

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF VOTE 4: THE DEPARTMENT OF HOME AFFAIRS FOR THE YEAR ENDED 31 MARCH 2008

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the accompanying financial statements of the Department of Home Affairs which comprise the appropriation statement and statement of financial position as at 31 March 2008, 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 146 to 186.

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 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
 - 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) and section 40(2) of the Public Finance Management Act, 1999 (Act No. 1 of 1999) as amended, my responsibility is to express an opinion on these financial statements based on conducting the 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. Because of the matters discussed in the Basis for disclaimer of opinion paragraphs, however, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis of accounting

4. 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 disclaimer of opinion
Departmental revenue and receivables**

5. I was unable to obtain sufficient and appropriate audit evidence to satisfy myself as to the occurrence, completeness and accuracy of departmental revenue of R421,123 million and the related cash received by the department due to the following:
 - Numerous requested processed application documents and deposit slips could not be obtained from the department. An alternative analytical review procedure was performed by multiplying the number of documents issued with the official tariff for the service; however, due to various concerns regarding the reliability of the statistics received I was unable to quantify the misstatement of revenue.
 - Revenue from foreign missions dating as far back as the 2004-05 financial year were recorded in the current financial year due to delays in the department receiving the supporting vouchers. There was an inadequate audit trail for foreign mission revenue received and recorded from the sub-system utilised by the department to the accounting records of the department and vice versa.
 - At a number of branches visited across the country, it was noticed that it is the practice to void transactions without following the appropriate processes, resulting in circumvention of controls by utilising the void keys or manually adjusting the register slips for voided transactions without the necessary authorisation.
 - During the year the department recorded foreign credit transactions of R9,606 million to departmental revenue. Included in this amount were repatriation deposits received and foreign gains calculated on repatriation refunds, both of which do not belong to the department and should be transferred to the Immigration Control Account. I could not quantify the amount to be transferred to the Immigration Control Account due to the unavailability of information and an appropriate listing to support the R9,606 million.

In the absence of an appropriate listing I could not verify the completeness and accuracy of the R9,606 million recorded to departmental revenue.

- At various branches visited, it was noted that revenue received in the current financial year for goods and services was only recorded and banked in the 2008-09 financial year. Similarly, cash received in the 2006-07 financial year was recorded as revenue in the current financial year. The effect on revenue could not be quantified due to the lack of an integrated cash receipt system.
- Due to the lack of an audit trail and systems to facilitate the recording of the immigration fines and penalties levied in terms of section 50(1) and 50(3) of the Immigration Act, 2002 by management, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the occurrence, completeness and accuracy of income from immigration fines and penalties amounting to R28,788 million.

6. As evident from the above, the accounting officer did not comply with Treasury Regulation 7.2.1 which requires the accounting officer of an institution to manage revenue efficiently and effectively by developing and implementing appropriate processes that provide for the identification, collection, recording, reconciliation and safeguarding of information about revenue.

7. In prior years the department had accrued for penalties and fines payable to the department by immigrants and airlines for conveying illegal immigrants. As the department is on the modified cash basis and these were accruals, a debit was raised in the debt account and corresponding credit in the debt receivable account. The debt account should correspond with the debt receivable account. However, at year-end the net balance on these accounts reflected a difference of R 14,642 million credit (2007: R12,114 million) which was unresolved and therefore I could not perform any procedures to verify the occurrence, accuracy and completeness of the transactions relating to these differences.

Capital assets

8. I was unable to verify the existence, rights and obligations, valuation and completeness of capital assets of R653,387 million recorded in

note 24 and 25 due to the following:

- Assets amounting to R392,304 million reflected in the asset register could not be verified at various Home Affairs offices across the country.
 - A material number of assets acquired subsequent to 1 April 2002 were not recorded at cost due to the cost not being available as the department had not kept full and proper records as required by section 40(1)(a) of the PFMA and TR 17.2.3. The financial statements are misstated by a material amount which cannot be accurately determined.
 - Vehicles belonging to the Government Garage amounting to R4,437 million were erroneously included in the department's asset register.
 - Assets recorded at cost to the amount of R246,249 million in the asset register, including work-in-progress assets of R125,111 million, were not all supported by appropriate invoices or were supported by invoices which did not agree to the asset cost recorded in the asset register.
 - Internet usage expenses to the value of R11,896 million were incorrectly classified as an asset. Computer hardware assets to the value of R8,831 million were incorrectly recorded as intangible assets. R29,532 million was capitalised to intangible assets; however, the description on the invoice was not sufficient to assess the classification.
 - CPI adjustments, foreign exchange adjustments and retention fees on original invoices to the value of R53,073 million were capitalised to the asset registers as separate assets and not allocated to the respective assets from which the adjustment arose. This would result in duplications where the original assets were recorded in the asset register at fair value or overstatement where the original assets were scrapped, transferred or donated.
9. I was unable to perform satisfactory alternative procedures over capital assets due to an inadequate fixed asset register.

Leases

10. The department could not provide an appropriate list of all leases as recorded in note 21 to the financial statements. There was an unexplained difference of R46,404 million between the list provided for audit and note 21. Contracts with a yearly value of R45,810 million selected from the list provided by

management were not presented for audit. Due to the unavailability of an appropriate list and supporting contracts I was unable to perform alternative procedure to verify the completeness, accuracy, classification and understandability of leases.

Cash and cash equivalents

11. The completeness and valuation of cash and cash equivalents could not be verified due to the following:
 - Various general ledger bank suspense accounts included in the bank reconciliation were not cleared and allocated to the relevant cost centres and reconciled or reported on a monthly basis as per Treasury Regulation 17.1.2 (b) – (d). The accuracy and allocation of amounts included in these bank suspense accounts could not be substantiated and included credits of R20,898 million (2007: R35,594 million) at year-end of which R13,375 million (2007: R17,619 million) arose prior to 1 April 2007, and debits of R7,867 million (2007: R23,599 million) at year-end of which R4,033 million (2007: R11,725 million) related to the period prior to 1 April 2007.

Payables

12. The valuation, existence and completeness of payables could not be verified due to the following:
 - Included in payables at year-end is a credit amount of R5,601 million (2007: R11,752 million debit) for the repatriation deposits suspense account which was not reconciled to a subsidiary listing of individuals from whom the department had received deposits or made refunds to, and where a reference to a journal or payment is indicated, the supporting information is not available. This account was not cleared as per Treasury Regulation 17.1.2. The deposits received and refunds made have not been transferred to the immigration control account as required by PFMA section 13.1(f)(ii) and Treasury Regulation 14.3. I was unable to perform alternative procedure due to inadequate accounting records.

Expenditure

13. Government Garage expenditure incurred by the department is based on invoices provided to the Department of Home Affairs

by the relevant Government Garage. The Department of Home Affairs does not enforce monitoring controls to ensure that the invoices received from the relevant Government Garage are supported by valid expenditure documentation. I was therefore unable to obtain sufficient information to verify the occurrence and accuracy of Government Garage expenditure amounting to R76,790 million (2007: R75,989 million) included in travel and subsistence expenditure in note 4.3. I could not perform alternative procedures due to a lack of supporting documents.

14. As a result of numerous classification errors and unavailability of documentation I was unable to satisfy myself as to the classification, occurrence and accuracy of foreign allowances of R99,415 million included in other non-pensionable allowances of R198,808 million in note 3.1.

Disclaimer of opinion

15. Because of the significance of the matters described in the Basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the Department of Home Affairs. Accordingly, I do not express an opinion on the financial statements.

Emphasis of matters

I draw attention to the following matters:

Highlighting critically important matters presented or disclosed in the financial statements

Unauthorised, irregular or fruitless and wasteful expenditure as well as material losses through criminal conduct

16. As disclosed in note 22 to the financial statements, irregular expenditure to the amount of R614 000 was incurred, primarily because normal procurement procedures had not been followed.

Restatement of corresponding figures

17. Capital assets: The 2006-07 results in note 24 and 25 to the financial statements were

restated in the current financial statements as a result of the exercise undertaken by the department to create an asset register.

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/adverse/disclaimer of] 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.

OTHER MATTER(S)

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

Internal controls

18. Section 38(1)(a)(i) of the PFMA states that the accounting officer must ensure that the

Reporting item	Control environment	Risk assessment	Control activities	Information and communication	Monitoring
Departmental revenue and receivables	X		X		
Capital assets			X		
Leases			X		
Cash and cash equivalents			X		
Payables			X		
Expenditure			X		
Control environment: establishes the foundation for the internal control system by providing fundamental discipline and structure for financial reporting.					
Risk assessment: involves the identification and analysis by management of relevant financial reporting risks to achieve predetermined financial reporting objectives.					
Control activities: policies, procedures and practices that ensure that management's financial reporting objectives are achieved and financial reporting risk mitigation strategies are carried out.					
Information and communication: 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.					
Monitoring: 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.					

Non-compliance with applicable legislation

19. Public Finance Management Act

- The department did not report to the executive authority on the utilisation of savings within seven days of such utilisation, as required by section 43(3) of the PFMA.
- The department did not comply with section 40(4)(c) of the PFMA which requires the accounting officer to submit to the relevant treasury and to the executive authority monthly reports within 15 days of the end of the month.
- The accounting officer did not provide appropriate evidence that the department had complied with section 38(1)(j) of the PFMA which requires that the accounting officer must, before transferring any funds, obtain written assurance from the entity that the entity implements effective, efficient and transparent

financial management and internal control systems.

- The accounting officer did not ensure that the department had and maintained effective, efficient and transparent systems of financial and risk management and internal control as required by section 38 of the PFMA.
- The accounting officer did not In terms of section 38(1)(c) of the PFMA Act take effective and appropriate steps to collect all money due to the department.
- The accounting officer did not comply with section 42 of the PFMA which requires a list to be drawn up of assets transferred to another department, which list must be signed by the accounting officer of both departments.

20. Treasury Regulations

- Bank reconciliations are not performed daily as required by Treasury Regulation 15.10.1.2.

- Payments in excess of R2 000 were not effected electronically or approved by National Treasury as required by Treasury Regulation 15.12.3.
- Amounts included in suspense accounts were not cleared monthly as required by Treasury Regulation 17.1.2 (b).
- No formal banking policy and standard operating procedures are in place as required by Treasury Regulation 15.10.1.1.
- The department did not comply with Treasury Regulation 19.8.1 which requires the accounting officer to include the monthly information required by section 40(4)(b) and (c) of the PFMA in respect of the trading entity in the monthly report of the department.
- The department did not comply with Treasury Regulation 26.1.1 which requires the accounting officer to ensure that the public entity submits quarterly reports to the department within 30 days of the end of each quarter.
- The department did not make all payments due to creditors within 30 days as required by Treasury Regulation 8.2.3.
- As numerous documents were not available for audit the department did not comply with Treasury Regulation 17.1.1 which requires that all transactions of a department be supported by authentic and verifiable source documents, and Regulation 17.2.3 which requires the primary evidence records, vouchers and invoices to be kept for five years.
- The accounting officer did not provide appropriate evidence that the department had complied with Treasury Regulation 8.4.1 which requires that the accounting officer maintain appropriate measures to ensure that transfers to entities are applied for their intended purpose.
- The accounting officer did not take full responsibility for the management of assets and did not ensure that proper control systems exist for assets as required by section 38(1)(d) of the PFMA and Treasury Regulation 10.
- Revenue received by the department in excess of R500 per day was not deposited daily into the Paymaster-General account as required by Treasury Regulation 15.5.1.
- The department did not comply with Treasury Regulation 11.4.2 which requires the accounting officer to ensure that debts are written off in accordance with a debt write-off policy. The department did not have an approved debt write-off policy.
- The accounting office did not, as per Treasury Regulation 10.1.2, ensure that processes (whether manual or electronic) and procedures were in place for the effective, efficient, economical and transparent use of the institution's assets.
- The department did not comply with Treasury Regulation 17.2.2.2 and 17.2.2.3 which requires officials of the department to take all reasonable and appropriate steps to recover outstanding money and where no response is received from debtors to take legal steps.
- The accounting officer did not, as per Treasury Regulation 9.1.1, implement effective, efficient and transparent processes of financial and risk management.
- The department did not comply with Treasury Regulation 6.4.1(c) which requires roll-over of funds to be limited to 5% of goods and services.
- The accounting officer entered into a finance lease agreement as reflected in note 24.1 to the financial statements which was not in accordance with Treasury Regulation 13.2.4 and 13.2.5.

21. Public Service Act

- The department did not comply with section 3(3) of the Public Service Act, 1994, which requires that employees submit medical certificates where they had been absent from work on more than two occasions during their first 36-day sick leave period.
- The department did not comply with the Public Service Regulations 2001, part IV.D.2(d) as numerous employees of the department received payment for overtime in excess of 30% of their basic salary.

Delay in finalisation of the audit report

- 22 The audit was delayed due to a request from the Director General to enable the entity to provide the auditors with part of the outstanding information as requested in order to clarify some of the issues that were included in the draft audit report.

Progress on turnaround strategy

23. The department had embarked on a turnaround strategy to address the key weaknesses as identified from the Support intervention report. The management has progressed in resolving through this process many of the previously

reported items and although these items have not been finalised, significant progress has occurred and this will be subject to review in future audits. The detail on the progress of the turnaround strategy is included in pages xx to xx of the Accounting Officer's report as contained in the annual report.

Matters of governance

24. 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
Audit committee		
• The department had an audit committee in operation throughout the financial year.	X	
• The audit committee operates in accordance with approved, written terms of reference.		X
• 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.	X	
Internal audit		
• The department had an internal audit function in operation throughout the financial year.	X	
• The internal audit function operates in terms of an approved internal audit plan.		X
• The internal audit function substantially fulfilled its responsibilities for the year, as set out in Treasury Regulation 3.2/27.2.		X
Other matters of governance		
The annual financial statements were submitted for audit as per the legislated deadlines section 40 of the PFMA for departments.	X	
The financial statements submitted for audit were not subject to any material amendments resulting from the audit.		X
No significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.		X
The prior year's external audit recommendations have been substantially implemented.		X
SCOPA resolutions have been substantially implemented.		X

Unaudited supplementary schedules

25. Annexure 1A, Statement of conditional grants paid to municipalities includes a column of amounts spent by the municipality. I have not audited this amount and accordingly I do not express an opinion thereon.

OTHER REPORTING RESPONSIBILITIES REPORT ON PERFORMANCE INFORMATION

26. I have reviewed the performance information as set out on pages 33 to 110.

Responsibility of the accounting officer for the performance information

27. 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

28. 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.

29. 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.

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

Audit findings (performance information)

Non-compliance with regulatory requirements

- 31. The strategic plan did not include the requirements of chapter 1, part III B of the Public Service Regulations, 2001, as required by Treasury Regulation 5.2.2 (j).
- 32. The progress in achieving measurable objectives and targets for the Second Quarterly Report did not include the progress of the Branch – Information Service to facilitate effective performance monitoring, evaluation and corrective action, as required by Treasury Regulation 5.3.1.
- 33. The entity has not reported performance against

predetermined objectives for programme 3: Transfers to agencies, in terms of section 40(3) (a) of the PFMA.

Measurable objectives are materially inconsistent between annual report and strategic plan

34. I draw attention to the fact that the measurable objectives reported in the annual report of the Department of Home Affairs are materially inconsistent when compared with the predetermined objectives as per the strategic plan.

The following table reflects the material differences:

Programme	Objectives per strategic plan	Objectives reflected in annual report:
Programme 2: Services to citizens		
Extend citizenship rights to all south Africans by expanding access to DHA services through efficient determination of status and provision of secure enabling documents and by ensuring the integrity of the NPR and related records as well as countering corruption and promoting security	To improve Civic Services operations to ensure efficient and effective service delivery	Not defined

Measurable objectives are materially inconsistent between annual report and budget

35. I draw attention to the fact that the objectives reported in the annual report of the Department of Home Affairs are materially inconsistent when compared with the predetermined objectives as per the budget. The process to align the budget and the strategic plan was implemented retrospectively and has not been completed.

Objectives reported in annual report, but not predetermined as per strategic/corporate/annual performance/integrated development plan and/or budget

- 36. I draw attention to the fact that the following objective is reported in the annual report of the Department of Home Affairs, although they were not included as predetermined objectives in the strategic/corporate/annual performance/integrated development plan and/or the budget:
 - Programme 2: Services to citizens
To issue enabling documents and provide core services according to specific time frames as captured in the Estimates of National Expenditure

Lack of sufficient appropriate audit evidence

- 37. I was unable to obtain sufficient appropriate audit evidence in relation to the performance information of the Department of Home Affairs, as I was unable to obtain access to the records pertaining to the outputs for the sub-programmes listed below:
 - Civic Services: Outputs and service delivery trends
 - NIB: Outputs and service delivery trends
- 38. The actual achievement of some measures/ indicators/targets for the following programmes could not be substantiated by adequate evidence/source documentation:
 - Programme 1: Administration
 - Programme 2: Delivery of services

Performance information not received in time

39. Performance information was not received in time and consequently the quality of only two programmes of performance information could be verified for audit purposes.

Changes to planned performance information not approved

40. Changes to the outputs/measurements/targets in the current year's annual performance plan were not approved by Parliament. This includes reporting on the strategic outputs and milestones effected by the turnaround programme.

OTHER REPORTS

Investigations

41. The investigations regarding the suspension of senior officials in the prior year are still in progress.

APPRECIATION

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

Auditor-General

Pretoria
25 September 2008

