

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE FINANCIAL STATEMENTS OF VOTE 20 – CORRECTIONAL SERVICES FOR THE YEAR ENDED 31 MARCH 2006

1. AUDIT ASSIGNMENT

The financial statements as set out on pages 66 to 118, 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, read with sections 4 and 20 of the Public Audit Act, 2004 (Act No. 25 of 2004). The fixed asset opening balances have not been audited because of the timing of guidance from National Treasury to the departments relating to the treatment, valuation and disclosure of fixed assets. These financial statements are the responsibility of the accounting officer. My responsibility is to express an opinion on these financial statements, based on the audit.

2. SCOPE

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

4. QUALIFICATION

4.1 Public-private partnership (APOPS) R195 million (2004-05 - R195 million)

The department discloses APOPS as an operating lease in note 23 instead of a finance lease as per Treasury Regulation 13.2 and the National Treasury guideline on accounting for leases. In terms of the stipulations of the APOPS contract, it is evident that it meets the criteria requirements for a finance lease and must be disclosed as such. The department is of the opinion that it qualifies as an operating lease due to the fact that ownership passes to the Department of Public Works. As there is disagreement on this matter, I recommended that the department obtains a ruling from the National Treasury on the correct accounting treatment relative to the APOPS agreement and the applicable Treasury Regulations.

4.2 Receivables R36 million (2004-05 – R30 million)

Staff debt

With reference to paragraph 3.3 on page 82 of my previous report [RP178/2005], it was reported that there was insufficient follow-up in terms of staff debt.

The following shortcomings relating to the follow-up of debt were again identified during the year under review:

- Monthly statements were not issued to staff debtors.
- Debtors were not raised at year-end on the Basic Accounting System (BAS).
- Reconciliations were not performed between Persal and the BAS in respect of officials' salaries for debts owing.
- Debtors with credit balances were not followed up on a regular basis.
- Debt files could not in all instances be provided for audit purposes.
- Debt was not recovered when service was terminated.
- Debt was not recovered from current staff debtors.

The above was due to the lack of a control framework to monitor activities. Staff debtors are thus not fairly stated and the valuation thereof in terms of recoverability is a concern.

4.3 Asset management

With reference to paragraph 5.2 on page 83 of my previous report [RP178/2005], insufficient capturing of assets was reported, which resulted in the fixed asset register not being adequately maintained and updated.

The following deficiencies with regard to the current year transactions/movements were noted during the year under review:

- Three (3) different computer programs were used for the management of inventory and fixed assets, namely the Provisioning Administration System 2.6 (PAS), Web Asset Tool (WAT) and the BAS. No reconciliation was performed between the three systems.
- At year-end a large number of assets purchased and captured on the BAS had not been captured on the WAT.
- No fixed asset register was maintained for intangible assets.
- Not all assets had been bar-coded and recorded in the fixed asset register.

Due to the above deficiencies, I was unable to verify the accuracy and completeness of the asset register. Management did, however, undertake to introduce manual reconciliation procedures to overcome the interface problems for the following year.

Paragraph 2 of the accounting officer's report provides further clarification of the non-compliance and the role of the National Treasury regarding the systems.

4.4 Medical expenditure R469 million (2004-05 – R624 million)

With reference to paragraph 3.1 on page 81 of my previous report [RP178/2005], various shortcomings existed with regard to the management of medical expenditure. The following control deficiencies were identified during the audit of the current year:

- In respect of the continuation members, life certificates were not completed on an annual basis to confirm the existence of the continuation members and their dependants. Thus I could not verify the validity and accuracy of the expense of approximately R143 million.

- The employee/employer contributions were calculated incorrectly in some instances. In certain instances the employer contribution was more than required and vice versa.
- The identity numbers of the members and dependants could not be presented to confirm their existence.
- No procedure manual in respect of the management of the medical aid could be presented for audit.
- Validity/completeness checks could not be done for certain of the medical aids as the information was not readily available.
- In terms of all payments for all medical aids, no certification/validity checks were done by the department.

The above was mainly due to the lack of a proper management framework, monitoring and reconciliation for the verification of medical aid expenditure prior to payment thereof.

4.5 Housing loan guarantees R73,6 million (2004-05 – R79,6 million)

The validity and accuracy of housing loan guarantees amounting to R73,6 million could not be confirmed due to the following:

- Guarantees still appeared on Persal even though the housing loan accounts at the financial institutions had been closed.
- Included in the total of 4164 guarantees outstanding as at 31 March 2006, are 1002 guarantees approved prior to 1995. Given the period of redemption and the increase in the value of the property the guarantees should have been redeemed, however still appeared on Persal which indicated that the records were not updated.
- Guarantees existed for employees who did not hold the title deeds to the properties for which guarantees had been issued.

As a result the contingent liabilities are overstated by an unknown amount. This is mainly due to a lack of management framework monitoring controls and reconciliations.

5. QUALIFIED AUDIT OPINION

In my opinion, except for the effect on the financial statements of the matters referred to in the preceding paragraphs, the financial statements present fairly, in all material respects, the financial

position of the Department of Correctional Services at 31 March 2006 and the results of its operations and its cash flows for the year then ended, in accordance with the modified cash basis of accounting determined by the National Treasury of South Africa, as described in accounting policy 1.1 to the financial statements and in a manner required by the Public Finance Management Act.

6. EMPHASIS OF MATTER

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

6.1 Internal control

Paragraph 5.2 on page 83 of my previous report [RP178/2005] referred to various shortcomings in the internal control, some of which had been reported for the past five years. Although the accounting officer had a documented system of internal control in place, the following shortcomings identified during the current year can be attributed to a lack of independent reviews by management, shortage of staff and inadequate training:

6.1.1 Leave

There was a lack of independent reviews by management in respect of the administration of leave and the following were found:

- Differences between the attendance register, leave register, leave form and Persal.
- Examination results not submitted for study leave taken.
- Unpaid leave not deducted from employees' salaries.

6.1.2 Salaries

Payrolls were not certified on the date of payment by the person in charge of the pay-points.

6.1.3 Performance agreements

Certain performance agreements of senior management did not exist or were only signed after the required three (3) months of the appointment.

6.1.4 Suspensions

- The completeness of suspensions could not be established as suspension registers were not maintained.
- Standard danger allowances were paid whilst employees were suspended.

6.1.5 Homeowner's allowance

- Annual declarations confirming the occupation of dwellings had not been completed to ensure further payment of the allowance.
- Proof of registered bonds was not on the personnel/housing files.

6.1.6 BAS/Persal interface

Monthly reconciliations between the BAS and Persal were not done, which contributed to the salary interface control account reflecting a balance of R800 137 at year-end. However, subsequent to year-end the department has put a process in place to ensure proper and complete reconciliations.

6.1.7 Losses

Losses were not always properly recorded and followed up. The loss register was not updated and reviewed in good time.

6.1.8 Payments

Invoices were not always duly certified and/or paid within the prescribed 30 days. Supporting documentation was not made available.

6.1.9 Journals

Supporting documentation was not always attached to journals when processing took place and therefore the validity of some journals could not be verified.

6.1.10 Budgets

- Minutes were not kept of monthly finance meetings.
- Input documents, motivations and calculations regarding estimates submitted by cost centre managers were not available for audit purposes.

The above mainly reflects the lack of a proper management framework and monitoring.

6.2 Employee benefit provisions R700,7 million (2004-05 – R667,4 million)

The leave entitlement and the capped leave commitments amounting to R700,7 million were misstated by an unknown amount due to incorrect leave credits on Persal. These differences can mainly be attributed to internal control shortcomings as mentioned in paragraph 6.1 above and are a result of a lack of monitoring controls.

6.3 Vacancies

Out of an approved and funded establishment of 38,979, only 36,270 posts were filled as at 4 April 2006, which represents a seven (7) per cent vacancy.

Filling the vacancies in the professional field is a challenge as the department has to compete with foreign countries regarding the recruitment of professionals. Note is, however, taken of the steps the department has taken to address the issue.

6.4 Pharmacies

With reference to paragraph 5.2 page 83 of my previous report [RP178/2005], insufficient stock control as a result of an ongoing computer system error resulted in differences between stock on hand and stock per the computer system. In addition stock counts were not performed at regular intervals.

This was mainly due to the lack of a proper management/control framework, monitoring and reconciliations

6.5 Vehicle fleet management

The following deficiencies were noted during the audit:

- Trip sheets and fuel slips were not filed/ maintained.
- Logbooks and trip sheets did not correspond.
- Fleet management report discrepancies were not followed up.
- No reconciliations were performed between logbooks, fuel purchases and fleet management reports.
- Lack of control in the administration of accident and tyre registers. These registers were not reviewed on a regular basis and were incomplete.

This was due to the lack of a proper management/control framework, monitoring and reconciliation.

Similar deficiencies were reported in paragraph 5.2 of my previous report.

6.6 Accruals R31,2 million (2004-05 – R42,6 million)

During the audit of accruals amounting to R31,2 million, cut-off testing revealed that not all unpaid

invoices received prior to year-end had been included in disclosure note 28 to the financial statements. This resulted in the accruals being understated by an unknown amount. This was due to the lack of a proper management/control framework and monitoring

6.7 Supply chain management

Following allegations of mismanagement in the supply chain management process, the regularity audit process was extended to specific contracts. Certain aspects of the audit have not yet been finalised and I am also liaising with the Public Service Commission which has conducted a review relating to the same matter. If necessary I shall report on the matter in my next report.

6.8 Subsistence and travelling

The following shortcomings with regard to the control and administration of subsistence and travelling (S&T) were identified:

- S&T claims were not always submitted within seven days of returning from a trip.
- S&T claims were not always processed within three days after receipt by the department.
- Certain claims could not be submitted for auditing purposes and others were not fully completed.
- Incorrect amounts were paid or claimed.
- Some claims were not authorised or authorised by the incorrect delegation level.

This was due to the lack of a proper management control framework monitoring and reconciliation.

6.9 Policies

During the audit of the department it was noted that various financial policies were still in the process of being reviewed in order to align the policies with the requirements of the BAS and the White Paper on Corrections. In certain instances the required policies had not yet been compiled. This was mainly due to inadequate processes and poor project management.

6.10 Accommodation

Correctional centres remained overcrowded and resulted in the detention of offenders in inhumane conditions. This situation resulted in non-compliance with the Correctional Services Act, 1998 (Act No. 111 of 1998), chapter 3, paragraph 7(1).

This is not a simple matter, but one which is influenced by the criminal justice system as a whole and administered by the whole environment of the Justice, Crime, Prevention and Security (JCPS) Cluster.

Reference is also made to this matter in paragraph 1.1 of the accounting officer's report – Overcrowding.

6.11 Progress with the resolutions of the Standing Committee on Public Accounts (SCOPA) and previously reported matters

I concur with the progress reported by the department on SCOPA resolutions and recorded in the accounting officer's report.

6.12 Jali Commission

With reference to paragraph 59 of the previous report [RP178/2005], the Jali Commission had completed its investigations and the report was handed over to the President on 14 December 2005 and to the Minister of Correctional Services on 13 March 2006. The department is currently in the process of analysing the recommendations in terms of controls and governance. The department has further indicated that many of the problems mentioned in the report have been addressed by the White Paper on Corrections and the transformation process. The progress in this regard will be evaluated over a period and reported on if necessary.

6.13 Information systems audit (ISA)

A follow-up information systems (IS) audit of the general controls surrounding the information systems environment of the Department of Correctional Services (DCS) was completed in December 2005 and the findings were reported to the accounting officer.

It was established that some progress had been made in addressing the shortcomings identified during the previous audit, but certain control weaknesses were still present in the general control environment as a whole. These control weaknesses, which related to security administration, segregation of duties and physical security, could potentially compromise the integrity of data.

The shortcomings identified could be attributed to inadequately documented user management

procedures and insufficient resource provision to ensure effective monitoring of the information systems environment.

In its management comments the department indicated that corrective actions and initiatives were in progress and would be implemented subsequent to the completion of the audit to address the reported control weaknesses. The effectiveness of these management actions will be verified in the next IS audit.

6.14 Medical expenditure: Forensic investigation

The forensic investigation performed by the National Prosecuting Authority (NPA) with regard to the submission of excessive claims by members and service providers, and referred to in paragraph 5.7.1 of my previous report, is still ongoing. The intended second phase, relating to the medical boarding of staff of the department, will start as soon as all the preliminary work has been completed. The department has indicated that it would handle the second phase of the investigation.

6.15 Performance audit

During the year under review a performance audit was conducted of the management and provision of official accommodation to staff at the department. The management report was submitted to management for comment. A separate report will be tabled in this regard.

7. APPRECIATION

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

Shaupet Fake

Auditor-General
Pretoria
31 July 2006



AUDITOR - GENERAL