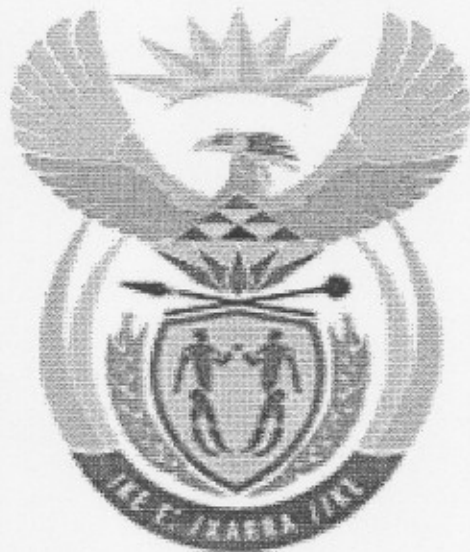


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ANNUAL FINANCIAL STATEMENTS FOR THE MONIES IN TRUST

**ADMINISTERED BY THE DEPARTMENT OF JUSTICE AND
CONSTITUTIONAL DEVELOPMENT**

FOR THE YEAR ENDED 31 MARCH 2006

FINANCIAL STATEMENTS: MONIES IN TRUST

Administered by the Department of Justice and Constitutional
Development for the year ended 31 March 2006

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ANNUAL FINANCIAL STATEMENTS: MONIES IN TRUST

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Management Report and Approval for the year ended 31 March 2006

General review of the state of affairs

The DoJ&CD has six reporting entities being the Vote Account, the Guardians Fund, the NPA, the President's Fund, CARA and Monies in Trust (MIT). Within these reporting entities the DOJ&CD manages third party funds. A grouping of managed third party funds has a legacy of being called MIT. Monies in Trust does not include the Guardians Fund which also manages funds on behalf of third parties. Historically, MIT has not been reported upon at all for some time. Last year the DoJ&CD produced a partial set of Annual Financial Statements covering the MIT operations of a single month. No books of prime entry have ever been maintained for these funds and thus Annual Financial Statements can only be drafted upon the basis of reports received from individual Justice Offices that deal with MIT. The legislative and regulatory framework surrounding the management of third party funds is at varying degrees of maturity. There is no legal framework covering maintenance monies. Certain funds collected by the DoJ&CD are collected for third parties, typically the National Revenue Fund and other state departments, on an agency basis. The technicality of whether or not these agency collections constitute DoJ&CD revenue needs to be established. A legal opinion for the purpose of briefing the State Law Advisor on the legislative and regulatory status of MIT has been obtained. This opinion has been forwarded to the State Law Advisor whose opinion will inform a stakeholder conference on the establishment of the necessary legislative and or regulatory frameworks as well as establish interim arrangements.

The following are the types of Monies in Trust (MIT)

- Admission of Guilt (traffic fines where the accused chooses not to defend the matter in court. These funds are paid over to either local or provincial government at the end of each month)
- Bail (where an accused is granted bail by a judicial officer or an official duly authorised, where the funds are kept until a court authorises the return of the funds to the accused or forfeited to the state)
- Court Fines (fines imposed by a court)
- Estate Money (pre October 2004 estates that have not been dealt with yet or which should be paid over to the Master of the High Court, which now deals with all estate matters)
- Maintenance (money received from defendants as per order of court, which is then paid to beneficiaries/plaintiffs)
- State Attorney monies (money collected by the State Attorney on behalf of State Departments)
- Compensatory fines (Criminal Court orders for a given defendant to pay compensation to a plaintiff)
- Deffered fines (fines deferred over a period as imposed by court)
- Payments in to Court (civil action where an offer in settlement of a plaintiffs claim is made. These payments may in certain cases be made without a court order, where a defendant pays into court an amount, without prejudice, as an offer in settlement of a plaintiffs claim in a civil case, pending acceptance by the plaintiff) and
- Unclassified Monies (monies received that cannot immediately be classified into one of the above categories)

Monies in Trust is a fund with characteristics of both a Trust and a relationship of agency.

ANNUAL FINANCIAL STATEMENTS: MONIES IN TRUST

Administered by the Department of Justice and Constitutional Development

Management Report and Approval for the year ended 31 March 2006 (continued)

The DoJ&CD supplies MIT services to the public as well as to local, provincial and national government. These services are supplied in terms of existing legislative and regulatory frameworks, where these exist, or they are supplied in terms of DoJ&CD policy on these matters.

In summary, the MIT reporting entity collects funds on behalf of others which it pays over to those entitled thereto. No fees are charged for these services, except a 5% commission in respect of debt collected by the State Attorney on behalf of government departments, which is paid over to the National Revenue Fund. This commission is collected in terms of section 65J of the Magistrates' Court Act (Act 32 of 1944), as amended.

The DoJ&CD manages Monies in Trust through a network of some 650 Cash Halls countrywide.

Manual paper-based processes, incomplete records, a general lack of financial control, the inability to reconcile, a poor service delivery model, inadequate skills to run a modern cash management system and a lack of information technology and networks characterises the state of the Management of MIT.

A number of Magistrates' Offices did either not supply any information to the National Office during the year under review or they supplied incomplete information. Where partial information was available an estimate of the annual transaction values was calculated by annualising available information. Information relating to excluded offices and estimated annualised transaction values are presented in the addenda hereto. Additional information has been supplied by way of addenda to these AFS. (Refer to Addendum 1).

During the period under review the following initiatives were launched to address some of the problems associated with Monies in Trust operations:

Operation Isondlo

The DoJ&CD launched this initiative to alleviate some of the difficulties faced by the maintenance beneficiaries in accessing their monies. This in turn contributes to poverty alleviation and ensures justice for all. Where possible new contact details were established for beneficiaries whose maintenance benefits have not been claimed and the payment of these dormant balances is expedited.

Operation Isondlo focuses mainly on maintenance issues aiming to improve the maintenance system through a series of interventions such as the paying out of about R80 million unclaimed maintenance monies to beneficiaries. The department has already embarked on imbizo visits at three offices, Phillippi, Khayelitsha and Mitchell's Plain to hand over cheques to identified beneficiaries and guardians who did not collect their maintenance benefits. This project has received a resounding support by all stakeholders.

EFT Payment Pilots

As part of the preparation for the MMT PPP, the DoJ&CD has started piloting the disbursement of maintenance monies via Electronic Funds Transfer (EFT). These pilots have established that the so called "unbanked" segment of our population is able to operate accounts and that they are able to access the financial services of banks in both rural and urban areas.

ANNUAL FINANCIAL STATEMENTS: MONIES IN TRUST

Administered by the Department of Justice and Constitutional Development

Management Report and Approval for the year ended 31 March 2006 (continued)

ABSA, First National Bank, Standard Bank and Nedbank have participated in these pilots by providing EFT payment services for Umbumbulu, Elliotdale and Ngqeleni Magistrates' offices. The roll-out of this pilot project to more Magistrates' Offices that are situated in all our provinces has been approved. At the end of September 2006, payments were made through EFT for twenty three offices, with 9378 registered beneficiaries. A further twenty five offices are in process to have access to this facility.

Service Delivery Model

Service delivery models have traditionally been customised according to the unique circumstances or geographical situations of each Cash Hall, e.g. the proximity to banks influences the frequency of payouts as well as the method of payout (cash or cheque).

The reliability and convenience of the service provided by the Department is not optimal. The lack of close knowledgeable supervision, the lack of adherence to procedures and protocols contributes to a culture of non-compliance, which in turn, increases the incidence of fraudulent activities within the Cash Halls.

MMT PPP Project

The investment in people skills, systems and infrastructure over the last few decades has been inadequate to maintain systems that meet the expectations of stakeholders. To correct this legacy, as is required by the PFMA, the DoJ&CD is pursuing a solution via a Private Public Partnership (PPP) project. The PPP project is targeted to achieve an unqualified audit report from the Office of the Auditor-General within a reasonable period time.

It is envisaged that Maintenance transactions, which account for some 66% of all MIT transactions can, over time, be removed from the Cash Halls. Further reductions in cash handling by DoJ&CD officials can be achieved through the removal of other types of transactions from the Cash Hall environment. Suitable and flexible alternatives already exist for admission of guilt traffic fines and the extension of deferred court fine payments through the expanded footprint of the Financial Services sector.

The PPP project seeks to leverage the resources of the private sector, which the DoJ&CD cannot afford to duplicate and to shift as much transaction risk as possible to the Private Sector, thereby minimising cash handling by DoJ&CD officials within weakly controlled environments. MTEF allocations to the DoJ&CD for this project have been as follows: 2003/04 – R10million, 2004/05 – R70 million, 2005/06 – R70 million and 2006/07 – R70 million. These allocations are part of the baseline allocation to the Department and will remain so until removed. Inflation grants from National Treasury will be added to the baseline allocations once the PPP is operationalised. Thus far these funds have been utilised for other priority financial needs of the DoJ&CD. Any MMT solution adopted would require a reprioritisation of the current baseline budgets for complementary requirements to the PPP, such as security.

ANNUAL FINANCIAL STATEMENTS: MONIES IN TRUST

Administered by the Department of Justice and Constitutional Development

Management Report and Approval for the year ended 31 March 2006 (continued)

The Request for Proposal (RFP) has been issued to the six short-listed bidders on 6 October 2006. Two of the short-listed have thus far withdrawn. The closing date for the RFP's is 8 January 2006. The conclusion of this phase will enable an assessment of affordability before the decision to implement the PPP is taken. The essence of the recommended option sees the appointment of receiving agents (conventional banks, retail stores, ATM's, etc.) to collect money on behalf of beneficiaries. These monies are proposed to be directed to payment agents (again banks, stores, etc.) who pay the money to the beneficiaries. An option with no bank charges is to be available to beneficiaries as well as the option to use own banking arrangements at own cost. Thus, beneficiaries may elect whether or not they want own services at own cost or arranged free services. Queries from the public are proposed to be dealt with by a national call centre that is to be informed by a central database. This database is to be informed by information transferred by all courts as well as by all receiving and payment agents. In terms of the proposed solution, the call centre and database functionality is to be transferred back to the Department over time. It is expected that a PPP partner will be appointed in March 2007 and that new systems will be operational in all courts by early 2008.

Approval:

The Annual Financial statements set out on pages 1 to 25 have been approved by the Accounting Officer.

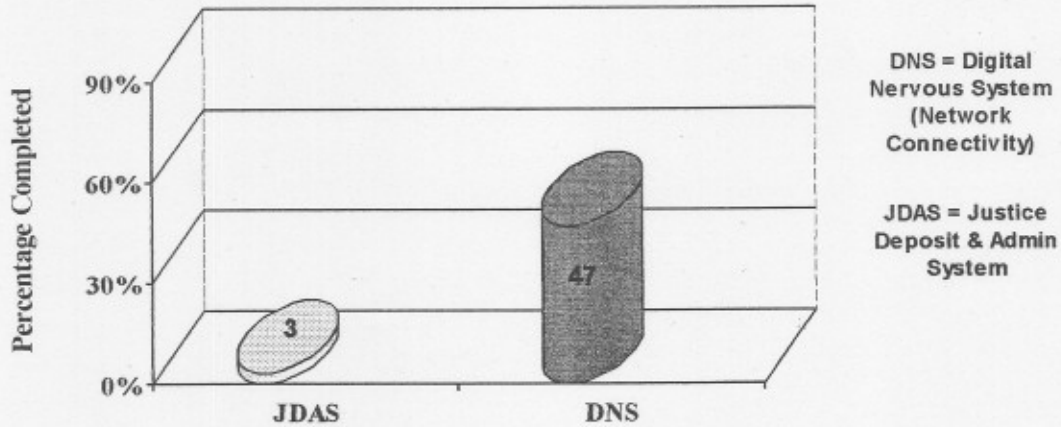
ADV. M SIMELANE
DIRECTOR-GENERAL
Department of Justice and Constitutional Development
Date:

ANNUAL FINANCIAL STATEMENTS: MONIES IN TRUST

Administered by the Department of Justice and Constitutional Development

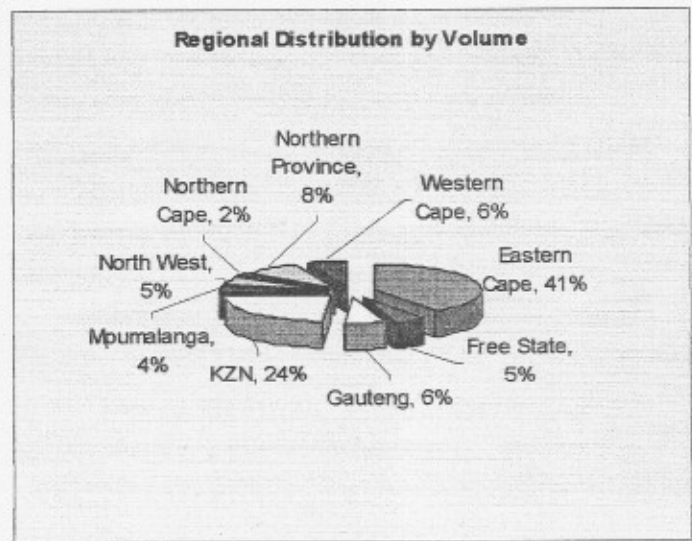
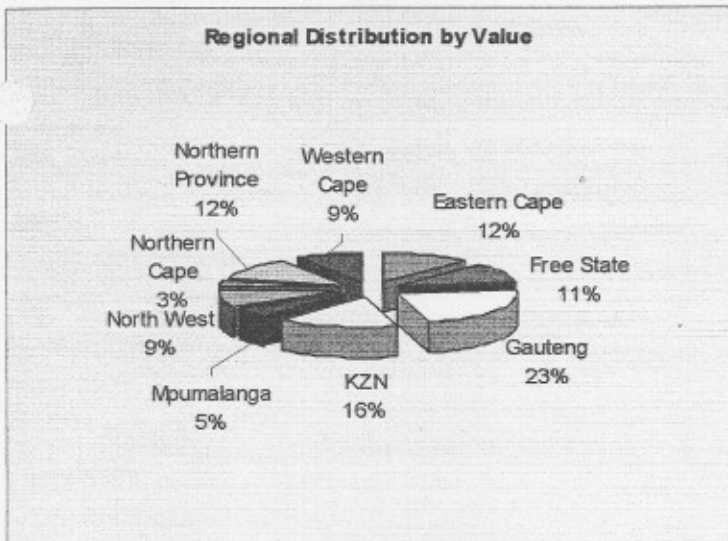
Trust Statistics for the year ended 31 March 2006

JDAS rollout and DNS



JDAS roll-over to offices and DNS connectivity to offices for year ended 31 March 2006

Values and Volumes



The results of an analysis of transaction Volume and Values for the reporting period 2005/2006

ANNUAL FINANCIAL STATEMENTS: MONIES IN TRUST

Administered by the Department of Justice and Constitutional Development

Trust Statistics for the year ended 31 March 2006 *continued*

Number of Cash Halls included in the Financial Statements

Magistrate Office Submission

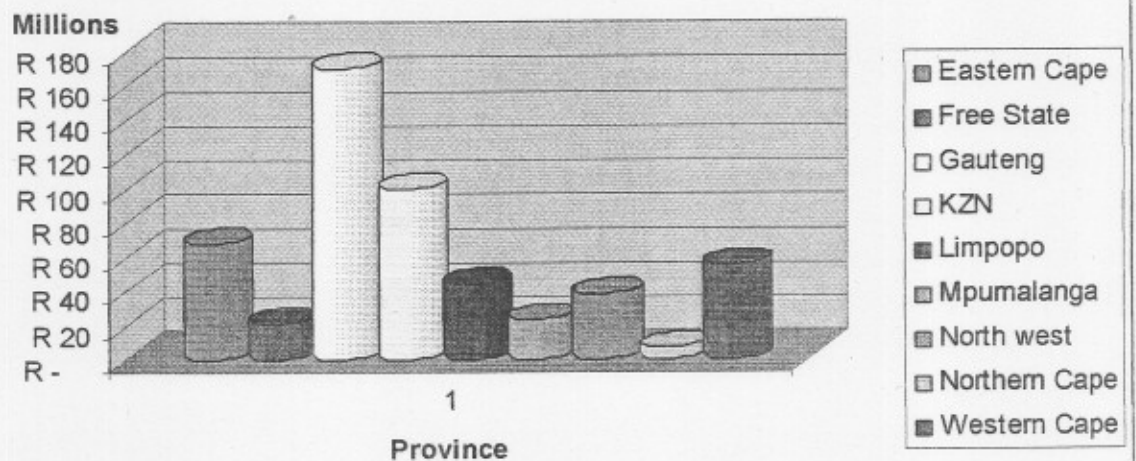


The offices excluded relate to offices which did not submit their financial records at year end.

Training Facilities

Ownership and use of all training facilities (i.e. training centres and busses) have been handed over to the regions

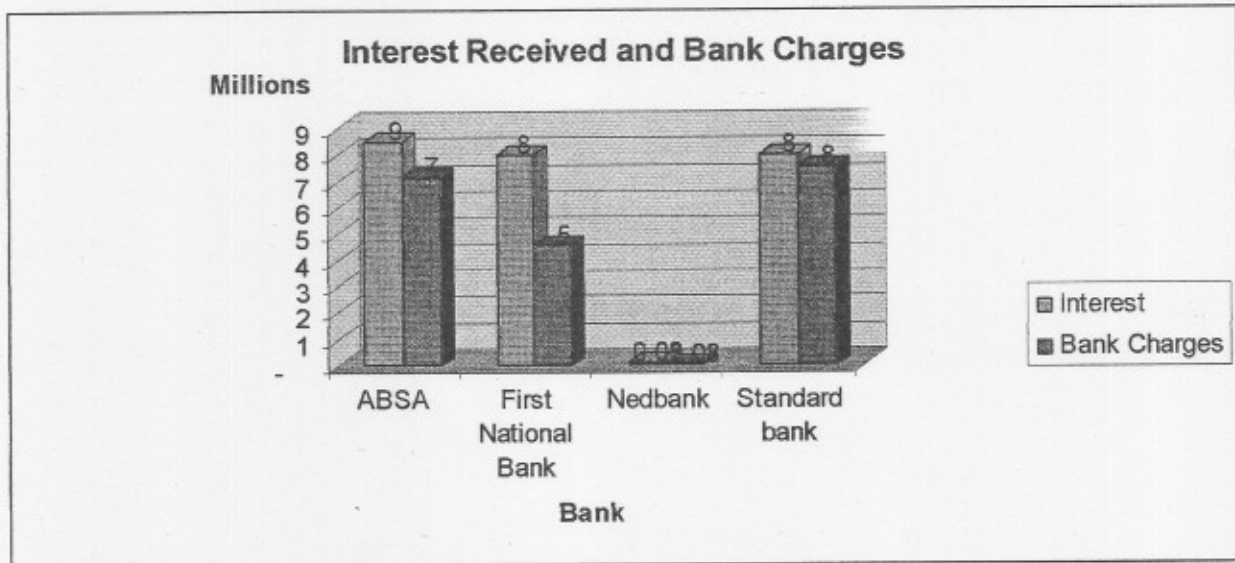
MMT Regional Consolidated Cash Balance Spread



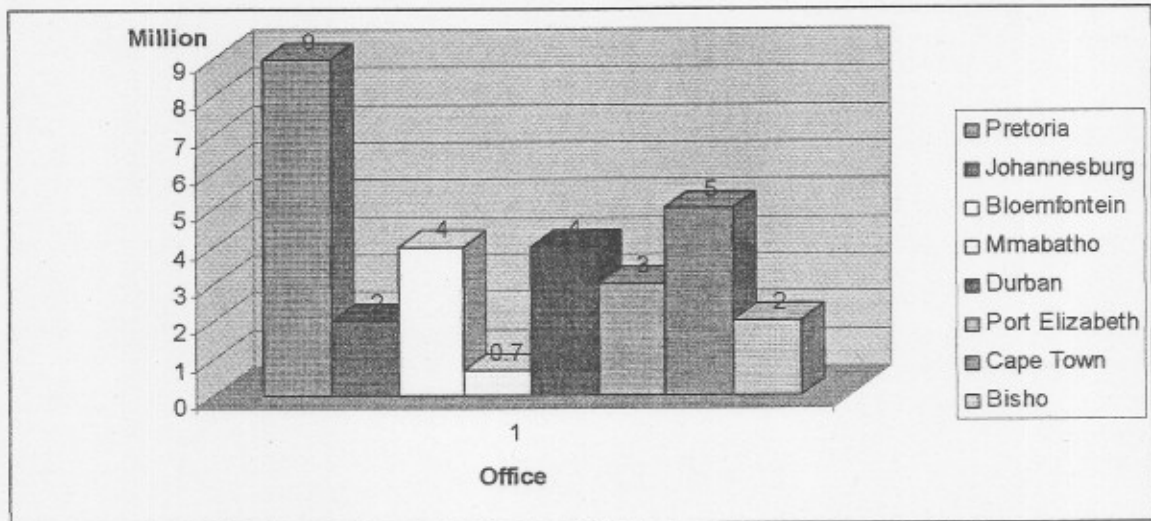
ANNUAL FINANCIAL STATEMENTS: MONIES IN TRUST

Administered by the Department of Justice and Constitutional Development

Trust Statistics for the year ended 31 March 2006 *continued*



STATE ATTORNEY BALANCES



ANNUAL FINANCIAL STATEMENTS: MONIES IN TRUST

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Statement of Financial Performance for the year ended 31 March 2006

	Note	2006 12 Months R	2005 1 Month R
Total Revenue	2	1,740,330,740	162,017,821
Funds transferred to SARS (Net interest)	3	4,367,332	1,221,210
Beneficiary Payments and Charges	4	<u>1,740,913,924</u>	<u>179,404,859</u>
Deficit from operations		(4,950,516)	(18,608,248)
Gross Interest (Cash basis)	5	24,574,585	1,954,910
Surplus/(Deficit)		<u>19,624,069</u>	<u>(16,653,338)</u>