

AUDITOR-GENERAL'S REPORT TO PARLIAMENT ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF THE DEPARTMENT OF ARTS AND CULTURE FOR THE YEAR ENDED 31 MARCH 2007

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of Department of Arts and Culture which comprise the statement of financial position as at 31 March 2007, appropriation statement, statement of financial performance, cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes, as set out on pages 100 to 138.

Accounting Officer's responsibility

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) (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; and
 - making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 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 International Standards on Auditing, *General Notice 647 of 2007*, issued in *Government Gazette no. 29912 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 Department's policy is to prepare financial statements on the basis of accounting determined by National Treasury, as set out in note 1.1 to the financial statements.

Basis for Qualified Opinion

9. Asset management

The fixed assets disclosed in note 24 to the annual financial statements are required to be supported by an asset management policy and asset management register as prescribed by National Treasury.

Due to the fact that an Asset Management Policy was only approved on 27 March 2007 and that monthly reconciliations between the assets register and the general ledger were not performed, the following was noted:

- An unexplained difference of R13 415 189 exists between the asset register and the amount disclosed in the financial statements.
- The physical verification of assets from the assets to the register and visa versa could not be performed.
- Inspection of the additions reported revealed that the additions figure was inaccurate as amounts per invoices differed from amounts per the asset register and purchases did not all fall within the 2006-07 financial year.

I was therefore not able to satisfy myself as to the accuracy and completeness of the fixed asset register of the department and the closing balance of assets reflected at R21 498 000 in note 24 of the financial statements.

10. Leave Provision

The department did not perform reconciliations between PERSAL and actual leave as per employee files resulting in incorrect leave balances applied during leave provision calculations.

Qualified Opinion

11. In my opinion, except for the effects of the matters referred to in the Basis for Qualified Opinion paragraphs 9 to 10, these financial statements present fairly, in all material respects, the financial position of the Department of Arts and Culture as at 31 March 2007 and of its financial performance and its cash flows for the year then ended in accordance with adjusted cash basis as prescribe by National Treasury and in the manner required by the PFMA and Companies Act in South Africa.

OTHER MATTERS

I draw attention to the following matters which are ancillary to my responsibilities on the audit of the financial statements.

12. Internal audit

As identified in our preliminary assessments of the internal audit function 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 reviewed as required by the International Internal Auditing Standards.

13. Matters of Governance

Due to a lack of establishing a control environment the following occurred:

- Section 38(1)(i) of the PFMA: Important policies and procedures were not updated and approved regularly, including the policy to govern the safeguarding and maintenance of the artwork collection. During the audit it was noted that 14 artworks could not be accounted for.
- According to Public Service Regulations 2001, paragraphs VIII B4 and B2 signed performance agreements and formal performance assessments could not be obtained.

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

The annual financial statements were submitted to this office on 31 May 2007 as required by the PFMA. However, the following material adjustment was made to these financial statements:

Section 40(3) of the PFMA: Performance awards provision was understated by R 5 480 000 in the 2006-07 financial year and by R 5 366 000 in the 2005-06 financial year. This material adjustment had been made to the financial statements to prevent further qualification.

OTHER REPORTING RESPONSIBILITIES

REPORTING ON PERFORMANCE INFORMATION

15. I have audited the performance information as set out on pages 14 to 80.

Accounting Officer's Responsibility

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, trading entity or constitutional institution.

Auditor-General's Responsibility

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 findings reported below.

Audit Findings

20. The Department of Arts and Culture does not have a proper policy and procedure framework to manage the process to finalise their performance information for audit purposes and as a result:

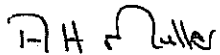
- Quarterly reports for the 2006-07 financial year were neither done nor signed within a reasonable time frame from the due date for completion.
- Achievements in relation to the planned outputs, service delivery indicators, service delivery targets and corrective actions are not specific.

21. Delay in finalisation of audit

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

APPRECIATION

22. The assistance rendered by the staff of the Department of Arts and Culture during the audit is sincerely appreciated.



AH Muller *for* Auditor-General

Pretoria

10 August 2007



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