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PFMA
2015-16



Briefing to the Portfolio Committee: Sport and Recreation Audit outcomes of the portfolio for the 2015-16 financial years

11 October 2016



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Purpose of the presentation

Annually oversight committees set aside time to focus on assessing the performance of departments. On completion of the process, portfolio committees are required to develop department-specific budgetary review and recommendations reports (BRRR), which express the committee's view on the department's budget for recommendation to the National Treasury ahead of the following year's budget period.

Our role as the AGSA is to reflect on the audit work performed to assist the portfolio committee in its oversight role of assessing the departments' performance, taking into consideration the objective of the committee to produce a BRRR.

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1. Introduction

1.1 Reputation promise of the Auditor-General of South Africa

The Auditor-General of South Africa has a constitutional mandate and, as the supreme audit institution of South Africa, exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.

1.2 Purpose of document

The purpose of this briefing document is for the Auditor-General of South Africa (AGSA) to provide an overview of the audit outcomes and other findings of the Vote 40 and its entities for the 2015-16 financial year.

1.3 Overview

Aim of the vote

To provide for the promotion and development of sport and recreation and the co-ordination of the relationships between the Department of Sport and Recreation South Africa and the Sport Confederation, National Federations and other agencies; to provide for measures aimed at correcting imbalances in sport and recreation; to provide for dispute resolution mechanisms in sport and recreation; to empower the Minister to make regulations; and to provide for matters connected therewith.

Vision

The vision of Sport and Recreation South Africa (SRSA) is 'An active nation and winning nation.'

Mission and objectives

The mission of SRSA is to transform the delivery of sport and recreation by ensuring equitable access, development and excellence at all levels of participation and to harness the socio-economic contributions that can create a better life for all South Africans.

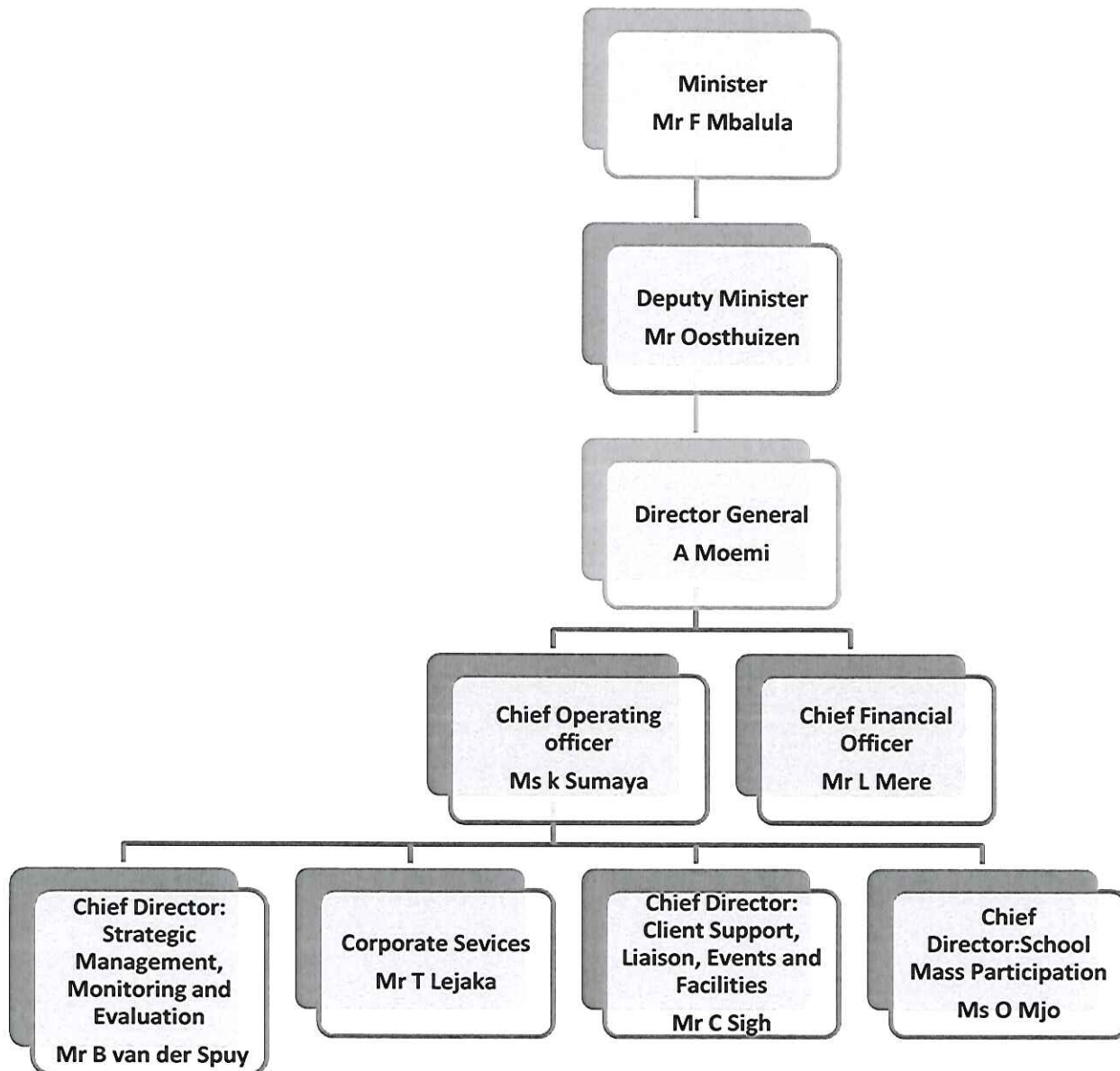
The following are the objectives of the department:

- Citizens access sport and recreation activities
- Sport and recreation sector adequately transformed
- Athletes achieve international success
- Enabling mechanisms to support sport and recreation
- Sport used as a tool to support SA government and global activities
- An efficient and effective organisation.

Entities reporting to the Minister

- Boxing South Africa (BSA)
- South African Institute for Drug-Free Sport(SAIDS)

1.4 Organisational structure



2. Audit opinion history

Clean audit opinion: Financially unqualified opinion with no findings on PDO and compliance
Financially unqualified opinion with findings on PDO and compliance
Qualified audit opinion (with findings)
Disclaimed/adverse audit opinion

DESCRIPTION	15-16	14-15	13-14
Audit opinions			
• Department of Sport and Recreation			
• Boxing South Africa			
• South African Institute for Drug- Free Sport			
Qualification issues- Boxing South Africa			
• Revenue		✓	
• Payables		✓	
• Receivables		✓	
OTHER MATTERS			
Predetermined objectives			
• Department of Sport and Recreation			
• Boxing SA	✓	✓	✓
• SAIDS			
Compliance with legislation			
• Department of Sport and Recreation			
• Boxing SA	✓	✓	✓
• SAIDS	✓	✓	✓

2.1 Significant emphasis of matters

Department/entity	Emphasis of matter raised
Sport and Recreation South Africa(SRSA)	Payables exceeding payment terms of 30 days exceeds the voted funds to be surrendered.
Boxing South Africa (BSA)	Boxing South Africa is a defendant in various lawsuits. The outcome of these lawsuits cannot be determined at the time of the audit report. Impairments to the amount of R245 106 were provided for as a result of irrecoverable receivables. Irregular expenditure to the amount of R2 691 000 (2014/15:

Department/entity	Emphasis of matter raised
	<p>R1 920 772) due to non-compliance with SCM prescripts was identified in the current year.</p> <p>Fruitless and wasteful expenditure amounting to R235 264 (2014/15: R386 343) was incurred mainly due to payments to suppliers whose contracts had expired and were no longer providing services to the entity.</p>
SA Institute for Drug Free Sport(SAIDS)	There was no emphasis of matter raised in the Audit Report.

3. Key focus areas

3.1 Predetermined objectives

Department/entity	Finding	Common root cause	Recommendation
SRSA	Material misstatements were corrected on the performance report of the department.	Inadequate processes were in place to enable accurate collation and review of performance information from provincial departments for customised sector indicators.	The department and provincial departments must agree on a system that will be used to report on performance information for the customised sector indicators.
BSA	The reported performance information was not reliable and useful for Programme 1: Governance and administration and Programme 2: Boxing development. Evidence could not be provided to support reported targets.	<p>The vacant position of the CEO lead to a lack of leadership in the entity, which impacted on accountability to ensure that supporting evidence is filed and submitted for audit.</p> <p>The vacant COO position (head of operations) further impacted on performance management.</p> <p>The CFO was appointed a month before year end and CEO was appointed after year end.</p>	Action plans to resolve audit findings must be developed and implemented. The COO, who should be responsible for operations of BSA should be appointed and be responsible for performance management.

Department/ entity	Finding	Common root cause	Recommendation
SAIDS		No findings	

3.2 Compliance with legislation

Department/ entity	Finding	Common root cause	Recommendation
SRSA	No findings.		
BSA	Financial statements. The financial statements submitted for auditing contained various misstatements corrected by management.	Lack of adequate review of financial statements.	Management should ensure that financial statements submitted for audit purposes have been reviewed adequately.
BSA	Procurement and Contract Management Awarding contracts to suppliers who did not submit tax clearance certificates or who did not declare their interest in the client. Procurement of goods and services with the value between 10 000 and 200 000.00 was made without obtaining at least three quotations. Contracts and quotations were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state.	Lack of review to ensure that all supply chain regulations are adhered to when contracting. Lack of consequence management of officials when transgression are identified due to lack of leadership.	Consequence management should be implemented
BSA and SAIDS	Revenue The entity did not take effective and appropriate steps to collect all money due to it.	Inadequate controls around revenue collection to ensure that revenue is collected timeously.	The CFO should implement debt collection measures.
SAIDS	Financial statements. The financial statements submitted for auditing contained various misstatements corrected by management.	Lack of adequate review of financial statements.	Management and the audit committee should ensure that financial statements submitted for audit purposes have been reviewed adequately. Internal audit should assist management to review the AFS.
SAIDS	Procurement and Contract	Lack of review to ensure that all	A checklist should be developed, officials must

Department/ entity	Finding	Common root cause	Recommendation
	<p>Management</p> <p>Awarding contracts to suppliers who did not submit tax clearance certificates or who did not declare their interest in the client.</p> <p>Contracts and quotations were awarded to bidders who did not submit a BBBEE certificate.</p> <p>Contracts awarded without following the SCM regulations.</p>	supply chain regulations are adhered to when contracting.	<p>ensure that before contracting they complete the checklist.</p> <p>Consequence management must be implemented for transgressors.</p>

3.3 Financial health

Department/ entity	Finding	Root cause	Recommendation
SRSA	The department experienced challenges of cash flow in the last month of the financial year . Payables over 30 days exceed the voted funds to be surrendered amount by R9 817 000.	Inadequate budget monitoring.	Monthly in year monitoring must be strengthened to enable the department to forecast more accurately on future expenses to be incurred.
BSA	The debtors collection period is 341 days, and creditors payment period is 129 days.	The entity did not have an effective finance department due to the CFO post being vacant, therefore debtors collection processes were not adequately implemented	The new CFO and CEO must develop and implement policies and procedures on the collection of debtors.
SAIDS	Liquid assets available to the entity are insufficient to satisfactorily cover its debts as they become due.	The entity does not collect its debts as they become due.	Management should prioritise expenditure management and ensure that long outstanding debt is collected when due to enable operations to be effectively financed.

4. Other matters of interest

4.1 Irregular expenditure: Expenditure incurred in contravention of key legislation

Department/ entity	Movement	Irregular expenditure			Recommendation
		Amount R 2015/16	Amount R 2014/15	Root cause	
SRSA		N/A- None were identified in the current year.			
BSA	↑	2 691 100 (89% identified by the auditors).	1 920 772 (24% identified by the auditors).	Lack of monitoring controls for compliance with procurement processes.	Management should be monitoring compliance using procurement checklist; Compliance with SCM should be included in individual performance contracts for SCM officials. The officials who incurred/permitted the irregular expenditure should be held accountable.
SAIDS	↑	6 562 000 (100% identified by the auditors).	995 000 (100% identified by the auditors).	Lack of consequence management	The officials who incurred/permitted the irregular expenditure should be held accountable. R4 561 000 was as a result of expenditure exceeding budgeted amounts
Total		9 253 100	2 915 772		




4.2 Fruitless and wasteful expenditure: Expenditure that should not have been incurred (*incurred in vain that could have been avoided and no value for money received*)

Department/ entity	Movement	Irregular expenditure			Recommendation
		Amount R 2015/16	Amount R 2014/15	Root cause	
SRSA	↓	0	143 000 (100% identified by the auditee).	N/A	Prior year amount should continue to be investigated
BSA	↓	235 264 (100% identified by the auditee).	386 343 (97% identified by the auditors)	Poor contract management , payments were made to service providers where services were already suspended.	The newly appointed CFO must ensure that management reviews and ensures correct payments are made to only valid suppliers.
Total		235 264	529 343		

The movement is assessed as follows:

↑	Increase
↓	Decrease
→	Unchanged

4.3 Investigations of unauthorised, irregular as well as fruitless and wasteful expenditure

Department/ Entity	Irregular and fruitless and wasteful expenditure incurred to date				
	Movement	Amount R Irregular expenditure	Amount R Fruitless and wasteful	Investigat ion took place Yes/No	Results/Steps taken
SRSA		0	7 158 000	Still in progress.	Still in progress.
BSA		7 073 203	2 535 878	No	The CEO and CFO were suspended and later dismissed; there was no leadership in place to manage the investigations.
SAIDS		6 562 000	0	Yes	Irregular expenditure of R1 931 000 was condoned after the investigations were completed.

5. Drivers of internal control

Drivers of internal control			
Auditee	Leadership	Financial and performance management	Governance
Department of Sport and Recreation South Africa			
Boxing SA			
South Africa Institute for Drug Free Sport			

The following key control deficiencies were evident at BSA

Leadership

Vacancies at CEO and CFO position were still evident at year end
Lack of implementation of action plans
Lack of oversight over performance reporting and financial statements

Financial and performance management

Financial statements with full disclosure notes are not regularly prepared and adequately reviewed

Governance

There was no adequate internal audit unit and risk committee.

STATUS LEGEND

Good
In progress
Intervention required

6. Combined assurance on risk management in the public sector

Management assurance First level of assurance		Oversight assurance Second level of assurance		Independent assurance Third level of assurance	
Senior management	Accounting officers/ authority	Executive authority	Coordinating/ Monitoring institutions	Internal audit	Audit committee
Required assurance levels	Extensive	Extensive	Extensive	Extensive	Extensive
Required assurance levels	Extensive	Extensive	Extensive	Extensive	Extensive

Management's assurance role

- Senior management – take immediate action to address specific recommendations and adhere to financial management and internal control systems
- Accounting officers/ authority – hold officials accountable on implementation of internal controls and report progress quarterly and annually
- Executive authority – monitor the progress of performance and enforce accountability and consequences

Oversight's assurance role

- National Treasury/ DPISA – monitor compliance with laws and regulations and enforce appropriate action
- Internal audit – follow up on management's actions to address specific recommendations and conduct own audits on the key focus areas in the internal control environment and report on quarterly progress
- Audit committee – monitor risks and the implementation of commitments on corrective action made by management as well as quarterly progress on the action plans

Role of independent assurance

- Oversight (portfolio committees) – review and monitor quarterly progress on the implementation of action plans to address deficiencies
- Public accounts committee – exercise specific oversight on a regular basis
- External audit – provide independent assurance on the reliability, accuracy and credibility of reported financial and performance information and identify instances non-compliance

6.1 Assessment of assurance providers

Department/ Entity	Assessment				
	Senior Manager	Accounting officer/Authority	Executive Authority	Audit committee	Portfolio committee
SRSA					
BSA					
SAIDS					

Senior management and the executive authority did not follow through on commitments made in the prior year to address the root causes for poor audit outcomes for SAIDS and BSA.

The internal audit function at BSA did not have adequate resources, resulting in the audit committee's inability to perform its duties in tracking the implementation of the audit plan.

The following criteria were used to evaluate the level of assurance for the Portfolio Committee:

- Oversight role into robust budget vote process, review of the annual report including the audit report, quarterly reporting;
- Follow up on progress made by the entities to address poor audit outcomes;
- Recommendations made in relation to key audit matters; and
- Follow up on key matters reported in the committee's prior year BRRR report.

The Portfolio committee performed in terms of the legislative oversight requirements and it robustly engages the department on its role and mandate.

Provides assurance	Provides some assurance	Provides limited/ no assurance	Vacancy	Not established
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7. Minister's commitments and progress on these commitments

The following are commitments made by the minister and their progress:

Focus area	Commitment	Date	Status
Human resource management	Ensure that Boxing SA is sufficiently capacitated by finalising the decisions on the suspended officials.	30 September 2015.	The suspensions have been finalised. The CEO position was filled in May 2016. The CFO position was filled in January 2016.
Performance information	Ensure that the entity has a performance plan that will drive the key initiatives as required by the Boxing regulations.	30 September 2015.	The entity has strategic plan approved by the executive authority.
Human resource management	Agree on a performance contract with the newly appointed CEO that is based on the performance plan developed and signed.	After appointment of new CEO.	The CEO is newly appointed and is still in progress of being inducted to the business operations of the entity.
All focus areas	Obtain an action plan from the CEO and CFO on how they will address external audit findings.	After appointment of new CEO.	The CEO is newly appointed and is still in progress of being inducted to the business operations of the entity.

STATUS LEGEND

	Commitment has been implemented
	Commitment in progress
	Commitment has not been implemented

8. Portfolio committee commitments and progress on these commitments

The following are commitments made by the Portfolio committee and their progress:

Focus area	Commitment	Date	Status
Performance information	Follow- up on a quarterly basis on the progress and reporting on Performance information.	30 September 2015.	Completed
Human resource management	Ensure that Boxing SA appoints a Chief Executive Officer.	30 September 2015.	Completed in May 2016.
Performance information	Review the strategic plan for Boxing SA and ensure that it is aligned with the budget available.	30 September 2015.	Completed .
All focus areas	Obtain the action plan to address audit findings from Boxing SA.	Quarterly	Not completed due to the vacancy at CEO position

The following are proposed commitments for the Portfolio committee:

Focus area	Commitment	Date
All focus areas	Obtain the action plan to address audit findings from Boxing SA.	1 October 2016
Procurement and contract management	Obtain action plan from SAIDS on addressing Procurement and Contract Management findings. Monitor progress made on consequence management by the entity on transgressors of procurement and contract management.	1 October 2016
Performance information	Obtain action plan from the department on how to address the Performance information reporting from provincial departments.	1 October 2016

9. Key root causes and recommendations

Department/entity	Root cause	Recommendation
BSA	Slow response by senior management	Those charged with governance should exercise oversight and monitoring over audit action plans to ensure that audit recommendations are implemented. This will ensure speedy response by management in implementing audit recommendations.
	Instability or vacancies in key positions	Those charged with governance should ensure vacancies are filled timeously.
SAIDS	Slow responses by management	Those charged with governance should exercise oversight and monitoring over audit action plans to ensure that audit recommendations are implemented.
	Lack of consequences for poor performance and transgressions	Consequence management should be implemented in instances where management fails to address audit recommendations. This will ensure speedy response by management in implementing audit recommendations.