



report of the
auditor-general

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Report of the Auditor-General to Parliament on the financial statements and performance information of the Department of Land Affairs Vote 29 for the year ended 31 March 2007.

Report on the financial statements

Introduction

I have audited the accompanying financial statements of the Department of Land Affairs which comprise the 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 ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 145 to 182.

Responsibility of the accounting officer for the financial statements

The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting determined by the National Treasury, as set out in accounting policy note 1.1 to the financial statements and in the manner required by the Public Finance Management Act, 1999 (Act No 1 of 1999) (PFMA). This responsibility includes:

- designing, implementing and maintaining internal control 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; and
- making accounting estimates that are reasonable in the circumstances.

Responsibility of the Auditor-General

As required by section 188 of the Constitution of the Republic of South Africa, 1966, 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.

I conducted my audit in accordance with the International Standards on Auditing and General Notice 646 and 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 that the financial statements are free from material misstatement.



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 judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluation of the policies used:

- appropriateness of accounting policies used;
- reasonableness of accounting estimates made by management; and
- overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis of accounting

The Department's policy is to prepare financial statements on the modified cash basis of accounting determined by the National Treasury, as set out in accounting policy note 1.1 to the financial statements.

Basis for qualified opinion

Asset management

The audit identified the following material deficiencies, amongst others, in the Department's asset management environment mainly due to the lack of proper control systems for asset management:

- During the audit a sample of 102 assets amounting to R4,7 million on the asset register was selected for physical verification. The sample selection was made from a discrepancy report prepared by the Department. A total of 69 of these, amounting to R3.9 million, could not be located for physical verification (68% of the sample selected). This was as a result of the assets register not being regularly updated with disposals and lost assets. Assets disclosed in note 29 to the financial statements could therefore be overstated by a material amount; and
- The asset register did not comply with the minimum requirements of the Asset Management Guideline issued by National Treasury. Assets appearing on the asset register of R33,8 million had neither an order number nor an invoice number recorded as a reference. Most of these relate to assets included in the asset register during 2002/03 financial year. We could therefore not verify whether these assets were correctly valued.

Rental revenue receivable - land lease

As previously reported in paragraph 4.1.3 of the audit report on the financial statements for the 2003/04 financial year and paragraph 4.2.1 of the audit report for the 2004/05 financial year, the Minister for Agriculture and Land Affairs signed General Power of Attorney documents during April 2000 in favour of the Agriculture Members of the Executive Councils (MECs) and Deputy Directors-General of all the Provincial

Departments of Agriculture delegating the management of certain areas of state land in the provinces. The following weaknesses reported during the 2005/06 audit report, which are mainly due to lack of approved policies, procedures and systems relating to rental collection were again noted:

- A lack of up to date information on all land available for leasing and disposal;
- Although the Memorandum of Agreement between the Department and the Provincial Departments of Agriculture stipulates that all monies collected in terms of Power of Attorney are to be transferred to the Department of Land Affairs, the Provincial Departments of Agriculture have not transferred any of these funds to the Department. The Department does not have approved and documented policies and procedures to deal with such collections;
- Provincial Departments of Agriculture have not submitted the six monthly reports that would indicate the lease revenue receivable for disclosure in the Annual Financial Statements. The department does not have approved and documented policies and procedures to deal with rental receivable through Provincial Departments of Agriculture;
- The Department does not perform reconciliation of revenue due to it in terms of Power of Attorney and as a result there was a lack of accurate and complete information.

Due to the above weaknesses over the management of lease revenue, rental income has been understated by an unknown amount.

Qualified opinion

In my opinion, except for the effects of the matters described in the Basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Department of Land Affairs as at 31 March 2007. It also reflects its financial performance and cash flows for the year then ended, in accordance with the modified cash basis of accounting determined by the National Treasury, as set out in accounting policy note 1.1 to the financial statements and in the manner required by the PFMA.

Emphasis of matters

I draw attention to the following matters:

In terms of accounting policy 3.2, only assets with a cost in excess of R5 000 are classified as capital assets. The following assets with a cost less than R5 000 each have not been capitalised, which is in line with the said accounting policy:

- computer equipment (9,987 items with a value of R5,9 million);
- furniture and office equipment (42,325 items with a value of R31,1 million);
- other machinery and equipment (69 items with a value of R19,592); and
- computer software (6 items with a value of R11,716)

Basis of accounting

The Department is the major custodian of state land and collects revenue on certain tracts of land which it leases to the general public. The department in note 29 to the financial statements states that "the actual value of state land cannot be

- determined for inclusion in the disclosure note. The department has initiated a project of land audit and vesting of all state land.
- This exercise, which is planned for completion in 2007/08, will enable the department to compile a comprehensive land asset register, as well as to determine the recognition amounts for reporting." National Treasury granted approval that for the 2006/07 and 2007/08 financial years only assets identified by the Department need to be disclosed and that R1 values may be used for individual properties.

Other matters

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

Non-compliance with applicable legislation

- **Public Finance Management Act and Treasury Regulations**

Section 38(1) of the PFMA requires the accounting officer, on discovery of any unauthorised, irregular or fruitless and wasteful expenditure, to immediately report the particulars to the relevant treasury. Where irregular expenditure relating to procurement is discovered the relevant tender board should be informed as well. The department has not yet reported irregular expenditure incurred during the 2002.3, 2003/4, 2004/5 and 2005/6 financial years to the National Treasury as is required by the PFMA. The Department has put a process in place to deal with this irregular expenditure.

Matters of governance

A review of the internal audit plan against the status of internal audit reports issued revealed that the consortium, to whom the internal audit plan has been outsourced, did not deliver the projects according to agreed timelines. Of the 94 planned audits per the annual internal audit plan, no audit report was at final stage and 69% were still in draft stage as at 8 June 2007.

Material corrections made to the financial statements submitted for audit

The financial statements, approved by the accounting officer as submitted for audit on 31 May 2007, have been significantly revised in respect of the following misstatements identified during the audit:

- Contingent liabilities as per note 20 were increased by R107.4 million from R89.6 million to R197 million;
- Commitments as per note 21 were increased by R2.5 billion from R2.2 billion to R4.7 billion. R2.2 billion was as a result of a clerical error whilst the remaining R303.3 million was as a result of commitments due to events that occurred after the balance sheet date not being disclosed. The accounting officers' report also had to be amended to effect such corrections;
- Operating leases as per note 24.1 were increased by R82 million from R0.6 million to R82.6 million;
- Receivables for departmental revenue as per note 25 were increased by R3.2 million from R6.3 million to R9.5 million.

Provision for doubtful debts as per note 28 were also increased by R7.5 million from R20.3 million to R27.8 million;

- Irregular expenditure as per note 26 was increased by R2.2 million from R31.9 million to R34.1 million; and
- Fixed assets as per note 29 was decreased by R16.5 million from R507 million to R490.5 million.

Value for money matters

- **Human resource management**

The Department did not have an approved Human Resource plan as required by the Public Service Regulations – Part III, B.2(a) and (c) to enable it to define the posts necessary to perform the relevant functions, based on the strategic plan of the department. Despite efforts by the Department to address the vacancy rate, the rate as at 31 March 2007 was 26.24% compared to 26.30% as at 31 March 2006.

Internal control

- **Control activities – Asset management**

The audit identified the following material deficiencies, amongst others, in the Department's asset management environment mainly due to the lack of implementation of policies and procedures:

- Movement of assets without being properly authorised as required by the asset management policy; and
- The asset register not being adequately updated throughout the year.

This resulted in the Department having to put in a considerable effort to correct and update the asset register after year end and even after the submission of the financial statements with regard to assets and the asset register.

- **Control activities - Rental Revenue Receivable - Land lease**

The audit identified the following material deficiencies, amongst others, with the Department's rental collection mainly due to the lack of proper controls, systems and processes to deal with collection of rental debt:

- Monthly statements not being submitted to lease debtors;
- Debtors amounting to R4,8 million (50% of total lease debtors) not paying the department during their entire lease terms;
- Lease records not being properly maintained. In a number of instances lease records could not be made available for audit to enable verification of the validity, completeness and accuracy of lease incomes;
- New lease agreements were not concluded on expiry of existing lease agreements. Furthermore, delays in the renewal of lease contracts ranging from 6 months to 72 months, were identified without any reasons provided in the contract files.

Delay in finalisation of audit

Due to the national sector strike action during June 2007 the finalisation of the audit for the 2006/07 financial year was delayed until 31 August 2007.

Other reporting responsibilities

Reporting on performance information

I have audited the performance information as set out on pages 25 to 119.

Responsibility of the accounting officer

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 may fairly represent the performance against predetermined objectives of the Department.

Responsibility of the Auditor-General

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

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 author's judgment.

I believe that the evidence I have obtained is sufficient and appropriate. To provide a basis for the audit findings reported below.

Audit findings

Lack of reporting on all pre-determined objectives in the annual report

We draw attention to the fact that the Department of Land Affairs did not initially report on all the pre-determined objectives and outputs as required by section 40(3)(a)/55(2)(a) of the PFMA on 15 June 2007. However, subsequent corrections were made to performance information to record all the pre-determined objectives and outputs.

Appreciation

The assistance rendered by the staff of the Department of Land Affairs during the audit is sincerely appreciated.

S Cele

S Cele for Auditor-General
Pretoria
31 August 2007

