

SCOPA BRIEFING

FOR THE YEARS ENDED 31 MARCH 2002 TO 2005

AS STATED IN THE DRAFT 2002 - 2005 ANNUAL REPORT (RP41/2006)

- accounting practice unless the Accounting Standards Board approves the application of generally recognised accounting practice (from 1 April 2005 onwards);
- (c) submit those financial statements within two months after the end of the financial year to the auditors; and
 - (d) submit within five months of the end of the financial year to the relevant treasury and to the executive authority responsible for the Fund an annual report on the activities of the Fund, the financial statements and the report of the auditors.

3.2 Governance arrangements

In terms of section 51(1)(a)(ii) of the PFMA a public entity must have and maintain "a system of internal audit under the control and direction of an audit committee ..."

An audit committee dedicated to the Fund was only established with effect from 1 July 2004 consisting of 3 members, of which one member subsequently resigned on 30 June 2005. During 2003-04 and 2004-05 two audit committee meetings were held per annum. Prior to this appointment, the audit committee of the Department rendered this oversight function.

The Fund also did not have its own internal audit section and during the 2004-05 financial year, this function has been contracted to a private audit firm. However, during 2004-05 only a risk assessment was performed, whilst only one internal audit was subsequently performed during 2005-06, which mainly focused on the Auditor-General's (AG) findings. Prior to the appointment of the internal audit unit, this function was performed by the Department's internal audit unit.

In the Audit Committee's report for 2004-05, it was also emphasised that the monthly reporting to the accounting authority could not be done due to problems with the previous financial accounting system.

3.3 Annual financial statement presentation

No annual report in respect of the Fund has been tabled in Parliament since the 2000-01 annual report (tabled on 30 January 2002), which is contrary to section 65(1)(a) of the PFMA which states that the annual report, financial statements and the audit report must be tabled within one month after the accounting officer received the audit report. A written explanation, as required in terms of section 65(2)(a) of the PFMA, was tabled on 11 October 2005 regarding the delay in submitting the 2004-05 annual report. According to the explanations furnished by management, the AG was responsible for the delays in finalising the audits for 2002-03 and 2003-04, which also impacted on the finalisation of the 2004-05 audit report. However, the following factors resulting in this delay should be noted:

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Although these vessels were funded via the department, the maintenance and operating cost of these patrolling vessels are funded by the Fund which is currently the Fund's largest operating expense. Beyond the annual governmental grant and the levies imposed on fish products, the main source of revenue of the Fund is from the sale of confiscated assets and fish products.

As it is required of the Fund to prepare financial statements in terms of Generally Accepted Accounting Practice in terms of section 55 of the PFMA, it commenced during August 2002 with a project to develop and implement an appropriate financial and accounting system. This project has, however, failed which resulted in a lack of an appropriate accounting system to date.

2.2.3 The Fund is being administered by employees of the Department of Environmental Affairs and Tourism on a seconded basis and who are all dedicated solely for the administration of the Fund. A staff establishment of 70 posts has been approved for the Office of the Chief Financial Officer (CFO) of the Fund, of which 35 posts have not yet been filled.

The staff is remunerated by the department and the employee cost of permanent staff is carried by the department and, therefore, does not appear on the financial statements of the Fund. A fulltime CFO was only appointed with effect from the 2004-05 financial year and prior to that the CFO of the Department performed this function.

Since the establishment of the Fund as a public entity, it was involved in the setting up and development of appropriate internal controls and the development of relevant policies and procedures as required in terms of section 51(1)(a)(i) of the PFMA which requires that the entity has and maintains - "effective, efficient and transparent systems of financial and risk management and internal control".

As reflected by the nature of the audit findings, as listed in Part 2 below, weaknesses in the Fund's systems of internal controls and financial management were a continuous concern over the past four financial years.

3. Financial framework

3.1 Legislative requirements

Section 55(1) and (2) of the PFMA requires the accounting authority to ensure that the Fund:

- (a) keeps full and proper records of its financial affairs;
- (b) prepare financial statements that should fairly present the state of affairs of the Fund, its financial results, its performance against predetermined objectives and its financial position at the end of the year in terms of generally accepted

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PART 1

FUND'S OVERVIEW

1. Introduction

The purpose of the briefing notes is to provide an insight by the Auditor-General into the issues resulting in the various audit opinions for the financial years ended 31 March 2002 to 2005 of the Marine Living Resources Fund (Fund).

2. Establishment

2.1 Structure of the Fund

2.1.1. The Marine Living Resources Fund was established with effect from 1 September 1998 in terms of section 10 of the Marine Living Resources Act, 1998 (Act No. 18 of 1998) (MLR Act) with the repeal of the former Sea Fishery Act, 1988, when the former Sea Fishery Fund was renamed to the Marine Living Resources Fund. The fund has been listed as a Schedule 3A Public Entity in terms of the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) with effect from 1 April 2001.

2.1.2 The PFMA requirements relating to Accounting Authorities as mentioned in section 49(1) stipulates:

"Every public entity must have an authority which must be accountable for the purposes of this Act".

Section 49(2)(b) of the PFMA, stipulates:

"If the public entity does not have a controlling body ... specific legislation applicable to that public entity designates another person as the accounting authority".

In terms of section 10(4) of the MLR Act, the Director-General of the Department of Environmental Affairs and Tourism is the accounting officer/authority of the Fund. The Director-General (DG) has, however, delegated the position of accounting officer/authority to the Deputy Director-General (DDG). The management reports and the annual report of the Fund have consequently been signed by the DDG (Dr. Monde Mayekiso).

2.2 Background

2.2.1. The public entity is situated in Cape Town at the Foretrust Building, Roggebaai.

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The finance section that is responsible for keeping the accounting records and capturing all financial data is also at the above location.

The following regional harbours are part of the Fund and are collecting revenue by way of fish levies, harbour fees and confiscations (such as abalone) for the fund:

Houtbay
Lambertsbay
Laaiplek (Velddrift)
St.Helena Bay
Saldanha Bay
Kalkbay
Hermanus
Stilbay
Arniston
Gansbay
Gordonsbay
Struisbay (R)

Harbours are responsible for creating the invoices for harbour fees and levies, but the capturing and filing of these documents are all done at head office. The harbours are staffed by fishing controlling officers/inspectors of the department as well as a senior accounting clerk of the Fund.

2.2.2 The Fund is financed from own revenue, as set out above, as well as money appropriated by Parliament in terms of section 10 of the MLR Act. Services rendered by the department via the Fund include:

- The charging per the Act for certain rights, permits and licence fees granted, or services rendered.
- Levies are also determined on fish catches, based on the wholesale value of the fish. This value is determined with the involvement of a statutory body called the Consultative Advisory Forum (CAF), on which the fishing industry is represented. The applicable levies are then recommended to the Minister dependent on the different species of fish.
- Fishing permits and licence fees are determined after consultation with stakeholders. The Minister, in consultation with the Minister of Finance, must approve these permits and licences, including foreign fishing vessel licences.
- Harbour fees are determined after consultation with stakeholders.
- Administration, processing and sale of confiscated assets.

The Fund is mainly involved with the protection of South Africa's marine resources. During the past number of years the Fund took delivery of a number of protection vessels to patrol and protect South Africa's marine resources along its coastline.

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- Continuous amendments and corrections had to be made to the originally submitted financial statements due to various shortcomings and errors that were identified in the statements.
- Certain agreed upon dates for the resubmission of the amended financial statements were arranged with the auditee but were not adhered to by the entity.
- Each instance the financial statements were resubmitted the audit working papers had to be updated with the revised information.
- Due to the scheduling of the audit staff for other assignments, such resubmissions and delays indicated above resulted in the audit staff not being available.

4. Spending trends

From 1 April 2000, the operational budget of the Marine and Coastal Management programme of the Department of Environmental Affairs and Tourism was incorporated into the budget of the Fund which was done to improve the management of financial and other resources. This was due to the fact that the department is delivering various services via the Fund with dedicated staff seconded by the department to the Fund. In terms of section 10(3) of the MLR Act, the Fund shall be administered by the Director-General in consultation with the Minister, in accordance with an estimate of revenue and expenditure as approved by the Minister with the concurrence of the Minister of Finance.

The following is a summary of the revenue and expenditure of the Fund as at the end of the respective financial years:

	2002 R'000	2003 R'000	2004 R'000	2005 R'000
Revenue	250 188	275 177	331 678	320 267
Expenditure	115 953	143 882	186 365	265 946
Profit	134 235	131 295	145 313	54 321
Accum Reserve	195 662	326 957	472 270	526 591

govt grants

PART 2

AUDIT REPORT INFORMATION

1 OVERVIEW

1.1 Staff, skills and capacity

As alluded to earlier, the Fund is being administered by employees of the Department of Environmental Affairs and Tourism that has been seconded to the Office of the CFO of the Fund. As reflected by the nature of the audit findings, as listed in paragraph 1.4 below, weaknesses in the Fund's systems of internal controls were a continuous concern over the past four financial years. This was mainly caused by a lack of appropriate financial skills at the Fund as well as a lack of regular financial oversight.

1.2 Accounting and financial system

Since the establishment of the Fund, the basis of accounting had changed from the cash basis of accounting to the accrual basis of accounting. During the 2001-02 financial year, the Fund operated on the Basic Accounting System (BAS). A firm of consultants was appointed in August 2002 to provide and implement an integrated core financial and procurement accrual accounting system that would satisfy the accounting requirements in terms of the Statements of Generally Accepted Accounting Practice (GAAP). Since the commencement of this project, the Fund experienced numerous problems with the system which resulted in the decommissioning of it on 30 November 2004, resulting in possible fruitless expenditure of R3.2 million. As an interim measure, the Fund outsourced the finance function to a firm of private accountants. The fund has subsequently, during the 2005-06 financial year, taken the finance function over from the firm of private accountants. The Fund has subsequently procured a new financial system that is currently under development.

1.3 Sustainability

Several of the issues raised in the previous year's audit reports were resolved during the 2004-05 financial year with the assistance of a contracted audit firm. The sustainability in 2005-06 of the corrective actions taken is a concern since the Fund lacked the necessary skills and capacity as was demonstrated earlier by numerous vacancies that exist.

1.4 Audit report overview

An overview of the matters reported in the audit reports for the last four financial years as published in the annual report, is summarised below:

Q = Qualification
E = Emphasis of matter

	2001-02	2002-03	2003-04	2004-05
AUDIT OPINION	Qualified	Qualified	Disclaimed	Disclaimed
DESCRIPTION				
(a) Value Added Tax (VAT) • Not registered for VAT • Validity of VAT transactions could not be determined	Q		Q	Q
(b) Limitation of scope • Lack of supporting documentation to verify creditors • Lack of fixed asset register • No fixed asset addition listing			Q Q Q	
(c) Bank reconciliation • Year end reconciliation incorrect			Q	
(d) Unadjusted errors • Duplications, allocation errors and incorrect adjustments • Cut-off errors			Q Q	
(e) Harbour fees • Completeness of harbour fee debtors and related income could not be verified • No authority for debts written off				Q Q
(f) Levy debtors • Validity and completeness of levy debtors and related income could not be verified				Q
(g) Debtors management • Inadequate controls				Q
(h) Opening balances • Uncertainty exist regarding the completeness of opening balances				Q
(i) Generally Accepted accounting practice • Comparative information not included in financial statements	E			
(j) Shared Paymaster-General Account • Lack of control over and administration of the two entities	E			
(k) Harbour tariffs • New harbour fees levied not accepted by the industry	E			
(l) Internal control weaknesses				

	2001-02	2002-03	2003-04	2004-05
AUDIT OPINION	Qualified	Qualified	Disclaimed	Disclaimed
DESCRIPTION				
• Various weaknesses in internal controls were revealed and reported to accounting officer	E	E	E	E
(m) Accounting system				
• New accounting system not fully functional		E		
• Could not verify if bank overdraft was repaid within 30 days		E		
• No bank confirmation letters received		E		
(n) Bank accounts				
• Different cash books maintained within one bank account		E		
(o) Financial and accounting system				
• System decommissioned on 30 November 2004 (possible fruitless expenditure)		E	E	E
(p) Non-compliance to laws and regulations				
• Non tabling of annual reports		E	E	E
• Non-compliance to Treasury Regulation 31.1.3 (Cash management)				E
• Non-compliance to Treasury Regulation 28.3 (No framework of acceptable levels of materiality and significance developed and approved)				E
(q) Submission of financial statements				
• Re-submission of financial statements		E	E	E
(r) Ownership of fixed assets				
• Unable to confirm ownership of fixed assets		E	E	E
(s) Annual financial statement disclosure				
• Incorrect or lacking disclosure in the financial statements		E	E	
(t) Staff loans				
• Loans are being paid to staff			E	

The audit report history indicates a deterioration of financial management in expenditure and income related matters. Details of the specific matters reported and recommendations for the 2004-05 financial year, can be found in Part 3 of this document. Since a variety of the audit findings in respect of the previous financial years

have been addressed and rectified in subsequent years, the detail to be shared and analysed in Part 3 of this document relate to the latest financial year under review, being 2004-05. All the significant unresolved matters relating to the prior years have been evaluated during the last audit cycle and if identified to still exist as a weakness, the matter was reported in the 2004-05 financial year audit report.

As indicated above, the audit opinions of the Fund for 2003-04 and 2004-05 have been disclaimed due to the following significant uncertainties and limitation in scope:

Qualification	2003-04 R'000	2004-05 R'000
Bank reconciliation	Uncertainties	
Unadjusted errors	15 658	
Cut-off errors	4 482	
Value added Tax	Uncertainties	4 180
Stock accounting policy	Inconsistent application	
Trade and other receivables:		
Harbour fees:		
>Debtors not confirmed		2 840
>Revenue not confirmed		4 950
>Prior year debtors written off without authority		2 550
Levy on fish products:		
>Debtors not confirmed		11 950
>Revenue not confirmed		60 650
>Prior year debtors written off without authority		7 460
Debtor management controls		inadequate
Opening balances		Uncertainties

For the 2004-05 financial year the materiality figure was set at R700 000 (0.25% of gross operating expenditure).

2. Summary of the root causes as identified in the management letters and audit reports

- Lack of appropriate policies and procedures
 - The absence of updated and formalized policies relating to the major audit cycles
- Lack of supporting documents and a proper audit trail
 - Audit verification procedures could not be performed on harbour fees, fish levy income and the receivables in this regard due to the lack of registers and a proper audit trail.
- Inadequate monitoring and regular review of management information
 - The absence of a proper financial accounting system to produce adequate management information for review by the accounting officer.
- Lack of continuous evaluation of systems of internal controls by the internal audit component as well as regular oversight by the audit committee

