

# Report of the Auditor-General

## to Parliament on the financial statements of the Road Accident Fund

for the year ended 31 March 2006

### 1. AUDIT ASSIGNMENT

The financial statements as set out on pages 76 to 108, for the year ended 31 March 2006, have been audited in terms of Section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read with Sections 4 and 20 of the Public Audit Act, 2004 (Act No. 25 of 2004). These financial statements are the responsibility of the accounting authority. My responsibility is to express an opinion on these financial statements, based on the audit.

### 2. SCOPE

The audit was conducted in accordance with International Standards on Auditing read with General Notice 544 of 2006, issued in Government Gazette No. 28723 of 10 April 2006 and General Notice 808 of 2006, issued in Government Gazette No. 28954 of 23 June 2006. Those standards require that I plan and perform the audit 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, as well as;
- evaluating the overall financial statement presentation.

I believe that the audit provides a reasonable basis for my opinion.

### 3. BASIS OF ACCOUNTING

The entity's policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as described in note 1.1 to the financial statements.

### 4. AUDIT OPINION

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Road Accident Fund ("RAF") at 31 March 2006 and the results of its operations and its cash flows for the year then ended, in accordance with the basis of accounting determined by the National Treasury of South Africa, as described in note 1.1 to the financial statements.

## **5. EMPHASIS OF MATTER**

Without qualifying the audit opinion, attention is drawn to the following matters:

### **5.1 Submission of annual financial statements**

The financial statements were approved by the Board on 29 May 2006. The statements were subsequently revised to address material shortcomings and were re-submitted for audit together with the supporting documentation on 29 August 2006. This has led to non-compliance with Section 55(1)(d) of the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA), which relates to timely submission.

### **5.2 Going concern**

With reference to paragraph 8.8.4 of the Board Report, the annual financial statements have been prepared on the going-concern basis which assumes that sufficient funds will be available to continue operations of the RAF without loss to present or future creditors.

The financial statements, however, show that the total liabilities exceeded total assets by R18 370 million (2005 – R19 865 million) at 31 March 2006 and net current liabilities of R2 662 million (2005 – R3 821 million) at that date.

This is mainly attributable to the long-term provision for outstanding claims amounting to R15 693 million at year-end (2005 – R16 044 million) while the short-term provision included in net current liabilities amounted to R5 658 million (2005 – R4 006 million).

The increase in cash and cash reserves from R1 145 million in 2005 to R3 682 million at 31 March 2006 can be attributed mainly to a once-off transfer payment received from National Treasury and to some extent the introduction of structured payments during the year. Claims were settled in instalments, while the RAF invested surplus cash to rebuild cash reserves previously depleted. Structured payments have since been discontinued and should the RAF be required to settle both the outstanding claims and the amount owed to SARS, cash reserves accumulated during the year would not be sufficient.

### **5.3 Control environment**

I noted in my previous report that several positive interventions had taken place after the close of that financial year. This has been manifested in a number of improvements. However, various aspects still require a concerted effort and are summarised below. Management has confirmed that these matters are being addressed and I will be reviewing their progress during my next audit.

#### **5.3.1 Policies and procedures**

Whilst the RAF has been active in this area, a number of policies and procedures have become dated and are in need of review. Care should also be taken to ensure that the policies and procedures cover all significant areas of operation, in particular those of claims management and information technology security. They should also be properly approved and rolled out to all staff.

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## 5.3.2 Claims management

The claims management process is central to the operation of the RAF. Whilst the volume, quantum and complexity of the claims are recognised, together with the dependence in many instances on third parties to provide information, a number of concerns were noted. These related to the timelines for completion, the completeness of information and records and to certain administrative arrangements, such as the payment procedures, organisational arrangements and delegations.

Many allegations have been made of fraud and corruption. It should be noted that fraudulent claims may require collusion between external and internal parties and consequently, would not normally be revealed through a regularity audit.

## 5.3.3 Information systems

A follow-up information system audit of general controls surrounding the information technology environment at RAF was completed in April 2006, and the findings were reported to the Acting Chief Financial Officer. The corrective measures referred to by RAF management will be evaluated during the next audit.

Some of the most significant weaknesses identified were inadequate maintenance of audit trails, inadequate change control procedures, segregation of duties and other control procedures.

## 6. APPRECIATION

The assistance rendered by the staff of the RAF during the audit is sincerely appreciated.

*Shaunet Fakie*

SA FAKIE  
AUDITOR-GENERAL  
PRETORIA

13 SEPTEMBER 2006



AUDITOR-GENERAL