

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE FINANCIAL STATEMENTS OF THE PROPERTY MANAGEMENT TRADING ENTITY FOR THE YEAR ENDED 31 MARCH 2009

AUDIT REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Property Management Trading Entity (PMTE) which comprise the statement of financial position as at 31 March 2009, the statement of financial performance, the statement of changes in net assets and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 122 to 147.

The accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation of these financial statements in accordance with the South African Statements of Generally Accepted Accounting Practice (SA Statements of GAAP) as set out in accounting policy note 1.1 to the financial statements and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) and for such internal control as the accounting officer determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

The Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis for adverse opinion

Basis of accounting

7. The required accounting framework in terms of TR 18.2 for the PMTE is SA Statements of GAAP. As stated in accounting policy note 1.1 the National Treasury granted conditional approval to the PMTE to apply the modified cash basis of accounting. However, the PMTE did not comply with the conditions as set out by the National Treasury and as a result the exemption is no longer valid and the PMTE had to revert to the required accounting framework which is SA Statements of GAAP. The financial statements are therefore not compliant with the required framework.

Interdepartmental receivables

8. Included in the interdepartmental receivables as disclosed in note 17 to the financial statements is an amount of R419 million (31 March 2008: R48 million), which is owed by a number of national departments and national public entities which has been outstanding for more than two years. In terms of section 38(1)(c)(i) of the PFMA, the accounting officer must take appropriate steps to collect all money due to the trading entity. Management did not implement appropriate steps to collect money owed and further did not assess the recoverability of the long-outstanding debtors in terms of disclosure note 39 to the financial statements. The receivables amount disclosed is thus overstated by an unknown amount and the provision is understated due to the assessment not being performed.

Adverse opinion

9. In my opinion, because of the significance of the matters described in the Basis for adverse opinion paragraphs, the financial statements do not present fairly the financial position of the Property Management Trading Entity as at 31 March 2009 and its financial performance and cash flows for the year then ended, in accordance with SA Statements of GAAP and in the manner required by the PFMA.

Other matters

I draw attention to the following matters that relate to my responsibility in the audit of the financial statements:

Material non-compliance with applicable legislation

10. Treasury Regulations

The accounting officer did not comply with the following legislative requirements:

- Treasury Regulation 8.2.3: payments of invoices were not always made within 30 days of receipt of invoice, as required.
- Treasury Regulation 9.1.2: fruitless and wasteful expenditure was not reported on a monthly basis.

Entity revenue

11. Section 51(1)(a)(i) of the PFMA states that the accounting officer must ensure that the PMTE has and maintains effective, efficient and transparent systems of financial and risk management and internal control. Various discrepancies in respect of the process of revenue collected from client departments were noted, including lack of proper reconciliation and review, unauthorised manual journals, manual journal incorrectly completed, misallocation between the regions, manual PACE systems not agreeing to Basic Accounting System (BAS) and incorrect capturing of data.

Governance framework

12. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting officer and executive management and are reflected in the internal control deficiencies and key governance responsibilities addressed below:

Internal control deficiencies

13. Section 38(1)(a)(i) of the PFMA states that the accounting officer must ensure that the PMTE has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes that gave rise to the deficiencies in the system of internal control, which led to the adverse opinion. The root causes are categorised according to the five components of an effective system of internal control. (The number listed per component can be followed with the legend below the table.) In some instances deficiencies exist in more than one internal control component.

Par. no.	Basis for adverse opinion	CE	RA	CA	IC	M
7	Basis of accounting					1
8	Interdepartmental receivables					1

14. All the findings and weaknesses identified were mainly due to ongoing monitoring and supervision that were not undertaken to enable an assessment of the effectiveness of internal control over financial reporting.

Legend	
CE = Control environment	
The organisational structure does not address areas of responsibility and lines of reporting to support effective control over financial reporting.	1
Management and staff are not assigned appropriate levels of authority and responsibility to facilitate control over financial reporting.	2
Human resource policies do not facilitate effective recruitment and training, disciplining and supervision of personnel.	3
Integrity and ethical values have not been developed and are not understood to set the standard for financial reporting.	4
The accounting officer/accounting authority does not exercise oversight responsibility over financial reporting and internal control.	5
Management's philosophy and operating style do not promote effective control over financial reporting.	6
The entity does not have individuals competent in financial reporting and related matters.	7
RA = Risk assessment	
Management has not specified financial reporting objectives to enable the identification of risks to reliable financial reporting.	1
The entity does not identify risks to the achievement of financial reporting objectives.	2
The entity does not analyse the likelihood and impact of the risks identified.	3
The entity does not determine a risk strategy/action plan to manage identified risks.	4
The potential for material misstatement due to fraud is not considered.	5
CA = Control activities	
There is inadequate segregation of duties to prevent fraudulent data and asset misappropriation.	1
General information technology controls have not been designed to maintain the integrity of the information system and the security of the data.	2
Manual or automated controls are not designed to ensure that the transactions have occurred, are authorised, and are completely and accurately processed.	3
Actions are not taken to address risks to the achievement of financial reporting objectives.	4
Control activities are not selected and developed to mitigate risks over financial reporting.	5
Policies and procedures related to financial reporting are not established and communicated.	6
Realistic targets are not set for financial performance measures, which are in turn not linked to an effective reward system.	7
IC = Information and communication	
Pertinent information is not identified and captured in a form and time frame to support financial reporting.	1
Information required to implement internal control is not available to personnel to enable internal control responsibilities.	2
Communications do not enable and support the understanding and execution of internal control processes and responsibilities by personnel.	3
M = Monitoring	
Ongoing monitoring and supervision are not undertaken to enable an assessment of the effectiveness of internal control over financial reporting.	1
Neither reviews by internal audit or the audit committee nor self-assessments are evident.	2
Internal control deficiencies are not identified and communicated in a timely manner to allow for corrective action to be taken.	3

Key governance responsibilities

15. The PFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of key governance responsibilities, which I have assessed as follows:

No.	Matter	Y	N
Clear trail of supporting documentation that is easily available and provided in a timely manner			
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.		✓
Quality of financial statements and related management information			
2.	The financial statements were not subject to any material amendments resulting from the audit.		✓
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.	✓	
Timeliness of financial statements and management information			
4.	The annual financial statements were submitted for auditing as per the legislated deadlines [section 40 of the PFMA].	✓	
Availability of key officials during audit			
5.	Key officials were available throughout the audit process.	✓	
Development and compliance with risk management, effective internal control and governance practices			
6.	Audit committee		
	The trading entity had an audit committee in operation throughout the financial year.		✓
	The audit committee operates in accordance with approved, written terms of reference.	✓	
	The audit committee substantially fulfilled its responsibilities for the year, as set out in section 77 of the PFMA and Treasury Regulation 3.1.10	✓	
7.	Internal audit		
	• The trading entity had an internal audit function in operation throughout the financial year.	✓	
	• The internal audit function operates in terms of an approved internal audit plan.	✓	
	• The internal audit function substantially fulfilled its responsibilities for the year, as set out in Treasury Regulation 3.2	✓	
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.		✓
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.		✓
10.	The information systems were appropriate to facilitate the preparation of the financial statements.	✓	
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in Treasury Regulation 3.2	✓	
12.	Powers and duties have been assigned, as set out in section 44 of the PFMA	✓	
Follow-up of audit findings			
13.	The prior year audit findings have been substantially addressed.		✓

16. The result of the assessment is indicative of the PMTE's lack of adequate monitoring and governance processes to identify deficiencies and timeously implementing corrective actions that will lead to reliable financial reporting, compliance with legislation and the availability of information.

APPRECIATION

17. The assistance rendered by the staff of the Property Management Trading Entity during the audit is sincerely appreciated.

Auditor-General

Pretoria

11 September 2009



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence