

Section 12: Report of the Auditor-General to Parliament on the Financial Statements and Performance Information of Vote 18: Sport and Recreation South Africa for the year ended 31 March 2008

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of Sport and Recreation South Africa 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 135 to 195.

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 determined by the National Treasury, as set out in accounting policy note 1.1 and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA), and the Division of Revenue Act, 2007 (Act No. 1 of 2007) (DoRA). 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.

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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 modified cash basis of accounting determined by the National Treasury, as set out in accounting policy note 1.1 and in the manner required by the PFMA and DoRA.

Basis for qualified opinion

Tangible capital assets

9. Included in tangible assets in disclosure note 28, are assets acquired subsequent to 1 April 2002 that were not recorded at cost, due to the cost not being available, as the Department had not kept full and proper records as required by section 40(1)(a) of the PFMA and TR 17.2.3. The tangible assets are understated by a material amount which cannot be accurately determined.
10. Included in the opening balance in disclosure note 28, are adjustments of R562 000. The Department could not provide sufficient appropriate evidence for these adjustments. Furthermore an amount of R251 000 which relates to current year adjustments to prior year balance was incorrectly disclosed as non-cash additions in disclosure note 28.1 to the financial statements.
11. An amount of R738 609 which was paid for assets received during the 2006/07 financial year was not reflected in disclosure note 28.1. The additions per disclosure note 28.1 and the amount on the trial balance also differed by R463 283. Furthermore the additions per detailed asset register differed to the trial balance by R462 730.

12. The LOGIS asset report used to compile disclosure note 28 to the financial statements amounted to R19 270 193, which was R732 990 less than the amount according to the detailed asset register, (R20 003 183).

13. As a result of the above I was unable to carry out all auditing procedures I consider necessary for the audit and the entities records did not permit the application of alternative audit procedures to satisfy myself regarding the accuracy, completeness, valuation and disclosure of the closing balance as disclosed in disclosure note 28 to the financial statements. This was due to the unavailability of proper records on assets as required by section 40(1)(a) of the PFMA and TR 17.2.3.

Goods and services

14. Included in the expenditure on goods and services is an amount of R4 018 714 paid to athletes. The payment of the athletes was administered by a service provider. The Department could not provide sufficient appropriate audit evidence in relation to this amount. Consequently I did not obtain all the information I consider necessary to satisfy myself as to the accuracy and occurrence of goods and services. The entities records did not permit the application of alternative audit procedures.

Receivables for Departmental revenue

15. An amount of R876 000 disclosed in disclosure note 23 to the financial statements relates to royalties which accrued to the Department with effect from 1 August 2005. The Department could not provide full and proper records and I was therefore unable to satisfy myself concerning the accuracy, completeness and occurrence of the above amount, as I was unable to carry out all auditing procedures

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I considered necessary for the audit. The receivables for Departmental revenue may therefore be misstated by a material amount which cannot be accurately determined. The entities records did not permit the application of alternative audit procedures.

Qualified opinion

16. In my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had I been able to satisfy myself as to the matters described in the Basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of Sport and Recreation South Africa 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 determined by the National Treasury, as set out in accounting policy note 1.1 and in the manner required by the PFMA and DoRA.

Emphasis of matters

I draw attention to the following matters:

Irregular expenditure

17. As disclosed in note 24 to the financial statements, irregular expenditure to the amount of R6 081 000 was incurred.

Unauthorised expenditure

18. As disclosed in note 8 to the financial statements, unauthorised expenditure to the amount of R674 640 was incurred.

OTHER MATTERS

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

Internal controls

19. Section 38(1)(a)(i) of the PFMA states that the accounting officer must ensure that the Department has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes that gave rise to the inefficiencies in the system of internal control, which led to the qualified opinion. The root causes are categorised according to the five components of an effective system of internal control. In some instances deficiencies exist in more than one internal control component.

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Reporting item	Control environment	Risk assessment	Control activities	Information and communication	Monitoring
Tangible capital assets	X		X		X
Goods and services			X		
Receivables for Departmental revenue			X		

Control environment: establishes the foundation for the internal control system by providing fundamental discipline and structure for financial reporting.

Risk assessment: involves the identification and analysis by management of relevant financial reporting risks to achieve predetermined financial reporting objectives.

Control activities: policies, procedures and practices that ensure that management's financial reporting objectives are achieved and financial reporting risk mitigation strategies are carried out.

Information and communication: supports all other control components by communicating control responsibilities for financial reporting to employees and by providing financial reporting information in a form and time frame that allows people to carry out their financial reporting duties.

Monitoring: covers external oversight of internal controls over financial reporting by management or other parties outside the process; or the application of independent methodologies, like customised procedures or standard checklists, by employees within a process.

Non-compliance with applicable legislation

Public Finance Management Act, Treasury Regulations and Treasury Practice Notes

Supply chain management

20. The supply chain management component of the Department did not always comply with section 38(1)(a) of the PFMA, TR 16A6.4 and National Treasury Practice Note 6 of 2007/08 regarding urgent and emergency cases. The required motivation complying with the requirements in the above TR and subsequent approvals could not be provided. The tender process as prescribed in terms of the different thresholds was not always applied.

Granting of gifts, donations and sponsorships

21. Cash donations above R100 000 were not always approved by the legislator and separately included in the Appropriation Bill as required by TR 21.1.1.

Transfer payment to Boxing South Africa

22. An amount of R2 million was transferred to Boxing South Africa without obtaining Treasury approval as prescribed in TR 6.3.1.

Receivables: Disallowance miscellaneous account

23. The above account reflected a balance of R474 641 as at 31 March 2008. Contrary to TR 17.1.2 this account was not cleared on a timely basis.

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Division of Revenue Act, 2007 (Act No. 1 of 2007) (DoRA)

Mass participation grants

Monthly report from provinces

24. Various monthly reports from provinces which must be submitted to the National Treasury in terms of DoRA (Government Gazette No. 29797 dated 14 April 2007) could not be submitted.

Insufficient visits to hubs

25. In terms of Government Gazette No. 29797 dated 14 April 2007 the Department must visit six hubs per province per year. The Department visited only two provinces and paid three and five visits respectively.

Matters of governance

26. 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 Department had an Audit Committee in operation throughout the financial year.		X
Internal audit		
• The Department had an internal audit function in operation throughout the financial year.		X
Other matters of governance		
The annual financial statements were submitted for audit as per the legislated deadlines (section 40 of the PFMA for Departments).	X	
The financial statements submitted for audit were not subject to any material amendments resulting from the audit.		X
No significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.	X	
The prior year's external audit recommendations have been substantially implemented.		X

Unaudited supplementary schedules

27. Annexure IB, Statement of Conditional Grants paid to municipalities and Annexure IA, Statement of Conditional Grants paid to provinces include a column of amounts spent by the municipality/province. I have not audited these amounts and accordingly I do not express an opinion thereon.

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OTHER REPORTING RESPONSIBILITIES

Report on Performance Information

28. I have reviewed the performance information as set out on pages 32 to 105.

Responsibility of the accounting officer for the performance information

29. 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

30. 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.
31. 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.
32. 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)

Measures reported in annual report, but not predetermined as per strategic plan

33. I draw attention to the fact that some measurable objectives, measures and targets relating to Programme 5: Facilities Coordination, were reported in the annual report of the Department, although they were not included as predetermined objectives in the strategic plan.

Lack of sufficient appropriate audit evidence

34. I was unable to obtain sufficient appropriate audit evidence in relation to the performance information of the Department pertaining to the sub-programmes of sport support services and club development, as I was unable to obtain access to the relevant supporting records.

Evidence materially inconsistent with reported performance information

35. The evidence provided to support the actual performance information reported in the annual report, for the following objectives, was materially inconsistent with the reported performance information:

- Mass participation and mass mobilisation for 2010 FIFA World Cup™ Soccer
- School sport

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Other Reports

Investigations

36. As disclosed in paragraph 6 of the Accounting Officer's report, the Department has initiated various investigations based on alleged irregularities. All these investigations were still ongoing at the reporting date.

APPRECIATION

37. The assistance rendered by the staff of Sport and Recreation South Africa during the audit is sincerely appreciated.

Auditor-General

Pretoria

31 July 2008



AUDITOR-GENERAL