

Auditor-General South Africa

National A

**ISSUES IDENTIFIED DURING THE AUDIT OF THE PROPERTY MANAGEMENT TRADING ENTITY**

**AUDIT**

| **Component** | | **Key Findings** | **Finding description** | **Impact** | **COFF NO.** | **Management response received?** |
| --- | --- | --- | --- | --- | --- | --- |
| Irregular and Fruitless and wasteful expenditure | | Understatement of irregular expenditure and fruitless and wasteful expenditure notes on the AFS. | Investigations were conducted & concluded before year end which confirmed allegations with regards to irregular expenditure, and fruitless and wasteful expenditure, and determination tests have been conducted and completed. However, the AFS were not updated to reflect the IFW expenditure determined.  **Regions impacted:**   * Head office | Understatement of both irregular expenditure and fruitless and wasteful expenditure. | HO COFF 10 | **Yes –Evaluation stage** |
| During the audit of irregular expenditure, we noted that prior year COFFs were not considered in finalizing the disclosure note in the current year to ensure that it is complete, accurate and fairly presented. The following instances noted in the prior year were not updated.  **Regions impacted:**   * Head office | Understatement of irregular expenditure by R4 977 286.81.  Irregular expenditure as disclosed in Note 32 to the annual financial statements is not fairly presented as the following line items are misstated:  Add: Irregular Expenditure - current years R146 135 285,56  Less: Current year amounts condoned R146 135 285,56 | HO COFF 12 | **Yes –Evaluation stage** |
| The fruitless and wasteful expenditure has been understated. | The interest was charged due to a delay in the payment of the capital amount when the lease was cancelled. The interest expense could have been avoided by the entity. Through inspection of the court case judgement it was determined that the entity lose the case hence the interest was charged on capital amount from the date of cancellation to the payment date.  **Regions impacted:**   * Pretoria region | Understatement of fruitless and wasteful expenditure by R1 260 329 | PTA COFF 08 | **No - Overdue** |
| Follow up on the C-Max project raised on the current year. Weaknesses were identified on the contract management of the C-Max project which resulted in the irregular expenditure and fruitless and wasteful expenditure. The irregular expenditure and the fruitless and wasteful expenditure disclosure note was included on the AFS have been understated.  **Regions impacted:**   * Head office | Understatement of irregular expenditure by R14 328 336  Understatement of Fruitless and wasteful expenditure by R34 010 691 | HO COFF 16 | **No - Overdue** |
| During the interim we identified weaknesses in internal controls where the finding was raised with respect to payments made on a cancelled and unoccupied lease (DBN COFF 4 of 2019/20). The fruitless and wasteful expenditure has not been updated with the expenditure incurred.  **Regions impacted:**   * Head office | Understatement of fruitless and wasteful expenditure by R125 727 | HO COFF 19 | **Yes –Evaluation stage** |
|  | |  | Duplicate payments were made to three suppliers in respect of day to day maintenance services.  This was when the Department was changing systems from BAS DPI to SAGE. Due to the system error some of the payments that were made to suppliers during the period were duplicated.   * PMTE changed over from BAS to SAGE in 2014/15. * During this change over some payments to suppliers were duplicated due to a system error * As they were identified, the duplicate payments were recovered. * In the cases identified, the duplicate payments were only identified during 2019/20 financial year (5 years later) due to lack of adequate supplier reconciliations being done when the payments were initially made. * As it has been more than 3 years since the duplicate payment was made, these amounts cannot be recovered (the debt has prescribed) * It was therefore written off in the 2019/20 financial year under “thefts and losses”.   **Regions impacted:**   * Durban | Possible fruitless and wasteful expenditure of R79 047. | DBN COFF 06 | **Yes –Evaluation stage** |
|  | | Understatement of irregular expenditure | During the audit of sundry expenditure, it was noted that a service provider that was not part of the quotation process was awarded a contract to supply and deliver cleaning materials for various courts.  **Regions impacted:**   * Mthatha | Understatement of irregular expenditure by R477 247 | MTH COFF 03 | **No – Not yet due** |
|  | | Disclosure note not fairly presented | An investigation was conducted by the Public Service Commission on the appointment of senior management officials for the department and the trading entity from the period of 1 April 2017 to 31 March 2018. The finalised report was received by the then Minister of Public Works on 8 February 2019. The investigation confirmed numerous irregularities in the appointments made during the period, as summarized in the annexure to this finding.  During the audit of irregular expenditure (disclosure note 25), it was noted that the expenditure incurred on the irregular appointments of the identified officials were not disclosed for the current financial year.  **Regions impacted:**   * Head office | Irregular expenditure is understated by R5 480 487,00 for the current year under review and R5 209 590,00 for the prior year | HO COFF 21 | **No – Not yet due** |
| Property rates – irregular expenditure | | Municipal services and property rates (backlog) – irregular expenditure | During the audit of prepaid expense – municipal services and property rates (backlog), we noted that some municipalities were overpaid during the settlement process. Furthermore, we identified instances where a municipality verified debt was overpaid and thereafter, additional over payments were made to the municipality. This resulted in the increase of the overpayment balance by almost double the amount that was verified since 2016  **Regions impacted**   * Head office | * Irregular expenditure of R 468 628 172. of * Possible financial loss of R468 628 172.00 | HO COFF 33 | **Yes** |
| Immovable assets | | Unreasonable MVR values used calculate the deemed cost vale for properties. | During the audit of the immovable assets register (IAR), we have identified properties that were valued using the MVR method where the municipal valuation rolls or light stone report contains meaningless or invalid value in comparison to the nature and the extent of the property being valued. The MVR value doesn’t clearly reflect the market value of the property being valued.  **Regions impacted:**   * Head office | Immovable assets have been understated. | HO COFF 11 | **Yes –Evaluation stage** |
| Recalculated deemed cost value for assets valued using BI doesn’t agree to the amount on the IAR. | During the audit of immovable assets, we noted that the deemed cost value included on the immovable asset register (IAR) did not agree to the recalculated deemed cost value done by auditors. The calculation was done based on the following assumptions:  The number of floors included on the IAR is correct. The accuracy of the number of floors will be confirmed during the physical verification.  **Regions impacted:**   * Head office | Immovable assets have been understated by   * PPE - R138 721 525 * Heritage assets - R19 683 806. | HO COFF 20 | **Yes –Evaluation stage** |
| Limitation of scope | Aktext not received to confirm the ownership of the property.  **Regions impacted:**   * Head office | Limitation of scope | HO COFF 24 | **No – Not yet due** |
| Unable to confirm that the entity own the property (Rights issue) | We noted that improvements situated on land parcels not owned by the PMTE, referred to as State Domestic Facilities were included on the immovable asset register. For improvements listed under table A below we are unable to confirm the custodianship based on what is deemed to belong to the Department of Public Works in terms of the Immovable Asset Guide.  **Regions impacted:**   * Head office | Overstatement of investment property by 5 389 890**.** | HO COFF 25 | **No – Not yet due** |
| Differences in deemed cost calculation | The deemed cost included in the IAR doesn’t agree to the recalculate deemed cost.  **Regions impacted:**   * Head office | Understatement of investment property (land and buildings) by R2 620 293.  Buildings have been understated by R1 134 703  Land have been understated by R1 485 590 | HO COFF 26 | **No – Not yet due** |
| Assets not correctly classified | During the audit of heritage assets, the following assets were identified as having no cultural, environmental, historical, natural, scientific, technological, artistic significance nor a need to be held indefinitely for the benefit of present and future generations. Consequently, these assets are incorrectly classified as heritage assets.  **Regions impacted:**   * Head office | Heritage Assets have been overstated by R85 140 928 while the Property, plant and Equipment (PPE) has been understated by R85 140 928.  Depreciation and accumulated depreciation is understated by an unquantifiable amount. | HO COFF 28 | **No – Not yet due** |
| Differences in land value as a result of differences in land extent | During the audit of immovable assets, we noted that land extent (in hectares) as disclosed in the immovable asset register (IAR) did not agree to the land extent as disclosed in the Aktex (Deeds support).  **Regions impacted:**   * Head office | Overstatement of heritage assets | HO COFF 30 | **No – Not yet due** |
| Immovable assets | | Differences in deemed calculations | Structure disclosed on the immovable asset register (IAR) did not agree to the extent of structure as per GIS.  In additions recalculations performed we noted that there were differences between the recalculated depreciable replacement costs and the depreciable replacement cost as per immovable asset register.  These differences were mainly due to the following:   * Incorrectly captured the extent of footprint on the IAR from GIS downloads. * Recalculation errors in the recalculated depreciable replacement cost.   The condition assessment of DoD buildings disclosed on the immovable asset register (IAR) did not agree to the condition assessment as per DoD support.  This resulted from Incorrectly capturing of the building’s condition assessment on the IAR from DoD support.  We have also noted that the DoD component value were noted deducted the deemed cost value included on the improvement register. This has resulted in the overstatement of the deemed cost value.  **Regions impacted**   * Head office | The property, plant and equipment (BI) depreciable replacement cost were overstated by R174 763 200, however management should revisit the whole population to determine the full impact of this finding. | HO COFF 47 | **Not yet due** |
| Immovable assets | | Differences on land value as a result of differences on the land extent | During the audit of the Land extent (in hectares) as disclosed in the immovable asset register (IAR) did not agree to the land extent as disclosed on the Aktex (Deeds report). This resulted to the following differences.  **Regions impacted**   * Head office | * Property plant and equipment (Deemed cost) is understated by R 276 806 789. * Heritage assets (Deemed cost) is overstated by R314 066.   and extent (in hectares) as disclosed in the immovable asset register (IAR) did not agree to the land extent as disclosed on the Aktex (Deeds report). This resulted to the following differences as shown in the table below: | HO COFF 40 | **Not yet due** |
| Immovable asset | | Duplicate AVL land parcels | During the audit of immovable assets register (Land register), we have identified instances where properties were duplicated on the IAR.  These properties shared the same LIP code and property description however they were disclosed as separate items.  **Regions impacted**   * Head office | * Carrying value of assets as at 31 March 2020 is overstated by R89 370 913. | HO COFF 39 | **Not yet due** |
| Immovable assets | | Rights and obligations | improvements situated on land parcels not owned by the PMTE, referred to as State Domestic Facilities were included on the immovable asset register. For improvements listed under tables below we are unable to confirm the custodianship based on what is deemed to belong to the Department of Public Works in terms of the Immovable Asset Guide. No permission to occupy the land or other supporting documentation were provided to proof ownership.  Furthermore, we noted that management included land parcels not owned by PMTE on the immovable assets register. Through inspection of Aktex / Deeds information the land parcels do not belong to the Entity  **Regions impacted**   * Head office | * Overstatement of PPE: Buildings (carrying amount) by an amount of R129 890 530. * Overstatement of PPE: Land (carrying amount) by an amount of R15 743 180 | HO COFF 41 | **Not yet due** |
| Immovable assets | | Differences identified during the physical verification | We noted that the extent of footprint (in SQM) disclosed in the immovable asset register (IAR) does not agree to the extent of footprint measured by auditors using the measuring wheel during the physical verification process.  Furthermore, we noted some inconsistencies in the number of floors included in the IAR compared to the number of floors physical verified by the auditors. We therefore couldn’t confirm that the amount disclosed in the immovable assets register is accurate.  **Regions impacted**   * Head office | * The property, plant and equipment (measured using the measuring wheel) have been understated by an amount of R6 688 074. * The property, plant and equipment (Multi-story) has been misstated. The value of misstatement cannot be quantified. | HO COFF 51 | **Not yet due** |
| Depreciation and accumulated depreciation | | Depreciation and accumulated amount depreciation amount on the IAR doesn’t agree to our recalculation | During the audit of Property plant and equipment, we noted differences between management calculations and auditor’s recalculations on the current year depreciation values and accumulated depreciation as at 31 March 2020 as disclosed in the table below. These differences were mainly due to the following:   * Differences in the recalculated deemed costs and the deemed costs as per immovable asset register. | Property, plant and equipment – accumulated depreciation opening balance is overstated by R31 146 228  current year depreciation and accumulated depreciation is overstated by R2 697 341. | HO COFF 55 | **No – Not yet due** |
| Movable assets | | Differences noted between FAR and AFS. | Differences were identified from the reconciliation of fixed assets register, general ledger and disclosure note in the annual financial statements for the Furniture and Office Equipment asset category.  **Regions impacted:**   * Head office | Overstatement of PPE – Movable Assets by an amount of R11 999 119. | HO COFF 15 | **Yes – Evaluation stage** |
| Heritage | | Differences noted in commitment disclosed | We have determined that the amount disclosed under contractual commitment for acquisition and maintenance of intangible assets relates to the interim period (6 months’ period) instead of the financial year end period (12 months). We therefore agreed the amount disclosed on the intangible assets note to the intangible commitment schedule and we identified differences.  **Regions impacted:**   * Head office | Contractual commitments (Capex and Opex) are overstated by the net amount of R4 511 710  Capex commitment have been overstated by R1 523 419.  Opex commitment have been overstated by R2 988 291 | HO COFF 27 | **No – Not yet due** |
| AUC | | Differences noted between schedule and disclosure note | During the audit of heritage assets, differences were identified under Note no. 9 “additional disclosure relating to assets under construction”, as the cumulative expenditure recognised in the carrying amount of heritage assets disclosed per the annual financial statements did not agree to the cumulative expenditure as per the AUC register.  **Regions impacted:**   * Head office | Heritage assets – carrying value is overstated by R6 688 363 and Property, plant and equipment – carrying value is understated by R6 688 363 | HO COFF 29 | **No – Not yet due** |
| Incorrect classification of AUC | WCS 054647 project for the installation of a backup generator at Mankwe Training College at practical completion as at 23 December 2019 (status 6A).  incorrectly classified as OPEX by management even though the generator is considered to be a standby equipment which is expected to be used for more than one financial period (25 years’ useful life)  Amount paid to date **R 1 585 827**  **Regions impacted:**   * Mmabatho | * Property, plant and equipment is understated by **R1 585 827** and property maintenance is overstated by the same amount. * Depreciation and accumulated depreciation is understated by **R15 858** * Revenue from exchange transactions is also understated by **R1 585 827** | MMA COFF 03 | **No – Not yet due** |
|  | | Understatement of AUC | During the audit of AUC completeness testing, two projects were executed under one WCS no. 51731. Through inspection of the AUC register, we noted that only one project was recorded on the register.  **Regions impacted:**   * Mthatha | Understatement of AUC by R6 261 360 | MTH COFF 02 | **No – Not yet due** |
| Prepaid Leases | | The recalculated amount of prepayment balance doesn’t agree to the amount disclosed on the AFS. | During the audit of prepaid expense – leases, we noted that the prepayment balance as at 31 March 2020 is misstated. Our recalculations based on the supporting documentation (lease contracts provided and the payment reports) indicated differences from management’s balances.  **Regions impacted:**   * Head office | Overstatement of prepayment by R 40 361 280. | HO COFF 23 | **No – Not yet due** |
| Commitment | | Commitment have been misstated due to inaccurate calculation of the amount disclosed on the schedule | We have identified that management inaccurately calculated the commitment amount.  The authorised used on the calculation doesn’t agree to the actual authorised amount as per the supporting documents.  **Regions impacted:**   * Pretoria | Understatement of commitment  by R20 234 570 (PTA) | PTA COFF 11 | **Yes – Evaluation stage** |
| We have noted that the authorised amount for the project was R494 304.50**.** Expenditure incurred and included on the AUC and commitment register was R 104 454,4.  Upon inspection of the progress payment certificate as at 25 March 2020 we noted that the full authorised amount was spent. Therefore, the commitment balance disclosed on the schedule is incorrect.  **Regions impacted:**   * Cape town | Overstatement of commitment  by R 389 850 .1 | CPT COFF 11 | **Yes – Evaluation stage** |
| Commitment was raised on the contract that has been subsequently cancelled.  **Regions impacted:**   * Port Elizabeth | Overstatement of commitment by 90 485 710.12. | PE COFF 02 | **Yes – Evaluation stage** |
| During the audit of commitment in relation to WCS no: 055540: Acquisition of Lindela Repatriation Centre. We noted that the commitment amount disclosed on the schedule doesn’t agree to our recalculated amount as per supporting documents.  **Regions impacted:**   * Johannesburg | Overstatement of commitment by R118 019 677. | JHB COFF 06 | **No – Not yet due** |
| We noted differences between the details of the project per the progress payment certificate and the details as per the commitment schedule.    **Regions impacted:**   * Cape town | Understatement of commitment by R 5 070 885,79 | CPT COFF 11 | **Yes – Evaluation stage** |
| Accruals | | The accrual raised on transactions that occurred after year end | An accrual amount was raised on the transaction that occurred after year end. We have determined that the service was perfumed after the 31 March 2020.  **Regions impacted:**   * Pretoria region | Overstatement of accruals by R1 711 340 | PTA COFF 09 | **No - Overdue** |
| Duplicate of accruals | We identified instances where day to day worx4U accruals transactions were duplicated on the accrual listing.  **Regions impacted:**   * Johannesburg region * Head office | Overstatement of accruals by R760 410  Overstatement of accruals by R2 858 792. | JHB COFF 08  HO COFF 18 | **No – Not yet due**  **Yes – Evaluation stage** |
|  | | Differences on accruals calculation | We noted differences between the auditor’s recalculation of accruals and the amount included on the register.  **Regions impacted:**   * Mmabatho | Overstatement of accrued expenses and payables from exchange transactions by R514 523 |  | **MMA COFF 05** |
| Understatement of maintenance schedule | We identified that the accrued expenses were not accounted for accurately. Thee recalculated accrual amount doesn’t agree to the amount on the accrual listing.  **Regions impacted:**   * Johannesburg | Understatement of accruals by R57 244 | JHB COFF 04 | **No – Not yet due** |
| Understatement of accruals (other accruals) | During the audit of day-to-day maintenance (completeness), a transaction was identified where the service was rendered before year-end however the transaction was not included on the accrual listing.  **Regions impacted:**   * Mthatha | Understatement of accruals by R18 651 | MTH COFF 05 | **No – Not yet due** |
| Provisions | | Misstatement of provisions | We noted differences between the recalculated provision amount and the supporting documents.  **Regions impacted:**   * Cape town | Understatement of provision by R190 411 | CPA COFF 10 | **Yes – Evaluation stage** |
| Incorrect classification of accruals as provisions | Transaction was classified as a provision rather than an accrual to the amount of **R 28 553.**  **Regions impacted:**   * Mmabatho | Overstatement of Provisions by **R28 553** and Understatement of accruals by **R28 553** | MMA COFF 02 | **No – Not yet due** |
| Misstatement of provisions | We have identified duplicates in the provision schedule.  **Regions impacted:**   * Cape town | Overstatement of provisions by R224 757 | CPA COFF 10 | **Yes – Evaluation stage** |
| Misstatement of provisions | We identified that there was a different between the status of calls as per scheduled provided for audit as at 31 March 2020 and status of calls per Worx4u report.  **Regions impacted:**   * Pretoria region * Port Elizabeth | Overstatement of provisions by R74 413  Overstatement of provisions by R 49 231.32 | PTA COFF 10  PE COFF 01 | **Yes – Evaluation stage**  **PE - No – Note yet due** |
|  | | Overstatement of provisions | We identified differences between the amount per the provision estimate and the amount per the provision schedule  **Regions impacted:**   * Mthatha | Overstatement of provisions by R21 810 | MTH COFF 06 | **No – Not yet due** |
| Compliance | | Payment not made with 30 days | Payment not made with 30 days  **Regions impacted:**   * Pretoria (2 items) * Cape town (4 items) * Durban (1) * Johannesburg (3) * Mmabatho (1) * Mthatha (2) * Polokwane (2) * Head office (3) | Non –compliance. | PTA COFF 12  CPT COFF 12  DBN COFF 05  JHB COFF 07  **HO COFF 53**  MMA COFF  06  MTH COFF 04  PLK COFF 2 | **PTA - No – Overdue**  **Yes – Evaluation stage**  **Yes – Evaluation stage**  **JHB – Not yet due**  **MMB - Not yet due**  **MTH - Not yet due**  **PLK- Not yet due** |
| AOPO | |  | During the audit of performance information, the following differences between the schedule and portfolio of evidence were identified for the performance indicators indicated.   * Indicator 3.1: Number of approved infrastructure project designs * Indicator 3.2: Number of approved infrastructure projects ready for tender. * Indicator 3.3: Number of infrastructure sites handed over for construction.   **Regions impacted:**   * Head office | Information is not reliable. | HO COFF 14 | **Yes – Evaluation stage** |
| Strategic objectives not reported on the APR. | During the audit of performance information, Programme 3: Construction Project Management, we noted that the strategic objectives as listed below were disclosed in the 2019/20 Annual Performance Plan, however were not reported in the 2019/20 Annual Performance Report.  **Regions impacted:**   * Head office | Inconsistent reporting in the annual performance report.  Reported strategic objectives are not complete when compared to the planned strategic objectives | HO COFF 17 | **Yes – Evaluation stage** |
| Method of calculation not aligned to the reported achievement | During the audit of performance information, Programme 3: Indicator 3.8 Percentage reduction of infrastructure projects backlog, we noted that the manner in which the entity had planned to calculate the achievement is not aligned to the description of the indicator as well as what the indicator aims to achieve.  **Regions impacted:**   * Head office | Misrepresentation of the reported achievement to the users of the annual report. | HO COFF 13 | **Yes – Evaluation stage** |
| AOPO | | Programme 3: indicator 3.7 -Validity and accuracy | During the audit of performance information, programme 3: indicator 3.7 relating to “Number of work opportunities created through construction projects”, the following deviations were identified:  The following beneficiaries’ identity documents were not provided for audit purposes  The following beneficiaries’ proof of payment was not submitted for audit purposes  The following beneficiaries’ attendance register was not submitted for audit purposes**.**  Furthermore, no documentation or reasons was submitted to explain as to why the project 70071-EPWP3M (Upgrading of the Manyavu Community Water Supply Sc) was temporary “stopped” by the municipality, therefore no physical verification of participants were performed.  **Regions impacted**   * Head office | * Non-compliance with the PFMA and Framework for Managing Programme Performance Information requirements. * Misrepresentation of the reported achievement to the users of the annual report. * The reported achievement is not valid and accurate and may be overstated. * Limitation of scope in confirming the reported information pertaining to work opportunities created. | HO COFF 48 | **Not yet due** |
| Programme 3: Indicator 3.7 – Over reporting of achievement | During the audit of performance information, programme 3: indicator 3.7 relating to “Number of work opportunities created through construction projects”, the following deviations were identified:  a) The beneficiaries listed below for the projects, were reported as beneficiaries on the EPWP reporting system including the number of days worked. However, during the audit of the project we noted that the beneficiaries did not work on the project as attendance register and proof of payment could not be obtained.  **Regions impacted**   * Head office | * Non-compliance with the PFMA and Framework for Managing Programme Performance Information requirements. * Misrepresentation of the reported achievement to the users of the annual report. * The reported achievement may be overstated. | HO COFF 49 | **Not yet due** |
| Programme 3: Indicator 3.7 – under reporting of achievement | During the audit of performance information, programme 3: indicator 3.7 relating to “Number of work opportunities created through infrastructure projects”, the following deviations were identified:  a) For the projects as per the table below, participants were identified on the attendance register and/or proof of payment, but were not reported on the quarterly validated data submitted for audit purposes.  b) During the audit of EPWP projects at the Lepelle-Nkumpi Local Municipality, the under-mentioned project was not reported on the quarter 3 EPWP reporting system as at 31 December 2019.  **Regions impacted**   * Head office | * Non-compliance with the PFMA and Framework for Managing Programme Performance Information requirements. * Misrepresentation of the reported achievement to the users of the annual report. * The reported achievement may be understated. | HO COFF 50 | **Not yet due** |
| AOPO | | Programme 3: Indicator 3.8 – Reported achievement not valid | During the audit of performance information, Programme 3: Indicator 3.8 Percentage reduction of infrastructure projects backlog, the following deviation was noted:  There was a list of infrastructure projects that have been in construction stage for a period exceeding 2 years of the planned construction period, however when assessed by the auditors, it was found that the projects have not been on construction stage for a period exceeding 2 years of the planned construction period. Thus, the projects should not have been reported in the achievement for backlog projects  A list of projects were reported as being on construction staged for a period exceeding 2 years of the planned construction period, however when assessed by the auditors, it was found that the project has reached stage of completion 8. Furthermore, it was also established that the project reach practical completion on 15 April 2008. Thus, the project should not have been reported in the achievement for backlog projects.  **Regions impacted:**   * Head office | * Non-compliance with the PFMA and Framework for Managing Programme Performance Information requirements. * Misrepresentation of the reported achievement to the users of the annual report. * The performance indicator is not valid and accurate. * The denominator is overstated, consequently the reported achievement is understated. | HO COFF 35 | **Not yet due** |
| SCM | | Non-compliance with preferential points scoring | BBBEE points were awarded to a bidder who provided a copy of a certified copy of BB-BEE certificate.  Once the incorrectly awarded points for B-BBEE are removed, Messers GVK Siya Zama Building Contractors (Pty) is no longer the highest points scorer.  B.L Williams Construction tendered the lowest price and should have been awarded the contract. Their bid amount was R 2 710.12 lower than that of Messers GVK Siya Zama Building Contractors (Pty).  **Regions impacted:**   * Cape town | Non- compliance that results to irregular expenditure | CPT COFF 09 | **Yes – Evaluation stage** |
| Expenditure in excess of 20% of the contract value | We have noted that the professional team was appointed using a Nomination for a Routine Assignment (Rooster Appointments) for WCS 047918 Replacement and maintenance of boilers for a period of 24 months.  An amount of R6 283 562 (Above the 20% threshold) was approved by the PMTE without the required approval by the relevant delegation, in this case being National Treasury in line with the practice note.  **Regions impacted:**   * Johannesburg | Non-compliance with the National Treasury SCM instruction note 3 of 2016-17. | JHB COFF 09 | **No – Not yet due** |
|  | | Non-compliance with CIDB grading | The tender Lusikisiki SAPS: Construction of a new police station for an amount of R58 406 107 was awarded to a contractor who has a CIDB grading of 7GB; where contractors with a CIDB grading 7GB can only qualify for tenders with a contract value up to R40 000 000.  Further, there was no evidence that an assessment was performed of the contractor’s ability to deliver the required work.  **Regions impacted:**   * Mthatha | Non-compliance that results to irregular expenditure. | MTH COFF 07 | **No – Not yet due** |
| SCM | | Limitation of scope- compliance | Outstanding information from two tender’s files requested.  Following was outstanding  **WCS 051646(Tender no. MMB2016/052 EC)**   1. PA-11 and 29 were not included in the winning bidders file.  2. Sworn affidavit of the winning bidder not included in the file.   **WCS 045746 (Tender no: MMB20172017/021 EC**  CSD report ran by the department not included in the file.  **Regions impacted:**   * Mmabatho | * Limitation of scope as we were unable to obtain sufficient and appropriate audit evidence to complete the audit and this can also lead in unfavourable audit outcomes.   Possible misstatement of irregular expenditure for the amount incurred to date of R 27 947 107.82 | MMA COFF 04 | **No – Not yet due** |
| Assets under construction (AUC) | | Completed projects not transferred to PPE. | During the audit we have noted that the work done on the refurbishments and renovations for SAPS: BARRAGE were completed. The contractor was paid an amount of R10 374 020. The practical completion certificate was also issued on the project. However, the completed project was not transferred to deferred revenue and depreciated as per entity’s accounting policy.  **Regions impacted:**   * Johannesburg | Understatement of the PPE – opening balance, accumulated depreciation and current years depreciation. | JHB COFF 05 | **No – Not yet due** |
|  | | Limitation of scope | Information requested not submitted for audit purposes.  **Regions impacted:**   * Bloemfontein * Mthatha | Limitation of scope | BLM COFF 02  MTH COFF 01 | **BLM – Not yet due**  **MTH – Not yet due** |
| Commitments, Assets under Construction | |  | Commitment  we noted differences between CPAP expenditure as per commitment schedule and auditor’s calculations.  *Asset Under Construction Classification*  The repair and upgrading of the entire centre at Mogwase Prison was conducted was classified as Opex instead of being classified as capex.  *Completeness of immovable asset register*  The facility Mogwase Prison is not included in the Immovable Asset Register (IAR) even though it vests with National Department of Public Works as per the Vesting Guidelines issued by the Department of Rural Development and Land Reform to substantiate the application of section 239 of the Constitution of the Republic of South Africa Act.  **Regions impacted:**   * Mmabatho | Commitment has been overstated by R5 203 031.1  Understatement of assets under construction by R106 685 703 due to the costs classified as Opex whereas it should have been Capex.  Immovable Asset register is not complete and understated by an undeterminable amount. | MMA COFF  07 | **No – Not yet due** |
| Assets Under Construction | | Project completed not capitalized | WCS NO: 052426 project was disclosed as stage 5B. However, upon physical verification of the project, it was noted that the project is complete.  Furthermore, it was noted that the project has not been capitalized and transferred to the completed assets and recognised as ready for use.   |  |  |  |  |  | | --- | --- | --- | --- | --- | | **No** | **WCS #** | **Project Description** | **Closing AUC balance** | **Date of completion per practical completion certificate.** | | 1 | 052426 | Installation of security measures at 287 Albert Street | R3 692 352,32 | 26 October 2018 |   **Regions impacted**   * Head office | * Non-compliance with the requirements of GRAP 1 and PFMA resulting in misrepresentation of balances to the users of the financial statements. * Depreciation and accumulated depreciation is understated by an undeterminable amount. * Deferred revenue is overstated by R3 692 352,32 and revenue is understated by R3 696 352,32 * Cumulative expenditure relating to assets under construction disclosed under note 7 is overstated by R3 696 352,32 | HO COFF 36 | **Not yet due** |
| Revenue from exchange transactions | | National treasury instruction on billing of accommodation services. | The trading entity had applied to National Treasury for exemption of itemised billing and obtained approval in 08 January 2018.  Trading entity still does not have contract with certain client departments which as per the approval itemised billing was supposed to have commenced in the current or prior financial years.  Revenue relating to accommodation charges for freehold Inter-governmental is classified as revenue exchange. However, the revenue from these accommodation charges does not equal the value of the service delivered as it is based on the budget allocated by National treasury and therefore should be classified as revenue non-exchange.  **Regions impacted**   * Head office | * Possible misstatement of revenue from exchange transactions accommodation charges - freehold intergovernmental. * Possible financial loss as a result of loss of revenue. * Incorrect classification of revenue and receivables from exchange transactions accommodation charges - freehold intergovernmental. | HO COFF 34 | **No – over due** |
| Financial assets | | Receivables from exchange receivables, we noted that the following balance was incorrectly classified as non-financial assets as opposed to financial assets | Prepaid expenses – leases  Prepaid expense of R384 144 000.00, is as a result of overpayments and therefore would not qualify as prepayment.  On termination of the lease, the pre-payment balance should be recovered from the lessor because the amount now represents a contractual right to receive cash from another entity.  Therefore, prepaid leases that are terminated should be re-classified as a financial asset  **Regions impacted**   * Head office | * The financial statements of the PMTE are not fairly represented resulting in non-compliance with the Standards of GRAP (generally recognised accounting practice for the PMTE). * Non-compliance with Section 40(1) (b) of the Public Finance Management Act as result of the financial statements are not prepared in accordance with generally recognised accounting practice(GRAP) * Under-statement of Financial assets at amortised cost of R 29 830 106.67 * Overstatement of Non-financial assets of R 29 830 106.67 | **HO COFF 32** | **Yes** |
| Impairment of lease prepayments | | Management impaired financial assets prior to utilizing the property without paying until the overpayment is exhausted, on active contracts where overpayments were made | Prepaid expenses-leases for leases that have been paid over and above the contractual value of the contract.  The excess amount has been paid to lessors, the department has categorized these amounts as non-financial assets.  This results in the amounts being non-cash generating asset, whereby the PMTE does not intend on using the excess payments made to lessors to generate a commercial return but instead intends to enjoy the service benefit remaining in the building without paying any further rentals on it.  PMTE still have active contracts, should not be impaired because PMTE can still benefit by using the service of the lessor by staying in the property without paying.  **Regions impacted**   * Head office | * Non-compliance with Section 38(1)(a) (i) of the Public Finance Management Act as the accounting officer of the entity failed to ensure that the trading entity has and maintains Effective, efficient and transparent systems of financial and risk management and internal control. * Non-compliance with Section 38(1)(c) (i) of the Public Finance Management Act as result of the accounting officer failing to take effective and appropriate steps to collect all money due to the trading entity. * Impairments are overstated and consequently trade receivables for the related balances is understated. * Non-compliance with TR 8.1.1 and TR 15.10.2.1 * Possible financial loss of R14 509 461.90 | **PMTE COFF 44** | **No – Not yet due** |
| Irregular expenditure on leases | | Operating lease payments – Variation above 15% was not approved by National Treasury resulting in irregular expenditure | Irregular expenditure  The lease agreement between the Department of Public Works and Armaments Corporation of South Africa (ARMSCOR) , the lease has been running on a month-to-month basis since the contract expired on 31 July 2004.  As at 31 March 2020 the total variation of the contract, which is all the month to month payments is well over 600% (R 496 497 909) and the total irregular expenditure incurred on this lease contract is R 343 594 676.  Which is above the 15% or R 15 million threshold for all other goods or services of the original contract value.  a letter dated 27 November 2019 that was sent to ARMSCOR by the regional manager where the regional manager conceded that they have been incurring irregular expenditure as the contract has expired.  Lease payment escalation rate  lease payments have been escalated by 10% per annum from the date of termination up to date. However, an economical escalation rate would have been 6%. The negotiated rental increases should not exceed the inflation rate of 5.5% as per national treasury’s dispensations. Which will have resulted in a financial loss of  R 46 608 660.36   |  |  |  | | --- | --- | --- | | **Payments based on 10% escalation** | **Payments based on 6% escalation** | **Financial loss** | | R 501 587 526,81 | R 454 978 866,45 | R 46 608 660,36 |   **Regions impacted**   * Head office | * Non-compliance with paragraph 3.9.3 of the National Treasury instruction note on enhancing compliance monitoring and improving transparency and accountability in supply chain management * Non-compliance with section 38(1)(b)(c)(ii) of the PFMA * Non-compliance with treasury regulations 8.1.1 * Irregular expenditure amounting to R 343 594 676. * A possible financial loss of R 46 608 660, 36. | **HO COFF 42** | **No – Not yet due** |
|  | | | | | |
| Leases- irregular expenditure, receivables | | Irregular expenditure from the excessive space occupied, receivables from the refurbishments done not disclosed | the leasing of City Forum Building situated at 114 Vermeulen Street, Pretoria occupied by IPID (Independent Police Investigative Directorate).  Fruitless and wasteful expenditure   * IPID only needed 3241.25 square metres and 50 parking bays but were allocated to a building with 7614 square meters and 102 parking bays which is 57% more space than they required.   Therefore, of the R 172 682 187, 34 paid to date; R 98 428 846, 78 is fruitless and wasteful expenditure.   * June 2010, IPID indicated that the building was not in good condition and requested refurbishments repairs. Service providers were appointed through an emergency procurement process. Clause 9.3 of the lease agreement it was agreed that the costs would be set off against rental. The total cost of the refurbishment was R14 397 657.02, which was supposed to be set off against the rental. amount is not disclosed as a receivable, which indicates that the entity does not intend to recover the money from the landlord. Therefore, the R 14 397 657.02 is fruitless and wasteful expenditure.   Court judgement declared contract void  National Department of Public Works (“the applicant”), instituted an application in the High Court of South Africa, to declare void ab intio the Standard Lease Agreement between applicant and Majestic Silver Trading 275 (Pty) Ltd (“the respondent”) for office accommodation in 14 April 2009.  the court judgement declared the contract void (26 November 2015), all payments made thereafter are irregular expenditure due to the fact that they were made based on the contract that has been declared void. (R 85 403 859, 4).  Lease payments exceed the amount as per contract  lease payments made over the lease period, were more than the agreed amount as per the lease contract. This resulted in cumulative overpayments of R 13 061 187, 21 as at 31 March 2020. As per management’s schedules, R 7 869 479, 19 has already been impaired. | * Irregular expenditure of R 85 403 859,40. * Fruitless and wasteful expenditure of R 112 826 503.80 * A financial loss of R 13 061 187.21 * A possible financial loss of R 112 826 503, 8 if management does not recover the fruitless and wasteful expenditure relating to tenant installation cost (R 14 397 657.02) not recovered and the excess space rented (R 98 428 846, 78). | **HO COFF 43** | **No – Not yet due** |
| Operating lease asset and liability | | Operating lease and liability misstatement | There were differences between amounts calculated in the client schedule supporting the Annual Financial Statements (AFS) and the amount recalculated from the lease agreements on the operating lease asset and liability balance.  There was an overstatement on the lease liability balance and the understatement for the operating lease asset balance.  **Regions impacted**   * Head office | * The financial statements of the PMTE are not fairly represented resulting in non-compliance with the Standards of GRAP (generally recognised accounting practice for the PMTE). * Non-compliance with Section 38(1)(a)(i) and Section 40 (a) and (b) of the Public Finance Management Act as result of the financial statements are not prepared in accordance with generally recognised accounting practice(GRAP) * Overstatement of operating lease liability by R 4 434 843,09. * Projected misstatement of operating lease liability by R 259 328 051,85. * Understatement of operating lease asset by R 338 515,90. * Projected misstatement of operating lease asset by R 16 586 932,06. | **HO COFF 45** | **YES** |
| Operating leases | | Lease agreement not signed | During the audit of lease agreements that are entered into between PMTE on behalf of client departments and various lessors were not signed by the client department as proof of validating the lease agreement and occupancy of the building.  **Regions impacted**   * Head office | * Disputes of debtors balances by clients as there are no signed lease agreements in place, which will result in PMTE not collecting all the revenue that is due. * PMTE incurring financial losses due to not recovering from the client department | **HO COFF 46** | **Yes** |
| Procurement | | PMTE deviated from normal procurement processes in purchasing Lindela Repatriation Centre | Deviated from normal procurement processes in purchasing the Lindela Repatriation Centre “Lindela” from Leading Prospect Trading 111 (Pty) Ltd, which is currently in liquidation.  It was Government’s (DHA and DPWI) intention to procure the subject property as it has been purpose fit for its specification as a result two right of refusal were requested from the liquidator. The right of refusal was given to Government with a pre-emptive condition that the property must be purchased at a “reasonable market value”.  The DGs and minister’s approvals were obtained before the auction process took place and the actual payment deviated from what was approved by the accounting officer. This approval was in line with the MVR value of R23 million, however the actual purchase of the property amounted to R60 million excluding auctioneer fees and value added tax without any clear basis.  Based on the above assessment it is evidenced that the purchase price accepted by management was not economical and cost effective. | * Non-compliance Public Finance Management Act section 38 (1) (b) * Non-compliance with Treasury Regulation 8.1.1 and 16A3.2 (a) * Possible financial loss of R37 million (*R32 – R69 million*) * As at 31 March 2020, the property hasn’t been transferred/registered in the name of DPWI. Assets under construction are overstated by R69 million and receivables from exchange transactions are understated by same amount. | **HO COFF 37** | **YES** |
| Irregular expenditure | | Irregular, fruitless and wasteful expenditure – Completed SIU investigations not fairly disclosed | The SIU investigations in terms of proclamations R38. of 2010 were obtained by the audit team and noted that they were finalised as indicated in the table below.  No Name of R38. of 2010 report Date report finalised and presented to the President of RSA  1 DPW Leases February 2017  2 DPW Prestige Projects May 2018  3 DPW Capital Projects April 2019  Upon inspection of the investigations report, allegations with regards to irregular expenditure, fruitless and wasteful expenditure were noted as disclosed in the table below as determination tests have been conducted and completed.  Irregular and fruitless and wasteful expenditure noted from the investigation reports were not included on the disclosure note 31 and 32. | Irregular expenditure has been understated by R688 893 721,75  Fruitless and wasteful expenditure has been understated by R79 716 526.3  Possible financial loss of R273 000 896.17 as a result of overpayments, amount paid without supporting documents, fruitless and wasteful expenditure etc. | **COFF 22** | **No** |
| Bank overdraft | | Bank overdraft was reported | During the audit of cash and bank, it was noted that the PMTE Pay Master General account 8033 is operating on an overdraft. Furthermore, the matter was reported in the prior year audit | Non-compliance | **COFF 54** |  |
| Receivables | | Misstatement of freehold intergovernmental receivables | During the audit of the freehold intergovernmental, we noted differences between the impairment provision recognized on the AFS to the auditor’s recalculation. Reasons for differences included:   * amount did not include evidence of being probability-weighted, where a range of possible outcomes have been evaluated * - With regards to time value of money, we noted that interest rate used by management was 9.75%, however we find that 9.75% pa interest rate gazetted in Gazette no. 39568 dated 11 March 2016 was valid for debts from 1 January 2016 to 29 February 2016, where after the rate increased to 9.75%, 10.25%, 10.5%, 10.25% and currently sits at 10% since gazette no. 41593 dated 26 April 2018 effective from 1st May 2018 until further notice | Overstatement of the impairment provision by R 86 548 565.00  Understatement of freehold intergovernmental receivables by R 86 548 565.00 | **HO COFF 56** | **No** |
| Municipal services(receivables | | Misstatement of municipal services (receivables) | During the audit of the freehold intergovernmental, we noted differences between the impairment provision recognized on the AFS to the auditor’s recalculation. Reasons for differences included:  (Same reasons as the one quoted on Intergovernmental receivables) | * Overstatement of the impairment provision by R 654 858 759.00 * Understatement of municipal receivables by R 654 858 759.00 | **HO COFF 57** |  |
| Misstatement of Leasehold Intergovernmental receivables | | Misstatement Leasehold Intergovernmental receivables | During the audit of the freehold intergovernmental, we noted differences between the impairment provision recognized on the AFS to the auditor’s recalculation. Reasons for differences included:  (Same reasons as the one quoted on Intergovernmental receivables) | * Understatement of the impairment provision by R 1 658 529. * ed overstatement of leasehold intergovernmental receivables by R 1658 529. |  |  |
| Operating leases | | Operating lease payments running on a month to month | We have noted that the entity has a huge number of leases that are running on a month to month basis. There are leases that have been on a month to month for a period of more than five years, some even longer. Consequently, this has resulted in the trading entity spending amounts that exceed the set limit for extensions of contracts as required by Treasury Instruction note 3 of 2016 paragraph 9.  Furthermore, we have noted that the month to month payments have escalated from the initially expiry date by more than the average inflation rate of 6% or the recommended 5.5% by NT where there is no lease contract in place. Consequently, the trading entity did not use its resources cost effectively and efficiently as required by section 38(1)(b) of PFMA.  In addition, through inquiry and auditing, we have confirmed that the lease details are edited for the period of expiry so that that Archibus can process the payments Despite the fact that there are no signed active agreements in place for these leases. This is not in line with TR8.1.1 which requires that there should be internal control systems to enable the processing and approval of payments. Furthermore, this means the information for leases as reflected in Archibus is not a true reflection of the financial performance and position of the trading entity and it is a misrepresentation and omission that fails to show the actual date in which the contracts for leases expired. | * Irregular expenditure amounting to R 800 994 315.62 * Financial loss as a result of savings that could be obtained from renegotiated lease terms – R11 465 289.51 | **HO COFF 59** | **No** |
| Overstatement of operating lease expenditure and revenue from exchange transaction | | Differences in calculation | During the audit of operating lease expenditure, the following differences were identified between the amounts of the schedule supporting the annual financial statements (AFS) and the recalculated amount from the lease agreements | Overstatement of operating lease expenditure and revenue from exchange transaction by R468 398 766.84 | **HO COFF 60** | **No** |
| Operating commitment | | Misstatement of the operating commitment | During the audit of the operating lease commitments, the following differences were identified between amounts calculated in the client schedule supporting the Annual Financial Statements (AFS) and the amount recalculated from the lease agreements. | Possible overstatement of the operating lease commitment by R979 357 683,67 | **HO COFF 61** | **No** |