



AUDITOR-GENERAL

Report of the Auditor-General

Report of the Auditor-General to Parliament on the financial statements and performance information of the Road Accident Fund for the year ended 31 March 2007

Report on the Financial Statements

Introduction

1. I have audited the accompanying financial statements of the Road Accident Fund (RAF) which comprise the statement of financial position as at 31 March 2007, 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 82 to 123.

Responsibility of the accounting authority for the financial statements

2. The accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with South African Statements of Generally Accepted Accounting Practice (GAAP) and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) and the Road Accident Fund Act, 1996 (Act No. 56 of 1996) (RAF Act). 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

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) (PAA), 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 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; and
 - 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 RAF's policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as set out in note 2 to the financial statements.

Unqualified opinion

9. In my opinion the financial statements present fairly, in all material respects, the financial position of the RAF as at 31 March 2007 and its financial performance and cash flows for the year then ended, in accordance with the basis of accounting determined by the National Treasury of South Africa, as set out in note 2 to the financial statements, and in the manner required by the PFMA.



Report of the Auditor-General continued...

Emphasis of matter

Without qualifying my audit opinion, I draw attention to the following matter:

10. Going concern

With reference to the paragraph on page 79 in the report by the board, the annual financial statements indicate that the RAF has not been solvent for a number of years.

The financial statements furthermore show that the total liabilities exceeded total assets by R20 178 million (2006: R18 368 million) at 31 March 2007 and net current liabilities of R5 680 million (2006: R7 020 million) at that date.

This was mainly attributable to the long-term provision for outstanding claims amounting to R18 692 million at year-end (2006: R15 693 million), while the short-term provision included in net current liabilities amounted to R5 180 million (2006: R5 658 million). Contributing further to the financial position was the fact that RAF processed more claims than the fuel levy that was received during the financial year, thus reducing the backlog in claims. The RAF has also shown a net deficit of R1 869 million for 2007 compared to a net surplus of R1 497 million in 2006.

Other Matters

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

11. Internal control weaknesses

In terms of section 51(1)(a)(i) of the PFMA, the accounting authority must ensure that the RAF has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The audit revealed certain shortcomings in the systems of internal control, which included the following:

- The claims management process is central to the operations of the RAF. While the volume, quantum and complexity were 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 as well as recording and administrative arrangements. Duplicate payments were made, which were not detected by the claims system, whilst

the identity numbers and mortality of claimants could not be verified in certain instances. A number of claim files from the Pretoria branch could not be presented for audit.

- The maintenance of inventory sheets relating to asset management.
- Salary journals that originated from the remuneration manager were not always reviewed or authorised by a supervisor.

12. Control weaknesses relating to information systems

It was reported in paragraph 5.3.3 of the previous year's audit report that a follow-up information system audit of the general controls surrounding the information technology environment at RAF was completed and that the findings were reported to RAF management. The evaluation of the corrective measures as indicated by the RAF management could not be carried out during the current year's audit as the RAF management indicated during February 2007 that no significant changes were made to the information technology environment and that the findings as per the 2005/06 report were still applicable.

RAF management indicated during July 2007 that some of the findings have subsequently been addressed. The corrective measures referred to by the RAF management will be evaluated during the next audit.

13. Material non-compliance with applicable legislation

In terms of section 24 of paragraph 6(a) of the RAF Act, as well as the "draft claims policy and procedure" the RAF must make an offer within 120 days or enter an appearance to defend, within five days, a summons that was issued to RAF to prevent default judgement. It was found during the audit that RAF did not always comply with this requirement. This, together with the fact that the RAF operates in a highly litigious environment, resulted in sheriff's and interest costs of more than R14 million being incurred of which more than R10 million is potentially fruitless and wasteful expenditure.

14. Possible fraud

As reported in my previous reports once again many allegations of fraud and corruption have been made. It should be noted that fraudulent claims may require collusion between internal and external parties and would consequently not normally be revealed through a regularity audit.



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Other Reporting Responsibilities

Reporting on performance information

15. I have audited the performance information as set out on pages 45 to 48.

Responsibilities of the accounting authority

16. The accounting authority has additional responsibilities as required by section 55(2)(a) of the PFMA to ensure that the annual report and audited financial statements fairly present the performance against predetermined objectives of the public entity.

Responsibility of the Auditor-General

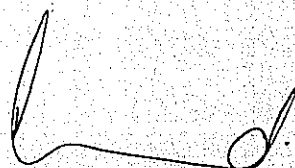
17. I conducted my engagement in accordance with section 13 of the PAA read with General Notice 646 of 2007, issued in Government Gazette No. 29919 of 25 May 2007.
18. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.
19. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

Audit findings

20. The strategic plan was compiled and approved. A shareholder's compact was agreed at the beginning of the year under review with the Executive Authority, but did not include all the performance objectives in the strategic plan.
21. There was no policy and procedures manual regarding performance management information.

Appreciation

22. The assistance rendered by the staff of the Road Accident Fund during the audit is sincerely appreciated.



D. L. ZONDO FOR AUDITOR-GENERAL

Pretoria

31/07/2007



AUDITOR-GENERAL