

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON STATE SECURITY AGENCY (SSA)

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the State Security Agency, set out on pages ... to ... , which comprise the appropriation statement, the statement of financial position as at 31 March 2012, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Public Finance Management Act (PFMA), 1999 (Act 1 of 1999) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* Issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified opinion**Level of assurance**

6. Due to the nature of certain operational transactions and the circumstances under which they are incurred and recorded as well as the circumstances under which the services and assets are procured, utilised and safeguarded, the level of assurance, in respect of certain operational expenditure and assets are under these circumstances lower than with other audits.

Limited documentation provided

7. Adequate documentation and information requested to support certain transactions and balances in the financial statements were not provided as a result of a current investigation. Due to this limitation I did not obtain all the information and explanations considered necessary to satisfy myself as to the completeness and accuracy of the balances disclosed for accounts receivable, accounts payable, irregular and fruitless expenditure and contingent liabilities. There were no satisfactory alternative procedures that I could perform to obtain reasonable assurance that accounts receivable, accounts payable, irregular and fruitless expenditure, contingent liabilities, operating expenditure and payables were properly recorded. Consequently I was unable to determine whether any adjustments to these accounts were necessary.

Opinion

8. In my opinion, except for the possible effects of the matter referred to in the basis for qualification paragraph, the financial statements present fairly, in all material respects, the financial position of the State Security Agency as at 31 March 2012, and its financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of the PFMA.

Emphasis of matters

9. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Financial reporting framework

10. As disclosed in note 1.1 and 1.5 to the annual financial statements, the Minister of Finance has granted approval to the department to apply GRAP with Directive 4 transitional provisions for medium and low capacity municipalities.

Significant uncertainties - Claims

11. As disclosed in note 32, the department is a defendant against several claims levelled against it. The department is opposing these claims. The ultimate outcome of the matter cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

Restatement of corresponding figures

12. As disclosed in note 31 to the financial statements, the corresponding figures for 31 March 2012 have been restated as a result of errors discovered during 2012 in the financial statements of the department at, and for the year ended, 31 March 2011.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

13. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

14. I performed procedures to obtain evidence about the usefulness and reliability of the information in the State Security Agency's annual performance report as set out on pages ... to ... of the annual report.
15. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information*.

The reliability of the information in respect of the selected programmes is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

16. The material findings are as follows:

Usefulness of information

17. The National Treasury Framework for managing programme performance information (FMPPPI) requires that performance targets be measurable. The required performance could not be measured for a total of 51% of the targets relevant to:
 - Programme 1: Collection
 - Programme 2: Analysis
 - Programme 3: Counterintelligence
18. The National Treasury Framework for managing programme performance information (FMPPPI) requires that performance targets be specific in clearly identifying the nature and required level of performance. A total of 51% of the targets relevant to the following programmes were not specific in clearly identifying the nature and the required level of performance.
 - Programme 1: Collection

- Programme 2: Analysis
- Programme 3: Counterintelligence

Other Matters

We draw attention to the matter below. Our opinion is not modified in respect of this matter.

Achievement of planned targets

19. Of the total number of 164 reported targets, 93 were achieved, 61 partially achieved and 10 not achieved during the year under review. This represents 43.29% of total planned targets that were not fully achieved during the year under review.

Compliance with laws and regulations

20. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

Strategic planning and performance management

21. Treasury Regulations requires that the accounting officer of an institution must prepare a strategic plan that is consistent with the period covered by the Medium Term Expenditure Framework for approval by the relevant executive authority. The strategic plan did not include measurable objectives as required by Treasury Regulations 5.2.3(d).

Annual financial statements, performance and annual reports

22. The accounting officer submitted financial statements for auditing that were not prepared in all material aspects in accordance with generally recognized accounting practice (and supported by full and proper records) as required by section 40 (1)(a) and (b) of the PFMA. Material misstatements were identified and subsequently corrected in the following accounts:

- Provisions
- Assets
- Commitments
- Irregular expenditure
- Lease commitments

Procurement and contract management

23. Goods and services of a transaction value above R500 000 were procured without inviting competitive bids, as required by Treasury Regulations 18A6.1. This resulted in irregular expenditure of R86,126,229.88 being incurred. Subsequently to year end the amount was condoned by the accounting officer.
24. Goods and services with a transaction value below R500 000 were procured without

obtaining the required price quotations, as required by Treasury Regulation 16A6.1. This resulted in irregular expenditure of R60,385.80 being incurred. Subsequently to year end the amount was condoned by the accounting officer.

25. Employees of the department performed remunerative work outside their employment in the department without written permission from the relevant authority as required by section 30 of the Public Service Act.
26. Persons in service of the SSA who had a private or business interest in contracts awarded to government institutions failed to disclose such interest, as required by Treasury Regulation 16A8.4.

Expenditure management

27. The accounting officer did not take effective steps to prevent fruitless and wasteful expenditure amounting to R30 000 and irregular expenditure, as mentioned in this report, as required by section 38(1)(c)(ii) of the Public Finance Management Act and Treasury Regulation 9.1.1.

Internal control

28. I considered internal control relevant to my audit of the financial statements, and compliance with laws and regulations.

Leadership

29. The accounting officer approved policies and procedures for the SSA. The department is in the process of implementing the revised policies and procedures to ensure effective monitoring of compliance, with laws, regulations and internally designed procedures.

Financial and performance management

30. Schedules to support some disclosure notes could not be generated from the information system and inadequate monitoring and review during the preparation of the financial statements resulted in material misstatements.
31. The Department did not adequately monitor compliance with supply chain management regulations for some procurement of goods and services during the year.

OTHER REPORTS

Investigations

32. As reported in the prior year, an investigation into alleged fraud at Opmed was conducted. The matter was reported to the South African Police Services. Two former NIA/Opmed members were charged and found guilty in the Pretoria Specialized Commercial Court. The case against other members and service providers are still continuing.
33. An investigation was instituted after reports that transfers from NIA's account, within Momentum, was made to the account of a broker. This matter was reported to the Financial Services Board (FSB) and Financial Advisory and Intermediary Services (FAIS) for investigation. The investigation was completed and the matter was referred to the NPA.

and Hawks for further consideration.

34. An investigation was instituted at the Covert Support Unit. The DDG-Operations together with three other members were suspended pending the outcome of the investigation. In December 2010 the DG accepted the resignation of the DDG. The investigation is still ongoing.
35. An investigation is currently being done on the source remuneration expenditure. Disciplinary procedures have already been instituted against a member and the disciplinary hearing has commenced in May 2011.

Thabani Cheneke

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14 December 2012



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