

**4.2 Report of the Auditor-General to Parliament on the financial statements and performance information of Vote 19: Department of Correctional Services for the year ended 31 March 2008**

**Report on the Financial Statements**

**Introduction**

1. I have audited the accompanying financial statements of the Department of Correctional Services which comprise the appropriation statement and statement of financial position as at 31 March 2008, and 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 95 to 147.

**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 of accounting determined by 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), and the Correctional Services Act, 1998 (Act No. 111 of 1998). 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) (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 616 of 2008, issued in Government Gazette No. 31057 of 15 May 2008. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance on 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**

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

**Basis for qualified opinion**

**Tangible capital assets**

9. I could not obtain sufficient appropriate evidence in respect of an adjustment of R162 million made to the opening balances of buildings and fixed structures and an adjustment of R805 million made to the opening balances of machinery and equipment.
10. Included in note 29.1 are additions to machinery and equipment to the value of R87 million whereas the fixed asset register amount for additions is R55 million. No reconciliation was provided for the difference of R32 million.
11. I was unable to obtain sufficient audit evidence concerning the accuracy of the amounts disclosed in note 29.1 relating to work in progress on buildings and other fixed structures in the amount of R261 million.
12. A difference of R108 million exists between the amounts as reflected on the closing balance of the tangible capital assets note 29 to the financial statements and the fixed asset register. The difference can be attributed to the following:
  - The fixed asset register included depreciation while the amount in note 29 to the financial statements excludes depreciation.
  - Buildings and other fixed structures to the amount of R155 million are not included in the fixed asset register but are included in note

29 to the financial statements. Included in this amount is R90 million relating to accruals as disclosed in note 29.1 and the balance of the R65 million relates to improvements/additions which are not registered in the name of the department. The cost of these improvements/additions should have been transferred to the Department of Public Works.

13. As a result of the above I was unable to carry out all auditing procedures I considered necessary for the audit and the entity's records did not permit the application of alternative audit procedures to satisfy myself as to the accuracy, completeness and valuation regarding assets. This was due to unavailability of proper records on assets as required by section 40(1)(a) of the PFMA and Treasury Regulation 17.2.3. As a consequence, disclosure note 29 is misstated by a material amount which cannot be accurately determined.

#### Qualified Opinion

14. In my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had I been able to satisfy myself as to 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 Correctional Services as at 31 March 2008 and its financial performance and cash flows for the year then ended, in accordance with the modified cash basis of accounting determined by National Treasury, as set out in accounting policy note 1.1 to the financial statements and in the manner required by the PFMA.

#### OTHER MATTER(S)

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

##### Internal controls

15. Section 38(1)(a)(i) of the PFMA states that the Accounting Officer must ensure that the department has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes that gave rise to the inefficiencies in the system of internal control, which led to the qualified opinion. The root causes are categorised according to the five components of an effective system of internal control. In some instances deficiencies exist in more than one internal control component.

Re- port- ing item	Con- trol envi- ron- ment	Risk as- sess- ment	Con- trol activi- ties	Infor- mation and com- muni- cation	Moni- toring
Tan- gible capital assets			✓	✓	✓
<p><b>Control environment:</b> establishes the foundation for the internal control system by providing fundamental discipline and structure for financial reporting.</p> <p><b>Risk assessment:</b> involves the identification and analysis by management of relevant financial reporting risks to achieve predetermined financial reporting objectives.</p> <p><b>Control activities:</b> policies, procedures and practices that ensure that management's financial reporting objectives are achieved and financial reporting risk mitigation strategies are carried out.</p> <p><b>Information and communication:</b> supports all other control components by communicating control responsibilities for financial reporting to employees and by providing financial reporting information in a form and time frame that allows people to carry out their financial reporting duties.</p> <p><b>Monitoring:</b> covers external oversight of internal controls over financial reporting by management or other parties outside the process; or the application of independent methodologies, like customised procedures or standard checklists, by employees within a process.</p>					

##### Non-compliance with applicable legislation

##### Correctional Services Act, 1998 (Act No. 111 of 1998)

16. Correctional centres remain overcrowded, resulting in the department not complying with section 7 of the Correctional Services Act, 1998 (Act No.111 of 1998), which requires that prisoners be detained under conditions of human dignity.

##### Matters of governance

17. The PFMA tasks the Accounting Officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of certain key governance responsibilities, which I have assessed as follows:

Matter of governance	Yes	No
<b>Audit committee</b>		
• The department had an audit committee in operation throughout the financial year.	✓	
• The audit committee operates in accordance with approved, written terms of reference.	✓	
• The audit committee substantially fulfilled its responsibilities for the year, as set out in section 77 of the PFMA and Treasury Regulation 3.1.10.	✓	
<b>Internal audit</b>		
• The department had an internal audit function in operation throughout the financial year.	✓	
• The internal audit function operates in terms of an approved internal audit plan.	✓	
• The internal audit function substantially fulfilled its responsibilities for the year, as set out in Treasury Regulation 3.2.	✓	
<b>Other matters of governance</b>		
The annual financial statements were submitted for audit as per the legislated deadlines.	✓	
The financial statements submitted for audit were not subject to any material amendments resulting from the audit.		✓
No significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.		✓
The prior year's external audit recommendations have been substantially implemented.		✓
SCOPA resolutions have been substantially implemented.		✓

## OTHER REPORTING RESPONSIBILITIES

### REPORT ON PERFORMANCE INFORMATION

18. I have reviewed the performance information as set out on pages 12 to 75.

#### Responsibility of the Accounting Officer for the performance information

19. 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

20. I conducted my engagement in accordance with section 13 of the PAA read with General Notice 616 of 2008, issued in Government Gazette No. 31057 of 15 May 2008.

21. 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.

#### Audit findings (performance information)

22. I believe that the evidence I have obtained is sufficient and appropriate to report that no significant findings have been identified as a result of my review.

## OTHER REPORTS

### Investigations

23. The Special Investigating Unit (SIU) presented their report to parliament on 20 May 2008 on their findings regarding corruption at correctional centres and abuse of the department's medical aid scheme which emanated from the Jali Commission's report.

24. The Department, in accordance with the three-pronged Strategy in 2002 focusing on corruption prevention, investigation and sanction, extended its memorandum of agreement with SIU until 31 March 2009 to conduct investigations on the following:

- Procurement;
- Repair and Maintenance Projects (RAMP);
- Asset management at Correctional Center farms;
- Outstanding Medical Aid matters; and
- Correctional Centre Pharmacies.

### Performance audits

25. A performance audit was completed during the year under review concerning the department's repair and maintenance of correctional centres. The report will be tabled during the 2008-09 financial year.

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**APPRECIATION**

26. The assistance rendered by the staff of the Department of Correctional Services during the audit is sincerely appreciated.

*Auditor - General*

Pretoria  
31 July 2008



**A U D I T O R - G E N E R A L**