

# REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE FINANCIAL STATEMENTS OF THE INGONYAMA TRUST BOARD FOR THE YEAR ENDED 31 MARCH 2006

## 1. AUDIT ASSIGNMENT

The financial statements as set out on pages 25 to 36, for the year ended 31 March 2006, have been audited in terms of section 188 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) and section 20 of the KwaZulu-Natal Ingonyama Trust Act, 1994 (Act No. 3 of 1994). These financial statements are the responsibility of the accounting authority. My responsibility is to express an opinion on these financial statements, based on the audit.

## 2. SCOPE

Except as discussed in paragraph 4.1, the audit was conducted in accordance with the International Standards on Auditing read with General Notice 544 of 2006, issued in Government Gazette no. 28723 of 10 April 2006 and General Notice 808 of 2006, issued in Government Gazette no. 28954 of 23 June 2006. 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
- evaluating the overall financial statement presentation.

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

## 3. BASIS OF ACCOUNTING

The entity's policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as described in the policy note to the financial statements.

## 4. QUALIFICATION

### 4.1 Limitation of scope

For matters reported under limitation of scope it was not feasible to perform alternative audit procedures in order to gain the required level of assurance on the account balances disclosed in the financial statements.

#### 4.1.1 Land holdings

During the year under review the services of a registered land surveyor was still engaged to update the asset register for those properties registered in the name of

the Ingonyama Trust Board as at 31 March 2006. The Ingonyama Trust Board (Board) maintains that details of all the land on the asset register was compiled from data provided by the Registrar of Deeds. To this end it should be noted that:

- The deeds registry has not amended their records in respect of many properties owned by the Trust following approval of substitution diagrams by the Surveyor-General. It is the responsibility of the Deeds Office to endorse the title deeds with the new extents.
- Many title deeds date back to the 1860's when imperial measurements and only rudimentary surveying techniques were used.
- Modern survey equipment, conversion of areas to metric and changes in physical features such as river courses etc, have resulted in the amended areas indicated in the substitution diagrams.
- Land falling within a township or used for "State Domestic" purposes also may well have vested in the relevant organ of state in terms of legislation.

A sample of 1 688 143.33 hectares was selected for testing. The following audit findings were noted:

- For 353 200.15 hectares, there were no hectares of land listed on the title deeds.
- For 626 005.16 hectares of land, differences were noted between the hectares recorded in the land register versus hectares reflected on the title deeds.
- Supporting documentation to substantiate the total decrease of 372

hectares from the prior year could not be submitted for audit purposes.

In the light of all of the above it is impractical to audit the differences highlighted.

#### **4.1.2 Completeness of income**

In common with similar organisations, it is not feasible for the Board to institute controls over mineral extractions, therefore complete recording of royalty income cannot be verified. Accordingly, it was impractical to extend my audit beyond the receipts actually recorded.

Furthermore, the Permissions to Occupy (PTO's) receipts could not be matched to their respective applications and accordingly the completeness of PTO income could not be verified.

### **5. DISCLAIMER OF AUDIT OPINION**

Because of the significance of the matters referred to in the preceding paragraphs, I do not express an opinion on the financial statements.

### **6. EMPHASIS OF MATTER**

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

#### **6.1 Contingent liability arrear rates – Municipalities**

As reported in my previous report, the Board has been invoiced over a number of years for rates due to the municipalities for land within the Board's demarcated areas. The exact amount of this potential liability,

owed to municipalities, could not be ascertained as no provision has been raised in the financial statements.

The Board repudiates the extent of the liability because the municipalities cannot substantiate their claims. Consequently the potential liability could be substantially reduced.

It was noted with concern that an accumulated amount of approximately R25 million (2004-05: R25 million) in respect of rates in arrear that was claimed by the eThekweni Municipality, is disclosed as a contingent liability in note 14 of the financial statements. No further claims have been made by the municipalities. I was informed that Ministerial intervention is being sought to resolve this long outstanding matter.

### **6.2 Change in Accounting Policy**

The Board has changed its accounting policy regarding the valuation of land with effect from 1 April 2005. The comparative amounts have been amended to provide better comparative reading of the financial statements. Land valuation is not reflected in the current year financial statements to bring it in line with the parent Department of Land Affairs, land holdings policy, where land is not valued as it is not economically cost effective to value 2,7 million hectares of land. The inventory of land holdings and the valuation adjustment is reflected in note 7 of the financial statements.

As a result of the above change in accounting policy, the Board has departed from Statements of Generally Accepted Accounting Practice IAS 16 (AC123) in this respect.

### **6.3 Performance Information**

The Board has a strategic plan in place but does not monitor performance against predetermined objectives as required by sections 40(3) (a) and 55 (2) (a) of the PFMA. Consequently the performance information was not submitted to the Auditor-General for audit purposes by 15 June 2006 as required.

### **6.4 Supply Chain Management System**

In terms of Treasury Regulation 16A 3.1 the accounting officer or accounting authority of an institution to which these regulations apply must develop and implement an effective and efficient supply chain management system for the acquisition and the disposal of goods and services and the letting of state assets.

For the year under review the Board has not developed or implemented a supply chain management system.

### **6.5 Materiality and Significance Framework**

In terms of Treasury Regulation 28.3.1 the accounting authority must develop and agree a framework of acceptable levels of materiality and significance with the relevant executive authority.

Notwithstanding the above legislation, it was noted that the Board has not developed and agreed a framework of acceptable levels of materiality and significance with the relevant executive authority during the year under review.

## 6.6 Financial Management

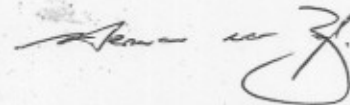
In terms of section 51(1) of the PFMA, the accounting authority of an entity must ensure that the entity is responsible for the management, including the safeguarding of the assets and for the management of revenue, expenditure and liabilities of the entity. During the audit several control weaknesses were identified. A summary of these weaknesses are as follows:

- Lack of segregation of duties in the accounting function that consists of two people.
- No documented policies and procedures (except for the credit control policy) to ensure that the correct processes are followed for activities performed in all cycles, thus increasing the risk of fraud and error.

- No documented fraud prevention plan to prevent and detect fraud and to mitigate specific fraud risks.
- No measures in place to identify and record parties related to the entity.
- No risk management policy.
- The leave records were not updated regularly or signed as being reviewed.

## 7. APPRECIATION

The assistance rendered by the staff of the Ingonyama Trust Board during the audit is sincerely appreciated.



H van Zyl for Auditor-General

Pietermaritzburg

31 July 2006



AUDITOR - GENERAL

