



A U D I T O R - G E N E R A L

Note 1: No annual financial statements are prepared as the entity acts in an advisory capacity to the minister

Note 2: Previously Service Product Factories

Department: Labour

Matters emphasised

Matters reported in current and previous year(s)

- Imperial fleet services – The audit revealed the following serious shortcomings:
 - Monthly expenditure fluctuations were not followed up.
 - Damages to fleet cars were not reported.
 - Penalties for late cancellations and deliveries and collections after business hours were incurred.

Matters reported for the first time

- Utilisation of subsidised motor vehicle transport – The department allocated subsidised motor vehicles contrary to the Department of Transport policy, which resulted in:
 - The underutilisation of subsidised motor vehicles.
 - A drastic increase in related expenditure, which included fuel allowance, maintenance allowance and capital remuneration.
 - Imperial fleet services versus subsidised motor vehicle scheme: The Imperial scheme was implemented to decrease costs in respect of subsidised motor transport. However, expenditure incurred on subsidised motor transport and Imperial fleet services increased. It was apparent that the Imperial scheme was not cost-effective for the department.
- An audit of the IT assets revealed the following significant weaknesses in the control environment:
 - A physical verification of IT assets at Head Office, provinces and labour centres revealed that assets selected from the LOGIS asset register could not be verified at the specified locations because the movement of assets was not documented in the asset register.
 - It could not be determined whether IT assets belonged to the department or the Unemployment Insurance Fund.
 - Despite the underutilisation of the training centre, R5,4 million was spent on improvements to the infrastructure during the 2003-04 financial year.



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Public entity: Compensation Fund

Matters emphasised

Matters reported in current and previous year(s)

- Due to inadequate preventative controls, a balance of disallowances of R6,5 million, consisting of overpayments and duplicate payments in respect of medical, compensation and pension payments, had arisen at year-end.
- The absence of proper file management resulted in missing files, duplicate files and incomplete files. The fund had subsequently implemented a quality assurance process to review the scanned and indexed documentation.
- Information system environment: Control weaknesses that could compromise data integrity still existed, especially in the following areas:
 - Security administration of users on various applications.
 - Logical security of the UNIX and the Windows NT operating systems.
 - Monitoring of user and administrator activity at the network, operating system, application and database levels.

These control weaknesses could be attributed to a lack of implementation of the IT security policy and detailed procedures that would ensure that the provisions of the IT security were enforced.

 - Furthermore, a formal, documented disaster recovery plan had not been developed and implemented.
 - The fund had partly developed an investment policy, but it was not approved or implemented.

Public entity: Construction Education and Training Authority (CETA)

Matters emphasised

Matters reported for the first time

- Non-compliance with Treasury Regulations:
 - A materiality and significance framework was only partly developed and not yet approved.
 - A risk assessment was conducted but the risk management strategy and fraud prevention plan was only partly developed by year-end and not approved and implemented.



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- Bank reconciliations were performed on a monthly basis and not on a weekly basis as required.
- Inadequate internal controls:
- The asset register was incomplete and not maintained throughout the period.
 - A policy for the management of debtors was not in place and debtors were not adequately followed up by management.
 - Inadequate project management resulted in incomplete documentation and deliverables of projects that were not properly defined and measured.

Public entity: Education, Training and Development Practices Sector Education and Training Authority (ETDP)

Matters emphasised

Matters reported in current and previous year(s)

- The asset register was incomplete and not properly maintained throughout the period.

Matters reported for the first time

- No fraud prevention plan as required.
- No materiality and significance framework as required.

Public entity: Energy Sector Education and Training Authority (ESETA)

Matters emphasised

Matters reported for the first time

- Late submission of financial statements.
- Non-compliance with Treasury Regulations:
- No fraud prevention plan as required.
 - No materiality and significance framework as required.
 - The asset register was incomplete and not properly maintained throughout the period.



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Public entity: Food and Beverages Manufacturing Sector Education and Training Authority (FOODBEV)

Matters emphasised

Matters reported for the first time

- No fraud prevention plan as required.
- No materiality and significance framework as required.
- Interest was incurred on an overdraft due to non-compliance with Treasury Regulations.
- Weakness in internal controls:
 - Procurement and provisioning system: No updated financial policies and procedures since inception.
 - No effective management information systems to regulate and manage skills development levy income and disbursements.

Public entity: Forest Industries Sector Education and Training Authority (FIETA)

Matters emphasised

Matters reported for the first time

- The budget for the 2004-05 financial year was submitted late.

Public entity: Local Government, Water and Related Services Sector Education and Training Authority (LGWSETA)

Matters emphasised

Matters reported for the first time

- No materiality and significance framework as required.

Public entity: Manufacturing, Engineering and Related Services Sector Education and Training Authority (MERSETA)

Matters emphasised

Matters reported for the first time

- No materiality and significance framework as required.



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Public entity: Media, Advertising, Publishing, Printing and Packaging Sector Education and Training Authority (MAPPP SETA)

Matters emphasised

Matters reported in current and previous year(s)

- The audit committee did not have written terms of reference which dealt adequately with its membership, authority and responsibilities.

Public entity: Mining Qualifications Authority (MQA)

Matters emphasised

Matters reported for the first time

- The entity did not have policies and procedures in place to disclose direct or indirect personal or private business interests as required.
- Disciplinary action against the chief executive officer: Subsequent to the 2003-04 financial year-end, the Board of the MQA initiated disciplinary action against the chief executive officer. This related to failure to comply with sections 50 and 51 of the PFMA and the policies and procedures manual of the Mining Qualifications Authority.

Public entity: Primary Agriculture Sector Education and Training Authority (PAETA)

Matters emphasised

Matters reported for the first time

- Inadequate internal controls:
 - Skills plans and the reports on the workplace skills plans were not subject to a formal approval process.
 - There was limited evidence that the information in respect of the grants as submitted by the employers was evaluated against the specified grant criteria.
 - Expenditure: Inadequate review of invoices by management and lack of supporting documentation.



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Public entity: Sector Education and Training Authority for Secondary Agriculture (SETASA)

Matters emphasised

Matters reported in current and previous year(s)

- Internal audit: The internal audit plan for the 2003-04 financial year was only approved in February 2004, with the result that the audit committee did not have a basis on which to review the effectiveness of the internal audit.

Matters reported for the first time

- No fraud prevention plan was compiled as required.

Public entity: Tourism, Hospitality and Sport Education and Training Authority (THETA)

Matters emphasised

Matters reported for the first time

- Exceeding the 10% threshold in respect of administrative expenditure: The figures reflecting in the annual financial statements indicated that the 10% administrative expenditure threshold as prescribed in the Skills Development Act, 1998 (Act No. 97 of 1998) was exceeded by 2,6% (R2,7 million). This was due largely to unbudgeted expenses.
- No materiality and significance framework was compiled as required.
- Uncertainty regarding the value-added tax (VAT) status of the projects: A formal ruling was not obtained regarding the VAT registration requirements of the various projects.

Public entity: Transport Education and Training Authority (TETA)

Matters emphasised

Matters reported for the first time

- The audit committee did not function effectively.
- No materiality and significance framework was compiled as required.



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Public entity: Unemployment Insurance Fund (UIF)

Disclaimer of audit opinion

Matters reported in current and previous year(s)

○ Material breakdown in internal control systems and procedures:

The fund again experienced a fundamental breakdown in internal control systems and procedures with regard to the overall accounting process followed, the reconciling of bank balances, the administration of benefits payable and the management of fixed assets.

This general deterioration could have resulted in accounting errors not being detected. Due to the large volume of transactions and an inability to place reliance on internal control systems and procedures as a result of the breakdown referred to above, it was not possible to:

- Perform sufficient alternative auditing procedures, and
- Obtain satisfaction that material accounting errors did not occur during the period.

○ Inadequate accounting process followed:

Except for cash book payments generated by the UIF, all the bank transactions for the whole of the financial year were recorded from January 2004 onwards, and by using bank statements instead of accounting source records generated by the UIF. After taking into account the volume and magnitude of transactions, the above-mentioned process could be regarded to be a fundamental departure from generally accepted accounting practice.

- As a result of the above, various unknown net debit entries totalling R10 million were incorrectly accounted for as bank charges and debit entries totalling R4,1 million were incorrectly accounted for as contributions received.
- The inadequate accounting process and the resulting ineffective bank reconciliation process had the result that a material number of fraudulent cheque transactions on the bank statements were not timeously identified by officials.

○ Reconciling of bank accounts:

- As a result of the general ledger not being updated on a weekly basis, the bank balances were only reconciled from January 2004 onwards, with the result that reconciliations were not performed and reviewed on a weekly basis as required by the Treasury Regulations.

○ Benefit payments to contributors:

- Internal controls at regional offices were again found to be materially inadequate. The completeness, accuracy and validity of benefits paid at regional offices could not be confirmed.
- Benefits paid in error, amounting to R44,7 million, had been written off as uncollectable without the approval of the director-general as required by section 58 of the Unemployment Insurance Act, 2001 (Act No. 63 of 2001).



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- Services rendered by the Department of Labour:
 - Personnel, administration and rental expenses – As reported previously, it had been established that the allocation of the value of services rendered to the UIF by the Department of Labour was not scientifically calculated, but on approximations made in October 1999 by officials at different regions. Consequently, an audit to determine the reasonableness of this expense of R321,1 million (2003: R309,2 million) could not be carried out. It was also not possible to verify the correctness thereof since no written agreement between the UIF and the Department of Labour covering the arrangements could be presented for audit purposes.
- Fixed assets:
 - The existence of a large number of the movable fixed assets of the UIF could not be verified as a result of an incomplete and inaccurate fixed asset register.
- General computer controls – Significant weaknesses still existed in respect of:
 - Program change controls
 - Security administration and monitoring
 - Logical access security

Matters emphasised

Matters reported in current and previous year(s)

- Non-compliance with laws and regulations
 - (a) Public Finance Management Act
 - Not exercising utmost care to ensure reasonable protection of assets
 - Effective and efficient systems of financial and risk management and internal control not implemented
 - Policies of the procurement and provisioning system not always adhered to
 - Effective steps to collect all revenue due not taken
 - Non-compliance with GAAP
 - (b) Treasury Regulations
 - A materiality and significance framework not adopted yet
 - Information on revenue and expenditure not submitted as required
 - Quarterly report on statutory compliance not submitted
 - Business plan not compiled in accordance with the Treasury Regulations



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- Bank reconciliations not performed on a weekly basis
 - Revenue not collected when due
 - Debtors not pursued with appropriate sensitivity and rigour
- (c) Unemployment Insurance Act
- The constitution of the board not approved by the Minister of Labour
 - Uncollectable write-offs not approved by the director-general
- (d) Unemployment Insurance Contributions Act
- Interest not levied on non-SARS late payments
 - Penalties not levied on non-SARS late payments

Other entity: National Skills Fund

Matters emphasised

Matters reported in current and previous year(s)

- Funds not utilised – Manpower Development Authority of Bophuthatswana (MANDAB): The amount of R39,6 million was earmarked for training. The department established a MANDAB steering committee on 16 October 2002 to approve projects and determine criteria for the disbursement of funds. It was the intention of the steering committee to allocate the total funds to training projects within 18 months. An amount of R1,6 million only had been approved for training projects.

Matters reported for the first time

- Unappropriated funds: The revenue of the NSF was incomplete due to the non-allocation of the SETA Zero monies by the Department of Labour. As at year-end, the allocation of the balance of this account to the NSF and the SETAs could not be verified.

Other entities: Sheltered Employment Factories

Matters emphasised

Matters reported in current and previous year(s)

- The Sheltered Employment Factories operated without enabling legislation, but by virtue of a Cabinet Memorandum of 1956.



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Portfolio: Minister of Minerals and Energy

Entities in portfolio audited by the Auditor-General								
Entities in portfolio	Comments	Audit opinion		R million				
		2004 (current year)	2003 (previous year)	Budgeted expenditure	Assets		Total expenditure	
					2004 (current year)	2003 (previous year)	2004 (current year)	2003 (previous year)
Department								
Minerals and Energy		Qualified Emphasis of matter	Emphasis of matter	1 825,1	30,7	398,7	1 799,6	1 868,3
Public entities								
CEF (Pty) Ltd (Group)		Emphasis of matter	Emphasis of matter		15 997,6	15 731,5	4 458,7	4 052,0
Council for Geoscience		Clean report	Clean report		178,5	168,5	82,5	77,3
Council for Mineral Technology (Mintek)		Emphasis of matter	Emphasis of matter		Information not available	201,2	Information not available	214,1
Electricity Distribution Industry Holdings (Pty) Ltd	Note 1	Emphasis of matter			63,8		16,2	
Mine Health & Safety Council		Qualified Emphasis of matter	Disclaimer Emphasis of matter		36,2	29,0	37,5	47,0
National Electricity Regulator		Emphasis of matter	Emphasis of matter		39,2	32,5	52,8	38,4
National Nuclear Regulator (NNR)		Emphasis of matter	Emphasis of matter		26,7	19,4	46,1	44,3
South African Diamond Board (SADB)		Emphasis of matter	Emphasis of matter		Information not available	8,1	Information not available	17,4
Other entities								
Equalisation Fund		Emphasis of matter	Clean report		675,1	307,3	3,9	0,7
Lebowa Mineral Trust	Note 2	Qualified	Qualified Emphasis of matter		206,4	176,2	7,7	10,4

Entities in portfolio not audited by the Auditor-General								
Entities in portfolio	Comments	Audit opinion		R million				
		2004 (current year)	2003 (previous year)	Budgeted expenditure	Assets		Total expenditure	
					2004 (current year)	2003 (previous year)	2004 (current year)	2003 (previous year)
Public entities								
South African Nuclear Energy Corporation		Information not available	Emphasis of matter			442,7		625,6

Note 1: Entity's first year of operations

Note 2: The trust was abolished on 30 September 2003



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Department: Minerals and Energy

Qualified audit opinion

Matters reported in current and previous year(s)

- Revenue management and receivables for services delivered: The completeness and accuracy of revenue could not be verified; systems used by the department were inadequate. There were no effective systems of control.
- Accounts payable management: The amounts disclosed in the financial statements could not be verified in respect of commitments and accruals as available systems were not used effectively.

Matters emphasised

Matters reported in current and previous year(s)

- Effective policies and procedures concerning asset management had not been implemented. The following matters were identified:
 - The fixed asset register had not been properly maintained.
 - Physical stockcount had not been undertaken.
 - Disposal of computer equipment had not been dealt with as prescribed.

Matters reported for the first time

- Internal controls regarding staff debtors were not functioning effectively and therefore the debt might not be recoverable.
- The department did not have an effective system in place to accumulate costs of own developed systems.
- The Paymaster-General account was understated by R1,9 million.
- The controls concerning the timely capture of leave forms were not operating effectively, resulting in a possible overstatement of leave provision.
- The recovery of the loan due by JC Gold Mining of R0,9 million might be doubtful as no payments had been made since 1998.
- Inadequate general controls in the information technology environment included the following:
 - Lack of policies and procedures
 - Non-implementation of existing policies
 - Logical security setting and access provided to programs were found to have significant control weaknesses relating to the Royalty system.
 - Authentication server of the network had serious weaknesses.



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- Ownership of levies received for Mine Health and Safety to the amount of R33,7 million: There was a lack of clarity as to the ownership of levies raised for mine health and safety research. A legal opinion states that in terms of the legislation it could be construed that the ownership of the levies rests with the Chief Inspector of Mines in the department whereas the levies were accounted for in the related public entity.

Public entity: CEF (Pty) Ltd (consolidated)

Matters emphasised

Matters reported in current and previous year(s)

- Going concern – SFF Association: The ability of the company to continue as a going concern in the medium term was in doubt due to continued losses incurred and other obligations.
- Compliance with ministerial directive: The SFF Association did not have sufficient cash resources to fully comply with the directive concerning the strategic crude oil.
- The total liabilities exceeded total assets for the following entities:
 - Oil Pollution Control South Africa (OPCSA)
 - South African Gas Development Company (Pty) Ltd (iGAS)
 - Enerkom (Pty) Ltd

The ability of the above companies to continue operations is dependent upon the continued financial support from CEF (Pty) Ltd.

- Late submission of financial statements.
- Evidence of non-compliance with the Companies Act.

Matters reported for the first time

- Profitability: The group's after-tax profits had decreased substantially since the previous year. Reasons included the breakdown of manufacturing plant in Mossel Bay and issues raised regarding the going concern of subsidiary companies.
- Financial statements of associate: The financial statements of Baniettor Mining (Pty) Ltd were not submitted to the accounting authority for review.
- There was non-compliance as regards:
 - CEF had not established procedures for quarterly reporting.
 - Development of materiality and significance framework by SFF and OPCSA.
 - Minimum membership requirements for the Board Audit Committee by iGAS and OPCSA.



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- Completion of shareholders' compact by OPCSA.
- Presentation of performance against predetermined objectives by OPCSA.

Public entity: Council for Mineral Technology (MINTEK)

Matters emphasised

Matters reported for the first time

- An associate of Mintek's subsidiary: Liabilities exceeded its total assets.
- The VAT control account was not reconciled and cleared, and as a result the VAT receivables were understated.
- Weaknesses in the computer information technology environment included the following:
 - Changes to the SAP environment were inadequately controlled.
 - Developers had access to the production environment.
 - User account management was inadequately controlled (users had access after termination of service).
 - Password controls on the operating system were weak.
 - Several inadequacies were identified in the disaster recovery plan and process.
 - No approved service level agreement for a key vendor could be provided.
- Late submission of financial statements.

Public entity: Electricity Distribution Industry Holdings (Pty) Ltd

Matters emphasised

Matters reported for the first time

- Taxation was not provided for, the entity was still awaiting an exemption from SARS.
- The following non-compliance issues were noted:
 - No risk assessment had been prepared and no risk management strategy had been conducted.
 - No fraud prevention plan had been prepared.



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- No framework for materiality and significance had been developed.
- Surplus funds had not been invested with the Corporation for Public Deposits.

Public entity: Mine Health and Safety Council

Qualified audit opinion

Matters reported in current and previous year(s)

- Levy income and accounts receivable: Due to the inaccuracy of the database used to calculate the levies, the accuracy and completeness of levy income and accounts receivable could not be verified.
- VAT was calculated and accounted for incorrectly.

Matters emphasised

Matters reported in current and previous year(s)

- Non-compliance with laws and regulations in respect of the following:
 - Maintenance of effective and efficient systems of internal control.
 - Internal audit function only became operational in January 2004.
 - Tender procedures were not approved and were not consistent with the Preferential Procurement Policy Framework.
 - The absence of an effective cash management system.
 - Framework of acceptable levels of materiality and significance was not approved.
 - A strategic plan was not approved by the minister before the start of financial year.
 - Research assets were not capitalised due to the nature of contracts and a lack of control over such assets.

Matters reported for the first time

- There was a lack of certainty as to the ownership of levies raised for the council. A legal opinion states that in terms of legislation it could be construed that the ownership of the levies rests with the Chief Inspector of Mines in the Department of Minerals and Energy.



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Public entity: National Electricity Regulator

Matters emphasised

Matters reported in current and previous year(s)

- Non-compliance with laws and regulations:
 - No effective and efficient systems of internal control especially with regard to expenditure management.
 - The internal audit function had not adequately fulfilled its responsibilities.

Matters reported for the first time

- Non-compliance with laws and regulations: No approved framework of acceptable levels of materiality.

Public entity: National Nuclear Regulator (NNR)

Matters emphasised

Matters reported in current and previous year(s)

- The NNR recorded a net surplus of R3,4 million (2003: R1 million) for the year, however, total liabilities exceeded total assets by R1,5 million as at 31 March 2004 (2003: R4,8 million).

Matters reported for the first time

- Non-compliance with the PFMA and Treasury Regulations (TR):
 - The PFMA requires that an entity has and maintains effective and efficient systems of internal control. The NNR did not comply in this regard, specifically regarding debtors, creditors and the administration of leave and employee benefits.
 - The NNR did not apply effective cash management principles as surplus funds were not economically invested.

Public entity: South African Diamond Board (SADB)

Matters emphasised

Matters reported in current and previous year(s)

- Internal control shortcomings:



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- The internal controls surrounding fixed assets were inadequate. No proper fixed asset numbering took place to ensure adequate control over safeguarding of assets.
- Control issues over the recording of invoices in the ledger.
- No audit committee existed for the period under review.
- The SADB did not maintain an effective, efficient and transparent system of financial and risk management and internal control as contemplated by the PFMA and TR.
- A finance lease agreement was entered into during the period under review contrary to Treasury Regulations.
- No approved policy existed regarding provision for bad debts.
- As a result of the conversion between accounting systems there were problems with the completeness of data.
- Late submission of financial statements.
- Contrary to requirements in accounting standards no provision was made for retired and in-service employees that were entitled to certain post-retirement benefits in terms of their employment contracts.
- The investigation relating to the export and sale of diamonds in terms of the Diamonds Act had been concluded. Subsequent to the previous audit report dating back to 2000-01, a significant problem relating to the collection of levies from exporters existed. The investigation resulted in a long-drawn-out legal process. The inability of certain key personnel to assist in providing clarity on the affairs of the board, as well as a lack of funding of the investigation by the auditee, further impacted on the duration and finalisation of the investigation. The investigation was therefore limited to the responsibilities of the various statutory role players and the outcome of their functions. A summary of the key findings and recommendations was provided which required urgent attention.

Other entity: Lebowa Mineral Trust

Qualified audit opinion

Matter reported in current and previous year(s)

- Due to inadequate systems and control measures it was not possible to verify the completeness and accuracy of revenue as disclosed in the financial statements.



AUDITOR - GENERAL

Portfolio: Parliament

Entities in portfolio audited by the Auditor-General								
Entities in portfolio	Comments	Audit opinion		R million				
		2004 (current year)	2003 (previous year)	Budgeted expenditure	Assets		Total expenditure	
				2004 (current year)	2004 (current year)	2003 (previous year)	2004 (current year)	2003 (previous year)
Department								
Parliament		Qualified Emphasis of matter	<i>Emphasis of matter</i>	647,8	83,4	2,4	597,7	505,9

Department: Parliament

Qualified audit opinion

Matters reported for the first time

- Donor funding could not be verified – no formal policy.
 - Limitation of scope on the auditing of expenditure – insufficient control over and manner of filing of vouchers and documents.
 - Third party compensation payments of R7,7 million could not be verified – incomplete cashbook.
 - Bank reconciliations reflect long outstanding items – inappropriate review and no follow-up.
 - Debtors could not be verified – no age analysis and no approved debt control policy.
- Creditors:
- Overstated by R6,7 million – reconciliations were not reviewed and authorised.
 - Accruals could not be verified as there was no proof that goods/services had been supplied.
 - Suspense accounts could not be verified – no reconciliations were performed.
 - Value of inventories misstated – transactions for six months were not taken into account to determine final balance.
 - Limitations of scope on the auditing of leave – leave transactions for the year as well as brought-forward balances were not captured on new employees administration system.

Matters emphasised

Matters reported in current and previous year(s)



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- Incorrect transactions at parliamentary shop – no management policy and insufficient controls.
- Compilation of budget could not be verified – no documentation of process submitted.
- Weaknesses in internal control – no formal policy or system in place to follow up internal or external audit findings. Internal control weaknesses including:
 - Lack of sufficient documentation in respect of details of suppliers and changes to the masterfile were made without supporting documentation and/or approval thereof.
 - An asset policy was not in place and inventories per office were not compiled.
 - Staff were not measured in terms of their contribution towards the achievement of strategic objectives for the year.
 - No service level agreement existed with the supplier of the Manqoba system in respect of maintenance, upgrades, backup services and security.
 - No contract or updated register was submitted to verify the validity of the amounts paid to the political parties for support staff.
 - No reasonable assurance, such as policies or service level agreements, that the political parties implemented effective, efficient and transparent financial management and internal control systems, were obtained by Parliament.
 - No reconciliations were undertaken between the stock usage and meals served. Furthermore, stock shrinkages had not been monitored for the period under review.
 - Irregularities in travel claims: The gross potential loss to date aggregated to R13,5 million.

Matters reported for the first time

- Medical aid allowances and contributions could not be verified – lack of supporting documentation.
- Overtime could not be verified – approval and registers in terms of procedure manual not submitted.
- Incorrect financial statements – no provision reflected for back payments of motor vehicle allowances that were made in April 2004.
- Pension contribution could not be verified – no ministerial approval of the employer's contribution.
- Registration in terms of Skills Development Levies Act could not be verified – no proof submitted.
- Shortcomings in IT – inadequate general control measures relating to:
 - Formal change control procedures
 - Under-resourcing in the IT division
 - Poor control over access



AUDITOR - GENERAL

Entities in portfolio not audited by the Auditor-General								
Portfolio: Entities in portfolio	Comments	Audit opinion		R million				
		2004 (current year)	2003 (previous year)	Budgeted expenditure	Assets		Total expenditure	
				2004 (current year)	2004 (current year)	2003 (previous year)	2004 (current year)	2003 (previous year)
Department								
The Presidency		Emphasis of matter	<i>Emphasis of matter</i>	152,8	8,9	12,9	151,6	147,3
Government Communication and Information System		Emphasis of matter	<i>Emphasis of matter</i>	178,5	25,0	13,5	178,6	156,1
Public entities								
Media Development and Diversity Agency		Emphasis of matter			7,7		6,2	
National Youth Commission		Emphasis of matter	<i>Emphasis of matter</i>		2,7	4,2	17,0	15,9
Other entities								
International Marketing Council (IMC)		Emphasis of matter			7,3		62,4	

Department: The Presidency

Matters emphasised

Matters reported in current and previous year(s)

- Asset management: The reconciliation between the new asset register and the previous LOGIS asset register was still being performed. Possible surpluses and shortages were therefore not determined.
- Information systems audit: Due to inadequate policies and procedures, key weaknesses were identified including:
 - Information security
 - Disaster recovery
 - Backup and recovery
 - User account management
 - Change control and network standards
- Forensic audit (other audit performed): A final report on the forensic investigation at the Office of the Rights of the Child has been issued to the Presidency.



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Department: Government Communication and Information System

Matters emphasised

Matters reported in current and previous year(s)

- Information systems audit: Due to a lack of adequate or approved policies and procedures, weaknesses were identified which related to the following:
 - Information security
 - Disaster recovery plan
 - Backup and recovery
 - User account management

Matters reported for the first time

- Disclosure of unauthorised expenditure: The appropriation statement reflected overspending of R1,6 million on the current expenditure of five main divisions, which was disclosed as unauthorised expenditure in the financial statements.

Public entity: Media Development and Diversity Agency

Matters emphasised

Matters reported for the first time

- Internal control shortcomings:
 - Internal control surrounding fixed assets was insufficient. No proper fixed asset numbering took place to ensure adequate control over the safeguarding of assets so as to prevent fraud and theft of assets.
 - The internal controls surrounding accounts payables were insufficient, as creditors' reconciliations were not prepared on a monthly basis so as to ensure that all creditors outstanding were properly accounted for in the records.
 - The entity did not have an internal audit function for the period under review. The internal auditor was, however, subsequently appointed.



AUDITOR - GENERAL

Public entity: National Youth Commission

Matters emphasised

Matters reported for the first time

- The strategic plan did not include a risk management plan.
- A materiality/significance framework document was not submitted to the Presidency in good time.

Other entity: International Marketing Council

Matters emphasised

Matters reported for the first time

- The council had not been listed as a public entity.

Portfolio: Minister of Provincial and Local Government

Entities in portfolio audited by the Auditor-General								
Entities in portfolio	Comments	Audit opinion		R million				
		2004 (current year)	2003 (previous year)	Budgeted expenditure	Assets		Total expenditure	
					2004 (current year)	2003 (previous year)	2004 (current year)	2003 (previous year)
Department								
Provincial and Local Government		Emphasis of matter	<i>Emphasis of matter</i>	9 466,2	75,5	84,0	9 466,8	6 579,0
Constitutional institutions								
Commission for the Promotion and Protection of the Rights of Cultural, Religious and Linguistic Communities	Note 1	Emphasis of matter			6,9		1,2	
Municipal Demarcation Board		Emphasis of matter	<i>Emphasis of matter</i>		6,1	8,6	19,4	20,5
Public entities								
Municipal Infrastructure Investment Unit		Emphasis of matter	<i>Emphasis of matter</i>		16,6	23,6	21,9	11,0
South African Local Government Association	Note 2	Emphasis of matter	<i>Emphasis of matter</i>		12,5	17,9	42,8	8,1

Note 1: 2003-04 is the first year of operations

Note 2: Year-end 30 June 2003



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Department: Provincial and Local Government

Matters emphasised

Matters reported in current and previous year(s)

- Division of Revenue Act: The department did not have a composite documented policy and procedure manual on how to deal with and ensure compliance.
- Internal audit function: No audit reports were finalised during the 2002-03 financial year. Due to a lack of capacity, three out of the planned 10 audits were completed for the current financial year.
- The department's asset management policy was only approved in January 2004.

Matters reported for the first time

- No operational fraud prevention plan or risk management strategy for the year under review.

Constitutional institution: Commission for the Promotion and Protection of the Rights of Cultural, Religious and Linguistic Communities

Matters emphasised

Matters reported for the first time

- Non-compliance with acts and regulations with regard to:
 - Non-appointment of a CFO.
 - Internal policies and procedures had not yet been developed.
 - No internal audit function or audit committee had been established.
 - Contingent liability – retention of accumulated surplus funds. Approval had not yet been obtained to retain the accumulated surplus.

Constitutional institution: Municipal Demarcation Board

Matters emphasised

Matters reported in current and previous year(s)

- Financial management including:



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- Inadequate reconciliation between fixed asset register and ledger.
- Lack of segregation of duties in respect of map sales.
- Lack of password controls.
- Late submission of annual financial statements.
- The entity did not have a system to monitor expenditure against its allocated budget.

Matters reported for the first time

- Donor funding: Non-compliance with terms of donor funding agreement.
- Accumulated surplus funds were not considered sufficient to address going concern problems.

Public entity: Municipal Infrastructure Investment Unit

Matters emphasised

Matters reported in current and previous year(s)

- No effective internal audit function.

Public entity: South African Local Government Association (SALGA)

Matters emphasised

Matters reported in current and previous year(s)

- Grants received from the Local Government Training Fund: No evidence to support that the Training Fund grant to SALGA had been utilised as intended.

Matters reported for the first time

- Non-compliance with laws and regulations including:
 - No internal audit function
 - No risk assessment was conducted
 - No quarterly reporting



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- No cash flow projections
- No materiality and significance framework
- Late submission of annual financial statements

Portfolio: Minister of Public Enterprises

Entities in portfolio audited by the Auditor-General								
Entities in portfolio	Comments	Audit opinion		R million				
		2004 (current year)	2003 (previous year)	Budgeted expenditure	Assets		Total expenditure	
					2004 (current year)	2004 (current year)	2003 (previous year)	2004 (current year)
Department								
Public Enterprises		Clean report	<i>Emphasis of matter</i>	88,1	15 622,0	15 640,1	83,7	210,3

Entities in portfolio not audited by the Auditor-General								
Entities in portfolio	Comments	Audit opinion		R million				
		2004 (current year)	2003 (previous year)	Budgeted expenditure	Assets		Total expenditure	
					2004 (current year)	2004 (current year)	2003 (previous year)	2004 (current year)
Public entities								
Alexkor Limited		Clean report	<i>Clean report</i>		155,6	93,0	290,9	287,4
Aventura		Information not available	<i>Information not available</i>					
Denel		Clean report	<i>Clean report</i>		4 211,3	4 000,6	4 230,4	4 502,7
Eskom		Clean report	<i>Emphasis of matter</i>		96 474,0	82 482,0	26 313,0	21 481,0
SA Forestry Company Limited		Emphasis of matter	<i>Emphasis of matter</i>		758,3	728,5	623,9	666,1
Transnet Limited		Emphasis of matter	<i>Information not available</i>		51 736,0	68 766,0	47 979,0	43 268,0



AUDITOR - GENERAL

Portfolio: Public Service and Administration

Entities in portfolio audited by the Auditor-General								
Entities in portfolio	Comments	Audit opinion		R million				
		2004 (current year)	2003 (previous year)	Budgeted expenditure	Assets		Total expenditure	
					2004 (current year)	2004 (current year)	2003 (previous year)	2004 (current year)
Department								
Public Service and Administration		Emphasis of matter	<i>Emphasis of matter</i>	174,7	17,6	2,0	156,2	139,5
Public Service Commission		Clean report	<i>Emphasis of matter</i>	64,2	1,4	1,2	64,5	57,4
South African Management Development Institute		Emphasis of matter	<i>Qualified Emphasis of matter</i>	42,3	12,9	6,3	40,0	55,4
Public entities								
State Information Technology Agency		Emphasis of matter	<i>Clean report</i>		1 425,4	1 417,2	2 283,3	1 895,7
Other entity								
South African Management Development Institute Trading Entity		Emphasis of matter	<i>Disclaimer Emphasis of matter</i>		21,9	9,8	31,4	14,1

Department: Public Service and Administration

Matters emphasised

Matters reported in current and previous year(s)

- Public Sector Education and Training Authority (PSETA) – status of the PSETA is unsure.

Matters reported for the first time

- Internal audit not fully functional.
- Risk management and fraud prevention plan not completed as required.

Department: South African Management Development Institute

Matters emphasised

Matters reported in current and previous year(s)

- Internal audit not fully functional.
- Expenditure allocation between the vote and the trading entity: No policy and reporting framework for the allocation of expenditure were in place for the year under review.



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Matters reported for the first time

- Asset management:
 - Incomplete asset register, mainly because of management's failure to enforce the documented control procedures.
 - Insufficient control over the movement of internal assets.
 - Insufficient stock count procedures.
 - Quarterly stock counts not performed.

Public entity: State Information Technology Agency (Pty) Ltd (SITA)

Matters emphasised

Matters reported for the first time

- Fixed property and related costs: Transfer of property not yet finalised, recorded in the fixed asset register of SITA.
- Gateway project: Forensic audit investigation into alleged irregularities.

Other entity: South African Management Development Institute Trading Entity

Matters emphasised

Matters reported in current and previous year(s)

- Expenditure allocation between the vote and trading entity: No policy and reporting framework for the allocation of expenditure were in place for the year under review.
- Non-compliance with Generally Accepted Accounting Practice.
- Asset management:
 - Inaccurate and incomplete asset register because of management's failure to document control procedures and enforce them.
 - Insufficient control over the movement and removal of assets.
 - Inadequate control over stock count.



AUDITOR - GENERAL

- Insufficient control over the reviewing of invoices before issuing them.

Portfolio: Minister of Public Works

Entities in portfolio audited by the Auditor-General								
Entities in portfolio	Comments	Audit opinion		R million				
		2004 (current year)	2003 (previous year)	Budgeted expenditure	Assets		Total expenditure	
					2004 (current year)	2003 (previous year)	2004 (current year)	2003 (previous year)
Department								
Public Works		Qualified Emphasis of matter	Qualified Emphasis of matter	4 652,0	736,4	615,3	4 683,4	4 214,9
Public entities								
Construction Industry Development Board (CIDB)		Clean report	Emphasis of matter		6,8	6,1	19,7	11,2
Independent Development Trust		Emphasis of matter	Clean report		1 552,5	1 492,1	118,8	91,7
Other entities								
Council for the Building Environment (CBE)		Audit not finalised	Emphasis of matter			1,9		0,1

Department: Public Works (DPW)

Qualified audit opinion

Matters reported in current and previous year(s)

○ Account balances:

- The following items, which originated from prior to 2002, remained unresolved due to a lack of supporting documentation:
 - R5,9 million in respect of receivables
 - R6,7 million in respect of receivables

Transactions not accounted for through the income statement, originating on or before 1999-2000:

- R19,3 million other debtors
- R2,0 million payables current
- R0,2 million staff debtors
- R0,19 million advances
- The resolution of irreconcilable debts and debt inherited from regional structures was being addressed as a government-wide initiative with all relevant stakeholders. The DPW had disclosed the various items identified in notes x and y to the financial statements and the resolution of these would be evaluated in due course.



A U D I T O R - G E N E R A L

Matters emphasised

Matters reported in current and previous year(s)

- The fixed asset register for movable assets was not complete. This was due to the implementation of the Ezeycat computer software program, which started in the previous year, in order to maintain a register containing the item identification code and location.
- The DPW was required to develop a proof on concept on the requirements for a complete, valid and accurate fixed property register to meet accounting disclosure requirements. My evaluation of the proof of concept revealed the following:
 - The PMIS database was not sufficient or updated to form the basis for a fixed asset register.
 - The Land Affairs database was found to be largely accurate but did not disclose valuation details as required by the DPW.
 - Differences existed in the calculation of municipal valuations, which might impact on the apportionment of rates and taxes between government and private landowners in terms of the new Property Rates Act.
- Late submission of financial statements.

Matters reported for the first time

- Weaknesses regarding rental debtors:
 - The debtor sub-system (PMIS) was not fully utilised.
 - No interest was charged on outstanding amounts.
 - No monthly invoices and statements were being sent to debtors.
 - Receipts were not captured on the debtors subsystem.
 - No debtors' age analysis was made available for management purposes.
 - The controls over rental revenue were ineffective, as the subsystem was not utilised at all the regions. This was due to a lack of training of departmental officials.
 - An investigation into married and single quarter official housing highlighted that tariffs had last been updated in 1995. The accounting officer should at least review these tariffs annually if they are under his control.
- A general control review was completed, identifying the following significant control weaknesses:
 - A disaster recovery plan, change control procedures, data dictionary development, maintenance procedures and user account management procedures were either not documented or inadequate.



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- Segregation of duties in the program change process and programmers' access to the PMIS were not adequately monitored and authorised due to the non-activation of the audit trail with respect to developers and administrators.
 - Service level agreements had not been signed between the IT unit and DPW business units.
 - Several weaknesses were identified with regard to the system security settings on the UNIX server at SITA.
- An information systems audit of the application controls within the Property Management Information System (PMIS) was conducted. These findings indicated that although some controls were in place, significant weaknesses existed in the general control environment as a whole. The most significant weaknesses identified were as follows:
- No formal registration and termination procedures for users existed.
 - Activities of system controllers and system support users were not logged and monitored.
 - Changes to the supplier master file were not monitored.
 - No validation tests were performed by the PMIS on the invoice numbers, with the effect that the same invoice could be paid more than once.
 - No control totals were available on the Basic Accounting System (BAS) for comparison and reconciliation with PMIS during the interface with BAS.

The chief information officer indicated in her comments that various corrective measures had been taken or envisaged. The effectiveness of these measures would be evaluated in due course.

- The appropriation statement reflected overspending of R30 million on one main division, which was also disclosed as unauthorised expenditure.

Public entity: Independent Development Trust

Matters emphasised

Matters reported for the first time

- Late submission of financial statements.
- The following summarises key financial management and internal control findings:
- Accounts payable – a total lack of control resulted in duplicate payments, payment of incorrect amounts and suppliers and delay in the processing of transactions.
 - Reconciliations of payroll and creditors subledgers to the general ledger control accounts were not performed timeously.
 - Fixed assets reflected were not timeously recorded in the asset register, resulting in



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differences upon reconciliation to the general ledger.

- There was no risk management system for the main fund as required by the PFMA.
- Irregularities pertaining to the payroll function were found during the year. An investigation commenced during 2004 and was still in the process of being finalised.

Portfolio: Minister of Safety and Security

Entities in portfolio audited by the Auditor-General								
Entities in portfolio	Comments	Audit opinion		R million				
		2004 (current year)	2003 (previous year)	Budgeted expenditure	Assets		Total expenditure	
					2004 (current year)	2003 (previous year)	2004 (current year)	2003 (previous year)
Department								
South African Police Service		Qualified Emphasis of matter	<i>Emphasis of matter</i>	21 967,9	183,9	182,2	21 983,3	19 718,1
Independent Complaints Directorate		Emphasis of matter	<i>Emphasis of matter</i>	37,0	4,0	0,7	37,4	31,8

The following entities fall under the control of the Minister of Intelligence:

National Intelligence Agency
 South African Secret Services
 South African National Academy of Intelligence

In terms of section 2(a) of the Intelligence Service Control Amendment Act, 2002 (Act No. 66 of 2002), a parliamentary committee known as the Joint Standing Committee on Intelligence is, subject to the Constitution, responsible for overseeing, *inter alia*, the administration, financial management and expenditure of the Intelligence Services and must report thereon to Parliament.

Department: South African Police Service

Qualified audit opinion

Matters reported in current and previous year(s)

- Deficiencies were noted in the management and administration of leave in all the provinces. This had an impact on the calculation of the leave entitlement.
 - Leave forms were not captured on the Personnel and Salary system (PERSAL) in every province visited.



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- At a specific station, a backlog of five months existed in the processing of leave applications, while the manual leave register had last been updated in 2002.

It was not possible to quantify the effects of these findings, nor was it possible to perform alternative audit procedures. The accuracy and completeness of the leave entitlement of R4 billion could not be determined.

Matters emphasised

Matters reported in current and previous year(s)

- Non-compliance with policies, procedures and standing instructions regarding personnel expenditure:
 - Inadequate document management resulted in missing identification documents and appointment letters on personnel files of newly appointed staff.
 - Some members whose services had been terminated or who were on suspension continued to receive salaries due to late reporting to Head Office, with the result that potentially irrecoverable debtors were raised.
 - Control measures over the management of overtime were ineffective, as registers were not kept to record overtime taken as off-time.
 - Loss management: Losses were not timeously recorded and there were losses of firearms.
 - Incidents of damages and losses within the logistical environment were not timeously recorded on the Polfin accounting system.
 - There were serious internal control weaknesses regarding the safekeeping of firearms as information supplied by the department indicated that 935 firearms (2002-03 – 921), valued at R2 million, were lost or stolen from personnel.
 - A database was lacking and there was no reconciliation of the asset register with the Department of Public Works. As a result, the rental receivable from single quarters could not be determined.

Matters reported for the first time

- Inventory store at National Logistics: Inefficient controls over receipt, storage and issuing of material. The following are examples:
 - The receipt of building materials was recorded against "extraordinary receipts".
 - Movements of stock were not captured.
 - Stock issued by the ammunition store to police stations remained uncollected at the transit-out of the ammunition store for extensive periods, dating from as far back as January 2001.
 - Delays in deliveries from suppliers of more than six months occurred, without penalties



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being charged against defaulting suppliers in terms of the contract conditions.

- The needs analysis performed before the placing of orders and the control over optimal stock levels were inadequate.
- Inventories at provincial, area commissioners and police stations:
 - Segregation of duties not clearly defined.
 - Stock counts not performed.
- Vehicle fleet management

Due to ineffective utilisation of the fleet management system the following findings were noted:

 - Deficiencies in the procurement process of vehicles.
 - Vehicles were not optimally utilised.
 - Inadequate measurable norms and standards governed turnaround times for vehicles undergoing repairs and maintenance.
 - The vehicle fleet management exception reports were not followed up and appropriate action taken.
- Performance audit: Asset management:
 - Deficiencies in the number, condition and location of police buildings were experienced.
- Performance audit: Human resource management:
 - Leave (including sick leave) statistics were inadequately compiled or not compiled at all.
 - Management measures were not in place to ensure that funded vacancies were filled in the shortest time possible.
 - The total number of administrative personnel as a percentage of the total staff complement was excessive in some provinces while shortages were experienced in others.
- Performance audit: Dockets and the case administration system:
 - There was a lack of trained staff, adequate support equipment and physical controls to safeguard docket-related information.
 - In a province between 100 and 150 dockets were on average assigned per police officer, compared to the department's norm of between 17 to 20 new cases, and 35 to 40 cases on hand.
 - Effective record keeping was not always possible.
- Performance audit: Operational response services:



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- There was a lack of trained staff and adequate facilities at various border units.

Department: Independent Complaints Directorate

Matters emphasised

Matters reported in current and previous year(s)

- Deficiencies in the internal audit process.

Portfolio: Minister of Science and Technology

Entities in portfolio audited by the Auditor-General								
Entities in portfolio	Comments	Audit opinion		R million				
		2004 (current year)	2003 (previous year)	Budgeted expenditure	Assets		Total expenditure	
					2004 (current year)	2003 (previous year)	2004 (current year)	2003 (previous year)
Department								
Science and Technology		Emphasis of matter	<i>Emphasis of matter</i>	1 037,8	2,1	173,9	1 037,1	530,3
Public entities								
Africa Institute of South Africa, Pretoria		Emphasis of matter	<i>Qualified</i>		14,8	3,3	20,0	13,5
Foundation for Education, Science and Technology, Pretoria		Audit not finalised						
Human Sciences Research Council		Emphasis of matter	<i>Clean report</i>		134,4	134,9	187,4	147,3
National Research Foundation		Qualified Emphasis of matter	<i>Emphasis of matter</i>		751,7	641,5	736,7	606,1

Department: Science and Technology

Matters emphasised

Matters reported for the first time

- Quarterly reports not submitted.

Public entity: Africa Institute of South Africa

Matters emphasised

Matters reported for the first time

- No materiality and significance framework.



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- No effective audit committee.
- Debtors were outstanding at year-end for longer than 120 days.
- Not all assets could be verified as the items were not properly bar-coded and the serial numbers were not stated in the asset register.

Public entity: Human Sciences Research Council

Matters emphasised

Matters reported for the first time

- The internal audit did not have a formal audit methodology.

Public entity: National Research Foundation (NRF)

Qualified audit opinion

Matters reported for the first time

- Post-retirement health medical aid liability was understated by an amount of R28 million.

Matters emphasised

Matters reported in current and previous year(s)

- Audit certificates supporting grant claims were not submitted.

Matters reported for the first time

- An information systems audit was performed on the general controls review, and a number of weaknesses were identified:
 - Formal IT security policies not finalised.
 - Formal change control policy and procedures not in place.
 - No company-wide business continuity plan.



AUDITOR - GENERAL

Portfolio: Minister of Social Development

Entities in portfolio audited by the Auditor-General								
Entities in portfolio	Comments	Audit opinion		R million				
		2004 (current year)	2003 (previous year)	Budgeted expenditure	Assets		Total expenditure	
					2004 (current year)	2003 (previous year)	2004 (current year)	2003 (previous year)
Department								
Social Development		Emphasis of matter	<i>Emphasis of matter</i>	2 123,2	17,8	22,7	2 117,0	651,1
Public entities								
National Development Agency		Qualified Emphasis of matter	<i>Qualified Emphasis of matter</i>		265,6	308,8	153,8	139,9
Other entities								
Disaster Relief Fund		Clean report	<i>Clean report</i>		77,3	32,9	26,0	6,9
Hoërskool Vorentoe Disaster Fund		Clean report	<i>Clean report</i>		0,2	0,2	0,018	0,005
Refugee Relief Fund		Clean report	<i>Clean report</i>		0,5	0,4	0,016	0,2
Social Relief Fund		Clean report	<i>Clean report</i>		13,7	12,5	0,013	0,01
State President's Fund		Clean report	<i>Clean report</i>		14,6	13,3	0,025	0,1

Department: Department of Social Development

Matters emphasised

Matters reported for the first time

- Conditional grant transfers to provinces not fully utilised by provinces.

Public entity: National Development Agency (NDA)

Qualified audit opinion

Matters reported in current and previous year(s)

- Sufficient audit evidence could not be provided by the NDA to give assurance that the required control measures regarding management and control over poverty eradication projects were in place and were functioning effectively. Problems identified included the following:
 - Amounts recorded on project system differed from amounts approved by the board.
 - Contracts and agreements were not signed by all parties involved.
 - Confirmation of receipt of funds by beneficiary organisations not submitted for audit purposes.



A U D I T O R - G E N E R A L

Matters reported for the first time

- Scope limitation – documentation destroyed in the fire at the National Development Agency:
 - Financial information that included supporting documentation for payments amounting to R13,4 million made to service providers and consultants of the NDA was destroyed. I was not able to perform required procedures to audit this expense item.
 - Poverty eradication project files amounting to R34,9 million were also destroyed in the fire. The transactions relating to these projects could not be audited.

Matters emphasised

Matters reported in current and previous year(s)

- Late submission of financial statements.
- Due to a lack of adequate capacity and skilled and qualified finance staff and the departure of high-level staff, the NDA was unable to comply fully with the required level of financial management with regard to budget control and management reporting requirements of the PFMA.
- The following internal control deficiencies were highlighted by the audit:
 - Regular reconciliations of creditor and other control accounts were not performed.
 - Fixed asset register was not configured to provide detailed information relating to assets.
 - Regular reconciliation between the accounting system and the project tracking system was not performed.
 - Exemption from the National Treasury for not depositing surplus funds with the Corporation for Public Deposits was not obtained as required.
 - Subsequent to a forensic investigation, commissioned by the Minister of Social Development, the chief executive officer and chief operating officer of the NDA were still under precautionary suspension. The forensic investigation had been concluded and the impact of the findings was to be dealt with by the board of the NDA.

Matters reported for the first time

- No effective budget control in the management of their operations, resulting in overspending on various line items.
- The 2004-05 budget was not approved as required.



AUDITOR - GENERAL

Portfolio: Minister of Sport and Recreation

Entities in portfolio audited by the Auditor-General								
Entities in portfolio	Comments	Audit opinion		R million				
		2004 (current year)	2003 (previous year)	Budgeted expenditure	Assets		Total expenditure	
					2004 (current year)	2003 (previous year)	2004 (current year)	2003 (previous year)
Department								
Sport and Recreation South Africa		Emphasis of matter	<i>Emphasis of matter</i>	229,4	6,4	4,2	223,2	172,1
Public entities								
Boxing South Africa	Note 1	Audit not finalised						
South African Institute for Drug-free Sport		Clean report	<i>Emphasis of matter</i>		2,3	1,5	4,4	4,3
South African Sport Commission		Clean report	<i>Emphasis of matter</i>		10,6	7,2	47,5	32,5
Other entities								
Mali Trust	Note 2	Audit not finalised	<i>Audit not finalised</i>					

Note 1: Listed as a schedule 3A public entity on 4 December 2003

Note 2: The trust was established for purposes of providing assistance to the Mali government regarding the 23rd Africa Cup of Nations soccer tournament that took place during 2002. The trust had been dissolved and the audit report was in the process of being finalised.

Department: Sport and Recreation South Africa

Matters emphasised

Matters reported for the first time

- Non-compliance with funding policies and procedures.



A U D I T O R - G E N E R A L

Portfolio: Minister of Trade and Industry

Entities in portfolio audited by the Auditor-General								
Entities in portfolio	Comments	Audit opinion		R million				
		2004 (current year)	2003 (previous year)	Budgeted expenditure	Assets		Total expenditure	
					2004 (current year)	2004 (current year)	2003 (previous year)	2004 (current year)
Department								
Trade and Industry		Emphasis of matter	<i>Emphasis of matter</i>	2 796,3	2 251,2	2 332,7	2 810,6	2 688,3
Public entities								
Competition Commission		Emphasis of matter	<i>Emphasis of matter</i>		44,0	33,4	55,0	44,4
Competition Tribunal		Clean report	<i>Clean report</i>		7,3	10,2	8,9	7,3
Council for Scientific and Industrial Research (CSIR)		Clean report	<i>Clean report</i>		671,7	608,7	950,9	1 158,1
National Gambling Board of South Africa		Clean report	<i>Emphasis of matter</i>		7,8	8,7	12,2	10,0
National Lotteries Board		Emphasis of matter	<i>Clean report</i>		127,2	122,5	13,8	11,9
Ntsika Enterprise Promotion Agency	Note 1	Emphasis of matter	<i>Clean report</i>		31,2	35,8	66,0	61,7
South African Bureau of Standards (SABS)		Emphasis of matter	<i>Emphasis of matter</i>		363,6	289,5	389,2	304,2
Other entities								
Companies and Intellectual Property Registration Office (CIPRO)		Emphasis of matter	<i>Emphasis of matter</i>		52,3	45,1	95,1	82,6
International Trade Administration Commission of South Africa (ITAC)	Note 2	Clean report			4,1		40,7	
National Lottery Distribution Trust Fund		Emphasis of matter	<i>Qualified</i>		2 879,4	2 206,8	1 252,9	745,9
National Supplies Procurement Fund		Emphasis of matter	<i>Emphasis of matter</i>		0,007	0,006	0	0

Entities in portfolio not audited by the Auditor-General								
Entities in portfolio	Comments	Audit opinion		R million				
		2004 (current year)	2003 (previous year)	Budgeted expenditure	Assets		Total expenditure	
					2004 (current year)	2004 (current year)	2003 (previous year)	2004 (current year)
Public entities								
Estate Agency Affairs Board	Information not available							
Export Credit Insurance Corporation of South Africa Limited		Clean report	<i>Clean report</i>		1 952,9	1 646,4	57,7	95,9
Industrial Development Corporation of South Africa Limited		Information not available	<i>Clean report</i>			36 742,0		5 384,0
Khula Enterprise Finance Limited		Clean report	<i>Information not available</i>		1 085,1	779,2	127,2	53,3



A U D I T O R - G E N E R A L

Entities in portfolio not audited by the Auditor-General								
Entities in portfolio	Comments	Audit opinion		R million				
		2004 (current year)	2003 (previous year)	Budgeted expenditure	Assets		Total expenditure	
					2004 (current year)	2003 (previous year)	2004 (current year)	2003 (previous year)
Public entities								
National Coordination Office of the Manufacturing Advisory Centre Programme – NAMAC	Note 1	Emphasis of matter	Information not available		68,9	44,5	86,4	72,9
National Empowerment Fund		Emphasis of matter	Emphasis of matter		855,0	308,6	20,2	15,9
South African Excellence Foundation	Information not available							
South African National Accreditation System		Clean report	Information not available		10,7	8,1	16,9	14,5
South African Quality Institute (SAQI)		Information not available	Emphasis of matter			0,5		3,4
Trade and Investment South Africa	Information not available							

Note 1: The entities to be merged during the next financial year

Note 2: Entity's first year of operations

Department: Trade and Industry

Matters emphasised

Matters reported for the first time

- Unauthorised expenditure to the amount of R32 million, relating to overspending on the vote and the saving on transfer payments and capital expenditure which could not be utilised against the overexpenditure.
 - Insufficient control over transfer payments to the amount of R1 340 million: Funds were transferred to entities within or outside government without ensuring that the prescribed documentation was obtained as required.
- Information systems general control weaknesses including:
- Inadequate change control procedures with regard to the Manufacturing Development Programme.
 - User account management procedures were not approved and documentation did not exist.
 - There was no service level agreement between various parties.



A U D I T O R - G E N E R A L

Public entity: Competition Commission

Matters emphasised

Matters reported for the first time

- Contingent liability: The commission should obtain written approval from the National Treasury to retain accumulated surplus funds. Although approval had been requested, it was uncertain whether approval would be granted.

Public entity: South African Bureau of Standards

Matters emphasised

Matters reported in current and previous year(s)

- Significant weaknesses in IS control including the following:
 - Although a security policy and business continuity plan had been documented and formally approved they were found to be inadequate.
 - Several weaknesses were identified in the system security settings.

Other entity: Companies and Intellectual Property Registration Office (CIPRO)

Matters emphasised

Matters reported in current and previous year(s)

- Follow-up information systems audit of the general controls at CIPRO: Progress had been made in developing ICT procedures, policies and strategy. These policies had not yet been implemented and as a result the high-risk weakness previously identified had not been addressed.





AUDITOR - GENERAL

Portfolio: Minister of Transport

Entities in portfolio audited by the Auditor-General								
Entities in portfolio	Comments	Audit opinion		R million				
		2004 (current year)	2003 (previous year)	Budgeted expenditure	Assets		Total expenditure	
					2004 (current year)	2004 (current year)	2003 (previous year)	2004 (current year)
Department								
Transport		Emphasis of matter	<i>Emphasis of matter</i>	6 289,4	6 182,7	6 287,3	6 256,8	5 736,3
Public entities								
Cross-border Road Transport Agency		Qualified Emphasis of matter	<i>Disclaimer Emphasis of matter</i>		5,8	5,4	32,1	34,9
Railway Safety Regulator	Note 1	Audit not finalised						
Road Accident Fund		Audit not finalised	<i>Qualified Emphasis of matter</i>			1 250,0		9 331,0
Road Traffic Management Corporation		Audit not finalised	<i>Emphasis of matter</i>			3,4		1,2
South African Maritime Safety Authority		Audit not finalised	<i>Qualified Emphasis of matter</i>			61,3		42,6
South African National Roads Agency		Emphasis of matter	<i>Disclaimer Emphasis of matter</i>		7 780,8	6 999,0	1 495,1	1 233,4
South African Rail Commuter Corporation Limited		Audit not finalised	<i>Emphasis of matter</i>			6 755,4		2 040,7
Urban Transport Fund		Emphasis of matter	<i>Emphasis of matter</i>		41,8	44,3	46,2	54,7

Entities in portfolio not audited by the Auditor-General								
Entities in portfolio	Comments	Audit opinion		R million				
		2004 (current year)	2003 (previous year)	Budgeted expenditure	Assets		Total expenditure	
					2004 (current year)	2004 (current year)	2003 (previous year)	2004 (current year)
Public entities								
Air Traffic and Navigation Services Company		Clean report	<i>Information not available</i>		646,5	664,8	336,5	286,3
Airports Company		Information not available	<i>Clean report</i>			3 825,3		835,6
South African Civil Aviation Authority		Information not available	<i>Emphasis of matter</i>			75,3		77,6
Other entities								
Air Services Licensing Council		Audit not finalised	<i>Information not available</i>					

Note 1: Entity's first year of operations



A U D I T O R - G E N E R A L

Portfolio: Department of Transport

Matters emphasised

Matters reported in current and previous year(s)

- There were insufficient controls and records with regard to driver's licence registration fees.
- A proper fixed asset register was not in place in the department due to the lack of management policies and procedures.
- Unauthorised expenditure of R24 million prior to PFMA implementation as a result of non-compliance with procurement laws and regulations.
- Driver's licence testing centres did not comply with minimum requirements of the legislation, despite recommendations made by the department.
- The audit committee did not meet all its responsibilities.
- No effective internal audit component.

Matters reported for the first time

- Written policies and procedures as well as delegations were not in place with regard to State Tender Board requirements.
- Ineffective management of contracts by managers due to non-compliance with procurement policy resulted in fruitless and wasteful expenditure of R2,1 million.
- General controls information systems environment:
 - Formally approved IT security policy not in place.
 - No disaster recovery plan.
 - No formally approved user account management procedures.
 - Backup tapes not tested and restored on a regular basis.
 - Mainframe activity logs not available for management (to identify unauthorised access to systems).
 - Network control weaknesses due to lack of segregation of duties.
 - No documented and approved systems development life cycle policy.
 - Insufficient controls over transfer payments to entities.



AUDITOR - GENERAL

Public entity: Cross-border Transport Agency

Qualified audit opinion

Matters reported in current and previous year(s)

- No proper internal control to ensure completeness of penalty fee income.
- Various shortcomings were identified in debtors management.
- No reconciliations were performed on moneys received in advance from clients.

Matters emphasised

Matters reported in current and previous year(s)

- The agency incurred a net loss during the period. In addition the total liabilities exceeded the total assets.
- The remuneration allowances had not been approved by the accounting authority.
- Internal control weaknesses included:
 - Unapproved and incomplete financial policies and procedures
 - Proper control over stationery did not exist
 - Delegations of authority were not adhered to
 - Significant overspending of the budget was not followed up and approved by the accounting authority
- Non-compliance with legislation:
 - Internal audit section not operational
 - Asset control was not adhered to
 - Incorrectly calculated employee tax
 - Audit committee not functioning effectively
 - Not all members of the accounting authority disclosed their interests
 - No materiality and significance framework
 - No fraud prevention plan and risk management strategy



A U D I T O R - G E N E R A L

- Inappropriate control over fixed assets.
- Inappropriate procedures were followed to appoint an accounting authority.

Public entity: South African National Roads Agency

Matters emphasised

Matters reported in current and previous year(s)

- The land register had not been maintained adequately, which could result in unrecorded financial losses.
- Non-compliance with Generally Accepted Accounting Practice (GAAP) with regard to financial instruments and the disposal of expropriated land.
- Poor control over computer equipment and furniture due to inaccurate asset register.
- Non-compliance with legislation regarding the following:
 - Remuneration to non-executive board members
 - Re-registering of title deeds to the agency
 - Financial policies were not sufficient to meet the reporting requirements (including GAAP)
 - No fraud prevention plan
 - No approved materiality and significance framework
 - Quarterly reports were not submitted timeously
 - Audit committee had not been formally established
 - Complete list of bank accounts was not provided to the National Treasury
 - Inconsistent VAT treatment of third party funding.

Public entity: Urban Transport Fund

Matters emphasised

Matters reported in current and previous year(s)

- Inadequate policies with regard to the following:
 - Investments
 - Fixed assets
 - Audit committee did not fulfil all its responsibilities.



AUDITOR - GENERAL

- Internal audit function of the department did not perform any audits on the fund.

Matters reported in the current year

- The following internal control weaknesses were identified:
 - Inadequate filing system
 - Expenditure reports had not been approved before payments were made
 - Management did not review bank reconciliations
 - No reconciliation of transfer payments made
 - Key management was not actively involved in the functions of the fund.
- Lack of policies and procedures:
 - Debtors
 - Procurement
 - Accounting for salaries of staff

Portfolio: Minister of Water Affairs and Forestry

Entities in portfolio audited by the Auditor-General								
Entities in portfolio	Comments	Audit opinion		R million				
		2004 (current year)	2003 (previous year)	Budgeted expenditure	Assets		Total expenditure	
					2004 (current year)	2003 (previous year)	2004 (current year)	2003 (previous year)
Department								
Water Affairs and Forestry		Qualified Emphasis of matter	Adverse Emphasis of matter	4 639,2	937,7	704,5	4 411,2	3 990,0
Public entities								
Water Research Commission		Clean report	Emphasis of matter		135,4	123,6	81,6	101,9
Other entities								
Equipment Trading Account		Emphasis of matter	Adverse Emphasis of matter		147,7	139,5	44,3	41,6
National Forest Recreation and Access Trust		Emphasis of matter	Emphasis of matter		2,8	2,5	0	0
Water Trading Account		Emphasis of matter	Adverse Emphasis of matter		53 019,4	0	4 984,1	3 222,0



A U D I T O R - G E N E R A L

Entities in portfolio not audited by the Auditor-General								
Entities in portfolio	Comments	Audit opinion		R million				
		2004 (current year)	2003 (previous year)	Budgeted expenditure	Assets		Total expenditure	
					2004 (current year)	2003 (previous year)	2004 (current year)	2003 (previous year)
Public entities								
Albany Coast Water Board		Information not available	Clean report		13,1	1,4	1,2	1,5
Amatola Water Board		Emphasis of matter	Emphasis of matter		309,9	312,9	66,1	73,7
Bloem Water		Emphasis of matter	Clean report		454,3	441,7	73,5	63,0
Botshelo Water	Note 1	Clean report	Clean report		98,4	94,0	91,0	80,1
Bushbuckridge Water Board		Emphasis of matter	Information not available		50,9		22,6	
Ikangala Water		Emphasis of matter	Emphasis of matter		0,5	0,5	3,4	2,8
Lepelle Northern Water		Clean report	Clean report		707,2	670,2	78,1	76,6
Magalies Water		Clean report	Clean report		767,7	718,6	61,5	48,0
Mhlathuze Water		Clean report	Clean report		283,5	281,0	103,7	95,0
Namakwa Water		Clean report	Clean report		97,6	98,0	6,6	5,7
Overberg Water		Clean report	Clean report		55,7	52,7	13,1	12,0
Pelladrift Water Board		Clean report	Clean report		13,3	13,7	5,7	5,0
Rand Water		Clean report	Clean report		4 892,5	4 952,8	2 497,6	2 145,5
Sedibeng Water: Free State		Clean report	Clean report		509,4	487,5	137,9	121,5
Sedibeng Water: North West		Qualified	Clean report		20,0	6,4	35,6	33,9
Sedibeng Water: Qwaqwa		Clean report	Clean report		26,3	15,0	34,6	28,0
Trans-Caledon Tunnel Authority		Clean report	Clean report		14 602,0	14 602,0	287,0	287,0
Umgeni Water		Clean report	Emphasis of matter		4 707,7	4 847,0	510,1	441,0

Note 1: Previously North West Water Supply Authority Board

Department: Water Affairs and Forestry

Qualified audit opinion

Matters reported for the first time

- Misallocation of transactions amongst the vote and trading entities.
- Insufficient supporting documentation:
 - Transactions lacked sufficient or complete documentation to substantiate the validity, accuracy, completeness and accounting treatment of the relevant items.
 - In addition contracts could not be provided for the amount of R31 million.



A U D I T O R - G E N E R A L

Matters emphasised

Matters reported for the first time

- Accuracy of comparative figures could not be determined.
- Internal audit: Not functioning as envisaged by PFMA and Treasury Regulations, including the requirement for internal audits to be conducted in terms of standards set by the Institute of Internal Auditors. Internal audit had completed only 1 of 13 audits that were planned and approved.
- Movable assets: An asset management policy, including an updated asset register, was not in place.

Other entity: Equipment Trading Account

Matters emphasised

Matters reported in current and previous year(s)

- Separate accounting records for the Equipment Trading Account: The trading account's financial statements needed to be prepared in accordance with Statements of Generally Accepted Accounting Practice, but the recording of the transactions was done on the Basic Accounting System, which is a cash recording system and does not provide for accrual accounting.

Other entity: Water Trading Account

Matters emphasised

Matters reported in current and previous year(s)

- Separate accounting records for the Water Trading Account: The trading account's financial statements needed to be prepared in accordance with Statements of Generally Accepted Accounting Practice, but the recording of the transactions was done on the Basic Accounting System, which is a cash recording system and does not provide for accrual accounting.

Matters reported for the first time

- Control weaknesses:
 - Ineffective controls over the procurement process, as expenditure was incorrectly allocated, payments were not properly authorised, and payments were not made within 30 days.
 - Not all assets had been bar-coded yet, the new asset register was not reconciled with the old asset register, and assets of the Water Trading Account still appeared on the department's asset register.
 - Water Administration and Registering Management System: Weaknesses in the security settings and administration of the SAP system as well as the sharing of the WARMS database administrator accounts might compromise the data integrity.



A U D I T O R - G E N E R A L

ANNEXURE 1: EXPLANATION OF THE REGULARITY AUDITING PROCESS

Auditing standards

To facilitate compliance with auditing standards the office has developed a customised audit approach that is in line with the requirements of the South African Auditing Standards (SAAS), issued by the Public Accountants' and Auditors' Board, which are based on internationally developed standards. These standards include a public sector perspective to harmonise SAAS and the standards issued by the International Organisation of Supreme Audit Institutions. These standards are applied in the auditing of the financial statements.

The Auditor-General also has a constitutional mandate to audit financial management.

Essentially SAAS govern the standards and provide guidance on the format and contents of an audit report. Although largely applicable to financial statements, they can be adapted to the assessment of other financial information. The key advantage of these standards is that they provide a standard framework for the expression of a written opinion on the entities' financial statements, tested against the reviews of practices to be found in Generally Accepted Accounting Practice (GAAP). SAAS also provides for the review of other accounting practices within certain constraints.

Public sector perspectives

In addition to the standard application of SAAS, their application in the public sector includes additional guidance on public sector requirements with the result that reference is made in the paragraph on the "scope of the audit" to the legislation and directives that have given rise to the audit mandate. This also allows for an outline to be given of the nature, content and form of the auditor's report. Compliance auditing specifications (i.e. compliance with relevant rules and regulations) are only included in SAAS in so far as the presentation in the financial statements subjected to audit would be affected, but another dimension the public sector audit may reflect, is the realm of performance. The report may thus assess aspects such as compliance with rules and procedures, internal controls, value for money, wastage of resources or other matters in the public interest.

The audit information on public sector entities is intended for legislators, government departments, other investors and the general public. Reports on public sector audits conducted by the Auditor-General and then published, are mandated by law to become public documents.

Quality review and assurance

Another benefit of the application of SAAS is the system for the assurance of the quality of the audit, applied throughout the audit process. The auditor needs to be satisfied as to the reliability of the information being used, upon which an audit opinion will be based. The level of assurance is usually determined by risks involved, the procedures the auditor uses and the results obtained.

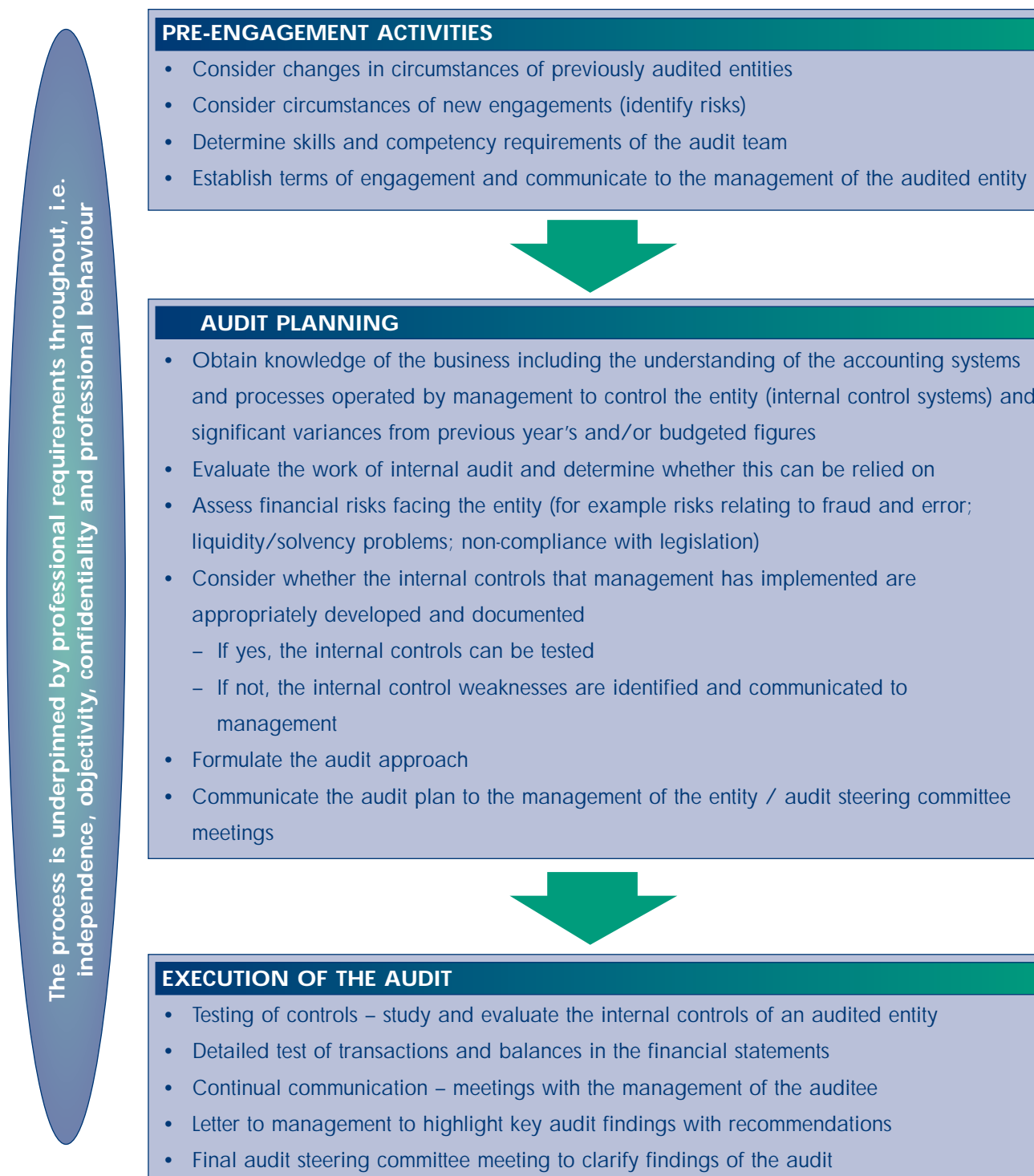
The quality of the audit is tested against the adherence to SAAS by an internal appraisal or quality assurance process, applicable until the report is delivered to the auditee and the public. In addition, the Practice Review Department of the Public Accountants' and Auditors' Board performs an independent quality review on audits conducted.



A U D I T O R - G E N E R A L

Figure 1 below provides an overall view of the audit process applied by the office which will result in an audit opinion.

Figure 1. Steps in the audit process





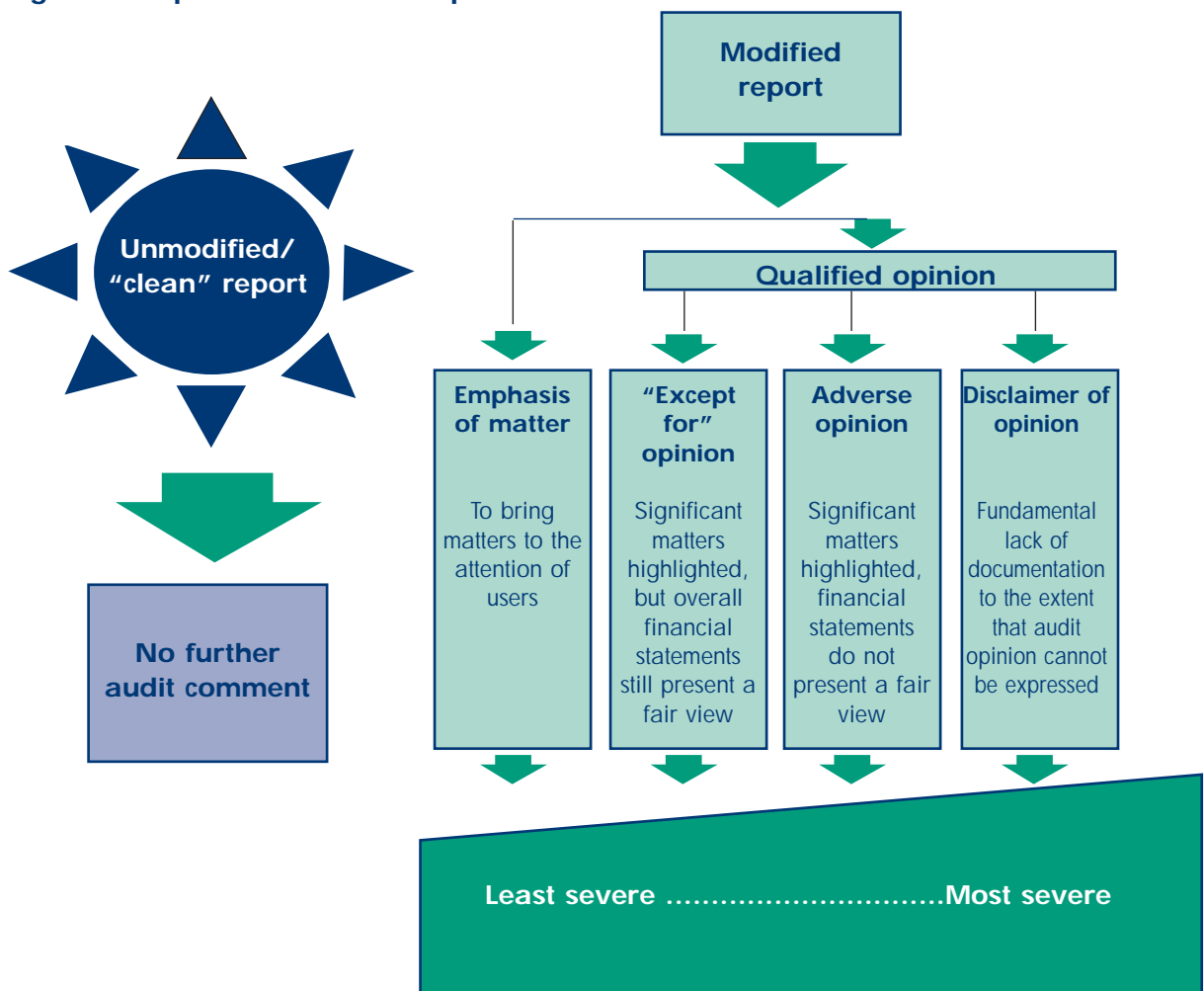
A U D I T O R - G E N E R A L

REPORTING

The output of an audit is simply the expression of an opinion on the financial statements of an entity. It should also be noted that audit opinions are only expressed on financial statements and not on compliance with laws and regulations. However, any deviations from laws and regulations relating to financial matters will be considered and could result in a modified audit report. Other statutory reporting requirements could also in accordance with SAAS result in a modification by means of emphasis of matter. Figure 2 below shows the different kinds of audit opinions in increasing order of severity.

Effectively, two types of audit reports are issued, namely (a) a "clean" report and (b) a report that is not "clean". An audit report gives an audit opinion on the financial statements of an auditee. When the report is not "clean", one of four possible audit opinions is issued. As illustrated in table 1 above, these range from emphasis of matter, which is the least severe, to a disclaimer of opinion, which is the most severe.

Figure 2. Explanation of audit opinions





A U D I T O R - G E N E R A L

ANNEXURE 2: ANALYSIS OF REPORTING PARAGRAPHS FOR DEPARTMENTS

2.1 Qualifications

2.1.1 Policy framework issues

Department	Issue	Issue raised in 2002-03 ✓ - yes X - no
Defence	• Completeness of departmental income amounting to R266,3 million could not be verified.	✓
	• No amounts were disclosed in the physical and intangible asset movement schedules as prescribed by the National Treasury. Owing to the nature of the computerised logistic system of the DOD, we could not obtain information and explanations for non-compliance and disclosure discrepancies.	✓
	• Conclusion could not be reached on the validity and completeness of the contingent liabilities regarding leave and therefore the accuracy of the amount as disclosed.	✓
	• The department did not have a system to record accruals (where goods and services have been delivered but no invoices have been received).	✓
Minerals and Energy	• Revenue management and receivables for services delivered: The completeness and accuracy of revenue could not be verified; systems used by the department were inadequate. There were no effective systems of control.	✓
	• Accounts payable management: The amounts disclosed in the financial statements could not be verified in respect of commitments and accruals as available systems were not used effectively.	✓
Parliament	• Debtors could not be verified – no age analysis and no approved debt control policy.	X
	• Donor funding could not be verified – no formal policy.	X
Water Affairs and Forestry	• Misallocation of transactions amongst the vote and trading entities.	X

2.1.2 Non- policy framework issues

Correctional Services	Payments of R630 million (in previous year R681 million) made to Medcor could not be verified to relevant supporting documentation.	✓
Defence	The inconsistent application of policies and procedures resulted in the following: <ul style="list-style-type: none"> • Not all losses and damages were reported to the finance division. • The damage and loss registers at unit level were not updated regularly and numerous instances were found where cases had not been captured in the registers. • A board of inquiry was not always instituted as required in terms of the policy. • Various cases were not finalised on time. • Various loss files could not be submitted for audit purposes. 	✓
Foreign Affairs	• An unreconciled difference of R11,6 million existed between the balance in the department's records and the cash at the missions. These accounts were not reconciled on a periodical basis for several years mainly due to a shortage of staff.	X
Health	The department effected transfer payments of R7 billion to various provincial departments. This constituted 91,4% of the department's expenditure. The following fundamental areas of non-compliance with the provisions of the Division of Revenue Act of 2003 were observed: <ul style="list-style-type: none"> • Section 21(1)(c) of the act requires funds to be withheld when significant underspending and the non-achievement of objectives occur. In spite of the grants being underspent, transfers were still made. Eighteen instances of underspending of conditional grants of various programmes, amounting to R279 million, occurred in the provinces. 	X



A U D I T O R - G E N E R A L

Department	Issue	Issue raised in 2002-03 ✓ - yes X - no
Health	<ul style="list-style-type: none"> Financial and operational monitoring of compliance with conditions of conditional grants was not adequately performed by the department. On-site monitoring of the Health Professions Training and Development conditional grant of R1,8 billion was inadequate in Gauteng, Free State, Eastern Cape, North West and Limpopo. 	X
Home Affairs	<ul style="list-style-type: none"> The department experienced significant backlogs in capturing the receipts onto BAS. Unallocated deposits from various Home Affairs regional offices relating to revenue collected amounted to R32 million. With regard to the deposit account, unallocated deposits amounting to approximately R6,8 million were also revealed. Amounts could not be allocated to the relevant revenue items as carbon copies of deposit slips were often altered to agree to the deposits accounted for on BAS, which did not agree to actual deposits made by the regional offices. 	X
	<ul style="list-style-type: none"> The financial management controls at Lindela detention centre were still inadequate for the period under review. The accuracy and validity of expenditure amounting to R95,9 million could not be determined. 	✓
Parliament	<ul style="list-style-type: none"> Creditors suspense accounts could not be verified – no reconciliations were performed. 	X
	<ul style="list-style-type: none"> Accruals could not be verified as there was no proof those goods/services had been supplied. 	X
	<ul style="list-style-type: none"> Limitations of scope on the auditing of leave – leave transactions for the year as well as brought-forward balances were not captured on new employees administration system. 	X
	<ul style="list-style-type: none"> Value of inventories misstated – transactions for six months were not taken into account to determine final balance. 	X
	<ul style="list-style-type: none"> Limitation of scope on the auditing of expenditure – insufficient control over and manner of filing of vouchers and documents. 	X
	<ul style="list-style-type: none"> Third party compensation payments of R7,7 million could not be verified – incomplete cashbook. 	X
	<ul style="list-style-type: none"> Bank reconciliations reflect long outstanding items – inappropriate review and no follow-up. 	X
	<ul style="list-style-type: none"> Creditors overstated by R6,7 million – reconciliations were not reviewed and authorised. 	X
Public Works	<ul style="list-style-type: none"> The following items, which originate from prior to 2002, remain unresolved due to a lack of supporting documentation: <ul style="list-style-type: none"> - R5,9 million in respect of receivables - R6,7 million in respect of receivables Transactions not accounted for through the income statement, originating during or before 1999-2000: - R19,3 million other debtors - R2,0 million payables current - R0,2 million staff debtors - R0,19 million advances 	✓
	<ul style="list-style-type: none"> The resolution of irreconcilable debts and debt inherited from regional structures was being addressed as a government-wide initiative with all relevant stakeholders. The DPW had disclosed the various items identified in notes x and y to the financial statements and the resolution of these will be evaluated in due course. 	✓
South African Police Service	<ul style="list-style-type: none"> Deficiencies were noted in the management and administration of leave in all the provinces. This had an impact on the calculation of the leave entitlement. Leave forms were not captured on the Personnel and Salary system (PERSAL) in every province visited. At a specific station, a backlog of five months existed in the processing of leave applications, while the manual leave register had last been updated in 2002. <p>It was not possible to quantify the effects of these findings, nor was it possible to perform alternative audit procedures. The accuracy and completeness of the leave entitlement of R4 billion could not be determined.</p>	✓



A U D I T O R - G E N E R A L

Department	Issue	Issue raised in 2002-03
Statistics South Africa	<ul style="list-style-type: none"> Separate asset registers were kept for office equipment and computers and related equipment. Computer assets and related equipment of R13,1 million could not be verified. 	X
	<ul style="list-style-type: none"> An amount of R1,3 million, which was unaccounted for, was disclosed in the 2002-03 financial statements. Evidence was not found of steps taken to recover the R1,3 million before it was written off. The reasons for the unaccounted amount or why recovery would be uneconomical were also not indicated. 	✓
	<ul style="list-style-type: none"> As reported previously State Tender Board (STB) regulations were not complied with in the procurement of services amounting to R16,1 million, mainly supplied by one contractor. During the current year further payments amounting to R3,3 million were made to the same supplier. 	✓
	<ul style="list-style-type: none"> STB regulations and the regulations in respect of the framework for supply chain management were not complied with in the procurement of services amounting to R9,0 million. 	✓
Water Affairs and Forestry	<ul style="list-style-type: none"> Transactions lacked sufficient or complete documentation to substantiate the <u>validity, accuracy, completeness and accounting treatment of the relevant items.</u> 	X
	<ul style="list-style-type: none"> In addition contracts could not be provided for the amount of R31 million. 	X

2.2 Matters emphasised

2.2.1 Information systems

FMS / BAS		
Public Works	<ul style="list-style-type: none"> No control totals were available on the Basic Accounting System (BAS) for comparison and reconciliation with PMIS during the interface with BAS. 	X
LOGIS		
Defence	<ul style="list-style-type: none"> A comparison between the live database per unit and the Logistical Executive Information System (LOGEIS) revealed material differences in every instance that was tested. This was the result of the lack of a proper management framework to perform reconciliations between the systems. 	X
Health	<ul style="list-style-type: none"> Lack of control over fixed assets: A fixed asset register is maintained on the LOG-TEK/LOGIS system but it is not integrated with the Basic Accounting System. Systems to control the movement of assets and ensure custody and safeguarding thereof were inadequate. 	✓
Presidency	<ul style="list-style-type: none"> The reconciliation between the new asset register and the previous Logis asset register was still being performed. Possible surpluses and shortages were therefore not determined. 	✓
Other		
Correctional Services	<p>A follow-up information systems audit revealed the following:</p> <ul style="list-style-type: none"> The management of the network software licences was inadequate and could lead to the duplication of maintenance costs and lack of support for the products. The department did not have a service level agreement (SLA) for the maintenance and support of the network software. Services could thus not be measured against defined expectations. Although the SLA for hardware maintenance between the department and the supplier was subject to the stipulations in the contract between SITA and the supplier, the department was not able to obtain a signed copy of the SITA contract and might therefore not be aware of all the stipulations and services to be rendered in terms of the agreement. The department should review licensing arrangements with its suppliers. 	✓
	<p>Implementation of a database together with a new version of an application development tool in Gauteng was stopped before it could be implemented countrywide. This had a severe impact on departmental activities, i.e. two systems needed to be maintained, which resulted in the following:</p> <ul style="list-style-type: none"> The data of Gauteng and the other regions were incompatible. Support and maintenance fees amounting to R1 million were paid for countrywide usage although it was only used in Gauteng. 	✓



A U D I T O R - G E N E R A L

Department	Issue	Issue raised in 2002-03
Correctional Services	<ul style="list-style-type: none"> The majority of new servers acquired at a total cost of R12,4 million had not yet been distributed to the regions as the rollout of these servers was planned to coincide with the countrywide implementation of the application development tool. 	✓
Defence	<ul style="list-style-type: none"> An information systems audit conducted on the general controls surrounding the Computer Aided Logistic Management Information System (CALMIS) and the Operational Support Information System (OSIS) revealed that the activities of the database administrators were not logged and monitored. 	X
	<ul style="list-style-type: none"> A number of accounts on the CALMIS Unix servers did not have passwords. 	X
	<ul style="list-style-type: none"> No reconciliation with the asset register of the Department of Public Works (DPW) could be performed due to the incompatibility of the two systems. 	X
Education	<p>Follow-up information systems audit of the logical access controls and security parameter settings within the information technology environment at the Department of Education – the most significant weaknesses in the security environment were the following:</p> <ul style="list-style-type: none"> The Windows 2000 system accounting policy settings and the security auditing features were not appropriately utilised to prevent and detect unauthorised access to the applications operated by the department. There were uncertainties regarding general controls operated by SITA in respect of the department's information. 	X
Foreign Affairs	<p>General control weaknesses included the following:</p> <ul style="list-style-type: none"> No risk assessment No IT security policy in place Outdated change control procedures Inadequate user account management procedures No approved network and internet usage policies in place No authorised disaster recovery and business continuity plans Inadequate access controls Inadequate segregation of duties within the IT environment 	✓
Government Communication and Information System	<p>Due to a lack of adequate or approved policies and procedures, weaknesses were identified which related to the following:</p> <ul style="list-style-type: none"> Information security Disaster recovery plan Backup and recovery User account management 	✓
Land Affairs	<ul style="list-style-type: none"> The computer system in the Western Cape allowed changes to be made to invoices and allowed the same invoice number to be issued to different invoices. 	X
Minerals and Energy	<p>Inadequate general controls in the information technology environment included the following:</p> <ul style="list-style-type: none"> Lack of policies and procedures Non-implementation of existing policies Logical security setting and access provided to programs were found to have significant control weaknesses relating to the Royalty system Authentication server of the network had serious weaknesses 	X
Parliament	<ul style="list-style-type: none"> No service level agreement existed with the supplier of the Manqoba system in respect of maintenance, upgrades, backup services and security. 	✓
	<p>Shortcomings in IT – inadequate general control measures relating to:</p> <ul style="list-style-type: none"> Formal change control procedures Under-resourcing in the IT division Poor control over access 	X
Presidency	<p>Due to inadequate policies and procedures, key weaknesses were identified including:</p> <ul style="list-style-type: none"> Information security Disaster recovery Backup and recovery 	✓
Public Works	<ul style="list-style-type: none"> User account management Change control and network standards 	✓



A U D I T O R - G E N E R A L

Department	Issue	Issue raised in 2002-03
Public Works	A general control review identified the following weaknesses: <ul style="list-style-type: none"> Several weaknesses were identified with regard to the system security settings on the UNIX server at SITA. A disaster recovery plan, change control procedures, data dictionary development, maintenance procedures and user account management procedures were either not documented or inadequate. Service level agreements had not been signed between the IT unit and DPW business units. Segregation of duties in the program change process and programmers' access to the PMIS were not adequately monitored and authorised due to the non-activation of the audit trail with respect to developers and administrators. 	X
	An application controls review within the Property Management Information System revealed the following: <ul style="list-style-type: none"> No formal registration and termination procedures for users existed. Activities of system controllers and system support users were not logged and monitored. Changes to the supplier master file were not monitored. No validation tests were performed by the PMIS on the invoice numbers with the effect that the same invoice could be paid more than once. 	X
Statistics South Africa	A formally approved IT strategy plan, IT security policy and disaster recovery plan for the IT environment as a whole did not exist.	✓
	Comprehensive approved program change control procedures, account management procedures and backup and recovery procedures had not been compiled. The backup tapes were furthermore not being tested and restored on a regular basis.	✓
	Programmers had access to the live environment and the activity log files were not reviewed on a regular basis. User identifications and passwords were shared and the lack of proper segregation of duties made it impossible to determine responsibility for actions on the system.	✓
	Mainframe activity logs were not obtained by management to follow up on instances of, for example, attempts to gain unauthorised access to the transversal systems data.	✓
	Adequate password controls had not been implemented and the operating security parameter settings were not optimally utilised to prevent unauthorised access to the network.	✓
Trade and Industry	User account management procedures were not approved and documentation did not exist.	X
	Inadequate change control procedures with regard to the Manufacturing Development Programme.	X
	There was no service level agreement between various parties.	X
Transport	Formally approved IT security policy not in place	X
	No disaster recovery plan	X
	No formally approved user account management procedures	X
	Backup tapes not tested and restored on a regular basis	X
	Mainframe activity logs not available for management (to identify unauthorised access to systems)	X
	Network control weaknesses due to lack of segregation of duties	X
	No documented and approved systems development life cycle policy	X

2.2.2 Asset management

Agriculture	Assets could not be physically verified or traced to asset registers in regional offices.	X
Arts and Culture	Assets could not be verified as the items were not properly bar-coded and the serial numbers were not stated in the asset register.	X
Communications	No proper policies and procedures in place in respect of assets.	✓



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Department	Issue	Issue raised in 2002-03
Correctional Services	<ul style="list-style-type: none"> Inaccurate/incomplete asset registers. 	✓
	<ul style="list-style-type: none"> Various assets on the asset register not physically verified. 	✓
	<ul style="list-style-type: none"> Various differences were detected between the Provisional Administration System and the actual stock. 	✓
	<ul style="list-style-type: none"> Insufficient control over the safeguarding and authorised use of vehicles. 	✓
Defence	<ul style="list-style-type: none"> Insufficient control over the access to computer equipment and data backups. 	✓
	<ul style="list-style-type: none"> Buildings and houses were deteriorating rapidly. This could mainly be attributed to a lack of funds and controls over maintenance, and repairs not functioning effectively. 	✓
	<ul style="list-style-type: none"> Buildings and houses considered uninhabitable were occupied. This posed a major health and safety risk, which could result in the DOD becoming liable to third parties. 	✓
	<ul style="list-style-type: none"> Inventory and equipment were not recorded completely and accurately, resulting in discrepancies between physical stock on hand and the asset register. 	✓
	<ul style="list-style-type: none"> In certain instances no handing and taking over certificates were completed during the changing of responsibilities. In numerous instances no segregation of duties existed. 	✓
	Security and general administration over vehicles: <ul style="list-style-type: none"> Unauthorised trips were undertaken. Material differences existed between the physical number of vehicles on hand and those reflected in the stock ledger. Vehicles were allowed to deteriorate to such an extent that they were beyond economical repair, mainly as a result of irregular servicing. In certain cases vehicles that were sent for repairs, were not serviced on time and vehicles were stripped of their parts, causing further delays due to budget constraints. 	X
	<ul style="list-style-type: none"> There was a lack of enforcement of existing policies and procedures, mainly due to the fact that personnel responsible for the management of stock and equipment were not accountable to management. 	X
	<ul style="list-style-type: none"> An evaluation of the stocktaking certificates revealed that a number of units had failed to submit stocktaking certificates. 	X
	At certain of the units, the following insufficiencies with regard to supporting documentation were found: <ul style="list-style-type: none"> Occupational agreements were incomplete or not available. Documentation for structural changes to buildings could not be submitted. Contracts for subleases to third parties could not be submitted. Inventory checklists were not completed and/or filed. Unutilised space schedules were not completed. Lists of facilities at audit locations could not be provided. In certain instances the FR system contained references to buildings that did not physically exist. Buildings were disposed of without handing over certificates being completed. No DPW authorisations were available for newly constructed buildings. 	X
	The general internal controls with regard to asset management during the three foreign military operations were evaluated and the following weaknesses were identified: <ul style="list-style-type: none"> As a result of the lack of controls and proper documentation, certain inventory and assets were shipped to wrong destinations or operations. Registers for receipt and issue vouchers were not maintained properly. Inventory and equipment were not recorded completely and accurately. At the time of the audit there was a huge backlog of receipt and issue vouchers that had not yet been captured, resulting in major discrepancies between the physical stock transferred and the asset records. Inventory and assets were sent to the operations without formal accompanying documentation, resulting in poor control over the assets. No controls existed over the raising of demands (goods and services). 	X



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Department	Issue	Issue raised in 2002-03
Defence	<ul style="list-style-type: none"> The storage facilities were found to be inadequate in that inventory and assets were not stored under prescribed and ideal conditions, which could result in the state suffering material losses. 	✓
	<ul style="list-style-type: none"> Numerous discrepancy vouchers were still awaiting approval for the 2003-04 financial year. Staffing or vacancy problems seemed to be the major contributing factor in this delay in investigating the discrepancy vouchers. 	X
	<ul style="list-style-type: none"> There was uncertainty over the completeness and accuracy of the DOD's facility register (FR) system. 	X
	<ul style="list-style-type: none"> Registers for receipt and issue vouchers were not properly maintained. Consequently, not all issue and receipt vouchers could be submitted for auditing. 	✓
Foreign Affairs	Inadequate maintenance of fixed asset register.	X
Justice and Constitutional Development	<p>The evaluation of the department's asset management identified shortcomings in the control over assets due to non-compliance with policies and procedures. This was due to the following:</p> <ul style="list-style-type: none"> Asset and inventory registers were not always updated. Asset counts were not always performed regularly. Assets were not always uniquely marked, resulting in an inability to identify specific assets for verification purposes. 	✓
Labour	<p>Imperial fleet services – The audit revealed the following serious shortcomings:</p> <ul style="list-style-type: none"> Monthly expenditure fluctuations were not followed up. Damages to fleet cars were not reported. Penalties for late cancellations and deliveries and collections after business hours were incurred. 	✓
	<ul style="list-style-type: none"> Imperial fleet services versus subsidised motor vehicle scheme – the Imperial scheme was implemented to decrease costs in respect of subsidised motor transport. However, expenditure incurred on subsidised motor transport and Imperial fleet services increased. It was apparent that the Imperial scheme was not cost-effective for the department. 	X
	<ul style="list-style-type: none"> Despite the underutilisation of the training centre, R5,4 million was spent on improvements to the infrastructure during the 2003-04 financial year. 	X
	<p>An audit of the IT assets revealed the following significant weaknesses in the control environment:</p> <ul style="list-style-type: none"> A physical verification of IT assets at Head Office, provinces and labour centres revealed that assets selected from the LOGIS asset register could not be verified at the specified locations because the movement of assets was not documented in the asset register. It could not be determined whether IT assets belonged to the department or the Unemployment Insurance Fund. 	X
Land Affairs	<p>The asset register was still not complete and management of assets was ineffective due to the following:</p> <ul style="list-style-type: none"> Discrepancies of R15,8 million between the asset register and the financial records. Information on the asset management system was incomplete and therefore physical verification of the assets was not possible. Certain assets did not appear in the asset register. 	✓
Minerals and Energy	<p>Effective policies and procedures concerning asset management had not been implemented. The following matters were identified:</p> <ul style="list-style-type: none"> The fixed asset register had not been properly maintained. Physical stockcount had not been undertaken. Disposal of computer equipment had not been dealt with as prescribed. 	✓
Parliament	<ul style="list-style-type: none"> An asset policy is not in place and inventories per office were not compiled. 	✓
	<ul style="list-style-type: none"> No reconciliations were undertaken between the stock usage and meals served. Furthermore, stock shrinkages had not been monitored for the period under review. 	✓
Provincial and Local Government	<ul style="list-style-type: none"> The department's asset management policy was only approved in January 2004. 	✓



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Department	Issue	Issue raised in 2002-03
Public Works	• The PMIS database was not sufficient or updated to form the basis for a fixed asset register.	✓
	• The Land Affairs database was found to be largely accurate but did not disclose valuation details as required by the DPW.	✓
	• The fixed asset register for movable assets was not complete. This was due to the implementation of the Ezeycat computer software program, which started in the previous year, in order to maintain a register containing the item identification code and location.	✓
	• Differences existed in the calculation of municipal valuations, which might impact on the apportionment of rates and taxes between government and private landowners in terms of the new Property Rates Act.	✓
South African Management Development Institute	• Incomplete asset register, mainly because of management's failure to enforce the documented control procedures	X
	• Insufficient control over movement of the internal assets	X
	• Insufficient stock count procedures	X
	• Quarterly stock counts not performed	X
South African Police Service	• The receipt of building materials was recorded against "extraordinary receipts".	X
	Inventories at provincial and area commissioners and police stations:	X
	• Segregation of duties not clearly defined.	
	• Stock counts not performed.	
	• Movements of stock were not captured.	X
	• Stock issued by the ammunition store to police stations remained uncollected at the transit-out of the ammunition store for extensive periods, dating from as far back as January 2001.	X
	• Delays of more than six months in deliveries from suppliers occurred, without penalties being charged against defaulting suppliers in terms of the contract conditions.	X
	• The needs analysis performed before the placing of orders and the control over optimal stock levels were inadequate.	X
	Vehicle fleet management:	X
	• Vehicles were not being optimally utilised	
• The vehicle fleet management exception reports were not followed up and appropriate action was not taken.		
• Inadequate measurable norms and standards governing turnaround times for vehicles undergoing repairs and maintenance.		
• Deficiencies in the procurement process of vehicles.		
• Incidents of damages and losses within the logistical environment were not timeously recorded on the Polfin accounting system.	✓	
• There were serious internal control weaknesses regarding the safekeeping of firearms as information supplied by the department indicated that 935 firearms (2002-03 - 921), valued at R2 million, were lost or stolen from personnel.	✓	
Transport	• A proper fixed asset register was not in place in the department due to the lack of management policies and procedures.	✓
Water Affairs and Forestry	• Movable assets: An asset management policy, including an updated asset register, was not in place.	X

2.2.3 Internal audit / Audit committee

Arts and Culture	• The internal audit failed to execute the approved audit plan as a result of capacity constraints.	X
Communications	• The internal audit charter, 3-year strategic plan and annual internal plan had not been approved by the audit committee.	✓
Health	• A risk management strategy has not been fully developed to direct the effort and priorities of the internal audit function.	✓
	• The ratio of audits completed against audits planned was inadequate when measured against the annual operational plan.	✓



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Department	Issue	Issue raised in 2002-03
Home Affairs	<ul style="list-style-type: none"> No reliance could be placed on the work of internal audit as only 19 per cent of the unit's approved annual work plan was executed and the internal audit reports relating thereto were only made available for review on 9 July 2004, of which only one report had been formally finalised. 	X
Housing	<ul style="list-style-type: none"> Audit committee not effective, due to only one meeting 	X
	<ul style="list-style-type: none"> No internal audit division due to it being inadequately staffed 	✓
Independant Complaints Directorate	<ul style="list-style-type: none"> Deficiencies in the internal audit process. 	✓
Land Affairs	<ul style="list-style-type: none"> The internal audit section did not function effectively. 	✓
Provincial and Local Government	<ul style="list-style-type: none"> Internal audit function: No audit reports finalised during the 2002-03 financial year. Due to a lack of capacity, three out of the planned 10 audits were completed for the current financial year. 	✓
Public Service and Administration	<ul style="list-style-type: none"> Internal audit not fully functional. 	X
South African Management Development Institute	<ul style="list-style-type: none"> Internal audit not fully functional. 	✓
Statistics South Africa	<ul style="list-style-type: none"> Implementation of the recommendations made by the internal audit (IA) function was delayed for various reasons, the most notable of these being the difficulties in obtaining a common understanding between IA and management. 	✓
Transport	<ul style="list-style-type: none"> The audit committee did not meet all its responsibilities. 	✓
	<ul style="list-style-type: none"> No effective internal audit component. 	✓
Water Affairs and Forestry	<ul style="list-style-type: none"> Internal audit: Not functioning as envisaged by PFMA and Treasury Regulations, including the requirements for internal audits to be conducted in terms of standards set by the Institute of Internal Auditors. Internal audits had completed only 1 of 13 audits that were planned and approved. 	X

2.2.4 Income, accounts receivable

Correctional Services	<ul style="list-style-type: none"> Control accounts (receivables) not followed up on a regular basis. 	✓
	<ul style="list-style-type: none"> Judge White Commission – lack of sufficient controls in the recovery of debts. 	✓
Defence	<ul style="list-style-type: none"> There was still no system for the recording and allocation of foreign aid assistance received in kind. Consequently, the completeness and accuracy could not be confirmed. 	✓
Foreign Affairs	<ul style="list-style-type: none"> Key reconciliations were not performed regularly mainly due to the shortage of staff. 	X
	<ul style="list-style-type: none"> Interdepartmental receivables balances: Debtor's confirmations received from some departments revealed differences that might be in excess of R157 million. 	✓
	<ul style="list-style-type: none"> Long outstanding receivables were not followed up. 	X
Land Affairs	<ul style="list-style-type: none"> It was not possible to determine the effectiveness of controls over the collection of rental income at the provincial Departments of Agriculture. 	X
Minerals and Energy	<ul style="list-style-type: none"> Internal controls regarding staff debtors were not functioning effectively and therefore the debt might not be recoverable. 	X
	<ul style="list-style-type: none"> The recovery of the loan due to JC Gold Mining of R0,9 million might be doubtful as no payments had been made since 1998. 	X
Public Works	<ul style="list-style-type: none"> An investigation into married and single quarter official housing highlighted that tariffs had last been updated in 1995. The accounting officer should at least review these tariffs annually if they are under his control. 	X
	<ul style="list-style-type: none"> The controls over rental revenue were ineffective, as the subsystem was not utilised at all the regions. This was due to a lack of training of departmental officials. 	X
Transport	<ul style="list-style-type: none"> There were insufficient controls and records with regard to driver's licence registration fees. 	✓



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2.2.5 Personnel

Department	Issue	Issue raised in 2002-03
Correctional Services	• Differences when comparing leave taken according to the attendance register, leave register, leave form and PERSAL.	✓
	• Leave credits on PERSAL did not always correspond with leave records.	✓
	• Leave taken was not always supported by approved leave forms.	✓
Defence	<p>The audit of commuted overtime revealed certain weaknesses in that the internal controls, as prescribed by management policies and procedures, were not followed. In certain cases, the policies and procedures did not seem to be adequate to address all weaknesses in the system. The following matters need to be mentioned:</p> <ul style="list-style-type: none"> • Supporting documentation, such as attendance registers, was not always completed properly or was not completed at all. In the case of dentists, no time sheets were submitted to substantiate commuted overtime. • Agreements between medical practitioners and the DOD had not been reviewed since 1996 (in some instances the number of overtime hours worked was not the same as that documented in the signed agreements). • Dentists were remunerated for commuted overtime on the minimum/first salary notch of a specific salary level and not against their actual salary notch, as was the case with medical practitioners. No prescripts in this regard could be found and consequently the correctness of payments to dentists could not be verified. • Various over- and underpayments were identified during the manual recalculation of commuted overtime paid to members. 	X
Justice and Constitutional Development	• Due to non-compliance with policies and procedures, leave taken was not captured on PERSAL, or leave forms were not available for audit review, which might have an impact on the completeness and accuracy of leave balances as disclosed.	✓
	• The department had not obtained confirmations from financial institutions to ensure that all financial guarantees issued had been identified and completely recorded.	✓
National Treasury	• Weaknesses in the controls over "Contribution to medical schemes" included in the financial statements: Service level agreements were not entered into with major service providers, approved policy and procedure manuals were not in place and system information was not always supported by appropriate documentation. Total medical expenditure amounted to R1 259,1 million. Alternative audit procedures were performed to verify the figures in the financial statements.	✓
Parliament	• Medical aid allowances and contributions could not be verified – lack of supporting documentation.	X
	• Overtime could not be verified – approval and registers in terms of procedure manual not submitted.	X
	• Pension contribution could not be verified – no ministerial approval of the employer's contribution.	X
	• Registration in terms of Skills Development Levies Act could not be verified – no proof submitted.	X
South African Police Service	<p>Non-compliance with policies, procedures and standing instructions regarding personnel expenditure:</p> <ul style="list-style-type: none"> • Inadequate document management resulted in missing identification documents and appointment letters on personnel files of newly appointed staff. • Some members whose services had been terminated or who were on suspension continued to receive salaries due to late reporting to Head Office, with the result that potentially irrecoverable debtors were raised. • Control measures over the management of overtime were ineffective, as registers were not kept to record overtime taken as off-time. 	✓
Statistics South Africa	• No information had been received on the progress made with the investigation of ghost employees as reported previously.	✓



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2.2.6 Transfer payments

Department	Issue	Issue raised in 2002-03
Arts and Culture	Grant-in-aid (<i>ad hoc</i> transfer payments): The following stipulations of the Treasury Regulations were not always adhered to: <ul style="list-style-type: none"> The regular monitoring of projects. Scheduled or unscheduled inspection visits or reviews of performance. 	✓
Transport	<ul style="list-style-type: none"> Insufficient controls over transfer payments to entities. 	✗

2.2.7 Division of Revenue Act

Education	<ul style="list-style-type: none"> In terms of section 38(l) of the PFMA the accounting officer of the department must ensure that the provisions of the Division of Revenue Act are complied with when the transfer of funds takes place. The department therefore put a framework in place to monitor that conditional grants were transferred to the provinces in accordance with the DORA. There were, however, certain <u>limitations to this monitoring framework</u>. 	✓
Health	<ul style="list-style-type: none"> No guideline with regard to an effective reporting framework was provided by the department to the benefiting provinces. 	✓
	<ul style="list-style-type: none"> No distinction was made between equitable share funding and conditional grant funding in the financial system of the benefiting provinces. For example, the provinces that were visited allocated expenditure according to budget availability rather than on criteria set by the conditions of payment. 	✓
	<ul style="list-style-type: none"> Inadequate in-year monitoring to identify non-compliance with the DORA framework, conditional grants and business plan conditions and objectives. 	✓
	<p>The department effected transfer payments of R110 million to non-governmental organisations constituting 1,5% of the department's expenditure. The following instances of non-compliance were observed:</p> <ul style="list-style-type: none"> The organisations funded did not provide the department with audited financial statements and quarterly reports as required by the funding agreements. Funds were transferred by the department without obtaining assurance that the beneficiary had implemented effective, efficient and transparent financial management and internal control systems. 	✓
Provincial and Local Government	<ul style="list-style-type: none"> Division of Revenue Act: The department did not have a composite documented policy and procedure manual on how to deal with and ensure compliance. 	✓
Social Development	<ul style="list-style-type: none"> Conditional grant transfers to provinces not fully utilised by provinces. 	✗

2.2.8 Other

Agriculture	<ul style="list-style-type: none"> Fixed asset additions of R14,5 million differed from capital expenditure as per income statement due to non-asset purchases included in the income statement. 	✗
	<ul style="list-style-type: none"> Certain tariffs for services rendered were not published in the Government Gazette and implemented timeously. 	✗
	<ul style="list-style-type: none"> Casual workers were employed for terms longer than per the Public Service Regulations. 	✗
Arts and Culture	<p>Transfer payments: Quarterly</p> <ul style="list-style-type: none"> As at 31 March 2004, seven of the 24 public entities had not submitted the quarterly reports. 	✗
Communications	<ul style="list-style-type: none"> No risk management strategy. 	✓
	<ul style="list-style-type: none"> Lack of reviews by management and inadequacies in documented controls. 	✓
	<ul style="list-style-type: none"> Non-compliance with the Basic Conditions of Employment Act, 1997 (Act No. 75 of 1997) relating to overtime. 	✗



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Department	Issue	Issue raised in 2002-03
Defence	<ul style="list-style-type: none"> The validity, accuracy and completeness of gifts received, donations and sponsorships made and received in kind could not be verified. This could mainly be attributed to the fact that the policies and procedures pertaining to these items were not followed adequately. 	X
Foreign Affairs	<ul style="list-style-type: none"> Backlogs of up to three months in the capturing of expenditure incurred at the missions. 	X
	<ul style="list-style-type: none"> Late submission of financial statements. 	X
Housing	<ul style="list-style-type: none"> Risk assessment not being carried out – non-compliance with the PFMA 	X
Justice and Constitutional Development	<ul style="list-style-type: none"> The department had not entered into service level agreements with the client departments (for whom the department provided various agency services) to ensure that all obligations and responsibilities relating to cost implications, repayment period and limitations on the extent of the service were confirmed prior to the service being rendered. The outstanding balance to be recovered as at year-end amounted to R254 million. 	✓
	<ul style="list-style-type: none"> Transactions totalling R244 million (2003: R403 million) had been uncleared for more than a year in suspense accounts, resulting in non-compliance. Uncertainty existed with regard to the recoverability of these long outstanding amounts. Of the above, transactions totalling R96 million were unsupported transactions that would have to be written off when surplus funding was realised. 	✓
	<ul style="list-style-type: none"> Inadequate document control, with the result that documentation amounting to R7,8 million was not submitted for audit purposes. 	✓
	<ul style="list-style-type: none"> The department had written off unsupported agency transactions of R101 million, as the transactions were not supported by source documentation. 	✓
	<ul style="list-style-type: none"> There was a lack of defined policies and procedures in respect of donor funding that had contributed to various weaknesses in the donor project management relating to the E-Justice Programme, which represented 91% of donor-funded expenditure that was incurred during the year. 	✓
	<ul style="list-style-type: none"> Non-compliance where invoices totalling R7,5 million were paid after 30 days. 	✓
Labour	<p>Utilisation of subsidised motor vehicle transport – The department allocated subsidised motor vehicles contrary to the Department of Transport policy, which resulted in:</p> <ul style="list-style-type: none"> The underutilisation of subsidised motor vehicles. A drastic increase in related expenditure, which included fuel allowance, maintenance allowance and capital remuneration. 	X
Land Affairs	<ul style="list-style-type: none"> The department did not submit monthly information of the Registration of Deeds Trading Account as required. 	X
	<ul style="list-style-type: none"> Irregular expenditure of R12,9 million as a result of non-compliance with State Tender Board Regulations and procurement policies and procedures. 	X
	<ul style="list-style-type: none"> Payment of R4 million was made without an approved contract or supporting documentation. 	X
	<ul style="list-style-type: none"> Various payments made on copies of invoices, which resulted in double payments of R2,1 million. 	X
Minerals and Energy	<ul style="list-style-type: none"> The Paymaster-General account was understated by R1,9 million. 	X
	<ul style="list-style-type: none"> The controls concerning the timely capture of leave forms were not operating effectively, resulting in a possible overstatement of leave provision. 	X
	<ul style="list-style-type: none"> Ownership of levies received for Mine Health and Safety to the amount of R33,7 million: There was a lack of clarity as to the ownership of levies raised for mine health and safety research. A legal opinion states that in terms of the legislation it could be construed that the ownership of the levies rests with the Chief Inspector of Mines in the department whereas the levies were accounted for in the related public entity. 	X
	<ul style="list-style-type: none"> The department did not have an effective system in place to accumulate costs of own developed systems. 	X



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Department	Issue	Issue raised in 2002-03
Parliament	• Incorrect transactions at parliamentary shop – no management policy and insufficient controls.	✓
	• Staff were not measured in terms of their contribution towards the achievement of strategic objectives for the year.	✓
	• No contract or updated register was submitted to verify the validity of the amounts paid to the political parties for support staff.	✓
	• No reasonable assurance, such as policies or service level agreements, that the political parties implemented effective, efficient and transparent financial management and internal control systems was obtained by Parliament.	✓
	• Compilation of budget could not be verified – no documentation of process submitted.	✓
	• Lack of sufficient documentation in respect of details of suppliers and changes to the masterfile were made without supporting documentation and/or approval thereof.	✓
	• Incorrect financial statements – no provision reflected for back payments of motor vehicle allowances that were made in April 2004.	✗
	• Irregularities in travel claims: The gross potential loss to date aggregated to R13,5 million.	✓
Provincial and Local Government	• No operational fraud prevention plan or risk management strategy for the year under review.	✗
Public Service and Administration	• Public Sector Education and Training Authority (PSETA) – status of the PSETA is unsure.	✓
	• Risk management and fraud prevention plan not completed as required.	✗
Public Works	Weaknesses regarding rental debtors:	✗
	• The debtor subsystem (PMIS) was not fully utilised.	
	• No interest was charged on outstanding amounts.	
	• No monthly invoices and statements were being sent to debtors.	
• Receipts were not captured on the debtors subsystem.		
• No debtors' age analysis was made available for management purposes.		
• The appropriation statement reflected overspending of R30 million on one main division, which was also disclosed as unauthorised expenditure.	✗	
• Late submission of financial statements.	✓	
Science and Technology	• Quarterly reports not submitted.	✗
South African Management Development Institute	• Expenditure allocation between the vote and trading entity: No policy and reporting framework for the allocation of expenditure were in place for the year under review.	✓
South African Police Service	• Loss management: Losses were not timeously recorded and there were losses of firearms.	✓
Sport and Recreation	• Non-compliance with funding policies and procedures.	✗
Statistics South Africa	• Delegations of authority were inadequate, as the delegations to budget managers were very broad. There were no specific delegations to staff in the finance and provisioning sections. For example, a person without the necessary authority requested funds amounting to R290 million.	✓
	• The validity and accuracy of the deductions and tax payments could not be verified due to late submission of these reconciliations and supporting documents.	✓
	• Proof of written authority to approve warrant vouchers, cheques or electronic payments could not be submitted to audit.	✓
	• A risk management strategy as required could not be submitted for the year under review.	✓
	• All payments due to creditors should be settled within 30 days from receipt of the invoices. Invoices amounting to R4 million included in the audit sample were not paid within the prescribed period.	✓



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Department	Issue	Issue raised in 2002-03
Trade and Industry	<ul style="list-style-type: none"> Insufficient control over transfer payments to the amount of R1 340 million: Funds were transferred to entities within or outside government without ensuring that the prescribed documentation was obtained as required. 	X
	<ul style="list-style-type: none"> Unauthorised expenditure of R32 million, relating to overspending on the vote and the saving on transfer payments and capital expenditure which could not be utilised against the overexpenditure. 	X
Transport	<ul style="list-style-type: none"> Unauthorised expenditure of R24 million prior to PFMA implementation as a result of non-compliance with procurement laws and regulations. 	✓
	<ul style="list-style-type: none"> Drivers' licence testing centres did not comply with minimum requirements of the legislation, despite recommendations made by the department. 	✓
	<ul style="list-style-type: none"> The written policies and procedures as well as delegations were not in place with regard to State Tender Board requirements. 	X
	<ul style="list-style-type: none"> Ineffective management of contracts by managers due to non-compliance with procurement policy resulted in fruitless and wasteful expenditure of R2,1 million. 	X
Water Affairs and Forestry	<ul style="list-style-type: none"> Accuracy of comparative figures could not be determined. 	X