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ANNUAL REPORT OF THE JOINT STANDING COMMITTEE ON INTELLIGENCE

FOR

FINANCIAL YEAR ENDED 31 MARCH 2008

- 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 Secret Services Account's policy is to prepare financial statements on the basis of accounting as determined by the National Treasury, as set out in accounting policy note 1.1 to the financial statements.

Basis of opinion

9. Level of audit assurance

Owing 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 assets and services are procured and utilized, the level of assurance in respect of certain operational expenditure is, under these circumstances lower than with ordinary audits.

Audit Opinion

10. In my opinion, except for the effects of the matter referred to in the basis for opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Secret Services Account 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 as prescribed by National Treasury and in the manner required by the PFMA and the Secret Services Act, Act No 56 of 1978.

OTHER MATTERS

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

11. Internal control

- Control activities

SAPS policies and procedures are not always tailored in such a manner to support circumstances specific to the Secret Service Account, as a result existing policies are not always fully adhered to.

Inconsistencies were found within the Secret Service Account regarding the interpretation of outstanding advances, relating to advances outstanding for longer than 14 days.

Several controls weaknesses were found in respect of the administration of rental deposits. The Secret Services Account consequently centralised the rental deposit function in January 2007.

- Monitoring of controls

Monitoring and review by line managers are not always effective to prevent and detect non compliance with laws, regulations and policies, which were evident during the audit.

The following observations demonstrate the inadequacy of controls over assets and vehicles:

- Assets could not always be presented for audit purposes.
- 220 loan notes (used to control the movement of assets) have expired without being followed up or cancelled.
- Forty-five (45) newly issued loan notes were issued, without being signed by the recipient.
- Assets are still on loan to members no longer attached to units as indicated in the asset register, although members have been transferred to other units within the Crime Intelligence Division.

12. Reliance on internal audit

I did not plan to place reliance on the internal audit section due to inadequate documentation of work performed, as required by International Internal Audit standards. However, during the year, the methodology was compiled; working papers were designed and implemented by the Head of Internal audit.

The planned reliance on the work performed by Internal Audit will be revisited during the 2007/08 financial year audit.

APPRECIATION

13. The assistance rendered by the staff of the Secret Services Account during the audit is sincerely appreciated.



P Bhana for Auditor-General

Pretoria
30 July 2007



A U D I T O R - G E N E R A L

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE
FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF
THE NATIONAL INTELLIGENCE AGENCY FOR THE YEAR ENDED
31 MARCH 2007 INCORPORATING:

- National Communications Centre (NCC)
- The Office of the Inspector-General (IG)
- Electronic Communications Security (Pty) (Ltd) (Comsec)
- National Intelligence Coordinating Committee (NICOC)
- Intelligence Services Council (ISC)
- Office for the Interception Centres (OIC)

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the National Intelligence Agency which comprise the statement of financial position as at 31 March 2007, appropriation statement and notes, statement of financial performance, statement of changes in net equity 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 22 to 66.

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 and in the manner required by the Public Finance Management Act, 1999 (Act No 1 of 1999) (PFMA) and guidance from National Treasury. This responsibility includes:

designing, implementing and maintaining internal controls 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) and section 3 of the Secret Services Act, 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 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 controls 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 controls.

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 National Intelligence Agency's policy is to prepare financial statements in accordance with the modified cash basis of accounting except where otherwise stated, as set out in accounting policy note 1.1 to the financial statements.

Basis for opinion

9. Level of Assurance

Owing 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 assets and services are procured, utilised and safeguarded, the level of assurance, in respect of certain operational expenditure and assets, under these circumstances is lower than with ordinary audits.

Audit opinion

10. In my opinion, except for the effects of the matters referred to paragraph 9, the financial statements present fairly, in all material respects, the financial position of the National Intelligence Agency as at 31 March 2007 and its financial performance and cash flows for the year then ended, in accordance with modified cash basis of accounting as prescribed by National Treasury and in the manner required by the PFMA.

Emphasis of Matters

I draw attention to the following matters:

11. Highlight of a matter affecting the financial statements which is included in a note to the financial statements

Supply chain management

As disclosed in note 7 to the financial statements, due to the fact that there was a different interpretation of the supply chain management process, an amount of R9 081 004 was paid before a contract was finalised.

Fixed assets

As disclosed in note 27 to the financial statements, the completeness and accuracy of the tangible fixed assets of R847 233 000 and intangible assets of R2 642 000 could not be verified. The assets register for intangible assets disclosed under note 28 of the financial statements were only provided for auditing on 13 July 2007.

Adequate controls over assets were not implemented and maintained by management for the period under review. This includes no reconciliations between the fixed assets register and the general ledger for the period under review. Assets reconciliations were performed subsequent to year end.

State guarantees

As disclosed in note 21 to the financial statements, the completeness of the housing and motor vehicle guarantees disclosed in note 21 to the financial statements at an amount of R 40 230 000 could not be confirmed.

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

12. Monitoring of controls

Irregular Expenditure

Due to the fact that there was no proper supply chain management policy in place for the full period, expenditure incurred to the amount of R 1 622 378 is regarded as irregular. These expenses are not disclosed as irregular in the financial statements.

Inventory and stock

Although compliance with the Pharmacy Act in terms of specific scheduled medicine was maintained, no proper stock count of all medicine at the pharmacy and the doctor's surgery were performed during the period of review. Due to the oversight, the count was only performed subsequent to year end.

Fire-arms comprehensive report

A comprehensive report required by the Fire-arms control regulations, Section 2(2), on the issuance of fire-arms, was not maintained and signed by the head of the government institution (the Accounting Officer).

Non-performance of daily exception reports

Daily bank reconciliations are a requirement in terms of treasury regulations. An exemption letter from National Treasury for the performance of daily reconciliation was obtained. The exemption was provided based on the condition that daily exception reports should be maintained. The daily exception reports were not maintained for the year under review.

Payments after 30 days

Treasury regulations require all invoices to be paid within 30 days of receipt thereof. Invoices to the amount of R 4 231 828 were found to be settled after 30 days. No additional penalties or interest were incurred based on these late payments.

Share certificate

The share certificate for Electronic Communications Security Pty Ltd is still registered in the name of the previous Minister of Intelligence. This was corrected in July 2007.

13. Control Environment

Review of the general controls in the information systems environment

An information systems audit was completed in May 2007.

The most significant control weaknesses identified below emanated from a shortage of skilled

resources and vacancies not being filled for a considerable period of time.

- The segregation of duties within the security administration function and the production environment was ineffective.
- Users were allowed inappropriate access to powerful system profiles, which enabled them to perform configuration activities and changes to critical tables as well as to modify programs in the production environment.
- Emergency data fixes had been performed in the production environment for which no change control documentation was available. Program and data changes were not always approved and tested and developers were allowed to transport their changes to production.
- Sensitive transaction codes had not been locked in production to prevent general user access.
- The financial application settings allowed access to a program that could be used to delete financial transaction data in the production environment.
- Critical network and security monitoring facilities/tools/procedures had not been implemented to compensate for the weaknesses identified within the control environment.

14. Material corrections to financial statements

Material corrections were made to the financial statements submitted for audit on 29 May 2007 in terms of correction of amounts and proper disclosure in the notes to the financial statements.

15. Special investigation

NIA is in the process of a special investigation on alleged fraud at Opmed, the medical aid. The investigation is still in progress.

16. Special request by JSCI

The JSCI requested the Auditor-General to conduct an audit on the processes followed for the building project of the new offices of Comsec at Musanda. A separate management report was issued to management in this regard.

17. Human Resource Plan

The human resource plan for the department was in a draft format. At the time of this report, the plan had not yet been approved and implemented.

18. Covert structures

As previously reported in the 2005/2006 audit report, closure of the individual structures is dependent on the outcome of the investigations. At the time of this report the closure was still in progress.

19. Internal audit

I did not plan any reliance on the work of the internal audit due to the fact that the scope of internal audit work differed from my planned areas of coverage and the audit manuals of the internal audit department is still in draft format.

OTHER REPORTING RESPONSIBILITIES

Reporting on performance information

20. I have audited the performance information as set out on pages 43 to 79.

Responsibility of the accounting officer

21. 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

22. I conducted my engagement in accordance with section 13 of the Public Audit Act, 2004 (Act No 25 of 2004) read with General Notice 646 of 2007, issued in Government Gazette No 29919 of 25 May 2007.
23. 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.
24. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit conclusions reported below.

audit findings

25. I have not observed any matter that requires inclusion in my report.

APPRECIATION

26. The assistance rendered by the staff of the National Intelligence Agency during the audit is sincerely appreciated.



P Bhana for Auditor-General
Pretoria
28 July 2007



AUDITOR-GENERAL

09

SOUTH AFRICAN SECRET SERVICE



A U D I T O R - G E N E R A L

**REPORT OF THE
AUDITOR GENERAL
for the year ended 31 March 2008**

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF THE SOUTH AFRICAN SECRET SERVICE FOR THE YEAR ENDED 31 MARCH 2008

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the South African Secret Service which comprise the appropriation statement, statement of financial position as at 31 March 2008, statement of financial performance, statement of changes in net assets/equity 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 [27] to [44].

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 Generally Recognised Accounting Practice 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) (PAA) and section 3 of the Secret Services Act, 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 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance on 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. Paragraph 11 *et seq.* of the Statement of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by the South African Secret Service in this respect will be limited to reporting on non-compliance with this disclosure requirement.

8. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis of accounting

9. The department's policy is to prepare financial statements on Generally Recognised Accounting Practice, as set out in accounting policy note 1 to the financial statements.

Basis for opinion

10. Level of assurance

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

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Annexure:

- A. Reports of the Auditor-General
- B. Annual Report of Applications in terms of Act 127 of 1992
- C. Programme for the financial year 2007/08

Opinion

11. In my opinion, except for the effects of the matter referred to in the basis for opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the South African Secret Service as at 31 March 2008 and its financial performance and cash flows for the year then ended, in accordance with Generally Recognised Accounting Practice and in the manner required by the PFMA.

Matters of governance

12. The PFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of certain key governance responsibilities, which I have assessed as follows:

13.

Matter of governance	Yes	No
Audit committee		
• The Department had an audit committee in operation throughout the financial year.	<input type="checkbox"/>	
• The audit committee operates in accordance with approved, written terms of reference.	<input type="checkbox"/>	
• The audit committee substantially fulfilled its responsibilities for the year, as set out in section 77 of the PFMA and Treasury Regulation 3.1.10	<input type="checkbox"/>	
Internal audit		
• The Department had an internal audit function in operation throughout the financial year.	<input type="checkbox"/>	
• The internal audit function operates in terms of an approved internal audit plan.	<input type="checkbox"/>	
• The internal audit function substantially fulfilled its responsibilities for the year, as set out in Treasury Regulation 3.2		<input type="checkbox"/>
Other matters of governance		
• The annual financial statements were submitted for audit as per the legislated deadlines (section 40 of the PFMA).	<input type="checkbox"/>	
• The financial statements submitted for audit were not subject to any material amendments resulting from the audit.	<input type="checkbox"/>	
• No significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.	<input type="checkbox"/>	
• The prior year's external audit recommendations have been substantially implemented.	<input type="checkbox"/>	

OTHER REPORTING RESPONSIBILITIES

REPORT ON PERFORMANCE INFORMATION

14. I have audited the performance information as set out on pages xx to xx.

Responsibility of the accounting officer for the performance information

15. 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

16. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*.

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

Audit findings (performance information)

18. I believe that the evidence I have obtained is sufficient and appropriate to report that no significant findings have been identified as a result of my review.

APPRECIATION

19. The assistance rendered by the staff of the South African Secret Service during the audit is sincerely appreciated.

Auditor - General

Pretoria
30 July 2008



A U D I T O R - G E N E R A L

**REPORT OF THE AUDITOR-GENERAL TO THE SECRET SERVICES
ACCOUNT OF THE SOUTH AFRICAN POLICE SERVICES FINANCIAL
STATEMENTS AND PERFORMANCE INFORMATION FOR THE YEAR
ENDED 31 MARCH 2008**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Secret Services Account which comprise the appropriation statement, statement of financial position as at 31 March 2008, 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 10 to 31.

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] and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA)] and section 3 of the Secret Services Act, 1978 (Act No. 56 of 1978). 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) (PAA)] and section 3 of the Secret Services Act, 1978 (Act No. 56 of 1978), 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 616 of 2008, issued in Government Gazette No. 31057 of 15 May 2008*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance on 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 Secret Services Accounts policy is to prepare financial statements on modified cash basis of accounting as determined by National Treasury, as set out in accounting policy note 1.1 to the financial statements.

Level of audit assurance

9. Owing 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 assets and services are procured and utilised, the level of assurance in respect of certain operational expenditure is, under these circumstances lower than with ordinary audits

Opinion

10. In my opinion, except for the effects of the matter described to in the basis for opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Secret Services Account as at 31 March 2008 and its financial performance and cash flows for the year then ended, in accordance with the modified cash basis of accounting as prescribed by National Treasury and in the manner required by the PFMA and the Secret Services Act, Act no 56 of 1978.

OTHER MATTERS

I draw attention to the following matter that relates to my responsibilities in the audit of the financial statements:

Matters of governance

11. The PFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of certain key governance responsibilities, which I have assessed as follows:

Matter of governance	Yes	No
Audit committee		
• The Secret Services Account had an audit committee in operation throughout the financial year.	✓	
• The audit committee operates in accordance with approved, written terms of reference.	✓	
• The audit committee substantially fulfilled its responsibilities for the year, as set out in section 77 of the PFMA and Treasury Regulation 3.1.10	✓	
Internal audit		
• The Secret Services Account had an internal audit function in operation throughout the financial year.	✓	
• The internal audit function operates in terms of an approved internal audit plan.	✓	
• The internal audit function substantially fulfilled its responsibilities for the year, as set out in Treasury Regulation 3.2	✓	
Other matters of governance		
• The annual financial statements were submitted for audit as per the legislated deadlines section 40 of the PFMA for departments and constitutional institutions.	✓	
• The financial statements submitted for audit were not subject to any material amendments resulting from the audit.	✓	
• No significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.	✓	
• The prior year's external audit recommendations have been substantially implemented.	✓	

APPRECIATION

12. The assistance rendered by the staff of the Secret Services Account during the audit is sincerely appreciated.

T. J. M. - General

Pretoria

30 July 2008



A U D I T O R - G E N E R A L

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF THE NATIONAL INTELLIGENCE AGENCY FOR THE YEAR ENDED 31 MARCH 2008 INCORPORATING:

- National Communications Centre (NCC)
- The Office of the Inspector-General (IG)
- Electronic Communications Security (Pty) (Ltd) (Comsec)
- National Intelligence Co-ordinating Committee (NICOC)
- Intelligence Services Council (ISC)
- Office for the Interception Centres (OIC)

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the National Intelligence Agency which comprise the appropriation statement, statement of financial position as at 31 March 2008, statement of financial performance, statement of changes in net assets/equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, and the accounting officer's report, as set out on pages 187 to 203.

199 to 241

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 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) and section 3 of the Secret Services Act, 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 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance on 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 in accordance with the modified cash basis of accounting determined by the National Treasury, as set out in accounting policy note ~~xy~~ to the financial statements.

Basis for opinion

Level of Assurance

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

Audit Opinion

10. In my opinion, except for matters addressed in paragraph 9, the financial statements present fairly, in all material respects, the financial position of the National Intelligence Agency as at 31 March 2008 and its financial performance and cash flows for the year then ended, in accordance with the modified cash basis of accounting and in the manner required by the PFMA.

OTHER MATTERS

Without qualifying my audit opinion, I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

Non-compliance with applicable legislation

Public Finance Management Act and Treasury Regulations

Section 40(1)(b) of the PFMA

11. The Agency does not have adequate policies and procedures to sustain a process to ensure the completeness of related party transactions as required by PFMA 40(1)(b).

Treasury Regulations 3.2

12. Treasury Regulations requires that an institution should have an approved risk management policy. For the period reviewed it was found, that although the risk management policy was implemented, it is still in draft format.

Section 38(1)(l) of the PFMA and Treasury Regulations 21.1.1

13. Treasury Regulations requires that the granting of gifts, donations and sponsorships be included in the delegation of authority. The current Ministerial Delegation of Powers does not make provision for the process and authorisation for:

- granting of gifts, sponsorships and donations
- authorisation / approval of journals

Matters of governance

14. The PFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of certain key governance responsibilities, which I have assessed as follows:

Audit committee		
• The National Intelligence Agency had an audit committee in operation throughout the financial year.	✓	
• The audit committee operates in accordance with approved, written terms of reference.	✓	
• The audit committee substantially fulfilled its responsibilities for the year, as set out in section 77 of the PFMA and Treasury Regulation 3.1.10.	✓	
Internal audit		
• The National Intelligence Agency had an internal audit function in operation throughout the financial year.	✓	
• The internal audit function operates in terms of an approved internal audit plan.	✓	
• The internal audit function substantially fulfilled its responsibilities for the year, as set out in Treasury Regulation 3.2.	✓	
Other matters of governance		
• The annual financial statements were submitted for audit as per the legislated deadlines section 40 of the PFMA.	✓	
• The financial statements submitted for audit were not subject to any material amendments resulting from the audit.		✓
• No significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.	✓	
• The prior year's external audit recommendations have been substantially implemented.	✓	

OTHER REPORTING RESPONSIBILITIES

REPORT ON PERFORMANCE INFORMATION

15. I have reviewed the performance information as set out on pages ^{109 - 173} ~~xx~~ to ~~xx~~.

Responsibility of the accounting officer for the performance information

16. 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 National Intelligence Agency.

Responsibility of the Auditor-General

17. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*,

issued in *Government Gazette No. 31057 of 15 May 2008*.

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

Audit findings (performance information)

19. I believe that the evidence I have obtained is sufficient and appropriate to report that no significant findings have been identified as a result of my review.

OTHER REPORTS

Investigations

The Agency is currently conducting the following investigations:

20. An investigation was conducted against a service provider for audio and video equipment. The company was subsequently placed under liquidation and a claim was lodged with the liquidators to the amount of R2 711 000.
21. A forensic audit is conducted into a company appointed for the disposal of assets.
22. As reported in the prior year an investigation into alleged fraud at Opmed, the medical aid was conducted. The matters were reported to the South African Police Service to assist in the criminal investigation and to take the matters to court.
23. An investigation is also conducted in to the procurement, maintenance and repairs of NIA's official vehicles.

APPRECIATION

24. The assistance rendered by the staff of the National Intelligence Agency during the audit is sincerely appreciated.

Auditor - General

Pretoria

30 July 2008



A U D I T O R - G E N E R A L

GLOSSARY

CI	Crime Intelligence: Division of the South African Police Services
CICF	Counter Intelligence Coordinating Forum
COMSEC	Electronic Communications Security Pty (Ltd)
DCS	Department of Correctional Services
DFA	Department of Foreign Affairs
DHA	Department of Home Affairs
DI	Defence Intelligence: Division of the South African National Defence Force
DPSA	Department of Public Service and Administration
EIA	Environmental Impact Assessment
FIS	Foreign Intelligence Service
GIA	Geological Impact Assessment
IIRAC	International Intelligence Review Agencies Conference
ISC	Intelligence Services Council on the Conditions of Services
JCPSC	Justice, Crime Prevention and Security Cluster
JSCI	Joint Standing Committee on Intelligence
NIA	National Intelligence Agency
NICOC	National Intelligence Coordinating Committee
NSC	National Security Council
OIC	Office for Interception Centres
SANAI	South African National Academy of Intelligence
SAQA	South African Qualifications Authority
SASS	South African Secret Service
VFU	Vetting Fieldwork Unit

4.2 REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the South African National Academy of Intelligence (SANAI) which comprise the appropriation statement, statement of financial position as at 31 March 2008, statement of financial performance, statement of changes in net assets/equity 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 52 to 66.

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 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) (PAA), 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 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance on 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.

Matters of governance

14. The PFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of certain key governance responsibilities, which I have assessed as follows:

Matter of governance	Yes	No
Audit committee		
The Academy had an audit committee in operation throughout the financial year.	✓	
The audit committee operates in accordance with approved, written terms of reference.	✓	
The audit committee substantially fulfilled its responsibilities for the year, as set out in section 77 of the PFMA and Treasury Regulation 3.1.10/27.1.8.	✓	
Internal audit		
The Academy had an internal audit function in operation throughout the financial year.	✓	
The internal audit function operates in terms of an approved internal audit plan.	✓	
The internal audit function substantially fulfilled its responsibilities for the year, as set out in Treasury Regulation 3.2/27.2.	✓	
Other matters of governance		
The annual financial statements were submitted for audit as per the legislated deadlines section 40 of the PFMA.	✓	
The financial statements submitted for audit were not subject to any material amendments resulting from the audit.		✓
No significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.	✓	
The prior year's external audit recommendations have been substantially implemented.	✓	

OTHER REPORTING RESPONSIBILITIES

REPORT ON PERFORMANCE INFORMATION

15. I have reviewed the performance information as set out on pages 6 to 34.

Responsibility of the accounting officer for the performance information

16. 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 pre determined objectives of the Academy

Responsibility of the Auditor-General

17. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*.

18. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.
19. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

Audit findings (performance information)

Non-compliance with regulatory requirements

Treasury Regulations 5.3.1

20. Quarterly reports to the minister were not always prepared and submitted as required by Treasury Regulations 5.3.1.

APPRECIATION

21. The assistance rendered by the staff of the South African National Academy of Intelligence during the audit is sincerely appreciated.

Pretoria
30 July 2008



A U D I T O R - G E N E R A L

1. INTRODUCTION

This annual report examines and reflects on the mandate of the Joint Standing Committee on Intelligence (JSCI), during the period under review. Accordingly, the mandate of the JSCI will be examined within the parameters of the Intelligence Services Oversight Act 40 of 1994.

It is important to note, that the JSCI is a Parliamentary Committee established in terms of the Intelligence Services Act 40 of 1994 (herein after "the Act"). The members of the JSCI and the Chairperson are appointed by the President in consultation with the Speaker of the National Assembly and the Chairperson of the National Council of Provinces.

The Act provides for the establishment of a Joint Standing Committee to perform oversight functions related to intelligence and counter-intelligence functions of the Intelligence Services and report thereon to Parliament. The reporting includes the administration, financial management and expenditure of the Services and Intelligence Services Entities.

Accounting officers of the various intelligence structures/services are required to account to the JSCI in a manner that entrench a culture of oversight and accountability, thereby enhancing Parliament as a pivotal national institution serving the people of South Africa.

2. ACCOUNTABILITY AND OVERSIGHT

Currently, the Services over which the JSCI has an oversight function are the National Intelligence Agency (NIA), South African Secret Services (SASS), and Intelligence Division of the South African National Defence Force (DI) and the Intelligence Division of the South African Police Services (CI).

The Intelligence Services Entities include the South African National Academy of Intelligence (SANAI), Electronic Communications Security (PTY) Ltd (COMSEC) and the Office for Interception Centres (OIC) including activities of

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF THE SOUTH AFRICAN SECRET SERVICE FOR THE YEAR ENDED 31 MARCH 2007

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REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the South African Secret Service which comprise the statement of financial position as at 31 March 2007, statement of financial performance, statement of changes in net equity 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 [xx] to [xx].

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 Generally Recognised Accounting Practice 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 controls 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) and section 3 of the Secret Services Act, 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 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 controls.
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 in accordance with Generally Recognised Accounting Practice, as set out in accounting policy note 1 to the financial statements.

Basis for opinion

9. Level of assurance

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

Audit opinion

10. In my opinion, except for the effects of the matter referred to in the basis for opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the South African Secret Service as at 31 March 2007 and its financial performance and cash flows for the year then ended, in accordance with Generally Recognised Accounting Practice and in the manner required by the PFMA.

Emphasis of matters

I draw attention to the following matters:

11. Significant uncertainty

- *Loss incurred in respect of the construction of a building*

As disclosed in note 35 to the financial statements, litigation is underway in an attempt to recover the full amount of the loss of R7.7 million from the respective parties. While the full extent of recovery is unknown, the Service has recovered an amount of R1.4 million.

12. Highlight of a matter affecting the financial statements which is included in a note to the financial statements

- *Provision for leave*

As disclosed in note 22 to the financial statements, the Service did not make a full provision of R31 million in respect of leave due to insufficient funding by National Treasury. An amount of R5 million has been provided for in the current year and the Service will continue to make a provision of R5 million per year until the entire amount has been provided for.

OTHER MATTERS

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

13. Reliance on internal audit

I could not place reliance on internal audit as planned as the work performed by internal audit on the planned areas of reliance was not properly documented and reviewed as required by the International Internal Auditing Standards.

14. General controls in the information technology environment

A follow-up information systems audit of the general controls in the information technology environment surrounding the SAP System was completed in May 2007. The follow-up audit indicated that significant progress had been made in rectifying the control weaknesses identified during the previous audit, which is indicative of management's commitment to the achievement of a secure IT environment.

The remaining significant weakness relates to documented change control procedures implemented, which were not sufficiently documented to ensure that only authorised and appropriately tested program changes would be made.

OTHER REPORTING RESPONSIBILITIES

— limited to Fin Mgmt

Reporting on performance information

15. I have audited the performance information as set out on pages xx to xx.

Responsibility of the accounting officer

16. 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

17. I conducted my engagement in accordance with section 13 of the Public Audit Act, 2004 (Act No. 25 of 2004) read with *General Notice 646 of 2007*, issued in *Government Gazette No.29919 of 25 May 2007*.

18. 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.

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

Audit findings

20. I have not observed any matter that requires inclusion in my report.

APPRECIATION

21. The assistance rendered by the staff of the South African Secret Service during the audit is sincerely appreciated.



P Bhana for Auditor-General

Pretoria

31 July 2007



A U D I T O R - G E N E R A L

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF THE SECRET SERVICES ACCOUNT OF THE SOUTH AFRICAN POLICE SERVICES FOR THE YEAR ENDED 31 MARCH 2007

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Secret Services Account of the South African Police Services which comprise the statement of financial position as at 31 March 2007, appropriation statement, statement of financial performance, statement of changes in net assets/equity 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 8 to 24.

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 and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999) and section 3 of the Secret Services Act, 1978 (Act No. 56 of 1978). This responsibility includes:
 - designing, implementing and maintaining internal controls 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 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 judgment, 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 controls 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 controls.
6. An audit also includes evaluating the:
 - appropriateness of accounting policies used
 - reasonableness of accounting estimates made by management