



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

# **GENERAL REPORT**

OF THE

**AUDITOR-GENERAL**

ON

**AUDIT OUTCOMES FOR THE YEAR ENDED 31 MARCH 2002**

PUBLISHED BY AUTHORITY

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## FOREWORD

I have the pleasure to present my general report on audit outcomes for the financial year ended 31 March 2002. This report is a continuation of my improved overall transversal reporting to Parliament on financial management by national and provincial government. Furthermore, the critical issue of the timing of this report has also been addressed through its significantly earlier tabling. This allows for interested parties to take cognisance of the information whilst it is still current.

The information reflected in my report consists of audit reports issued on or before 31 August 2002. Overall there are some interesting trends and developments that are noted throughout the report. These include a reduction, for the first time in four years, of the number of unqualified reports issued in respect of national departments and their related entities. However, this cannot simply be explained as a deterioration in the financial control and management of entities. The analysis demonstrates that the qualifications and emphasis of matter previously recorded have by and large been eliminated. This indicates that the responsiveness to audit reports and the implementation of the Public Finance Management Act are in fact, in my opinion, showing an improvement in the underlying financial stewardship of the government departments and their related entities.

As discussed in the activity report for 2002, I have tried to establish the causes of the underlying problems that give rise to qualifications and emphasis of matter through focusing on the areas I refer to as audit flavours. From the analysis in part 1 of this report, I have highlighted specific concerns relating to asset management and the control environment that have arisen from the underlying audit reports. In the case of human resource management and capacity, I have endeavoured to link capacity issues with budget underspendings and qualifications. The preliminary analysis in part 1 of this report suggests that a connection does exist between these factors. It is my intention to look further into these issues in future general reports.

The report also gives a very broad perspective on provincial administrations in terms of the values and audit opinions. Health and education are the two largest areas of provincial expenditure and the audit opinions covering these two sectors are predominantly qualified. Overall provincial administrations seemed to be lagging behind their national counterparts in terms of the number of qualified audit opinions expressed.

The final section in part 1 deals with the major listed public entities and some of the concerns that I have in respect of progress in the public entity arena in general. One area of particular concern relates to the PFMA in respect of the auditing of performance information.

Part II of this report gives a comprehensive view of ministerial portfolios. In addition to last year I have included values for the entities as well as an overview of audit opinions on entities that are not audited by my office. I believe that these portfolio summaries are extremely useful and authoritative tools for the use of many stakeholders in government.



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My office is continually refining the general report as a tool for providing high-level strategic management information to legislatures and executive authorities. The following reports have contributed to this process:

- General Report for the Year Ended 31 March 2000 [RP75/2001], tabled on 18 June 2001;
- Report on Auditing and Financial Management Matters in the Public Sector [RP265/2002], tabled on 27 November 2001;
- General Report on Audit Outcomes for the Year Ended 31 March 2001 [RP58/2002], tabled in April 2002;
- Activity Report for the Financial Year 2001-2002 [RP211/2002], tabled on 21 October 2002.

I would like to express my appreciation to all contributors to this report, including my staff as well as other persons who provided inputs that ensured the completeness of information included.

S A Fakie  
Auditor-General  
Pretoria  
23/10/02



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# P A R T 1

## AUDIT OUTCOMES: GENERAL REPORT

### 1.1 Introduction and structure

This report's primary focus is to analyse information at national government level derived from the audits conducted by my office. The following is an outline of the structure of the report:

- The first section provides an explanation of the audit process that generates the underlying information forming the basis for the report on audit outcomes.
- The next section concentrates on the national departments and their related trading and other entities. It includes information on trends in the qualified audit opinions as well as matters emphasised.
- A new section then focuses on the audit flavours in relation to the national departments and their related entities.
- This is followed by a short section giving an overview of the audit outcomes of provincial government and the special reports issued during 2001-02. Please note that there is no reporting on local government due to timing differentials. A separate report specifically on the outcomes of local government auditing can be expected early next year.
- Finally a high-level review of the major public entities concludes part 1 of this report. It contains similar information to previous general reports and identifies some of the areas for concern.
- Part II provides the results of the audits of national government entities by means of portfolio summaries.
- Annexure A provides an overview of qualified audit opinions; annexure B summarises matters of emphasis; annexure C contains details on the various provinces and annexure D explains some audit terminology.

### 1.2 Explanation of the audit process

#### 1.2.1 Auditing standards

To facilitate compliance with auditing standards the office has developed a customised audit approach. Statements of generally accepted auditing standards referred to as South African Auditing Standards (SAAS) are applied in the auditing of financial statements. These are issued by the Auditing Standards Board of the Public Accountants' and Auditors' Board (PAAB) and include a public sector perspective which is based on those standards developed internationally to harmonise between SAAS and the INTOSAI standards issued by the International Organization of Supreme Audit Institutions. The office collaborates with PAAB and the South African Institute of Chartered Accountants (SAICA) regarding the public sector perspective on every statement of SAAS. Statements of SAAS contain the basic principles and essential procedures together with related guidance in the form of explanatory and other material. These statements are applied only to material matters.



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Essentially SAAS govern the standards and provide guidance on the format and content 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.

**1.2.2 Public sector perspective**

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 "scope of the audit" paragraph 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 for the information of legislators, government departments, other investors, the general public and others. Public sector audits conducted by the Auditor-General and then published, are mandated by law to become public documents.

**1.2.3 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 information being used, and upon which an audit opinion is being based. The level of assurance is usually determined by risks involved, the procedures the auditor uses and the results obtained.

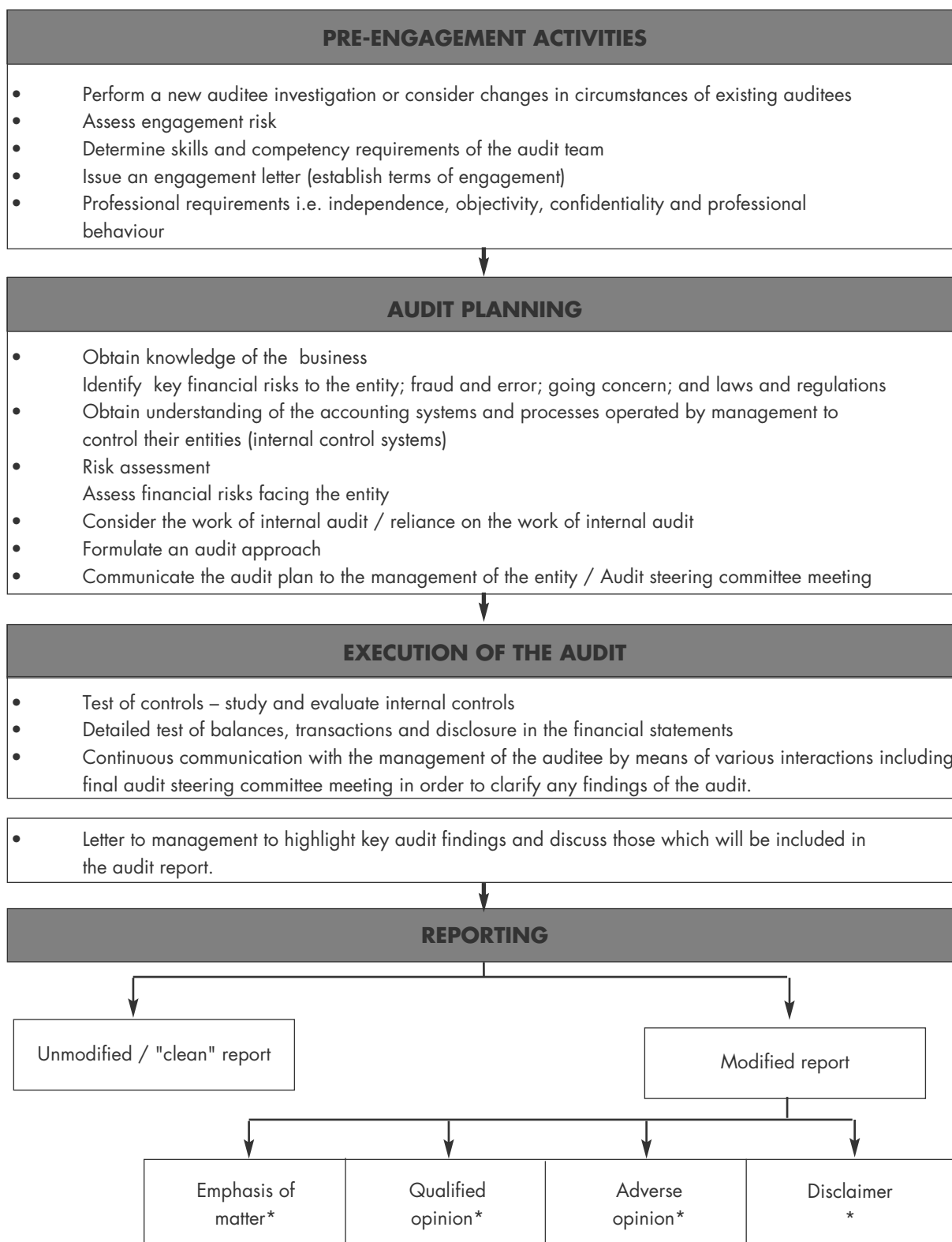
The quality of the audit is tested against the adherence to SAAS by an internal appraisal or quality assurance process, applicable until the report is delivered to the auditee and the public. In addition the Practice Review Department of the Public Accountants' and Auditors' Board performs an independent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

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



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**Figure 1. Steps in the audit process**



\* See table 1 below for an explanation of each type of audit opinion



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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 as in previous reports. 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 an emphasis of matter. The table below shows the different kinds of audit opinions in increasing order of severity.

**Table 1. Different kinds of audit opinions**

<b>Severity</b>	<b>Audit opinion</b>	<b>Explanation</b>
None	Unqualified audit opinion	Audit findings do not justify any further audit disclosure.
Least severe opinion	Unqualified audit opinion with emphasis of matter	To bring matters to the attention of the users of the financial statements which are not significant enough for the audit opinion to be qualified, or with regard to statutory reporting requirements.
Severe opinion	Qualified opinion	Except for matters highlighted under the qualification, the financial statements present a fair view.
More severe opinion	Adverse	An adverse opinion is expressed when the effect of a disagreement between the auditors and the auditee is so material, pervasive and/or fundamental to the financial statements that the auditor is not in agreement that the financial statements result in a fair presentation.
Most severe opinion	Disclaimer	An audit opinion is disclaimed when the possible effect of a limitation of scope of the audit work is so material, pervasive and fundamental that the auditor has not been able to obtain sufficient appropriate audit evidence, and accordingly is unable to express an opinion on the financial statements.



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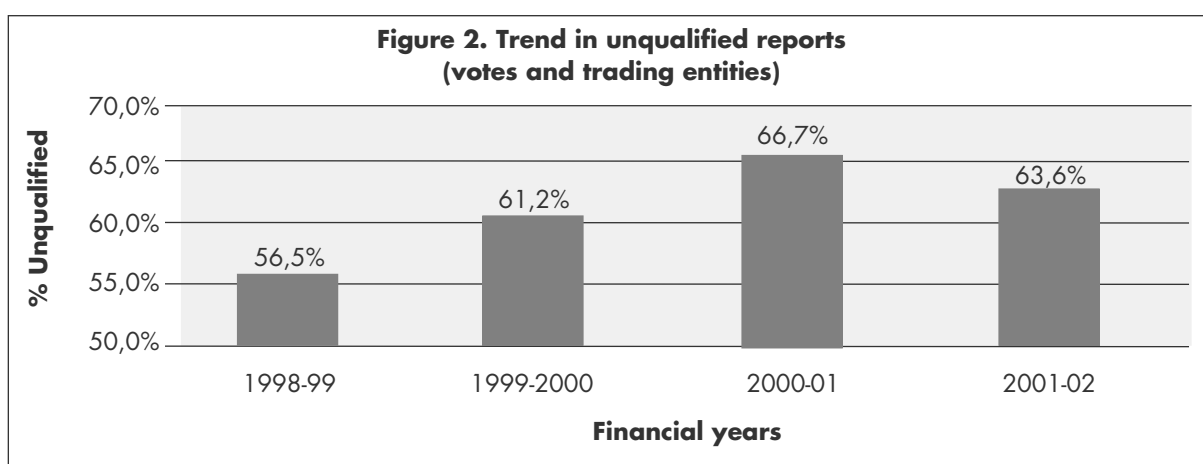
Effectively, two types of audit reports are issued, namely (a) a "clean" report and (b) a report that is not "clean". An audit report gives an audit opinion on the financial statements of an auditee. When the report is not "clean", one of four possible audit opinions is issued. As illustrated in table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

### 1.3 Summary of audit outcomes at national government entities

This section summarises the audit findings regarding the national government departments and their related entities. The summary does not include public entities, constitutional institutions or other statutory bodies. It is in line with the analysis for the previous years and therefore comparatives can be drawn. However, it is important to note that last year's information [report number RP58/2002] included information on compliance qualifications. As explained above, this information is no longer applicable due to the reanalysis of audit opinions by the Office of the Auditor-General to further harmonise the reporting process of the Auditor-General with international and national auditing standards.

Forty-six audit reports were due to be issued (46 for 2001-02) of which 33 are votes and 13 relate to trading or other entities. For the 2001-02 financial year the financial statements of the Department of Transport and the South African Management Development Institute had not been received by the cut-off date, 31 August 2002, for this report. For the previous financial year the Department of Transport and the South African Management Development Institute both received unqualified financial audit opinions. The only national department excluded from analysis for the previous year was Public Works, due to the late submission of financial statements.

The representation below shows the trend based on the audit reports for the previous four financial years.





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The actual entities to which the qualifications relate are listed below in the following tables with more details included in annexure A.

The results show an increase in qualified audit opinions in 2001-02 compared to 2000-01. The trend in previous years was for the number of unqualified opinions to increase. This reversal of the trend may not be symptomatic of increasing problems; however, it should alert government departments and their related entities to potential problems. It must also be stressed that the figures are merely quantitative and do not give an indication of underlying qualitative factors.

Furthermore, the increase in the number of qualified audit reports is not simply due to additional qualified reports in addition to those of previous years. The movement in the votes, for example, as demonstrated in table 2 below, shows the increase in votes qualified from the previous year as being more complex than the previous year, plus additional votes.

**Table 2. Qualified audit opinions on votes for 2001-02 and 2000-01**

Vote	2001-02	2000-01
Department of Communications		✓
Department of Correctional Services	✓	
Department of Education	✓	
Department of Health	✓	
Department of Home Affairs	✓	✓
Department of Justice and Constitutional Development	✓	✓
Department of Land Affairs		✓
Department of Minerals and Energy		✓
Department of Public Works	✓	✓
Statistics South Africa	✓	
Department of Water Affairs and Forestry	✓	✓
	<b>8</b>	<b>7</b>

The table demonstrates that although the number of qualified audit opinions has remained similar (8 qualifications for 2001-02 compared to 7 for 2000-01), the departments receiving the qualified audit opinions have changed significantly. Only four of the eleven departments listed have had recurring qualifications, which are:

Home Affairs;  
Justice and Constitutional Development;  
Public Works; and  
Water Affairs and Forestry.



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The reasons for qualifications, including the entities related to the departments, are summarised in table 4. The entries in the table relate to the number of issues raised. For example at the Department of Public Works, although there is only one opinion, it relates to a number of different issues each giving rise to an entry in the table. So although there are 38 entries listed, this relates to just 16 entities.

Although the total number of issues that gave rise to qualifications has risen to 38 in 2001-02 from 33 in 2000-01, a large number of these are attributable to the adverse opinions and disclaimers that include the Department of Public Works that was excluded from the analysis in 2000-01. Taking this into account there is actually a reduction in the number of issues year on year.

An interesting trend is the significant reduction in the modifications giving rise to a qualified audit opinion. These have fallen from 28 issues in 2000-01 to just 10 in 2001-02. Once again this seems to indicate that departments are addressing fundamental concerns; however, one cannot draw any qualitative conclusions. The remaining qualifications are summarised in a table later in this section.

**Table 3. Trading and other entities related to the departments included in the analysis below**

Entity	Responsible department	Audit opinion
Agricultural Credit Account	Agriculture	Qualified
Special Defence Account	Defence	Unqualified
Trading Account for Medical Stock	Defence	Unqualified
African Renaissance and International Fund	Foreign Affairs	Unqualified
Monies in Trust	Justice and Constitutional Development	Disclaimer
Government Printing Works	Home Affairs	Adverse
Directorate of Special Operations	Justice and Constitutional Development	Unqualified
Registration of Deeds Trading Account	Land Affairs	Qualified
Secret Services Account	Intelligence	Unqualified
Dissemination and Market Trading Entity	Statistics South Africa	Qualified
Water Trading Account	Water Affairs and Forestry	Adverse
Equipment Account	Water Affairs and Forestry	Adverse
Industrial Plantations Trading Account	Water Affairs and Forestry	Adverse



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Table 4. Areas giving rise to audit qualifications

	C – Qualifications "except for"										
	A	B	Liabilities and creditors	Assets, excl. cash and bank	Cash and bank	Debtors	Appropriations and other revenues	Expenditure	Trading accounts	Investments	Total frequency
Non-compliance with PFMA and regulations								1			1
Non-compliance with other legislation / regulations / rules		4							1		5
Misstatement	2	4						1	1		8
Unable to verify	7	4			1		2	1			15
Recovery doubtful	1	1				1					3
Control weaknesses	4	1	1								6
<b>Total frequency</b>	<b>14</b>	<b>14</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>2</b>	<b>0</b>	<b>38</b>
<b>Total # reported in previous year</b>	<b>2</b>	<b>3</b>	<b>3</b>	<b>1</b>	<b>1</b>	<b>7</b>	<b>5</b>	<b>5</b>	<b>6</b>	<b>0</b>	<b>33</b>



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Of the trading and other related entities, eight received qualified audit opinions in 2001-02. This represents 61,5% of the entities. It should therefore be noted that although these entities are not always as visible as the departments, they appear to be more prone to receiving qualified audit opinions.

In addition the severity of the qualifications should also be considered, with five of the eight entities receiving adverse opinions or disclaimers. Table 5 provides more detail in this regard.

### 1.3.1 Disclaimer/Adverse audit opinions

An audit opinion is disclaimed when the possible effect of a limitation of scope of the audit work is so material, pervasive and fundamental that the auditor has not been able to obtain sufficient appropriate audit evidence, and accordingly is unable to express an opinion on the financial statements.

An adverse audit opinion is expressed when the effect of a disagreement is so material, pervasive and/or fundamental to the financial statements that the auditor is not in agreement that the financial statements result in a fair presentation.

As can be seen from the analysis in table 4, approximately 74% of the issues giving rise to qualifications stems from the adverse opinions or disclaimers. The table below shows the adverse opinions and disclaimers of opinion and the criteria for each issue. More detail is provided in annexure A to this report. The table reflects that the severe audit opinions in most cases were based on several issues.

**Table 5. Disclaimer and adverse audit opinions**

Entity	Adverse opinion or disclaimer 2001-02	Reason for adverse opinion/disclaimer	Opinion in 2000-01	Issue raised in 2000-01
Department of Public Works	Disclaimer	Two cases relating to misstatement in the financial statements Five cases where the auditors were unable to verify balances or information One case where recovery of amounts was doubtful Three cases relating to control weaknesses within the organisation	Disclaimer	No  No  Yes  Yes in 2 of the 3 cases
Statistics South Africa	Disclaimer	Two cases where the auditors were unable to verify balances or information	Unqualified	No



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Entity	Adverse opinion or disclaimer	Reason for adverse opinion/disclaimer	Opinion in 2000-01	Issue raised in 2000-01
Justice and Constitutional Development – Monies in Trust	Disclaimer	One case of fundamental lack of controls	Disclaimer	Yes
Water Affairs and Forestry	Adverse	Two cases where the auditors were unable to verify balances or information One case relating to misstatement in the financial statements	Qualified	No No
Water Trading Account	Adverse	One case of non-compliance with rules and regulations One case relating to misstatement in the financial statements One case where the auditors were unable to verify balances or information	Adverse	Yes No No
Industrial Plantations Trading Account	Adverse	One case of non-compliance with rules and regulations One case relating to misstatement in the financial statements One case where the auditors were unable to verify balances or information	Adverse	Yes No No
Equipment Account	Adverse	One case of non-compliance with rules and regulations One case relating to misstatement in the financial statements	Adverse	Yes No
Government Printing Works	Adverse	One case of non-compliance with rules and regulations One case where recovery of amounts was doubtful One case relating to control weaknesses within the organisation	Qualified	No No No

### 1.3.2 Qualified audit opinions

A qualified audit opinion means that, except for matters highlighted under the qualification, the financial statements present a fair view.

As stated above the number of audit qualifications that are less severe than the ones listed above, has reduced dramatically as shown in table 4. Table 6 shows the qualifications with details of the issue and an indication as to whether the issue is new in 2001-02 or recurring from the previous year. Interestingly the vast majority of issues mentioned (approximately 77%) in 2001-02 are new. This again indicates that departments are working to resolve qualifications that they have been subject to in previous year(s).



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**Table 6. Issues giving rise to qualified audit opinions**

Entity	Issue	Issue raised in 2000-01
Justice and Constitutional Development	<ul style="list-style-type: none"> <li>• Existence of suspense accounts with balances amounting to R36 million that have been outstanding for more than one year.</li> <li>• Interface problems between the Reserve Bank and commercial banks causing unresolved differences in the PMG account.               <ul style="list-style-type: none"> <li>o The PMG adjustment account totals R24,2 million at year-end;</li> <li>o Payments totalling R15 million have been cleared by the bank but not processed through FMS; and</li> <li>o Duplicate entries totalling R46 million were included in the department's accounts with the commercial banks.</li> </ul> </li> </ul> <p>The effect of resolving these entries on the financial statements is uncertain.</p> <ul style="list-style-type: none"> <li>• Revenue of R5,6 million not recorded through the Financial Management System resulting in uncertainty regarding its allocation to the department.</li> </ul>	<p>Yes</p> <p>No</p> <p>No</p>
Education	<ul style="list-style-type: none"> <li>• Loans and interest from higher education institutions</li> </ul> <p>Various loans were made to eight higher education institutions during the 1960s and 1970s. The department could not provide evidence of the value of these loans or the outstanding capital portions of these long-term loans as at year-end, nor are they disclosed in the annual financial statements. The department indicated that it was researching the origin of these long-term loans and the documentation in which they are currently recorded.</p> <p>An amount of R5,3 million was received from eight higher education institutions, which related to the interest on these long-term loans. I was not able to confirm that the interest and capital received from higher education institutions were valid, accurate or complete due to the fact that the contracts for these loan agreements were not available.</p>	No



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Entity	Issue	Issue raised in 2000-01
Health	Stale warrant voucher amounting to R20 million issued in the previous financial year for the establishment of the South African National Aids Trust. At the date of the report the trust had not yet been established. This resulted in the overstatement of expenditure and the understatement of voted funds to be surrendered by R20 million.	No
Home Affairs	The accounting officer did not have a valid contract of employment.	No
Correctional Services	<ul style="list-style-type: none"> <li>Medical services (Medcor), R774 857 739</li> </ul> Under forensic investigation, various internal control deficiencies and non-compliance with the Medical Aid Scheme Act, 1998 (Act No. 131 of 1998) resulting in a limitation of scope.	No
Agricultural Credit Account	<ul style="list-style-type: none"> <li>Loans to farmers – securities and provision for bad debts: In many instances securities for outstanding loans were found to be inadequate to guarantee recovery of outstanding capital and interest. There were also uncertainties regarding the provision for bad debt. Due to uncertainties in estimating the ability of farmers to repay outstanding debts, it is not possible to reliably assess the adequacy of the department's provision for bad debts.</li> </ul>	Yes
Dissemination and Marketing Trading Account	<ul style="list-style-type: none"> <li>Non-compliance with PFMA and Treasury Regulation requirements to prepare financial statements in accordance with generally accepted accounting practice.</li> </ul>	Yes
Registration of Deeds Trading Account	<ul style="list-style-type: none"> <li>Recognition of revenue in financial statements</li> </ul> It was found that deeds were captured more than five days after execution and in some instances the delay between the execution and invoicing was found to be excessive. The Registration of Deeds Trading Account does not recognise the revenue relating to executed deeds until the invoices are issued, as this information is not available from the system in order to accrue for revenue correctly.	No



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### 1.3.3 Emphasis of matter

An audit report may also contain "emphasis of matter". This concept is used to draw attention to a matter that is considered important enough to be mentioned in the audit report, but does not warrant the qualification of the audit opinion.

The table below summarises the emphasis of matter found in the departments and the related entities analysed for the financial audit qualifications. Annexure B to this report provides a more detailed breakdown of each item with a brief explanation and indicates whether the item is recurring from the previous year or a new issue.

**Table 7. Emphasis of matter**

EMPHASIS OF MATTER	New matters	Matters previously reported	Total 2001-02	Total 2000-01
<b>Internal control over accounting and financial systems and processes</b>				
Appropriations and other revenue	2	3	5	5
Payment of expenses	7	5	12	12
Employment and related costs	7	5	12	11
Cash management	2	4	6	4
Asset management	2	13	15	19
Debtor management, suspense and advance accounts	4	2	6	4
IT environment				
Application controls	0	0	0	5
General IT control issues	6	3	9	7
Amalgamation with TBVC states and self-governing territories	0	1	1	2
Other	8	9	17	12
<b>Total frequency</b>	<b>38</b>	<b>45</b>	<b>83</b>	<b>77</b>
<b>Potential liability or loss to the state</b>				
Financial guarantees	0	0	0	3
Potential irrecoverability of loans, investments and debtors	4	2	6	18
Transfer payments	1	0	1	4
Theft, losses and irregularities	0	2	2	8
Other	2	0	2	0
<b>Total frequency</b>	<b>7</b>	<b>4</b>	<b>11</b>	<b>33</b>



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EMPHASIS OF MATTER	New matters	Matters previously reported	Total 2001-02	Total 2000-01
<b>Departures from financial requirements or other legislation</b>				
Unauthorised expenditure	6	0	6	7
Non-compliance with PFMA	9	14	23	45
Non-compliance with other legislation	1	3	4	7
<b>Total frequency</b>	<b>16</b>	<b>17</b>	<b>33</b>	<b>58</b>
<b>Overall total frequency</b>	<b>61</b>	<b>66</b>	<b>127</b>	<b>169</b>

There is a large decrease (25%) in the number of matters emphasised compared to the previous year. However, looking at the three broad classifications, it should be noted that the emphasis of internal control over accounting and financial systems and processes has actually increased from the prior year. This issue is explored further under the audit flavours. These are focus areas that I have brought to the attention of Parliament in earlier reports in order to look beyond the issues reported (the effects) and start analysing the root causes of the problems.

The two broad categories that have given rise to the large decrease are (i) potential liability or loss to the state and (ii) departures from financial requirements or other legislation. One area that accounts for the majority of the decrease is non-compliance with the Public Finance Management Act (Act No. 1 of 1999) (PFMA).

This is in part due to the fact that the legislation is still in its infancy and the departments are beginning to understand their duties and responsibilities in terms of it. In addition, as stated for the qualifications, it reflects that departments and their related entities are taking stock of the audit reports and trying to avert the recurrence of issues. As can be seen from table 7, only 66 of the matters emphasised in 2001-02 had previously been reported. Therefore, of the 169 matters previously raised, 103 or approximately 61% have been addressed.

#### 1.4 Audit flavours

In the *Report of the Auditor-General on Auditing and Financial Management Matters in the Public Sector* [RP 265/2001], I stated my intention to start examining in more detail areas that gave rise to problems experienced. The term assigned to these areas is known as audit flavours. The flavours discussed were:

- Control environment;
- Asset management;
- Procurement;
- Human resource management; and
- Capacity.



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The information from the previous section on qualifications and emphasis of matter will form the basis of this section along with some other preliminary analysis that has taken place during the course of 2001-02. It is our intention as published in my *Activity Report for the Financial Year 2001-02* [RP211/2002] to build on this type of reporting and start alerting stakeholders to forthcoming issues and the causes of the underlying qualifications and emphasis of matter.

Within the analysis of table 7 the first broad heading refers to internal control over accounting and financial systems and processes. These all generally refer to elements relating to internal control, asset management and procurement. They also represent the area where improvement is not clearly identifiable. This is an indication that the flavours selected are appropriate and should therefore undergo extra scrutiny.

A selection of information for highlighting the problems raised within the management reports is included below.

#### 1.4.1 Control environment

This is a broad area and encompasses a significant number of issues. In addition, the activity report [RP 211/2002] has a section on financial management that also has significant overlap with the control environment. It is envisaged that future general reports will report on the level of development of financial management systems within government. This will act as an indicator for the control environment and will allow for analysis to determine whether the situation is improving or deteriorating within each department.

The findings from the audit reports pertaining to the control environment occurred at the following entities:

**Table 8. Information technology control and application problems**

Entity	Comments – 2001-02 financial year	2000-01 financial year
Trade and Industry	A follow-up computer audit of the general controls revealed significant control weaknesses in the general control environment as a whole, including no formally approved information technology (IT) security policy, no formal program change control procedures, security violation report not being reviewed on a regular basis and insufficient segregation of duties.	×
Safety and Security	The department installed a computerised control system and compiled a register for official housing. This would be evaluated and reported on in the 2002-03 financial year.	✓
Safety and Security	The workshop accounting system had been installed at 44 of the 148 workshop sites. The time span for implementation was still an area of concern.	✓
Public Works	Significant control weaknesses were identified in respect of the logical access controls and security parameter settings within the information technology environment at the department.	✓
Government Communication and Information System	Weaknesses were identified in the logical access controls within the IT environment.	×



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Entity	Comments – 2001-02 financial year	2000-01 financial year
Government Printing Works	Inadequate utilisation of the financial system.	×
Foreign Affairs	A computer audit of the general controls of the department indicated that although some controls were in place in the general control environment, significant weaknesses existed in the control environment as a whole.	×
Correctional Services	Various weaknesses were identified relating to the general controls surrounding the Pharmaceutical System at Head Office, Pollsmoor and Johannesburg management areas.	×
Agriculture	A computer audit of general controls surrounding the Financial Management System, Personnel and Salary System and Debtors System found that some controls were in place, but significant control weaknesses existed on the whole.	×

✓ = also reported in 2000-01

×

#### 1.4.2 Asset management

Reporting specifically on asset management occurred at the 12 entities listed below. Furthermore, many of the issues had been reported in the previous year, therefore indicating that the problems were not easily rectifiable. The table below gives some information and background.

**Table 9. Asset management issues raised in audit reports**

Entity	Comments – 2001-02 financial year	2000-01 financial year
Industrial Plantations Trading Account	Disposal of government forests: With reference to paragraph 3.2 of the previous report, the Department of Public Enterprises had been instrumental in finalising the transfer of the category A commercial forestry operations to new entities. The sale proceeds receivable had been distributed to the Department of Public Enterprises.	✓
Trade and Industry	Shortcomings with regard to the control over assets specifically related to the asset register which was not complete and accurate.	✓
Safety and Security	Various deficiencies in respect of inventories at police stations and other units existed, including the lack of properly trained personnel to execute the relevant procedures and policies. The value of stock on hand in the provisioning stores amounted to R181,5m whilst the excess stock amounted to R145,9m which represented 44% of the total value of the provisioning stock. Accumulated shortages of R12,8m at the provisioning stores and R36,4m of the non-expendable (A-class) items had not been approved at the time of compiling this report.	✓
Safety and Security	Fuel and oil – various internal control deficiencies still existed.	✓



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Entity	Comments - 2001-02 financial year	2000-01 financial year
Safety and Security	Follow-up audits revealed that the shortcomings in the control over firearms remained. Firearms valued at approximately R2,4 million were reported as stolen/missing.	✓
Presidency	Asset registers were not accurate and complete due to a lack of reconciliation between the data on the basic accounting system (BAS) and the logistical information system (LOGIS).	✓
Government Communication and Information System	Asset registers were not accurate and complete. Annual stocktaking had not been finalised. Movements in assets were not being controlled adequately. No reconciliation was performed between the asset purchases and LOGIS and FMS.	✓
Justice and Constitutional Development	Poor management of assets had the result that asset and inventory registers were not updated; there were delays in processing disposals; assets were not marked as prescribed; annual stocktaking was not performed, leaving losses unaccounted for; adequate segregation of duties did not always occur and obsolete stock was not written off in terms of departmental financial instructions.	✓
National Treasury	Completeness and accuracy of the asset register could not be verified.	✓
Environmental Affairs and Tourism	The fixed asset register for computer hardware and software had not been maintained adequately.	×
Defence	Stores and equipment: Various serious control weaknesses were reported, e.g. recording and reconciliation of stock balances; access to, control over, storage of, and custody and care of assets; consolidating and reconciling the annual stocktaking certificates to determine the total stock on hand. Land and buildings: The information per the Department of Defence records did not correlate with the information received from the Department of Public Works.	✓
Correctional Services	Various matters relating to stock and equipment reported on for a number of years. Internal control weaknesses relating to control accounts and debtors.	✓
Correctional Services	Asset Procurement and Operating Partnership system: Insufficient controllers to monitor compliance with the contract. Vacant positions were not filled timeously.	✓
Agriculture	Furniture and equipment: Implementation of a proper system of internal control over furniture and equipment was still in progress. The process was envisaged to be finalised by March 2003.	✓

✓ = also reported in 2000-01

× = not reported in 2000-01



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Entity	Comments – 2001-02 financial year	2000-01 financial year
Registration of Deeds Trading Account	<p>Proper internal control mechanisms over assets in terms of 10.1 of the Treasury Regulations were not in place:</p> <ul style="list-style-type: none"> <li>Assets could not be traced from asset register to asset location due to assets not having barcodes or the asset register was not updated fully.</li> <li>Reconciliation between general ledger and asset register was not performed on a monthly basis. A comprehensive reconciliation of the updated fixed asset register / general ledger with physical assets still had to be completed for the Registration of Deeds Account.</li> </ul>	×

### 1.4.3 Human resource management and capacity

These two flavours have been combined for the purpose of this report. The analysis is a start in the process of identifying measures to evaluate the extent of problems in these areas. To analyse the issues it is important at this stage not to try and link these factors with performance. The qualifications and emphasis of matter are not concerned at this stage with performance but simply with the integrity of the underlying systems and the effectiveness of the controls in place.

Human resource management and capacity are often cited as the reasons for problems that are reported in audit reports. In order to be able to draw such conclusions, relationships have to be developed and tested. At this preliminary stage the following data has been extracted for purposes of comparison:

- Total expenditure of departments (including and excluding transfer payments) and the total personnel costs.
- The number of senior management positions (defined as director level and above).
- Vacancy rates amongst senior management.
- Underspendings on allocated budgets.

Although not all information for all departments could be obtained, ninety per cent of departments are included in the analysis.

#### (a) Total expenditure and personnel expenditure

The total expenditure of the government departments included in the analysis is R104 billion. Of this amount around R49 billion represents transfer payments. These are payments made to other organisations for them to pass on to third parties for the delivery of products and services. In essence, although controls are required over the terms and conditions of transfers, the primary responsibility rests with the organisation to whom the transfer is made. Therefore full control of expenditure excluding transfer payments can be used to assess the responsibilities of officials in national government departments. This amounts to around R55 billion. Of the R55 billion just over R30 billion comprises personnel costs. This represents 54% of the total expenditure excluding transfer payments.

Details of the individual departments and their expenditure and total personnel costs appear in annexure C. However, the top ten departments in terms of expenditure excluding transfer payments are listed in table 10 below.



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**Table 10. Top ten departments in terms of expenditure excluding transfer payments**

All amounts in the table below are in R million.

	<b>Net expenditure (excluding transfer payments)</b>	<b>Total expenditure</b>	<b>Transfer payments</b>	<b>Payroll expenditure</b>	<b>Proportion of payroll expenditure to total expenditure excluding transfer payments</b>
	<b>R million</b>	<b>R million</b>	<b>R million</b>	<b>R million</b>	
South African Police Service	17 673	17 673	0	13 666	77%
Defence	10 008	16 048	6 041	6 159	62%
Correctional Services	6 538	6 549	11	4 535	69%
Public Works	3 710	3 710	0	323	9%
Labour	3 112	3 974	863	259	8%
Justice	2 539	3 217	678	1 518	60%
Water Affairs	2 136	3 736	1 600	437	20%
National Treasury	1 921	10 387	8 466	94	5%
Foreign Affairs	1 906	2 025	119	1 050	55%
Home Affairs	1 016	1 120	104	479	47%

Although not included in the top ten, the Department of Education is clearly a significant entity. The reason for its omission from the above table is the fact that 96% of the expenditure of R8 177 million represents transfer payments (R7 846 million).

Personnel costs clearly represent a huge portion of the total national government budget, with the result that the utilisation and control thereof is an important element. Furthermore, obtaining good value for money from personnel is essential in terms of organisational control as well as improved performance of the organisation.

For overall personnel costs to deliver effectively in terms of controls and delivery of the core functions of departments, senior management (level of director and upwards) plays a vital role. Looking at the information obtained from the departments, senior management's responsibility has been analysed in terms of the average expenditure responsibility per senior management in different departments. Annexure C shows the full listing and a selection of the five highest and five lowest appears below. Overall on average a senior manager in government manages and controls approximately R22,6 million. However, this varies significantly from over R62 million at the Department of Public Works to R1,4 million at the Department of Public Service and Administration. Although there are clearly different roles and functions at different departments, the table enables some type of benchmarking.



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**Table 11. Average expenditure per senior management**

	<b>Net expenditure (excluding transfer payments) R million</b>	<b>Senior manage- ment posts</b>	<b>Proportion of payroll expenditure to total expenditure excluding transfer payments</b>
<b>Top five departments</b>			
Department of Public Works	3 709,9	59	62,9
Correctional Services	6 538,4	108	60,6
Labour	3 111,7	68	45,8
Home Affairs	1 015,5	34	29,9
South African Police Service	17 672,5	593	29,8
<b>Lowest five departments</b>			
Social Development	109,5	43	2,6
Independent Complaints Directorate	26,7	11	2,4
Presidency	99,0	49	2,0
Public Service Commission	52,7	37	1,4
Public Service and Administration	80,4	57	1,4

The table shows that the smaller departments tend to manage the smaller amounts. However, the five departments with the highest senior management expenditure responsibility include four of the five top departments from table 10 with the inclusion of Home Affairs. Although it is difficult to draw any conclusions from the information it does provide some opportunity for benchmarking.

One issue that should also be taken into consideration is that the senior management posts referred to in table 12 (2497 posts for all the departments included in the analysis) are based on the assumption that there is a full complement of senior officials in national government departments. Information from annual reports of government departments suggests this is far from the real situation. In total across the 2 497 posts at 31 March 2002 there were 380 or 15,22% vacancies. This is of particular concern and severely limits the ability of government departments to discharge their responsibilities in terms of service delivery effectively.

Table 12 below shows the departments with vacancy rates over 20% and identifies whether qualifications and/or large underspendings have occurred at the departments.



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**Table 12. Characteristics of the departments with the highest vacancy rates**

	Senior management posts	Number of vacancies	Vacancy rates	Qualified	Significant under-spending
Social Development	43	18	41,86%		
Agriculture	53	20	37,74%		✓
Independent Complaints Directorate	11	3	27,27%		
Education	68	18	26,47%	✓	✓
Communications	54	13	24,07%		
Home Affairs	34	8	23,53%	✓	
Public Service and Administration	57	13	22,81%		
Defence	367	83	23,00%		
Public Enterprises	31	7	22,58%		✓
Trade and Industry	111	25	22,52%		✓
Public Works	59	12	20,34%	✓	
Land Affairs	90	18	20,00%		

The table shows that in 50% of cases either a significant underspending or a qualification occurred at these departments. In the case of Education both a qualification and a large underspending occurred. This does demonstrate that capacity constraints in terms of high vacancy rates can result in other problems.

The significant underspending of the departments in table 12 represents 50% of the overall underspending of national departments' allocations for 2001-02. (Please note that Foreign Affairs capacity figures were not obtained for this analysis.) Table 13 below shows the most significant underspending by departments. The total amount of funds unutilised for 2001-02 was R724,56 million compared to R1 432,75 million for 2000-01. This represents a significant improvement year on year.

**Table 13. Significant underspending by the largest departments**

Department	Amount not utilised in 2001-02 R million
Trade and Industry	194,0
Foreign Affairs (not obtained for analysis of capacity)	129,4
Public Enterprises	97,2
National Treasury	96,0
Housing	52,7
Education	34,8
Correctional Services	32,3
Labour	21,1
Agriculture	15,2
Transport (not obtained for analysis of capacity)	11,7
<b>Total</b>	<b>684,3</b>



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The amounts in table 13 represent 94,4% of total unutilised funds. In addition the Reconstruction and Development Programme Fund also shows unappropriated funds of R997,3 million. This gives an overall total of over R1,7 billion of unutilised funds.

### 1.5 Provincial government

#### 1.5.1 Introduction

It is important to relate the comparative position of the financial statements of the provinces with the magnitude of the service sectors in our country. Furthermore, an overview of the education and health sectors, an analysis of financial management, and an analysis of transversal audit findings at provincial housing departments, are summarised from the audit work reported on in 2001-02, as the first step towards audit reporting by sector.

#### 1.5.2 Votes per province: Audit opinions and expenditure

Table 14 provides a summary of some financial data per province and the audit opinions on votes for the last two years.

**Table 14. Total value of expenditure and audit opinions on votes per province**

Province	Expenditure	Budget	(Over)/Un- derspending	2001-02 qualified audit opinion	2000-01 qualified audit opinion	Total number of votes 2001-02
	R million	R million	R million			
Eastern Cape	19 596,36	22 024,92	2 428,56	13	14	13
Free State	8 317,37	8 711,34	393,97	2	4	12
Gauteng	20 298,55	20 542,60	244,05	6	11	13
KwaZulu-Natal	25 591,17	25 081,57	(509,60)	5	10	16
Limpopo	15 281,99	15 582,75	300,76	12	12	12
Mpumalanga	8 468,82	9 053,87	585,05	2	13	12
Northern Cape	2 917,44	2 979,41	61,97	13	12	13
North West	9 902,32	10 054,60	152,29	6	9	13
Western Cape	12 506,31	12 783,13	276,82	3	3	10
<b>Total</b>	<b>122 880,33</b>	<b>126 814,20</b>	<b>3 933,87</b>	<b>62</b>	<b>88</b>	<b>114</b> <b>(117 for</b> <b>2000-01)</b>

Overall, the number of qualified audit opinions has been reduced from 88 in 2000-01 to 62 in 2001-02. The percentage of unqualified votes is 46% compared to 25% for 2000-01. This represents a significant improvement by number.



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### 1.5.3 Significant sectors

Overall the two significant sectors that were focused on at this stage, were education and health. These represent just over 69% of the total provincial expenditure. Tables 15 and 16 provide further information on the education and health votes by province.

**Table 15. Education votes and related audit opinions in provinces**

Province	Expenditure	Budget	(Over)/Under-spending	2001-02 audit opinion	2000-01 audit opinion
	R million	R million	R million		
Eastern Cape	7 865,6	8 118,9	253,3	Q	Q
Free State	3 173,9	3 382,2	208,3	U	U
Gauteng	7 268,5	7 507,0	238,5	Q	Q
KwaZulu-Natal	9 270,7	9 346,6	75,9	Q	Q
Limpopo	6 330,7	6 340,9	10,2	Q	Q
Mpumalanga	3 330,9	3 346,9	16,0	U	Q
Northern Cape	1 021,8	1 028,4	6,6	Q	Q
North West	3 972,1	4 029,5	57,4	Q	Q
Western Cape	4 273,2	4 339,2	66,0	Q	U
<b>Total</b>	<b>46 507,4</b>	<b>47 439,6</b>	<b>932,2</b>		

Note: Q denotes a qualified audit opinion and U denotes an unqualified audit opinion.

The total provincial expenditure on education for 2001-02 amounted to just over R46 billion. This amounts to almost 98% of the total provincial education budgets. However, due to the size of the education budget and expenditure, the underspending of 2% amounts to approximately R932,2 million of unspent provincial funds. Another issue that has to be highlighted is that the vast majority of the audit opinions on votes relating to education are also qualified. In both years 7 of the 9 provincial education votes received qualified audit opinions.

**Table 16. Health votes and related audit opinions in provinces**

Province	Expenditure	Budget	(Over)/Under-spending	2001-02 audit opinion	2000-01 audit opinion
	R million	R million	R million		
Eastern Cape	4 221,4	3 892,5	(328,9)	Q	Q
Free State	2 039,7	1 970,5	(69,2)	U	Q
Gauteng	6 837,6	6 771,4	(66,2)	Q	Q
KwaZulu-Natal	7 033,0	6 743,7	(289,3)	Q	Q
Limpopo	2 663,5	2 718,9	55,4	Q	Q
Mpumalanga	1 456,6	1 542,3	85,7	U	Q
Northern Cape	517,4	509,0	(8,4)	Q	Q
North West	1 699,0	1 734,8	35,8	Q	Q
Western Cape	3 581,0	3 578,8	(2,2)	U	U
<b>Total</b>	<b>30 049,2</b>	<b>29 461,9</b>	<b>(587,3)</b>		

Note: Q denotes a qualified audit opinion and U denotes an unqualified audit opinion.



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The total provincial expenditure on health for 2001-02 amounted to just over R30 billion (102% of the total provincial health budget). However, due to the large amounts this still represents approximately R587 million of overspent provincial funds. Another issue that has to be highlighted is that the majority of the audit opinions on the votes relating to health are also qualified. In the nine provinces, eight and six provincial health votes received qualified audit opinions in 2000-01 and 2001-02 respectively.

### **1.5.4 Overview of provincial votes**

The provinces with the highest incidence of qualified audit opinions are Limpopo, the Northern Cape and the Eastern Cape where all 2001-02 audits received qualified audit opinions. A significant improvement was evident at Mpumalanga where only 2 qualified audit opinions were issued for 2001-02 in contrast to 13 in 2000-01. In addition, improvements were also significant in the Free State, Gauteng, KwaZulu-Natal and North West provinces.

Tables 18 to 26 in annexure C provide more details in this regard.

### **1.5.5 Transversal audit outcomes on financial management in provincial government**

In my *Report on Financial Management at Provincial Administrations* [RP 86/2001] I examined the performance of provincial administrations in terms of financial management. The provinces covered in the performance audits were:

Northern Province (now Limpopo)  
North West  
Mpumalanga  
Gauteng  
Eastern Cape

The findings are summarised below:

The key policies, practices and control framework necessary for proper financial management had not been established in the five provinces that were audited. Weaknesses existed in the budgeting processes. Budgets did not always make provision for all the known expenditure, which contributed to overexpenditure. Furthermore, budgets did not reflect the strategy, goals, needs and objectives of the national government and/or the provinces.

The staff responsible for financial management did not always have the required knowledge and skills to perform their work. Although one of the provinces (Limpopo) had excess staff, vacancies hampered the execution of the work at most of the other provincial administrations.

Provinces did not collect all the income due to them, and a number of motor vehicle registering authorities did not pay the licence fees collected on their behalf over to the provinces concerned. Furthermore, income was lost as not all motor vehicles were licensed. Patient fees were materially under-collected at certain hospitals. Tariffs for patient fees as well as licences were neither consistent nor reviewed timeously. The collection of gaming income was also not always effective.



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Cash flow was not managed effectively and optimal interest was not always earned on surplus funds. One of the provinces had an account at two different banks and, as transfers were not always made at the correct times, interest had to be paid.

The management information systems utilised by the various provincial administrations were not always accurate, and in some cases consultants were used at high costs to assist with reconciliations and to follow up differences. The Early Warning System that was implemented to monitor the expenditure patterns of the provincial administrations did not always provide the correct information as it differed from the information on the provincial information systems. Suspense accounts were not cleared regularly, and the balances of such accounts escalated continuously.

The suggested corrective measures emphasised the need to revise the total budgeting process, to take proactive measures to fill vacant posts with skilled and qualified staff while improving the skills of existing staff, to improve income collection and management information.

Notwithstanding the fact that the Accountant-General is not directly accountable for the financial management at provincial administrations, the findings in this report were submitted to him for his information and comments as he is a major role player in effecting improvements. In his comments he indicated that the National Treasury agreed with the findings that fall within its ambit and further indicated that it was continuously involved in providing accounting and operational support services in the provinces.

### **1.5.6 Transversal audit outcomes from audits conducted at provincial Departments of Housing**

The audits were conducted at eight of the nine provincial Departments of Housing and focused on the administration of low-cost housing. The summarised findings included a number of measures of importance for improvement. The following are some of the findings:

Ownership of land belonging to the South African Development Trust as well as land belonging to the former self-governing territories in the provinces has been vested with the Minister of Agriculture and Land Affairs. The minister therefore has to be requested to transfer specific areas of land to the provinces. However, the provinces do not have the legislative authority to further dispose of the land. Therefore, land cannot be transferred directly from the provinces to persons qualifying for low-cost housing.

There were inadequate criteria for the selection of housing projects that would have the greatest impact on a socio-economic basis. This resulted in some projects being situated far from established townships and job opportunities and 1 627 housing units at projects had to be relocated.

It was not always ensured that those beneficiaries that had been identified by the developers were in fact interested in low-cost housing, understood what was being offered to them or knew what their responsibilities were. This impacted negatively on the outcome of projects due to a low occupancy rate. For example, in one province approximately 1 000 low-cost houses to the value of R17,25 million were completed but unoccupied. This resulted in the houses being subject to vandalism.



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Inspections at projects were not executed timeously as a result of inspectors having too many projects to attend to as well as not having vehicles allocated to them. This resulted in work of an inferior quality not being identified timeously, and payment for top structures being made before completion. For example, progress payments to the amount of approximately R1 1,4 million were made in cases where the top structures had not been completed.

Inadequate financial control over payments made to developers resulted in, *inter alia*, payments being made in advance or overpayments being made as well as reconciliations being ineffective. Approximately R4,36 million had been erroneously paid in advance at two projects in a province as a result of the withdrawal of applications as well as ineffective reconciliations. Overpayments to the value of R3,5 million were made at 11 projects in another province due to ineffective reconciliations in respect of payments to conveyancers and developers. A developer in a third province was erroneously paid an amount of R3,2 million for three progress payments due to the provincial Department of Housing not having indicated that 534 erven had already been serviced by the National Housing Commission.

Projects were approved for development on land that was not always suitable for low-cost housing. Furthermore, the validity of geo-technical claims was not verified throughout the construction process. Houses amounting to R7,7 million had been built on a flood plain. This resulted in some houses being flooded when it rained, indicating that a proper geological evaluation of the area had not been done.

Conveyancers were not always effectively monitored or inspected. This resulted in, *inter alia*, unauthorised payments being made to conveyancers, erroneous payments being made as well as the non-withdrawal of trust accounts and the payment of interest on call accounts. According to statistics provided by a provincial Department of Housing on 24 February 1998, an amount of R200 million was approved and paid to conveyancers. The monthly reconciliations submitted to the said department reflected that R101 million had been held by conveyancers for longer than six months as at 28 February 1998, and had not yet been paid over to developers.

In accordance with the principles of cooperative relationships with stakeholders, the audit findings were discussed with the Director-General of the national Department of Housing. Some of the corrective measures implemented by the Director-General included, *inter alia*, the fast-tracking of land transfer certificates, the amendment of the progress payment system to ensure that payments would only be made after certain milestones were achieved, and the issuing of new guidelines to provinces. Furthermore, a new procurement policy has been introduced and a comprehensive capacity-building initiative implemented for provincial and local government officials.

## 1.6 Schedule 2 listed public entities (major public entities)

### 1.6.1 Introduction

Although these entities are included within the relevant portfolio summary in the next section of this report, they are sufficiently important as the "flagship public entities" to discuss some specific issues relating to them. Below is an outline of my responsibilities and an analysis to highlight areas of concern and development that may also be indicative for other smaller public entities.



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With reference to my previous general report [RP58/2002] the Auditor-General has three distinct external functions with regard to listed public entities:

- An audit function where the Auditor-General is appointed in terms of legislation;
- A supervisory audit function, including statutory administrative work, where the audit is performed by a person registered in terms of section 15 of the Public Accountants' and Auditors' Act;
- A special investigation/transversal investigation and reporting function.

Legislation categorises public entities into four groups, namely:

- Municipal entities in terms of the Municipal Finance Management Bill, defined but not listed;
- Schedule 2 PFMA major national public entities;
- Schedule 3 PFMA national and provincial public entities;
- Unlisted national and provincial entities that are not subject to the PFMA.

Public entities include government business enterprises, which are under ownership control of government and are included in the consolidated financial statements of government. They are therefore accounted for differently from other entities.

This report deals only with the second of the above-mentioned functions with regard to schedule 2 PFMA major national public entities, except where otherwise indicated. The first function is dealt with in the portfolio summaries of the report. Municipal entities can only be dealt with once the legislative framework is in place. The other categories of entities will be dealt with as far as possible on a portfolio basis.

### **1.6.2 Mandate of the Auditor-General**

As reported in the previous year's report, various difficulties are being experienced regarding the mandate of the Auditor-General with regard to all the above-mentioned categories of entities, and clarity could to date not be provided by legal advisers, including State Law Advisers, due to incongruities in the various pieces of legislation.

Amongst others, the mandate of the Auditor-General with regard to entities that are also companies is in dispute due to the way in which the Companies Act, the Public Accountants' and Auditors' Act and section 188(2) of the Constitution are worded, except where legislation specifically states that the Auditor-General must be the auditor. The application is similarly inconsistent in the case of other entities where the legislation is not specific. The funding of the mandate of the Auditor-General as provided for in section 188(2) of the Constitution has not been clarified, leading to differences of interpretation.

### **1.6.3 Timeous reporting: Submission of financial statements and audit reports to the Auditor-General**

Four of the fifteen entities listed in schedule 2 of the PFMA that were audited by private audit firms have a financial year-end other than 31 March. In the previous general report it was indicated that these four entities need to submit annual reports, financial statements and audit reports to the Auditor-General in terms of section 55(1)(d) of the PFMA after 31 August 2001.



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Submitted timeously – 53%  
Submitted late – 33%  
Not submitted by report date – 13%

In the previous year 53% of entities submitted timeously, 7% submitted late, 27% needed only to submit after 31 August 2001 and 13% did not submit at the report date.

The following entities that have not submitted the required information by the report date, have not provided reasons for their non-compliance:

- Alexcor Ltd
- CEF (Pty) Ltd (consolidated statements)
- Transnet

#### **1.6.4 Tabling of annual reports, financial statements and audit reports in the National Assembly**

The annual reports, financial statements and audit reports of only six of the above-mentioned fifteen public entities were tabled in the National Assembly within six months of the respective year-end. Reporting to Parliament within a specified time scale is essential for effective accountability.

#### **1.6.5 Auditing of performance information**

The PFMA requires public entities to report on their performance against predetermined objectives. Section 61 (1) (b) states that, if required by the Auditor-General, the report of the external auditor must state separately whether in the auditor's opinion, the performance information furnished is fair in all material respects and, if applicable, on a basis consistent with that of the preceding year. In the past, I have exercised this discretion in respect of entities previously listed in the Reporting by Public Entities Act.

My office and SAICA are currently researching the audit of performance information and the auditor's report thereon. Issues being researched include:

- The criteria / standards / benchmarks against which the performance information should be audited.
- The level of audit assurance that should be expressed. I am concerned that the auditor expresses an opinion on the appropriateness and relevance of the performance measures themselves. Such measures could rather be part of the pre-determined objectives, and form part of the basis/criteria against which the auditor audits the performance information.
- Whether financial and non-financial information should be presented separately in the annual report (i.e. the likelihood that performance information be excluded from the financial statements but still be subject to audit).
- Whether separate audit reports on financial statements and performance information should be issued.



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It is expected that the National Treasury will issue guidance to public entities on reporting on performance. Should this guidance be in place for the 2002-03 year, it is suggested that for the 2002-03 reporting cycle, auditors perform a high-level review of the compliance by public entities with such guidance to enable a paragraph to be included in a future general report on the status of compliance with the guidance issued by the National Treasury. It should be reiterated that authoritative guidance on performance reporting is needed before a proper audit of the performance report can be conducted.

It is envisaged that in future reporting cycles, performance information furnished by national and provincial departments, all public entities and local governments would be subject to audit, with specific audit assurance to be expressed.

This suggested way forward would:

- Facilitate the alignment of the legal requirements for the auditing of performance information in various pieces of legislation and draft legislation across all spheres of government prior to audit assurance being provided;
- Provide an opportunity to the National Treasury to issue guidance that could be used as criteria against which the performance information could be examined for audit purposes;
- Provide an opportunity to ensure consistency in the format of audit reports across all spheres of government (whether performance information is audited by the Auditor-General or external auditors).

### **1.6.6 Appointment of auditors: Consultation with the Auditor-General**

Section 58(3) of the PFMA provides for consultation with the Auditor-General on the appointment of an auditor of a listed public entity. These appointments are considered against criteria that include the level of non-audit services provided by the audit firm, transformation and proper corporate governance structures.

Telkom SA Limited, its subsidiaries and any entities under its ownership and control have been exempted from section 58(3) of the PFMA in terms of Government Notice No. 1097 published in the Government Gazette No. 22801.

Eight of the remaining fourteen entities listed in schedule 2 have complied with section 58 (3) of the PFMA, one did not comply and five are in the process of consulting with my office. In the previous year eleven entities complied with section 58(3) of the PFMA and four did not.



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### 1.6.7 Non-audit services by auditors

Discussions held with several entities during the year indicated a change in the emphasis on the independence of external auditors since the issue has received heightened publicity over events in the United States. This scrutiny of independence is most welcome. Nonetheless, instances of non-audit services being provided by external auditors of public entities still occur, and audit committees and other governance bodies should monitor this closely. Clarity also needs to be provided by government regarding the enforceability of these and other corporate governance issues raised in the case of public entities. I have been pleased to note that the Minister of Finance has initiated a review committee to review the draft Accounting Profession Act and I am looking forward to the outcomes of this process which will ensure that South Africa stays in line with international practices

### 1.6.8 Other matters

- Restructuring of state-owned enterprises  
The Department of Public Enterprises was requested to provide feedback on progress with the implementation of government's accelerated agenda for the restructuring of state-owned enterprises, and on the results achieved. This feedback was still outstanding at the date of writing this report.
- Accounting treatment for small listed public entities  
In my previous general report for the year ended 31 March 2000 [RP75/2001], reference was made to the implementation of gaap. It was stated in the report that the prescribed accounting practice for public entities in terms of chapter six of the PFMA is referred to in a way, which could be construed to mean gaap (accounting practices developed in practice or by specific groups in the industry) as opposed to GAAP (Statements of Generally Accepted Accounting Practice issued by the Accounting Practice Board). The report stated that there were significant technical differences between gaap and GAAP, which could influence the way in which users of financial statements understood the statements.

In September 1999, the South African Institute of Chartered Accountants (SAICA) obtained a legal opinion on the interpretation of paragraph 5 of schedule 4 of the Companies Act.

According to this opinion, in order for directors to meet the requirements of the Companies Act, the financial statements should be prepared and presented in accordance with generally accepted accounting practice (gaap). If these statements, however, materially depart from statements of GAAP, the financial statements should provide disclosure of the departure, the particulars thereof, the reasons therefor and the effect of such a departure on the financial statements.

The National Treasury informed my office that paragraph 28.1.6 of the Treasury Regulations of 2002 embodies the concepts of the aforementioned legal opinion so as to obviate any confusion that may arise with the technical differences between statements of GAAP and gaap.

- Lack of capacity  
The National Treasury informed my office that good progress had been made with the restructuring of the various divisions within the National Treasury including that of a proper



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Registrar of Public Entities. Structures and establishments have been finalised and approved by the Minister of Finance. The process of developing job descriptions, conducting job evaluations and performing the recruitment exercise is, however, still in progress. Delays are expected in the recruitment process, largely due to the Department of Public Service and Administration's recent moratorium on the filling of vacancies with external candidates. It is difficult to fulfil my responsibilities in the absence of a fully-fledged Registrar of Public Entities and/or comprehensive database of listed and unlisted public entities.

### **1.6.9 General**

The National Treasury recently conducted a survey to establish the progress made by departments and public entities with the implementation of the PFMA. The results of the survey revealed that compliance by public entities under the control of national departments appeared to be a matter of concern. The results of the survey were reported to Cabinet on 26 June 2002 and to the Standing Committee on Public Accounts on 19 June 2002.



AUDITOR - GENERAL

# PART II

## AUDIT OUTCOMES: NATIONAL GOVERNMENT BY MINISTERIAL PORTFOLIO

The portfolio summaries are a mechanism for identifying all entities under the responsibility of each ministerial portfolio. This year's portfolio summary contains more entities than the previous year as the summaries become more and more comprehensive. This is with the cooperation of, amongst others, auditors outside the Office of the Auditor-General. When examining information in the portfolio summary it is important to take note of the factors in the table below that explain some of the conventions and interpretations of information.

**Table 17. Issues to be considered when examining the portfolio summaries**

Issue	Explanation
Entities listed within each summary	The entities listed should represent all the entities related to the ministerial portfolio. Areas requiring clarity and uncertainty reported in the 2000-01 General Report [RP58/2002] have as far as possible been resolved.
Cut-off date for information	All audit reports tabled on or before 31 August have been included in the summary. The remainder are listed but no information is included with regard to qualifications or values.
R1 million test	In general, due to the values involved in the summary, all issues (particularly regarding the detailed explanations) under R1 million have been excluded from the summaries (except for qualifications).
Paragraph included in the portfolio summary	Within the tables for the entities audited by the Auditor-General there is a column stating whether the paragraph is included in the portfolio summary. If a yes is included in the column, then more detail is given beneath the table in relation to the audit outcomes for that entity.
Asset figures	The figures for assets of national departments are not measured on the same basis as for public entities. This is due to the cash accounting basis for certain types of assets in government. Therefore the figures for expenditure may include elements that would be classified as assets for public entities.  This situation will be remedied through the introduction of full accrual accounting under the PFMA.
Audits not conducted by the Auditor-General	The portfolio summary includes for the first time a table showing the audit opinions on the entities not audited by the Office of the Auditor-General. However, no further detail is provided in the detailed descriptions following the tables. This is due to time constraints and will be considered for inclusion in future general reports.



AUDITOR - GENERAL

## 2.1 Minister of Agriculture and Land Affairs

The aim of the Department of Agriculture is to lead agricultural development for economic growth and social development in South Africa and play a constructive role in agricultural development in Africa, providing national level leadership, national regulatory and coordination services, agricultural risk management, and support to targeted services.

The aim of the Department of Land Affairs is to create an equitable and sustainable land dispensation that promotes social and economic development.

ENTITIES IN PORTFOLIO AUDITED BY THE OFFICE OF THE AUDITOR-GENERAL										
Entities in portfolio	Date of submitting financial statements	Date of audit report	Audit opinion			Matters emphasised	Paragraph included in the portfolio summary	R million		
			u	q	d/a			Assets	Income	Expenditure
<i>Departments</i>										
Agriculture	28/05/02	29/07/02	✓			Yes	Yes	135,4	967,6	871,6
Transfer payments										403,0
Land Affairs	31/05/02	12/08/02	✓			Yes	Yes	116,8	1 104,3	977,3
Transfer payments										558,4
<i>Public entities</i>										
Land and Agricultural Bank of South Africa	28/02/02 Note 1	31/05/02	✓			Yes	Yes	18 352,3	2 259,2	1 915,2
Agricultural Research Council (ARC)	31/05/02	31/07/02	✓			Yes	Yes	526,8	535,0	556,4
National Agricultural Marketing Council	31/05/02	31/07/02	✓			Yes	Yes	4,9	7,6	8,6
Bala Farms (Pty) Ltd	03/05/02	10/05/02	✓			Yes	Yes	16,0	1,3	2,2
Ingonyama Trust Board	31/05/02	29/07/02			d	Yes	Yes	504,0	12,1	0,4
<i>Other entities</i>										
Agricultural Credit Account	28/05/02	29/07/02		✓		No	Yes	1 657,3	78,3	19,2
Registration of Deeds Trading Account	31/05/02	12/08/02		✓		Yes	Yes	155,9	216,9	174,4

**Note 1:** Financial year-end is 31 December 2001



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ENTITIES IN PORTFOLIO NOT AUDITED BY THE OFFICE OF THE AUDITOR-GENERAL								
Entities in portfolio	Date of submitting financial statements	Date of audit report	Audit opinion			R million		
			u	q	d/a	Assets	Income	Expenditure
<i>Public entities</i>								
Onderstepoort Biological Products Limited	30/05/02 (Prepared by the auditors)	30/05/02	✓			81,6	55,6	44,3
Ncera Farms (Pty) Ltd	13/05/02	24/05/02		✓		2,0	2,4	2,6
Inala Farms (Pty) Ltd	30/04/02	05/07/02		✓		29,5	1,8	1,8

u = unqualified audit opinion

q = audit opinion qualified

d/a = audit opinion disclaimed or adverse opinion expressed

**Department: Agriculture**

**Matters emphasised**

Matters reported in the current and previous years

- Furniture and equipment: Implementation of a proper system of internal control over furniture and equipment was still in progress. Process envisaged to be finalised by March 2003.

Matters reported for the first time

- Computer audit of general controls surrounding Financial Management System, Personnel and Salary System and Debtors System: Some controls were in place, but on the whole, significant control weaknesses existed.

**Department: Land Affairs**

**Matters emphasised**

Matters reported in the current and previous years

- Debtors age analysis  
An amount of R1,2 million had been outstanding for more than two years. The recoverability was doubtful, as the follow-up was not done regularly.
- Internal audit  
The internal audit was not functioning properly and effectively in terms of paragraph 3.2 of Treasury Regulations.



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Matters reported for the first time

- Prepayment and advances
  - R30,2 million payments made to regional and local authorities could not be substantiated.
  - R3,4 million already expensed by the authorities was still in transit and therefore incorrectly reflected in the department's books.

**Public entity: Land and Agricultural Bank of South Africa**

**Matters emphasised**

Matters reported in the current and previous years

- Implementation of PeopleSoft computer system was an ongoing process and significant shortcomings remained. A new banking solution was being re-assessed to replace current banking loan module, which would result in possible fruitless and wasteful expenditure (currently investigated by management).
- Loans under section 34 of the Land Bank Act of R10,9 million were under-secured. However, certain procedures were being implemented to obtain alternative forms of security or to renew securities.

Matters reported for the first time

- Accounts receivable reconciliation: Reconciling items reflected on reconciliation between accounts receivable sub-system and account per general ledger were not matched and removed from reconciliation once they had been addressed.

**Public entity: Agricultural Research Council (ARC)**

**Matters emphasised**

Unresolved matters reported also reported on in the previous years

- Weaknesses in internal controls identified:
  - Management of debtors
  - Revenue recognition and control to ensure completeness of revenue
  - Timely reconciliation of control accounts
  - Information Management System security and computer control in general.
- Material uncertainty existed about going concern assumption, because the ARC was unable to set aside adequate funds to replace research facilities and make post-retirement employee benefit provisions, insurance reserves were not covered by cash and the ARC was dependent on financial support from Parliament.



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**Public entity: National Agricultural Marketing Council**

**Matters emphasised**

Matters reported for the first time

- Approval had been requested from the National Treasury to retain accumulated surplus funds. However, it was uncertain whether approval would be granted. If not approved, accumulated surplus funds would have to be repaid to the National Revenue Fund.

**Public entity: Bala Farms (Pty) Ltd**

**Matters emphasised**

Unresolved matters reported also reported on in the previous years

- Going concern  
The company would only continue as a going concern until all the properties had been sold.

**Public entity: Ingonyama Trust Board**

**Disclaimer of audit opinion**

Matters reported in the current and previous years

- No budgets prepared from 1 Apr 1999 – 31 Mar 2002 in contravention of KwaZulu-Natal Ingonyama Trust Act.
- Debtors system to maintain and record royalty income was inadequate and provided insufficient information to express an opinion on debtor's figures in financial statements.
- Ingonyama Trust Board had been invoiced for rates due to municipalities for land owned within the Board's demarcated areas. No provision had been made in financial statements, therefore the amount owed could not be ascertained. An amount of R88,45 million was already due to the Durban Metropolitan Uicity Municipality. This constituted a material uncertainty on the going concern assumption.

**Matters emphasised**

Matters reported in the current and previous years

- General
  - Lack of segregation of duties in accounting function.
  - Tariffs for permission to occupy (PTOs) not reviewed since inception of the trust in 1994. Commercial PTO holders irrespective of size of business or revenue generated paid a flat rate.



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- No movement in amount owing to tribal authorities, because of a dispute over the amount: Money had been paid to tribal authorities according to documentation, but tribal authorities claimed that no money was received.
  - Land asset register could not be reconciled to annual financial statements, because many properties recorded in the register are not registered in the trust's name.
  - In some cases invoices distributed for PTOs were not followed up in districts to ensure that all PTOs had been received by respective holders. Therefore some PTO holders did not receive invoices and payments were not effected.
- Collection of royalties
    - In some cases, consent by tribal authorities to mine was not on royalty files. In some cases consent was obtained after mining commenced. (Reported in 1999-2000 & 2000-01)
    - In some cases, no quarterly or monthly returns were available on files and it could not be verified that all royalties had been paid. (Reported in 1999-2000 & 2000-01)
  - VAT
    - Although input VAT was processed to the VAT Control Account, nil VAT returns were submitted to the Receiver of Revenue.
    - Ingonyama Trust Board is registered on "payments method" for VAT, but output VAT was paid in respect of permissions to occupy on the invoice basis (contravention of VAT Act).

#### Matters reported for the first time

- Collection of royalties
  - A number of contracts expired during the year, and it could not be ascertained whether new contracts had been signed (not possible to establish if illegal mining had taken place).
  - In some cases debtors were raised for outstanding royalty payments, while contracts had already expired.

#### **Other entity: Agricultural Credit Account**

#### **Qualified audit opinion**

#### Matters reported in the current and previous years

- Loans to farmers - securities and provision for bad debts: In many instances securities for outstanding loans were found to be inadequate to guarantee recovery of outstanding capital and interest. There were also uncertainties regarding the provision for bad debt. Due to uncertainties in estimating ability of farmers to repay outstanding debts, it was not possible to reliably assess adequacy of the department's provision for bad debts.



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**Other entity: Registration of Deeds Trading Account**

**Qualified audit opinion**

Matters reported for the first time

- Recognition of revenue in financial statements

It was found that deeds were captured more than five days after execution and in some instances the delay between the execution and invoicing was found to be excessive. The Registration of Deeds Trading Account does not recognise the revenue relating to executed deeds until the invoices are issued, as this information is not available from the system in order to accrue for revenue correctly.

**Matters emphasised**

Matters reported in the current and previous years

- Internal audit section

The internal audit was not functioning properly and effectively in terms of 3.2 of the Treasury Regulations.

Matters reported for the first time

- Internal controls over assets

Proper control mechanisms in terms of 10.1 of the Treasury Regulations were not in place:

- o Assets could not be traced from asset register to asset location due to assets not having barcodes or assets were not completely added to asset register.
  - o Reconciliation between general ledger and asset register was not performed on a monthly basis. A comprehensive reconciliation exercise of reconciling the updated fixed asset register / general ledger with physical assets must still be completed for the Registration of Deeds Account.
- Suspense accounts

Various suspense accounts were identified that included amounts not cleared timeously and also included income and expenditure transactions, which could not be cleared, as the classification thereof was not resolved.



AUDITOR - GENERAL

## 2.2 Minister of Arts, Culture, Science and Technology

The aim of the Department of Arts, Culture, Science and Technology is to realise the full potential of the arts, culture, science and technology, in social and economic development, in nurturing creativity and innovation, and in promoting the diverse heritage of our nation.

ENTITIES IN PORTFOLIO AUDITED BY THE OFFICE OF THE AUDITOR-GENERAL										
Entities in portfolio	Date of submitting financial statements	Date of audit report	Audit opinion			Matters emphasised	Paragraph included in the portfolio summary	R million		
			u	q	d/a			Assets	Income	Expenditure
<i>Department</i>										
Arts, Culture, Science and Technology	31/05/02	24/07/02	✓			Yes	Yes	8,4	1146,4	1144,9
Transfer payments										1029,9
<i>Constitutional institution</i>										
Pan South African Language Board	19/07/02	31/07/02	✓			No	No	8,8	16,8	16,2
<i>Public entities</i>										
Afrikaanse Taalmuseum Paarl	06/05/02	05/07/02	✓			Yes	No	2,2	1,7	1,4
Northern Flagship Institution	Information not available									
Iziko Museums of Cape Town	31/05/02	31/07/02		✓		Yes	Yes	12,4	31,3	32,0
Natal Museum Pietermaritzburg	26/06/02	21/08/02		✓		Yes	No	2,1	5,9	5,8
National Museum Bloemfontein	21/06/02	28/08/02	✓			Yes	Yes	1,4	11,4	12,0
National English Literary Museum Grahamstown	16/07/02	02/09/02		✓		Yes	No	Information not available		
SA Library for the Blind	15/08/02	02/09/02		✓		Yes	No	1,0	4,2	4,6
Voortrekker Museum Pietermaritzburg	18/07/02	Audit not finalised								
War Museum of the Boer Republics Bloemfontein	10/05/02	31/07/02	✓			No	No	Information not available		
Robben Island Museum Cape Town	11/09/02	20/09/02	✓			Yes	No	55,0	51,7	60,6
William Humphreys Art Gallery Kimberley	31/5/02	31/07/02		✓		Yes	Yes	1,3	1,6	1,4
Engelenburg House Art Collection Pretoria	31/05/02	09/07/02	✓			No	No	0,1	0,1	0,1



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

ENTITIES IN PORTFOLIO AUDITED BY THE OFFICE OF THE AUDITOR-GENERAL										
Entities in portfolio	Date of submitting financial statements	Date of audit report	Audit opinion			Matters emphasised	Paragraph included in the portfolio summary	R million		
			u	q	d/a			Assets	In-come	Expen-diture
Nelson Mandela Museum Umtata	Audit not finalised									
Freedom Park Trust Pretoria	12/07/ 02	24/07/02	✓			Yes	No	2,5	5,6	3,6
National Zoological Gardens of South Africa Pretoria	04/06/02	30/07/02	✓			Yes	No	13,6	27,5	27,1
South African Heritage Resource Agency, Cape Town	26/07/02	13/08/02	✓			Yes	No	43,6	14,0	12,7
National Arts Council	21/07/02	24/07/02	✓			No	No	25,6	38,5	41,3
National Research Foundation including the JLB Institute of Ichthyology	30/05/02	19/07/02	✓			Yes	No	547,7	498,8	474,9
National Library Pretoria and Cape Town	Audit not finalised									
Human Sciences Research Council Pretoria	Audit not finalised									
Foundation for Education, Science and Technology	31/05/02	09/07/02	✓			No	No	13,0	16,1	16,9
National Archives Commission Pretoria	Audit not finalised									
Literature for the Visually Handicapped Johannesburg	Information not available									
National Film and Video Foundation	31/05/02	09/07/02	✓			No	No	3,6	13,5	13,1

ENTITIES IN PORTFOLIO NOT AUDITED BY THE OFFICE OF THE AUDITOR-GENERAL										
Entities in portfolio	Date of submitting financial statements	Date of audit report	Audit opinion			R million				
			u	q	d/a	Assets	Income	Expenditure		
<i>Public entities</i>										
Business Arts of South Africa	Information not available	12/07/02	✓					1,1	0,87	0,97
Market Theatre Johannesburg	Information not available	30/09/02		✓				5,09	11,25	11,83
State Theatre Pretoria	Information not available		✓					3,64	10,27	3,09
Renaissance Theatre t/a the Spoorntet State Theatre	Information not available		✓					2,8	17,32	17,14
Performing Arts Council Orange Free State Bloemfontein	Audit not finalised									



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ENTITIES IN PORTFOLIO NOT AUDITED BY THE OFFICE OF THE AUDITOR-GENERAL								
Entities in portfolio	Date of submitting financial statements	Date of audit report	Audit opinion			R million		
			u	q	d/a	Assets	Income	Expenditure
Cape Performing Arts Board Cape Town (Artscape)	Information not available	21/08/02	✓			8,12	31,48	32,66
Playhouse Company Durban	Information not available	17/09/02		✓		18,35	27,54	24,87
SA Blind Workers Organisation	Information not available	09/08/02		✓		1,21	4,85	4,83
Windybrow Theatre	Audit not finalised							
Africa Institute of South Africa	Information not available	16/08/02	✓			5,2	11,5	9,5

u = unqualified audit opinion

q = audit opinion qualified

d/a = audit opinion disclaimed or adverse opinion expressed.

### **Department: Arts, Culture, Science and Technology**

#### **Matters emphasised**

Matters reported in the current and previous years

- Although an internal audit unit was established in 1996, no internal audit work was performed.
- The State Theatre and the Performing Arts Council of the Free State had incurred certain losses as a result of high-risk investments and these matters were under investigation by the Special Investigating Unit (SIU).

#### **Public entity: Iziko Museums of Cape Town**

#### **Qualified audit opinion**

Matters reported for the first time

- It was not feasible to institute controls over cash collections from donations prior to initial entry of the collections in the accounting records. Accordingly, it was not possible for the audit to be extended beyond the receipts actually recorded.
- Allocation of expenditure to individual funds could not be verified.



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Matters reported in the current and previous years

- Assets were understated by R718 942.

**Public entity: National Museum Bloemfontein**

### **Matters emphasised**

Matters reported for the first time

- The financial position of the museum has deteriorated significantly and it was not able to fund all research programs.

**Public entity: William Humphreys Art Gallery**

### **Qualified audit opinion**

Matters reported for the first time

- Fixed assets to the value of R21 400 were not written off against the income fund in the year they were purchased.

## 2.3 Minister of Communications

The aim of the Department of Communications is to develop and implement policy for the telecommunications, postal and broadcasting services, as well as to control fiscal transfers to portfolio organisations such as the South African Post Office, the South African Broadcasting Corporation, the Independent Communications Authority of South Africa, the National Electronic Media Institute of South Africa and the Universal Service Agency.

ENTITIES IN PORTFOLIO AUDITED BY THE OFFICE OF THE AUDITOR-GENERAL										
Entities in portfolio	Date of submitting financial statements	Date of audit report	Audit opinion			Matters emphasised	Paragraph included in the portfolio summary	R million		
			u	q	d/a			Assets	Income	Expenditure
<i>Department</i>										
Communications	31/05/02	22/07/02	✓			No	No	3 984,7	1 166,2	1 128,3
Transfer payments										958,6
<i>Public entities</i>										
Independent Communications Authority (ICASA)	31/05/02	20/07/02	✓			Yes	Yes	73,7	118,9	101,5
Universal Service Agency (USA)	09/07/02	29/07/02		✓		No	Yes	6,4	10,2	8,0
Universal Services Fund (USF)	09/07/02	29/07/02	✓			No	No	58,9	25,4	3,8



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ENTITIES IN PORTFOLIO NOT AUDITED BY THE OFFICE OF THE AUDITOR-GENERAL								
Entities in portfolio	Date of submitting financial statements	Date of audit report	Audit opinion			R million		
			u	q	d/a	Assets	Income	Expenditure
<i>Public entities</i>								
Sentech	Information not available		✓			561,5	415,6	398,5
SABC	Information not available		✓			1 675,7	2 223,9	2 216,8
South African Post Office Ltd	31/05/02	Information not available	✓			2 290,5	3 110,0	3 416,2
Telkom SA Ltd	31/05/02	27/06/02	✓			55 014,0	34 550,0	32 578,0
Nemisa	31/05/02	06/08/02	✓			22,5	14,3	19,0

u = unqualified audit opinion

q = audit opinion qualified

d/a = audit opinion disclaimed or adverse opinion expressed.

### **Public entity: Independent Communications Authority of South Africa (ICASA)**

#### **Matters emphasised**

Matters reported for the first time

- Internal audit function: The audit firm's mandate was altered in order to perform accounting and consulting services.
- Value-added taxation: VAT was not declared on monies received for fixed assets sold or insurance claims.
- Fraud prevention plan: The fraud prevention plan was not implemented, but the plan was being developed.

### **Public entity: Universal Service Agency (USA)**

#### **Qualified audit opinion**

Matters reported for the first time

Fixed asset register did not contain unique asset numbers and was not updated with new assets purchased.

## **2.4 Minister of Correctional Services**

The aim of the Department of Correctional Services is to contribute towards maintaining and protecting a just, peaceful and safe society by enforcing court-imposed sentences and detaining prisoners in safe custody.



## AUDITOR - GENERAL

ENTITIES IN PORTFOLIO AUDITED BY THE OFFICE OF THE AUDITOR-GENERAL										
Entities in portfolio	Date of submitting financial statements	Date of audit report	Audit opinion			Matters emphasised	Paragraph included in the portfolio summary	R million		
			u	q	d/a			Assets	In-come	Expen-diture
<i>Department</i>										
Correctional Services	31/05/ 02	26/07/02		✓		Yes	Yes	118,1	6 658,1	6 549,3
Transfer payments										10,9

u = unqualified audit opinion

q = audit opinion qualified

d/a = audit opinion disclaimed or adverse opinion expressed

Other institutions falling under the executive's control, but where no separate financial statements are prepared as they are accounted for within the programmes administered by the department:

- Asset Procurement and Operating Partnership

#### **Department: Correctional Services**

##### **Qualified audit opinion**

Matters reported for the first time

- Medical services (Medcor), R774 857 739

Under forensic investigation, various internal control deficiencies and non-compliance with the Medical Aid Scheme Act, 1998 (Act No. 131 of 1998) resulting in a limitation of scope.

##### **Matters emphasised**

Matters reported in the current and previous years

- Payment of expenses
  - There were various shortcomings mainly due to non-compliance with rules, regulations and internal control systems, lack of control over certain expenditure and general administration of records.
  - Certain control deficiencies relating to government transport have been reported for a number of years.
  - Serious shortcomings existed regarding the control and general administration of prisonpharmacies.



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- Employment and related costs
  - Internal control weaknesses relating to personnel administration.
  - Certain control deficiencies relating to leave and leave credits have been reported for a number of years.
  - Lack of control over subsistence and travelling expenditure.
  - Lack of control over merit awards and insufficient administration thereof.
  - Lack of control over verification of validity of members' qualifications. Various invalid qualifications were identified and personal information of members was incomplete.
- Asset management
  - Various matters relating to stock and equipment reported for a number of years.
  - Internal control weaknesses relating to control accounts and debtors.
- Financial management
  - 30 per cent (2000-01: 34 per cent) of finance posts were vacant.
  - As a result of non-compliance and understaffing, no reliance could be placed on the work of internal audit.
- Appropriation and other revenues
  - Internal control weaknesses relating to departmental income.
- Budgetary process
  - Internal control weaknesses relating to the budgetary process.
- Other
  - The Judge White Commission finding was still not implemented pending a court ruling. The department is now in the process of recovering overpaid salaries from the approximately 901 officials not involved in court cases.
- Departures from financial requirements or other legislation
  - Non-compliance with the PFMA.
  - Non-compliance with the Correctional Services Act.

#### Matters reported for the first time

- IT environment: General IT control issues
  - Various weaknesses relating to the general controls surrounding the Pharmaceutical System at Head Office, Pollsmoor and Johannesburg management areas were identified.



## AUDITOR - GENERAL

- Payment of expenses
  - Contracts with members of the Jali Commission were not available for audit purposes and the reasonableness of the expenditure could therefore not be verified.
  - Insufficient control over completion and authorisation of journals.
  - Asset Procurement and Operating Partnership system
    - ▲ Insufficient controllers to monitor compliance with the contract.
    - ▲ Vacant positions were not filled timeously.

### 2.5 Minister of Defence

The aim of the Department of Defence is to defend and protect South Africa, its territorial integrity, and its people, in accordance with the Constitution and international law regulating the use of force.

ENTITIES IN PORTFOLIO AUDITED BY THE OFFICE OF THE AUDITOR-GENERAL										
Entities in portfolio	Date of submitting financial statements	Date of audit report	Audit opinion			Matters emphasised	Paragraph included in the portfolio summary	R million		
			u	q	d/a			Assets	Income	Expenditure
<i>Department</i>										
Defence	31/05/02	26/07/02	✓			Yes	Yes	739,7	16 183,1	16 048,2
Transfer payments										6 040,6
<i>Other entities</i>										
Trading Account for Medical Stock	31/05/02	31/07/02	✓			Yes	Yes	7,7	6 447,1	6 447,1
Special Defence Account	31/05/02	15/07/02	✓			Yes	Yes	467,2	5 864,5	7 965,0
Castle Control Board	27/08/02	Audit not finalised								

ENTITIES IN PORTFOLIO NOT AUDITED BY THE OFFICE OF THE AUDITOR-GENERAL										
Entities in portfolio	Date of submitting financial statements	Date of audit report	Audit opinion			R million				
			u	q	d/a	Assets	Income	Expenditure		
<i>Public entities</i>										
Armaments Corporation of South Africa	04/05/02	02/07/02	✓					339,8	267,4	301,2

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AUDITOR - GENERAL

## **Department: Defence**

### **Matters emphasised**

Matters reported in the current and previous years

- Personnel expenditure

Leave credits and leave administration: Various shortcomings in the leave administration system still existed.

- Revenue and receivables

Internal control weaknesses relating to departmental income and debtors still existed.

- Asset management

Stores and equipment: Various serious control weaknesses were reported, e.g. recording and reconciliation of stock balances; access to, control over, storage of, and custody and care of assets; consolidating and reconciling the annual stocktaking certificates to determine the total stock on hand.

Land and buildings: The information per the DOD records did not correlate with the information received from the Department of Public Works.

- Internal auditing

An evaluation of the internal audit function indicated that there were personnel shortages and non-compliance with certain standards required by Treasury Regulations.

- Environmental auditing

An environmental audit identified non-compliance with significant environmental legislation. A consistent factor throughout was the fundamental lack of a management system and general staff awareness to address the legislative requirements.

- Advances

Internal control over foreign advances was not adequate.

- Service Corps

Very little had been done to address shortcomings with regard to operations, performance and outputs identified and recommendations made over the last six years.



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Matters reported for the first time

- Local and foreign aid assistance

An amount of R3,57 million donor-funded expenditure disclosed in the financial statements could not be substantiated by documentation.

- Commitments

A list of commitments to the amount of R1,67 million, as disclosed in the financial statements, could not be supplied for audit purposes.

- Leases

No disclosure was made. This was in contravention of prescripts.

- Central Advance System (CAS) payments

Inappropriate cut-off procedures were applied, with the result that R2,58 million which was paid in the 2001-02 financial year, was only recorded in the 2002-03 financial year.

- Personnel expenditure

Supplementary remuneration: Internal control measures were not adhered to.

- Risk management

A risk management policy had not been implemented.

**Other entity: Trading Account for Medical Stock**

**Matters emphasised**

Matters reported in the current and previous years

- TAMS was not closed on 30 September 2001. Extension was granted verbally by the Accountant-General for final winding-down on 30 September 2002.
- The loss of R7,68 million incurred in the 1999-2000 financial year was not fully defrayed by Vote 20 – Defence in the following year in accordance with the *Manual for Trading and Related Accounts*. The remaining net loss of R6,18 million will be defrayed before 30 September 2002.

Matters reported for the first time

- With effect from 1 April 2002, there was a change in the policy used to account for administration costs.



AUDITOR - GENERAL

### **Other entity: Special Defence Account**

#### **Matters emphasised**

Matters reported in the current and previous years

- Bank account

The Special Defence Account shares one PMG account with the General Defence Account and the Trading Account for Medical Stock – this complicates control.

- Compliance Programme

This office is awaiting further clarification of responses received from the department relating to pertinent issues raised with regard to the Compliance Programme, whereby the USA indicted SA entities as a result of acts arising from the illegal use of USA technology. An amount of R14,04 million is left unresolved.

- Sensitive projects

A limited audit was performed on R2,70 million expenditure of a sensitive nature mainly because certain financial statements were not available timeously.

- Commission paid during the sale of Puma helicopters

The Director of Public Prosecution indicated that the prosecution was still pending.

- Purchasing of training aircraft

The Directorate of Public Prosecution indicated that the investigation into this matter had not yet been completed.

Matters reported for the first time

- Accounting for foreign exchange differences

Foreign exchange differences were not calculated and separately disclosed in the financial statements during the year in accordance with South African Statements of Generally Accepted Accounting Practice.

#### **Special reports issued**

The *Joint investigation Report into the Strategic Defence Procurement Packages* dated 14 November 2001 [RP 184/2001] was tabled in Parliament on 14 November 2001.



## AUDITOR - GENERAL

## 2.6 Minister of Education

The aim of the Department of Education is to develop, maintain and support a South African education and training system for the 21st century.

ENTITIES IN PORTFOLIO AUDITED BY THE OFFICE OF THE AUDITOR-GENERAL										
Entities in portfolio	Date of submitting financial statements	Date of audit report	Audit opinion			Matters emphasised	Paragraph included in the portfolio summary	R million		
			u	q	d/a			Assets	Income	Expenditure
<i>Department</i>										
Education	25/07/02	01/08/02		✓		Yes	Yes	147,3	8 293,8	8 176,5
<i>Public entities</i>										
Council on Higher Education	27/08/02	28/08/02	✓			Yes	Yes	12,6	5,7	1,3
South African Qualifications Authority	Information not available	06/08/02	✓			Yes	Yes	52,6	31,8	33,0
National Student Financial Aid Scheme	26/07/02	30/07/02	✓			Yes	Yes	2 037,1	31,9	10,8

ENTITIES IN PORTFOLIO NOT AUDITED BY THE OFFICE OF THE AUDITOR-GENERAL								
Entities in portfolio	Date of submitting financial statements	Date of audit report	Audit opinion			R million		
			u	q	d/a	Expenditure	Income	Expenditure
<i>Public entities</i>								
South African Council for Educators	Information not available Note 1	06/02/02	✓			4,8	11,2	13,6
South African Certification Council	Information not available	not available	✓			9,9	7,0	9,9
Certification Council for Technikon Education	Information not available Note 2	17/09/01	✓			2,5	1,5	3,0
Education Labour Relations Council	12/03/02 Note 1	19/04/02	✓			196,5	21,6	13,5

u = unqualified audit opinion

q = audit opinion qualified

d/a = audit opinion disclaimed or adverse opinion expressed.

**Note 1:** Financial year-end is 31 December 2001.

**Note 2:** This public entity was closed and all assets and liabilities were transferred to the Council on Higher Education (CHE). An official request was submitted to the National Treasury for de-listing of this public entity in accordance with section 53(3) of the PFMA. Confirmation was received from the



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National Treasury that this entity was de-listed in terms of Government Gazette No. 23407 on 17 May 2002. The public entity's financial year-end was 31 March. The public entity was closed on 31 August 2001 and all assets and liabilities were transferred accordingly to CHE. The financial statements were drawn up for the period 1 April 2001 - 31 August 2001 (5 months).

Other institutions falling under the executive's control, but where no separate financial statements are prepared as they are accounted for within the programmes administered by the department:

- Council of Education Ministers
- Heads of Education Departments Committee
- National Board for Further Education and Training

**Note:** In the previous general report these entities were included as statutory bodies. However, they function within the department and are dependent on departmental funds. No financial statements are compiled for these bodies.

### **Department: Education**

#### **Qualified audit opinion**

Matters reported for the first time

- Loans and interest from higher education institutions

Various loans were made to eight higher education institutions during the 1960s and 1970s. The department could not provide evidence of the value of these loans or the outstanding capital portions of these long-term loans as at year-end, nor are they disclosed in the annual financial statements. The department indicated that it was researching the origin of these long-term loans and the documentation in which they were currently recorded.

An amount of R5,3 million was received from eight higher education institutions, which related to the interest on these long-term loans. I was not able to confirm that information on the interest and capital received from higher education institutions was valid, accurate or complete due to the fact that the contracts for these loan agreements were not available.

#### **Matters emphasised**

Matters reported in the current and previous years

- Internal audit

The internal audit section still did not function properly and no reliance could be placed on the work performed by them. No fraud prevention plan was in place as required by section 3.2.2 of the Treasury Regulations issued in terms of the PFMA. Section 3.2.8 of the Treasury Regulations issued in terms of the PFMA requires that the internal audit section should assess the operational procedures and monitoring mechanisms over all transfers made, which include conditional grants. The internal audit section did not perform this duty.



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### Matters reported for the first time

- Conditional grants

In terms of section 38(i) of the PFMA, the accounting officer of the department must ensure that the provisions of the Division of Revenue Act, 2001 (Act No. 1 of 2001) (DoRA) are complied with when the transfer of funds takes place.

Conditional grant payments of R297 million were made during the financial year. Although the department does have a framework in place to monitor the conditional grants transferred to the provinces in accordance with the DoRA, there are certain limitations to this monitoring framework as a result of, amongst others, the following:

- o The late submission of the reports by the provincial departments to the national department, with the result that any corrective action is taken too late or in some cases not at all.
- o The department was not in a position to properly evaluate the information in the reports submitted by the provincial departments and to identify any possible transgressions of the conditions attached to the grants. This is due to the facts that the monitoring process of the national department is limited to the information supplied by the provincial departments, and that the national department has no insight into the actual financial records of the provinces.

Transgressions by departments are summarised below.

#### National department

- o Funds were held back from the Eastern Cape, the Northern Cape and the Northern Province without the National Treasury having been informed of this fact within seven (7) days of the grant being withheld.

#### Provincial departments

- o The provincial departments of Gauteng, KwaZulu-Natal, the Eastern Cape and the North West Province did not submit all the required documentation and it was therefore not possible to verify in all cases that the departments had complied with the DoRA.
- o Report of the National Treasury to the Auditor-General in terms of section 20 of the Division of Revenue Act, 2001 (Act No. 1 of 2001)

The following are some of the key issues highlighted by the National Treasury in areas of non-compliance with the DoRA by most departments which administer conditional grants:

- o Funds were transferred to provinces as per payment schedules even where trends reflected very slow spending or where there was no spending.
- o Inconsistencies with regard to information supplied by provincial treasuries and national departments.
- o The national department withheld payments to some provinces to settle payments incurred by the national department on behalf of these provinces directly.



AUDITOR - GENERAL

**Public entity: Council on Higher Education**

**Matters emphasised**

Matters reported for the first time

- Internal audit

The accounting authority had not established an internal audit section and had not facilitated a risk assessment for the period under review. These functions are required in terms of section 27.2 of the Treasury Regulations.

- Audit committee

The executive committee of the council is also serving as the audit committee of the council. This is a contravention of section 27.1.4 of the Treasury Regulations, which requires that the majority of the members of the audit committee should be made up of members who are independent of the council.

- Delegation of authority

The council does not have delegation of authority for the initialisation of transactions. As a result transactions are entered into without the necessary authorisation having been obtained.

**Public entity: South African Qualifications Authority (SAQA)**

**Matters emphasised**

Matters reported for the first time

- Potential going concern issue

In evaluating the entity's ability to continue its operations in the near future it appeared that the donor funding available would only sustain the entity until the end of December 2003. A Study Team Report concluded that the Department of Education should mainly fund SAQA by means of a grant. In this regard management was consulting with the Minister of Education to ensure that SAQA would be adequately funded from January 2004 onwards.

**Public entity: National Student Financial Aid Scheme**

**Matters emphasised**

Matters reported for the first time

- Internal audit



## AUDITOR - GENERAL

In terms of Treasury Regulation 3.2.3 it is essential that a public entity, listed in terms of the PFMA, establish an internal audit function and that internal audits are conducted. The National Student Financial Aid Scheme appointed an internal auditor in January 2002.

### 2.7 Minister of Environmental Affairs and Tourism

The aim of the Department of Environmental Affairs and Tourism is to lead environmental management and tourism in the interest of sustainable development for all.

ENTITIES IN PORTFOLIO AUDITED BY THE OFFICE OF THE AUDITOR-GENERAL										
Entities in portfolio	Date of submitting financial statements	Date of audit report	Audit opinion			Matters emphasised	Paragraph included in the portfolio summary	R million		
			u	q	d/a			Assets	In-come	Expen-diture
<i>Department</i>										
Environmental Affairs and Tourism	31/05/02	18/07/02	✓			Yes	Yes	32,1	1129,9	1097,1
Transfer payments										800,8
<i>Public entities</i>										
South African National Parks Board	31/05/02	12/08/02	✓			No	No	507,9	416,8	363,9
National Botanical Institute	21/05/02	13/06/02	✓			Yes	No	97,5	60,8	63,0
South African Tourism Board	30/05/02	21/08/02	✓			No	No	97,8	353,6	365,3
South African Weather Service	Audit not finalised									
Marine Living Resources	Audit									

The Greater St. Lucia Wetland Park Authority (GSLWP) is a new entity under the portfolio of Environmental Affairs. The entity was listed as a schedule 3A public entity on 27 June 2002.

ENTITIES IN PORTFOLIO NOT AUDITED BY THE OFFICE OF THE AUDITOR-GENERAL										
Entities in portfolio	Date of submitting financial statements	Date of audit report	Audit opinion			R million				
			u	q	d/a	Assets	Income	Expenditure		
<i>Public entities</i>										
Johannesburg World Summit Company	Information not available	12/08/02	✓					41,9	61,4	64,0

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AUDITOR - GENERAL

## Department: Environmental Affairs and Tourism

### Matters emphasised

Matters reported in the current and previous years

- The department shared one PMG account with the Marine Living Resources Fund – this complicated control.
- Internal audit section of the department still needed to increase its capacity.

Matters reported for the first time

- The fixed asset register for computer hardware and software had not been maintained adequately.

## 2.8 Minister of Finance

The aim of the National Treasury is to promote economic development, good governance, social progress and rising living standards through the accountable, economic, efficient, equitable and sustainable management of public finances.

ENTITIES IN PORTFOLIO AUDITED BY THE OFFICE OF THE AUDITOR-GENERAL										
Entities in portfolio	Date of submitting financial statements	Date of audit report	Audit opinion			Matters emphasised	Paragraph included in the portfolio summary	R million		
			u	q	d/a			Assets	Income	Expenditure
<i>Departments</i>										
National Treasury	31/05/02	31/07/02	✓			Yes	Yes	383,6	12 218,1	10 386,9
Statistics South Africa	31/05/02	29/08/02			d	Yes	Yes	216,8	797,1	903,4
National Revenue Fund and State Debt	Audit not finalised									
<i>Constitutional institutions</i>										
Financial and Fiscal Commission	11/06/02	02/07/02	✓			Yes	No	1,7	9,9	9,5
<i>Public entities</i>										
South African Revenue Service (Own Accounts)	31/05/02	30/08/02	✓			Yes	Yes	206,8	2 627,2	2 332,6
South African Revenue Service (Administered Revenue)	06/08/02	29/08/02			✓	Yes	Yes	24,9	256 525,7	8 204,82
Financial Services Board Public Investment Commissioners	28/06/02 Audit not finalised	02/07/02	✓			No	No	53,3	68,6	76,4



## AUDITOR - GENERAL

ENTITIES IN PORTFOLIO AUDITED BY THE OFFICE OF THE AUDITOR-GENERAL										
Entities in portfolio	Date of submitting financial statements	Date of audit report	Audit opinion			Matters emphasised	Paragraph included in the portfolio summary	R million		
			u	q	d/a			Assets	In- come	Expen- diture
Zwartkop Centurion (Pty) Ltd	Audit not finalised							11,1	2,1	1,7
Erf 3342 Phalaborwa (Pty) Ltd	Audit not finalised							44,5	7,9	8,0
Van Noppen Properties (Pty) Ltd	Audit not finalised							52,8	10,6	10,1
<i>Other entities</i>										
Statistics South Africa: Dissemination and Marketing Trading Entity	31/05/02	08/08/02	✓			Yes	Yes	1,4	1,0	1,0
Special Pensions Board	Audit not finalised							0	5,88	5,88
Reconstruction and Development Programme Fund	30/05/02	30/07/02	✓			Yes	Yes	997,3	1,1	785,7
Pension Fund for Associated Institutions	Audit not finalised									
Temporary Employment Pension Fund	Audit not finalised									
Provident Fund for Associated Institutions	Audit not finalised									

ENTITIES IN PORTFOLIO NOT AUDITED BY THE OFFICE OF THE AUDITOR-GENERAL										
Entities in portfolio	Date of submitting financial statements	Date of audit report	Audit opinion			R million				
			u	q	d/a	Assets	Income	Expenditure		
<i>Public entities</i>										
Corporation for Public Deposits	Information not available Note 1							-	-	-
Public Accountants' and Auditors' Board	12/03/02	12/03/02	✓					10,3	8,2	7,1
SA Bank Note Company	Information not available Note 1									
SA Mint Company	Information not available Note 1									



AUDITOR - GENERAL

ENTITIES IN PORTFOLIO NOT AUDITED BY THE OFFICE OF THE AUDITOR-GENERAL								
Entities in portfolio	Date of submitting financial statements	Date of audit report	Audit opinion			R million		
			u	q	d/a	Assets	Income	Expenditure
South African Reserve Bank Captive Insurance Company Limited	Information not available Note1							
SA Reserve Bank Note 2	31/05/02	31/05/02	✓			146 194,4	5 075,1	4 964,8
SASRIA	08/04/02	08/04/02	✓			1 084,3	588,5	163,4
Institute for Public Finance and Auditing	31/05/02	31/05/02	✓			5,7	4,0	4,0
Development Bank of Southern Africa	04/07/02	04/07/02	✓			18 010,3	2 129,0	1 404,6

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**Note 1:** According to these companies their results are only available to the Reserve Bank. Their results are included in the figures for the Reserve Bank.

**Note 2:** Please note that technically the Reserve Bank does not fall under the control of the National Treasury and is regarded as being independent from the National Treasury.

New entities to be included under the Finance portfolio from the 2002-03 financial year:

- Accounting Standards Board
- Financial Intelligence Centre

Other institutions falling under the executive's control, but where no separate financial statements are prepared as they are accounted for within the programmes administered by the National Treasury:

- State Tender Board
- Policy Board for Financial Services Regulation

Other institutions falling under the executive's control, but where no separate financial statements are prepared as they are accounted for within the programmes administered by Statistics SA:

- Statistical Council

Other institutions falling under the executive's control, but where no separate financial statements are prepared as they are accounted for within the financial statements of Financial Services Board:



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- Unit Trust Advisory Committee

Other institutions falling under the executive's control, but where no separate financial statements are prepared as they are accounted for within the financial statements of the South African Revenue Service:

- Tax (Katz) Commission

Other institutions falling under the executive's control, but where no separate financial statements are prepared as they are accounted for within the financial statements of the Special Pensions Board:

- Special Pensions Advisory Board

**Department: National Treasury**

**Matters emphasised**

Matters reported in the current and previous years

- The completeness and accuracy of the asset register could not be verified.
- The Audit Committee met for the first time on 24 May 2002 and was in the process of finalising the audit committee mandate and audit charter.

**Department: Statistics South Africa**

**Disclaimer of audit opinion**

Matters reported for the first time

- Invalid expenditure occurred in respect of professional and special services.
- Payments to census field staff could not be verified.

**Matters emphasised**

Matters reported for the first time

- Unauthorised expenditure  
Voted funds were overspent by R122 million.



AUDITOR - GENERAL

**Public entity: South African Revenue Service – Own Accounts**

**Matters emphasised**

Matters reported in the current and previous years

- Weaknesses in internal control
- Human resources: Arrear payments

An amount of R50 million had been provided for back pay relating to service bonuses.

- Computer audit

The key findings arising from the audit indicated that although controls were in place in the general control environment, control weaknesses existed in some areas.

Matters reported for the first time

- Weaknesses in internal control: Assets

At the time of this audit it was found that the asset register was not in all instances updated with the physical movement of assets. One of the main reasons for this was that the current asset policy did not cater for large-scale movement of assets.

**Public entity: South African Revenue Service – Administered Revenue**

**Qualified audit opinion**

Matters reported in the current and previous years

- Assurance process
- Qualitative assurance measures aimed at ensuring higher compliance and accuracy within the assessment process were only introduced subsequent to year-end; these could not be evaluated during the year under review.
- Not all PAYE reconciliations had been performed for the year under review; however, steps had been taken to correct this.
- Furthermore, difficulty was experienced in verifying the SARS audit process due to the lack of appropriate working papers.
- Tax administration

Certain inconsistencies in complying with income tax legislation had been identified. It was not possible to quantify the financial effect of the non-compliance due to the diversity thereof as well as a lack of information.



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

**Matters emphasised**

Matters reported in the current and previous years

- Weaknesses in internal control: Bank reconciliation

In order to ensure that full benefit is derived from the reconciliation process, reconciling items should be cleared in a more timely manner.

Matters reported for the first time

- Sureties (financial guarantees)

SARS should holistically address the need for financial guarantees as part of an overall credit risk management strategy.

- Supporting documentation

The availability of tax records and source documentation was once again problematic at various branch offices.

- Computer audit

- General controls

The key findings arising from the follow-up audit of general controls within the Value-added Tax, Pay-As-You-Earn and Income Tax Systems indicated that although some controls were in place, adequate general control measures had not been implemented in the computer environment as a whole.

- Application controls

The key finding arising from the follow-up audits of application controls within the Customs Automated Processing of Entries, Deferment and Passenger Systems indicated that some progress had been made in addressing the weaknesses identified during the previous audits. However, some additional weaknesses were also identified during the follow-up computer audits.

**Other entity: Statistics South Africa: Dissemination and Marketing Trading Entity**

**Qualified audit opinion**

Matters reported in the current and previous years

- Non-compliance with PFMA and Treasury Regulation requirements to prepare financial statements in accordance with generally accepted accounting practice.



AUDITOR - GENERAL

### **Other entity: Reconstruction and Development Programme Fund**

#### **Qualified audit opinion**

Matters reported in the current and previous years

- Donations were only accounted for when received and no satisfactory auditing procedures could be performed to obtain reasonable assurance that all donations received were properly recorded.

Matters reported for the first time

- In terms of section 5 of the Reconstruction and Development Fund Act money allocated from the fund and not spent by the end of the financial year, in the absence of any provision to the contrary in a technical assistance agreement, is required to be paid into the fund. Consequently the completeness and accuracy of the accounting records relating to donations received could not be determined.

#### **Matters emphasised**

Matters reported for the first time

- Unappropriated funds continued to increase, indicating a delay by spending agencies to request funds allocated to them.

In the absence of certain technical assistance agreements which were requested but not produced for my inspection, it is possible that certain donations received and funding of projects may not be in accordance with the objectives of the Reconstruction and Development Programme Funds as defined in the Reconstruction and Development Programme Fund Act and may require confirmation by Cabinet.

## **2.9 Minister of Foreign Affairs**

The aim of the Department of Foreign Affairs is to formulate, coordinate, implement and manage South Africa's foreign policy and international relations programmes throughout the world.



## AUDITOR - GENERAL

ENTITIES IN PORTFOLIO AUDITED BY THE OFFICE OF THE AUDITOR-GENERAL										
Entities in portfolio	Date of submitting financial statements	Date of audit report	Audit opinion			Matters emphasised	Paragraph included in the portfolio summary	R million		
			u	q	d/a			Assets	In-come	Expen-diture
<i>Department</i>										
Foreign Affairs	31/05/02	03/09/02	✓			Yes	Yes	1 079,8	2 198,5	2 025,0
Transfer payments										119,1
<i>Public entities</i>										
African Renaissance and International Co-operation Fund	31/05/02	31/07/02	✓			Yes	Yes	312,3	15,0	14,0

u = unqualified audit opinion

q = audit opinion qualified

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**Department: Foreign Affairs**

**Matters emphasised**

Matters reported for the first time

- Inter-departmental balances

The department made a provision for an amount of R50 million in respect of possible disputed agency services claims. The department had taken steps to resolve the amounts owing by other departments and had agreed on the process to verify the disputed amounts.

- Unauthorised expenditure

This resulted from an overspending of R5,9 million of the department's operational budget.

- Computer audit

A computer audit of the general controls of the department indicated that although some controls were in place in the general control environment, significant weaknesses existed in the control environment as a whole.

- Late submission of supporting documentation

The department submitted documents supporting the financial statements after the deadline stipulated by the PFMA.

**Public entity: African Renaissance and International Co-operation Fund**



AUDITOR - GENERAL

### Emphasis of matter

Matters reported in the current and previous years

- No instalments were received on loans outstanding. Instalments in arrears amounted to approximately R30,6 million. It seemed unlikely that these instalments would be recovered; the department had not made a decision on this matter.

Matters reported for the first time

- Money invested with the Corporation for Public Deposits did not attract any interest for the period 22 January to 31 July 2001. The investment could potentially have attracted interest of approximately R12 million.

## 2.10 Minister of Health

The aim of the Department of Health is to promote the health of all people in South Africa through a caring and effective national health system based on the primary health care approach.

ENTITIES IN PORTFOLIO AUDITED BY THE OFFICE OF THE AUDITOR-GENERAL										
Entities in portfolio	Date of submitting financial statements	Date of audit report	Audit opinion			Matters emphasised	Paragraph included in the portfolio summary	R million		
			u	q	d/a			Assets	In-come	Expen-diture
<i>Department</i>										
Health	10/06/02	06/08/02		✓		Yes	Yes	74,5	6 822,2	6 810,6
Transfer payments										6 197,0
<i>Public entities</i>										
South African Medical Research Council	31/05/02	30/07/02	✓			Yes	Yes	226,1	227,6	225,8
Council for Medical Schemes	18/03/02 Note 1	30/08/02	✓			Yes	No	17,9	26,8	18,8
<i>Other entities</i>										
Health Donations Fund	Included within the audit of the department									
King George V Silver Jubilee Fund for Tuberculosis	Audit not finalised									



## AUDITOR - GENERAL

ENTITIES IN PORTFOLIO NOT AUDITED BY THE OFFICE OF THE AUDITOR-GENERAL								
Entities in portfolio	Date of submitting financial statements	Date of audit report	Audit opinion			R million		
			u	q	d/a	Assets	Income	Expenditure
<i>Public entities</i>								
South African National Health Laboratories Services	Information not available							

u = unqualified audit opinion

q = audit opinion qualified

d/a = audit opinion disclaimed or adverse opinion expressed

**Note 1:** Financial year-end is 31 December 2001

Entities falling under the executive's control, but where no separate financial statements are prepared as they are accounted for within programmes administered by the department:

- Medicines Control Council
- Health Research Ethics Committee

**Department: Health**

**Qualified audit opinion**

Matters reported for the first time

- A warrant voucher amounting to R20 million had been issued in the previous financial year for the establishment the South African National Aids Trust. At the date of the report the trust had not yet been established. This resulted in the overstatement of expenditure and the understatement of voted funds to be surrendered by R20 million.

**Matters emphasised**

Matters reported for the first time

- Non-compliance with section 38(i) of the PFMA and provisions of the Division of Revenue Act, 2001 (Act No.1 of 2001) in that certain limitations in the monitoring framework were noted.
- Overspending of donor funding by R22,7 million.
- Purchase of equipment on behalf of a province for an estimated amount of R3 million without a written agreement.

**Public entity: South African Medical Research Council**



AUDITOR - GENERAL

### **Matters emphasised**

Matters reported for the first time

- Accounting policy adopted by the council with regard to land and buildings is contrary to Generally Accepted Accounting Practice.
- Comparatives with regard to disclosure of future operating lease commitments had not been provided.
- Ministerial approvals amounting to R5,7 million for transfer of funds were outstanding.
- Several deficiencies and shortcomings in the internal checking and control measures were identified.

### **2.11 Minister of Home Affairs**

The aim of the Department of Home Affairs is to protect and regulate the interests of the inhabitants of the Republic of South Africa regarding their individual status, identity, and specific rights and powers, and to provide a supporting service to meet this aim.

ENTITIES IN PORTFOLIO AUDITED BY THE OFFICE OF THE AUDITOR-GENERAL										
Entities in portfolio	Date of submitting financial statements	Date of audit report	Audit opinion			Matters emphasised	Paragraph included in the portfolio summary	R million		
			u	q	d/a			Assets	In-come	Expen-diture
<i>Department</i>										
Home Affairs	01/08/02	22/08/02		✓		Yes	Yes	91,9	1 431,2	1 119,5
Transfer payments										104,0
<i>Constitutional Institution</i>										
Electoral Commission	31/05/02	31/07/02		✓		Yes	Yes	129,1	124,3	251,4
<i>Public entities</i>										
Film and Publication Board	29/05/02	29/07/02	✓			Yes	Yes	1,8	5,8	4,6
<i>Other entities</i>										
Government Printing Works Note 1	23/07/02	02/08/02			a	Yes	Yes	314,2	141,5	126,8

u = unqualified audit opinion

q = audit opinion qualified

d/a = audit opinion disclaimed or adverse opinion expressed.

**Note 1:** Previously Government Printing Works were listed for Pretoria and Umtata; however, for 2001-02 the Government Printing Works - Umtata had ceased to operate.

Other institutions falling under the executive's control, but where no separate financial statements are prepared as they are accounted for within the programmes administered by the department:

- Immigrants Selection Board



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**Department: Home Affairs**

**Qualified audit opinion**

Matters reported for the first time

- The accounting officer did not have a valid contract of employment.

**Matters emphasised**

Matters reported for the first time

- Because the director-general did not have a valid employment contract, the expenditure incurred in this regard was contrary to the requirements of the Public Service Act and the PFMA.
- There was a large number of vacant positions including that of chief financial officer due to, *inter alia*, administrative delays in the process, lack of funding and a moratorium on the filling of posts.
- Non-reliance on the work of internal audit was due to lack of capacity and the fact that the section did not focus on the major risks facing the department.
- Several shortcomings existed in the department's system of internal control.
- Unauthorised expenditure of the previous year amounting to R4,5 million as the accounting officer only applied virement after the books were closed and the National Treasury was not informed within the prescribed period.

**Constitutional institution: Electoral Commission**

**Qualified audit opinion**

Matters reported in current and previous years

- The electoral commission inherited unutilised funds to the amount of R45 million from the previous Independent Electoral Commission which should have been paid over to the National Treasury.

**Matters emphasised**

Matters reported for the first time

- Control weaknesses were identified at the Provincial and Municipal Electoral Offices.
- Late tabling of the prior year's audit reports.



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### **Public entity: Film and Publication Board**

#### **Matters emphasised**

Matters reported for the first time

- Certain shortcomings in the Film and Publication Board's internal control measures.

### **Other entity: Government Printing Works**

#### **Adverse audit opinion**

Matters reported for the first time

- Inadequate management of debtors resulting in an estimated amount of R138 million being outstanding for more than 120 days. Under Treasury Regulations overdue accounts should be subject to an interest charge. Had interest been charged on the overdue accounts this would have resulted in further income of approximately R19 million.
- The internal control system surrounding the management of debtors had significant limitations. These included, for example, a lack of debtor reconciliations.
- In order to operate a bank overdraft facility the relevant authority from the National Treasury is required. This authority was not obtained for the R140 million overdraft as at 31 March 2002.
- Financial statements did not comply with generally accepted accounting practice.

#### **Matters emphasised**

Matters reported in current and previous years

- Internal audit could not be relied on due to, amongst others, their being involved in operational activities and therefore possibly compromising their impartiality.
- No budget was prepared for the financial year due to a lack of skilled staff.

Matters reported for the first time

- During the year under review there were various vacant positions including that of the chief financial officer.
- Stock amounting to R9,35 million was written off due to inadequate internal control measures.
- The financial system was inadequately utilised.

## **2.12 Minister of Housing**

The aim of the Department of Housing is to determine, finance, promote, coordinate, communicate and monitor the implementation of policy for housing and human settlement.



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ENTITIES IN PORTFOLIO AUDITED BY THE OFFICE OF THE AUDITOR-GENERAL										
Entities in portfolio	Date of submitting financial statements	Date of audit report	Audit opinion			Matters emphasised	Paragraph included in the portfolio summary	R million		
			u	q	d/a			Assets	Income	Expenditure
<i>Department</i>										
Housing	31/05/02	18/07/02	✓			No	No	1 416,5	3 840,0	3 775,8
Transfer payments										3 646,0
<i>Public entities</i>										
South African Housing Fund	Audit not finalised									
National Home Builders Registration Council	25/06/02	21/07/02	✓			Yes	Yes	235,2	164,9	77,7

ENTITIES IN PORTFOLIO NOT AUDITED BY THE OFFICE OF THE AUDITOR-GENERAL										
Entities in portfolio	Date of submitting financial statements	Date of audit report	Audit opinion			R million				
			u	q	d/a	Assets	Income	Expenditure		
<i>Public entities</i>										
National Housing Finance Corporation	Information is not available									
Subsidiaries:										
Niche Market Lenders Programmes										
Housing Equity Fund										
Housing Institutions Development Fund										
Gateway Home Loans (Pty) Ltd										
National Urban Reconstruction Housing Agency	Information is not available									
SERVCON	Information is not available	12/06/02	✓					27,3	27,1	27,2
Social Housing Foundation	Information is not available	06/08/02	✓					18,3	12,5	11,0
SA Housing Trust	Information is not available									
Thubelisha Homes	Information is not available									



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ENTITIES IN PORTFOLIO NOT AUDITED BY THE OFFICE OF THE AUDITOR-GENERAL								
Entities in portfolio	Date of submitting financial statements	Date of audit report	Audit opinion			R million		
			u	q	d/a	Assets	Income	Expenditure
LANOK(Pty) Ltd	Information is not available							
<i>Other entities</i>								
Rural Housing Loan Fund	Information is not available							
People's Housing Partnership Trust	Information is not available							

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#### **Public entity: National Home Builders Registration Council**

##### **Qualified audit opinion**

Reported for the first time

- Accounts receivable

Problems were encountered in reconciling the debtors age analysis to the general ledger.

- Cash and cash equivalents

Various problems were experienced with regard to reconciliations between the cash book and general ledger.

##### **Matters emphasised**

Reported for the first time

- Included in the total amount for provisions was an amount of R1,3 million relating to penalties and interest for the late submission of VAT returns.
- The internal audit component was not functional for the year under review.



## AUDITOR - GENERAL

## 2.13 Minister of Justice and Constitutional Development

The aim of the Department of Justice and Constitutional Development is to uphold and protect the Constitution and the rule of law, and to render accessible, fair, speedy and cost-effective administration of justice, in the interests of a safer and more secure South Africa.

ENTITIES IN PORTFOLIO AUDITED BY THE OFFICE OF THE AUDITOR-GENERAL										
Entities in portfolio	Date of submitting financial statements	Date of audit report	Audit opinion			Matters emphasised	Paragraph included in the portfolio summary	R million		
			u	q	d/a			Assets	In-come	Expen-diture
<i>Department</i>										
Justice and Constitutional Development	31/05/02	28/07/02		✓		Yes	Yes	938,9	3 353,6	3 216,5
Transfer payments										677,9
<i>Constitutional institutions</i>										
Office of the Public Protector	31/05/02	03/07/02	✓			Yes	No	16,1	30,9	28,9
Human Rights Commission	28/05/02	05/07/02	✓			Yes	Yes	Information is not available		
Truth and Reconciliation Commission Note 3	Audit not finalised									
Commission for Gender Equality	31/05/02	01/07/02	✓			Yes	Yes	0,8	14,2	14,3
<i>Public entities</i>										
Legal Aid Board	31/05/02	12/07/02	✓			Yes	Yes	255,2	322,6	228,4
Special Investigating Unit	31/05/02	31/07/02		✓		Yes	Yes	9,1	22,2	19,2
<i>Other entities</i>										
National Prosecuting Authority Note 1	31/05/02	30/07/02	✓			Yes	Yes	96,1	727,0	725,4
Monies in Trust	31/05/02	31/07/02			d	No	Yes	853,6	Nil	Nil
Guardian's Fund	Audit not finalised									
Represented Political Parties Fund	19/07/02	12/08/02	✓			Yes	Yes	4,3	61,5	63,4
President's Fund	Audit not finalised									
Criminal Asset Recovery Account Note 2	Audit not finalised									

u = unqualified audit opinion

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AUDITOR - GENERAL

**Note 1:** The National Prosecuting Authority is included under the Department of Justice and Constitutional Development for fiscal budgetary purposes. However, it has separate accountability and separate financial statements are prepared for the entity.

**Note 2:** A task team is investigating the financial accountability of the Criminal Asset Recovery Account. This has been linked to the Department of Justice and Constitutional Development as the Minister is the Chairperson of the Ministerial Committee overseeing this account.

**Note 3:** The Truth and Reconciliation Commission closed office on 31 March 2002.

### ***Department: Justice and Constitutional Development***

#### ***Qualified audit opinion***

Matters reported in the current and previous years

- Suspense accounts existed with balances amounting to R36 million that had been outstanding for more than one year.

Matters reported for the first time

- Interface problems between the Reserve Bank and commercial banks caused unresolved differences in the PMG account.
- The PMG adjustment account totalled R24,2 million at year-end.
- Payments totalling R15 million had been cleared by the bank but were not processed through FMS.
- Duplicate entries totalling R46 million were included in the department's accounts with the commercial banks.

The effect of resolving these entries on the financial statements is uncertain.

- Revenue of R5,6 mil was not recorded through the Financial Management System, resulting in uncertainty regarding its allocation to the department.

#### ***Matters emphasised***

Matters reported in the current and previous years

- Poor management of assets had the result that asset and inventory registers were not updated; there were delays in processing disposals; assets were not marked as prescribed; annual stocktaking was not performed, leaving losses unaccounted for; adequate segregation of duties did not always occur and obsolete stock was not written off in terms of departmental financial instructions.
- Reconciliation of operational and financial systems did not take place on a regular basis.
- Poor budgeting and budgetary control existed at a regional level.



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Matters reported for the first time

- Areas of poor financial management included administration of employee payables and application of delegated authority.
- Non-compliance with the PFMA was caused by processing backlogs which resulted in service providers not being paid timeously and asset transfers to the value of R70 million were not made in accordance with section 42.

### ***Constitutional institution: Human Rights Commission***

#### ***Matters emphasised***

Matters reported in the current and previous years

- The internal audit function and audit committee were not functional for the period under review.

### ***Constitutional institution: Commission for Gender Equality***

#### ***Matters emphasised***

Matters reported for the first time

- Cheques amounting to R3 506 were cashed with no signature and cheques to the amount of R26 788 were cashed with only one signature.

### ***Public entity: Legal Aid Board***

#### ***Matters emphasised***

Matters reported in the current and previous years

- Poor internal checking and control resulted in inefficiencies in internal control systems.
- Non-compliance with the Legal Aid Guide occurred in that aid should only be provided to indigent persons permanently resident or economically active in South Africa. From some case files it could not be determined whether the applicant was resident or non-resident in South Africa.
- Non-compliance with the VAT Act resulted in penalties and interest being incurred to the value of R1,9 million, which was disclosed as fruitless and wasteful expenditure.
- Litigation against the Legal Aid Board had been instituted but the financial impact was uncertain; however, an amount of R300 290 had been provided in the financial statements.

Matters reported for the first time

- No actuarial valuation was performed on post-retirement employee benefits. The completeness and accuracy of liability for post-retirement benefits could thus not be evaluated.
- Non-compliance with the PFMA as no rolling three-year internal audit plan was in place.



AUDITOR - GENERAL

**Public entity: Special Investigating Unit****Qualified audit opinion**

Matters reported in the current and previous years

- Interest earned less bank charges on trust funds was used to fund operational expenditure, resulting in differences between the bank balances and trust accounts in the financial statements.
- Poor trust account management and inadequate systems and control structures led to uncertainty over the validity and completeness of trust accounts.

Matters reported for the first time

- The Special Investigating Unit used a manual case tracking system for managing and controlling achievements. The nature of the manual system together with weakness in control caused uncertainty as to the completeness and accuracy of the cases taken on.

**Matters emphasised**

Matters reported in current and previous years

- Conflicting judgements have arisen relating to the recovery of debt by the Special Investigating Unit and as a result amendments to the act have been formulated and are being considered.

**Other entity: National Prosecuting Authority****Matters emphasised**

Matters reported for the first time

- Poor financial management controls have resulted in inadequate debtor management.
- Tender Committee approvals were not done timeously by the NPA Tender Committee.

**Other entity: Monies in Trust****Disclaimer of audit opinion**

Matters reported in the current and previous years

- Internal controls were inadequate and full and proper accounting records had not been maintained since April 1994. As a result it was not possible to draw up auditable financial statements.



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**Other entity: Represented Political Parties Fund****Matters emphasised**

Matters reported in the current and previous years

- Some of the political party statements were not timeously submitted for reviewing and auditing as per the relevant legislation.

Matters reported for the first time

- The fund had not yet been listed as a public entity although it meets the definition of a public entity.
- Reports on the fund's prior years were not tabled within 30 days after receipt of audited financial statements.

**2.14 Minister of Labour**

The aim of the Department of Labour is to play a significant role in reducing unemployment, poverty and inequality through policies and programmes, developed in consultation with role players, aimed at improved economic efficiency and productivity, skills development and employment creation, sound labour relations, eliminating inequality and discrimination in the workplace, alleviating poverty in the workplace, as well as employment, and protection and enhancement of worker rights and benefits.

**ENTITIES IN PORTFOLIO AUDITED BY THE OFFICE OF THE AUDITOR-GENERAL**

Entities in portfolio	Date of submitting financial statements	Date of audit report	Audit opinion			Matters emphasised	Paragraph included in the portfolio summary	R million		
			u	q	d/a			Assets	Income	Expenditure
<i>Department</i>										
Department of Labour	30/05/02	27/07/02	✓			Yes	Yes	204,8	4 042,7	3 974,2
Transfer payments										862,5
<i>Public entities</i>										
Unemployment Insurance Fund	31/05/02	22/07/02			d	Yes	Yes	638,5	3 081,7	3 455,8
Compensation Fund	29/04/02	28/06/02		✓		Yes	Yes	10 436,3	2 439,2	1 892,8
Commission For Conciliation, Mediation and Arbitration	31/05/02	17/07/02	✓			Yes	No	32,0	137,9	142,5
Sector Education Training Authorities (SETAs)										
BANKSETA	31/05/02	29/07/02	✓			No	No	24,7	132,9	117,3
Chemical Industries (CHIETA)	31/05/02	10/07/02	✓			No	No	105,6	108,0	97,9
Clothing Textiles Footwear and Leather (TEXTILES)	31/05/02	31/07/02	✓			Yes	Yes	44,4	46,9	31,9



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ENTITIES IN PORTFOLIO AUDITED BY THE OFFICE OF THE AUDITOR-GENERAL										
Entities in portfolio	Date of submitting financial statements	Date of audit report	Audit opinion			Matters emphasised	Paragraph included in the portfolio summary	R million		
			u	q	d/a			Assets	Income	Expenditure
Construction, Education and Training (CETA)	31/05/02	31/07/02	✓			Yes	Yes	88,1	15,0	9,5
Diplomacy Intelligence Defence and Trade (DIDTETA)	31/05/02	31/07/02	✓			Yes	Yes	8,6	4,4	4,8
Education Training and Development Practices	31/05/02	14/07/02	✓			Yes	No	141,1	127,5	102,7
Energy	31/05/02	15/07/02	✓			Yes	No	38,2	40,2	18,0
Financial and Accounting Services (FASSET)	31/05/02	29/07/02	✓			No	No	70,3	61,8	30,4
Food and Beverages	31/05/02	12/07/02	✓			No	No	73,8	70,9	49,8
Forest Industries (FIETA)	31/05/02	29/07/02	✓			No	No	35,7	35,1	24,4
Health and Welfare	26/07/02	27/07/02		✓		No	Yes	94,7	25,9	9,2
Information Systems Electronics and Telecommunications Technologies (ISETT)	31/05/02	31/07/02		✓		Yes	Yes	0,148	0,024	0,012
Insurance (INSETA)	31/05/02	29/07/02	✓			No	No	17,7	73,6	66,1
Local Government Water and Related Services (LGWSETA)	31/05/02	23/07/02	✓			Yes	No	146,7	108,0	41,4
Manufacturing Engineering and Related Services (MERSETA)	31/05/02	23/07/02	✓			No	No	309,9	285,9	68,5
Media Advertising Publishing Printing and Packaging (MAPPP)	31/05/02	24/07/02		✓		Yes	Yes	59,0	69,8	55,5
Mining Qualifications Authority (MQA)	31/05/02	20/07/02	✓			No	No	238,4	220,4	144,2
POSLECSETA	07/06/02	20/08/02	✓			Yes	No	46,8	11,0	10,7
Primary Agriculture (PAETA)	31/05/02	31/07/02	✓			No	No	32,8	4,5	2,0
PSETA	Financial statements included in Dept. of Public Service and Administration									
Secondary Agriculture (SETASA)	31/05/02	24/07/02	✓			Yes	No	47,8	6,5	3,6
Services	31/05/02	08/07/02	✓			No	No	146,2	145,4	51,7



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ENTITIES IN PORTFOLIO AUDITED BY THE OFFICE OF THE AUDITOR-GENERAL										
Entities in portfolio	Date of submitting financial statements	Date of audit report	Audit opinion			Matters emphasised	Paragraph included in the portfolio summary	R million		
			u	q	d/a			Assets	Income	Expenditure
Tourism Hospitality and Sport (THETA)	31/05/02	17/07/02		✓		Yes	Yes	63,7	57,2	54,3
Transport Education (TETA)	31/05/02	24/07/02	✓			Yes	No	152,5	155,5	151,0
Wholesale & Retail (W&RSETA)	31/05/02	29/07/02	✓			No	No	179,1	170,5	95,0
<i>Other entities</i>										
National Skills Fund	26/07/02	12/08/02	✓			No	No	823,6	589,3	262,5
Service Product Factories	30/05/02	22/07/02	✓			Yes	Yes	62,9	99,0	88,7

ENTITIES IN PORTFOLIO NOT AUDITED BY THE OFFICE OF THE AUDITOR-GENERAL										
Entities in portfolio	Date of submitting financial statements	Date of audit report	Audit opinion			R million				
			u	q	d/a	Assets	Income	Expenditure		
<i>Public entities</i>										
National Economic, Development and Labour Council	06/05/02	31/05/02		✓				14,6	16,9	6,8
National Productivity Institute	10/05/02	27/05/02	✓					23,9	47,4	44,5
Unsobomvu Youth Fund	Audit not finalised									

u = unqualified audit opinion

q = audit opinion qualified

d/a = audit opinion disclaimed or adverse opinion expressed

### Department: Labour

#### Matters emphasised

Matters reported in the current and previous years

- Implementation of the findings of the Browde/White Commission instituted in terms of section 236(6) of the interim Constitution of the Republic of South Africa, 1993 (Act No. 200 of 1993): In the previous audit report it was mentioned that the process of recovering outstanding amounts had been delayed due to the fact that the department had been informed by the South African Public Servants and Allied Workers Union on 25 August 1999 that the Umtata High Court had ruled in a case that the Judge White Commission had no jurisdiction to hear and



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pronounce on cases after 31 December 1995. At the time of the audit report the department was still awaiting the ruling with regard to the pending Appeal Court case challenging the findings of the Umtata High Court on the jurisdiction of the Judge White Commission.

### **Public entity: Unemployment Insurance Fund (UIF)**

#### **Disclaimer of opinion**

Matters reported in the current and previous years

#### *Going concern*

- Financial position

Financial position of the fund: The accumulated deficit reflected in the balance sheet as at 31 December 2001 decreased to R987,5 million. The decrease was mainly attributable to a government grant to the amount of R605 million allocated to the fund. The fund was, however, still rendered technically insolvent and should present trends continue, the fund's ability to meet its obligations is doubtful.

- Actuarial reports

Although preliminary actuarial assessments in 1996 and interim financial projections as at 31 December 1997 indicated that the fund would be in an unsound position unless certain specific recommendations were implemented, a process had only recently been started to have the fund actuarially valued for the fifteen-month period ending 31 March 2003.

- Statistical frame and data collection

The future development of the fund was still tainted with enormous uncertainty mainly due to the deficient statistical database. The fund did not know the number and characteristics of its insured persons, nor did it know the exact size of the entitlements that these insured persons have accrued.

- Concerns regarding the administration of contributions by employers and employees

The administration surrounding contributions was still a concern due to the manner in which late contributions, incorrect payments, arrear contributions, tracing of unregistered employers and subsequent penalties were managed, cash receipts had not yet been allocated to specific debtors and inefficient follow-up procedures had resulted in a provision for irrecoverable contributions.

The fund was not in a position to provide details regarding the completeness of employers registered with the fund.

The program for charging and collecting penalties and interest for late receipt of contributions had still not been effectively applied at both head office and regional offices.



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The controls implemented to ensure the accuracy, completeness and validity of earnings declared and on which contributions were calculated, did not function effectively during the year.

- Benefit payments to contributors were qualified

An actuarially calculated provision for benefits payable as at year-end was still not possible. The fund could not accurately determine the number and the characteristics of its insured persons, nor did it know the exact size of the entitlements that these insured persons had accrued.

Although claims officers carried out random checks to confirm the correctness of information on record cards/employer certificates, the possibility still existed that payments would be made on grounds of doubtful and/or inaccurate record cards/employer certificates.

Internal controls at regional offices were found to be inadequate as reported previously. In general, the lack of controls at regional offices was found to be of such a magnitude that the completeness, accuracy and validity of benefits paid at regional offices could not be confirmed.

- Services rendered by the Department of Labour

Personnel, administration and rental expenses: It was established that the percentage distribution of the value of services rendered to the fund by the Department of Labour was not based on a scientific time study but on approximations made in October 1999 by officials at different regions. Consequently, an audit to determine the reasonableness of this liability of R182,4 million (2000: R182,4 million) could not be carried out. The liability had not been revised since October 1999. It was not possible to verify the correctness thereof since no written agreement between the fund and the Department of Labour covering the arrangements could be presented for audit purposes.

- Provision for post-retirement benefits (accrued leave and bonuses)

The fund again did not provide for the potential liability arising from accrued leave and bonuses payable to employees.

Matters reported for the first time

Material breakdown in internal control systems and procedures

- The fund experienced a material breakdown in internal control systems and procedures with regard to contributions receivable, administration of bank accounts and updating of accounting records during the 2001 financial year.
- The contributions receivable system implemented by the fund was not effectively utilised.
- The general ledger was only updated with transactions relating to the 2001 financial year during November 2001.



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- Monthly management reports detailing actual versus budgeted results were not compiled for the financial year under review.
- Various sections of the PFMA were not complied with.
- Declarations of earnings by employers: The controls implemented to ensure the accuracy, completeness and validity of earnings declared and according to which contributions are calculated did not function effectively during the year. It was therefore not possible to comment on the completeness, accuracy and validity of contributions declared by employers.

- Government grant

Although an amount of R605 million had already been accounted for as a government grant in the 2001 financial year, a formal agreement between the fund, the National Treasury and/or the Department of Labour confirming the validity, accuracy and completeness of the grant was not submitted for audit purposes.

- Not registered as a value-added tax (VAT) vendor

The fund is earning investment income in excess of R300 000 and is liable for registration as a value-added tax vendor in terms of section 23 of the Value-added Tax Act, 1991 ( Act No. 89 of 1991). No provision had been made for the value-added tax, interest and penalties payable as a result of the non-registration.

### **Matters emphasised**

Matters reported for the first time

- Fixed assets

There was still very little or no control over the maintenance of standing data in the fixed asset register. No periodic reconciliation was performed between the fixed asset register and the general ledger. Therefore, the fund did not maintain an adequate fixed asset register to support the book value of movable assets amounting to R3 million (2000: R1,8 million).

- Investment properties

The fund could not provide proper accounting records to reflect the completeness and accuracy of income from investment properties.

- Forensic investigation

Without going through tender processes a private firm was appointed to collect outstanding unemployment insurance contributions from employers. R20 100 969 had been recovered and commission of R4 637 351 (23%) was paid to the firm.



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

- Computer audit
  - The 2001-02 audit and subsequent review indicated that although some controls were in place in the general control environment, significant weaknesses existed in the control environment as a whole.
  - The audit of the LINC regional application indicated that access control weaknesses still existed with regard to user account management procedures and follow-up of violation reports.

**Public entity: Compensation Fund**

**Qualified audit opinion**

Matters reported in the current and previous year(s)

- Property, plant and equipment

There was a net difference of R1 018 995 between the general ledger and the fixed asset register at 28 February 2002, compared to R1 249 794 in the previous year. The controls over fixed assets remained a cause for concern.

Matters reported for the first time

- Disallowances

Disallowances consisting of overpayments and duplicate payments in respect of medical, compensation and pension payments had increased to R6 782 722 (2001: R5 523 979). The long outstanding items included cases of external fraud on cheques that took a long time to recover by means of legal action.

- Financial management structure of the fund

Section 49(20)(b) of the PFMA indicates that if the public entity does not have a controlling body, the chief executive officer or the person in charge of the public entity is the accounting authority for the public entity, unless specific legislation applicable to the public entity designates another person as the accounting authority. Based on the above, the director-general should consider obtaining the required approval in terms of section 49(3) of the PFMA for the appointment of the Compensation Commissioner as the accounting authority.

- Information system environment

A follow-up audit of the general controls surrounding the information system environment indicated that although some of the findings of the previous audit had been addressed, control weaknesses still existed in the control environment as whole. The most significant control weakness was that a formally documented disaster recovery plan had still not been developed and implemented.



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

- Accounts receivable

The fund had included in its accounts receivable an amount of R73 041 101 in claims against the Road Accident Fund which was experiencing financial difficulties. The balance of the Road Accident Fund had increased by 36% from the previous financial year. At that stage, there was no third party guarantee in the event of default by the Road Accident Fund.

**Public entity: Clothing, Textiles, Footwear and Leather SETA (TEXTILES)**

**Matters emphasised**

Matters reported for the first time

- Remittances received

Remittances received from the Department of Labour through the South African Revenue Service were not received within 21 days as provided for in terms of section 8(3), read with section 6(5) of the Skills Development Levies Act, 1999 (Act No. 9 of 1999). Remittances were, at times, up to three months overdue causing significant cash flow problems for the council.

- Levy debtors not raised

The issue relating to the collection of levies from companies who did not pay was still unresolved. Several companies did not pay any levies for the period under review and no levy income had been accrued for these outstanding levies.

**Public entity: Construction, Education and Training SETA (CETA)**

**Matters emphasised**

Matters reported for the first time

- Recovery of levy payable by employers

In terms of employer's files information provided by Department of Labour, CETA was expected to have 16 554 employers contributing skill development levies as at 31 March 2002. However, the actual number of employers contributing was 7 524 as at 31 March 2002.

According to section 14(3) of the Skills Development Levies Act, 1999 ( Act No. 9 of 1999), any levy that remains unpaid on the last day for payment thereof, may be recovered by action in the magistrate's court. As per section 7(1), the SETA or its collecting agents must obtain approval from the minister to follow up outstanding levies. Management indicated that no approval had been obtained from the Minister of Labour to follow up the outstanding levies.



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

- Accumulated surplus funds

In terms of section 53(3) of the PFMA and paragraph 19.7 of the Treasury Regulations, 2001, CETA declared surplus funds to the National Treasury through the Department of Labour for rollovers. Surplus funds from operations for the period under review amounted to R4 572 123 (2001: R9 109 756).

- Transfer of former Training Board assets and liabilities not yet finalised

The transfer of assets of R5 864 523 and liabilities of R4 235 539 to CETA had not been finalised. These assets and liabilities belonged to the Building Industry Training Board (BITB) and Building Industry Training Scheme (BITS).

- Uncertainty regarding timing of VAT liability

Included in the current liabilities in the balance sheet, was an amount of R1 389 686 (2001: R6 130 891) representing a VAT liability raised on grant levies when they were committed to projects. Management was uncertain regarding the timing of payment to the South African Revenue Service (SARS).

**Public entity: *Diplomacy, Intelligence, Defence and Trade SETA (DIDTETA)***

***Matters emphasised***

Matters reported for the first time

- Accumulated surplus funds

DIDTETA declared surplus funds to the National Treasury through the Department of Labour and applied for rollovers. At the time of the audit report no approval for the rollovers had been obtained. Surplus funds from operations for the period under review amounted to R5 636 600 (2001: R7 011 477).

**Public entity: *Health and Welfare SETA***

***Qualified audit opinion***

Matters reported for the first time

- Liabilities to the amount of R64 922 740 could not be substantiated by the actual claims lodged by employers at year-end.



AUDITOR - GENERAL

**Public entity: Information Systems, Electronics and Telecommunication Technologies SETA (ISETT)**

**Qualified audit opinion**

- Overstatement of equipment

The existence, ownership and valuation of assets to the carrying amount of R537 831 could not be verified due to the lack of adequate supporting documentation and accounting records. These assets were transferred from the former Training Board in terms of the transitional provisions contained in Schedule 2 of the Skills Development Act, 1998 (Act No. 97 of 1998).

**Matters emphasised**

Matters reported for the first time

- Recovery of levy payable by employers

In terms of employer's records provided by the Department of Labour, ISETT is expected to have approximately 7 000 employers contributing skills development levies. However, the actual number of employers contributing is approximately 3 000.

According to section 14(3) of the Skills Development Levies Act of 1999, any levy that remains unpaid on the last day for payment thereof, may be recovered by action in the magistrate's court. As per section 7(1), the SETA or its collecting agents must obtain approval from the minister to follow up outstanding levies.

- Accumulated surplus funds

In terms of section 53(3) of the PFMA and paragraph 19.7 of the Treasury Regulations of 2001, ISETT declared surplus funds to the National Treasury through the Department of Labour for rollovers. Surplus funds from operations for the period under review amounted to R2 959 000.

- Transfer of assets, liabilities and operations of the Training Board

The transfer of assets, liabilities and operations of the Information Technology Industry Training Board has not been legally finalised. Not all the documentation and accounting records supporting the transfer could be presented for audit purposes.



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

**Public entity: Media, Advertising, Publishing, Printing and Packaging SETA (MAPPP)**

**Qualified audit opinion**

Matters reported for the first time

- Levy income

The completeness of levy income amounting to R67 609 470 (administration, levy, employer grant fund levy and penalties/interest) could not be confirmed as the South African Revenue Service did not submit substantiating evidence and detail in respect of the levies transferred via the National Skills Authority (Department of Labour) to MAPPP.

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

**Qualified audit opinion**

- Non-compliance with GAAP

A provision of R34 156 000 was incorrectly made in respect of unsubstantiated claims against THETA.

**Other entity: Service Product Factories**

**Matters emphasised**

Matters reported in the current and previous years

- Legislation on Service Product Factories

Previously it was mentioned that the Minister of Labour had appointed a task team to investigate the legislative position of the Service Product Factories. The department indicated on 15 April 2002 that the final proposal of the task team on the restructuring of the Service Product Factories had been forwarded to the minister for his consideration.

**Investigation into alleged irregularities**

- N'dabeni factory

It was mentioned in the previous report that the outstanding balance of R127 751 could not be recovered. The department indicated on 2 July 2002 that the whereabouts of the ex-manager was not known and this made a decision on civil action options and the feasibility of further expenditure on the matter extremely problematic. The department, on advice of the State Attorney, had elected to abandon the counterclaim and close the file on the matter.



AUDITOR - GENERAL

- Pretoria factory

It was mentioned in the previous report that internal disciplinary procedures would be instituted. The department indicated on 2 July 2002 that the internal disciplinary procedures had been instituted and the staff member concerned discharged on 15 January 2002.

## 2.15 Minister of Minerals and Energy

The aim of the Department of Minerals and Energy is to address historical imbalances in South Africa through the equitable redistribution of energy and mineral resources, positioning both sectors for global leadership, and developing South Africa's human resources for the strategic management of these industries.

ENTITIES IN PORTFOLIO AUDITED BY THE OFFICE OF THE AUDITOR-GENERAL										
Entities in portfolio	Date of submitting financial statements	Date of audit report	Audit opinion			Matters emphasised	Paragraph included in the portfolio summary	R million		
			u	q	d/a			Assets	Income	Expenditure
<i>Department</i>										
Minerals and Energy	31/05/02	31/07/02	✓			Yes	Yes	361,7	1 855,1	1 251,6
Transfer payments										1 008,1
<i>Public entities</i>										
CEF (Pty) Ltd	31/05/02	31/07/02	✓			Yes	No	10 935,5	2 127,3	455,9
SFF Association (Association incorporated under section 21)	31/05/02	31/07/02	✓			Yes	Yes	3 702,7	2 113,9	1 289,4
Petroleum, Oil and Gas Corporation South Africa (Pty) Ltd (PetroSA)	31/05/02	31/07/02	✓			Yes	No	11 392,8	5 708,3	4 568,3
South African Agency for Promotion of Petroleum Exploration and Exploitation (Pty) Ltd	31/05/02	31/07/02	✓			No	No	42,7	38,7	24,1
Mosshold (Pty) Ltd	31/05/02	31/07/02	✓			No	No	0	247,1	0
Oil Pollution Control SA (Association incorporated under section 21)	31/05/02	31/07/02	✓			No	No	16,3	2,4	2,4
Mahnes Areas (Pty) Ltd	31/05/02	31/07/02	✓			Yes	No	0,02	0	0
African Exploration Mining and Finance (Pty) Ltd	31/05/02	31/07/02	✓			No	No	0	0	0
Klippoortje Koolmyne (Pty) Ltd	31/05/02	31/07/02	✓			Yes	No	0,2	0	0
Soekor E & P (Pty) Ltd	31/05/02	31/07/02	✓			No	No	0,002	0	0
Soekor (Pty) Ltd	31/05/02	31/07/02	✓			No	No	66,9	12,4	5,4
Soekor Infanta (Pty) Ltd	31/05/02	31/07/02	✓			Yes	No	0	0	0



## AUDITOR-GENERAL

ENTITIES IN PORTFOLIO AUDITED BY THE OFFICE OF THE AUDITOR-GENERAL										
Entities in portfolio	Date of submitting financial statements	Date of audit report	Audit opinion			Matters emphasised	Paragraph included in the portfolio summary	R million		
			u	q	d/a			Assets	Income	Expenditure
Gannet Transport Company (Pty) Ltd	31/05/02	31/07/02	✓			No	No	0,005	0,3	0,3
Mossgas Housing Finance (Pty) Ltd	31/05/02	31/07/02	✓			No	No	0	0	0
Agemo (Pty) Ltd	31/05/02	31/07/02	✓			No	No	368,9	55,2	85,1
Agemo Corporation	31/05/02	31/07/02	✓					0	0	0
Cotec Development (Pty) Ltd	31/05/02	31/07/02	✓			No	No	0	0	0
Cotec Patrade (Pty) Ltd	31/05/02	31/07/02	✓			No	No	2,0	2,1	2,5
S A Gas Development Company (Pty) Ltd	31/05/02	31/07/02	✓			No	No	0,035	0	5,6
Enerkom (Pty) Ltd	31/05/02	31/07/02	✓			No	No	3,4	0,4	20,1
Enerkom Products (Pty) Ltd	31/05/02	31/07/02	✓			No	No	0	0	0
Council for Geoscience	31/05/02	31/07/02	✓			Yes	No	119,9	98,9	80,9
National Electricity Regulator	31/05/02	31/07/02	✓			Yes	No	21,7	31,2	31,7
Council for Mineral Technology (MINTEK)	31/05/02	31/07/02	✓			Yes	Yes	213,0	195,8	174,8
South African Diamond Board	31/05/02	31/07/02			a	Yes	Yes	3,5	14,8	16,8
National Nuclear Regulator	31/05/02	31/07/02	✓			Yes	No	15,1	39,7	43,0
<i>Other entities</i>										
Equalisation Fund	31/05/02	31/07/02	✓			No	No	85,9	6,9	4,7

ENTITIES IN PORTFOLIO NOT AUDITED BY THE OFFICE OF THE AUDITOR-GENERAL										
Entities in portfolio	Date of submitting financial statements	Date of audit report	Audit opinion			R million				
			u	q	d/a	Assets	Income	Expenditure		
<i>Public entities</i>										
SA Nuclear Energy Corporation (NECSA)	31/05/02	31/07/02	✓					387,9	487,5	494,2



AUDITOR - GENERAL

**Department of Minerals and Energy****Matters emphasised**

Matters reported in current and previous year(s):

- Royalty income

The systems utilised to administer royalty income were currently inadequate to provide assurance that all income from this source was received.

**Public entity: South African Diamond Board****Adverse audit opinion**

- As a result of the significant increase in liabilities and the significant losses reported in the financial statements, as well as the uncertainty surrounding the contingent obligations and the cash flow problem, the going concern is in doubt.
- No supporting documentation and/or required authorisation could be obtained for credit notes amounting to R1 548 405.

**2.16 Minister of the Office of the President**

The aim of the Presidency is to enable the President and the Deputy President to fulfil their constitutional responsibilities and other related functions.

The aim of the Government Communication and Information System is to provide a comprehensive communication service on behalf of government to facilitate the involvement of the majority of South Africans in the process of governance, reconstruction and development, nation building and reconciliation.



## AUDITOR - GENERAL

ENTITIES IN PORTFOLIO AUDITED BY THE OFFICE OF THE AUDITOR-GENERAL										
Entities in portfolio	Date of submitting financial statements	Date of audit report	Audit opinion			Matters emphasised	Paragraph included in the portfolio summary	R million		
			u	q	d/a			Assets	Income	Expenditure
<i>Departments</i>										
The Presidency	31/05/02	31/07/02	✓			Yes	Yes	9,0	120,8	110,0
Transfer payments										11,0
Government Communication and Information System	31/05/02	31/07/02	✓			Yes	Yes	12,3	125,3	122,7
Transfer payments										Nil
<i>Public entities</i>										
National Youth Commission	Audit not finalised									

u = unqualified audit opinion

q = audit opinion qualified

d/a = audit opinion disclaimed or adverse opinion expressed

**Department: The Presidency**

**Matters emphasised**

Matters reported in the current and the previous years

- Asset registers were not accurate and complete due to the lack of a reconciliation between the data on the basic accounting system (BAS) and the logical information system (LOGIS).

**Department: Government Communication and Information System**

**Matters emphasised**

Matters reported in the current and previous years

- Asset management
  - Asset registers were not accurate and complete.
  - The annual stocktaking had not been finalised.
  - Movements in assets were not controlled adequately.
  - No reconciliation was performed between the asset purchases on LOGIS and FMS.



AUDITOR - GENERAL

Matters reported for the first time

- Weaknesses were identified in the logical access controls within the IT environment.

## 2.17 Parliament

The aim of the vote is to provide the support services required by Parliament to fulfil its constitutional functions, to assist political parties represented in Parliament to secure administrative support and service constituents, and to provide Members of Parliament with the necessary facilities.

ENTITIES IN PORTFOLIO AUDITED BY THE OFFICE OF THE AUDITOR-GENERAL										
Entities in portfolio	Date of submitting financial statements	Date of audit report	Audit opinion			Matters emphasised	Paragraph included in the portfolio summary	R million		
			u	q	d/a			Assets	Income	Expenditure
<i>Departments</i>										
National Parliament	05/06/02	31/07/02	✓			Yes	Yes	22,5	445,6	449,4

u = unqualified audit opinion

q = audit opinion qualified

d/a = audit opinion disclaimed or adverse opinion expressed

### **Parliament**

#### **Matters emphasised**

Matters reported in the current and previous years

- Late submission of financial statements: Unsigned financial statements were submitted on 31 May 2002; however, signed financial statements were submitted on 5 June 2002.

Matters reported for the first time

- Unauthorised expenditure: Parliament exceeded the voted funds by R17 463 000.
- Employee tax: Included in personnel expenditure was a payment of R468 555 in respect of employee tax for the 1997 tax year.
- Budget process: Proof could not be submitted that the budget was prepared on a zero basis and an indication of the parameters to measure indicators in the Estimates of National Expenditure 2002 could not be provided.



## AUDITOR - GENERAL

- Catering: Catering services were not self-supporting and were substantially subsidised by Parliament. Only 25% of the expenditure was recovered which resulted in a loss of R12 838 918 for the year under review.
- Parliamentary Millennium Project: Accountability and audit arrangements could not be provided for audit purposes for various local and foreign donations received.
- Constituent's allowances and financing of support staff of political parties: Non-compliance with section 38(1)(j) of the PFMA occurred and employment contracts for support staff in terms of regulations could not be provided.
- Weaknesses in internal control: Various internal control weaknesses existed.

### 2.18 Minister of Provincial and Local Government

The aim of the Department of Provincial and Local Government is to develop and promote a national system of cooperative governance and to support the development of provincial and local government.

ENTITIES IN PORTFOLIO AUDITED BY THE OFFICE OF THE AUDITOR-GENERAL										
Entities in portfolio	Date of submitting financial statements	Date of audit report	Audit opinion			Matters emphasised	Paragraph included in the portfolio summary	R million		
			u	q	d/a			Assets	Income	Expenditure
<i>Departments</i>										
Provincial and Local Government	31/05/02	30/07/02	✓			Yes	Yes	105,8	4 801,0	4 690,0
Transfer payments										4 544,4
<i>Constitutional institutions</i>										
Municipal Demarcation Board	29/05/02	19/07/02	✓			Yes	Yes	10,8	19,3	16,2
<i>Other entities</i>										
South African Local Government Association	Audit not finalised									

ENTITIES IN PORTFOLIO NOT AUDITED BY THE OFFICE OF THE AUDITOR-GENERAL										
Entities in portfolio	Date of submitting financial statements	Date of audit report	Audit opinion			R million				
			u	q	d/a	Assets	Income	Expenditure		
<i>Public entities</i>										
Municipal Infrastructure Investment Unit	Information not available	18/04/02	✓					18,7	2,4	3,3

u = unqualified audit opinion

q = audit opinion qualified

d/a = audit opinion disclaimed or adverse opinion expressed



AUDITOR - GENERAL

### **Department: Provincial and Local Government**

#### **Matters emphasised**

Matters reported for the first time

- Non-compliance with the Division of Revenue Act

The information on frameworks for the allocation of grants was published in a Government Gazette as required in terms of section 8(1) of the Division of Revenue Act, 2001. For the year under review the department could not provide sufficient evidence to substantiate the monitoring of compliance with all the conditions and measure outputs as gazetted.

### **Constitutional institution: Municipal Demarcation Board**

#### **Matters emphasised**

Matters reported in the current and previous years

- Non-compliance with the PFMA: Internal audit

An internal audit unit was not established for the greater part of the year and thus the board did not comply with the PFMA.

Matters reported for the first time

- Contingent liability: Retention of accumulated surplus

No approval could be obtained from the Minister of Provincial and Local Government with the concurrence of the Minister of Finance to retain the unutilised funds received from Parliament amounting to R4,336 million.

- Contingent liability: Significant uncertainty regarding litigation

The board is currently in legal disputes regarding the dismissals of four of its former employees. The ultimate outcome could not be determined at the date of the audit report.

## **2.19 Minister of Public Enterprises**

The aim of the Department of Public Enterprises is to direct and manage the accelerated restructuring of state-owned enterprises to maximise shareholder value.



## AUDITOR - GENERAL

ENTITIES IN PORTFOLIO AUDITED BY THE OFFICE OF THE AUDITOR-GENERAL										
Entities in portfolio	Date of submitting financial statements	Date of audit report	Audit opinion			Matters emphasised	Paragraph included in the portfolio summary	R million		
			u	q	d/a			Assets	Income	Expenditure
<i>Departments</i>										
Public Enterprises	31/05/02	18/07/02	✓			Yes	Yes	14 919,7	1 728,9	196,4
Transfer payments										nil

ENTITIES IN PORTFOLIO NOT AUDITED BY THE OFFICE OF THE AUDITOR-GENERAL									
Entities in portfolio	Date of submitting financial statements	Date of audit report	Audit opinion			R million			
			u	q	d/a	Assets	Income	Expenditure	
<i>Public entities</i>									
Transnet Limited	22/07/02	Audit not finalised							
COMPANIES - Freight Dynamics - MetroRail - PetroNet - National Ports Authority - South African Port Operations - PropNet - Spoornet - Transtel - Transwerk  SUBSIDIARIES Partially owned: - Air Chefs (Pty) Ltd - Marine Data Systems (Pty) - South African Airways (Pty) Ltd  Wholly owned: - South African Airline Holdings (Pty) Ltd - Apron Services (Pty) Ltd - Autopax (Pty) Ltd - B2B African Holdings (Pty) Ltd - Esselen Park Developments (Pty) Ltd - Protekon (Pty) Ltd - Transure Ltd									



AUDITOR-GENERAL

ENTITIES IN PORTFOLIO NOT AUDITED BY THE OFFICE OF THE AUDITOR-GENERAL								
Entities in portfolio	Date of submitting financial statements	Date of audit report	Audit opinion			R million		
			u	q	d/a	Assets	Income	Expenditure
<i>Public entities - Continued</i>								
- Transtrade (Pty) Ltd								
- Transwerk Rollstock (Pty) Ltd								
- Transwerk Traction (Pty) Ltd								
- Viamax (Pty) Ltd								
- Victoria and Alfred Waterfront (Pty) Ltd								
- Owner Driver Management (Pty) Ltd								
- Autopax Passenger Services (Pty) Ltd								
- Proprade (Pty) Ltd								
- The Bay Waterfront (Pty) Ltd								
- Transhold Properties (Pty) Ltd								
- Transite Properties (Pty) Ltd								
- Transpoint Properties (Pty) Ltd								
- Freight Logistics International Inc.								
- Spoornet Do Brazil Ltda								
MATERIAL ASSOCIATES								
- M-Cell Ltd								
- Ariviakom								
ESKOM								
Note 1	28/02/02	28/02/02	✓			76 909,0	27 482,0	24 764,0
ASSOCIATE COMPANIES								
Directly held:								
- PN Energy Services (Pty) Ltd								
- TED (Pty) Ltd								
- Uitesco (Pty) Ltd								
Indirectly held:								
- Ariviakom (Pty) Ltd								
- Elgas SARL								
- Gesco (Libya)								



## AUDITOR-GENERAL

ENTITIES IN PORTFOLIO NOT AUDITED BY THE OFFICE OF THE AUDITOR-GENERAL								
Entities in portfolio	Date of submitting financial statements	Date of audit report	Audit opinion			R million		
			u	q	d/a	Assets	Income	Expenditure
<i>Public entities - Continued</i>								
JOINT VENTURE COMPANIES								
Incorporated								
Directly held:								
- Motraco: Mozambique Transmission Company SARL								
- Eskom: Shell Solar Home Systems (Pty) Ltd								
Indirectly held:								
- Trans Africa Projects (Pty) Ltd								
- Trans Africa Projects Ltd (Mauritius)								
- HEM~KOM Liveline Engineering (Pty) Ltd								
- EON~Solutions Africa (Pty) Ltd								
- Ash Resources (Pty) Ltd								
- Mountain Communications (Pty) Ltd								
- South Dunes Coal Terminal (Pty) Ltd								
SUBSIDIARY COMPANIES								
Directly held:								
- Eskom Finance Company (Pty) Ltd								
- Escap Ltd								
- Gallium Insurance Company Ltd								
- Eskom Enterprises (Pty) Ltd								
Indirectly held:								
- Golang Coal (Pty) Ltd								
- Eskom Energie Manantali SA								
- Pebble Bed Modular Reactor (Pty) Ltd								
- Technology Services International (Pty) Ltd								
- Rotek Industries (Pty) Ltd								
- Rosherville Properties (Pty) Ltd								
- Rosherville Vehicle Services (Pty) Ltd								
- Airborne Laser Solutions (Pty) Ltd								
- Amazing Amanzi (Pty) Ltd								



AUDITOR - GENERAL

ENTITIES IN PORTFOLIO NOT AUDITED BY THE OFFICE OF THE AUDITOR-GENERAL								
Entities in portfolio	Date of submitting financial statements	Date of audit report	Audit opinion			R million		
			u	q	d/a	Assets	Income	Expenditure
<i>Public entities - Continued</i>								
DENEL	09/07//02	09/07/02	✓			4 000,6	3 953,2	3 940,4
COMPANIES								
- Adelantè (Pty) Ltd								
- Aero Properties (Pty) Ltd								
- Ariel Office Automation (Pty) Ltd								
- Bonaero Park (Pty) Ltd								
- Cosourse (Pty) Ltd								
- Denel Informatics Marketing in Africa (Pty) Ltd								
- Denel International Ltée (Incorporated in Mauritius)								
- Denel Personnel Solutions (Pty) Ltd								
- Denel Properties (Pty) Ltd								
- Densecure (Pty) Ltd								
- Hydrauma Systems Incorporated (Incorporated in Liberia)								
- Irengo (Pty) Ltd								
- I P S (Pty) Ltd								
- La Forge (Pty) Ltd								
- Provectus (Pty) Ltd								
- Skew Road Properties (Pty) Ltd								
- Southern Space (Pty) Ltd								
- Specialised Protein Products (Pty) Ltd								
- Summit Space SA (Incorporated in Switzerland)								
- Sybase SA (Pty) Ltd								
- Uitzicht Restaurant (Pty) Ltd								
SUBSIDIARIES								
- Jagarve (Pty) Ltd								
- Nisec (Pty) Ltd								
- SQL Solutions (Pty) Ltd								
- Sybase SA (Cape) (Pty) Ltd								
ASSOCIATED COMPANIES								
- Flowtite Botswana Ltd (Incorporated in Botswana)								
- Arivia.kom (Pty) Ltd								
Alexkor limited Note 2	05/08/02	05/08/02	✓			117,9	274,9	305,3



## AUDITOR - GENERAL

ENTITIES IN PORTFOLIO NOT AUDITED BY THE OFFICE OF THE AUDITOR-GENERAL								
Entities in portfolio	Date of submitting financial statements	Date of audit report	Audit opinion			R million		
			u	q	d/a	Assets	Income	Expenditure
<i>Public entities - Continued</i>								
SAFCOL	27/11/02	27/11/02	✓			734,1	650,9	633,9
WHOLLY-OWNED SUBSIDIARIES - Komatiland Forest (Pty) Ltd - Amatola Forest Company (Pty) Ltd - MTO Forestry (Pty) Ltd Note 2								
Aventura	Audit not finalised							

u = unqualified audit opinion

q = audit opinion qualified

d/a = audit opinion disclaimed or adverse opinion expressed

**Note 1:** Financial year-end is 31 December 2001

**Note 2:** Financial year-end is 30 June 2001

**Department: Public Enterprises**

**Matters emphasised**

Matters reported in the current and previous years

- Receivables

Disclosure of the proceeds of R21,0 million from the sale of Sun Air Limited was not received as the company was subsequently liquidated. Recovery of this amount depends on legal action taken against the buyers.

Matters reported for the first time

- Weakness in internal control

During November 2001 an amount of R133,4 million was requested from the National Treasury by the department to fund normal expenditure as per voted funds. However, only R4,3 million was received, resulting in a shortfall in funds requested. The shortfall was neither investigated nor followed up until March 2002. This resulted in the material increase of the bank overdraft.



AUDITOR - GENERAL

- Suspension of senior official

A senior official in the department was suspended pending the outcome of an investigation into alleged bribe-taking relating to the sale of state forests.

## 2.20 Minister of Public Service and Administration

The aim of the Department of Public Service and Administration is to lead the modernisation of the public service by assisting government departments to implement their management policies, systems and structural solutions, within a generally applicable framework of norms and standards, in order to improve service delivery.

ENTITIES IN PORTFOLIO AUDITED BY THE OFFICE OF THE AUDITOR-GENERAL										
Entities in portfolio	Date of submitting financial statements	Date of audit report	Audit opinion			Matters emphasised	Paragraph included in the portfolio summary	R million		
			u	q	d/a			Assets	Income	Expenditure
<i>Departments</i>										
Public Service and Administration	31/05/02	28/07/02	✓			Yes	Yes	1,2	107,7	107,0
Transfer payments										26,6
Public Service Commission	31/05/02	31/07/02	✓			Yes	Yes	1,8	54,4	52,7
Transfer payments										nil
South African Management Development Institute	16/08/02	Audit not finalised								
<i>Public entities</i>										
State Information Technology Agency (SITA)	31/05/02	06/08/02		✓		Yes	Yes	1 157,5	1 378,3	1 403,1

u = unqualified audit opinion

q = audit opinion qualified

d/a = audit opinion disclaimed or adverse opinion expressed



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

**Department: Public Service and Administration**

**Matters emphasised**

Matters reported in the current and previous years

- No shares had been issued as contemplated in section 18(1) of the State Information Act, 1998 (Act No. 88 of 1998)

**Department: Public Service Commission**

**Matters emphasised**

Matters reported in the current and previous years

- No reliance was placed on the internal audit component.

**Public entity: State Information Technology Agency**

**Qualified audit opinion**

Matters reported for the first time

- Post-retirement medical benefits

SITA is not in a position to quantify the post-retirement medical benefit regarding 1 130 employees transferred to SITA's establishment. It was not possible to assess the possible extent of post-retirement medical benefits.

**Matters emphasised**

Matters reported in the current and previous years:

- Issued share capital

Shares were not issued to the state in terms of the SITA Act. No agreement was entered into between the agency and the Minister with the concurrence of the Minister of Finance as required by the SITA Act. However, the assets were valued by means of a method determined by the Minister of Finance.

- Registered share capital

The incorporation documentation of SITA erroneously requested from the registrar to register the full authorised share capital of R625 333 737, which does not agree with the registered issued capital of R1 billion as recorded by the Registrar of Companies. At the date of the report, the Amendment Bill proposed to reduce the issued share capital to R1.



AUDITOR - GENERAL

Matters reported for the first time

- Internal checking and controls

The environment of restructuring in which SITA operated for the year under review, had a negative impact on the control environment and led to inefficiencies in the control systems and procedures in the following areas:

- Issuing and processing of credit notes
- Administration of employee payables
- Accounting of unrecorded liabilities
- Application of delegation of authority
- Preparation, review and approval of reconciliations.

## 2.21 Minister of Public Works

The aim of the Department of Public Works is to provide and manage, in accordance with prescribed standards and directives, the accommodation, housing, land and infrastructure needs of national departments, to provide associated and supporting services, to promote the National Public Works Programme.

ENTITIES IN PORTFOLIO AUDITED BY THE OFFICE OF THE AUDITOR-GENERAL										
Entities in portfolio	Date of submitting financial statements	Date of audit report	Audit opinion			Matters emphasised	Paragraph included in the portfolio summary	R million		
			u	q	d/a			Assets	Income	Expenditure
<i>Departments</i>										
Department of Public Works	31/05/02	31/09/02			d	Yes	Yes	401,6	3 720,7	3 709,9
<i>Public entities</i>										
Independent Development Trust	21/06/02	31/07/02	✓			No	No	1 416,2	128,3	63,4
Construction Industry Development Board	16/09/02	20/09/02	✓			Yes	Yes	2,5	5,2	2,7

u = unqualified audit opinion

q = audit opinion qualified

d/a = audit opinion disclaimed or adverse opinion expressed



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

**Department of Public Works**

**Disclaimer of audit opinion**

Matters reported in the current and previous years

- The recoverability of transactions included in receivables, amounting to R91,6 million recoverable from other entities, and R79,9 million consisting substantially of expenditure incurred, was uncertain due to the age of the original transaction, supporting documentation not being available or supporting documentation being incomplete.
- Reconciliation between financial and business systems revealed unmatched transactions of R43,0 million on the Financial Management System (FMS) and R66,2 million on the Property Management Information System.
- Reconciliation between the FMS and Works Control System (WCS) revealed unmatched transactions of R0,7 million on the FMS and R6,3 million on the WCS.

Matters reported for the first time

- Opening balances caused uncertainty and were the principal reason for the disclaimer.
- The ownership, validity and accuracy of state-owned property for which operating expenditure to the amount of R169,4 million was incurred, could not be determined.
- Proper supporting documentation to the amount of R53,3 million could not be provided, which resulted in a limitation on the audit work performed.
- Outstanding leases disclosed in the notes to the financial statements could not be realistically estimated. Leases were based on actual expenditure instead of future contractual agreements as prescribed.
- The department did not obtain certificates of external confirmation from other departments as prescribed in paragraph 5.8.17 of the *Guide to the Financial Statements*. Interdepartmental transactions to the amount of R76,8 million were not included in the notes to the financial statements.
- Bank account numbers on the department's computer system used to effect electronic fund transfers differed from the account numbers on source documentation. As a result of the above it was not possible to validate payments of R8,3 million to customers.
- There is an amount of R4,7 million residing in a suspense account made up of approximately R3,4 million for unallocated rental deposits and R0,9 million for recoverable revenue. It is not clear whether this amount needs to be offset against a debtor or whether it has been excluded from income. Should it be proven that it relates to income, this would result in an understatement of income and as a result funds would have to be surrendered.



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

- Disclosure of contingent liabilities excluded any amounts for services in respect of properties that had not been identified and included in the state-owned fixed asset register for which no accounts had been received. Closing balances on housing guarantees of the previous financial year did not agree with the opening balances of the current year's financial statements. Furthermore, there was a difference of R1,5 million between PERSAL and the amount reflected in the notes to the financial statements.

**Factors remaining unresolved at the reporting date include the following:**

(These matters are excluded from the annexure)

- The understatement of subsequent payments based on cut-off tests undertaken which could not be accurately quantified.
- The age analysis of debtors which was not supported by evidence.
- Details of disciplinary steps taken and criminal proceedings relating to unauthorised, irregular and fruitless and wasteful expenditure.

**Matters emphasised**

Unresolved matters reported in the current and previous years

- The three-year rolling strategic internal audit plan was not updated and inputs of executive and senior management were not updated as required in terms of the Treasury Regulations, paragraph 3.2.7 (a) and (b). Furthermore, due to a lack of capacity very little internal audit work was performed at regional level where the bulk of the department's expenditure was incurred.
- Significant control weaknesses were identified in respect of the logical access controls and security parameter settings within the information technology (IT) environment at the department.
- Weaknesses were identified in financial management, as management did not comprehensively explain deviations between actual and budgeted expenditure reported in the financial statements, with the result that the budget for the 2001-02 financial year was incorrectly allocated per standard item posting level.

**Public entity: Construction Industry Development Board**

**Matters emphasised**

Matters reported for the first time

- The CIDB did not establish an audit committee or internal audit unit as prescribed in sections 51 and 76 of the PFMA.



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

## 2.22 Minister of Safety and Security

The aim of the Department of Safety and Security is to prevent, combat and investigate crime, maintain public order, protect and secure the inhabitants of South Africa and their property, and uphold and enforce the law.

The aim of the Independent Complaints Directorate is to investigate complaints of misconduct and criminality allegedly committed by members of the South African Police Service, and to propose reforms to reduce the incidence of the behaviour that gives rise to such complaints.

ENTITIES IN PORTFOLIO AUDITED BY THE OFFICE OF THE AUDITOR-GENERAL										
Entities in portfolio	Date of submitting financial statements	Date of audit report	Audit opinion			Matters emphasised	Paragraph included in the portfolio summary	R million		
			u	q	d/a			Assets	Income	Expenditure
<i>Departments</i>										
Safety and Security	31/05/02	31/07/02	✓			Yes	Yes	278,9	17 912,5	17 672,5
Transfer payments										Nil
Independent Complaints Directorate	31/05/02	27/07/02	✓			Yes	Yes	0,7	26,8	26,7
Transfer payments										0,03

u = unqualified audit opinion

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

National Intelligence Agency  
South African Secret Services

### **Department: Safety and Security**

#### **Matters emphasised**

Matters reported in the current and previous years

#### *Financial management and related matters*

- The department installed a computerised control system and compiled a register for official housing. This will be evaluated and reported on in the 2002-03 financial year.



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

- The department implemented a comprehensive loss control system. Audits conducted revealed that the department experienced difficulties in catching up with the backlog of long outstanding cases. It was also evident that the new system was not being implemented effectively due to a shortage of properly trained staff and managerial control.
- Only limited reliance could be placed on the work of the internal audit component mainly due to inadequate staffing and skills.
- Various deficiencies still existed at provincial commissioners, area commissioners, police stations and other units.
- Free services to employees amounted to R35,0 million for 906 officials/members involved in the semi-official messes and canteens. A proper system to determine the cost for such services had still not been determined and a directive for the approval thereof not obtained. The department was also considering the outsourcing of this service.
- Two auction firms defrauded the department with R1, 2 million and R4,1 million in the 1996-97 and 1999-2000 financial years, respectively. The department had thus far not been able to recover the losses.
- Management and administration of debtors and debtors suspense accounts, amounting to R65,962 million, were inadequate. According to the department the recoverability in 77% of these cases was doubtful since proper addresses were not available. Included in the amount for staff debtors amounting to R33,9 million was an amount of R14,4 million in respect of overpaid salaries.

*Personnel expenditure and related matters*

- Various deficiencies still existed in information on personnel files supporting appointments and promotions and corroborating personal details on PERSAL, which could result in erroneous appointments and promotions.

*Logistical matters*

- Various deficiencies in respect of inventories at police stations and other units existed, including the lack of properly trained personnel to execute the relevant procedures and policies. The value of stock on hand in the provisioning stores amounted to R181,5 million whilst the excess stock amounted to R145,9 million, which represented 44% of the total value of the provisioning stock. Accumulated shortages of R12,8 million at the provisioning stores and R36,4 million of the non-expendable (A-class) items had not been approved at the time of compiling this report.
- The workshop accounting system had been installed at 44 of the 148 workshop sites. The time span for implementation was still an area of concern.
- Fuel and oil – various internal control deficiencies still existed.
- Follow-up audits revealed that the shortcomings in the control over firearms remained. Firearms valued at approximately R2,4 million (943) were reported as stolen/missing.



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

Matters reported for the first time

*Financial management and related matters*

- Various shortcomings at the Special Task Force were revealed which could have an impact on the service delivery of the unit which could in turn lead to financial losses.
- Shortcomings were revealed with regard to the functioning of the Forensic Science Laboratory.
- Unauthorised expenditure at the previous QwaQwa Police of Programme 5 amounting to R2,8 million was reported in the accounts of the former QwaQwa Government in respect of Police Services for the financial year 1994-95.

*Forensic investigations*

- A forensic audit was conducted at a garage and a separate report would be issued to the department in due course.

**Department: Independent Complaints Directorate**

***Matters emphasised***

Matters reported in the current and previous years

- An internal audit department was established during February 2002. No audit plan was drawn up and no audit work was performed for the 2001-02 financial year. An audit committee was established during March 2002 and no meetings were held during the 2001-02 financial year.



AUDITOR - GENERAL

## 2.23 Minister of Social Development

The aim of the Department of Social Development is to contribute to improving the quality of life of the poor, the vulnerable and marginalised within South African society through an integrated and caring system of social development grants and services.

ENTITIES IN PORTFOLIO AUDITED BY THE OFFICE OF THE AUDITOR-GENERAL										
Entities in portfolio	Date of submitting financial statements	Date of audit report	Audit opinion			Matters emphasised	Paragraph included in the portfolio summary	R million		
			u	q	d/a			Assets	Income	Expenditure
<i>Departments</i>										
Social Development	31/05/02	24/07/02	✓			Yes	No	6,5	2 251,8	2 241,5
Transfer payments										2 132,0
<i>Public entities</i>										
National Development Agency	31/05/02	31/07/02	✓			Yes	No	308,5	123,2*	191,8
<i>Other entities</i>										
Disaster Relief Fund	Audit is not finalised									
Social Relief Fund	31/05/02	26/07/02	✓			No	No	11,2	1,0	0,05
Refugee Relief Fund	31/05/02	23/07/02	✓			No	No	0,5	0,05	0,08
State President Fund	31/05/02	25/07/02	✓			No	No	11,9	1,0	0,04
High School Vorentoe Disaster Fund	31/05/02	23/07/02	✓			No	No	0,2	0,009	0,005

u = unqualified audit opinion

q = audit opinion qualified

d/a = audit opinion disclaimed or adverse opinion expressed

\* = Excludes interest income of R22 890 894 made up by interest received (R23 542 375) and interest paid (R651 481)



AUDITOR - GENERAL

## 2.24 Minister of Sport and Recreation

The aim of Sport and Recreation South Africa is to improve the quality of life of all South Africans by promoting participation in sport and recreation in the country, and through the participation of South African sportspersons and teams in international sporting events.

ENTITIES IN PORTFOLIO AUDITED BY THE OFFICE OF THE AUDITOR-GENERAL										
Entities in portfolio	Date of submitting financial statements	Date of audit report	Audit opinion			Matters emphasised	Paragraph included in the portfolio summary	R million		
			u	q	d/a			Assets	Income	Expenditure
<i>Departments</i>										
Sport and Recreation South Africa	31/05/02	20/07/02	✓			Yes	Yes	2,1	104,4	101,1
Transfer payments										79,2
<i>Public entities</i>										
South African Sports Commission	31/05/02	31/07/02		✓		Yes	Yes	9,6	28,2	27,8
South African Institute for Drug-Free Sport	29/05/02	30/07/02	✓			Yes	Yes	0,9	3,5	3,0
<i>Other entities</i>										
South African Boxing Commission	24/05/02	Audit is not finalised								

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q = audit opinion qualified

d/a = audit opinion disclaimed or adverse opinion expressed

### **Department: Sport and Recreation South Africa**

#### **Matters emphasised**

Matters reported for the first time

- The audit committee did not constitute a quorum and the chairperson was not independent.

#### **Public entity: South African Sports Commission**

#### **Qualified audit opinion**

Matters reported in the current and previous years

- Accounts receivable: The recoverability of VAT input claims was uncertain – R1 823 565.



AUDITOR - GENERAL

**Matters emphasised**

Matters reported for the first time

- Financial management: The audit committee did not function and an internal audit component was not maintained throughout the year.

**Public entity: South African Institute for Drug-Free Sport****Matters emphasised**

Matters reported for the first time

- Income tax registration: A tax exemption certificate was not obtained.

**2.25 Minister of Trade and Industry**

The aim of the Department of Trade and Industry is to lead and facilitate access to sustainable economic activity and employment for all South Africans through higher levels of investment and increased access to international markets for South African products, and to create a fair, competitive and efficient market-place for domestic and foreign enterprises as well as for consumers. The department's vision is to increase competitiveness and equity in the context of a global economy.



## AUDITOR - GENERAL

ENTITIES IN PORTFOLIO AUDITED BY THE OFFICE OF THE AUDITOR-GENERAL										
Entities in portfolio	Date of submitting financial statements	Date of audit report	Audit opinion			Matters emphasised	Paragraph included in the portfolio summary	R million		
			u	q	d/a			Assets	Income	Expenditure
<i>Departments</i>										
Trade and Industry	31/05/02	24/07/02	✓			Yes	Yes	2 543,2	2 393,9	2 021,1
Transfer payments										1 568,1
<i>Public entities</i>										
Competition Commission	20/05/02	18/07/02	✓			Yes	Yes	44,3	37,6	41,3
Competition Tribunal	16/05/02	10/07/02	✓			Yes	Yes	11,0	5,7	6,3
National Gambling Board	31/05/02	23/07/02	✓			No	No	8,7	9,6	14,1
Reinsurance Fund for Export Credit and Foreign Investment (ECRF) Note 1	03/10/01	26/03/02	✓			Yes	Yes	1 133,7	38,7	31,9
National Lotteries Board	31/05/02	18/07/02	✓			No	No	86,3	9,9	8,6
South African Bureau of Standards (SABS)	29/05/02	31/07/02	✓			Yes	Yes	197,7	151,9	164,4
Council for Scientific and Industrial Research (CSIR)	21/05/02	24/06/02	✓			No	No	551,0	891,8	899,7
Ntsika Enterprise Promotion Agency	31/05/02	23/07/02	✓			Yes	Yes	32,3	45,1	50,2
<i>Other entities</i>										
National Lottery Distribution Trust Fund	31/05/02	18/07/02		✓		No	Yes	1 255,6	925,8	235,5
National Supplies Procurement Fund	31/05/02	30/07/02	✓			No	No	0,006	0	0,016

**Note 1:** Financial year-end is 30 June 2001



AUDITOR - GENERAL

ENTITIES IN PORTFOLIO NOT AUDITED BY THE OFFICE OF THE AUDITOR-GENERAL								
Entities in portfolio	Date of submitting financial statements	Date of audit report	Audit opinion			R million		
			u	q	d/a	Assets	Income	Expenditure
<i>Public entities</i>								
Industrial Development Corporation	Information not available							
Trade and Investment South Africa	Information not available	30/08/02	✓			36,1	93,2	87,0
National Empowerment Fund	Information not available							
National Co-ordination Office of the Manufacturing Advisory Centre Programme (NAMAC)	Information not available	29/07/02	✓			26,4	45,8	46,2
South African National Accreditation System (SANAS)	Information not available	29/04/02	✓			4,5	10,9	10,0
Khula Enterprise	Information not available	27/06/02	✓			611,9	50,1	30,3
Export Credit Insurance Corporation of South Africa Ltd	Information not available	12/07/02	✓			1 327,0	106,5	110,0
Development Bank of Southern Africa Limited	Information not available	04/07/02	✓			18 010,3	979,4	255,0
SABS subsidiaries:								
• Testing and Certification Specialists (Pty) Ltd	10/05/02	10/05/02	✓			77,6	111,2	111,3
• Coal and Mineral Technologies (Pty) Ltd	25/04/02	25/04/02	✓			21,3	34,7	35,1
• Global Conformity Services (Pty) Ltd	Information not available	16/07/02	✓			24,2	33,8	32,8
• Bathekgi Corporate Services (Pty) Ltd	Information not available	16/07/02	✓			215,4	59,5	61,3
• Eurotype Test Centre (Pty) Ltd	Information not available	16/07/02	✓			48,3	10,0	10,0
• Biodat (Pty) Ltd	Information not available	16/07/02	✓			0,4	0,2	0,5



## AUDITOR - GENERAL

ENTITIES IN PORTFOLIO NOT AUDITED BY THE OFFICE OF THE AUDITOR-GENERAL								
Entities in portfolio	Date of submitting financial statements	Date of audit report	Audit opinion			Rmillion		
			u	q	d/a	Assets	Income	Expenditure
CSIR subsidiaries:								
• South African Inventions Development Corporation	Information not available	14/06/02	✓			27,0	0,06	0,1
• Technovent (Pty) Ltd	13/05/02	13/05/02	✓			7,2	2,7	6,7
• Technology Finance Corporation (Pty) Ltd	13/05/02	14/05/02	✓			10,7	9,6	6,9
• Quality Electronics Developments (Pty) Ltd	Information not available	03/09/02	✓			0,012	0	0,002
• AMP Ceramics (Pty) Ltd	13/05/02	13/05/02	✓			0,4	0,8	1,1
• Brilliant Security Solutions (Pty) Ltd	13/05/02	13/05/02	✓			3,6	1,9	6,6
• Plasmatherm (Pty) Ltd	13/05/02	13/05/02	✓			0,3	1,3	1,5
• Thermaspray (Pty) Ltd	13/05/02	13/05/02	✓			5,4	10,0	8,0
• Pipeline Performance Technologies (Pty) Ltd	30/05/02	30/05/02	✓			4,4	9,9	12,4
• Agrimage (Pty) Ltd	13/05/02	13/05/02	✓			0,8	0,8	1,6

u = unqualified audit opinion

q = audit opinion qualified

d/a = audit opinion disclaimed or adverse opinion expressed.

Other institutions falling under the executive's control, but where no separate financial statements are prepared as they are accounted for within the programmes administered by the department:

Board on Tariff and Trade  
Manufacturing Development Board

### **Department: Trade and Industry**

#### **Matters emphasised**

Matters reported in the current and previous years

- Shortcomings with regard to the control over assets specifically related to the asset register, which was not complete and accurate.

Matters reported for the first time

- A difference of R16,7 million existed between the financial records of the department and those of the Department of Foreign Affairs with regard to the amounts due by the department. The Department of Foreign Affairs could not submit adequate supporting documentation to substantiate the difference.



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

- Findings with regard to the National Industrial Participation Programme:
  - Administrative processes
    - ▲ No database was available to assist in monitoring the programme.
    - ▲ Complete and accurate records of information were not readily available with regard to projects.
    - ▲ The secretariat did not have standardised written procedures in place.
    - ▲ There was no formally documented marketing strategy to ensure that the programme could reach its full potential.
  - Internal controls
    - ▲ There was a lack of adequate controls to ensure that all tenders with a potential IP implication were communicated to the secretariat.
    - ▲ Milestones were not specified in agreements other than those for the strategic defence packages.
    - ▲ The secretariat did not monitor information from tender boards to ensure that tenderers were contracted where the requirement was met of multiple contracts exceeding US \$3 million over a period of two years, which in total exceeded US \$10 million.
    - ▲ A follow-up computer audit of the general controls revealed significant control weaknesses in the general control environment as a whole, including no formally approved information technology (IT) security policy, no formal program change control procedures, security violation report not being reviewed on a regular basis and a lack of segregation of duties.

### **Public entity: Competition Commission**

#### **Matters emphasised**

Matters reported for the first time

- Contingent liability – retention of accumulated surplus  
The commission could not obtain approval from the National Treasury to retain accumulated surplus funds before the finalisation of the audit report.
- The commission might have to pay penalties due to the early cancellation of the lease contract on the building occupied.

### **Public entity: Competition Tribunal**

#### **Matters emphasised**

Matters reported for the first time

- The tribunal might have to pay penalties due to the early cancellation of the lease contract on the building occupied.



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

**Public entity: Reinsurance Fund for Export Credit and Foreign Investment (ECRF)**

**Matters emphasised**

Matters reported in the current and previous years

- Non-compliance with GAAP with regard to: non-disclosure of unearned premium provision, unexpired risk provision, claims incurred but not reported and solvency margin.
- Exposure of the fund – an estimate of the exposure of the fund was not available at 30 June 2001; the latest estimate obtained as at 31 March 2001 was R13 534 million.

Matters reported for the first time

- Non-compliance with the PFMA – the fund was only listed for a month in terms of the PFMA before it was terminated and its assets and liabilities transferred to the Export Credit Insurance Corporation of South Africa Ltd. The fund technically did not comply with the PFMA as it did not deposit all funds with the National Revenue Fund and all expenses were not defrayed by the National Revenue Fund for the period 1 April 2001 to 31 May 2001 before it was listed.

Since it was only listed for a period of one month it did not have an internal audit function or an audit committee.

**Public entity: South African Bureau of Standards**

**Matters emphasised**

Matters reported for the first time

- Accounts receivable were not followed up on a regular basis with the result that 67% of the debtors was outstanding for longer than 120 days. The provision for doubtful debts was currently R10,5 million which represented 49% of the total outstanding amounts.

**Public entity: Ntsika Enterprise Promotion Agency**

**Matters emphasised**

Matters reported in the current and previous years

- Required approvals for allowances of directors and remuneration and service benefits of the chief executive officer and personnel appointed by the board were not available. Therefore there was no proof that the entity had complied with the National Small Business Act.

Matters reported for the first time

- Internal audit – the agency did not have an internal audit function for the greater part of the year as required by section 51(1)(a)(ii) of the PFMA.



AUDITOR - GENERAL

### **Public entity: National Lottery Distribution Trust Fund**

#### **Qualified audit opinion**

Matters reported in the current and previous years

- All unexpended money in the Distribution Account and Trustee Account from the former Ciskei and Transkei respectively was not paid into the National Lotteries Distribution Fund. At the date of the audit report this money had not been transferred and the total amount outstanding could not be calculated. The annual financial statements could therefore be understated by an unknown amount.

The Department of Trade and Industry informed the National Lotteries Board (NLB) after year-end that the responsibility for transferring unexpended money rested with the NLB. In view of the time lapse since this matter was first raised, it should now receive the urgent attention of the NLB.

## **2.26 Minister of Transport**

The aim of the Department of Transport is to facilitate the provision of an affordable, safe and sustainable national transport system, which is responsive, accountable and transparent to all key stakeholders.

#### **ENTITIES IN PORTFOLIO AUDITED BY THE OFFICE OF THE AUDITOR-GENERAL**

*Departments*

Transport

*Public entities*

Road Accident Fund

South African National Roads Agency Limited

Urban Transport Fund

Cross Border Road Transport Agency

South African Maritime Safety Authority

Other institutions falling under the executive's control but where no separate financial statements are prepared as they are accounted for within the programmes administered by die Department of Transport:

South African Roads Board



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

**ENTITIES IN PORTFOLIO AUDITED BY THE OFFICE OF THE AUDITOR-GENERAL**

*Public entities*

Airports Company South Africa Limited  
Air Traffic and Navigation Services Company Limited  
South African Civil Aviation Authority  
Air Services Licensing Council  
South African Rail Commuter Corporation

A special report, *Special Report of the Auditor-General to Parliament Relating to the Late Submission of Material Audit Evidence Supporting the Financial Statements of Vote 32 - Department of Transport and certain Transport-related Agencies for the Year Ended 31 March 2002 [RP 196/2002]*, was issued by my office in respect of the 2001-02 audit, dated 12 September 2002. The main reasons that caused the delay of the audit report were:

1. Key personnel not being present at critical times during the audit process.
2. Documentation either not available or submitted late.

The report concluded that in order to address public accountability effectively, it is imperative that proper financial statements with supporting evidence are prepared within the prescribed period to allow for the meaningful auditing thereof and to comply with the relevant legislation.



AUDITOR - GENERAL

## 2.27 Minister of Water Affairs and Forestry

The aim of the Department of Water Affairs and Forestry is to ensure the availability and supply of water on a national level to ensure the equitable and efficient provision of water services at local level and to promote the development of forestry.

ENTITIES IN PORTFOLIO AUDITED BY THE OFFICE OF THE AUDITOR-GENERAL										
Entities in portfolio	Date of submitting financial statements	Date of audit report	Audit opinion			Matters emphasised	Paragraph included in the portfolio summary	R million		
			u	q	d/a			Assets	Income	Expenditure
<i>Departments</i>										
Water Affairs and Forestry	31/05/02	23/08/02			a	Yes	Yes	584,0	3 873,3	3 736,3
Transfer payments										1 615,2
<i>Public entities</i>										
Water Research Commission (Subsidiary Erf 706 included)	31/05/02	26/07/02	✓			Yes	Yes	110,5	89,4	84,4
<i>Other entities</i>										
Forest Recreation and Access Trust	31/05/02	24/07/02	✓			Yes	Yes	2,2	0,2	0
Water Trading Account	31/05/02	23/08/02			a	Yes	Yes	0	1 745,6	2 745,0
Equipment Account	31/05/02	23/08/02			a	Yes	Yes	129,3	47,1	37,2
Industrial Plantations Trading Account	31/05/02	23/08/02			a	Yes	Yes	0	52,2	334,9

u = unqualified audit opinion

q = audit opinion qualified

d/a = audit opinion disclaimed or adverse opinion expressed



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

ENTITIES IN PORTFOLIO NOT AUDITED BY THE OFFICE OF THE AUDITOR-GENERAL								
Entities in portfolio	Date of submitting financial statements	Date of audit report	Audit opinion			R million		
			u	q	d/a	Assets	Income	Expenditure
<i>Public entities</i>								
Trans-Caledon Tunnel Authority	27/05/02	Date is not available	✓			16,8	1,1	1,5
<i>Government business enterprises</i>								
Albany Coast Water Board	Audit not finalised							
Amatola Water Note 1	19/09/01	19/09/01	✓			281,3	44,6	71,5
Bloem Water	Information not available					456,5	101,4	98,4
Bushbuckridge Water Board Note 1	Information not available	10/01/02	✓			62,0	0,1	14,3
Ikangala Water Note 1	Information not available	18/09/01	✓			0,8	0,2	2,0
Lepelle Northern Water Note 1	Information not available	28 /09/01	✓			562,8	114,3	50,7
Magalies Water Note 1	Information not available	23/08/01	✓			676,6	94,2	37,1
Mhlathuze Water Note 1	Information not available	06/11/01	✓			281,4	97,0	72,6
Namakwa Water Note 1	Information not available	16/10/01	✓			98,5	8,1	6,4
Botshelo Water Note 1	30/06/01	04/09/01	✓			86,4	78,0	62,8
Overberg Water Note 1	30/11/01	15/10/01	✓			52,3	13,1	11,2
Pelladrift water Board Note 1	30/10/01	01/10/01	✓			14,0	5,2	4,3
Rand Water Note 1	Information not available	27/09/01	✓			4 762,2	2 180,1	940,3
Sedibeng Water Free State Note 1	19/11/01	19/09/01	✓			455,2	145,3	115,7
Sedibeng Water North West Note 1	19/11/01	19/11/01		✓		6,9	5,6	28,3
Sedibeng Water Qwaqwa Note 1	19/11/01	19/11/01	✓			11,0	8,3	34,8
Umgeni Water Note 1	05/11/01	05/11/01	✓			4,9	637,7	297,1
Kalahari East Note 1	20/11/01	28/09/01		✓		75,2	2,4	1,8
Kalahari West Note 1	19/11/01	28/09/01		✓		14,6	1,3	1,5
Komati River Basin Water Authority	Audit not finalised							



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**Note 1:** Financial year-end is 30 June 2001

**Department: Water Affairs and Forestry**

**Adverse audit opinion**

Matters reported for the first time

- Inclusion of transactions and/or information relating to the department's trading entities in the financial statements and notes to the financial statements of the vote

Full and proper records of the financial affairs of the trading entities had not been maintained separately from those of the vote. Consequently, certain transactions, balances and information that should have been reflected in the financial statements of these trading entities, were erroneously included in the financial statements of the vote.

The transactions and balances that were inclusive of those of the trading entities were as follows:

- Suspense accounts
  - Receivables – current: R49,9 million (note 14)
  - Prepayments and advances: R85,2 million (note 15)
  - Payables – current: R166,5 million (note 22).
- Authorised losses – R6,1 million (note 10).
- Short-term employee benefits – R403,3 million (note 29).

The department could not determine the amounts relating to the various trading entities, as the information was not readily available. In addition, the department still shared a bank account and warrant voucher series with the Water Trading Account, the Industrial Plantations Trading Account, the Equipment Account and the National Forest Recreation and Access Trust. This practice hampered control over, and administration of the accounting system. Separate Paymaster-General accounts were not opened in 2001-02 for the Water Trading Account and the Equipment Account, as the department would be implementing the Basic Accounting System (BAS) in 2002-03. A separate account was also not opened for the Industrial Plantations Trading Account due to the abolishment of the account on 31 March 2002.

- Supporting evidence not submitted during the audit

Supporting documentation, including evidence of procurement procedures followed and approvals obtained, could not be submitted during the audit in respect of payments amounting to R13,6 million. The department's financial records did not permit the application of adequate alternative audit procedures. The accuracy, completeness and validity of the expenditure could not be confirmed.



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

- Recoverable revenue account

The recoverable revenue account as disclosed in the balance sheet had a credit balance of R5,2 million. The department could not provide adequate supporting evidence to support this account and the financial records did not permit the application of adequate alternative audit procedures. The accuracy and completeness of this amount could therefore not be confirmed.

### **Matters emphasised**

Matters reported for the first time

- Inadequate control over clearing and suspense accounts

The controls over the majority of the clearing and suspense accounts were severely lacking, and the controls required in terms of section 17.1 of the Treasury Regulations had not been followed.

The consequences of the lack of controls manifested in lapses in the following areas, among others:

Issue	Amount
Inadequate control over the clearing of suspense accounts leading to processing of expenditure in the incorrect accounting period	R2,9 million
Bad debts not written off	R2,1 million
Debts incorrectly written off	R1,8 million

- Unauthorised expenditure

Overspending of R12,3 million that was classified as unauthorised.

- Recoverability of loans

The department administers state loans to various entities. The total outstanding interest and capital amounted to R248,2 million as at 31 March 2002 as included in the financial statements. However, the above-mentioned amounts included arrears amounting to R7,5 million which were identified as potentially irrecoverable.

In addition, transfer payments totalling R16,4 million were made during 2000-01 and 2001-02 to the Land and Agricultural Development Bank in respect of guarantees provided on behalf of two water user associations. The department intended to recover the amounts paid to the Land and Agricultural Development Bank from the water user associations and reflected these outstanding amounts in the financial statements. However, the recoverability of these amounts was uncertain.



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- Other internal control weaknesses

During the audit, certain shortcomings in the internal control system were highlighted to the accounting officer and these included the following:

- A fraud prevention plan was not in place during the financial year under review.
- Interest was not charged on all debts in terms of section 11.5.1 of the Treasury Regulations.
- Third parties instituted deductions from employees' salaries which exceeded 40% of employees' gross salary (after government deductions) and insurance deductions which exceeded in total 15% of such salary, which was in contravention of section 23.3.7 of the Treasury Regulations. Although it is the responsibility of the National Treasury to enforce third parties to comply with the relevant Treasury Regulations, the department should consider implementing a system that enables identification and reporting of the transgressions to the National Treasury.

#### **Public entity: The Water Research Commission**

##### **Matters emphasised**

Matters reported for the first time

- As stated in note 4 to the financial statements the Water Research Commission had invested R29 400 166. In terms of sections 31.3.3 and 31.3.4 of the Treasury Regulations exemption should be obtained from the National Treasury if the Water Research Commission intends to invest some of their surplus funds with investment institutions other than the Corporation for Public Deposits. The National Treasury did not grant the Water Research Commission exemption to invest with other investment institutions although exemption was granted in 1992 by the then Minister of Water Affairs and Forestry.

#### **Other entity: Forest Recreation and Access Trust**

##### **Matters emphasised**

Matters reported for the first time

- Operation of the National Forest Recreation and Access Trust

The National Forest Recreation and Access Trust was not operational during the financial years 2000-01 and 2001-02.



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

### **Other entity: Water Trading Account**

#### **Adverse audit opinion**

Matters reported in the current and previous years

- Basis of preparing annual financial statements

Paragraph 18.2 of the Treasury Regulations, read together with section 40(1)(b) of the PFMA, requires the financial statements of the Water Trading Account to conform with generally accepted accounting practice. This requirement was not met as these statements were prepared on a cash basis and did not encompass accrual accounting or capitalisation and depreciation of property, plant and equipment.

Matters reported for the first time

- Separate records for the vote and Water Trading Account

As reported under the Department of Water Affairs and Forestry, full and proper records of the financial affairs of the Water Trading Account were not maintained separately from those of the department.

- Supporting evidence not submitted during the audit

Supporting documentation, including evidence of procurement procedures followed and approval obtained, could not be submitted during the audit in respect of payments amounting to R12,5 million. The department's financial records did not permit the application of adequate alternative audit procedures. Therefore the accuracy and completeness of the expenditure could not be confirmed.

#### **Matters emphasised**

Matters reported for the first time

- Recoverability of debts – Limpopo region

In the department's Limpopo region, revenue from the eleven municipalities in the Northern district had not been received since 1997. The outstanding debtor list kept by the department indicated that the amount outstanding for the above-mentioned municipalities as at 31 March 2002 amounted to R88,3 million. The department indicated that municipalities had not agreed to enter into contracts to facilitate the recovery of these outstanding amounts. Therefore the recoverability of these debts was uncertain.



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### **Other entity: Equipment Account**

#### **Adverse audit opinion**

Matters reported in the current and previous years

- Basis of preparing annual financial statements

Paragraph 18.2 of the Treasury Regulations, read together with section 40(1)(b) of the PFMA, requires the financial statements of the Equipment Account to conform with generally accepted accounting practice. This requirement has not been met as these statements were prepared on a cash basis and did not encompass full accrual accounting.

Matters reported for the first time

- Separate records for the vote and Equipment Account

As reported under the Department of Water Affairs and Forestry, full and proper records of the financial affairs of the Equipment Account were not maintained separately from those of the department.

### **Other entity: Industrial Plantations Trading Account**

#### **Adverse audit opinion**

Matters reported in the current and previous years

- Basis of preparing annual financial statements

Paragraph 18.2 of the Treasury Regulations, read together with section 40 (1)(b) of the PFMA, requires the financial statements of the Industrial Plantations Trading Account to conform with generally accepted accounting practice. This requirement was not met as these statements were prepared on a cash basis and did not encompass accrual accounting or capitalisation and depreciation of property, plant and equipment. Furthermore, the Industrial Plantations Trading Account had been disposed of and consequently this trading entity was no longer a going concern.

Matters reported for the first time

- Separate records for the vote and Industrial Plantations Trading Account

As reported under the Department of Water Affairs and Forestry, full and proper records of the financial affairs of the Industrial Plantations Trading Account were not maintained separately from those of the department.



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- Supporting evidence not submitted during the audit

Supporting documentation, including evidence of procurement procedures followed and approval obtained, could not be submitted during the audit in respect of payments amounting to R4,7 million. The department's financial records did not permit the application of adequate alternative audit procedures. Therefore the accuracy and completeness of the expenditure could not be confirmed.

**Matters emphasised**

Matters reported in previous years

- Disposal of government forests

With reference to paragraph 3.2 of the previous report, the Department of Public Enterprises had been instrumental in finalising the transfer of the category-A commercial forestry operations to new entities. The sale proceeds receivable had been distributed to the Department of Public Enterprises.



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## ANNEXURE A: QUALIFIED AUDIT OPINIONS

**Please note:** The following legend applies to all tables.

✓ = also reported in 2000-01

× = not reported in 2000-01

### Disclaimer of opinion

Entity	Comments – 2001-02 financial year	2000 - 2001 financial year
Public Works	Recoverability of transactions included in receivables, amounting to R91,6 million recoverable from other entities, and R79,9 million consisting substantially of expenditure incurred, is uncertain due to the age of the original transaction, supporting documentation not being available or supporting documentation being incomplete.	✓
Public Works	Reconciliation between the Financial Management System (FMS) and Works Control System (WCS) revealed unmatched transactions of R0,7 million on the FMS and R6,3 million on the WCS.	✓
Public Works	Opening balances causing uncertainty were the principal reason for disclaimer.	×
Public Works	The ownership, validity and accuracy of state-owned property for which operating expenditure to the amount of R169,4 million incurred, could not be determined.	
Public Works	Proper supporting documentation to the amount of R53,3 million could not be provided, which resulted in a limitation on the audit work performed.	×
Public Works	Outstanding leases disclosed in the notes to the financial statements could not be realistically estimated. Leases were based on actual expenditure instead of future contractual agreements as prescribed.	×
Public Works	The department did not obtain certificates of external confirmation from other departments as prescribed in paragraph 5.8.17 of the <i>Guide to the Financial Statements</i> . Interdepartmental transactions to the amount of R76,8 million were not included in the notes of the financial statements.	×
Public Works	Bank account numbers on the department's computer system used to effect electronic fund transfers differed from the account numbers on source documentation. Management could not provide adequate supporting evidence to account for the difference of R18,0 million and as a result of the above it was not possible to validate payments of R8,3 million to customers.	×
Public Works	There was an amount of R4,7 million residing in a suspense account made up of approximately R3,4 million for unallocated rental deposits and R0,9 million for recoverable revenue. It was not clear whether this amount needed to be offset against a debtor or whether it had been excluded from income. Should it be proven that it related to income, this would result in an understatement of income and as a result funds would have to be surrendered.	×
Public Works	Reconciliation between financial and business systems revealed unmatched transactions of R43,0 million on the FMS, R66,2 million on the PMIS.	✓



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Entity	Comments – 2001-02 financial year	2000 - 2001 financial year
Public Works	Disclosure of contingent liabilities excluded any amounts for services in respect of properties that had not been identified and included in the state-owned fixed asset register for which no accounts had been received. Closing balances on housing guarantees of the previous financial year did not agree with the opening balances of the current year's financial statements. Furthermore, there was a difference of R1,5 million between PERSAL and the amount reflected in the notes to financial statements.	×
Justice and Constitutional Development: Monies in Trust	Internal controls were inadequate and full and proper accounting records had not been maintained since April 1994 and as a result it had not been possible to draw up auditable financial statements.	✓
Statistics South Africa	Invalid expenditure in respect of professional and special services.	×
Statistics South Africa	Unable to verify payments to census field staff.	×

**Adverse audit opinions**

Entity	Comments – 2001-02 financial year	2000 - 2001 financial year
Water Affairs and Forestry	<p>Inclusion of transactions and/or information relating to the department's trading entities in the financial statements and notes to the financial statements of the vote.</p> <p>Full and proper records of the financial affairs of the trading entities had not been maintained separately from those of the vote. Consequently, certain transactions, balances and information that should have been reflected in the financial statements of these trading entities, were erroneously included in the financial statements of the vote.</p> <p>The transactions and balances that were inclusive of those of the trading entities were as follows:</p> <p>Suspense accounts</p> <ul style="list-style-type: none"> <li>• Receivables – current: R49,9 million (note 14)</li> <li>• Prepayments and advances: R85,2 million (note 15)</li> <li>• Payables – current: R166,5 million (note 22)</li> <li>• Authorised losses – R6,1 million (note 10)</li> <li>• Short-term employee benefits – R403,3 million (note 29)</li> </ul>	×



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Entity	Comments – 2001-02 financial year	2000 - 2001 financial year
	<p>The department could not determine the amounts relating to the various trading entities, as the information was not readily available. In addition, the department still shared a bank account and warrant voucher series with the Water Trading Account, the Industrial Plantations Trading Account, the Equipment Account and the National Forest Recreation and Access Trust. This practice hampered control over, and administration of the accounting system. Separate Paymaster-General accounts were not opened in 2001-02 for the Water Trading Account and the Equipment Account, as the department would be implementing the Basic Accounting System (BAS) in 2002-03. A separate account was also not opened for the Industrial Plantations Trading Account due to the abolishment of the account on 31 March 2002.</p>	X
Water Affairs and Forestry	<p><b>Supporting evidence not submitted during the audit</b></p> <p>Supporting documentation, including evidence of procurement procedures followed and approvals obtained, could not be submitted during the audit in respect of payments amounting to R13,6 million. The department's financial records did not permit the application of adequate alternative audit procedures. The accuracy, completeness and validity of the expenditure could not be confirmed.</p>	X
Water Affairs and Forestry	<p><b>Recoverable revenue account</b></p> <p>The recoverable revenue account as disclosed in the balance sheet had a credit balance of R5,2 million. The department could not provide adequate supporting evidence to support this account and the financial records did not permit the application of adequate alternative audit procedures. The accuracy and completeness of this amount could therefore not be confirmed.</p>	X
Water Trading Account	<p><b>Basis of preparing annual financial statements</b></p> <p>Paragraph 18.2 of the Treasury Regulations read together with section 40(1)(b) of the PFMA, requires the financial statements of the Water Trading Account to conform with generally accepted accounting practice. This requirement had not been met as these statements were prepared on a cash basis and did not encompass accrual accounting or capitalisation and depreciation of property, plant and equipment.</p>	✓



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Entity	Comments – 2001-02 financial year	2000 - 2001 financial year
Water Trading Account	<p><b>Separate records for the vote and Water Trading Account</b></p> <p>As reported under the Department of Water Affairs and Forestry, full and proper records of the financial affairs of the Water Trading Account were not maintained separately from those of the department.</p>	×
Water Trading Account	<p><b>Supporting evidence not submitted during the audit</b></p> <p>Supporting documentation, including evidence of procurement procedures followed and approval obtained, could not be submitted during the audit in respect of payments amounting to R12,5 million. The department's financial records did not permit the application of adequate alternative audit procedures. Therefore the accuracy and completeness of the expenditure could not be confirmed.</p>	×
Equipment Trading Account	<p><b>Basis of preparing annual financial statements</b></p> <p>Paragraph 18.2 of the Treasury Regulations, read together with section 40(1)(b) of the PFMA, requires the financial statements of the Equipment Account to conform with generally accepted accounting practice. This requirement has not been met as these statements were prepared on a cash basis and did not encompass full accrual accounting.</p>	✓
Equipment Trading Account	<p><b>Separate records for the vote and Equipment Account</b></p> <p>As reported under the Department of Water Affairs and Forestry, full and proper records of the financial affairs of the Equipment Account were not maintained separately from those of the department.</p>	×
Trading entity: Industrial Plantations Trading Account	<p><b>Basis of preparing annual financial statements</b></p> <p>Paragraph 18.2 of the Treasury Regulations, read together with section 40 (1)(b) of the PFMA, requires the financial statements of the Industrial Plantations Trading Account to conform with generally accepted accounting practice. This requirement had not been met as these statements were prepared on a cash basis and did not encompass accrual accounting or capitalisation and depreciation of property, plant and equipment. Furthermore, the Industrial Plantations Trading Account had been disposed of and consequently this trading entity was no longer a going concern.</p>	✓



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Entity	Comments – 2001-02 financial year	2000 - 2001 financial year
Trading entity: Industrial Plantations Trading Account	<p><b>Separate records for the vote and Industrial Plantations Trading Account</b></p> <p>As reported under the Department of Water Affairs and Forestry, full and proper records of the financial affairs of the Industrial Plantations Trading Account were not maintained separately from those of the department.</p>	X
Trading entity: Industrial Plantations Trading Account	<p><b>Supporting evidence not submitted during the audit</b></p> <p>Supporting documentation, including evidence of procurement procedures followed and approval obtained, could not be submitted during the audit in respect of payments amounting to R4,7 million. The department's financial records did not permit the application of adequate alternative audit procedures. Therefore the accuracy and completeness of the expenditure could not be confirmed.</p>	X
Government Printing Works	<p>Inadequate management of debtors resulting in an estimated amount of R138 million being outstanding for more than 120 days. Under Treasury Regulations overdue accounts should be subject to an interest charge. Had interest been charged on the overdue accounts this would have resulted in further income of approximately R19 million.</p> <p>The internal control system surrounding the management of debtors had significant limitations. These included, for example, a lack of debtor reconciliations.</p>	X
Government Printing Works	In order to operate a bank overdraft facility the relevant authority from the National Treasury is required. This authority was not obtained for the R140 million overdraft as at 31 March 2002.	X
Government Printing Works	Financial statements did not comply with generally accepted accounting practice.	X



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**Qualified audit opinion****Liabilities and creditors**

Entity	Comments – 2001-02 financial year	2000 - 2001 financial year
Justice and Constitutional Development	Existence of suspense accounts with balances amounting to R36 million that had been outstanding for more than one year.	✓

**Cash and bank**

Entity	Comments – 2001-02 financial year	2000 - 2001 financial year
Justice and Constitutional Development	<p>Interface problems between the Reserve Bank and commercial banks causing unresolved differences in the PMG account.</p> <p>The PMG adjustment account totalled R24,2 million at year-end.</p> <p>Payments totalling R15 million had been cleared by the bank but not processed through FMS.</p> <p>Duplicate entries totalling R46 million were included in the department's accounts with the commercial banks.</p> <p>The effect of resolving these entries on the financial statements was uncertain.</p>	×

**Debtors**

Entity	Comments – 2001-02 financial year	2000 - 2001 financial year
Agricultural Credit Account	Loans to farmers – securities and provision for bad debts: In many instances securities for outstanding loans were found to be inadequate to guarantee recovery of outstanding capital and interest. There were also uncertainties regarding the provision for bad debt. Due to uncertainties in estimating ability of farmers to repay outstanding debt, it was not possible to reliably assess adequacy of the department's provision for bad debts.	✓



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### Appropriations and other revenues

Entity	Comments – 2001-02 financial year	2000 - 2001 financial year
Justice and Constitutional Development	Revenue of R5,6 million not recorded through the Financial Management System resulting in uncertainty regarding its allocation to the department.	×
Education	<p><b>Loans and interest from higher education institutions</b></p> <p>Various loans were made to eight higher education institutions during the 1960s and 1970s. The department could not provide evidence of the value of these loans or the outstanding capital portions of these long-term loans as at year-end, nor were they disclosed in the annual financial statements. The department indicated that it was researching the origin of these long-term loans and the documentation in which they were currently recorded.</p> <p>An amount of R5, 3 million was received from eight higher education institutions, which related to the interest on these long-term loans. It was not possible to confirm that the interest and capital received from higher education institutions were valid, accurate or complete due to the fact that the contracts for these loan agreements were not available.</p>	×

### Expenditure

Entity	Comments – 2001-02 financial year	2000 - 2001 financial year
Home Affairs	The accounting officer did not have a valid contract of employment.	×
Health	A stale warrant voucher amounting to R20 million had been issued in the previous financial year for the establishment the South African National Aids Trust. At the date of the report the trust had not yet been established. This resulted in the overstatement of expenditure and the understatement of voted funds to be surrendered by R20 million.	×
Correctional Services	Medical services (Medcor), R774 857 739 Under forensic investigation, various internal control deficiencies and non-compliance with Medical Aid Scheme Act, 1998 (Act No. 131 of 1998) resulting in a limitation of scope.	×



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**Trading accounts**

Entity	Comments – 2001-02 financial year	2000 - 2001 financial year
Statistics South Africa: Dissemination of Marketing Trading Account	Non-compliance with PFMA and Treasury Regulation requirements to prepare financial statements in accordance with generally accepted accounting practice.	✓
Registration of Deeds Trading Account	<p><b>Recognition of revenue in financial statements</b></p> <p>It was found that deeds were captured more than five days after execution and in some instances the delay between the execution and invoicing was found to be excessive. The Registration of Deeds Trading Account does not recognise the revenue relating to executed deeds until the invoices are issued, as this information is not available from the system in order to correctly accrue for revenue</p>	×



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## ANNEXURE B: MATTERS EMPHASISED

### *Appropriations and other revenues*

Entity	Comments – 2001-02 financial year	2000 - 2001 financial year
Public Works	Payables were overstated and revenue was understated by an amount of R1,9 million with regard to the Oberholzer Dispossession Scheme.	×
Parliament	Parliamentary Millennium Project: Accountability and audit arrangements could not be provided for audit purposes for various local and foreign donations received.	×
Minerals and Energy	The systems utilised to administer royalty income were inadequate to provide assurance that all income from this source was received.	✓
Defence	Revenue and receivables: Internal control weaknesses relating to departmental income and debtors still existed.	✓
Correctional Services	Appropriation and other revenues: Internal control weaknesses existed relating to departmental income.	✓



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**Payments and expenses**

Entity	Comments – 2001-02 financial year	2000 - 2001 financial year
Safety and Security	Various deficiencies still existed at provincial commissioners, area commissioners, police stations and other units.	✓
Parliament	Catering: Catering services were not self-supporting and were substantially subsidised by Parliament. Only 25% of the expenditure was recovered which resulted in a loss of R12 838 918 for the year under review.	×
Defence	Local and foreign aid assistance: An amount of R3,57 million donor-funded expenditure disclosed in the financial statements could not be substantiated by documentation.	×
Defence	Commitments: A list of commitments to the amount of R1,67 million, as disclosed in the financial statements, could not be supplied for audit purposes.	×
Defence	Leases: No disclosure was made. This was in contravention of prescripts.	×
Defence	Central Advance System (CAS) payments: Inappropriate cut-off procedures were applied, with the result that R2,58 million which was paid in the 2001-02 financial year, was only recorded in the 2002-03 financial year.	×
Special Defence Account	Sensitive projects: A limited audit was performed on R2,70 million expenditure of a sensitive nature mainly because certain financial statements were not available timeously.	✓
Special Defence Account	Commission paid during the sale of Puma helicopters: The Director of Public Prosecution indicated that the prosecution was still pending.	✓
Special Defence Account	Purchasing of training aircraft: The Directorate of Public Prosecution indicated that the investigation into this matter had not yet been completed.	✓
Trading Account for Medical Stock	With effect from 1 April 2002, there was a change in the policy used to account for administrative costs.	×
Correctional Services	Various shortcomings mainly due to non-compliance with rules, regulations and internal control systems, lack of control over certain expenditure and general administration of records.  Certain control deficiencies relating to government transport had been reported for a number of years.  Serious shortcomings regarding the control and general administration of prison pharmacies.	✓
Correctional Services	Contracts with members of the Jali Commission were not available for audit purposes and the reasonableness of the expenditure could therefore not be verified.  Insufficient control over completion and authorisation of journals.	×



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**Employment and related costs**

Entity	Comments – 2001-02 financial year	2000 - 2001 financial year
Safety and Security	Free services to employees amounted to R35,0 million for 906 officials/members involved in the semi-official messes and canteens. A proper system to determine the cost for such services had still not been determined and a directive for the approval thereof not obtained. The department was also considering the outsourcing of this service.	✓
Safety and Security	Various deficiencies existed in information on personnel files supporting appointments and promotions and corroborating personal details on PERSAL, which could result in erroneous appointments and promotions.	✓
Safety and Security	Various shortcomings at the Special Task Force were revealed which could have an impact on the service delivery of the unit and could lead to financial losses.	×
Parliament	Employee tax: Included in personnel expenditure was a payment of R468 555 in respect of employee tax for the 1997 tax year.	×
Justice and Constitutional Development	Areas of poor financial management, including administration of employees' payables and application of delegated authority.	×
Home Affairs	Implications of the director-general not having an employment contract, had the result that the expenditure incurred whilst not validly appointed was contrary to the requirements of the Public Service Act and the PFMA.	×
Home Affairs	Large number of vacant positions including that of chief financial officer due to, <i>inter alia</i> , administrative delays in the process, lack of funding and a moratorium on the filling of posts.	×
Government Printing Works	During the year under review there were various vacant positions including that of chief financial officer.	×
Defence	Personnel expenditure: Various shortcomings in the leave administration system still existed.	✓
Defence	Personnel expenditure: Internal control measures were not adhered to with regard to supplementary remuneration.	×



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Entity	Comments – 2001-02 financial year	2000 - 2001 financial year
Correctional Services	<p>Internal control weaknesses relating to personnel administration.</p> <p>Certain control deficiencies relating to leave and leave credits had been reported for a number of years.</p> <p>Lack of control over subsistence and travelling expenditure.</p> <p>Lack of control over merit awards and insufficient administration thereof.</p> <p>Lack of control over verification of validity of members' qualifications. Various invalid qualifications were identified and personal information of members was incomplete.</p>	✓
Correctional Services	<p>Financial management: 30% (2000-01: 34%) of finance posts were vacant.</p> <p>As a result of non-compliance and understaffing, no reliance could be placed on the work of internal audit.</p>	✓

**Cash management**

Entity	Comments – 2001-02 financial year	2000 - 2001 financial year
Public Enterprises	During November 2001 an amount of R133,4 million was requested from the National Treasury by the department to fund normal expenditure as per voted funds. However, only R4,3 million was received, resulting in a shortfall in funds requested. The shortfall was neither investigated nor followed up until March 2002. This resulted in the material increase of the bank overdraft.	×
Health	Overspending of donor funding by R22,7 million.	×
Environmental Affairs and Tourism	The department shared one PMG account with the Marine Living Resources Fund – this complicated control.	✓
Defence	Advances: Internal control over foreign advances was not adequate.	✓
Special Defence Account	Bank Account: The Special Defence Account shared one PMG account with the General Defence Account and the Trading Account for Medical Stock – this complicated control.	✓
Special Defence Account	The Special Defence Account shared one PMG account with the General Defence Account and the Trading Account for Medical Stock – this complicated control.	✓



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**Asset management**

Entity	Comments - 2001-02 financial year	2000 - 2001 financial year
Industrial Plantations Trading Account	Disposal of government forests: With reference to paragraph 3.2 of the previous report, the Department of Public Enterprises had been instrumental in finalising the transfer of the category-A commercial forestry operations to new entities. The sale proceeds receivable were distributed to the Department of Public Enterprises.	✓
Trade and Industry	Shortcomings with regard to the control over assets specifically related to the asset register which was not complete and accurate.	✓
Safety and Security	Various deficiencies in respect of inventories at police stations and other units existed, including the lack of properly trained personnel to execute the relevant procedures and policies. The value of stock on hand in the provisioning stores amounted to R181,5 million whilst the excess stock amounted to R145,9 million which represented 44% of the total value of the provisioning stock. Accumulated shortages of R12,8 million at the provisioning stores and R36,4 million of the non-expendable (A-class) items had not been approved at the time of compiling this report.	✓
Safety and Security	Fuel and oil – various internal control deficiencies still existed.	✓
Safety and Security	Follow-up audits revealed that the shortcomings in the control over firearms remained. Firearms valued at approximately R2,4 million were reported as stolen/missing.	✓
Presidency	Asset registers were not accurate and complete due to a lack of reconciliation between the data on the basic accounting system (BAS) and the logical information system (LOGIS).	✓
Government Communication and Information System	Asset registers were not accurate and complete.  Annual stocktaking had not been finalised.  Movements in assets were not being controlled adequately.  No reconciliation between the asset purchases and LOGIS and FMS.	✓
Justice and Constitutional Development	Poor management of assets had the result that asset and inventory registers were not updated, delays in processing disposals, assets not marked as prescribed, annual stocktaking not performed leaving losses unaccounted for, adequate segregation of duties did not always occur and obsolete stock was not written off in terms of departmental financial instructions.	✓
National Treasury	Completeness and accuracy of asset register could not be verified.	✓



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Entity	Comments – 2001-02 financial year	2000 - 2001 financial year
Environmental Affairs and Tourism	Fixed asset register for computer hardware and software had not been maintained adequately.	×
Defence	Stores and equipment: Various serious control weaknesses were reported, e.g. recording and reconciliation of stock balances; access to, control over, storage of, and custody and care of assets; consolidating and reconciling the annual stocktaking certificates to determine the total stock on hand.  Land and buildings: The information per the DOD records did not correlate with the information received from the Department of Public Works.	✓
Correctional Services	Various matters relating to stock and equipment reported on for a number of years.	✓
	Internal control weaknesses relating to control accounts and debtors.	
Correctional Services	Asset Procurement and Operating Partnership system: Insufficient controllers to monitor compliance with the contract.  Vacant positions were not filled timeously.	✓
Agriculture	Furniture and equipment: Implementation of a proper system of internal control over furniture and equipment was still in progress. Process envisaged to be finalised by March 2003.	✓
Registration of Deeds Trading Account	Proper internal control mechanisms over assets in terms of 10.1 of the Treasury Regulations were not in place: <ul style="list-style-type: none"> <li>• Assets could not be traced from asset register to asset location due to assets not having barcodes or assets were not recorded in the asset register.</li> <li>• Reconciliation between general ledger and asset register was not performed on a monthly basis. A comprehensive reconciliation exercise of reconciling the updated fixed asset register / general ledger with physical assets still had to be completed for the Registration of Deeds Account.</li> </ul>	×



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**Debtor management, suspense and advance accounts**

Entity	Comments – 2001-02 financial year	2000 - 2001 financial year
Water Affairs and Forestry	<p>Inadequate control over clearing and suspense accounts. The controls over the majority of the clearing and suspense accounts were severely lacking, and the controls required in terms of section 17.1 of the Treasury Regulations had not been followed.</p> <p>The consequences of the lack of controls manifested in lapses in the following areas, among others:</p> <ul style="list-style-type: none"> <li>• Inadequate control over the clearing of suspense accounts leading to processing of expenditure in the incorrect accounting period: R2,9 million.</li> <li>• Bad debts not written off: R2,1 million.</li> <li>• Debts incorrectly written off: R1,8 million.</li> </ul>	X
Safety and Security	<p>Management and administration of debtors and debtors suspense accounts, amounting to R65, 962 million, were inadequate. According to the department the recoverability in 77% of these cases was doubtful since proper addresses were not available. Included in the amount for staff debtors amounting to R33,9 million was an amount of R14,4 million in respect of overpaid salaries.</p>	✓
Foreign Affairs	<p>Inter-departmental balances</p> <p>The department made provision for an amount of R50 million in respect of possible disputed agency services claims. The department took steps to resolve the amounts owing by other departments and agreed on the process to verify the disputed amounts.</p>	X
Land Affairs	<p>Debtors age analysis: An amount of R1,2 million had been outstanding for more than 2 years. The recoverability was doubtful, as the follow-up was not done regularly.</p>	✓
Land Affairs	<p>Prepayment and advances: R30,2 million payments made to regional and local authorities could not be substantiated.</p> <p>R3,4 million already expensed by the authorities was still in transit and therefore incorrectly recorded in the department's books.</p>	X
Registration of Deeds Trading Account	<p>Suspense accounts: Various suspense accounts were identified that included amounts not cleared timeously and also included income and expenditure transactions, which could not be cleared, as the classification thereof was not resolved.</p>	X



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**IT environment – general IT controls**

Entity	Comments – 2001-02 financial year	2000 - 2001 financial year
Trade and Industry	A follow-up computer audit of the general controls revealed significant control weaknesses in the general control environment as a whole, including no formally approved information technology (IT) security policy, no formal program change control procedures, security violation report not being reviewed on a regular basis and a lack of segregation of duties	×
Safety and Security	The department installed a computerised control system and compiled a register for official housing. This would be evaluated and reported on in the 2002-03 financial year.	✓
Safety and Security	The workshop accounting system had been installed at 44 of the 148 workshop sites. The time span for implementation was still an area of concern.	✓
Public Works	Significant control weaknesses were identified in respect of the logical access controls and security parameter settings within the information technology (IT) environment at the department.	✓
Government Communication and Information System	Weaknesses were identified in the logical access controls within the IT environment.	×
Government Printing Works Foreign Affairs	Inadequate utilisation of the financial system. Computer audit of the general controls of the department indicated that although some controls were in place in the general control environment, significant weaknesses existed in the control environment as a whole.	×
Correctional Services	Various weaknesses relating to the general controls surrounding the Pharmaceutical System at Head Office, Pollsmoor and Johannesburg management areas were identified.	×
Agriculture	Computer audit of general controls surrounding Financial Management System, Personnel and Salary System and Debtors System: Some controls were in place, but on the whole significant control weaknesses existed .	×



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**Amalgamation with TBVC states and self-governing territories**

Entity	Comments – 2001-02 financial year	2000 - 2001 financial year
Trade Labour	Implementation of the findings of the Browde/White Commission instituted in terms of section 236(6) of the interim Constitution of the Republic of South Africa, 1993 (Act No. 200 of 1993): In the previous audit report it was mentioned that the process of recovering outstanding amounts had been delayed due to the fact that the department was informed by the South African Public Servants and Allied Workers Union on 25 August 1999 that the Umtata High Court had ruled in a case that the Judge White Commission had no jurisdiction to hear and pronounce on cases after 31 December 1995. At the time of the audit report the department was still awaiting the ruling with regard to the pending Appeal Court case challenging the findings of the Umtata High Court on the jurisdiction of the Judge White Commission.	✓

**Internal control – other**

Entity	Comments – 2001-02 financial year	2000 - 2001 financial year
Water Affairs and Forestry	<p>During the audit, certain shortcomings in the internal control system were highlighted to the accounting officer and these included the following:</p> <ul style="list-style-type: none"> <li>• A fraud prevention plan was not in place during the financial year under review.</li> <li>• Interest was not charged on all debts in terms of section 11.5.1 of the Treasury Regulations.</li> <li>• Third parties instituted deductions from employees' salaries which exceeded 40% of employees' gross salary (after government deductions) and insurance deductions which exceeded in total 15% of such salary, which was in contravention of section 23.3.7 of the Treasury Regulations. Although it is the responsibility of the National Treasury to enforce compliance by third parties with the relevant Treasury Regulations, the department should consider implementing a system that enables identification and reporting of the transgressions to the National Treasury.</li> </ul>	×



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Entity	Comments – 2001-02 financial year	2000 - 2001 financial year
Trade and Industry	<p>Findings with regard to the National Industrial Participation Programme:</p> <ul style="list-style-type: none"> <li>• Administrative processes: <ul style="list-style-type: none"> <li>o No database to assist in monitoring the programme.</li> <li>o Complete and accurate records of information were not readily available with regard to projects.</li> <li>o The secretariat did not have standardised written procedures in place.</li> <li>o The department did not have a formally documented marketing strategy to ensure that the programme reached its full potential.</li> </ul> </li> <li>• Internal controls: <ul style="list-style-type: none"> <li>o Lack of adequate controls to ensure that all tenders with a potential IP implication are communicated to the secretariat.</li> <li>o Milestones not specified in agreements other than those for the strategic defence packages.</li> <li>o Secretariat did not monitor information from tender boards to ensure that tenderers were contracted where the requirement was met of multiple contracts exceeding US \$3 million over a period of two years, which in total exceeded US \$10 million.</li> </ul> </li> </ul>	×
Safety and Security	Shortcomings were revealed with regard to the functioning of the Forensic Science Laboratory.	×
Public Works	Weakness was identified in financial management, as management did not comprehensively explain deviations between actual and budgeted expenditure reported in the financial statements, thus resulting in the budget for the 2001-2002 financial year being incorrectly allocated per standard item posting level.	✓
Public Enterprises	A senior official in the department was suspended pending the outcome of an investigation into alleged bribe-taking relating to the sale of state forests.	×
Parliament	Budget process: Proof could not be submitted that the budget was prepared on a zero basis and an indication of the parameters to measure indicators in the Estimates of National Expenditure 2002 could not be provided.	×
Parliament	Weaknesses in internal control: Various internal control weaknesses were pointed out.	×
Justice and Constitutional Development	Reconciliation of operational and financial systems did not take place on a regular basis.	✓
Justice and Constitutional Development	Poor budgeting and budgetary control at a regional level.	✓
Home Affairs	Several shortcomings in the department's system of internal	×



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Entity	Comments – 2001-02 financial year	2000 - 2001 financial year
Government Printing Works	No budget was prepared for the financial year due to a lack of skilled staff.	✓
Defence	Service Corps: Very little had been done to address shortcomings with regard to operations, performance and outputs identified and recommendations made over the last six years.	✓
Defence	A risk management policy had not been implemented.	×
Trading Account for Medical Stock	TAMS was not closed on 30 September 2001. Extension was granted verbally by the Accountant-General for final winding-down on 30 September 2002.	✓
Correctional Services	Budgetary process: Internal control weaknesses relating to the process.	✓
Correctional Services	Judge White Commission finding still not implemented pending court ruling. The department was now in the process of implementing the recovery of overpaid salaries for the approximately 901 officials not involved in court cases.	✓
Art, Science, Culture and Technology	The State Theatre and the Performing Arts Council of the Free State had incurred certain losses as a result of high-risk investments and these matters were under investigation by the Special Investigating Unit (SIU).	✓

### **Potential irrecoverability of loans, investments and debtors**

Entity	Comments – 2001-02 financial year	2000 - 2001 financial year
Water Affairs and Forestry	<p>The department administered state loans to various entities. The total outstanding interest and capital amounted to R248,2 million as at 31 March 2002. However, the above-mentioned amounts included arrears amounting to R7,5 million which had been identified as potentially irrecoverable.</p> <p>In addition, transfer payments totalling R16,4 million were made during 2000-01 and 2001-02 to the Land and Agricultural Development Bank in respect of guarantees provided on behalf of two water user associations. The department intended to recover the amounts paid to the Land and Agricultural Development Bank from the water user associations and had reflected these outstanding amounts in the financial statements. However, the recoverability of these amounts was uncertain.</p>	×



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Entity	Comments – 2001-02 financial year	2000 - 2001 financial year
Water Trading Account	In the department's Limpopo region, revenue from the eleven municipalities in the Northern district had not been received since 1997. The outstanding debtor list kept by the department indicated that the amount outstanding for the above-mentioned municipalities as at 31 March 2002 amounted to R88,3 million. The department indicated that municipalities had not agreed to enter into contracts to facilitate the recovery of these outstanding amounts. Therefore the recoverability of these debts was uncertain.	×
Trade and Industry	A difference of R16,7 million existed between the financial records of the department and the Department of Foreign Affairs with regard to the amounts due by the department. The Department of Foreign Affairs could not submit adequate supporting documentation to substantiate the difference.	×
Public Enterprises	Disclosure of the proceeds of R21,0 million from the sale of Sun-Air Limited was not received as the company was subsequently liquidated. Recovery of this amount depends on legal action taken against the buyers.	✓
African Renaissance and International Co-operation Fund	No instalments were received on loans outstanding. Instalments in arrears amounted to approximately R30,6 million. It seemed unlikely that these instalments would be recovered, the department had not taken a decision on this matter.	✓
African Renaissance and International Co-operation Fund	Money invested with the Corporation for Public Deposits did not attract any interest for the period 22 January to 31 July 2001. The investment could potentially have attracted interest of approximately R12 million.	×



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**Transfer payments**

Entity	Comments – 2001-02 financial year	2000 - 2001 financial year
Education	<p><b>Conditional grants</b></p> <p>In terms of section 38(i) of the PFMA, the accounting officer of the department must ensure that the provisions of the DoRA are complied with when the transfer of funds takes place. Conditional grant payments of R297 million were made during the financial year. Although the department did have a framework in place to monitor the conditional grants transferred to the provinces in accordance with the DoRA, there were certain limitations in this monitoring framework which was as a result of, amongst others, the following:</p> <ul style="list-style-type: none"> <li>• The late submission of the reports by the provincial departments to the national department, with the result that any corrective action was taken too late or in some cases not at all.</li> <li>• The department was not in a position to properly evaluate the information in the reports submitted by the provincial departments and to identify any possible transgressions of the conditions attached to the grants. This was due to the facts that the monitoring process of the national department was limited to the information supplied by the provincial departments, and that the national department had no insight into the actual financial records of the provinces.</li> </ul> <p>Transgressions by departments are summarised below.</p> <p>National department</p> <ul style="list-style-type: none"> <li>• Funds were held back from the Eastern Cape, the Northern Cape and the Northern Province without the National Treasury having been informed of this fact within seven (7) days of the grant being withheld.</li> </ul> <p>Provincial departments</p> <ul style="list-style-type: none"> <li>• The provincial departments of Gauteng, KwaZulu-Natal, the Eastern Cape and the North West Province did not submit all the required documentation and it was therefore not possible to verify in all cases that the departments had complied with the DoRA.</li> </ul>	X



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Entity	Comments – 2001-02 financial year	2000 - 2001 financial year
	<ul style="list-style-type: none"> <li>• Report of the National Treasury to the Auditor-General in terms of section 20 of the Division of Revenue Act, 2001 (Act No. 1 of 2001)</li> </ul> <p>The following were some of the key issues highlighted by the National Treasury in areas of non-compliance with the Division of Revenue Act by most departments which administered conditional grants:</p> <ul style="list-style-type: none"> <li>• Funds were transferred to provinces as per payment schedules even where trends reflected very slow spending or where there was no spending.</li> <li>• Inconsistencies with regard to information supplied by provincial treasuries and national departments.</li> <li>• The national department withheld payments to some provinces to directly settle payments incurred by the national department on behalf of these provinces.</li> </ul>	

**Thefts, losses and irregularities**

Entity	Comments – 2001-02 financial year	2000 - 2001 financial year
Safety and Security	The department implemented a comprehensive loss control system. Audits conducted revealed that the department experienced difficulties in catching up with the backlog of long outstanding cases. It was also evident that the new system was not being implemented effectively due to a shortage of properly trained staff and managerial control.	✓
Safety and Security	Two auction firms defrauded the department with R1,2 million and R4,1million in the 1996-1997 and 1999-2000 financial years, respectively. The department had thus far not been able to recover the losses.	✓



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**Other potential liabilities or loss to the state**

Entity	Comments – 2001-02 financial year	2000 - 2001 financial year
Safety and Security	A forensic audit was conducted at a garage and a separate report will be issued to the department in due course.	×
Government Printing Works	Stock amounting to R9,35 million was written off due to inadequate internal control measures.	×

**Unauthorised expenditure**

Entity	Comments – 2001-02 financial year	2000 - 2001 financial year
Water Affairs and Forestry	Overspending of R12,3 million that had been classified as unauthorised.	×
Safety and Security	Unauthorised expenditure at the previous QwaQwa Police of Programme 5 amounting to R2,8 million was reported in the accounts of the former QwaQwa Government in respect of Police Services for the financial year 1994-95.	×
Parliament	Parliament exceeded the voted funds by R17 463 000.	×
Home Affairs	Unauthorised expenditure of the previous year amounting to R4,5 million as the accounting officer only applied virement after the books were closed and the National Treasury was not informed within the prescribed period.	×
Foreign Affairs	This resulted from an overspending of R5,9 million on the department's operational budget.	×
Statistics South Africa	R122 million overspending of voted funds.	×

**Non-compliance with PFMA**

Entity	Comments – 2001-02 financial year	2000 - 2001 financial year
Sports and Recreation	Audit Committee (Insufficient, no quorum, chairperson not independent)	×
Safety and Security	Only limited reliance could be placed on the work of the internal audit component mainly due to inadequate staffing and skills.	✓
Independent Complaints Directorate	An internal audit department was established during February 2002. No audit plan was drawn up and no audit work was performed for the 2001-02 financial year. An audit committee was established during March 2002 and no meetings were held during the 2001-02 financial year.	✓
Public Works	The three-year rolling strategic internal audit plan was not updated and inputs of executive and senior management were not updated as required in terms of the Treasury Regulations, paragraph 3.2.7 (a) and (b). Furthermore, due to a lack of capacity very little internal audit work was performed at regional level where the bulk of the department's expenditure was incurred.	✓



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Entity	Comments – 2001-02 financial year	2000 - 2001 financial year
Public Service Commission	No reliance was placed on internal audit component.	✓
Parliament	Constituent's allowances and financing of support staff of political parties: Non-compliance with section 38(1)(j) of the PFMA and employment contracts for support staff in terms of regulations could not be provided.	×
Parliament	Internal audit and audit committee: Details of issues included in the internal audit reports.	×
Parliament	Late submission of financial statements: Unsigned financial statements were submitted on 31 May 2002; however, signed financial statements were submitted on 5 June 2002.	✓
Justice and Constitutional Development	Non-compliance with the PFMA because of processing backlogs which resulted in service providers not being paid timeously and asset transfers to the value of R70 million were not done in accordance with section 42.	×
Home Affairs	Non-reliance on the work of internal audit due to lack of capacity and the section not focusing on the major risks facing the department.	×
Government Printing Works	Internal audit could not be relied on due to, amongst others, being involved in operational activities and therefore possibly compromising their impartiality.	✓
Foreign Affairs	The department submitted documents supporting the financial statements after the PFMA deadline.	×
Health	Non-compliance with section 38(1) of the PFMA and provisions of the Division of Revenue Act, 2001 (Act No.1 of 2001) in that certain limitations in the monitoring framework were noted.	×
Health	Purchase of equipment on behalf of a province for an estimated amount of R3 million without a written agreement.	×
National Treasury	Audit committee met for the first time on 24 May 2002 and was in the process of finalising the audit committee mandate and audit charter.	✓
Environmental Affairs and Tourism	Internal audit section of the department still needed to increase its capacity.	✓
Education	The internal audit section still did not function properly and no reliance could be placed on the work performed by them. No fraud prevention plan was in place as required by section 3.2.2 of the Treasury Regulations issued in terms of the PFMA. Section 3.2.8 of the Treasury Regulations issued in terms of the PFMA requires that the internal audit section should assess the operational procedures and monitoring mechanisms over all transfers made, which include conditional grants. The internal audit section did not perform this duty.	✓
Defence	An evaluation of the internal audit function indicated that there were personnel shortages and non-compliance with certain standards required by Treasury Regulations.	✓



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Entity	Comments – 2001-02 financial year	2000 - 2001 financial year
Special Defence Account	Foreign exchange differences were not calculated and separately disclosed in the financial statements during the year in accordance with South African Statements of Generally Accepted Accounting Practice.	×
Correctional Services	Departures from financial requirements or other legislation <ul style="list-style-type: none"> <li>• Non-compliance with PFMA</li> <li>• Non-compliance with Correctional Services Act</li> </ul>	✓
Arts, Science, Culture and Technology	Although an internal audit unit was established in 1996, no internal audit work was performed.	✓
Land Affairs	The internal audit was not functioning properly and effectively in terms of 3.2 of Treasury Regulations.	✓
Registration of Deeds Trading Account	The internal audit was not functioning properly and effectively in terms of 3.2 of Treasury Regulations.	✓

### **Non-compliance with other legislation**

Entity	Comments – 2001-02 financial year	2000 - 2001 financial year
Public Service Administration	No shares had been issued as contemplated in section 18(1) of the State Information Act, 1998 (Act No. 88 of 1998)	✓
Provincial and Local Government	The information on frameworks for the allocation of grants was published in a Government Gazette as required in terms of section 8(1) of the Division of Revenue Act, 2001. For the year under review the department could not provide sufficient evidence to substantiate the monitoring of compliance with all the conditions and measure outputs as gazetted.	×
Defence	An environmental audit identified non-compliance with significant environmental legislation. A consistent factor throughout was the fundamental lack of a management system and general staff awareness to address the legislative requirements.	✓
Trading Account for Medical Stock	The loss of R7,68 million incurred in the 1999-2000 financial year was not fully defrayed by Vote 20 – Defence in the following year in accordance with the <i>Manual for Trading and Related Accounts</i> . The remaining net loss of R6,18 million would be defrayed before 30 September 2002.	✓



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**ANNEXURE C: OVERVIEW OF PROVINCIAL VOTES****Table 18. Eastern Cape Province**

Vote	Financial audit opinion			Total budget for 2001-02	Total expenditure 2001-02
	2001-02	2000-01	1999-2000	R'000	R'000
Office of the Premier	Q	Q	Q	185 823	138 630
Provincial Legislature	Q	Q	Q	74 367	74 023
Department of Health	Q	Q	Q	4 221 365	3 892 517
Department of Welfare	Q	Q	Q	5 300 830	4 663 013
Department of Roads and Public Works	Q	Q	Q	1 238 482	1 040 562
Department of Education	Q	Q	Q	8 118 856	7 865 561
Department of Housing and Local Government	Q	Q	Q	1 127 011	606 385
Department of Agriculture	Q	Q	Q	567 667	563 298
Department of Economic Affairs, Environment and Tourism	Q	Q	Q	274 920	255 409
Department of Transport	Q	Q	Q	276 093	207 337
Provincial Treasury	Q	Q	Q	448 412	117 523
Department of Sport, Arts and Culture	Q	Q	Q	180 797	166 381
Department of Safety and Liaison	Q	Q	Q	10 297	5 725

Please note a Q denotes a qualified audit opinion and a U an unqualified audit opinion.

Total underspending was R2 428,56 million which represents 11% of the total budget value for 2001-02.



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**Table 19. Free State Province**

Province	Vote name	Financial audit opinion			Total budget for 2001-02	Total expenditure 2001-02
		2001-02	2000-01	1999-2000	R'000	R'000
Free State	Office of the Premier	U	U	Q	66 267	51 018
	Provincial Legislature	U	U	U	42 764	43 005
	Tourism, Environmental and Economic Affairs	U	U	U	135 605	102 344
	Finance and Expenditure	U	Q	U	97 534	56 011
	Health	U	Q	Q	1 970 476	2 039 737
	Education	U	U	Q	3 382 259	3 173 883
	Social Development	Q	U	U	1 518 700	1 482 973
	Local Government and Housing	U	U	U	471 951	406 576
	Public Works, Roads and Transport	Q	Q	U	653 645	653 262
	Public Safety, Security and Liaison	U	U	U	75 620	70 126
	Agriculture	U	Q	Q	176 395	119 599
	Sport, Arts, Culture, Science and Technology	U	U	Q	120 124	118 834

Please note Q denotes a qualified audit opinion and U an unqualified audit opinion.

Total underspending amounted to R393,97 million which represents 4,5% of the total budget value for 2001-02.



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**Table 20. Gauteng Province**

Province	Name of department	Financial audit opinion			Total budget for 2001-02	Total expenditure 2001-02
		2001-02	2000-01	1999-2000	R'000	R'000
Gauteng	Vote 1: Office of the Premier	U	Q	Q	87 485	78 161
	Vote 2: Provincial Legislature	U	U	Q	84 438	80 869
	Vote 3: Finance and Economic Affairs	U	Q	Q	676 763	658 372
	Vote 4: Health	Q	Q	Q	6 771 374	6 837 576
	Vote 5: Education	Q	Q	Q	7 507 050	7 268 490
	Vote 6: Social Services and Population Development	Q	Q	Q	2 934 062	3 017 507
	Vote 7: Housing and Land Affairs	Q	Q	Q	937 989	917 134
	Vote 8: Development Planning and Local Government	U	Q	Q	89 142	86 036
	Vote 9: Public Transport, Roads and Works	Q	Q	Q	1 033 731	1 024 947
	Vote 10: Public Safety and Liaison	U	Q	Q	24 329	22 351
	Vote 11: Agriculture, Conservation, Environment and Land Affairs	Q	Q	Q	140 073	110 684
	Vote 12: Sport, Recreation, Arts and Culture	U	Q	Q	97 807	83 058
	Vote 13: Gauteng Shared Service Centre (Established October 2001)	U	N/A	N/A	158 357	113 364

Please note Q denotes a qualified audit opinion and U an unqualified audit opinion.

Total underspending amounted to R244,05 million which represents 1,1% of the total budget value for 2001-02.



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**Table 21. KwaZulu-Natal**

Province	Vote name	Financial audit opinion			Total budget for 2001-02	Total expenditure 2001-02
		2001-02	2000-01	1999-2000	R'000	R'000
KwaZulu-Natal	Premier	U	Q	U	124 332	102 962
	Parliament	Q	U	U	78 593	72 141
	Agriculture	U	Q	U	709 546	651 385
	Economic Affairs & Tourism	U	U	U	153 511	131 785
	Education	Q	Q	Q	9 346 610	9 270 698
	Finance	U	Q	U	144 834	100 844
	Health	U	Q	U	6 743 729	7 032 963
	PMSC				(Budget in Health)	392 064
	Housing	U	U	Q	964 381	925 760
	Housing Fund	Q				
	Safety & Security	U	U	U	8 102	6 894
	Royal Household	U	Q	Q	24 407	19 752
	Traditional & Local Government Affairs	U	U	Q	403 371	374 070
	Transport	Q	Q	U	1 113 716	1 117 632
	Welfare & Population Development	Q	Q	U	4 902 273	5 049 232
	Works	U	Q	U	309 315	309 553
RDP	U	Q	Q	54 853	33 435	
Main Control Responsibility		Q				

Please note Q denotes a qualified audit opinion and U an unqualified audit opinion.

Total overspending amounted to R509,60 million which represents 2% of the total budget value for 2001-02.



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**Table 22. Limpopo Province**

Province	Vote name	Financial audit opinion			Total budget for 2001-02	Total expenditure 2001-02
		2001-02	2000-01	1999-2000	R'000	R'000
Limpopo	Vote 1 - Office of the Premier	Q	Q	Q	111 440	111 560
	Vote 3 - Education	Q	Q	Q	6 340 916	6 330 722
	Vote 4 - Agriculture	Q	Q	Q	581 453	581 395
	Vote 7 - Health	Q	Q	Q	2 718 901	2 663 530
	Vote 8 - Transport	Q	Q	Q	253 158	256 976
	Vote 9 - Public Works	Q	Q	Q	941 702	842 527
	Vote 10 - Safety, Security and Liaison	Q	Q	Q	7 087	7 108
	Vote 12 - Welfare	Q	Q	Q	2 986 213	2 968 777
	Vote 15 - Provincial Legislature	Q	Q	Q	40 985	39 009
	Vote 19 - Local Government and Housing	Q	Q	Q	850 346	783 947
	Vote 20 - Finance, Economic Affairs and Tourism	Q	Q	Q	716 987	665 658
	Vote 21 - Sport, Arts and Culture	Q	U	-	33 566	30 781

Please note Q denotes a qualified audit opinion and U an unqualified audit opinion.

Total underspending amounted to R300,76 million which represents 1,9% of the total budget value for 2001-02.



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**Table 23. Mpumalanga**

Province	Vote name	Financial audit opinion			Total budget for 2001-02	Total expenditure 2001-02
		2001-02	2000-01	1999-2000	R'000	R'000
Mpumalanga	1. Office of the Premier	U	Q	Q	80 312	74 297
	2. Department of Finance	Q	Q	Q	463 165	349 804
	3. Department of Economic Affairs	Merged with Finance	Q	Q	Merged with Finance	-
	4. Department of Local Government	U	Q	Q	347 044	179 095
	5. Department of Agriculture	U	Q	Q	335 954	326 242
	6. Department of Environmental Affairs	Merged with Agriculture	-	Q	Merged with Agriculture	-
	7. Department of Education	U	Q	Q	3 346 911	3 330 933
	8. Department of Public Works, Roads and Transport	U	Q	Q	796 513	698 321
	9. Department of Safety and Security	U	Q	Q	26 737	26 295
	10. Department of Social Services, Population and Development	U	Q	Q	1 583 031	1 526 856
	11. Department of Health	U	Q	Q	1 542 286	1 456 562
	12. Department of Housing and Land Administration	Q	Q	Q	452 236	424 217
	13. Provincial Legislature	U	Q	Q	44 433	41 573
	14. Department of Sport, Recreation, Arts and Culture	U	Q	Q	35 250	34 626

Please note Q denotes a qualified audit opinion and U an unqualified audit opinion.

Total underspending amounted to R585,05 million which represents 6,5% of the total budget value for 2001-02.



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**Table 24. Northern Cape**

Province	Vote name	Financial audit opinion			Total budget for 2001-02	Total expenditure 2001-02
		2001-02	2000-01	1999-2000	R'000	R'000
Northern Cape	Premier	Q	Q	Q	43 712	44 658
	Legislature	Q	U	U	20 281	19 232
	Provincial Service Commission	VOTE ENDED				
	Safety & Liaison	Q	Q	Q	5 286	5 794
	Education	Q	Q	Q	1 028 398	1 021 709
	Works	See Transport, Roads & Public Works below		Q		
	Transport			Q		
	Transport, Roads and Public Works	Q	Q		298 233	284 325
	Economic Affairs & Tourism	Q	Q	Q	18 971	18 309
	Sport, Arts & Culture	Q	Q	U	26 462	28 208
	Finance	Q	Q	Q	58 215	30 412
	Housing & Local Government	Q	Q	Q	144 743	139 985
	Health	Q	Q	Q	508 956	517 395
	Social Services & Population Development	Q	Q	Q	680 783	700 635
	Agriculture	See Agriculture, Land Affairs, Nature Conservation & Environmental Affairs below		Q		
	Nature Conservation			Q		
	Agriculture, Land Affairs, Nature Conservation & Environmental affairs	Q	Q		66 005	65 758
	RDP	Q	Q	Q	79 367	41 024
	Improvement in Con- ditions of Service (ICS)	Incorporated in Finance	U	U		

Please note Q denotes a qualified audit opinion and U an unqualified audit opinion.

Total underspending amounted to R61,97 million which represents 2% of the total budget value for 2001-02.



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**Table 25. North West**

Province	Vote name	Financial audit opinion			Total budget for 2001-02	Total expenditure 2001-02
		2001-02	2000-01	1999-2000	R'000	R'000
North West	Vote 1 - Office of the Premier	Q	U	Q	26 531	21 346
	Vote 2 - Provincial Legislature	U	Q	U	35 592	35 988
	Vote 3 - Department of Health	Q	Q	Q	1 734 817	1 698 992
	Vote 4 - Department of Traditional and Corporate Affairs	U	Q	N/A	88 633	85 642
	Vote 5 - Department of Safety and Liaison	U	U	Q	7 558	7 087
	Vote 6 - Department of Economic Development and Tourism	U	Q	U	100 263	95 939
	Vote 7 - Department of Finance	U	U	U	232 043	222 449
	Vote 8 - Department of Education	Q	Q	Q	4 029 477	3 972 100
	Vote 9 - Department of Developmental Local Government and Housing	U	Q	Q	540 838	476 338
	Vote 11 - Department of Transport, Roads and Public Works	Q	Q	Q	942 504	981 206
	Vote 12 - Department of Social Services, Arts, Culture and Sport	Q	Q	Q	2 048 396	2 041 815
	Vote 13 - Department of Agriculture, Conservation and Environment	Q	Q	U	263 301	262 277
	Contingency Reserve	U	U	N/A	4 650	1 139

Please note Q denotes a qualified audit opinion and U an unqualified audit opinion.

Total underspending amounted to R276,82 million which represents 2,2% of the total budget value for 2001-02.



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**Table 26. Western Cape**

Province	Vote name	Financial audit opinion			Total budget for 2001-02	Total expenditure 2001-02
		2001-02	2000-01	1999-2000	R'000	R'000
Western Cape	Premier	-	-	U		
	Parliament	U	U	Q	20 719	20 007
	Business Promotion, Property Management & Tourism			U		
	Planning, Local Government & Housing	U	U	U	489 106	435 797
	Finance	U	U	U	62 237	48 464
	Community Safety	Q	Q	U	107 021	98 235
	Health	U	U	U	3 578 767	3 581 017
	Corporate Services	-	-	U		
	Agriculture			U		
	Social Services	Q	Q	Q	2 401 622	2 377 929
	Environmental and Cultural Affairs & Sport	U	U	U	172 111	167 257
	Education	Q	U	U	4 339 199	4 273 213
	Transport & Works	-	-	U		
	ICS	-	-	U		
	Premier, Director- General & Corporate Services	U	U	-	357 284	287 363
Economic Affairs, Agriculture & Tourism	U	Q	-	1 255 063	1 217 025	

Please note Q denotes a qualified audit opinion and U an unqualified audit opinion.

Total underspending amounted to R276,82 million which represents 3,1% of the total budget value for 2001-02.



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## ANNEXURE D: EXPLANATION OF AUDIT TERMINOLOGY

### AUDIT ASSIGNMENT

The financial statements and relevant accounts of national and provincial government departments and municipalities and the Secret Services Accounts for the relevant financial year were audited by the Auditor-General in terms of section 188(1) of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) (Constitution) read with sections 3 and 5 of the Auditor-General Act 1995 (Act No. 12 of 1995) (Auditor-General Act.) The financial statements and relevant accounts of other entities that receive funds from the National Revenue Fund or receive funds for a public purpose, for the relevant financial year, were audited by the Auditor-General in terms of the relevant legislation read with section 188(2) of the Constitution and sections 3 and 5 of the Auditor-General Act. The respective audit reports are published individually, either with the financial statements of the entities or separately.

These financial statements, the maintenance of effective control measures and compliance with relevant laws and regulations are the responsibility of the respective accounting officers or the accounting authorities. The responsibility of the Auditor-General is to express an opinion on the financial statements and compliance with relevant laws and regulations, applicable to financial matters, based on the respective audits.

### REGULARITY AUDITING

Regularity auditing comprises both financial auditing and the consideration and testing of compliance with laws and regulations. In addition, it should add value to the auditee and other stakeholders. The principles of economy, efficiency and effectiveness, must *inter alia*, be adequately considered during each regularity audit.

The objectives integrated in regularity auditing are:

- To increase the knowledge of the auditee's business as a whole.
- To facilitate a more comprehensive risk assessment.
- To assist in the determination of the real cause and effects of shortcomings identified.
- To enhance value-added reporting.

Should the regularity audit findings indicate the possibility of significant misuse of resources, it is also brought to the attention of the performance audit specialists to consider a performance audit on a specific focus area.

The audit approach followed by the Office of the Auditor-General is a combination of a risk-based and a transaction cycle approach.



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### **FINANCIAL AUDITING**

The objective of a financial audit is to enable the auditor to express an opinion on the fair presentation in the financial statements of an entity's financial position on a certain date, and on the results of its operations and related cash flow for the period ended on that date.

### **COMPLIANCE AUDITING**

The objective of compliance auditing is to enable the auditor to report on an entity's compliance with relevant laws, rules and regulations.

### **NATURE AND SCOPE: FINANCIAL AUDITING**

The audits are conducted in accordance with generally accepted government auditing standards, which incorporate generally accepted auditing standards. These standards require the audits to be planned and performed to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessing the accounting principles used and significant estimates made by management; and
- evaluating the overall financial statement presentation.

### **NATURE AND SCOPE: COMPLIANCE AUDITING**

Furthermore, an audit includes an examination, on a test basis, of evidence supporting compliance in all material respects with the relevant laws and regulations which came to the auditor's attention, applicable to financial matters.

### **AUDIT OPINION**

An audit report on financial statements contains a section headed "Audit opinion". The audit opinion can be a "Qualified audit opinion", "Disclaimer of audit opinion" or "Adverse audit opinion", as appropriate. In addition to the audit opinion, an audit report on financial statements may also include a section headed "Emphasis of matter" containing other modifications to the audit report.