

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE FINANCIAL STATEMENTS OF VOTE 33 –

DEPARTMENT OF TRANSPORT FOR THE YEAR ENDED 31 MARCH 2005

1. AUDIT ASSIGNMENT

The financial statements as set out on pages 74 to 155, for the year ended 31 March 2005, have been audited in terms of section 101 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, the maintenance of effective control measures and compliance with relevant laws and regulations are the responsibility of the accounting officer. My responsibility is to express an opinion on these financial statements, based on the audit.

2. NATURE AND SCOPE

The audit was conducted in accordance with statements of South African Auditing Standards. 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, and
- evaluating the overall financial statement presentation.

Furthermore, an audit includes an examination, on a test basis, of evidence supporting compliance in all material respects with the relevant laws and regulations which came to my attention and are applicable to financial matters.

The audit was completed in accordance with Auditor-General Directive No. 1 of 2005.

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

3. QUALIFICATION

3.1 Contract for the production of credit card format driving licenses

With reference to paragraph 2 on page 77 of the report of the accounting officer regarding the contract for the production of the credit card format driving licenses, I was unable to determine the impact of this contract and the transactions related thereto on the financial statements of the Department of Transport (DoT) and the associated controls. Although the amounts concerned are material, the impact on the financial statements can only be determined once the matter has been thoroughly investigated and the correct treatment and accountability for the transactions has been determined. An audit will be conducted

as soon as the respective accounts have been completed.

4. QUALIFIED AUDIT OPINION

In my opinion, except for the effect on the financial statements of the matter referred to in paragraph 3, the financial statements fairly present, in all material respects, the financial position of the Department of Transport (DoT) at 31 March 2005 and the results of its operations and cash flows for the year ended, in accordance with the prescribed accounting practice and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA).

5. EMPHASIS OF MATTER

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

registration fees due to DoT in terms of regulation 98(2) of the National Road Traffic Act, 1996 (Act No. 93 of 1996) (NRT Act), as well as any outstanding fees from previous periods, had been received from all the Drivers License Testing Centres (DLTCs). This was due to inadequate record keeping and control over the completeness of receipts.

Although the regulation was amended and it is no longer necessary for DLTCs to pay over three per cent of drivers licence registration fees, amounts in respect of prior periods need to be recovered or written off.

5.6 Non-compliance with laws and regulations

5.6.1 Public Finance Management Act, Treasury Regulations and Public Service Regulations

- The three-year rolling strategic internal audit plan and the annual internal audit plan, as required by Treasury Regulation 3.2.7, were not approved during the year under review.
- Treasury Regulation 3.2.1 requires that the accounting officer must ensure that a risk assessment is conducted regularly to identify the emerging risks. The last risk assessment was conducted during the 2002-03 financial year.
- Although the audit committee met at least twice as required by section 77 of the PFMA, all the responsibilities set out in Treasury Regulation 3.1.10 were not met.
- The strategic plan prepared by the accounting officer was not approved and tabled in Parliament as required by Treasury Regulations 5.1.1 and 5.2.1.
- The 2003-04 annual report and audited financial statements of DoT were not tabled in Parliament within six months after the end of the financial year as required in terms of section 65 of the PFMA.
- The supply chain management framework, as required in terms of Treasury Regulation 16A, was not followed in all instances.
- The performance agreements of forty two senior managers were not signed, due to the strategic and business plans of DoT not having been finalised.

5.6.2 National Road Traffic Act (NRT Act)

Many of the DLTCs still did not comply with the minimum requirements (grading) of the NRT Act. Corrective steps recommended by the DLTC inspectorate were not implemented by the respective provincial administrations and municipalities in approximately forty two per cent of the cases. DoT also indicated that if drivers licences were issued contrary to the prescriptions of the NRT Act they were void and should be cancelled. This could hold serious legal consequences and is of particular concern to me, since I have been reporting on this matter for the past six years.

5.7 Internal control weaknesses

In terms of section 38(1) of the PFMA, the accounting officer must ensure that DoT has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The audit revealed various shortcomings in the systems of internal control, many of which have been reported on in my previous reports and include the following:

- travel claims were not always submitted within the prescribed timeframes and matched against the corresponding advances. In certain instances additional advances were approved while employees still had an outstanding advance;
- a salary income tax control account in respect of temporary workers, amounting to approximately R1,1 million was not properly reconciled during the year. A number of incorrect journal entries were also found to be made to this account;
- poor control over outstanding debtors accounts resulted in an amount of R329 656 being outstanding for a long period;
- the debtors age analysis could not be relied on, as the dates of recording of transactions were found to be incorrect;
- although DoT had a procurement policy, contracts were not always managed effectively. This resulted in irregular and fruitless and wasteful expenditure (refer to paragraphs 5.2 and 5.3 above);
- the human resource plan was revised during 2004, but was not approved by the departmental bargaining council and the executive committee; and
- the vacancy rate for DoT is currently thirty nine per cent.

5.8 Control of transport-related public entities

Memoranda of Understanding between DoT and the public entities under its control are not regularly updated and some were last revised in 1994. In most instances, performance contracts had also not been concluded. These instruments can play a key role in the effective governance and oversight of these institutions and should receive the necessary attention.

Furthermore, processes and procedures were not in place to ensure that board members of the different public entities were appointed timeously and in the manner required by the different acts governing those public entities.

6. APPRECIATION

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

S. A. Fakie

S A Fakie
Auditor-General

Pretoria

31 August 2005