

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE FINANCIAL STATEMENTS OF THE EQUIPMENT TRADING ACCOUNT FOR THE YEAR ENDED 31 March 2004

1. AUDIT ASSIGNMENT

The financial statements as set out on pages 155 to 159, for the year ended 31 March 2004, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read with sections 3 and 5 of the Auditor-General Act, 1995 (Act No. 12 of 1995). These financial statements, the maintenance of effective control measures and compliance with relevant laws and regulations are the responsibility of the accounting officer. My responsibility is to express an opinion on these financial statements, based on the audit.

2. NATURE AND SCOPE

The audit was conducted in accordance with Statements of South African Auditing Standards. Those standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements,
- assessing the accounting principles used and significant estimates made by management, and
- evaluating the overall financial statement presentation.

Furthermore, an audit includes an examination, on a test basis, of evidence supporting compliance in all material respects with the relevant laws and regulations which came to my attention and are applicable to financial matters.

I believe that the audit provides a reasonable basis for my opinion.

3. AUDIT OPINION

In my opinion, the financial statements fairly present, in all material respects, the financial position of the Equipment Trading Account at 31 March 2004 and the results of its operations and cash flows for the year then ended in accordance with prescribed accounting practice and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA).

4. EMPHASIS OF MATTER

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

Separate accounting records for the Vote and the Equipment Trading Account

As previously reported the department established a bank account and a warrant voucher series for the Equipment Trading Account which were separate from those of the Vote. The accounting records were separated with effect from 1 April 2003 with the implementation of the Basic Accounting System (BAS).

The trading account's financial statements need to be prepared in accordance with Statements of Generally Accepted Accounting Practice, but the recording of transactions is done on the Basic Accounting System, which is a cash recording system. This system does not provide for any accrual accounting and normal journal entries and as a result, information from other sources is used to compile the financial statements.

5. PROGRESS WITH PREVIOUSLY REPORTED MATTERS AND SCOPA RESOLUTIONS

The Equipment Trading Account has reacted favourably to the SCOPA Resolutions, however, corrective actions to resolve the issues may take more than one year. For more detail refer to Annexure A.

6. APPRECIATION

The assistance rendered by the staff of the Equipment Trading Account during the audit is sincerely appreciated.

SA Fakie

Auditor-General

Pretoria

30 July 2004

ANNEXURE A
 PROGRESS WITH PREVIOUSLY REPORTED MATTERS AND
 SCOPA RESOLUTIONS

Reference to previous audit report And SCOPA resolutions	Subject	Findings on progress
Audit report: Paragraph 3.1, page 139,143 and 147 SCOPA Recommendation	Basis of preparing annual financial statements	The Equipment Trading Account did submit financial statements that comply with Statements of Generally Accepted Accounting Practice (GAAP). The Trading Account is however challenged as the Basic Accounting System (BAS) is used for accounting purposes, which is a cash system and GAAP required full compliance with the accrual principles.

EQUIPMENT TRADING ACCOUNT

31 March 2004

Basis of preparation

I Accounting policies

The financial statements have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice. The financial statements have been prepared on a historical cost basis.

The financial statements incorporate the following principal accounting policies, which were incorporated during the current financial year:

I.1 Revenue

Rental income and maintenance fees are recognised and accrued to the Equipment Trading Account, on rental of equipment by a third party. Rental income and maintenance revenue excluding Value Added Tax are recorded in the financial statements on the date the service is rendered to a customer.

Interest received is recognised in the financial statements when due. An accrual is made for interest from the last receipt date to the end of the reporting date.

Vote funds are the amounts appropriated to the trading entity in accordance with the final budget known as capital augmentation.

I.2 Net profit from sales of equipment.

Net profit from sales of equipment is recognised in the income statement. Profit is recognised in the income statement in the year in which the sale is recognised.

I.3 Plant and Equipment

Plant and equipment are shown at book value while industrial and synthetic drilling diamonds are shown at market value. The revaluation of drilling diamonds is done by a professional valuator on an annual basis.

I.4 Depreciation

Depreciation on plant and equipment is written off at an hourly rate, based on usage. Drilling diamonds are depreciated at a rate of 50% per annum.

I.5 Revaluation surplus

Surplus on valuation of equipment is transferred directly to a revaluation reserve. Valuation surplus realised on sale is transferred from the revaluation reserve to the Income Statement.

I.6 Financial Instruments

Receivables are carried at the original invoice amount less provision made for the impairment of these receivables. Such provision for the impairment of receivables is established if there is objective evidence that that the Equipment Trading Account will not be able to collect the amounts due according to the original terms of the receivables. Receivables for services rendered are recognised in the balance sheet as a current asset and as income in the income statement as the financial statements are prepared on an accrual basis of accounting and supported by separate disclosure in the notes to enhance the usefulness of the financial statements.

Payables are carried at the fair of the consideration to be paid in future for services that have been supplied and invoiced or formally agreed with the supplier. Payables for services delivered are recognised in the balance sheet as a current liabilities and as expenditure in the income statement as the financial statements are prepared on an accrual basis of accounting and supported by a separate disclosure in the notes to enhance the usefulness of the financial statements.

Investment deposit is classified as current asset as they can be realised anytime within twelve months of the balance sheet date.

I.7 Impairment Loss

At each balance sheet date, the Equipment Trading Account reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount for an individual asset, the

recoverable amount is determined for the cash-generating unit to which the asset belongs.

If the recoverable amount of the asset (cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its carrying amount. Impairment losses are immediately recognised as an expense, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under the standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that other standard.

1.8 Investment Income

Interest receivable on the investment deposit with the Corporation for Public Deposits is not accounted for on the Equipment Trading Account. The interest receivable is paid directly to Treasury and is not recognised as revenue as it is not available for use on the Equipment Account.

1.9 Government Grant

Government grants are recorded as deferred income when they become receivable and are then recognised as income on a systematic basis over the period necessary to match the grants with the related costs which they are intended to compensate.

EQUIPMENT TRADING ACCOUNT
INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH 2004

	Note	2004 R'000	2003 R'000
Gross revenue		53 458	49 984
Revenue	1	50 930	49 984
Government Grant		2 500	-
Interest received		28	-
Expenditure		45 781	41 617
Operating expenses	7	45 781	41 617
Net Profit for the year		<u>7 677</u>	<u>8 367</u>

EQUIPMENT TRADING ACCOUNT
BALANCE SHEET AS AT 31 MARCH 2004

	Note	2004 R'000	2003 R'000
Assets			
Non-current assets			
Plant and equipment	4	137 993	130 549
Current Assets			
Cash and cash equivalents	3	2 732	8 961
Accounts Receivable	8	6 138	-
Total Assets		<u>146 863</u>	<u>139 510</u>
Equity and Liabilities			
Non-Current Liabilities			
Retained earnings		142 336	135 274
Revaluation Reserve		516	455
Capital Augmentation		-	2 500
Current Liabilities			
Accounts Payable		4 011	1 281
Total Equity and Liabilities		<u>146 863</u>	<u>139 510</u>

EQUIPMENT TRADING ACCOUNT
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2004

	Revaluation Reserve	Capital Augmentation	Retained Earnings	Total
Balance at 1 April 2002	-	-	129 295	129 295
Net profit for the year	-	-	8 367	8 367
Capital Augmentation	-	2 500	-	2 500
Revaluation on assets taken over	455	-	-	455
Capital Repayment	-	-	(2 388)	(2 388)
Balance at 31 March 2003	<u>455</u>	<u>2 500</u>	<u>135 274</u>	<u>138 229</u>
Balance at 1 April 2003	455	2500	135 274	138 229
Net profit for the year	-	-	7 677	7 677
Revaluation on assets	61	-	-	61
Capital Repayment	-	-	(615)	(615)
Balance at 31 March 2004	<u>516</u>	<u>2500</u>	<u>142 336</u>	<u>145 352</u>

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EQUIPMENT TRADING ACCOUNT
CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2004

	Notes	2004 R'000	2003 R'000
CASH FLOW FROM OPERATING ACTIVITIES			
Cash receipts from customers	9	51 438	44 004
Cash paid to suppliers and employees		(23 220)	(14 413)
Net cash inflow from operating activities	5	<u>28 218</u>	<u>29 591</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to fixed assets	6	(43 426)	(35 975)
Proceeds on sale of fixed assets	2	9 079	7 961
Net cash outflow from investing activities		<u>(34 347)</u>	<u>(28 014)</u>
CASH FLOWS FROM FINANCING			
Capital augmentation		-	2 500
Net cash inflow from financing activities			<u>2 500</u>
Net decrease in cash and cash equivalents		(6 129)	(6 299)
Cash and cash equivalents at the beginning of the year		<u>8 861</u>	<u>2 562</u>
Cash and cash equivalents at the end of the year		<u>2 732</u>	<u>8 861</u>

EQUIPMENT TRADING ACCOUNT

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE ENDED 31 MARCH 2004

	Note	2004 R'000	2003 R'000
1	Revenue		
	Rental of Equipment with book value	32 412	43 432
	Rental of Equipment without book value	13 167	
	Profit from sale of equipment	4 933	5 979
	Maintenance costs collected	418	573
		<u>50 930</u>	<u>49 984</u>
2	Profit from sale of plant and equipment		
	Sale proceeds	9 079	7 961
	Book value of items sold	(4 146)	(1 982)
		<u>4 933</u>	<u>5 979</u>
3	Cash with Paymaster-General		
	Bank Account	2 632	8 861
	Investment Deposit	100	100
		<u>2 732</u>	<u>8 961</u>
4	Plant and equipment		
	Equipment		
	Carrying value at beginning of year	129 768	124 526
	Assets (written off)\taken over	(190)	455
	Disposals	(4 146)	(1 982)
	Additions	43 426	36 360
	Depreciation	(31 287)	(29 591)
		<u>137 571</u>	<u>129 768</u>
	Carrying value at end of year		
	In use	136 831	129 056
	In sales account	740	712
	Drilling diamonds		
	Carrying value at beginning of year	781	1 166
	Additions	31	-
	Depreciation	(405)	-
	Impairment	(31)	(385)
	Revaluation of diamonds	46	-
		<u>422</u>	<u>781</u>
	Carrying value at end of year		
	Industrial diamonds	376	656
	Synthetic diamonds	46	125
		<u>137 993</u>	<u>130 549</u>
	Total carrying value		

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE ENDED 31 MARCH 2004

	2004 R'000	2003 R'000
5		
Cash generated by operations		
Net profit	7 677	5 979
Adjusted for:		
Depreciation	31 692	29 591
Impairment of equipment	1 311	-
Proceeds on sale of plant and equipment	(9 079)	(5 979)
Increase in Debtors	(6 138)	-
Increase in creditors	2 730	-
Interest received (not operations)	(28)	-
Bank charges	18	-
Difference in assets purchased	35	-
	<u>28 218</u>	<u>29 591</u>
6		
Additions to plant and equipment		
Purchase of drilling diamonds	(31)	385
New equipment	(33 158)	(23 546)
Rebuilt equipment	(10 237)	(12 814)
	<u>(43 426)</u>	<u>(35 975)</u>
7		
Operating expenses		
Depreciation	31 692	29 591
Maintenance costs	12 791	12 026
Impairment of equipment	1 280	-
Bank charges	18	-
	<u>45 781</u>	<u>41 617</u>
8		
Accounts receivable		
Exchequer Account	2 954	-
Water Trading Account	684	-
Government Grant	2 500	-
	<u>6 138</u>	<u>-</u>
9		
Cash Received from customers		
Proceed from sale of equipment	9 079	-
Rental of equipment with book value	28 774	-
Rental of equipment without book value	13 167	-
Maintenance cost	418	-
	<u>51 438</u>	<u>-</u>

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE FINANCIAL STATEMENTS OF THE NATIONAL FOREST RECREATION AND ACCESS TRUST FOR THE YEAR ENDED 31 March 2004

1. AUDIT ASSIGNMENT

The financial statements as set out on pages 163 to 164, for the year ended 31 March 2004, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read with sections 3 and 5 of the Auditor-General Act, 1995 (Act No. 12 of 1995). These financial statements, the maintenance of effective control measures and compliance with relevant laws and regulations are the responsibility of the accounting officer. My responsibility is to express an opinion on these financial statements, based on the audit.

2. NATURE AND SCOPE

The audit was conducted in accordance with Statements of South African Auditing Standards. Those standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements,
- assessing the accounting principles used and significant estimates made by management, and
- evaluating the overall financial statement presentation.

Furthermore, an audit includes an examination, on a test basis, of evidence supporting compliance in all material respects with the relevant laws and regulations which came to my attention and are applicable to financial matters.

I believe that the audit provides a reasonable basis for my opinion.

3. AUDIT OPINION

In my opinion, the financial statements fairly present, in all material respects, the financial position of the National Forest Recreation and Access Trust at 31 March 2004 and the results of its operations and cash flows for the year then ended, in accordance with prescribed accounting practice and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA).

4. EMPHASIS OF MATTER

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

4.1 Operation of the National Forest Recreation and Access Trust

In terms of the National Forest Act, 1998 (Act No. 84 of 1998) the National Forest Recreation and Access Trust was established with effect from 1 April 1999.

During the 1999-2000 financial year an amount of R1 669 293 was transferred from the National Hiking Way Fund, which was dissolved, to the trust. These funds were invested with the Corporation for Public Deposits. At 31 March 2004 there was a surplus of R2 754 648 in the trust.

During the 2003-04 financial year, the trust was still not operational. The formal approval of the Minister of Water Affairs and Forestry to start utilising the trust funds was still awaited.

4.2 Listing of the National Forest Recreation and Access Trust

Although the trust is not a public entity listed in terms of the PFMA, the definition of a public entity could extend to the trust, as the trust was established in terms of legislation and is accountable to Parliament. In those instances where there is doubt as to whether an entity is a public entity or not, PFMA requires that the entity should seek clarity from the National Treasury. Up to 26 July 2004 the trust had not consulted the National Treasury in this regard.

5. PROGRESS WITH PREVIOUSLY REPORTED MATTERS AND SCOPA RESOLUTIONS

The National Forest Recreation and Access Trust has acted on the SCOPA Resolutions, however, corrective actions to resolve the issues may take more than one year. For more detail refer to Annexure A.

6. APPRECIATION

The assistance rendered by the staff of the National Forest Recreation and Access Trust during the audit is sincerely appreciated.

A H Muller

for Auditor-General

Pretoria

24 July 2004

ANNEXURE A
 PROGRESS WITH PREVIOUSLY REPORTED MATTERS AND
 SCOPA RESOLUTIONS

Reference to previous audit report And SCOPA resolutions	Subject	Findings on progress
Audit report: Paragraph 4.1.1, page 154 SCOPA Recommendation	Progress made with the utilisation of the trust funds	The Minister has been advised and a final decision is to be made by her.
Audit report: Paragraph 4.1.1; page 154 SCOPA resolution:	Listing of the Trust Fund as a public entity	Trust is still not listed as a public entity.

NATIONAL FOREST RECREATION AND ACCESS TRUST
BALANCE SHEET AS AT 31 MARCH 2004

	Notes	2003/04 R	2002/03 R
Assets			
Current assets		2 754 648	2 513 321
Amounts immediately recoverable		2 751 919	2 510 592
Cash with Paymaster-General		2 729	2 729
		<u>2 754 648</u>	<u>2 513 321</u>
Equity			
Capital fund	2	2 754 648	2 513 321
		<u>2 754 648</u>	<u>2 513 321</u>

Department of Water Affairs
and Forestry,
Pretoria,

Dr.T.L. Simelane
Accounting Officer
National Forest Recreation
and Access Trust

NATIONAL FOREST RECREATION AND ACCESS TRUST
INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH 2004

	2003/04 R	2002/03 R
Income	241 327	269 348
Investment income	241 327	269 348
Expenditure	-	-
Net income for the year	<u>241 327</u>	<u>269 348</u>

NATIONAL FOREST RECREATION AND ACCESS TRUST
CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2004

	2003/04 R	2002/03 R
Cash flows from operating activities		
Interest received	241 327	269 348
Cash generated by operations	<u>241 327</u>	<u>269 348</u>
Cash flows from investing activities		
Increase in investment	(241 327)	(269 348)
Net cash outflow from investing activities	<u>(241 327)</u>	<u>(269 348)</u>
Net increase in cash and cash equivalent	-	-
Cash and cash equivalent at the beginning of the year	2 729	2 729
Cash and cash equivalent at the end of the year	<u>2 729</u>	<u>2 729</u>

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NATIONAL FOREST RECREATION AND ACCESS TRUST
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2004

	Accumulated profit R	Total R
Balance 1 April 2002	2 243 973	2 243 973
Interest received	269 348	269 348
Balance 31 March 2003	<u>2 513 321</u>	<u>2 513 321</u>
Balance 1 April 2003	2 513 321	2 513 321
Interest received	241 327	241 327
Balance 31 March 2004	<u>2 754 648</u>	<u>2 754 648</u>

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policy

1.1 The financial statements are, unless indicated otherwise, prepared on an historical cost basis according to the undermentioned policy which, in all significant respects, is applied consistently.

1.2 Income is acknowledged on an cash basis.

1.3 Cash and bank

The Fund does not have a formal counter party policy, but the credit risk in respect of cash resources is limited as the counter party is a high quality credit institution with a sound reputation. Fund management consider that the carrying amount of cash and bank approximates to their fair value.

1.4 Investment risk management

The Corporation for Public Deposits (CPD) manages the investments of the Fund. The CPD is independent from the Fund and has a sound reputation. The investment strategy is to maximize long-term growth and return on the investment portfolio while maintaining a low level of risk within the portfolio. In order for this objective to be achieved, significant investments include government bonds, bills and securities, deposits and cash. Of the total investments, approximately 21% are held in deposits and cash.

1.5 Price risk

Due to the nature and extent of the Fund's investments, the Fund is not unduly exposed to price risks as investments are held to maturity or in cash and deposits.

1.6 Interest rate risk

Investments in the form of bills, bonds and securities held by the Fund will normally be exposed to interest rate risk. Since these investments are held to maturity, they are not unduly exposed to interest rate risk.

1.7 Other risks

Cash flow and liquidity risks of the Fund are minimal as the majority of investments are held in cash and deposits. The Fund does not have any foreign accounts receivables, foreign accounts payable or derivative market instruments.

2.	Capital fund	2003/04	2002/03
		R	R
	Balance at the beginning of the year	2 513 321	2 243 973
	Net income for the year	241 327	269 348
	Balance at the end of the year	<u>2 754 648</u>	<u>2 513 321</u>