

6.3 AUDIT REPORT

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE FINANCIAL STATEMENTS OF THE KWAZULU-NATAL PERFORMING ARTS COMPANY (TRADING AS THE PLAYHOUSE COMPANY) FOR THE YEAR ENDED 31 MARCH 2006

1. AUDIT ASSIGNMENT

The financial statements as set out on pages 19 to 30, for the year ended 31 March 2006 have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996, read with sections 4 and 20 of the Public Audit Act, 2004 (Act No. 25 of 2004) and section 11 of the Cultural Institutions Act, 1998 (Act No. 119 of 1998). These financial statements are the responsibility of the council. My responsibility is to express an opinion on these financial statements, based on the audit.

2. SCOPE

The audit was conducted in accordance with the International Standards on Auditing read with General Notice 544 of 2006, issued in Government Gazette no. 28723 of 10 April 2006 and General Notice 808 of 2006, issued in Government Gazette no. 28954 of 23 June 2006. Those standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements
- assessing the accounting principles used and significant estimates made by management
- evaluating the overall financial statement presentation.

I believe that the audit provides a reasonable basis for my opinion.

3. BASIS OF ACCOUNTING

The entity's policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as described in accounting policy 1 of the financial statements.

4. QUALIFICATION

4.1 PROPERTY, PLANT AND EQUIPMENT

4.1.1 Possible misstatement of assets

In terms of section 51(1)(c) of the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) an accounting authority for a public entity is, inter alia, responsible for the management, including the safeguarding of assets. Audit procedures carried out for the year under review revealed the following discrepancies:

- A complete updated asset register did not exist, as asset codes per the register provided did not always correspond with the codes attached to the physical assets inspected.
- An unsubstantiated difference of R500 000 existed between asset additions disclosed in the financial statements and additions recorded in the asset register.

- No assessment of impairment of assets was done. In terms of South African Statements of Generally Accepted Accounting Practice, paragraph 9 of IAS36 (AC128), an entity shall assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset.
- No assessment of residual values and depreciation was performed. In terms of South African Statements of Generally Accepted Accounting Practice as per paragraph 51 and 61 of IAS16 (AC123), an entity shall assess at least at each financial year end the residual values and depreciation method of all assets.

Consequently, completeness, existence and accuracy of property, plant and equipment could not be verified. Alternative procedures in order to gain the required level of assurance could not be performed.

4.1.2 Capital expenditure not capitalised

Accounting policy 1.2 on page 22 of the financial statements required that subsequent expenditure relating to an item of property, plant and equipment be capitalised when it is probable that future economic benefits from the use of asset will flow to the entity. Capital expenditure and internal refurbishment incurred during the year amounting to R6,7 million of which the majority were not capitalised resulting in property, plant and equipment and operating surplus being understated.

4.2 Deferred income

The amount of R12, 2 million reflected as special capital expenditure grant was used to purchase plant and equipment. The requirements of South African Statements of Generally Accepted Accounting Practice, paragraph 26 or 27 of IAS20 (AC134), were not complied with in that deferred income has not been recognised as income on a systematic and rational basis over the useful life of the asset or the grant was not deducted in arriving at the carrying amount of the asset and recognised as income over the life of a depreciable asset by way of a reduced depreciation charge.

5. QUALIFIED AUDIT OPINION

In my opinion, except for the effect on the financial statements of the matters referred to in the preceding paragraphs, the financial statements present fairly, in all material respects, the financial position of The KwaZulu-Natal Performing Arts Company (trading as The Playhouse Company) at 31 March 2006 and the results of its operations and its cash flows for the year then ended, in accordance with the basis of accounting determined by the National Treasury of South Africa, as described in accounting policy 1 of the financial statements, and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA).

6. EMPHASIS OF MATTER

Without further qualifying the audit opinion, attention is drawn to the

following matters:

6.1 Non compliance with laws and regulations

6.1.1 Risk management

In terms of Treasury Regulation 27.2.1, issued in terms of the PFMA, the accounting authority (council) must ensure that a risk assessment is conducted regularly to identify emerging risks of the entity. A risk management strategy, which must include a fraud prevention plan, must be used to direct the internal audit effort. For the year under review, no risk assessment was conducted and an approved fraud prevention plan and risk management strategy had not been implemented.

6.1.2 Audit committee

The audit committee did not comply with all the requirements of Treasury Regulation 27.1.8. The effectiveness of the internal control systems has not been reviewed; vigorous action has not been taken where management did not respond to prior year internal audit queries and there has been no quorum present at the audit committee meetings held during the year under review.

6.1.3 Internal audit

In terms of section 51(1)(a)(ii) of the PFMA, the accounting authority

(council) must ensure that a system of internal audit under the control and direction of an audit committee complying with and operating in accordance with regulations and instructions prescribed in terms of sections 76 and 77 of the PFMA. There was no internal audit performed during the year under review.

6.1.4 Supply chain management

A detail supply chain management implementation plan as required by National Treasury's Circular 3/4/3/2/10, dated 9 May 2006 with reference to Practice Note SCM 3 of 2004 had not been implemented.

6.2 Irregular expenditure

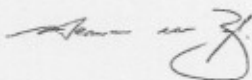
Attention is drawn to note 15 of the financial statements disclosing irregular expenditure of R490 300.

6.3 Financial management

Some key internal controls relating to property, plant and equipment, cash and cash equivalents, debtors and salaries and wages were inadequate owing mainly to a lack of approved policies and procedures as well as key positions not being filled timeously.

7. APPRECIATION

The assistance rendered by the staff of The KwaZulu-Natal Performing Arts Company, during the audit is sincerely appreciated.



H van Zyl for Auditor-General
Pietermaritzburg

31 July 2006



AUDITOR - GENERAL

