

## REPORT ON THE FINANCIAL STATEMENTS

### Introduction

1. I have audited the accompanying financial statements of the Independent Complaints Directorate which comprise the statement of financial position as at 31 March 2007, appropriation statement, statement of financial performance, statement of changes in net assets/equity 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 88 to 122.

### 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) 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
  - 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 645 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 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.
6. An audit also includes evaluating the:
  - appropriateness of accounting policies used
  - reasonableness of accounting estimates made by management
  - 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**

The Independent Complaints Directorate's policy is to prepare financial statements on the basis of accounting determined by the National Treasury as set out in note 1.1 to the financial statements.

## **Basis for qualified opinion**

### **8. Assets**

Due to an inadequate documentation management system, the valuation of the assets amounting to R29 319 000, including adjustments of R7 093 000, as disclosed in note 29 of the financial statements, could not be verified.

Due to the lack of monitoring and control assets were not always bar-coded with a unique asset number or asset numbers on the asset register did not correspond to the numbers in the asset. As a result existence of assets and completeness of the asset register could not be verified.

In contradiction to National Treasury prescripts, assets less than R5 000 (minor items) amounting to R1 450 000 were found to be incorrectly included in the total amount disclosed as capital assets.

Subsequent to the audit the Department commenced with corrective action, including training of provincial staff. Progress will be followed up during the next audit.

## **Qualified opinion**

9. In my opinion, except for the effects of the matter described in the basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Independent Complaints Directorate as at 31 March 2007 and its financial performance and cash flows for the year then ended, in accordance with the modified cash basis of accounting as prescribed by National Treasury and in the manner required by the PFMA.

## **OTHER MATTERS**

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

### **10. Material non-compliance with applicable legislation and internal policies**

Monitoring and review by line managers are not always effective to prevent and detect non compliance with laws and regulations. As a result the following non compliance was found.

#### *Non compliance with TR 3.2.1*

The formal risk management strategy was approved on 4 December 2006. As a result the Fraud prevention plan was in draft format.

The fraud prevention plan was subsequently approved on 25 July 2007.

*Leave benefits:*

The following control weaknesses were identified:

- Leave forms are not properly filed as a result leave forms could not always be presented for audit purposes;
- Leave forms were not always completed and approved before staff went on leave and;
- Some leave forms were approved after the leave had been taken;
- Leave is not always timeously captured on Persal.

*Goods and Services:*

Due to inadequate monitoring and review supply chain management requirements were not adhered to, as a result irregular expenditure amounting to R113 304 was incurred.

11. Value for Money

Human resource management

According to paragraph 2.1 of the approved HR plan, the department has an approved establishment of 535 posts. Due to insufficient funding, only 231 (43%) of the positions have been funded. This could result in the department not meeting the approved strategic objectives.

12. Internal audit

In view of the prior year's audit findings, I did not plan to place any reliance on the work performed by the internal audit section.

The reliance placed on the work performed by Internal Audit will be revisited during the audit to be conducted in the 2007-08 financial year.

13. Progress on SCOPA resolutions

Progress was made on the SCOPA resolutions as reported in paragraph 14 of the accounting officers report.

14. Special investigations

As stated previously in 2005-06 audit report, a special investigation was conducted by the Public Service Commission during 2004 on human resources, travel and subsistence expenditure. At the date of this audit report the PSC report had still not been released.

15. Delay in finalisation of audit

Due to the national public sector strike action during June 2007 the Auditor-General had to delay the finalisation of affected departments. As a result, the Auditor-General's consistency review process of the audit reports could only be conducted subsequent to 31 July 2007, the consequence of which was a delay in the finalisation of the audit of this department for the 2006/07 financial year.

## OTHER REPORTING RESPONSIBILITIES

### Reporting on performance information

16. I have audited the performance information as set out on pages 7 to 70.

### Responsibility of the accounting officer

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 Independent Complaints Directorate.

### 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 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.

### Audit findings

21. I have not observed any matter that requires inclusion in my report.

## APPRECIATION

22. The assistance rendered by the staff of the Independent Complaints Directorate during the audit is sincerely appreciated.



AH Muller for Auditor-General

Pretoria

10 August 2007



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