

REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE ON VOTE NO. 16: KWAZULU-NATAL DEPARTMENT OF SPORT AND RECREATION

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the KwaZulu-Natal Department of Sport and Recreation, which comprise the appropriation statement, the statement of financial position as at 31 March 2011, the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory information, as set out on pages XX to XX.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation of the financial statements in accordance with the Departmental Financial Reporting Framework prescribed by the National Treasury and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA) and Division of Revenue Act of South Africa, 2010 (Act No. 1 of 2010) (DORA), and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the PFMA, my responsibility is to express an opinion on the financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice No. 1111 of 2010*, issued in *Government Gazette No. 33872 of 15 December 2010*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that 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 department's preparation 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 department's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

7. In my opinion, the financial statements present fairly, in all material respects, the financial position of the KwaZulu-Natal Department of Sport and Recreation as at 31 March 2011, and its financial performance and cash flows for the year then ended, in accordance with the Departmental Financial Reporting Framework prescribed by the National Treasury and the requirements of the PFMA and DORA.

Emphasis of matter

8. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Irregular expenditure

9. As disclosed in note 35 to the financial statements, the department incurred irregular expenditure of R73,99 million as the expenditure incurred was in contravention of Treasury Regulations 16A6 and 16A9 relating to supply chain management (SCM).

Additional matters

10. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited supplementary schedules

11. The supplementary information set out on pages XX to XX do not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

Financial reporting framework

12. The financial reporting framework prescribed by the National Treasury and applied by the department is a compliance framework. Thus my opinion would have reflected that the financial statements had been properly prepared instead of fairly presented as required by section 20(2)(a) of the PAA, which requires me to express an opinion on the fair presentation of the financial statements of the department.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

13. In accordance with the PAA and in terms of *General Notice No. 1111 of 2010*, issued in *Government Gazette No. 33872 of 15 December 2010*, I include below my findings on the annual performance report as set out on pages XX to XX and material non-compliance with laws and regulations applicable to the department.

Predetermined objectives

14. There were no material findings on the annual performance report.

Compliance with laws and regulations

Annual financial statements

15. The accounting officer submitted financial statements for auditing that were not prepared in all material aspects in accordance with the Departmental Financial Reporting Framework issued by National Treasury, as required by section 40(1)(b) of the PFMA. The material misstatements with regard to irregular expenditure, grant received, lease commitments, bank overdraft and movable assets were subsequently corrected.

Procurement and contract management

16. Goods and services with a transaction value of between R10 000 and R500 000 were procured without inviting at least three written price quotations from prospective suppliers as per the requirements of Treasury Regulation 16A6.1 and National Treasury Practice Note 8 of 2007-08 effective from 1 December 2007.
17. Goods and services with a transaction value of over R500 000 were not procured by means of a competitive bidding process as per the requirements of Treasury Regulation 16A6.4 and National Treasury Practice Note 6 of 2007-08 effective from 1 April 2007 and National Treasury Practice Note 8 of 2007-08 effective from 1 December 2007.
18. Awards were made to suppliers who did not provide original tax clearance certificates to prove that their tax matters were in order, as per the requirements of Treasury Regulation 16A9.1(d) and National Treasury Practice Note 8 of 2007-08 effective from 1 December 2007.
19. Awards were made to bidders who did not submit a SBD 4 control form declaring whether the bidder or any person connected with the bidder is employed by the state or if the bidder is a legal person, whether the bidder has a relationship with persons/ a person involved in the evaluation and/or adjudication of the bids as per the requirements of National Treasury Practice Note 7 of 2009-10 effective from 2 October 2009.
20. Construction contracts were awarded to contractors that were not registered with the Construction Industry Development Board, as required by section 22(3) of the Construction Industry Development Board Act of South Africa, 2000 (Act No. 38 of 2000), Construction Industry Development Board Regulation 18(1A) and Treasury Regulation 16A6.3(a).
21. Instances were identified where senior managers did not disclose their business interest in a supplier to the department as per the requirements of chapter 3(C1) of the Public Service Regulations, Treasury Regulation 16A8.3 and Treasury Regulation 16A8.4.
22. Officials performed remunerative work outside their employment in the department without written permission from the relevant authority as per the requirements of section 30 of the Public Service Act of South Africa, 1994 (Proclamation No. 103 of 1994).

Expenditure management

23. The accounting officer did not take effective and appropriate steps to prevent and detect irregular expenditure as per the requirements of section 38(1)(c)(ii) of the PFMA and Treasury Regulation 9.1.1.

INTERNAL CONTROL

24. In accordance with the PAA and in terms of *General Notice No.1111 of 2010*, issued in *Government Gazette No. 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the findings on compliance with laws and regulations included in this report.

Leadership

25. Leadership did not exercise oversight and monitoring of compliance with SCM regulations.

Financial management

26. No processes were in place to prevent and identify irregular expenditure.

OTHER REPORTS

Investigations

27. Two investigations are being conducted into allegations of fraud and corruption linked to the supply chain management process.

28. Two investigations relating to financial misconduct and conflict of interest were completed during the year. Disciplinary action and criminal charges are being instituted against the implicated officials.

Pietermaritzburg

29 July 2011



A U D I T O R - G E N E R A L
S O U T H A F R I C A

Auditing to build public confidence