessed that these amounts might not be recoverable, due to the fact that the debtor balances have not been reconstructed. This process is still not complete. Debtor’s impairment was not done in accordance with an impairment policy based on the SA GAAP reporting framework.

# Outstanding supporting documentation for Accommodation Charges

## Audit finding

In terms of section 41 of the Public Finance Management Act, 1999 (Act no.1 of 1999): *“An accounting officer for a department must submit to the relevant treasury or the Auditor General such information, returns, documents, explanations and motivations as may be prescribed or as the relevant treasury or the Auditor General may require.”* The following information has been requested as per RFI 95 on 7 July 2011 and has not been received to date:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **NO** | **ITEMLEVELD** | **TRANSDATE** | **TRANSACTION DESCRIPTION** | **JOURNAL NUMBER** | **TRANSAMTCR** |
| 1 | Accomm chrgs - private - rev | 07/06/2010 | Accomm chrg rec from public works | 2378 | R  5 943 000,00 |
| 2 | Accomm chrgs - private - rev | 06/08/2010 | Accomm chrg rec from corr service | 2549 | R 32 868 396,75 |
| **Total** | | | | | **R 38 811 396,75** |

There are no proper controls in place over the filing of the documentation as information is not easily accessible and traceable. Documents not being available results in a scope limitations.

## Internal control deficiency

*Financial performance and management*

Insufficient control over documents to retrieve for audit purposes.

## Recommendation

Invoices should be filed so that they are easily identifiable and provided for audit purposes.

## Management response

I am in not agreement with the finding. Please see attached e-mail from Donovan Meintjes dated 15 July 2011 (8:30 am) which indicated that the documents were ready for collection. The invoices listed were also part of the information required for CoF 42. This CoF related to 79 invoices that had to be found, copied and responded to. The response for CoF 42 was finalized before attention was given to RFI 95 as the due date was earlier. It was humanly impossible to respond in full to CoF 42 within the 3 day time limit and that caused a delay in subsequent responses. The documents were submitted late due to the reasons stated above, but they have been available since 15 July 2011 and should not have been raised as a limitation of scope on 18 July 2011.

*Name: Juanita Prinsloo*

*Position: CD:TA*

*Date: 18 July 2011*

## Auditors response

Management’s comments have been noted; however the RFI 95 dealt with the above and was issued on 7 July 2011. This request for information should have been responded to within 3 days. The required information was only submitted on 15 July 20011 which is not within the required time frame. The CoF was issued on 18 July 2011, but the RFI should have been responded to by 11 July 2011. The finding is therefore still valid and resulted in a scope limitation

# Completeness of Revenue 5% Management Fee

## Audit finding

Section 40 of the Public Finance Management Act states: *(1)  The accounting officer for a department, trading entity or constitutional institution (a) must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards".* A BAS report detailing the total expenditure incurred for the period under review for municipal service was requested and obtained. A recalculation was performed and reconciled with the PMIS schedule for Municipal service accounts. Upon reconciling the balance as per BAS report for Claims Recoverable: Municipal Services with the balance as per PMIS schedule it was noted that the balances do not agree. The table below details the reconciliation:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **NO** | **PERIOD** | **DESCRIPTION** | **PMIS - AMOUNT** | **BAS - AMOUNT** | **DIFFERENCE** |
| 1 | April 2010 to March 2011 | Municipal Services | R2 231 622 756,62 | R2 231 672 929,95 | (R50 173,33) |
| **TOTAL** | | | **R2 231 622 756,62** | **R2 231 672 929,95** | **(R50 173,33)** |

The finding is due to the reconciliation not being carried out on the monthly basis and differences identified not being followed up and corrected within the next month. The above may result in claims recoverable municipal services being incomplete which may result in trade and other receivables being understated

## Internal control deficiency

*Financial and performance management*

Controls were not implemented over daily and monthly processing and reconciling of transactions.

*Monitoring*

Ongoing monitoring and supervision are not undertaken to enable management to determine whether internal control over financial reporting is present and functioning.

## Recommendation

Management should on a monthly basis reconcile the BAS report with the PMIS schedule and any differences identified, should be followed up immediately and corrected within the next month. Supporting documentation should be readily available to support any differences identified during the year.

## Management response

I am partially in agreement with the finding; although reconciliations are done on a monthly basis the entity has prioritized the resolution of material reconciling amounts. Small amount are followed up at a later stage and resolved accordingly.

*Name:* Juanita Prinsloo

*Position: CD: TA*

*Date: 22 July 2011*

## Auditors response

Management comment is noted however at year end the difference identified above has not been cleared which results in a misstatement. The finding is still valid and will be reported as a misstatement.

# High-level review of PMTE Annual Financial Statements

## Audit finding

After a high level review was performed on the Annual Financial Statements (AFS), adjustment journals and supporting schedules submitted on 7 July 2011, the following items were identified:

1. **Index**
2. In the index the following is stated: “The annual financial statements..., were approved by the board on 30 June 2011 and were signed on \_\_\_\_\_\_\_\_\_\_\_ on its behalf by:”  
     
   However, the financial statements submitted on 7 July 2011 have not been signed by the Director General as proof of approval.
3. **Statement of financial position (SoFPos)**
4. The bank overdraft at National Treasury (PMG account) is included under “Trade and Other payables” and not under “Cash and cash equivalents”, therefore items are possibly overstated with R1 254 763 (2010: R1 675 445; 2009: R 1 546 275)
5. Although the department reclassified and combined some amounts in the current year financial statements, which was presented separately in the prior year financial statements, the following differences were noted from the prior year annual report, which was not disclosed as a restatement in Note 10 of the financial statements:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Description of amount in SoFPos** | **2010 Amount as per AFS** | **Amount as per annual report 2010** | **Difference** |
|  |  | **R’000** | **R’000** | **R’000** |
| 2.1. | Trade and other receivables: 2009 | 2 073 435 | 2 095 975 | (22 540) |
|  |  |  |  |  |
| 2.2. | *2010 Trade and other payables* |  | *930 581* |  |
|  | *2010 Bank overdraft* |  | *1 675 445* |  |
|  | *2010 Deferred Income* |  | *6 027* |  |
|  | 2010 Total: Trade and other payables | 2 610 381 | 2 612 053 | (1 672) |
|  |  |  |  |  |
| 2.3. | *Trade and other payables* |  | *722 196* |  |
|  | *Bank overdraft* |  | *1 546 275* |  |
|  | *Deferred Income* |  | *1 674* |  |
|  | 2009 Total: Trade and other payables | 2 268 472 | 2 270 145 | (1 673) |
|  |  |  |  |  |

1. The following differences were noted from the prior year annual report, which was not disclosed accurately as a restatement in the Note 10 of the financial statements:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Description of amount in SoFPos** | **2010 Amount as per AFS** | **Amount as per annual report 2010** | **Difference** |
|  |  | **R’000** | **R’000** | **R’000** |
| 3. | Trade and other receivables: 2010 | 2 238 045 | 2 377 833 | (139 788) |
|  | Amount as per Note 10 of the financial statements |  |  | (139 781) |
|  | **Difference** |  |  | **7** |

1. **Statement of Comprehensive Income (SoCI)**
2. The following difference were noted in the current year comparative figures with the prior year annual report, but this restatement was not disclosed in note 10 of the financial statements

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Description of amount in SoFPos** | **2010 Amount as per AFS** | **Amount as per annual report 2010** | **Difference** |
|  |  | **R’000** | **R’000** | **R’000** |
| 1.1. | 2010 Revenue | 3 799 249 | 3 916 496 | (117 247) |
| 1.2. | 2010 Operating expenses | 3 794 118 | 3 794 116 | 2 |

1. Based on abovementioned it appears as if the prior period amounts have been restated, therefore the column with the comparative amounts should include the word “Restated”
2. Reference should be made to Note 11 next to the line item “Loss for the year”
3. **Statement of changes in Equity (SoCE)**
4. Reference should be made on relevant line items to Note 10 of the financial statements
5. Total amount of prior period adjustments, do not agree to the amounts as disclosed in Note 10 of the financial statements

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Total Prior period adjustments as per SoCE** | **Amounts restating revenue as per note 10 of the AFS** | **Difference** |
|  | **R’000** | **R’000** | **R’000** |
| 2. | 138 116 | 0 | 138 116 |

1. **Cash Flow statement**
2. The bank overdraft at National Treasury (PMG account) is included under “Trade and Other payables” and not under “Cash and cash equivalents”, therefore items are overstated with R1 254 763 (2010: R1 675 445; 2009: R 1 546 275)
3. **Note 3: Trade and other receivables**
4. It is not clear to what the first line item relates to “Claims Recoverable” – From further inspection of schedules supporting the financial statements, this is part of the amount in the accounting records relating to claims recoverable: Municipal services, but this amount was disclosed separately
5. The amount for Disallowances is not a Claims recoverable and the word Claims recoverable should be removed from this line (Refer Communication of factual finding No 52, sent on 8 July 2011)
6. As per schedule A8 submitted on 7 July as support to the financial statements, the complete disallowance amount of R220 295 564,59 was provided for as an impairment, however the amount disclosed in the financial statements, and trial balance for Disallowances are only R220 313 377,13.
7. The following amounts does not agree:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **Amount as per Note 3: Trade and other receivables** | **Total amount as per “Receivable Ageing”** | **Difference** |
|  |  | **R’000** | **R’000** | **R’000** |
| 4.1. | Total Trade and other receivables 2010 | 2 238 045 | 2 238 043 | 2 |
| 4.2. | Total Trade and other receivables 2009 | 2 073 435 | 2 073 430 | 5 |

1. Although the department reclassified and combined some amounts in the current year financial statements, which was disclosed separately in the prior year financial statements the following differences were noted from the prior year annual report.

|  | **Description of amount in Note 3 of the financial statements** | **2010 Amount as per AFS** | **Amount as per annual report 2010** | **Difference** |
| --- | --- | --- | --- | --- |
|  |  | **R’000** | **R’000** | **R’000** |
| *5.1.* | *Claims recoverable* | *68* |  |  |
|  | *Claims recoverable: PACE* | *742 696* |  |  |
|  | *Claims recoverable: CA* | *267 459* |  |  |
|  | *Debtors: Municipal services* | *763 791* |  |  |
|  | *Municipal deposits* | *4 122* |  |  |
|  | Trade and other receivables: 2010 | 1 778 136 | 1 770 364 | 7 772 |
|  |  |  |  |  |
| *5.2.* | Receivables ageing 2010: Less than 1 year |  |  |  |
| *.* | *Accommodation: State owned* | *37 927* |  |  |
|  | *Accommodation: Private leases* | *218 199* |  |  |
|  | Receivables ageing 2010 | 256 126 | 584 843 | (328 717) |
|  |  |  |  |  |
| *5.3.* | Receivables ageing 2010: 1 to 3 years |  |  |  |
| *.* | *Accommodation: State owned* | *13 753* |  |  |
|  | *Accommodation: Private leases* | *129 329* |  |  |
|  | Receivables ageing 2010 | 143 082 | 0 | 143 082 |
|  |  |  |  |  |
| *5.4.* | Receivables ageing 2010: Older than 3 years |  |  |  |
| *.* | *Accommodation: State owned* | *12 286* |  |  |
|  | *Accommodation: Private leases* | *33 561* |  |  |
|  | Receivables ageing 2010 | 45 847 | 0 | 45 847 |
|  |  |  |  |  |
| *5.5.* | Accommodation debtors |  |  |  |
| *.* | *Accommodation: State owned* | *63 966* |  |  |
|  | *Accommodation: Private leases* | *373 317* |  |  |
|  | Accommodation debtors 2010 | 437 283 | 584 843 | 147 560 |
|  |  |  |  |  |
| *5.6.* | Accommodation debtors |  |  |  |
| *.* | *Accommodation: State owned* | *0* |  |  |
|  | *Accommodation: Private leases* | *336 835* |  |  |
|  | Accommodation debtors 2009 | 336 835 | 359 375 | 22 540 |
|  |  |  |  |  |
| *5.7.* | Receivables ageing 2010: Less than 1 year |  |  |  |
| *.* | *Claims recoverable* | *0* |  |  |
|  | *Claims recoverable: PACE* | *742 696* |  |  |
|  | *Claims recoverable: CA* | *210 221* |  |  |
|  | *Debtors: Municipal services* | *346 246* |  |  |
|  | *Municipal deposits* | *4 122* |  |  |
|  | Receivables ageing 2010 | 1 303 285 | 1 268 454 | 34 831 |
|  |  |  |  |  |
| *5.8.* | Receivables ageing 2010: 1 to 3 years |  |  |  |
| *.* | *Claims recoverable* | *68* |  |  |
|  | *Claims recoverable: PACE* | *0* |  |  |
|  | *Claims recoverable: CA* | *57 337* |  |  |
|  | *Debtors: Municipal services* | *409 772* |  |  |
|  | *Municipal deposits* | *0* |  |  |
|  | Receivables ageing 2010 | 467 177 | 457 816 | 9 461 |
|  |  |  |  |  |
| *5.9.* | Receivables ageing 2010: Older than 3 years |  |  |  |
| *.* | *Claims recoverable* | *0* |  |  |
|  | *Claims recoverable: PACE* | *0* |  |  |
|  | *Claims recoverable: CA* | *0* |  |  |
|  | *Debtors: Municipal services* | *0* |  |  |
|  | *Municipal deposits* | *0* |  |  |
|  | Receivables ageing 2010 | 0 | 44 194 | 44 194 |
|  |  |  |  |  |
| *5.10.* | Receivables ageing 2009: Less than 1 year |  |  |  |
| *.* | *Claims recoverable* | *0* |  |  |
|  | *Claims recoverable: PACE* | *733 561* |  |  |
|  | *Claims recoverable: CA* | *65 230* |  |  |
|  | *Debtors: Municipal services* | *436 607* |  |  |
|  | *Municipal deposits* | *0* |  |  |
|  | Receivables ageing 2010 | 1 235 398 | 1 137 982 | 97 416 |
|  |  |  |  |  |
| *5.11.* | Receivables ageing 2009: 1 to 3 years |  |  |  |
| *.* | *Claims recoverable* | *68* |  |  |
|  | *Claims recoverable: PACE* | *81* |  |  |
|  | *Claims recoverable: CA* | *116 652* |  |  |
|  | *Debtors: Municipal services* | *202 251* |  |  |
|  | *Municipal deposits* | *2 515* |  |  |
|  | Receivables ageing 2010 | 321 567 | 418 914 | (97 347) |

1. For the following amounts no detailed schedules have been received to enable auditing of these amounts:

|  | **Description of amount in SoFPos** | **Amount as per AFS** | **Comments** |
| --- | --- | --- | --- |
|  |  | **R’000** |  |
| *6.1.* | Claims recoverable : 2011 | *113 515* | *Although we could identify the amount in the schedules, there is no breakdown supplied of how this amount is made up* |
| *6.2.* | Claims recoverable : 2010 | 68 | Nothing received |
| *6.3..* | Claims recoverable : 2009 | 68 | Nothing received |
| *6.4.* | Claims recoverable: PACE: 2010 | 742 696 | Nothing received |
| *6.5.* | Claims recoverable: PACE: 2009 | 733 642 | Nothing received |
| *6.6.* | Claims recoverable: CA | 267 459 | Nothing received |
| *6.7.* | Claims recoverable: CA | 181 882 | Nothing received |
| *6.8..* | Claims recoverable: Disallowances: 2011 | 220 313 | Nothing received |
| *6.9.* | Claims recoverable: Disallowances: 2010 | 199 890 | Nothing received |
| *6.10* | Claims recoverable: Disallowances: 2009 | 129 767 | Nothing received |
| *6.11.* | Municipal deposits: 2011 | 6 404 | Nothing received |
| *6.12.* | Municipal deposits: 2010 | 4 122 | Nothing received |
| *6.13* | Municipal deposits: 2009 | *2 515* | Nothing received |

1. Schedules for the following amounts have been received which did not tie in to the financial statements or is not adequate to complete the audit:

|  |  | **Amount as per AFS**  **R’000** | **Amounts as per schedule**  **R’000** | **Difference**  **R’000** | **Comments R’000** |
| --- | --- | --- | --- | --- | --- |
|  | **Note 3: Trade and other receivables: 2011** |  |  |  |  |
| 7.1. | Claims recoverable: PACE | 216 595 | 216 595 | 0 | Although the amount agrees, no detailed information were supplied to enable auditing of the complete balance |
| 7.2. | Claims recoverable CA | 143 911 | 143 911 | 0 | Although the amount agrees, no detailed information were supplied to enable auditing of the complete balance |
| 7.3. | Accommodation debtors: State –owned | 57 296 | 57 296 | 0 | Although the amount agrees, no detailed information were supplied to enable auditing of the complete balance |
| 7.4. | Accommodation debtors: Private leases | 515 267 | 515 267 | 0 | Although the amount agrees, no detailed information were supplied to enable auditing of the complete balance |
|  | **Note3: Trade and other receivables: 2010** |  |  |  |  |
| 7.5. | Claims recoverable: PACE  (Only balance not breakdown) | 742 696 | 648 926 | 93 770 | Amount does not agree and there is no detailed information supplied to enable auditing of the complete balance |
| 7.6. | Claims recoverable CA  (Only balance not breakdown) | 267 459 | 200 533 | 66 926 | Amount does not agree and there is no detailed information supplied to enable auditing of the complete balance |
| 7.7. | Accommodation debtors: State –owned | 63 966 | N/A | N/A | Detail given, but not the dates on which the payments received, therefore not possible to confirm the balance as at 31 March 2010 |
| 7.8. | Accommodation debtors: Private leases | 373 317 | 381 089 | (7 772) | Amount does not agree and there is no detailed information supplied to enable auditing of the complete balance |
| 7.9. | Debtors – Municipal services | 763 791 | 179 040 | 584 751 | Amount does not agree and there is no date of amounts received to confirm balance as at 31 March 2010. |
|  | **Note3: Trade and other receivables: 2009** |  |  |  |  |
| 7.10. | Accommodation debtors: State –owned | 0 | N/A | N/A | Detail given, but not the dates on which the payments received, therefore not possible to confirm the balance as at 31 March 2009 |
| 7.11. | Accommodation debtors: Private leases | 336 835 | 281 085 | 55 750 | Amount does not agree and there is no detailed information supplied to enable auditing of the complete balance |
| 7.12. | Debtors – Municipal services | 638 859 | 145 745 | 493 114 | Detail given, but not the dates on which the payments received, therefore not possible to confirm the balance as at 31 March 2009 |

1. **Note 4: Cash and cash equivalents**
2. This bank overdraft at National Treasury (PMG account) is included under “Trade and Other payables” and not under “Cash and cash equivalents”, therefore this note is overstated with R1 254 763 (2010: R1 675 445; 2009: R 1 546 275)
3. **Note 5: Trade and other payables**
4. Trade creditors:

There is a difference between the amounts for Trade creditors in the prior annual report

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Description of amount in SoFPos** | **2009 Amount as per AFS** | **2009 Amount as per annual report 2010** | **Difference** |
|  |  | **R’000** | **R’000** | **R’000** |
| 1. | Trade creditors | 417 248 | 417 247 | 1 |

1. Deferred income

There was no breakdown supplied in the current year financial statements as in the previous year. Upon request for this the following breakdown was supplied:

|  |  |  |
| --- | --- | --- |
| **Deferred Income** |  |  |
| Opening balance at beginning of year | 6,027,520 | 1,674,000 |
| Received during the year | 3,786,173 | 9,523,520 |
| Paid during the year | -3,080,525 | -5,170,000 |
| **Closing balance** | **6,733,168** | **6,027,520** |

There is still no detail of how these amounts are made up

This schedule also does not agree to the amount in the financial supplied of R572 000

1. Accruals  
   There is a difference between the amount disclosed in the financial statements and the prior year annual report

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Description of amount in SoFPos** | **2010 Amount as per AFS** | **2010 Amount as per annual report 2010** | **Difference** |
|  |  | **R’000** | **R’000** | **R’000** |
| 3. | Accruals | 351 035 | 352 468 | 1 433 |

1. Other payables

The bank overdraft at National Treasury (PMG account) is included under “Trade and Other payables” and not under “Cash and cash equivalents”, therefore this note is overstated with R1 254 763 (2010: R1 675 445; 2009: R 1 546 275). Furthermore, detail should be supplied of how the amount of R1 254 763 was arrived at, as the amount on the bank confirmation from National Treasury is R1 291 797 347,89

1. Suspense account

A description is required of what these creditors consist of

1. For the following amounts no detailed schedules have been received to enable auditing of this:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Description of amount in Note 5** | **Amount as per AFS** | **Comments** |
|  |  | **R’000** |  |
| 6.1 | Trade Creditors: 2011 | 904 640 | Nothing received |
| 6.2 | Trade Creditors: 2010 | 578 115 | Nothing received |
| 6.3 | Trade Creditors: 2009 | 417 248 | Nothing received |
| 6.4 | Suspense account | 2 917 | Nothing received |

1. **Note 7: Financial Liabilities per category**
2. The heading “Financial liabilities at amortised cost” is repeated, both under 2011 and 2010
3. **Note 8: Revenue**
4. The amount disclosed in the financial statements does not agree to the prior year annual report

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Description of amount in SoFPos** | **2010 Amount as per AFS** | **2010 Amount as per annual report 2010** | **Difference** |
|  |  | **R’000** | **R’000** | **R’000** |
| 6.1 | Accommodation charges: State owned | 825 812 |  |  |
|  | Accommodation charges: Private leases | 2 291 395 |  |  |
|  | Total | 3 117 207 | 3 234 454 | 1. 7 |

1. **Note 9: Interest received**
2. The heading “Financial liabilities at amortised cost” is repeated, both under 2011 and 2010
3. **Note 10: Restatement of Comparatives**
4. The “Restatement column" does not cast:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **Amounts as per note** | **Recalculated amount** | **Difference** |
|  |  | **R’000** | **R’000** |  |
| 1.1. | Claims recoverable | - | 1 770 364 | (1 770 364) |
| 1.2. | Claims recoverable | 1 214 167 | 1 591 323 | (377 156) |
| 1.3. | Other | 1 014 277 | - | 1 014 277 |

1. This note is factually incorrect and does not balance to zero. The following has been disclosed as restatement

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Description in Note 8** | **Adjustment as indicated in Note** | **Actual movement on financial statements**  **Debit / (Credit)** |
|  |  |  | **R’000** |
| 2. 1. | Accounts receivable | Decrease with R139 781 | (R139 781) |
| 2.2 | Accommodation debtors – State owned | Decrease with R49 836 | (R49 836) |
| 2.3 | Accommodation debtors – Private leases | Decrease with R89 945 | (R89 945) |
|  | **Total impact on financial statements** | **Decrease debtors** | **(R279 562)** |

1. Note is incomplete. IAS 8, par 49 states the following:

*“In applying paragraph* [*42*](http://inmagicserver/nxt/gateway.dll/0b/ae4nb/gmw9b/imw9b/qmw9b/0nw9b?f=templates$fn=document-frame.htm$3.0$q=$x=$nc=6011#g3k)*, an entity shall disclose the following:*

*(a) the nature of the prior period error;*

*(b) for each prior period presented, to the extent practicable, the amount of the correction:*

*(i) for each financial statement line item affected; and*

*(ii) ~~if~~* [*~~IAS 33~~*](http://inmagicserver/nxt/gateway.dll/0b/uc/qeeab/7nktb#g0) *~~applies to the entity, for basic and diluted earnings per share;~~*

*(c) the amount of the correction at the beginning of the earliest prior period presented; and*

*(d) if retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.”*

No information was supplied on the nature of the correction or the amount that was restated per line item.

Also, line items on the financial statements changed without disclosing it in Note 10

1. **Note 13: Commitments**
2. Other commitments: Amount does not agree to the amount supplied in the schedule

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **Amount as per AFS** | **Amount as per schedule** | **Difference** |
|  |  | **R’000** | **R’000** | **R’000** |
| 1 | Current | 170 884 | 172 050 | (1 166) |

1. Operating leases – as lessor (income)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **Amount as per AFS** | **Amount as per 2010 annual report** | **Difference** |
|  |  | **R’000** | **R’000** | **R’000** |
| 2.1. | Within one year | 1 960 446 | 1 908 | 1 958 538 |
| 2.2 | In second to fifth year | 3 851 890 | 2 022 | 3 849 868 |
| 2.3 | Later than 5 years | 2 427 208 | 0 | 2 427 208 |

1. **Note 14: Contingent liabilities**
2. Amount does not agree to prior year annual report

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **Amount as per AFS 2010** | **Amount as per 2010 annual report** | **Difference** |
|  |  | **R’000** | **R’000** | **R’000** |
| 1.1. | Other departments | 0 | 320 728 | (320 728) |
| 1.2. | Later than 5 years | 2 427 208 | 0 | 2 427 208 |

1. Amount does not agree to schedule supplied

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **Amount as per AFS** | **Amount as per schedule** | **Difference** |
|  |  | **R’000** | **R’000** | **R’000** |
| 2 | Claims against the entity | 129 442 | 129 436 | 6 |

1. **Note 15: Related parties**
2. The following amounts does not cast

|  | **DEPARTMENT** | **Amount as per AFS** | **Recalculated amount** | **Difference** |
| --- | --- | --- | --- | --- |
|  | **Related party balances 31 March 2011** | **Total debt** |  |  |
|  | **DEPARTMENT** | **R'000** | **R'000** | **R'000** |
| 1.1 | Arts and Culture | **26 073** | **26 074** | **(1)** |
| 1.2 | Coop govt and traditional affairs | **14 654** | **14 653** | **1** |
| 1.3 | Gender Equality Commission | **7 236** | **7 237** | **(1)** |
| 1.4 | Health | **68 947** | **68 946** | **1** |
| 1.5 | National Treasury | **17 548** | **17 547** | **1** |
| 1.6 | SASSA | **89 368** | **89 369** | **(1)** |
| 1.7 | Social Development | **607** | **606** | **1** |
| 1.8 | Statistic SA | **40 487** | **40 488** | **(1)** |
|  |  |  |  |  |
|  | **Related party balances 31 March 2010** |  |  |  |
|  |  |  |  |  |
| 1.9 | Agriculture, Forestry and Fish | **42 070** | **42 069** | **1** |
| 1.10 | Gender Equality Commission | **3 468** | **3 469** | **(1)** |
| 1.11 | Home Affairs | **73 358** | **73 359** | **(1)** |
| 1.12 | Human Settlement | **18 471** | **18 470** | **1** |
| 1.13 | Independent Complaints Commission | **4 860** | **4 861** | **(1)** |
| 1.14 | Land Affairs | **8 240** | **8 239** | **1** |
| 1.15 | Minerals and Energy | **42 692** | **42 693** | **(1)** |
| 1.16 | Parliament | **5 527** | **5 526** | **1** |
| 1.17 | Public Protector | **4 810** | **4 809** | **1** |
| 1.18 | Public Service Commission | **4 380** | **4 379** | **1** |
| 1.19 | SAMDI/PALAMA | **3 021** | **3 020** | **1** |
| 1.20 | SA Police Services | **531 459** | **531 458** | **1** |
|  |  |  |  |  |
|  | **OTHER TOTALS** |  |  |  |
|  | **Related party balances: 2011** |  |  |  |
| 1.21 | SUP TOTAL Accommodation charge | **61 307** | **61 306** | **1** |
| 1.22 | SUB TOTAL Project Accelerated expenses | **374 930** | **374 929** | **1** |
| 1.23 | SUB TOTAL Current Assets | **213 768** | **215 425** | **(1 657)** |
| 1.24 | SUB TOTAL Related party balances 2011 | **1 740 411** | **1 739 144** | **1267** |
|  |  |  |  |  |
|  | **Related party balances: 2010** |  |  |  |
| 1.25 | TOTAL Private lease | **392 778** | **392 774** | **4** |
| 1.26 | TOTAL Related party balances 2010 | **2 076 466** | **2 076 465** | **1** |
|  |  |  |  |  |
|  | **Related party transactions** |  |  |  |
| 1.27 | Total Management fees transactions 2011 | **111 582** | **111 583** | **(1)** |
| 1.28 | Total Management fees transactions 2010 | **93 631** | **92 635** | **996** |
| 1.29 | Total Accommodation State owned 2010 | **2 460 293** | **2 453 298** | **6 995** |
| 1.30 | Total Private leases: 2011 | **2 734 302** | **2 734 305** | **(3)** |
| 1.31 | Total Private leases: 2010 | **2 404 867** | **2 395 867** | **9 000** |

1. The following amounts does not agree to the amounts as per the prior year annual report

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **Amount as per AFS** | **Amount as per 2010 annual report** | **Difference** |
|  |  | **R'000** | **R'000** | **R'000** |
| 2.1 | Management fee transactions: Defence | 22 540 | 23 540 | (1000) |
| 2.2 | Accommodation State Owned Revenue: Foreign affairs | 0 | 6 996 | (6 996) |
| 2.3 | Private leases: Home Affairs | 140 420 | 149 420 | (9 000) |

1. The following amounts does not agree to the amount in the Note 3: Trade and other Receivables

|  | **Description** | **Amount as Note 15** | **Amount as per Note 3** | **Difference** |
| --- | --- | --- | --- | --- |
|  | **Related party balances: 2011** | **R'000** | **R'000** | **R'000** |
| 3.1 | Accommodation charges: State owned | **61 307** | **57 296** | **4 011** |
| 3.2 | Accommodation charges: Private lease | **551 336** | **515 267** | **36 069** |
| 3.3 | Municipal charges | **539 070** | **539 070** | **0** |
| 3.4 | Project Accelerated expenses | **374 930** | **216 595** | **158 335** |
| 3.5 | Current assets | **213 768** | **143 911** | **69 857** |
| 3.6 | Total Debt | **1 740 411** | **2 249 026** | **(508 615)** |
|  |  |  |  |  |
|  | **Related party balances: 2010** |  |  |  |
| 3.7 | Accommodation charges: State owned | **105 892** | **63 966** | **41 926** |
| 3.8 | Accommodation charges: Private lease | **392 778** | **373 317** | **19 461** |
| 3.9 | Municipal charges | **721 105** | **763 791** | **(42 686)** |
| 3.10 | Project Accelerated expenses | **651 217** | **742 696** | **(91 474)** |
| 3.11 | Current assets | **205 474** | **267 459** | **(61 985)** |
| 3.12 | Total Debt | **2 076 466** | **2 530 411** | **(453 945)** |

1. The following amounts does not agree to the amount in the Note 8: Revenue

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Description** | **Amount as Note 15** | **Amount as per Note 8** | **Difference** |
|  |  | **R'000** | **R'000** | **R'000** |
| 4.1 | Management fees transactions: 2011 | **111 582** | **135 818** | **24 236** |
| 4.2 | Management fees transactions: 2010 | **93 631** | **93 631** | **0** |
| 4.3 | Accommodation State owned Revenue: 2011 | **2 960 370** | **948 403** | **2 011 967** |
| 4.4 | Accommodation State owned Revenue: 2010 | **2 460 293** | **825 812** | **1 634 481** |
| 4.5 | Accommodation Private Leases: 2011 | **2 734 302** | **3 058 138** | **323 836** |
| 4.6 | Accommodation Private Leases: 2010 | **2 404 867** | **2 291 395** | **113 472** |

**Adjustment journals**

1. Information supplied was not sufficient to enable auditing or more explanation is required on the reason for the journals or calculation of amounts.

|  | **Caseware journal number** | **Comment** |
| --- | --- | --- |
| 1.1 | 1 | To confirm from management how the documents referred to in the schedule A15 was generated |
| 1.2 | 2 | Require a representation from management on why these amounts were removed from both Revenue and Expenditure. For the Caseware account: 12011, only part of the amount in the trial balance was removed. We require a reason for split in actual payments removed. |
| 1.3 | 4 | No reference was supplied for the reason and calculation of amount in the journal |
| 1.4 | 5 | Reference to D15 given, but this schedule was not submitted to the auditors |
| 1.5 | 8 | The schedule with the calculation was supplied in C2, but in this document a reference is given to A2, however this schedule was not supplied |
| 1.6 | 9 | Journals is supplied on the document, but no reference to how this is calculated |
| 1.7 | 10 | Journals is supplied on the document, but no reference to how this is calculated |
| 1.8 | 11 | Explanation required from management on the documents submitted |
| 1.9 | 12 | Journals is supplied on the document, but no reference to how this is calculated |
| 1.10 | 13 | Explanation required from management on the documents submitted |
| 1.11 | 14 | Explanation required from management on the documents submitted |
| 1.12 | 15 | Explanation required from management on the documents submitted |
| 1.13 | 17 | Journals is supplied on the document, but no reference to how this is calculated |
| 1.14 | 20 | Amount in schedule A10 (to where this journal is referenced) does not agree to the amount in A10 |
| 1.15 | 21 | Require explanation from management how these reports were generated |
| 1.16 | 22 | Require explanation from management how these reports were generated |
| 1.17 | 24 | No reference to where this amount was calculated |
| 1.18 | 203 | Amount included in the journal does not agree to the amount in the schedule supplied as reference (D11) |

## Internal control deficiency

*Leadership*

*Oversight responsibility*

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

Recommendation

1. Management should investigate all differences and correct all amounts before final submission of financial statements
2. The CFO should perform a high-level review of financial statements before submission to the auditors

## Management response

Management response outstanding

**Auditor’s response**

Management response is still outstanding; however, a new set of financial statements was submitted at close of business 15 July 2011 as a result of this audit finding. An assessment of these financial statements revealed the following:

**A. Index**

1. No change. Finding remains

**B. Statement of financial position**

1. Amount has been reallocated to Bank overdraft under Current Liabilities. Finding cleared.

2.1. No change. Finding remains

2.2. Amount has changed due to balance of bank overdraft that is excluded in this financial statements but finding remains if comparison done.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Description of amount in SoFPos** | **2010 Amount as per AFS** | **Amount as per annual report 2010** | **Difference** |
|  |  | **R’000** | **R’000** | **R’000** |
| 2.2. | *2010 Trade and other payables* |  | *930 581* |  |
|  | *2010 Deferred Income* |  | *6 027* |  |
|  | 2010 Total: Trade and other payables | 934 936 | 936 608 | (1 672) |
|  |  |  |  |  |

2.3. Amount has changed due to balance of bank overdraft that is excluded in this financial statements but finding remains if comparison done.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Description of amount in SoFPos** | **2010 Amount as per AFS** | **Amount as per annual report 2010** | **Difference** |
|  |  | **R’000** | **R’000** | **R’000** |
| 2.3. | *Trade and other payables* |  | *722 196* |  |
|  | *Deferred Income* |  | *1 674* |  |
|  | 2009 Total: Trade and other payables | 722 197 | 723 870 | (1 673) |
|  |  |  |  |  |

3. Amount changed in Note 10: Restatement of Comparatives. Finding cleared

**C. Statement of Comprehensive Income (SoCI)**

1. Amount changed Note 10: Restatement of Comparatives. Finding cleared

2. No change. Finding remains.

3. Finding cleared

**D. Statement of Changes in Equity**

1. No change. Finding remains

2. Note 10 amended: Finding cleared

**E. Cash flow statement**

1. Amount has been reallocated to Bank overdraft under Current Liabilities. Finding cleared.

There were no supporting calculations submitted with the financial statements submitted on 15 July 2011 on the calculations of Cash receipts and cash paid as disclosed in the Cash flow statement. Due to lack of supporting calculations we did a recalculation of these amounts. Upon recalculation it was noted that the amount recalculated did not agree to the amount disclosed in the cash flow statement.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **No.** | **Details** | **Amount as per the cash flow statement** | **Amount as per the recalculation** | **Difference** |
| 1 | Cash receipts and government grants | R2 961 249 000,00 | R5 081 894 000,00 | -R2 120 645 000,00 |
| 2 | Cash paid to suppliers and employees | R2 671 063 000,00 | R4 668 051 000,00 | -R1 996 988 000,00 |
| **Total** | | **R5 632 312 000,00** | **R9 749 945 000,00** | **-R4 117 633 000,00** |

**F. Trade and other Receivables**

1. No change. Finding remains

2. Reworded except under Receivable ageing 2009.

3. No change. Finding remains.

4. Notes amended. Finding cleared

5.1. Note amended. Finding cleared

5.2. No change. Finding remains

5.3. No change. Finding remains

5.4. No change. Finding remains

5.5. Note amended. The discrepancy still remains, however this agrees to the amount of the restatement, therefore change accepted and finding cleared.

|  | **Description of amount in Note 3 of the financial statements** | **2010 Amount as per AFS** | **Amount as per annual report 2010** | **Difference** |
| --- | --- | --- | --- | --- |
|  |  | **R’000** | **R’000** | **R’000** |
| *5.5.* | Accommodation debtors |  |  |  |
| *.* | *Accommodation: State owned* | *63 966* |  |  |
|  | *Accommodation: Private leases* | *381 089* |  |  |
|  | Accommodation debtors 2010 | 445 055 | 584 843 | 139 788 |
|  |  |  |  |  |

5.6. No change. Finding remains

5.7. No change. Finding remains

5.8. Note amended, however the following discrepancy noted

|  | **Description of amount in Note 3 of the financial statements** | **2010 Amount as per AFS** | **Amount as per annual report 2010** | **Difference** |
| --- | --- | --- | --- | --- |
|  |  | **R’000** | **R’000** | **R’000** |
| *5.8.* | Receivables ageing 2010: 1 to 3 years |  |  |  |
| *.* | *Claims recoverable* | *68* |  |  |
|  | *Claims recoverable: PACE* | *0* |  |  |
|  | *Claims recoverable: CA* | *57 238* |  |  |
|  | *Debtors: Municipal services* | *409 773* |  |  |
|  | *Municipal deposits* | *0* |  |  |
|  | Receivables ageing 2010 | 467 079 | 457 816 | 9 263 |

5.9. No change. Finding remains.

5.10. Note amended. However the following discrepancy noted

|  | **Description of amount in Note 3 of the financial statements** | **2010 Amount as per AFS** | **Amount as per annual report 2010** | **Difference** |
| --- | --- | --- | --- | --- |
|  |  | **R’000** | **R’000** | **R’000** |
| *5.10.* | Receivables ageing 2009: Less than 1 year |  |  |  |
| *.* | *Claims recoverable* | *0* |  |  |
|  | *Claims recoverable: PACE* | *733 560* |  |  |
|  | *Claims recoverable: CA* | *65 230* |  |  |
|  | *Debtors: Municipal services* | *436 607* |  |  |
|  | *Municipal deposits* | *0* |  |  |
|  | Receivables ageing 2010 | 1 235 397 | 1 137 982 | 1. 15 |

5.11 Note amended, however the following discrepancy identified

|  | **Description of amount in Note 3 of the financial statements** | **2010 Amount as per AFS** | **Amount as per annual report 2010** | **Difference** |
| --- | --- | --- | --- | --- |
|  |  | **R’000** | **R’000** | **R’000** |
| *5.11.* | Receivables ageing 2009: 1 to 3 years |  |  |  |
| *.* | *Claims recoverable* | *68* |  |  |
|  | *Claims recoverable: PACE* | *82* |  |  |
|  | *Claims recoverable: CA* | *116 652* |  |  |
|  | *Debtors: Municipal services* | *202 252* |  |  |
|  | *Municipal deposits* | *2 515* |  |  |
|  | Receivables ageing 2010 | 321 569 | 418 914 | (97 345) |

6.1. No schedule received. Finding remains

6.2. No schedule received. Finding remains

6.3. No schedule received. Finding remains

6.4. Schedule not received in time for auditing. Finding remains

6.5. Schedule not received in time for auditing. Finding remains

6.6. No schedule received. Finding remains

6.7. No schedule received. Finding remains

6.8. Schedule not received in time for auditing. Finding remains

6.9. Schedule not received in time for auditing. Finding remains

6.10. Schedule not received in time for auditing. Finding remains

6.11. No schedule received. Finding remains

6.12. No schedule received. Finding remains

6.13. No schedule received. Finding remains

7.1. Detailed information not received in time for auditing. Finding remains

7.2. Detailed information not received in time for auditing. Finding remains

7.3. Information received. Finding cleared

7.4. Detailed information received, but the following discrepancy was noted

|  |  | **Amount as per AFS and schedule**  **R’000** | **Amounts as per detailed information**  **R’000** | **Difference**  **R’000** | **Comments R’000** |
| --- | --- | --- | --- | --- | --- |
|  | **Note 3: Trade and other receivables: 2011** |  |  |  |  |
| 7.4. | Accommodation debtors: Private leases | 515 267 | 649 393 | (134 126) | Schedule was not audited as material difference identified |

7.5. No change. Finding remains.

7.6. No change. Finding remains

7.7. No change. Finding remains

7.8. Note amended. No difference, however no detailed information to enable auditing

7.9. Note amended. No difference, however no detailed information on amount received to enable auditing

7.10. No change. Finding remains

7.11. No change. Finding remains

7.12. Note amended. No difference, however no detailed information on amount received to enable auditing

Furthermore to above issues changes, it was noted that the changes that was made, have been made to “Claims recoverable” in the notes. This item was not supported by schedules and was therefore a balancing amount.

Also the following could not be confirmed based on the information received and the sample audited:

Public Service & Administration 2008/09: Invoice and payment received of R21 888,84

Amount received from SAPS in 2006/07 of R5 000 000

Amount received 2008/09 from Trade and Industry of R61 601,75

**G. Cash and cash equivalents**

1. Amount reallocated. Finding cleared

**H. Trade and other payables**

1. No change. Finding remains

2. No change. Finding remains

3. No change. Finding remains

4. No change. Finding remains

6.1. No change. Finding remains

6.2. No change. Finding remains

6.3. No change. Finding remains

6.4. No change. Finding remains

**I. Financial liabilities per category**

1. No change. Finding remains

**J. Revenue**

1. Difference disclosed in the restatement note. Finding cleared

**K. Interest received**

No finding. Finding cleared

**L. Restatement of comparatives**

1. Note amended, however the following new discrepancy noted

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **Amounts as per note** | **Recalculated amount** | **Difference** |
|  |  | **R’000** | **R’000** |  |
| New | Accommodation debtors | 445 055 | 584 843 | (139 788) |
| New | Accumulated Funds | (363 339) | (87107) | (276 232) |

2. Note amended, however the note still does not balance to zero.

3. No change. Finding remains

**M. Commitments**

1. Note amended. Finding cleared

2. No change. Finding remains

**N. Contingent liabilities**

1.1. No change. Finding remains

1.2. No finding. Finding cleared

2. Note amended. Finding cleared

**O. Related parties**

Although a number of the issues has been cleared there is now even more items that is not casting. Therefore this will be reported as misstatements.

**P. Adjustment journals**

Discussion was held with consultants and the following Caseware journals could not be audited:

1, 2, 4, 15, 20, 24, 203.

# Management of debtors

## Audit finding

Treasury Regulation 11.2 and[Section 38 (1) (c) (i) and (d) of the PFMAdeals with the responsibilityfor debt management and requires that the “t*he accounting officer of an institution must take effective and appropriate steps to timeously collect all money due to the institution including, as necessary (a) Maintenance of proper accounts and records for all debtors, including amounts received in part payment; and (b) referral of a matter to the State Attorney, where economical, to consider a legal demand and possible legal proceedings in a court of law.”* The following deficiencies/deviations were identified:

* No notices are sent to those debtors that become past due and continued service.
* Overdue debtors are not always followed up on a monthly basis.
* Debts are not always collected on a timely basis in line with legislated requirements.

Management indicated debt follow-up was not done due to capacity constraints. Overdue accounts are verbally communicated with client departments in some instances. Consequently the department is non-compliant with the legislative requirements. The insufficient follow-up of debtors will further deteriorate the cash flow position and further increase the bank overdraft facility.

## Internal control deficiency

*Leadership:* The entity did not implement effective human resource management to ensure that adequate and sufficiently skilled resources are in place and that performance are monitored

## Recommendation

* All vacant positions should be identified and advertised by the human resource department.
* Management should on a regular basis follow up on the progress in filling the positions

## Management response

I am in agreement with the finding the department is in the process of filling up a Deputy Director: Debt Management position. The interviews for the 3 Assistant Directors: Debt Management positions have been conducted already and the department is in the process of approving the appointment of the recommended candidates. As soon as these positions are filled a proper debt management process will be followed to adhere to the PFMA and the Treasury Regulations.

*Name: J Prinsloo*

*Position: CD PMTE*

*Date: 26 May 2011*

## Auditor response

Management agrees with the finding. This deficiency will only be addressed once the capacity has been resolved. This will be reported as a non compliance to the Treasury Regulations in the audit report.

# Supporting schedules and adjustments to accounting records

## Audit finding

The PFMA section 41 requires that the accounting officer for a trading entity must submit to the relevant treasury or the Auditor General such information, returns, documents, explanations and motivations as may be prescribed or as the relevant treasury or the Auditor General may require.” Management did not submit the schedules supporting amounts in the 2010/11 Annual Financial Statements nor did they submit any journals to support the adjustments between the BAS trial balance and the trial balance supporting the financial statements. The following are examples of accounts in the trial balance supporting the 2010/11 Annual Financial Statements that is not trial balance accounts in BAS:

|  |  |
| --- | --- |
| Debtors impairment | - |
| Debtors impairment reversal | -R76,192,256 |
| Debtors | R534,809,120 |
| Payables | -R341,932,382 |
| Creditor Operating Lease | -R440,494,777 |
| Bank | R2,158,416 |
| Provision for impairment | -R220,295,565 |
| Debtor Operating Lease | R440,494,777 |

Abovementioned items should have been submitted with the Annual Financial Statements on 31 May 2011. This non-submission contributed to the scope limitation impacting on the audit report.

## Internal control deficiency

*Financial and performance management*

The entity did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

## Recommendation

Management should submit all schedules and other required information that supports the financial statements to enable auditing thereof with the Annual Financial Statements on 31 May 2011.

## Management response

Management is in agreement with the finding for the following reasons all the schedules supporting the AFS were submitted to AG on the 02 June 2011

Name: J Prinsloo

Position: CD PMTE

Date:21 June 2011

## Auditors response

Management agrees with the finding, however not all information was submitted on 2 June as indicated by management. Furthermore, the financial statements was subsequently revised and resubmitted by management on 7 July 2011 and new findings was issued to management on the revised set of financial statements, therefore this finding is cleared. We will however report this as a non compliance to section 40(1)(c) of the PFMA in the audit report.

# Information requested from the State Attorneys not received

## Audit finding

Section 41 of the PFMA requires *“An accounting officer for a department must submit to the relevant treasury or the Auditor General such information, returns, documents, explanations and motivations as may be prescribed or as the relevant treasury or the Auditor General may require.”* The following information has been requested and has not been received to date:

|  |  |  |
| --- | --- | --- |
| **No.** | **Information requested** | **Amount of write off** |
| 1 | GJ904 | -R116 065,51 |
| 2 | AP40701 | R21 298,05 |
| 3 | AP7427 | R49 976,84 |
| 4 | AP64340 | R513 341,21 |
| 5 | AP10835 | R306 615,54 |
| 6 | AP11027 | R665 497,98 |
| 7 | AP18068 | R456 748,97 |
| 8 | AP46577 | R650 011,89 |
| 9 | AP47082 | R653 709,79 |
| 10 | AP47623 | R2 081 736,75 |
| 11 | AP59818 | R269 526,53 |
| 12 | AP124657 | R123 811,16 |
| 13 | AP173699 | R211 347,27 |
| 14 | AP48129 | R 54 015,61 |
| 15 | AP146261 | R558 279,60 |
| 16 | AP57994 | R635 257,59 |
| 17 | AP149784 | R217 511,60 |
| 18 | AP187000 | R510 717,72 |
|  |  | **R7 863 338,59** |

## Internal control deficiency

*Leadership*

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

## Recommendation

Irrecoverable accounts need to be handed over to the state attorney for collections.

## Management response

Management response outstanding.

## Auditors response

Management comment on this finding is outstanding. In another request for information (93), management indicated that no accounts had been handed over to the state attorney. We therefore conclude that not all reasonable steps have been taken to recover monies, which is non-compliance to Treasury Regulation 11.4.1 (a).

# Prior period accruals for “Accommodation Charges” recognised in current year

## Audit finding

*Section 22 of the framework for the preparation and presentation of financial statements states that: “Under the accrual basis, the effects of transactions and other events are recognised when they occur (and not as cash or its equivalent is received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate. Financial statements prepared on the accrual basis inform users not only of past transactions involving the payment and receipt of cash but also of obligations to pay cash in the future and of resources that represent cash to be received in the future. Hence, they provide the type of information about past transactions and other events that is most useful to users in making economic decisions”*

The PMTE has received amounts for revenue accommodation charges relating to the prior year in the current financial year. These amounts were incorrectly recorded in the 2010/11 financial year as revenue accommodation charges. As the PMTE is reporting in terms of SA GAAP, the amounts listed below should have been recorded as an “accrual” in the prior year and a debtor should have been raised.

| **No** | **Item Level Detail** | **Transaction Date** | **Invoice Number** | **Journal No.** | **Trans Amount Cr** |
| --- | --- | --- | --- | --- | --- |
| 1 | ACCOMM CHRGS - PRIVATE – REV | 04/11/2010 | 2-4th Quarters | 2869 | R4 441 083,65 |
| 2 | ACCOMM CHRGS - PRIVATE – REV | 04/11/2010 | 1.2 Quarters | 2869 | R5 825 129,92 |
| 3 | ACCOMM CHRGS - PRIVATE - REV | 09/12/2010 | 21 - 01- 0407 | 2983 | R1 738 675,00 |
| 4 | ACCOMM CHRGS - STATE OWNED – REV | 08/02/2011 | 04 - 01-0409 | 3222 | R4 442 250,00 |
| 5 | ACCOMM CHRGS - STATE OWNED – REV | 08/02/2011 | 01- 10 - 01-10-01 | 3222 | R4 442 250,00 |
| 6 | ACCOMM CHRGS - STATE OWNED – REV | 23/02/2011 | 01-13-01-10-01 | 3320 | R 24 700 000,00 |
| 7 | ACCOMM CHRGS - STATE OWNED – REV | 31/03/2011 | 25-01-1206 | 3515 | R 26 899,25 |
| 8 | ACCOMM CHRGS - STATE OWNED – REV | 31/03/2011 | 25-01-0906 | 3515 | R 26 700,25 |
| 9 | ACCOMM CHRGS - STATE OWNED – REV | 31/03/2011 | 01-11-09-09-01 | 3515 | R47 000,00 |
| 10 | ACCOMM CHRGS - STATE OWNED – REV | 31/03/2011 | 01-11-01-10-01 | 3515 | R47 000,00 |
| **Total** | | | | | **R 45 736 988,07** |

This error is an overstatement in revenue and debtors for the current year resulting from not using an accrual accounting system combined with a lack of policies and procedures to prepare an SA GAAP set of Annual Financial Statements.

## Internal control deficiency

*Financial and performance management*

Proper record keeping in a timely manner is not implemented to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

## Recommendation

* Approval must be obtained for the procurement of an accrual financial accounting system
* On a monthly basis management should review amounts received for prior periods and ensure that have been recorded in terms of requirements of SA GAAP.
* Due to the fact that the financial accounting system does not facilitate the accrual basis a record should be kept of all transactions that need to be recorded in terms of SA GAAP.
* These transactions should be correctly accounted for during the preparation of the financial statements
* Ongoing monitoring and supervision should be undertaken to enable an assessment of the effectiveness of internal control over financial reporting

## Management response

I am in agreement with the finding for the following reason: *“The financial statements submitted on 31 May 2011 were incorrect and opening balances were not restated correctly. The Revenue in the AFS submitted on 7 July 2011 includes only invoices issued in the year under review and management fees due during the same period.”*

Name: J Prinsloo

Position: CD PMTE

Date: 14 July 2011

## Auditors response

Management comment has been noted, however, supporting documents was not submitted, therefore we could not verify if the adjustment was made. The finding is still valid and will be reported as a misstatement in terms of the Annual Financial Statements and reported as such in the audit report.

# Supporting information for “Deferred Income” outstanding

## Audit finding

Section 40(1) of the Public Finance Management Act states the reporting responsibilities of the *Accounting Officers ’as being “(1)  The accounting officer for a department, trading entity or constitutional institution; (a) must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards.”* Deferred income disclosed in Note 5 of the Annual Financial Statements reflects a total of R706 000. Upon inspection of the Annual Financial Statements it was noted that deferred income did not have a note disclosing the amounts included as deferred income, like it was done in the previous year. This note should include as a minimum:

|  |  |  |
| --- | --- | --- |
| **DEFERRED INCOME** | **2011** | **2010** |
| Opening balance at beginning of year | R6 027 520 | R1 674 000 |
| Received during the year | R3 786 173 | R9 523 520 |
| Paid during the year | -R3 080 525 | -R5 170 000 |
| **Closing balance** | **R6 733 168** | **R6 027 520** |

We requested a reconciliation of the “make-up” of the balances from management on which they provided a schedule which do not agree with the balance disclosed in the Annual Financial Statements.

|  |  |  |  |
| --- | --- | --- | --- |
| **DETAILS AS PER THE AFS** | **AMOUNT AS PER THE AFS** | **AMOUNT AS PER THE RECONCILIATION SUBMITTED BY MANAGEMENT** | **VARIANCE** |
| Deferred Income | R705 648,21 | R6 733 168,00 | R6 027 519,79 |

Furthering this matter in discussions with management we identified that the “prior year closing balance” was not included in the calculation of the deferred income for the year under review. No explanation could be given on the reason for not surrendering the “prior year closing balance” to National Treasury. This finding resulted in an understatement of “Deferred Income” resulting in an underpayment of the “amount to be surrendered” to National Treasury.

## Internal control deficiency

*Leadership*

Oversight responsibility regarding financial and performance reporting and compliance and related internal controls is not exercised.

## Recommendation

* Management should write a journal to correct the opening balance of deferred income.
* The opening balance, as well as any other amounts owed to National Treasury should be paid as a matter of urgency.
* The financial statements need to be adjusted to reflect the correct closing balance after taking into account the opening balance being the prior year closing balance.
* A note should be included in the AFS for deferred income to present the movement from the prior year to the current year.

## Management response

I am in agreement with the finding for the following reason: “Deferred income was incorrectly disclosed in the AFS submitted on 31 May 2011. The opening balance was corrected in the AFS submitted on 7 July 2011, but discussions with the AG revealed some shortcomings. This will be corrected by 14 July 2011.”

*Name:* J Prinsloo

*Position: CD: TA*

*Date: 14 July 2011*

## Auditor’s conclusion

Management comment noted. The financial statements was subsequently revised and resubmitted by management on 7 July 2011 and 15 July 2011 and new findings was issued to management on the revised set of financial statements, however this finding remains. This was also reported in a new finding sent to management, but this will also be reported as a non compliance to section 40(1)(c) of the PFMA in the audit report.

# Disallowance Suspense Accounts

## Audit finding

International Accounting Standards 1 Presentation of the Financial Statements paragraph 29 states “ *An entity shall present separately each material class of similar items. An entity shall present separately items of a dissimilar nature or function unless they are immaterial”.* The PMTE make use of three suspense accounts referred to as “Disallowances Accounts” to record “receivables”. The details of these accounts are as follows:

|  |  |  |
| --- | --- | --- |
| **No** | **Suspense Accounts** | **Balances at 31 March 2011** |
| 1 | Disallowance Damages and Losses: Recoverable CA | R35 659 682,91 |
| 2 | Disallowance Damages and Losses:CA | R46 086 981,48 |
| 3 | Disallowance Miscellaneous | R138 548 900,20 |
| **Total** | | **R220 295 564,59** |

Through inspection of the information disclosed in note 3 it was noted that the disallowance accounts was not disclosed in the Annual Financial Statements. Through discussions with management it was identified that the disallowances accounts where included under claims recoverable.

The claims recoverable accounts are “suspense accounts” and consist of inter-departmental debtors. The disallowance accounts consist of “debt incurred on projects through *vis-major*“ i.e. acts of God and defaulted contractors. The total for the “disallowance accounts” should not be included in “claims recoverable” as they are not interdepartmental debts and should be disclosed as separate line item.

The finding resulted from a lack of understanding the SA GAAP Reporting Framework. This resulted in claims recoverable being overstated and the financial statements being materially misstated.

## Internal control deficiency

*Leadership*

Oversight responsibility regarding financial and performance reporting and compliance and related internal controls is not exercised.

## Recommendation

Management should have amended Note 3 of the Annual Financial Statements and disclosed the amount for ‘disallowances’ separately in the financial statements

## Management response

I am in agreement with the finding for the following reason: “The AFS submitted on 31 May 2011 was incorrect. These accounts have been indicated as “Disallowance – Claims Recoverable” in the AFS submitted on 7 July 2011. After discussion with the AG it has been agreed that the items name will be change to “Disallowance”.

Name: J Prinsloo

Position: CD: TA

Date: 14 July 2011

## Auditor’s conclusion

Management agrees with the finding. Subsequently revised financial statements was resubmitted by management on 7 July 2011 and new findings was issued to management on the revised set of financial statements, therefore this finding is cleared. We will however report this as a non compliance to section 40(1)(c) of the PFMA in the audit report.

# No delegation for approval of journals

## Audit Finding

In terms of section 38 of the PFMA the general responsibilities of accounting officer*s consists of:*

*“(1) The accounting officer for a department, trading entity or constitutional institution*

*(a) must ensure that that department, trading entity or constitutional institution has and maintains*

*(i) effective, efficient and transparent systems of financial and risk management and internal control”*

In terms of section 44 of the Public Finance Management Act No. 1 of 1999 General responsibilities of accounting officers*:*

*“(1) The accounting officer for a department, trading entity or constitutional institution may—  
(a) in writing delegate any of the powers entrusted or delegated to the accounting officer in terms of this Act, to an official in that department, trading entity or constitutional institution; or*

1. *instruct any official in that department, trading entity or constitutional institution to perform any of the duties assigned to the accounting officer in terms of this Act.*

*(2) A delegation or instruction to an official in terms of subsection (1)—*

*(a) is subject to any limitations and conditions prescribed in terms of this Act or as the relevant treasury may impose;*

*[Para. (a) substituted by s. 25 of Act No. 29 of 1999.]*

*(b) is subject to any limitations and conditions the accounting officer may impose;*

*(c) may either be to a specific individual or to the holder of a specific post in the relevant department, trading entity or constitutional institution; and*

*(d) does not divest the accounting officer of the responsibility concerning the exercise of the delegated power or the performance of the assigned duty.*

*(3) The accounting officer may confirm, vary or revoke any decision taken by an official as a result of a delegation or instruction in terms of subsection (1), subject to any rights that may have become vested as a consequence of the decision.*

In terms of section 45 of the Public Finance Management Act No. 1 of 1999 Responsibilities of other officials:

*“An official in a department, trading entity or constitutional institution—*

*(a) must ensure that the system of financial management and internal control established for that department, trading entity or constitutional institution is carried out within the area of responsibility of that official;*

*(b) is responsible for the effective, efficient, economical and transparent use of financial and other resources within that official’s area of responsibility;*

*(c) must take effective and appropriate steps to prevent, within that official’s area of responsibility, any unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure and any under collection of revenue due;*

*(d) must comply with the provisions of this Act to the extent applicable to that official, including any delegations and instructions in terms of section 44; and*

*(e) is responsible for the management, including the safe-guarding, of the assets and the management of the liabilities within that official’s area of responsibility.*

In terms of Treasury Regulation 17.1.1 *“all the transactions of an institution must be supported by authentic and verifiable source documents, clearly indicating the approved accounting allocation”*

The PMTE does not have a delegation of authority for the approval of journals. During our audit we could not verify if the journals processed were authorised by the appropriate officials.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| |  |  |  |  |  | | --- | --- | --- | --- | --- | | **NO** | **PERIOD** | **DESCRIPTION** | **DEBIT** | **CREDIT** | | 1 | 01 April 2010 – 31 March 2011 | Journal processed for the year under review | R24 117 823 453,85 | R 24 117 823 453,85 | | **TOTAL** | | | **R 24 117 823 453,85** | **R 24 117 823 453,85** |   This is due to the lack of policies and procedures in place. Journals processed maybe unathorised and may result in misstatements in the financial statements. This will also result in non-compliance with PFMA section 44, 45 and Treasury regulation 17.1.1. |  |  |

## Internal control deficiency

*Leadership*

Policies and procedures are not established and communicated to enable and support understanding and execution of internal control objectives, processes, and responsibilities

*Control Environment*

Management and employees are not assigned appropriate levels of authority and responsibility to ensure that they understand how and for what they are accountable to facilitate effective internal control over financial reporting.

## Recommendation

* Management should draft, approve and implement a delegation of authority for the approval of journals
* Policies and procedures should be implemented to facilitate the approval of transactions
* Management needs to supply a representation to the auditors that all journals during the current financial year has been duly authorised.

## Management Response

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

* The volume of journals in the Chief Directorate is very high. For the period 1 April 2010 to 31 March 201, a total of 1 387 journals to the value of R 24 billion were done. Municipal Services journals consist generally of up to 40 lines. Each line consists of 7 segments and 2 matching fields.
* Statistics for the period mentioned above:
  + Total number of journals 1 387
  + Number of journals above R 20 million (CFO) 187
  + Number of journals above R 10 million (CD) 70
  + Number of journals above R 5 million (D) 73
* The person who authorizes journals is expected to check each of these lines to ensure correctness. The official is also required to compare the journal with the supporting documentation to ensure correctness. It can take up to 3 hours to verify the correctness of one Municipal Services journal
* If the journal delegation is in line with the payment delegation, a major portion of the journals will have to go to the CFO for authorization.
* Given the time spent by Senior Management on other commitments, this will cause serious delays in the processing of journals.
* It is therefore not practical or cost-effective to institute the recommended delegations on journals.
* Furthermore, profiles on BAS are divided between “capturers” and “authorizers”. This automatically assures that a journal captured by a junior official is authorized by a senior official (normally Assistant Director or higher)
* It is hereby confirmed that all journals processed by the PMTE during the year have been duly authorized.

Name: Juanita Prinsloo

Position: CD: Trading Account

Date: 18 July 2011

## Auditor’s conclusion

Management comment noted, however the letter from National Treasury dated 14 March 2006 (accompanied by the interim mechanism) requires that separate delegations are required, therefore the non-compliance to the PFMA will be required.

# Debt Write-off Policy not disclosed included in the Accounting Policy Note

## Audit Finding

Treasury Regulations 11.4.3 states state that: *“All debts written off must be disclosed in the annual financial statements, indicating the policy in terms of which the debt was written off."* Through inspection of the accounting policies disclosed on page 6 to 7 in the Annual Financial Statements submitted on 7 July 2011 we noted that the write off policy was not included under the accounting policies in the AFS. This resulted from management not using a SA GAAP checklist to ensure that all disclosure required in terms of the accounting framework had been considered. This might result in a non compliance with the Treasury Regulation as referred to.

## Internal control deficiency

*Leadership*

Oversight responsibility regarding financial and performance reporting and compliance and related internal controls is not exercised.

## Recommendation

All policies relating to transactions in the financial statements should to be disclosed and a SA GAAP checklist used for this purpose.

## Management response

I am in agreement with the fact that there is no departmental policy for the PMTE write off, however the department has done the write off in accordance to the PFMA, treasury regulations and financial delegations of the department. The debt write off policy for the department is currently being finalized for implementation before the end of the second quarter.

Name: Cathy Motsisi

Position: Chief Financial Officer

Date: 22 July 2011

## Auditor’s conclusion

Management comment has been noted however the trading entity did not have an approved write off policy and the accounting policy is not included in the financial statements.

# Implementation plan for SCOPA resolutions not provided timeously

## Audit Finding

*The tenth report of the Standing Committee on Public Accounts on the Report of the Auditor General on the 2008-09 financial statements of the Department of Public Works and its Property Management Trading Entity, dated 25 August 2010, report number 111-2010, recommends that the Accounting Officer ensures that:*

*a) Paragraph 7.1. – Property Management Trading Entity – Inter departmental*

*(i) Disciplinary action is taken against staff who fails to perform their duties as required;  
      (ii) Reasonable steps are taken to recover debts before they are written off; and   
      (iii) Management understands and exercises oversight in respect of finances and related internal controls.*

*b) Paragraph 8 – Further recommendations that the Committee further indicated that “The Committee is concerned with various government Departments’ failure to honour their debts to the Department of Public Works for services rendered on their behalf and has ordered the Property Management Trading Entity to forward the list of such defaulters. The Committee has already written to some of the defaulting Departments and entities seeking clarity on their non payment.”*

*c) Paragraph 9 – Conclusion: “The Committee further recommended that: “The Executive Authority submits a progress report on the implementation of all the above recommendations to the National Assembly within 60 days of the adoption of the report by the House”*

Documentation pertaining to the implementation and progress made with regard to the SCOPA resolutions could not be obtained and was discussed in the Audit Steering Committee meeting of 10 February 2011. The Chief Financial Officer indicated that she only became aware of the SCOPA resolutions when they were forwarded to her office by the AGSA on inquiry pertaining to the progress. She further indicated that the department realises that they have not complied with the requirement pertaining to the progress report that should have been submitted to the National Assembly as required. The matter was again discussed in the Audit Steering Committee meeting of 2 March 2011 to date information pertaining to the progress with regard to the SCOPA resolutions has not been submitted.

The recommendations of the Standing Committee on Public Accounts may not be implemented and the relevant risks indicated not addressed. As mentioned above the department indicated that they did not comply with the SCOPA resolutions as they were not aware of the resolutions being issued.

## Internal control deficiency

*Leadership*

* Oversight responsibility regarding financial and performance reporting and compliance and related internal controls is not exercised.
* SCOPA / Oversight resolutions have not been substantially implemented.

## Recommendation

* Responsibility for the follow up, reporting and tracking of SCOPA resolutions must be assigned to a specific official.
* Management must report monthly to EXCO pertaining to the progress made with regard to the SCOPA resolutions to ensure that corrective actions are timeously taken and implemented.
* The required feedback must be given to the committee without further delay.

## Management response

Management response outstanding.

## Auditor’s conclusion

Management response outstanding, therefore finding remains and will be reported as non-compliance to SCOPA resolutions

# All officials not informed on the Code of Conduct for the Department

## Audit Finding

Inquire from various officials, the Deputy Director: Conditions of Service and the Director: Human Resources we ascertained that officials are not provided with a copy of the code of conduct. It should be noted that the department use the “explanatory manual on the code of conduct, which includes a code of conduct, as their code of conduct”. As a result the department may not be able to take disciplinary action against officials for not complying with the code of conduct, as they may not be aware of the requirements thereof or claim not to be aware of it and the department will not be able to proof the contrary. It was indicated that due to the fact that it was difficult to get copies of the explanatory manual it was not provided to officials.

## Internal control deficiency

*Leadership*

Oversight responsibility regarding financial and performance reporting and compliance and related internal controls is not exercised

*Information and Communication*

Pertinent information is identified, captured, used at all levels of the company and distributed in a form and timeframe that support the achievement of reporting objectives.

## Recommendation

The department must ensure that they have sufficient copies of the code of conduct to provide it to all officials.

Officials must acknowledge receipt of the code of conduct and the latter must be filed on the employees’ personnel files.

Given the importance of the code of conduct an awareness campaign should be considered.

## Management response

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

* The Department explained the contents of the Code of Conduct booklet to all new employees when the booklets were introduced to Departments and employees were issued with copies of the Code during induction because the Public Service Commission (PSC) printed enough stock for all the Departments.
* Most of the old employees and some of the new employees have been informed about the purpose of the Explanatory Manual on the Code of Conduct for the Public Service, its scope and how it should be used. The Department used to keep enough stock for all employees and prospective employees.
* Currently the Department experiences a shortage of the Code of Conduct booklets because they were obtained from the Public Service Commission (PSC) and the PSC has informed the Department that they are not reprinting because the Code is being reviewed.
* Despite the above review, the Department shall access the Code from the PSC website and print copies.
* The Department commits to include the Code in its Induction Programme in order to ensure that all the employees (old and new) know the Code and that the training shall be recorded accordingly.

*Name:* R Mostert on behalf of Mr G Makhubela

*Position: Director: HRA*

*Date: 1/4/2011*

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

* The Department acknowledges the audit finding. Copies of the Code of Conduct were received from the Public Service Commission (PSC) which has since indicated that they are no longer reprinting copies because the Code of Conduct is being reviewed. In order to mitigate this, the department will download the document and sent it out to all employees via e-mails.
* The Department   will embark on an awareness campaign after the Code of Conduct has been reviewed and communicated to departments by Public Service Commission. In the interim the Code of Conduct will form part of the package of Induction Programme

*Name:   Mr G Makhubela*

*Position:  Director: LRM*

*Date: 1/4/2011*

## Auditor’s conclusion

Although management indicated that they disagree with the finding their response is perceived as being in agreement with the finding. Matter remains unresolved.

# Information not submitted for disclosed debtors balances

## Audit finding

Section 41 of the PFMA requires that *“An accounting officer for a department must submit to the relevant treasury or the Auditor General such information, returns, documents, explanations and motivations as may be prescribed or as the relevant treasury or the Auditor General may require.”* Detailed reports supporting the debtors balances i.e. details for opening balances and movements during the year has been requested and has not been received to date, (except for Municipal services, which has been received on 24 June 2011). Therefore we could not verify the debtors balances disclosed in the annual financial statements. The attached annexure indicates the debtor’s balances as disclosed. This could result in misstatements in the financial statements

| **OUTSTANDING DEBT AS AT 31 MARCH 2011** | | | | | | |
| --- | --- | --- | --- | --- | --- | --- |
| **DEPARTMENT** | **Accommodation charges** | **Private leases** | **Municipal services** | **Project Accelerated Capital Expense** | **Current Assets** | **Total debt** |
|  | **R'000** | **R'000** | **R'000** | **R'000** | **R'000** | **R'000** |
| Agriculture, Forest and Fish | 393 | 4,457 | 21,000 | - | - | **25,850** |
| Arts and Culture | - | 6,190 | 1,509 | 18,375 | - | **26,073** |
| BCIP | - |  | - | - | 912 | **912** |
| Communications | - | 351 | 1,388 | - | - | **1,739** |
| Correctional Services | - | 8,114 | 14 | 24,796 | - | **32,924** |
| Defence | - | 2,247 | 88,690 | 6,107 | 81,663 | **178,707** |
| Coop govt and traditional affairs | - | 3,018 | 2,180 | - | 9,455 | **14,654** |
| Education |  |  | 2,368 | - | 875 | **3,243** |
| Environmental Affairs & Tourism | 2,459 | 1,432 | 2,208 | - | 2,987 | **9,086** |
| Inter relation and coop | 7,258 |  | 13,941 | - | 59,614 | **80,814** |
| Inter relations and coop (Gallagher Estate) | - |  | - | - | - | **-** |
| Pan African Parliament | - |  | - | - | - | **-** |
| Gender Equality Commission | - | 5,483 | 1,740 | - | 14 | **7,236** |
| Government Communications | 3 | 7,304 | 54 | - | - | **7,361** |
| Government Printing | - |  | - | - | 48,549 | **48,549** |
| Higher Education and Training | 77 | 10,761 | 823 | - | - | **11,661** |
| Health | 30,251 | 32,151 | 3,910 | 2,634 | - | **68,947** |
| Home Affairs | 8,019 | 69,138 | 40,480 | - |  | **117,638** |
| Human Settlement | - | 469 | 142 | - | - | **611** |
| Human Rights Commission | - | 3,701 | 252 | - | - | **3,953** |
| Independent Complaints Directorate | 0 | 29,796 | 680 | - | 393 | **30,868** |
| Justice and Constitutional Dev. | 9,070 | 51,506 | 92,221 | 143,828 |  | **296,626** |
| Labour | - | 24,224 | 8,819 | 1,740 |  | **34,783** |
| Land Affairs | - |  | - | - | 1,648 | **1,648** |
| Minerals Resources | - |  | 6,669 | - | - | **6,669** |
| Minerals and Energy | 3,620 | 42,985 | 2,234 | - | - | **48,839** |
| National Prosecuting Authority | - | 18,821 | 2,193 | - | 1,133 | **22,147** |
| National Treasury | - | 12,324 | 5,223 | - | - | **17,548** |
| National Treasury SARS | - |  | - | - | 86 | **86** |
| Parliament | - | 1,542 | - | - | 3,881 | **5,422** |
| Public Enterprises | - |  | 624 | - | - | **624** |
| Public Protector | - | 8,360 | 1,185 | - | 43 | **9,588** |
| Public Service and Administration | - | 7,671 | 690 | - | - | **8,361** |
| Public Service Commission | - |  | - | - | - | **-** |
| Public Works | - | 42,427 | 28,375 | 23,129 | 4,569 | **98,500** |
| Rural Development and land reform | 1 |  | -74 |  |  | **-73** |
| SAMDI/PALAMA | - | 4,951 | 3,079 | - | - | **8,030** |
| SA Police Services | 0 | 284 | 174,806 | 128,257 |  | **303,347** |
| SARS |  |  | 5,153 |  |  | **5,153** |
| SASSA | - | 85,775 | 3,594 | - |  | **89,368** |
| Science and Technology | - | 1,439 | 101 | - | - | **1,540** |
| Social Development | - | 129 | 477 | - | - | **607** |
| Sports and Recreation | 9 | 11,084 | 5,480 | - | - | **16,573** |
| Statistics SA | 130 | 37,961 | 2,397 | - | - | **40,487** |
| Tourism | **-** |  | 628 | - | - | **628** |
| Trade and Industry | 20 | 1,794 | 848 | - | - | **2,662** |
| Transport | - | 11,145 | 403 | - |  | **11,548** |
| Water and environmental Affairs | - |  | 9,123 | - | - | **9,123** |
| Financial and Fiscal Commission | - | 2,305 | 1,210 | - | - | **3,515** |
| SAMAF |  |  | - | - | - | **-** |
| Presidency | - |  | - | - | 77 | **77** |
| SITA | - |  | 2,232 | - | - | **2,232** |
| **TOTAL** | **61,310** | **551,339** | **539,070** | **348,865** | **215,899** | **1,716,484** |

## Internal control deficiency

*Financial performance and management*

Regular, accurate and complete financial and performance reports are not prepared, supported and evidenced by reliable information

## Recommendation

* Debtor’s reconciliations and age analysis’s should be compiled on a monthly basis.
* Reports supporting the age analysis and debtors reconciliations should be compiled and filed so they are easily identifiable.

## Management response

Management response not received.

## Auditor’s conclusion.

Management comments outstanding. Subsequently revised financial statements was resubmitted by management on 7 July 2011 and new findings was issued to management on the revised set of financial statements, therefore this finding is cleared. We will however report this as a non compliance to section 40(1)(c) of the PFMA in the audit report.

# Supporting schedules for the Related Parties disclosure not provided

## Audit finding

In terms of section 41 of the Public Finance Management Act, 1999 (Act no.1 of 1999): *“An accounting officer for a department must submit to the relevant treasury or the Auditor General such information, returns, documents, explanations and motivations as may be prescribed or as the relevant treasury or the Auditor General may require.”* The supporting documentation for the Related Party Disclosure Note had not been provided for audit purposes; therefore we could not verify the disclosures made in the Annual Financial Statements.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **No.** | **Name** | **Nature of Relationship** | **Amount** | **Balance at 31 March 2011** |
| 1 | Vusi Mashiane | Member of Senior Management | R98 000,00 | - |
| 2 | Nokwazi W. Zulu | Member of Senior Management | R27 362 000,00 | R26 268 000,00 |
| 3 | Phelevani P. Cwinza | Member | R360 000,00 | - |
| 4 | Neeltje C.Van Der Hoven | Director | R350 000,00 | - |
| **Total** | | | **R28 170 000,00** | **R26 268 000,00** |

## Internal control deficiency

*Financial and Performance Management*

Pertinent information is not identified, captured, used at all levels of the company and distributed in a form and timeframe that support the achievement of reporting objectives.

## Recommendation

Information supporting the financials should be made available with submitting the Annual Financial Statements to the Auditor-General on 31 May.

## Management response

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

* The documents were available, but were not submitted with the AFS due to an oversight. During the exercise to redo the AFS it was also found that some of the information as on the forms completed by officials were not correctly reflected in the AFS.
* Mr Mashiane’s wife contract was for the period 1 Dec 2008 to 30 Nov 2009 and should not have been reflected as part of the disclosure for the period under review.
* Ms. Van der Hoven listed two projects (landscaping) against her husband’s name, but only one was taken into consideration for the disclosure. She also indicated the outstanding balance as “continuation of services” which was incorrectly disclosed as a zero balance.
* This information has been corrected on the statements submitted on 15 July 2011 and will reflect as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **No.** | **Name** | **Nature of Relationship** | **Amount** | **Balance at 31 March 2011** |
| 1 | Nokwazi W. Zulu | Member of Senior Management | R27 362 000,00 | R26 268 000,00 |
| 2 | Phelevani P. Cwinza | Member | R360 000,00 | - |
| 3 | Neeltje C.Van Der Hoven | Director | R 1 329 000,00 | R 488 301,94 |
| **Total** |  |  | **R29 051 000,00** | **R26 756 301,94** |

Attached, please find the forms supporting this information

Name: Juanita Prinsloo

Position: CD: TA

Date: 18 July 2011

## Auditor’s conclusion

Management comments outstanding. Subsequently revised financial statements were submitted by management on 7 July 2011 and on 15 July 2011. However the information was not amended as indicated by management and the supporting information was also not submitted timeously, therefore the finding remains unresolved.

# Supporting schedules for the restatement of prior year figures outstanding

## Audit Finding

In terms of section 41 of the Public Finance Management Act, 1999 (Act no.1 of 1999): *“An accounting officer for a department must submit to the relevant treasury or the Auditor General such information, returns, documents, explanations and motivations as may be prescribed or as the relevant treasury or the Auditor General may require.”* Inspection of the Annual Financial Statements revealed that the prior year figures were restated. Supporting schedules and documentation was not submitted for audit purposes therefore we could not verify the balances disclosed in the Annual Financial Statements.

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Previously reported 2010** | **Adjustment 2010** | **Restated amount 2010** |
|  | **R’000** | **R’000** | **R’000** |
| Accounts receivable | 2 674 321 | (123 476) | 2 550 844 |
| **Claims recoverable** | 1 770 364 |  |  |
| Debtors - municipal services | 756 019 | (34 914) | 721 105 |
| Claims recoverable | 1 014 345 |  | 1 214 235 |
| Other |  |  | 1 014 277 |
| Recoverable expenditure | 199 890 | 0 | 199 890 |
| Debtor operating lease | 119 224 | 0 | 119 224 |
| **Accommodation debtors** | 584 843 |  | 496 280 |
| Accommodation debtors - State   owned | 113 805 | (10 299) | 103 506 |
| Accommodation debtors - private   leases | 471 038 | (78 264) | 392 774 |

Due to the lack of supporting documentation we were unable to audit the restatement as disclosed for the 2010 comparatives.

## Internal control deficiency

**Financial and Performance Reporting**

Pertinent information is not identified, captured, used at all levels of the company and distributed in a form and timeframe that support the achievement of reporting objectives.

## Recommendation

Information supporting the financials should be captured and submitted with the submission of the Annual Financial Statements by 31 May of the reporting cycle.

## Management response

I am in agreement with the finding for the following reason: *“The AFS submitted on 31 May 2011 were incorrect. The restated opening balances were also incorrect. I reconstruction of the debtors were done and the restatements in the AFS submitted on 7 July 2011 reflects this. Schedules supporting these amounts were submitted with the statements.”*

*Name:* J Prinsloo

*Position: CD: TA*

*Date: 14 July 2011*

## Auditor’s conclusion

Management agrees with the finding. Subsequently revised financial statements was submitted by management on 7 July 2011 and new findings was issued to management on the revised set of financial statements, therefore this finding is cleared. We will however report this as a non compliance to section 40(1)(c) of the PFMA in the audit report.

# High-level review of PMTE annual financial statements

## Audit finding

After a high level review was performed on the Annual Financial Statements (AFS) submitted on 31 May 2011, the following items were identified:

Note: All amounts indicated below are rounded to nearest thousand

1. **Statement of financial position (SoFPos)**
2. Trade and other receivables: Amount on AFS does not agree to the note in the AFS

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Amount as per SoFPos** | **Amount as per Note3** | **Difference** |
| 1. | R2 033 886 | R2 111 280 | (R77 394) |

1. Trade and other payables: Amount on AFS does not agree to the note in the AFS

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Amount as per SoFPos** | **Amount as per Note3** | **Difference** |
| 2 | R1 229 079 | R1 229 080 | (R1) |

1. **Statement of Comprehensive Income (SoCI)**
2. Total for Operating expenses does not cast. As a result of this, the deficit for the year is also incorrect.

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Total in SoCI** | **Amount as per Note3** | **Difference** |
| 1 | R4 772 709 | R4 772 710 | (R1) |

1. **Statement of changes in Equity (SoCE)**
2. Amount included for deficit of the year is not correctly transferred from the amount as per SoFPer.

|  |  |  |  |
| --- | --- | --- | --- |
|  | **SoCE** | **Total in SoCI** | **Difference** |
| 1 | R264 748 | R76 749 | R187 999 |

1. Total amount for SoCE does not cast

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Total as per SoCE** | **Recalculated amount** | **Difference** |
| 1 | R532 308 | R655 783 | R123 475 |

1. **Note 3.1: Receivable Ageing**
2. Amount for “Less than 1 year” does not cast
3. Amount for “Older than 3 years” does not cast

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Amount as per AFS** | **Recalculated amount** | **Difference** |
| 1 | R872 995 | R1 313 490 | (R440 495) |
| 2 | R109 514 | R324 271 | (R214 757) |

1. **Note 7**
2. The information here is factually incorrect. The note indicates that “Deficit for the year is arrived at after taking the following in account: Finance Income – R133. This however is incorrect as this amount was not included in the SoCI.
3. **Note 8: Restatement of Comparatives**
4. This note is factually incorrect and does not balance to zero. The following has been disclosed as changes

|  |  |  |
| --- | --- | --- |
| **Description in Note 8** | **Adjustment as indicated in Note** | **Actual movement on financial statements**  **Debit / (Credit)** |
| Accounts receivable | Decrease with R123 476 | (R123 476) |
| Debtors – Municipal services | Decrease with R34 914 | (R34 914) |
| Accommodation debtors – State owned | Decrease with R10 299 | (R10 299) |
| Accommodation debtors – Private leases | Decrease with R78 264 | (R78 264) |
| **Total impact on financial statements** | **Decrease debtors** | **(R246 953)** |

1. Note is incomplete. IAS 8, par 49 states the following:

*“In applying paragraph* [*42*](http://inmagicserver/nxt/gateway.dll/0b/ae4nb/gmw9b/imw9b/qmw9b/0nw9b?f=templates$fn=document-frame.htm$3.0$q=$x=$nc=6011#g3k)*, an entity shall disclose the following:*

*(a) the nature of the prior period error;*

*(b) for each prior period presented, to the extent practicable, the amount of the correction:*

*(i) for each financial statement line item affected; and*

*(ii) if* [*IAS 33*](http://inmagicserver/nxt/gateway.dll/0b/uc/qeeab/7nktb#g0) *applies to the entity, for basic and diluted earnings per share;*

*(c) the amount of the correction at the beginning of the earliest prior period presented; and*

*(d) if retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.”*

No information was supplied on the nature of the correction or the amount that was restated per line item.

There were changes in the following prior period figures without disclosing the changes:

* Revenue: Decreased with R123 476, whilst nothing was indicated in Note 8
* Trade and other receivables: Decrease of R123 476 and not R246 953 as implied by Note 8

1. **Note 10.2 Irregular expenditure**
2. The amount does not cast

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Amount as per AFS** | **Recalculated amount** | **Difference** |
| 1 | R264 049 | R364 049 | (R100 000) |

1. **Note 14.4**
2. The following amounts does not cast

|  |  |  |  |
| --- | --- | --- | --- |
| **OUTSTANDING DEBT AS AT 31 MARCH 2011** | **Amount as per AFS** | **Recalculated amount** | **Difference** |
| **DEPARTMENT** | **Total debt** |  |  |
|  | **R'000** | **R'000** | **R'000** |
| Arts and Culture | **21 079** | **21 080** | **1** |
| Coop govt and traditional affairs | **12 642** | **12 641** | **1** |
| Inter relation and coop | **72 341** | **72 340** | **1** |
| Higher Education and Training | **901** | **900** | **1** |
| Independent Complaints Directorate | **31 251** | **31 252** | **1** |
| Justice and Constitutional Dev. | **296 624** | **296 623** | **1** |
| Statistics SA | **29 254** | **29 255** | **1** |
| Trade and Industry | **-1 946** | **-1 945** | **1** |

## Internal control deficiency

*Leadership*

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

## Recommendation

* Management should investigate all differences and correct all amounts before final submission of financial statements
* The CFO should perform a high-level review of financial statements before submission to the auditors

## Management response

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

* The AFS submitted on 31 May 2011 were incorrect. Some items were misstated and some amounts on the AFS did not correlate with the supporting schedule to mention some of the challenges
* A new set of Financial Statements was handed to the AG on 7 July 2011 taken the comments of the AG into account

*Name:* J Prinsloo

*Position: CD:TA*

*Date: 14 July 2011*

## Auditor’s conclusion

Management agrees with the finding. Subsequently revised financial statements was resubmitted by management on 7 July 2011 and new findings was issued to management on the revised set of financial statements, therefore this finding is cleared. We will however report this as a non compliance to section 40(1)(c) of the PFMA in the audit report.

# No financial system in place and a lack of documented policies and procedures

## Audit finding

Paragraph f of the business case for interim mechanism of the PMTE approved by the National Treasury on14 March 2006 states that: “*During the first year of operation of the trading entity the Department of Public Works must seek approval from National Treasury to establish a fully fledged trading entity by 01 April 2007, which would comply with all conditions for trading entities contained in Treasury Regulations 19.*”

Treasury Regulation 18.2 applicable to trading entities and constitutional institutions states the following:

“Annual Financial Statements must consist of—

(a) a balance sheet (statement of financial position);

(b) an income statement (statement of financial performance);

(c) a cash flow statement;

(d) notes to the annual financial statements; and

(e) such other statements as may be determined by the National Treasury.

The Annual Financial Statements must be accompanied by the audit opinion of the Auditor-General.

The Annual Financial Statements must conform with generally accepted accounting practice.

These statements must fairly represent the financial position at the end of the financial year concerned and cash flows of the institution for the year then ended.

Should these statements materially depart from the Statements of GAAP, the financial statements must provide a disclosure of the departure, the particulars thereof, the reasons therefore and the effect of such a departure on the financial statements.

The Annual Financial Statements must, by means of figures and a descriptive report, explain any other matters and information material to the affairs of the institution.”

As per International Accounting Standard 1.27 an entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting.

Presently the entity is recording transactions on the modified cash basis of accounting and the entity does not have a formal system in place to identify and record transactions on the accrual basis of accounting.

This could result into significant adjustments at the year end and may also result in material misstatement of the financial statements leading in turn to potential audit qualification.

Although cognisance is taken of the fact that management cannot procure a new financial system at whim, it appears that management has not performed a comprehensive, high-level assessment of the risks involved in utilising information systems for financial reporting purposes that do not enable the entity to comply with financial reporting framework and taken sufficient action to try and mitigate these risks. Furthermore the PMTE does not have documented policies and procedures in place.

In gaining an understanding of the business, the audit team had discussions with management to discuss the business processes of the PMTE. Based these business processes were documented and submitted to management to verify as correct. The approved business processes were evaluated by the audit team to determine if the business processes were adequately designed and implemented. Based on our evaluations the following were identified:

1. Financial Statements business process

The procedures for closing of accounts on the system and closing journal entries that are made at year end are not documented. All the accounts that are disclosed in the financial statements are not listed on business process and furthermore the business process does not specify which components /account balances are affected by inputs received from regional offices.

1. Disclosure Notes - Fruitless and wasteful, and irregular expenditure

The business process pertaining to fruitless and wasteful, and irregular expenditure indicates that the finance section will use the compiled Irregular Expenditure register as at 31 March for disclosure purposes and that a Deputy Director (DD) will verify and review the completed template and spreadsheet and compare it to all inputs submitted for correctness, completeness and reliability however it does not indicate whether or not there is a delegated official who on a monthly basis inspect the necessary documentation to search for and identify any fruitless and wasteful or irregular expenditure to ensure completeness. A spread sheet alone that is only reviewed at financial year end is not adequate enough to ensure completeness.

This is evidenced by the qualification in the prior year audit report which indicated that the entity does not have adequate systems and procedures in place to identify and record irregular expenditure and as a result of the inadequacy of the systems we were unable to obtain sufficient appropriate audit evidence to verify the completeness of the irregular expenditure disclosed Annual Financial Statements and furthermore the entity’s accounting records and system did not permit the application of alternative procedures to verify the completeness of irregular expenditure.

The impact on the financial statements could be material as unauthorised, irregular and fruitless and wasteful expenditure could be misstated. Inadequate controls or process in place over the identification of irregular expenditure could result in the lack of prescribed disciplinary actions against officials responsible being taken in turn resulting in non-compliance with the PFMA section 38(h).

1. Payables

The entity does not have a proper system in place to identify and recognise accounts payable and furthermore the business process does not address the process of sending and obtaining confirmations of inter departmental payables/accounts payable.

This could have a negative impact on the completeness and correctness of the valuation of the payables to be disclosed in the financial statements

1. Revenue Accommodation charges

The business process for revenue accommodation charges (leasing income) states that the consideration is recognised when the amount is received and not when the service is rendered. The business process is in contravention to International Accounting Standard 18 which requires revenue from the rendering of services to be recognised in the accounting period in which the service is rendered and not when revenue is received.

Incorrect accounting treatment of revenue could result in understatement of revenue being recognised in the financial statements.

1. Revenue 5% Management fee

During the review of the business for revenue management fee we noted that the process only addresses the calculation of the management fee and receipt of amount from the client department and it does not address revenue recognition principles in line with the International Accounting Standards.

1. Receivables

While reviewing the business process for receivables we noted that the process does not describe when the receivable is recognised and furthermore the process does not take into account the accrual basis of accounting.

We noted further that the process followed by the finance section to raise a debtor is not documented clearly as it only describes the submission and process of the progress payment.

Furthermore there is no documentation of reconciliation of receivables, accounting entries and how the account balance is/should be disclosed in the financial statements.

A lack of documented policies and procedures may result in material errors in the financial statements; invalid or unauthorised entries could remain undetected for a long period and if not timeously followed up and corrected it could result in financial losses for the PMTE.

This finding occurred mainly as a result of insufficient prioritisation of addressing the risk of not having a specific set of documented policies and procedures that is only applicable to the trading entity. In addition to the aforementioned the trading entity does not have a sufficient staff compliment that is knowledgeable and experienced in GAAP accounting matters.

The PMTE has used consultants to assist in this area however there is inadequate evidence of skills transfer at this point in time.

## Internal control deficiency

*Financial and performance management*

Systems are not appropriate to facilitate the preparation of the financial statements.

*Leadership*

* Decisive action to: mitigate emerging risks, implement timely corrective measures and address non performance.
* Actions are not taken to address risks relating to the achievement of complete and accurate financial and performance reporting.

## Recommendation

* Management should urgently take the required steps to procure a financial system which will facilitate recording and reporting on the accrual basis of accounting. Cognisance is taken of the fact that certain actions have been taken in respect of this process however all possible steps must be taken to expedite this process.
* Until such time as the required financial system is in place, compensating controls in the form of adequate processes and procedures must be put in place without delay to identify and record transactions on an accrual basis of accounting (even if such accounting must be done manually until an appropriate system has been procured).
* Policies and procedures covering all processes and aspects of the trading entity should be drafted as a matter of urgency and approved in terms of the delegations of authority. These policies and procedures should be communicated to staff effectively. Management should ensure that there is thorough understanding by all staff members and that they have then necessary skills and experience to carry out their responsibilities in an effective and efficient manner.
* A committee should be formed to deal with all cases that could potentially result in irregular/fruitless and wasteful expenditure and they should be documented in a noted case register which should be followed up on a regular basis to ensure that corrective measures are put in place and disciplinary action taken where necessary.
* Management must ensure that sufficient and appropriate audit evidence can be provided to the audit team to satisfy them that subsequent to the audit qualification in the prior year management has inspected and interrogated the entire expenditure population of the previous year (09/10 financial year) and identified and disclosed any additional irregular expenditure. Failure to provide the required evidence in this regard will automatically lead to a repeat audit qualification in this area.

## Management response

Management has identified the issues raised above which relates mainly to the change over from Modified Cash basis of accounting to the accrual basis of accounting. As the changeover was effected to the 2009/2010 financial statements, the process of the change from modified cash basis are currently being addressed as follows:

**2010/ 2011 year**

The procedures for the preparation of SA GAAP compliant financials is being formalized and documented. This includes a complete overhaul of the year end reporting process and documentation in line with the requirements of SA GAAP. The yearend processes will then be incorporated into monthly processes where appropriate during the 2011/2012 financial year. During this process, identified gaps are attended to and the process fine tuned in order to close all identified gaps.

**2011/2012 year**

Following the detailed 2010/2011 year end process and the experience gained during that process, detailed policies and procedures will be put in place to enable the PMTE to operate a proper SA GAAP financial process. Included in this process, will be the acquisition of an appropriate SA GAAP compliant accounting system to streamline the accounting activities of the PMTE. The acquisition process will be subject to the appropriate system acquisition processes applicable to the PMTE, and all effort will be made to have the new operational by the end of the 2011/2012 financial year. The final policies will also be influenced by the way the new accounting system works in order to ensure continued compliance with SA GAAP.

## Auditor’s conclusion

The management comments are noted and it is clear that management are implementing processes to address the gabs identified. The fact that there is no formal system in place to address accrual basis of accounting has resulted in so many deficiencies that we identified during the audit of the current year financial statements. Management should prioritise addressing these deficiencies to avoid a modified audit report in future.

# Lack of supporting documentation for construction

#### North West

## Audit finding

*In terms of the Treasury Regulations: Section 16A6.3” The accounting officer or accounting authority must ensure that –*

1. *Bid documentation and the general conditions of a contract are in accordance with-*
2. *The instructions of the National Treasury; or*
3. *The prescripts of the Construction Industry Development Board, in the case of a bid relating to the construction industry;*

We did not obtain the tender documentation for the following:

(Error rate 5%)

|  |  |  |  |
| --- | --- | --- | --- |
| **DATE** | **ITEM DESCRIPTION** | **CONTRACTOR** | **VALUE** |
| 2010/09/30 | CONTRACTOR PAYMENT | AURECON SOUTH AFRICA (PTY) LTD | R304 536 |
| 2010/06/10 | CONTRACTOR PAYMENT | AURECON SOUTH AFRICA (PTY) LTD | R154 971 |
| 2010/05/13 | CONTRACTOR PAYMENT | AURECON SOUTH AFRICA (PTY) LTD | R109 385 |
| 2010/06/21 | CONTRACTOR PAYMENT | AURECON SOUTH AFRICA (PTY) LTD | R55 396 |
| 2010/07/13 | CONTRACTOR PAYMENT | AURECON SOUTH AFRICA (PTY) LTD | R26 179 |
| 2010/05/07 | CONSULTANT PAYMENT | RABANA ARCHITECTS (PTY) LTD-HEAD | R74 928 |
|  |  | **TOTAL** | **725 395** |

Potential impact of the finding rose above on the Statement of financial performance

* Possible irregular expenditure of R725 395.
* Limitation of scope

## Internal control deficiency

**Financial and Performance Management**

*Proper record keeping and record management*

* The documents supporting the above are not properly filed or easily retrievable.
* Requested information was not available and supplied without any significant delay.
* The impact of this lack of systems is that we have been unable to obtain sufficient appropriate audit evidence on which to base our audit opinion on these disclosures.

## Recommendation

The accounting authority should perform regular monitoring over the safekeeping of accounting records.

## Management response

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

* The following tender documentation were submitted and signed to AG on 11/05/2011:

| **DATE** | **ITEM DESCRIPTION** | **CONTRACTOR** | **VALUE** |
| --- | --- | --- | --- |
| 2010/09/30 | CONTRACTOR PAYMENT | AURECON SOUTH AFRICA (PTY) LTD | R304 536 |
| 2010/06/10 | CONTRACTOR PAYMENT | AURECON SOUTH AFRICA (PTY) LTD | R154 971 |
| 2010/05/13 | CONTRACTOR PAYMENT | AURECON SOUTH AFRICA (PTY) LTD | R109 385 |
| 2010/06/21 | CONTRACTOR PAYMENT | AURECON SOUTH AFRICA (PTY) LTD | R55 396 |
| 2010/07/13 | CONTRACTOR PAYMENT | AURECON SOUTH AFRICA (PTY) LTD | R26 179 |
| 2010/05/07 | CONSULTANT PAYMENT | RABANA ARCHITECTS (PTY) LTD-HEAD | R74 928 |

The documents are available for submission.

*Name: A T Matseke*

*Position: DD: Finance and SCM*

*Date: 18 March 2011*

## Auditor’s conclusion

The documents submitted were for payment batches and not the tender documentation. The finding remains valid as no tender documentation has been received.

# Winning bidders not advertised for “Planned Maintenance”

#### North West

## Audit finding

In terms of Treasury Regulation 16A6,3(d): *“The accounting officer or accounting authority must ensure that awards are published in the Government Tender Bulletin and other media by means of which the bids were advertised”.* We noted a deviation pertaining to planned maintenance in that the Department did not publish the winning bidder in the government tender bulletin or other media by means of which the bids were advertised for the following contracts awarded:

| **NO** | **WCS NO.** | **TENDER NO** | **DESCRIPTION** | **WINNING BIDDER** | **VALUE** | **Total Payments made in the current year** |
| --- | --- | --- | --- | --- | --- | --- |
| 1 | WCS 043800 | MB09/030 | MAKWASSIE POLICE STATION | MT CONTRACTS | R1 798 587 | 1,468,896.15 |
| 2 | WCS 042010 | MB09/018 | KLERKSDORP PRISON | SUPERSUU CAR WASH & PROJECTS CC | R2 035 009 | 1,444,671.81 |
| 3 | WCS 043814 | MB09/028 | MOGWASE POLICE STATION | SANIKI TRADING | R5 797 529 | 5,820,779.05 |
| 4 | WCS035251 | MMB08/007 | PHOMOLONG POLICE STATION | TOKOLOGO TECHNICAL ASSIGNMENTS CC | R670 538 | 109,861.87 |
| 5 | WCS043796 | MB09/026 | RUSTENBURG-SAPS WESTERLAND FLATS | SUNRISE ELECTRICAL | R16 460 451 | 6,015,136.61 |
| 6 | WCS041508 | MMB09/38 | OTTOSHOOP POLICE STATION AND QUARTERS | TML BUILDING ENTERPRISE CC | R1 398 536 | 10,260.00 |
| 7 | WCS044721 | MMB/08/062 | ROOIGROND PRISON | LEE MINING INVESTMENTS (PTY) LTD | R15 369 916 | 7,778,195.70 |
| 8 | WCS043807 | MB09/027 | BRAY POLICE STATION | GMD PROJECTS CC | R2 274 450 | 1,598,954.37 |
| 9 | WCS042502 | MB08/045 | MADIKWE MAGISTRATE OFFICE | LOMBONI CIVIL AND MANITENANCE JV | R4 529 867 | 2,067,576.61 |
| 10 | WCS045841 | MMB09/036 | POTCHEFSTROOM AREA SUPPORT BASE | KBLT TRADING ENTERPRISE | R4 272 922 | 3,000,662.52 |
| 11 | WCS038392 | MMB09/001 | PUBLIC PROTECTOR BUILDING | DESTINY REAL ESTATES & CONSTRUCTION | R4 004 423 | 3,070,180.93 |
| 12 | WCS035249 | MMB07/007 | PHOMOLONG POLICE STATION | TOKOLOGO TECHNOLOGICAL ASSIGNMENTS CC | R670 538 | 107,809.41 |
| 13 | WCS040708 | MMB09/39 | CHRISTINA PRISON | PAXAIR PROJECTS | R6 331 148 | 1,364,546.52 |
|  | **TOTAL** |  |  |  | **R66 284 578** | **33,857,531.55** |

Potential impact of the finding rose above is a non-compliance with Treasury Regulations 16A6.3 as the procurement personnel did not adhere to the controls stipulated in the Treasury Regulations and therefore neglecting their duties and responsibilities.

## Internal control deficiency

*Leadership*

* The accounting authority does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.
* The Property Management Trading Entity did not have sufficient monitoring controls to ensure the proper implementation of the overall tendering process.

## Recommendation

Management should ensure that sufficient internal controls are in place to ensure compliance with Treasury Regulation 16A6.3.

## Management response

I am in agreement with the finding for the following: The department did not publish the winning bidder in the government tender bulletin or other media by means of which it was advertised due to financial implications.

*Name:* Mr. A.T. Matseke

*Position: DD: Finance & SCM*

Date: 17 June 2011

## Auditor’s conclusion

Managements response is noted, finding remains valid. This will be recorder as an irregular expenditure and will also form the basis of our audit opinion.

# Less than three price quotations were received from suppliers

#### Polokwane

## Audit finding

Goods and services with a transaction value of between R10 000 and R500 000 were procured without inviting at least three written price quotations from prospective suppliers. This is contrary to the requirement of Practice Note 8 of 2007-08 issued in terms of section 76(4)(c) of the PFMA. The table below depicts examples of our findings.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **No** | **Date of the award** | **Name of supplier** | **WCS Code** | **Description** | **Contract amount** | **Payments made in the current year** |
| 1 | 18/03/2010 | Ichtus studio and NMK Construction | 047490 | Dendron SAPS - facilities for the disabled | R192 786.59 | R54 944,18 |
| 2 | 10/03/2010 | Mphashi Business Enterprise | 047514 | All days SAPS - facilities of disabled people | R185 815.44 | R22 948,21 |
| 3 | 09/03/2010 | Mphashi Business Enterprise | 047518 | Waterpoort SAPS - facilities for disabled | R169 109.88 | R8 455,38 |
| 4 | 18/03/2010 | N M K Construction | 047496 | Senwsbarwana SAPS - Facilities for disabled | R266 786.00 | R76 034,01 |
| \*5 | 09/03/2010 | Mphashi Business Enterprise | 047523 | Saambourug - Facilities for disabled | R180 582.84 | R9 029,14 |
| **Total** | | | | | **R995 080.75** | **R171 410,92** |

**Note:** The discrepancies were identified based on sample reviews; a detailed review may reveal further discrepancies.

Procurement without inviting at least three price quotations is non-compliance of laws and regulation; furthermore this amounts to irregular expenditure.

## Internal control deficiency

*Financial and performance management*

* The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.
* The official responsible for procurement did not obtain three price quotations for transactions to the value from R30 001 to R500 000.

## Recommendation

The Regional office should controls, processes and monitoring mechanisms to ensure that all legislation, acts, practice notes etc. pertaining to procurement and contract management are complied with. Irregular expenditure identified need to be disclosed in the annual financial statements.

## Management response

Agree with the audit finding; we had the same finding in the year 2009/10 and an action plan was put in place during 2010/11 to ensure there is no re-occurrence. The action plan is working effectively, the finding above where we failed to obtain three quotations; reasons are recorded and approved by accounting officer as per the SCM policy.

*Name: Lucas Serepo*

*Position: D.D. Finance and SCM*

*Date: 25/05/2011*

## Auditor’s conclusion

Management agree with the audit finding and recommendation. This is a non compliance with section 76(4)(c/) of the PFMAand will be reported as a non compliance in the audit report.

# Irregular expenditure incurred not disclosed

#### Johannesburg

## Audit finding

Treasury Regulation 9 stipulates the following:

9.   Unauthorised, irregular, fruitless and wasteful expenditure

9.1 General [Sections 38 (1) (*g*) and 76 (2) (*e*) of the PFMA]

9.1.1 The accounting officer of an institution must exercise all reasonable care to prevent and detect unauthorised, irregular, fruitless and wasteful expenditure, and must for this purpose implement effective, efficient and transparent processes of financial and risk management.

9.1.2 When an official of an institution discovers unauthorised, irregular or fruitless and wasteful expenditure, that official must immediately report such expenditure to the accounting officer. In the case of a department, such expenditure must also be reported in the monthly report, as required by section 40 (4) (*b*) of the Act. Irregular expenditure incurred by a department in contravention of tender procedures must also be brought to the notice of the relevant tender board or procurement authority, whichever is applicable.

Section 38 (1) (g) and 40 (4) (b) of the PFMA stipulates:

38.   General responsibilities of accounting officers.—

(1)  The accounting officer for a department, trading entity or constitutional institution—

(*g*) on discovery of any unauthorised, irregular or fruitless and wasteful expenditure, must immediately report, in writing, particulars of the expenditure to the relevant treasury and in the case of irregular expenditure involving the procurement of goods or services, also to the relevant tender board;

40.   Accounting officers’ reporting responsibilities.—

(1)  The accounting officer for a department, trading entity or constitutional institution—

(4)  The accounting officer of a department must—

(*a*) each year before the beginning of a financial year provide the relevant treasury in the prescribed format with a breakdown per month of the anticipated revenue and expenditure of that department for that financial year;

(*b*) each month submit information in the prescribed format on actual revenue and expenditure for the preceding month and the amounts anticipated for that month in terms of [paragraph (*a*)](http://inmagicserver/nxt/gateway.dll/jilc/kilc/xjsg/7zkfb/8zkfb/c1kfb?f=templates$fn=document-frameset.htm#m); and

The following irregular expenditure identified has not been disclosed in the Annual Financial Statements as at 31st March 2011:

|  |  |  |
| --- | --- | --- |
| **Service Provider** | **Amount** | **Exception** |
| Yikusasa Building Contractors | 231,564,397.94 | Exception 9 |
| Realeka Investments | 50,210,432.87 | Exception 11 |
| Kwagga Holdings | 5,321,810.70 | Exception 27 |
| Kwagga Holdings (Pty) Ltd | 1,630,330.00 | Exception 28 |
| Matlapa Suppliers Contractors | 10,215,246.45 | Exception 29 |
| SA Eagle Building | 1,192,536.00 | Exception 12 |
| ERF 1332 Carletonville Extension 2 (Pty) Ltd | 2,760,624.00 | Exception 13 |
| Woflex Investments | 22,538,819.48 | Exception 14 |
| Wilstan Holdings | 41,369.51 | Exception 38 |
| Stand 1690 Van Riebeek Park | 666,574.02 | Exception 39 |
| Hostprops 85 (Pty) Ltd | 2,234,559.60 | Exception 41 |
| Broll | 6,583,037.51 | Exception 42 |
| Zaakir Investments CC | 82,412.88 | Exception 44 |
| **TOTAL** | **R 335 042 150,96** |  |

Due to the aforementioned the completeness and compliance of the transactions could not be confirmed. Potential impact of the finding rose above:

* Audit report: Emphasis of matter paragraph
* Disclosure notes: Irregular expenditure may be materially misstated
* Compliance with laws and regulations: Non compliance with PFMA Section 38 and 40 and Non Compliance with Treasury regulation 9

## Internal control deficiency

*Financial and performance management*

* Quality, reliable monthly financial statements and management information
* The financial statements and other information to be included in the annual report are not reviewed for completeness and accuracy prior to submission for audit.

## Recommendation

* Management should ensure a system is in place to detect irregular and record accordingly.
* Information disclosed in the Annual Financial Statements should be reviewed prior to submission for accurate disclosure.

## Management response

I am in agreement with the finding for the following reason: “The irregular expenditure identified as per the schedule above will be disclosed in the Annual Financial Statements when the period of adjusting the inputs (over’s/unders) to the annual financial statements.

*Name: NG Mudau*

*Position: Deputy Director: Finance*

*Date: 22 June 2011*

## Auditor’s conclusion

Management agrees with the finding. This will be reported as irregular expenditure and will be included in the audit report. This will also form the basis of our audit opinion.

# Planned maintenance variation orders not authorised by delegated official

#### Pretoria

## Audit finding

In terms of Section 38 (1)(c)(ii) of the PFMA states the following under the general responsibilities of the accounting officers: "The accounting officer for a department, trading entity or constitutional institution, must take effective and appropriate steps to prevent unauthorised, irregular and fruitless and wasteful expenditure and losses resulting from criminal conduct....".

Furthermore, In terms of the approved business process: Phase 9: General Administrative Matters to be performed function 2 Recording and processing

* For extension of work scope, Variation orders (VO’s) financial management – Project Manager (PM) ensures that there is a need for additional works with client and submits motivation to National Bid Adjudication Committee (NBAC)  for approval.
* NBAC approves the additional works and sent approval to PM
* PM Receives approval and request fund authorisation from Budget Section on form PRM039
* Budget section approves the funds and sent forms back to PM
* PM will sent from PRM039 to Director: Special and Major Projects (D:SMP) for the approval of the Variation Orders (VO)
* D:SMP approves the Variation Orders on forms VO PRM037 and 038 and sent it back to PM

Upon inspection of the variation orders submitted, it was noted that Variation Order Number 1 to 12 of contract PT08/038 (WCS 043918) aggregating to amount of R181 515 452,38 was awarded to GVK Siyazama Building Contractors.

In respect of the above mentioned contract, the following documents were neither signed as authorised by any official of the PMTE nor the consultant responsible for the project:

* Variation order: Motivation
* Variation order

It is further noted that the variation orders of R181, 515,452.38 are above the original contracted amount as per tender of R68 155 082.97. This represents a 167% increase on the original tender amount and this variation order should be considered excessive and could indicate a lack of proper planning of resources when the project was initially commissioned.

## Internal control deficiency

## *Leadership: Oversight responsibility*

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

## Recommendation

Delegated officials/authority should be reminded of the importance of reviewing and authorizing documents. Departmental officials should adhere to the approved business processes. Furthermore, it must be noted that for budgeting purposes, when a contract is first advertised, all reasonable foreseeable costs should be budgeted for so that the correct contract amount is approved by the correct official designation.

## Management response

I am not in agreement with the finding. All VO’s were submitted to the Special Bid Adjudication Committee, CFO and the office of the DG for approval

*Name: Thulasizwe Masina*

*Position: Acting Director: Projects Management*

*Date: 25/07/2011*

## Auditors’ conclusion

The management response is noted. The approvals as indicated by management have not been submitted for audit purposes. This finding therefore remains a valid finding. The variation order will be treated as an irregular expenditure.

# SBD 4 has not been submitted with the bid documentation

## Audit finding

Paragraph 16A8.3 of the Treasury Regulations states that *"*A supply chain management official or other role player must recognise and disclose any conflict of interestthat may arise.

Practice Note 7 of 2009/2010with effect from 02 October 2009 states that accounting officers and accounting authorities are required to utilize the revised SBD 4 when inviting **price quotations, advertised competitive bids, limited bids or proposals.** This SBD 4 should be used with minimum changes that are necessary to address contract and project specific issues.

The declaration of interest (PA-11) of the following tenders was attached to tender documents which deal with Declaration of Bidder's past Supply Chain Management practices (SBD 8). The format of the PA-11 is not aligned with the practice note. As a result, there are a few questions that are included in the practice note questionnaire that have not been addressed in the PA-11 such as the following question: “*Did you or your spouse, or any of the company’s director’s shareholders / members or their spouses conduct business with the state in the previous twelve months*? “

Cognisance is taken of the fact that in substance, the issues addressed in the Practice Note are similar to those included in the PA-11 form; however, the Department is required to comply with the practice notes issued by the National Treasury. The PA-11 form has included the following paragraph “Failure to complete this form in full and signed by the duly authorised person, as indicated on PA-15.1 or PA 15.3, shall render the tender non-responsive and will be removed from any and all further contention.

The Practice Note was issued on 2 October 2009 for compliance with ethical standards and avoiding abuse of the supply chain management system and the tenders were awarded on a date subsequent to the practice note as indicated on the table below:

|  |  |  |  |
| --- | --- | --- | --- |
| **Tender number** | **Supplier** | **Dates of contract** | **Tender amount** |
| H09/062 | Botes en Kennedy Manyano (Pty) Ltd | 07 February 2010 | R41,314,448.40 |
| H10/011 | Sikona Building Contractors | 31 August2010 | R16,062,483.31 |
| H09/074 | Yikusasa Building Contractors | 30 December 2009 | R34,914,627.81 |
| HP10/027 | Corefocus (Pty) Ltd | 21 July 2010 | R1 008 786,00 |
| HS10/003 | Sekela Consulting (Pty) Ltd | 8 June 2010 | R23 745 198,00 |

The Department does not have a formal process in place to align the Practice Notes with the official documents of the Department.

Non compliance with Treasury Regulation and PFMA which could result in irregular expenditure

## Internal control deficiency

*Oversight responsibility*

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

## Recommendation

Management must assign the responsibility of aligning standard documents of the Department with the practice notes to the Supply Chain Management division and management must monitor compliance thereof.

## Management response

Management agrees with the finding. The department has already identified this oversight and has aligned the PA11 to the SBD 4 and SBD 8. Please see attached minutes as evidence and the new reviewed form PA11

## Auditor’s conclusion

This is a non compliance with the Treasury Regulations and is therefore treated as a non compliance and will be reported in the audit report.

# SBD 8 forms not submitted with the bid documentation

## Audit finding

In terms of Practice Note SCM 4 of 2006 “the bidders are required to complete SBD 8, sign the declaration and submit the form with each bid. The information furnished by the bidder should be used to ensure that when goods and services are being procured or disposed of, all reasonable steps are taken to combat the abuse of the supply chain management system. It must be used for all bids invited with effect from 1 April 2006.”

Inspected a tender file H06/034 for Superway Construction (Pty) Ltd (contract value R95 104 000) and determined that the PA-11 Declaration of Interest form was attached but the questionnaire included in document does not address the requirements of SBD8. The following questionnaires were not included in PA11 declaration form in the terms of SBD8:

|  |  |
| --- | --- |
| 8.1 | Is the tenderer / bidder or any of its directors listed on the National Treasury’s database as companies or persons prohibited from doing business with the public sector? (Companies or persons who are listed on this database were informed in writing of this restriction by the National Treasury after the audi alteram partem rule was applied). If so furnish particulars |
| 8.2 | Is the tenderer / bidder or any of its directors listed on the Register for Tender Defaulters in terms of section 29 of the Prevention and Combating of Corrupt Activities Act (No 12 of 2004)? To access this Register enter the National Treasury’s website, www.treasury.gov.za, click on the icon “Register for Tender Defaulters” or submit your written request for a hard copy of the Register to facsimile number (012) 3265445. If so furnish particulars |
| 8.3 | Was the tenderer / bidder or any of its directors convicted by a court of law (including a court outside of the Republic of South Africa) for fraud or corruption during the past five years? If so furnish particulars |
| 8.4 | Was any contract between the tenderer / bidder and any organ of state terminated during the past five years on account of failure to perform on or comply with the contract? If so furnish particulars |

Declaration of Interest was signed by the Tenderer on 17 August 2006 and tender was advertised on 21 July 2006. The Practice Note was effective on 01 April 2006 and therefore this tender was issued after its effect and should have complied with the Practice Note. The Declaration of Interest (PA-11) was not aligned with Practice Note SCM 4 of 2006(SBD8) due to the fact that the Department does not have a formal process in place to align the Practice notes with the official documents of the Department. Non compliance with Treasury Regulation and PFMA which could result in irregular expenditure.

Regions affected by this finding

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **PTA** | **Polokwane [LIM]** | **PE** | **Nelspruit** | **Mmabatho [NW]** | **Kimberley [NC]** | **JHB** | **DBN [KZN]** | **CPT [WC]** | **Bloemfontein** | **EC [Umtata]** |
|  |  |  |  |  |  |  |  |  |  |  |

Financial impact of the Regions:

|  |  |  |
| --- | --- | --- |
| **Name of Region** | **Tender/WCS number** | **Payments to date** |
| Nelspruit | 35764 | 5 345 069,00 |
| Nelspruit | 38308 | 15 463 827,00 |
| Nelspruit | 44125 | 6 071 557,00 |
| Bloemfontein | 015518 | 3 250 419,15 |
| Bloemfontein | 043244 | 2 072 005,84 |
|  | **TOTAL** | **32 202 877,99** |

The amount should be treated as an irregular expenditure as the supplier did not complete the SBD8 and there was no alternative form that was signed by the suppliers.

## Internal control deficiency

*Oversight responsibility*

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

## Recommendation

Management must assign the responsibility of aligning standard/official documents of the entity with the practice notes to the SCM division and management must monitor compliance thereof.

## Management response

Management agrees with the finding. The department has already identified this oversight and has aligned the PA11 to the SBD 4 and SBD 8. Please see attached minutes as evidence and the new reviewed form PA11

## Auditor’s conclusion

This is non compliance with the Treasury Regulation and will be reported as a non compliance in the audit report.

# PA-01 Procurement Strategy not attached

## Audit finding

The PFMA s38(1)(a) states the following under the general responsibilities of accounting officers: "The accounting officer for a department, trading entity or constitutional institution.....must ensure that that department, trading entity or constitutional institution has and maintains.....an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost-effective".

Procurement Strategy (PA- 01) indicates the estimated value of the project, the CIDB contractor grading designation required, form of contract to be used, tender/quote criteria, the evaluation method for responsive tenders that will be applicable, responsive criteria, bid specification and evaluation committee members and the tender advertisement period.

As indicated above some of the major aspects indicated in the Procurement Strategy are the estimated value of the project, the grading required and the evaluation method. These requirements are critical to any awarding of a tender as it will assist management to avoid discontinuation of project due to unavailability of funds, awarding the tender to a contractor who does not have the necessary grading and as a result cannot deliver and having an evaluation method that will assist in the evaluation your tender and awarding it to the right candidate.

In the absence of any Procurement Strategy being attached we were therefore unable to determine, for audit purposes, the Procurement Strategy to be used for the following supplier:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **No** | **WCS No** | **Service Provider** | **Tender No** | **Contract Amount (R)** |
| 1 | 47689 | Yikusasa Building Contractors | H09/074 | 38 151 272.27 |

The records kept by the Department are not always well maintained due to employees not realising the impact of none compliance with the requirements for proper record keeping. Non compliance with Treasury Regulation and PFMA which could result in irregular expenditure

## Internal control deficiency

*Financial and Performance Management*

The Department does not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting

## Recommendation

* Management should ensure that all the necessary documents required to award a tender are attached to the tender files.
* A checklist should be reviewed by someone senior to ensure that all the relevant documentation is included in the file and this checklist must be signed by the reviewer as evidence of review and certification that all is in order.

**Management response**

This was an emergency procurement. The department of home affairs indicated that they wasted the FSI building completed by 21 May 2010 for the ministry to move in. The building is near 1 of the host stadiums of the host world cup and it was indicated by FIFA that no construction must take place in the vicinity of any soccer matches during the world cup. A procurement strategy was therefore not necessary. The emergency procurement was ten ratified by the SNBAC. The department has prepared the estimates which were used to compile the bills of quantities for the contractor to price. The CIDB grading required was determined by the estimates which the contractor complied with.

## Auditor’s conclusion

The management comments are noted. This will be reported as a non compliance issue as the SCM processes were not complied with. This will be reported in the audit report.

# Construction: No SBD 4 and SBD 8

#### Bloemfontein

## Audit finding

Section 16A9.2 (a) of the Treasury Regulations states that: *“The accounting officer - (a) may disregard the bid of any bidder if that bidder, or any of its directors* *(iii) have failed to perform on any previous contract."*  Furthermore, in terms of Practice Note 7 of 2009/10 (SBD 4), *“The bidder must declare whether - a)  the bidder is employed by the state and/or* *b)  the bidder has any relationship (family, friend, other) with a person employed by the state and who may be involved with the evaluation and or adjudication of the bid.”*

In order to give effect to the above provisions, paragraph 2 of Practice Note 4 of 2006 requires bidders to declare their past SCM practices in their bidding documents (SBD 8).

Contrary to the provisions of these sections, the following contracts were awarded to bidders who did not declare their past SCM practices in their bidding documents and did not declare that they were not in the service of the state or, if not a natural person, if any of their directors / members / principal shareholders / stakeholders were in the service of the state (their interest):

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **No:** | **Contractor Name:** | **WCS No:** | **Tender No:** | **Tender Amount:** | **Current year expenditure** |
| 1 | Makholi Construction And Develop | 035644 | BL08/108 | R16 276 920 | R198 261,85 |
| 2 | Stefanutti Stocks Housing (Pty) | 042220 | BL08/100 | R42 447 110 | R2 174 322,00 |
|  |  |  | **TOTAL** | **R58 724 030** | **R2 372 583,85** |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **No:** | **Contractor Name:** | **WCS No:** | **Tender No:** | **Expenditure incurred for the year:** | **Current year expenditure** |
| 1 | Makholi Construction And Develop | 035644 | BL08/108 | R3 094 916,69 | R325 094,74 |
| 2 | Stefanutti Stocks Housing (Pty) | 042220 | BL08/100 | R33 097 582,00 | R284 375,69 |
|  |  |  | **TOTAL** | **R36 192 498,69** | **R609 470,43** |

|  |  |  |  |
| --- | --- | --- | --- |
| **No:** | **Contractor Name:** | **File No:** | **Tender Amount:** |
| 1 | Amohela Trading | 6727/0033/26/2 | R1 350 000,00 |
|  |  | **TOTAL** | **R1 350 000,00** |

The cause of the above is that management did not designate a responsible person to ensure that all Treasury Regulations and SCM practice notes are complied with.

The impact of the above is

* Non-compliance with Treasury Regulations and SCM practice notes resulting in irregular expenditure that should be disclosed as such in the annual financial statements.
* Limitation of scope on the audit.
* Irregular expenditure as disclosed in the Annual Financial Statements could be misstated.

## Internal control deficiency

*Financial and performance management*

* 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 is not implemented.
* Monitoring: Ongoing monitoring – Monitoring controls to ensure that the trading entity complied with the relevant laws, rules and regulations and that all required bid documents were obtained were not effective.

## Recommendation

* The bid adjudication committee must verify that the recommended bidder has submitted all the required bid documentation, including the declaration of pact SCM practices and invitation for bids must stipulate as a condition to tender that bidders must sign and submit a declaration of interest.
* Management should ensure that all tender documentation is properly filed and easily retrievable for audit purposes.

## Management response

This office agrees with the finding of the Auditor-General South Africa. This office during the 2010/11 financial year implemented a checklist to enhance compliance regarding bid administration. The verification of the PA-11 will be included in this checklist as it will add value to the operations of the department. This form (checklist) will be updated/enhanced as and when the need arises. It should be noted that both these two projects have been successfully completed.

Name: N Zulu

Position: Regional Manager

Date: 17 June 2011

## Auditor’s conclusion

Management is in agreement with the audit finding. This will be reported as an irregular expenditure and will form the basis of our audit opinion.

# SBD 8 not submitted for leases

#### Johannesburg

## Audit finding

Practice note SCM 4 of 2006 stipulates that bidders are required to complete SBD 8, sign the declaration and submit the form with each bid. The information furnished by the bidder should be used to ensure that when goods and services are being procured or disposed of, all reasonable steps are taken to combat the abuse of the supply chain management system.

Practice note 4 of 2007 stipulates that the: *“Accounting officers and accounting authorities are required to report within ten (10) working days to the relevant treasury and the Auditor-General, all cases where goods and services above the value of R 1 million (VAT included) were procured in terms of Treasury Regulation 16A6.4.”*

Treasury Regulation 16A9.- “Avoiding abuse of supply chain management system” stipulates:

16A9.1 The accounting officer or accounting authority must reject any bid from a supplier who fails to provide written proof from the South African Revenue Service that that supplier either has no outstanding tax obligations or has made arrangements to meet outstanding tax obligations;

National Treasury Practice Note 7 of 2009/2010 stipulates the following: “supply chain management: declaration of interest: amendment and augmentation of standard bidding document (SBD 4)”

The Treasury Regulations prescribe the following regarding compliance with ethical standards and avoiding abuse of the supply chain management system:

“16A8.4 If a supply chain management official or other role player, or any close family member, partner or associate of such official or other role player, has any private or business interest in any contract to be awarded, that official or other role player must (a) Disclose that interest; and withdraw from participating in any manner whatsoever in the process relating to that contract.

16A8.5 An official in the supply chain management unit who becomes aware of a breach of or failure to comply with any aspect of the supply chain management system must immediately report the breach or failure to the accounting officer or accounting authority, in writing.

16A9.2 The accounting officer or accounting authority:

(a) may disregard the bid of any bidder if that bidder, or any of its directors –

(i) have abused the institution’s supply chain management system

(ii) have committed fraud or any other improper conduct in relation to such system; or

(iii) have failed to perform on any previous contract; and

(b) must inform the relevant treasury of any action taken in terms of paragraph (a).”

2.3 To give effect to the above, the National Treasury issued a standard bidding document (SBD 4) “*Declaration of Interest”* on 5 December 2003 as part of Supply Chain Management (SCM) Practice Note Number SCM 1 of 2003. In terms of this document, accounting officers and accounting authorities are required to customize and utilize the form as part of their bidding documents so that bidders or their authorised representatives could declare their position in relation to any person employed by the principal institution.

Deviation noted pertaining to supply chain management:

* During the performance of audit procedures on leases the following deviation was identified for the lease entered into below:

|  |  |  |  |
| --- | --- | --- | --- |
| **Lease process** | **Lessor** | **Type** | **Contract value** |
| Negotiated | SA Eagle Building | Lease Agreement | R 1 192 536.00 |
| Negotiated | ERF 1332 Carletonville Extension 2 (Pty) Ltd | Lease Agreement | R2 760 624.00 |
| Negotiated | Woflex | Lease Agreement | R22 538 819.48 |
| Negotiated | Stand 1690 Van Riebeek Park | Lease Agreement | R 666 574.02 |
| Negotiated | Hostprops 85 (Pty) Ltd | Lease Agreement | R 2 234 559.60 |
| Negotiated | Broll | Lease Agreement | R 6 583 037.51 |

* The declaration of bidder's past SCM practices (SBD 8) was not completed by the winning supplier. Consequently, it could not be identified whether any fraud, abuse of the SCM system or non-performance in previous contracts had occurred.
* No supporting documentation was available to ensure compliance with PN 4 of 2007, of which the required emergency procurement was reported within 10 working days to the National Treasury and Auditor General.
* An SBD 4 form disclosing declaration of interest was not on file as required by National Treasury Practice note number 7 of 2009/2010

Potential impact of the finding rose above:

* Statement of financial performance: Expenditure incurred may result in irregular expenditure. Lease expenditure may be incorrectly classified as operating leases when in substance they should be treated as finance leases
* Compliance with laws and regulations:

1. Non compliance with National Treasury Practice Note SCM 4 of 2006
2. Non compliance with National Treasury Practice Note SCM 4 of 2007
3. Non compliance with National Treasury Practice Note SCM 8 of 2007/2008
4. Non compliance with National Treasury Regulation 16A 9
5. Non compliance with National Treasury Practice Note 7 of 2009/2010

* Notes to the financial statements

1. Irregular expenditure may not be disclosed and omitted.
2. Commitments may be incorrectly disclosed in the financial statements

## Internal control deficiency

*Financial and performance management*

* Quality, reliable monthly financial statements and management information
* The financial statements and other information to be included in the annual report are not reviewed for completeness and accuracy prior to submission for audit.
* Adequate financial management systems
* Manual or automated controls are not designed to ensure that the transactions have occurred, are authorised, and are completely and accurately processed.

## Recommendation

* Emergency tenders should be reported within the stipulated 10 working day period to the National Treasury and Auditor General as stipulated in PN 4 of 2007.
* Management should ensure compliance with National Treasury regulations and PFMA Act
* A checklist should be compiled for review prior to approval of leases to ensure all requirements are met for the approval.

## Management response

I am in agreement with the finding for the following reason: “This was a Negotiated Bid Process for the renewal of the lease, where the information requested was provided at the time of the original procurement. Suppliers are currently completing the required declaration of interest forms. Currently all negotiated leases are being reported to the National Treasury and Auditor General through the chief director supply chain management.

*Name: T P Moloi*

*Position: DD*

*Date: 04-04-2011*

## Auditor’s response

Management agrees with the finding. Follow-up will be made during next year’s audit.

# SBD 4 declaration of interest forms not completed by the supplier

#### Kwazulu-Natal

## Audit finding

Practice Note 7 of 2009/2010 dated 2 October 2009, paragraph 4.1.2 states that “With effect from the date on which this practice note takes effect, accounting officers and accounting authorities are required to utilise the revised SBD 4 when inviting price quotations, advertised competitive bids, limited bids or proposals. This SBD 4 should be used with minimum changes that are necessary to address contract and project specific issues”. During the audit of PMTE projects we have noted that the SBD 4 (standard biding document: declaration of interest form) was not attached to the following projects awarded to persons connected with or related to persons employed by the state.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Name of official in service** | **Personnel number** | **Employer** | **Supplier name** | **Total payments to supplier (R)** |
| HSL MBANJWA | 6348670 | SAPS | THE BUSINESS ZONE 518 | 3,326,321.37 |
| MN NTSHINGILA | 62142470 | KZN: Health | ISIBILI DEVELOPMENTS | 2,387,251.20 |
| Total |  |  |  | 5,713,572.57 |

## Internal control deficiency

*Financial and performance management*

Lack of review and monitoring of compliance with National Treasury practice note relating to completion of declaration of interest by suppliers.

## Recommendation

* Management must review and monitor compliance with National Treasury practice note relating to completion of declaration of interest by suppliers.
* Suppliers should be required to complete, sign and submit the declaration of interest forms together with the quotations before the project is awarded or within a reasonable time in case of emergency projects.

## Management response

There is disagreement with the finding with regards to The Business Zone 518 cc. The department used PA-11.1(EC): Declaration of Interest & Tenderer’s Past SCM Practices” document. The contractor did not identify any Record in Service of the State [copy attached]. There is agreement with the finding with regards to Isibili Development cc. This award was done using the emergency delegation.

**Action Plan**: All officials involved in procuring goods, services or works have been instructed to ensure that the requirements of the National Treasury Practice Note No. 7 of 2009/2010 are implemented immediately. Suppliers of goods and services to DPW will be issued with SBD 4 forms to complete and sign and return together with quotations before awarding projects. Where it was impractical for the suppliers to submit completed and signed SBD 4 forms, in cases of emergency projects, we shall ensure that such form is issued to supplier and returned to DPW within a reasonable time. SCM officials will ensure that the SBD4 forms are attached in every procurement document.

**Responsibility**: Director: Property Management and Deputy Director SCM

**Implementation Date**: Immediate and ongoing

*Name:*

*Position:*

*Date:*

## Auditor’s conclusion

Management responses noted. However on the PA-11(declaration of interest) attached as per management response 1(a) the supplier (The Business Zone 518) did not disclose that a member of the CC (S Mbanjwa) is in the service of the state as per our finding. This is a non compliance with Practice Note 7 of 2009 and will therefore be reported as a non compliance in the audit report.

# The declaration of interest (SBD4) not completed

#### Cape Town

## Audit finding

National Treasury issued a standard bidding document (SBD 4) “Declaration of Interest” on 5 December 2003 as part of Supply Chain Management (SCM) Practice Note SCM 1 of 2003. In terms of this document, accounting officers and accounting authorities are required to customise and utilise the form as part of their bidding documents so that bidders or their authorised representatives could declare their position in relation to any person employed by the principal institution. This was intended to counter corruption or any allegations of favouritism.

In terms of paragraph 4.2 of Practice Note 7 of 2009/10, the SBD 4 must also be used in documentation relating to applications by service providers to be registered on the lists of potential or prospective suppliers for goods and services obtained by means of verbal or written quotations. This Practice Note is issued in terms of section 76(4)(c) of the PFMA, and takes effect from the date of issuance (2 October 2009). In accordance with paragraph 4.1.2: “*With  effect  from  the  date  on  which  this  practice  note  takes  effect, accounting  officers  and  accounting  authorities  are  required  to  utilise  the attached  revised  SBD  4  when  inviting  price  quotations,  advertised competitive  bids,  limited  bids  or  proposals.    This  SBD  4  should  be used with minimum changes that are necessary to address contract and project specific issues".* Declaration of Interest (SBD4) for the following contractors and consultants was not completed for the projects listed below:

***Contractors***

|  |  |  |  |
| --- | --- | --- | --- |
| **WCS Number** | **Contractors** | **Complex** |  |
|  |
| 045661 | GVK Siya Zama Building Contractors (Pty) Ltd | Acasia Park |  |
| 044002 | GVK Siya Zama Building Contractors (Pty) Ltd | Prison Pollsmoor |  |
| 042323 | GVK Siya Zama Building Contractors (Pty) Ltd | Consolidated building / Office |  |
| 039597 | GVK Siya Zama Building Contractors (Pty) Ltd | Parliament Cape Town |  |
| 044669 | Ruwacon (Pty) Ltd | Building 52 |  |
| 043383 | Vusela Construction (Pty) Ltd | College south base / complex communal unit |  |
| 046127 | Firetech Projects Cape Town (Pty) Ltd | Cape Town : Department of Arts and Culture |  |

***Consultants***

| **WCS number** | **Consultant** | **Project** |
| --- | --- | --- |
| 045661 | *Greg Wright Architects (SA) (Pty) Ltd / Cruz Almedia Architects Joint Venture* | Parliament Villages - Refurbishment of Residences |
| 045661 | *CA Du Toit Consulting Engineers (Electrical)* | Parliament Villages - Refurbishment of Residences |
| 045661 | *Atvantage / Kharts & Sparks Quantity Surveyors Joint Venture* | Parliament Villages - Refurbishment of Residences |
| 045661 | *Babbs Labdon and Partners - Quantity Surveyors* | Parliament Villages - Refurbishment of Residences |
| 043383 | *George Barbic and Associates - Mechanical Engineers* | Oudtshoorn SAPS College south base / complex communal unit |
| 043383 | *Frankenfield and King Architects CC* | Oudtshoorn SAPS College south base / complex communal unit |
| 043383 | *De Villiers Neethling* | Oudtshoorn SAPS College south base / complex communal unit |
| 043383 | *CSM Consulting* | Oudtshoorn SAPS College south base / complex communal unit |
| 043383 | *Design Scape Architects and Interior Designers CC* | Oudtshoorn SAPS College south base / complex communal unit |
| 046127 | *Tom Esterhuizen & Associates Mechanical Engineers* | Cape Town: Department of Arts and Culture |
| 042323 | *Bill Kerr - Electrical Engineers* | Cape Town: High Court: Consolidated Building |
| 042323 | *Meirlless Lawson Architects CC* | Cape Town: High Court: Consolidated Building |
| 042323 | *Babbs Labdon and Partners - Quantity Surveyors* | Cape Town: High Court: Consolidated Building |

Insufficient management review to ensure that the SBD4 form was completed as required by Supply Chain Management (SCM) Practice Note SCM 1 of 2003.  The impact is non-compliance with the above named legislation.

## Internal control deficiency

*Leadership: Oversight responsibility*

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

## Recommendation

Management should include the SBD4 forms as part of the bidding documents and ensure that the supplier completes and signs it, before the contract is concluded with the supplier.

## Management response

The finding is acknowledged. The SBD 4 form has not been used, only the PA-11 has been in use. This will then be implemented accordingly.

*Name : MJ Hartman*

*Position : Deputy Director*

*Date : 5th July 2011*

**Auditor’s conclusion**

Management comments noted. The non-submission of SBD 4 forms by bidders is non-compliance with the practice notes and will be reported as such.

# SBD 4 declaration of interest for planned maintenance not available

#### Pretoria

## Audit finding

Treasury Regulation 16A8.3 (a) states the following under compliance with ethical standards**:** "A supply chain management official or other role player..... must recognise and disclose any conflict of interest that may arise.....". During the audit of consultants employed it was noted that the below listed consultants did not attach a signed declaration of interest form (SBD4):

* Tsepa Consulting CC (WCS 047043)
* Ntsu Engineering Consultants (WCS 045517)
* Maree Els & Partners (043918)
* Risimati Consulting Engineers (046919)

## Internal control deficiency

***Leadership***

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

## Recommendation

Management should ensure that all required documents in the consultants file are attached prior to awarding of the contract.

## Management response

Management response outstanding.

## Auditors’ conclusion

Finding a valid finding and will be reported as a non compliance.

# Declaration of interest not signed by suppliers

#### Mthatha

## Audit finding

*Chapter 3, Section 15(1)(a) of the Public Audit Act, 2004 (Act No.25 of 2004) states that: When performing an audit referred to in section 11 the Auditor-General or an authorised auditor has at all reasonable times full and unrestricted access to (a)  any document, book or written or electronic record or information of the auditee or which reflects or may elucidate the business , financial results, financial position or performance of the auditee."*

It has been confirmed that the declaration of interests for the following suppliers are not kept in file. Verification of the completion of the declaration of interest forms could therefore not be confirmed.

|  |  |  |
| --- | --- | --- |
| **Project details** | **WCS no.** | **Project amount (R)** |
| Department of home affairs | 040588 | 14 771 380,14 |
| Mthatha prison | 040290 | 4 991 438,70 |

Non compliance with the applicable laws and regulations. When awarding the contracts the declaration forms were not properly check to ascertain the forms are fully completed.

## Internal control deficiency

*Financial and performance management*

The control activities identified as necessary are not in place and being applied.

## Recommendation

Documentation should be maintained and availed for audit purposes to confirm compliance with the applicable laws and regulations.

## Management response

I am in agreement with the finding.

## Auditor’s conclusion

This is a non compliance with the Treasury Regulations and will be reported as a non compliance in the audit report.

# Employee engaged in other remunerative work

#### Port Elizabeth

## Audit finding

Section 30(1) of the Public Service Act, 1994: *No employee shall perform or engage himself or herself to perform remunerative work outside his or her employment in the relevant department, except with the written permission of the executive authority of the department.*

On 17 March 2010, contract file number 19/2/3/2/12 (33) to the value of R670 000 was awarded to Non Stop Cleaning Services. Inspection of the bid documentation reveals that an employee of the Department of Public Works, SM Scharneck, is declared as the training manager of Non Stop Cleaning Services. The Department was unable to provide us with evidence of authorisation by the executive authority as required by the Public Service Act.

This was caused by the staff member not making the necessary application. The reason for this is possibly due to contract staff not being aware of the requirement and making the necessary requests.

The impact results in the Department not being compliance with applicable legislation.

## Internal control deficiency

*Leadership*

Personnel are not aware of the allocation of duties, responsibilities and lines of reporting.

## Recommendation

Management should ensure that all documents required to ensure compliance with legislation are on file for the bidders to complete.

## Management response

Management agrees with the audit finding with specific reference to item 129 of the approved HR delegations dated 8 September 2008 and signed by the Minister of National Department of Public Works which refers to section 30(b) of the Public Services Act of 1994 where an employee shall not perform or engage himself or herself to perform remunerative work outside his or her employment in the Public Service, without permission granted by the relevant Executing Authority.

Human Resources Management was not aware of and did not receive any application from Ms SM Scharneck applying for prior approval to perform remunerative work as a training manager for Non Stop Cleaning Services. The officials from Supply Chain Management responsible for the screening of the Bids were contract workers and were not aware of the departmental requirement to get prior Executing Authority approval before remunerative work can be performed and failed to obtain the necessary confirmation from Human Resources Management in this regard.

The department will take the following action:

1. The incident will be addressed from a Human Management point of view and both Human Resource Administration and Labour Relations processes will be applicable.
2. Human Resource Administration: Ms SM Scharneck will be requested to submit her request to perform remunerative work outside of her employment in the Public Service in writing to the department. The application will be submitted for approval to the Chief Director: Human Resources Management who has the delegated authority to approve applications for salary levels 1 - 8. Proof of this application will be kept on file.
3. Labour Relations: The incident will be duly investigated by the Labour Relations Unit in the office and a decision will be made about the need to take disciplinary action.
4. The requirement to obtain prior approval from the Executive Authority to perform remunerative work outside employment in the Public Service will be communicated to all staff members before the end of July 2011.

 RESPONSIBLE PERSON:

*Deputy Director: HRM: Mrs. F. Clark*

## Auditor’s conclusion

Management‘s comment is in agreement with the finding. Management's response and action planned are acknowledged and we will follow up in the subsequent years in order to confirm the achievement of the actions plans as indicated.

# Official performing additional remunerative work without written approval

#### Polokwane

## Audit finding

In terms of section 30(b) of the Public Service Act, no officer or employee shall perform or engage him or herself to perform remunerative work outside his or her employment in the public service, without permission granted by the relevant executing authority or an officer authorised by the said authority.

Contrary to the above section, the audit team noted, during the performance of the audit, that the official mentioned below was engaged in performing other additional remunerative work outside her employment with the state. The official did not engage in performing such additional remunerative work outside her employment without obtaining the necessary written approval by the executing authority, nor did the official declare such interest.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Surname** | **First names** | **Supplier name** | **Amount** | **Department done business with** | **Supplier number** | **PERSAL number** |
| Mahlaulle | Nkholane Olga | Mokoadi General Trading | R24 686.18 | Limpopo Education | 287651 | 22315152 |

Performing other remunerative work without obtaining the necessary written approval; and by not declaring the interest is non-compliance with Public Service Act.

## Internal control deficiency

*Leadership*

* Lack of monitoring controls to ensure compliance with applicable legislation
* The official did not apply to obtain approval from the executive authority to perform other remunerative work outside the employment of public service.

## Recommendation

* The requirement of the Public Service Act must be enforced and officials who are performing other remunerative work outside the employment of the public service must declare their business interest; and also obtain the required written permission from the executive authority of the department.
* The accounting officer must ensure that all SCM practitioners disclose their business interests; and have processes and controls in place to verify the possible non-disclosure of existing interests.

## Management response

Management indicated that it will be difficult for Regional office to agree with the finding as the official concerned has resigned from public service in August 2010 and they cannot get her side of the story. In terms of our records she was not doing business with Public Works and the official was not working in procurement as she was Assistant Admin Officer: Logistics. However, a communication will be sent to officials as a reminder to declare their business interest as per recommendation of AG.

*Name: Lucas Serepo*

*Position: D.D. Finance and SCM*

*Date: 14/07/2011*

## Auditor’s conclusion

After considering management comments, we were not provided with evidence to the contrary pertaining to our finding. As such the matter will remain in the management report and will be reported as an irregular expenditure.

# No tender and procurement documentation provided

#### Bloemfontein

## Audit finding

Paragraph 3.4 of Practice Note 8 of 2007/08 SCM Threshold values for procurements states the following:

*"3.4.1 Accounting officers should invite competitive bids for all procurement above R500 000.*

*3.4.2 Competitive bids should be advertised in at least the Government Tender Bulletin and in other appropriate media should an accounting officer deem it necessary to ensure greater exposure to potential bidders. The responsibility for advertisement costs will be that of the relevant accounting officer.*

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

*3.5 Goods, works or services may not deliberately be split into parts or items of lesser value merely for the sake of procuring the goods, works or services otherwise than through the prescribed procurement process. When determining transaction values, a requirement for goods, works or services consisting of different parts or items must as far as possible be treated and dealt with as a single transaction.*

*3.6 Accounting officers should apply the prescripts of the Preferential Procurement Policy Framework Act, Act 5 of 2000 and its associated Regulations for all procurement equal to or above R30 000 (VAT included). However, these prescripts may be applied for procurement with a value of less than R 30 000, if and when appropriate."*

Section 51(1) of the PFMA prescribes that goods and services must be contracted through a system that is fair, equitable, transparent, competitive and cost-effective. This prescript stipulates how public entity’s SCM system should be managed and it also confers a constitutional right on every potential supplier to offer goods and services to the public entity when needed.

*Treasury Regulation 16A6.4. The reasons for deviating from inviting competitive bids should be recorded and approved by the accounting officer or his / her delegate. Accounting officers are required to report within ten (10) working days to the relevant treasury and the Auditor-General all cases where goods and services above the value of R1 million (VAT inclusive) were procured in terms of Treasury Regulation 16A6.4. The report must include the description of the goods or services, the name/s of the supplier/s, the amount/s involved and the reasons for dispensing with the prescribed competitive bidding process.*

Contrary to the provision of these sections, the no procurement and tender documentation could be found in the following lease file:

|  |  |  |  |
| --- | --- | --- | --- |
| **Description:** | **Tender amount (R):** | **Lease file number:** | **Expenditure incurred for the year under review (R):** |
| RENTAL LEASE | 2 496 740,85 | 6731/0890 | 634 642,07 |
|  | **2 496 740,85** |  | **634 642,07** |

The cause of this is that management did not designate a responsible person to ensure that all SCM practice notes and PFMA are complied with.

The impact of the above is non-compliance with SCM practice notes and PFMA resulting in irregular expenditure that should be disclosed as such in the annual financial statements, Limitation of scope on the audit and possible irregular expenditure as disclosed in the Annual Financial Statements could be misstated.

## Internal control deficiency

*Financial and performance management:*

* 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 is not implemented.
* Monitoring: Ongoing monitoring – Monitoring controls to ensure that the trading entity complied with the relevant laws, rules and regulations and that all required bid documents were obtained were not effective.

## Recommendation

* Management should ensure that competitive bids are invited for all procurement of goods and services above R500 000.
* Management should ensure that all tender documentation is properly filed and easily retrievable for audit purposes.

## Management response

This office cannot agree with the finding of the AGSA. Please refer to attached copies of the relevant documentation. It should further be noted that the negotiated procedure was followed during the procurement process.

*Name: N Zulu*

*Position: Regional Manager*

*Date: 22 July 2011*

## Auditor’s conclusion

Management response is noted. By entering into lease agreements through the negotiating process, the entity is applying a process which is not fair, uncompetitive, not equitable and not transparent. The process contravenes section 51 of the PFMA. Payments made in such circumstances constitutes irregular expenditure and therefore this issue remains unresolved and will be reported in the audit report and will form a basis of our audit opinion.

# Tender invitations for contracts not advertised on CIDB website

#### Bloemfontein

## Audit finding

Section 24 of the Construction Industry Development Board (CIDB) Regulations states that: *"Every client or employer who is inviting calls for expression of interest or soliciting competitive tenders must publish that invitation to tender on the Construction Industry Development Board’s website."*

Furthermore, section 18 (1A)(a) and (1) states that: *"Despite the values determined in Government Notice No. 692 of 9 June 2004, every project consisting of a single construction works contract for the public sector of which the value exceeds R200 000.00, an employer must, within 21 working days from the date on which a contractor’s offer to perform a construction works contract is accepted in writing by the employer, apply on the approved form to the CIDB for the registration of every project, consisting of a single construction works contract."*

Contrary to the provisions of these regulations, for the following contracts awarded it could not be confirmed that the invitation to tender was advertised on the CIDB website and where the contract value is above R200 000, the contract was registered in the register of construction contracts with the CIDB within 21 working days from the date on which the contractor’s offer to perform a construction works contract was accepted in writing by the trading entity:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date** | **Item description** | **Beneficiary Name** | **WCS numbers** | **Amount** | **Payment No** |
| 2010/04/09 | CONTRACTOR PAYMENT | MAKHOLI CONSTRUCTION AND DEVELOP | 035644 | 198,261.85 | 000254009 |
| 2010/04/12 | CONTRACTOR PAYMENT | STEFANUTTI STOCKS HOUSING (PTY) | 042220 | 2,174,322.00 | 000254142 |
| 2010/04/20 | CONTRACTOR PAYMENT | MAKHOLI CONSTRUCTION AND DEVELOP | 035644 | 325,094.74 | 000256380 |
| 2010/10/29 | CONTRACTOR PAYMENT | STEFANUTTI STOCKS HOUSING (PTY) | 042220 | 284,375.69 | 000320296 |
|  | **TOTAL** |  |  | **2,982,054.28** |  |

The cause of the above is that management did not designate a responsible person to ensure that invitations were advertised on the CIDB website and where the contract value is above R200 000, the contract was registered in the register of construction contracts with the CIDB within 21 working days from the date on which the contractor’s offer to perform a construction works contract was accepted in writing by the trading entity.

The impact of the above is irregular expenditure as disclosed in the Annual Financial Statements could be misstated and non-compliance with the CIDB Regulations

## Internal control deficiency

*Leadership:*

* Policies and procedures to enable and support understanding and execution of internal control objectives, processes and responsibilities is not established and communicated.
* Control environment: Control environment not adequately developed to ensure that invitations to tender for construction contracts were advertised on the CIDB website.

## Recommendation

Management should ensure that when inviting calls for expression of interest or soliciting competitive tenders, the invitation to tender is published on the CIDB’s website and that the contracts are registered in the register of construction contracts with the CIDB.

## Management response

This office agrees with the finding of the AGSA, as this regional office only started to advertise on CIDB in the 2010/11 financial year, after this shortcoming was identified. Both these projects were advertised in 2008, prior to addressing this shortcoming. These services were advertised in the Government Tender Bulletin.

*Name: N Zulu*

*Position: Regional Manager*

*Date: 17 June 2011*

## Auditor’s conclusion

Management is in agreement with the audit finding. Furthermore, construction contracts should have been advertised from 2004. The matter is therefore not resolved and is reported on in the management report. This is also reported as an irregular expenditure.

# Construction contracts awarded to contractors with lower CIDB grading

#### Bloemfontein

## Audit finding

Section 17 of the Construction Industry Development Board (CIDB) Regulations states that: *"A contractor registered in a contractor grading designation is considered to be capable of undertaking a contract in the range of tender indicated in that grading in the class of the construction works to which the category of registration of that contractor relates."* Contrary to the provisions of this regulation, it was noted that the below mentioned contractors were awarded contracts valued in excess to the limits prescribed by the CIDB Regulations. Details are as follows:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **No:** | **Contractor:** | **Grading as per CIDB:** | **Tender amount of contract awarded:** | **Limit as per grading:** | **Difference:** | **Payments made in the current year** |
| 1 | Freelance Construction & Construction Management (Pty) Ltd | 6GB | R16 365 970,25 | R13 000 000,00 | R3 365 970,25 | 73670.5 |
| 2 | Mercy Cavils And Building | 6CE PE | R19 992 916,44 | R13 000 000,00 | R6 992 916,44 | Not available |
|  |  | **TOTAL** | **R36 358 886,69** | **R26 000 000,00** | **R10 358 886,69** |  |

The cause of the above is that management did not designate a responsible person to ensure that all CIDB Regulations are complied with.

The impact of the above is:

* Non-compliance with CIDB Regulations resulting in irregular expenditure that should be disclosed as such in the annual financial statements.
* Bids may be awarded to contractors who may not have the capacity to carry out the required scope of work.

## Internal control deficiency

*Leadership:*

* The accounting officer does not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.
* Monitoring: Ongoing monitoring – Monitoring controls to ensure that the trading entity complied with the relevant laws, rules and regulations were not effective.

## Recommendation

Management should ensure that construction contracts are awarded in terms of the CIDB Regulations by not exceeding the limits set.

## Management response

This office cannot agree with the finding of the AGSA as the limit per grading on CIDB is applicable per contract and not total awards for a specific period. Please refer to regulation 17 as attached. Please also refer to the attached printouts from WCS indicating all current active projects in the department awarded to these specific contractors.

*Name: N Zulu*

*Position: Regional Manager*

*Date: 17 June 2011*

## Auditor’s conclusion

Management response is noted. However, contracts were awarded to contractors with lower CIDB grading. The matter is therefore not resolved and the payment for the current period will be reported as irregular expenditure.

# Tender invitation for contracts not advertised on CIDB website

#### Bloemfontein

## Audit finding

Section 24 of the Construction Industry Development Board (CIDB) Regulations states that: *"Every client or employer who is inviting calls for expression of interest or soliciting competitive tenders must publish that invitation to tender on the Construction Industry Development Board’s website."*

Furthermore, section 18 (1A)(a) and (1) states that: *"Despite the values determined in Government Notice No. 692 of 9 June 2004, every project consisting of a single construction works contract for the public sector of which the value exceeds R200 000.00, an employer must, within 21 working days from the date on which a contractor’s offer to perform a construction works contract is accepted in writing by the employer, apply on the approved form to the CIDB for the registration of every project, consisting of a single construction works contract."*

Contrary to the provisions of these regulations, for the following contract awarded it could not be confirmed that the invitation to tender was advertised on the CIDB website and where the contract value is above R200 000, the contract was registered in the register of construction contracts with the CIDB within 21 working days from the date on which the contractor’s offer to perform a construction works contract was accepted in writing by the trading entity:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Fan No:** | **Contractor:** | **WCS Number:** | **Tender No:** | **Tender Amount:** | **Amount Paid:** |
| 342960 | Keren Kula Construction | 043244 | BL07/044 | R102 469 972,61 | R2 072 005,84 |

The cause of the above is:

* Management did not designate a responsible person to ensure that invitations were advertised on the CIDB website and where the contract value is above R200 000, the contract was registered in the register of construction contracts with the CIDB within 21 working days from the date on which the contractor’s offer to perform a construction works contract was accepted in writing by the trading entity.

The Impact of the above is:

* Irregular expenditure as disclosed in the Annual Financial Statements could be misstated.
* Non-compliance with the CIDB Regulations.

## Internal control deficiency

*Leadership:*

* Policies and procedures to enable and support understanding and execution of internal control objectives, processes and responsibilities is not established and communicated.
* Control environment: Control environment not adequately developed to ensure that invitations to tender for construction contracts were advertised on the CIDB website.

## Recommendation

Management should ensure that when inviting calls for expression of interest or soliciting competitive tenders, the invitation to tender is published on the CIDB’s website and that the contracts are registered in the register of construction contracts with the CIDB.

## Management response

This office agrees with the finding of the Auditor-General South Africa. This office during the 2010/11 financial year implemented a checklist to enhance compliance regarding bid administration. The advertising of awards on CIDB was highlighted as a possible risk and thus all awards above R200 000 was advertised on CIDB (i-tender) from October 2010. This project was already awarded in 2007 and was thus not advertised.

*Name: N Zulu*

*Position: Regional Manager*

*Date: 30 June 2011*

## Auditor’s conclusion

Management is in agreement with the audit finding. Furthermore, construction contracts should have been advertised from 2004. The matter is therefore not resolved and is reported on in the management report

# Non compliance with CIDB regulations

#### Johannesburg

## Audit Finding

Construction Industry Development Board Act Part 3 stipulates in Paragraph 18 (1) (2) & (3) that an employer must, within 21 working days from the date on which a contractor’s offer to perform a construction works contract is accepted in writing by the employer; apply on the approved form to the CIDB for the registration of every project, consisting of a single construction works contract, of which the contract value exceeds a value determined by the Minister by notice in the *Gazette.*

The CIDB must, within 30 working days from receipt of the duly completed application in terms of subregulation (1), register the project concerned and supply the employer with a receipt of registration.

The employer must indicate in the application referred to in subregulation (1), whether – the project being registered relates to a project that consists of a series of contracts; or

- the project being registered relates to a programme, if any;

- the project relates to a public-private partnership; and

- that employer acts on behalf of a client.

Deviation noted pertaining to supply chain management:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Tender No** | **Contractor Name** | **Contract details** | **Contractor Grading** | **Required Grading** | **Contract value** |
| J8/043 | Yikusasa Building Contractors SA cc | Additional accommodation High Court | 8GB PE  Limited to R130 million | 9GB or 8GB PE | R231 564 397.94 |

There was no indication that the project was registered on the CIDB website after acceptance of the contract or application to the CIDB for registration of the contract. Consequently, no receipt of registration could be obtained from a CIDB source.

The potential impact of the finding rose above on the Statement of Comprehensive Income is irregular expenditure and non-compliance with CIDB Regulation 18 (1A), (1), (2) & (3) and SFU 4.2.1.4 & 5.

## Internal control deficiency

*Financial and performance management*

* Quality, reliable monthly financial statements and management information
* The financial statements and other information to be included in the annual report are not reviewed for completeness and accuracy prior to submission for audit.
* Adequate financial management systems
* Manual or automated controls are not designed to ensure that the transactions have occurred, are authorised, and are completely and accurately processed.

## Recommendation

* The accounting officer should ensure compliance in terms of the SCM guidelines.
* The accounting officer should ensure that all individuals within the SCM division have full knowledge of the SCM Policy.
* A CIDB requirements checklist must be prepared and completed prior to the approval of a tender.

## Management response

I am in agreement with the finding for the following reasons: There has been confusion about who should, between SCM, Legal Services and projects, be responsible to register projects with the CIDB. This confusion has now been cleared and a decision has been taken that SCM will take this responsibility. As a remedial step, all contracts from 1 April 2010 to date will be registered with the CIDB forthwith.

*Name:* M van der Walt

*Position:* DD: SCM

*Date: 2011 – 03-28*

## Auditor’s response

Management agrees with the finding. To be reported as an irregular expenditure and will form the basis of our audit opinion.

# Non-publishing of winning tenders

#### Johannesburg

## Audit finding

Treasury Regulation 16 A 6.3 (d) requires: *The accounting officer or accounting authority must ensure that awards are published in the Government Tender Bulletin and other media by means of which the bids were advertised.* The department did not publish the following winning bidders in the government tender bulletin or other media by means of which the bids were advertised:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **No.** | **Description** | **WCS Number** | **Winning Bidder** | **Tender number** |
| 1. | Krugersdorp Prison | 037470 | Lumacon Air Conditioning | JHB.09/001 |
| 2. | Krugersdorp Police Complex | 033314 | Home Décor & RS Construction JV | JHB.09/007 |
| 3. | Diepkloof Prison | 044729 | Babak Steam Service | JHB.09/030 |

The total amount paid for this tender is R4 329 122.01 for the current financial year.

Potential impact of the finding rose above:

1. Laws and regulations
2. Non compliance with National Treasury regulations

## Internal control deficiency

Oversight responsibility regarding financial and performance reporting and compliance and related internal controls have not been exercised.

## Recommendation

* Management should ensure that all winning bidders are advertised in the Government Tender Bulletin, by keeping a list of all tenders awarded and comparing this on a monthly basis with the advertisements placed.
* The reasons for any tenders awarded that was not yet advertised should be obtained and followed up

## The CFO (or appropriate delegate) needs to sign this list as proof that this has been done. Management response

I am in agreement with the finding for the following reason: “*As indicated above, all bids were awarded during financial year 2009/2010 but as from 01 April 2010 to date all awards are published on the Government Tender Bulletin, see attached spreadsheet”*.

*Name:* Lebona Mokone

*Position: ASD: Bid Administration*

*Date: 2011/03/11*

## Auditor’s response

Management agrees with the finding. The payments made in the current financial year will be reported as irregular expenditure and will have an impact on the audit report.

# Procurement procedures not followed

**Mthatha**

## Audit finding

According to Directive; Acquisition and disposal management, paragraph19 (pg 12), Nominated procedure must be motivated to the BAC. The nominated procedure may be used in emergency cases, or where there are times constraints in carrying out services, or for the supplying of the goods or where the services required are of a specialised nature.

During the audit of compliance with procurement requirements, it has been noted that there were deviations relating to procurement activities as the region has used the nomination procedure, instead of an open procedure. Through enquiry from management, no justifiable reasons obtained, validating the deviation made as no emergency, time constraints or specialised services noted, it seems as if the deviation was made because there was a lack of proper planning as the projects started at the end of the financial year. The deviations made by the region may lead to irregular expenditure. The following are the deviations noted,

|  |  |  |  |
| --- | --- | --- | --- |
| **No** | **Item description** | **Total rand-value of award** | **TENDERER** |
| 1 | Mt Ayliff Prison: Installation of facilities for people with disabilities | R736 245,06 | TMJ Civils |
| 2 | Lady Frere Prison: Installation of facilities for people with disabilities  - J Mbazi | R510 000,00 | Setchaba Suppliers & Development |

Deviations made by the region are not supported by justifiable reasons and may lead to irregular expenditure.

The budget allocation was made available on the last quarter of the financial year and the projects had to be completed within the same financial year, whereby the use of open bid process would consume more time that would not make it possible to complete these projects within the same financial year, due to long time frames that are applicable in open bid process. This was a directive from head office to shorten the time for advertisement. Therefore nominated procedure was the relevant one.

## Internal control deficiency

*Financial and performance management*

A properly designed control has been implemented, but is not operating effectively.

## Recommendation

Management should ensure that proper planning is done to avoid deviation.

## Management response

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

* The projects in reference to were all being treated as urgent as the Regional Office received fund on last quarter and these project were anticipated to be completed by end of financial year.
* These were fast track projects with intension to improve service delivery where it was needed. The open procedure would have not been met as some of these services required specialized services and contractors with capacity to meet the timeframes of the projects.
* There was plan for these projects which was discussed in a meeting with Head Office and the region was having interval meeting with all managers and project managers as to check progress of the work.

*Name:  N. Tukela*

*Position: Regional Manager*

*Date*

## Auditor’s conclusion

Finding remains in the management report. Management justification for not following an open tender is not acceptable. In terms of the supply chain management: guide for accounting authorities/officers urgent cases are cases where early delivery is of critical importance and the invitation of competitive bids is either impossible or impractical. And it further states that however lack of proper planning should not be constituted as urgent case. This is an irregular expenditure and will be reported in the audit report

# Lack of authorisation for price adjustments planned maintenance

#### Mthatha

## Audit finding

*Treasury Regulation 8.2.1. requires that an official of an institution may not spend or commit public money except with the approval of the accounting officer or a properly delegated or authorised officer.* During the audit of planned maintenance it was noted that there were instances whereby the actual price adjustment exceeded the estimated price adjustment. There was no evidence to support authorisation of the excess price adjustment. The only supporting documentation that could be obtained for the price adjustment was the calculation provided by consultants.

On enquiry from the project managers it was identified that none of them possessed the knowledge of what they are supposed to do when the actual price adjustments exceeds the estimate. The following are the projects that were audited:

|  |  |  |  |
| --- | --- | --- | --- |
| **Project** | **Estimated price adjustment** | **Actual  price adjustment** | **Contract price** |
| Libode Prison | R 170 442,75 | R447 265,53 | R16 386 927,89 |
| Lusikisiki Prison | R197 631,59 | R235 779,93 | 19 003 037,34 |
| Ntabankulu Prison | R 64 803,05 | R115 358,41 | R6 231 062,67 |

Non-compliance with Treasury Regulation 8.2.1. resulting in irregular expenditure. The estimates are done during the planning stage and the actual payments are made after a year when the material is being procured.

## Internal control deficiency

*Financial and performance management*

Management does not exercise oversight responsibility regarding compliance with related internal controls.

## Recommendation

Procedures to be followed when the contract price adjustment exceeds the estimated price adjustment should be laid out and clearly communicated with project managers so that they can know exactly what is expected of them.

## Management response

I am in agreement with the finding. The price adjustments estimates have been provided as per WCS reports for all these projects.

Name: N. Tukela

Position: Regional Manager

## Auditor’s conclusion

This is a non compliance with the Treasury Regulations 8.2.1 and will be included as irregular expenditure and will have an impact on the audit report.

# Open tender not advertised for planned maintenance:

**Mthatha**

## Audit finding

Directive: Acquisition and disposal management states that all notices and invitations to bid for open procedure shall be advertised at least 21 days before the closing date for bids or according to the approved acquisition strategy in the Government Tender Bulletin, a National newspaper and the Department website.

During the audit of planned maintenance for Mt Fletcher Prison (WCS 037 482) it was not possible to determine if a competitive bidding process was followed as the as the tender advert could not be obtained.

PA-21(EC): Tender evaluation report reflected the tender advert date as 11/11/2008 and 05/12/2008 as the closing date whereas the advert placed on the tender bulletin reflected the closing date as 10/09/2008.

Goods and services may not be obtained at the lowest possible price if the Department does not comply with the acquisition and disposal directive.

The minutes of the RBAC that approved the open strategy were submitted to AG.

The payments made in the current year amount to R137 792, 77

## Internal control deficiency

*Financial and performance management*

Management does not exercise oversight responsibility regarding compliance with related internal controls.

## Recommendation

Tenders should be advertised for 21 days as per the Directive for acquisitions and disposal. The department should establish proper record keeping of adverts i.e. the advert file should be used as a temporary storage for adverts. Once the winning bidder has been selected the advert should be taken out of the advert file and attached to the tender documentation.

## Management response

I am in agreement with the finding.

*Name:  D. Gqibela*

*Position: Acting Regional Manager*

*Date:  20 July 2011*

## Auditor’s conclusion

This is a non compliance with the Treasury Regulations and will be reported as an irregular expenditure in the audit report.

# Tender file not provided for planned maintenance

#### Mthatha

## Audit finding

Section 40(1)(a) of PFMA states that:"The accounting officer for a department, trading entity or constitutional institution must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards.”

Tender documentation for Ntabankulu prison (WCS 040 816) as well as the contract file for Maunga Projects were requested from the Department but these files could not be obtained. On enquiry from the responsible project manager, Mr Fono, it was confirmed that the file could not be found after taking all reasonable steps to search for it.

Payments for the current financial year amount to R 330 366, 52.

Inadequate controls over keeping records/documents.

Proper procurement process may not have been followed.

The delays in providing the file were due to misfiling in the registry office. Filing system was a challenge, as a result filling for the section has been divided (alphabetically) between the three administrators and this will improve the filling as there will be dedicated personnel for filling.

## Internal control deficiency

*Financial and performance management*

Management does not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

## Recommendation

All tender files should be kept in one central office like registry office. That place should have limited access and there should be sound controls over transfer of files i.e. when the project manager takes or returns the file he/she should sign for it.

## Management response

I am in agreement with the finding.

## Auditor’s conclusion

Finding remains not resolved because a summary of payments was provided instead of evidence that the tender process was followed in terms of the regulations. This is a scope limitation and will therefore be included in the schedule of identified misstatements. This has also been included as an irregular expenditure as we could not confirm that the normal tender

# Consultants' files not availed for audit purposes

#### Mthatha

## Audit finding

*Chapter 3, Section 15(1)(a) of the Public Audit Act, 2004 (Act No.25 of 2004) states that: " When performing an audit referred to in section 11 the Auditor-General or an authorised auditor has at all reasonable times full and unrestricted access to (a)  any document, book or written or electronic record or information of the auditee or which reflects or may elucidate the business , financial results, financial position or performance of the auditee."*

Information that supports the appointment of the under-mentioned consultants could not be obtained for audit purposes. It could therefore not be established whether the appointments were done in accordance with the procurement processes. The expenditure paid to these consultants is therefore regarded as irregular.

| **Project Details** | **Amount (R)** | **WCS number** | **Consultant name** |
| --- | --- | --- | --- |
| CONSULTANT PAYMENT - NELSON MANDELA MUSEUM | 140,851.53 | 046573 | Impendulo Design architects |
| CONSULTANT PAYMENT – BUTTERWORTH | 203,014.56 | 040588 | Emzantsi consulting engineers |
| CONSULTANT PAYMENT - LUSIKISIKI SAPS | 19,264.86 | 040174 | Smale and Partners |
| CONSULTANT PAYMENT - UMTHATHA PRISON | 105,239.32 | 040613 | Aurecon South African PTY (LTD) |
| CONSULTANT PAYMENT - Tsolo Police station | 141,799.65 | 046831 | Camdekon |
| CONSULTANT PAYMENT - Tsolo Police station | 161,634.41 | 046831 | Indwe Consulting engineers |
| CONSULTANT PAYMENT - tsolo Police station | 23,090.63 | 046831 | Indwe Consulting engineers |
| CONSULTANT PAYMENT - Tsolo Police station | 85,074.17 | 046831 | Indwe Consulting engineers |
| CONSULTANT PAYMENT - Tsolo Police station | 12,122.58 | 046831 | Indwe Consulting engineers |
| CONSULTANT PAYMENT - Tsolo Police station | 76,968.76 | 046831 | Indwe Consulting engineers |
| CONSULTANT PAYMENT - Tsolo Police station | 23,014.75 | 046831 | Indwe Consulting engineers |
| CONSULTANT PAYMENT - Qunu private residence | 259,428.99 | 045539 | Bartch Consulting |
| CONSULTANT PAYMENT - Qunu private residence | 81,521.05 | 045539 | Roeleveld Quantity Surveyors |
| CONSULTANT PAYMENT - Butterworth magistrate office | 52,899.27 | 014131 | Manong and associates |
| CONSULTANT PAYMNET - BUTTERWORTH MAGISTRATE | 244,937.32 | 014131 | Rob Gillard architects |
| CONSULTANT PAYMENT - Butterworth magistrate office | 153,952.93 | 014131 | Bowie Lloyd |
| CONSULTANT PAYMENT - Bityi periodical court | 285,360.35 | 044390 | TCN Architects |
| CONSULTANT PAYMENT - Elliot police station | 50,716.83 | 027314 | Mazwana Maqetuka |
| CONSULTANT PAYMENT - LUSIKISIKI HOME AFFAIRS | 654,162.85 | 047059 | Rob Beard associates |
| CONSULTANT PAYMENT - LUSIKISIKI HOME AFFAIRS | 104,442.96 | 047059 | Rob Beard associates |
| CONSULTANT PAYMENT - Elliotdale police station | 37,228.16 | 047282 | Ilanga Lethu Consulting |
| CONSULTANT PAYMENT - Butterworth home affairs | 759,198.47 | 038767 | Manong and associates |
| CONSULTANT PAYMENT - EASTERN CAPE HOME AFFAIRS | 247,930.98 | 038767 | Manong and associates |
| CONSULTANT PAYMENT - MPISI POLICE STATION | 53,909.52 | 047277 | Pulana Baxter |
| CONSULTANT PAYMENT - MPISI POLICE STATION | 40,837.95 | 047277 | Studio 88 Architects |
| CONSULTANT PAYMENT - MT AYLIFF POLICE STATION | 20,486.46 | 047297 | Studio 88 Architects |
| CONSULTANT PAYMENT - MT AYLIFF POLICE STATION | 20,676.85 | 047297 | Studio 88 Architects |
| CONSULTANT PAYMENT - MT AYLIFF POLICE STATION | 46,990.59 | 047297 | Pulana Baxter and Associates |
| CONSULTANT PAYMENT - BIZANA POLICE STATION | 47,263.81 | 047271 | Studio 88 Architects |
| CONSULTANT PAYMENT - BIZANA POLICE STATION | 55,096.51 | 047271 | Studio 88 Architects |
| CONSULTANT PAYMENT - TSOLO MAGISTRATE OFFICE | 471,627.04 | 047673 | Masilakhe Lelethu Consulting |
| CONSULTANT PAYMENT - BIZANA POLICE STATION | 68,672.94 | 047271 | Pulana Baxter and Associates |
|  | **4,749,417.05** |  |  |

Management confirmed that the information is kept by the Head office. Consultants are appointed by Head office from roster system. The only documentation that is available in the regional Office is:

* Search request form
* Nomination for routine assignment
* Acceptance letter from consultant firm
* Appointment letter

## Internal control deficiency

*Financial and performance management:*

Management does not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

## Management response

I am in agreement with the finding.

## Auditor’s conclusion

This is a scope limitation and we could not confirm that the normal procurement process has been followed. This will be reported as an irregular expenditure and will have an impact on the audit report.

# Payments made on leases without a contract

#### Kimberly Regional office

## Audit finding

An irregular expenditure is defined as “expenditure, other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement the PFMA or any other applicable legislation”.

Section 40(1)(a) of the PFMA states that, the accounting officer for a department must keep full and proper records of the financial affairs of the department in accordance with any prescribed norms and standards.”

Section 38(1)(a)(iii) of the PFMA states that, the accounting officer for a departments must ensure that the department has and maintains an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective.

No rental agreement or contract was in place for the following lease payments made during the year.

|  |  |  |  |
| --- | --- | --- | --- |
| **Town** | **Institution/Dept** | **File number** | **Annual payment R** |
| De Aar | Correctional Services | 6647/0004 | 22,360.80 |
| Naroegas | SAPS | 6605/0879 | 23,232.00 |
| Pella | SAPS | 6630/0008 | 10,860.96 |
| Kimberley | Public Protector | 6611/1726 | 5,280.00 |
| Richmond | SAPS | 6652/0021 | 33,796.68 |
| De Aar | Agriculture | 6647/0142 | 13,680.00 |
| Griekwastad | SANDF | 6607/0093 | 3,307.92 |
| Keimoes | Justice | 6605/1372 | 158,004.00 |
| Postmasburg | SANDF | 6614/0904 | 59,268.00 |
| Springbok | Correctional Services | 6631/0096 | 61,187.04 |
| Springbok | Labour | 6631/0004 | 320,988.00 |
| Springbok | Labour | 6631/0004 | 8,553.60 |
| Upington | Land Affairs | 6605/1403 | 102,960.00 |
| Colesberg | Correctional Services | 6645/0076 | 264,000.00 |
| Garies | Justice | 6625/0009 | 67,016.64 |
| Griekwastad | SANDF | 6607/0097 | 77,825.52 |
| Kimberley | SAPS | 6611/1371 | 149,735.52 |
| Kimberley | SANDF | 6611/1750 | 95,954.76 |
| Upington | SANDF | 6605/1367 | 77,825.52 |
| Springbok | Correctional Services | 6631/0094 | 1,440.00 |
| Lime Acres | SAPS | 6614/0609 | 12.00 |
| Steinkopf | SAPS | 6632/0002 | 6,690.00 |
| Springbok | Home Affairs | 6631/0121 | 381,609.60 |
| Kenhardt | SANDF | 6610/0407 | 57,617.76 |
| Kimberley | SANDF | 6611/1628 | 31,102.80 |
| Kommagas | SAPS | 6603/0006 | 35,217.00 |
| De Aar | Home Affairs | 6647/0180 | 256,237.32 |
| Kleinzee | SAPS | 6628/0006 | 7,800.00 |
| **Total** |  |  | **2,333,563.44** |

It was discussed with the head of leases and the following was confirmed:

* The regional office received notification from Head Office that they can pay the lease rentals for the clients indicated under the nature tab.
* No valid lease agreement exists between PMTE and the client.
* There is a memorandum from Head Office which confirms that they should rent the premises however no copy of this memorandum could be obtained for audit purposes.
* Irregular expenditure payments were made without adequate supporting documentation.

## Internal control deficiency

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

## Recommendation

Management should ensure that there's a proper agreement/contract stating the terms and conditions for both parties.

## Management response

The department agrees with the finding. However, it must be noted that the leases could not be renewed without the approval of funds from the client. The Cost Analysis form was sent to the client prior to the expiry of the lease, but the client failed to confirm the availability of funds and therefore, the lease could not be renewed although the client remained in occupation of the premises. The CFO informed regions to renew on the terms and conditions of the previous lease, since common law dictates that if a party remain in occupation after a lease agreement has expired, rental cannot be withheld. Circulars are attached herewith.

## Auditor’s conclusion

Management comment noted. The Department must take all necessary steps to ensure that a valid lease agreement is in place when a client department occupies the building. This has legal implications and could result in fruitless and wasteful expenditure should the Department be involved in some form of litigations

# Payments made on lease that expired

#### Pretoria

## Audit finding

When an official of an institution discovers unauthorised, irregular or fruitless and wasteful expenditure, that official must immediately report such expenditure to the accounting officer. In the case of a department, such expenditure must also be reported in the monthly report, as required by section 40 (4) (*b*) of the Act. Irregular expenditure incurred by a department in contravention of tender procedures must also be brought to the notice of the relevant tender board or procurement authority, whichever is applicable.

**PFMA Section 38(1) (g) and (h)   General responsibilities of accounting officers-states that-**

(*g*) On discovery of any unauthorized, irregular or fruitless and wasteful expenditure, must immediately report, in writing, particulars of the expenditure to the relevant treasury and in the case of irregular expenditure involving the procurement of goods or services, also to the relevant tender board;

(*h*) Must take effective and appropriate disciplinary steps against any official in the service of the department, trading entity or constitutional institution who—

(i)  Contravenes or fails to comply with a provision of this Act;

(ii)  Commits an act which undermines the financial management and internal control system of the department, trading entity or constitutional institution; or

(iii) makes or permits an unauthorized expenditure, irregular expenditure or fruitless and wasteful expenditure;”

During the performance of the performance of audit procedures on leases, the following sample was selected and it was determined that the lease was paid while the agreement has expired

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date of discovery** | **Building Name or Landlord** | **File Number** | **Incident Description** | **Amount** |
| 13-Apr-11 | SENTECH (PTY) LTD | 6029/6026 | Lease expired on November 2010 | 6,862.30 |
| 13-Apr-11 | NEW HEIGHTS 326 PTY LTD | 6029/2787 | Lease expired on November 2010 | 2,586,711.60 |
| 13-Apr-11 | PIC PROPERTY MANAGEMENT | 6029/6703 | Lease expired on Dec 31 2010 | 1,621,447.41 |
| 13-Apr-11 | SILVER MEADOW PROPERTIES 142 | H6029/1091 | Lease expired on November 2010 | 4,707,220.85 |
| 13-Apr-11 | DOUBLE RING TRADING 156 PTY LT | 6029/0187 | lease expired in June 2010 | 1,861,413.40 |
|  | **TOTAL** |  |  | **R10 783 655,56** |

The lease agreements for these properties were not supplied either, which led to the amounts not being able to be tested for accuracy as the lease amounts cannot be traced on to the actual lease.

The auditors can therefore, not satisfy themselves as to the correctness of these amounts.

## Internal control deficiency

*Leadership*

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

## Recommendation

Monitoring should be done by senior officials to ensure compliance with laws and regulations. Furthermore, all amounts recognized in the schedule should be supported by calculations and supporting documentation providing the necessary information supporting the disclosure.

## Management response

Management is in agreement with the finding. The payments are processed on legal grounds and the attached directive from CFO attests to this in order to avoid fruitless expenditure which may be as a result of interest and litigation.A blanket submission of irregular submission is submitted once per Financial Year to the relevant structures of the department (attached is an example of the submission).

*Name: Mokgaetjie Tlolane*

*Position: Act DD Leasing*

*Date: 22/07/11*

## Auditors’ conclusion

The client acknowledges the finding and the finding remains a valid finding. This will be reported as an irregular expenditure and will form basis of our audit conclusion.

# Leases up for renewal not identified in advance

#### Nelspruit Regional Office

## Audit finding

Treasury Regulation states the following:

*8.1.1   The accounting officer of an institution must ensure that internal procedures and internal control measures are in place for payment approval and processing. These internal controls should provide reasonable assurance that all expenditure is necessary, appropriate, paid promptly and is adequately recorded and reported.*

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

Public Finance Management Act No. 1 of 1999 paragraph *38 on the General responsibilities of accounting officers.*

1. *The accounting officer for a department, trading entity or constitutional institution* 
   1. *must ensure that the department, trading entity or constitutional institution has and maintains* 
      1. *effective, efficient and transparent systems of financial and risk management and internal control*
2. *an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost-effective;*
3. *a system for properly evaluating all major capital projects prior to a final decision on the project;*
   1. *is responsible for \*the effective, efficient, economical and transparent use of the resources of the department, trading entity or constitutional institution;*
   2. *must take effective and appropriate steps to*
4. *prevent unauthorised, irregular and fruitless and wasteful expenditure and losses resulting from criminal conduct; and*
5. *manage available working capital efficiently and economically;*
   1. is responsible for the management, including the safe-guarding and the maintenance of the assets, and for the management of the liabilities, of the department, trading entity or constitutional institution;
6. must settle all contractual obligations and pay all money owing, including inter-governmental claims, within the prescribed or agreed period

Deviation noted pertaining to the aforementioned:

|  |  |  |  |
| --- | --- | --- | --- |
| **File** | **Property** | **Landlord** | **Annual rental** |
| H6024/0772 | SAP13 Vehicle Camp Erf 26 Nelspruit | Trans Oos Elektries | R88 857 |

Erf 26, 4 Waterfall Street Riverside Nelspruit was leased from Trans – Oos Elektries on a month to month basis for 12 months commencing on 1 April 2009. The property has been occupied by the South African Police Service (SAPS) from 2004. The rental agreement that the department had with the Trans Oos Elektries expired on 31 March 2010.

The department was notified by SAPS to renew the lease for an additional period of 3 years. It is not clear when this communication was received from SAPS but the request for the approval of the procurement strategy for the renewal of the lease was only compiled on 19 March 2010 and approved on 23 March 2010 by the Bid Adjudication Committee. A month to month lease contract commencing on 1 April 2010 but not exceeding six months was signed by the Department on 9 April 2010 allowing the department sufficient time to draft and approve a lease contract with Trans Oos Elektries for two years. This latter was signed on 21 May 2010.

The initial lease contract stipulated that the Department (Lessee) had to notify the Lessor at least six months prior to the expiry of the lease of their intention to exercise its right to renew and the required lease renewal period.

Based on the above it is clear that the department did not identify the lease to be renewed six months in advance. Possible irregular expenditure due to a payment made when there is no legal contract in place when the payment is made. Possible occupancy of a property without a valid lease agreement in place. Insufficient use of the Department’s recourses due to the unnecessary time spent by the Supply Chain Management Officials approving a temporary month to month lease contract instead of identifying the renewal in advance and following a proper procurement process whereby the desired annual lease contract is approved.

## Internal control deficiency

*Financial and performance management*

The PMTE did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting

## Recommendation

Management needs to implement a system in the department whereby a list of all leases and there expiry dates are kept. Management needs to assign an appropriate official to monitor this list and identify leases to be renewed in advance (at least six months before the lease expires) in order to initiate the renewal process to avoid the last minute approval of a temporary lease.

## Management response

I do not agree with the finding for the following reasons: The lease cannot be renewed six months in advance without a directive from the Clients in a form of a Procurement Instruction. In this case the renewal letter (PI) from the Clients was not received six months in advance to allow the lease to be renewed six months in advance.

## Auditor’s response

Management comment is noted. It is our recommendation that the department initiates the process by notifying the lessee that their lease is expiring in six months time and that a procurement instruction is needed should the lessee wish to continue the lease.

In absence of any documentation provided by management that proves that the renewal of the lease has been identified in advance and the lessee notified, the finding stands. This will be reported as an irregular expenditure and will form the basis of our audit opinion.

# Contract extended without requesting new bids/quotations

#### Pretoria

## Audit finding

Section 38 (1)(c)(ii) of the PFMA states the following under the general responsibilities of the accounting officers: "The accounting officer for a department, trading entity or constitutional institution, must take effective and appropriate steps to prevent unauthorised, irregular and fruitless and wasteful expenditure and losses resulting from criminal conduct....".

The SCM policy par.52 (d) states the following under a uniform acquisition policy: "The department must comply with the principles of fair, equitable, transparent, competitive and cost-effective processes throughout acquisitions.”

For the following services providers, extended contracts it was noted that their contracts had expired and the provision of the services were extended on a month to month basis with these suppliers without sourcing new suppliers or quotations. The extensions were approved by the Regional Bid Adjudication committees on justification that these are urgent and emergency contracts. The services supplied do not constitute urgent or emergency contracts as it could have been reasonably expected that the entity will be aware of any agreements coming to an end and a need to source new suppliers. As per requirement of SCM, procurement of goods and services require obtaining of quotations.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **NO** | **SUPPLIER NAME** | **Amount approved for extension** | **Expiry of contract** | **Reason for requiring extension** |
| 1 | TSANGOANE MANAGEMENT SOLUTION (security services) | R 18 000,00 | Not provided | An extension of security services at 139 Rigel Avenue, Waterkloof |
| 2 | STEINER HYGIENE (Hygiene services) | R 136 056,00 | 31 May 2010 | The decision to advertise the services required as a 24 month contract on an open tender was taken in May 2010 |
| 3 | LINE 117 BUSINESS ENTERPRISE (hygiene services) | R 19 720,00 | 30 April 2010 | Database for EPWP within facilities had not been finalised yet. |
| 4 | MATEBELLA CLEANING and CATERING (hygiene services) | R 2 880,70 | 31 March 2010 | The procurement of services had not been finalised yet. |
| 5 | MARENA NALEDI BUSINESS ENTERPRISE (hygiene services) | R 19 671,84 | 30 April 2010 | Database for EPWP within facilities had not been finalised yet. |

Lack of contract management and planning has led to contracts expiring without management making the necessary provisions for new contracts to be entered into and ensuring that the SCM policy is adhered to at all times.

This constitutes a non compliance with Supply Chain Management policies. Furthermore, if no quotations are sourced from other suppliers, there is no proof that the services were procured at the most economical price and this does not create a fair and equitable process for all to participate in.

## Internal control deficiency

*Leadership:*

* “*Tone at the top”,* - an environment that is conducive to good accountability and service delivery through; positive attitude; integrity; competence; and ethical behaviour.
* Management’s philosophy and operating style does not promote effective control over reporting. They do not lead by example.

## Recommendation

The Trading Entity must urgently identify all the contracts that will be expire within the next 6 months and follow the normal procurement process as required by Supply Chain Management policy.

A procedure/policy must be developed where the Trading Entity addresses the need to identify all contracts that will expire within 6 months to avoid a situation where these contracts are treated as emergency when in actual fact; it’s the lack of planning from the Trading Entities part that led to the emergency.

## Management response

I am in agreement with the finding.

Cause: The procurement process was entered into, however it was later cancelled to in order to incorporate the Parliaments’ initiative promote cooperative and EPWP, which it was not clear from the National Department on how the process was going to unfold.

Action plan: Term contracts will be arranged based on the criteria to be decided upon by the region.

*Name: J Thobejane*

*Position: DD: SCM*

*Date:07/6/20110*

## Auditors’ conclusion

Management have agreed with the finding. This is an irregular expenditure and will be reported in the audit report and will form a basis of our audit opinion.

# No proof that lessor is registered for VAT

#### Pretoria

## Audit finding

As per supply chain management procedures, procedures with a value above R500 000 require that the supplier be a registered vat vendor. The following suppliers on the pp38 did not have VAT registration numbers attached to the pp38 and further, these suppliers could not be traced to the SARS Vat Vendor search:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date** | **Item Description** | **Amount** | **Lease no:** | **Lessor** |
| 2010/04/28 | RENTAL LEASE | R1,576,463.87 | 6029/6346 | LEOPONT 444 PROPERTIES (PYT) L |
| 2010/04/28 | RENTAL LEASE | R3,578,925.34 | 6029/0157 | ENCHA PROPERTIES PTY LTD TRUST |
| 2010/06/29 | RENTAL LEASE | R7,759.83 | 6007/0206 | SCHOEN JS |
| 2010/06/29 | RENTAL LEASE | R1,316,365.93 | 6029/1554 | SUMMERMANIA SEVEN (PTY) LTD |
| 2010/07/26 | RENTAL LEASE | R996,319.53 | 6029/6679 | REDEFINE PROPERTIES LIMITED |
| 2010/07/26 | RENTAL LEASE | R1,554,526.80 | 6029/6270 | DOMAYNE PROPERTY MANAGERS |
| 2010/08/26 | RENTAL LEASE | R1,100,879.58 | 6029/0231 | REDEFINE PROPERTIES LIMITED |
| 2010/08/26 | RENTAL LEASE | R1,964,392.05 | 6029/7008 | REDEFINE PROPERTIES LIMITED |
| 2010/09/28 | RENTAL LEASE | R1,100,879.58 | 6029/0231 | REDEFINE PROPERTIES LIMITED |
| 2010/09/28 | RENTAL LEASE | R1,675,916.37 | 6029/6236 | REDEFINE PROPERTIES LIMITED |
| 2010/09/28 | RENTAL LEASE | R2,141,187.33 | 6029/7008 | REDEFINE PROPERTIES LIMITED |
| 2010/11/30 | RENTAL LEASE | R1,696,275.12 | 6029/6346 | LEOPONT 444 PROPERTIES (PYT) L |
| 2011/01/04 | RENTAL LEASE | R499,074.14 | 6029/6542 | MANAKA PROPERTY INVESTMENTS (P |
| 2011/01/04 | RENTAL LEASE | R18,581.27 | 6029/6711 | CITY PROPERTY ADMINISTRATION |
| 2011/01/26 | RENTAL LEASE | R772,402.03 | 6029/4580 | REDEFINE PROPERTIES LIMITED |
| 2011/01/26 | RENTAL LEASE | R38,759.87 | 6029/6563 | OLD MUTUAL PROPERTIES |
| 2011/02/22 | RENTAL LEASE | R22,332.67 | 6029/6171 | NEW HEIGHTS 326 PTY LTD |
|  | **TOTAL** | **R20 061 041,31** |  |  |

Non compliance with Supply chain management processes

## Internal control deficiency

Leadership

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

## Recommendation

The lease documentation should have tax clearance certificates attached to it to comply with supply chain management.

## Management response

Management response outstanding

## Auditors’ conclusion

This finding remains a valid finding and will be included as part of the irregular expenditure. This will also form the basis of our audit opinion.

# No Site Inspection Certificate

## Audit finding

Treasury Regulations 16A3.2 (a) states the following under the supply chain management system: *"A supply chain management system must be fair, equitable, transparent, competitive and cost effective...”*

PA-04 (Notice and Invitation to Tender) form for the project title: Department of Home Affairs: Upgrading of Government Printing Works Second Pavilion had conditions stated in the form. It stated that only tenders who are responsive to the following responsiveness (which were outlined in the form) criteria are eligible to submit tenders. Failure to comply with the criteria stated the in the PA-04 form shall result in the tender offer being disqualified from further consideration. One of the requirements stated in the PA-04 was the submission of DPW-16EC (Site Inspection Certificate as proof of attendance of compulsory site inspection meeting).

It was noted, that the Site Inspection Certificate was not attached to the bidding documentation beside what was stated in the notice and invitation to tender form, the contract was still awarded to the under mentioned supplier.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **No** | **WCS No** | **Service Provider** | **Tender No** | **Contract Amount (R)** |
| 1 | 47689 | Yikusasa Building Contractors | H09/074 | 38 151 272.27 |

The Department could not provide the audit team with evidence that the site inspection has been performed. The reason for the site inspection not being performed has not been discussed with the official responsibility due to unavailability. Missing tender documentations is an indication of the significant deficiencies in the overall supply chain structures or processes within the PMTE.

## Internal control deficiency

*Leadership: Oversight responsibility*

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

## Recommendation

* Management should drive an environment that is highly compliant with laws and regulations.
* The appropriate disciplinary steps should be taken in terms of Treasury Regulation 9.1.3 and section 81(2) of the PFMA where there was no compliance by an official of the Department.

## Management response

Management is not in agreement with the finding as the site inspection certificate was not part of the returnable schedules as you will see on the attached PA04. The requirement is not ticked

## Auditor’s conclusion

Evidence that the site inspection has been conducted was not provided and thus this results in a non compliance. Management should implement controls to ensure that evidence of site visits is available and easily retrievable for submission to the auditors. This will be included as an irregular expenditure and will therefore form the basis of our audit opinion.

# Insufficient filing system for planned maintenance-

## Audit finding

Section 41 of the PFMA states that “An accounting officer for a department must submit to the relevant treasury or the Auditor General such information, returns, documents, explanations and motivations as may be prescribed or as the relevant treasury or the Auditor General may require.” During the audit, we requested the following tender file for audit purposes.

|  |  |  |  |
| --- | --- | --- | --- |
| **File number** | **Supplier name** | **Tender value** | **Payment during the current financial year** |
| H09/058 | Enviro Metsi | R16 523 982,59 | R5 022 142,06 |

Upon receipt of the file, the following was noted:

1. The cover page, evaluation documents, approval documents, tax clearance certificate, certificate of founding statement, risk assessments and the CIDB registration certificate are tender documents for the Enviro Metsi.
2. However, the following documents were included in the file but do not relate to Enviro Metsi but they are documents of Mangwa Construction CC for the project Ekuseni Youth Centre Wastewater Works and water purification works:
3. Form of offer and Acceptance
4. Declaration of interest and renderers past SCM practices
5. Resolutions of board of directors
6. Site inspection meeting certificate
7. Preference points claim form and affidavit
8. Particulars of proposed subcontractors
9. Contract Data
10. The aforementioned information has therefore not been provided for Enviro Metsi and this therefore constitutes a limitation of scope as when the request for tender files is made, all information pertaining to the tender should be included in the tender file.

It is clear that there is no proper management of the tender files as it cannot be explained by management how they overlooked this issue. This is thus a clear indication that the files are not properly checked for completeness and correctness before they are submitted for audit purposes. This therefore constitutes a scope limitation.

## Internal control deficiency

*Financial and Performance Management*

* Proper record keeping and record management; the documents supporting the above are not properly filed and easily retrievable
* Requested information was not available and supplied without any significant delay.

## Recommendation

* The personnel responsible for compiling tender files must ensure that the correct documents are being filed and appropriately bound.
* Tender files must be checked by the senior official that they contain appropriate information and are in order before they are filed.
* All completed files must be appropriately shelved in locked location for safe keeping.

## Management response

An official has been dedicated to peruse all files in our custody to ensure correct filling and completeness of documents. This process being managed by the Deputy Director: Contract Administration

Name: Jessica Moodley

Position: Acting Chief Director: Legal Services

Date: 2011-06-06

## Auditor’s conclusion

This remains a control deficiency as from the information provided, the issues as indicated in the finding were valid. Management must ensure that there is a proper filing system in place. There is no evidence that the normal procurement process was followed and as a result, the amount will be disclosed as a scope limitation and will be included in the schedule of identified misstatements. This is will also be included as irregular expenditure.

# IFRS 9: Classification in accordance with accounting policy

## Audit finding

The International Financial Reporting Framework 9 states the following:

*"4.1 Classification of financial assets*

*4.1.1 Unless paragraph 4.1.5 applies, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value on the basis of both:   
(a) the entity’s business model for managing the financial assets and   
(b) the contractual cash flow characteristics of the financial asset.   
4.1.2 A financial asset shall be measured at amortised cost if both of the following conditions are met:   
(a) The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows.   
(b)The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding."*

The policy presented in the Accounting Policies as per the annual financial statements presented on 15 July 2011 indicates: *“Financial assets at amortised cost are those financial assets where the business model for managing the assets is to hold the assets to collect contractual cash flows”,* however the PMTE does not have a Policies and Procedure document to supplement the accounting policy note as presented. This document need to set out the assumptions, principles and methodologies to support the selection of the basis opted for. Abovementioned may lead to trade and other receivables being incorrectly classified. This is also due to the lack of policies and procedures to facilitate the financials accounting requirements.

## Internal control deficiency

*Financial and performance management*

Policies and procedures are not established and communicated to enable and support understanding and execution of internal control objectives, processes, and responsibilities

## Recommendation

* Policies and procedures addressing the financial reporting framework should be developed and implemented to facilitate the financial accounting process in accordance with guidance in IFRS 9.
* Management should employ a staff compliment with the relevant accounting qualifications

## Management response

Management response not received.

## Auditor’s conclusion

Management comment not received, therefore finding remains unresolved and will be reported in the audit report that the entity does not have policies and procedures.

# Expenditure paid on WCS not capitalised to the cost of property on PMIS

**Cape Town**

## Audit finding

Per the *Public Finance Management Act 1 of 1999*

38.   General responsibilities of accounting officers.—(1)  The accounting officer for a department, trading entity or constitutional institution—

(a)       must ensure that that department, trading entity or constitutional institution has and maintains—

(i)         effective, efficient and transparent systems of financial and risk management and internal control;

The payments processed on WCS were not capitalized to the cost of properties maintained in PMIS as the two software systems are not integrated.

| **Date** | **Description** | **Amount** | **Reference** |
| --- | --- | --- | --- |
| 4/29/2010 | CONTRACTOR PAYMENT | 4,450,100.45 | PMT - 261498  WCS - 043383/0002 |
| 5/3/2010 | CONTRACTOR PAYMENT | 12,599,096.94 | PMT - 261875  WCS – 039597 |
| 5/18/2010 | CONTRACTOR PAYMENT | 6,421,515.99 | PMT - 265770  WCS – 039597 |
| 5/26/2010 | CONTRACTOR PAYMENT | 5,152,138.15 | PMT - 268865 WCS - 042323/0001 |
| 5/28/2010 | CONTRACTOR PAYMENT | 6,130,686.81 | PMT - 270611 WCS - 043383A/002 |
| 6/17/2010 | CONTRACTOR PAYMENT | 6,370,919.37 | PMT - 275537 WCS – 039597 |
| 6/30/2010 | CONTRACTOR PAYMENT | 4,411,898.39 | PMT - 280957 WCS - 042323/0001 |
| 7/2/2010 | CONTRACTOR PAYMENT | 4,742,427.17 | PMT - 281502 WCS - 043383A/002 |
| 7/26/2010 | CONTRACTOR PAYMENT | 6,443,200.25 | PMT - 287254 WCS – 039597 |
| 7/30/2010 | CONTRACTOR PAYMENT | 5,854,093.46 | PMT - 290266 WCS - 043383A/002 |
| 8/20/2010 | CONTRACTOR PAYMENT | 6,453,319.57 | PMT - 295525 WCS – 039597 |
| 8/26/2010 | CONTRACTOR PAYMENT | 4,348,728.83 | PMT - 297237 WCS - 045661/0001 |
| 8/30/2010 | CONTRACTOR PAYMENT | 4,335,637.28 | PMT - 299992 WCS - 043383A/002 |
| 9/28/2010 | CONTRACTOR PAYMENT | 4,099,831.72 | PMT - 307868 WCS – 039597 |
| 12/31/2010 | CONTRACTOR PAYMENT | 6,448,982.71 | PMT - 347376 WCS – 039597 |
| 10/26/2010 | CONTRACTOR PAYMENT | 3,201,769.53 | PMT - 320817 WCS - 043383A/002 |
| 12/13/2010 | CONTRACTOR PAYMENT | 6,438,863.39 | PMT - 334215 WCS – 039597 |
| 10/15/2010 | CONTRACTOR PAYMENT | 5,412,842.28 | PMT - 313702 WCS 039597 |
| 12/14/2010 | CONTRACTOR PAYMENT | 2,745,190.19 | PMT - 334269 WCS -045661/0001 |
| 1/17/2011 | CONTRACTOR PAYMENT | 1,527,420.61 | PMT - 342139 WCS - 021477/0001 |
| 10/13/2010 | CONTRACTOR PAYMENT | 869,649.66 | PMT – 313191 |
| 5/20/2010 | CONTRACTOR PAYMENT | 2,863,916.54 | AP266738 - WCS 044002 |
| 4/20/2010 | CONTRACTOR PAYMENT | 2,919,439.45 | AP256397 - WCS 044002 |
| 5/6/2010 | CONTRACTOR PAYMENT | 2,950,544.83 | AP263027 - WCS 044669 |
| 9/23/2010 | CONTRACTOR PAYMENT | 2,962,577.79 | AP305759 - WCS 045661 |
| 6/29/2010 | CONTRACTOR PAYMENT | 3,144,153.27 | AP279214 - WCS 045661 |
| 7/23/2010 | CONTRACTOR PAYMENT | 3,361,966.19 | AP286400 - WCS 044002 |
|  | **TOTAL** | **R 126,660,910.82** |  |

The following were also not capitalised;

|  |  |  |  |
| --- | --- | --- | --- |
| **Date** | **Supplier Description** | **Amount** | **Payment No** |
| 03-Jun-10 | MBB Consulting Engineers | 41,433.14 | 272511 |
| 03-Jun-10 | Haw & Inglis | 4,325,894.15 | 272523 |
| 03-Jun-10 | Malherbe Rust Architects | 530,510.57 | 272535 |
| 04-Jun-10 | Slyahlangana Construction (Pty) Ltd | 395,221.22 | 273186 |
| 09-Apr-10 | Sizwe Paints | 35,661.92 | 254020 |
| 11-Nov-10 | Hashiem Da Costa Distributors CC | 23,466.90 | 322351 |
| 08-Nov-10 | Firetech Projects | 140,194.57 | 321982 |
|  | **TOTAL** | **5,492,382.47** |  |

The above is due to the fact that properties are managed on the PMIS system while projects get managed on WCS. The expenditure is of a capital nature and may not be appropriately capitalised to the respective properties, consequently the value of properties may be understated.

## Internal control deficiency

*Financial and performance management*

* Adequate financial management systems
* General information technology controls are not designed to maintain the integrity of the information systems and the security of the data.
* Systems are not appropriate to facilitate the preparation of the financial statements and performance reports.

## Recommendation

Management should ensure that all capital expenditure incurred is capitalized to the cost of the property.

## Management response

The audit finding is acknowledged. The Dept is currently busy with a system that will integrate both PMIS and WCS. The system is called iEworks. As properties are already linked between the two systems, the iEworks will assist with the interface of expenditure to ensure that expenditure is capitalized to the cost of the properties. This system was rolled out during April 2011 however due to technical and other challenges experienced it was recalled. It is envisaged that it will be functioning by September 2011.

*Name: N Kani*

*Position: Dir: Finance*

*Date: 14/07/2011*

## Auditor’s conclusion

Management comments noted. The issue of expenditure not being capitalised to the PMIS will be reported on in the audit report. This has an impact that the PMIS is not complete as it is clear that it does not include all the properties that are owned and leased by the Departement.

# Incorrect formula was used to calculate preference points awarded for price

**Cape Town**

## Audit finding

The ***Preferential Procurement Policy Framework Act 5 of 2000*** section 4 reads as follows:

"The 90/10 preference point system.—(1) The following formula must be used to calculate the points for price in respect of tenders/procurement with a Rand value above R500 000:

Ps = 90(1-((Pt-Pmin)/Pmin)

Where

Ps = Points scored for price of tender under consideration

Pt = Rand value of tender under consideration

Pmin = Rand value of lowest acceptable tender

Pmin = Rand value of lowest acceptable tender"

Contrary to the above the incorrect formula was used to calculate preference points awarded for price for the bidders listed below.

The formula used by the department was NFO = (Pm/P)\*W1

 Where

 NFO = price point score; Pm = lowest tender; P = tender under consideration; W1 = weight price points

**Comparison of results of calculation:**

**Year end Tender number : 65/08**

|  |  |  |
| --- | --- | --- |
| **Pestokil** | | |
| **Auditors calculation** | **Client calculation** | **Variance** |
| Ps = 90(1-((Pt-Pmin)/Pmin)       = 90 (1-((1,235,901,01 - 901,065.41) / 901,065.41)       = 56.5560 | NFO = (Pm/P)\*W1       = (901,065.41 / 1,235,901,01) \* 90       = 65.6168 | NFO - Ps = 9.0608 |
| R.M.G. Pest Control | | |
| Ps = 90(1-((Pt-Pmin)/Pmin)       = 90 (1-((974,354,41 - 901,065.41) / 901,065.41)       = 82.6798 | NFO = (Pm/P)\*W1       = (901,065.41 / 974,354,41) \* 90       = 83.2304 | NFO - Ps = 0.5506 |

**Year end Tender number : 49/07**

|  |  |  |
| --- | --- | --- |
| 1st Gear Trading 117 CC | | |
| **Auditors calculation** | **Client calculation** | **Variance** |
| Ps = 90(1-((Pt-Pmin)/Pmin)       = 90 (1-((997,956.00 - 782,394.93) / 782,394.93)       = 65.2037 | NFO = (Pm/P)\*W1       = (782,394.93 / 997,956.00) \* 90       = 70.5598 | NFO - Ps = 5.3561 |
| BLT Bolier Service | | |
| Ps = 90(1-((Pt-Pmin)/Pmin)       = 90 (1-((1,106,751.50 - 782,394.93) / 782,394.93)       = 52.6888 | NFO = (Pm/P)\*W1       = (782,394.93 / 1,106,751.50) \* 90       = 63.6236 | NFO - Ps = 10.9348 |

**Year end Tender number : 10/09**

|  |  |  |
| --- | --- | --- |
| BLT M&E Consulting Service | | |
| **Auditors calculation** | **Client calculation** | **Variance** |
| Ps = 90(1-((Pt-Pmin)/Pmin)       = 90 (1-((1,930,879.95 - 995,273.00) / 995,273.00)       = 5.3954 | NFO = (Pm/P)\*W1       = (995,273.00 / 1,930,879.95) \* 90       = 46.3905 | NFO - Ps = 40.9951 |

**Year end Tender number : 08/09**

|  |  |  |
| --- | --- | --- |
| Stainless Concepts | | |
| **Auditors calculation** | **Client calculation** | **Variance** |
| Ps = 90(1-((Pt-Pmin)/Pmin)       = 90 (1-((875,805.000 - 862,218.64) / 862,218.64)       = 88.5818 | NFO = (Pm/P)\*W1       = (862,218.64 / 875,805.00) \* 90       = 88.6038 | NFO - Ps = 0.0220 |
| BLT M&E Consulting Services | | |
| Ps = 90(1-((Pt-Pmin)/Pmin)       = 90 (1-((1,499,533.65 - 862,218.64) / 862,218.64)       = 23.4759 | NFO = (Pm/P)\*W1       = (862,218.64 / 1,499,533.65) \* 90       = 51.7492 | NFO - Ps = 28.2733 |

The system used to determine the preference points awarded for price was incorrectly setup as the incorrect formula was applied.

The incorrect supplier might be awarded the tender based on the incorrect scoring model results used.

## Internal control deficiency

*Leadership*

* Decisive action to: mitigate emerging risks, implement timely corrective measures and address non performance
* Actions are not taken to address risks relating to the achievement of complete and accurate financial and performance reporting.
* Control weaknesses are not analysed, and appropriate follow-up actions are not taken that address root causes

## Recommendation

Management should ensure that the correct formula has been applied to ensure compliance with section 4 of the *Preferential Procurement Policy Framework Act 5 of 2000.*

## Management response

Awaiting management response

## Auditor’s conclusion

This constitutes a non compliance with *Preferential Procurement Policy Framework Act 5 of 2000*section 4 and will be reported in the audit report as a non compliance.

# Property expense could not be linked to the property

#### Bloemfontein

## Audit finding

Section 40(1)(a) of the Public Finance Management Act, 1999 (Act No.1 of 1999) (PFMA) states that: *"The accounting officer for a trading entity must keep full and proper records of the financial affairs of the trading entity in accordance with any prescribed norms and standards."*

Contrary to the provisions of this section, the immovable assets register on the PMIS system is not updated automatically as spending on construction projects proceed as there is no integration between the WCS system and the PMIS. Owing to this shortcoming, we were unable to match expenditure on construction projects with a specific property or determine whether such properties are state owned or leased. The following serves as examples for the deviations as highlighted above:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Transaction date:** | **Beneficiary Name:** | **Payment No:** | **Amount:** | **Property code as per supporting docs:** |
| 2010/04/09 | MAKHOLI CONSTRUCTION AND DEVELOP | 000254009 | R198 261,85 | 254646 |
| 2010/04/12 | STEFANUTTI STOCKS HOUSING (PTY) | 000254142 | R2 174 322,00 | 293207 |
| 2010/04/20 | MAKHOLI CONSTRUCTION AND DEVELOP | 000256380 | R325 094,74 | 254646 |
| 2010/04/20 | TOKOLOGO TECHNICAL ASSIGNMENTS C | 000256385 | R1 089,49 | 114788 |
| 2010/04/20 | QUANPRO (VEREENIGING) | 000256392 | R574 095,70 | 293207 |
| 2010/06/03 | CJB VISAGIE T/A MOSTERT, VAN DER | 000272517 | R17 543,78 | 254646 |
|  |  | **Total** | **R3 290 407,56** |  |

 The cause of the above is:  The system of the trading entity does not allow the link to be made between the payment and asset register via a property code.

The impact of the above is:

* Payments could be made for properties that do not exist
* Maintenance could be made on property that does not have to be maintained by the trading entity.

## Internal control deficiency

*Financial and performance management:*

* 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 is not implemented.
* Control environment: Control environment not adequately developed to ensure that there is adequate integration between the WCS and PMIS systems.

## Recommendation

Management should implement a system which will be able to capture information in a form which supports financial reporting and result in a clear link between WCS and PMIS.

## Management response

This office cannot agree with the finding of the AGSA, as integration between the two systems was done from 1 April 2010. During the capturing of the payment the relevant property code is a compulsory field as part of the system controls within WCS.

*Name: N Zulu*

*Position: Regional Manager*

*Date: 17 June 2011*

*Auditor’s conclusion*

## Auditor’s conclusion

Management response is noted. However, we could not trace the payments identified above, to the specific property maintained and we were also unable to confirm that the property maintained is state owned or leased. The matter is therefore not resolved and is reported on in the management report.

# No integration between PMIS and WCS to link maintenance to properties

#### Bloemfontein

## Audit finding

Section 40(1)(a) of the Public Finance Management Act, 1999 (Act No.1 of 1999) (PFMA) states that: *"The accounting officer for a trading entity must keep full and proper records of the financial affairs of the trading entity in accordance with any prescribed norms and standards."*

Contrary to the provisions of this section, payments were made for planned maintenance on property. The immoveable assets register (PMIS) is however not updated with any approved projects. Furthermore, there is no integration between the WCS and PMIS in respect of planned maintenance. Consequently, we could not trace the payments to the specific property maintained and we were also unable to confirm that the property maintained is state owned or leased. The following serves as examples for the deviations as highlighted above:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **No:** | **Description:** | **Date:** | **Payment No:** | **Amount:** |
| 1 | Consultant Payment | 2010/09/17 | 304539 | R47 363,43 |
| 2 | Contractor Payment | 2010/09/17 | 304543 | R731 017,81 |
| 3 | Consultant Payment | 2010/09/20 | 304786 | R2 122 467.51 |
| 4 | Consultant Payment | 2010/09/17 | 304992 | R10 126,72 |
| 5 | Contractor Payment | 2010/10/28 | 319708 | R865 529,90 |
| 6 | Consultant Payment | 2010/11/26 | 327735 | R260 477,44 |
| 7 | Contractor Payment | 2010/12/13 | 333201 | R530 396,93 |
| 8 | Contractor Payment | 2011/01/24 | 342964 | R1 385 568,88 |
| 9 | Consultant Payment | 28/03/2011 | 367671 | R355 386,80 |
|  |  |  |  | **R6 308 335,42** |

 The cause of the above is:  The system of the trading entity does not allow the link to be made between the payment and asset register via a property code.

The impact of the above is:

* Payments could be made for properties that do not exist
* Maintenance could be made on property that does not have to be maintained by the trading entity.

## Internal control deficiency

*Financial and performance management:*

* 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 is not implemented.
* Control environment: Control environment not adequately developed to ensure that there is adequate integration between the WCS and PMIS systems.

## Recommendation

Management should implement a system which will be able to capture information in a form which supports financial reporting and result in a clear link between WCS and PMIS.

## Management response

This office cannot agree with the finding of the AGSA, as integration between the two systems was done from 1 April 2010. During the capturing of the payment the relevant property code is a compulsory field as part of the system controls within WCS.

*Name: N Zulu*

*Position: Regional Manager*

*Date: 17 June 2011*

## Auditor’s conclusion

Management response is noted. However, we could not trace the payments identified above, to the specific property maintained and we were also unable to confirm that the property maintained is state owned or leased. The matter is therefore not resolved and is reported on in the management report.

# No integration between PMIS and WCS to link unplanned maintenance to properties

#### Bloemfontein

## Audit finding

Section 40(1)(a) of the Public Finance Management Act, 1999 (Act No.1 of 1999) (PFMA) states that: *"The accounting officer for a trading entity must keep full and proper records of the financial affairs of the trading entity in accordance with any prescribed norms and standards."*

Contrary to the provisions of this section, payments were made for unplanned maintenance. The immoveable assets register (PMIS) is however not updated with any approved projects. Furthermore, there is no integration between the WCS and PMIS in respect of unplanned maintenance. Consequently, we could not trace the payments to the specific property maintained and we were also unable to confirm that the property maintained is state owned or leased. The following serves as examples for the deviations as highlighted above:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Trans Date:** | **Name:** | **Payment No:** | **Amount:** | **Property code as per supporting docs:** |
| 2010/09/15 | BLACK GINGER 224 (PTY) LTD | 303943 | R216 300,16 | 114934/001 |
| 2010/05/31 | BIG 5 NEWLIFE BUILDING CONSTRU | 271623 | R61 692,00 | 115399/001 |
| 2010/07/20 | GAU KW CONSTRUCTION CC | 285368 | R50 000,00 | 114586/001 |
|  |  | **Total** | **R327 992,16** |  |

 The cause of the above is: The system of the trading entity does not allow the link to be made between the payment and asset register via a property code.

The impact of the above is:

* Payments could be made for properties that do not exist
* Maintenance could be made on property that does not have to be maintained by the trading entity.

## Internal control deficiency

*Financial and performance management:*

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 is not implemented.

*Control environment:*

Control environment not adequately developed to ensure that there is adequate integration between the WCS and PMIS systems.

## Recommendation

Management should implement a system which will be able to capture information in a form which supports financial reporting and result in a clear link between WCS and PMIS.

## Management response

This office cannot agree with the finding of the AGSA, as the property codes is a mandatory field during the authorisation of the payments. The property codes as clearly indicated on the payment batch headers.

*Name: N Zulu*

*Position: Regional Manager*

*Date: 17 June 2011*

## Auditor’s conclusion

Management response is noted. However, we could not trace the payments identified above, to the specific property maintained and we were also unable to confirm that the property maintained is state owned or leased. The matter is therefore not resolved and is reported on in the management report.

# Renewed lease agreements not on file/signed and acceptance letters outstanding

#### Bloemfontein

## Audit finding

Section 40(1)(a) of the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) states that: “The accounting officer for a trading entity must keep full and proper records of the financial affairs of the trading entity in accordance with any prescribed norms and standards.”

Contrary to the provisions of this section, the following lease discrepancies were found:

No letter of acceptance could be obtained from the following leasing files:

|  |  |  |  |
| --- | --- | --- | --- |
| **Description:** | **File number:** | **Commencement date of new lease:** | **Total payments for lease that no proof of renewal existed:** |
| District: Kroonstad S A Police services | 6731/0869 | 01 June 2010 | R182 198,07 |
| District: Bloemfontein National prosecuting-Authority: AccomXParking Waterfall Centre | 6706/3513 | 01 April 2010 | R3 126 648,00 |
|  |  |  | R3 308 846,07 |

Lease agreements were on file, but not signed:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Description:** | **Rent per month:** | **File number:** | **Commencement date of new lease:** | **Total payments for lease that no proof of renewal existed:** |
| Benphill Building: Ficksburg | R1 084,09 | 6718/0133 | 01 November 2010 | R5 420,45 |
| Sasko Complex: Senekal | R3 350,06 | 6748/0024 | 01 December 2010 | R13 400,24 |
| District: Ficksburg Dept. of Correctional services. | R3 500,00 | 6718/0154 | 01 August 2010 | R28 000,00 |
| District: Edenburg S.A. Police - Service Die Berg Uitkyk | R428,71 | 6714/0027 | 01 January 2011 | R1 286,13 |
| District : Heilbron Oranjeville | R1 976,54 | 6723/0024 | 01 July 2010 | R17 788,86 |
| District Sasolburg Shop 1 Die Akker | R25 855,20 | 6747/0254 | 01 August 2010 | R206 841,60 |
| District: Bethlehem SA Police services NAFI Shopping Complex | R21 106,69 | 6704/0532 | 01 November 2010 | R105 533,45 |
| District: Phuthadijaba SA Police services | R7 810,00 | 6835/0089 | 01 January 2011 | R23 430,00 |
| District: Bloemfontein Public service commission Fed sure house: 3rd Floor 49 Maitland street. | R19 820,05 | 6706/2241 | 01 August 2010 | R158 560,40 |
| District: Kroonstad Dept of Labiur Suzman Building | R32 763,60 | 6731/0855 | 01 July 2010 | R294 872,40 |
|  |  | **TOTAL** |  | **R855 133,53** |

No lease agreements could be found:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Description:** | **Rent per month:** | **File number:** | **Commencement date of new lease:** | **Total payments for lease that no proof of renewal existed:** |
| District: Welkom Dept of land affairs | R32 183,57 | 6758/0093 | 01 January 2011 | R96 550,71 |
| District: Kroonstad Maokeng Old Municipal Building | R0,00 | 6731/0866 | 01 December 2010 | R0,00 |
| 60 Karl Kielblock Street | R3 144,82 | 6706/2305 | 01 December 2010 | R12 579,28 |
|  |  |  |  | R109 129,99 |

The lease acceptance letter could not be obtained:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **File No:** | **Client Department:** | **Premises Leased:** | **Existing Offer:** | | **Total payments for 2010/2011:** |
| Start: | End: |
| 6714/0027 | SAPS | Die berg Uitkyk (Farm Bergfontein) | 01/01/2009 | 31/12/2010 | R5 144,52 |
| 6723/0024 | SAPS | 59 Scott Street Erf 774: Oranjeville | 01/12/2009 | 30 June 2010 | R195 054,00 |
| 6747/0254 | Department of Labour | Shop No 1 die Akker, Fichard Street Sasolburg | 01/08/2008 | 31/07/2010 | R413 683,20 |
| 6704/0532 | SAPS | NAFI Shopping Complex : Bethlehem | 01/11/2008 | 31/10/2010 | R253 280,39 |
| 6835/0089 |  | Factory 59: Site 28 : Tseseng Street: Industrial Aera1 :Phuthaditjhaba | 01/01/2009 | 31/12/2010 | R85 919,35 |
| 6731/0869 | SAPS | 20 Church street Koonstad | 31/06/2009 | 31/05/2010 | R242 930,76 |
|  |  |  |  | **Total** | **R1 196 012,22** |

The cause of the above is:  Management did not designate a responsible person to ensure that all contracts / renewals entered into by the trading entity are signed by both contracting parties and properly filed and readily available for audit purposes and that acceptance letters are send to the client and landlord informing them that the lease has been accepted.

The impact of the above is:

* May render the contract invalid or fictitious.
* Payments could be made to non-existing obligations.
* Limitation of scope on the audit.
* Leases as disclosed in the Annual Financial Statements could be misstated.

## Internal control deficiency

*Financial and performance management:*

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 is not implemented.

*Monitoring: Ongoing monitoring*

Monitoring controls to ensure that lease agreements were signed by both parties and acceptance letters send out were not effective.

## Recommendation

Management should ensure that:

* All renewed lease agreements are signed by both parties (the trading entity and the lessor) and that the signed contracts are properly filed and readily available for audit purposes; and
* Acceptance letters are send to the client and landlord informing them that the lease has been accepted and that the acceptance letters are properly filed and readily available for audit purposes.

## Management response

This office agrees with the finding of the Auditor-General South Africa, however the following comments are made. After approval acceptance letters and lease agreements were sent to landlords for the signing and unfortunately delays are experienced.

6706/2305

6748/0024

6718/0154

6714/0027

6722/0254

6704/0532

6758/0093

6835/0089

6731/0866

6731/0869

6731/0855: Zambli 216 PTY LTD is in the process of acquiring the building from Naptosa and therefore not the current landlord. Lease agreement with Zambli 216 will only be effective on transfer of the property and the signing of the lease agreement with the department.

 The AGSA should note that the department has identified this as a possible risk area and as such issued Property Management circular no 12 of 2011 for the 2011/12 financial year to enhance compliance. This directive allows the department to make payments where the clients are in occupation of the property even though the contract has not been signed.

 This office further agree that letters of acceptance were not sent to the landlords for the under mentioned cases and the same will be sent to the lessors as the lease renewals had been approved by the respective bid committees. Kindly take notice that the business processes do not require that the acceptance letters be sent to the clients.

 The acceptance letter for lease 6731/0869, was misplaced by the landlord, however a signed contract has since been made available to the department.

*Name: N Zulu*

*Position: Regional Manager*

*Date: 17 June 2011*

## Auditor’s conclusion

Management is in agreement with the audit finding and the signed contract provided for lease 6731/0869 was only signed on 23 March 2011. The commencement date was on 01 June 2010 already. The matter is therefore not resolved and is reported on in the management report.

# Leases due for renewal not identified 6 months prior to expiry

#### Bloemfontein

## Audit finding

Section 40(1)(a) of the Public Finance Management Act, 1999 (Act No.1 of 1999) (PFMA) states that: “The accounting officer for a trading entity must keep full and proper records of the financial affairs of the trading entity in accordance with any prescribed norms and standards.”  Furthermore, paragraph 5.3 of the entity's Standard Lease Agreement for office accommodation states that:

"At least six months prior to expiry of the lease period the lessee shall notify the lessor in writing of its intentions to exercise the right to renew and the lease renewal period."

Contrary to the provisions of these sections, it could not be confirmed that leases due for renewal are identified 6 months prior to the expiry of the lease and reviewed by property management. No evidence could be detected on lease files or provided by management that lessors are notified in writing of the entity's intensions to renew lease contracts. The following serve as examples:

* 1. ***Leases due for renewals not identified 6 months prior to the expiry of the lease:***

|  |  |  |  |
| --- | --- | --- | --- |
| **Description:** | **File Number:** | **Commencement date:** | **Termination Date:** |
| Benphill Building: Ficksburg | 6718/0133 | 01/11/2008 | 31/10/2010 |
| Sasko Complex: Senekal | 6748/0024 | 01/12/2009 | 2010/11/30 |
| 60 Karl Kielblock Street | 6706/2305 | 30/11/2010 | 30/11/2010 |
| 22-24 George Lubbe street, Old Hubblex Warehouse | 6706/0778 | 01 August 2010 | 31 July 2011 |
| 1st -8th Floor: SA Eagle Building | 6706/3519 | 01/04/2010 | 31/07/2010 |
| District: Ficksburg Dept. of Correctional services. | 6718/0154 | 01/08/2009 | 31/07/2010 |
| District: Edenburg S.A. Police - Service Die berg Uitkyk | 6714/0027 | 01/01/2009 | 31/12/2010 |
| District : Heilbron Oranjeville | 6723/0024 | 01/12/2009 | 30/06/2011 |
| District: Kroonstad Dept of Labiur Suzman Building | 6731/0855 | 01/07/2008 | 31/06/2010 |
| District Sasolburg Shop 1 Die Akker | 6747/0254 | 01/08/2008 | 31/07/2010 |
| District: Bethlehem SA Police services NAFI Shopping Complex | 6704/0532 | 01/11/2008 | 31/10/2010 |
| District: Welkom Dept of land affairs | 6758/0093 | 01/01/2009 | 31/12/2010 |
| District: Phuthadijaba SA Police services | 6835/0089 | 01/01/2009 | 31/12/2010 |
| District: Kroonstad Maokeng Old Municipal Building | 6731/0866 | 10/12/2008 | 30/11/2010 |
| District: Kroonstad S A Police services | 6731/0869 | 31/06/2009 | 31/05/2010 |
| District: Kroonstad SA police services | 6731/0878 | 10/07/2005 | 30/06/2010 |
| District: Bloemfontein Dept of correctional services agrimed building. | 6706/3258 | 01/12/2010 | 31/10/2020 |
| District: Bloemfontein Public service commission Fedsure house: 3rd Floor 49 Maitland street. | 6706/2241 | 01/08/2008 | 31/07/ 2010 |
| District: Bloemfontein National prosecuting-Authority: AccomXParking Waterfall Centre | 6706/3513 | 01/04/2010 | Month to month contract |
| Correctional services Offices | 6731/0856 | 01 April 2010 | Month to Month |

No letter of renewal could be obtained from the following files:

|  |  |  |  |
| --- | --- | --- | --- |
| **Lessor:** | **File Number:** | **Commencement date:** | **Termination Date:** |
| The George Nicolas Trust | 6706/0778 | 01 December 2009 | 31 July 2010 |
| The George Nicolas Trust | 6706/3519 | 01 April 2010 | 31 July 2010 |
| CIM Theron | 6714/0027 | 01-Jan-09 | 2010/12/31 |
| Provincial Public works | 6723/0024 | 01-Dec-09 | 30/06/2011 |
| Zambli 216 (PTY) LTD | 6731/0855 | 01-Jul-08 | 31 June 2010 |
| NAFI (PTY)LTD | 6704/0532 | 01-Nov-08 | 2010/10/31 |
| Free State Development Corporation | 6835/0089 | 01-Jan-09 | 2010/12/31 |
| Tlhokomelo Properties | 6706/3258 | 01/12/2010 | 31/10/2020 |
| Encha property | 6706/2241 | 01-Aug-08 | 31 July 2010 |
| Yiliwe Property investments (PTY) LTD | 6706/3513 | 01/04/2010 | Month to month contract |

The total payment for these leases amount to R133 203,28.

The cause of the above is:  Management did not designate a responsible person to ensure that at least six months prior to expiry of the lease period the lessor is notify in writing of trading entity's intentions to exercise the right to renew the lease renewal period.

The impact of the above is:  Lease contracts may not be secured timeously for client departments.

## Internal control deficiency

*Financial and performance management:*

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 is not implemented.

*Monitoring:*

Ongoing monitoring – Monitoring controls to ensure that the lessors were notified in writing of the trading entity's intentions to exercise the right to renew the lease renewal period were not effective.

## Recommendation

Management should ensure that all leases due for renewal should be identified 6 months prior to the expiry and reviewed by property management, and lessors are notified in writing of the entity's intensions to renew lease contracts.

## Management response

This office cannot agree with the finding that renewals are not identified 6 months prior to expiry. Please refer to the attached documentation evidence from the relevant leasing files.

Please note that in the case of SAPS a blanket procurement instruction for all leases which include the above-mentioned files was received. (6714/0027, 6723/0024, 6835/0089, 6731/0866, 6731/0869)

Correspondence regarding the Department of Correctional Services regarding files, 6706/2305, 6748/0024, 6718/0133, 6718/0154, 6704/0532.

In the following cases (6706/3519, 6731/0855, 6706/3258, 6706/2241, 6706/3513, 6758/0093) the department has already concluded and awarded lease agreements or is in the advance stages of concluding the lease agreements.

This office cannot agree to the finding of the AGSA that client confirmation regarding the leases were not obtained. Please refer to same comments regarding SAPS and DCS above.

*Name: N Zulu*

*Position: Regional Manager*

*Date: 17 June 2011*

## Auditor’s conclusion

Management comments are noted. However, no supporting documentation could be provided to substantiate that all leases due for renewal were identified 6 months prior to the expiry and reviewed by property management and that lessors were notified in writing of the entity's intensions to renew lease contracts. The matter is therefore not viewed as resolved and is reported on in the management report. The payments made for these leases will be reported as irregular expenditure.

# Lease that are up for renewal not identified 6 months prior to expiry.

#### Pretoria

## Audit finding

In terms of section 9.1.1 of Treasury regulations the accounting officer of an institution must exercise all reasonable care to prevent and detect unauthorised, irregular, fruitless and wasteful expenditure, and must for this purpose implement effective, efficient and transparent processes of financial and risk management. During the audit of the leases it was noted that there was no correspondence attached to file to support that leases due for renewal are identified six (6) month prior to expiry period for the following leased properties:

|  |  |  |
| --- | --- | --- |
| **No** | **Building** | **File No** |
| 1 | 202 Essellen | 6029/6610 |
| 2 | ABSA Building | 6029/6677 |
| 3 | Provisus Building | 6029/0618 |
| 4 | Merino Rentmeester | 6029/6699 |
| 5 | Prodinsa Building | 6029/6619 |
| 6 | Soshanguve Building | 6029/6237 |
| 7 | Fedsure Forum | 6029/1114 |
| 8 | Pieter De Bruin | 6029/7001 |

Possible irregular expenditure if a lease contract has expired, but payment on that lease still occurs.

## The total payments made on these leases for the current year amount to R 88 857

## Internal control deficiency

***Financial and performance management***

 Proper record keeping and record management; the documents supporting the above are properly filed and easily retrievable.

## Recommendation

Management should ensure proper record should be kept and record management; the documents supporting the above are properly filed and easily retrievable. This will provide evidence that proper procedures have been followed where applicable.

## Management response

Response outstanding.

## Auditors’ conclusion

Management comments are noted. However, no supporting documentation could be provided to substantiate that all leases due for renewal were identified 6 months prior to the expiry and reviewed by property management and that lessors were notified in writing of the entity's intensions to renew lease contracts. The matter is therefore not viewed as resolved and is reported on in the management report. The payments made in the current financial year will be reported as irregular expenditure.

# No Regional Bid Adjudication Committee approval for negotiated leases

#### Pretoria

## Audit finding

In terms of section 9.1.1 of Treasury Regulations the accounting officer of an institution must exercise all reasonable care to prevent and detect unauthorised, irregular, fruitless and wasteful expenditure, and must for this purpose implement effective, efficient and transparent processes of financial and risk management.

The unavailability of the supporting correspondence and the renewal letter might result in the expenditure being classified as irregular expenditure.

During the audit of leases it was noted that for the following negotiated leases there is no regional bid adjudication committee (RBAC) approval attached to the below listed files:

|  |  |  |
| --- | --- | --- |
| **No** | **Building** | **File No** |
| 1 | ABSA Building | 6029/6677 |
| 2 | Prodinsa Building | 6029/6619 |
| 3 | Fedsure Forum | 6029/1114 |

## Internal control deficiency

***Financial and performance management***

Proper record keeping and record management; the documents supporting the above are properly filed and easily retrievable.

## Recommendation

Management should ensure proper record should be kept and record management; the documents supporting the above are properly filed and easily retrievable.

## Management response

Management response outstanding.

**Auditors’ conclusion**

This is a non compliance with the Treasury regulations and will therefore be reported in the audit report and will form the basis of our audit opinion.

# Leases not straight lined in accordance with IAS 17

#### Bloemfontein

## Audit finding

Paragraph 34 of International Accounting Standard 17, Leases (IAS 17) states that: *"For operating leases, lease payments (excluding costs for services such as insurance and maintenance) are recognised as an expense on a straight-line basis unless another systematic basis is representative of the time pattern of the user’s benefit, even if the payments are not on that basis."*

Contrary to the provision above, the following operating leases were found not to be straight lined in accordance with IAS 17:

| **No:** | **Date:** | **Item description:** | **Monthly rental:** | **Payment number:** |  |
| --- | --- | --- | --- | --- | --- |
|  |
|  |
| 1 | 2010/05/28 | Rental Lease | R20 519,03 | 000446747 |  |
| 2 | 2010/06/29 | Rental Lease | R1 084,09 | 000460608 |  |
| 3 | 2010/06/29 | Rental Lease | R72 674,54 | 000461522 |  |
| 4 | 2010/06/30 | Rental July 2010 | R137 012,94 | 000462818 |  |
| 5 | 2010/07/27 | Rental Lease | R73 278,00 | 000475008 |  |
| 6 | 2010/07/30 | Rental Lease | R134 910,91 | 000478218 |  |
| 7 | 2010/08/27 | Rental Lease | R73 330,27 | 000492018 |  |
| 8 | 2010/08/16 | Arrear Rent July 2010 | R87 703,85 | 000484681 |  |
| 9 | 2010/08/27 | Rental Lease | R159 720,00 | 000492151 |  |
| 10 | 2010/09/28 | Rental Lease | R50 588,54 | 000506749 |  |
| 11 | 2010/09/28 | Rental Lease | R132 768,18 | 000506713 |  |
| 12 | 2010/09/10 | Arrear Rent Aug-Sept 2010r187660 | R375 320,00 | 000498642 |  |
| 13 | 2010/10/27 | Rental Lease | R245,00 | 000319145 |  |
| 14 | 2010/11/29 | Rental Lease | R87 346,80 | 000329451 |  |
| 15 | 2010/12/23 | Rental Lease | R20 735,19 | 000338393 |  |
| 16 | 2010/12/23 | Rental Lease | R845,10 | 000338854 |  |
| 17 | 2011/01/27 | Rental Lease | R2,00 | 000346395 |  |
| 18 | 2011/02/28 | Rental Lease | R38 129,07 | 000356795 |  |
| 19 | 2011/03/28 | Rental Lease | R3 335,07 | 000369661 |  |
| 20 | 2011/03/30 | Arrear Rent Feb-April 2011 | R2 840,55 | 000370439 |  |
|  |  | **TOTAL** | **R1 472 389.13** |  |  |

 The cause of the above is:  Management did not designate a responsible person to ensure that leases were recognised as required by IAS 17.

The impact of the above is: Leases as disclosed in the Annual Financial Statements could be misstated.

## Internal control deficiency

*Financial and performance management:*

Regular, accurate and complete financial and performance reports that are supported and evidenced by reliable inform*ation is not prepared.*

*Control environment:*

The trading entity's business processes were not developed to ensure compliance with the International Accounting Standards (IAS).

## Recommendation

Management should ensure that operating leases are straight lined as prescribed by IAS 17 to ensure compliance with the International Accounting Standards (IAS).

## Management response

This office cannot agree or disagree with the finding as the actions are performed in Head Office.

Name: N Zulu

Position: Regional Manager

Date: 22 July 2011

## Auditor’s conclusion

Management comments are noted. The issue of incorrect straightlighining of the leases has been reported on in the audit report and will form the basis of our audit opinion.

# Incorrect preference point system used for evaluation of tender

#### Cape Town

## Audit finding

The Preferential Procurement Policy Framework Act 5 of 2000section 4 reads as follows:

"The 90/10 preference point system.—(1) The following formula must be used to calculate the points for price in respect of tenders/procurement with a Rand value above R500 000:

Ps = 90(1-((Pt-Pmin)/Pmin)

Where

Ps = Points scored for price of tender under consideration

Pt = Rand value of tender under consideration

Pmin = Rand value of lowest acceptable tender

Pmin = Rand value of lowest acceptable tender"

Contrary to the above the incorrect formula was used to calculate preference points awarded for price for the bidders listed below.

The formula used by the department was NFO = (Pm/P)\*W1

Where

NFO = price point score; Pm = lowest tender; P = tender under consideration; W1 = weight price points

**Comparison of results of calculation:**

**Quote no. 2026/06**

|  |  |  |
| --- | --- | --- |
| **RUWACON** | | |
| **Auditors calculation** | **Client calculation** | **Variance** |
| Ps = 90 (1-((40,516,062.54 - 40,516,062.54) / 40,516,062.54 | NFO = (Pm/P)\*W1 | NFO - Ps = 10 |
| Ps = 90 (1- 0) | = (40,516,062.54 / 40,516,062.54) \* 100 |
| Ps = 90 | =100 |
| **GROUP 5** | | |
| **Auditors calculation** | **Client calculation** | **Variance** |
| Ps = 90 (1-((66,148,806.16 - 40,516,062.54) / 40,516,062.54 | NFO = (Pm/P)\*W1 | NFO - Ps = 27.71 |
| Ps = 90 (1- 0.63) | = (40,516,062.54 / 66,418,806.16) \* 100 |
| Ps = 33.30 | =61.009 |

The system used to calculate the preference points awarded for price was setup incorrectly by using the incorrect formula.

The incorrect supplier might be awarded the tender based on the incorrect scoring model results being used resulting from the incorrect formula being used.

## Internal control deficiency

*Oversight responsibility*

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

## Recommendation

Management should ensure that the correct formula has been applied to ensure compliance with section 4 of the *Preferential Procurement Policy Framework Act 5 of 2000.*

## Management response

Awaiting management response.

## Auditor’s conclusion

This constitutes a non compliance with *Preferential Procurement Policy Framework Act 5 of 2000*section 4 and will be reported in the audit report as a non compliance.

# Inaccurate amounts reflected in the schedule of contingent liabilities

#### Mthatha

## Audit finding

*Section 40(1) (a) of PFMA states that: The accounting officer for a department, trading entity or constitution must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards.*

During the audit of contingent liabilities it was identified that amounts reflected in the contingent liabilities schedule were different from the amounts that were re-performed by the auditor.

|  |  |  |
| --- | --- | --- |
| **Claimant** | **Amount per schedule** | **Amount re-performed by  the auditor** |
| Ahlangene  Sigcawu | R14 142 000 | R527 465.27 |
| Community properties | R20 2587 000 | R248 516.5 |

Overstatement of possible obligations

1. The information provided to finance section was a monthly rental amount of R14 414.16 which was captured on contingent liabilities. This should have been multiplied by number of months of lease contract with escalation of 10% P.A.
2. The amount included in the contingent liabilities was paid to landlord during 2010 2011 financial year. This was not adjusted for in the contingent liabilities as the landlord is still suing the department for legal costs. We are not in agreement with calculation of AG as the amount of R202 587.00 was the amount due.

In both cases when the amounts were captured on contingent liabilities schedule the regional office did not take into account that the template has already accommodated the nearest thousand.

## Internal control deficiency

*Financial and performance management:*

Management does not implement proper record keeping to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

## Recommendation

Finance should calculate the amounts to be included in the contingent liabilities schedule based on the terms and conditions of the contract.

## Management response

I am in agreement with the finding.

## Auditor’s conclusion

The issue of the accuracy and validity of the contingent liabilities will be reported in the audit report and will form the basis for our audit opinion.

# List of prospective suppliers resulting in non compliance

#### Mthatha

## Audit finding

 Practice note 8 reads as follows:

**par. 5.1:** The auditee compiled a prospective supplier list per commodity and type of service. – PN 8 of 2007/08

**par. 5.2:**  Prospective suppliers are invited to apply for evaluation and listing at least once a year, through local representative newspapers or by any other appropriate means – PN 8 of 2007/08

**par. 5.2:** The list is updated at least quarterly to include new suppliers that qualify for listing – PN 8 of 2007/08

It has been confirmed that Practice note 8   of 2007/08 para 5.1 and 5.2 have not been complied with as the Property Management Trading Entity does not update the suppliers' list on a quarterly basis, furthermore the list of suppliers that is in place is not complete as required by the said practice note as it does not include the type of service offered by the supplier.

Non compliance with the applicable laws and regulations

## Internal control deficiency

*Financial and performance management*

Lack of monitoring compliance with SCM policies.

## Recommendation

Management should ensure controls are implemented and adhered to so as to comply with the applicable laws and regulations.

## Management response

I am not in agreement with the finding. The Department does not maintain supplier’s register as all built environment suppliers should be sourced from CIDB.

*Name: D Gqibela*

*Position: Acting Regional Manager*

*Date:*

## Auditor’s conclusion

The finding remains valid and will be reported as a non compliance in the audit report

# Month to month leasing without renewing the contract

#### Bloemfontein

## Audit finding

Section 40(1)(a) of the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) states that: "The accounting officer for a trading entity must keep full and proper records of the financial affairs of the trading entity in accordance with any prescribed norms and standards."

 Section 51(1) of the PFMA prescribes that goods and services must be contracted through a system that is fair, equitable, transparent, competitive and cost-effective. This prescript stipulates how public entity’s SCM system should be managed and it also confers a constitutional right on every potential supplier to offer goods and services to the public entity when needed.

 Furthermore, Treasury Regulation 8.1.1 states that:  "The accounting officer of an institution must ensure that internal procedures and internal control measures are in place for payment approval and processing. These internal controls should provide reasonable assurance that all expenditure is necessary, appropriate, paid promptly and is adequately recorded and reported."

 Contrary to the provisions of these sections, it was discovered through discussions with management that upon expiry of lease contracts, leases is administered on a month to month basis until the lease contract is renewed. However, lessors do not submit invoices for month to month contracts, nor are month to month lease agreements signed. Furthermore, the entity's standard lease agreements were inspected and it could not be confirmed that when leases expire without immediate renewal, the contract will run automatically on a month to month. Therefore, payments are made without supporting documentation. The following serve as examples:

| **Prop code:** | **Street address:** | **Lease start:** | **Lease end:** | **File Number:** | **Monthly rental:** |
| --- | --- | --- | --- | --- | --- |
| 304368 | 30 LOUW STREET | 2011/01/01 | 31/12/2011 | 6704/0595 | R1 913,63 |
| 306794 | 15 MULLER STREET ERF 27 | 2011/01/02 | 31/01/2012 | 6704/0603 | R16 713,21 |
| 307107 | ERF 13 LYNDLEY STREET | 2011/01/02 | 31/01/2012 | 6704/0604 | R664,46 |
| 316798 | 3 PARKLAAN STREET | 2011/01/01 | 31/12/2011 | 6705/0611 | R2 456,14 |
| 155842 | 57 MAITLAND STREET | 2011/01/01 | 31/12/2011 | 6706/3347 | R148 275,05 |
| 302451 | 163A NELSON MANDELA DRIVE | 2011/01/03 | 29/02/2012 | 6706/2207 | R21 913,29 |
| 266152 | 35 VOORTREKKER STREET | 2011/01/01 | 31/12/2011 | 6709/0055 | R6 347,48 |
| 297701 | DISTRICT EDEBURG | 2011/01/01 | 31/12/2011 | 6714/0027 | R376,06 |
| 113273 | FONTEINSTR 3 | 2011/01/01 | 31/12/2011 | 6718/0111 | R13 793,03 |
| 303387 | PIET RETIEF STREET | 2011/01/01 | 31/12/2011 | 6722/0231 | R4 701,85 |
| 302583 | 45 PIERCE STREET | 2011/01/01 | 31/12/2011 | 6723/0041 | R2 794,73 |
| 113115 | SITE 2039 | 2011/01/01 | 31/12/2011 | 6724/0037 | R1 800,25 |
| 160368 | PIET RETIEF STREET | 2011/01/01 | 31/12/2011 | 6727/0006 | R1 491,77 |
| 297202 | 68 CHURCH STREET | 2011/01/02 | 31/01/2012 | 6729/0065 | R0,83 |
| 299545 | C-O 7TH & 8TH AVENUE | 2011/01/01 | 31/12/2011 | 6731/0868 | R9 632,14 |
| 221779 | PRINCES STREET | 2011/01/01 | 31/12/2011 | 6732/0117 | R21 786,72 |
| 297079 | 9 CHURCH STREET | 2011/01/02 | 31/01/2012 | 6732/0189 | R2 605,26 |
| 113088 | DOLFSTR | 2011/01/01 | 31/12/2011 | 6740/0073 | R12 830,40 |
| 160651 | 11 BUITEN STREET | 2011/01/01 | 31/12/2011 | 6740/0043 | R1 416,31 |
| 301206 | 17 PHILLIP STREET | 2011/01/01 | 31/12/2011 | 6740/0091 | R9 927,63 |
| 303726 | SITE 28 TSESENG STR IDUSTRIAL | 2011/01/01 | 31/12/2011 | 6835/0089 | R6 851,62 |
| 306087 | 12 HERSOV STREET | 2011/01/01 | 31/12/2011 | 6747/0299 | R526,32 |
| 310382 | 3 VENUS STREET | 2011/01/01 | 31/12/2011 | 6747/0531 | R17 520,26 |
| 302060 | VAN RIEBEECK STREET | 2011/01/03 | 29/02/2012 | 6805/0295 | R6 122,20 |
| 115801 | 35 PIETER STREET | 2011/01/02 | 31/01/2012 | 6720/0069 | R3 502,63 |
| 113170 | C-O HEREN & RYKSTR | 2011/01/01 | 31/12/2011 | 6758/0276 | R26 167,40 |
| 163969 | WELKOM | 2011/01/02 | 31/01/2012 | 6758/0300 | R8 336,15 |
| 300531 | CNR HEEREN & TULBAGH STREET | 2011/01/01 | 31/12/2011 | 6758/0093 | R24 829,20 |
| 301750 | DE KAAP STREET | 2011/01/01 | 31/12/2011 | 6758/0124 | R12 500,47 |
| 301752 | DE KAAP STREET | 2011/01/01 | 31/12/2011 | 6758/0110 | R16 435,11 |
|  |  |  |  |  | **R404 231,60** |

The cause of the above is:  Communication was received from the CFO indicating that regions may pay lessors month to month while awaiting lease renewal finalisation.

The impact of the above is:

* Payments made for month to month leases will constitute irregular expenditure.
* Irregular expenditure as disclosed in the Annual Financial Statements could be misstated.

## Internal control deficiency

*Leadership:*

Policies and procedures to enable and support understanding and execution of internal control objectives, processes and responsibilities is not established and communicated.

*Monitoring:*

Ongoing monitoring – Monitoring controls to ensure that the department complied with the relevant laws, rules and regulations were not effective.

## Recommendation

Management should ensure that lessors submit invoices or those monthly contracts are signed before payments are made for month to month lease payments.

## Management response

This office cannot agree with the finding as month to month renewals are not automatically renewed and paid but are paid on the basis of the approval of the relevant Bid Committees. Month to month leases are approved and paid in accordance to the Property Industry Principle of paying for leased accommodation when you occupy.

Name: N Zulu

Position: Regional Manager

Date: 17 June 2011

## Auditor’s conclusion

Management response is noted with regard to circular 12 of 2011 issued by the CFO. By extending lease agreements on a month to month basis, the entity is applying a process which is not fair, uncompetitive, not equitable and not transparent. The process contravenes section 51 of the PFMA.

Payments made in such circumstances constitutes irregular expenditure and therefore this issue remains unresolved and is reported on in the management report. The irregular expenditure will be reported in the audit report and will form the basis of our audit conclusions.

# Lease agreement not signed

**Bloemfontein**

## Audit finding

Section 40(1)(a) of the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) states that: *“The accounting officer for a trading entity must keep full and proper records of the financial affairs of the trading entity in accordance with any prescribed norms and standards.”*

Furthermore, Treasury Regulation 16A3.1(b) states that: *"The accounting officer of an institution to which these regulations apply must develop and implement an effective and efficient supply chain management system in his or her institution for, the letting of State assets."*

Contrary to the provisions of these sections, the contract below relating to leases was not signed by both contracting parties, namely the trading entity and the lessor:

|  |  |  |  |
| --- | --- | --- | --- |
| **File No:** | **Address:** | **Lessor:** | **Rental:** |
| 6706/3470 | 37 LIEFDESLIEDJIE STREET | MOMPATI | R6 157,89 |

The cause of the above is: Management did not designate a responsible person to ensure that all contracts / renewals entered into by the trading entity are signed by both contracting parties.

The impact of the above is:

* May render the contract invalid or fictitious.
* Payments could be made to non-existing obligations.
* Leases as disclosed in the Annual Financial Statements could be misstated.

## Internal control deficiency

*Financial and performance management:*

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 is not implemented.

*Monitoring:*

Ongoing monitoring – Monitoring controls to ensure that lease agreements were signed by both parties and followed-up timeously were not effective.

## Recommendation

Management should ensure that all lease agreements are signed by both parties (the trading entity and the lessor) and that the signed contracts are properly filed and readily available for audit purposes.

## Management response

This office cannot agree to the finding. Refer to file marked:

6706/3470

Name: N Zulu

Position: Regional Manager

Date: 17 June 2011

## Auditor’s conclusion

Management response is noted. However, the agreement that was provided for audit purposes was not signed by the tenant. The matter is therefore not resolved and is reported on in the management report and the rental payment will be reported as an irregular expenditure and will form the basis of our audit conclusions.

# Information not submitted for audit purposes

#### Pretoria

## Audit finding

In terms of PFMA regulations section 41 an accounting officer for a department, trading entity or constitutional institution must submit to the relevant treasury or the Auditor-General, such information, returns, documents, explanations and motivations as may be prescribed or as the relevant treasury or the Auditor-General may require.

The below listed information was not provided for audit purposes:

* Confirmations performed by the auditee of interdepartmental debts
* Debtors reconciliation of the control account in the ledger
* Individual debtors balance, interest charged and age analysis
* List of all debtors account
* List of auditee’s records on theft and losses

The missing information could potentially lead to a limitation of scope.

## Internal control deficiency

***Financial and performance management***

Proper record keeping and record management; the documents supporting the above are properly filed and easily retrievable.

## Recommendation

Management should ensure proper record should be kept and record management; the documents supporting the above are properly filed and easily retrievable. Furthermore, the relevant individual in the entity that is responsible for maintenance of documentation should be avail themselves during the course of the audit.

## Management response

Management response outstanding

## Auditors’ conclusion

The receivables balances were not reconstructed and we were unable to audit the balances and this has been reported in the audit report and will form the basis of our audit opinion.

# Receivables batch not received for audit purposes

#### Pretoria

## Audit finding

In terms of PFMA regulations section 41 an accounting officer for a department, trading entity or constitutional institution must submit to the relevant treasury or the Auditor-General, such information, returns, documents, explanations and motivations as may be prescribed or as the relevant treasury or the Auditor-General may require.

During the performance of the final audit, the below listed payment batch was still not made available to the auditors within the agreed amount of time in order for the auditors to meet the deadlines for audit reports:

AP NO: 281975, Transaction date: 05 July 2010, Amount:    R1 212 678, 21

## Internal control deficiency

*Financial and performance management*

Proper record keeping and record management; the documents supporting the above are properly filed and easily retrievable.

## Recommendation

All information necessary for an auditor to make a proper conclusion on an audit should be made available to the auditor within a reasonable time period.

## Management response

Management response outstanding

## Auditors’ conclusion

The receivables balances were not reconstructed and we were unable to audit the balances and this has been reported in the audit report and will form the basis of our audit opinion.

# Lease Commitments incorrectly calculated

**Audit finding**

Section 40(1) of Public Finance Management Act states that “the accounting officer for a department, trading entity or constitutional institution:

1. must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;
2. must prepare financial statements for each financial year in accordance with generally recognized accounting practice"

Section 41 of the Public Finance Management Act, 1999 (Act no.1 of 1999) state that “an accounting officer for a department must submit to the relevant treasury or the Auditor General such information, returns, documents, explanations and motivations as may be prescribed or as the relevant treasury or the Auditor General may require.“

**Issues identified with the revised lease commitment schedule**

Subsequent to the issues identified above, management revised the lease commitments schedule and submitted the schedule for audit purpose on the 7 July 2011.

Analysis of the latest schedule was performed, amounts as per annual financial statements agrees to the amount as per lease schedule. The commitments are disclosed as follows in note 13 of the annual financial statements

|  |  |  |  |
| --- | --- | --- | --- |
| **Total Commitments** | **< 1 year** | **Between 1 year and 5 years** | **Above 5 years** |
| R 12 521 880 000,00 | R 2 861 090 000,00 | R 5 889 510 000,00 | R 3 771 280 000,00 |

Performed recalculations on the lease commitments therefore the following misstatements were identified.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Prop code** | **Building/land description** | **Street address** | **Client department** | **Recalculated lease commitments** | **Per Lease commitments schedule** | **Difference** |
| 5 | Thibault navarre complex | Pretoriusstr 231 | Sa police services | R 655 704 498,78 | R 573 769 213,21 | R 81 935 285,56 |
| 44 | Hallmark | Vermeulenstr 226 | Home affairs | R 295 095 481,20 | R 254 039 528,20 | R 41 055 953,01 |
| 99 | Forum building | 151 struben street | Transport | R 568 319 310,58 | R 544 950 409,47 | R 23 368 901,11 |
| 139713 | Foretrust | Martin hammerschlag rd | Agriculture forest & fisheries | R 404 743 748,35 | R 310 746 883,17 | R 93 996 865,18 |
| 300231 | Weavind park broadcasting cent | Westlake avenue | National prosecuting authority | R 488 157 284,26 | R 259 584 853,00 | R 228 572 431,26 |
| 300612 | Koedoe building | Pretoria cbd | Sa police services | R 165 860 221,06 | R 131 389 456,70 | R 34 470 764,36 |
| 301659 | Waterbron building | Corner schoeman & paul kruger | Water affairs | R 344 097 526,66 | R 301 765 690,98 | R 42 331 835,68 |
| 301670 | Bank of lisbon | Corner paul kruger & visagie | Defence & military vet | R 153 103 738,86 | R 115 919 457,83 | R 37 184 281,03 |
| 301745 | Liberty life building | 278 vermeulen street | Defence & military vet | R 515 876 375,72 | R 378 342 397,04 | R 137 533 978,68 |
| 305206 | Gallagher estate | 19 richards drive | Inter relations & cooperations | R 151 618 178,49 | R 155 331 072,77 | -R 3 712 894,28 |
| 305491 | Maupa naga building | 3 troye street | Sa police services | R 101 335 575,50 | R 101 335 575,50 | R 0,00 |
| 306320 | Old mutual centre | 167 andries street | Statistics south Africa | R 222 133 456,40 | R 193 263 016,39 | R 28 870 440,00 |
| 306399 | East per building | V & a waterfront | Environmental affairs | R 154 296 010,64 | R 118 141 512,33 | R 36 154 498,32 |
| 308088 | Safeguard unit k43 lenasia | K43 | Sa police services | R 124 130 683,67 | R 97 218 110,24 | R 26 912 573,43 |
| 314683 | 114 vermulen street | 114 vermulen street | Independent complaints directorate | R 3 216 995 379,05 | R 2 553 247 186,81 | R 663 748 192,24 |
| 315986 | Tulbagh park building | 1234 church street | Sa police services | R 384 165 784,72 | R 368 772 863,78 | R 15 392 920,94 |
| 316698 | Salu building | Cnr schoeman and andries stree | Justice and constitutional develpm | R 611 790 661,73 | R 585 673 283,11 | R 26 117 378,61 |
| 317000 | The royal | 267 anton lembede street | Labour | R 128 084 919,64 | R 124 032 047,48 | R 4 052 872,16 |
|  |  |  |  | **R 8 685 508 835,31** | **R 7 167 522 558,00** | **R 1 517 986 277,30** |

**Projected error for the lease commitment**

|  |  |
| --- | --- |
| **Description** | **Value** |
| Error amount | 1,517,986,277.30 |
| Sample total | 7,167,522,558.00 |
| Error rate | 21.18% |
| Population | 12,521,880,000.00 |
| Projected error | **2,651,968,215.26** |

The financial statements are not properly reviewed by management before submitted to auditors.

This will result in a qualification of the Lease commitments.

**Internal control deficiency**

Financial and Performance management

Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information

*Control activities*

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

**Recommendation**

Information furnished for audit purposes must be reviewed for completeness, accuracy and validity prior submission

**Management Response**

1. I am in agreement with the finding for the following reason; a straight-lined amount was used to calculate the lease commitment instead of the actual cash payment. This shall be corrected going forward.

# Contingent liability disclosure note discrepancy

#### Kwazulu Natal

## Audit finding

In terms of Public Finance Management Act, section 40(1)(a). The accounting officer for a department, trading entity or constitutional institution must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards. We noted an overstatement of Contingent Liabilities as per the Disclosure Note of R658 013 when compared to the State Attorneys confirmations received. The balance for the contingent liabilities should be R Nil as the matters indicated below were settled at year end. Extract from the disclosure note for Head office consolidation:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Nature of liability** | **Opening balance**  **1 April 2010** | **Liabilities incurred during the year** | **Liabilities paid/ cancelled/ reduced during the year** | **Closing balance**  **31 March 2011** | **Reason why liability is contingent (Possible transaction / Probable transaction with no reliable estimate).**  **Provide details** |
| **R'000** | **R'000** | **R'000** | **R'000** |
| Devab  Palavar: Breach of Contract | 69,310 | 29,007 | 40,304 | 58,013 | Summons issued settled claim for R29,007. |
| GOUWS & ASSOC: Defects to leased property | 421,572 | 300,000 | 121,572 | 600,000 | Summons issued settled matter at R300,000 as per court order payment to be made by the Property Management Trading Entity to the lessor. |
| **Subtotal** |  |  |  | **658,013** |  |

## Internal control deficiency

*Financial and performance management*

Lack of proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial statements disclosure note.

## Recommendation

Proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support the notes supporting the financial statement disclosures.

## Management response

There is disagreement with the audit finding. Attached for consideration is the disclosure note that was submitted by Legal Services (HO) to Finance (HO) for inclusion in the Annual Financial Statements. In it the following information is reflected:-

1. The Devab Palavar matter had been reflected as a nil balance as the matter had been settled.

This is confirmed by the State Attorney and in the letter sent to the State Attorney.

2. The Gouws matter had been reflected as R421,572 because as at 31 March 2011 the matter had not been settled. Attached is a BAS report reflecting that payment was made on 29 April 2011. The letter sent to the State Attorney on behalf of the Auditor during this financial year resulted in the State Attorney Pretoria confirming the matter was settled for R300 000,00.

*Name: Ranveer Singh*

*Position: Legal Services*

*Date: 5-07-11*

## Auditor’s conclusion

The contingent liability balance disclosed in the financial statements is not accurate. This issue has been reported in the audit report and will form the basis of our audit opinion.

# Tender scoring and preference point system

#### Nelspruit Regional Office

## Audit finding

Per Treasury Regulations; “16A3.2  A supply chain management system referred to in paragraph must be fair, equitable, transparent, competitive and cost effective;”

Per Preferential Procurement policy Framework Act 5 of 2000; Regulation GN R725 of 10 August 2001;

Par 3. The 80/20 preference point system.—(1) The following formula must be used to calculate the points for price in respect of tenders/procurement with a Rand value equal to, or above R30 000 and up to a Rand value of R500 000. Organs of state may, however, apply this formula for procurement with a value less than R30 000, if and when appropriate:

**

*Where*

*Ps = Points scored for price of tender under consideration*

*Pt = Rand value of offer tender consideration*

*Pmin = Rand value of lowest acceptable tender*

*(2) A maximum of 20 points may be awarded to a tenderer for being an HDI and/or subcontracting with an HDI and/or achieving any of the specified goals stipulated in regulation 17.*

*(3) The points scored by a tenderer in respect of the goals contemplated in sub-regulation (2) must be added to the points scored for price.*

*(4) Only the tender with the highest number of points scored may be selected.*

*Par 4. The 90/10 preference point system.—(1) The following formula must be used to calculate the points for price in respect of tenders/procurement with a Rand value above R500 000:*

**

*Where*

*Ps = Points scored for price of tender under consideration*

*Pt = Rand value of tender under consideration*

*Pmin = Rand value of lowest acceptable tender*

*(2) A maximum of 10 points may be awarded to a tenderer for being an HDI and/or subcontracting with an HDI and/or achieving any of the specified goals stipulated in regulation 17.*

*(3) The points scored by a tenderer in respect of the goals contemplated in sub-regulation (2) must be added to the points scored for price.*

*(4) Only the tender with the highest number of points scored may be selected.*

*Par 7. Stipulations of preference point system to be used.—An organ of state must, in the tender documents, stipulate the preference point system which will be applied in the adjudication of tenders.* The following consultant payment has been made in relation to the tender for improvements to the Barberton Magistrate’s Office:

|  |  |  |  |
| --- | --- | --- | --- |
| **Consultant** | **Trans \_NRGL** | **Date** | **Amount** |
| Mandla Mlangeni Quantity Surveyors | 000435063 | 2010/05/10 | R13 096,59 |

Below is a table detailing the tender for the improvements to the Barberton Magistrate’s Office where the scoring advertised does not agree to the scoring used for tender evaluation and adjudication.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **NST**  **Tender**  **No:** | **Description:** | **Scoring**  **per advertisement** | **Scoring used in evaluation & adjudication of tender** | **Documents used** |
| 07/051 | Barberton Magistrate Office Facilities | PA-06.3  Price: 20% &Quality: 80%  Preference Points: 7+2+1 | PA-04  Price: 20% &  Quality: 80%  Preference Points: 7+2+1  PA-01  Price: 80% &  Quality: 20%  Preference Points: 14+4+2  PA-20:  Price: 80% &  Quality: 20%  Preference Points: 14+4+2 | PA-06.3 (advertisement)  PA-04  PA-01  PA-20 |

1. As the pre-tender estimate was below R500 000 the 80/20 preference points system had to be used. The advertisement clearly indicates that preference will be placed on quality over price. As indicated by PA-20 the tender was evaluated by putting emphasis on price rather than quality.
2. As indicated in the advertisement the preference points adds up to 10 which implies that a 90/10 preference point system is used.

Potential impact of the finding rose above:

* Non compliance with TR 16A3.2
* Increased risk of bribery and fraudulent activities.
* The bidders were mislead by the fact that the department placed emphasis on quality over price which could have lead to bidders tendering at a higher price to ensure quality of the service provided. This could result in unnecessary high tenders being awarded to bidders.
* The bidders were mislead by the department to believe that the tender is above R500 000 due to the advertised preference points of 7 + 2 +1 applicable only to tenders above R500 000 per the above regulation. This could have resulted in unnecessary high tenders being awarded to bidders.

The aforementioned deviation occurred to negligence in the supply chain management process since the SCM officials did not review and approve the advertisement before it was published.

## Internal control deficiency

*Leadership*

The accounting officer did not exercise his oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

## Recommendation

Management must ensure that the department abides by the SCM policy applicable to the department as specified by Treasury Regulation 16A3.2, thereby ensuring that a consistent bidding strategy is applied and sought from candidates also clearly and consistently requesting preference either to price or quality.

All requests to tender needs to be reviewed by a SCM official for quality and correctness of the parameters that is to be applied to the tender in the evaluation process. This will ensure that discrepancies such as this will not occur.

## Management response

I am not in agreement with the finding for the following reasons: I was not able to see the matter as highlighted in the finding. The document perused did not indicate any inconsistencies with regards to the scoring model. The process of evaluation was done as per the approved evaluation criterion. It would be further appreciated if the matter can be dealt with by both the office and Auditors in order to understand where the information was derived.

## Auditor’s conclusion

Management’s response noted. After management response has been received the underlying documents were discussed with Lunga Mbukushe. From the documents it was evident that there were a difference in the evaluation criteria between the tender advertisement and the tender evaluation.

Based on the above the department did not comply with Treasury Regulation 16A3.2. The finding does not constitute irregular expenditure since the correct contractor was appointed irrespective of the differences noted. This will be reported as a non compliance.

# Receivables: Incorrect classification of receivables

#### Bloemfontein

## Audit finding

Treasury Regulation 11.2.1 states that: "The accounting officer of an institution must take effective and appropriate steps to timeously collect all money due to the institution including, as necessary -

(a) maintenance of proper accounts and records for all debtors, including amounts received in part payment; and

(b) referral of a matter to the State Attorney, where economical, to consider a legal demand and possible legal proceedings in a court of law."

In terms of Treasury Regulation 17.1.1: "All the transactions of an institution must be supported by authentic and verifiable source documents, clearly indicating the approved accounting allocation."

Furthermore, in terms of Treasury Regulation 17.1.2: "Should it be necessary, in exceptional cases, to account for revenue and expenditure transactions in a clearing or suspense account because the classification has not been resolved, the accounting officer must ensure that -

(a) the sources of the transactions are readily identifiable;

(b) amounts included in clearing or suspense accounts are cleared and correctly allocated to the relevant cost centres on a monthly basis;

(c) monthly reconciliation’s are performed to confirm the balance of each account; and

(d) reports are provided to the accounting officer about uncleared items on a monthly basis."

Contrary to the provisions of these requirements, it was found that the debt function of the entity has not been activated. Consequently, a system age analysis could not be provided for audit purposes. Alternatively, the March 2011 monthly reconciliation of suspense accounts were inspected and debt outstanding for more than a year amounting to R109 351 383,26 were identified. The table below refers:

|  |  |  |  |
| --- | --- | --- | --- |
| **Description of account:** | **1-3 years:** | **Older than 3 years:** | **Total:** |
| Dep Municipalities: DOM: CA | R796 162,91 | R1 806,30 | R797 969,21 |
| Rec: Dom: CLMS: N/Dept: Claim Recov | R14 919 381,86 | R600 000,00 | R15 519 381,86 |
| Rec: Dom: CLMS:NAT PACE Claims | R59 627 851,08 | R0,00 | R59 627 851,08 |
| Rec: Dom:CLMS Recover Mun Ser | R0,00 | R0,00 | R0,00 |
| Disall damages & losses recov CA | R2 855 021,64 | R365 372,65 | R3 220 394,29 |
| Disall damages & losses CA | R356 907,51 | R309 192,95 | R666 100,46 |
| Disallowance Misc DPI | R26 476 828,60 | R3 042 857,76 | R29 519 686,36 |
|  |  |  | **R109 351 383,26** |

Furthermore, an amount of R1 494 255,67 was found to be irrecoverable. No proof could be obtained that these debtors have been reported to the State Attorney for collection. The schedule below refers:

|  |  |
| --- | --- |
| **Description of account:** | **Irrecoverable Debt:** |
| Dep Municipalities: DOM: CA | R0,00 |
| Rec: Dom: CLMS: N/Dept: Claim Recov | R0,00 |
| Rec: Dom: CLMS: NAT PACE Claims | R0,00 |
| Rec: Dom: CLMS Recover Mun Ser | R0,00 |
| Disall damages & losses recov CA | R378 448,50 |
| Disall damages & losses CA | R1 114 157,50 |
| Disallowance Misc DPI | R1 649,67 |
|  | **R1 494 255,67** |

 Consequently, we were unable to confirm that the trading entity effectively manage their debtors (follow up on outstanding debt and reviewing the aging of debtors).

 In addition to the above, the final approved hard copy file for reconciliations of suspense accounts for March 2011 and April 2011 could not be provided for audit purposes. The electronic versions provided were the versions submitted to Head Office.

The cause of the above is:

* Debt owed to the trading entity was not always followed up to ensure that monies owed are recovered timely.

The impact of the above is:

* Receivables may not exist at year-end and may not be recoverable.
* Receivables as disclosed in the Annual Financial Statements could be misstated.

## Internal control deficiency

*Financial and performance management:*

* Controls over daily and monthly processing and reconciling of transactions are not implemented.
* Monitoring: Ongoing monitoring – Monitoring controls to ensure that receivables and suspense accounts were followed-up timeously were not effective.

## Recommendation

Management should ensure that:

* effective and appropriate steps are taken to collect all monies due to the entity;
* receivables that are irrecoverable should be written off;
* suspense accounts are cleared and followed up on a monthly basis; and
* all authentic and verifiable source documents for the suspense accounts should be properly filed and easily retrievable.

## Management response

This office cannot agree with the finding of the AGSA. The Debt module of PMTE (BAS) has been activated and is available to the department. The debtors referred to by the AGSA relates to client department (SANDF, SAPS, etc) as other national departments.

The projects are executed at regional level for these clients and the cost incurred is then recovered via Head Office (Customer Billing) from the relevant budget allocation or alternatively a Z59 claim is issued to the client.  The management and recovery of the outstanding balances (claims) is a function performed within the Customer Billing unit.

This office cannot agree with the AGSA regarding the hardcopies of the documents. Where possible (excluding payment batches, etc) documents are provide to the AGSA in a “soft copy”/ electronic format to assist with the review process. This was especially the case from 22 April 2011 to 31 May as this regional office relocated between buildings and some reports were thus not available as “hard copies”.

*Name: N Zulu*

*Position: Regional Manager*

*Date: 30 June 2011*

## Auditor’s conclusion

Management response is noted. These debts were isolated on suspense accounts with no transactions recorded against it to decrease the amounts owed to the trading entity. These suspense accounts were not cleared monthly and the trading entity did not collect all monies owed to them. Above matter will be reported in the audit report as non-compliance to Treasury regulation 11.2.1.

The matter on disallowance amounts have been cleared as the management made a provision for impairment for the whole of the disallowance balance in the financial statements.

# Planned maintenance consultant file not submitted

**Pretoria**

## Audit finding

*In terms of PFMA regulations section 41 an accounting officer for a department, trading entity or constitutional institution must submit to the relevant treasury or the Auditor-General, such information, returns, documents, explanations and motivations as may be prescribed or as the relevant treasury or the Auditor-General may require.* It was noted that consultant file with WCS NO: 045966 requested was still not made available to the auditors within the agreed amount of time in order for the auditors to meet the deadlines for audit reports.

The payment made during the current financial year was R 6 674 041,22

## Internal control deficiency

***Financial and performance management***

Proper record keeping and record management; the documents supporting the above are properly filed and easily retrievable

## Recommendation

All information necessary for an auditor to make a proper conclusion on an audit should be made available to the auditor within a reasonable time period.

## Management response

Management response outstanding.

## Auditors’ conclusion

We could not confirm the proper procurement process was followed for the appointment of these consultants. This has therefore been raised as an irregular expenditure and will be reported in the audit report.

# Insufficient documentation in support of a lease agreement

#### Pretoria

## Audit finding

**Practice Note 8 of 2007/2008  par 3 ( 3.4.1 till 3.4 ).states that for the range of procurement processes above the transaction value of r 500 000 (vat included)**

3.4.1 Accounting officers / authorities should invite competitive bids for all procurement above R 500 000.

3.4.2 Competitive bids should be advertised in at least the Government Tender Bulletin and in other appropriate media should an accounting officer / authority deem it necessary to ensure greater exposure to potential bidders. The responsibility for advertisement costs will be that of the relevant accounting officer / authority.

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

Approval of expenditure: Treasury Regulations 8.1.1 and 8.2.2 state that-

*" 8.1.1  The accounting officer of an institution must ensure that internal procedures and internal control measures are in place for payment approval and processing. These internal controls should provide reasonable assurance that all expenditure is necessary, appropriate, paid promptly and is adequately recorded and reported"*

*“8.2.2 Before approving expenditure or incurring a commitment to spend, the delegated or authorised official must ensure compliance with any limitations or conditions attached to the delegation or authorisation”*

We could not verify that the correct supply chain management process was followed in entering into the lease extensions and additional accommodation as insufficient documentation was submitted. The details of the files are:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date** | **Building** | **Client Dept** | **Amounts paid** | **Not submitted** |
| 18/11/2011 | Sanlam Middestad Centre: Office and Parking: Additional space procured | SAPS | 3 287 988,00 | The strategy used to procure additional space. Approval by evaluation committee |
| 09/09/2010 | 224 Church Str, Capitol Towers Building: Additional Space | Dept Rural Dev & Land Ref | 537 343,85 | The strategy used to procure  additional space Approval by evaluation committee |
| 21/06/2010 | 421 Pretorius Str, Curator Building | SAPS | 331 315,51 | The procurement strategy used to extend the lease. Approval by evaluation committee. Approval by adjudication committee. Contract |
| 21/10/2010 | Boulevard Academy Building | DOD | Amount not available | New  contract |

Internal control deficiency

## ****Leadership****

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

## Recommendation

Monitoring should be done by senior officials to ensure compliance with laws and regulations (required documentation to support all lease agreements and to approve payments).

## Management response (no response)

Management response outstanding

## Auditors’ conclusion

We could not confirm that the normal procurement process was followed for these leases and therefore this has been raised as an irregular expenditure.

ANNEXURE B: OTHER IMPORTANT MATTERS

# Disclosure of designated employees’ interests

## Audit finding

The Public Service Regulations Chapter 3C1 requires that “Every designated employee shall, not later than 30 April of each year, disclose to the relevant executing authority, on the form determined for this purpose by the Commission, particulars of all her or his registrable interests in respect of the period 1 April of the previous year to 31 March of the year in question”

Chapter 3D states “The following kinds of financial interests are registrable interests:

1. Shares and other financial interests in private or public companies and other corporate entities recognised by law;
2. directorships and partnerships;
3. remunerated work outside the public service;
4. consultancies and retainerships;
5. sponsorships;
6. gifts and hospitality from a source other than a family member; and
7. ownership and other interests in land and property, whether inside or outside the Republic.”

Reports was drawn for employees who have interest in companies that are doing business with the Property Management Trading Entity. The following supplier was selected for audit purpose and financial disclosure was received.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **SUPPLIER NAME** | **SUPPLIER NO** | **ENTITY TYPE** | **ENTITY REGISTRATION** | **PAYMENTS BETWEEN 1 SEPTEMBER AND 31 MARCH 2011** | **TOTAL PAYMENTS MADE TO HHO CONSULTING** |
| HHO Consulting Engineers | 286870 | Private Company | 1995/011805/07 | R105 879,89 | R1 957 412,35 |

Through inspection of the financial disclosure form, it was noted that not all financial interest pertaining to directorship was disclosed. The employee listed below, only disclosed the following interest:

* Blue Jam developments
* Fame Bright Trade and Investment.
* One Vision
* Municipal Demarcation Board
* Majorshelf Pty (Ltd)

The employee is a director of the company as indicated in the table above. However, he failed to disclose his interest in the supplier. The employee was appointed on 1 March 2010 but the interest in HHO Consulting Engineers was not disclosed by the employee in financial interest form and the employee signed the form on 27 August 2010.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **FIRSTNAMES** | **SURNAME** | **MEMBER STATUS** | **JOB TITLE** | **PERSONNEL NUMBER** | **APPOINTMENT DATE** |
| Asraf Mohamed | Adam | Active | Chief Operations Officer | 23523115 | 01/03/2010 |

The table below indicates the tender amounts and expenditure incurred when HHO Consulting Engineers was appointed. The company has been doing business with the Property Management Trading Entity since 2007 to date.

| **WCS No** | **Consultant Code** | **Appointment date** | **1st Authorization** | **Authorization** | **Prev year exp** | **Current year exp** |
| --- | --- | --- | --- | --- | --- | --- |
| 029391 | EC10944 | 2007/11/23 | R138 000,00 | R121 700,00 | R0,00 | R10 431,00 |
| 029391 | EC10944 | 2008/06/06 | R138 000,00 | R138 000,00 | R17 622,12 | R10 431,00 |
| 031924 | EC10944 | 2008/10/29 | R57 000,00 | R200 000,00 | R156 957,06 | R40 875,66 |
| 031924 | EC10944 | 2008/10/03 | R66 800,00 | R66 800,00 | R0,00 | R0,00 |
| 037457 | EC10944 | 2007/10/05 | R198 000,00 | R198 000,00 | R10 624,12 | R0,00 |
| 037457 | EC10944 | 2007/10/05 | R198 100,00 | R550 000,00 | R505 347,39 | R40 810,05 |
| 040709 | EC10944 | 2007/12/12 | R226 600,00 | R66 656,39 | R66 656,38 | R0,00 |
| 040709 | EC10944 | 2007/12/12 | R226 600,00 | R450 000,00 | R354 746,76 | R76 112,31 |
| 040711 | EC10944 | 2008/10/28 | R1 560 900,00 | R1 121 370,12 | R38 370,12 | R43 458,38 |
| 042965 | WP00941 |  |  | R115 100,00 | R0,00 | R0,00 |
| 044008 | EC10944 | 2007/09/05 | R141 600,00 | R255 000,00 | R128 725,40 | R0,00 |
| 044008 | EC10944 | 2007/09/05 | R141 600,00 | R250 000,00 | R189 162,66 | R11 692,42 |
| 044483 | EC10943 | 2010/05/12 |  | R1,00 | R0,00 | R0,00 |
| 044483 | EC10943 | 2010/05/12 | R370 000,00 | R740 000,00 | R0,00 | R50 603,62 |
| 046524 | EC10943 | 2008/11/10 | R95 000,00 | R185 000,00 | R155 715,04 | R22 924,09 |
| 046709 | EC10943 | 2009/08/12 | R119 200,00 | R119 200,00 | R26 362,42 | R0,00 |
| 046709 | EC10943 | 2009/08/12 | R119 200,00 | R200 000,00 | R11 605,20 | R113 122,77 |
| 046710 | EC10944 | 2009/08/03 | R521 000,00 | R521 000,00 | R57 647,04 | R61 528,08 |
| 048410 | EC10943 | 2010/11/25 | R1 800 000,00 | R1 800 000,00 | R0,00 | R366 962,82 |
| **Total** | | | | | **R1 719 541,71** | **R848 952,20** |

The CIPRO search on senior management is not conducted to ensure all interest in companies are disclosed by senior employees. This constitutes non compliance with the Treasury Regulations and Public Service Act.

The Public Service Regulations stipulates that any designated employee who fails to disclose an interest in terms of regulation C of this Chapter; or when disclosing an interest in terms of regulation C of this Chapter, willfully provides incorrect or misleading details, is guilty of misconduct.

This is a non compliance with the Treasury Regulations and should therefore be treated as an irregular expenditure.

## Internal control deficiency

*Leadership*

The accounting officer / accounting authority exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

*Oversight responsibility*

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

## Recommendation

* A control should be put in place to ensure that all relevant disclosures of financial interests are made, documented and updated on an ongoing basis by all the relevant officials.
* Disciplinary action should be taken against the employee.

## Management response

Management response outstanding

## Auditor’s conclusion

This is a non compliance with the Public Service Regulations

# Schedule for proposed subcontractors not complete for “Planned Maintenance”

#### North West

## Audit finding

In terms of the *PMFA section 38(1)(a)(iv)*: *“The Accounting Officer for a department, trading entity or constitutional institution must ensure that department, trading entity or constitutional institution has and maintains a system of properly evaluating all major capital projects prior to final decision on the project.”*

We noted the following subcontractor did not complete The Schedule of Proposed Subcontractors (DPW-15) Form and Particulars of Electrical Contractor ( DPW-22) Form”. Deviation pertaining to planned maintenance. The details are given in the table below (Error rate 7%):

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **CONTRACTOR** | **REFERENCE NUMBER** | **PROJECT** | **TENDER NUMBER** | **VALUE** |
| SA”NIKI TRADING | 6075/0015 | MOGWASE POLICE STATION | MMB09/028 EC | R5 797 529 |

Potential impact of the finding rose above is a non- compliance with the PFMA Section 38(1)(a)(iv). Procurement personnel do not adhere to controls stipulated in the PFMA to ensure that contractors provide information that is complete and accurate before awarding a tender.

## Internal control deficiency

*Leadership:*

The PMTE did not have sufficient monitoring controls to ensure that all information submitted by contractors is complete before awarding a tender and the proper implementation of the overall tendering process.

## Recommendation

Management should ensure that information provided by contractors is complete and accurate before awarding a tender in accordance with the regulations stipulated in the Public Finance Management Act Section 38(1)(a)(iv).

## Management response

I am in agreement with the finding for the following reasons [and supply the following/attached information in support of this]: Schedule of Proposed Subcontractors (DPW-15) Form and Particulars of Electrical Contractor (DPW-22) Form were not part of the requirements.

*Name:* Mr. A. T. Matseke

*Position: DD: Finance & SCM*

*Date: 17 June 2011:*

## Auditor’s conclusion

Finding remains valid as the Schedule of Proposed Subcontractors (DPW-15) Form and Particulars of Electrical Contractor (DPW-22) Form were not signed.

# Deviations from the “normal bidding process”

## Audit finding

Supply Chain Management Practice Note 8 of 2007/2008 Paragraph 3.4.1 states “Accounting officers / authorities should invite competitive bids for all procurement above R500 000.

3.4.2 Competitive bids should be advertised in at least the Government Tender Bulletin and in other appropriate media should an accounting officer / authority deem it necessary to ensure greater exposure to potential bidders. The responsibility for advertisement costs will be that of the relevant accounting officer / authority.”

During the inspection of the following tender documents, the following was noted:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **WCS Number** | **Tender Number** | **Name of the contractor** | **Tender amount** | **Deviation approval date** | **Form of acceptance date** |
| WCS 048216 | H11/002 | Grinaker-LTA/Keren Kula Joint Venture | R5 506 103,01 | 22 July 2010 | 08 February 2011 |

The above tender was procured through a negotiated procedure with the contractor Grinaker LTA/Keren Kula Joint Venture. The bid adjudication committee approved the deviation on 22 July 2010, including the proposed negotiating team members. The motivation for deviation from the normal procurement process was stated in the internal memo addressed to the bid adjudication committee as follows.

* The project should be seen as continuation of the previous contractor scope of work and thus qualifies for nomination in terms of DPW Procurement Policy.
* The joint venture has the required expertise to deliver the same quality of work achieved through the main contract, and further in order to maintain the existing guarantees, it is logical to appoint the same contractor.

Furthermore the internal memo stated that all design and documentation work would require acceleration with the view that Construction would start on 17 to 23 July 2010. However the following matters have not been taken into account:

* The time which has lapsed between the approval of the deviation (22 July 2010) to the date the form of offer and acceptance was signed by both parties (8 February 2011) was a period long enough to go on an open tender and invite other bidders.
* The Supply Chain Management Policy of the Department of Public Works does not state that nomination should apply when the project is a continuation of the previous contractor scope of work.
* There is no certainty that Grinaker LTA/Keren Kula JV is the only contractor with the required expertise to deliver the required quality of work.
* The decision was not cost effective as the amount quoted by the nominated contractor exceeded the total estimate of R5 000 000, 00 including VAT by an amount of R506 103,01.

Therefore the reasons for deviating from the normal procurement process are not valid and do not promote the objective of the SCM policy of the department which is to create an environment that enables the Department to manage the supply of goods, services and works in a manner that is fair, equitable transparent, competitive and cost effective.

Non compliance with Practice Note No. 8 of 2007/2008 issued by the National Treasury in terms of section 76(4) (c) of the Public Finance Management Act could result in irregular expenditure.

**Internal control deficiency**

*Leadership*

Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls

*Oversight responsibility*

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

## Recommendation

* Prior to approval of the decisions the officials must ensure that all the Supply Chain Management regulatory requirements are complied with.
* Deviation from the normal procurement process must be undertaken only when it is impractical to invite the competitive bids.

## Management response

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

* Before the initial tender could be awarded, plans were changed and the scope of work from the client department had to be revised. A second submission was made to the NBAC on 10 December 2011 which in turn referred it to the SBAC which approved the negotiated procedure and the evaluation report thereof on 03 February 2011 (cf.Annexure A) hence the seemingly inordinate time lapse between the initial need expression and actual engagement of service provider. The in principle request and subsequent approval for a negotiated procedure still remained continuation of previous contractor’s work.
* The policy would not specifically have a clause that refers to “nomination should apply when the project is a continuation of the previous contractor scope of work.”, but a principle does exist even in the National treasury Practice Notes that allows for a single source selection/nominated procedure where:
  + A task represents a natural continuation of previous work carried out by a service provider
  + Work where a service provider is qualified or has experience of exceptional worth for the assignment/project
* It may be that the appointed service provider may not be the only one that could execute the work with the required expertise however the main reason that the SBAC applied its collective mind on inn approving the negotiated procedure was the continuation of work that it had already allocated to the service provider.
* As a result of revised scope of work the pre tender estimate was in fact increased to R 5600,000.00. The tender price in the final award is less than the pre tender estimate. The variance between the tender estimate and tender amount is 1.68% (cf. Annexure B).

## Auditor’s conclusion

Management comments have been noted. The justification for treating the tender as an emergency is still unacceptable for audit purposes. This is a non compliance with Practice Note No. 8 of 2007/2008 and will therefore be reported as a non compliance.

# Accruals not correctly accounted for

Section 40(1) of Public Finance Management Act states that “the accounting officer for a department, trading entity or constitutional institution:

* must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;
* must prepare financial statements for each financial year in accordance with generally recognized accounting practice"

Section 41 of the PFMA state that “an accounting officer for a department must submit to the relevant treasury or the Auditor General such information, returns, documents, explanations and motivations as may be prescribed or as the relevant treasury or the Auditor General may require.“

**1. Accuracy of the accruals schedule**

The total amount on the consolidated schedule does not agree to the sub schedule for accrual schedule for Nelspruit region. The Nelspruit region is understated by R437 676, 91 and the difference calculated as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| **Regional Office** | **The balance per consolidated schedule** | **The balance as per sub schedule** | **Difference** |
| Nelspruit | R 5 421 086,41 | R 5 858 763,32 | R 437 676,91 |

**2. Completeness and accuracy of the accruals cannot be verified**

Based on the enquiry from management the accruals recognised in the financial statement for period under review are identified from the WCS report after 31 March 2011. WCS report shows payments made after year end for invoices of goods and services delivered before year end. The total amount on the WSC reports does not agree to schedules of accrual disclosed in the financial statement. The completeness of the accruals cannot be verified.

|  |  |  |  |
| --- | --- | --- | --- |
| **Description** | **As per current WCS report** | **As per accrual schedule** | **Difference** |
| Accruals | R 74 213 507,63 | R 279 074 239,74 | R 204 860 732, 11 |

**3. Completeness of Schedules**

The supporting documentation listed below was requested to verify the amounts disclosed in Head Office schedule but it could not be provided as it relates to Regional Offices. It shows that schedules for Regional office are incomplete.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **No** | **Invoice date** | **Service Provider** | **Reference** | **Total** |
|
| 1 | 20110328 | Ice Group (Pty) Ltd-Head Office | 045140 | R646 928,89 |
| 2 | 20110330 | Minenhle Makhanya Architects | 047455 | R1 001 664,24 |
| 3 | 20110125 | Tokologo Technical Assignments Cc | 039239 | R2 910 266,68 |
| 5 | 20110328 | Kwikspace Modular Buildings (Pty) Ltd | 048636 | R3 113 873,16 |
| 6 | 20110328 | G Liviero & Son Building (Pty) Ltd | 045278 | R3 400 893,60 |
|  |  | **TOTAL** |  | R11 073 626,57 |

**4. Classification of transactions included as “accruals”**

The following payment was included as an accrual. Upon inspection of the invoice, it was determined that the invoice was received after year end and the invoice date is after year end. The certification of the work performed was done after year end and therefore this should not be raised as an accrual. The accrual is therefore overstated by an amount of R3 004 676,31

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Supplier Name** | **WCS Nr** | **Payment Nr** | **Invoice Date** | **Invoice Nr** | **Invoice Amount (R)** |
| Mvela Mpanda Construction (Pty)Ltd | 046024 | 370622 | 8 April 2011 | HEN4113 | 3 004 676,31 |

**5. Accuracy of the opening balance**

Inspected the Annual Financial Statements note 5 and the current year trial balance therefore prior year comparative figure in the trial balance does not agree to comparative figure as per signed annual financial statements.

|  |  |  |  |
| --- | --- | --- | --- |
| **Description** | **Comparative amount as per trial balance** | **Amount as per prior year signed annual financial statements** | **Difference** |
| Accruals | R 351 035 025,72 | R 352 468 000,00 | R 1 432 975,28 |

Discussed with management and it was explained that a restatement was due to reclassification of deferred income from trade payables to trade and other receivables. The restatement of deferred income is incorrectly accounted for therefore management should reverse the entry. Deferred income is revenue that needs to be surrendered to National Treasury hence correctly classified as a “payable”. There is no proper system to account for accruals and the schedules are not reviewed by management. These findings might result in a qualification of accruals included in “Trade and Other Payable”.

## Internal control deficiency

*Financial and Performance Management*

* 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.
* Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

*Control activities*

* Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting
* Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information

**Recommendation**

* Management should ensure that financial statements and supporting schedule are reviewed and deficiencies are resolved timeously.
* Register for invoices should be kept and reviewed on weekly/monthly basis to support the accruals at year end.

**Management response**

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

1. **Accuracy of the accruals schedule**

The total amount on the consolidated schedule is correct as R5 421million. The sub schedule had an error on the formula. When the formula is corrected both schedules agree to the Nelspruit region. Therefore the accruals for Nelspruit were not understated.

1. **Completeness and accuracy of the accruals cannot be verified**

The total amount disclosed on the financial statements is relating to all the PMTE accrual not only WCS. This also takes into account accruals that are captured on other systems like PMIS e.g. Municipal services.

1. **Completeness of Schedules**

The accruals were correctly listed in the regional schedules submitted with the Annual Financial Statements on 7 July 2011; therefore the supporting documentation was supposed to be requested in the regions.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **No** | **Invoice date** | **Service Provider** | **Reference** | **Total** |
|
| 1 | 20110328 | Ice Group (Pty) Ltd-Head Office | 045140 | R646 928,89 |
| 2 | 20110330 | Minenhle Makhanya Architects | 047455 | R1 001 664,24 |
| 3 | 20110125 | Tokologo Technical Assignments Cc | 039239 | R2 910 266,68 |
| 5 | 20110328 | Kwikspace Modular Buildings (Pty) Ltd | 048636 | R3 113 873,16 |
| 6 | 20110328 | G Liviero & Son Building (Pty) Ltd | 045278 | R3 400 893,60 |
|  |  | **TOTAL** |  | R11 073 626,57 |

1. **Classification of transactions included as “Accruals”**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Supplier Name** | **WCS Nr** | **Payment Nr** | **Invoice Date** | **Invoice Nr** | **Invoice Amount (R)** |
| Mvela Mpanda Construction (Pty) Ltd | 046024 | 370622 | 8 April 2011 | HEN4113 | 3 004 676,31 |

The invoice above was not included in the accrual schedules as submitted with the AFS on 7 July 2011.

1. **Accuracy of opening balance**

Opening balance will be corrected in the AFS as audit adjustment.

## Auditor’s conclusion

1. **Accuracy of the accruals schedule**

Management have acknowledged that there was an error on the financial statements and as a result, the incorrect schedule was used for audit purposes and this has been a waste of time and is one of the reasons why there was a delay in the audit.

1. **Completeness and accuracy of the accruals cannot be verified**

Management have misrepresented as they referred us to the WCS report for the calculation of the accruals and never indicated what they have indicated in this response. This is a misrepresentation of fact from management. Furthermore, the completeness of accruals could not be confirmed as they don’t have the system to account for all the invoices received by the department.

1. **Completeness of schedules**

The schedules that were provided include amounts that in the Head Office Schedule that relates to the Region. This is further evidence that the accrual listing is inaccurate and further brings a question to the completeness thereof**.**

1. **Classification of transactions included as “Accruals”**

Management comments have been noted. The correct information was not submitted when requested and therefore, the changes made were not considered for audit purposes.

1. **Accuracy of opening balance**

No audit adjustments have been made in the final financial statements.

# Preference Point System contract participation goals not complied with

## Audit finding

Construction Industry Regulation Board Regulations 2004 as amended on 14 November 2008 Paragraph 25(5)(a) states that “every member of the joint venture is a registered contractor in terms of these Regulations and the lead partner has a contractor grading designation in the class of construction works under consideration and possesses the required recognition status.” The following file was obtained for audit purposes:

|  |  |  |  |
| --- | --- | --- | --- |
| **Contractor name** | **Tender number** | **Date of awarding** | **Amount**  **R** |
| JV Runaway Contractors | H03/003 | 13 June 2008 | 699 821 937,45 |

During the audit of the file, the following was noted:

1. A joint venture was entered into between Mvela Phanda Construction (Pty) Ltd, Protech Khuthele (Pty) Ltd and P Gerolemou (Pty) Ltd. The percentage interest of the companies is 70%, 20% and 10% respectively.
2. All members of joint venture are registered contractors in terms of the CIDB Regulations and the lead partner, Mvela Phanda posses the required grading.

We inspected the approved procurement strategy that stipulated that the preference points of 10 would be achieved as follows:

1. 1 point- for the ownership by persons who had no franchise in the elections prior to the 1993 and 1983 Constitutions;
2. 9 points- for the specific goals (relating to contract participation goals)

We reviewed form PA-16.2 which states the tender and contract conditions pertaining to the Contract Participation Goal. The requirements of Contract Participation Goal as stated in PA-16.2, state that the contractor shall subcontract targeted enterprises[[4]](#footnote-4) directly in the performance of the contract to the extent that the total financial value of such subcontracts, in accordance with all the requirement of this document, is sufficient to achieve the Contract Participation Goal provided for in the contract.

Contractors must submit to the principal agent/engineer completed Targeted Enterprise Declaration Affidavits[[5]](#footnote-5), together, where required with Letters of Undertaking to act as Subcontractors, in respect of each and every targeted enterprise whose contribution shall be counted towards the tendered contract participation goal.

These documents must be submitted before or with the submission of the first claim for payment, or as otherwise agreed in writing with the employer.

The bid adjudication committee approval document states that the committee approved the appointment of JV Runaway contracts on the condition that bidder is to achieve 70.04 Contract Participation Goals by using sub contractor other than parties to this Joint Venture. This condition must form the basis of this contract.

While inspecting the tender documents the following deficiencies were identified:

* It was noted that JV Runway submitted Targeted Enterprise Declaration Affidavits and Letters of Undertaking to act as Subcontractors to comply with 70.04 Contract Participation Goal. Mvela Phanda Construction is listed as the target enterprise which is incorrect as the company forms part of the Joint Venture and is therefore not a target enterprise as defined.
* We therefore inspected the payment batch number 59461, which was the first payment from the contract, to confirm if the Targeted Enterprise Declaration Affidavits, together with Letters of Undertaking to act as Subcontractors have been submitted with the payment. It was however not attached in the payment file and we therefore cannot confirm that it has been submitted to the Department.
* The correspondence from JV Runaway Contractors was included in the tender documents. Upon inspection it was determined that a fax (dated 3 June 2008) was sent to the Department stating that Contract Participation Goal will be achieved by allocating work to Mvela Phanda Construction and SMME subcontractors will be the engaged firms. A list of names of SMME subcontractors was not attached.
* The scoring of the preference points were based only on Mvela Phanda Construction and not the subcontracted firms as required by the Procurement Strategy. We made a request to management to provide us with any other information pertaining to this tender and no information has been provided to date. The request was issued on 5 May 2011 as RFI 45.
* At the time of this finding, we could not confirm the cause for the finding as the reason for the finding had not yet been discussed with the responsible official due to unavailability. Non compliance with Treasury Regulation and PFMA which could result in irregular expenditure.

## Internal control deficiency

*Oversight responsibility*

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

## Recommendation

Project managers should follow up on all conditions of the tenders and where there is none compliance, the tender must be discontinued until all requirements are met or the tender must be cancelled.

**Management response**

The said tender was awarded to the Joint Venture consist of Mvela Phanda(70%) Proteck Khuthele(20%), and P Gerolomou(10%).Their CPG offer as the JV is 70.04.

At the time of the tender evaluation the Department expressed concern on how the JV would execute the contract with intend to sub-contract 70.04% of the work. The letter seeking clarity from the bidder issued on the 20/06/2008 (by procurement administration office) was responded to by the JV expressing that work amounting to 70.04% will be subcontracted to HDI’s,SMME and Special Contractors.

The letter (JV response) was referred to legal Service for opinion and advice. In paragraph 2 and 3 of the Memo addressed to CD Supply Chain, legal services confirmed that the JV has understood the obligations of the tender offer and they would therefore subcontract the work outside the JV.

This is contrary to the findings of AG to have interpreted the letter to be saying the CPG will be achieved by allocating the work to be saying “the CPG will be achieved by allocating the work to Mvela Phanda”.

BID SCORING:

The approved bid scoring model of this tender is based on 1 Point for HDI, 9 Points for CPG and 90 Points for Price Offer. During the scoring Runway Contractors JV were scored as the bidding entity made up of three individual firms of different compositions.

The 90 points were awarded for price as the lowest bid price, 9 points for greater CPG offer, and fraction of HDI points.

The department does not agree with the findings of the AG that scoring preference were based on Mvela Phanda Construction. The emphasis is that Mvela Phanda is partner of the JV with other two, together they making a one bidding entity (Runway Contractors JV)

COMPLIANCE TO THE PROVIONS ON MANAGING CPG-PA-12

The monitoring and reporting and performance by the sub Contractors in terms of CPG are standing item of discussion, review and reporting recorded by the principal Engineer and Site Engineer.

The report on the specialist sub contractors appointed under the project was submitted to the AG. The report remains provisional until the combined amount of work equals to 70.04% of the project is completed. At which time the Main Contractor shall issue or submit to the department the audited certificate counter signed by the subcontractors appointed.

## Auditor’s conclusion

What management has indicated above is in contravention of the contract that was entered into between the Department and the service provider. This finding remains a valid finding.

# Statement of Comprehensive Income indicates a deficit at year end

## Audit finding

Treasury Regulations Paragraph 19.7.2 states that “*where a trading entity suffers a deficit in trading, the accounting officer of the department operating the trading entity must investigate whether—*

*(a) the head of the trading entity reported any foreseeable potential over expenditure in the monthly  reports;*

*(b) appropriate steps were taken to address the deficit; and*

*(c) financial misconduct sanctions should be instituted if* [*paragraphs (a)*](http://agintranet/nxt/gateway.dll/jilc/kilc/xjsg/lwsg/pwsg/j2ri/k2ri/32ri?f=templates$fn=document-frameset.htm#2) *and* [*(b)*](http://agintranet/nxt/gateway.dll/jilc/kilc/xjsg/lwsg/pwsg/j2ri/k2ri/32ri?f=templates$fn=document-frameset.htm#3) *were not adhered to.’’*

 International Accounting Standard (IAS) 1 (AC 101) states:

* Paragraph 25 “When preparing financial statements, management shall make an assessment of an entity’s ability to continue as a going concern. An entity shall prepare financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so”. It states further that: “when management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity’s ability to continue as a going concern, the entity shall disclose those uncertainties. When an entity does not prepare financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the financial statements and the reason why the entity is not regarded as a going concern”.
* Paragraph 26 of IAS 1 (AC1010) states: “In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. The degree of consideration depends on the facts in each case. Management need to consider a wide range of factors relating to current and expected profitability, debt repayment schedules and potential sources of replacement financing before it can satisfy itself that the going concern basis is appropriate”.

Treasury Regulation 19.2.1 states that: For purposes of this regulation, a trading entity is regarded as an entity operating within the administration of a department. All obligations on departments in these regulations apply to trading entities, unless the context indicates otherwise.

* 19.2.2 The accounting officer of the department operating a trading entity must ensure that the head of the trading entity complies with the Act and these Treasury Regulations.

***Audit finding***

We noted the following from the current year’s financial statements:

* The trading entity’s liabilities exceed its assets
* There were accumulated losses
* The entity have a deficit for the year

Based on the above mentioned factors, there is significant doubt/uncertainty regarding the going concern of the entity.

Through discussion with management regarding their ability to continue as a going concern and the assessment thereof, it has been indicated that as the entity leases buildings on behalf of government departments, they intend to request the client departments to pay them in advance and these prepayments will assist to pay back the overdraft. However considering that client departments may not have sufficient budget to pay leases in advance, it is not clear how feasible management’s plans are to mitigate the overdraft position.

Furthermore management has indicated that there was no assessment of going concern performed for the PMTE as paying the overdraft was a priority at that stage rather than assessing the going concern. They further indicated that the going concern assessment will be conducted once they have paid off the overdraft.

The factors mentioned above amounts to material uncertainties which may cast significant doubt as to the entity’s ability to continue as a going concern and therefore management is required in terms of GAAP to disclose the material uncertainties and to make an assessment to consider whether the going concern assumption is appropriate.

As a result, the basis for preparation of the financial statements on a going concern basis might not be appropriate.

Enquiries revealed that as PMTE previously prepared financial statements on the modified cash basis of accounting management was not aware of the fact that they had to perform a going concern assessment.

## Internal control deficiency

*Leadership*

Oversight responsibility- The systems are not documented in the policy and procedures manual and the results of the monitoring process are not routinely communicated to all managers and staff.

**Recommendation**

* Management should perform a going concern assessment taking into account all available information for at least a 12 month period after the date of the financial statements
* Management’s plans for future actions in relation to its going concern assessment should be documented.
* If management assessment reveals that there is a significant uncertainty on the PMTE’s ability to continue as a going concern, then the necessary disclosures need to be made in the financial statements

## Management response

## No response received from management. Auditor’s conclusion

Even though no formal response received from management it was indicated in meetings with management that due to the fact that PMTE is getting an augmentation from the Department of Public Works, which is part of the vote, PMTE will in the foreseeable future continue to get the augmentation in order to run its mandate as set by Public works. We also assessed that the set of financial statements is not a true reflection of a SA GAAP set of financial statements as none of the capital assets are currently disclosed in the financial statements, therefore it might be indicative that the entity is not technically insolvent if all amounts for capital assets and all Revenue included in the financial statements, therefore, we will only report the non-compliance to Treasury regulation 19.7.2.

# Documents requested during the planning stage of the audit still outstanding

## Audit finding

In terms of section 41 of the Public Finance Management Act, 1999 (Act no.1 of 1999) an accounting officer for a department must submit to the relevant treasury or the Auditor General such information, returns, documents, explanations and motivations as may be prescribed or as the relevant treasury or the Auditor General may require. The following information has been requested for planning purposes and has not been received to date. This therefore constitutes a limitation of scope.

|  |  |
| --- | --- |
| **Information requested** | **Date requested** |
| Agenda and the minutes of the MINTOP (Minister and Top Management) meetings | 28-Oct-10 |
| Oversight process |  |
| 1. How does the Accounting Officer report to the Minister | 28-Oct-10 |
| 2. The matters reported |
| 3. The timing of reports |
| 4. Action taken on matters reported |

This placed a limitation on our ability to gain an overall understanding of the Property Management Trading Entities and specifically the governance processes followed in terms of communication to/from the Executive. There are no proper controls in place over the filing of the documentation as information is not easily accessible and traceable.

## Internal control deficiency

*Financial and Performance Management*

Proper record keeping and record management; the documents supporting the above are not properly filed and easily retrievable. The requested documents were not available to provide to audit within the agreed timeframes.

## Recommendation

Management should ensure that all information requested is easily retrievable and supplied to the auditors for audit purposes. A document centre should be established where all the documents pertaining to the entity are filed ensuring that they are traceable and there is proper access control to that centre.

## Management response

Management response outstanding.

## Auditor’s conclusion

This is a non compliance to the PFMA and will be report as such in the Audit Report.

# Insufficient policies and procedures in place

## Audit finding

Section 38 of the PFMA states that a department, trading entity or constitutional institution must ensure that it has and maintains effective, efficient and transparent systems of financial and risk management and internal control.

A policy can be defined as a *“documented set of principles, rules, regulations and sanctions that prescribe employee behaviors. It is a broad statement of intent, with widespread application and expressed in broad terms of ‘what’ and ‘why’*.”

While procedure is defined as: “*A series of steps followed in regular order taken to implement a policy. Procedures can be mapped using a flow chart. It is a more specific document with narrow application and stated in detail, describing the process of ‘how’, ‘when’ and ‘who’.*” Thus a policy would be an overview of ‘what and ‘why’ certain activities need to be performed while a procedure would indicate ‘how’, ‘when’ and ‘who’ must carry out such.

The approval by National Treasury for the Business Case Interim Mechanism (signed on the 14 March 2006), in establishing the PMTE stipulated that the “approval of the establishment is subject to certain conditions being met. One of the conditions was that the accounting officer of Public Works must formulate a policy and reporting framework for the trading entity.”

We identified a lack of policies and procedures specific to governing the PMTE in the following areas:

## Financial reporting

IAS 1.27 states that an entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting. Management did not develop and document written policies and procedures to guide financial accounting processes and specifically relating to the reporting of financial statements in terms of SA GAAP for the PMTE.

This is evident from the prior year qualification in the audit report received by the PMTE due to a lack of a proper accounting system being in place for trade receivables and unreconciled individual trade receivables balances at year-end. The entity’s day to day accounting records is currently on modified cash basis and does not provide adequate information for certain transactions to be accounted for on the accrual basis of accounting as required by the accounting framework. This situation prevailed throughout the current reporting period.

1. **Related parties**

Related parties are considered to be “related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions”. The PMTE does not have any procedures in place over the identification, authorisation, recording and reporting of related party transactions.

1. **Revenue policy**

Treasury Regulations 7.2.1 requires that: *“the accounting officer of an institution must manage revenue efficiently and effectively by developing and implementing appropriate processes that provide for the identification, collection, recording, reconciliation and safeguarding of information about revenue”*.

SA GAAP requires that the PMTE recognise revenue on an accrual basis. However presently the entity is recording and recognising the transactions relating to revenue on the modified cash basis. This constitutes a deviation to the requirements as stipulated in the accounting framework. The PMTE does not have a policy in place to manage the collection and recording of revenue in terms of SA GAAP.

1. **Bank and cash policy**

Treasury Regulations 15.10.1.1 states that the: “*accounting officer is responsible for establishing systems, procedures, processes and training and awareness programmes to ensure efficient and effective banking and cash management*”. The PMTE has not developed and documented written policies and procedures to guide the entity on how to achieve efficient and effective banking and cash management.

1. **Journal policy**

We identified that there is no policy for initiation, processing, recording and authorisation of journals in place for the PMTE. Journals are an integral part of the financial system of the PMTE. To ensure valid, accurate and complete data in the financial system it is important to have control over journals as per section 38 of the PFMA.

1. **Subsequent events**

PMTE does not have policies and procedures to identify subsequent events and exercise appropriate action and report on them appropriately. This hinders us from obtaining sufficient audit evidence on “events occurring between the date of the financial statements and the date of the auditor’s report that require adjustment and that these are appropriately reflected in the financial statements”.

1. **Accrued expenses/income**

PMTE does not have a policy in place to identify and record transactions for accrued income/expenditure.

1. **Lease policy**

PMTE enters into lease agreements on behalf of client departments as well as leases buildings to client departments. There is however no policy that addresses the circumstances when a lease can be entered into, the recognition criteria and finalisation of contracts. These exceptions were raised in the 2009/10 financial year; however no response was received. We would like to highlight that it is the accounting officer's responsibility to implement sufficient and effective internal controls for the entity to operate effectively and efficiently.

Management should take note that the absence of documented policies and procedures may result in material errors in the financial statements, related parties transactions not being conducted at arm’s length as well as related parties and related party transactions not being identified timeously and disclosed adequately in the financial statements.

Furthermore, in the absence of policies for journal entries, invalid or unauthorised entries could remain undetected for a long period and If not timeously followed up and corrected it could result in financial losses for the PMTE.

## Internal control deficiency

*Leadership*

* Decisive action to: mitigate emerging risks, implement timely corrective measures and address non performance.
* Actions are not taken to address risks relating to the achievement of complete and accurate financial and performance reporting.

## Recommendation

* Policies and procedures should be developed taking into account the accounting standards and the guidelines from National Treasury. These policies and procedures should be approved at the appropriate level and communicated to all employees at PMTE.
* Adherence to all policies and procedures should then be monitored and strict action should be taken in respect of non-adherence.

## Management response

The PMTE has developed the following policies but they are not approved yet:

* Financial reporting
* Related parties
* Revenue Policy
* Bank and cash Policy

The PMTE has processes that address the following:

* Journals
* Accrued expenses/Income

## Auditor’s conclusion

The policies were not approved during the current financial period and therefore, the finding still remains. If the Department does not address the absence of a policy as a matter of urgency, invalid or unauthorised entries could remain undetected for a long period and if not timeously followed up and corrected it could result in financial losses for the PMTE.

The processes for Journals and accrued expenses/income have not been submitted for evaluation. Therefore, this issue remains unresolved and management must attend to it and develop appropriate policies and procedures to eliminate deficiencies in controls.

# Declaration of interest by the Bid Evaluation and Adjudication Committees

## Audit finding

The SCM Policy paragraph 59 states the following under Bid Evaluation and Adjudication Committees: *"The members of the Bid Evaluation and Bid Adjudication Committees must be free of any conflict of interest when assessing bids. A declaration of Interest certificate must be signed by all members who participate in these committees....".* During the audit, the following were noted:

* Declaration of interest and confidentiality for the Evaluation Committee was not attached for tender file no H06/034.
* Declaration of interest and confidentiality for the Bid Adjudication Committee were not attached for the following tenders:

|  |  |  |
| --- | --- | --- |
| **No** | **Tender Number** | **Supplier** |
| 1 | H09/062 | Botes EN Kennedy Manyano (Pty) Ltd |
| 2 | H09/074 | Yikusasa Building Contractors |
| 3 | H06/034 | Superway Construction (Pty) Ltd |
| 4 | HP09/011 | Endecon Ubuntu (Pty) Ltd |
| 5 | HP09/010 | Endecon Ubuntu (Pty) Ltd |
| 6 | H08/003 | JV Runway |
| 7 | H08/008 | Mvela Phanda (Pty) Ltd |

The Department has explained that the declaration forms are kept in a separate file. To date, the declarations have not been provided for audit purposes.

Non compliance with Treasury Regulation and PFMA which could result in irregular expenditure

## Internal control deficiency

*Financial and Performance Management*

The Department does not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

## Recommendation

A checklist must be implemented by the PMTE where it lists all the documentation that should be included in the files. The person who has done the check must sign the checklist as proof thereof.

## Management response

The department has a checklist for document keeping. However the declaration of interest and confidentiality for the evaluation committee has not been implemented in the department at the time the tender was awarded. Please the effective date on the attached PA18.1.

## Auditor’s conclusion

The minutes provided were not signed by the chairperson and therefore “not accepted as a legal document”. Furthermore, after going through the minutes, we could not for all instances link the tender numbers as indicated in our finding, with the tender numbers as indicated in the minutes. The SCM policy specifically states that *a declaration of interest certificate must be signed by all members who participate in these committees. The certificate was not signed by the committee members.* This is a non compliance with the supply chain management policy and will be reported as such in the audit report.

# Supply Chain Management Policy

## Audit finding

Paragraph 16A6.2 of the Treasury Regulations states that: “A supply chain management system must, in the case of procurement through a bidding process, provide for:

* The adjudication of bids through a bid adjudication committee;
* The establishment, composition and functioning of bid specification, evaluation and adjudication committees;
* The selection of bid adjudication committee members;
* Bidding procedures; and
* the approval of bid evaluation and/or adjudication committee recommendations.”

We obtained the Supply Chain Management Policy for audit purposes and the following was noted:

* The selection of bid adjudication committee members.
* The type of documentation that should be used during the bid and the adoption of the standard bidding documents issued by National Treasury
* Cases where the bidder should be rejected or disregarded especially for the issues listed below:
  + rejection of any bid from a supplier who fails to provide written proof from the South African Revenue Service that that supplier either has no outstanding tax obligations or has made arrangements to meet outstanding tax obligations;
  + disregard of the bid of any bidder if that bidder, or any of its directors have committed fraud or any other improper conduct in relation to such system; and
  + disregard of the bid of any bidder if that bidder, or any of its directors have failed to perform on any previous contract.
* Non-acceptance of gifts or hospitality or any other act which could compromise the credibility or integrity of the SCM system by the officials.
* Processes and procedures for deviation from the normal tender process.
* Processes and procedures for applicability and approval of tender extensions, modifications and variation orders
* Penalties and interests to be imposed on non performance

The procedures which are not documented approved and communicated to the staff result in lack of direction or guidance on steps or methods to be followed in fulfilling the Supply Chain Management functions.

Internal policies and procedures are not continuously reviewed and updated to ensure that they are aligned with PFMA, PPPFA, National Treasury Regulations and Practice Notes.

The above concerns translate into a risk ofnon compliance with Treasury Regulation and PFMA which could result in irregular expenditure.

## Internal control deficiency

*Governance*

Implement appropriate risk management activities to ensure that regular risk assessment, including consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored.

*Risk identification, evaluation and response by management*

* PMTE does notimplement appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored.
* Appropriate policies, procedures, techniques, and mechanisms are not in place with respect to each of the entity’s activities.
* Management has not identified the actions and control activities needed to address the risks and have not directed their implementation thereof.

**Recommendation**

* The Supply Chain Management policy must be updated and aligned with the requirements of all the applicable Treasury regulations and practice notes.
* Procedures that guide the implementation of the tender, quotations and supply registry must be developed, approved and implemented and monitored on regular basis.

## Management response

Management response outstanding

## Auditor’s conclusion

This is evidence of control deficiencies and management must address this deficiency as a matter of urgency. This issue will be reported as a non compliance.

# 

# General condition of contract not available

## Audit finding

Paragraph 16A6.3 of Treasury Regulations states that “the accounting officer or accounting authority must ensure that:”Bid documentation and the general conditions of a contract are in accordance with the instructions of the National Treasury; or the prescripts of the Construction Industry Development Board, in the case of a bid relating to the construction industry.”

Practice Note 7 of 09/10 which was issued in July 2010 gives guidelines regarding the general conditions of the contract that should form part of all bid documents and it further indicates that the conditions may not be amended. The following table of clauses listed below which pertain to the general conditions of the contract, and may not be amended, should be signed in duplicate by both parties.

* Definition
* Application
* General
* Standards
* Use of contract documents and information, inspection
* Patent rights
* Inspections, tests and analysis
* Contract amendments
* Assignment
* Subcontracts
* Delays in supplier’s performance
* Penalties
* Termination for default
* Dumping and countervailing duties
* Force Majeure
* Termination for insolvency
* Settlement of disputes
* Limitation of liability
* Governing language
* Applicable law
* Notices
* Taxes and duties

Inspected the following tender files:

|  |  |  |  |
| --- | --- | --- | --- |
| **CONTRACT FORM: RENDERING OF SERVICES** | **TENDER NUMBER** | **DATE SIGNED** | **TENDER AMOUNT** |
| Core focus (Pty) Ltd | HP10/027 | 21 July 2010 | R1 008 786,00 |
| Sekela Consulting (Pty) Ltd | HS10/003 | 8 June 2010 | R23 745 198,00 |

The DPW-04.2 (Contract Form-Rendering of Services) was included in tender documents and signed by the department official and bidder which constitute a contract. This form takes into account the general conditions of contract as part of the document that is deemed to form and read and construed as part of this agreement however general conditions of contract was not enclosed in the tender files. The files are not properly checked for completeness and correctness before they are submitted for audit purposes. The non available of documents needed for the audit resulted in a scope limitation.

## Internal control deficiency

*Financial and Performance Management*

* 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
* Proper record keeping and record management; the documents supporting the above are not properly filed and easily retrievable
* Requested information was not available and supplied without any significant delay.

## Recommendation

Management should ensure that all information requested is easily retrievable and supplied to the auditors for audit purposes within the three days.

## Management response

Management response outstanding.

## Auditor’s conclusion

This is a non compliance with the Practice Note 7 of 09/10 and is therefore reported as a non compliance.

# Procurement deviation not reported to Treasury and AGSA

## Audit finding

Practice Note No. 8 of 2007/2008 paragraph 3.4.3 states that “Should it be impractical to invite competitive bids for specific procurement, e.g. in urgent or emergency cases or in case of a sole supplier, the accounting officer / authority may procure the required goods or services by other means, such as price quotations or negotiations in accordance with Treasury Regulation 16A6.4”.

The reasons for deviating from inviting competitive bids should be recorded and approved by the accounting officer / authority or his / her delegate. Accounting officers / authorities are required to report within ten (10) working days to the relevant treasury and the Auditor-General all cases where goods and services above the value of R1 million (VAT inclusive) were procured in terms of Treasury Regulation 16A6.4. The report must include the description of the goods or services, the name/s of the supplier/s, the amount/s involved and the reasons for dispensing with the prescribed competitive bidding process.

Inspection of the following tender it was noted that the tender was not procured on a competitive bidding process. The negotiated procedure was followed on the basis that it was a continuation of the previous contractor scope of work as per the internal memo that was attached as signed by the Project Manager.

|  |  |  |  |
| --- | --- | --- | --- |
| **Tender file number** | **WCS number** | **Supplier details** | **Tender amount** |
| H11/002 | 48216 | Grinaker LTA/Keren Kula Joint Venture | R5 506 103.01 |

Core Focus (Pty) Ltd for tender number HP10/027 also did not report the deviation to National Treasury and the AGSA.

The deviation was approved by the Bid Adjudication Committee on 14 December 2010.

The form of offer and acceptance was signed by the Joint Venture official on 27 January 2011 and by an official of the PMTE on 8 February 2011 on behalf of the Department.

However the deviation from competitive bidding with a transaction value of more than R1 million (Vat included) was not reported to the AGSA and National Treasury within 10 days from the approval date as required by the legislation.

Management indicated that considering the number of regions that the PMTE has it is impractical for them to collate all the information from the regions and still report the deviations to the AGSA and the National Treasury within 10 working days.

Non compliance with Practice Note No. 8 of 2007/2008 issued by the National Treasury in terms of section 76(4) (c) of the Public Finance Management Act could result in irregular expenditure.

## Internal control deficiency

*Leadership*

Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls

*Oversight responsibility*

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

## Recommendation

A mechanism must be established through which deviations are reported to the relevant Treasury and the AGSA.

## Management response

Management does not agree with the finding. The department has since reported the matter to National Treasury, though the reporting was done after 10 days. We have also put measures in place by appointing an official who will be solely responsible for reporting matters to the Auditor General and National Treasury within the stipulated time frames. We are also in the process of putting in place Service Level Agreements specifying obligations as well as time frames within which to work.

## Auditor’s conclusion

This is non compliance with the Treasury Regulations

# Procurement deviation not reported to Treasury and AGSA

#### Kwazulu Natal

## Audit finding

Treasury Practice Note 6 of 2007/2008 determines that the accounting officers and accounting authorities are required to report within ten (10) working days to the relevant treasury and the Auditor-General, all cases where goods and services above the value R 1 million (VAT included) were procured in terms of Treasury Regulation 16A6.4. During the audit of unplanned maintenance it has been noted that the following contract was not procured through obtaining the competitive bids and deviation was not reported in terms of Practice Note 6 of 2007/2008:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Supplier name** | **Reference no.** | **Batch no.** | **Invoice no.** | **Part payment** |
| FULLIMPUT 1418 CC | DBN/0510/18039 | 6387 | 15092010 | R 1,795,055.97 |

## Internal control deficiency

*Financial and performance management*

Lack of review and monitoring of compliance with National Treasury Practice Note.

## Recommendation

The accounting officer must utilise the reporting measure in terms of Practice Note 6 of 2007/2008 where goods and services are procured by means other than through the invitation of competitive bids. The report must include the description of the goods or services, the names of the suppliers, the amounts involved and the reasons for not following the prescribed competitive bidding processes.

## Management response

Yes there is agreement with the audit finding. The Service was done as an Emergency and therefore bypassed normal procurement procedures. There was an oversight in utilizing the required reporting measures. All cases over R1 million have now been reported to Head Office.

Action Plan: All Works Managers have been sent a copy of the Irregular Expenditure Policy and advised to ensure compliance. Any expenditure that falls within the Policy Guidelines will be monitored by means of a database that is updated on a daily basis.

Responsibility: Deputy Director Facilities Management

Timeframe: Immediate and ongoing

*Name: RJ Fataar*

*Position:  Acting DD - Facilities*

*Date: 30 May 2011*

## Auditor’s conclusion

Finding will be considered for the audit report in terms of non-compliance.

# Procurement deviation not reported to Treasury and AGSA

#### Bloemfontein

## Audit finding

Paragraph 3.1 of Practice Note 6 of 2007 states that:

"*With effect from the date on which this practice note takes effect, accounting officers and accounting authorities are required to report within ten (10) working days to the relevant treasury and the Auditor-General, all cases where goods and services above the value of R1 million (VAT included) were procured in terms of Treasury Regulation 16A6.4."*

Contrary to the provision of this section, we found no proof of correspondence with Treasury  for the following leases, above R1 million, that was procured by means of the negotiation process:

|  |  |  |
| --- | --- | --- |
| **Description:** | **Tender amount (R):** | **Lease file number:** |
| RENTAL LEASE | 3 861 960,08 | 6706/3517 |
| RENTAL LEASE | 2 091 719,04 | 6706/3462 |
| RENTAL LEASE | 2 051 400,96 | 6706/3258 |
| RENTAL LEASE | 2 059 019,83 | 6758/0301 |
| RENTAL LEASE | 1 045 265,13 | 6706/2822 |
| RENTAL LEASE | 16 773 281,96 | 6706/1108 |
| RENTAL LEASE | 1 581 874,01 | 6731/0826 |
| RENTAL LEASE | 1 816 268,96 | 6706/3347 |
| District: Bloemfontein National prosecuting-Authority: Accom X Parking Waterfall Centre | 3 126 693,28 | 6706/3513 |
|  | **34 407 483,25** |  |

The cause of the above is that management did not designate a responsible person to ensure that all SCM practice notes are complied with.

The impact of the above is:

* Non-compliance with SCM practice notes resulting in irregular expenditure that should be disclosed as such in the annual financial statements.
* Limitation of scope on the audit.
* Irregular expenditure as disclosed in the Annual Financial Statements could be misstated.

## Internal control deficiency

*Financial and Performance Management*

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 is not implemented.

*Monitoring: Ongoing monitoring*

Monitoring controls to ensure that the trading entity complied with the relevant laws, rules and regulations and that all required bid documents were obtained were not effective.

## Recommendation

* Management should ensure that all SCM practice notes are complied with and that the treasury and Auditor-General is informed about all cases where goods and services were procured above R1 million.
* Management should ensure that the correspondence is properly filed and easily retrievable for audit purposes.

## Management response

This office cannot agree with the finding of the AGSA. It should be noted that National Treasury implemented an electronic system for the capturing of awards, being PCI. Please refer to the attached supporting documentation indicating that the awards were captured by this office.

In terms of the current SCM delegations the responsibility to report on procurement issues to National Treasury is vested in the CD: SCM at Head Office. A specific report regarding procurement is submitted on a quarterly base, after regions has verified the correctness of the information. Please refer to attached e-mail message from Head Office as an example.

*Name: N Zulu*

*Position: Regional Manager*

*Date: 22 July 2011*

## Auditor’s conclusion

Management comments are noted. The relevant treasury and Auditor-General were not informed. The matter is therefore not resolved and would be considered for reporting on non-compliance in the audit report.

# Declarations of Interest not provided by supply chain management officials

## Audit finding

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

The Supply Chain Management Policy of the Department of Public Works paragraph 59 states that: “Members of the Bid Evaluation and Bid Adjudication Committees must be free of any conflict of interest when assessing bid documentation. A Declaration of Interest certificate must be signed by all members who participate in these committees.”

During the 2010/11 audit of the Supply Chain Management the following was noted:

* The tender files for the projects listed below were inspected for the declarations of interest as required by the SCM policy. There was no declaration of interests certificates attached for any members that participated in the Bid Adjudication Committees.
* The Request for Information number 63 was submitted requesting the declarations by the members of the Bid Adjudication Committee members participating in the projects listed below. As at 23 June 2011 these documents have not been submitted for audit purposes.

| **Number** | **Tender number** | **WCS number** | **Amount** | **Contractor/ Consultant** |
| --- | --- | --- | --- | --- |
| 1 | HP08/21 | 46347 | R7 626 537,30 | VGI Consulting |
| 2 | H09/020 | 41821 | R191 956 107,82 | Keren Kula Construction |
| 3 | HP08/42 | 46141 | R15 764 986,24 | Malekutu Motjoadi JV |
| 4 | H05/045 | 42166 | R3 809 608,68 | Mokgawa Mtshali and Associates |
| 5 | H06/083 | 42307 | R40 385 997,55 | Virtual Consulting Engeneers |
| 6 | H07/010 | 45235 | R15 845 452,46 | Labucon Resourses (Pty) Ltd |
| 7 | H08/048 | 46112 | R21 510 775,00 | Ukhukhula Consulting |
| 8 | H08/009 | 46025 | R56 726 160,14 | Mkhwanazi Construction |
| 9 | H07/032 | 45279 | R24 780 000,00 | Ruwacon (Pty) Ltd |
| 10 | H08/050 | 46118 | R15 561 316,00 | Elzabad Consumable supplies |
| 11 | H08/091 | 45931 | Contract not submitted | Afroteq Facilities management |
| 12 | H09/058 | 47036 | R6 523 982,59 | Enviro Metsi (Pty) Ltd |
| 13 | H08/019 | 44117 | R40 389 887,18 | Water and Sanitation Services SA |
| 14 | H09/057 | 44121 | R17 108 803 65 | NA Datnow Shawshank Construction |
| 15 | H09/062 | 44116 | R95 904 000,00 | Botes and Kennedy Manyano |
| 16 | H11/002 | 48216 | R5 506 103,01 | Grinaker LTA/Keren Kula JV |
| 17 | H08/037 | 44253 | R12 947 042,00 | Zana Manzi Services (Pty) Ltd |
| 18 | H06/040 | 42571 | R24 951 216,84 | Otis (Pty) Ltd |
| 19 | H06/062 | 43766 | R5 250 000,00 | Superway (Pty) Ltd |

We were unable to satisfy ourselves that the department did implement the prescribed control on the Bid Adjudication Committee to “declare their interests and to withdraw from participation in the tenders when they have any interest in the tender”. Correspondence with the departmental officials indicated that these declarations are filed separately from the tender files and are not easily retrievable.

Non compliance with the entity’s Supply Chain Management Policy and Treasury Regulations could result in irregular expenditure. The non submission could result in the limitation of scope

## Internal control deficiency

*Leadership*

Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls

## Recommendation

* Strict controls should be implemented to ensure that SCM officials declare their interest when adjudicating bids.
* Management should ensure that all information requested is easily retrievable and supplied to the auditors for audit purposes within the three days.

## Management response

Management response outstanding

## Auditor’s conclusion

This constitutes non compliance with the Treasury Regulation 16A8.4 and will be reported as a non compliance.

# Certificate of independent bid determination not completed by bidder

#### Kwazulu Natal

## Audit finding

In terms of Treasury Practice Note dated 21 July 2010 paragraph 3.1.1 With effect from the date on which this practice note takes effect, accounting officers and accounting authorities are required to utilise the Standard Bidding Document (SBD 9) “*Certificate of Independent Bid Determination”* when inviting price quotations, advertised competitive bids, limited bids or proposals. The SBD 9 form should be used with minimum changes that are necessary to address contract and project specific issues. During the audit of construction projects it was noted that the Standard Bidding Document (SBD 9) “Certificate of Independent Bid Determination” was not completed by the following bidders:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **No.** | **Name of project** | **WCS no.** | **Tender date** | **Contract amount** |
| 1 | INKOSI ALBERT LUTHULI MUSEUM: SUPPLY, DELIVERY AND INSTALLATION OF ONE 100KVA EMERGENCY GENERATOR SET | 047863 | 05/11/2010 | 500,766.79 |
| 2 | GOLELA BORDER POST; HOUSING COMPONENT; CONSTRUCTION OF RESIDENTIAL ACCOMODATION | 047697 | 29/10/2010 | 141,835,580.00 |
|  | TOTAL |  |  | R142,336,346.79 |

## Internal control deficiency

*Financial and performance management*

Lack of review and monitoring of compliance with National Treasury practice note.

## Recommendation

Bidders should be required to complete, sign and submit the SBD9 Certificate together with the bid documentation at the closing date and time of the bid. Accounting officers and accounting authorities are required to utilise the information contained in the certificate to ensure that when bids are considered all reasonable steps are taken to prevent any form of bid rigging.

## Management response

There is agreement with the audit finding. We acknowledge that the practice note was signed by National Treasury on 21 July 2010 but was received at the Regional Office on 12th November 2010. These projects were advertised on 5th November 2010 and 29th October 2010 respectively. The Practice Note [request for PA29] was included on all advertised projects from date of receipt

**Action Plan:** All advertisements include the request for PA29s

**Responsibility:** Deputy Director: SCM

**Timeframe**: Implemented

*Name: Themba Nkatha*

*Position:  Deputy Director: SCM*

*Date: 30 May 2011*

## Auditor’s conclusion

Management response noted. This matter will be considered for reporting on non-compliance in the audit report.

# Training for the Supply Chain Management officials

## Audit finding

In terms of section 41 of the Public Finance Management Act, 1999 (Act no.1 of 1999) an accounting officer for a department must submit to the relevant treasury or the Auditor General such information, returns, documents, explanations and motivations as may be prescribed or as the relevant treasury or the Auditor General may require. During the audit, the following information was requested in our request for information number 74. The documents have not been submitted to date and management has not given reasons for the delay.

The provision or plan for training as required by the Supply Chain Management Practice Note 4 of 2005 for the following groups within SCM unit:

* Senior management
* Senior and operational level involved in the day to day operations
* New appointees, irrespective of their levels

Where training has been provided by the external training provider, a validation form from National Treasury which gives an indication that the training provider complies with the requirements and provides value for money.

Evaluation reports submitted to National Treasury for all courses which were completed.

Documents are not properly filed and easily retrievable for audit purpose

Failure to submit this information results in a limitation of scope and non-compliance with PFMA and Treasury Regulation.

## Internal control deficiency

*Financial and Performance management*

Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting

## Recommendation

Management should ensure that all information requested is easily retrievable and supplied to the auditors for audit purposes within the three days.

## Management response

Management comments outstanding.

## Auditor’s conclusion

This constitutes a limitation of scope and will therefore be reported as such.

# Training of Supply Chain Management Officials

#### Nelspruit Regional Office

## Audit finding

Treasury Regulation 16A5 - Training of supply chain management officials: *16A5.1“The accounting officer or accounting authority must ensure that officials implementing the institution’s supply chain management system are trained and deployed in accordance with the requirements of the Framework for Minimum Training and Deployment issued by the National Treasury.”*

Per Practice Note number SCM 5 of 2004:

1. *Types of Training*

*2.1 In order to develop officials for a career in supply chain management, provision should be made for the following types of training:*

*(a) Introduction to supply chain management.*

*(b) Intermediate training with the focus on intensive training on all the elements of supply chain management.*

*(c) Advanced training that includes specialist skills within each element of supply chain management such as strategic sourcing.*

1. *Target Audience*

*3.1 Accounting officers/authorities should make provision for the training of at least the following officials:*

*(a) Senior management (SMS).*

*(b) Practitioners who are involved with the day to day operations of supply chain management (senior and operational level.)*

*(c) New entrants - new appointees irrespective of the level at which they are appointed.*

Deviations noted pertaining to the aforementioned: Through discussions with Madibaneng Ndlovu and Nonjabulo Silangwe (SCM officials - Advertisements and receiving tenders) regarding supply chain management training they revealed that they did not attend any formal training since their appointment with the department.

Potential impact of the finding raised above:

* Non compliance with Treasury Regulation 16A5.1.
* Non compliance with Practice Note number SCM 5 of 2004.
* Increased risk of fraud and error due to untrained supply chain management officials.

Per discussions with management the reason why the relevant officials were not sent on training is due to budget constraints.

## Internal control deficiency

*Financial and Performance Management*

The department did not review the monitoring of compliance with applicable laws and regulations.

*Leadership*

The department did not implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored.

## Recommendation

Management must ensure that all SCM officials attend the necessary training in order to comply with Treasury Regulation 16A5.1 and Practice Note number SCM 5 of 2004 and therefore ensuring that every SCM official is properly trained to do their duties.

## Management response

I am not in agreement with the finding for the following reasons: It is correct the officials did not attend any SCM training that is outside of the department. Training for SCM officials including other officials within the office was conducted and will continue to be conducted as and when major SCM policy shift take place. The last SCM workshop that took placed was with regards to the introduction of the SCM policy and directives as per the NT requirement and legislative amendments.

From 2009, till to date, the office was not in position to take officials for SCM training due to the following reason: Most service provider that was approved were not utilized because of accreditation matters. Further, that most of the institutions approaching the office do not cover the critical matters that are specific to the department and government as a whole.

Management has noted the challenge, and as such the office is in a process of seconding officials for training with PALAMA. Forms for the 3 seconded officials have been approved and sent to HO for further consideration.

## Auditor’s conclusion

Management response is noted. Management had to provide documentary evidence to prove that the officials attended the minimum training as prescribed by the requirements of the Framework for Minimum Training and Deployment issued by the National Treasury. Management have not submitted the attendance registers and a list of training that officials had to attend and those that they actually attended. The finding remains a valid finding.

# Contracts attached to the WCS consulting payment advice

## Audit Finding

In terms of section 40 of the Public Finance Management Act, 1999 (Act no.1 of 1999): *“The accounting officer for a department, trading entity or constitutional institution: Must keep full and proper record of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards.”*

The contract for the following 2 payments was requested. Through inspection of the contract it was noted that the contracts submitted do not relate to the payments.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **NO** | **AP No.** | **CONSULTANT** | **DETAILS AS PER CONTRACT** | **DESCRIPTION** | **TRANS DATE** | **AMOUNT** |
| 1 | 320351 | Virtual Consulting Engineers | Ruwacon | Consultant payment | 01-Nov-10 | R 185 653,71 |
| 2 | 352155 | Virtual Consulting Engineers | Virtual Bureau | Consultant payment | 21-Feb-11 | R 363 863,81 |
| **Total** | | | | | | **R 549 517,52** |

The above may result in payments being made for which there are no valid contracts and this may lead to irregular expenditure

## Internal control deficiency

*Financial and performance management*

No proper record keeping is implemented to ensure that complete and relevant information is accessible and available to support financial and performance reporting.

## Recommendation

* Management should ensure that all information requested is easily retrievable and supplied to the auditors for audit purposes.
* Management should ensure that all the documents supporting the payments are filed properly, linked to relevant payment and traceable

## Management response

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

* WCS 033642 is for the consultant appointment for EPWP. The project has been decentralized to the Cape Town Regional office for implementation and thus cannot be responded to by Head office.
* We do not agree with the AG findings for WCS 045459

## Auditor’s conclusion

Management comments are perceived to be an agreement of our finding. This finding remains valid.

# Payments not made within 30 days of receipt of invoice

## Audit finding

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

8.2.2  Before approving expenditure or incurring a commitment to spend, the delegated or authorised official must ensure compliance with any limitations or conditions attached to the delegation or authorisation.

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

In terms of PFMA paragraph 38(1) the accounting officer for a department, trading entity or constitutional institution—

(*f)* Must settle all contractual obligations and pay all money owing, including inter-governmental claims, within the prescribed or agreed period”

During the audit it was determined that the following invoices were not paid within 30 days as required by the Treasury Regulations. As the date that the invoices were received could not be determined (as the Registry did not stamp the invoices on date of receipt) for some of these payments, the invoice date was used to determine compliance.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **No** | **Payment number** | **Invoice Date** | **Date Received by Registry** | **Payment date** | **No of working days between Invoice and Payment date** | **Payment amount** |
| 1 | 255295 | 28 February 2011 | Not stamped on receipt | 14 April 2011 | 33 | R4 915 470,22 |
| 2 | 254193 | 4 January 2010 | Not stamped on receipt | 12 April 2010 | 71 | R5 394 824,27 |
| 3 | 270604 | 11 March 2010 | 15 March 2010 | 28 May 2010 | 55 | R1 318 834,41 |
| 4 | 255281 | 15 January 2010 | Not stamped on receipt | 14 April 2010 | 64 | R717 791,08 |
| **Total** | | | | | | **R12 346 919,98** |

Management does not have a formal system to manage work flow to ensure invoices are paid within 30 days.

This is a non-compliance with the Treasury Regulations and PFMA and could result in fruitless and wasteful expenditure if the supplier charges interest.

Regions affected by this finding

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **PTA** | **Polokwane [LIM]** | **PE** | **Nelspruit** | **MmBatho [NW]** | **Kimberley [NC]** | **JHB** | **DBN [KZN]** | **CPT [WC]** | **Bloemfontein** | **EC [Umtata]** |
|  |  |  |  |  |  |  |  |  |  |  |

## Internal control deficiency

Leadership

The accounting officer / accounting authority exercise oversight responsibility over reporting and compliance with laws and regulations and internal control

## Recommendation

* The register should be kept and reviewed by management to ensure invoice is paid within 30 days as prescribed by Treasury Regulation.
* Management need to devise a workflow to implement some control over receiving invoices, responsible official and a reporting mechanism for the reasons why invoices have not been paid within the 30 days period.
* Management should identify all invoices where the supplier charged interest for the late payment and this should be disclosed as fruitless and wasteful expenditure.

## Management response

Management response outstanding

## Auditor’s conclusion

This is a non compliance with the Treasury Regulations and will therefore be reported as a non compliance

# Invoice not paid within 30 days

## Audit finding

Treasury Regulation 8.2.3stated that **“**unless determined otherwise in a contract or other agreement, all payments due to creditors must be settled within 30 days from receipt of an invoice or, in the case of civil claims, from the date of settlement or court judgment.”

In terms of PFMA paragraph 38(1) the accounting officer for a department, trading entity or constitutional institution (*f)* Must settle all contractual obligations and pay all money owing, including inter-governmental claims, within the prescribed or agreed period”

Through inspection of payment advices listed below, it was noted that the invoices attached were not stamped at receipt by registry and we could not determined whether the payments due to the creditors have been settled within 30 days from receipt of the invoice. As the invoice was not stamped on the date of receipt, the invoice date was used for the purpose of testing compliance thereof.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Nr** | **Payment advice Nr** | **Supplier** | **Invoice Date** | **Invoice Paid** | **Days Outstanding** | **Amount**  **R** |
| 1 | 254193 | Chauke Quality Surveyors & Project Management | 4 January 2011 | 12 April 2011 | 96 | 5 394 824,27 |
| 2 | 255281 | Precinct Facilities Management (Pty) Ltd | 15 January 2011 | 14 April 2011 | 89 | 717 791,08 |
| **Total** | | | | | | **6 112 615,35** |

The following payment was not made within 30 days of receipt of the invoice.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **No.** | **Payment number** | **Supplier** | **Date invoice was received** | **Date of payment** | **No of days** | **Amount** |
| 1 | 270604 | Mokgawa Mtshali & Associates | 15 March 2010 | 28 May 2010 | 55 | R1 318 834,41 |

There is no delegated official responsible for monitoring the invoices received and confirming that the invoices are stamped by registry before they are paid by finance unit. Management does not have a formal system to manage work flow to ensure invoices are paid within 30 days.

This is a non-compliance with the Treasury Regulations and PFMA and could result in fruitless and wasteful expenditure if the supplier charges interest.

## Internal control deficiency

*Leadership*

The accounting officer / accounting authority exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

*Oversight responsibility*

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

## Recommendation

* The register should be kept and reviewed by management to ensure invoices are paid within 30 days as prescribed by Treasury Regulation.
* Management need to devise a workflow to implement some control over receiving of invoices, allocating a responsible official to manage the process and implement a reporting mechanism for the reasons why invoices have not been paid within the 30 days period.
* Management should identify all invoices where the supplier charged interest for the late payment and this should be disclosed as fruitless and wasteful expenditure.

## Management response

Management response outstanding.

## Auditor’s conclusion

This is a non compliance with the Treasury Regulations and will therefore be reported as a non compliance.

# Invoice not paid within 30 days

#### Pretoria

## Audit finding

Approval of expenditure - Treasury Regulations 8.2.3 states that: ““Unless determined otherwise in a contract or other agreement, all payments due to creditors must be settled within 30 days from receipt of an invoice or, in the case of civil claims, from the date of settlement or court judgement”. For the following batches inspected the invoices were not paid within 30 days”. The details of the payments are as follows:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Payment Date** | **Item Description** | **Supplier Name** | **Amount** | **Batch number** | **Invoice date** |
| 2010/12/07 | CLEAN BUILDING & TENDER GARDEN | MOKOPEDI BUSINESS ENTERPRISES | 320,720.83 | 331957 | 2010/11/02 |
| 2010/12/09 | CLEAN BUILDING & TENDER GARDEN | MOTSENG FACILITIES MANAGEMENT | 497,480.25 | 332705 | 2010/11/05 |
| 2011/01/04 | CLEAN BUILDING & TENDER GARDEN | MOTSENG FACILITIES MANAGEMENT | 608,503.43 | 340224 | 2010/11/19 |
| 2011/01/04 | CLEAN BUILDING & TENDER GARDEN | MOTSENG FACILITIES MANAGEMENT | 1,473,195.69 | 340228 | 2010/11/19 |
| 2011/01/04 | CLEAN BUILDING & TENDER GARDEN | MOTSENG FACILITIES MANAGEMENT | 2,770,272.65 | 340229 | 2010/11/26 |
| 2011/01/28 | CLEAN BUILDING & TENDER GARDEN | MOTSENG FACILITIES MANAGEMENT | 2,147,856.51 | 347617 | 2010/12/02 |

## Internal control deficiency

## Leadership

* The accounting officer / accounting authority do not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.
* Management’s philosophy and operating style does not promote effective control over reporting. They do not lead by example.

## Recommendation

Monitoring should be done by senior officials authorizing payments to ensure compliance with laws and regulations. Management must ensure that all invoices are captured and processed for payments within 30 days.

## Management response:

I am in agreement

* Batch No: 331957: The invoice was received on 01/11/2010 and submitted to Provisioning on 10/11/2010, but the checklists and delayed payments forms are used
* Batch 332705: The invoice was submitted to Provisioning on 10/11/2010 (Proof submitted to AG)
* Batch 340224: The invoice reached FM office on 29/11/2010 and dispatched to Prestige on 30/11/2010 (Proof submitted to AG).
* Batch 340228: The invoice submitted to Provisioning on 07/12/2010 (Proof submitted to AG).
* Batch 340229: The invoice submitted to Provisioning on 14/12/2010 (Proof submitted to AG).
* Batch 347617: The invoice submitted to Provisioning on 14/12/2010. The closure of offices during festive season contributed to the delay.

*Name: SM KUTU*

*Position: DD: FM*

*Date: 25/07/2011*

## Auditor’s conclusion

The client has acknowledged this fact and thus the finding remains a valid finding and this is a non compliance with the Treasury Regulations.

# Rotation of prospective suppliers

## Audit finding

Practice Note 8 of 2007/08 states in par 5.3 that “once the list has been compiled per commodity and type of service, price quotations should be invited there from”. The invitation of price quotations from the compiled list of prospective suppliers per commodity or service should be done on a rotation basis in such a manner that ongoing competition amongst suppliers is promoted. Prospective suppliers must be allowed to submit applications for listing at any time.

Practice Note 7 of 2009/2010, states in paragraph 4.1.2 “With effect from the date on which this practice note takes effect, accounting officers and accounting authorities are required to utilize the attached revised SBD 4 when inviting price quotations, advertised competitive bids, limited bids or proposals. This SBD 4 should be used with minimum changes that are +necessary to address contract and project specific issues. Paragraph 4.2 on this Practice Note discusses the use of the SBD 4 when establishing lists of potential / prospective suppliers when obtaining quotations. The SBD 4 must also be used in documentation relating to applications by service providers to be registered in the lists of potential or prospective suppliers for goods and services obtained by means of verbal or written quotations.”

During the audit of Supply Chain Management, we have noted the following:

* The application form for listing on the supplier list PA-23 form only requests a supplier to tick whether the supplier’s organization has any relationship with any employee of the Department of Public Works. The requirements of SBD 4 are not addressed upon application by the supplier to be registered in the prospective supplier list
* Upon enquiry from the SCM officials of the policy or procedure to ensure that the suppliers are rotated accordingly so that all suppliers get opportunities to get selected to provide goods and services; such information could not be provided and management indicated that they relies on the computer system “Intenda Solution Suite” to automatically rotate the suppliers for selection. Ongoing competition among suppliers through rotation is not promoted. The supporting documentation generated by the system relating to a rotation of supplier could not be provided.
* There is no policy and procedure in place to address the rotation of suppliers and management do not review the Supply Chain Management policy on yearly basis to comply with National Treasury instruction.
* The Department does not have a formal process in place to align the Practice Notes with the official documents of the Department.

Non compliance with Treasury Regulation and PFMA which could result in irregular expenditure

## Internal control deficiency

Leadership

Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls

*Oversight responsibility*

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

## Recommendation

* Management must assign the responsibility of aligning standard documents of the Department with the practice notes to the Supply Chain Management division and management must monitor compliance thereof.
* Before a supplier is included in the prospective suppliers list, the entity must ensure that all the Treasury Regulation requirements are complied with.

## Management Response

Management response outstanding.

## Auditor’s conclusion

This is a non compliance with the Treasury Regulations and will therefore be reported as a non compliance.

# No proof of review of the prohibited supplier list

#### Nelspruit Regional office

## Audit Finding

Treasury Regulation 16A9.1:

*(c) the National Treasury’s database needs to be checked by the department prior to awarding any contracts to ensure that no recommended bidder, nor any of its directors, are listed as companies or persons prohibited from doing business with the public sector.*

From inspecting the relevant tender files, no documented proof could be obtained that the above procedure has been performed by the department for the following tenders:

|  |  |  |  |
| --- | --- | --- | --- |
| **Tender number** | **Payment number/Advice** | **Amount** | **WCS** |
| NST 07/38 | P-196590 | R3 090 517,15 | 039652 |
| NST 09/59 | P-195719 | R1 325 843,16 | 37445 |
| NST 07/34 | P-196588 | R82 985,60 | 041708 |
| NST 09/51 | P-195720 | R1 201 320,09 | 039938 |
| NST 07/30 | P-196597 | R3 640,10 | 045419 |
| NST 06/02 | P-196689 | R200 099,08 | 035764 |
| NST 07/06 | P-196666 | R1 091 483,64 | 038308 |
| NST 07/06 | P-194308 | R344 973,72 | 038308 |
| NST 09/12 | PM003877 | R29 584 | - |

Per discussion with management this deviation occurred due to the fact that legislation does not indicate how the department would need to document that the above mentioned check has been done. The department does consult the National Treasury’s website but to verify that a contractor is not a restricted supplier but this is not documented in the tender file.

Potential impact of the finding rose above is no audit evidence on file to establish if this procedure has actually been performed by the department. Possible non compliance with Treasury Regulation 16A9.1(c)

## Internal control deficiency

*Leadership*

The accounting officer did not exercise his oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

## Recommendation

The National Treasury’s database should be checked by the committee to ensure that the recommended bidder, or any of its directors, are not listed as companies or persons prohibited from doing business with the public sector. A memo should be placed on file stating that the committee checked the National Treasury’s database. This memo should be signed by a member of the committee.

## Management response

I am not in agreement with the finding for the following reasons: The process requires that we check the NT database before award of any tender. The process is silent what action must be taken if the bidder is not on the list. However if it happens that a bidder is on the database/list then the office should be in a position to develop a memo to indicate the scenario applicable at the time of checking. It should be noted further that all the bidder on the above list were check and no information was found on the NT database of tender defaulters.

## Auditor’s conclusion

Management comment is noted. There is however no documented proof on the tender files to confirm that management did check the prohibited supplier list on National Treasury’s website to ensure that no recommended bidder, nor any of its directors, is listed as companies or persons prohibited from doing business with the public sector.

As indicated in the management response the department should develop a memo to indicate that National Treasury’s website was inspected to identify any possible prohibited suppliers or persons. This memo should then indicate what the finding was and should be approved by an appropriate SCM official.

We therefore take note of management’s comments but the finding remains a valid finding.

# Sector Audit - Deficiencies identified during the sector audit

## Audit finding

PFMA section 38](1)(d) states that “the accounting officer for a department, trading entity or constitutional institution is responsible for the management, including the safeguarding and the maintenance of the assets of the department, trading entity or constitutional institution. As a result, all these institutions need an asset management system which is a base for proper planning and budgeting for maintenance.”

Government Immovable Asset Management Act (GIAMA), 19 of 2007 sections states that:

**3.   Objects of Act.**—The objects of this Act are to—

(*a*) provide a uniform immovable asset management framework to promote accountability and transparency within government;

(*b*) ensure effective immovable asset management within government;

(*c*) ensure coordination of the use of immovable assets with service delivery objects of a national or provincial department and the efficient utilisation of immovable assets;

(*d*) optimise the cost of service delivery by

1. ensuring accountability for capital and recurrent works;
2. the acquisition, reuse and disposal of an immovable asset;
3. the maintenance of existing immovable assets;
4. protecting the environment and the cultural and historic heritage; and
5. improving health and safety in the working environment.

**4.   Relationship between and responsibility of custodian and user.**—

(1)  The departments managed by the following executive organs of state within the national and provincial spheres of government are custodians:

(*a*) The Minister, in relation to immovable assets that vest in the national government, except in cases where custodial functions were assigned to other Ministers by virtue of legislation before the commencement of this Act;

(*b*) subject to subsection (5), the Minister responsible for Land Affairs, in relation to immovable assets acquired for land reform, as well as immovable assets that vest in the national government and are situated within the former homelands, except in cases where custodial functions in respect of those areas were assigned to another Minister by virtue of specific legislation before the commencement of this Act; and

(*c*) a Premier of a province or an MEC designated by the Premier, in relation to an immovable asset that vest in a provincial government.

(2)  A custodian—

(*a*) acts as the caretaker in relation to an immovable asset of which it is the custodian;

(*b*) may—(i) in the case of a national department, acquire and manage an immovable asset as contemplated in section 13 and, subject to the State Land Disposal Act, 1961 (Act No.48 of 1961), or any other Act regulating the disposal of state land, dispose of that immovable asset;

(ii) in the case of a provincial department, subject to the relevant provincial land administration law, acquire, manage and dispose of an immovable asset; and

(*c*) is, subject to section 18, liable for any action or omission in relation to an immovable asset of which it is the custodian, excluding an act or omission in good faith.

(3)  The Minister or MEC of a user is—

(*a*) subject to section 18, responsible for the performance of the functions assigned to it by

this Act or any agreement with the custodian of the immovable asset that it occupies; and

(*b*) liable for any act or omission in relation to the immovable asset concerned, excluding an act or omission in good faith.

(4)  A custodian and user must settle any dispute between them in the manner contemplated in the Intergovernmental Relations Framework Act, 2005 (Act No. 13 of 2005).

(5) (*a*) Notwithstanding section 19 (1), the accounting officer of a user is the designated custodian in the case of a public private partnership relating to an immovable asset, from the date of signature of the public private partnership concession agreement and for the duration thereof.

(*b*)Upon termination or expiry of the term of the public private partnership concession agreement, the ownership or custodianship of that immovable asset is transferred or reverts to the custodian referred to in section 4 (1).

(6)  Despite subsection (1) (*b*) and section 38 of the PFMA, the Minister performs the custodial functions referred to in section 13 (1), (2) and (3) (*a*) in relation to immovable assets situated in the former homelands and occupied by a national department in support of its service delivery objectives.

(7)  For the purposes of this section, the words “former homeland” bear the same meaning assigned to “homeland” in Schedule 6 to the Constitution.

**5.   Principles of immovable asset management.**—(1) The following are principles of immovable asset management:

(*a*) An immovable asset must be used efficiently and becomes surplus to a user if it does not support its service delivery objectives at an efficient level and if it cannot be upgraded to that level;

(*b*) to minimise the demand for immovable assets, alternative service delivery methods that do not require immovable assets must be identified and considered;

(*c*) in relation to an acquisition, it must be considered whether—

(i) a non-immovable asset solution is viable;

(ii) an immovable asset currently used by the state is adequate to meet a change in its service delivery objectives; and

(iii) the cost of the immovable asset as well as operational and maintenance cost throughout its life cycle justifies its acquisition in relation to the cost of the service;

(*d*) immovable assets that are currently used must be kept operational to function in a manner that supports efficient service delivery;

(*e*) when an immovable asset is acquired or disposed of best value for money must be realised;

(*f*) in relation to a disposal, the custodian must consider whether the immovable asset concerned can be used—

1. by another user or jointly by different users;

(ii) in relation to social development initiatives of government; and

(iii) in relation to government’s socio-economic objectives, including land reform, black economic empowerment, alleviation of poverty, job creation and the redistribution of wealth.

(2)  The Minister may, by notice in the *Gazette*, identify additional principles of immovable asset management.

(3)  When the Minister issues a notice referred to in subsection (2), the provisions of section 20 (2), (3) and (4) apply with the necessary changes.

**6.   Immovable asset management plan.**—(1) Subject to this Act and as part of its strategic planning process contemplated in the Public Service Regulations, 2001, the accounting officer of—

(*a*) a custodian must—

1. prepare an immovable asset management plan, to be known as a custodian immovable asset management plan, in relation to all the immovable assets which are in its custody;

(ii) prepare a user immovable asset management plan, which relates to all the immovable assets which the custodian uses or intends to use in support of its own service delivery objectives; and

(*b)* a user must prepare an immovable asset management plan to be known as a user immovable asset management plan in relation to the immovable assets which that user uses or intends to use.

(2)  When preparing a custodian or user immovable asset management plan, the accounting officer must—

(*a*) meet the objects of this Act;

(*b*) adhere to the principles contemplated in section 5;

(*c*) adhere to any regulations published in terms of section 20; and

(*d*) adhere to standards issued in terms of section 19.

**7.   Minimum contents of custodian immovable asset management plan.**—A custodian immovable asset management plan must consist of at least—

(*a*) a portfolio strategy and management plan;

(*b*) a management plan for each immovable asset throughout its life cycle;

(*c*) a performance assessment of the immovable asset;

(*d*) subject to section 13 (1) (*d*)(iii), a condition assessment of the immovable asset;

(*e*) the maintenance activities required and the total and true cost of the maintenance

activities identified; and

(*f*) a disposal strategy and management plan.

**8.   Minimum contents of user immovable asset management plan.**—A user immovable asset management plan must consist of at least—

(*a*) a strategic needs assessment;

(*b*) an acquisition plan;

(*c*) an operations plan; and

(*d*) an immovable asset surrender plan.

**9.   Submission of immovable asset management plan.**—(1)  The accounting officer of a custodian must, on a date determined by the relevant treasury, submit a copy of its custodian immovable asset management plan to that treasury.

(2)  The accounting officer of a user must—

(*a*) on a date determined by the relevant treasury, submit its user immovable asset management plan as part of its strategic plan to that treasury; and

(*b*) on a date determined by the custodian, submit a copy of its user immovable asset management plan to the relevant custodian.

**10.**   **Status of user immovable asset management plan.**—A user immovable asset management plan—

(*a*) is the principal immovable asset strategic planning instrument which guides and informs all immovable asset management decisions by the user;

(*b*) binds the user in the exercise of its executive authority, except to the extent of any inconsistency between a user immovable asset management plan and this Act or the immovable asset management guidelines published by the Minister under section 19, in which case this Act or those guidelines prevail.

**11.   User to give effect to user immovable asset management plan.**—A user must give effect to its user immovable asset management plan and conduct immovable asset management in a manner which is consistent with this Act and its user immovable asset management plan.

**12.**   **Revision and amendment of immovable asset management plan.**—(1)  A user—

(*a*) must annually revise its user immovable asset management plan after its budget allocations have been finalised by the relevant treasury and must incorporate the revised user immovable asset management plan into its strategic plan;

(*b*) may amend its user immovable asset management plan in accordance with the prescribed process; and

(*c*)

must submit its revised and amended user immovable asset management plan to the relevant custodian as prescribed.

(2)   A custodian must annually revise its custodian immovable asset management plan after receipt of the revised and amended user immovable asset management plan or where other factors necessitate such revision.

**13.   Functions of custodian and accounting officer of custodian.**—(1)  The accounting officer of a custodian must, for all immovable assets for which that custodian is responsible—

(*a* compile, in accordance with section 7, and with due regard to the user immovable asset management plans submitted in terms of section 9, a custodian immovable asset management plan that forms part of the strategic plan of that custodian;

(*b*) submit the custodian immovable asset management plan to the relevant treasury as part of its strategic plan;

(*c*) advise the relevant treasury on the immovable asset management plans of users;

(*d*) ensure that all activities that are associated with common law ownership are executed, including—

(i) managing an immovable asset throughout its life cycle;

(ii) assessing the performance of the immovable asset;

1. assessing the condition of the immovable asset at least every fifth year;

(iv) identifying the effect of the condition of an immovable asset on service delivery ability;

1. determining the maintenance required to return the immovable asset to the state in which it would provide the most effective service;

(vi) estimating the cost of the maintenance activities identified;

(*e*) establish and execute a performance measurement system as prescribed.

(2)  The accounting officer of a custodian must assist a user by making available information pertaining to an immovable asset used by that user as well as suitable alternatives, including analysing that information in a manner that would enable the user to make informed and effective decisions on the use and management of that immovable asset.

(3)  A custodian may dispose of a surplus immovable asset—

(*a*) by the allocation of that immovable asset to another user; or

(*b*) subject to the State Land Disposal Act, 1961 (Act No. 48 of 1961), and any provincial land administration law, by the sale, lease, exchange or donation of that immovable asset or the surrender of a lease.

**14.   Functions of accounting officer of user.**—(1)  The accounting officer of a user or custodian in its capacity as a user must, for all the immovable assets that it uses or intends to use—

(*a)* compile, in accordance with section 8, a user immovable asset management plan that will form part of the strategic plan of that user;

(*b*) jointly conduct the immovable asset strategic planning process with the relevant custodian;

(*c*) submit its user immovable asset management plan to the relevant treasury in accordance with section 9;

(*d*) submit a copy of the user immovable asset management plan to the relevant custodian in accordance with section 9; and

(*e*) establish and execute a performance measurement system as prescribed.

(2)  The accounting officer of a user must surrender a surplus immovable asset under its control to the relevant custodian.

**15.   Exemptions.**—The Minister may, by notice in the *Gazette,* in respect of certain immovable assets or categories of immovable assets, exempt any organ of state or part thereof to which this Act applies from any provision of this Act for a period determined in the notice.

**16.   Compliance.**—A standard issued by the Minister in terms of this Act is compulsory and the Minister may incorporate any guideline issued in terms of this Act or any best practice or part thereof into that standard.

**17.  Delegation.**—(1)  The Minister may, in writing, delegate any of the powers or duties entrusted to him or her under this Act, to any official in the employ of the Department of Public Works or in the employ of another organ of state.

(2)  The accounting officer of a custodian or user may, in writing, delegate any of the powers or duties entrusted to him or her under this Act, to any official in the employ of that custodian or user.

(3)  A delegation referred to in subsection (1) or (2)—

(*a*) is subject to any limitations or conditions that the Minister or accounting officer may impose;

(*b*) may authorise the sub delegation of that power to another official: Provided that the sub delegation is in writing and does not exceed the power originally delegated;

(*c*) does not divest the Minister or accounting officer of the responsibility concerning the exercise of the delegated power or the performance of the delegated duty.

(4)  The Minister or accounting officer may confirm, vary or revoke any decision taken by the person to whom the delegation or sub delegation was made, subject to any rights that may have become vested as a consequence of the decision.

**18.   Assignment.**—(1)  A Minister, Premier or MEC referred to in section 4 may, in writing, assign any or all of his or her powers, duties and responsibilities as a custodian in terms of this Act to any organ of state.

(2)  Upon acceptance of the assignment referred to in subsection (1), the organ of state assumes full responsibility and liability for all ensuing activities and functions performed on or in respect of an immovable asset, as if it were the custodian of the immovable asset in question, for the duration of the assignment.

(3)  The Minister, Premier or MEC referred to in section 4 may, in writing, withdraw an assignment contemplated in subsection (1).

**19.**   **Powers and duties of Minister.**—(1)  The Minister—

(*a*) may, in respect of assets that vest in the national government, by notice in the *Gazette* and with the concurrence of the Minister of Finance and the Minister for the Public Service and Administration, and in consultation with the relevant organ of state, designate that organ of state as the custodian of that immovable asset;

(*b*) must provide guidelines for the management of immovable assets to be incorporated into the asset management guidelines issued by National Treasury in terms of the PFMA;

(*c*) may, by notice in the *Gazette*, issue standards to facilitate benchmarking, condition assessment and performance measurement by determining, amongst others—

1. requirements in relation to cost and space;
2. how the total and true cost of an immovable asset is reflected in a transparent fashion, including all expenditure in respect of property rates and municipal service charges; and
3. the minimum information required to manage an immovable asset.

(2)  The Minister may prescribe minimum requirements in relation to, amongst others—

(*a*) the content and format of and processes required to compile an immovable asset management plan;

(*b*) the management of an immovable asset throughout its life cycle; and

(*c*) portfolio management by a custodian.

(3)  The Minister may implement government programmes which are necessary to give effect to immovable asset management.

(4)  When the Minister issues a notice referred to in this section the provisions of section 20 (2), (3) and (4) apply with the necessary changes.

**20.  Regulations.**—(1)  The Minister may make regulations not inconsistent with this Act with regard to any matter that is required or permitted to be prescribed in terms of this Act and any other incidental or administrative matter necessary for the proper administration and implementation of this Act.

(2)  Before the Minister makes any regulation under this section, he or she must publish a draft of the proposed regulation in the *Gazette* together with a notice calling on interested persons to comment, in writing, within a period stated in the notice, which period may not be less than 30 days from the date of publication of the notice.

(3)  If the Minister amends the draft regulations as a result of any comment, he or she need not publish those amendments before making the regulations.

(4)  The Minister may, if circumstances necessitate the immediate publication of a regulation, publish that regulation without consultation as contemplated in subsection (2).

**21.   Offences and penalties.**—An accounting officer is guilty of an offence and liable on conviction to a fine or to imprisonment for a period not exceeding five years if that accounting officer wilfully or negligently contravenes or fails to comply with any provision of this Act.

During the performance of sector audit, the following issues were noted:

**1. Custodian Asset Immovable Management Plan**

Through inspecting the Custodian Asset Immovable Management Plan, it was noted that Custodian Asset Immovable Management Plan does not contain a conditional assessment of buildings.

The Request of Information no 56 and Communication of Audit Finding no 21 were issued regarding the conditional assessment. Management responses stated that"The State Immovable Assets have not enjoyed a privilege of technical condition assessments as envisaged by Government Immovable Asset Management Act (GIAMA), 19 of 2007. It was recognized in the letter dated 29 April 2005, which is still applicable and published by the Office of Accountant General (OAG) on minimum requirements for an Immovable Asset Register, that “condition and occupancy or level of utilisation be kept in additional information.”

In essence the condition assessment does not form part of the minimum requirements for the Immovable Asset Register. However, it must be noted that conditions on a few immovable assets were previously determined on Repair and Maintenance Projects, as well as for occupational health and safety investigations.

“It has been emphasized and agreed on at the recent Immovable Asset Management Task Team meeting held between OAG, DRDLR and DPW, that the status quo will remain that condition assessments are not included as minimum requirements of an asset register at this stage, and that custodians will conduct internal condition assessments on properties rated at C1 (very poor) only during 2011/12 financial year based on the template developed. This will be applicable to both national and provincial immovable assets custodians. This decision is premised on the fact related to the quantum of State’s immovable assets, the budget as well as skills that are required to conduct technical condition assessments.”

Furthermore the other responses received from CFO relating to conditional assessment states that “The Department did not undertake any condition assessments in the year under review. However, National Treasury was approached and funding requested to conduct condition assessments with a view to prioritise maintenance. No funding was received; going forward a portion of the maintenance budget will be prioritised in the next financial year to implement this requirement.”

Not all client departments have been included in the Custodian Asset Immovable Management Plan and management indicated that it’s incomplete due to following reasons:

* Department of Public Works has not received all UAMP’s from Users to ensure a complete CAMP’s
* Collective CAMP schedule to be completed by March 2012 due to magnitude, portfolio size and composition.

The other issues identified relating to Custodian Asset Immovable Management Plan are listed below:

* Custodian Asset Immovable Management Plan not submitted to National Treasury.
* It does not contain maintenance activities required and the total and true cost of the maintenance activities identified.
* It does not meet the objective of Government Immovable Asset Management Act, No.19 of 2007
* The maintenance needs of client department could not be verified to confirm that it has been taking into account.

**2. User Plan Immovable Asset Plan**

The template that client departments use to capture information relating to immovable asset does not address the requirement of the Government Immovable Asset Management Act. The user plan immovable asset plan template does not contain the following minimum requirements of Government Immovable Asset Management Act.

* Strategic needs assessment;
* Acquisition plan;
* Immovable asset surrender plan.

Management indicated that it is difficult to compile theCustodian Asset Immovable Management Plan as client departments don’t complete strategic needs assessment.

**3. Maintenance Backlog**

The estimated maintenance backlog was received and management indicated that the figures are based on a consultant report dated June 2006 which quantified the costs of improving the physical work environment, allowing a 10% escalation to date. The recalculation was performed to determine the maintenance backlog not covered by the allocation of maintenance and rehabilitation programme and the calculation was as follows:

| **Client Departments** | **Maintenance Backlog** | **Total Contractor and Consultant Allocation** | **BAS Expenditure Report** | **Maintenance Backlog versus Current expenditure allocation not covered during the year** | **Maintenance Backlog versus Current expenditure actual expenditure not covered during the year** |
| --- | --- | --- | --- | --- | --- |
| Department of Agric, Forestry & Fisheries | R 30 503 815 | R3 422 754,00 | R4 825 365,89 | R27 081 061,00 | R 25 678 449,11 |
| Department of Correctional Services | R5 245 762 815,00 | R831 686 613,00 | R682 159 175,43 | R4 414 076 202,00 | R 4 563 603 639,57 |
| Department of Defence | R14 390 019 245,00 | R183 222 554,00 | R116 184 242,51 | R14 206 796 691,00 | R 14 273 835 002,49 |
| Department of Basic Education | R21 785 808,00 | R0,00 | R0,00 | R21 785 808,00 | R 21 785 808,00 |
| Department of Tourism | R331 380 157,00 | R0,00 | R0,00 | R331 380 157,00 | R 331 380 157,00 |
| Department of International Relations | R14 977 743,00 | R0,00 | R0,00 | R14 977 743,00 | R 14 977 743,00 |
| Department of Home Affairs | R748 011 361,00 | R5 687 902,00 | R1 198 640,42 | R742 323 459,00 | R 746 812 720,58 |
| Department of Justice & Constitutional Development | R1 488 655 977,00 | R181 048 141,00 | R145 397 187,76 | R1 307 607 836,00 | R 1 343 258 789,24 |
| Department of Labour | R187 065 903,00 | R5 462 622,00 | R3 036 931,94 | R181 603 281,00 | R 184 028 971,06 |
| Department of Rural Development and Land Reform | R23 112 567,00 | R91 015,00 | R0,00 | R23 021 552,00 | R 23 112 567,00 |
| Department of State Security | R13 616 130,00 | R0,00 | R0,00 | R13 616 130,00 | R 13 616 130,00 |
| Department of National Treasury | R8 218 351,00 | R0,00 | 38 997,74 | R8 218 351,00 | R 8 179 353,26 |
| Public Protector |  | R3 659 044,00 | R3 371 323,44 | -R3 659 044,00 | -R 3 371 323,44 |
| Department of Public Works | R478 846 870,00 | R625 034 279,00 | R626 506 465,24 | -R146 187 409,00 | -R 147 659 595,24 |
| Department of Public Service and Administration | R14 641 000,00 | R0,00 | R0,00 | R14 641 000,00 | R 14 641 000,00 |
| Department of Police | R12 593 043 327,00 | R385 140 734,00 | R385 493 854,82 | R12 207 902 593,00 | R 12 207 549 472,18 |
| Department of Science and Technology | R0,00 | R9 455 088,00 | R2 063 113,53 | -R9 455 088,00 | -R 2 063 113,53 |
| Department of Water and environmental Affairs | R40 935 577,00 | R12 992 676,00 | R25 848 706,55 | R27 942 901,00 | R 15 086 870,45 |
| Department Art and culture |  | R14 777 579,00 | R13 874 120,34 | -R14 777 579,00 | -R 13 874 120,34 |
| **TOTAL** | **R 35 630 576 646** | **R2 261 681 001,00** | **R2 009 998 125,61** | **R33 368 895 645,00** | **R 33 620 578 520,39** |

Management indicated that the maintenance of building is part of the strategy to eradicate maintenance backlog but there is no documentation that provides information regarding the assessment of maintenance expenditure incurred against the maintenance backlog for completed projects since the June 2006 when the consultant performed the estimate. The comparison between actual expenditure on maintenance and maintenance backlog has not been conducted. Management only added the 10% on maintenance backlog for each year that the consultant has calculated since June 2006. The other deficiencies identified relating to maintenance backlog are listed below:

* There is no direct link between budget allocation and maintenance backlog.
* The budget allocation and actual expenditure exceed the estimated maintenance backlog for Department of Public Works
* The estimate cost of maintenance backlog is not a true reflection because conditional assessment was not conducted.
* The strategy of asset register does not address the maintenance backlog.
* Project managers rely on consultants for monitoring of the work performed by contractors and buildings are not properly maintained by contractors and as a result it requires major refurbishments.
* Inadequate asset registers and the extent of maintenance needs are unknown.
* Budget documents and reports do not provide clear information on maintenance per client departments.
* The budget allocation does not balance between maintenance on new projects versus maintenance backlog.

Maintenance backlog is due to projects not properly planned for and budget constrain. The strategy has not been put in place and timeframe to comply with requirements of Government Immovable Asset Management Act, No.19 of 2007. This could result in non-compliance of Government Immovable Asset Management Act, No.19 of 2007 and section 22 states that “an accounting officer is guilty of an offence and liable on conviction to a fine or to imprisonment for a period not exceeding five years if that accounting officer wilfully or negligently contravenes or fails to comply with any provision of this Act.”

## Internal control deficiency

*Leadership*

The accounting officer / accounting authority exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

*Oversight responsibility*

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

## Recommendation

* Asset management systems with regular updates, and condition assessment should be in place to guide proper planning and budgeting for infrastructure.
* Strengthening monitoring and reporting and regulated reporting requirements provides better information.

## Management Response

**Custodian Asset Management Plan (CAMP)**

I am in agreement with the findings relevant to issues identified for CAMPs. However, kindly note explanations and progress below.

* In terms of the DPW strategic plan and PPM business plan, CAMPs are scheduled to be completed by 31 March 2012. This is aligned to resources and budget allocation, for which representation was made for funding to National Treasury for completion of condition assessments. A further complexity arises as no User submitted complete UAMPs as required by GIAMA.
* Albeit above, the unit is in the process of finalising portfolio strategies which are input documents towards completing CAMPs. High level maintenance activities required per portfolio has been documented. In the absence of costed condition assessments, estimates are determined on per project basis from relevant technical competencies. True costs of maintenance relevant to billing can only be determined once a project has been totally scooped and costed.
* As a first iteration towards the compilation of CAMPs, in the absence of conditional assessments and complete UAMPs, the unit completed 17 CAMPs using information collected from site visits and status quo reports. Therefore the attempt partially meets the objectives of GIAMA. Further, for this financial year, an amount of R20 million has been identified towards prioritised condition assessments.
* Maintenance needs from the User’s perspective are identified through UAMP templates completed, jointly prioritised projects (WCS listing and Implementation programme) by Users and DPW as custodian.

**User Asset Management Plan (UAMP)**

I am in agreement with the finding relevant to the clients not submitting their strategic needs assessments, acquisition plan and surrender plan in accordance with GIAMA. However, we do not agree that the Guidelines and Templates are adequate but require enforcement by the User.

**Maintenance backlog**

There is no link between budget allocation and maintenance backlog. I agree partially with the finding. It should also be noted that the maintenance backlog cannot be accurately quantified as the exercise that was conducted in 2006 was a desktop exercise. Once condition assessments have been completed, only then will the department be able to accurately quantify maintenance projects and costs. Prior to a maintenance project being executed full scoping of the project is concluded and is aligned to reports such as RAMP status quo reports completed for certain clients and used as input documents into the maintenance backlog project.

**The budget allocation and actual expenditure exceed the estimated maintenance backlog for Department of Public Works**

I disagree with the finding. The amount maintenance backlog report submitted was R35 630 576 644 and was allocation for 2010/11 was R1 710 395 630. At the end of the financial year expenditure for maintenance was R1 710 395 630 (100%).

**The estimate cost of maintenance backlog is not true reflection because conditional assessment was not conducted.**

I agree with the findings as per the explanations above.

**The strategy of asset register does not address the maintenance backlog**

I agree with the findings as the Asset Register strategy is to ensure completeness and compliance in terms of the GIAMA. This includes completeness of relevant fields and populated information as per GIAMA. The maintenance backlog must be addressed by the Asset Investment Management Branch (Planning), Property Management unit and Projects (execution).

**Project managers rely on consultants for monitoring of the work performed by contractors and buildings are not properly maintained by contractors as a result it requires major refurbishments**

DDG Projects to respond.

**Inadequate asset registers and the extent of maintenance needs unknown**

Partially agree asset register is in the process towards completeness and compliance. As indicated the desktop exercise was conducted in 2006 to determine the extent of the maintenance backlog.

**Budget documents and reports do not provide clear information on maintenance per client departments**

I disagree with the finding. Allocations of budget of all maintenance programs are done per user department and expenditure is recorded and reported per user department (attached)

**The budget allocation does not balance between maintenance on new projects versus maintenance backlog,**

I agree with the finding. However the limited budget available is allocated to the projects as per guidelines developed for Planned Maintenance Budget Committee (attached) and the criteria is as follows:

* -Legal implications and/or statutory requirements (health, safety, security and reliability)
* -Physical condition of asset and its impact on the service delivery (i.e. infrastructure issues pertaining to electrical, mechanical, sewerage and structural defects
* -Functional and operational requirements (i.e. cost of breakdowns on installations)
* -High profile projects (Presidential/Ministerial/special). Any of the above requests pertaining to high profile Prestige projects.

Further a guidance report has been developed to ensure that all buildings are covered by a maintenance project either through a Facilities Management Contract or a Term Contract (attached). This is in the process of being implemented.

## Auditor’s conclusion

Management has acknowledged the correctness of the finding. This is a non compliance with GIAMA and will be reported as a non compliance in the sector report**.**

# Sector Audit: Extensive maintenance backlog

#### Port Elizabeth

## Audit finding

Note: This item is being reported due to its qualitative nature and the materiality of the effect it may have on service delivery and not due to any fault on the part of the Department of Public Works: Port Elizabeth.

Per section 3 of the Government Immovable Asset Management Act No. 19 of 2007: The objects of this Act are to (b) ensured effective immovable asset management within government and (d) optimise the cost of service delivery by (i) ensuring accountability for capital and recurrent works and (iii) the maintenance of existing immovable assets.

Per the "Planned maintenance and Rehabilitation Programme: 2011/2012 Budget Allocation" worksheet, the 2011/2012 cash flow requirements for all 95 projects amounts to R276 156 623 while funding was only obtained for R167 962 522, resulting in an allocation shortfall of R107 974 101. We were unable to address whether or not an action plan is in place to address this shortfall.

The shortfall has been caused by insufficient allocation of funds by National Treasury. The impact of the finding is that service delivery will be affected due to deterioration of assets.

## Internal control deficiency

Not applicable

## Recommendation

Senior management should ensure that an action plan is in place to adequately address the planned maintenance backlog and ensure that this is put into practice to minimise the effects of the backlog, as well as to reduce the backlog itself.

## Management response

The Regional Office PE does have a concrete plan to address the shortfall. It must be mentioned though, that it is not always possible to receive from Treasury exactly the funds you require. It is crucial that the department and its regional office re-prioritize their needs in line with whatever has been finally allocated. The Planned Maintenance and Rehabilitation programme is funded by Treasury and funding is allocated to the eleven Regional Offices by NDPW Head Office based on the priority lists and inputs from the Regional Offices.

The Regional Planned Maintenance and Rehabilitation priority lists are compiled after consideration of the following inputs:

* Condition assessments according to which the condition of the building, electrical installation and mechanical installations are rated
* Occupational Health and Safety Inspection reports
* Analysis of Day to Day Maintenance breakdown statistics
* Client department priority lists and requests for maintenance interventions
* PMBC reports prepared and submitted to the Planned Maintenance budget Committee that is responsible for the national prioritization, registration and funding allocation of projects

The Port Elizabeth Region has been pro-active and has registered Term Projects on the planned maintenance budget to address the building, electrical and mechanical maintenance of installations in accordance with the minimum requirements of OHSA and other Legislation. A list of the services as well as the programme is reflected in Addendum A [not attached to management report].

Name: J.G van der Walt

Position: Regional Manager

Date: 08.07.11

## Auditor’s conclusion

Management has acknowledged the correctness of the finding. This is a non compliance with GIAMA and will be reported as a non compliance in the sector report**.**

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# Sector Audit: There is no action plan addressing maintenance backlog

#### Kwazulu Natal

## Audit finding

In terms of section 5 (1), of the Government Immovable Asset Management Act, 2007. The following are principles of immovable asset: (d) Immovable assets that are currently used must be kept operational to function in a manner that supports efficient service delivery. During the audit of sector procedures we have noted that there is no action plan for addressing the maintenance backlog. Furthermore, the internal memo dated 17 March 2011 states that maintenance to official buildings is carried out as and when the defects are reported by the Clients.

## Internal control deficiency

*Leadership*

Management does not exercise oversight responsibility regarding financial, performance reporting, compliance and related internal controls.

## Recommendation

Management must ensure that there is a strategy, as well as adequate funds, to address the maintenance backlogs

## Management response

Management does not agree with the findings. The internal memorandum received on 17th March 2011 refers to Unplanned [Day to Day] Maintenance Services.

* Maintenance to state owned buildings are classified into two categories viz. Planned Maintenance and Day to Day Maintenance.
* Maintenance to state owned buildings are also carried out as per the Maintenance strategy for the department approved in October 2009.
* Planned Maintenance on state buildings occupied by User Departments are prioritized and funded through the Custodian Asset Management Plan (CAMP) which is further cascaded down to the Regional Offices for execution through the Planned Maintenance and Rehabilitation budget.
* The budget is allocated per Client Department based on the priority or essentiality of the service. The allocations for 2010/2011 and 2011/2012 as well as the Maintenance strategy are available for review.
* The office has also implemented Term Contracts as per the maintenance strategy. These contracts are area and client based and has duration of 12 to 24 months to ensure that essential repairs and maintenance are carried out to state owned buildings.
* Day to Day Maintenance is carried out on state owned buildings and constitutes more of emergency remedies to defects and is carried out as per the Maintenance Strategy and the “PPM circular no 1 of 2010: Day to Day Maintenance Guideline.”
* The Day to Day Maintenance circular highlights the responsibilities of both DPW and User Departments in terms of maintenance responsibilities and financial thresholds. This also helps to alleviate a backlog in maintenance. A copy of the Day to Day Circular is also available for review.
* **Responsible person**: Deputy Director: KAM
* **Timeframe**: Immediate and ongoing.

## Auditor’s conclusion

This is a non compliance with GIAMA and will be reported as a non compliance in the sector report**.**

# Sector Audit: No utilisation inspections carried out

#### Bloemfontein

## Audit finding

Section 5(1)(d) of the Government Immovable Asset Management Act, 2007 (Act No. 19 of 2007) (GIAMA) states that the immovable assets that are currently used must be kept operational to function in a manner that supports efficient service delivery. Furthermore, section 38 of the Public Finance Management Act, 1999 (Act No.1 of 1999) (PFMA) states that:

*“(1) The accounting officer for a trading entity –*

*(b) is responsible for the effective, efficient, economical and transparent use of the resources of the trading entity; and*

*(d) is responsible for the management, including the safeguarding and the maintenance of the assets of the trading entity.”*

Contrary to the provisions of these sections, the following weaknesses were identified:

* there is no written business process in place at the trading entity for identifying vacant buildings; and
* the trading entity does not carry out utilisation inspections during the term of the lease to verify that the accommodation is still occupied by the client departments.

The cause of the above is that the entity does not have controls in place to ensure, that buildings no longer occupied by client departments, are identified.

The impact of the above is ineffective / under utilisation / non-utilisation of office accommodation resulting in fruitless and wasteful expenditure.

## Internal control deficiency

*Governance:*

Appropriate risk management activities to ensure that regular risk assessments, including consideration of IT (Information technology) risks and fraud prevention, are conducted and that a risk strategy to address the risks is not developed, implemented and monitored.

## Recommendation

Management should ensure that the trading entity develops and implements a process for identifying vacant buildings and that utilisation inspections are performed during the term of the lease.

## Management response

It should be noted and highlighted that a property is allocated to a user for official purposes and if the user does not have an official need for the property anymore it should be handed back to the department by giving notice to the unit via key account management (KAM) of their intention to vacate. The responsibility will then fall on the unit to carry out a site inspection in the presence of the user. Whilst the user is still in occupation, all responsibilities in terms of safeguarding the property are that of the user. If the user should vacate the property without informing the department the user to whom the property was allocated will be held responsible for all damages caused.

*Name: N Zulu*

*Position: Regional Manager*

*Date: 17 June 2011*

## Auditor’s conclusion

Management response is noted. However, the responsibility to ensure that the  trading entity’s assets is used in the manner prescribed in Treasury Regulations 13.2.1 and 13.2.2 cannot be waived by agreement and therefore  the accounting officer of the entity remains responsible for the manner in how assets are utilised. Processes that ensure that unused owned and lease buildings for which the entity is paying, should be developed and implemented and that inspection teams periodically visit lease assets to ascertain that assets are not misappropriated and/or misused. The matter is therefore not resolved and is reported on in the management report. This is a non compliance with GIAMA and will be reported as a non compliance in the sector report**.**

# Sector Audit: Inspection Reports/Conditional Assessments not available

#### Pretoria

## Audit finding

Treasury Regulation 8.1.1 states that: “The accounting officer of an institution must ensure that internal procedures and internal control measures are in place for payment approval and processing. These internal controls should provide reasonable assurance that all expenditure is necessary, appropriate, paid promptly and is adequately recorded and reported”.

For the following lease files inspected, inspection reports could not be obtained. The details of the buildings are as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| **Building** | **Type** | **Utilisation/inspection reports** | **Lessee** |
| 66 Von  Willigh & Lencheen Str-Office | Leased | Inspection report not obtained | Water Affairs |
| Flat A505 Riverside Place, Swartkop | Leased | Inspection report not obtained | Defence |
| Clarina No 686 Ext 35 PTA North | Leased | Inspection report not obtained | DCS |

For the following files selected, and after enquiry with management, conditional assessment reports could not be obtained. The details of the buildings are as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| **Building** | **Type** | **Condition** | **Date Vacated** |
| 106 Bloed Str- Staff Quarters | Owned | Good | Prior 2005 |
| 31 Fides Str - House | Owned | Good | Prior 2005 |
| 70 Paul Kruger -  Heritage Building | Owned | Good | Prior 2005 |
| 322 Proes Str- Office | Owned | Good | 2010/07/01 |

## Internal control deficiency

*Leadership*

The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control (maintenance expenditure aligned with conditional assessments).

## Recommendation

Monitoring should be done by senior officials to ensure compliance with laws and regulations.

## Management response

Management response outstanding

## Auditors’ conclusion

This is a non compliance with Treasury Regulations and will form part of the reporting on sector audit.

# Sector Audit: Need assessments not provided

## Audit finding

Section 41 of the Public Finance Management Act, 1999 (Act no.1 of 1999) an accounting officer for a department must submit to the relevant treasury or the Auditor General such information, returns, documents, explanations and motivations as may be prescribed or as the relevant treasury or the Auditor General may require. The request of information 53 was issued to request the need assessment for the project listed below. The documents submitted comprised of minutes from progress meetings which occurred after the tender was already awarded, not the procurement request from the client department.

| **No.** | **Tender number** | **WCS number** | **Tender Amount (R)** | **Contractor/Consultant** |
| --- | --- | --- | --- | --- |
| 1 | HP08/21 | 46347 | 7 626 537,30 | VGI Consulting |
| 2 | H09/020 | 41821 | 191 956 107,82 | Keren Kula Construction |
| 3 | HP08/42 | 46141 | 15 764 986,24 | Malekutu Motjoadi JV |
| 4 | H05/045 | 42166 | 3 809 608,68 | Mokgawa Mtshali and Associates |
| 5 | H06/083 | 42307 | 40 385 997,55 | Virtual Consulting Engeneers |
| 6 | H07/010 | 45235 | 15 845 452,46 | Labucon Resourses (Pty) Ltd |
| 7 | H08/048 | 46112 | 21 510 775,00 | Ukhukhula Consulting |
| 8 | H08/009 | 46025 | 56 726 160,14 | Mkhwanazi Construction |
| 9 | H07/032 | 45279 | 24 780 000,00 | Ruwacon (Pty) Ltd |
| 10 | H08/050 | 46118 | 15 561 316,00 | Elzabad Consumable supplies |
| 11 | H08/091 | 45931 | 0,00 | Afroteq Facilities management |
| 12 | H09/058 | 47036 | 16 523, 982,59 | Enviro Metsi (Pty) Ltd |
| 13 | H08/019 | 44117 | 40 389 887,18 | Water and Sanitation Services SA |
| 14 | H09/057 | 44121 | 17 108 803,65 | NA Datnow Shawshank Construction |
| 15 | H09/062 | 44116 | 95 904 000,00 | Botes and Kennedy Manyano |
| 16 | H11/002 | 48216 | 5 506 103,01 | Grinaker LTA/Keren Kula JV |
| 17 | H08/037 | 44253 | 12 947 042,00 | Zana Manzi Services (Pty) Ltd |
| 18 | H06/040 | 42571 | 24 951 216,84 | Otis |
| 19 | H06/062 | 43766 | 5 250 000,00 | Superway (Pty) Ltd |

The need assessments are not properly filed by responsible unit. It could result lead to non-compliance with PFMA sec 38(1)(a).

## Internal control deficiency

*Financial and Performance Management*

Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting

## Recommendation

The need assessment should properly filed and reference to a specific WCS number.

## Management response

Management response outstanding

## Auditor’s conclusion

Management has acknowledged the correctness of the finding. This is a non compliance with GIAMA and will be reported as a non compliance in the sector report**.**

# Sector Audit: Signed assessment reports not obtained for audit purposes

#### Bloemfontein

## Audit finding

Section 7 of the Government Immovable Asset Management Act, 2007 (Act No. 19 of 2007) (GIAMA), requires the following minimum contents of custodian immovable asset management plan: *"A custodian immovable asset management plan must consist of at least (c) a performance assessment of the immovable asset; (d) subject to section 13(l)(d)(iii), a condition assessment of the immovable asset."*

Contrary to the abovementioned requirements, signed assessment reports could not be obtained for audit purposes. As a result, it could not be confirmed that the trading entity executed a conditional assessment of all state-owned buildings as a basis for the maintenance budget for the year under review. This information was requested on request for information no. 64 issued on 31 May 2011.

The cause of the above is: Management did not designate a responsible official to ensure that conditional assessment of all state-owned buildings as a basis for the maintenance budget for the year under review was performed and that the signed assessment reports were properly filed and easily retrievable for auditing purposes.

The impact of the above is that the budgeted amount for maintenance could not be adequate resulting in the overspending of the budget. Limitation of scope on the audit.

## Internal control deficiency

*Financial and performance management:*

Controls over daily and monthly processing and reconciling of transactions are not implemented.

## Recommendation

Management must ensure that a conditional assessment of all state-owned buildings as a basis for the maintenance budget for the year under review is performed and that these assessment reports are properly kept and filed and readily available for audit purposes.

## Management response

Assessment reports or condition surveys additional information and not minimum requirement and therefore not kept by the department.

*Name: N Zulu*

*Position: Regional Manager*

*Date: 17 June 2011*

## Auditor’s conclusion

Management response is noted. However, signed assessment reports are a requirement of the Government Immovable Asset Management Act, 2007 (Act No. 19 of 2007) (GIAMA) and were not provided. The matter is therefore not resolved and is reported on in the management report

# Sector Audit: Budget submission documentation not available

#### Bloemfontein

## Audit finding

Section 40(1)(a) of the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) states that: *"The accounting officer for a trading entity must keep full and proper records of the financial affairs of the trading entity in accordance with any prescribed norms and standards."* Contrary to the provisions of these sections, the budget submission documentation was not provided for audit purposes. This information was requested on request for information no. 64 issued on 31 May 2011.

The cause of the above is that management did not designate a responsible person to ensure that all budget submission documentation is properly filed and is easily retrievable for audit purposes.

The impact of the above is failure to submit supporting documentation could lead to a limitation of scope on the audit.

## Internal control deficiency

*Financial and performance management:*

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 is not implemented.

## Recommendation

Management should ensure that the budget is properly monitored on a monthly basis and that all requested information is submitted timeously for auditing purposes.

## Management response

This office cannot agree with the finding of the AGSA as the information was provided as part of the PACE report, as highlighted to the AGSA. The AGSA should further note that the budget functions for the PMTE is preformed at Head Office and thus this function should be audited at that level.

*Name: N Zulu*

*Position: Regional Manager*

*Date: 17 June 2011*

## Auditor’s conclusion

Management response is noted. This is a non compliance with GIAMA and will be reported as a non compliance in the sector report**.**

# Sector Audit: Updated of the immovable asset register with “user” details

#### Kwazulu Natal

## Audit finding

In terms of the Treasury Regulations 10.1.2, the accounting officer must ensure that processes (whether manual or electronic) and procedures are in place for the effective, efficient, economical and transparent use of the institution’s assets. During the audit of the sector procedures, it was noted that on the details that were communicated for audit, ERWE 104 Smith Street is unutilised however during the physical verification of the owned property it was noted that ERWE 104 is utilised.

## Internal control deficiency

*Financial and performance management*

Lack of proper record keeping in a timely manner to ensure that complete, relevant and accurate asset register is accessible and available to support financial and performance reporting.

## Recommendation

Management must ensure that the asset register is updated timeously to ensure its details are complete, relevant and accurate to support financial and performance reporting.

## Management response

There is agreement with the audit finding. Due to an oversight Information on PMIS was not updated correctly.

**Action Plan**: This error has now been corrected on PMIS. Note that this property is the responsibility of the KZN Province. The Asset Register Enhancement Programme is in place whereby staff is populating the correct information on PMIS on all state owned properties.

**Responsibility**: Director: Property Management

**Implementation Date:** Immediate and ongoing

Name: AS Chonco

Position: Deputy Director

## Auditor’s conclusion

# Management response noted. This is a non compliance with GIAMA and will be reported as a non compliance in the sector report.Sector Audit: Incomplete immovable asset register

**Bloemfontein**

## Audit finding

National Treasury Guideline (dated 29 April 2005) and section 6.1.14 of the Asset Management Framework Version 3.3 of April 2004 on the minimum requirements of an immovable asset register indicates that the register should include the following minimum information:

1. Description of asset:

(a) Extent of building/structure (recorded in m²);

(b) Occupancy/level of utilisation;

(c) Condition reports;

(d) Lay-out of building/structure/images (photographs of building/structure);

(e) Building plans;

(f) Serial numbers (this may relate to lifts, air-conditioners, etc); and

(g) Building name and address.

2. Financial information:

(a) Cost;

(b) Accumulated depreciation;

(c) Useful life; and

(d) Remaining useful life.

Where the asset register cannot maintain all the critical information it is recommended that additional documentation with sufficient cross-referencing be kept to facilitate the proper management of these assets and the accumulation of a database of information for future decision-making. Contrary to the requirements as listed by the National Treasury, it was found that the immovable assets register of the Trading entity, as a minimum, does not contain the following information:

(a) The condition of the premises;

(b) Space actually utilised;

(c) Special modifications made;

(d) Cost of the asset;

(e) Additions; and

(f) Disposals.

The additional documentation with sufficient cross-referencing could not be obtained. Furthermore, the PMTE does not have a strategy in place to address the incomplete asset register.

The cause of the above is that management did not designate a responsible person to ensure that the immovable asset register includes all the minimum required information as per the National Treasury Guideline.

The impact of the above:

* Incomplete information on the immovable asset register may result in difficulties being experienced to verify the immovable assets.
* Ineffective / under utilisation / non-utilisation of office accommodation.

## Internal control deficiency

*Leadership:*

Policies and procedures to enable and support understanding and execution of internal control objectives, processes and responsibilities is not established and communicated.

*Monitoring: Ongoing monitoring*

Monitoring controls to ensure that the department complied with the relevant laws, rules and regulations were not effective.

## Recommendation

Management should ensure that the immovable asset register includes all the minimum required information as per the National Treasury Guideline.

## Management response

A. Assessment Reports or Condition Surveys are additional information not minimum requirement and therefore not kept by the department. This office has however initiated a project to update PMIS with this information from July 2011.

B. It should be noted that the level of occupancy in all state-owned buildings utilized by user departments is 100%.

C. Please note that PMIS does not have a functionality to update special modifications.

D. With reference to the cost of acquisition of properties it should be noted that these properties are in the ownership of the national government for decades and in some cases even more than a century to determine the acquisition cost proved to be a challenge. With reference to the valuation of properties or assets it should be taken into account that the government has one of the  biggest property portfolio and to conduct valuations on all these properties will proof to be a costly and lengthy exercise. In addition the financial cost per AG requirements becomes very difficult as well. The only instances where valuations are being done are in those cases where properties have been identified for disposal.  The fact that valuation services have been established in our Head Office is a clear indication that the value of assets is one of the most important priorities in the process of managing immovable properties. In conclusion it should be highlighted that the unit does not have the resources to address the valuation of immovable assets.

E. All new improvements or additions to existing improvements are reflected on PMIS.

F. All properties that are disposed of the system e.g. demolished structures are indicated as “old properties” on PMIS. A detailed report is available from regional property management support (Head Office) as only they have access to the said report.

*Name: N Zulu*

*Position: Regional Manager*

*Date: 17 June 2011*

## Auditor’s conclusion

Management response is noted. However, the immovable asset register of the trading entity is incomplete as the asset register and no other function on Property Management Information System (PMIS) contain the following:

(a) The condition of the premises;

(b) Space actually utilised;

(c) Special modifications made;

(d) Cost of the asset;

(e) Additions; and

(f) Disposals.

The matter is therefore not resolved and will be included in the Sector Report.

# Sector Audit: Not all client Departments are included in the Custodian Asset Management Plans

## Audit finding

Section 41 of the PFMA state that “an accounting officer for a department must submit to the relevant treasury or the Auditor General such information, returns, documents, explanations and motivations as may be prescribed or as the relevant treasury or the Auditor General may require. “

Section 6 GIAMA Act 2007 state that “the Immovable asset management plan (1) Subject to this Act and as part of its strategic planning process contemplated in the Public Service Regulations, 2001, the accounting officer of—(*a*) a custodian must:

* prepare an immovable asset management plan, to be known as a custodian immovable asset management plan, in relation to all the immovable assets which are in its custody;
* prepare a user immovable asset management plan, which relates to all the immovable assets which the custodian uses or intends to use in support of its own service delivery objectives”

The request of information 56 was issued to request the Custodian Asset Management Plan which includes the needs of client departments and it was submitted on the 13th of June. However, not all clients department were included in the Custodian Asset Management Plan. The following client departments were included in Custodian Asset Management Plan:

* Department of Human Settlement
* Department of Sports And Recreation
* Department of Human Settlement
* Department of Transport
* Department of Communications
* Department of Public Service Administration
* Palama
* National Department of Public Works
* Department of Correctional Services
* Justice And Constitutional Development
* Agriculture, Forestry And Fisheries
* South African Police Services
* Commission on Gender Equality
* National Treasury
* Government Printing Works
* Department of Social Development

The following client departments were not included in the Custodian Asset Management Plan:

* Water Affairs
* Statistics South Africa
* Arts And Culture
* Science & Technology
* Public Works-Prestige
* Women, Youth & People With Disabilities
* Home Affairs
* Department of Mining
* Department of Energy
* Public Works - BCOCC
* Public Protector
* SASSA
* Department of Health
* Trade & Industry
* International Relations & Co-Operation
* Co-Operative Governance & Traditional Affairs
* Department of Labour
* Department of Education
* Department of Economic Planning
* Environmental Affairs & Tourism
* Department of Public Enterprises
* Presidency
* Rural Development & Land Reform
* Defence & Military Veterans
* Public Service Commission
* Department of Police
* GCIS
* Panslab
* National Prosecuting Authority
* National Youth Commission

Custodian Asset Management Plan is not updated and reviewed on regularly basis. Failure to submit this information could result in a limitation of scope and non-compliance with PFMA and Treasury Regulation.

## Internal control deficiency

*Financial and Performance Management*

* Proper record keeping and record management; the documents supporting the above are not properly filed and easily retrievable
* Requested information was not available and supplied without any significant delay.

## Recommendation

Management should ensure that all information requested is easily retrievable and supplied to the auditors for audit purposes within the three days.

## Management response

The Custodian Asset Management Plans (CAMPs) for the outstanding client departments are being developed in the current financial year. Once the CAMPs for all client departments are finalised, the CAMP per client department will be updated on an annual basis. The request for information 56 was received by Portfolio Performance & Monitoring (PPM) on 7 June 2011 and was provided on 10 June 2011.

## Auditor’s conclusion

The control had not been implemented in the current financial year and this therefore results in non compliance with Section 6 of GIAMA Act 2007. This will be reported as a non compliance in the sector report.

# Sector Audit: No utilisation carried out

#### Polokwane

## Audit finding

Treasury Regulation Section 10.1.2 states that: *“The accounting officer must ensure that processes (whether manual or electronic) and procedures are in place for the effective, efficient, economical and transparent use of the institution’s assets.”*

The Polokwane Regional office did not perform utilisation inspections during the term of the lease to verify that the accommodation is still occupied and to assess the condition of the building to prevent ineffective/underutilisation/non-utilisation of office or other accommodation.

There is a risk that the Regional office may not identify and prevent ineffective/underutilisation/non-utilisation of office or other accommodation in time.

## Internal control deficiency

*Leadership*

Lack of man power to carry out the inspections

## Recommendation

We recommend that inspections are performed to assess the conditions of the buildings to prevent ineffective/underutilisation/non-utilisation of office or other accommodation.

## Management response

Agree with finding; however we would like the auditors to indicate the contracts/leases affected by the finding as some are old leases and others being new. The two have to be treated separately.

*Name: N.R Nengovhela*

*Position: Assistant Director*

*Date: 06/06/2011*

## Auditor’s conclusion

Management comment acknowledged, however the matter will remain on the management report as the response does not address the audit finding.

# Insufficient management of contractor’s

## Audit finding

Supply Chain Management Guide for Accounting Officers /Authorities (February 2004) section 5.12.1 states the following:

*“Consultants should observe due diligence and prevailing standards in the performance of the assignment. The accounting officer/authority should evaluate the performance of consultants appointed in a fair and confidential process. In the case of repeated poor performance, the firm should be notified and provided an opportunity to explain the reasons for it and the remedial action proposed.”*

Sizwe Ntsaluba VSP was appointed as consultants to assist with the compilation of the Annual Financial Statements for the 2010/2011 financial year and the prior year. The AFS were submitted to the AGSA for audit purposes on 31 May 2011. During the audit of the AFS and the schedules supporting the AFS there were numerous discrepancies and inconsistencies identified.

Discussions were held between management and the consultants to resolve discrepancies and inconsistencies however after the discussions held, the audit team still could not verify the information in the AFS and the supporting schedules.

As a resulta new set of financial statements were submitted on 07 July 2011. Based on the audit work performed on the AFS submitted on 31 May 2011 and 07 July 2011 it is evident that the work performed by the consultants were not monitored and evaluated prior to submission to the AGSA.

## Internal control deficiency

*Leadership: Oversight responsibility*

Oversight responsibility is not exercised regarding financial and performance reporting and compliance and related internal controls

*Monitoring*

Ongoing monitoring and supervision is not undertaken to enable management to determine whether internal control over financial reporting is present and functioning.

## Recommendation

* Management should evaluate the performance of the consultants on an annual basis
* The work performed by the consultants must be reviewed by the appropriate officials and results of such a review should be documented.
* Management should ensure that the consultants are notified any concerns with regard to the work performed and the consultants should be afforded an opportunity to explain the reasons for it and remedial action should be proposed.

## Management response

The PMTE was established in 2006 after the devolution of the capital and accommodation budget to client departments. The entity was created as an enabling vehicle for DPW to retain revenue and operate like a business in line with its mandate. The business case was developed in 2006 although never formally signed off by the former Ministers of DPW. National Treasury, however, approved the establishment of the entity. The entity was established with no proper structure, financial system nor officials who had the necessary expertise to implement GAAP financial statements. The entire PMTE billing and debtors revenue management and payables is managed on excel spreadsheets. The PMTE manages a budget of R12 billion manually on excel spreadsheets. Around November 2009 the department contracted the services of Sizwe Ntsaluba VSP to assist in cleaning the PMTE ledger accounts to enable implementation of GAAP. This was an urgent and critical need as the financial statements for the financial year end 2009/10 had to comply with GAAP. The contract amount was R12 million.

The consultants consisting of almost 8 chartered accountants reviewed all the transactions in BAS, conducted reconciliations and enabled the department to report for the first time on GAAP. The reconciliations were not conclusive as the accounts were not reconciled comprehensively and retrospectively from 2006.However the amount of work undertaken enabled the department to receive a qualified audit report for 2009/10 which was an improvement from the adverse report of the previous year. The auditors also acknowledged the challenges faced by the department in terms of constructing reconciliations with limited information.

Having realized the capacity issues within the PMTE and the need to get expertise on the production of the AFS for 2010/11 as well as to maintain continuity on the work that was already initiated by Sizwe Ntsaluba VSP, the department negotiated a new contract at an amount of R6 million. This was a smaller team lead by a Chartered Accountant. The team started in December 2010 and started by cleaning the lease information on the system and finalizing some of the debtor’s reconciliations which were still incomplete. This process was run parallel with the creation of a structure for the PMTE and the filling of posts.

As we were trying to resolve the discrepancies on the reconciliations it became evident that the contamination of debtor balances originated from the inception days of the PMTE. This then called for a complete overhaul and reconstruction of the debtors. Due to time constraints other debtors for Capital Projects could not be completed before submission of the AFS on the 31st May. The debtor’s reconstruction actually affected the completeness of revenue and confirmation of debtors.

The PMTE in its current “semi” entity, where the immovable assets are still under DPW and the expenditure on those assets is taking place under the PMTE poses even further challenges of revenue recognition in terms of GAAP. For example we had challenges in disclosing R2 billion spent on the repair and maintenance of buildings as revenue or expense as there are no capital assets under the PMTE.

The other main challenge was around trying to implement technical accounting policies without a relevant financial system. For example the discounting of payables and receivables require a credible system in order to treat each debtor according to specific terms and conditions of the contracts. Our attempts to rationalize and make assumptions on some of these issues were not acceptable to the Auditor General.

While we do not agree that the monies paid were fruitless, we acknowledge the fact that we only provided a more improved set on the 7th July after resolving a number of misstatement which the department did not pick on the statements. We also acknowledge the fact that we did not pay much attention to the cross casting of numbers as we were immensely involved with the correction and reconciliation of six years of data. We basically ran out of time to conduct some of the necessary checks and balances.

We also want to submit that most of the issues were corrected on the final set which the auditor general refused to accept due to legitimate reasons of late submission, and that we can confirm that the necessary skills have been transferred as the key managers were working closely with the consultants since the beginning of the contract. In fact most of the material differences on schedules except for the technical GAAP matters were resolved by officials themselves. We are still continuing to resolve the remaining differences even after the audit to correct opening balances for next year.

Name: Cathy Motsisi

Position: Chief Financial Officer

Date: 31 July 2011

## Auditor’s conclusion

Management’s comments have been noted and are acknowledged.

Consultants appointed to supplement and/or enhance capacity of management by performing key management functions need to be supervised properly. The responsibility ultimately resides with Chief Financial Officer and deputies to provide sufficient and adequate information to the consultants to prepare Annual Financial Statements and supplementary information. It is the responsibility of management to plan, direct and oversee the activities of the consultants and ensure that outcomes are presented as guided by National Treasury.

Management should evaluate the performance of the consultants on an annual basis and take corrective action where necessary. Management has acknowledged the fact that the financial statements that were submitted for audit were not accurate. This will issue will be highlighted in the audit report.

# Sector Audit: Immovable asset management plan not in place

#### Polokwane

## Audit finding

Section 6(1)(a)(b) of Government Immovable Asset Management Act, (GIAMA) No. 19 of 2007 states that *“(1) Subject to this Act and as part of its strategic planning process contemplated in the Public Service Regulations, 2001, the accounting officer of-*

*(a) a custodian must-  
(i) prepare an immovable asset management plan, to be known as a custodian immovable asset management plan, in relation to all the immovable assets which are in its custody;   
(ii) prepare a user immovable asset management plan, which relates to all the immovable assets which the custodian uses or intends to use in support of its own service delivery objectives; and*

*(b) a user must prepare an immovable asset management plan to be known as a user immovable asset management plan in relation to the immovable assets which that user uses or intends to use.”*

Contrary to the requirements of GIAMA, section 6(a) and 6(b), the Regional Office does not have an immovable asset management plan in place. None preparation of an immovable asset management plan amounts to non – compliance with sections 6 (a and b) of GIAMA.

## Internal control deficiency

*Leadership*

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

## Recommendation

An immovable asset management plan must be prepared as per the requirement of GIAMA.

## Management response

Agree with the audit finding; by the time it was requested the Regional Property Management Business Plan was not yet in place but is now available, it will be forwarded.

Name: Nengovhela N.R

Position: Assistant Director

Date: 06/06/2011

## Auditor’s conclusion

Management agree with the audit finding and recommendation and this will be reported on in the Sector Report.

# Sector Audit: Immovable assets register does not have minimum information

#### Polokwane

## Audit finding

We noted during our review of immovable assets that the following minimum required information on the immovable assets register was not included on the asset register as required by the Asset Management Framework v3.3 paragraph 6.1.14.

1. Description of asset

* Extent of building/structure (recorded in m²)
* Occupancy/level of utilisation

2. Management responsibility

* Name of responsible official
* Cost centre

3. Financial information

* Cost
* Accumulated depreciation
* Useful life
* Remaining useful life

In the absence of this minimum information, management might take ill-informed decisions on the best course of action in order to ensure that the specified goals as set by all stakeholders are achieved in the most effective and efficient manner. Furthermore, it will be difficult to conduct physical verification of assets recorded in the asset register.

## Internal control deficiency

*Financial and performance management*

Pertinent information is not identified and captured in a form and time frame to support financial reporting.

## Recommendation

We recommend that the Regional Office must prepare the asset register in accordance with the requirement of the Asset Management Framework v3.3 paragraph 6.1.14 to facilitate proper valuation and physical verification of assets.

## Management response

Agree with the finding, the reason for properties without extent is that, the updating of the asset register is an ongoing process and there have been properties that have been just created recently which their extent will be updated in the next quarter of the financial year. The system (PMIS) can only show whether the property is occupied and not the level of occupancy; it might be catered for by the new system (i.e. Works).

Most of the properties are allocated to client departments therefore we cannot put their area heads as they keep on changing. Most of the state owned properties do not have the cost as they were not bought but inherited. As for the accumulated depreciation and the life span of the property, the current system has no provision for that.

Name: N.R Nengovhela

Position: Assistant Director

Date: 07/06/2011

## Auditor’s conclusion

Management agree with the audit finding and recommendation.

# Sector Audit: Weaknesses identified in information on WCS

## Audit finding

Section 40(1) of Public Finance Management Act states that “the accounting officer for a department, trading entity or constitutional institution must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards”. The following were noted during our audit

BAS Report-Limitation of Scope

The request of information 89 was issued and management provided WCS reports and screen print of the BAS reports. As a result we could not verify that the actual expenditure incurred per the WCS report against BAS expenditure for the following WCS numbers:

* 048183
* 048355
* 036133
* 034630
* 030448
* 048865
* 048902
* 048904
* 036132
* 036149
* 036155

Project Managers

Through inspection of the WCS report, it was noted that some project managers have been allocated project while they are no longer employed by the department.

| **WCS NO** | **DESCRIPTION** | **PROJECT MANAGER** |
| --- | --- | --- |
| 023466 | WEPENER,,PRISON , NEW SECURITY FENCE : PHASE II | SMIT C F |
| 033151 | MDANTSAN,,PRISON , MAINTENANCE OF SECURITY FENCES | SMIT C F |
| 033152 | VEREENIG,,PRISON , MAINTENANCE OF SECURITY FENCES | SMIT C F |
| 033154 | NEWCASTL,,PRISON , MAINTENANCE OF SECURITY FENCES | SMIT C F |
| 033156 | ESHOWE,,PRISON , MAINTENANCE OF SECURITY FENCES | SMIT C F |
| 033157 | LUSIKISI,,PRISON , MAINTENANCE OF SECURITY FENCES | SMIT C F |
| 033158 | STANGER,,PRISON , MAINTENANCE OF SECURITY FENCES | SMIT C F |
| 033159 | PIET RET,,PRISON , MAINTENANCE OF SECURITY FENCES | SMIT C F |
| 033160 | GEORGE,,PRISON , MAINTENANCE OF SECURITY FENCES | SMIT C F |
| 033162 | SWELLEND,,BUFFELSJACHTRIV , MAINTENANCE OF SECURITY FENCES | SMIT C F |
| 033163 | PORTERVI,,VOORBERG PRISON , MAINTENANCE OF SECURITY FENCES | SMIT C F |
| 036411 | VARIOUS ,,BORDER POSTS , REPAIR AND MAINTENANCE PROGRAMME: CONSULTANT PAYMENTS | SMIT C F |
| 036412 | VARIOUS:,,BORDER POSTS , REPAIR AND MAINTENANCE PROGRAMME: CONSULTANT PAYMENTS | SMIT C F |
| 036413 | VARIOUS ,,BORDER POSTS , REPAIR AND MAINTENANCE PROGRAMME: STATUS QUO REPORTS | SMIT C F |
| 036414 | VARIOUS ,,BORDER POSTS , REPAIR AND MAINTENANCE PROGRAMME: CONSULTANT PAYMENTS | SMIT C F |
| 036415 | VARIOUS ,,BORDER POSTS , REPAIR AND MAINTENANCE PROGRAMME: CONSULTANT PAYMENTS | SMIT C F |
| 036416 | VARIOUS ,,BORDER POSTS , REPAIR AND MAINTENANCE PROGRAMME: CONSULTANT PAYMENTS | SMIT C F |
| 036417 | VARIOUS ,,BORDER POSTS , REPAIR AND MAINTENANCE PROGRAMME: CONSULTANT PAYMENT | SMIT C F |
| 037192 | JEPPES R,,BORDER POST , SARS: REPAIR AND MAINTENANCE PROGRAMME(RAMP) | SMIT C F |
| 038759 | OSHOEK,,BORDER POST , REPAIR AND MAINTENANCE PROGRAMME(RAMP) | SMIT C F |
| 038760 | NERSTON,,BORDER POST , REPAIR AND MAINTENANCE PROGRAMME(RAMP) | SMIT C F |
| 038761 | MAHAMBA,,BORDER POST , REPAIR AND MAINTENANCE PROGRAMME(RAMP) | SMIT C F |
| 043168 | MAHAMBA,,BORDER POST , REPAIR AND MAINTENANCE OF BUILDINGS, CIVIL INFRASTRUCTU | SMIT C F |
| 043169 | OSHOEK,,BORDER POST , REPAIR AND MAINTENANCE OF BUILDINGS, CIVIL INFRASTRUCTUR | SMIT C F |
| 043207 | ALEXANDE,,, ONSEEPKANS AND VIOOLSDRIFT:RAMP OF BUILDINGS,CIVIL INFRASTRU | SMIT C F |
| 043834 | CAPE TOW,,INTERNATIONAL A , CAPE TOWN INTERNATIONAL AIRPORT:UPGRADE DATA AND V | SMIT C F |
| 043935 | LEBOMBO,,BORDER POST , LEBOMBO:INSTALL WIRELESS ORTHOGON 5.8 GHZ LINK BETW LEB | SMIT C F |
| 044269 | PRETORIA,,, IMPLEMENTATION OF THE EXPANDED PUBLIC WORKS PROGRAMME ON CAP | SMIT C F |
| 044325 | SANI-PAS,,BORDER POST , SANI PASS: KZN: APPOINTMENT OF CONSULTANTS AND CONTRAC | SMIT C F |
| 044891 | PRETORIA,,HEAD OFFICE , BCOCC: APPOINTMENT OF CONSULTANTS: CSIR | SMIT C F |
| 035160 | VARIOUS ,,HARBOUR AREAS , REPAIR AND MAINTENANCE PROGRAMME FOR INFRASTRUCTURE | SMIT C F |
| 042990 | HOUT BAY,,HARBOUR , REPAIR AND MAINTENANCE OF BUILDINGS, CIVIL AND ELECTRICAL | SMIT C F |
| 042992 | HERMANUS,,HARBOUR , REPAIR AND MAINTENANCE OF MECHANICAL INSTALLATIONS - SLIPW | SMIT C F |
| 042993 | STRUIS B,,HARBOUR , AND ARNISTON HARBOUR: REPAIR AND MAINTENANCE OF BUILDINGS, | SMIT C F |
| 042995 | GORDONS ,,HARBOUR , REPAIR AND MAINTENANCE OF BUILDINGS, CIVIL AND ELECTRICAL | SMIT C F |
| 039656 | PRETORIA,,HEAD OFFICE , PROVIDE SUPPORT TO THE EXPANDED PUBLIC WORKS PROGRAMME | SMIT C F |
| 039987 | PRETORIA,,, PROJECT MANAGEMENT SUPPORT TO REGIONAL MANAGERS, EXECUTING U | SMIT C F |

The following projects have not been allocated a project manager.

| **No** | **WCS No** | **DESCRIPTION** | **PROJECT MANAGER** |
| --- | --- | --- | --- |
| 1 | 024371 | ROBBEN I,,, PHASE 3: UPGRADING OF PERIMETER ROADS | NO PROJECT MANAGER |
| 2 | 037223 | ROBBEN I,,, HERITAGE - CONTRACT 2: EXTENSION OF MAIN AND SECONDARY BREAK | NO PROJECT MANAGER |
| 3 | 047121 | LADYSMIT,,PRISON , AUDIO VIDEO REMAND CENTRE:PHASE 2:REFURBISHMENT | NO PROJECT MANAGER |
| 4 | 047370 | PIETERMA,,PRISON , AUDIO AND VIDEO REMAND CENTRE: PHASE 1: REFURBISHMENT | NO PROJECT MANAGER |
| 5 | 032583 | PORT ELI,,ST. ALBANS PRIS , REPAIR OF BUILDINGS | NO PROJECT MANAGER |
| 6 | 043926 | BRANDVLE,,, EXTENSION OF ACCESS CONTROL AREA, CONSTRUCTION OF FEMALE | NO PROJECT MANAGER |
| 7 | 047767 | PRETORIA,,, REPLACEMENT OF REDUNDENT EQUIPMENT | NO PROJECT MANAGER |
| 8 | 043526 | ZONDERWA,,, CONSTRUCTION OF TWO GUARD POSTS AT BROILER PROJECT | NO PROJECT MANAGER |
| 9 | 043527 | ZONDERWA,,, CONSTRUCTION OF TOILETS FACILITIES AT THE SPORTS FIELD OF ME | NO PROJECT MANAGER |
| 10 | 031053 | PRETORIA,,FORENSIC CHEMIC , HERITAGE – UPGRADING | NO PROJECT MANAGER |
| 11 | 048887 | PAARL,,MAGISTRATE'S OF , UPGRADING OF AIR CONDITIONERS | NO PROJECT MANAGER |
| 12 | 036780 | DAVEYTON,,MAGISTRATE'S OF , ACQUISITION OF SITE AND BUILDINGS | NO PROJECT MANAGER |
| 13 | 037199 | MEYERTON,,MAGISTRATE'S OF , PURCHASE OF ERVEN 317, 324 AND 329 | NO PROJECT MANAGER |
| 14 | 042149 | KATLEHON,,MAGISTRATE'S OF , ACQUISITION OF SITE | NO PROJECT MANAGER |
| 15 | 046333 | ORLANDO,,MAGISTRATE'S OF , ACQUISITION OF ERF 6515 FOR ADDITIONAL ACCOMMODATIO | NO PROJECT MANAGER |
| 16 | 045294 | DAVEL,,MAGISTRATE'S OF , ACQUISITION OF ERVEN 285 AND 287 | NO PROJECT MANAGER |
| 17 | 046675 | CHRISSIE,,MAGISTRATE'S OF , ACQUISITION OF ERF 66 LAKE CHRISSIE | NO PROJECT MANAGER |
| 18 | 047402 | CAPE TOW,RONDEBOSCH ,GROOTE SCHUUR E , UPGRADE OF KOEIKAMP,IRRIGATION DAM,REPL | NO PROJECT MANAGER |
| 19 | 047621 | CAPE TOW,,PARLIAMENTARY C , HERITAGE - PROVISION OF NEW PLANT ROOM AND INSTALL | NO PROJECT MANAGER |
| 20 | 047674 | SKILPADH,,BORDER POST , LAND PORT OF ENTRY: SLIPADSHEK PORT OF ENTRY:REDEVELOP | NO PROJECT MANAGER |
| 21 | 048862 | VARIOUS ,,, REPAIRS TO VARIOUS TYPES OF POTHOLES ON MAIN ROADS, ACCESS | NO PROJECT MANAGER |
| 22 | 047858 | JOHANNES,,, INSTALLATION OF SECURITY MEASURES AT THE PRIVATE RESIDENCE O | NO PROJECT MANAGER |
| 23 | 047859 | JOHANNES,,, INSTALLATION OF SECURITY MEASURES AT THE PRIVATE RESIDENCE O | NO PROJECT MANAGER |
| 24 | 048297 | JOHANNES,KILLARNEY ,, INSTALLATION OF SECURITY MEASURES AT THE PRIVATE RESIDEN | NO PROJECT MANAGER |
| 25 | 048674 | SPRINGBO,,, REPLACEMENT OF AIRCON UNIT IN SERVER ROOM AT PRISON | NO PROJECT MANAGER |
| 26 | 047499 | LEBOENG,,POLICE STATION , INSTALLATION OF FACILITIES FOR PEOPLE WITH DISABILIT | NO PROJECT MANAGER |
| 27 | 047507 | HOEDSPRU,,POLICE STATION , INSTALLATION OF FACILITIES FOR PEOLE WITH DISABILIT | NO PROJECT MANAGER |
| 28 | 046943 | EAST LON,,, 27 CLOVELLY PLACE,SUNNYRIDGE,EAST LONDON: IMPROVE SECURITY M | NO PROJECT MANAGER |
| 29 | 048197 | PORT ELI,,, INSTALLATION OF SECURITY MEASURES AT THE PRIVATE RESIDENCE O | NO PROJECT MANAGER |
| 30 | 048540 | VARIOUS ,,, SAPS VARIOUS CENTRES: INSTALLATION OF OFFICIAL NOTICES TO | NO PROJECT MANAGER |
| 31 | 048548 | PRETORIA,,, SECURITY MEASURES AT 581 SWART STREET, MORELETA PARK | NO PROJECT MANAGER |
| 32 | 048879 | BLOEMFON,,S A POLICE COMP , REPAIR TO THE STORM WATER DRAINAGE AT HOUSE 111 DA | NO PROJECT MANAGER |
| 33 | 043142 | CAPE TOW,BLUE DOWNS ,POLICE STATION , ACQUISITION OF ERF 20392, BLUE DOWNS FOR | NO PROJECT MANAGER |
| 34 | 043255 | CAPE TOW,,TRAINING COLLEG , ACQUISITION OF THE PHILLIPI TRAINING COLLEGE IN CA | NO PROJECT MANAGER |
| 35 | 047383 | MOSSEL B,DAGAMASKOP ,POLICE STATION , ACQUISITION OF ROAD RESERVE ADJACENT TO | NO PROJECT MANAGER |
| 36 | 044549 | NTUZUMA,,POLICE STATION , ACQUISITION OF ERF2132 NTUZUMA FOR THE CONSTRUCTION | NO PROJECT MANAGER |
| 37 | 047659 | MARGATE,,POLICE STATION , CONSTRUCTION OF PEDESTRIAN RAMPS FOR PEOPLE WITH DIS | NO PROJECT MANAGER |
| 38 | 047660 | UMZIMKUL,,POLICE STATION , CONSTRUCTION OF ACCESS PEDESTRIAN RAMPS FOR PEOPLE | NO PROJECT MANAGER |
| 39 | 047661 | DURBAN,BEREA ,POLICE STATION , CONSTRUCTION OF ACCESS PEDESTRIAN RAMPS FOR PEO | NO PROJECT MANAGER |
| 40 | 047665 | DURBAN,MONTCLAIR ,POLICE STATION , CONSTRUCTION OF ACCESS PEDESTRIAN RAMPS FOR | NO PROJECT MANAGER |
| 41 | 047683 | ULUNDI,,TRAINING CENTRE , CONSTRUCTION OF GYMNASIUM FACILITIES | NO PROJECT MANAGER |
| 42 | 043781 | TEMBISA,,, ACQUISITION OF A PORTION OF THE FARM TEMBISA 9IR, TEMBISA TO | NO PROJECT MANAGER |
| 43 | 045022 | IKAGENG,,POLICE STATION , FACILITIES FOR THE DISABLED | NO PROJECT MANAGER |
| 44 | 045051 | PRETORIA,,POLICE STATION , HAARTEBEESPOORTDAM FACILITIES FOR THE DISABLED | NO PROJECT MANAGER |
| 45 | 045063 | RUSTENBU,,POLICE STATION , FACILITIES FOR THE DISABLED | NO PROJECT MANAGER |
| 46 | 045064 | RUSTENBU,,POLICE STATION , DETECTIVES FACILITIES FOR THE DISABLED | NO PROJECT MANAGER |
| 47 | 045068 | TLHABANE,,POLICE STATION , FACILITIES FOR THE DISABLED | NO PROJECT MANAGER |
| 48 | 047662 | OTTOSHOO,,POLICE STATION , CONSTRUCTION OF ACCESS PEDESTRIAN RAMPS FOR PEOPLE | NO PROJECT MANAGER |
| 49 | 045101 | NELSPRUI,,POLICE STATION , MHLUZI NESLPRUIT FACILITIES FOR THE DISABLED | NO PROJECT MANAGER |
| 50 | 045284 | MASOYI,,, FENCING OF SITE FOR NEW POLICE STATION | NO PROJECT MANAGER |
| 51 | 038468 | APEL,,POLICE STATION , ACQUISITION OF LAND | NO PROJECT MANAGER |
| 52 | 047684 | THABAZIM,,TRAINING CENTRE , CONSTRUCTION OF GYMNASIUM FACILITIES | NO PROJECT MANAGER |
| 53 | 046823 | EAST LON,,TRAINING COLLEG , INSTALLATION OF AIR CONDITIONERS | NO PROJECT MANAGER |
| 54 | 044581 | PRETORIA, PRETORIA W, OPERATIONAL RESPONSE SERVICE: SUPPORT CENTRE: ACQUISITI | NO PROJECT MANAGER |
| 55 | 047064 | PRETORIA,SUNNYSIDE ,S A POLICE QUAR , SAPS:INTERVENTION PROJECTS:GP:SUNNYSIDE | NO PROJECT MANAGER |
| 56 | 044282 | DURBAN,,QUARANTINE STAT , PURCHASE OF LAND FOR CONSTRUCTION OF NEW QUARANTINE | NO PROJECT MANAGER |
| 57 | 042590 | MOUNT AY,,, CONSTRUCTION OF NEW TOILETS FOR MALE AND FEMALE MEMBERS INSI | NO PROJECT MANAGER |
| 58 | 042591 | MOUNT FR,,, CONSTRUCTION OF TOILETS FOR MALE AND FEMALE OFFICIALS INSIDE | NO PROJECT MANAGER |
| 59 | 042592 | FLAGSTAF,,, WATER TAP IN THE YARD | NO PROJECT MANAGER |
| 60 | 042593 | TABANKUL,,, WATER TAP IN THE YARD | NO PROJECT MANAGER |
| 61 | 042594 | NQAMAKWE,,, WATER TAP IN THE YARD | NO PROJECT MANAGER |
| 62 | 042595 | IDUTYWA,,, BRICKING UP OF DINING HALL AND PAINTING OF ADMINISTRATION | NO PROJECT MANAGER |
| 63 | 042596 | UMTATA, DEMOLISHING OF A WALL BETWEEN TWO CELLS. | NO PROJECT MANAGER |
| 64 | 048279 | PRETORIA,,MESS , UPGRADING OF FINANCE ACCOUNTING SERVICE CENTRE | NO PROJECT MANAGER |
| 65 | 039445 | UMLAZI,,POLICE STATION , REPLACING OF 28 CELL DOORS AT POLICE STATION BY SAPS | NO PROJECT MANAGER |
| 66 | 038674 | DURBAN,CHATSWORTH ,TRAINING CENTRE , CHATSWORTH COLLEGE: FIREARM SAFE: REPAIR | NO PROJECT MANAGER |
| 67 | 038548 | BENONI,,, LOGISTICAL COLLEGE: CONSTRUCTION OF FSM MODULAR BUILDINGS, B | NO PROJECT MANAGER |
| 68 | 041907 | BENONI,,, LOGISTICAL TRAINING COLLEGE: BUILDING OF NEW BRICK WALL BY S | NO PROJECT MANAGER |
| 69 | 041908 | BENONI,,, LOGISTICAL COLLEGE: PAINTING OF OFFICES | NO PROJECT MANAGER |
| 70 | 042639 | JOHANNES,,, LINDEN AND SOPHIASTOWN: REPAIRS TO HIGH RISK DETENSION CELLS | NO PROJECT MANAGER |
| 71 | 028521 | HAZYVIEW,,POLICE STATION , CONSTRUCTION OF POLICE STATION | NO PROJECT MANAGER |
| 72 | 040546 | PIENAAR,,POLICE STATION , CONSTRUCTION OF POLICE STATION | NO PROJECT MANAGER |
| 73 | 042040 | MIDDELBU,,POLICE STATION , POLICE STATION: REPAIRS TO CELL DOORS | NO PROJECT MANAGER |
| 74 | 035060 | PRETORIA,ARCADIA ,FORENSIC LABORA , STATUS QUO: ANDREW MCCOLM HOSPITAL: RENOVA | NO PROJECT MANAGER |
| 75 | 037842 | PRETORIA,SILVERTON ,CHIEF LOGISTICA , A - BLOCK: ENTRANCE HALL AND MAIN GATE: | NO PROJECT MANAGER |
| 76 | 037962 | PRETORIA,SILVERTON ,, DIVISIONAL COMMISSIONER LOGISTICS: F - BLOCK: BUILDING S | NO PROJECT MANAGER |
| 77 | 038868 | PRETORIA,SILVERTON ,, DIVISIONAL COMMISSIONER: LOGISTICS: UPGRADING OF OFFICER | NO PROJECT MANAGER |
| 78 | 039135 | PRETORIA,SILVERTON ,, PHUMALANI BARRACKS: ALTERATIONS TO MARRIED QUARTERS | NO PROJECT MANAGER |
| 79 | 040001 | PRETORIA,,, WINGATE PARK: REPAIRS AND RENOVATIONS TO STATE OWNED HOUSE: | NO PROJECT MANAGER |
| 80 | 042433 | PRETORIA,,, DEVELOPMENT OF BLUEPRINT FOR SECURE CARE FACILITY | NO PROJECT MANAGER |
| 81 | 039179 | BARBERTO,,PRISON , REPAIR AND RENOVATIONS OF BUILDINGS & BUILDING WET SERVICES | NO PROJECT MANAGER |
| 82 | 046467 | DURBAN,,HOUSES , DURBAN :VARIOUS NEW MINOR WORKS | NO PROJECT MANAGER |
| 83 | 046468 | LADYSMIT,,HOUSES , LADYSMITH: VARIOUS MINOR NEW WORKS | NO PROJECT MANAGER |
| 84 | 048446 | ESHOWE,,MAGISTRATE'S OF , VARIOUS BUILDING REPAIRS | NO PROJECT MANAGER |
| 85 | 034895 | VARIOUS ,,GOVERNMENT BUIL , CONSULTANT PAYMENTS: SUPERVISION OF MAINTENANCE ON | NO PROJECT MANAGER |
| 86 | 039459 | BLOEMFON,,BLOEMSPRUIT AIR , STATUS QUO REPORT FOR PURPOSE OF REPAIR AND MAINTE | NO PROJECT MANAGER |
| 87 | 048684 | NELSPRUI,,, PROVIDE LIGHTNING PROTECTION AT NELSPRUIT PRISON | NO PROJECT MANAGER |
| 88 | 046153 | MANKWENG,,POLICE STATION , BACHELOR FLATS AT POLICE STATION: REPAIR AND RENOVA | NO PROJECT MANAGER |

The following project manager has been allocated too many projects to manage.

This is some of the reasons why there is no proper monitoring of projects through site visits and reviewing of the quality of work performed by service provider’s.

| **No** | **WCS NO** | **DESCRIPTION** | **PROJECT MANAGER** |
| --- | --- | --- | --- |
| 1 | 033155 | LICHTENB,,PRISON , MAINTENANCE OF SECURITY FENCES | SAGNER HR |
| 2 | 033161 | VIRGINIA,,PRISON , MAINTENANCE OF SECURITY FENCES | SAGNER HR |
| 3 | 033164 | WEPENER,,PRISON , MAINTENANCE OF SECURITY FENCES | SAGNER HR |
| 4 | 033165 | DE AAR,,PRISON , MAINTENANCE OF SECURITY FENCES | SAGNER HR |
| 5 | 032802 | POTCHEFS,,MAGISTRATE'S OF , RAMP: REMAINDER ELECTRICAL AND MECHANICAL INSTALLA | SAGNER HR |
| 6 | 034469 | MAHLABAT,,MAGISTRATE'S OF , REPAIR AND MAINTENANCE PROGRAM | SAGNER HR |
| 7 | 034473 | KLERKSDO,,P C PELSER BUIL , REPAIR AND MAINTENANCE PROGRAM | SAGNER HR |
| 8 | 034479 | ONGOYE,,MAGISTRATE'S OF , REPAIR AND MAINTENANCE PROGRAM | SAGNER HR |
| 9 | 034526 | MSINGA,,MAGISTRATE'S OF , REPAIR AND MAINTENANCE PROGRAM | SAGNER HR |
| 10 | 034528 | MELMOTH,,MAGISTRATE'S OF , REPAIR AND MAINTENANCE PROGRAM | SAGNER HR |
| 11 | 034625 | IDUTYWA,,MAGISTRATE'S OF , REPAIR AND MAINTENANCE PROGRAM | SAGNER HR |
| 12 | 034629 | THABAMOO,,MAGISTRATE'S OF , REPAIR AND MAINTENANCE PROGRAM | SAGNER HR |
| 13 | 034630 | DITSOBOT,,MAGISTRATE'S OF , REPAIR AND MAINTENANCE PROGRAM | SAGNER HR |
| 14 | 034631 | LEHURUTS,,MAGISTRATE'S OF , REPAIR AND MAINTENANCE PROGRAM | SAGNER HR |
| 15 | 034722 | NONGOMA,,MAGISTRATE'S OF , REPAIR AND MAINTENANCE PROGRAM | SAGNER HR |
| 16 | 034723 | MAPUMULO,,MAGISTRATE'S OF , REPAIR AND MAINTENANCE PROGRAM | SAGNER HR |
| 17 | 034724 | EMNAMBIT,,MAGISTRATE'S OF , REPAIR AND MAINTENANCE PROGRAM | SAGNER HR |
| 18 | 034725 | UBOMBO,,MAGISTRATE'S OF , REPAIR AND MAINTENANCE PROGRAM | SAGNER HR |
| 19 | 034727 | KWAMSANE,,MAGISTRATE'S OF , REPAIR AND MAINTENANCE PROGRAM | SAGNER HR |
| 20 | 034729 | IMPENDLE,,MAGISTRATE'S OF , REPAIR AND MAINTENANCE PROGRAM | SAGNER HR |
| 21 | 034730 | NSIKAZI,,MAGISTRATE'S OF , REPAIR AND MAINTENANCE PROGRAM | SAGNER HR |
| 22 | 034732 | KWAMHLAN,,MAGISTRATE'S OF , REPAIR AND MAINTENANCE PROGRAM | SAGNER HR |
| 23 | 034735 | MKOBOLA,,MAGISTRATE'S OF , REPAIR AND MAINTENANCE PROGRAM | SAGNER HR |
| 24 | 034739 | GIYANI,,MAGISTRATE'S OF , REPAIR AND MAINTENANCE PROGRAM | SAGNER HR |
| 25 | 034749 | MID-ILLO,,PERIODICAL COUR , REPAIR AND MAINTENANCE PROGRAM | SAGNER HR |
| 26 | 034789 | DURBAN,,HIGH COURT , REPAIR AND MAINTENANCE PROGRAM | SAGNER HR |
| 27 | 035331 | POTCHEFS,,MAGISTRATE'S OF , REPAIR AND MAINTENANCE PROGRAM: WET SERVICES | SAGNER HR |
| 28 | 035505 | MELMOTH,,MAGISTRATE'S OF , RAMP: MECHANICAL AND ELECTRICAL SERVICES | SAGNER HR |
| 29 | 035506 | DURBAN,,HIGH COURT , RAMP: MECHANICAL AND ELECTRICAL SERVICES | SAGNER HR |
| 30 | 035507 | MSINGA,,MAGISTRATE'S OF , RAMP: MECHANICAL AND ELECTRICAL SERVICES | SAGNER HR |
| 31 | 035508 | ONGOYE,,MAGISTRATE'S OF , RAMP: MECHANICAL AND ELECTRICAL SERVICES | SAGNER HR |
| 32 | 035509 | MAHLABAT,,MAGISTRATE'S OF , RAMP: MECHANICAL AND ELECTRICAL SERVICES | SAGNER HR |
| 33 | 037130 | IZINGOLW,,MAGISTRATE'S OF , REPAIR AND MAINTENANCE PROGRAM | SAGNER HR |
| 34 | 037380 | UMZIMKUL,,MAGISTRATE'S OF , REPAIR AND MAINTENANCE PROGRAM | SAGNER HR |
| 35 | 038175 | UMTATA,,HIGH COURT , REPAIR AND MAINTENANCE PROGRAM | SAGNER HR |
| 36 | 038176 | PRETORIA,,HIGH COURT , REPAIR AND MAINTENANCE PROGRAM | SAGNER HR |
| 37 | 038179 | JOHANNES,,MAGISTRATE'S OF , REPAIR AND MAINTENANCE PROGRAM | SAGNER HR |
| 38 | 038578 | JOHANNES,,HIGH COURT , REPAIR AND MAINTENANCE PROGRAM | SAGNER HR |
| 39 | 039301 | PORT SHE,,MAGISTRATE'S OF , RAMP | SAGNER HR |
| 40 | 039302 | PAMPIERS,,MAGISTRATE'S OF , REPAIR AND MAINTENANCE PROGRAM | SAGNER HR |
| 41 | 039303 | NIETVERD,,PERIODICAL COUR , REPAIR AND MAINTRENACE PROGRAM | SAGNER HR |
| 42 | 039304 | GROOT-MA,,MAGISTRATE'S OF , REPAIR AND MAINTENANCE PROGRAM | SAGNER HR |
| 43 | 039305 | MMABATHO,,MAGISTRATE'S OF , REPAIR AND MAINTENANCE PROGRAM: CIVIL AND STRUCTUR | SAGNER HR |
| 44 | 039306 | MANKWE,,MAGISTRATE'S OF , REPAIR AND MAINTENANCE PROGRAM: CIVIL AND STRUCTURAL | SAGNER HR |
| 45 | 039349 | VUWANI,,MAGISTRATE'S OF , REPAIR AND MAINTENANCE PROGRAM | SAGNER HR |
| 46 | 039350 | TSHITALE,,MAGISTRATE'S OF , REPAIR AND MEAINTENANCE PROGRAM | SAGNER HR |
| 47 | 039351 | MUTALE,,MAGISTRATE'S OF , REPAIR AND MAINTENANCE PROGRAM | SAGNER HR |
| 48 | 039353 | NKOMAZI,,MAGISTRATE'S OF , RAMP | SAGNER HR |
| 49 | 039354 | AMSTERDA,,MAGISTRATE'S OF , REPAIR AND MAINTENANCE TO BUILDINGS, WET SERVICES, | SAGNER HR |
| 50 | 039356 | COLENSO,,MAGISTRATE'S OF , RAMP | SAGNER HR |
| 51 | 039362 | SUTHERLA,,MAGISTRATE'S OF , REPAIR AND MAINTENANCE PROGRAM | SAGNER HR |
| 52 | 039363 | RICHMOND,,MAGISTRATE'S OF , RAMP | SAGNER HR |
| 53 | 039365 | SOWETO,PROTEA ,BRANCH COURT , REPAIR AND MAINTENANCE PROGRAM: CIVIL AND STRUCT | SAGNER HR |
| 54 | 040234 | MOKOPANE,,MAGISTRATE'S OF , REPAIR AND MAINTENANCE PROGRAM | SAGNER HR |
| 55 | 042104 | MOLEBOGO,,PERIODICAL COUR , REPAIR AND MAINTENANCE PROGRAM | SAGNER HR |
| 56 | 042105 | LIBODE,,MAGISTRATE'S OF , REPAIR AND MAINTENANCE PROGRAM | SAGNER HR |
| 57 | 042106 | WAKKERST,,MAGISTRATE'S OF , REPAIR AND MAINTENANCE PROGRAM | SAGNER HR |
| 58 | 042107 | ALICE,,MAGISTRATE'S OF , REPAIR AND MAINTENANCE PROGRAM | SAGNER HR |
| 59 | 042381 | NOUPOORT,,MAGISTRATE'S OF , REPAIR AND MAINTENANCE PROGRAM | SAGNER HR |
| 60 | 042556 | MOUTSE,,MAGISTRATE'S OF , REPAIR AND MAINTENANCE PROGRAM | SAGNER HR |
| 61 | 043737 | SOWETO,PROTEA ,BRANCH COURT , RAMP: MECHANICAL AND ELECTRICAL | SAGNER HR |
| 62 | 044280 | CENTANI,,PUBLIC OFFICES , DECENTRALISED RAMP PROJECTS: PAYMENTS TO EXTERNAL PR | SAGNER HR |
| 63 | 036587 | MANANGA,,BORDER POST , ERECTION OF LIGHT VEHICLE INSPECTION FACILITY AND COMME | SAGNER HR |
| 64 | 037191 | VIOOLSDR,,BORDER POST , SARS: REPAIR AND MAINTENANCE PROGRAMME(RAMP) | SAGNER HR |
| 65 | 037196 | ALEXANDE,,BORDER POST , SARS: REPAIR AND MAINTENANCE PROGRAMME(RAMP) | SAGNER HR |
| 66 | 037198 | PAFURI,,BORDER POST , SARS: REPAIR AND MAINTENANCE PROGRAMME(RAMP) | SAGNER HR |
| 67 | 037327 | KOPFONTE,,BORDER POST , CONSTRUCTION OF ADDITIONAL HOUSING | SAGNER HR |
| 68 | 038762 | SKILPADH,,BORDER POST , REPAIR AND MAINTENANCE PROGRAMME(RAMP) | SAGNER HR |
| 69 | 038763 | NAKOP,,BORDER POST , REPAIR AND MAINTENANCE PROGRAMME(RAMP) | SAGNER HR |
| 70 | 039034 | MAHAMBA,,, SARS: REPAIR AND RENOVATION (RAMP): | SAGNER HR |
| 71 | 040422 | PRETORIA,,, REPAIR AND MAINTENANCE PROGRAMME(RAMP): CALL CENTRE | SAGNER HR |
| 72 | 042175 | VARIOUS ,,, REPAIR AND MAINTENANCE: LAND PORTS OF ENTRY: GROUP 1: 9 NON | SAGNER HR |
| 73 | 042177 | VARIOUS ,,, REPAIR AND MAINTENANCE: LAND PORTS OF ENTRY: GROUP 3: 5 NON | SAGNER HR |
| 74 | 042178 | VARIOUS ,,, REPAIR AND MAINTENANCE: LAND PORTS OF ENTRY: GROUP 4: NON - | SAGNER HR |
| 75 | 043149 | PLATJAN,,, PONTDRIFT,STOCKPOORT,SWARTWATER AND ZANZIBAR:RAMP OF | SAGNER HR |
| 76 | 043150 | BRAY,,, BOSHOEK AND MAKOPONG:RAMP OF BUILDINGS,CIVIL INFRASTRUCTURE | SAGNER HR |
| 77 | 043152 | BOTHASHO,,, JOSEFSDAL,WAVERLEY AND ZONSTRAAL:RAMP OF BUILDINGS,CIVIL INF | SAGNER HR |
| 78 | 043153 | PONGOLA,,, MUZI,NDUMA AND ONVERWACHT:RAMP OF BUILDINGS,CIVIL INFRASTRUC | SAGNER HR |
| 79 | 043154 | BARKLY E,,, BOESMANSNEK,CAIRNTOUL,CEDARVILLE,LUNDEANS,ONGELUKSNEK,RAMATS | SAGNER HR |
| 80 | 043971 | SIMONSTO,,HARBOUR , SIMON'S TOWN: REPAIR AND MAINTENANCE PROGRAMME: | SAGNER HR |
| 81 | 043984 | VARIOUS ,,BORDER POSTS , INSTALL NETBOTZ PRETEC CARD WITH R200 PRE-PAID SIM CA | SAGNER HR |
| 82 | 044029 | SWARTKOP,,BORDER POSTS , REPAIR AND MAINTENANANCE OF BUILDINGS, CIVIL INFRASTR | SAGNER HR |
| 83 | 044332 | KOPFONTE,,, NW:APPOINTMENT OF CONSULTANTS(KOPFONTEIN,SKILPADSHEK,RAMA | SAGNER HR |
| 84 | 045236 | RAMATLAB,,BORDER POSTS , SKILPADSHEK:BCOCC:REPAIR, MAINTENANCE AND UPGRADING O | SAGNER HR |
| 85 | 045238 | DERDEPOO,,BORDER POSTS , KOPFONTEIN GATE AND ROOIBOKKRAAL:BCOCC:REPAIR,MAINTEN | SAGNER HR |
| 86 | 046112 | VARIOUS ,,BORDER POSTS , CLUSTER2A:RAMP AND UPGRADING OF BUILDINGS, CIVIL INFR | SAGNER HR |
| 87 | 046117 | VARIOUS ,,BORDER POSTS , CLUSTER 3A: RAMP AND UPGRADING OF BUILDINGS,CIVIL INF | SAGNER HR |
| 88 | 046120 | VARIOUS ,,BORDER POSTS , CLUSTER 5A: RAMP AND UPGRADING OF BUILDINGS,CIVIL INF | SAGNER HR |
| 89 | 046122 | VARIOUS ,,BORDER POSTS , CLUSTER 6: RAMP AND UPGRADING OF BUILDINGS,CIVIL INFR | SAGNER HR |
| 90 | 048176 | RAMATLAB,,BORDER POSTS , DEPARTMENT OF PUBLIC WORKS: LAND PORTS OF ENTRY:RAMAT | SAGNER HR |
| 91 | 048182 | SWARTKOP,,BORDER POST , DPW: SWARTKOPFONTEIN GATE PORT OF ENTRY: APPOINTMENT O | SAGNER HR |
| 92 | 048184 | SKILPADH,,BORDER POST , DPW: SKILPADSHEK PORT OF ENTRY: APPOINTMENT OF CONTRAC | SAGNER HR |
| 93 | 037044 | GANSBAAI,,HARBOUR AREAS , REPAIR AND MAINTENANCE OF BUILDINGS, CIVIL INFRASTRU | SAGNER HR |
| 94 | 044953 | PRETORIA,,, APPOINTMENT OF CONSULTANT TO PROJECT MANAGE 2010 FIFA WORLD | SAGNER HR |
| 95 | 042989 | SALDANHA,,HARBOUR , REPAIR AND MAINTENANCE OF BUILDINGS, CIVIL AND ELECTRICAL | SAGNER HR |
| 96 | 039973 | DURBAN,,MAGISTRATE'S OF , REPAIR AND MAINTENANCE PROGRAM | SAGNER HR |

The WCS system is not updated on timely basis. It is evident that there is a lack of proper planning for projects. This will impact on service delivery and none achievement of the mandate of department.

## Internal Control Deficiency

*Leadership*

Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls

*Oversight responsibility*

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

## Recommendation

The WCS system should be updated on timely basis and projects must be properly planned for and executed.

## Management Response

COFF no 82: Management response

BAS report-Limitation of scope

I am not in agreement with the finding. The request was for total payment made in BAS system and WCS system for both consultant and contractors for the period under review for the following WCS numbers: 048183, 048355, 036133, 034630, 048865, 048902, 048904, 036132, 036149, and 036155.

We downloaded the information on WCS and submitted it in report format to the AG. We indicated that these payments all interfaced to BAS, We were informed this was not sufficient and that screen prints were needed. This was done and submitted to the AG. I raised the issue of asking for the correct format from the beginning and was told that the request clearly asked for a report (although the AG later indicated that the screen prints were needed)

We then realized that the AG was looking for a BAS report on the above mentioned projects. On 12 July 2011, responded via email.

We indicated that it was not possible to draw a BAS report on a specific WCS number, but that payments per beneficiary can be requested. We had no feedback on this until the CoF was raised on 12 July 2011. We had a subsequent discussion with Selina who then agreed that the BAS report as indicated on the email of 12 July 2011 (to which we did not receive a reply) would suffice. Attached please find the reports as agreed.

The reports could have been supplied if the AG responded to my e-mail dated 12 July 2011 and if the issue were not confused by the request for screen prints.

**Project managers**

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

**Where the communication indicates projects without project managers**

Only seventeen (17) projects out of the total eighty nine (89) stated are applicable to Head Office. Out of the 17 applicable: WCS 047674&047767 are in status 9, 043526 and 043527 are in the status 2 while 045848 are in status 3. No projects in construction phase are without project managers. The remaining twelve projects in status 6A and seven shall be allocated to project managers to ensure finalization.

**Where the communication indicates too many projects for the project manager**

**Sagner H:** Fifty four (54) out of the ninety four (94) projects are in completed and in status 8. Twenty four of the projects are in status 7 and only require finalization of the final account which must be produced by the consultants appointed and the project manager only checks upon receiving such a final account, thus no actual time consuming exercise is required as the project has reached final completion at this status. Further to this the project manager was allowed to appoint two firms to provide external project, management services Kwezi V3 for the Justice portfolio and Profteam for the BCOCC and Harbours project which he is finalizing final accounts for.

1. **Where the communication refers to the project managers no longer in the employ of the department:** We partially agree with the finding that the project manager Smit CF is no longer in the employ of the Department as he recently passed on. Ten (10) of the projects have already been allocated to new project managers. Six of the projects sampled are already in status 8. Three of the project managers are in status 4C. We will ensure that nineteen (19) projects in status 7 final account stage and eight (8) consultant appointments in status 4 will be allocated to new project managers and finalized to move to status 8.

*Tebogo Phiri*

*Director: Special and major projects*

## Auditor’s conclusion

The finding is still valid, the total payments made on BAS system were requested and management only provided the current year expenditure. The weaknesses identified in the WCS are valid and management needs to address this as a matter of urgency.

# Sector Audits: Monitoring of capital projects

## Audit finding

Paragraph 13(1) of theGovernment Immovable Asset Management Act of 2007 states that the accounting officer of a custodian must, for all immovable assets for which that custodian is responsible:

(a) Compile, in accordance with section 7, and with due regard to the user immovable asset management plans submitted in terms of section 9, a custodian immovable asset management plan that forms part of the strategic plan of that custodian;

(b) Submit the custodian immovable asset management plan to the relevant treasury as part of its strategic plan;

(c) Advice the relevant treasury on the immovable asset management plans of users;

(d) Ensure that all activities that are associated with common law ownership are executed, including—

* immovable asset throughout its life cycle;
* assessing the performance of the immovable asset;
* assessing the condition of the immovable asset at least every fifth year;
* identifying the effect of the condition of an immovable asset on service delivery ability;
* determining the maintenance required to return the immovable asset to the state in which it would provide the most effective service;
* estimating the cost of the maintenance activities identified;

*(e)* Establish and execute a performance measurement system as prescribed.

On the 8 July 2011 the walkthrough tests were conducted for the following projects and results detailed with inefficiencies identified.

1. Repairs and maintenance: Civil, structural and mechanical ramp project at High Court.
2. Repairs and maintenance: New co-operation building ramp project at Home affairs.
3. Refurbishment of one of the factory buildings at Government Printing Works.

**Repairs and maintenance: Civil, structural and mechanical ramp project at High Court (WCS 038176).**

The walkthroughs were performed with the assistance of the project manager (Department of Public Works) and the Department of Justice official (Manager Facilities).

Part of the project plan was an installation of pavement around the court building. As a result of the observation the surface around the high court was properly paved except on one corner of the building where part of the pavement was damaged. The facilities manager indicated that this was due to the roof leakage identified after the installation. This is a clear indication that the quality of the work performed was poor.

**Repairs and maintenance: New co-operation building ramp project at Home affairs (WCS 040586).**

The walkthroughs were planned to be performed with the Project Manager and on our arrival the home affairs invited us to one the boardrooms where coincidentally a meeting was scheduled to take place.

The Chief Director welcomed all in the meeting and he mentioned the purpose of the meeting as the problem experienced with the air conditioners and generators. He later on asked everyone to introduce themselves upon which the project manager introduced the auditors and indicated the purpose of the audit team’s visit.

A decision was made by the chief director to rather stop the meeting and assist the auditors with the walkthrough. Chief Director: Facilities, Manager Facilities and Senior Project Manager (DPW) escorted the auditors to the generators.

The ramp project took place from 2006 to 2009, a 36 months project which included servicing of three power generators, fuel tanks and reserve tanks, the construction of the chiller plant and the installation of air conditioners.

The purpose of the generators (Rolls Royce, Caterpillar and Cummins) was to supply the department of home affairs building with power at times where there is an interruption of power in the building.

The Chief Director: Facilities indicated that the reserve tank which was installed with the generators was not working properly, when the petrol is fully used in the main tanks the reserve tank is unable to kick in and fill up the main tanks when they run dry, which then leads to generator to be dysfunctional and results in power supply shortage. The issue was then partly resolved with two generators working and they were only able to supply power to the specific parts of the building.

To resolve the issue the caretaker of the generators confirmed that a tender went out on the 8th July 2011 for the configuration of Caterpillar generator and Cummins generator to be able to supply power to the whole and/or important parts of the building and the tender will close on the 26th of July 2011.

We inspected the government tender bulletin number 2686, Vol 553 advertised on the 8 July 2011 the details of the tender are as follows: *“Department of Home Affairs: BVR Building: Power Distribution and other related works. CIDB Contractor grading designation required: It is estimated that tenderer should have a CIDB contractor grading designation of 6 EP or 6 EP\* or higher. It is estimated that potentially emerging enterprises should have a CIDB contractor grading designation of 5 EP PE or 5 EP PE\* or higher. This tender will be evaluated commensurate with the applicable scoring model at the time of evaluation. A compulsory site inspection on the 19-07-2011 at 11h00. Prospective tenderer to meet at DHA: BVR Building, PTA Central, cnr. Jacob Mare and Bosman Street.* ***Note:*** *Documents will be sold at a non-refundable deposit of R500 CASH per set. Contact for tender information: Letlhogonolo Mokono, Tel: (012) 310-5209. General enquiries: Project Manager: T. Mafabatho, Tel: 072 782 6264. The advert is issued as tender number: PT11/036, required at Pretoria and due at 11:00 on 2011-07-26 ”*

There was no decision taken out by management yet on what they are going to do with the idle generator (Rolls Royce). The project manager from the DPW was not aware of the issues and he also indicated that the project took place a while ago hence he is unable to respond to the issues.

Both the Chief Director and the caretaker complained about the smoke which was coming out of the generators ‘chimney which was installed between the two buildings of the department. Inspected the chimney therefore and confirmed that the chimney is smoking and this is a health hazard to the employees in the building and surrounding areas, this result in non compliance with the occupational safety act.

The chief director also mentioned the problem with the air conditioners in the first floor that they are too chilly and should be adjusted accordingly to accommodate the staff. The reason the air conditioners are too cold is due to the fact the first floor was originally not planned to be an office space which later due to lack of space was converted to an office.

**Refurbishment of one of the factory buildings at Government Printing Works(WCS 045887)**

The Government Printing Works needed new space for the printing of passport, Identity Documents, Birth Certificates therefore the DPW offered them an old building which was initially occupied by the government garage, the building needed renovations. The renovations were made by the contractor that DPW contracted and as a result of the inspections the following were identified

* The substandard paint was used and it was peeling off on some of the walls on the second floor, as a result of poor painting being initially used on the walls. Paint was used subsequently to conceal some dark spots on the second floors.
* Cracks were identified on the walls.
* Damp walls were also identified in the ground floor, and the Maintenance manager confirmed that this is due to the pressure from the air conditioners, as per his explanation, Government Printing Works has service level agreement with the contactor and any repairs required on the air conditioners will be received from the contractors.

During the system walkthrough, the Maintenance manager confirmed that the issues were reported to DPW and also at times the DPW takes long to respond to their queries. According to the maintenance manager the building was received in good condition and the leakage started during the rainy season.

* Based on the findings above it is evident that the Department of Public Works management does not assess the condition of the immovable asset regularly and effect repairs where are required and/or hold the contractors liable where work was not carried out properly. This results in fruitless and wasteful expenditure as the expenditures could have been avoided had reasonable care been taken. No proper reviews and follow ups are conducted by management on a regular basis
* Proper inspections are not performed by management during and at end of each project
* Quality is not embedded within the Department as no remedial action is taken against the Contractors where they have provided sub standard work.

This finding is included for information purposes to the PMTE. The issues identified will be reported on as part of the sector audit.

## Internal control deficiency

*Governance*

The entity does not have proper project management process in place to address the inefficiencies identified in projects.

## Recommendation

Management should ensure that the projects are monitored in all phases and also all contractors sign guarantees after completion of projects for instances there are problems realised immediately after the projects.

## Management response

Management response outstanding.

## Auditor’s conclusion

The weaknesses identified will be reported on as part of the Sector Report.

# Sector Audit: Project not completed within approved completion date

#### Bloemfontein

## Audit finding

Section 38 of the Public Finance Management Act, 1999 (Act No.1 of 1999) (PFMA) states that:

*“The accounting officer for a trading entity -*

*(a) must ensure that that trading entity has and maintains -*

*(iii) an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost-effective; and*

*(iv) a system for properly evaluating all major capital projects prior to a final decision on the project."*

Furthermore, paragraph 20 of International Accounting Standard 18, *Revenue* (IAS 18)states that:

*"When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction shall be recognised by reference to the stage of completion of the transaction at the end of the reporting period. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:*

*(a) the amount of revenue can be measured reliably;*

*(b) it is probable that the economic benefits associated with the transaction will flow to the entity;*

*(c) the stage of completion of the transaction at the end of the reporting period can be measured reliably; and*

*(d) the costs incurred for the transaction and the costs to complete the transaction can be measured reliably."*

In contrast to the above we found through inspection of the WCS reports that the following contracts had not been completed on the approved completion date. Furthermore, no penalties were charged to the contractors for failing to complete the projects on time. Details are as follows:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **WCS No:** | **Description:** | **Initial completion date:** | **Extended completion date:** | **Actual completion date:** | **No. of days late to year-end:** | **Penalty rate per day:** | **Revenue forfeited:** |
| 22417 | Goedemoe, Goedemoed Priso , The Upgrading Of The Water Channel And Water Line | 2009/04/11 | 2010/09/05 | Not yet completed | 206 | R9 019,12 | R1 857 938,72 |
| 22598 | Ficksbur,,Official Reside , Repair And Renovation Of 12 End St; 39;31 Hill St; | 2009/04/24 | 2010/03/10 | Not yet completed | 381 | R1 630,00 | R621 030,00 |
|  |  |  |  |  |  |  | **R2 478 968,72** |

The cause of the above that management did not designate a responsible person to ensure that penalties were charged for projects that have exceeded the completion periods and that these penalties were recognised as required by IAS 18.

The impact of the above is that revenue as disclosed in the Annual Financial Statements could be understated and unfair business practices as some contractors are not penalised for breach of contract (late completion).

## Internal control deficiency

*Financial and performance management:*

Regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information is not prepared.

*Control environment:*

The trading entity's business processes were not developed to ensure compliance with the International Accounting Standards (IAS).

## Recommendation

Management should ensure that:

* the entity's business practices are consistent in penalising all contractors failing to complete projects within approved time.
* business processes should be developed and implemented to ensure compliance with International Accounting Standard (IAS).

## Management response

This office cannot agree with the finding of the AGSA as penalty deductions/recovery is only made after all claims for delay has been considered. Both projects are still not completed and correspondence is ongoing between the trading entity, principal agent and contractor regarding the extent of the extension of time claimed. As the claims have not yet been finalised, it is not advisable to deduct penalties prematurely. The penalties due, if any, will be deducted once the negotiations have been finalised.

Name: N Zulu

Position: Regional Manager

Date: 17 June 2011

## Auditor’s conclusion

Management response is noted. However, revenue was not recognised as required by the IAS 18. The matter is therefore not resolved and is reported on in the management report.

# Non compliance with Treasury Regulations: Bank overdraft

## Audit finding

Treasury Regulation (TR) 19.2.3 states that “*Trading entities allowed to open bank accounts may not borrow for bridging purposes and may not run overdrafts on their banking accounts*”. As at 31 March 2011 the balance of the PMG account (8033) was an overdraft of R1 291 797 347,89. This is in contravention of TR 19.2.3.

Our discussions with management revealed that this overdraft occurred by taking on debts from the Department of Public Works prior to 2006 not recovered from client departments for payments made on their behalf. These client departments surrendered surpluses to National Treasury without making payment to the Department of Public Works resulting in the PMTE running an overdraft on their PMG account in contravention of the Treasury Regulations.

## Internal control deficiency

*Leadership*

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

## Recommendations

* An analysis need to be made of exactly what contributed to the overdraft.
* A request for paying outstanding claims needs to be sent to all client departments that contributed to the overdraft.
* Client departments need to budget specifically for funds to settle outstanding claims from the Department of Public Works.
* If amounts cannot be recovered from the client departments the entity need to follow the departmental procedures for ‘writing-off debt’.
* National Treasury to be approached for intervention in recovering outstanding claims from client departments as provided for in the PFMA, Section 6: “co-ordinate inter-governmental financial and fiscal relations.
* Monthly reconciliations need to be performed and action taken to recover current debts from client departments.
* Management need to review this overdraft on a monthly basis to ensure the overdraft does not continually increase.

## Management response

I am in agreement that as at 31 March 2011 the balance of the PMG account (8033) was an overdraft of R1 291 797 347,89. The contributing factor is the expenditure incurred on behalf of the client departments that is recovered on a month to month basis. As at 31 March 2011 the expenditure incurred amounts to R1 409 172 722.65 which is made up of CA amounting to R209 742 660.19, PACE amounting to R396 730 771.00 and municipal services amounting to R802 699 291.46. The management is reviewing the bank overdraft to ensure that it does not continually increase.

## Auditor’s conclusion

Management agrees with our finding. This will be reported as a non compliance to Treasury Regulation 19.2.3.

# No creditors reconciliations

## Audit finding

Section 40.of the PFMA states the following:

*“(1)  The accounting officer for a department, trading entity or constitutional institution*

1. *must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards*”

South African Statements of Generally Accepted Accounting Practice, IAS:39 (AC 133),   
Financial instruments: *“Recognition and measurement requires when a financial liability is recognised an entity shall measure it at fair value plus transactions costs that are attributable to the acquisition of the financial liability.”*

Based on discussions with management it was found that the PMTE does not perform creditor’s reconciliations.  The above mentioned finding is due to the fact that the PMTE does not have policies and procedures in place to facilitate the financial accounting process. The PMTE also lacks a proper staff compliment to facilitate processes to ensure correct creditors balance. As a result of abovementioned, discrepancies will not be identified and followed up timeously resulting in creditor’s balances being incorrect. Furthermore, the entity will not be able to accurately calculate the fair value of its creditors, which could result in material misstatement of trade and other payables in the AFS.

## Internal control deficiency

*Financial and performance management*

Controls were not implemented over daily and monthly processing and reconciling of transactions

## Recommendation

Reconciliations should be performed on a monthly basis to ensure creditors balance is correctly recorded and to ensure discrepancies are identified and followed up.

## Management response

Management is not in agreement with the finding as the PMTE has submitted the reconciliations for the advances account which is disclosed under payables in the AFS

*Name: J Prinsloo*

*Position: CD PMTE*

*Date: 15 June*

## Auditor’s conclusion

Management comment is noted, however through discussions with management they had indicated they did not compile a creditor’s reconciliation on a monthly basis.

# Bank reconciliations and compliance certificates not provided

## Audit finding

In terms of section 41 of the Public Finance Management Act, 1999 (Act no.1 of 1999): *“An accounting officer for a department must submit to the relevant treasury or the Auditor General such information, returns, documents, explanations and motivations as may be prescribed or as the relevant treasury or the Auditor General may require.”*

The following information has been requested and has not been received to date:

* Bank reconciliation for March 2011
* Compliance certificate for the bank reconciliation for February 2011

## Internal control deficiency

*Leadership*

Review and monitoring of compliance with applicable laws and regulations performed

## Recommendation

Management should ensure all compliance certificates are filed per month with the bank reconciliations

## Management response

Management is in agreement with the finding for the bank reconciliation due to the fact that the documentation was lost *en route* to the CFO's office and the bank reconciliation had to be reconstructed.

Management is not in agreement with the finding on the compliance certificates as it was not requested and it should be noted that the due date for the compliance certificate and the bank reconciliation are independent of each other. Compliance certificate is available for audit if needed.

*Name: J Prinsloo*

*Position: CD PMTE*

*Date: 28 June 2011*

## Auditor’s conclusion

Management comments are noted however, as per annexure A included in the month end procedures “The Bank Reconciliation for all bank accounts for the reporting month has been done as at [date] and copies are attached”. Through inspection of the file of compliance certificates, compliance certificates for February and March 2011 were not included in the file.

Subsequently we received the bank reconciliation for March.

# Delays in submitting compliance certificates

## Audit finding

Practice Note 1 of 2010/2011 – Month end closure procedures states that:

*“3. In addition, compliance to Paragraph 17.1 of Part 7 of Treasury Regulation, regarding the use and clearing of suspense accounts, must also be certified:*

*3.1 That all transactions of an institution are supported by authentic and verifiable source documents, clearly indicating the approved accounting allocation;*

*3.2 That in all exceptional cases, where it is necessary to account for revenue and expenditure transactions in a control account because the classification has not been resolved, that the Accounting Officer, or his/her designate, ensured that the requirements of Annexure B regarding items in control/suspense accounts have been complied with.*

*4. The Chief Financial Officer must review and approve (by signing) all reconciliations for the reporting month to ensure that unauthorised transactions are detected, and dishonored cheques and long outstanding amounts are followed up and cleared. By signing the reconciliations, the Chief Financial Officer confirms concurrence and approval thereof.“*

Treasury Regulation 17.1.2 states that:

*“Should it be necessary, in exceptional cases, to account for revenue and expenditure transactions in a clearing or suspense account because the classification has not been resolved, the accounting officer must ensure that:*

*(b) amounts included in clearing or suspense accounts are cleared and correctly allocated to the relevant cost centres on a monthly basis”*

*(c) monthly reconciliation’s are performed to confirm the balance of each account; and*

*(d) reports are provided to the accounting officer about uncleared items on a monthly basis.*

*17.1.3  In each month’s section 40 (4) report, the accounting officer must certify that the forecast/projection for the remainder of the financial year adequately makes provision for all amounts not yet cleared from clearing and suspense accounts.”*

Inspection of the compliance certificates revealed that for some months the certificate were not submitted within the specified period:

| **Month** | **Regional Offices** | **Details** | **Date ‘Route form’ signed by CFO** | **Due date as per Compliance certificate** |
| --- | --- | --- | --- | --- |
| April | Head office | Did not submit compliance certificates | 13-Jul-10 | 19-May-10 |
| Nelspruit | Incorrect format used |
| May | Head office | Did not submit compliance certificates | 13-Jul-10 | 21-Jun-10 |
| Nelspruit | Incorrect format used |
| June | Head office | Did not submit compliance certificates | 28-Jul-10 | 20-Jul-10 |
| Nelspruit | Incorrect format used |
| Polokwane | Did not submit compliance certificates |
| Pretoria | Did not submit compliance certificates |
| July | Head office | Did not submit compliance certificates | 30-Aug-10 | 25-Aug-10 |
| MmBatho | Did not submit compliance certificates |
| Polokwane | Incorrect format |
| August | Head office | Did not submit compliance certificates | 23-Nov-11 | 17-Sep-10 |
| Pretoria | Did not submit compliance certificates |
| Polokwane | Did not submit compliance certificates |
| September | Head office | Did not submit compliance certificates | 25-Nov-11 | 19-Oct-10 |
| Pretoria | Did not submit compliance certificates |
| Polokwane | Did not submit compliance certificates |
| October | None | None | 03-Jan-11 | 18-Nov-10 |
| November | Kimberly | Incorrect format | 20-Jan-11 | 17-Dec-10 |
| December | None | None | 04-Feb-11 | 19-Jan-11 |
| January | Head Office | Late due to inputs of head office compliance | 15-Apr-11 | 18-Feb-11 |

According to the information on the compliance certificate we noted that for the months indicated the delays were due to the regional offices not submitting information or submitting information in an incorrect format. Furthermore head office did not submit compliance certificates indicating if the accounts have been reconciled and cleared for April to December 2010. Head office has started doing compliance certificates for January 2011.

This will result in non-compliance with laws and regulations and result in unauthorised or long outstanding amounts not being detected and cleared in time.

## Internal control deficiency

*Leadership*

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

## Recommendation

* The CFO should take action against officials who do not submit compliance certificates within the specified deadline.
* As a control measure reminders should be sent to the relevant officials informing them of the due date for the compliance certificates to be submitted.

## Management response

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

* When National Treasury issue the annual due dates, it is send via mail to the Regional Offices informing them of the due dates for reporting for the new financial year.
* When the monthly Trial Balance is sent to Regional Offices for their review and further action, they are reminded once again that their reporting is due on a certain date and that they should comply with these dates as it is prescribed by National Treasury.
* Compliance can only be submitted to the CFO once all the regional offices comply with all the performance indicators defined in Practice Note 1 of 2010/2011 issued by the office of the Accountant-General of National Treasury. If the compliance for one office is outstanding, the compliance cannot be submitted as we do not comply, therefore the delay in submitting the compliance for signature and late submission with National Treasury.
* The non-submission of the signed compliance certificates by certain regional offices have been discussed with CD:TA who agreed that a note on the route-form be made of all late submissions. This will be communicated to the CFO once the compliance certificate needs to be signed. The offices not complying are reprimanded by the CFO in the monthly Branch EXCO meetings.
* Accounts Receivable at Head Office did complete a compliance certificate only for the receivable part. It was later identified that Head Office did not submit a compliance certificate for all the performance indicators which was never done for PMTE. After the oversight was identified, it was brought to the attention of CD:TA and the matter was rectified immediately, compliance certificates was submitted since January 2011 for Head Office to comply with all the indicators.
* The staff compliment of the unit also contributed to the late submission as intern’s contracts expired and was replaced only a year later.

*Name:* J PRINSLOO

*Position: CD:TA*

*Date: 7 June 2011*

## Auditor’s conclusion

Management agrees with the finding. This will be reported as non compliance to PN 1 of 2010/11.

# Regular clearing of suspense account

## Audit finding

Practice Note 1 of 2010/2011 – Month end closure procedures states that:

*“3. In addition, compliance to Paragraph 17.1 of Part 7 of Treasury Regulation, regarding the use and clearing of suspense accounts, must also be certified:*

*3.1 That all transactions of an institution are supported by authentic and verifiable source documents, clearly indicating the approved accounting allocation;*

*3.2 That in all exceptional cases, where it is necessary to account for revenue and expenditure transactions in a control account because the classification has not been resolved, that the Accounting Officer, or his/her designate, ensured that the requirements of* ***Annexure B*** *regarding items in control/suspense accounts have been complied with.*

*4. The Chief Financial Officer must review and approve (by signing) all reconciliations for the reporting month to ensure that unauthorised transactions are detected, and dishonored cheques and long outstanding amounts are followed up and cleared. By signing the reconciliations, the Chief Financial Officer confirms concurrence and approval thereof.“*

Treasury Regulation 17.1.2 states that

*“Should it be necessary, in exceptional cases, to account for revenue and expenditure transactions in a clearing or suspense account because the classification has not been resolved, the accounting officer must ensure that:*

*(b) amounts included in clearing or suspense accounts are cleared and correctly allocated to the relevant cost centres on a monthly basis”*

*(c) monthly reconciliation’s are performed to confirm the balance of each account; and*

*(d) reports are provided to the accounting officer about uncleared items on a monthly basis.*

*17.1.3  In each month’s section 40 (4) report, the accounting officer must certify that the forecast/projection for the remainder of the financial year adequately makes provision for all amounts not yet cleared from clearing and suspense accounts.”*

The PMTE uses the following suspense accounts:

* Claims recoverable PACE
* Claims CA
* Claims Municipal services
* Disallowance Accounts

1. **Inspection of the monthly compliance certificates revealed that for the following months the PMTE did not comply with the requirement of clearing of suspense accounts in a timely manner.**

| **No** | **Month** | **Cleared** | **Comments** |
| --- | --- | --- | --- |
| 1 | April 2010 | No | The claims recoverable suspense account consists of inter-departmental balances. Based on the information documented in the compliance certificate it was noted that the inter-departmental balances are not always paid by client departments within the agreed period.  Through discussions with management it was discussed that client departments pay debts within 30 – 60 days.  Some of the balances included under claims recoverable are expenditure relating to prior years. Management has indicated that there have been discussions between client departments and National Treasury. The client departments indicated that for the expenditure relating to prior years they do not have funds as the surplus (if any) had been surrendered to National Treasury.  National Treasury has indicated that if money has been surrendered from the prior year, the money may be allocated to PMTE for the debt.  The above mentioned has been discussions with National Treasury but there is no formal documentation that has been presented. |
| 2 | May 2010 | No | The claims recoverable suspense accounts consists of inter - departmental balances. Based on the information documented in the compliance certificate it was noted that the inter-departmental balances are not always paid by client departments within the agreed period. Through discussions with management it was discussed that client departments pay debts within 30 – 60 days.  Some of the balances included under claims recoverable are expenditure relating to prior years. Management has indicated that there have been discussions between client departments and National Treasury. The client departments indicated that for the expenditure relating to prior years they do not have funds as the surplus (if any) had been surrendered to National Treasury.  National Treasury has indicated that if money has been surrendered from the prior year, the money may be allocated to PMTE for the debt.  The above mentioned has been discussions with National Treasury but there is no formal documentation that has been presented. |
| 3 | June 2010 | No | The claims recoverable suspense accounts consists of inter - departmental balances, based on the information documented in the compliance certificate it was noted that the inter-departmental balances are not always paid by client departments on agreed period.  Through discussions with management it was discussed that client departments pay debts within 30 – 60 days.  Some of the balances included under claims recoverable are expenditure relating to prior years. Management has indicated that there have been discussions between client departments and National Treasury. The client departments indicated that for the expenditure relating to prior years they do not have funds as the surplus (if any) had been surrendered to National Treasury.  National Treasury has indicated that if money has been surrendered from the prior year, the money may be allocated to PMTE for the debt.  The above mentioned has been discussions with National Treasury but there is no formal documentation that has been presented. |
| 4 | July 2010 | No | The claims recoverable suspense accounts consists of inter - departmental balances, based on the information documented in the compliance certificate it was noted that the inter-departmental balances are not always paid by client departments on agreed period.  Through discussions with management it was discussed that client departments pay debts within 30 – 60 days.  Some of the balances included under claims recoverable are expenditure relating to prior years. Management has indicated that there have been discussions between client departments and National Treasury. The client departments indicated that for the expenditure relating to prior years they do not have funds as the surplus (if any) had been surrendered to National Treasury.  National Treasury has indicated that if money has been surrendered from the prior year, the money may be allocated to PMTE for the debt.  The above mentioned has been discussions with National Treasury but there is no formal documentation that has been presented. |
| 5 | August 2010 | No | The claims recoverable suspense accounts consists of inter- departmental balances, based on the information documented in the compliance certificate it was noted that the inter-departmental balances are not always paid by client departments on agreed period.  Through discussions with management it was discussed that client departments pay debts within 30 – 60 days.  Some of the balances included under claims recoverable are expenditure relating to prior years. Management has indicated that there have been discussions between client departments and National Treasury. The client departments indicated that for the expenditure relating to prior years they do not have funds as the surplus (if any) had been surrendered to National Treasury.  National Treasury has indicated that if money has been surrendered from the prior year, the money may be allocated to PMTE for the debt.  The above mentioned has been discussions with National Treasury but there is no formal documentation that has been presented. |
| 6 | September 2010 | No | The claims recoverable suspense accounts consists of inter - departmental balances, based on the information documented in the compliance certificate it was noted that the inter-departmental balances are not always paid by client departments on agreed period.  Through discussions with management it was discussed that client departments pay debts within 30 – 60 days.  Some of the balances included under claims recoverable are expenditure relating to prior years. Management has indicated that there have been discussions between client departments and National Treasury. The client departments indicated that for the expenditure relating to prior years they do not have funds as the surplus (if any) had been surrendered to National Treasury.  National Treasury has indicated that if money has been surrendered from the prior year, the money may be allocated to PMTE for the debt.  The above mentioned has been discussions with National Treasury but there is no formal documentation that has been presented. |
| 7 | October 2010 | No | Money is not recovered within the prescribed period because of the lengthy verification process of the PACE reports which I undertaken by the client departments, the turnaround period exceeds the prescribed period of 30 days  Through discussions with management it was discussed that client departments pay debts within 30 – 60 days.  Some of the balances included under claims recoverable are expenditure relating to prior years. Management has indicated that there have been discussions between client departments and National Treasury. The client departments indicated to that for the expenditure for the prior years they do not have the budget as the budget from the prior year has been surrendered to NT.  National Treasury has indicated that if money has been surrendered from the prior year, the money may be allocated to PMTE for the debt.  The above mentioned has been discussions with NT but there is no formal documentation that has been presented. |
| 8 | November 2010 | No | Money is not recovered within the prescribed period because of the lengthy verification process of the PACE reports which I undertaken by the client departments, the turnaround period exceeds the prescribed period of 30 days.  Through discussions with management it was discussed that client departments pay debts within 30 – 60 days.  Some of the balances included under claims recoverable are expenditure relating to prior years. Management has indicated that there have been discussions between client departments and National Treasury. The client departments indicated that for the expenditure relating to prior years they do not have funds as the surplus (if any) had been surrendered to National Treasury.  National Treasury has indicated that if money has been surrendered from the prior year, the money may be allocated to PMTE for the debt.  The above mentioned has been discussions with National Treasury but there is no formal documentation that has been presented. |
| 9 | December 2010 | No | Money is not recovered within the prescribed period because of the lengthy verification process of the PACE reports which I undertaken by the client departments, the turnaround period exceeds the prescribed period of 30 days.  Through discussions with management it was discussed that client departments pay debts within 30 – 60 days.  Some of the balances included under claims recoverable are expenditure relating to prior years. Management has indicated that there have been discussions between client departments and National Treasury. The client departments indicated that for the expenditure relating to prior years they do not have funds as the surplus (if any) had been surrendered to National Treasury.  National Treasury has indicated that if money has been surrendered from the prior year, the money may be allocated to PMTE for the debt.  The above mentioned has been discussions with National Treasury but there is no formal documentation that has been presented. |
| 10 | January 2011 | No | Money is not recovered within the prescribed period because of the lengthy verification process of the PACE reports which I undertaken by the client departments, the turnaround period exceeds the prescribed period of 30 days  Through discussions with management it was discussed that client departments pay debts within 30 – 60 days.  Some of the balances included under claims recoverable are expenditure relating to prior years. Management has indicated that there have been discussions between client departments and National Treasury. The client departments indicated that for the expenditure relating to prior years they do not have funds as the surplus (if any) had been surrendered to National Treasury.  National Treasury has indicated that if money has been surrendered from the prior year, the money may be allocated to PMTE for the debt.  The above mentioned has been discussions with National Treasury but there is no formal documentation that has been presented. |

1. **The PMTE also uses the disallowance miscellaneous suspense account.**

This account is used at Head office to record defaulted contractors as debtors. When a contractor defaults and a new contractor has to be appointed to complete a project, all expenditure incurred to complete the project is recorded in the disallowance miscellaneous account. Once the project is completed the expenditure incurred will be recovered from the contractor who defaulted. The disallowance suspense account was not cleared for the period April 2010 to January 2011.

The entity uses the suspense accounts as there debtor accounts due to a lack of an accounting system geared for accrual accounting. Management also indicated that they only claim back the money from defaulting contractors once the whole project is complete. This resulted in non-compliance to laws and regulations and long outstanding debtor not being recoverable.

## Internal control deficiency

*Financial and performance management*

Systems are not appropriate to facilitate the preparation of the financial statements and performance reports.

## Recommendation

* Expenditure incurred due to defaulting contractors should be recovered at least on a monthly basis from the defaulting contractor.
* Reconciliations should be performed on suspense accounts and this should be cleared on a monthly basis or reasons for not being able to clear and actions taken to clear these accounts should be properly documented and followed up.
* Management should approach National Treasury to assist in setting up a set of accounts in SCOA specific to the needs of the trading account. This has been done for other trading accounts using BAS as their accounting system. We suggest that the BAS trial balances converted to “SA GAAP” for the purpose of preparation of the financial statements be used for this purpose and definitions added to explain the content and utilization of the specific accounts. This should be done as soon as possible and seeing that this does not impact on other departments and might be done within the financial year.

## Management response

I am in agreement with some of the findings (adequate financial systems) for the following reasons:

* The entity lacks a proper billing and accounting system to account for SA GAAP transactions. On advice of the AG, we will approach National Treasury about setting up BAS specifically for the Trading Entity. Numerous discussions were held with National Treasury on the subject of a new system and the shortcomings of BAS, but they never indicated that SCOA could be set up to fulfill this role
* I am not in agreement with the finding on the disallowance account. When a contractor defaults, legal proceedings are set in motion (in Head office and the Regions respectively – this is not a centralized function) to recover the funding. It cannot go to court for judgment before the final cost is known at the end of the project. Everything is submitted to the State Attorney for a decision if legal action should be taken as it can cost the entity more than the amount to be recovered.
* The long outstanding amounts are mostly due to a lack of evidence on what the client owes as a result of improper processes followed and gaps in records in previous years. Now that the reconstruction was done on all of these accounts; we are in a better position to negotiate with the Client. If outstanding money cannot be recovered during this year based on the reconstructed accounts, Treasury will be approached formally for intervention.

*Name:* J Prinsloo

*Position: CD:TA*

*Date: 14 July 2011*

## Auditor’s conclusion

Management comment has been noted however at year end the suspense accounts were not cleared. Finding is still valid and will be reported as non compliance to Treasury Regulation 17.1.2.

# Memorandums of Understanding not provided

## Audit finding

In terms of section 41 of the Public Finance Management Act, 1999 (Act no.1 of 1999): *“An accounting officer for a department must submit to the relevant treasury or the Auditor General such information, returns, documents, explanations and motivations as may be prescribed or as the relevant treasury or the Auditor General may require.”*

The Memorandums of Understanding for the following client departments were requested and has not been provided for audit purposes.

|  |  |
| --- | --- |
| **NO.** | **CLIENT DEPARTMENTS** |
| 1 | Public Works |
| 2 | Communications |
| 3 | Independents Complaints Directorate |
| 4 | Rural Development and Land Reform |
| 5 | National Prosecuting Authority |
| 6 | Public Service and Administration |
| 7 | Home Affairs |
| 8 | Parliament |
| 9 | Transport |

.The entity has changed the Memorandums of understandings to Service level Agreements.

The table hereunder provides a listed of Service Level Agreement signed during the reporting period. The Memorandums of Understandings for the months as indicated within the reporting period were not provided.

|  |  |  |  |
| --- | --- | --- | --- |
| **NO** | **TRANSACTION DESCRIPTION** | **DATE SERVICE LEVEL AGREEMENT SIGNED** | **PERIOD FOR WHICH THERE ARE NO MOU's** |
| 1 | Higher Education and Training | 5/08/2010 | 1/04/2010 to 4/08/2010 |
| 2 | Palama | 1/06/2010 | 1/04/2010 to 31/05/2010 |

## Management response

In response to the audit finding 1(a) above the following signed MOU are attached:

* Communications
* Independent Complaints directorate
* Home Affairs
* Public Service and Administration
* Rural Development- the MOU was signed with the then Department of Land Affairs

The department was unsuccessful in signing MOU with the following clients

* Public Works
* NPA
* Parliament
* Transport

**In response to the audit finding 1(b)**

* The MOU for Palama was signed 15 December 2010. There is no MOU for the period 01/04/2010 to 31/05/2010.
* Please note that there is no signed MOU for the department of Higher Education and Training for the period 01/04/2010 to 04/08/2010.

## Auditor’s conclusion

* 1a) Management comments are noted however the information was not submitted within the required time frame and will be reported under administrative matters
* 1b) Management indicated there is no MOU for the period this will be reported as an administrative matter.

# Projects not registered with the Construction Industry Development Board

#### Port Elizabeth

## Audit finding

Section 22(3) of the Construction Industry Development Board (CIDB) Act: *All construction contracts above the prescribed tender value must be recorded in the register.*

*Regulation 18 of the CIDB Regulations:* (1A) Despite the values determined in Government Notice No. 692 of 9 June 2004, every project consisting of a single construction works contract (a) for the public sector of which the value exceeds R200 000; or (b) for the private sector and a public entity listed in Schedule 2 of the Public Finance Management Act, 1 of 1999, of which the value exceeds R10 million, must be registered in accordance with this Part. (1) An employer must, within 21 working days from the date on which a contractor’s offer to perform a construction works contract is accepted in writing by the employer, apply on the approved form to the CIDB for the registration of every project, consisting of a single construction works contract, of which the contract value exceeds a value determined by the Minister by notice in the *Gazette.*(2) The CIDB must, within 30 working days from receipt of the duly completed application in terms of sub regulation (1), register the project concerned and supply the employer with a receipt of registration.

No evidence could be identified to indicate the registration on any of the capital works projects or planned maintenance projects which exceeded R200 000 in value. Examples of the projects tested are as follows:

* WCS 047242 - 19/2/4/2/2/6433/25
* WCS 037356 - 19/2/4/2/2/6422/70
* WCS 039779 - 6428/6490/4/4EK1
* WCS 042960 - 6414/5010/3/4K2

Discussions with management at audit steering committee meetings indicated that the above non-compliance relates to all capital works and planned maintenance projects.

The cause of the finding is due to officials not having access to the CIDB website as registration has not yet been affected by Head office, despite repeated requests to do so.

The impact of the finding results in all Capital Works and Planned Maintenance contracts exceeding R200 000 in values being non-compliant with the above legislation.

## Internal control deficiency

*Leadership*

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

## Recommendation

Senior management of the region should make further requests with senior management at Head Office to ensure that registration of officials takes place and that officials then commence with registration of contracts.

## Management response

AUDIT FINDING

Management agrees with the audit finding.

RECOMMENDATION

Management agrees with the auditors' recommendation and will still continue to endeavour to ensure that registration is done before the end of July 2011.

RESPONSIBLE PERSON

The person who will ensure that the above recommendation is put in place is:

*Molatelo Mohwasa and Chief Director: SCM*

*DATE OF EFFECT*

*31 July 2011.*

## Auditor’s conclusion

Management agrees with the finding and therefore this finding is valid and will form part of the management letter.

# Incorrect classification of expenditure used for rent of land

#### Port Elizabeth

## Audit finding

*Paragraph 36 of GRAP 1: Each material class of similar items shall be presented separately in the financial statements. Items of dissimilar nature or function shall be presented separately unless they are immaterial.* An expense item identified by "FUNCAREANO" 000265578 for R33 220.86 has been recorded as "Rent on land"; however, testing on this expense has revealed that it relates to an electricity reconnection fee and therefore, should have been recorded as "Rates and taxes". As such, the expenditure item is classified incorrectly.

The error was caused by an incorrect understanding of the classification of the expense.

The financial statement expenditure categories are misstated; however expenditure as a whole is not effected.

## Internal control deficiency

*Leadership*

Pertinent information is not identified and captured in a form and time frame to support financial and performance reporting.

## Recommendation

Management should take steps to ensure that accounting staff are fully trained and up to date on all accounting matters. A journal should be passed to correct the error and further instances of this type of expenditure should be processed to the correct accounts.

## Management response

Management agrees with the finding. Management further agrees with the auditors on the recommendation suggested.

Action plan:

It must be noted that there are two types of connections. The first one is to provide a first time service for electricity as there was no infrastructure. This type of connection is reflected in the communication note as electricity needed to be supplied to the site of a newly constructed communication tower. This would normally be included in the capital infrastructure expenditure.

The second type is when the service is available but a separate meter is required for services rendered to our client. Additional connection fee is thus payable.

For the first type of connection, this office has already approached our head office to provide guidance in this matter as it is related to a leased property.

The specific one related to the query will be posted on the suspense accounts and claimed from the Landlord.

The person responsible for ensuring that this action plan in put to practice is:

*Ms. S Minne (Deputy Director: Acquisition and Leasing)*

*Date of effect: 06 June 2011*

## Auditor’s conclusion

Management‘s comment is in agreement with the finding. Management's response and action planned are acknowledged and we will follow up in the subsequent years in order to confirm the achievement of the actions plans as indicated.

# Non-compliance with Construction Industry Development Board requirement

**Kwazulu Natal**

## Audit finding

In terms of Construction Industry Development Board (CIDB) Regulations 18(1) *An employer must, within 21 working days from the date on which a contractor’s offer to perform a construction works contract is accepted in writing by the employer, apply on the approved form to the Board for the registration of every project, consisting of a single construction works contract, of which the contract value exceeds a value determined by the Minister by notice in the Gazette.*  We noted that the following projects are not registered in the register of construction contracts with the Construction Industry Development Board:

|  |  |  |  |
| --- | --- | --- | --- |
| **No.** | **Name of project** | **WCS no.** | **Contract amount (R)** |
| 1 | DCS - SERVONTEIN INSTALLATION OF FACILITIES FOR PEOPLE WITH DISABILITIES | 047089 | 586,487.82 |
| 2 | DURBAN PRESTIGE PROJECT A: SECURITY MEASURES, EMERGENCY WORK: NOMINATED PROCEDURE | 047455 | 19,174,478.52 |
| 3 | DOJ: INGWAVUMA MAGISTRATES COURT: REPAIR AND MAINTENANCE PROJECT | 042513 | 4,639,609.00 |
| 4 | INKOSI ALBERT LUTHULI MUSEUM: SUPPLY, DELIVERY AND INSTALLATION OF ONE 100KVA EMERGENCY GENERATOR SET | 047863 | 500,766.79 |
| 5 | GOLELA BORDER POST; HOUSING COMPONENT; CONSTRUCTION OF RESIDENTIAL ACCOMODATION | 047697 | 141,835,580.00 |
| 6 | DURBAN NORTH SAPS: CONTRACT NO.2 UPGRADING OF CELLS | 035870 | 18,876,000.00 |
| 7 | NAPIERVILLE PRISON & QUARTERS | 039211 | 27,475,822.76 |
|  | TOTAL |  | R213,088,744.89 |

## Internal control deficiency

**Financial and performance management**

*Leadership*

Lack of review and monitoring of compliance with Construction Industry Development Board Regulations.

## Recommendation

The procurement manager must review details of registration of construction projects to ensure that every project is registered with Construction Industry Development Board in terms of CIDB regulations.

## Management response

* There is agreement with the audit finding. Due to an oversight, the regulation was not complied with.
* Action Plan: We have started to register officials on CIDB to continue with the registering of the current financial year’s construction projects awarded. All construction projects awarded from 01 April 2010 will be registered on CIDB as per CIDB Regulation 18(1). This project should be completed by 30th November 2011.
* Responsibility: Deputy Director: SCM
* Implementation Date: Immediate and ongoing

## Auditor’s conclusion

Management response noted. To be reported as a non compliance in the audit report.

# Lease agreements not signed by the lessor

**Kwazulu Natal**

## Audit finding

Review of lease renewals revealed that for some lease agreements were not signed by the lessors.

|  |  |  |  |
| --- | --- | --- | --- |
| **Renewal date** | **Property description** | **File number** | **Rental amount** |
| 01/07/2010 | MAZWANE MPCC | H6312/0239 | 1 624,36 |
| 01/07/2010 | NTABAMHLOPHE MPCC | H6208/0348 | 2 144,19 |
| 01/10/2010 | BHAMSHELA MPCC | H6325/0055 | 1 388,84 |
| 01/11/2010 | PRICE CITY, UMGENI RD, DBN | H6301/4318 | 313 844.05 |
| 01/11/2009 | ESHOWE MALL,SHOP 21-25 | H6313/0028 | 19 220,05 |
|  |  | **TOTAL** | **R 338 221,49** |

## Internal control deficiency

*Leadership*

Senior management does not exercise adequate oversight responsibility to ensure that the lease agreements are signed by both parties.

## Recommendation

* All the lease contracts entered into during the year the management of acquisition should ensure that there is a valid lease agreements which specifically stipulates the terms of contract as were negotiated with the landlord and it should be agreed to and signed by the both parties.
* All the lease payments made to the landlord, the finance department manager should ensure that there is a signed lease agreement with the landlord and the agreement is attached to each lease payment.

## Management response

There is agreement with the audit finding. All regions were given the circular from Head Office to suspend leasing delegation which included the signing of leases in July 2010. The circular was only suspended in December 2010. The region has now forwarded leases to landlords to sign in January 2011. Follow ups will be done to ensure that all leases are signed by both parties. Reconciliation will be done to the portfolio to ensure that all leases are signed by both parties. The target date for completion of this project is 31 August 2011

* Responsibility: Head of Property Management
* Implementation date: Immediate and ongoing on all new lease agreements

## Auditor’s conclusion

Management comment noted. Remains a concern and will be considered for the audit report.

# Municipal services overpayment

**Kwazulu Natal**

## Audit finding

Treasury Regulations GNR.225 of 15 March 2005 Paragraph 8.1.1 also read with [Section 76 (4) (*b*) of the PFMA]: *The accounting officer of an institution must ensure that internal procedures and internal control measures are in place for payment approval and processing. These internal controls should provide reasonable assurance that all expenditure is necessary, appropriate, paid promptly and is adequately recorded and reported.* A supplier was paid more than the amount recorded on the invoice, resulting in the overpayment of R 174, 334.81 and no other supporting documentations was provided to support the difference.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date** | **Supplier** | **Account No.** | **Invoice amount** | **Amount Paid** | **Overpayment** |
| 23 Aug. 2010 | Uthukela water | 1652 | 98348.99 | 272683.8 | 174334.81 |

## Internal control deficiency

*Financial and performance management*

Lack of implementation of controls over daily and monthly processing and reconciliation of transactions for the client departments.

## Recommendation

Management must implement creditors’ reconciliation to reconcile payment made and the creditors’ statement and these must be reviewed by the finance department before payment.

## Management response

There is agreement with the finding that an over payment of R174 334,81 was made to uThukela Water. The overpayment occurred due an oversight. [Attached is proof that uThukela Water did receive the overpaid amount and has subsequently credited the account.] The credit was used to offset the following months’ (August & September 2010) service charges on the same account. Action Plan: Supervisors have been instructed to ensure proper checks and reconciliations per account are done to avoid overpayments. Spot checks will be performed by the manager to ensure compliance.  Checklists will be amended by 01 June 2011 to include supervisors/manager’s signatures as verification of the additional compliance.

*Name:   Marc Van Dyk*

*Position:  Acting Director: Property Management*

*Date: 19 May 2011*

## Auditor’s conclusion

Management response noted. To be included in the Summary of Unadjusted Errors.

# Amount paid for municipal services not agree to amount recorded on BAS

#### Kwazulu Natal

## Audit finding

Treasury Regulations 8.1.1, *the accounting officer of an institution must ensure that internal procedures and internal control measures are in place for payment approval and processing. These internal controls should provide reasonable assurance that all expenditure is necessary, appropriate, paid promptly and is adequately recorded and reported.*

During our audit of Municipal services i.e. the expenditure paid for the department of correctional services, we have noted that some of the amounts paid do not agree to the amounts recorded on the financial reporting system (BAS) and as a result the difference of 79,089.21 was identified. The identified discrepancies are with the following batch numbers:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date** | **Supplier** | **Batch number** | **Amount paid (R)** | **Amount recorded (R)** | **Difference (R)** |
| 06/05/2010 | ILEMBE MUNICIPALITY | 83 | 32,912.84 | 28,300.34 | 4,612.50 |
| 27/05/2010 | LADYSMITH MUNICIPALITY | 161 | 42,318.49 | 45,410.31 | -3,091.82 |
| 19/05/2010 | OKHAHLAMBA MUNICIPALITY | 160 | 517.97 | 388.45 | 129.49 |
| 25/05/2010 | ESKOM | 191 | 104,158.98 | 95,537.81 | 8,621.17 |
| 16/08/2010 | OKHAHLAMBA MUNICIPALITY | 605 | 559.42 | 419.55 | 139.87 |
| 19/08/2010 | EMNAMBITHI MUNICIPALITY | 619 | 78223.93 | 9445.93 | 68,778.00 |
|  | **TOTAL** |  | **180,007.42** | **259,096.63** | **79,089.21** |

This may result in under/over recovery of expenditure from the client department

## Internal control deficiency

**Financial and performance management**

Lack of implementation of controls over daily and monthly processing and reconciliation of transactions for the client departments.

## Recommendation

Management must implement a proper monitoring and review system to ensure that correct financial processing and reporting is achieved.

## Management response

There is agreement with the audit finding. The amounts paid, as per invoices, to the Municipalities were for the correct accounts. However, some accounts were linked to the incorrect Client Departments on the manual schedule [schedule is a consolidation of accounts to be paid to a municipality per month]. There was no over/ under recovery of expenditure from the Client Department. The updated information per Client Department and property on PMIS & BAS is correct.

**Action Plan**: Staff has been instructed to ensure that the schedules have the correct details as per Client occupation of property in terms of invoices processed for payment. Supervisors will perform spot checks [recorded on checklist] to ensure compliance and avoidance of similar query in the future.

**Responsibility:** Director Property Management

**Implementation Date**: Immediate and ongoing

*Name              : Marc van Dyk*

*Position          : Deputy Director: Property Payments*

*Date                : 27 May 2011*

## Auditor’s conclusion

Management response noted. This will be considered as an unadjusted error.

# Understatement of accruals for municipal services

#### Kwazulu Natal

## Audit finding

Section 40(1)(a) of PFMA: *The accounting officer for a department, trading entity or constitutional institution must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards.*

We noted payments made for municipal services after 31 March 2011 year end includes the expenditure which has not been paid at year end, and was omitted from the accruals that were raised at year end.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **No** | **Date paid** | **Supplier** | **Batch number** | **Amount** |
| 1 | 19/04/2011 | Pec Materrins CC | 0099\*1726\*040184 | 6,302.44 |
| 2 | 19/04/2011 | Wasteman KZN | 0099\*1727\*040185 | 2,224.08 |
| 3 | 19/04/2011 | NNT Properties CC | 0099\*1730\*040188 | 365.39 |
| 4 | 19/04/2011 | Nonduyise Holdings CC | 0099\*1733\*040191 | 255.38 |
| 5 | 19/04/2011 | Armtray Properties Pty Ltd | 0099\*1736\*040194 | 2,557.76 |
| 6 | 19/04/2011 | Crammond Place CC | 0099\*1738\*040196 | 2,183.52 |
| 7 | 26/04/2011 | Umlalazi Municipality | 0099\*1773\*040230 | 147,258.79 |
| 8 | 21/04/2011 | Uphongolo Municipality | 0099\*1802\*040258 | 49,392.55 |
| 9 | 19/04/2011 | Lakedale Investments | 0099\*1770\*040227 | 7,125.14 |
| 10 | 19/04/2011 | Lakedale Investments | 0099\*1769\*040226 | 7,526.82 |
| 11 | 21/04/2011 | Wasteman KZN | 0099\*1767\*040224 | 414.72 |
| 12 | 20/04/2011 | Phokeng Investments | 0099\*1786\*040241 | 4,407.11 |
|  |  | Total |  | 230,013.70 |

Management did not account for all the expenditure that was incurred during the year to ensure that the financial statements are complete.

## Internal control deficiency

*Financial Management and Performance*

Inadequate implementation of proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

## Recommendation

Management should 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.

## Management response

We are not in agreement with the audit finding in that the said invoices for the respective batches were only received and stamped by the Department from 06th April 2011 to 20th April 2011. Copies of invoices with Department stamp showing date of receipting is enclosed for the respective batches.

**Responsibility:** Director Property Management

*Name: Ms M Ramollo*

*Position: Director Property Management*

## Auditor’s conclusion

Management response noted. Documents supplied will be audited.

# Contracts awarded to prohibited suppliers

#### North West

## Audit finding

*Treasury Regulations TR16A9.1(c): The accounting officer or accounting authority must check the National Treasury’s database prior to awarding any contract to ensure that no recommended bidder, nor any of its directors, are listed as companies or persons prohibited from doing business with the public sector.* We noted that the accounting officer failed to check the National Treasury`s database prior to awarding any contract to ensure that no recommended bidder are listed prohibited from doing business with the public sector. (Error rate - 100%)

|  |  |  |
| --- | --- | --- |
| **SUPPLIER NAME** | **TENDER REFERENCE** | **VALUE** |
| TLOTLO HOLDINGS CC | MMA/1009/2561 | R 15,128 |
| NGAATENDWE TRADING CC | MMA/0210/2912 | R 16,826 |
| NGAATENDWE TRADING CC | MMA/0210/2945 | R 13,053 |
| NGAATENDWE TRADING CC | MMA/00110/2784 | R 381,193 |
| NGAATENDWE TRADING CC | MMA/0509/2034 | R 322,620 |
| TLOTLO HOLDINGS CC | MMB08/0041 | R 2,227,000 |

Potential impact of the finding rose above is non compliance with the Treasury Regulations and possible irregular expenditure.

## Internal control deficiency

*Leadership*

* The accounting authority does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.
* Personnel are not aware of the allocation of duties, responsibilities and lines of reporting.

## Recommendation

The accounting authority should ensure that the National Treasury's database is checked prior to awarding any contract to a recommended bidder.

## Management response

I am in agreement with the finding for the following: The documents that are checked on National Treasury are the tenders that are above R500 000.00.

*Name:* Mr. A.T. Matseke

*Position: DD Finance & SCM*

*Date: 17/06/2011*

## Auditor’s response

Managements agreement with the finding is noted, the finding remains valid.

# Suppliers documentation not being made available

#### North West

## Audit finding

*Section 38(1)(a) of the PFMA requires that the accounting officer of a department must ensure that the department has and maintains effective, efficient and transparent systems of financial and risk management and internal control.* We could not obtain payment documentation for the following suppliers: (Error rate 29%)

|  |  |  |  |
| --- | --- | --- | --- |
| **DATE** | **DESCRIPTION** | **CLIENT** | **AMOUNT** |
| 2010/08/19 | CONTRACTOR PAYMENT | R 53,638 | MULTI-NET SYSTEMS CC |
| 2010/09/14 | CONTRACTOR PAYMENT | R 53,638 | MULTI-NET SYSTEMS CC |
| 2010/05/06 | CONTRACTOR PAYMENT | R 789,258 | MKWANAZI CONSTRUCTION (PTY) Ltd |
| 2010/07/21 | CONSULTANT PAYMENT | R 270,671 | PHUMULELA AFRICA PROFESSIONAL EN |
| 2010/04/28 | CONSULTANT PAYMENT | R 43,990 | UWP CONSULTING (PTY) LTD |
| 2010/06/24 | CONTRACTOR PAYMENT | R 136,999 | BONOLO SUPPLY DISTRIBUTORS & ENT |

Potential impact of the finding rose above:

1. Statement of financial performance
2. Possible irregular expenditure
3. Possible limitation of scope
4. Non-compliance to the Public Finance Management Act no. 1 of 1999 Section 38 and the Supply Chain Management Policy of the Department.

The aforementioned deviation is due to supply chain management policies not being adhered to and a lack of proper record keeping being performed by the Department.

The impact of this lack of systems is that we have been unable to obtain sufficient appropriate audit evidence on which to base our audit opinion on these disclosures.

## Internal control deficiency

*Financial and Performance Reporting*

* Proper record keeping and record management
* The documents supporting the above are not properly filed or easily retrievable.
* Requested information was not available and supplied without any significant delay.

## Recommendation

The Department should ensure that all supporting documentation be properly kept and safeguarded and be made available for audit purposes. Management should perform regular monitoring over the safekeeping of accounting records.

## Management response

I am not in agreement with the finding for the following reasons and supply the following/attached information in support of this: Payments belong to different regional offices, see column named Response below.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **DATE** | **DESCRIPTION** | **CLIENT** | **AMOUNT** | **RESPONSE** |
| 2010/05/06 | CONTRACTOR PAYMENT | R 789,258 | MKWANAZI CONSTRUCTION (PTY) Ltd | Payment documents are with Polokwane Region. See attach WCS printout |
| 2010/07/21 | CONSULTANT PAYMENT | R 270,671 | PHUMULELA AFRICA PROFESSIONAL EN | Payment documents are with Polokwane Region. See attach WCS printout |
| 2010/04/28 | CONSULTANT PAYMENT | R 43,990 | UWP CONSULTING (PTY) LTD | Payment documents are with Pretoria Region. See attach WCS printout |
| 2010/06/24 | CONTRACTOR PAYMENT | R 136,999 | BONOLO SUPPLY DISTRIBUTORS & ENT | No payment of this amount for this project is reflected on the WCS screen of #WG09PE |

I am not agreement with the finding for the following reasons [and supply the following/attached information in support of this]: Documentation was not attached. Please find requested supporting payment documentation

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **DATE** | **DESCRIPTION** | **CLIENT** | **AMOUNT** | **MANAGEMENT RESPONSE** |
| 2010/08/19 | CONTRACTOR PAYMENT | R 53, 638 | MULTI-NET SYSTEMS CC | Supporting documentation was submitted to AG on 11/05/2011 and returned on 03/06/2011. Attached please find resubmission of the documents. |
| 2010/09/14 | CONTRACTOR PAYMENT | R 53, 638 | MULTI-NET SYSTEMS CC | Supporting documentation was submitted to AG on 11/05/2011 and returned on 03/06/2011. Attached please find resubmission of the documents. |

*Name:* *Mr. A. T. Matseke*

*Position: DD: Finance & SCM*

*Date: 12 June 2011*

## Auditors’ response

The finding remains valid as the validity of the payments could not be verified. The re-submitted documents were satisfactorily inspected; the finding is no longer valid for the Multi-Net payments.

# Non compliance with CIDB Regulations

#### North West

## Audit finding

In terms of the Construction Industry Development Regulation 17:  *“A contractor registered in a contractor grading designation indicated in column 1 of the table 8 below , is considered to be capable of undertaking a contract in the range of tender values indicated in columns 3 and 4 of that table in the class of the construction works to which the category of registration of that contractor relates.”*

In terms of the Construction Industry Development Regulation 25 (7A) Inform PN 3 par. 3.3: *“CIDB regulation 25(7A) allows an employer to award a contract to a bidder who tendered above the tender value associated with his grading designation provided that the margin with which the tender value is exceeded is reasonable. In terms of CIDB inform PN 3, 15% excess is considered reasonable.”*

We noted that the following tenders were awarded to bidders in excess of their CIDB ratings.

| **TENDER NO** | **RECOMMENDED BIDDER** | **CIDB RATING** | **CONTRACT AMOUNT (RAND)** | **QUALIFYING VALUE (RAND)** | **DIFFERENCE (RAND)** |
| --- | --- | --- | --- | --- | --- |
| MMB09/026 | Sunrise Electrical Wholesalers cc | 3 EB **AGB PE** | 16,460,451.32 | 2,000,000.00 | 14,460,451.32 |
| MMB09/048 | B.P Masanabo Construction | 1GB | 7,055,036.51 | 200,000.00 | 6,855,036.51 |
| MMB09/049 | Hi Tech Lifts CC (JV) Alcari 386 cc | 2SI | 5,373,655.62 | 650,000.00 | 4,723,655.62 |
| MMB2010/014 | Dikgweng construction (jv) Casper Jacobs cc | 4CE,4GB | 10,122,841.24 | 4,000,000.00 | 6,122,841.24 |
| MMB2010/018EC | Tshiamo Graphix | 1SO,1SF,1SK | 1,312,640.74 | 400,000.00 | 912,640.74 |
| MMB2010/023 | Mamdabs cc | 4GB | 4,642,000.00 | 4,000,000.00 | 642,000.00 |
| MMB2010/025 | Dot Construction | 1GB | 787,048.02 | 200,000.00 | 587,048.02 |
| MMB2010/026 | Mathabatha Building Supplies (jv) Nare Woodworks & Projects | 1GB | 7,864,483.90 | 200,000.00 | 7,664,483.90 |
| MMB2010/031 | B.P Masanabo Construction | 1GB | 5,670,202.62 | 200,000.00 | 5,470,202.62 |
| MMB2010/035 | Preservation Trading Enterprise | 4GB,2CE,1EB | 4,178,317.82 | 4,000,000.00 | 178,317.82 |
| MMB2010/036 | Didino Distributors | 1SK,2CE,3GB | 2,952,361.85 | 2,000,000.00 | 952,361.85 |
| 6047/0281/21B | Regotshepile Civil Electrical | 1GB,1CE,1EP | 467,500.00 | 200,000.00 | 267,500.00 |
| MMB08/059 | Letlapa Borwa Civil & Mvelapanda JV | 6GB PE | 35,865,359.63 | 13,000,000.00 | 22,865,359.63 |
|  |  |  |  | TOTAL | 71,701,899.27 |

We further noted that the margin with which the tender exceeded his/her tender value range is not reasonable (more than 15%)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **TENDER NO** | **RECOMMENDED BIDDER** | **CIDB RATING** | **CONTRACT AMOUNT (RAND)** | **QUALIFYING VALUE (RAND)** | **EXCESS %** |
| - | Sunrise Electrical Wholesalers cc | 3 EB | 16,460,451.32 | 2,000,000.00 | 723% |
| MMB09/048 | B.P Masanabo Construction | 1GB | 7,055,036.51 | 200,000.00 | 3428% |
| MMB09/049 | Hi Tech Lifts cc (jv) Alcari 386 cc | 2SI | 5,373,655.62 | 650,000.00 | 727% |
| MMB2010/014 | Dikgweng construction (jv) Casper Jacobs cc | 4CE,4GB | 10,122,841.24 | 4,000,000.00 | 153% |
| MMB2010/018EC | Tshiamo Graphix | 1SO,1SF,1SK | 1,312,640.74 | 400,000.00 | 228% |
| MMB2010/023 | Mamdabs cc | 4GB | 4,642,000.00 | 4,000,000.00 | 16% |
| MMB2010/025 | Dot Construction | 1GB | 787,048.02 | 200,000.00 | 294% |
| MMB2010/026 | Mathabatha Building Supplies (jv) Nare Woodworks & Projects | 1GB | 7,864,483.90 | 200,000.00 | 3832% |
| MMB2010/031 | B.P Masanabo Construction | 1GB | 5,670,202.62 | 200,000.00 | 2735% |
| MMB2010/036 | Didino Distributors | 1SK,2CE,3GB | 2,952,361.85 | 2,000,000.00 | 48% |
| 6047/0281/21B | Regotshepile Civil Electrical | 1GB,1CE,1EP | 467,500.00 | 200,000.00 | 134% |
| MMB08/059 | Letlapa Borwa Civil & Mvelapanda JV | 6GB PE | 35,865,359.63 | 13,000,000.00 | 176% |

Potential impact of the finding rose above:

1. Statement of financial performance
2. Possible irregular expenditure

The aforementioned deviation is due to controls relating to CIDB Regulations not being adhered to.

**Internal control deficiency**

*Oversight responsibility*

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

The PMTE did not have sufficient monitoring controls to ensure the proper implementation of the overall process of implementation.

## Recommendation

* The accounting authority should ensure that tenders are awarded to bidders according to their CIDB rating.
* The department should ensure that the amount for which the tender exceeded his/her tender value range should be reasonable and not exceed 15%.

## Management response

I am not in agreement with the finding for the following reasons [and supply the following/attached information in support of this]: The strategy was attached, which informs us of the approach. See attach grading letter.

| **TENDER NO** | **RECOMMENDED BIDDER** | **CIDB RATING** | **MANAGEMENT RESPONSE** |
| --- | --- | --- | --- |
| MMB09/026 | Sunrise Electrical Wholesalers cc | 3 EB | I am not in agreement with the finding. According to PA01 (Strategy) the requirement was 7GB or 6GBPE. The contractor is on rating 8GBPE |
| MMB09/048 | B.P Masanabo Construction | 1GB | I am not in agreement with the finding. According to the strategy the requirement was 6GB or 5 GBPE. The contractor is on rating 7GB PE |
| MMB09/049 | Hi Tech Lifts cc (jv) Alcari 386 cc | 2SI | I am not in agreement with the finding. According to the strategy the requirement was 6GB or 5 GBPE. The contractor is on rating 6GB |
| MMB2010/014 | Dikgweng construction (jv) Casper Jacobs cc | 4CE,4GB | I am not in agreement with the finding. According to the strategy the requirement was 6GB or 5GBPE. The contractor is on rating 7GB |
| MMB2010/018EC | Tshiamo Graphix | 1SO,1SF,1SK | I am not in agreement with the finding. According to the strategy the requirement was 3EP or 3SF and 2EPPE or 2SF PE. The contractor is on rating 2EPPE |
| MMB2010/023 | Mamdabs cc | 4GB | I am not in agreement with the finding. According to the strategy the requirement was 5GB or 4 GBPE. The contractor is on rating 4 GBPE |
| MMB2010/025 | Dot Construction | 1GB | I am not in agreement with the finding. According to the strategy the requirement was 3GB or 2GBPE. The contractor is on rating 2GBPE |
| MMB2010/026 | Mathabatha Building Supplies (jv) Nare Woodworks & Projects | 1GB | I am not in agreement with the finding. According to the strategy the requirement was 6GB or 5GBPE. The contractor is on rating 6GBPE |
| MMB2010/031 | B.P Masanabo Construction | 1GB | I am not in agreement with the finding. According to the strategy the requirement was 6GB or 5 GBPE. The contractor is on rating 7GBPE. |
| MMB2010/035 | Preservation Trading Enterprise | 4GB,2CE,1EB | I am not in agreement with the finding. According to the strategy the requirement was 5GB or 4 GBPE. The contractor is on rating 4GB PE |
| MMB2010/036 | Didino Distributors | 1SK,2CE,3GB | I am not in agreement with the finding. According to the strategy the requirement was 4GB or 3GBPE. The contractor is on rating 3GB PE |
| 6047/0281/21B | Regotshepile Civil Electrical | 1GB,1CE,1EP | I am not in agreement with the finding. According to the strategy the requirement was 1EB or 1 ME. The contractor is on rating 1EPPE |
| MMB08/059 | Letlapa Borwa Civil & Mvelapanda JV | 6GB PE | I am not in agreement with the finding. According to the strategy the requirement was GB or 4 GBPE. The contractor is on rating 4GB PE |

We further noted that the margin with which the tender exceeded his/her tender value range is not reasonable (more than 15%)

| **TENDER NO** | **RECOMMENDED BIDDER** | **CIDB RATING** | **EXCESS %** | **MANAGEMENT RESPONSE** |
| --- | --- | --- | --- | --- |
| MMB09/026 | Sunrise Electrical Wholesalers cc | 3 EB | 723% | I am not in agreement in terms of the pretender estimate the qualifying amount is R18 654390.00 and not R2 000 000.00 |
| MMB09/048 | B.P Masanabo Construction | 1GB | 3428% | I am not in agreement in terms of the pretender estimate the qualifying amount is R7 722 275.61 and not R2 000 000.00 |
| MMB09/049 | Hi Tech Lifts cc (jv) Alcari 386 cc | 2SI | 727% |  |
| MMB2010/014 | Dikgweng construction (jv) Casper Jacobs cc | 4CE,4GB | 153% |  |
| MMB2010/018EC | Tshiamo Graphix | 1SO,1SF,1SK | 228% | I am not in agreement in terms of the pretender estimate the qualifying amount is R1 693 445.27 and not R400 000.00 |
| MMB2010/023 | Mamdabs cc | 4GB | 16% | I am not in agreement in terms of the pretender estimate the qualifying amount is R5 391 230.29 and not R4 000 000.00 |
| MMB2010/025 | Dot Construction | 1GB | 294% | I am not in agreement in terms of the pretender estimate the qualifying amount is R1 100 460.24 and not R200 000.00 |
| MMB2010/026 | Mathabatha Building Supplies (jv) Nare Woodworks & Projects | 1GB | 3832% | I am not in agreement in terms of the pretender estimate the qualifying amount is R9 693 344.14 and not R200 000.00 |
| MMB2010/031 | B.P Masanabo Construction | 1GB | 2735% | I am not in agreement in terms of the pretender estimate the qualifying amount is R7 066 711.80 and not R200 000.00 |
| MMB2010/036 | Didino Distributors | 1SK,2CE,3GB | 48% | I am not in agreement in terms of the pretender estimate the qualifying amount is R2 306 293.70 and not R2 000 000.00 |
| 6047/0281/21B | Regotshepile Civil Electrical | 1GB,1CE,1EP | 134% | I am not in agreement in terms of the pretender estimate the qualifying amount is R329 460.00 and not R200 000.00 |
| MMB08/059 | Letlapa Borwa Civil & Mvelapanda JV | 6GB PE | 176% | I am not in agreement in terms of the pretender estimate the qualifying amount is R37 914 895.00 and not R13 000 000.00 |

*Name:* *Mr. A. Matseke*

*Position: DD: Finance & SCM*

*Date: 12 June 2011*

## Auditor’s conclusion

Auditor’s response for a) and b) below:

| **TENDER NO** | **RECOMMENDED BIDDER** | **MANAGEMENT RESPONSE** | **AUDITOR’S RESPONSE** |
| --- | --- | --- | --- |
| MMB09/026 | Sunrise Electrical Wholesalers cc | I am not in agreement with the finding. According to PA01 (Strategy) the requirement was 7GB or 6GBPE. The contractor is on rating 8GBPE | On subsequent inspection of the CIDB ratings on the CIDB website we concur with the response from management. |
| MMB09/048 | B.P Masanabo Construction | I am not in agreement with the finding. According to the strategy the requirement was 6GB or 5 GBPE. The contractor is on rating 7GB PE | We have inspected the CIDB website and could not substantiate management’s claim, therefore the finding is valid. |
| MMB09/049 | Hi Tech Lifts cc (jv) Alcari 386 cc | I am not in agreement with the finding. According to the strategy the requirement was 6GB or 5 GBPE. The contractor is on rating 6GB | We have inspected the CIDB website and could not substantiate management’s claim ,therefore the finding is valid |
| MMB2010/014 | Dikgweng construction (jv) Casper Jacobs cc | I am not in agreement with the finding. According to the strategy the requirement was 6GB or 5GBPE. The contractor is on rating 7GB | We have inspected the CIDB website and could not substantiate management’s claim ,therefore the finding is valid |
| MMB2010/018EC | Tshiamo Graphix | I am not in agreement with the finding. According to the strategy the requirement was 3EP or 3SF and 2EPPE or 2SF PE. The contractor is on rating 2EPPE | We have confirmed that the contractor is now graded as 2EPPE ,however the qualifying value for a grading of 2 EPPE as per the CIDB regulations is R 650 000 .Therefore the contractor has exceeded the CIDB rating value by R662K,hence the finding is still valid. |
| MMB2010/023 | Mamdabs cc | I am not in agreement with the finding. According to the strategy the requirement was 5GB or 4 GBPE. The contractor is on rating 4 GBPE | We have confirmed that the contractor is now graded as 4GBPE; however the qualifying value for a grading of 4GBPE as per the CIDB regulations is R 4 M. Therefore the contractor has exceeded the CIDB rating value by R642K; hence the finding is still valid. |
| MMB2010/025 | Dot Construction | I am not in agreement with the finding. According to the strategy the requirement was 3GB or 2GBPE. The contractor is on rating 2GBPE | We have inspected the CIDB website and could not substantiate management’s claim ,therefore the finding is valid |
| MMB2010/026 | Mathabatha Building Supplies (jv) Nare Woodworks & Projects | I am not in agreement with the finding. According to the strategy the requirement was 6GB or 5GBPE. The contractor is on rating 6GBPE | On subsequent inspection of the CIDB ratings on the CIDB website we concur with the response from management |
| MMB2010/031 | B.P Masanabo Construction | I am not in agreement with the finding. According to the strategy the requirement was 6GB or 5 GBPE. The contractor is on rating 7GBPE. | We have inspected the CIDB website and could not substantiate management’s claim ,therefore the finding is valid |
| MMB2010/035 | Preservation Trading Enterprise | I am not in agreement with the finding. According to the strategy the requirement was 5GB or 4 GBPE. The contractor is on rating 4GB PE | On subsequent inspection of the CIDB ratings on the CIDB website we concur with the response from management |
| MMB2010/036 | Didino Distributors | I am not in agreement with the finding. According to the strategy the requirement was 4GB or 3GBPE. The contractor is on rating 3GB PE | We have confirmed that the contractor is graded as 3GBPE; however the qualifying value for a grading of 3GBPE as per the CIDB regulations is R 2 M. Therefore the contractor has exceeded the CIDB rating value by R952 K, hence the finding is still valid |
| 6047/0281/21B | Regotshepile Civil Electrical | I am not in agreement with the finding. According to the strategy the requirement was 1EB or 1 ME. The contractor is on rating 1EPPE | We have confirmed that the contractor is graded as 1EPPE; however the qualifying value for a grading of 1GBPE as per the CIDB regulations is R 200k. Therefore the contractor has exceeded the CIDB rating value by R267 K, hence the finding is still valid |
| MMB08/059 | Letlapa Borwa Civil & Mvelapanda JV | I am not in agreement with the finding. According to the strategy the requirement was GB or 4 GBPE. The contractor is on rating 4GB PE | We have confirmed that the contractor is now graded as 6GBPE, however the qualifying value for a grading of 6GBPE as per the CIDB regulations is R 13M Therefore the contractor has exceeded the CIDB rating value by R22.8M, hence the finding is still valid. |

# Evaluation and adjudication criteria not complete

#### North West

## Audit Finding

In terms of the Public Finance Management Act Section 38(1) (c): “*The accounting officer for a department, trading entity or constitutional institution must take effective and appropriate steps to:*

1. *collect all money due to the department, trading entity or constitutional institution;*
2. *prevent unauthorised, irregular and fruitless and wasteful expenditure and losses resulting from criminal conduct; and*
3. *manage available working capital efficiently and economically*

The Tender Evaluation Report to the Regional Bid Adjudication Committee (PA-21) did not include determinations of the capability and capacity of the supplier to provide the goods. The contract was awarded based solely on price. The following was noted supporting the need for an evaluation of quality:

* The contract was over a period of 3 years
* Points were only awarded for price and preference, not quality
* The winning bidder bid 27.89% (R4 037 204.10) which was below the Quantity Surveyors estimate of the cost of the project
* The second lowest responsive bidder was found to be 11.73% below the Quantity Surveyors estimate
* Included in the Tender Evaluation Report was a letter from the Quantity Surveyors stating concerns that the winning bidder might not be able to complete the work and that their rates were not balanced. They further noted that the second lowest responsive bidder was found to be market related
* (Error rate 8%)

|  |  |  |
| --- | --- | --- |
| **CLIENT** | **AMOUNT** | **REFERENCE NUMBER** |
| Kwinana General Construction | R 11,896,655.70 | WCS 039012 |

Potential impact of the finding rose above on the Statement of Comprehensive Income is:

* Possible fruitless and wasteful expenditure
* Possible irregular expenditure

The aforementioned deviation is due to supply chain management policy not being adhered to.

## Internal control deficiency

*Oversight responsibility*

* The accounting authority does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.
* The Property Management Trading Entity did not have sufficient monitoring controls to ensure the proper implementation of the overall process of implementation.

## Recommendation

The Accounting authority should ensure that the Tender Evaluation Report to the Regional Bid Adjudication Committee (PA-21) includes determinations of the capability and capacity of the supplier to provide the goods.

## Management response

* I am not in agreement. The contract was for (18) months, and not (3) years.
* I am in agreement that points were awarded for price and reference, and not quality, that is in accordance with the Procurement Strategy (PAO1). See the attached copy.
* I am in agreement. According to SCM, it is not stating which percentage the bidder should be on.
* I am in agreement. Communiqué was entered with the bidder, and he confirmed that he will complete the work. See attached letter to bidder, as per the SCM policies.

*Name:* Mr. A. T. Matseke

*Position: DD: Finance & SCM*

*Date: 12 June 2011*

## Auditor’s conclusion

The auditors agree, the contract is for 18 months but the period of the 18 months falls over 3 years. Management’s agreement with the rest of the points is noted. The finding remains valid.

# No link between PMIS and WCS

#### North West

## Audit finding

Section 38(1) (a) of the PFMA requires that*: “The accounting officer of a department must ensure that the department has and maintains effective, efficient and transparent systems of financial and risk management and internal control.”*

Section 40(1)(a) of the Public Finance Management Act states that: *“ the accounting officer for a trading entity must keep full and proper records of the financial affairs of the trading entity in accordance with any prescribed norms and standards,”*

Deviations noted pertaining to PMIS and WCS:

* 1. We noted for the following repairs and maintenance, the immovable assets register was not updated with any approved projects in respect of planned maintenance: Error rate 100%)

|  |  |  |  |
| --- | --- | --- | --- |
| **DATE** | **ITEM DESCRIPTION** | **CONTRACTOR** | **VALUE** |
| 2010/05/24 | CONTRACTOR PAYMENT | SINCINDI PROJECTS CC | R153 971 |
| 2010/05/26 | CONTRACTOR PAYMENT | SINCINDI PROJECTS CC | R264 523 |
| 2010/06/14 | CONTRACTOR PAYMENT | SINCINDI PROJECTS CC | R133 923 |
| 2010/06/23 | CONTRACTOR PAYMENT | SINCINDI PROJECTS CC | R175 157 |
| 2010/07/16 | CONTRACTOR PAYMENT | SINCINDI PROJECTS CC | R493 589 |
| 2010/08/11 | CONTRACTOR PAYMENT | SINCINDI PROJECTS CC | R260 576 |
| 2010/08/27 | CONTRACTOR PAYMENT | SINCINDI PROJECTS CC | R445 905 |
| 2010/08/11 | CONTRACTOR PAYMENT | SINCINDI PROJECTS CC | R276 165 |
| 2010/08/11 | CONTRACTOR PAYMENT | SINCINDI PROJECTS CC | R435 637 |
| 2010/09/01 | CONSULTANT PAYMENT | SUNRISE ELECTRICAL WHOLESALERS | R1 339 496 |

We noted that there was no link between the WCS numbers and the property codes for the projects. Consequently, no audit trail exists between construction transaction payments and the specific properties maintained. We were also unable to confirm whether the property maintained was state owned or leased. The affected transactions are: (Error rate 100%)

| **DATE** | **ITEM DESCRIPTION** | **CONTRACTOR** | **VALUE** |
| --- | --- | --- | --- |
| 2010/04/14 | CONTRACTOR PAYMENT | GOOD PURPOSE CONSTRUCTION AND PROJECTS 27 | R343 772 |
| 2010/06/10 | CONTRACTOR PAYMENT | GOOD PURPOSE CONSTRUCTION AND PROJECTS 27 | R283 545 |
| 2010/07/26 | CONSULTANT PAYMENT | RAUBENHEIMER AND PARTNERS | R147 481 |
| 2010/09/22 | CONSULTANT PAYMENT | DEN HARTOG KLEYNHANS (PTY) LTD | R147 481 |
| 2010/08/19 | CONTRACTOR PAYMENT | MULTI-NET SYSTEMS CC | R53 638 |
| 2010/09/14 | CONTRACTOR PAYMENT | MULTI-NET SYSTEMS CC | R53 638 |
| 2010/04/19 | CONTRACTOR PAYMENT | MULTI-NET SYSTEMS CC | R49 453 |
| 2010/05/20 | CONTRACTOR PAYMENT | MULTI-NET SYSTEMS CC | R49 453 |
| 2010/06/24 | CONTRACTOR PAYMENT | MULTI-NET SYSTEMS CC | R49 453 |

Potential impact of the finding raised above:

1. Disclosure notes
2. Asset categories may be misstated.
3. Possible irregular expenditure.
4. Statement of financial position
5. Possible limitation of scope.

The aforementioned deviations are due to the non integration between the Works Control System (WCS) and the Property Management Information System (PMIS)

## Internal control deficiency

*Financial and performance management*

* Quality, reliable monthly financial statements and management information
* Pertinent information is not identified and captured in a form and time frame to support financial and performance reporting.
* Sufficient appropriate audit evidence with regard to the reported performance information of the integration between the Works Control System (WCS) and the Property Management Information System (PMIS) could not be obtained, as the information system used for generating performance information was not appropriate to facilitate the preparation of accurate and complete actual performance information.

## Recommendation

* The fixed asset register should be updated with approved planned maintenance and construction projects.
* The accounting officer should ensure that all supporting documentation to be properly kept and safeguarded and be made available for audit purposes.
* Management should adhere to controls in place to ensure quality, reliable financial statements and compliance with section 40(1) of the PFMA.

## Management response

Referred to Ms. Juanita Prinsloo at Head Office (012) 337 2227

## Auditor’s conclusion

Finding remains valid as no management response received.

# Contract not signed by both parties for unplanned maintenance

#### North West

## Audit finding

*Section 40(1)(a) of the Public Finance Management Act (PFMA) states that the accounting officer for a trading entity must keep full and proper records of the financial affairs of the trading entity in accordance with any prescribed norms and standards.* No evidence that the following contracts were signed by both contracting parties: (Error rate 22%)

|  |  |  |  |
| --- | --- | --- | --- |
| **INVOICE DATE** | **CONTRACTOR NAME** | **AMOUNT** | **CLIENT DEPARTMENT** |
| 2010/05/25 | MAKHEISASA CONSTRUCTION CC | R 19,575.72 | SAPS POTCHEFSTROOMINVOICE NO LO1 |
| 2010/06/25 | MAKHEISASA CONSTRUCTION CC | R 19,575.72 | SAPS:POTCHEFSTROOM MILITEND SCIN |
| 2010/08/23 | MAKHEISASA CONSTRUCTION CC | R 19,575.72 | SAPS:POTCHEFSTROOMINVOICE NO L019 |
| 2010/07/06 | MAKHEISASA CONSTRUCTION CC | R 19,575.72 | SAPS POTCH MOUNTED SCHOOLINVOICE |
| 2010/04/28 | MAKHEISASA CONSTRUCTION CC | R 19,575.70 | POTCHESTROOM SAPSINV NO L012 |
| 2010/04/28 | MAKHEISASA CONSTRUCTION CC | R 19,575.70 | POTCHEFSTROOM SAPSINV NO L014 |

Potential impact of the findings rose above is a non-compliance with the PFMA and possible irregular expenditure. The aforementioned deviations are due to controls not being adhered to.

## Internal control deficiency

*Leadership*

* The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.
* The PMTE did not have sufficient monitoring controls to ensure the proper implementation of the overall process of implementation.

## Recommendation

The accounting officer should exercise oversight responsibility over financial and performance reporting, compliance with laws and regulations and internal control.

## Management response

As at 25 July 2011 no management response has been received.

## Auditor’s conclusion

Finding remains valid as no management response has been received.

# Invoices not paid within 30 days for unplanned maintenance

#### North West

## Audit finding

*PFMA Sec 38(1)(f) and TR8.2.3 requires that: all payments due to creditors must be settled within 30 days from receipt of an invoice. The* following payments to suppliers were not settled within the required 30 days from receipt of an invoice. (Error rate 59%)

|  |  |  |  |
| --- | --- | --- | --- |
| **INVOICE DATE** | **CONTRACTOR NAME** | **AMOUNT** | **CLIENT DEPARTMENT** |
| 2010/03/01 | KWIKSPACE MODULAR BUILDINGS LT | R 21,909.66 | LOMANYANENG SAPSINVOICE NO 13296 |
| 2010/04/01 | KWIKSPACE MODULAR BUILDINGS LT | R 21,909.66 | SAPS LOMANYANENGINV NO:JR-INV151 |
| 2010/05/01 | KWIKSPACE MODULAR BUILDINGS LT | R 21,909.66 | SAPS LOMANYANENGJR-INV14197 |
| 2010/05/25 | MAKHEISASA CONSTRUCTION CC | R 19,575.72 | SAPS POTCHEFSTROOMINVOICE NO LO1 |
| 2010/06/25 | MAKHEISASA CONSTRUCTION CC | R 19,575.72 | SAPS:POTCHEFSTROOM MILITEND SCIN |
| 2010/08/23 | MAKHEISASA CONSTRUCTION CC | R 19,575.72 | SAPS:POTCHEFSTROOMINVOICE NO L019 |
| 2010/07/06 | MAKHEISASA CONSTRUCTION CC | R 19,575.72 | SAPS POTCH MOUNTED SCHOOLINVOICE |
| 2010/04/28 | MAKHEISASA CONSTRUCTION CC | R 19,575.70 | POTCHESTROOM SAPSINV NO L012 |
| 2010/04/28 | MAKHEISASA CONSTRUCTION CC | R 19,575.70 | POTCHEFSTROOM SAPSINV NO L014 |
| June10 | TLOTLO HOLDINGS CC | R 17,100.00 | BUFFELSPOORT QUARANTINEINV NO:NW |
| September10 | TLOTLO HOLDINGS CC | R 17,100.00 | PRISON MOGWASEINVOICE NO NWPW10 |
| September10 | TLOTLO HOLDINGS CC | R 17,100.00 | SAPS JERICOINVOICE NO NWPW 10 6/ |
| September10 | TLOTLO HOLDINGS CC | R 17,100.00 | SAPS THEMBAINVOICE NO NWPW 10 5/ |
| June10 | PRETORIUS ELECTRICAL | R 15,127.80 | DCS BRITSINVOICE NO 529 |
| May10 | TLOTLO HOLDINGS CC | R 15,127.69 | SAPS POTCHEFSTROOMINV NO NWPW10 |
| 2010/06/28 | MPHONTLE CATERING SERVICES AND | R 14,014.00 | 31 JAN VILJOEN AVENUEINVOICE NO |

Potential impact of the findings rose above is non-compliance with the PFMA and Treasury Regulations. The aforementioned deviations are due to information capturing and payment authorisation not being effected timeously.

## Internal control deficiency

*Financial and performance management*

* Quality, reliable monthly financial statements and management information
* Pertinent information is not identified and captured in a form and time frame to support financial and performance reporting.

*Leadership*

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

## Recommendation

The accounting officer should ensure that payments to creditors are made within 30 days of invoice in compliance with the PFMA and Treasury Regulations.

## Management response

As at 25 July 2011 no management response has been received.

## Auditor’s conclusion

Finding remains valid as no management response has been received.

# Payments are not stamped as paid for unplanned maintenance

#### North West

## Audit finding

*Section 38(1)(a) of the PFMA requires that the accounting officer of a department must ensure that the department has and maintains effective, efficient and transparent systems of financial and risk management and internal control.* There were no evidence found that the following payments were reviewed as they were not stamped as processed and paid: (Error rate 100%)

|  |  |  |  |
| --- | --- | --- | --- |
| **INVOICE DATE** | **CONTRACTOR NAME** | **AMOUNT** | **CLIENT DEPARTMENT** |
| 2010/03/01 | KWIKSPACE MODULAR BUILDINGS LT | R 21,909.66 | LOMANYANENG SAPSINVOICE NO 13296 |
| 2010/04/01 | KWIKSPACE MODULAR BUILDINGS LT | R 21,909.66 | SAPS LOMANYANENGINV NO:JR-INV151 |
| 2010/05/01 | KWIKSPACE MODULAR BUILDINGS LT | R 21,909.66 | SAPS LOMANYANENGJR-INV14197 |
| 2010/05/25 | MAKHEISASA CONSTRUCTION CC | R 19,575.72 | SAPS POTCHEFSTROOMINVOICE NO LO1 |
| 2010/06/25 | MAKHEISASA CONSTRUCTION CC | R 19,575.72 | SAPS:POTCHEFSTROOM MILITEND SCIN |
| 2010/08/23 | MAKHEISASA CONSTRUCTION CC | R 19,575.72 | SAPS:POTCHEFSTROOMINVOICE NO L019 |
| 2010/07/06 | MAKHEISASA CONSTRUCTION CC | R 19,575.72 | SAPS POTCH MOUNTED SCHOOLINVOICE |
| 2010/04/28 | MAKHEISASA CONSTRUCTION CC | R 19,575.70 | POTCHESTROOM SAPSINV NO L012 |
| 2010/04/28 | MAKHEISASA CONSTRUCTION CC | R 19,575.70 | POTCHEFSTROOM SAPSINV NO L014 |

Potential impact of the finding rose above on the Statement of Comprehensive Income is possible irregular expenditure. The aforementioned deviations are due to standard controls not being adhered to. The likely impact of this is potential duplicate payments to contractors.

## Internal control deficiency

*Financial and Performance Reporting*

* Quality, reliable monthly financial statements and management information
* Management and staff do not fulfill their duties and responsibilities.
* Documentation is not stamped as paid to ensure that financial information is recorded and processed accurately.

## Recommendation

The accounting officer should ensure that accounting staff fulfils their responsibilities of reviewing all payments made to ensure that they are stamped as processed and paid.

## Management response

As at 25 July 2011 no management response has been received.

## Auditor’s conclusion

Finding remains valid as no management response has been received.

# Report of commitments does not agree\* to disclosure schedule

#### North West

## Audit finding

The report provided by management of commitments at year end does not agree to the schedule supporting the disclosure note.

|  |  |  |  |
| --- | --- | --- | --- |
| **SCHEDULE SUPPORTING DISCLOSURE** | | **LISTING PROVIDED OF COMMITMENTS** | |
| **PLANTNED MAINTANENCE** | **CAPITAL WORKS** | **PLANNED MAINTANENCE** | **CAPITAL WORKS** |
| 17 427 979 | 769 415 500 | 292 630 317 | 750 311 005 |

Potential impact of the finding rose above is that the Commitments disclosed may not be accurate. The aforementioned deviations are due to the fact that the listing of commitments at the regional office does not agree to the schedule supporting the Disclosure Notes to Annual Financial Statements. PMTE did not have sufficient monitoring controls to ensure the proper implementation of the overall process of reporting*.*

## Internal control deficiency

*Leadership*

* The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.
* Personnel are not aware of the allocation of duties, responsibilities and lines of reporting.

## Recommendation

The accounting officer should ensure that all disclosure notes are supported by documentation at the regional offices.

## Management response

As at 25 July 2011 no management response has been received.

## Auditor’s conclusion

Finding remains valid as no management response has been received.-

# Penalties not charged for projects not completed on time

#### Polokwane

## Audit finding

General condition of the contract (GCC) states that**:**

*“21. Delays in the supplier’s performance*

*21.1 Delivery of the goods and performance of services shall be made by the supplier in accordance with the time schedule prescribed by the purchaser in the contract.*

*21.2 If at any time during performance of the contract, the supplier or its subcontractor(s) should encounter conditions impeding timely delivery of the goods and performance of services, the supplier shall promptly notify the purchaser in writing of the fact of the delay, the likely duration and its cause(s). As soon as practicable after receipt of the supplier’s notice, the purchaser shall evaluate the situation and may at his discretion extend the supplier’s time for performance, with or without the imposition of penalties, in which case the extension shall be ratified by the parties by amendment of contract.  
22. Penalties*

*22.1 Subject to GCC Clause 25, if the supplier fails to deliver any or all of the goods or to perform the services within the period(s) specified in the contract, the purchaser shall, without prejudice to its other remedies under the contract, deduct from the contract price, as a penalty, a sum calculated on the delivered price of the delayed goods or unperformed services using the current prime interest rate calculated for each day of the delay until actual delivery or performance. The purchaser may also consider termination of the contract pursuant to GCC Clause 23.”*

Through a review of the project documentation we noted that the Regional Office did not charge penalties on projects which were not completed on time. We were also unable to determine whether the supplier had promptly notified the Regional Office in writing of the fact of the delay, the likely duration and its cause(s). The table below depicts examples of our findings:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **No** | **Name of contractor** | **Description** | **Contract amount** | **Date contract awarded** | **Date site hand over to contractor** | **Expected completion date** | **Actual completion date** | **Period lapsed after completion date** |
| 1 | Ichtus studio and NMK Construction | Dendron SAPS - construction of facilities for the disabled | R192 786.59 | 16/03/2010 | 16/03/2010 | 15/04/2010 | 07/06/2010 | 53 days |
| 2 | Mphashi Business Enterprise | Villa Nora SAPS - construction of facilities for disabled people | R367 193.00 | 17/03/2010 | 17/03/2010 | 15/04/2010 | 05/05/2010 | 20 days |
| 3 | Mphashi Business Enterprise | All days SAPS - facilities of disabled people | R185 815.44 | 10/03/2010 | 10/03/2010 | 07/04/2010 | 05/05/2010 | 28 days |
| 4 | Vuwa Development Consultancy cc | Mutale SAPS - Facilities for disabled people | R185 991.00 | 08/03/2010 | 10/032010 | 04/05/2010 | 03/08/2010 | 91 days |
| 5 | Maselotsha Building Enterprise | Gilead SAPS - Facilities for disabled people | R176 665.26 | 28/02/2010 | 02/03/2010 | 25/03/2010 | 08/06/2010 | 75 days |
| 6 | Mmatsela Biulk Water & Construction | Ritavi SAPS - Facilities for disabled people | R148 040.00 | 02/03/2010 | 04/03/2010 | 01/04/2010 | 30/04/2010 | 29 days |
| 7 | Mmatsela Bulk Water Supply | Namakgale SAPS - Facilities | R135 000.00 | 26/02/2010 | 04/03/2010 | 10/04/2010 | 30/04/2010 | 20 days |
| 8 | Mphashi Business Enterprise | Waterpoort SAPS - Facilities for disabled | R169 109.88 | 09/10/2010 | 10/03/2010 | 07/04/2010 | 05/05/2010 | 28 days |
| 9 | N M K Construction | Senwabarwana SAPS - Facilities for disabled | R266 786.00 | 16/03/2010 | 16/03/2010 | 15/01/2010 | 07/06/2010 | 143 days |
| 10 | Mmatsela Bulk Water Supply | Maake SAPS - Facilities for disabled | R273 742.04 | 11/03/2010 | 12/03/2010 | 10/04/2010 | 04/05/2010 | 24 days |
| 11 | Mmatsela Bulk Water Supply | Modjadjiskloof SAPS - Facilities for disabled | R116 790.82 | 11/03/2010 | 12/03/2010 | 10/04/2010 | 04/05/2010 | 24 days |
| 12 | Mphashi Business Enterprise | Saambourug - Facilities for disabled | R180 582.84 | 10/03/2010 | 10/03/2010 | 07/04/2010 | 05/05/2010 | 28 days |
| 13 | Mphashi Business Enterprise | Hoopdal SAPS - Facilities for disabled | R439 254.54 | 15/03/2010 | 17/03/2010 | 14/04/2010 | 19/07/2010 | 96 days |
| 14 | N M K Construction | Malamulele SAPS -Facilities for disabled | R134 900.00 | 16/03/2010 | 17/03/2010 | 15/04/2010 | 18/08/2010 | 125 days |
| 15 | Lefa Financial Holding and JV Joel Nare Setwaba South Africa Construction | Tuinplaas SAPS - repairs and maintenance | R3 963 670.56 | 03/12/2009 | 08/04/2010 | 29/05/2010 | 20/09/2010 | 114 days |
| 16 | Fanang Diatla Business Enterprise & Construction | Modimolle Magistrate - repairs and maintenance | R415 092.50 | 24/05/2010 | 12/03/2010 | 10/04/2010 | 21/05/2010 | 41 days |
| 17 | Mmatsela Bulk Water Supply | Modjadjiskool SAPS - repairs and maintenance | R166 910.54 | 11/03/2010 | 12/03/2010 | 10/04/2010 | 18/05/2010 | 38 days |
| 18 | Mmatsela Bulk Water Supply | Phalaborwa SAPS - Facilities for people with disabilities | R74 677.58 | 08/03/2010 | 15/03/2010 | 15/04/2010 | 20/09/2010 | 158 days |

**Note:** The discrepancies were identified based on sample reviews; a detailed review may reveal further discrepancies.

Facilities may not be occupied on scheduled time, and this may have a negative effect on service delivery.

## Internal control deficiency

*Leadership*

Lack of monitoring controls over the general conditions of contracts for Regional Office projects

*Financial and performance management*

Non-implementation of general conditions of contracts for Regional Office projects and reasons for deviating not justified.

## Recommendation

* We recommend that monitoring controls be implemented to ensure that appropriate action be taken against contractors who do not complete projects in time as required by GCC.
* We further recommend that the Regional Office should inform suppliers of the need to promptly notify the Regional Office, in writing, of the fact of any delays, the likely duration and its cause(s).

## Management response

Agree with the finding; however all the projects mentioned in the above finding were “quick-spend” projects and were meant to be implemented by the end of 2010/2011 financial year. Most if not all the sites were awarded to contractors. At that stage, it was not feasible to anticipate that the items needed for such work could not be purchased off the shelves. There was a waiting period after the order was made, and therefore most of them went beyond the contract period. What the section was supposed to do was to apply for extension of time.

Name: Michael Diale

Position: Acting Head of Projects

Date: 2011/06/08

## Auditor’s conclusion

Management agree with the audit finding and recommendation.

# Contracts signed by non delegated official

#### Polokwane

## Audit finding

In terms of the Treasury Regulations section:

*“8.2.1. An official of an institution may not spend or commit public money except with the approval (either in writing or by duly authorized electronic means) of the accounting officer or a properly delegated or authorized officer.*

*8.2.2. Before approving expenditure or incurring a commitment to spend, the delegated or authorized official must ensure compliance with any limitations or conditions attached to the delegation or authorization.”*

In terms of the specific standing delegations for leaseholds 2001:

1. A Deputy Director may authorize lease contracts with a maximum rent tariff of R 45.00/ m² and a
2. maximum term of 5 years plus 5 year option.
3. A Chief Director may authorize lease contracts with a maximum rent tariff of R 60.00/ m² and a maximum term of 5 years plus 5 year option.

Contrary to the requirements of the Treasury Regulations 8.2.1 and 8.2.2 rentals per m² were not authorised by a designated official. There was also no written delegation that stated that the person signing was delegated to do so. The following serve as examples:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Contract number** | **Authorised maximum per delegation** | **Lessee** | **Date** | **Delegated to authorize** | **Authorizing Official** | **Value of the Lease authorised** |
| H6022/0331 | R5 000 000 | RB Rana Family Trust | 02/10/2009 | Regional Manager | Mr. T. Siweya.  Deputy Director : Property Management | R12 743 962.59 |
| H6026/1513 | R5 000 000 | Sejela Business Enterprise | 15/04/2009 | Regional Manager | Mr. T. Siweya.  Deputy Director : Property Management | R10 166 653.49 |
|  |  |  |  |  | **TOTAL** | **R22 910 616.08** |

**Note:** The discrepancies were identified based on sample reviews; a detailed review may reveal further discrepancies.

Contracts signed by non delegated officials’ amounts to non-compliance with the Treasury Regulations.

## Internal control deficiency

*Financial and performance management*

* The accounting officer / accounting authority do not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.
* Lack of monitoring controls in place to ensure that rental per m² is approved by delegated officials.

## Recommendation

We recommend that rental per m² must be approved by delegated official per written delegation of authority.

## Management response

Disagree with the audit finding. here is a major difference between the approving of a Lease Transaction and the signing of a Lease Agreement. The latter has always been considered an administrative function and was delegated as per the Specific Leasehold Delegation of 2001 to the post level of Senior Administrative Officer (second last column under post level). The Agreement gets signed after the Lease Transaction has been duly approved by the relevant Delegated Authority, in line with TR 8.2.1 and 8.2.2. The content of the Lease Agreement as such was approved by Legal Services or the Standard Lease Agreement is used. The procedure is also clearly outlined in the Departmental Business Processes as approved in 2007 (Page 40).

For the approval of a Lease Transaction, more than one delegate or rank is required, as stipulated in the 2001 set of Delegations as follows *“Two officials of whom one must have the rank, which is not lower than two ranks below that of the decision maker, must make a recommendation to the decision maker in connection with the desirability of the lease.”* Thus a quorum of three is required for all Lease Transaction approvals.

With the inception of SCM in the Regional Office at the beginning of 2005, formal Bid Adjudication Committees replaced the above stipulation from 2001. The 2001 set of Specific Leasehold Delegations therefore became outdated. It needs to be mentioned that in 2003 major transformation took place in the Department, which broadened the Leasehold and Acquisitions sections to include the entire scope of Property Management.

The above-mentioned two aspects necessitated a new set of Property Management Delegations. A draft was completed and submitted to Management in 2005. It was supported in principle but never formally signed or approved, as the implementation of SCM was still in the process and alignment was expected. An unsigned electronic version was sent to Regional Offices. The approach differed in the sense that the rand per square meter was no longer applicable. In line SCM directives, thresholds were set on total cost per lease over the lease period (Net Present Value).

Due to rapid personnel turnover on the highest level and lack of continuity, various directives were issued, for instance on 23 January 2007 the then acting Director-General issued a directive that all Leases exceeding R2 Million over the lease period has to be submitted to the Director-General for approval. This over centralization, which is effectively a lack of delegated authority to established Committees to fulfil their mandate, has resulted in bottlenecks. Efforts from Head Office to have a new set of more realistic Delegations approved were unsuccessful until June 2010.

It needs to be emphasized that it is not fair to have expected Regional Offices to have complied with a grossly outdated 2001 set of Delegations as in 2009 so many new dispensations and directives were instituted. Furthermore in the previous dispensation, the Leasehold Delegations linked to the rand per square meter were supposed to be revised annually. It stands to reason why, for rentals and operating costs in the property market were escalating continually. For nine years no adjustment were made.

Even the latest 2010 set of Delegations were in effect for only a few months, when it was withdrawn by a new Director-General. Then it was re-instated again a few months later by the Acting Director-General, with some changes.

It is trusted that the investigation will be viewed against this backdrop. Please note that the Acting Director-General issued SCM Circular 54 of 2010/2011 on 20 December 2010, wherein he instructed all Regional Managers to sign Lease Agreements. It is clear that before this instruction, Regional Offices could have dealt with the signing of Lease Agreements on lower levels. The 2010 set of Delegations also assigned powers to sign leases from Assistant Director upwards linked to certain thresholds of the total value of a lease. In terms of the above Mr Y. Siweya in his capacity of Property Manager (Director/ Deputy Director) was duly authorized to have signed a lease in 2009.

*Name: Y.T Siweya*

*Position: Deputy Director*

*Date: 17/06/2011*

## Auditor’s conclusion

Management comment acknowledged. However the matter will remain on the management report. Initially three items were reported, from the three items identified, the remaining two items above R5 000 000.00 will be reported because these were authorised by the Deputy Director whose limit is R5 000 000.00.

# No progress minutes and reports for construction of facilities (municipal services)

#### Polokwane

## Audit finding

In order to ensure that infrastructure projects are effectively managed, monitored and the appropriate quality of infrastructure projects; we reviewed a sample of infrastructure projects and noted that the Regional Office did not keep minutes of the meetings held as evidence that evaluation and monitoring of projects were performed to identify, avoid and address delays and/or overspending on projects. As a result we were not able to verify whether the Regional Office exercised adequate monitoring and oversight of projects. Refer to the table below for projects where no minutes of meetings were kept.

|  |  |  |  |
| --- | --- | --- | --- |
| **No** | **Name of contractor** | **Description** | **Contract amount** |
| 1 | Ichtus studio and NMK Construction | Dendron SAPS - construction of facilities for the disabled | R192 786.59 |
| 2 | Mphashi Business Enterprise | Villa Nora SAPS - construction of facilities for disabled people | R367 193.00 |
| 3 | Mphashi Business Enterprise | All days SAPS - facilities of disabled people | R185 815.44 |
| 4 | Vuwa Development Consultancy cc | Mutale SAPS - Facilities for disabled people | R185 991.00 |
| 5 | Maselotsha Building Enterprise | Gilead SAPS - Facilities for disabled people | R176 665.26 |
| 6 | Mmatsela Biulk Water & Construction | Ritavi SAPS - Facilities for disabled people | R148 040.00 |
| 7 | Mmatsela Bulk Water Supply | Namakgale SAPS – Facilities | R135 000.00 |
| 8 | Mphashi Business Enterprise | Waterpoort SAPS - Facilities for disabled | R169 109.88 |
| 9 | N M K Construction | Senwabarwana SAPS - Facilities for disabled | R266 786.00 |
| 10 | Mmatsela Bulk Water Supply | Maake SAPS - Facilities for disabled | R273 742.04 |
| 11 | Mmatsela Bulk Water Supply | Modjadjiskloof SAPS - Facilities for disabled | R116 790.82 |
| 12 | Mphashi Business Enterprise | Saambourug - Facilities for disabled | R180 582.84 |
| 13 | Mphashi Business Enterprise | Hoopdal SAPS - Facilities for disabled | R439 254.54 |
| 14 | N M K Construction | Malamulele SAPS -Facilities for disabled | R134 900.00 |
| 16 | Fanang Diatla Business Enterprise & Construction | Modimolle Magistrate - repairs and maintenance | R415 092.50 |
| 17 | Mmatsela Bulk Water Supply | Modjadjiskool SAPS - repairs and maintenance | R166 910.54 |
| 18 | Mmatsela Bulk Water Supply | Phalaborwa SAPS - Facilities for people with disabilities | R74 677.58 |
| **Total** | | | **R3 629 338.03** |

Infrastructure projects may be delayed and penalties not charged for the late completion of projects. The quality of infrastructure projects may be unsatisfactory and additional costs may be incurred to complete the projects. Project expenditure may not be effectively monitored and project budgets may thus be exceeded.

## Internal control deficiency

*Leadership*

Project managers did not keep minutes of project progress meetings held as evidence that project monitoring was performed.

## Recommendation

We recommend that project managers must keep minutes of all project meetings held as well as documentation of any other monitoring activities performed on the progress of projects.

## Management response

Disagree with finding; kindly receive the minutes and reports as per request

*Name: Michael Diale*

*Position: Acting Head of Projects*

*Date: 27/06/2011*

## Auditor’s conclusion

Management comments not acceptable. The documents submitted are not acceptable because both the report and the minutes submitted for audit review were not signed and not accompanied by the attendance register. Furthermore, this documentation was only submitted after discussion of the draft management report. At the time of issuing the audit finding, these documents were not available. Thus, this audit finding will remain on the management report.

# Not all accruals were raised

**Cape Town**

## Audit finding

In terms of the accrual accounting an expense must be recognised in the period in which it is incurred. This need not coincide with the period in which it is paid. Furthermore, accruals represent goods/services that have been received, but where no invoice has been received from the supplier at the reporting date, or where an invoice has been received but final authorisation for payment has not been effected on the system". Contrary to the above it was noted that the transactions listed below pertain to services rendered before year end which was paid after year end; hence it was excluded from the accrual list.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **PAYMENT**  **NO** | **AMOUNT** | **WCS SUPPLIER** | **WCS NUMBER** | **CLIENT DEPARTMENT** | **INVOICE DATE** | **INVOICE NUMBER** | **INVOICE DATE RECEIVED** | **PAID DATE** |
|
|
| 374935 | 44,205.38 | M8857 | 47754 | 19RHWC | 25/03/2011 | 005/2011 | 20/04/2011 | 08/04/2011 |
| 370556 | 293,866.19 | WP01448 | 041711 | 19RFWC | 30/03/2011 | P156 | 05/04/2011 | 12/04/2011 |
| 370540 | 3,000,000.00 | H626 | 042849 | 19RAWC | 30/03/2011 | 3141 | 30/03/2011 | 12/04/2011 |
| 370718 | 301,503.84 | R667 | 039205 |  | 25/03/2011 | IN203856 | 11/04/2011 | 12/04/2011 |
| 370636 | 9,731.33 | T781 | 048475 |  | 30/03/2011 | MI001/03/11 | 04/04/2011 | 12/04/2011 |
| 353507 | 19,820.19 | WP12016 | 021448 | 11RAWC | 01/03/2011 |  | 18/03/2011 | 31/05/2011 |
| **TOTAL** | **3 669 126,93** |  |  |  |  |  |  |  |

Furthermore, according to section 38(1) (f) and TR 8.2.3, state that all payments due to creditors must be settled within 30 days from receipt of invoice or, in the case of civil claims, from the date of settlement or court judgment, hence a sample of payments made during April 2011 was selected to confirm whether goods and/or services was rendered during March 2011 and whether such invoices were raised as accruals.

Consequently, it was noted that payments made below pertain to goods and/or services rendered prior to year end was omitted from accruals.

| **Payment number** | **Invoice Date** | **Date invoice received** | **Start date of service / delivery** | **End date of service / delivery** | **Service Provider** | **Description of service(select from dropdown list)** | **Document Reference** | **Amount** | **Comments** |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 370672 | 25/03/011 | 11/04/2011 | 18/01/2011 | 18/03/2011 | mr filhani construction | Accessibility for persons with disability | 006/2011 | 35,268.47 |  |
| 370706 | 15/03/2011 | 01/04/2011 | 04/11/2010 | 14/02/2011 | edge to edge 1146 cc | Electricity, water, sewerage, refuse | 4371f, 4384f,  4370f, 4372f,  4380f, 4381f,  4379f, 4369f | 11,199.46 | This pertained to various invoices service ranging from November 2011 |
| 370716 | 02/03/2011 | 05/04/2011 | 09/02/2011 | 23/02/2011 | munnik visser architects | ohs inspection | ln-000 0987 | 3,420.00 |  |
| 370764 | 31/03/2011 | 08/04/2011 | not stated |  | ssi engeneers | fees for electronic engeneering services | 22728 | 41,372.86 |  |
| 370771 | 31/03/2011 | 31/03/2011 | not stated |  | e petersen construction | replace boundry fence | 7 | 6,354.98 |  |
| 370787 | 31/03/2011 | 01/04/2011 | not stated |  | mms technologies | steel items for marion island | i7303/11 | 176,237.16 |  |
| 316878 | 01/04/2011 | 11/04/2010 | 14/01/2011 | 09/03/2011 | City of Cape Town | Rates, water, sewerage, refuse |  | 16,367.75 |  |
| 371259 | various,  refer to batch | 07/04/2011 | 24/12/2010 | 23/03/2011 | City of Cape Town | Electricity |  | 2,686,746.79 | Consisted of a number of invoices |
| 371264 | 05/04/2011 | 12/04/2011 | 01/03/2011 | 01/04/2011 | Eskom | Electricity | Various | 5,037.97 | Consisted of 2 invoices |
| 371265 | various, refer to batch | 13/04/2011 | 01/03/2011 | 01/04/2011 | Eskom | Electricity | Various | 524,450.59 | Consisted of a number of invoices |
| 371266 | 05/04/2011 | 12/04/2011 | 01/03/2011 | 01/04/2011 | Eskom | Electricity | Various | 33,182.32 | Consisted of a number of invoices |
| 371273 | various, refer to batch | 07/04/2011 | 16/02/2011 | 15/03/2011 | City of Cape Town | Refuse |  | 3,421.94 | Consisted of a number of invoices |
| 371275 | various, refer to batch | 07/04/2011 | 17/02/2011 | 16/03/2011 | City of Cape Town | Rates, water, sewerage, refuse |  | 4,742.79 | Consisted of a number of invoices |
| 371276 | various, refer to batch | 04/04/2011 | 17/01/2011 | 18/02/2011 | Saldana Municipality | Rates, water, sewerage, refuse |  | 103,194.42 | Consisted of a number of invoices |
| 371277 | various, refer to batch | 07/04/2011 | 17/02/2011 | 16/03/2011 | City of Cape Town | Rates, water, sewerage, refuse |  | 5,680.85 | Consisted of a number of invoices |
| 371278 | various, refer to batch | 07/04/2011 | 04/02/2011 | 14/03/2011 | City of Cape Town | Electricity |  | 2,636,323.76 | Consisted of a number of invoices |
| 371279 | various, refer to batch | 04/04/2011 | 18/01/2011 | 11/03/2011 | Saldana Municipality | Rates, water, sewerage, refuse |  | 1,032,549.73 | Consisted of a number of invoices |
| 371280 | various, refer to batch | 07/04/2011 | 27/01/2011 | 16/03/2011 | City of Cape Town | Rates, water, sewerage, refuse |  | 743,885.86 | Consisted of a number of invoices |
| 371281 | various, refer to batch | 07/04/2011 | 27/01/2011 | 16/03/2011 | City of Cape Town | Rates, water, sewerage, refuse |  | 1,765,647.66 | Consisted of a number of invoices |
| 371282 | various, refer to batch | 07/04/2011 | 05/02/2011 | 07/03/2011 | City of Cape Town | Rates, water, sewerage, refuse |  | 31,022.18 | Consisted of a number of invoices |
| 371283 | various, refer to batch | 07/04/2011 | 12/02/02011 | 16/03/2011 | City of Cape Town | Rates, water, sewerage, refuse |  | 55,952.32 | Consisted of a number of invoices |
| 371284 | various, refer to batch | 07/04/2011 | 09/09/2010 | 29/03/2011 | City of Cape Town | Rates, water, sewerage, refuse |  | 378,697.90 | Consisted of a number of invoices |
| 371285 | various, refer to batch | 07/04/2011 | 14/01/2011 | 16/03/2011 | City of Cape Town | Rates, water, sewerage, refuse |  | 75,294.36 | Consisted of a number of invoices |
| 371286 | various, refer to batch | 07/04/2011 | 12/02/2011 | 11/03/2011 | City of Cape Town | Rates, water, sewerage, refuse |  | 726.60 | Consisted of a number of invoices |
| 371287 | various, refer to batch | 07/04/2011 | 12/02/2011 | 11/03/2011 | City of Cape Town | Rates, water, sewerage, refuse |  | 290.64 |  |
| 371288 | 29/03/2011 | 07/04/2011 | 26/02/2011 | 25/03/2011 | City of Cape Town | Electricity |  | 10,063.82 |  |
| 372183 | 6/04/2011 | 19/04/2011 | 1-Feb-10 | 28/02/2011 | ARM Architects | Professional Fee |  | 78,902.65 |  |
| 372155 | 18/04/2011 | 19/04/2011 | 08/01/2009 | 07/01/2012 | BLT Boiler Services CC | Construction contract |  | 129,186.90 |  |
| 372158 | 31/03/2011 | 13/04/2011 | 11-Jan-11 | 11-Mar-11 | PDNA Naidoo & Consultant | Professional Fees |  | 398,713.79 |  |
| 372192 | 01/02/2011 | 20/04/2011 | 15/07/2010 | 10/01/2011 | ZB Interiors | Repairs to damages |  | 2,196.78 |  |
| 372301 | 28/03/2011 | 20/04/2011 | 27/08/2010 | 28/03/2011 | Theewaterskloof Municipality | Arrear Electricity |  | 61,723.42 |  |
| 372304 | 22/03/2011 | 06/04/2011 | 22/02/2011 | 22/03/2011 | Eskom | Electricity |  | 698.75 |  |
| 372306 | 25/03/2011 | 04/04/2011 | 01/02/2011 | 11/03/2011 | Saldanha Bay Municipality | Rates |  | 4,073.85 |  |
| 372307 | 25/03/2011 | 04/04/2011 | 01/02/2011 | 11/03/2011 | Saldanha Bay Municipality | Rates |  | 32,192.80 |  |
| 372309 | 29/03/2011 | 19/04/2011 | 18/01/2011 | 17/02/2011 | Saldanha Bay Municipality | Rates |  | 1,487.93 |  |
| 371267 | Various | 12/04/2011 | 21/02/2011 | 01/04/2011 | Eskom | Electricity |  | 11,618.64 |  |
| 371268 | 25/02/2011 | 18/04/2011 | 25/03/2011 | 01/04/2011 | Rabie Property Administrators | Tenant Transaction |  | 45,001.88 |  |
| 371269 | 25/03/2011 | 18/04/2011 | 25/03/2011 | 01/04/2011 | Rabie Property Administrators | Tenant Transaction |  | 12,819.81 |  |
| 371270 | 22/03/2011 | 18/04/2011 | 18/02/2011 | 18/03/2011 | The City of Cape Town | Rates |  | 95,299.88 |  |
| 371272 | Various | 20/04/2011 | 09/02/2011 | 28/03/2011 | The City of Cape Town | Rates |  | 124,457.72 |  |
| **Total** | | | | | | | | **11 385 508.00** |  |

Accruals have not been reviewed to confirm accuracy and completeness thereof.

This has resulted in accruals being understated at year end.

## Internal control deficiency

Financial and performance management

* Quality, reliable monthly financial statements and management information
* The financial statements and other information to be included in the annual report are not reviewed for completeness and accuracy prior to submission for audit.

## Recommendation

Accrual list should be reviewed by an independent senior to ensure accuracy and completeness thereof.

## Management response

We do not agree with the finding. The full amounts of these projects were disclosed as commitments. This office is therefore satisfied that amounts were properly disclosed. The audit finding is acknowledged. In future it will be ensured that regular updates with all invoices received after year end are made. It will also be thoroughly verified that all those updated invoices are incorporated on the final inputs to the AFS to ensure complete and accurate reporting.

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Name: Nomalanga Kani

Position: Director: Finance

Date: 28/06/2011-

## Auditor’s conclusion

Management comments noted, however an accrual is recognised as a liability in the financial statements, whereas the commitments is only a disclosure note in the financial statements, therefore the trade and other payables and other operating expenditure will be understated with R11 385 508 and the commitments in the disclosure note will be overstated with the same amount.

# Transactions incorrectly classified and disclosed as commitments

**Cape Town**

## Audit finding

Accruals represent goods/services that have been received, but where no invoice has been received from the supplier at the reporting date, or where an invoice has been received but final authorisation for payment has not been effected on the system.

It was noted that the transactions listed below was incorrectly disclosed as commitment

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Number** | **Transaction date** | **Service Provider** | **Reference to supporting documents** | **Batch, Order, Payment number** | **Amount** | **Comments** |
| 1 | 17/01/2010 | Juro Piping | CPT29760 | AD-713729 | R 120 000.00 | These particular jobs has been completed by the contractor, it should therefore be classified and disclosed as accrual instead of commitment in the financial statements. |
| 2 | 9/6/2010 | SOLO TECHNICAL SERVICES | CPT28850 | AD-729231 | R   22 000.00 |
| 3 | 17/06/2010 | PYRAMID ELECTRICAL | CPT29086 | AD-729055 | R   22 000.00 | The contractor was contacted for this particular job by works manager and  contractors' administration staff responded by saying that they do not have any record of this job when they checked their system, therefore it should be removed from the commitment schedule and the disclosure note for commitments. |
| 4 | 26/08/2010 | CURRENT AFFAIRS ELECTRICAL | CPT30978 | AD-729398 | R   20 000.00 | These particular jobs has been completed by the contractor, it should therefore be classified and disclosed as accrual instead of commitment in the financial statements. |
| 5 | 16/02/2010 | AE ELECTRICAL | CPT25364 | AD-731384 | R   15 000.00 |
| 6 | 29/04/2010 | WESPRO | CPT/0208/27576 | G743716 | R   36 000.00 |
| 7 | 22/03/2011 | Kroukamp Plumbers | CPT36321 | AD-731072 | R   30 000.00 | These particular jobs has been completed by the contractor, it should therefore be classified and disclosed as accrual instead of commitment in the financial statements. The amount should be R 34,884.00 and not R 30,000.00, which was based on the estimated cost when the quotation was obtained. |

Insufficient management review of commitment schedule to ensure completeness and accuracy prior to submission for audit. Consequently, commitments and accrual disclosure notes is overstated and understated respectively

## Internal control deficiency

*Financial and performance management*

* Quality, reliable monthly financial statements and management information
* The financial statements and other information to be included in the annual report are not reviewed for completeness and accuracy prior to submission for audit.

## Recommendation

The required adjustments should be made to the disclosure notes

## Management response

The audit finding is acknowledged.  In future it will be ensured that inputs are thoroughly checked for correct classification to ensure complete and accurate reporting of the Financial Statements. This will be escalated to HO for effecting the necessary adjustments to the AFS, statement of over’s/unders.

*Name: Nomalanga Kani*

*Position: Director: Finance*

*Date: 28/06/2011*

## Auditor’s conclusion

Management response has been noted, however, no proof supplied that this change affected the financial statements therefore trade and other payables (accruals) and expenses is understated with R247 884 and commitments is overstated with R265 000.

# Arrear rental incorrectly recognised as contingent liabilities

#### Cape Town

## Audit finding

In terms of section 38(*c*) of PFMA no 1 of 1999 stipulated that the accounting officer for a department, trading entity or constitutional institution must take effective and appropriate steps to prevent unauthorised, irregular and fruitless and wasteful expenditure and losses resulting from criminal conduct.

Contrary to the above it was noted that the department entered into a lease agreement with Kasteel eiendomme commencing September 2009 at a monthly rental of R7500 escalating at 7 % per annum. However, our audit work performed revealed for a period of 18 months an amount of R45 108.45 was paid instead of R138 150 resulting in arrear rental of R93 041.46 which was subsequently paid during March 2011. Consequently, as a result of the arrear rental interest and legal cost amounting to R11 093 was incurred and paid. The amount of R11 093 meets the definition of fruitless expenditure but was not recognised as such; instead it was classified as operating leases expenditure.

In addition it was noted that the amount of R100 052 reflected as contingent liabilities settled during the 2010/11 financial year did not meet the definition of contingent liabilities instead it rather meet the definition of a provision. Consequently, the opening balance of the contingent liability was overstated and provisions understated by the said amount. Legal action was instituted against DPW for underpayments as well as non payment of rental for occupying the leased premises. Consequently, the interest and legal cost incurred result in non-compliance with section 38 of PFMA no. 1 of 1999 which led to fruitless and wasteful expenditure.

## Internal control deficiency

*Leadership*

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

## Recommendation

Management should ensure that reasonable care is exercise to ensure that effective and appropriate steps are taken to prevent fruitless and wasteful expenditure. Furthermore, management should ensure that transactions are appropriately recognised and classified.

## Management response

It should be noted however that a directive was received from Head Office instructing Regions not to pay rental in cases were signed leases were not received from landlords, irrespective of the fact that the client was still occupying the building.

In this case, the Department forwarded its standard lease to the landlord for signing. However, the signed lease agreement was never sent back to DPW. As a result rental payment was suspended on PMIS pending receipt of a signed lease document. DPW made numerous follow up with the landlord but with no success. The landlord kept on insisting that the lease had been signed and sent to DPW. The signed lease was only received in February 2011, and only then was rent paid. The amount of R11 093 will be reported as Fruitless and Wasteful expenditure

With regards to the amount of R 100 052 reflected as a contingent liability it needs to be noted that although this case was registered as a claim against the department with the Legal Services Section it was eventually settled out of court and a payment was subsequently made by Property Management without informing Legal Services to remove the case.

Property Management has been requested to interact more closely with Legal Services in cases that could have a legal impact for the department.

An e-mail has been forwarded to the Legal Services Section requesting them to use the following table to determine if the claim should be classified as a contingent liability or a provision.

|  |  |  |  |
| --- | --- | --- | --- |
| **LIABILITIES** | **OUTFLOW OF ECONOMIC BENEFITS / SERVICE POTENTIAL** | | |
|  | **Probable (more likely than not)** | **Possible** | **Remote** |
| **Reliable estimate** | Liability  *(consider including in the note on provisions)* | Contingent liability  *(disclose)* | Contingent liability  *(do nothing)* |
| **Not reliable estimate** | Contingent liability  *(disclose)* | Contingent liability  *(disclose)* | Contingent liability  *(do nothing)* |

## Auditor’s conclusion

Management comments noted. The matter is unresolved and will remain in the management letter.

# Contingent liabilities not raised

#### Cape Town

## Audit finding

IAS 37 defines a contingent liability as follow:

(a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or

(b) a present obligation that arises from past events but is not recognised because:

(i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

(ii) the amount of the obligation cannot be measured with sufficient reliability

During the audit of contingent liabilities it was noted that the following claims against the department was not recognised as contingent liabilities even though it meets the definition of a contingent liability.

The Department entered into a lease agreement with Cila Executive Apartment 1 CC on behalf of Department of Home Affairs. The terms of the lease agreement stipulated that the lessee must restore the building to its original state.  Upon completion of the lease term the building was not restore to its original condition when the client department vacated the property. As a result the NDPW was summoned on the 29 March 2011 to the amount of R2 689 096.31.

Even though the property was occupied by the client department the agreement was entered into between the NDPW and Cila Executive Apartment 1 CC. Consequently, as the condition existed at 31 March 2011 a contingent liability should have been raised to the amount of R2 689 096.31 which should be recovered from the Department of Home Affairs. Furthermore, it was also noted that NDPW received a summonsed on the 28 March 2011 for installation costs that was done by Silver Solutions s97 CC on the building which was leased by the Department of Home Affairs to the amount of R108 988, 33.

The Department was sued due to leases which they entered into on behalf of client departments and consequently no contingent liability was raised; hence the contingent liability disclosure note to the financial statement has been understated.

## Internal control deficiency

*Leadership*

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

## Recommendation

Management should ensure that reasonable care must be exercised to ensure that all contingent liabilities are identified and classified.

## Management response

Management concurs with the auditors findings. It was an oversight on management part on not reporting the Cila Executive Apartment 1 CC and Silver Solutions s97 CC matters as Contingent Liabilities. In future management will ensure that as soon as they become aware of any possible legal claim it will be reported to Head Office to update the Contingent Liabilities figures

*Name: H.R. Madyira*

*Position: DD: Acquisitions*

*Date: 14 July 2011*

## Auditor’s conclusion

Management comments noted. The matter is unresolved and will remain in the management letter.

# Incomplete supporting documentation provided for Tender: 65/08

#### Cape Town

## Audit finding

Section 40(1) of Public Finance Management Act states that “the accounting officer for a department, trading entity or constitutional institution:

* must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;
* must prepare financial statements for each financial year in accordance with generally recognized accounting practice”

The tender document (Year tender number: 65/08) with an estimated value of R901 065.41 was not furnished for audit purposes. The above is due to the lack of proper control / record keeping of supporting documentation placed in year tender file. Consequently, as a result of the unavailability of the required documentation will lead to scope limitation.

## Internal control deficiency

*Financial and performance management*

* Proper record keeping and record management; the documents supporting the above are properly filed and easily retrievable
* Requested information was not available and supplied without any significant delay.

## Recommendation

All requested information should be located and furnished for audit purposes.

## Management response

This Office is still trying to locate this document, upon receipt it will be forwarded for audit purposes.

*Name: N Kani*

*Position: D: Finance*

*Date: 10/06/11*

## Auditor’s conclusion

Management comments noted. To date the file was not furnished for audit purposes.

# Incorrect preference point system used for evaluation of tender

#### Cape Town

## Audit finding

The ***Preferential Procurement Policy Framework Act 5 of 2000*** section 4 reads as follows:

"The 90/10 preference point system.—(1) The following formula must be used to calculate the points for price in respect of tenders/procurement with a Rand value above R500 000:

Ps = 90(1-((Pt-Pmin)/Pmin)

Where

Ps = Points scored for price of tender under consideration

Pt = Rand value of tender under consideration

Pmin = Rand value of lowest acceptable tender

Pmin = Rand value of lowest acceptable tender"

A tender (Tender no: 2009/07; Reference no: 6532/5579/9/5; WCS No: 033461 with an estimate Value: R21 203 729.96) with a estimated value of above 500 000 was evaluated on an 80/20 preference point system instead of a 90/10 preference point system as required by section 4 of The Preferential Procurement Policy Framework Act 5 of 2000. The incorrect formula used to determine the points for price was due to an oversight by management. Each bid may not have been evaluated on a fair basis and the award may not have been given to the most suitable supplier.

Actions are not taken to address risks relating to the achievement of complete and accurate financial and performance reporting. Control weaknesses are not analysed, and appropriate follow-up actions are not taken that address root causes

## Internal control deficiency

*Leadership*

Decisive action to: mitigate emerging risks, implement timely corrective measures and address non performance.

## Recommendation

Management should ensure that the correct formula has been applied to ensure compliance with section 4 of the *Preferential Procurement Policy Framework Act 5 of 2000.*

## Management response

Audit finding is correct. The wrong point scoring formula, i.e. 80/20 in lieu of the 90/10 was used in the standard departmental scoring model. The oversight is regretted and was possibly brought about by the fact that an 80/20 Price/Quality split was used on this tender together with a 90/10 Price/Preference split and the wording on the scoring model spread sheet was somewhat confusing.

This oversight was however, noticed by Management and the use of the correct point scoring model are for the last couple of years diligently enforced and checked by the Bid Evaluation Committee, Supply Chain Management and by the Bid Adjudication Committee to curb any recurrence of this mistake.

It also needs to be pointed out that this oversight would not have resulted in any difference in the stance of the tenders received and would not have given rise to the award of the bid to an inappropriate supplier.

It must be mentioned that this finding for the same project was raised during the 2007/08 final audit of which due diligence has been taken to ensure that a similar oversight does not occur and no recurrences since that reporting period.

Name: N Kani

Position: D: Finance

Date: 10/06/11

## Auditor’s conclusion

Management comments noted. The matter is unresolved and will be included in management report.

# Non-compliance with laws and regulations pertaining to leases

#### Johannesburg

## Audit Finding

Practice Note SCM 4 of 2006 stipulates the following: *Bidders are required to complete SBD 8, sign the declaration and submit the form with each bid. The information furnished by the bidder should be used to ensure that when goods and services are being procured or disposed of, all reasonable steps are taken to combat the abuse of the supply chain management system.*

Practice Note 4 of 2007 stipulates the following: *Accounting officers and accounting authorities are required to report within ten (10) working days to the relevant treasury and the Auditor-General, all cases where goods and services above the value of R 1 million (VAT included) were procured in terms of Treasury Regulation 16A6.4.*

Practice Note 7 of 2009/2010 Stipulates the following:

SUPPLY CHAIN MANAGEMENT: DECLARATION OF INTEREST: AMENDMENT AND AUGMENTATION OF STANDARD BIDDING DOCUMENT (SBD 4)

The Treasury Regulations prescribe the following regarding compliance with ethical standards and avoiding abuse of the supply chain management system:

“16A8.4 If a supply chain management official or other role player, or any close family member, partner or associate of such official or other role player, has any private or business interest in any contract to be awarded, that official or other role player must – (a) Disclose that interest; and Withdraw from participating in any manner whatsoever in the process relating to that contract.

16A8.5 An official in the supply chain management unit who becomes aware of a breach of or failure to comply with any aspect of the supply chain management system must immediately report the breach or failure to the accounting officer or accounting authority, in writing.

16A9.2 The accounting officer or accounting authority –

(a) may disregard the bid of any bidder if that bidder, or any of its directors –

(i) have abused the institution’s supply chain management system

(ii) have committed fraud or any other improper conduct in relation to such system; or

(iii) have failed to perform on any previous contract; and

(b) must inform the relevant treasury of any action taken in terms of paragraph (a).”

2.3 To give effect to the above, the National Treasury issued a standard bidding document (SBD 4) “*Declaration of Interest”* on 5 December 2003 as part of Supply Chain Management (SCM) Practice Note Number SCM 1 of 2003. In terms of this document, accounting officers and accounting authorities are required to customize and utilize the form as part of their bidding documents so that bidders or their authorized representatives could declare their position in relation to any person employed by the principal institution.

During the performance of audit procedures on leases the following deviation was identified for the lease entered into below:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Lease process** | **Lessor** | **Type** | **Contract value** | **Audited amount** | **Amount per lease** | **(Underpayment)/ Overpayment** |
| Negotiated | Wilstan Holdings | Lease Agreement | R 1 355 804.02 | R39 905.76 | R41 369.51 | (R1463.75) |
| Negotiated | Zaakir Investments CC | Lease Agreement | R 3 213 740.83 | R82 412.88 | R80 909.89 | R1 502.99 |

The declaration of bidder's past SCM practices (SBD 8) was not completed by the winning supplier. Consequently, it could not be identified whether any fraud, abuse of the SCM system or non-performance in previous contracts had occurred.

No supporting documentation was available to ensure compliance with PN 4 of 2007, of which the required emergency procurement was reported within 10 working days to the National Treasury and Auditor General. An SBD 4 form disclosing declaration of interest was not on file as required by National Treasury Practice note number 7 of 2009/2010.

An underpayment amounting to R1463.75 has been identified and overpayment of R1 502,99.

Potential impact of the finding rose above:

* Statement of Comprehensive Income

1. Expenditure incurred may result in irregular expenditure
2. Lease expenditure may be incorrectly classified as operating leases when in substance they should be treated as finance leases

* Compliance with laws and regulations

1. Non compliance with National Treasury practice note SCM 4 of 2006
2. Non compliance with National Treasury practice note SCM 4 of 2007
3. Non compliance with National Treasury practice note SCM 8 of 2007/2008
4. Non compliance with National Treasury practice note 7 of 2009/2010

* Notes to the financial statements

1. Irregular expenditure may not be disclosed and omitted.
2. Commitments may be incorrectly disclosed in the financial statements

## Internal control deficiency

*Financial and performance management*

* Quality, reliable monthly financial statements and management information
* The financial statements and other information to be included in the annual report are not reviewed for completeness and accuracy prior to submission for audit.
* Adequate financial management systems
* Manual or automated controls are not designed to ensure that the transactions have occurred, are authorised, and are completely and accurately processed.

## Recommendation

* Emergency tenders should be reported within the stipulated 10 working day period to the National Treasury and Auditor General as stipulated in PN 4 of 2007.
* Management should ensure compliance with National Treasury regulations and PFMA Act
* A checklist should be compiled for review prior to approval of leases to ensure all requirements are met for the approval.

## Management response

I am in agreement with the finding for the following reason: This was a Negotiated Bid Process for the renewal of the lease, where the information requested was provided at the time of the original procurement. Suppliers are currently completing the required declaration of interest forms. Currently all negotiated leases are being reported to the National Treasury and Auditor General through the chief director supply chain management. The underpayment is being attended to.

*Name:* T P MOLOI

*Position: DD*

*Date: 30 MAY 2011*

## Auditor’s conclusion

Management agrees with the finding. To be included as non-compliance and considered for irregular expenditure.

# Prohibited suppliers not checked on the National Treasury website

#### Mthatha

## Audit finding

Supply chain management policy, regulation 52 (h) states that, "before award, the acquisition unit checks that the recommended bidder is not listed as default supplier in CIPRO and National Treasury".

During the audit of tender procurement procedures, it was noted that the Property Management Trading Entity has not complied with regulation 55 (h) of supply chain management policy as Triponza Trading 260 CC has been awarded a tender amounting to R500 000 on 08 October 2009 without being checked to National Treasury if the supplier is not a prohibited supplier. Consequently the department has not complied with laws and regulations.

Tender awarded to a supplier without following all the required requirements.

* Non compliance with supply chain management.
* National Treasury website did not give result/ report when checking default status of the suppliers during that period in question (2009). The matter was escalated to Head Office for intervention.

## Internal control deficiency

*Financial and performance management*

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

## Recommendation

Management should ensure that compliance with laws and regulations are adhered to and are monitored.

## Management response

I am in agreement with the finding. The matter was raised with Head Office and the region was advised to send emails to National Treasury (restricted supplier/ contractor). National Treasury responds by sending an email to the department to confirm whether the company is a defaulting company or not. The Regional Office started checking the contractors in June 2010.

*Name: N. Tukela*

*Position: Regional Manager*

*Date: 22 June 2011*

## Auditor’s conclusion

The finding remains in the management report and to be considered for reporting on non compliance and included as irregular expenditure.

# Three quotations not obtained for procurement of goods and services

#### Mthatha

## Audit finding

According to Directive; Acquisition and disposal management, paragraph19 (pg 11), Quotation procedure from R2000.00 - R500 000.00: “*Written or verbal offers are solicited in respect of readily available supplies obtained from three vendors. The supplies are sourced from the vendor providing the lowest price once it is confirmed in writing”.485*

During the audit of compliance with procurement procedures, it has been noted that  three written quotations were not obtained for the procurement of goods and services above R2000.00 as a result  it could  not be determined whether  the goods supplied were obtained at a lower price which resulted to non compliance supply chain regulations. The following are the goods obtained without obtaining three written quotations from different suppliers,

|  |  |  |  |
| --- | --- | --- | --- |
| **Supplier** | **Amount/Contract price** | **Batch No / WCS No** | **Description** |
| N & S Caterers and cleaners | R9 535,00 | 7476 | Repair perimeter fence |
| Nitsh Constr & Projects | R15 891,06 | 7330 | Repair three toilets flush masters |
| Nonkanyezi Trading services | R11 460,00 | 7449 | Repairing lights and plugs |
| Big Sky Trading | R117 894,80 | 048398 | Butterworth Prison |
| Sibusisile Construction | R411 475,02 | 048398 | Flagstaff Prison |
| **TOTAL** | **R566 255,88** |  |  |

Three written quotations could not be obtained from different suppliers and thus resulted in a non-compliance with laws and regulations. Invitation of quotes was made to the minimum of suppliers as prescribed by the policy, but the department has no control over the number of bidders that would respond. The policy supports that the department can go ahead to evaluate the number of quotations received and proceeds with the award instead of repeating the process of inviting quotations that would lead to fruitless expenditure and delay service delivery.

## Internal control deficiency

*Financial and performance management*

A properly designed control has been implemented, but is not operating effectively.

## Recommendation

Management should ensure that payments do meet the requirements of SCM

## Management response

I am not in agreement with the finding

* Five contractors were nominated but only two contractors responded on time of closing the quotations.
* Three quotations were requested but there was no response received from two contractors, one contractor did not return quotation form. One contractor was nominated as the urgency of work to be done.
* Three quotations were request and one contractor responded with high price (02/02/2010) and it was recommended that SCM should re-invite other contractors (30/03/2010). The contractor nominated for the second time did not respond which resulted in request quote from one contractor due to time delay in quotations (21/04/2010).
* The contractors were nominated for these projects (Butterworth Prison: Lwazcon Earthmoving and Plant Hire; Impelelo Construction; Big Sky Trading 152; LJ Sopete and Sons trading and Nangomso Trading) and Flagstaff Prison: SGGK Trading CC; SHE is SHE Construction and Civil CC; Sibusisile Construction; TNT Block and Bricks CC and Alunga Construction) were done under quick spent and the time frames for these projects was financial year end.

*Name:  N. Tukela*

*Position: Regional Manager*

*Date:  09 June 2011*

## Auditor’s conclusion

Finding remains in the management report. Further evaluation will be done by MAC.

# Procurement deviation not reported to National Treasury and AGSA

#### Mthatha

## Audit finding

Directive: Acquisition and disposal management, regulation77 (page 24).states that: *"Where there is departure from the competitive acquisitions in the case of urgent or emergency acquisitions, the Chief Director: SCM will report within 10 working days to the National Treasury and the Auditor- General , all cases where goods and services above the value of RI million (VAT included) were procured in terms of Treasury Regulation 16A6.4. Regional offices will ensure that such reports are submitted to the Chief Director: SCM within 5 working days".*

The regional office has not complied with regulation 77 as the deviation from inviting competitive bidding was above the value of RI million (VAT inclusive) and a report on that case was not sent to the National Treasury and Auditor General of South Africa within 10 working days. The following is a project where a deviation was made,

|  |  |  |  |
| --- | --- | --- | --- |
| **Item description** | **Total rand-value of award** | **Contractor** | **TENDER NO.** |
| Willowvale SAPS: Repairs & renovations to complex | R1 099 427,40 | Tavecon construction | MWR&R/07 |

A report to National Treasury and AGSA has not been made for a deviation above R1 000 000 resulting in a non-compliance with laws and regulations. The report was only done to Head Supply Chain in head office who was responsible to consolidate and respond to National Treasury at that time.

## Internal control deficiency

*Financial and performance management*

A properly designed control has been implemented, but is not operating effectively.

## Recommendation

Management should report all deviations above R1 000 000

## Management response

I am in agreement with the finding. The project was only reported to Head Office when the region was submitting its monthly awards report.

*Name:  N. Tukela*

*Position: Regional Manager*

*Date: 09 June 2011*

## Auditor’s conclusion

This finding will be reported as a non compliance with Treasury Regulation 16A6.4.

# Schedule of Irregular expenditure could not be obtained

**Mthatha**

## Audit finding

According to section 9.1.2 of the Treasury regulations, "When an official of an institution discovers unauthorised, irregular or fruitless and wasteful expenditure, that official must immediately report such expenditure to the accounting officer. In the case of a department, such expenditure must also be reported in the monthly report, as required by section 40(4)(b) of the Act. Irregular expenditure incurred by a department in contravention of tender procedures must also be brought to the notice of the relevant tender board or procurement authority, whichever applicable.”

A schedule  for an amount of R5 522 352.23 for irregular expenditure, could not be obtained for audit purposes as a result it could not be confirmed whether all transactions in the disclosure note were correctly captured  in the schedule that should have been drawn by management on a monthly basis. Schedule of irregular expenditure not obtained for audit purpose may lead to scope limitation. The following are the payment vouchers of irregular expenditure without the schedule:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **WCS No** | **Payment No** | **Supplier** | **Amount** | **Reasons** |
| 025459 | P-195896 | DEMO CONSTRUCTION (PTY) LTD | 412,269.54 | Invoice not certified by delegated official |
| 038767 | P-198763 | VISHNU ULASSI & ASSOCIATES CC | 389,619.82 | Invoice not certified by delegated official |
| 048640 | P-202893 | AMATOLA WATER | 1,813,826.07 | Invoice not certified by delegated official |
| 040614 | P-203617 | SUPERWAY (PTY) LTD (1) | 949,462.00 | Invoice not certified by delegated official |
| 044009 | P-202065 | MAUNGA PROJECTS CC | 1,957,174.80 | Expenditure not authorised per delegation |
| **TOTAL** |  |  | **5,522,352.23** |  |

Scope limitation

## Internal control deficiency

Financial / Performance management

Control activities identified as necessary are not in place i.e. proper disclosure in the notes to the AFS.

Recommendation

When expenditure has been identified as irregular, it should be reported and disclosed in the notes to the Annual Financial Statements.

## Management response

Outstanding.

## Auditor’s conclusion

Finding remains in the management report.

# Information Technology Governance

## Audit finding

IT governance is the responsibility of executive management. It is an integral part of organisational governance and consists of the leadership, organisational structures and processes that ensure that the organisation’s IT resources would sustain its strategies and objectives. IT governance allows the organisation to manage IT risks and derive value from IT investments and it supports the achievement of business objectives that are dependent on IT systems.

Key audit findings identified:

* IT steering committee not functioning effectively
* IT risk register not complete
* The lack of formally defined risk management practices could result in IT-related risks not being properly managed

## Internal control deficiency

Information Services management not aware of the established risk and control management processes at the department. Formal appointment of committee members still in progress following the approval of the information technology steering committee’s terms of reference.

## Recommendation

The chief director information services should ensure that the following is implemented:

* IT risk registers are updated and submitted to the chief director strategic management unit to comply with the established risk and control management processes of the department.
* IT steering committee members are appointed and a schedule of meetings for the year is circulated to members for them to note and forward planning.

## Management response

The chief director information services will comply with the set risk and control management processes. All members accepted the attendance of the steering committee, first meeting scheduled for the 25th May 2011; minutes of the meetings will be kept for audit purposes*.*

*Name: Nthabiseng Mosupye*

*Position: Chief Director: Information Services*

*Date: 31 August 2011*

## Auditor’s conclusion

Management comments are noted; however, an assessment of the corrective actions agreed upon by management will be performed after three months or as per due date.

# Security Management

## Audit finding

Security management ensures that security controls are implemented to prevent unauthorised access to the network and information systems that generate the information used to prepare the financial statements. Key audit findings identified:

* Database security policy, standards and procedures not implemented
* Security management and administration inadequate to ensure the security of the network environment
* Operating system access and logon violation reports not reviewed for the UNIX and Mainframe environment
* Lack of formal security management could result unauthorised access to sensitive data. Also the integrity of the data might be affected by misused or destroyed data.

## Internal control deficiency

Information security policy of the department not fully implemented and complied with.

Formulation of new database requirements as a result of integration of PMIS and WCS project that is currently underway.

## Recommendation

The director IT applications should ensure that database policies and procedures are approved and implemented by 31 August 2011. Also the IT application directorate should implement a process to review the login and access violations on the UNIX and Mainframe environment.

## Management response

IT applications directorate will implement the recommendations. The rules of access document has been submitted and approved by deputy director IT security on the 31 May 2010 and submitted to SITA prior to implementation of VPN.

Name: Nthabiseng Mosupye

Position: Chief Director: Information Services

Date: 31 August 2011

## Auditor’s conclusion

Management comments are noted; however, an assessment of the corrective actions agreed upon by management will be performed after three months or as per due date.

# User Access Control

## Audit finding

User access control is the systematic process of managing the access of users to an application. The process includes the creation, review, disabling and removal of user accounts. Key audit findings identified:

* Incomplete user account management procedures for IT applications (i.e. IE works and WCS)
* Access request forms for IE-Works not completed
* Inactive and unused user identifications not timeously removed from the PMIS
* Weaknesses in the Logis user account management processes
* Inadequate user account management processes or practices might result in unauthorised access and alteration to sensitive data that could impact negatively on the integrity of data and the financial statements being compromised.

## Internal control deficiency

Information Service management team failure to update information procedure manual and implementing of adequate user account management procedures for IT applications (e.g. WCS, IE-Works and PMIS) Management did not implement adequate user account management processes for Logis that would ensure that designed controls top mitigate the department’s business risks are continuously improved.

## Recommendation

The director IT applications should update the information services procedure manual to address the shortcomings identified. The chief director supply chain management should ensure that the user account management processes are updated by the 31 August 2011. Also monitoring of compliance to the established user account management processes should be conducted on a regular basis.

## Management response

The procedure manual will be updated to include IE-works forms. IE-Works forms will be regularly checked with the rest of the forms to ensure that they are signed by the system administrator. The requirement to monitor the actions of the system controller/Sub system controller will be included or defined in the Logis user account directive as recommended. The recommended Logis user account management processes will be updated accordingly.

Name: Nthabiseng Mosupye

Position: Chief Director: Information Services

Date: 31 August 2011

## Auditor’s conclusion

Management comments are noted; however, an assessment of the corrective actions agreed upon by management will be performed after three months or as per due date.

# Information Technology Service Continuity

## Audit finding

IT service continuity is the process of managing the availability of hardware, system software, application software and data to enable an organisation to recover/re-establish information systems services in the event of a disaster. The process includes IT continuity planning, disaster recovery plans and backups. Key audit findings identified:

* Inadequate backup standards and procedures
* Backups not kept off site
* Disaster recovery plans not fully implemented / not regularly tested and updated
* The department might not be able to recover IT processes and systems in time following a major disruption or disaster.

## Internal control deficiency

The department is still in the process of implementing new backup and retention strategy that forms of the DR processes.

## Recommendation

The chief director information services should ensure that the department’s DRP is implemented by 31 August 2011. Also the DRP should be tested once a year and updated with the test result where necessary.

## Management response

The mainframe DRP has been conducted with SITA once in the past financial year. Other DRP testing will be conducted as per recommendations.

*Name: Nthabiseng Mosupye*

*Position: Chief Director: Information Services*

*Date: 31 August 2011*

## Auditor’s conclusion

Management comments are noted; however, an assessment of the corrective actions agreed upon by management will be performed after three months or as per due date.

# Property could not be traced to the immovable asset register

#### Pretoria

## Audit finding

*In terms of the PMFA Section 38(1)(a)(i), the accounting officer for a department, trading entity or constitutional institution must ensure that the Trading Entity, trading entity or constitutional institution has and maintains an effective, efficient and transparent systems of financial, risk management and internal control.*

The department utilises the WCS system for the purposes of project management for construction contracts and planned maintenance. This system is used for the purpose of cost accumulation for purpose capitalizing cost to projects. The system is then used to interface with the PMIS system.

Through inspection of payments made for planned maintenance, the property description on the payment advices could not be traced to immovable asset register (PMIS) to ascertain if the payments were made for properties that are either state owned or leased by the Department. PMIS used property code to differentiate between properties.

Based on our discussions with management, we were informed that it is still not possible to trace the property descriptions or code to immoveable asset register as there is no integration between PMIS and WCS system and consequently we are unable to ascertain if payments were made for properties that are either state owned or leased by the department for the following:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **NO** | **SUPPLIER** | **TRANSDATE** | **TRANSACTION DESCRIPTION** | **WCS NO** | **TRANSAMTDT** |
| 1 | Maree Els & Partners | 30 July 2010 | Consultant Payment | 043918 | R2 310 451,19 |
| 2 | Risimati Engineers (PTY) LTD | 10 August 2010 | Consultant Payment | 046919 | R1 042 839,15 |
| 3 | Motseng Facilities Management | 11 August 2010 | Consultant Payment | 044107 | R1 565 403,26 |
| **Total** | |  |  |  | **R4 918 693,60** |

Management has indicated that there is no integration at this stage due to the fact that the National Department has not yet implemented the integration of the two systems. The risk exists that the Trading Entity could be maintaining properties that are not state owned or leased on behalf of the Departments therefore resulting in irregular expenditure

## Internal control deficiency

*Financial and Performance Management*

* Quality, reliable monthly financial statements and management information
* Pertinent information is not identified and captured in a form and time frame to support financial and performance reporting.

*Leadership*

* “Tone at the top*”* an environment that is conducive to good accountability and service delivery through; positive attitude; integrity; competence; and ethical behaviour.
* Management’s philosophy and operating style does not promote effective control over reporting. They do not lead by example.

## Recommendation

The PMIS and WCS should be integrated in order to enable tracking of expenditure paid for the maintenance of property. If the system has still not been upgraded to allow this integration, manual documentation should be kept and journals should be processed to reconcile the information on PMIS to the WCS systems.

## Management response:

The 3 transactions mentioned above where conducted on the following state owned properties:

WCS NO: 043918

Central Government Offices, PMIS Property Code: 4649

WCS NO: 044107

Union Buildings, PMIS Property Code: 1987

WCS NO: 046919

Various Government Buildings;

|  |  |  |
| --- | --- | --- |
| **DEPARTMENT OF PUBLIC WORKS** | | |
| **WCS 046919** |  |  |
| **SUMMARY OF SCHEDULE OF QUANTITIES FOR REPAIR AND MAINTENANCE OF LIFTS INSTALLATION** | | |
| **TOTAL SCHEDULE NO 3** | **:** | **PRETORIA HIGH COURT** |
| **TOTAL SCHEDULE NO 4** | **:** | **PRETORIA MAGISTRATE COURT** |
| **TOTAL SCHEDULE NO 5** | **:** | **PRETORIA MAIZE BOARD** |
| **TOTAL SCHEDULE NO 6** | **:** | **PRETORIA NUMEROUS BUILDING** |
| **TOTAL SCHEDULE NO 7** | **:** | **PRETORIA OLD DEFENCE HQ** |
| **TOTAL SCHEDULE NO 8** | **:** | **PRETORIA PALACE OF JUSTICE** |
| **TOTAL SCHEDULE NO 9** | **:** | **MANS QUATORS** |
| **TOTAL SCHEDULE NO 10** | **:** | **SWARTKOP JOINT OPERATION DIVISION** |
| **TOTAL SCHEDULE NO 11** | **:** | **PRETORIA CENTRAL PRISON** |
| **TOTAL SCHEDULE NO 12** | **:** | **THABATSHWANE 1 MILITARY HOSPITAL** |
| **TOTAL SCHEDULE NO 13** | **:** | **PRETORIA SA RESERVE BANK** |
| **TOTAL SCHEDULE NO 14** | **:** | **DHQ BLENNY** |
| **TOTAL SCHEDULE NO 15** | **:** | **PRETORIA FORENSIC LAB** |
| **TOTAL SCHEDULE NO 16** | **:** | **TRAFIC SAFETY** |
| **TOTAL SCHEDULE NO 17** | **:** | **BASTER** |
| **TOTAL SCHEDULE NO 18** | **:** | **ASSIZE BUILDING** |
| **TOTAL SCHEDULE NO 19** | **:** | **FOREING AFFAIRS** |
| **TOTAL SCHEDULE NO 20** | **:** | **TPA BUILDING** |
| **TOTAL SCHEDULE NO 21** | **:** | **CIVITAS** |
| **TOTAL SCHEDULE NO 22** | **:** | **CO OPERATIONAL** |
| **TOTAL SCHEDULE NO 23** | **:** | **LAND AFFAIRS** |
| **TOTAL SCHEDULE NO 24** | **:** | **GOVERNMENT GARAGE** |
| **TOTAL SCHEDULE NO 25** | **:** | **CGO BUILDING** |
| **TOTAL SCHEDULE NO 26** | **:** | **ESTERN EXTERNTION** |
| **TOTAL SCHEDULE NO 27** | **:** | **MORETHELE MAGISTRATE COURT** |
| **TOTAL SCHEDULE NO 28** | **:** | **NATIONAL ROAD AND SAFETY** |
| **ADD1** |  | **SAPS SILVERTON FORENCIC LAB** |
| **ADD2** |  | **SARS** |
| **ADD3** |  | **LAND AFFAIRS** |

Name: **Onassis Malope**

Position: **Acting Deputy Director; UCA**

Date: **07/06/2011**

## Auditor’s conclusion:

The response does not address the issue of the integration between WCS (cost accumulation system) and PMIS (asset register) as the cost accumulated should be added to the cost of the asset on the PMIS system. The finding will remain.

# Information not submitted for audit purposes

**Pretoria**

## Audit finding

As per the agreement between management of Department of Public Works/PMTE and the Auditor General, it was agreed that all information requested by the auditors is to be supplied to the auditors within three working days of the said information being requested.

During the performance of our final audit, the following information requested was still not made available to the auditors within the agreed amount of time in order for the auditors to meet the deadlines for audit reports. The information outstanding is tabled below:

| **Request number** | **Date Requested** | **Information Outstanding** |
| --- | --- | --- |
| 31 | 12 May 2011 | Tender files for the following WCS no: \* WCS 041850(submitted on 02/06/2011) \* WCS 044271(submitted on 02/06/2011) |
| 33 | 12 May 2011 | Batch no 342777 (Revenue files) |
| 34 | 12 May 2011 | The following payment batches and supporting tender files are outstanding: \* Batch no 360136(submitted on 26/05/2011) \* Batch no 354813 (tender file only) (submitted on 26/05/2011) \* Batch no 319738(submitted on 26/05/2011) \* Batch no 332800(submitted on 26/05/2011) \* Batch no 334248(submitted on 26/05/2011) \* Batch no 335155(submitted on 26/05/2011) \* Batch no 342962(submitted on 26/05/2011) \* Batch no 316899(submitted on 26/05/2011) \* Batch no 334282(submitted on 26/05/2011) \* Batch no 339736(submitted on 26/05/2011) \* Batch no 320892(submitted on 26/05/2011) \* Batch no 332799(submitted on 26/05/2011) |
| 35 | 12 May 2011 | The following information is outstanding:  \* Updated list of properties owned by the department and a list of leased properties. \* Municipal monthly account statement for period between 1 January 2011 and 31 March 2011. (submitted on 26/05/2011) \* The following payments batches were outstanding:  - Batch no 313413(submitted on 26/05/2011)  - Batch no 315281(submitted on 26/05/2011)  - Batch no 315282(submitted on 26/05/2011) |
| 36 | 12 May 2011 | Payment batch for owned and leasehold properties \* Batch 336216 (submitted on 02/06/2011) |
| 37 | 17 May 2011 | Tender files for the following WCS no: \* WCS 043918 (Submitted on 04/03/11) PT08/038 \* WCS 045966 \* WCS 045517 (Submitted on 02/06/2011 and 07/06/2011) PT10/047 |

Information and documentation is not controlled and filed in a manner that will allow easy access for the information to be retrieved. Information not supplied to auditors will lead to a limitation of scope with regards to concluding on the audit work performed and as a result will impact on the audit report conclusion. Furthermore, this constitutes non compliance with section 41 of PFMA.

## Internal control deficiency

*Financial and performance management*

* Proper record keeping and record management the documents supporting the above are properly filed and easily retrievable
* Requested information was not available and supplied without any significant delay.

## Recommendation

The Department should ensure that all supporting documentation be properly kept and safeguarded and be made available for audit purposes. Management should perform regular monitoring over the safekeeping of accounting records.

## Management response

I am in agreement with the finding. Cause: Some of the tender files are kept with Records Unit, however during the signing of the contracts, Legal Services uses original documents, in this regard project manager’s request for files and delay in returning them. Other files have been returned, they are available.

*Name: J Thobejane*

*Position: DD: SCM*

*Date: 07/6/20110*

## Auditors’ conclusion

All the batches have been submitted, the only outstanding batch is batch number 342777 (Revenue files) which has a financial impact of R158 400. This will be included in our schedule of identified misstatements.

# Payments made on leases that expired

**Kimberly**

## Audit Finding

Irregular expenditure is defined as expenditure, other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement the PFMA or any other applicable legislation.

Section 40(1)(a) of the PFMA states that, the accounting officer for a department must keep full and proper records of the financial affairs of the department in accordance with any prescribed norms and standards.”

Section 38(1)(a)(iii) of the PFMA states that, the accounting officer for a departments must ensure that the department has and maintains an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective.

The following payments were made for leases that have expired or were cancelled:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Property Code** | **Building** | **Date lease end** | **Last Payment** | **Rental** |
| 84491 | Van Zyl Str 22, De Aar | 28/02/2011 | Mar 2011 | R 1,863.40 |
| 51133 | Ext 7 Sandvlei Farm, Naroegas | 28/02/2011 | Apr 2011 | R 1,936.00 |
| 294025 | 205 Minder Street, Pella | 28/02/2011 | Apr 2011 | R 905.00 |
| 304216 | Rooiberg Comm Facilities, Richmond | 30/09/2010 | Feb 2011 | R 14,081.95 |
| 51144 | Magistrate Court, Keimoes | 31/01/2011 | Mar 2011 | R 26,334.00 |
| 295070 | Hoog Street 5, Postmasburg | 31/01/2011 | Mar 2011 | R 9,878.00 |
| 59112 | Police Station Bldg, Steinkopf, | 31/07/2010 | Oct 2010 | R 1,672.50 |
| 312658 | C/O Luckhoff & Hospital Street, Springbok | 31/08/2010 | Oct 2010 | R 63,601.60 |
| 302148 | Loop 12, Kenhardt | 31/10/2010 | Dec 2010 | R 9,602.96 |
| 253325 | Airport Conference, Kimberley | 31/10/2010 | Nov 2010 | R 2,591.90 |
| 59037 | Police Station, Kimberley | 31/10/2010 | Dec 2010 | R 5,869.50 |
| 167260 | Boland, bank Bldg, De Aar | 31/12/2010 | Feb 2010 | R 42,706.22 |
| 59033 | Police Station, Kleinzee | 31/12/2010 | Feb 2011 | R 1,300.00 |
| **Total** |  |  |  | **R 182 343.03** |

Monthly controls were not operating effectively. Through discussions with Ms J van der Merwe (Lease Supervisor) it was confirmed that it was practice that when a lease expires, rentals are still paid for the building even though no notification for renewal has been received from the client. This is a non compliance with the Treasury Regulations and could result in irregular expenditure of R 182,343.03.

## Internal control deficiency

*Leadership*

* The systems are not documented in the policy and procedures manual and the results of the monitoring process are not routinely communicated to all managers and staff.
* The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

## Recommendation

Management should ensure that procurement process is adhered to (valid contract/agreement exists between the department and its client) which is aligned to the supply chain management policy.

## Management response

The department agrees with the finding. However, it must be noted that the leases could not be renewed without the approval of funds from the client. The Cost Analysis form was sent to the client prior to the expiry of the lease, but the client failed to confirm the availability of funds and therefore, the lease could not be renewed although the client remained in occupation of the premises. The CFO informed regions to renew on the terms and conditions of the previous lease, since common law dictates that if a party remain in occupation after a lease agreement has expired, rental cannot be withheld.

Circulars are attached herewith.

## Auditor’s conclusion

Management comment noted. The Department must take all necessary steps to ensure that a valid lease agreement is in place when a client department occupies the building. This has legal implications and could result in fruitless and wasteful expenditure should the Department be involved in some form of litigations.

# Accruals list overstated

#### Pretoria

## Audit finding

Accruals represent goods/services that have been received, but where no invoice has been received from the supplier at the reporting date, or where an invoice has been received but final authorization for payment has not been effected on the system.

The system or manual controls designed by the client should be supportive of the applicable reporting framework; accruals raised should be reduced against payments during the current reporting period.

During the audit of accruals it was noted that transaction for which services, invoices have been provided and paid during the year i.e. before the reporting date were still included as accruals thus overstating the accrual (liability) listing. The following transactions were listed on the accrual listing even though the invoices were received and paid during the current period of 2010/2011:

|  |  |  |  |
| --- | --- | --- | --- |
| **No** | **Contractor** | **BAS payment date** | **Amount (R)** |
| 1 | Amadwala Trading 119 | 18 Mar 2011 | 27 125,00 |
| 2 | Ampmaster Electrical | 04 Oct 2010 | 19 092,95 |
| 3 | Banzi Protection Services | 22 Nov 2010 | 18 468,00 |
| 4 | Elshaddaai Water Pump Serv | 28 Mar 2011 | 17 583,58 |
|  |  | **Total** | **82 269,53** |

This creates a possibility that the accruals balance at year end could be misstatement, therefore resulting in overstatement of liabilities.

## Internal control deficiency

*Leadership*

Quality, reliable monthly financial statements and management information. The entity does not have competent individuals who understand the financial reporting framework and performance management requirements. (Competence also refers to knowledge of the controls and related processes.)

## Recommendation

Appropriate systems should be implemented to facilitate the preparation of the financial statements and performance reports. Proper review of listings should ensure that items are identified and removed from the listing balance in a timely manner.

## Management response

This office is in agreement with the finding: The internal checking of the accrual listing and submission of the notes to the AFS was not put in place; it will be done more thoroughly as well as on a quarterly basis to alleviate mistakes like these. The relevant staff has already been sensitized on the matter.

*Name: Llewellyn Louw*

*Position: DD Finance*

*Date: 2011/07/27*

## Auditors’ conclusion

The client agrees with finding and the finding will remain. This will be included in the schedule of identified misstatements.

# Understatement of accruals

#### Pretoria

## Audit finding

Accruals represent goods/services that have been received, but where no invoice has been received from the supplier at the reporting date, or where an invoice has been received but final authorization for payment has not been effected on the system. The system or manual controls designed by the client should be supportive of the applicable reporting framework; accruals raised should be reduced against payments during the current reporting period.

During the audit of accruals it was noted that transaction for which services, invoices have been received prior to year end were not included as accruals thus understating the accrual (liability) listing. The following transactions were not listed on the accrual listing even though the invoices were received and not paid for during the current period:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **No** | **Contractor** | **BAS payment date** | **Invoice date** | **Amount** |
| 1 | G. Liviero & Son Building (Pty) Ltd | 19-Apr-11 | 28-Mar-11 | 3 400 893,60 |
| 2 | Superfecta Trading 209 cc | 18-Apr-11 | 28-Mar-11 | 539 688,82 |
|  |  |  |  | 3 940 582,42 |

## Internal control deficiency

***Financial and performance management***

* Adequate financial management systems
* Systems are not appropriate to facilitate the preparation of the financial statements and performance reports.

## Recommendation

Appropriate systems should be implemented to facilitate the preparation of the financial statements and performance reports.

## Management response

This office is in agreement with the finding: The invoices are delivered directly to the Project managers who are currently sitting in a different building and the invoices was not registered at the point of entry as all the other invoices. As part of the internal control measure, this office will ensure that an entry point for all WCS payments is created in the other building so that the accrual lists are up to date in terms of completeness.

Name: Llewellyn Louw

Position: DD Finance

Date: 2011/07/27

## Auditors’ conclusion:

The client has acknowledged the finding and the finding remains. This will be included in the schedule of identified misstatements

# Supporting documentation outstanding for rates and taxes

**Pretoria**

## Audit finding

*[Section 76 (4) (b) of the PFMA] and Treasury Regulation 8.1.1 determines that the accounting officer of an institution must ensure that internal procedures and internal control measures are in place for payment approval and processing. These internal controls should provide reasonable assurance that all expenditure is necessary, appropriate, paid promptly and is adequately recorded and reported.* During the performance of the detailed testing, the following was noted: The total amount as per batch could not be verified against the supporting invoices. Furthermore, the individual amount per BAS could not be traced to any individual or group of invoices for the following items:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date** | **Description** | **Amount** | **Total of the batch** | **Tracing number** |
| 2010/09/09 | Municipality Rates 2010/2011 | 12,415,866.75 | 26,909,960.43 | 302675 |
| 2010/09/09 | Municipality Rates 2010/2011 | 675,876.00 | 26,909,960.43 | 302675 |
| 2010/09/09 | Municipality Rates 2010/2011 | 525,146.70 | 26,909,960.43 | 302675 |
| 2010/09/09 | Municipality Rates 2010/2011 | 234,990.00 | 26,909,960.43 | 302675 |
|  | **TOTAL** | **13 851 879.45** | **107 639 841.72** |  |

## Internal control deficiency

***Financial and Performance Reporting***

Manual or automated controls are not designed to ensure that the transactions have occurred, are authorised, and are completely and accurately processed.

## Recommendation

Supporting documentation should be included to ensure that amounts capture in the financial systems have been correctly classified and should provide an indication of how the amount captured on the system was arrived to.

## Management response

I am not in agreement with the finding. Rates and Taxes – supporting documentation for amounts disclosed. The total batch of R26, 909,960.43 with the supporting documents will be forwarded for the verification. Also the report from IE works system regarding the payments has been attached to trace the amounts

*Name: Belinda Nkayi*

*Position: ASD: Payments*

*Date: 07/07/2011*

## Auditors’ conclusion

The issue here was not the verification of the batch amount as this was performed satisfactorily. The amounts that are included in the batch amounts and posted to the BAS system could not be verified due to schedules not being provided to indicate exactly which amounts were used from the batch total. Finding remains. This will be included in the schedule of identified misstatements.

# Supplier uses the vendor number of its subsidiary to claim VAT

## Audit finding

Definition in terms of section 1 of VAT Act state that company in terms of income tax section 1, includes any association, corporation (other than close corporation) incorporated or deemed by or under any law in force in the Republic. “Vendor” means any person who is or required to be under this act: Provided that where the Commissioner has under section 23 or 50A determined the date from which a person is vendor that person shall be deems to be a vendor from that date;

Section 23 state that every person who, on or after the commencement date, carries on an enterprise and is not registered, becomes liable to be registered.

Section 50A separate persons carrying on the same enterprise under certain circumstances deemed to be a “single person”; The Commissioner shall not make a direction under this section naming any person unless he is satisfied that:

(a ) that such person is making or has made taxable supplies

(b) that the activities in the course of which he makes or made those taxable supplies form only part of certain activities which should properly be regarded as those of the enterprise described in the direction

(c ) that, if all the activities in the course of which he makes or made those taxable supplies from only part of certain activities which should properly be regarded as those of the enterprise being carried on at that time or previously be one or more other persons

(d) the main reason or one of the main reasons for person concerned carrying on the activities referred to in subparagraph(b) in the way he does is the avoidance of liability to be registered (whether that liability would be his, another person’s or that of two or more persons jointly).

During the audit for 2010-11 the following was noted:

* The Department entered into a transaction with Botes and Kennedy Manyano (Pty) Ltd. Upon inspection of the payments made to the said entity, it was determined that the Entity is not a registered Vendor in terms of the VAT Act.
* The invoice billed to the Department indicated VAT number 4580223875. Upon performing a VAT search, it was determined that the VAT number is registered under the company African Concrete (Pty) Ltd and not Botes and Kennedy Manyano as indicated in the invoice.
* Through inspection of the tender documents, a letter was attached from the auditors of Botes and Kennedy Manyano (Pty) Ltd; Classen Stone Chartered Accountants dated 30 March 2009 and it stated the following: *“Botes and Kennedy Manyano (Pty) Ltd-Registration number 2005/003555/07 was incorporated on 21 September 2005. On 10 November 2008, Botes and Kennedy Manyano (Pty) Ltd acquired African Concrete (Pty) Ltd registration number 2008026287/07 as their wholly owned subsidiary.”*

*It would appear that the Botes and Kennedy Manyano (Pty) Ltd used the VAT number of the acquired company on the strength that they are its subsidiary.*

*Botes and Kennedy Manyano (Pty) Ltd and African Concrete ar*e separate legal entities and it is therefore incorrect for the companies to use the legal status of the other company for VAT purposes.

The supporting document attached to the payment batch (payment advice number 303265 with an amount of R2 054 012,86 ) for this contract stated that African Concrete is the company’s division located in Cape Town. Furthermore the explanation stated that African Concrete is the trading name for Botes and Kennedy Manyano (Pty) Ltd, however the tax clearance certificate does not state that fact.

This is inconsistent with the reasons provided in the tender documentation. The letter from the auditors states that African Concrete is a wholly owned subsidiary but the documentation in the batch states a different reason.

The table shows the contract amount awarded and VAT charged to the contract price and total payments made and VAT claimed to date:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Tender number** | **Supplier** | **WCS number** | **Contract amount**  **R** | **VAT on Contract**  **R** | **Total payments to date**  **R** | **VAT on payments**  **R** |
| H09/062 | Botes & Kennedy Manyano | 044116 | 41 314 448,40 | 5 073 704,19 | 19 227 358,69 | 2 361 254,58 |

The Department accepted the email explanation from the Botes and Kennedy which states that African Concrete is their division located in Cape Town as adequate basis to pay out VAT. No CIPRO searches were performed to ensure whether Botes and Kennedy Manyano and African Concrete are separate entities for VAT purposes.

Group taxation is not applicable in South Africa. Each company is a taxpayer in its own right.

The information submitted by the supplier to the department is treated as being adequate, no further searches are performed to ensure if it is accurate or reliable.

This is a non compliance with PFMA and Treasury Regulation and therefore the payment relating to VAT is an irregular expenditure.

## Internal control deficiency

*Leadership*

Review and monitor compliance with applicable laws and regulations

*Financial and performance management*

Management does not review and monitor compliance with applicable laws and regulations

## Recommendation

* Information submitted by the supplier must be verified for correctness against the records of the tax and company registration authorities.
* VAT claims must be approved for payment if sufficient evidence exists that the supplier is registered as the vendor for VAT purposes.
* The VAT paid must be claimed back from the supplier.
* The amount must be disclosed as an irregular expenditure.

## Management response

I disagree with the finding that we did not perform any further searches to ensure that the information was reliable.

The vendor supplied a statement that they requested SARS to change the name linked to that particular VAT number to African Concrete.

A search of the SARS website confirmed that the VAT number is registered to African Concrete. The same number appears on the Tax Clearance certificate issued by SARS in the name of Kennedy and Botes. A search of the SARS website for a VAT number linked to Kennedy and Botes returned a “no records found” reply. (copies attached for ease of reference)

If this arrangement was acceptable to SARS we are not in a position to refuse payment. We cannot force a Vendor to obtain another number from SARS.

We disagree with the finding that this constitutes irregular expenditure.

Management would be interested to learn to which clause of the PFMA and Treasury Regulations specifically we did not adhere to.

Name: Juanita Prinsloo

Position: CD: Trading Account

Date: 30 June 2011

## Auditor’s conclusion

No evidence has been provided that confirms that the supplier indeed changed its name legally. This issue remains unresolved.

# Information not submitted

## Audit finding

In terms of section 41 of the Public Finance Management Act, 1999 (Act no.1 of 1999): *“An accounting officer for a department must submit to the relevant treasury or the Auditor General such information, returns, documents, explanations and motivations as may be prescribed or as the relevant treasury or the Auditor General may require.”* The following information has been requested and not received to date

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **No.** | **Information requested** | **Request No.** | **Date request issued** | **Amount** |
| 1 | The supporting documentation and correspondence for AP 254921 to 4 C’s Investment. | 86 | 24-Jun-11 | R 16 149,37 |
| **Total** | | | | **R 16 149,37** |

This therefore constitutes a limitation of scope.

## Internal control deficiency

*Financial and Performance management*

* Proper record keeping and record management; the documents supporting the above are not properly filed and easily retrievable
* Requested information was not available and supplied without any significant delay.

## Recommendation

Management should ensure that all information requested is easily retrievable and supplied to the auditors for audit purposes. A document centre should be established where all the documents pertaining to the entity are filed ensuring that they are traceable and there is proper access control to that centre

## Management response

Management response outstanding.

## Auditor’s conclusion

Management should put measures in place that will ensure that all information requested is easily retrievable and supplied to the auditors for audit purposes. This will be included in the schedule of identified misstatements.

# Straight lining of operating lease not done

#### North West

## Audit finding

*According to IAS 17 Paragraph 33:”*Lease payments under an operating lease shall be recognised as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user’s benefit”*.*

We noted that operating lease payments are not recognised over the lease term on a straight-line basis. (Error rate – 100%)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **DATE** | **ITEM DESCRIPTION** | **ACTUAL PAID** | **STRAIGHT LINED EXPENSE** | **DIFFERENCE** | **BENEFICIARY NAME** |
| 2010/04/28 | RENTAL LEASE | R 238 708 | R 210 951 | R27 757 | HERMANS & ROMAN PROPERTY SOLUTIONS |

Potential impact of the finding rose above is operating leases expense may be overstated by R 27 757. The aforementioned deviations are due to the fact that operating lease is not straight lined over the rental period by management.

## Internal control deficiency

*Leadership*

PMTE did not have sufficient monitoring controls to ensure the proper implementation of the overall process of reporting*.*

## Recommendation

The accounting officer should ensure that all lease payments of operating leases are recognised as an expense in the statement of financial performance on a straight-line basis over the lease term thereof.

## Management response

I am not in agreement with the finding for the following reasons: Our leases are not paid on a straight line basis as they have an escalation clause. The lease in question has a nine (9) percent escalation commencing 1/4/2009 which is twelve (12) months after the commencement date of the lease.

*Name: Ivy Mahlaule*

*Position: Head of Property Management*

*Date: 08/03/2011*

## Auditor’s conclusion

The finding remains valid as straight lining of leases requires consideration of all escalations over the term of the lease.

# Lease invoice not received

**North West**

## Audit finding

*Section 38(1)(a) of the PFMA requires that the accounting officer of a department must ensure that the department has and maintains effective, efficient and transparent systems of financial and risk management and internal control.* We could not obtain valid tax invoices for the following expenses: (Error rate 100%)

|  |  |  |  |
| --- | --- | --- | --- |
| **DATE** | **ITEM DESCRIPTION** | **AMOUNT PAID** | **BENEFICIARY NAME** |
| 2010/04/28 | Rental Lease | R 238 708 | Hermans & Roman Property Solutions |
| 2010/10/26 | Rental Lease | R 103 249 | Tebika 46 (Pty) Ltd |
| 2010/11/12 | Rental Lease | R 1 802 | New Era Packaging |
| 2010/11/26 | Rental Lease | R 96 156 | McIntyre Investments (Pty) Ltd |
| 2010/12/23 | Rental Lease | R 2 791 | Fardilla Investments |
| 2011/01/26 | Rental Lease | R 19 441 | Razeena Holdings |
| 2011/03/28 | Rental Lease | R 26 707 | Tumahole Family Trust |
|  | TOTAL | R488 854 |  |

Potential impact of the finding rose above:

* Possible irregular expenditure
* Operating expenses may be overstated by R 488 854 in the Statement of Financial Performance
* Possible limitation of scope

## Internal control deficiency

*Proper record keeping and record management*

* The documents supporting the above are not properly filed or easily retrievable.
* Requested information was not available and supplied without any significant delay.
* The impact of this lack of systems is that we have been unable to obtain sufficient appropriate audit evidence on which to base our audit opinion on these disclosures.

## Recommendation

* The department should ensure that all supporting documentation be properly kept and safeguarded and be made available for audit purposes.
* Management should perform regular monitoring over the safekeeping of accounting records.

## Management response

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

The amount in question relates to a lease payment. Lease agreements contain all the information pertaining to amounts to be paid by the Department, including future escalations. Once the agreement is signed, the lease payments are captured into the system for automatic payments until the end of the lease period.

It is for this reason that landlords do not issue any invoices to the Department relating to lease payments

The department will contact all landlords requesting them to provide a valid tax invoices on monthly basis

*Name:* *Ms. I. Mahlaule*

*Position: DD: Property Management*

*Date: 12 June 2011*

## Auditor’s conclusion

This constitutes a limitation of scope and will be included in the schedule of identified misstatements.

# 

# Transactions recorded in incorrect period

**North West**

## Audit finding

Section 40(1)(a) of the Public Finance Management Act states that: *“ the accounting officer for a trading entity must keep full and proper records of the financial affairs of the trading entity in accordance with any prescribed norms and standards,”*

Deviation noted pertaining to construction: We noted through enquiry made to the finance department and inspection of the BAS system, revealed that the transaction was completed by the 19th of March 2010, but that the transaction only interfaced with the BAS system on 19 April 2010. (Error rate 7%)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **DATE PAYMENT AUTHORISED** | **DATE TRANSACTION VERFIFIED BY FINANCE** | **DATE TRANSACTION REFLECTED ON SYSTEM** | **CONTRACTOR** | **AMOUNT** | **WCS NUMBER** |
| 10/03/2010 | 19/03/2010 | 19/04/2010 | MULTI-NET STELSELS (PTY) LTD | R49 453 | 44150 |

Potential impact of the finding rose above is an overstatement of the tangible capital asset account comparative figure with R49 453. The aforementioned deviation is due to a delay on the BAS system between the time a transaction is captured and when the transaction interfaces.

## Internal control deficiency

*Financial and Performance Reporting*

Management did not implement controls over daily and monthly processing and reconciling of transactions

*No management response received*

## Recommendation

System interface delays should be anticipated by data capturers and transactions captured towards year end should be highlighted for manual capture into the financial statements

## Management response

*Referred to Ms. Juanita Prinsloo at Head Office (012) 337 2227*

## Auditor’s conclusion

Finding remains valid as no management response received

# Rates and taxes outstanding documentation

**North West**

## Audit finding

*Section 38(1)(a) of the PFMA requires that the accounting officer of a department must ensure that the department has and maintains effective, efficient and transparent systems of financial and risk management and internal control.* We noted that no supporting documentation could be obtained from the client for the following: (Error rate 100%)

|  |  |  |  |
| --- | --- | --- | --- |
| **DATE** | **ITEM DESCRIPTION** | **AMOUNT** | **[FURTHER DESCRIPTION]** |
| 2010/04/29 | MUN B/ACC:MUN RATES AND TAXES | R 18,000.00 | RUSTENBURG |
| 2010/06/29 | MUN B/ACC:MUN RATES AND TAXES | R 86,336.78 | MAFIKENG |
| 2010/06/29 | MUN B/ACC:MUN RATES AND TAXES | R 205,483.52 | LICHTENBURG (DITSOBOTLA) |

Potential impact of the finding rose above is a limitation in scope. The aforementioned deviation is due to supply chain management policies not being adhered to and a lack of proper record keeping being performed by the Department. The impact of this lack of systems is that we have been unable to obtain sufficient appropriate audit evidence on which to base our audit opinion on these disclosures.

## Internal control deficiency

*Financial and performance reporting*

* Proper record keeping and record management
* The documents supporting the above are not properly filed or easily retrievable.
* Requested information was not available and supplied without any significant delay.

## Recommendation

* The Department should ensure that all supporting documentation be properly kept and safeguarded and be made available for audit purposes.
* Management should perform regular monitoring over the safekeeping of accounting records.

## Management response

I am not in agreement with the finding for the following reasons and supply the following/attached information in support of this: Supporting documentation for Rustenburg and Mafikeng were submitted. The amount linked to FA number 279231 dated 29/06/2010 is not R205 483.52 but R472 651.52. Documents in support of R472 651.52 was submitted.

*Name:* *Ms. I. Mahlaule*

*Position: DD: Property Management*

*Date: 12 June 2011*

## Auditor’s conclusion

Supporting documentation for the items listed below was satisfactorily inspected and the finding no longer remains valid:

|  |  |  |  |
| --- | --- | --- | --- |
| **DATE** | **ITEM DESCRIPTION** | **AMOUNT** | **[FURTHER DESCRIPTION]** |
| 2010/04/29 | MUN B/ACC:MUN RATES AND TAXES | R 18,000.00 | RUSTENBURG |
| 2010/06/29 | MUN B/ACC:MUN RATES AND TAXES | R 86,336.78 | MAFIKENG |

While the payment batch for the item listed below was provided the amount could not be agreed to the payment batch, therefore the finding remains valid. This constitutes a limitation of scope and will be included in the schedule of identified misstatements.

|  |  |  |  |
| --- | --- | --- | --- |
| **DATE** | **ITEM DESCRIPTION** | **AMOUNT** | **[FURTHER DESCRIPTION]** |
| 2010/06/29 | MUN B/ACC:MUN RATES AND TAXES | R 205,483.52 | LICHTENBURG (DITSOBOTLA) |

# Fruitless and wasteful expenditure: No supporting documentation received

**North West**

## Audit Finding

*Section 38(1)(a) of the PFMA requires that the accounting officer of a department must ensure that the department has and maintains effective, efficient and transparent systems of financial and risk management and internal control.* We noted that no evidence could be obtained from the client supporting the following fruitless and wasteful expenditure: (Error rate 50%)

|  |  |  |  |
| --- | --- | --- | --- |
| **DATE** | **ITEM DESCRIPTION** | **SOURCE DOCUMENT** | **AMOUNT** |
| 31/03/2008 | Interest paid to Municipality | GJ2049 | R 25,211.46 |

Potential impact of the finding rose above is a scope limitation. The aforementioned deviation is due to supply chain management policies not being adhered to and a lack of proper record keeping being performed by the Department. Requested information was not available and supplied without any significant delay. The impact of this lack of systems is that we have been unable to obtain sufficient appropriate audit evidence on which to base our audit opinion on these disclosures.

## Internal control deficiency

*Leadership*

* Proper record keeping and record management
* The documents supporting the above are not properly filed or easily retrievable.

## Recommendation

The Department should ensure that all supporting documentation be properly kept and safeguarded and be made available for audit purposes. Management should perform regular monitoring over the safekeeping of accounting records.

## Management response

As at 25 July 2011 no management response has been received.

## Auditor’s conclusion

Finding remains valid as no management response has been received.

# Accruals listing not complete for municipal services

#### Polokwane

## Audit Finding

Section 40 (1) (a) of the PFMA indicates that the:The accounting officer for a department, trading entity or constitutional institution — must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards.

During the audit of accruals, we noted that the Regional Office did not accrue for invoices in respect of goods and services received during the financial year ended 31 March 2011. Invoices amounting to R25 997.33 were not accounted for in the list of accruals submitted for audit purposes. The table below depicts an example of our finding:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Invoice no.** | **Date of invoice** | **Date of payment of the invoice** | **Description** | **Supplier** | **Batch no.** | **Amount on invoice** | **Amount in the April BAS report** |
| 9192590744038 | 11/03/2011 | 26/04/2011 | Municipal services | Lepelle Nkumpi Municipality | 8783X9242019242 | R3 280 | R3 280 |
| H6054/0065 | 18/04/2011 | 19/04/2011 | Municipal services | Dagada PT | 8783X9208019208 | R22 717.33 | R22 717.33 |
|  |  |  |  |  | **Total** | **R25 997.33** |  |

**Note:** The discrepancies were identified based on sample reviews; a detailed review may reveal further discrepancies.

The omission of the accrual transactions in the accrual listing at year end will result in the understatement of accruals as disclosed in the annual financial statements. Lack of controls in place to ensure that accrued invoices are furnished to the relevant section at year-end.

## Internal control deficiency

*Financial and performance management*

Project managers did not furnish accrued invoices to the finance section.

## Recommendation

We recommend that all accruals be included on the accrual listing at year end to ensure the completeness of accruals disclosed in the annual financial statements. We further recommend that controls be implemented to ensure the completeness of the accruals listing by ensuring that accrued invoices are submitted by all sections to the section responsible at year-end.

## Management response

Agree with the audit finding; all invoices are received on the 18 April 2011 after submission of accrual and we accept there was omission to these invoices when were submitted our accruals. The recommendation will be implemented to ensure completeness of accruals.

*Name: Lucas Serepo*

*Position: D.D. Finance and SCM*

*Date: 17/06/2011*

**Auditor’s conclusion**

This finding remains unresolved and the amounts will be included in the schedule of identified misstatements.

# Liabilities incorrectly classified as contingent liabilities

#### Kimberly

## Audit finding

Definition of contingent liability: A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the department.

Section 38(1)(a)(i) of the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) states that the accounting officer of a department must ensure that the department has and maintains effective, efficient and transparent systems of financial and risk management and internal control.

The schedule of contingent liabilities consists of claims against the department however two of these claims are no longer contingent as judgment has been granted.

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | **Amount R** | **Proceedings** |
| 1 | Minister of Public Works vs. Barolong Funeral Parlour CC | 55,063.99 | Enrolled for trial. Default judgement granted ifo Dept. Warrant execution issued. State attorney instructed proceed # 65.Mag Crt. Act |
| 2 | Minister of Public Works vs. Gladys Tyuthuza | 7,132.26 | Summons served, judgement granted. |
|  |  | **62,196.25** |  |

Upon further inspection of the supporting documentation the amount owing in respect of Mr. Mgwebi was approved to be written off on 25 March 2008 by F. Allie (Regional Manager at that time) however the matter is still reflected as a contingent liability as at 31 March 2011.

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | **Amount** | **Proceedings** |
| 1 | Minister of Public Works vs. Z. Mgwebi Z2360/0842 | 2600 | Default judgement requested. |

Per discussions with Nkosinathi Tshekoeng (ASD: Financial Accounting) the following was noted:

The person in charge of legal services and responsible for the maintenance of documentation relating to the contingent liabilities has passed away and the new official appointed does not have the background knowledge relating to the above matters.

The schedule was received from management and no indication has been given as to whether it was updated accordingly.

No follow ups were done on the status of the claims and no contact for the state attorneys could be established were correct information could be obtained as Mr. Riley (passed away) was the only person communicating with the state attorneys.

Contingent liabilities are overstated by R64 796.

## Internal control deficiency

*Leadership*

Ongoing monitoring and supervision are not undertaken to enable an assessment of the effectiveness of internal control over financial and performance reporting.

## Recommendation

Management should ensure that the updating of information is monitored on a continual basis.

## Management response

We concur with the finding. The contingent liability register was supposed to be updated immediately after the judgement was granted. As a corrective measure the contingent liability register will be updated.

Name: Ms N Silangwe

Position: Senior Admin. Officer (Legal Service)

Date: 22 June 2011

## Auditor’s conclusion

The finding remains valid as no changes have been made to the financial statetements. This will be included in the schedule of identified misstatements.

# Manual changes to lease agreements

#### Bloemfontein

## Audit finding

Section 6.3.7 of the Construction Industry Development Board (CIDB) PN 15 Framework of agreements states that: "When awarding contracts based on a framework agreement, the parties may not, under any circumstances, make substantial amendments to the terms laid down in that framework agreement." Contrary to the previous mentioned requirement, the following lease agreements were inspected it was found that substantial manual changes were made:

|  |  |  |  |
| --- | --- | --- | --- |
| **No:** | **Lessor:** | **File no:** | **Monthly Rental:** |
| 1 | Momentum Group Limited | 6706/3347 | R133 382,18 |
| 2 | Freestone Property Investments (Pty) Ltd | 6706/3169 | R134 736,60 |
| Total | | | R268 118,78 |

The cause of the above: Management did not designate a responsible person to ensure that new contracts were prepared where substantial changes were made to contracts.

The impact of the above is:

* Manual changes to a contract might lead to unauthorised amendments to the terms and conditions of a contract.
* Irregular expenditure as disclosed in the Annual Financial Statements could be misstated.

## Internal control deficiency

*Leadership:*

Policies and procedures to enable and support understanding and execution of internal control objectives, processes and responsibilities is not established and communicated.

*Monitoring:*

Monitoring controls to ensure that new contracts are prepared where substantial amendments should be made were not effective.

## Recommendation

Management should ensure that a new agreement is drafted where substantial changes to an agreement are required.

## Management response

This office cannot agree to this finding as all changes to the agreements were signed by all parties, as per normal contract arrangement.

6706/3347

6706/3169

 Name: N Zulu

Position: Regional Manager

Date: 17 June 2011

## Auditor’s conclusion

Management response is noted. However, new contracts should have been prepared. The matter is therefore not resolved and is reported on in the management report.

# Supporting documents for accruals could not be obtained for audit purposes.

**Mthatha**

## Audit finding

 Chapter 3, Section 15(1)(a) of the Public Audit Act, 2004 (Act No.25 of 2004) states that : *" When performing an audit referred to in section 11 the Auditor-General or an authorised auditor has at all reasonable times full and unrestricted access to (a)  any document, book or written or electronic record or information of the auditee or which reflects or may elucidate the business , financial results, financial position or performance of the auditee."* Supporting documents such as payment vouchers or payment batches supporting accruals could not be obtained for audit purposes. Consequently, occurrence of the expense recorded as accruals in the financial statements could not be confirmed. The following are the details of supporting documents not obtained:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **No** | **Invoice date** | **Date invoice received** | **Date of service/delivery** | **Service Provider** | **Description of service(select from dropdown list)** | **Reference to supporting documents** | **AMOUNT** |
|
| 1 | 28/03/2011 |  |  | Mzesh Civils | OWN&LEAS P/EXP:CONTRAC PROP MAIN | WCS 048626 | 45,070.56 |
| 2 | 28/03/2011 | 28/03/2011 | 24/03/2011 | Coceka Pest Control | OWN&LEAS P/EXP:CONTRAC PROP MAIN | AD - 505556 | 2,599.20 |
| 3 | 25/08/2010 |  | 25/08/2010 | Mr Lock & Key | OWN&LEAS P/EXP:CONTRAC PROP MAIN | AD - 503338 | 7,477.00 |
| 4 | 3/3/2011 | 4/3/2011 | 1/3/2011 | Jama and Namba Trading Enterprise | OWN&LEAS P/EXP:CONTRAC PROP MAIN | AD - 506158 | 60,500.00 |
| 5 | 15/06/2009 |  | 15//06/2009 | Coetzer Fire Services | OWN&LEAS P/EXP:CONTRAC PROP MAIN | AD - 501712 | 6,800.00 |
| 6 | 25/02/2010 | 26/02/2010 | 13/02/2010 | Imbokodo Civil & Building | OWN&LEAS P/EXP:CONTRAC PROP MAIN | AD - 504093 | 3,500.00 |
| 7 | 7/9/2010 | 10/9/2010 | 20/07/2010 | Crossbar - Agencies 35 | OWN&LEAS P/EXP:CONTRAC PROP MAIN | AD - 505887 | 9,000.00 |
| 8 | 4/1/2011 | 5/1/2011 | 16/11/2010 | Redcliffs Trading 69cc | OWN&LEAS P/EXP:CONTRAC PROP MAIN | AD - 503522 | 600.00 |
| 9 | 11/2/2011 | 11/2/2011 | 7/2/2011 | P.M. Cleaners and Suppliers | P/P:GARDENING SERVICES | AD - 503550 | 4,499.00 |
|  | **TOTAL** |  |  |  |  |  | **140,045.76** |

Lack of proper controls resulting in a scope limitation.

## Internal control deficiency

*Financial and performance management*

Lack of proper record keeping, availability and access to information.

## Recommendation

Documentation supporting the accruals should be provided.

## Management response

Outstanding.

## Auditor’s conclusion

This finding remains unresolved and will be included in the schedule of identified misstatements.

# Expenses recorded in the accrual listing does not agree with supporting documents

#### Mthatha

## Audit finding

*Chapter 3, Section 15(1)(a) of the Public Audit Act, 2004 (Act No.25 of 2004) states that :" When performing an audit referred to in section 11 the Auditor-General or an authorised auditor has at all reasonable times full and unrestricted access to (a)  any document, book or written or electronic record or information of the auditee or which reflects or may elucidate the business , financial results, financial position or performance of the auditee."*

Through inspection of the accrual listing which forms part of creditors in the financial statements, it has been noted that supporting documents, such as payment vouchers or batches do not agree with the amounts as recorded  in the accrual listing .The differences between the accrual listing and supporting documents may lead to misstatement of creditors in the financial statements. The following are the variances obtained;

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Invoice date** | **Date invoice received** | **Service Provider** | **Description of service** | **Reference to supporting documents** | **Amount as per  accrual listing** | **Amount as per  payment voucher** | **Variance** |
| 25/01/2011 | 18/01/2011 | Awake Skills & Development Centre | OWN&LEAS P/EXP:CONTRAC PROP MAIN | AD - 506114 | 35,000.00 | 25,000.00 | 10,000.00 |
| 04/02/11 | 31/01/2011 | Yong-Qam-Lut Trading cc | OWN&LEAS P/EXP:CONTRAC PROP MAIN | AD - 506153 | 5,000.00 | 15,000.00 | 10,000.00 |
| 08/03/11 | 5/1/2011 | ADVO Trading Enterprise cc | OWN&LEAS P/EXP:CONTRAC PROP MAIN | AD - 505504 | 1,561.06 | 1,421.06 | 140.00 |
| **TOTAL** |  |  |  |  |  |  | **20,140.00** |

Misstatement of financial statements.

The AD-506153 was incorrectly recorded on accruals as R5 000.00 instead of R15 000.00. The other orders invoice amounts were adjusted after accrual lists were submitted.

## Internal control deficiency

*Financial and performance management*

The control activities identified as necessary are not in place and being applied.

## Recommendation

Management should ensure that accruals disclosed in the AFS are fairly and appropriately presented.

**Management response**

I am in agreement with the finding.

## Auditor’s conclusion

This finding remains unresolved and will be included in the schedule of identified misstatements.

# Payment vouchers not obtained for unplanned maintenance

#### Mthatha

## Audit finding

*Chapter 3, Section 15(1)(a) of the Public Audit Act, 2004 (Act No.25 of 2004) states that: “When performing an audit referred to in section 11 the Auditor-General or an authorised auditor has at all reasonable times full and unrestricted access to (a)  any document, book or written or electronic record or information of the auditee or which reflects or may elucidate the business , financial results, financial position or performance of the auditee."*

The under-mentioned payment voucher could not be obtained for audit purposes. Consequently, occurrence of the payment recorded in the system could not be confirmed. The following are the details of payment not obtained.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Supplier** | **Payment Date** | **Description** | **Funcarea No** | **Allocation** | **Amount** |
| Lion Building & Civils Construction | 1/18/2011 | Repairs & maintenance | 000562377 | Unplanned maintenance | R7 773,60 |

 The batch could not be found from strong room and there was no trace of it being requested.

## Internal control deficiency

*Financial and performance management*

Lack of proper record keeping, availability and access to information.

## Recommendation

Management should supply all the requested information to auditors.

## Management response

I am in agreement with the finding.

## Auditor’s conclusion

Finding remains in the management report.

# No policy in place for rotation of suppliers

#### Pretoria

## Audit finding

The PFMA Section 38(1)(a) states the following under general responsibilities of accounting officers: The accounting officer for a department, trading entity or constitutional institution .must ensure that that department, trading entity or constitutional institution has and maintains an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost-effective.

We noted that the department does not have a policy in place that has predetermined evaluation criteria for listing suppliers as potential suppliers. Without this predetermined, criteria, potential suppliers can be accepted or rejected without justification. Furthermore it was noted that there were no criteria and procedures to select suppliers to be listed on the prospective suppliers list therefore it is probable that contracts will be awarded to a limited amount of suppliers. In the absence of a predetermined criterion, the awarding of contracts based on the prospective suppliers list could be unfair, biased and not equitable. Management has not put policies in place to address these matters relating to supply chain management. Without a predetermined criterion, the awarding of contracts based on the prospective suppliers list could be unfair, biased and not equitable.

## Internal control deficiency

***Leadership***

* “Tone at the top”an environment that is conducive to good accountability and service delivery through; positive attitude; integrity; competence; and ethical behaviour.
* Accountability to the public is not emphasised.

## Recommendation

Policies and Procedures must be developed which will ensure that the procurement process is fair, unbiased and equitable.

## Management response

Agree with the finding. Cause: It is the responsibility of Technical Maintenance/Project Management to arrange term contracts for planned and unplanned maintenance, Supply Chain Management is involved to facilitate the process, however approval from the bid committee was sought to use contractors registered on CIDB as an interim measure until the contracts are in place. Action plan: Technical maintenance unit is in the process of arranging term contracts to address unplanned maintenance in a proper way.

*Name: J Thobejane*

*Position: DD: SCM*

*Date: 07/6/20110*

## Auditors’ conclusion:

The management response has been noted and the finding will remain.

# Municipal service amounts per BAS not agreeing to supporting documentation

#### Pretoria

## Audit finding

In terms of the framework of accounting, all amounts recognised in the financial statements must have supporting documentation agreeing to the amount recorded. In performing audit work on municipal services, the following was noted:

* Batch 2496 (Amount recognized on BAS: R2 183 269.78)
* Batch 2502 (Amount recognized on BAS: R4 440 803.81)

These two amounts could not be traced to the supporting schedules provided and no additional schedule was provided to provide the makeup of the amounts on BAS. This amount could not be tied up to the supporting invoices received from the Municipality.

## Internal control deficiency

***Financial and Performance Reporting***

Manual or automated controls are not designed to ensure that the transactions have occurred, are authorised, and are completely and accurately processed.

## Recommendation

All payments made should be reconciled to the supporting documentation prior to approval.

## Management response

I am not in agreement with the finding. Municipal Services – amounts incorrectly classified as arrear rates and taxes. The Audit findings on this report are not true reflection regarding the Municipal services. The necessary measures were taken when the payments were captured. All the relevant accounts regarding the payments were attached and done within 30 days. The batches were never for Rates and Taxes there has been a mistake on the Auditors side. It might be the system that classified the amounts as arrears whereas it’s current. See batch 2626, 2641 and 2644.

Name: Mosa Vuso

Position: DD: Payment

Date: 07/07/2011

## Auditors’ conclusion

The client did not address the issue of the finding. It has been noted that the finding related to amounts from BAS not being able to be reconciled to supporting documentation received. The finding is still valid. This will be included in the schedule of identified misstatements.

# Owned and leasehold expenditure supporting documents not attached to payments

#### Pretoria

## Audit finding

Approval of expenditure: Treasury Regulations 8.2.2 states that: “*Before approving expenditure or incurring a commitment to spend, the delegated or authorised official must ensure compliance with any limitations or conditions attached to the delegation or authorisation*”. The following payment batches selected, had the following supporting documentation outstanding:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date** | **Item Description** | **Supplier Name** | **Amount** | **Batch no:** | **Remarks** |
| 2010/12/20 | CLEAN BUILDING & TENDER GARDEN | LESIBANA INVESTMENT HOLDINGS C | 205,200.00 | 336215 | Quotations were not attached to the payment batch. |
| 2011/01/28 | CLEAN BUILDING & TENDER GARDEN | MOTSENG FACILITIES MANAGEMENT | 2,147,856.51 | 347617 | Included in the payment, is an amount for Invoice 102999 R8326.65. This invoice was not included in the payment batch |

## Internal control deficiency

*Leadership: Oversight responsibility*

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

## Recommendation

* Day to day maintenance payment checklist must be used to keep track of documentation supporting payments.
* Monitoring should be done by senior officials authorizing payments to ensure that payments are supported by the relevant documents.

## Management response

I do not agree: Batch No336215: The invoice is a monthly invoice of a tender therefore there is no need for a quotation; instead the rates of the tenderer are always attached to the payment for clarity purpose. I agree: Batch No. 347617: I agree: There was an oversight from both the contractor and the administrator. However, the said invoice was attached later.

*Name: SM KUTU*

*Position: DD: FM*

*Date: 25/07/2011*

## Auditors’ conclusion

The management comments have been acknowledged. With regards, to batch 336215, we agree that if the procurement was done via a contract that followed tender procedures, each payment should not have a quote attached to it. We also agree with the second comment and that part of the finding will remain.

# Accruals payment batch not submitted for audit purposes

#### Pretoria

## Audit finding

In terms of PFMA regulations section 41 an accounting officer for a department, trading entity or constitutional institution must submit to the relevant treasury or the Auditor-General, such information, returns, documents, explanations and motivations as may be prescribed or as the relevant treasury or the Auditor-General may require.

During the performance of the final audit, the payment batch for HAT H.T. SPECIALIST for an amount of R5 947,94 requested was still not made available to the auditors within the agreed amount of time in order for the auditors to meet the deadlines for audit reports.

## Internal control deficiency

*Financial and performance management*

Proper record keeping and record management; the documents supporting the above are properly filed and easily retrievable.

## Recommendation

All information necessary for an auditor to make a proper conclusion on an audit should be made available to the auditor within a reasonable time period.

## Management response

Management response not received’

## Auditors’ conclusion

No response from the client as yet, the finding remains. The amount is less than the trivial amount thus considered to be a housekeeping matter.

# Amounts on BAS could not be traced to PMIS

#### Pretoria

## Audit finding

As per discussion with management, lease payments are made monthly via the PMIS system. The information of every lease (inception, termination, escalation etc) is entered into the system and monthly payments are generated by the system. A system report, the PP38 report is generated on a monthly basis and should have all the information of the leases on it. During our detailed testing of the, following transactions that have been captured on the BAS system could not be traced to the PP38 system:

|  |  |  |  |
| --- | --- | --- | --- |
| **Date** | **Item Description** | **Amount** | **Lease no:** |
| 2010/04/22 | RENTAL PAYMENT FOR APRIL 2010THI | R3,692,381.74 | ? |
| 2010/05/26 | RENTAL SHORTFALL FROM JAN -2008- | R1,240,382.71 | ? |
| 2010/06/14 | RENTAL PAYMENT FOR ARREAR FROMJA | R13,440,098.40 | ? |
| 2010/07/02 | ARREAR RENTAL PAYMENT FOR MARCH | R2,356,694.34 | ? |
|  | TOTAL | R 20,729,557.19 |  |

We were therefore unable to verify the lease agreement to which the payment relates to.

## Impact

All information captured onto the system should be vouched against supporting documentation. Amounts paid for leases should be in agreement to lease agreement.

## Internal control deficiency

*Adequate financial management systems*

Manual or automated controls are not designed to ensure that the transactions have occurred, are authorised, and are completely and accurately processed

## Recommendation

* All information captured onto the system should be vouched against supporting documentation.
* Amounts paid for leases should be in agreement to lease agreement.

## Management response

I am not in agreement with the finding. The response could not be provided for the payment because the lease no: was not provided on the request, even the name of the supplier was not provided.

Name: Mokgaetji Tlolane

Position: Act: Deputy Director

Date: 26/07/2011

## Auditors’ conclusion

The issue was discussed with the relevant personnel in the department and it was explained to them that the auditors received the information from BAS (accounting system). This information was the basis used to request supporting documentation from the client and that further it is the client’s responsibility to provide us with the supporting documentation with regards to the amount recognized on the BAS system. Since this was not done, the finding remains.

# Municipal services: Differences identified between schedules and invoices

#### Bloemfontein

## Audit finding

Section 8.1.1 of the Treasury Regulations states that: *“The accounting officer of an institution must ensure that internal procedures and internal control measures are in place for payment approval and processing. These internal controls should provide reasonable assurance that all expenditure is necessary, appropriate, paid promptly and is adequately recorded and reported.”*

 Furthermore, section 40(1)(a) of the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) states that: *"The accounting officer for a trading entity must keep full and proper records of the financial affairs of the trading entity in accordance with any prescribed norms and standards."*

Contrary to the provisions of these sections, the following differences were found:

For payment number 357639, dated 02 March 2011, for municipal services, the invoices attached to the payment could not be matched to the schedule attached. This was a result of manual changes made to the invoices. Refer to details below:

|  |  |  |  |
| --- | --- | --- | --- |
| **Account number:** | **Amount per schedule:** | **Amount per invoice:** | **Difference:** |
| 702704 | R13 768,38 | R29 723,31 | -R15 954,93 |
| 702607 | R14 119 | R14 291,97 | -R172,97 |
| 702698 | R19 317,18 | R24 072,97 | -R4 755,79 |
| 702672 | R20 479,98 | R30 520,91 | -R10 040,93 |
| 702661 | R35 666,12 | R36 623,54 | -R957,42 |
| 702643 | R49 434,57 | R69 103,05 | -R19 668,48 |
| 702690 | R143 650,28 | R147 975,81 | -R4 325,53 |
| 702646 | R594 065,30 | R615 309,94 | -R21 244,64 |
| 702664 | R11 394,73 | R15 985,33 | -R4 590,60 |
| 702639 | R11 979,57 | R21 450,77 | -R9 471,20 |
| 702663 | R59 331,35 | R59 723,63 | -R392,28 |
| 702294 | R76 334,28 | R79 905,60 | -R3 571,32 |
| **Total** | **R1 138 695,44** | **R1 233 841,53** | **-R95 146,09** |

The cause of the above is:  Management did not designate a responsible person to ensure that supporting schedules were reconciled with the invoices and differences were followed-up and rectified.

The impact of the above is: Understatement of expenditure in the form of municipal services, resulting in inaccurate financial reporting.

## Internal control deficiency

*Financial and performance management:*

Regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information is not prepared.

*Monitoring: Ongoing monitoring*

Monitoring controls to ensure that schedules and invoices correspond were not effective.

## Recommendation

* Management should ensure that payments are only affected / made on original invoices;
* Where errors were identified on invoices it should be returned to be re-issued; and
* A reconciliation should be performed on the payments already made to the local authorities.

## Management response

This office cannot agree with the finding by the Auditor-General South Africa due to the following: The difference between the amount on the schedule and the total amount of the invoices is due to amounts paid but not yet allocated/credited by the municipality. The department processed and paid consumption for the current month as well as for the period which the municipality could not print and submit invoices for payment.

*Name: N Zulu*

*Position: Regional Manager*

*Date: 17 June 2011*

## Auditor’s conclusion

Management response is noted. However, these invoices should have been returned to the municipalities to be re-issued. The matter is therefore not resolved and is reported on in the management report

ANNEXURE C: ADMINISTRATIVE MATTERS

# Lease escalation not taken into account

#### Kimberly

## Audit finding

The lease escalation for the particular agreement was not taken into account when updating the system. The system automatically updates the payments to be made however if the information in respect of the escalation is not put onto the system, the original rentals will continue to be paid. Reconciliations are not performed on a monthly basis therefore the above was not detected and corrected timely. Lease expenditure and accruals are understated by R350.45. No provision was made for annual increase in rentals for the following client.

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| |  |  |  |  |  | | --- | --- | --- | --- | --- | | **Client** | **Initial rental** | **Lease escalation** | **Period outstanding** | **Amount** | | 57 Kerk Street Victoria West | 3504.50 | 10% | 1 month | 350.45 | |

## Internal control deficiency

*Leadership*

* Internal audit that inspects the adequacy and implementation of internal control
* Ongoing monitoring and supervision are not undertaken to enable an assessment of the effectiveness of internal control over financial and performance reporting.

## Recommendation

Management should ensure that the updating of information on the system is monitored on a continual basis.

## Management response

The department agrees with the finding. The PMIS (asset register) was not correctly updated. The PMIS has now been updated and the arrears paid to the lessor.

## Auditor’s conclusion

Management comments are noted. Management must ensure that all the under or overpayments are identified and where money is owed to the department, necessary actions must be taken to recover those amounts.

# Rental payments in vain resulting in fruitless and wasteful expenditure

#### Kimberly

## Audit finding

Fruitless and Wasteful Expenditure is defined as expenditure which was made in vain and would have been avoided had reasonable care been exercised. Section 38(1)(c)(i) of the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) states that the accounting officer of a department must take effective and appropriate steps to prevent fruitless and wasteful expenditure.

Two buildings were leased for Arts and Culture and Rural Development, however these buildings were never occupied during the year under review. The lease payments made amounts to R185 420. No inspections were performed to ensure that the lease holdings were occupied. Fruitless and wasteful expenditure is understated by R185 420

## Internal control deficiency

*Leadership*

Ongoing monitoring and supervision are not undertaken to enable an assessment of the effectiveness of internal control relating to detection, prevention and recording of fruitless and wasteful expenditure.

## Recommendation

The accountant must implement controls to ensure that fruitless and wasteful expenditure is prevented.

## Management response

The department does not agree with the finding. The lease commenced on 01/06/2009 and the Department corresponded with Mr. de Jager from Department of Arts & Culture. In fact, the client requested certain changes to the building. On 15 March 2010, when the Department carried out an inspection, the building was closed and the client was not available.

An e-mail was sent to Mr. de Jager on 26 March 2010 to confirm whether the building is fully utilised since he did not find anyone on the premises on 15 March 2010. On 17 September 2010, Ms Joan vd Merwe also sent an e-mail to Nosiphokazi Ndlwana (Arts & Culture) to inform her that if occupation is not taken, it will be fruitless expenditure.

The owner approached the department to enquire whether the lease will be renewed since the building was not utilised for the lease period. Since a valid lease agreement was concluded with the property owner, the department was obliged to make payments. The fruitless and wasteful expenditure is directly as a result of the client not taking occupation and not informing the department that the building is no longer required.

This audit query must be lodged against the client. The Department of Rural Development and Land Reform pressurized the department to finalize the lease agreement since they were eager to move into the building. However, after the lease was signed, DRDLR did not install telephone lines or network cables and did not take occupation of the building, even though this department informed them that the lease has commenced.

All arrangements were made with the Landlord and the client was part of the arrangements. Therefore, they were well aware that the lease commenced, yet they did not move in. Therefore, in light of the above, the audit query must be raised with the client department.

## Auditor’s conclusion

Management comment noted. Action has to be instituted against the department for its failure to inform Public Works which has as a result, incurred expenditure in vain. This issue will be followed up in the subsequent financial period to determine of management did take the necessary step against the client department

# SCM officials have not formally signed the code of conduct

#### Nelspruit

## Audit finding

Practice Note No. 7 of 2009/2010 SCM – Declaration of Interest: Amendment and augmentation of Standard Bidding Document (SBD4) 4.4 Signing of Code of Conduct

4.4.1 *Accounting officers and accounting authorities are required to compel SCM officials to formally sign the relevant Codes of Conduct with an undertaking to adhere to their requirements.*

*4.4.2 Newly appointed officials or officials transferred to the SCM unit should also be required to sign the Codes of Conduct.*

Deviation noted regarding the above: Through discussions with SCM officials it was discovered that not all SCM officials signed the Code of Conduct as required by Practice Note No. 7 of 2009/2010.

This is a non compliance to Practice Note No. 7 of 2009/2010. Per discussion with management it was determined that the deviation noted above resulted from the department having other processes in place to ensure that the officials within the department adhere to the code of conduct such as having all the members of the Bid Adjudication and Evaluation Committees sign the declaration of interest and confidentiality.

## Internal control deficiency

*Leadership*

The accounting officer did not exercise his oversight responsibility regarding financial and performance reporting and compliance and related internal controls

## Recommendation

All SCM officials have to sign the National Treasury's code of conduct upon appointment. A copy of the signed code of conduct needs to be placed on their employee files.

## Management response

1. I am in not agreement with the finding for the following reasons: The purpose of the Practice note No. 7 of 2009/2010 was to provide guidance and offer remedies to Departments that did not have in place processes to deal with third party disclosure and further regulates the SCM environment on those particular matters. The code of conduct was only signed by Bid Adjudication Committee members only on appointment to serve on the committee. This is undertaken every financial year. SCM official, as specialist are also part of such committees.
2. During a procurement process, all members of the Specification and Evaluation committees sign the declaration of interest and confidentiality for every service needed and procured. The purpose of which is indicated in the code of conduct. PA-11 form part of every tender document issued by the Department, also addresses the matter as highlighted in the Practice note.
3. SCM member were compelled and subjected to signing the security clearance forms to ensure confidentiality of information as stipulated in the Protection of information Act 84 of 1982.
4. Management has however ensure that SCM official signed the Code of conduct to ensure consistency with the Practice note and as recommended by the Auditors. This however does not mean that the Department does not have processes in place addressing the matters highlighted in the practice note.

## Auditor’s conclusion

Managements comment noted. The fact that management had all officials sign the Code of Conduct after the finding had been raised is a confirmation that management did not adhere to the Practice Note as indicated above. The finding remains valid.

# Supporting documents not stamped as paid

#### Nelspruit

## Audit Finding

The Public Finance Management Act No.1 of 1999,

*“38.   General responsibilities of accounting officers.—(1) The accounting officer for a department, trading entity or constitutional institution—*

*(a) must ensure that that department, trading entity or constitutional institution has and maintains —*

*(i) effective, efficient and transparent systems of financial and risk management and internal control;*

*(ii) a system of internal audit under the control and direction of an audit committee complying with and operating in accordance with regulations and instructions prescribed in terms of sections 76 and 77;*

*(iii) an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost-effective;*

1. *a system for properly evaluating all major capital projects prior to a final decision on the project;”*

Deviation pertaining to the aforementioned: Payment number 29 to Zemba Construction CC for R1 091 483,64 on 29 July 2010 was not stamped as paid after the payment was made.

The deviation noted above resulted from an oversight and negligence from officials who filled the supporting documents.

* This is a Non compliance with PFMA Act no.1 of 1999, par.38(a)(i)
* There is an increased risk of bribery and fraudulent activities.
* There is also an increased risk of duplicate payments being made.

## Internal control deficiency

*Leadership*

The accounting officer did not exercise his oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

## Recommendation

* Management must ensure that all documents attached for payment are stamped as “Paid” after being paid.
* Management should ensure a functional internal control environment exists and is adhered to, as prescribed by the PFMA Act no.1 of 1999.
* Management should establish internal controls that promote segregation of duties, that clearly communicate who is responsible to stamp documents as paid.
* Payments should only be filed once they are clearly stamped as “Paid”.

## Management response

I am in agreement with the finding for the following reasons: It was an oversight and negligent from the officials who were filling them per batch processed for the day. The matter has been noted and as such corrective measures have been taken to ensure that the matter will be effectively addressed in the future. It must be noted though that the office does not have a batch controller however the office is in the process of filling the post.

## Auditor’s conclusion

Management comment noted and the finding remains a valid finding. Management must implement the recommendations made.

# IT steering committee meetings not taking place

## Audit finding

Section 38 of the PFMA states that the accounting officer for a department, trading entity or constitutional institution must ensure that the department, trading entity or constitutional institution has and maintains effective, efficient and transparent systems of financial and risk management and internal control

It was noted that the entity has an IT steering committee which has an approved terms of reference. The names of the members and contact details of the IT steering committee as well as the minutes of IT steering committee meetings held from 01 April 2010 to date were requested. The response received from management with regards to the names of members and contact details indicated that the information had been submitted to the DPW auditors.

Through discussion with the DPW auditors it was identified only the terms of reference had been submitted. In terms of paragraph 7.1.2 of the IT steering committee terms of reference, "meetings shall take place at least once a month". However the response received from management stated "Please note that no IT Steering committee has been convened in the previous financial year". Based on the above response from management it is noted that the IT steering committee is in contravention of its approved terms of reference.

Absence of IT steering committee meeting indicates that the IT steering committee may not be carrying out its responsibilities and functions as set out in the terms of reference.

If the roles and responsibilities of the members of the committees are not clearly defined, it could result in the ineffective and insufficient operation of the committee.

The Absence of IT Steering committee meetings results in non compliance with the IT terms of reference of the entity.

This finding mainly occurs as a result of the following:

As per the internal memorandum signed on 21 September 2010 “An IT steering committee was established in 2005 and a committee was convened with both the IS unit and various business units of the department. For a period of three years the committee consistently met, but started to deteriorate.”

## Internal control deficiency

*Leadership: Oversight responsibility*

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

## Recommendation

The committees should be evaluated on a regular basis to ensure compliance with the respective charters.

## Management response

A new TOR has been signed by the DG, an new members will be informed of the scheduled times of the IS steering committee which will be effective from April 2011, the past financial year oversight was mainly performed by NBAC through procurement of relevant systems

*Name: Nthabiseng Mosupye*

*Position: Chief Director: Information Services*

*Date: 31st March 2011*

## Auditor’s conclusion

Management comments noted however the IT steering committee was not operational during the year and this is non compliance with the IT steering committee terms of reference.

# Deficiencies identified in the risk assessment process

## Audit finding

We obtained the risk register from the PMTE. Upon inspection of the register it was noted that the information contained in the risk registers were not clearly documented and well presented as required in terms of the integrated risk management strategy (refer to detail below).

***a. Risk assessment process***

The integrated risk management strategy paragraph 3.7 (risk assessment) states: *“The risk assessment process follows a systematic process that involves the review of existing controls and interrogation of risks at two levels, namely at the inherent risk level and the residual risk level, using pre-determined rating criteria for each assessment. Risks are assessed by analysing the possibility of their occurrence (likelihood) and their impact in the event of occurrence”*

Included in the integrated risk management strategy is a rating table that will be utilised to categories the various levels of inherent and residual risk. The following inconsistencies were noted:

1.1. The risk registers as supplied by the entity included ratings for the inherent and residual risk identified however, the rating table to be used to categories the various levels of risk was not included in the risk register to enable the understanding of the significance of the risk identified.

1.2. It was further noted that the inherent risk ratings were highlighted with specific colours as disclosed in the integrated management framework however legends were not provided indicating the explanation of the highlighted colours, therefore failing to provide the users of the document with the necessary understanding of the significance of the specific colours used.

***b. Monitoring and Review***

Paragraph 3.8 (monitoring and review of the integrated risk management strategy) states: *“Monitoring and review will be done to determine the effectiveness of identified risk control action plans and to establish whether they have been implemented as per risk register. Monitoring and review will take place once quarterly using the quarterly reports submitted by the units as well through a series of interviews and testing of portfolio of evidence. The Strategic Management Unit (SMU) will perform the monitoring and review of the implementation of risk control action plans. The results of the monitoring and review will be used to update the departmental risk register.”*

The following inconsistencies were noted:

1. The results of the quarterly monitoring and review for the following risk registers have not been updated.

* Property and Construction Industry Policy Regulations
* Legal Services
* Key Accounts Management
* International Relations and Special Projects
* Finance – (Not all risk identified have been completely updated)

1. The risk registers supplied by the entity included headings for “risk category”, “risk subcategory” and “risk description”.

Through inspection of the risk registers it was identified that for the above mentioned headings there was either no information documented under the headings or the headings were only partially completed

1. In terms of the integrated risk management framework paragraph 3.10. (Risk reporting): *“Risk reporting is the review of how the various business units and branches within the department have managed their risks. It also refers to looking at the alignment between the risk management plan, business plan and quarterly reports.”*

From the risk registers received it was identified that not all the risk registers included alignment to the business plan. The following risk registers did not contain information to show that the action plans were aligned to the business plan:

* Property and Construction Industry Policy Regulations
* Key Accounts Management

1. There were two sets of risk registers that were submitted by the entity. The initial set of risk registers was submitted after being requested from management with request no 02 on the 07 October 2010, upon inspection of the first set of the risk register we identified various inconsistencies which we brought to the attention of management. Management subsequently submitted the second set of risk registers. We therefore selected the finance risk register to identify the difference between the two set of registers and the following discrepancies were identified:

* Risks identified on the first risk register submitted was omitted from the second register submitted
* The objective title on the first risk register did not link to the risk identified. The following serves as an example:

| **Objective Title** | **Risk Title** | **Risk Description** | **IL** | **II** | **IR** | **Control Title** | **Control Effectiveness** | **RR** | **Action Plan Title** | **Responsible Person** | **Due Date** |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Fixed Asset Register | Overdraft on trading account |  | 5 | 5 | **25** | Age analysis on outstanding invoices. | 0,4 | 10 | Regular meetings with clients | Dir: customer billing | 31 July 2010 |
| Fixed Asset Register | Conclude SLA with client departments | Cd: kam-head office | 31 March 2010 |
| Fixed Asset Register | Debtors register | 0,65 | 16,25 | Aging of the debtors register on a monthly basis. | Dir: customer billing | 31 March 2011 |
| Fixed Asset Register | Cash flow management. | 0,4 | 10 | Timeous invoicing monthly & quarterly | Dir: customer billing | 31 March 2011 |

In the absence of a proper system for managing risk, the entity will be unable to detect and manage risks in the department which could result in unauthorised, fruitless and wasteful and irregular expenditure being incurred.

At present there are limited skills at the Strategic Management Unit (SMU) responsible for risk management i.e. only 2 persons are assigned to consolidate the risks from the units in the whole department. They do not have the authority to enforce the head of the different units to implement the action plans set for the specific risks.

From our review of the EXCO minutes we could not obtain any evidence that this matter is being monitored and that compliance to proposed action plans are being enforced.

## Internal control deficiency

*Leadership*

* Decisive action to: mitigate emerging risks, implement timely corrective measures and address non performance
* Control weaknesses are not analysed, and appropriate follow-up actions are not taken that address root causes.

*Governance*

* Internal audit that inspects the adequacy and implementation of internal control
* Ongoing monitoring and supervision are not undertaken to enable an assessment of the effectiveness of internal control over financial and performance.

## Recommendation

* The risk registers should be properly aligned to the business plan.
* In order to ensure that the correct action plans are implemented the risk register should be updated regularly.
* EXCO must develop mechanisms that will ensure that each discipline/ responsible person for a particular unit takes the necessary actions to mitigate and manage the risk identified for the unit, i.e. include this requirement as part of the performance contracts of the senior management.

## Management response

Response submitted in an email. “Referring to section 2: Planning – Risk Assessment Registers the issues were discussed with the Office of the Auditor General in a meeting held last year between them and the risk management unit and the following are some of the responses given:

Risk Assessment process

* 1. The tables for risk assessment criteria have been made available to all units and they are also available on request by the Auditor General. These tables are also available in the Integrated Risk Management Framework that was submitted to the Auditor General’s office
  2. The colours are also explained in the tables as mentioned in 1.1 above

Monitoring and Review

1. Risk Management Unit within SMU is currently in the process of monitoring the implementation of risk action plans using the quarterly reports as a basis as well as interviews with the various units and regional offices. Most regional offices have been monitored and the reports were made available to the AG’s office. Due to capacity constraints and the late availability of quarterly reports from the units the process of monitoring the implementation of risk action plans has not been completed for all the quarters and all the units and regions
2. The format that was used as a risk register was based on the requirements of BarnOwl to enable us to load the information into BarnOwl from EXCEL. The BarnOwl system is a national treasury software and it is controlled by national treasury.  The software requires that the information include all the columns whether they have the information or not for it to be able to read the information. Also due to capacity constraints the process of filling in the missing columns could not be completed for all the units and regions. The Risk Management unit currently has two (2) officials who are responsible for facilitating the risk management process for the entire Department
3. The alignment to business plans is done manually by checking the actions plans against the business plans.

A meeting was held with CFO and senior managers from Finance and Supply Chain management. PMTE was included as part of that meeting as it was considered as falling that branch. A summary of high risks was then finalized which was intended to highlight the risks that the branch considered priority risks.”

## Auditor‘s conclusion

Management must address the issue of capacity and ensure that sufficiently staffed personnel exists that will manage the process of risk assessment ensuring that there is proper monitoring and reviewing of the risk.

# Deficiencies identified in Supply Chain Management Unit

## Audit finding

Paragraph 4.3 – Risk Identification of the Risk Assessment Policy of the Department of Public Works states that: “All heads of units and branches in the Department and Regional offices shall be responsible for identification of strengths and weaknesses facing their activities. The risks shall be identified through discussions, workshops and interviews facilitated by the Risk office and internal audit. “Risk assessment are conducted annually and whenever there has been changes in the environment, and on the ongoing basis for capital projects, tender processes and other major internal processes”

While evaluating the controls relating to Supply Chain Management the following deficiencies were identified:

1. There has been no evidence that the Head of Unit identifies the strengths and the weaknesses facing its activities, as required by the Risk Assessment Policy, on an ongoing basis within the Supply Chain Management Unit.  The risks identified in the risk registers provided for audit purposes are as follows:

* Fraud and Corruption relating to bribery and fronting.
* Loss of tender documents
* Collusion
* Non compliance to prescripts which will result in poor planning and correct procurement procedures are not followed resulting in irregular expenditure.
* No project management capacity building.

1. The following significant risks were identified during the understanding of the business process of the Department. These risks were not taken into account by management when identifying the risks pertaining to the supply chain management.

* SCM officials who “may have an interest in tenders” but does not declare them participate in meetings and influence the decisions taken in evaluation of prospective tenders.
* Fraudulent information and documents supplied by the prospective contractor.
* Over-reliance on consultants for risk assessments, management of the tenders, approval of payments and performance monitoring.
* Deviations from the normal tender process without proper motivations or approval.
* Projects being broken down to small amounts to avoid the bidding process.
* Bid rigging.
* Unnecessary extensions, modifications and variations on the project.
* Payments made to the contractor that exceeds the contract price.

1. The proper action plans have not been documented properly and communicated with the staff.
2. There is no separate evaluations of the risks identified other than the risks assessed by Internal Audit Unit.
3. The risks not identified and addressed may weaken the supply chain management system and result in the entire Supply Chain Management System being unfair, inequitable, non competitive and not cost effective.

Reliance is placed on Internal Audit and the Risk Section to perform these risk assessments and provide recommendations on the weaknesses for the whole organisation. Non compliance with Treasury Regulation and PFMA which could result in irregular expenditure.

## Internal control deficiency

*Governance: Risk identification, evaluation and response by management*

* Implement appropriate risk management activities to ensure that regular risk assessment, including consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored.
* PMTE does notimplement appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored
* Management does not comprehensively identify risks using various methodologies as appropriate.
* Consideration has not been given to risks indicated by a history of unauthorised, irregular and fruitless and wasteful expenditure, or other statutory non-compliance

## Recommendation

The Head of the SCM unit must ensure that risk assessments takes place, this can achieved by implementing the following:

* Meetings with the employees whenever there are emerging risks and weaknesses identified.
* Discuss the action plans to be taken in order to mitigate risks and weaknesses identified.
* Follow up on a monthly basis to ensure that the action plans have been implemented.
* These risk assessment must be properly documented.
* There should be a separate Evaluation Unit that assesses the risks identified by the Supply Chain Management Unit other than the Internal Audit Unit.

## Management response

Management response outstanding

## Auditor’s conclusion

Management should address the deficiencies identified in the supply chain management unit as a matter of urgency.

# Contract Sum (VAT inclusive)

## Audit finding

*Section 40(1) of Public Finance Management Act states that the accounting officer for a department, trading entity or constitutional institution must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards”*

Payments were made to Sikona Building under “Claims Recoverable: CA, Contractor” for replacement of kitchen equipment and supporting infrastructure refurbishment. We noted that the payments were based on the contract sum (VAT inclusive) of R16 062 483,31. The contract sum (VAT inclusive) on the progress payment was traced to the contract sum on the contract and it was identified that it does not agree to the contract sum (VAT inclusive) on the contract.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **No.** | **Contractor** | **Contract Sum Value as per Progress Payment** | **Contract Sum Value as per Contract** | **Variance** |
| 1 | Sikona Building Contractor | R16 062 483,31 | R16 038 825,80 | R23 657,51 |
| **Total** | | | | **R23 657,51** |

Details on the progress payment are not agreed to the details as per the contract or information regarding the contract on WCS. Payments processed are not reviewed and checked before payments are processed. Payments made my exceed the contract amount and this result in irregular expenditure

## Internal control deficiency

*Leadership*

Ongoing monitoring and supervision are not undertaken to enable management to determine whether internal control over financial reporting is present and functioning.

## Recommendation

* Management should ensure that accurate and complete financial information is regularly prepared and supported and evidenced by reliable information.
* Management should account for any changes in the financial information and supported and evidenced by reliable information.
* Management should ensure an independent senior person is assigned to review and verify day to day processed transactions for construction payments.

## Management response

Management response not received

## Auditor’s conclusion

Management comment outstanding, therefore finding remains

# Claims recoverable municipal services

## Audit finding

Practice Note 6 of 2006/2007:  Accounting for transactions between departments and the Property Management Trading Entity, note 3 states: *“a) The PMTE will recover municipal service costs on a monthly basis from client departments; and b) A Municipal Service Claim (including a Z59 claim), generated by the PMTE and duly certified by the Chief Financial Officer (CFO) of the PMTE shall be deemed acceptable as the payment certificate and must be settled within 30 days (see Treasury Regulation 8.2.3). The CFO of the PMTE must ensure that the claim includes a reference (such as invoice and erf number) to the original documentation received from the municipalities. "*The following Z59's did not have the required referencing (invoice number or erf number) printed thereon.

| **NO** | **FANO** | **TRANSDATE** | **CLAIM MONTH** | **BILLING MONTH** | **TRANSACTION DESCRIPTION** | **TRANS AMT CR** |
| --- | --- | --- | --- | --- | --- | --- |
| 1 | G2324 | 06/05/2010 | Feb-10 | 31 March 2010 | MUN SERV REC FRM SAPS | R24 628 158,84 |
| 2 | GJ2324 | 06/05/2010 | 10-Jan | 28 February 2010 | MUN SERV REC FRM SAPS | R38 302 638,50 |
| 3 | GJ2327 | 07/05/2010 | 09-Dec | 31 January 2010 | MUN SERV REC FRM SAPS | R35 458 035,57 |
| 4 | GJ2361 | 31/05/2010 | 10-Feb | 31 March 2010 | MUN SERV REC FRM DEFENCE | R34 329 613,56 |
| 5 | GJ2395 | 08/06/2010 | 10-Mar | 30 April 2010 | MUN SRV REC FRM PUBLIC WORKS | R10 748 149,55 |
| 6 | GJ2397 | 08/06/2010 | 10-Mar | 30 April 2010 | MUN SERV REC FRM CORR SERVICES | R42 946 080,68 |
| 7 | GJ2431 | 02/07/2010 | 10-Mar | 30 April 2010 | MUN SERV REC FRM DEFENCE | R39 627 252,47 |
| 8 | GJ2431 | 02/07/2010 | April 2010 | 31 May 2010 | MUN SERV REC FRM PUBLIC WORKS | R13 620 863,45 |
| 9 | GJ2431 | 02/07/2010 | 10-Apr | 31 May 2010 | MUN SERV REC FRM CORR SERVICE | R35 610 019,44 |
| 10 | GJ2543 | 05/08/2010 | 10-Mar | 30 April 2010 | MUN SERV REC FRM JUSTICE | R14 083 065,78 |
| 11 | GJ2543 | 05/08/2010 | 10-Mar | 30 April 2010 | MUN SERV REC FRM JUSTICE | R22 329 289,04 |
| 12 | GJ2608 | 01/09/2010 | March2010' 'May2010' 'June2010' | 31 April 2010 '30 June 2010 '31 July 2010 | MUN SERV REC FRM PUBLIC WORKS | R11 946 240,09 |
| 13 | GJ2608 | 01/09/2010 | 10-Jun | 31-Jul-10 | MUN SERV REC FRM PUBLIC WORKS | R11 795 908,66 |
| 14 | GJ2608 | 01/09/2010 | May 2010 | 30 June 2010 | MUN SERV REC FRM CORR SERVICES | R33 970 305,88 |
| 15 | GJ2629 | 07/09/2010 | 10-Jun | 27-Jul-10 | MUN SERV REC FRM CORR SERVICES | R41 397 810,01 |
| 16 | GJ2638 | 07/09/2010 | May 2010 and June 2010 | 30 June 2010 "31 July 2010 | MUN SERV REC FRM DEFENCE | R69 519 446,11 |
| 17 | GJ2638 | 07/09/2010 | March2010 'April2010 | 30 April 2010 ' 31 May 2010 | MUN SERV REC FRM SAPS | R75 545 697,40 |
| 18 | GJ2757 | 05/10/2010 | 10-Jun | 31 July 2010 | MUN SERV REC FRM SAPS | R30 240 754,64 |
| 19 | GJ2773 | 07/10/2010 | 10-Jul | 31 August 2010 | MUN SERV REC FRM SAPS | R25 895 243,65 |
| 20 | GJ2773 | 07/10/2010 | May2010 'July 2010 | 30 June 2010 ' 31 August 2010 | MUN SERV REC FRM CORR SERVICES | R45 177 182,78 |
| 21 | GJ2757 | 04/11/2010 | May and August 2010 | 01/10/2010 | MUN SERV REC FRM SAPS | R28 100 091,81 |
| 22 | GJ3535 | 2011/04/04 | 2011/02/01 | 2011/03/08 | MUN SERV REC FRM CORR SERV FEB11 | R55 078 533,13 |
| 23 | GJ3535 | 2011/04/04 | 2011/01/01 | 2011/03/09 | MUN SERV REC FRM DEFENCE JAN11 | R14 441 499,19 |
| 24 | GJ3552 | 2011/04/05 | 2011/02/01 | 2011/03/09 | MUN SERV REC FRM LABOUR FEB11 | R3 626 010,66 |
| **Total** | | | | | | **R758 417 890,89** |

The above mentioned finding is due to the fact that the details are captured on PMIS. The information is not recorded on the Z59 but on spreadsheets which are attached to the Z59.

The above mentioned results in non compliance with laws and regulations

## Internal control deficiency

*Leadership*

Oversight responsibility regarding financial and performance reporting and compliance and related internal controls is not exercised

*Information and Communication*

Pertinent information is identified, captured, used at all levels of the company and distributed in a form and timeframe that support the achievement of reporting objectives.

## Recommendation

All details as per the Practice Note should be detailed on the Z59. Management needs to review the Z59’s issued to the client department and ensure that all relevant details are documented

## Management response

I am not in agreement with the finding for the following reasons: The Practice Note was issued by National Treasury on our request after extensive discussions on what is practically possible. We agreed that the Z 59 (as part of the Claim) will have an attachment with details of the payments made per property; displaying the information as listed.

The Directive states that: *A* ***Municipal Service Claim*** *(including a Z59 claim), generated by the PMTE and duly certified by the Chief Financial Officer (CFO) of the PMTE shall be deemed acceptable as the payment certificate and must be settled within 30 days (see Treasury Regulation 8.2.3). The CFO of the PMTE must ensure that the* ***claim*** *includes a reference (such as invoice and erf number) to the original documentation received from the municipalities. "*

This implies that the information should be part of the claim, just as the Z59 is part of the claim. It doesn’t say that the details should be on the Z59. Every Municipal Claim issued since inception of the PMTE was issued in this format.

*Name:* Juanita Prinsloo

*Position: CD: TA*

*Date: 22 July 2011*

## Auditor’s conclusion

Management comment noted, however no proof was supplied on this, therefore the finding remains.

# Discrepancy identified from debtors confirmation

## Audit finding

Paragraph 89 of the Framework for the Preparation and Presentation of the Financial Statements states the following*: “an asset is recognised in the balance sheet when it is probable that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably."*

IAS 39 Financial Instruments: Recognition and measurement, requires that when a financial asset is recognised initially, an entity shall measure it at fair value, plus transaction costs that are attributable to the issue of the financial asset

Debtor’s confirmations were sent out on 3 January 2011 to client departments to confirm the accuracy of debtor’s balances at 30 September 2010. Based on a response from the Department of Agriculture, Forestry and Fisheries (DAFF), there was a discrepancy noted between the amount as per PMTE records and the amount confirmed by the DAFF. The following table indicates the noted discrepancy.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **No.** | **Client Department** | **Date and source of balances** | **Amounts as per PMTE records** | **Amount indicated on the confirmation from client department** | **Discrepancies** |
| 1. | Department of Agriculture, forestry and fisheries | PMTE age analysis at 30 September 2010 | R77 770 196 | R31 746 495,70 | R46 023 00,30 |

In the prior year the time value of money was not taken into account when disclosing the fair value of receivables as disclosed in note 4 to the financial statements. Due to the lack of an accrual accounting system the time value of money would have to be calculated manually. As a result of the discrepancy identified during the debtors confirmations there may be an indication that debtors’ balances are not accurate / not recoverable and this may lead to material misstatements in the AFS when calculating the fair value of the financial asset.

As per discussions with management, the discrepancies in the debtors balances is as a result of the lack of a proper financial accounting system and the lack of a staff compliment to facilitate processes to ensure correct debtors balances. Incorrect balances are also caused due to incorrect data on the PMIS system.

## Internal control deficiency

*Financial and performance management: Adequate financial management systems*

Systems are not appropriate to facilitate the preparation of the financial statements on the GAAP basis of accounting.

## Recommendation

* Management should perform monthly reconciliations to ensure balances are correct
* As a control measure management should perform debtors confirmations on a quarterly basis to identify any discrepancies between the client departments and management
* Monthly age analysis should be inspected for clients with balances longer than 30 days. Follow up letters should be submitted to the relevant client departments.
* If balances are still outstanding after 60 days letters should be issued to the DG’s of the relevant client departments of the outstanding debt.

## Management response

Management is in agreement of the findings. We indicated in the beginning of the audit that we are busy with the process of reconciling debtor’s accounts with the assistance of the consulting firm Sizwe Ntsaluba. The balance at 30 September 2010 was incorrect but significance progress has been made in the months following. The departments of agriculture, forestry, fisheries, environmental affairs and water affairs pose an additional challenge due to the macro re organisation of the state. Although the PMIS was updated to reflect the "new" occupants of the buildings, the budgets were not moved between these clients. The clients have been met individually but we are in the process of arranging a collective meeting to agree on which client should be billed for which property

## Auditor’s conclusion

Management agrees with the finding. The inaccuracy of the debtors’ balances in the PMTE remains a major concern. The issue of discrepancies in the receivables balances will be reported in the audit report, however the implementation of the controls to mitigate the deficiencies identified will be followed up during the following reporting period. This will however be reported as an admin matter in the management letter.

# Incorrect classification of transactions

**North West**

## Audit finding

Section 40(1)(a) of the Public Finance Management Act states that: *“ the accounting officer for a trading entity must keep full and proper records of the financial affairs of the trading entity in accordance with any prescribed norms and standards,”*

Section 38(1)(a) of the PFMA requires that: “*the accounting officer of a department must ensure that the department has and maintains effective, efficient and transparent systems of financial and risk management and internal control.”*

Deviation noted pertaining to construction: We noted transactions for planned maintenance (current expenditure) which were incorrectly recorded under construction (capital expenditure). (error rate: 13%)

|  |  |  |  |
| --- | --- | --- | --- |
| **DATE** | **TRANSACTION DESCRIPTION** | **CONTRACTOR** | **AMOUNT** |
| 2010/05/20 | CONTRACTOR PAYMENT | MULTI-NET SYSTEMS CC | R49 453 |
| 2010/06/24 | CONTRACTOR PAYMENT | MULTI-NET SYSTEMS CC | R49 453 |

Potential impact of the finding rose above:

(a) Statement of comprehensive income: Understatement of current expenditure

(b) Statement of financial position: Overstatement of tangible capital assets

Accounting officers do not ensure that transactions are classified correctly by appropriately communicating classification criteria to data capturers. The accounting officer does not review the monthly reports or the financial statements prior to their submission for audit and thus the above matters were not identified and corrected.

## Internal control deficiency

*Financial and performance management*

* Quality, reliable monthly financial statements and management information
* Pertinent information is not identified and captured in a form and time frame to support financial and performance reporting.
* The accounting authority does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

## Recommendation

* Management should ensure that all expenses are classified correctly.
* Senior officials must review all schedules supporting the financial statements for completeness, accuracy and compliance with the required framework.

## Management response

No response received as at 25 July 2011

## Auditor’s conclusion

Management response has not been received. The impact of the misclassification is immaterial but has been brought to management attention so that they can avoid such misclassifications in future.

# Payments not stamped paid

**North West**

## Audit finding

*Section 38(1)(a) of the PFMA requires that the accounting officer of a department must ensure that the department has and maintains effective, efficient and transparent systems of financial and risk management and internal control.*

There were no evidence found that payments are consistently reviewed as they were not stamped as processed and paid:

(Error rate 100%)

|  |  |  |  |
| --- | --- | --- | --- |
| **PAYMENT DATE** | **ITEM DESCRIPTION** | **CONTRACTOR** | **VALUE** |
| 2010/08/10 | CONTRACTOR PAYMENT | SINCINDI PROJECTS CC | R 435 637 |
| 2010/08/30 | CONSULTANT PAYMENT | SUNRISE ELECTRICAL WHOLESALERS CC | R 1 339 496 |

The likely impact of this is potential duplicate payments to contractors.

## Internal control deficiency

*Leadership*

Oversight responsibility regarding financial and performance reporting and compliance and related internal controls not exercised.

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## Recommendation

The accounting authority should ensure that accounting staff fulfils their responsibilities by reviewing all payments made to ensure that they are stamped as processed and paid.

## Management response

I am in agreement with the finding for the following reasons: Due to the volume of payments to be captured, there was oversight on the part of the department to stamp the said processed payments (‘Paid’).

*Name:* *A T Matseke*

*Position: DD: Finance and SCM*

*Date: 18 March 2011*

## Auditor’s conclusion

Managements agreement with the finding is noted, finding remains valid. Except as an isolated omission.

# Incorrect classification of transactions

#### North West

## Audit finding

Section 40(1)(a) of the PFMA states that: *“ the accounting officer for a trading entity must keep full and proper records of the financial affairs of the trading entity in accordance with any prescribed norms and standards,”*

Section 38(1)(a) of the PFMA requires that: “*The accounting officer of a department must ensure that the department has and maintains effective, efficient and transparent systems of financial and risk management and internal control.”*

Deviations noted pertaining to planned maintenance: We noted that a tender awarded to Letlapa Borwa Civils Joint Venture amounting to R35 865 359 was classified incorrectly as current expenditure (planned maintenance), instead of capital expenditure (construction). (Error rate 20%)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **CONTRACTOR** | **TENDER APPOINTMENT DATE** | **WCS NUMBER** | **CLASSIFICATION - ITEM** | **AMOUNT** |
| LETLAPA BORWA CIVILS JOINT VENTURE | 11/12/2008 | 35536 | PLANNED MAINTENANCE | R 35 865 359 |

Potential impact of the finding rose above:

(a) Statement of comprehensive income: overstatement of current expenditure

(b) Statement of financial position: understatement of tangible capital assets

Accounting officers do not ensure that transactions are classified correctly by appropriately communicating classification criteria to data capturers.

## Internal control deficiency

*Financial and performance management*

* Quality, reliable monthly financial statements and management information
* Pertinent information is not identified and captured in a form and time frame to support financial and performance reporting.

## Recommendation

Management should ensure that all capital and current expenditure are classified correctly. Senior officials must review all schedules supporting the financial statements for completeness, accuracy and compliance with the required framework.

## Management response

*Referred to Ms. Juanita Prinsloo at Head Office (012) 337 2227*

## Auditor’s conclusion

Finding remains valid as no management response received.

# Internal control weaknesses pertaining to municipal services

**North West**

## Audit finding

*Section 38(1)(a) of the PFMA requires that the accounting officer of a department must ensure that the department has and maintains effective, efficient and transparent systems of financial and risk management and internal control.*

We noted that no reconciliation of invoices in arrears for municipal services is performed by the department. (Error rate 100%)

Potential impact of the finding rose above: Possible fruitless and wasteful expenditure

The aforementioned deviation is due to supply chain management policies not being adhered to and a lack of proper record keeping being performed by the PMTE.

## Internal control deficiency

*Leadership*

* The accounting authority does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.
* Personnel are not aware of the allocation of duties, responsibilities and lines of reporting.
* Property Management Trading Entity did not have sufficient monitoring controls to ensure the proper implementation of the overall process of reporting.

## Recommendation

The accounting authority should ensure that reconciliation of invoices in arrears is performed by the department for municipal charges on a regular basis.

## Management response

I am in agreement with the finding for the following reasons [and supply the following/attached information in support of this]: The reconciliation document is now available for submission.

*Name:* Ms. I. Mahlaule

*Position: DD: Property Management*

*Date: 12 June 2011*

## Auditor’s conclusion

The reconciliation document was inspected. The reconciliation document is of all invoices received on a monthly basis, arrears invoices are not noted on the reconciliation. It was explained and verified that monthly statements are received from all suppliers and that through inspection of the statements all invoices in arrears as per the suppliers statement are followed up and resolved. There still remains no reconciliation of specifically arrears invoices, therefore the finding remains valid.

# Follow-up of reconciliation exceptions between PMIS and BAS not performed

#### Polokwane

## Audit finding

In terms of section 40(a) of the PFMA: The accounting officer of a department must keep full and proper records of the financial affairs of the department in accordance with any prescribed norms and standards.

We noted that the Regional Office does not follow-up on the exceptions per the reconciliation between the Property Management Information System (PMIS) and BAS information; as a result the difference noted between the payments made as per the PMIS and BAS amounting to R593 174.87 was not followed-up and cleared. The table below serves as example:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Month** | **Amount per BAS** | **Amount per PMIS** | **Difference between BAS and PMIS** | **Un-reconciling amount** |
| March 2011 | R10 216 444.58 | R10 809 619.45 | R593 174.87 | R593 174.87 |

Lease payments might be understated by amounts on PMIS not being processed on BAS.

## Internal control deficiency

*Financial and performance management*

Inadequate follow-up and review of the PMIS and BAS interface process.

Reconciling items are not followed-up to clear the differences between PMIS and BAS.

## Recommendation

We recommend that monthly reconciliations be performed between the PMIS and BAS systems and any differences must be followed up and cleared in a timely manner.

## Management response

Agree with the audit finding; however, reconciliations between PMIS and BAS is performed monthly and the amount shown as the difference was caused by the cancelation of payments which were rejected by the system due to a change of banking details by the supplier or service provider.

In this instance it was a payment to the provincial Department of Public Works and forms for banking details were been submitted to H/O for registration of new banking details (attach copy).

Other items now already investigated, payment was re-issued on 25/03/2011 and the reconciliation was corrected (attached copy).

*Name: Lucas Serepo*

*Position: D.D. Finance and SCM*

*Date: 08/06/2011*

## Auditor’s conclusion

Management agree with the audit finding and recommendation. Management must ensure that monthly reconciliations are performed between the PMIS and BAS systems and any differences must be followed up and cleared in a timely manner.

# List of vacant buildings not indicating vacancy period

#### Polokwane

## Audit finding

Treasury Regulation Section 10.1.1(a) states that: *“The accounting officer of an institution must take full responsibility and ensure that proper control systems exist for assets and that—preventative mechanisms are in place to eliminate theft, losses, wastage and misuse…”*

Therefore it is important for the Regional Office to have a list of vacant properties that indicate the period from which the property was vacant to monitor and prevent effective/underutilization/non-utilization of offices. We noted that this list is not in existence at the Regional Office.

This may result in difficulties to monitor and prevent ineffective/underutilization/non-utilization of office.

## Internal control deficiency

*Leadership*

Omission to include the period from which the property was vacant by the official responsible for asset management.

## Recommendation

* A list of vacant buildings must be prepared by the department
* This list of vacant/unutilised properties must indicate the period from which the property was vacant to monitor and prevent ineffective/underutilisation/non-utilisation of office.

## Management response

Agree with the finding, the omission of the vacation date was an oversight on the part of the section, and it will be addressed by the 30 of June 2011.

Name: N.R Nengovhela

Position: Assistant Director

Date: 06/06/2011

## Auditor’s conclusion

Management agree with the audit finding and recommendation.

# Inadequate controls over contracts for completed project

#### Polokwane

## Audit finding

Section 8.1.1 of PFMA indicates that: The accounting officer of an institution must ensure that internal procedures and internal control measures are in place for payment approval and processing. These internal controls should provide reasonable assurance that all expenditure is necessary, appropriate, paid promptly and is adequately recorded and reported.

During our review of contract management, we noted that no controls are in place over completed project contracts. On request of a list of completed projects, the Regional Office submitted a manual list of completed project contracts. The list was not numbered, half of the list was typed and the other part was written, there were no details of any payments made, there was no evidence that this list has been reviewed, it was not in a form acceptable on which we could place reliance upon, etc. Thus, we were unable to determine whether the list of closed contracts were complete.

Also, we were not provided with a list of completed contracts from the PMIS system, this would assist the Regional Office to prevent further payments from being made on completed project contracts. Thus, we were also unable to determine if overpayments were made for contracts that have already been completed.

Fruitless and wasteful expenditure may be incurred by processing payments on projects already completed.

## Internal control deficiency

*Leadership*

No system controls or a register is in place to exercise adequate controls over completed projects.

## Recommendation

We recommend that the Regional Office implement a register to keep track of completed project contracts. The register should include at least the following:

* It should be numbered;
* There should be contract numbers;
* It should contain the start and end date of the contracts;
* Details of any payments made for each contract, including details of the last payment made on that contract; and
* There should be evidence that this list has been reviewed and verified on the system to ensure that no payments were made after the contacts were completed.

## Management response

Disagree with finding. We are using a manual register and spreadsheet which contains all your recommendations. Attached find a sample of the register

## Auditor’s conclusion

Management comment acknowledged. However, as per our finding above, we cannot place reliance on the documentation submitted for audit review. The list was not numbered, half of the list was typed and the other part was written, there were no details of any payments made, there was no evidence that this list has been reviewed, it was not in a form acceptable on which we could place reliance upon, etc. Thus, we were unable to determine whether the list of closed contracts were complete.

# Rates and insurance payments incorrectly classified as lease payments

**Cape Town**

## Audit finding

Property 6542/0046, 122 St John's Street, Oudthoorn, was leased to own. The lease was concluded on 30 November 2005 after a 15 year lease term, and was fully paid as such. To date the transfer of the property was not finalized.

Furthermore, the Department of Public Works is still responsible for the rates and insurance payments on this property while the transfer is being affected. These payments were incorrectly classified as lease payments; instead it should have been classified as municipal rates and insurance payments respectively.

Due to delays in transferring the property, any costs associated with the property was simply recognised as lease payments. Consequently, these transactions were incorrectly classified and will not reflect skewed picture of the line item.

## Internal control deficiency

*Governance*

Internal audit that inspects the adequacy and implementation of internal control.

Internal control deficiencies are not identified and communicated in a timely manner to allow for corrective action to be taken.

## Recommendation

The payments of insurance and rates for this property must be reclassified as municipal rates and insurance expenses if they relate to a period after the conclusion of the lease.

## Management response

The Audit finding is acknowledged. In future the correct expenditure allocation will be used. And also the correct classification will be used for both expenditures. This expenditure classification will be corrected by a journal. This property is also in process of being transferred to the Department.

*Name: H.R. Madyira*

*Position: DD: Acquisitions*

*Date: 14 June 2011*

## Auditor’s conclusion

Management comments noted. This will be included in the schedule of identified misstatements.

# Discrepancies noted between supporting documentation and accruals listing

#### Bloemfontein

## Audit finding

Section 40(1)(a) of the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) states that: *"The accounting officer for a trading entity must keep full and proper records of the financial affairs of the trading entity in accordance with any prescribed norms and standards."*

Contrary to the provision of this section, the below mentioned transaction could be traced through to the accrual list but the amount did not agree with the supporting documentation:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **No:** | **Invoice Date:** | **Payment Date:** | **Payee:** | **Order number:** | **Amount invoice:** | **Amount listing:** | **Difference:** |  |
|  |
| 1 | 30/03/2011 | 18/04/2011 | Soft line Trading | A430571 | R443 463,70 | R279 699,10 | R163 764,60 |  |

Furthermore, it was found that the disclosure note for accruals is overstated as a result of the following accruals that were included twice:

| **Invoice date:** | **Service Provider:** | **Ref to support:** | **Total**  **(R):** |
| --- | --- | --- | --- |
| 11-Mar-11 | SVP Quantity Surveyors | 030777 | 46 442,09 |
| 25-Mar-11 | SVP Quantity Surveyors | 030777 | 46 442,09 |
| 14-May-10 | Kwikspace | 6758/26 | 3 366,42 |
| 15-Jul-10 | Kwikspace | 6758/26 | 3 366,42 |
| 2-Feb-11 | Lesera Trading & Projects | A430107 | 16 060,00 |
| 22-Mar-11 | Lesera Trading & Projects | A430107 | 16 060,00 |
| 23-Feb-11 | Q's Electrical Works | A430136 | 8 898,48 |
| 6-Apr-11 | Q's Electrical Works | A430136 | 8 898,48 |
| 3-Mar-11 | Docmania Six cc T/A DLB Gardening & Cleaning Services | A430203 | 14 100,00 |
| 8-Apr-11 | Docmania Six CC T/A DLB Gardening & Cleaning Services | A430203 | 14 100,00 |
| 24-Feb-11 | Marwin Marketing | BFN/0111/9466 | 146 946,00 |
| 14-Mar-11 | Marwin Marketing | BFN/0111/9466 | 146 946,00 |
| 17-Nov-10 | Karabo Installations & Repairs | BFN/0909/6513 | 23 329,88 |
| 30-Mar-11 | Karabo Installations Repairs | BFN/0909/6513 | 23 329,88 |
| 13-May-10 | Wesselbron Magistrate Office | E589285 | 2 700,00 |
| 4-Apr-11 | Xpectations Moon General Trading | E589285 | 2 700,00 |
| 14-Mar-11 | MM Lefuma | Q10/093 | 5 000,00 |
| 12-Apr-11 | MM Lefuma | Q10/093 | 5 000,00 |
|  |  |  | **533 685,74** |

The cause of the above is: Management did not designate a responsible person to ensure that all accruals are supported by sufficient supporting documentation and that the documentation is easily retrievable for audit purposes.

The impact of the above is: Accruals as disclosed in the Annual Financial Statements of the trading entity might be misstated, resulting in inadequate financial reporting.

## Internal control deficiency

*Financial and performance management:*

* 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 is not implemented.
* Control activities: Operational – Preventive controls to ensure all required documentation was obtained and available to substantiate accruals disclosed in the Annual Financial Statements were not effective.

## Recommendation

Management should ensure that:

* all inputs to the Annual Financial Statements are properly reviewed prior to submission for audit purposes.
* all invoices before year end are individually investigated and properly disclosed as accruals where necessary.

## Management response

This office cannot agree with the finding of the AGSA as the transaction was included in the schedule. It should further be noted that the payment for Softline was recorded as R279 699,10 on the accrual schedule, however after verification of work done by the WM, payment was processed for the amount of R443 463,70. Please note that the R279 699,10 was deemed to be correct at the time of submission of the AFS.

| **Invoice date:** | **Service Provider:** | **Ref to support:** | **Total**  **(R):** | **Remarks / Comments** |
| --- | --- | --- | --- | --- |
| 11-Mar-11 | SVP Quantity Surveyors | 030777 | 46 442,09 | Agree invoice duplicated |
| 25-Mar-11 | SVP Quantity Surveyors | 030777 | 46 442,09 |
| 14-May-10 | Kwikspace | 6758/26 | 3 366,42 | Agree invoice duplicated |
| 15-Jul-10 | Kwikspace | 6758/26 | 3 366,42 |
| 2-Feb-11 | Lesera Trading & Projects | A430107 | 16 060,00 | Agree invoice duplicated |
| 22-Mar-11 | Lesera Trading & Projects | A430107 | 16 060,00 |
| 23-Feb-11 | Q's Electrical Works | A430136 | 8 898,48 | Agree invoice duplicated |
| 6-Apr-11 | Q's Electrical Works | A430136 | 8 898,48 |
| 3-Mar-11 | Docmania Six cc T/A DLB Gardening & Cleaning Services | A430203 | 14 100,00 | Agree invoice duplicated |
| 8-Apr-11 | Docmania Six CC T/A DLB Gardening & Cleaning Services | A430203 | 14 100,00 |
| 24-Feb-11 | Marwin Marketing | BFN/0111/9466 | 146 946,00 | Agree invoice duplicated |
| 14-Mar-11 | Marwin Marketing | BFN/0111/9466 | 146 946,00 |
| 17-Nov-10 | Karabo Installations & Repairs | BFN/0909/6513 | 23 329,88 | Agree invoice duplicated |
| 30-Mar-11 | Karabo Installations Repairs | BFN/0909/6513 | 23 329,88 |
| 13-May-10 | Wesselbron Magistrate Office | E589285 | 2 700,00 | Agree invoice duplicated |
| 4-Apr-11 | Xpectations Moon General Trading | E589285 | 2 700,00 |
| 14-Mar-11 | MM Lefuma | Q10/093 | 5 000,00 | Agree invoice duplicated |
| 12-Apr-11 | MM Lefuma | Q10/093 | 5 000,00 |
|  |  |  | **533 685,74** |  |

Name: N Zulu

Position: Regional Manager

Date: 22 July 2011

## Auditor’s conclusion

Management response is noted. However, the payment was processed for the amount of R443 463,70 on 18 April 2011 and the Annual Financial Statements were submitted on 31 May 2011. Consequently, the difference should have been corrected. In addition, it was found that 9 transactions amounting to R266 842,87 were included more than once in the accruals listing during the follow-up work performed. The matter is therefore not resolved and is reported on in the management report.

# No supporting documentation provided for lease commitment

#### Bloemfontein

## Audit finding

Section 40(1)(a) of the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) states that: *"The accounting officer for a trading entity must keep full and proper records of the financial affairs of the trading entity in accordance with any prescribed norms and standards."*

Contrary to the provisions of this section, through analysing lease commitments for the current year against the prior year, a difference of R214 904 147,73 were identified that could not be explained satisfactorily:

|  |  |  |
| --- | --- | --- |
| **Prior Year:** | **Current year:** | **Difference:** |
| R221 440 000,00 | R6 535 852,27 | **R214 904 147,73** |

 The cause of the above is:  Management did not designate a responsible person to ensure that all lease commitments are supported by sufficient supporting documentation and that the documentation is easily retrievable for audit purposes.

The impact of the above is:

* Failure to submit supporting documentation could lead to a limitation of scope on the audit.
* Lease commitments as disclosed in the Annual Financial Statements of the trading entity might be misstated, resulting in inadequate financial reporting.

## Internal control deficiency

*Financial and performance management:*

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 is not implemented.

*Control activities: Operational*

Preventive controls to ensure all required documentation was obtained and available to substantiate lease commitments disclosed in the Annual Financial Statements were not effective.

## Recommendation

Management should ensure that all lease commitments as disclosed are supported by sufficient supporting documentation and that the supporting documentation is properly filed and readily available for audit purposes.

## Management response

This office cannot agree or disagree with the finding as the actions are performed in Head Office. This office was only responsible for the submission of the inputs to Head Office regarding all the notes and disclosure notes. The disclosure notes were due at Head Office on 12 April, and further consolidation of the inputs from Regions took place on that level.

*Name: N Zulu*

*Position: Regional Manager*

*Date: 17 June 2011*

## Auditor’s conclusion

The issue of the differences identified between the calculations of the PMTE and our calculations will be taken reported on in the audit report and will form the basis of our audit opinion.

# Lease agreements not signed by both parties

#### Bloemfontein

## Audit finding

Section 40(1)(a) of the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) states that: “The accounting officer for a trading entity must keep full and proper records of the financial affairs of the trading entity in accordance with any prescribed norms and standards.”

Contrary to the provision of this section, the following was found whilst auditing leases:

The contracts below relating to leases were not signed by both contracting parties, namely the trading entity and the lessor:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **File No:** | **Escalation Rate:** | **Lease period:** | **Start:** | **End:** | **Monthly rental:** |
| 6704/0605 | 4% | 5 years | 01/08/2006 | 31/07/2011 | R115 322,40 |
| 6748/0024 | n/a | Monthly basis | 2010/12/01 | 2011/11/30 | R3 350,06 |
| 6722/0234 | 8% | 7 years | 2010/11/01 | 2017/10/30 | R39 010,80 |
| 6718/0133 | n/a | Monthly basis | 01/11/2010 | n/a | R1 084,09 |
| 6706/3347 | n/a | Month to Month basis | 01/11/2010 | n/a | R132 768,18 |
| 6758/0307 | 8% | 1 year | 01/04/2010 | 31/03/2011 | R73 882,25 |
| 6835/0091 | 8% | 5 years | 01/05/2010 | 30/04/2015 | R12 142,98 |
|  |  |  |  |  | R377 560,76 |

The cause of the above is:  Management did not designate a responsible person to ensure that all contracts / renewals entered into by the trading entity are signed by both contracting parties.

The impact of the above is:

* May render the contract invalid or fictitious.
* Payments could be made to non-existing obligations.
* Leases as disclosed in the Annual Financial Statements could be misstated.

## Internal control deficiency

*Financial and performance management:*

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 is not implemented.

*Monitoring: ongoing monitoring*

Monitoring controls to ensure that lease agreements were signed by both parties and followed-up timeously were not effective.

## Recommendation

Management should ensure that all lease agreements are signed by both parties (the trading entity and the lessor) and that the signed contracts are properly filed and readily available for audit purposes.

## Management response

This office agrees with the finding of the AGSA; however the following controls are in place to limit the risk to the department.

The AGSA should note that in all the above leases approval of the relevant bid adjudication committees was obtained. It should further be noted that the contracts are sent to the relevant landlords for signing, however unfortunately delays are experienced in the return of the documentation to this office. Please note that copies of the contracts for 6722/0234 and 6706/3347 are attached to this response.

This office has not received the signed lease agreement for the leases below and these are still awaited from the relevant landlords.

6704/0605

6748/0024

6718/0133

6758/0307

6835/0091

Name: N Zulu

Position: Regional Manager

Date: 22 July 2011

## Auditor’s conclusion

Management is in agreement with the audit finding. The matter is therefore not resolved and is reported on in the management report.

# No complaints register / file kept

#### Bloemfontein

## Audit finding

Treasury Regulation 16A9.1 states that: *"The accounting officer must –*

*(a) take all reasonable steps to prevent abuse of the supply chain management system;*

*(b) investigate any allegations against an official or other role player of corruption, improper conduct or failure to comply with the supply chain management system, and when justified –*

*(i) take steps against such official or other role player and inform the relevant treasury of such steps; and*

*(ii) report any conduct that may constitute an offence to the South African Police Service."*

 Contrary to the provisions of this regulation, it was found that the trading entity does not maintain a complaint register / file for lodging complaints and allegations relating to supply chain management issues by, officials at the trading entity, suppliers and potential suppliers. The complaint register was requested on request for information no 28 issued on 12 April 2011 and could not be provided for audit purposes.

The cause of the above is:  Management did not designate a responsible person to ensure that a complaints register is implemented and that all complaints and allegations relating to supply chain management are followed up and investigated.

The impact of the above is:  Complaints and allegations which could relate to non-compliance with the SCM by suppliers and officials may not be attended to, and followed up to detect any irregularities.

## Internal control deficiency

*Governance:*

Appropriate risk management activities to ensure that regular risk assessments, including consideration of IT (Information technology) risks and fraud prevention, are conducted and that a risk strategy to address the risks is not developed, implemented and monitored.

Risk assessment: Fraud risk – Risk assessments conducted to ensure that all risks were properly identified relating to fraud prevention were not effective.

## Recommendation

Management should ensure that a complaints register / file is implemented and maintained to ensure that all complaints and allegations relating to supply chain management are followed up and investigated.

## Management response

This office cannot agree with the finding by the AGSA, as no specific provision is made in the SCM policy or directives regarding such a register.

This office requests the AGSA to provide the specific process or reference to a specific stipulation indicating that a complaints register is a requirement for this department.

It should further be noted that complaints (of any nature) can be submitted directly to the relevant manager or the regional manager, and any possible fraudulent activities can be report directly to the “hotline” at 0800701701.

*Name: N Zulu*

*Position: Regional Manager*

*Date: 17 June 2011*

## Auditor’s conclusion

Management response is noted. However, as per Treasury Regulation 16A9 the accounting officer should take all reasonable steps to prevent abuse of the supply chain management system. It is doubtful whether all reasonable steps to prevent abuse of the supply chain management system were taken in the absence of a well maintained complaints register. The completeness of complaints lodged against the trading entity, reported and dealt with during the financial year could also not be confirmed in the absence of a complaints register. The matter is therefore not resolved and is reported on in the management report.

# Differences identified between schedules and invoices for rates and taxes

#### Bloemfontein

## Audit finding

Section 8.1.1 of the Treasury Regulations states that: *“The accounting officer of an institution must ensure that internal procedures and internal control measures are in place for payment approval and processing. These internal controls should provide reasonable assurance that all expenditure is necessary, appropriate, paid promptly and is adequately recorded and reported.”*

Furthermore, section 40(1)(a) of the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) states that: *"The accounting officer for a trading entity must keep full and proper records of the financial affairs of the trading entity in accordance with any prescribed norms and standards."*

Contrary to the provisions of these sections, the municipal schedule attached is not in agreement with the invoice amount. Details are as follows:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date:** | **Payee:** | **Payment No:** | **Amount per schedule:** | **Amount per invoice:** | **Difference:** |
| 04-Mar-11 | Tokologo | 360583 | R41 028,00 | R41 838,00 | R810,00 |
| 08-Mar-11 | Masilonyane | 362157 | R205 847,51 | R285 847,51 | R80 000,00 |
| 10-Mar-11 | Dihlabeng | 351197 | R330 002,40 | R340 802,40 | R10 800,00 |
| TOTAL |  |  |  |  | R91 610,00 |

 The cause of the above is:  Management did not designate a responsible person to ensure that supporting schedules were reconciled with the invoices and differences were followed-up and rectified.

The impact of the above is:  Understatement of expenditure in the form of rates and taxes, resulting in inaccurate financial reporting.

## Internal control deficiency

*Financial and performance management:*

Regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information is not prepared.

*Monitoring: Ongoing monitoring*

Monitoring controls to ensure that schedules and invoices correspond were not effective.

## Recommendation

* Management should ensure that payments are only affected / made on original invoices
* Where errors were identified on invoices it should be returned to be re-issued
* A reconciliation should be performed on the payments already made to the local authorities

## Management response

This office can respond as follow:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Date: | Payee: | Payment No: | Amount per schedule: | Amount per invoice: | Difference: |
| 04-Mar-11 | Tokologo | 360583 | R41 028,00 | R41 838,00 | R810,00 |

 This office cannot agree with the finding of the Auditor-General South Africa due to the following reasons:

* Rates and taxes are paid based on the published tariffs by the respective municipalities.
* The department processed and paid a different amount from the amount on the municipal invoice, as the municipality used the incorrect tariff of R0,60 instead of R0,0033 as the property in question resides on the residential zoning.
* This discrepancy to the municipality as well as the published rates.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date:** | **Payee:** | **Payment No:** | **Amount per schedule:** | **Amount per invoice:** | **Difference:** |
| 08-Mar-11 | Masilonyane | 362157 | R205 847,51 | R285 847,51 | R80 000,00 |

This office agrees with the finding of the AGSA. The underpayment was due to the incorrect capturing of the property value as R50 000,00 instead of R500 000,00. An additional payment will be processed to correct the shortfall to the municipality.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date:** | **Payee:** | **Payment No:** | **Amount per schedule:** | **Amount per invoice:** | **Difference:** |
| 10-Mar-11 | Dihlabeng | 351197 | R330 002,40 | R340 802,40 | R10 800,00 |

This office cannot agree with the finding of the AGSA due to the following:

(a) The calculations on the schedule represent the property tax levied for the 2010/11 municipal financial year, which is confirmed by the following calculation:

R500 000,00 (value) x R0,0173 (tariff) = R86 500,00 (payable amount)

(b) The invoice indicates a total value of R166 500,00 which includes outstanding amounts, to be verified soon after receipt of the claim, due to the incorrect amount in 2009/10 and municipal calculation.

*Name: N Zulu*

*Position: Regional Manager*

*Date: 17 June 2011*

## Auditor’s conclusion

Management is in agreement with the audit finding for the difference of R80 000,00 and management responses are noted for the differences of R810,00 and R10 800,00 respectively. However, these invoices should have been returned to the municipalities to be re-issued. The matter is therefore not resolved and is reported on in the management report.

# Transactions not recorded and disclosed for revenue fines

#### Bloemfontein

## Audit finding

Section 38 of the Public Finance Management Act, 1999 (Act No.1 of 1999) (PFMA) states that:

*“The accounting officer for a trading entity -*

*(a) must ensure that that trading entity has and maintains -*

*(iii) an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost-effective; and*

*(iv) a system for properly evaluating all major capital projects prior to a final decision on the project."*

Furthermore, paragraph 20 of International Accounting Standard 18, *Revenue* (IAS 18)states that:  *"When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction shall be recognised by reference to the stage of completion of the transaction at the end of the reporting period. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:*

*(a) the amount of revenue can be measured reliably;*

*(b) it is probable that the economic benefits associated with the transaction will flow to the entity;*

*(c) the stage of completion of the transaction at the end of the reporting period can be measured reliably; and*

*(d) the costs incurred for the transaction and the costs to complete the transaction can be measured reliably."*

In contrast to the aforementioned, penalties for late completion were identified in the contractor payments but could not be traced through to BAS. Consequently, these penalties were not recorded as revenue fines. Details are as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **WCS No:** | **Description:** | **Date:** | **Payment No:** | **Penalty Amount:** |
| 15162 | Contractor payment | 2010/08/06 | 197437 | R46 803,15 |
| 15162 | Contractor payment | 2010/08/30 | 196880 | R17 681,19 |
| **Total** |  |  |  | **R64 484,34** |

The cause of the above is:  Management did not designate a responsible person to ensure that penalties were recorded on the system and that these penalties were recognised as required by IAS 18.

The impact of the above is:  (a) Revenue as disclosed in the Annual Financial Statements could be understated and (b) Limitation of scope on the audit.

## Internal control deficiency

*Financial and performance management:*

Regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information is not prepared.

*Control environment:*

The trading entity's business processes were not developed to ensure compliance with the International Accounting Standards (IAS).

## Recommendation

Management should ensure that:

* penalties charged on contractor payments are recorded on the system.
* business processes should be developed and implemented to ensure compliance with International Accounting Standard (IAS).

## Management response

This office disagrees with the finding of the AGSA. Please note that the penalties in these cases were only held back, they were not paid to the Revenue account.  That only happens at final payment stage.  These payments were all progress payments.

When the final payment is captured, WCS will create an additional (credit) allocation line that will take the money to the Fines account. There is nothing to reflect on BAS at this stage.

Name: N Zulu

Position: Regional Manager

Date: 17 June 2011

## Auditor’s conclusion

Management response is noted. However, revenue was not recognised as required by the IAS 18. The matter is therefore not resolved and is reported on in the management report.

# VAT numbers not obtained

#### Bloemfontein

## Audit finding

In terms of the Value Added Tax (VAT) Act, section 59 (1) (g) any person who with intent to obtain any refund of tax under this Act to which such person is not entitled knowingly issues any tax invoice required under this Act which is in any material respect erroneous or incomplete shall be guilty of an offence and liable on conviction to a fine or to imprisonment for a period not exceeding 60 months.

Contrary to the provisions of this section, the following lease files were inspected and it was noted that VAT was payable on the monthly amounts. However, no VAT numbers could be found in the lease files and as a result, it could not be verified that the lessors were entitled to claim VAT. Details are as follows:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date:** | **Description:** | **Payment number:** | **File number:** | **Rental per month:** | **VAT per month:** |
| 2010/07/27 | Rental Lease | 475008 | 6758/0301 | R81 020,86 | R8 861,66 |
| 2010/07/30 | Rental Lease | 478218 | 6704/0605 | R115 322,40 | R14 162,40 |
| 2010/12/23 | Rental Lease | 338393 | 6729/0066 | R16 926,09 | R2 078,64 |
| 2010/06/07 | Rental Lease | 451387 | 6748/0024 | R3 350,06 | R411,41 |
| 2010/06/08 | Rent April 2010 | 451503 | 6748/0024 | R3 350,06 | R411,41 |
| 2010/06/08 | Rental Lease | 451507 | 6748/0024 | R3 350,06 | R411,41 |
| **TOTAL** |  |  |  | **R223 319,53** | **R26 336,93** |

The cause of the above is:  Management did not designate a responsible person to ensure that all lessors are VAT vendors that claim VAT by verifying VAT numbers using SARS website.

The impact of the above is:  (a) VAT may be paid over to suppliers that are not registered VAT vendors and (b) Expenditure as disclosed in the Annual Financial Statements could be misstated.

## Internal control deficiency

*Financial and Performance Management:*

Compliance with applicable laws and regulations are not reviewed and monitored.

*Monitoring: Ongoing Monitoring*

Monitoring controls to ensure that the trading entity complied with the relevant laws, rules and regulations were not effective.

## Recommendation

 Management should ensure that:

* all lease agreements / contracts indicate the VAT numbers.
* VAT is only paid over to suppliers that are registered VAT vendors.

## Management response

This office cannot agree with the finding of the AGSA. Please refer to copies of the TCC regarding 6758/0301, 6729/0066, 6748/0024. Please note that the landlord for 6704/0605 is the provincial government and is exempted for VAT registration.

*Name: N Zulu*

*Position: Regional Manager*

*Date: 17 June 2011*

## Auditor’s conclusion

Management comments are noted. However, the VAT numbers could not be traced through to the lessors as per the contract and VAT must not be paid over to lessors not registered for VAT. The matter is therefore not resolved and is reported on in the management report.

# Prior year fruitless and wasteful expenditure not disclosed

#### Johannesburg

## Audit Finding

1. Public Finance Management Act of 1999 requires that: -

As per Section 51(b) (ii), General responsibilities of accounting authorities- (1) An Accounting authority for a public entity-

1. Must take effective and appropriate steps to :

Prevent irregular expenditure, fruitless and wasteful expenditure, losses resulting from criminal conduct, and expenditure not complying with the operational policies of the public entity.

1. Treasury Regulation 9 stipulates the following:

9.   Unauthorised, irregular, fruitless and wasteful expenditure

9.1 General [Sections 38 (1) (*g*) and 76 (2) (*e*) of the PFMA]

9.1.1 The accounting officer of an institution must exercise all reasonable care to prevent and detect unauthorised, irregular, fruitless and wasteful expenditure, and must for this purpose implement effective, efficient and transparent processes of financial and risk management.

9.1.2 When an official of an institution discovers unauthorised, irregular or fruitless and wasteful expenditure, that official must immediately report such expenditure to the accounting officer. In the case of a department, such expenditure must also be reported in the monthly report, as required by section 40 (4) (*b*) of the Act. Irregular expenditure incurred by a department in contravention of tender procedures must also be brought to the notice of the relevant tender board or procurement authority, whichever is applicable.

1. Section 38 (1) (g) and 40 (4) (b) of the Public Finance and Management Act stipulates:

38.   General responsibilities of accounting officers.—

(1)  The accounting officer for a department, trading entity or constitutional institution—

(*g*) on discovery of any unauthorised, irregular or fruitless and wasteful expenditure, must immediately report, in writing, particulars of the expenditure to the relevant treasury and in the case of irregular expenditure involving the procurement of goods or services, also to the relevant tender board;

40.   Accounting officers’ reporting responsibilities.—

(1)  The accounting officer for a department, trading entity or constitutional institution—

(4)  The accounting officer of a department must—

(*a*) each year before the beginning of a financial year provide the relevant treasury in the prescribed format with a breakdown per month of the anticipated revenue and expenditure of that department for that financial year;

(*b*) each month submit information in the prescribed format on actual revenue and expenditure for the preceding month and the amounts anticipated for that month in terms of [paragraph (*a*)](http://inmagicserver/nxt/gateway.dll/jilc/kilc/xjsg/7zkfb/8zkfb/c1kfb?f=templates$fn=document-frameset.htm#m); and

Deviations noted pertaining to the above:

* Prior year fruitless and wasteful expenditure amounting to R391 529.44 has not been disclosed during the current year.
* Due to the aforementioned the completeness and compliance of the transactions could not be confirmed.

Potential impact of the finding raised above:

* Audit report: Emphasis of matter paragraph
* Disclosure notes: Fruitless and wasteful expenditure may not be disclosed correctly and receivables may be understated
* Compliance with laws and regulations: Non compliance with PFMA Section 38 and 40 and Treasury Regulation 9

## Internal control deficiency

*Financial and performance management*

* Quality, reliable monthly financial statements and management information
* The financial statements and other information to be included in the annual report are not reviewed for completeness and accuracy prior to submission for audit.

## Recommendation

* Management should ensure a system is in place to detect fruitless and wasteful expenditure and record accordingly.
* Information disclosed in the Annual Financial Statements should be reviewed prior to submission for accurate disclosure.

## Management response

I am in agreement with the finding for the following reasons: Prior year fruitless and wasteful expenditure amounting to R391 529.44 has not been disclosed during the current year due to an error of omission. This error will be corrected by including such expenditure on the current year’s schedule during the time of correcting the Overs/Unders. We have also-on discovery of such an error- re-instated the amount of R 391 529.44 on the schedule of fruitless and wasteful Expenditure as at 31 May 2011.

Name: NG Mudau

Position: Deputy Director: Finance

Date: 21 June 2011

## Auditor’s response

Management agrees with the finding. The finding will be followed up during next year’s audit.

# Arrear rates and taxes not reconciled or adequately disclosed

#### Johannesburg

## Audit Finding

1. Section 40 of the PFMA requires that: “*The accounting officer for a department, trading entity or constitutional institution –*
2. *must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;*
3. Section 41 of the PFMA requires that: - *An accounting officer for a department, trading entity or constitutional institution must submit to the relevant treasury or the Auditor-General, such information, returns, documents, explanations and motivations as may be prescribed or as the relevant treasury or the Auditor-General may require.*

Deviation noted pertaining to the request of information

During the performance of audit procedures on municipal expenditure the following issues were identified:

|  |  |  |  |
| --- | --- | --- | --- |
| **Description** | **Amount per City of Johannesburg statement reflected as overpaid** | **Amount per City of Johannesburg statement reflected as arrears** | **Net difference due by the department** |
| ARREAR RATES AND TAXES OUTSTANDING | R829 187.05 | R2 073 458.78 | R1 244 271.73 |

* No internal reconciliation is available to determine what the difference of R1 244 271.73 relates to.
* We are unable to determine whether any interest or penalties have been levied on the outstanding balance.
* The amounts reflected as due to/by the department have not been adequately disclosed in the Notes to the Annual Financial Statements as at 31 March 2011.

Due to the aforementioned the occurrence, accuracy, classification and compliance of the arrear rates and taxes outstanding of R1 244 271.73 could not be confirmed.

Potential impact of the finding rose above:

Statement of Comprehensive Income:

* Municipal expenditure recoverable will be incorrectly treated as current expenditure.
* Payments made in respect of rates and taxes may include interest and penalties which will result in fruitless and wasteful expenditure being undetected

Notes to the financial statements

* Commitments and contingencies may not be disclosed
* Receivables may be understated

## Internal control deficiency

*Quality, reliable monthly financial statements and management information*

* Management and staff do not fulfill their duties and responsibilities.
* The entity does not have competent individuals who understand the financial reporting framework and performance management requirements. (Competence also refers to knowledge of the controls and related processes.)
* Pertinent information is not identified and captured in a form and time frame to support financial and performance reporting.

*Adequate financial management systems*

* General information technology controls are not designed to maintain the integrity of the information systems and the security of the data.
* Manual or automated controls are not designed to ensure that the transactions have occurred, are authorised, and are completely and accurately processed.

## Recommendation

* Management should ensure reconciliations are performed for each payment or outstanding balance for the rates and taxes.
* Management should ensure outstanding accounts are reconciled and settled promptly

## Management response

I am in agreement with the finding for the following reasons: City of Johannesburg is unable to give the department detailed statements of all the accounts outstanding so that the department can reconcile those rates accounts.

The regional office is in the process of resolving the unidentified difference with City Of Johannesburg.

*Name: T. Mngomezulu*

*Position: Director: Leasing*

*Date: 20/06/2011*

## Auditor’s response

Management agrees with the finding. Follow up will be made on whether the amount has been correctly disclosed as at 31st March 2011

# Claims recoverable could not be verified

#### Johannesburg

## Audit Finding

1. Section 38 of the PFMA requires:

General responsibilities of accounting officers.—(1)  The accounting officer for a department, trading entity or constitutional institution must take effective and appropriate steps to prevent unauthorised, irregular and fruitless and wasteful expenditure and losses resulting from criminal conduct; and

1. Treasury Regulation requires:

9. 1 Unauthorised, irregular, fruitless and wasteful expenditure ,General [Sections 38 (1) (*g*) and 76 (2) (*e*) of the PFMA]

9.1.1  The accounting officer of an institution must exercise all reasonable care to prevent and detect unauthorised, irregular, fruitless and wasteful expenditure, and must for this purpose implement effective, efficient and transparent processes of financial and risk management.

9.1.2 When an official of an institution discovers unauthorised, irregular or fruitless and wasteful expenditure, that official must immediately report such expenditure to the accounting officer. In the case of a department, such expenditure must also be reported in the monthly report, as required by section 40 (4) (*b*) of the Act. Irregular expenditure incurred by a department in contravention of tender procedures must also be brought to the notice of the relevant tender board or procurement authority, whichever is applicable.

9.1.3  When an accounting officer determines the appropriateness of disciplinary steps against an official in terms of section 38 (1) (*g*) of the Act, the accounting officer must take into account—

- the circumstances of the transgression;

- the extent of the expenditure involved; and

- the nature and seriousness of the transgression.

9.1.4  The recovery of losses or damages resulting from unauthorised, irregular or fruitless and wasteful expenditure must be dealt with in accordance with [regulation 12](http://agintranet/nxt/gateway.dll/jilc/kilc/xjsg/lwsg/pwsg/j2ri/k2ri/w2ri?f=templates$fn=document-frameset.htm#0).

9.1.5 The amount of the unauthorised, irregular, fruitless and wasteful expenditure must be disclosed as a note to the Annual Financial Statements of the institution.

The accounting officer must exercise all reasonable care to prevent and detect irregular and wasteful expenditure.

Deviation noted pertaining to the above:

We are unable to verify whether the payment of R38 316.39 made on behalf of South African Police Services to Jacnic Investments CC has been recovered. The payment has been incorrectly disclosed as expenditure instead of claims recoverable. The disclosure pertaining to the transaction could not be confirmed.

Potential impact of the finding rose above:

* Statement of Comprehensive Income

1. Debtors may be understated to the extent these costs are incorrectly disclosed.
2. Possible irregular expenditure may be incurred which will not be identified.

## Internal control deficiency

*Financial and performance management*

* Quality, reliable monthly financial statements and management information
* The financial statements and other information to be included in the annual report are not reviewed for completeness and accuracy prior to submission for audit.

## Recommendation

* Management should ensure a proper system of recording and processing of information is maintained.
* Senior officials must review all schedules supporting the financial statements for completeness, accuracy and compliance with the required framework.
* Responsibility for the aforementioned must be specifically assigned to officials and the latter should form part of their performance contracts.
* Suspense accounts should be reconciled and cleared on a regular basis.

## Management response

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

This matter is being handled by Customer Billing at Head Office as they are responsible for the collection of receivables. The matter will be followed up with customer billing.

*Name:* Mr. Peter Moloi

*Position: Deputy Director: Leasing*

*Date: 11 March 2011*

## Auditor’s response

Management agrees with the finding. Follow up will be made during next year’s audit.

# 

# Lease agreement has no evidence for authorisation by a delegated official

#### Mthatha

## Audit finding

*Treasury Regulation 8.2.1. requires that an official of an institution may not spend or commit public money except with the approval of the accounting officer or a properly delegated or authorised officer.*

During the inspection of lease agreements, it was noticed that a lease agreement entered into between NDPW for SASSA office in Maclear and Mr. D.H. Sparks as the landlord was not signed by a representative of the Department of Public Works, it was only signed by the landlord therefore the agreement is not valid resulting to the payments referred to as irregular expenditure.

Payments were made to the landlord though the lease agreement is not approved.

Non-compliance with Treasury Regulation 8.2.1. resulting to irregular expenditure.

Due to delays in signing of confirmations of funds and need assessments by client departments, this result in month to month contracts negotiated with the landlords with no escalation.

## Internal control deficiency

*Financial and performance management*

The accounting officer did not exercise oversight responsibility, there is no supervision is made to ensure that lease agreement has been signed by both parties.

## Recommendation

The lease agreement should be signed by both parties in order to make  it valid as legal

## Management response

I am in agreement with the finding for the following reason (and supply the following / attached information in support of this); The lease was sent to landlord to sign. He however felt that 10% escalation should have been included and he decided to scratch the amount and write escalated amount. Landlord has been convinced that escalation will be put once client has confirmed funds. However the lease addendum has been signed by both parties.

*Name:  N. Tukela*

*Position: Regional Manager*

*Date: 09 June 2011*

## Auditor’s conclusion

Finding remains in the management report.

# Lease agreement not signed by a delegated official underpayment

#### Mthatha

## Audit finding

*Treasury Regulation 8.2.1 states that an official of an institution may not spend or commit public money except with the approval of the accounting officer or a properly delegated or authorised officer.* During the inspection of the lease agreement, it was found that the lease agreement is not signed by a delegated official of the department and that makes the agreement invalid. The payment is therefore irregular. Furthermore, the escalation was not effected in March 2011 as agreed and as a result an underpayment occurred in March 2011.

Details of the agreement are as follows:

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Lessee** | **Lessor** | **Start date** | **Adjustment date** | **Rental pm** | **Escalation %** | **Amount paid in March 2011** | **Escalated amount** | **Variance** |  |
| Public Works | African Prosperity (PTY) LTD | 01 March 2010 | 01 March 2011 | R32 841.52 | 8% | R32 197.83 | R35 468.84 | R3 271.01 |  |

Breach of terms and conditions agreed upon. The lessor signed the lease agreement in an incorrect space and it has been difficult to get hold of the lessor.

## Internal control deficiency

*Financial and performance management:*

Control activities identified as necessary are not in place, i.e. monitoring and monthly reconciliations on lease payments are not performed.

## Recommendation

Management must ensure that monitoring and monthly reconciliations are performed.

## Management response

I am in agreement with the finding.

* The Lessor signed in the lessee’s place and it has been difficult to get hold of the lessor to rectify the mistake.
* The reconciliation for this account will be done and the landlord will be paid correct rental amount.

*Name:  N. Tukela*

*Position: Regional Manager*

*Date:*

## Auditor’s conclusion

The finding remains in the management report.

# VAT paid to non vendor

#### Mthatha

## Audit finding

*Chapter 5, section 45 (c) of the Public Finance Management Act states that: an official in a department must take appropriate steps to prevent any unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure any under collection of revenue due.*

During the audit of the Property Management Trading Entity, it was noted that payment made to the following supplier includes VAT even though the supplier is not a registered vendor. The payment made to a supplier may result to fruitless and wasteful expenditure.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Supplier** | **Description** | **Batch No** | **Amount paid** | **VAT paid** | **Payment Date** |
| Zedek cleaning services | Cleaning services | 7042 | 18 100,00 | 2 222,81 | 02 June 2010 |

The department has paid VAT to non Vendor.

The department is using a DPW (07) Form which was developed in head office, to which all contractors are required to transfer their quotes. The form only caters for VAT Vendors; therefore the contract amount captured on the form appears as inclusive of VAT even for non-Vat Vendors.

## Internal control deficiency

*Financial and performance management*

The accounting officer/authority does not evaluate whether management has implemented effective internal controls by gaining an understanding of how senior management has met its responsibilities.

## Recommendation

Evidence of VAT registration should be provided for audit purposes.

## Management response

I am not in agreement with the finding, as the specification for Zedek Cleaning Services did not include the VAT amount. Like all contractors; Zedek was requested to transfer their quote to the DPW (07), hence the amount appeared as VAT inclusive. The Regional Office will prepare a submission to Head Office and request them to amend the DPW (07) in order to cater for non-VAT Vendors / contract amounts exclusive of VAT. Alternatively, the Head Office must prepare an addendum which will be attached on the DPW (07) Form; stating that a contractor is a non-VAT Vendor and therefore the contract amount stated on the DPW (07) Form will be exclusive of VAT.

## Auditor’s conclusion

Finding to remain in the management report. Further evaluation by MAC.

# Invoices not paid within 30 days

#### Pretoria

## Audit finding

*Treasury Regulation 8.2.3 states that “Unless determined otherwise in a contract or other agreement, all payments due to creditors must be settled within 30 days from receipt of an invoice or, in the case of civil claims, from the date of settlement or court judgement”. Treasury Regulation paragraph 9.1.5 further states that “The amount of the unauthorised, irregular, fruitless and wasteful expenditure must be disclosed as a note to the Annual Financial Statements of the institution.”*

The following invoices were not paid within 30 days as required by the Treasury Regulation:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Batch no** | **Service provider** | **Date** | **Account number** | **Batch Total** | **Interest Charges** |
| 2502 | City of Tshwane | August 2010 | 5006812772 | R 5 062 516,34 | R 7 016,30 |
| 2502 | City of Tshwane | July 10 | 5006812772 | R 5 062 516,34 | R 19,95 |
|  |  |  |  | **TOTAL** | R 7 036,25 |

This result in fruitless and wasteful expenditure and should therefore be disclosed in the note to the Annual Financial Statements of the Trading Entity.

Invoices are received by the Trading Entity and the person who receives them sits with the invoices and does not send them timeously to the finance section for processing.

The interest charged should be recognised as a fruitless and wasteful expenditure by the Trading Entity.

## Internal control deficiency

*Leadership*

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

## Recommendation

The Trading Entity must identify all the payments not made within 30 and for those that the supplier charged interest, must disclose them as fruitless and wasteful expenditure.

On discovery of any fruitless and wasteful expenditure, the official at the region must immediately record such expenditure in the fruitless and wasteful register, and forward the register to head office for consolidation, in writing, stating particulars of the expenditure.

## Management response

* It is acknowledged that the Dept is changed extra costs e.g. Reconnection and Admin fees, however this is not interest as stated in the query.
* As these additional cost charged is therefore not budgeted for the Dept is therefore not compelled to pay, however payment has been effected in order to prevent the municipality from disconnecting or reconnect, whilst a despite is being lodged and CTMM engaged in this regard for a possible credit.
* It is further brought to the attention of the audit team that CTMM has been addressed in this regard previously but still continues to bill client Depts. directly and not sending accounts to DPW, therefore resulting into delays on payments as the Dept can only pay on receipt.

Name: Mosa Vuso

Position: DD: Payments/

Date: 08/06/2011

## Auditor’s conclusion:

The client acknowledges the finding and therefore the finding will remain.

# Cut off of transactions incorrect

## Audit finding

Based on the Framework of Accounting and Generally Accepted Accounting Practices, the accrual basis of accounting states that a transaction should be recognized at the date that it takes place and not when the cash and cash equivalents are transferred.

During the performance of our audit on construction contract, the following was noted on the detail testing of the transactions selected below:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **TRANSDESC** | **Batch No** | **AMT\_EXP** | **Supplier name** | **TRANSDATE** | **TRANSDATE** |
| CONTRACTOR PAYMENT | 254190 | R46,812.11 | CONTRACTOR PAYMENT | 2010/04/12 | 2010/01/27 |
| CONTRACTOR PAYMENT | 254192 | R194,552.40 | CONSULTANT PAYMENT | 2010/04/12 | 2010/02/16 |
| TOTAL |  | R241 364,51 |  |  |  |

The invoice date for these transactions, and therefore the date on which the transaction should have been recorded in the accounting records, occurred in the 2009/2010 financial year and therefore should have been recognized then. This will therefore lead to a cut off issued.

Incorrect cut off will have a misstatement effect on the financial statements as transactions are not recorded in the correct period.

## Internal control deficiency

Adequate financial management systems

Manual or automated controls are not designed to ensure that the transactions have occurred, are authorised, and are completely and accurately processed.

## Recommendation

In preparing financial statements and capturing transactions, the entity must ensure that correct principles of GAAP are used.

## Management response

This office agrees with the finding. The matter has been addressed with the relevant staff to ensure that the cut-off matter is taken into consideration as per the recommendation of the AGSA.

*Name: Llewellyn Louw*

*Position: DD Finance*

*Date: 2011/08/01*

## Auditor’s conclusion:

The finding will remain and the client has acknowledged it.

# No records found per SARS VAT vendor search

#### Pretoria

## Audit finding

Section 38 (1)(c)(ii) of the PFMA states the following under the general responsibilities of the accounting officers: "The accounting officer for a department, trading entity or constitutional institution, must take effective and appropriate steps to prevent unauthorised, irregular and fruitless and wasteful expenditure and losses resulting from criminal conduct...."

The Trading Entity awarded a contract to the supplier mentioned below. We inspected the invoice and determined that the supplier charged VAT to the Trading Entity

During the audit a VAT search was conducted on the supplier and it was noted that the supplier is not a registered VAT vendor as he does not appear on the SARS website. There is no evidence that a VAT search was performed by the Trading Entity before payment was made to the supplier. Should VAT be paid for a non registered vendor, this could constitute irregular expenditure.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **NO** | **SUPPLIER** | **VAT NO PER INVOICE** | **Amount (Inc VAT)**  **(R)** | **VAT amount**  **(R)** | **Amount (Excl VAT)**  **(R)** |
| 1 | AUTUMN STAR INDOOR AIR QUALITY | 4780237881 | 1 185 600,00 | R 145 600.00 | R 1 040 000.00 |

The individual responsible for the payment did not perform a VAT search in order to confirm that the supplier is a registered VAT vendor. This constitutes an irregular expenditure

## Internal control deficiency

***Leadership***

* “Tone at the top” an environment that is conducive to good accountability and service delivery through; positive attitude; integrity; competence; and ethical behaviour.
* Accountability to the public is not emphasised.

## Recommendation

* The Trading Entity must ensure that the supplier is a registered VAT vendor before they effect payment.
* For every invoice where a supplier claims VAT, the Trading Entity must perform a VAT search to confirm that the person is indeed a VAT vendor.
* Proof of such a check must be included in the suppliers file/batch.

## Management response

I am not in agreement with the finding. The company had been VAT registered until 2011/04/15, however it was VAT deregistered for reasons unknown to the Department, subsequently they submitted a Tax Clearance Certificate which was not VAT registered. Confirmation was made with SARS and payments were then processed VAT exclusive and the company were informed as well.

See attached 2 Tax Clearance certificates. (Annexure1)

*Name: J Thobejane*

*Position: DD: SCM*

*Date: 07/6/20110*

## Auditor’s conclusion

The management comment is noted. Furthermore, we agree that the payment was made while the supplier was still a registered VAT vendor. In future audits, the invoices received from this supplier will be inspected to ensure that no VAT is charged or paid. Matter to be followed up.

# Prospective suppliers list not appropriately compiled

#### Pretoria

## Audit finding

The PFMA s38(1)(a) states the following under general responsibilities of accounting officers: "The accounting officer for a department, trading entity or constitutional institution must ensure that that department, trading entity or constitutional institution has and maintains an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost-effective".

We obtained the prospective supplies list and the following was noted:

* The list does not indicate the prospective supplier’s address. Suppliers not operating within the vicinity of where the services are required could be invited, resulting in delays in procuring services.
* The prospective suppliers CIDB grading is not included in the list. It is unclear how the Trading Entity will be able to confirm if the appropriate supplier’s with the correct grading are being invited.

Furthermore, it is not understandable as to how the suppliers on the list are selected over other suppliers because there is no policy in place. Through enquiry from management it was noted that prospective suppliers are not invited to apply for evaluation and listing at least once a year, through local representative newspapers or by any other means but are selected from CIDB database. The list of prospective supplier is not indicative of the CIDB grading per supplier listed. This could result in a supplier with low grading being invited resulting in delays in procuring services which has a negative impact on service delivery.

## Internal control deficiency

*Leadership: Oversight responsibility*

The systems are not documented in the policy and procedures manual and the results of the monitoring process are not routinely communicated to all managers and staff.

## Recommendation

The prospective suppliers list should be updated to include the address of the suppliers, contact details of the suppliers’ personnel and the CIDB grading inviting interested suppliers through a transparent process.

## Management response

I am not in agreement with the finding. The list was approved by the bid committee as an interim measure and information was sought by Procurement from the CIDB database which is the only point of registering all CIDB related projects. The approved submission is categorized in terms of various disciplines and grading. See attached submission. (Annexure 2)

*Name: J Thobejane*

*Position: DD: SCM*

*Date: 07/6/20110*

## Auditors’ conclusion

Management response is noted. Although procurement seeks information from the CIDB database before awarding a contract, the issue surrounding this finding was that the list supplied for audit purpose did not include the information required. Finding will remain.

# Letter of renewal not sent to lessor

#### Pretoria

## Audit finding

In terms of section 9.1.1 of Treasury regulations the accounting officer of an institution must exercise all reasonable care to prevent and detect unauthorised, irregular, fruitless and wasteful expenditure, and must for this purpose implement effective, efficient and transparent processes of financial and risk management.

The unavailability of the supporting correspondence and the renewal letter might be an indication of expenditure to be classified as irregular expenditure.

During the audit of leases it was noted that there was no correspondence attached in the file with regard to leasing division negotiating with client to identify any changes in clients’ requirements and the letter of renewal to confirm suitability of accommodation for the following buildings:

|  |  |  |
| --- | --- | --- |
| **No** | **Building** | **File No** |
| 1 | Prodinsa Building | 6029/6619 |
| 2 | Fedsure Forum | 6029/1114 |

## Internal control deficiency

***Financial and performance management***

Proper record keeping and record management; the documents supporting the above are properly filed and easily retrievable.

## Recommendation

Management should ensure proper record should be kept and record management; the documents supporting the above are properly filed and easily retrievable.

## Management response

Management response outstanding.

## Auditors’ conclusion

No response from client and finding remains

# Procurement checklist - SCM policy (missing information – limitation of scope)

#### Pretoria

## Audit finding

In terms of PFMA regulations section 41 an accounting officer for a department, trading entity or constitutional institution must submit to the relevant treasury or the Auditor-General, such information, returns, documents, explanations and motivations as may be prescribed or as the relevant treasury or the Auditor-General may require.

 The following information could not be verified and obtained as part of corroborative evidence during the audit:

* The fraud prevention detailed plan.
* Internal audit report on controls, processes and compliance with the laws and regulations.
* Analysis of performance of SCM unit.
* Evidence that the national treasury websites was checked prior to contract awarding to the bidder.
* Risk assessment report with all risks identified in SCM unit.

The client staff responsible for these policies was not always available in assisting the auditors to verify the information needed to form a conclusion on the items to be tested.

## Internal control deficiency

***Financial and performance management***

Proper record keeping and record management; the documents supporting the above are properly filed and easily retrievable.

## Recommendation

Management should ensure proper record should be kept and record management; the documents supporting the above are properly filed and easily retrievable. Furthermore, the relevant individual in the entity that is responsible for maintenance of documentation should be avail themselves during the course of the audit.

## Management response

Management response outstanding.

## Auditors’ conclusion

Finding remains

# Leases agreement not submitted for audit

#### Pretoria

## Audit finding

During the performance of our detailed testing on leases, the following lease agreement could not be found and submitted to the auditors:

|  |  |  |  |
| --- | --- | --- | --- |
| **Date** | **Item Description** | **Amount** | **Lease no:** |
| 2011/03/25 | RENTAL LEASE | R91,361.04 | 6029/4110 |

The lease amount paid could therefore not be agreed to the lease agreement.

## Impact

Limitation of scope could have an effect on the conclusion reached on the audit procedures performed.

## Internal control deficiency

Financial and Performance Reporting

* record keeping and record management; the documents supporting the above are properly filed and easily retrievable
* Requested information was not available and supplied without any significant delay.

## Recommendation

All information captured in the accounting records should be supported by adequate supporting documentation

## Management response

I am not in agreement with the finding. The lease is in the file (see the attached lease)

*Name: Mokgaetji Tlolane*

*Position: Act: Deputy Director*

*Date: 26/07/2011*

## Auditors’ conclusion

The information was submitted after the cut off time for audit of information. This matter will be followed up in the future audits and the issue of information being submitted on time will also be followed up.

# Project Execution Plan not attached in the file

#### Pretoria

## Audit finding

In terms of consultants roster policy 8 (8.1) the project execution plan must be prepared by the nominated firm or office is an important factor in the appointment.

During the audit of planned maintenance it was noted the project execution plan for the following consultants was not attached in the file:

* Tsepa Consulting CC (WCS 047043)
* Ntsu Engineering Consultants (WCS 045517)
* Maree Els & Partners (043918)
* Risimati Consulting Engineers (046919)

Due to the project execution plan not available the following could as not be verified:

* The names of the consultants’ representative(s) that have been stated and their Curriculum Vitae as required by the policy
* The organogram of the project that has been prepared
* Detailed staff and resources are in line with the requirements of the Project Brief and is adequate for the scope of work
* The breakdown of works and Joint Venture Participation Goal Plans have been prepared and attached if consultants will perform work as a Joint Venture,

## Internal control deficiency

*Financial and performance management*

Proper record keeping and record management; the documents supporting the above are properly filed and easily retrievable.

## Recommendation

Proper record should be kept and record management; the documents supporting the appointment of consultants are properly filed in one file and easily retrievable.

## Management response)

Management response outstanding

## Auditor conclusion:

The finding remains due to fact that client has not responded as of yet.

1. It should be noted that the investigation was finalised in the 2011/12 financial year and the report was issued on 15 July 2011. [↑](#footnote-ref-1)
2. The reference is in the context of State Owned and Leased building under the custodianship of the PMTE [↑](#footnote-ref-2)
3. Please note that the detailed schedules can be provided to management if required [↑](#footnote-ref-3)
4. Target Enterprise means a contractor who is registered with the CIDB in a potentially emerging (PE) contractor grading designation. [↑](#footnote-ref-4)
5. Targeted Enterprise declaration affidavit means an affidavit, in the format provided for contract, which confirms the bona fides of a targeted enterprise [↑](#footnote-ref-5)