

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE

FINANCIAL STATEMENTS OF VOTE 34 –

DEPARTMENT OF WATER AFFAIRS AND FORESTRY

FOR THE YEAR ENDED 31 MARCH 2006

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 note 1.1 to financial statements.

1. AUDIT ASSIGNMENT

The financial statements as set out on pages 86 to 148 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). 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.

4. QUALIFICATION

4.1 Asset management

The completeness; accuracy and validity of additions disclosed in Annexure 4 could not be verified as:

- The reconciliation of the Basic Accounting Sys (BAS) used to process payments, the LOGIS sys used for the ordering of assets and the manual register in Excel used for recording of assets was performed,
- assets purchased in the current year could not be traced to the asset register and
- the physical existence of assets purchased in current year could not be verified.

Furthermore, the fixed assets of the department were not adequately safeguarded as not all the assets were bar-coded to facilitate the identification of assets for verification. The audit also revealed that there was inconsistent use of LOGIS and manual asset registers at the regional offices of the department.

4.2 Independent checks and reconciliations

As a result of the lack of a proper management framework for performing independent checks and reconciliations, the following balances disclosed in the annual financial statements were not reconciled at year-end:

4.2.1 BAS and PERSAL reconciliation

The reconciliation between PERSAL and BAS in respect of personnel expenditure for the period 1 April 2005 to 31 March 2006 was not performed by the department.

Consequently, I was unable to verify the validity and accuracy of the amounts disclosed as part of the compensation of employees, which originated from BAS.

4.2.2 Commitments

The amount of R2,2 billion disclosed as commitments in note 22 to the annual financial statements could not be relied on, as the amount disclosed is the initial contracted value and does not take into account payments to date.

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 fairly present, in all material respects, the financial position of the Department of Water Affairs and Forestry 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 note 1.1 to the financial statements, and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA).

6. EMPHASIS OF MATTER

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

6.1 Monitoring

As a result of the lack of a proper management monitoring framework no procedures were set by management to monitor the following:

- Adherence to section 43(4)(c) of the PFMA; an amount of R55 286 000 was shifted from the appropriation for capital expenditure to the appropriation for current payments in programme 3, without obtaining approval from the National Treasury. The irregular expenditure has been disclosed in note 27 to the annual financial statements.

- Adherence to section 38(c)(ii) of the PFMA regard to preventing unauthorised, irregular, fruitless and wasteful expenditure; unauthorised expenditure amounting to R3 782 000 resulting in the exceeding of the budget for current payments and transfers and subsidies in programme 4 incurred. The unauthorised expenditure has not been correctly accounted for and is disclosed in note 27 to the annual financial statements.

- Review of the Environmental Implementation (EIP) four years after the first date of implementation on 14 December 2001, as required by section 107 of the National Environmental Management Act, 1998 (Act No. 107 of 1998) (NEMA).

6.2 Performance information

In terms of section 20(2)(c) of the Public Audit Act, the performance of the department against the predetermined objectives is subject to audit in the Auditor-General. The required information was submitted for audit purposes.

6.3 SCOPA resolutions

A SCOPA hearing was held in 2005, but no resolutions were passed.

7. APPRECIATION

The assistance rendered by the staff of the Department of Water Affairs and Forestry during the audit is sincerely appreciated.

Shaukat Fakie

Auditor-General
Pretoria
31 July 2006



AUDITOR-GENERAL