



(2)

060316 PC arts

save as 'qualifications'

## **Qualifications and Emphasis of Matter on the Audit Report of National Arts Council for the year ended 31 March 2005.**

### **Issues reported**

#### **3. Qualifications**

##### **3.1 Lack of approval to accumulate surplus:**

###### **Action taken to rectify the issue:**

- The NAC had a surplus of R6 million in the 2004/2005 financial year, a cost saving of R2 million in the administration expenses as well as interest earned in the current financial year 2005/2006 resulted in total R10 million funds being available for allocation to projects and grants.
- The NAC has allocated the available funds to projects and grants to the value of R10 million in the current financial year.
- Should the need arise, the NAC will apply for approval from National Treasury to accumulate any surplus that may arise in the current financial year. The surplus will be allocated to projects and grants in the next financial year.

##### **3.2 Panel and council approval of funds allocated.**

###### **Action taken to rectify the issue:**

- The NAC still does not have a board as the previous board was dissolved by the Minister on December 2004.
- The Minister appointed the DAC as the accounting authority. The advisory panel recommends funding allocations to DAC.
- From 1 November 2004 to date attempts have been made to ensure that NAC has signed minutes of Advisory Panel meetings together with recommendations to DAC's approval of final allocations.

### **3.3 Weaknesses in internal control**

#### **3.3.1 Governance arrangements**

**Action taken to rectify the issue:**

- It is the responsibility of the Minister of Arts and Culture to appoint the Board, as a result management awaits the Minister's action on the matter.

#### **3.3.2 Key Vacancies (Vacancies of CEO and CFO not filled for significant portion of year.)**

**Action taken to rectify the issue:**

- The CFO was re-instated on September 2004.
- In March 2005 Mrs. Julie Diphofa was appointed as Acting CEO, consequently this position will only be filled once the board has been appointed.
- It is the responsibility of the board to appoint the CEO.
- The CEO cannot be appointed in the absence of the board.

#### **3.3.3 Control over bank account**

**Action taken to rectify the issue:**

- From 15 March 2005 the NAC bank account was re-activated.
- From 15 March 2005 to date, the Acting CEO and CFO are the two signatories on the bank account.
- All payments are currently made out of the NAC bank account.

#### **3.3.4 Vacancies**

**Action taken to rectify the issue:**

- DAC approved the appointment of temporary staff members in the interim due to the absence of the NAC board.
- Permanent staff members will be appointed once the board is in place.

### **3.4 Assets Management**

#### **Action taken to rectify the issue:**

- The NAC with the assistance of the internal auditors are in the process of finalising an assets management policy which will be presented to DAC for approval.
- A staff member of the NAC is currently compiling a fixed asset register which is expected to be completed by the end of March 2006.
- The internal auditors will carry out a review of the asset management cycle during April 2006 which will include the review of the fixed asset register.

#### **Emphasis of matter:**

##### **5.1 (a) Audit committee and internal audit**

#### **Action taken to rectify the issue:**

- An Audit Committee will only be in operation once the NAC Board has been appointed together with all other committee's that are required in terms of the PFMA Act.
- Internal auditors appointed in January 2005, and are currently conducting an internal audit on the following areas :-
  - (a) Grant Awarding Process;
  - (b) Procurement Process and
  - (c) Payroll process

##### **5.1 (b) Risk Assessment, 5.1 (c ) Fraud Prevention Plan and 5.1 (d ) Materiality and significant framework.**

#### **Action taken to rectify the issue:**

- The internal auditors assisted the NAC in compiling the above documents and policies which are in the process of being finalised.
- The documents need to be presented to the audit committee which will recommend to the NAC Board for adoption.
- As already stated, the NAC currently does not have an audit committee to recommend to the Board on these matters.

### **5.1(e) Strategic Plan**

#### **Action taken to rectify the issue:**

- We are currently working on the Strategic plan document for 2006-2007 and it is expected to be approved by DAC.

### **5.1 (f) Reporting to the executive authority and budgeting:**

#### **Action taken to rectify the issue:**

- The NAC submitted quarterly reports to the DAC for the financial years 2005 to 2006, budgets for the years 2007, 2008 and 2009 have also been submitted.

### **5.1 (g) Related party transactions**

#### **Action taken to rectify the issue:**

- Presently there is no Board at the NAC, once a Board is appointed a register of interest will be implemented.
- The Acting CEO is in the process of establishing a register of staff interest.

### **5.1 (h) Submission of financial statements:**

#### **Action taken to rectify the issue:**

- It is expected that financial statements will be submitted timeously for audit for the current financial year. The external auditors will commence their audit plan in April 2006.

### **5.2 (a) Segregation of duties**

#### **Action taken to rectify the issue:**

- This will partly be resolved once the necessary staff complement of NAC has been appointed.
- In process of appointing necessary NAC staff in this next financial year.

- The NAC is in the process reviewing and documenting policies and procedures for the grants awarding system.

### **5.3 Other areas of non - compliance.**

#### **Action taken to rectify the issue:**

- The vat receivable for R 142 498 was refunded to the NAC on the 2 November 2005.

As of 1 April 2005 , the NAC has been de-registered for Vat purposes by **Mr Kiran Isvarlal**  
**Acting CEO**