

## Report on the Financial Statements

### Introduction

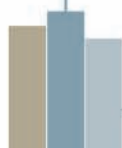
- 1 I have audited the accompanying Financial Statements of the Department of Labour (DoL) which comprise the separate statement of financial position as at 31 March 2007, appropriation statement, statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 54 to 123.

### Responsibility of the Accounting Officer for the Financial Statements

- 2 The Accounting Officer is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) and Auditor-General Audit Circular 1 of 2005. This responsibility includes:
  - designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
  - selecting and applying appropriate accounting policies
  - making accounting estimates that are reasonable in the circumstances.

### Responsibility of the Auditor-General

- 3 As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004), my responsibility is to express an opinion on these financial statements based on my audit.
- 4 I conducted my audit in accordance with the International Standards on Auditing and General Notice 647 of 2007, issued in Government Gazette No. 29919 of 25 May 2007. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
- 5 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the department's internal control.
- 6 An audit also includes evaluating the:
  - appropriateness of accounting policies used
  - reasonableness of accounting estimates made by management



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- overall presentation of the financial statements.
- 7** I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### ***Basis of accounting***

- 8** The Department of Labour's policy is to prepare financial statements on the modified cash basis of accounting as determined by the National Treasury.

### ***Basis for qualified opinion***

#### Fixed Assets

- 9** The Department commissioned an extensive exercise to ensure that the fixed assets disclosed in the financial statements are supported by an accurate and complete asset register. While the Department had made progress, the exercise took longer than anticipated and could not be completed by the time of my audit due to the size of the department and the locations of the labour centres. As a result the fixed assets disclosed in note 30 to the annual financial statements were not adequately supported by an asset register as prescribed by National Treasury by the time of the audit.

I therefore do not have adequate assurance as to the accuracy and completeness of the fixed asset register of the department and the closing balance of assets reflected at R123 290 million in note 30 of the financial statements at 31 March 2007.

The department's actions to resolve this matter is described on page 67 of the Accounting Officer's report.

### ***Qualified opinion***

- 10** In my opinion, except for the effects of the matters referred to in the basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Department of Labour as at 31 March 2007 and its financial performance and cash flows for the year then ended, in accordance with the identified basis of accounting and in the manner required by the PFMA.

### ***Emphasis of matter***

I draw attention to the following matters

- 11** Significant uncertainty

There were deficiencies surrounding the administration of leave relating to the capturing and approval of leave on the PERSAL system, and the maintenance of leave records countrywide. This impacted on the leave entitlement disclosed as R13.471 million in note 22 to the annual financial statements.

The department is attending to the deficiencies on leave administration as a matter of urgency as described in the Accounting Officer's report.

**12** Highlight of a matter affecting the financial statements which is included in a note to the Financial Statements

As disclosed in note 13 to the financial statements for receivables, there are staff debtors amounting to R10.2 million that is older than three years. The Department is in the process of addressing the matter and will continue with its recovery actions to the extent that the cost of doing so will not exceed the benefits thereof.

### **Other matters**

I draw attention to the following matters that are ancillary to my responsibilities in the audit of the financial statements:

**13** Internal control

- Monitoring of controls

#### Employee Cost

There was a lack of monitoring over the Salary Persal EBT control account (suspense account) that reflected debits and credits at year end amounting to R67 186 million and R67 813 million respectively. Treasury Regulations require suspense accounts to be cleared and correctly allocated to the relevant cost centre on a monthly basis. While the net effect is immaterial, the impact of the allocation of these amounts to the correct accounts could be significant.

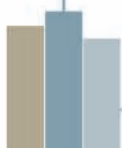
**14** Value for money matters

The following non-compliance with the National Environmental Management Act, 1998 (Act No. 107 of 1998) was noted:

- Section 11(2) requires the department to prepare an environmental management plan within one year of the promulgation of this act and at least every four years thereafter. The environmental management plan was not approved.
- Section 16(1) requires the department to report annually within four months of the end of its financial year on the implementation of its adopted environmental management plan or environmental implementation plan. The last report was compiled in July 2002.

**15** Internal audit

I could not place reliance as planned on the work of internal audit as the planning process and conclusions on audit work performed by internal audit was not sufficiently documented as required by the International Internal Auditing standards.



## Other reporting responsibilities

### Reporting on performance information

**16** I have audited the performance information as set out on pages 15 to 46

### Responsibility of the Accounting Officer for departments

**17** The accounting officer has additional responsibilities as required by section 40(3)(a) of the PFMA to ensure that the annual report and audited financial statements fairly present the performance against predetermined objectives of the department.

### Responsibility of the Auditor-General

**18** I conducted my engagement in accordance with section 13 of the Public Audit Act, 2004 (Act No. 25 of 2004) read with *General Notice 646 of 2007*, issued in *Government Gazette No. 29919 of 25 May 2007*.

**19** In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate audit evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

**20** I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit conclusions reported below.

### Audit findings

**21** The 2006/07 workplan of the department is not aligned with the Estimate of National Expenditure (ENE). The department has subsequently implemented an Integrated Planning, Budgeting and Reporting system, which was effective from the 2007/08 financial period.

### Appreciation

**22** The assistance rendered by the staff of the department during the audit is sincerely appreciated.



**P. Bhana for Auditor-General**

Pretoria  
2007



AUDITOR - GENERAL