

## 13 SCOPA resolutions

Reference to previous audit report and SCOPA resolutions	Subject	Resolution	Progress
2005/06 Performance Audit report	Approval and allocation of Housing subsidies at Provincial Housing Departments.	On its report number 76 dated 6 September 2006 the SCOPA resolved that:	
(		a) The practice of separation of duties is complied with and that only duly authorised senior management is allowed to effect overrides to subsidy applications.	<b>(a) SEPARATION OF DUTIES</b> The override of search results on the HSS is no longer conducted by an individual. The HSS has been enhanced to enforce a second level of authorization. A junior user scrutinizes the search results and determines if an override is required. In cases where such overrides need to be performed, the junior user will record the reasons for the override to be conducted. The senior user, delegated to perform this function by the Chief Financial Officer, evaluates the details on a case by case basis and approves or declines the request for an override. A real time report is available on HSS Online indicating the various search overrides conducted over a specific period
		(b) The department establishes an ID verification mechanism that is linked to data on the Home Affairs database.	<b>(b) ID VERIFICATION MECHANISM</b> The checking mechanism built into the HSS, based on the formula provided by the Department of Home Affairs to confirm the validity of an ID, will prevent the capturing any invalid ID's. The ID's captured on the HSS are selected by the Provincial Housing Department and submitted for overnight searches against the Population Register, via HSS Online. The outcome of the search results is available to the Provincial Housing Departments the next morning. Regarding problematic search results, the following messages are submitted by the Population Register: <ul style="list-style-type: none"> <li>• Check Digit Invalid (Valid ID)</li> <li>• Person is deceased (Valid ID)</li> <li>• Exist as a record (Valid ID)</li> <li>• Record does not exist on the PRS (Invalid)</li> </ul>
		(c) The department must ensure that policy guidelines with respect to the administration and awarding of subsidies are enforced.	<b>(c) POLICY GUIDELINES</b> The revision of the current National Housing Code will result in the simplification of the subsidy rules and guidelines. Each National Housing Programme will have its specific qualification criteria. This achievement will enhance policy interpretation and the correct application of the policy prescripts. In addition, the Department has enhanced the Housing Subsidy System's application verification mechanism. The System now also tests applications against the PERSAL to verify Government employee salary data. In addition the System also test all applications against the UIF data base to ensure that persons' claims of being unemployed, are also verified.
		(d) The department must report to Parliament on disciplinary action taken against employees who engaged in fraudulent and corrupt activities.	<b>(d) DISCIPLINARY ACTION TAKEN AGAINST EMPLOYEES</b> Investigations of the exception reports from the Auditor-General are in the process of being finalised. Disciplinary action will be followed against staff members identified in fraudulent activities. There are mechanisms in place to report disciplinary action taken against identified staff members, such as the provinces' monthly report to Treasury through the IYM report and the yearly report to the DPSA. This is also published in the Provincial Annual Report.
		(e) All missing applications are presented for audit purposes and that henceforth the archiving system is in line with best practice.	<b>(e) RECORDS MANAGEMENT</b> The missing application forms are in the process of being investigated by all the Provincial Housing Departments. In cases where subsidy application forms cannot be located by the relevant Provincial Housing Departments they will be dealt with in terms of the PFMA. Provincial Housing Departments are at various levels of maturity regarding records management. At this stage most of the provinces do not comply with the requirements due to the non-existence of designated Records Managers, approved policies, archive plans and records control schedules as required by the National Archives and Records Services Act 1996 (Act No. 36 of 1996). There is also a lack of skills in records management and a desperate need for adequate training. The National Department of Housing has requested Provincial Housing Departments to upgrade their filing systems in accordance with the provisions of the National Archives Act, 1996 and training was offered on records management. The Housing Subsidy Units in Provincial Housing Departments are currently enhancing their records management practices and are working towards complying with the National Archives and Records Services requirements. It must be noted that this initiative is still in its early stages.
		(f) The National Department of Housing institutes a comprehensive strategy of co-operation and integration with Provincial departments.	<b>(f) STRATEGY OF COOPERATION AND INTEGRATION WITH PROVINCIAL DEPARTMENTS</b> Various forums were established to further enhance the cooperation between the Provincial Housing Departments and the National Department of Housing. The following committees serve as mechanisms to address such integration: <ul style="list-style-type: none"> <li>• Quarterly HSS Steering Committee Meetings</li> <li>• CFO forum</li> <li>• Technical MinMec</li> <li>• Joint Steering Committee</li> <li>• National Anti-Corruption forum</li> <li>• SIU/Department of Housing Steering Committee</li> <li>• Ad Hoc meetings with the provinces, ensure that the lines of communication are open.</li> </ul>

		<p>(g) The department submits a progress report to Parliament on the status of implementation of instructions from the Minister.</p>	<p><b>(g) STATUS OF IMPLEMENTATION OF STATEMENTS BY THE MINISTER</b></p> <p><b>STATEMENT NO.1</b> A JSC consisting of officials from the DoH, provincial housing departments, SITA and the Auditor-General (as an observer) will be established as a matter of urgency. This JSC should be complemented with capacity from the DoH's units of Finance, Internal Audit and the Special Investigating Unit. Any additional expertise should be sourced as and when required, for example highly skilled information technology or information management entities from the private sector. The purpose for the establishment of the JSC should be to study and appraise the Auditor-General's report thoroughly and to interrogate the Auditor-General's report in order to confirm the correctness or otherwise of its findings.</p> <p><b>Progress:</b> The JSC was established and meets on a regular basis to facilitate matters identified and to report progress on investigations and system improvements (HSS). The plan to address the Auditor General's report entailed investigations of each case on the dataset obtained from the Auditor General's office. The JSC interrogates the monthly progress reports obtained from the provincial housing departments and reports regularly to the Director-General and the Minister.</p> <p><b>STATEMENT NO.2</b> Consider policy aspects that need to be addressed.</p> <p><b>Feedback: Approval of applicants under the age of 21 years</b> The qualification criteria for participation in the Housing Subsidy Scheme are not based on age. There are various categories of persons under the age of 21 years that are in fact competent to contract and thus qualify for a housing subsidy.</p> <p><b>Applicants who have previously benefited</b></p> <p>A person's eligibility to benefit for a second time from the subsidy scheme in the case of a divorced person is subject to the terms of the divorce order. In instances where the divorced person has not derived any benefits from the termination of the marriage in respect of the residential property, the MEC may consider to approve the application, if such a person satisfies the other qualification criteria.</p> <p><b>Administration of subsidy applications after an applicant had died</b></p> <p>The determining factor in these cases will be the date of death of the beneficiary in relation to the date on which the subsidy is approved. Should an applicant pass away after the subsidy has been approved, the late estate of such a person has a legal claim to the rights to the property and thus the subsidy. The National Housing Programme provisions have been adjusted to provide for the approval of a housing subsidy application only after the completion of the house construction phase. The original provisions were that a subsidy application must be approved and the serviced stand must be transferred to the approved beneficiary before the construction of the house could commence. This policy change will by and large prevent cases where beneficiaries die and their subsidy applications are approved after their death. However such cases may still occur in circumstances where the death of the beneficiary is not timeously recorded in the Population Register.</p> <p><b>Date of approval versus date of application</b></p> <p>The information as contained in the application form, irrespective of its date, is used to determine an applicant's eligibility to participate to the subsidy scheme. The MEC must decide whether the information in the application is appropriate and adequately substantiated.</p> <p><b>STATEMENT NO.3</b> Consider the interface of the HSS with other government systems, for example Persal, UIF, etc.</p> <p><b>Progress:</b> The interface with PERSAL and UIF was established and is operational.</p> <p><b>STATEMENT NO.4</b> Undertake risk assessments of the entire HSS.</p> <p><b>Progress:</b> Although the National Department of Housing has internally assessed the Housing Subsidy System in terms of compliance with the housing policy, an external service provider was appointed and is in the process of conducting a technical evaluation of the HSS.</p> <p><b>STATEMENT NO.5</b> Review the whole process of housing subsidy applications.</p> <p><b>Progress:</b> The Housing subsidy application process has been addressed in an attempt to prevent abuse and fraud of applicants receiving subsidies unlawfully.</p> <p><b>STATEMENT NO.6</b> Consider compulsory fields.</p> <p><b>Progress:</b> A list of the compulsory fields on the HSS was extracted and confirmed.</p> <p><b>STATEMENT NO.7</b> Explore adequate and efficient separation of functions to obviate misuse.</p> <p><b>Progress:</b> Segregation of duties and access authority was re-confirmed with provincial housing departments and in terms of the system the provincial housing departments were provided with a list of staff members registered as users on the HSS including the functions assigned to them. Based on the feedback received from Provincial Housing Departments the HSS user profiles were revisited. A more formal process to register new users on the HSS was introduced, with a registration form to be completed and signed off by a senior provincial user.</p> <p><b>STATEMENT NO.8</b> Consider the various levels of access for data capture, verification, amendments, overrides and approval.</p> <p><b>Progress:</b> The HSS makes provision for the following user levels: capturing of information, editing of information and the verification thereof. Certain functions on the HSS can only be performed by a provincial staff member with the required authority. The override of searches and approval of beneficiaries for a subsidy is done by staff members with the required senior user access and profile.</p> <p><b>STATEMENT NO.9</b> Consider the safekeeping and filing of application forms and adherence to the National Archives Act, 1996 (Act No. 36 of 1996)</p> <p><b>Progress:</b> Housing Subsidy Units in Provincial Housing Departments are currently revising their records management practices to ensure compliance with the provisions of the National Archives and Records Services requirements.</p> <p><b>STATEMENT NO.10</b> Ensure an access control system in each province.</p> <p><b>Progress:</b> The National Department of Housing has engaged with the Provincial Housing Departments to ensure that all the system servers are located in dedicated server rooms with controlled access.</p> <p><b>STATEMENT NO.11</b> Explore the possibility or otherwise of establishing a unit within the DoH to oversee the operation of the system on an exception basis.</p> <p><b>Progress:</b> Departmental capacity was assigned to this area of operation and various exception reports were developed at a national level (accessible at provincial level) to assist the Provincial Housing Departments in managing their risks more effectively.</p> <p><b>STATEMENT NO.12</b></p> <p>Explore the alignment of the HSS with the BAS. <b>Progress:</b> The interface with BAS has been developed and has been tested extensively at the Freestate Housing Department. The interface is being deployed to other provincial housing departments.</p>
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Approval

The Annual Financial Statements starting from pages 66 to 112 have been approved by the Accounting Officer.



MR I KOTSOANE  
DIRECTOR-GENERAL  
DATE: 31 MAY 2007

## REPORT ON THE FINANCIAL STATEMENTS

### Introduction

1. I have audited the accompanying financial statements of the Department of Housing which comprise the statement of financial position as at 31 March 2007, appropriation statement, statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 79 to 112.

### Responsibility of the accounting officer for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting determined by the National Treasury, as set out in accounting policy 1.1 to the financial statements and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA). This responsibility includes:
  - designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
  - selecting and applying appropriate accounting policies
  - making accounting estimates that are reasonable in the circumstances.

### Responsibility of the Auditor-General

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996, read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing and General Notice 646 of 2007, issued in Government Gazette No. 29919 of 25 May 2007 and General Notice 647 of 2007, issued in Government Gazette No. 29919 of 25 May 2007. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
6. An audit also includes evaluating the:
  - appropriateness of accounting policies used
  - reasonableness of accounting estimates made by management
  - overall presentation of the financial statements.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### Basis of accounting

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

### Opinion

9. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Department of Housing as at 31 March 2007 and its financial performance and cash flows for the year then ended, in accordance with the modified cash basis of accounting determined by the National Treasury, as set out in accounting policy 1.1 to the financial statements and in the manner required by the PFMA.

### Emphasis of matters

Without qualifying my opinion, I draw attention to the following matters:

10. In terms of accounting policy 3.2, only assets with a cost in excess of R5 000 are classified as capital assets. The following assets with a cost less than R5 000 each have not been capitalised, which is in line with the said accounting policy:
  - Computer equipment (756 items with a value of R1 090 739)
  - Furniture and office equipment (4 661 items with a

value of R3 204 339)

- Other machinery and equipment (502 items with a value of R586 127)
- Computer software (45 items with a value of R991 440)

### OTHER MATTERS

I draw attention to the following matters that are ancillary to my responsibilities in the audit of the financial statements:

11. Material corrections made to the financial statements submitted for audit

The financial statements submitted for audit on 31 May 2007 were significantly revised in respect of the following misstatements identified during the audit:

- Transactions which should have been classified as personnel agency fees were incorrectly classified as advertising (R980 714).
- The opening value of intangibles had to be reduced by R740 003 due to items incorrectly being classified as intangibles.
- Performance bonuses to the value of R926 525 were not initially disclosed in note 23 to the financial statements.
- The balance of finance lease liabilities as disclosed in note 24.2 for 2006-2007 was adjusted with R818 195 and the comparative figure for 2005-2006 was adjusted with R1 907 813.

12. Value-for-money matters

The department did not have a human resource plan as required by the Public Service Regulations, Part III, B.2 (a) and (c) to enable it to define the posts necessary to perform the relevant functions, based on the strategic plan of the department.

13. Internal control

#### 13.1 Asset management

The data recorded by information and financial systems were not periodically compared with physical assets and discrepancies examined, furthermore transactions are not properly classified, promptly recorded and clearly documented resulting in the following:

- The asset register not being adequately maintained throughout the year which resulted in adjustments that had to be made to the asset register after year end;
- Errors on the asset register due to incorrect capturing and classification of assets.

Consequently due to this inadequate maintenance of the asset register, the department had to put in a consider-

able effort after year-end to update and correct its asset register. Corrections to the asset register continued even after submission of the financial statements for auditing.

### 13.2 Information systems and communication

#### 13.2.1 User account management procedures surrounding the transversal systems used by the department

An information systems audit of the user account management procedures surrounding the Basic Accounting System (BAS) and the Personnel and Salary System (Persal) was completed in April 2007. The most significant weaknesses identified were the following:

- The documented and approved user account management procedures for BAS were not always adhered to. Users were not immediately removed from BAS when they terminated their services; users were listed in the group profiles but did not appear on the list of BAS users; inactive user accounts were not revoked from BAS and the activities of users with powerful accounts were not monitored by an independent person.
- The documented and approved user account management procedures for Persal were not always adhered to. The Persal users and supervisors were not required to complete user access request forms; the access of users and supervisors was not regularly reviewed to ensure that it was commensurate with their job responsibilities; no proof existed that the activities of the Persal system controller were monitored and the activities of users at the National Treasury, to whom the special privilege had been assigned, were not reviewed by an independent person.
- The department did not have an approved Disaster Recovery Plan.

#### 13.2.2 Other information systems managed by the department

The department manages the debtor and housing subsidy systems which are used by the nine provincial housing departments to administer the debtors and housing subsidy schemes. The findings with regard to the two systems are as follows:

##### 13.2.2.1 Debtor system

An information systems (IS) audit of the general controls surrounding the debtors system was completed in April 2007. The most significant weaknesses identified were the following:

- The approved security policy was inadequate,

mainly due to the fact that the level of security protection to be assigned to information technology (IT) resources, the ownership of data and the protection of IT resources from computer viruses had not been addressed. Furthermore, compliance with the policy was not monitored.

- The department did not have an authorised and tested disaster recovery plan and a business continuity plan.
- The department did not have documented and approved program change control procedures. Furthermore, a change control committee had not been appointed to monitor the change control process. The debtors system programmers had access to the production environment.
- The department did not have documented and approved user account management procedures for the debtors system. Furthermore, formal procedures for reviewing violation logs of user access had not been established and the activities of users with powerful privileges on the operating system were not monitored.
- No formal service level agreement had been established between the national office and the regional offices with regard to the operation and management of the support services needed for the debtors system. The department had also not established an effective service management framework for monitoring SITA's service delivery and performance.

##### 13.2.2.2 Housing subsidy system

An information systems audit of the program and data change control process in respect of the Housing Subsidy System was completed in October 2006. The most significant weaknesses identified were the following:

- The department did not have formal change control procedures, standards and documents for the system.
- No formal version control procedures were in place and no library management software had been installed.
- The programmers who were responsible for changes to the system could transfer program releases from the development environment to the production environments.
- Program changes were not logged to establish an adequate audit trail nor reviewed by senior officials who were independent of the programming function to ensure that only authorised program changes would be made.

- The system change control filing system did not make provision for change control evidence to be easily accessible and the problem was aggravated by the decentralised change management process.
- Formal approval by management at specific stages of the change control process was not required.

### 14. Special investigations

#### 14.1 South African Housing Trust (SAHT)

In paragraph 9 of the 2005-06 audit report it was reported that, "the Special Investigation Unit (SIU) is currently investigating the manner in which the SAHT and its wholly owned subsidiaries and the businesses of these companies were sold, and certain matters relating to it in terms of Proclamation 49 of 2004". The SIU advised that the investigation had been finalised and a report is being drafted.

#### 14.2 Special audit into the N2 Gateway Project at the Department of Housing

Emanating from a request from the national Department of Housing in 2006, a special audit is being conducted into the N2 Gateway Project. The primary objectives of the audit are:

- to audit the process flow, identify deviations from planned activities and time frames, and determine root causes for such deviations and role players;
- to study the memorandum of understanding between various role players and audit adherence to responsibilities and commitments; and
- to highlight any inefficiencies in the applicable policies, processes or structures involved in the N2 gateway project that were revealed during the audit.

A management report on the special audit will be submitted to the accounting officer once the special audit is finalised.

### 15. Delay in finalisation of audit

Due to the national public sector strike action during June 2007 the Auditor-General had to delay the finalisation of affected departments. As a result, the Auditor-General's consistency review process of the audit reports could only be conducted subsequent to 31 July 2007, the consequence of which was a delay in the finalisation of the audit of this department for the 2006-07 financial year.

## OTHER REPORTING RESPONSIBILITIES

### Reporting on performance information

16. I have audited the performance information as set out on pages 79 TO 112.

### Responsibility of the accounting officer

17. The accounting officer has additional responsibilities as required by section 40(3)(a) of the PFMA to ensure that the annual report and audited financial statements fairly present the performance against predetermined objectives of the department.

### Responsibility of the Auditor-General

18. I conducted my engagement in accordance with section 13 of the Public Audit Act, 2004 (Act No. 25 of 2004) read with General Notice 647 of 2007, issued in Government Gazette No. 29919 of 28 May 2007.

19. In terms of the foregoing, my engagement included performing procedures of an audit nature to obtain sufficient appropriate audit evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

20. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

### Audit findings

Measurable objectives are materially inconsistent between the annual report and the strategic plan

21. The measurable objectives reported in the annual report are materially inconsistent when compared with the predetermined objectives as per the strategic/corporate plan.

The following table reflects the material differences:

Programme	Objectives per strategic plan	Objectives per budget	Objectives reflected in annual report 2006-07
<b>Programme 2: Policy Planning and Research</b>	Development and management of sustainable human settlement. Policy and promotion of human integration settlement.	Adequate housing for all South Africans by 2024, through policy, legislation and research that enable housing delivery in sustainable human settlements.	Adequate housing for all South Africans by 2014, through policy, legislation and research that enable housing delivery in sustainable human settlements.
<b>Programme 3: Programme Management</b>	To develop national housing and human settlement programmes to enable support and promote the implementation of housing and human settlement project.	To increase access to and improve the delivery of adequate housing in sustainable human settlements by effectively providing officials with systems, knowledge, skills, guidance and funding.	To increase access to and improve the delivery of adequate housing in sustainable human settlements by effectively providing officials with systems, knowledge, skills, guidance and funding.
<b>Programme 4: Housing Sector Performance and Equity</b>	To monitor and evaluate the performance of the housing sector.	Improve housing policy and programmes based on the analysis of accurate, strategic and statistically sound information and data from operational and other systems. Increase the level of private sector finance for affordable housing by R20 billion by 2010.	Improve housing policy and programmes based on the analysis of accurate, strategic and statistically sound information and data from operational and other systems. Increase the level of private sector finance for affordable housing by R20 billion by 2010.
<b>Programme 5: Housing Development Funding</b>	To render grant management support services	Ensure that the expenditure by provinces and municipalities in terms of the integrated housing and human settlement development grant achieves national policy priorities and annual housing delivery commitments as defined in provincial strategic plans, and complies with Public Finance Management Act (1999) AND Division of Revenue Act requirements.	Ensure that the expenditure by provinces and municipalities in terms of the integrated housing and human settlement development grant achieves national policy priorities and annual housing delivery commitments as defined in provincial strategic plans, and complies with Public Finance Management Act (1999) AND Division of Revenue Act requirements.

### Measurable objectives are materially inconsistent between annual report and the budget

22. I draw attention to the fact that for the Department of Housing the objectives reported in the annual report are materially inconsistent when compared with the predetermined objectives as per the budget. It was noted that for Programme 2, the strategic plan objective is adequate housing by 2020, whilst this target date is set as 2024 in the budget and 2014 in Report on the Performance information.

Objectives reported in the annual report, but not predetermined as per the strategic plan and/or budget

23. I draw attention to the fact that for the Department of Housing the following objectives are reported in the annual report although they were not included as predetermined objectives in the strategic plan and/or budget. It was noted that the sub-programme: Intergovernmental/ Interdepartmental Relations under Programme 2 reported on in the annual report is not addressed in the strategic plan and the MTEF/ Estimates of National Expenditure.

Evidence materially inconsistent with reported information or lack of adequate evidence

24. The following actual achievements of measures/ indicators/targets could not be substantiated by adequate evidence/source documentation:

24.1 Programme 2, Sub-programme:

Intergovernmental/ Interdepartmental Relations

- Proof that the department has consolidated the relationship with the Eastern Cape Province, Western Cape Province and Gauteng Province.
- Proof that the directorate had a meeting in the first term with the research constituency of the North West Province.

### APPRECIATION

25. The assistance rendered by the staff of the Department of Housing during the audit is sincerely appreciated.

*S Cele*

S Cele for Auditor-General

Pretoria

17 August 2007



The Financial Statements have been prepared in accordance with the following policies, which have been applied consistently in all material aspects, unless otherwise indicated. However, where appropriate and meaningful, additional information has been disclosed to enhance the usefulness of the Financial Statements and to comply with the statutory requirements of the Public Finance Management Act, Act 1 of 1999 (as amended by Act 29 of 1999), and the Treasury Regulations issued in terms of the Act and the Division of Revenue Act, Act 2 of 2006.

## 1. Presentation of the Financial Statements

### 1.1 Basis of preparation

The Financial Statements have been prepared on a modified cash basis of accounting, except where stated otherwise. The modified cash basis constitutes the cash basis of accounting supplemented with additional disclosure items. Under the cash basis of accounting transactions and other events are recognised when cash is received or paid.

### 1.2 Presentation currency

All amounts have been presented in the currency of the South African Rand (R) which is also the functional currency of the department.

### 1.3 Rounding

Unless otherwise stated all financial figures have been rounded to the nearest one thousand Rand (R'000).

### 1.4 Comparative figures

Prior period comparative information has been presented in the current year's financial statements. Where necessary figures included in the prior period financial statements have been reclassified to ensure that the format in which the information is presented is consistent with the format of the current year's financial statements.

### 1.5 Comparative figures - Appropriation Statement

A comparison between actual amounts and final appropriation per major classification of expenditure is included in the appropriation statement.

## 2. Revenue

### 2.1 Appropriated funds

Appropriated and adjusted appropriated funds are recognised in the financial records on the date the appropriation becomes effective. Adjustments to the appropriated funds made in terms of the adjustments budget process are recognised in the financial records on the date the adjustments become effective.

Total appropriated funds are presented in the statement of financial performance.

Unexpended appropriated funds are surrendered to the National Revenue Fund. Amounts owing to the National Revenue Fund at the end of the financial year are recognised in the statement of financial position.

### 2.2 Departmental revenue

All departmental revenue is paid into the National Revenue Fund when received, unless otherwise stated. Amounts owing to the National Revenue Fund at the end of the financial year are recognised in the statement of financial position. Amounts receivable at the reporting date are disclosed in the disclosure notes to the annual financial statements.

#### 2.2.1 Tax revenue

Tax revenue consists of all compulsory unrequited amounts collected by the department in accordance with laws and or regulations (excluding fines, penalties & forfeits).

Tax receipts are recognised in the statement of financial performance when received.

#### 2.2.2 Sales of goods and services other than capital assets

The proceeds received from the sale of goods and/or the provision of services is recognised in the statement of financial performance when the cash is received.

#### 2.2.3 Fines, penalties & forfeits

Fines, penalties & forfeits are compulsory unrequited amounts which were imposed by a court or quasi-judicial body and collected by the department. Revenue arising from fines, penalties and forfeits is recognised in the statement of financial performance when the cash is received.

#### 2.2.4 Interest, dividends and rent on land

Interest, dividends and rent on land is recognised in the statement of financial performance when the cash is received.

#### 2.2.5 Sale of capital assets

The proceeds received on sale of capital assets are recognised in the statement of financial performance when the cash is received.

#### 2.2.6 Financial transactions in assets and liabilities

Repayments of loans and advances previously extended to employees and public corporations for policy purposes are recognised as revenue in the statement of financial performance on receipt of the funds.

Cheques issued in previous accounting periods that expire before being banked are recognised as revenue in the statement of financial performance when the cheque becomes stale. When the cheque is reissued the payment is made from Revenue.

Forex gains are recognised on payment of funds.

#### 2.2.7 Gifts, donations and sponsorships (transfers received)

All cash gifts, donations and sponsorships are paid into the National Revenue Fund and recorded as revenue in the statement of financial performance when received. Amounts receivable at the reporting date are disclosed in the disclosure notes to the financial statements.

All in-kind gifts, donations and sponsorships are disclosed at fair value in the annexures to the financial statements.

### 2.3 Local and foreign aid assistance

Local and foreign aid assistance is recognised as revenue when notification of the assistance is received from the National Treasury or when the department directly receives the cash from the donor(s).

All in-kind local and foreign aid assistance are disclosed at fair value in the annexures to the annual financial statements

The cash payments made during the year relating to local and foreign aid assistance projects are recognised as expenditure in the statement of financial performance. The value of the assistance expensed prior to the receipt of the funds is recognized as a receivable in the statement of financial position

Inappropriately expensed amounts using local and foreign aid assistance and any unutilised amounts are recognised as payables in the statement of financial position.

## 3. Expenditure

### 3.1 Compensation of employees

Salaries and wages comprise payments to employees. Salaries and wages are recognised as an expense in the statement of financial performance when the payment is effected on the system (by no later than 31 March of each year). Capitalised compensation forms part of the expenditure for capital assets in the statement of financial performance.

All other payments are classified as current expense.

Social contributions include the employer's contribution to social insurance schemes paid on behalf of the employee. Social contributions are recognised as an expense in the statement of financial performance when the payment is effected on the system.

#### 3.1.1 Short term employee benefits

Short term employee benefits comprise of leave entitlements (including capped leave), thirteenth cheques and performance bonuses. The cost of short-term employee benefits is expensed as salaries and wages in the statement of financial performance when the payment is effected on the system (by no later than 31 March of each year).

Short-term employee benefits that give rise to a present legal or constructive obligation are disclosed in the disclosure notes to the financial statements. These amounts are not recognised in the statement of financial performance.

#### 3.1.2 Long-term employee benefits

##### 3.1.2.1 Termination benefits

Termination benefits such as severance packages are recognised as an expense in the statement of financial performance as a transfer (to households) when the payment is effected on the system (by no later than 31 March of each year).

##### 3.1.2.2 Post employment retirement benefits

The department provides retirement benefits (pension benefits) for certain of its employees through a defined

benefit plan for government employees. These benefits are funded by both employer and employee contributions. Employer contributions to the fund are expensed when the payment to the fund is effected on the system (by no later than 31 March of each year). No provision is made for retirement benefits in the financial statements of the department. Any potential liabilities are disclosed in the financial statements of the National Revenue Fund and not in the financial statements of the employer department.

The department provides medical benefits for certain of its employees. Employer contributions to the medical funds are expensed when the payment to the fund is effected on the system (by no later than 31 March of each year).

### 3.2 Goods and services

Payments made for goods and/or services are recognised as an expense in the statement of financial performance when the payment is effected on the system (by no later than 31 March of each year). The expense is classified as capital if the goods and services were used for a capital project or an asset of R5000 or more is purchased. All assets costing less than R5000 will also be reflected under goods and services.

### 3.3 Interest and rent on land

Interest and rental payments are recognised as an expense in the statement of financial performance when the payment is effected on the system (by no later than 31 March of each year). This item excludes rental for the use of buildings or other fixed structures. If it is not possible to distinguish between payment for the use of land and the fixed structures on it, the whole amount should be recorded under *goods and services*.

### 3.4 Financial transactions in assets and liabilities

Debts are written off when identified as irrecoverable. Debts written-off are limited to the amount of savings and/or underspending of appropriated funds. The write off occurs at year-end or when funds are available. No provision is made for irrecoverable amounts but amounts are disclosed as a disclosure note.

Forex losses are recognised on payment of funds. All other losses are recognised when authorisation has been granted for the recognition thereof.

### 3.5 Unauthorised expenditure

When discovered unauthorised expenditure is recognised as an asset in the statement of financial position until such time as the expenditure is either approved by the relevant authority, recovered from the responsible person or written off as irrecoverable in the statement of financial performance.

Unauthorised expenditure approved with funding is recognised in the statement of financial performance when the unauthorised expenditure is approved and the related funds are received. Where the amount is approved without funding it is recognised as expenditure, subject to availability of savings, in the statement of financial performance on the date of approval.

### 3.6 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is recognised as an asset in the statement of financial position until such time as the expenditure is recovered from the responsible person or written off as irrecoverable in the statement of financial performance.

### 3.7 Irregular expenditure

Irregular expenditure is recognised as expenditure in the statement of financial performance. If the expenditure is not condoned by the relevant authority it is treated as an asset until it is recovered or written off as irrecoverable.

### 3.8 Transfers and subsidies

Transfers and subsidies are recognised as an expense when the payment is effected on the system (by no later than 31 March of each year).

### 3.9 Expenditure for capital assets

Payments made for capital assets are recognised as an expense in the statement of financial performance when the payment is effected on the system (by no later than 31 March of each year).

## 4. Assets

### 4.1 Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at cost.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held, other short-term highly liquid investments and bank overdrafts.

## 4.2 Prepayments and advances

Amounts prepaid or advanced are recognised in the statement of financial position when the payments are made.

## 4.3 Receivables

Receivables included in the statement of financial position arise from cash payments made that are recoverable from another party.

Revenue receivable not yet collected is included in the disclosure notes. Amounts that are potentially irrecoverable are included in the disclosure notes.

## 4.4 Investments

Capitalised investments are shown at cost in the statement of financial position. Any cash flows such as dividends received or proceeds from the sale of the investment are recognised in the statement of financial performance when the cash is received.

Investments are tested for an impairment loss whenever events or changes in circumstances indicate that the investment may be impaired. Any impairment loss is included in disclosure note 36

## 4.5 Loans

Loans are recognised in the statement of financial position at the nominal amount when cash is paid to the beneficiary. Loan balances are reduced when cash repayments are received from the beneficiary. Amounts that are potentially irrecoverable are included in disclosure note 36.

## 4.6 Inventory

Inventories purchased during the financial year are disclosed at cost in the notes.

## 4.7 Capital assets

A capital asset is recorded on receipt of the item at cost. Cost of an asset is defined as the total cost of acquisition. Where the cost cannot be determined accurately,

the capital asset may be stated at fair value. Where fair value cannot be determined, the capital asset is included in the asset register at R1.

Projects (of construction/development) running over more than one financial year relating to assets, are only capitalised as assets on completion of the project and at the total cost incurred over the duration of the project.

Disclosure Notes 37 and 38 reflect the total movement in the asset register for the current financial year.

## 5. Liabilities

### 5.1 Payables

Recognised payables mainly comprise of amounts owing to other governmental entities. These payables are recognised at historical cost in the statement of financial position.

### 5.2 Lease commitments

Lease commitments represent amounts owing from the reporting date to the end of the lease contract. These commitments are not recognised in the statement of financial position as a liability or as expenditure in the statement of financial performance but are included in the disclosure notes.

Operating and finance lease commitments are expensed when the payments are made. Assets acquired in terms of finance lease agreements are disclosed in the annexures and disclosure notes to the financial statements.

### 5.3 Accruals

Accruals represent goods/services that have been received, but where no invoice has been received from the supplier at the reporting date, or where an invoice has been received but final authorisation for payment has not been effected on the system.

Accruals are not recognised in the statement of financial position as a liability or as expenditure in the statement of financial performance but are included in the disclosure notes.

### 5.4 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed

only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the department; or

A contingent liability is a present obligation that arises from past events but is not recognised because:

- 1 It is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or
- 2 The amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities are included in the disclosure notes.

## 5.5 Commitments

Commitments represent goods/services that have been approved and/or contracted, but where no delivery has taken place at the reporting date.

Commitments are not recognised in the statement of financial position as a liability or as expenditure in the statement of financial performance but are included in the disclosure notes.

## 6. Net Assets

### 6.1 Capitalisation reserve

The capitalisation reserve comprises of financial assets and/or liabilities originating in a prior reporting period but which are recognised in the statement of financial position for the first time in the current reporting period. Amounts are transferred to the National Revenue Fund on disposal, repayment or recovery of such amounts.

### 6.2 Recoverable revenue

Amounts are recognised as recoverable revenue when a payment made in a previous financial year becomes recoverable from a debtor in the current financial year.

## 7. Related party transactions

Related parties are departments that control or significantly influence entities in making financial and operating decisions. Specific information with regards to related party transactions is included in the disclosure notes.

## 8. Key management personnel

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the department.

Compensation paid to key management personnel including their family members where relevant, is included in the disclosure notes.

## 9. Public private partnerships

A public private partnership (PPP) is a commercial transaction between the department and a private party in terms of which the private party:

- 1 Performs an institutional function on behalf of the institution; and/or
- 2 acquires the use of state property for its own commercial purposes; and
- 3 assumes substantial financial, technical and operational risks in connection with the performance of the institutional function and/or use of state property; and

4 receives a benefit for performing the institutional function or from utilizing the state property, either by way of:

- consideration to be paid by the department which derives from a Revenue Fund;
- charges fees to be collected by the private party from users or customers of a service provided to them; or
- a combination of such consideration and such charges or fees.

A description of the PPP arrangement, the contract fees and current and capital expenditure relating to the PPP arrangement is included in the disclosure notes.

### APPROPRIATION STATEMENT FOR THE YEAR ENDED 31 MARCH 2007

Appropriation per Programme									
	2006/07							2005/06	
	Adjusted Appropriation	Shifting of Funds	Virement	Final Appropriation	Actual Expenditure	Variance	Expenditure as % of final appropriation	Final Appropriation	Actual Expenditure
	R'000	R'000	R'000	R'000	R'000	R'000	%	R'000	R'000
<b>1. Administration</b>	98,473	(1,221)	15,000	112,252	108,163	4,089	96.4%	93,304	90,743
Current payment	110	337	-	447	274	173	61.3%	415	315
Transfers and subsidies	3,208	884	600	4,692	3,400	1,292	72.5%	4,080	3,834
<b>2. Policy Planning and Research</b>	25,381	(351)	(2,000)	23,030	14,733	8,297	64.0%	21,392	19,115
Current payment	98	80	-	178	154	24	86.5%	230	203
Transfers and subsidies	633	271	-	904	288	616	31.9%	1,112	798
Payment for capital assets									
<b>3. Programme Management</b>	69,443	(90)	-	69,353	67,205	2,148	96.9%	61,389	51,632
Current payment	20	1	-	21	7	14	33.3%	25,053	24,559
Transfers and subsidies	430	89	-	519	199	320	38.3%	1,019	590
Payment for capital assets									
<b>4. Housing Sector Performance</b>	62,022	(84)	400	62,338	58,606	3,732	94.0%	57,022	51,097
Current payment	243,494	7	(14,000)	229,501	229,446	55	100.0%	149,077	148,292
Transfers and subsidies	1,048	77	-	1,125	318	807	28.3%	1,855	1,438
Payment for capital assets									
<b>5. Housing Development Funding</b>	6,988	(2)	-	6,986	5,361	1,625	76.7%	5,778	5,501
Current payment	6,822,169	2	-	6,822,171	6,677,808	144,363	97.9%	4,843,506	4,843,488
Transfers and subsidies	209	-	-	209	-	209	0.0%	440	311
Payment for capital assets									
<b>Subtotal</b>	<b>7,333,726</b>	<b>-</b>	<b>-</b>	<b>7,333,726</b>	<b>7,165,962</b>	<b>167,764</b>	<b>97.7%</b>	<b>5,265,672</b>	<b>5,241,916</b>

Appropriation per Programme									
	2006/07							2005/06	
	Adjusted Appropriation R'000	Shifting of Funds R'000	Virement R'000	Final Appropriation R'000	Actual Expenditure R'000	Variance R'000	Expenditure as % of final appropriation %	Final Appropriation R'000	Actual Expenditure R'000
<b>Statutory Appropriation</b>									
Current payments				-		-	0.0%		
Transfers and subsidies				-		-	0.0%		
Payment for capital assets				-		-	0.0%		
<b>Total</b>	<b>7,333,726</b>	<b>-</b>	<b>-</b>	<b>7,333,726</b>	<b>7,165,962</b>	<b>167,764</b>	<b>97.7%</b>	<b>5,265,672</b>	<b>5,241,916</b>
<b>Reconciliation with Statement of Financial Performance</b>									
<b>Add:</b>	Prior year unauthorised expenditure approved with funding								
	Departmental receipts			1,870				945	
	CARA Fund Assistance			-					
	Local and foreign aid assistance			26,075				21,751	
<b>Actual amounts per Statement of Financial Performance (Total Revenue)</b>				<b>7,361,671</b>				<b>5,288,368</b>	
	Investments acquired and capitalised during the current financial year, but expensed for appropriation purposes								
	Other payments in Appropriation Statement, not accounted for in the Statement of Financial Performance								
<b>Add:</b>	Local and foreign aid assistance				28,796				23,153
	CARA Fund Assistance								
	Prior year unauthorised expenditure approved								
	Prior year fruitless and wasteful expenditure authorised								
<b>Actual amounts per Statement of Financial Performance Expenditure</b>					<b>7,194,758</b>				<b>5,265,069</b>