



# Annual Financial Statements





Annual Financial Statements  
for the  
Free State Department of Sport, Arts, Culture, Science and  
Technology  
for the year ended 31 March 2006







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REPORT OF THE ACCOUNTING OFFICER  
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Report by the Accounting Officer to the Executive Authority and the Free State Legislature.

1. General review of the state of financial affairs

Important policy decisions and strategic issues facing the Department

The budget allocation to the Department of Sport, Arts, Culture, Science and Technology for the 2005/2006 financial year was R119 321 000.

It represented an increase of 27% over the previous year's allocation of R94 262 000. Overall, the budget assisted the Department to fill critical management posts as well as to transform the Department in order to move it towards a one-stop district office framework.

Within this budget, the Department strove to meet its programme objectives, notwithstanding the fact that only 49 % of the approved staff establishment has been filled.

Spending trends

The budget allocation was utilized as follows:

	2005/06 R'000	2004/05 R'000
Amount appropriated, excluding rollover	119 321	94 195
Plus: Adjustment estimate	-	67
<b>Subtotal</b>	<b>119 321</b>	<b>94 262</b>
Less: Total expenditure	118 616	93 595
<b>Surplus per appropriation account</b>	<b>705</b>	<b>667</b>

36 % of the total budget allocation was spent on Library and Information Services, 32% on Cultural Affairs and 14% on Sport and Recreation. The 21% was allocated for infrastructure project spending among the three service delivery programmes, and 44% to personnel-related expenditure among all the four programmes.

The surplus as per appropriation statement resulted from underspending, mainly due to the commitment of public funds which were not expended by 31 March 2006.

Financial Management Improvement Programme

The Department implemented an additional part of its approved macro- and its micro-organizational structures notwithstanding the evident budget constraints and thus partially embarked on a financial management improvement programme, including the establishment of a fully-fledged and integrated Supply Chain Management Unit by 1 January 2006. The financial management of the Department was handled by a Chief Financial Officer, Senior Manager: Financial Administration (acting as Departmental Accountant), Manager: Supply Chain Management, six Financial Clerks and ten Supply Chain Management Practitioners, and Manager: Financial Control. A loss control officer and a revenue officer were appointed on a part-time basis; and systems relating to loss control and revenue were developed and maintained. An internal audit unit is presently fully operational.

Everything possible was done to improve financial management and control by introducing various measures to minimize losses and errors. Further improvements will be phased in over the 2006/07



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financial year with strengthening of the financial staff corps during the first quarter of this financial year. This will involve three posts of Manager: Financial Services and two Accounting Clerks.

Financial and interim Supply Chain Management powers were delegated, subject to certain limitations, to the Chief Financial Officer and Programme Managers - which contributed to the establishment of a network of stakeholders in budget and financial management.

**2. Services rendered by the Department**

**2.1 List of services rendered:**

Services rendered by the Department in the Province are measured by the following programme objectives:

- To render management and administrative support services to the different line functions
- To render and manage arts, cultural and heritage services
- To manage library, information and technology services
- To promote sport and recreation development

**2.2 Tariff policy**

The Department charges caravan and camping fees, as well as photocopying and fax fees.

The following factors are taken into account when calculating tariffs:

- expenditure and maintenance cost relating to the site
- income to be generated for the Free State Provincial Government
- tariffs of similar centres or services in the vicinity of the site, with regard to the following:
  - market-relatedness
  - demand for the use of the centre/service
  - affordability to the lower income groups
  - the increase in the expenses of the centre/service
  - differentiation between daily and week-end tariffs

**2.3 Inventories**

Inventory balances on hand at year end in the main stores of the Department amounted to the following amounts as at the reporting date:

Uniforms	296
Domestic consumables (Cleaning materials)	3 516
Other consumables	16 340
Stationery and printing	138 219
<b>TOTAL</b>	<b>158 371</b>

The stock values were calculated on the FIFO (first in, first out) basis.





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#### 3. Capacity constraints

With the extra allocation of R20.53 million to the budget of the Department, the capacity constraints were partially addressed as follows:

- Senior Manager: Financial Administration
- Manager: Supply Chain Management plus ten Supply Chain Management Practitioners
- Executive Manager: Cultural Affairs and Library Services
- Senior Manager: Cultural Affairs
- Executive Manager: Sport and Recreation
- Senior Manager: Community Sport, plus
- about 75 additional critical posts to be filled and funded.

Despite the target of 90 additional posts to be filled, the majority of the posts had to be re-evaluated first, which caused some delays in the recruitment procedures. The result is that the Department could manage to fill 53 % of the newly funded and vacant posts. Other factors contributing are service terminations which have to be replaced, subject to the job evaluation procedures.

Notwithstanding these partial constraints with sincere appreciation to the dedication of the staff in the Department, the Department managed to meet most of the strategic objectives.

#### 4. Trading entities / public entities

##### 4.1 Public entities

The Phakisa Major Sport Events and Development Corporation is a public entity under the auspices of the Department. Phakisa is a Free State Government initiative duly constituted in terms of the Phakisa Major Sport Events and Development Act, 1997 (Act No.4 of 1997). Phakisa's legal mandate is to provide for the economic and human development of the citizens of the Free State Province by promoting and facilitating major sport events.

The impact of the financial performance of Phakisa on the Department is limited to the transfer payments by the Department, which covers personnel, operational and legal expenditure (R2.143 million).

The Department is currently in the process of investigating whether to dispose of the Phakisa Corporation as a Government function or whether to engage a service provider to manage and develop the Phakisa Freeway into a viable institution.

##### 4.2 Trading activities

Three institutions, namely:

- the Musicon, an academy of music in Bloemfontein,
- the Mmabana Arts and Cultural Centre in Thaba N'chu, Zamdela and Thabong (originally under the auspices of the Mmabana Cultural Foundation Act)
- the Basotho Cultural Village, an outdoor museum in the Qwaqwa National Park
- the Free State Sport Science Institute,

can be regarded as trading activities within the Department. The Musicon, established in terms of the Education Act, was transferred from the Free State Department of Education Act to the Department of Sport, Arts, Culture, Science and Technology on 1 December 1998.





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These institutions sell services and/or products and function as trading activities within the Department.

The Treasury was initially approached in September 2001 to register the Basotho Cultural Village as a trading entity of the Department. Interim accounting and reporting arrangements have been made with the head of the Basotho Cultural Village through whom the Department is actively involved in the management of the Village and assistance is given with monthly financial management reporting.

The budget allocation to the Mmabana Arts and Cultural Centre amounts to R6.332 million of which 78 % is earmarked for personnel expenditure. A portion of operational expenditure of Mmabana's operational budget falls outside the ambit of the Department. Transfer payments of R365 000 were made to supplement Mmabana's operational budget.

The budget allocation to the Musicon amounts to R8.884 million, of which 59 % is earmarked for personnel expenditure. The balance of operational expenditure is funded by the Musicon Parents and Teachers' Association.

The budget allocation for the Basotho Cultural Village is R3.471 million, of which 69 % is earmarked for personnel expenditure. A portion of the operational expenditure of the Basotho Cultural Village's trading falls outside the ambit of the Department's budget.

The budget allocation for the Free State Sport Science Institute amounts to R5.716 million, of which 33 % is earmarked for personnel expenditure. A portion of the total operational expenditure is funded from the Institute's operating bank account.

Due to the following factors:

- application to the Treasury to register Basotho Cultural Village as a trading entity
- application to the Treasury to retain the Free State Sport Science Institute's operating bank account
- the Mmabana Foundation Act which was repealed on 23 September 2005,

the Department, National and Provincial Treasuries reviewed the positions of these three entities. The consensus was that the three entities are not envisaged to become self-sufficient in years to come. They also agreed that it is too expensive to run public entities as they have to comply with Accounting Procedures, have their own Management Structures and require oversight and review of Provincial Treasury.

The recommendations of the Treasuries are as follows:

- Mmabana Cultural Foundation and Basotho Cultural Village to be part of the Department as one of the programmes within the Department.
- Revenue generated by these two entities must be deposited into the Provincial Revenue Account, but can be made available to the Department through the normal Budget process based on estimate Revenue collection. For the 2006/07 financial year it will be done via the Adjustment Budget.







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- The Treasuries also recommended that negotiation be engaged into with a tertiary institution in order to transfer the Free State Sport Science Institute with its assets to a tertiary institution.

The Department is embarking on an integration strategy with regard to Mmabana and Basotho Cultural Village, to be phased in over 2006/07 and to be finalized by 31 March 2007.

The Department has also embarked on the reprioritization of Sport and Recreation before the Department will consider the Treasuries' recommendations regarding the Free State Sport Science Institute.

**5. Organizations to whom transfer payment have been made**

Other entities to whom transfer payments were made are the following:

CITC (Communal Information Technology Centre) in Welkom for computer literacy training of the disadvantaged section of the community	500 000
PACOFs (for staging of the MACUFE festival 2005)	1 000 000
Free State Academy of Sport (for sport development, coaching and training	1 000 000
Provincial Arts and Culture Council	12 000
Provincial Sport and Recreation Council	100 000

**6. Corporate governance arrangements**

The internal audit activity has been functional since 1 March 2003 and the internal audit charter was approved by the Accounting Officer and the Audit Committee of the Department. The Internal Audit Activity consists of the chief audit executive and two internal auditors, the position of the second internal auditor being vacant from May to November 2005. The audit committee of the Department has not been operational since the resignation of the Chairperson during December 2005.

In order to direct the strategies required for the internal audit, a second Department-wide risk assessment was done during February 2006 by way of a risk management workshop attended by management and other key personnel. A draft risk management plan has subsequently been compiled pending approval by the Risk Management Committee and the Accounting Officer. In terms of this plan, program managers take responsibility for the strategies to address the significant risks and to report thereon on a quarterly basis. The risk management plan which takes effect on 1 April 2006 will be reviewed on an annual basis and is also incorporated into the whole strategic plan of the Department.

A Risk Management and Fraud Prevention Committee was appointed by the Accounting Officer in order to monitor the strategies implemented to address the various risks. The Manager: Financial Control was also appointed as Risk Manager to drive the whole process and to support the Risk Management Committee.

The Risk Management plan forms the basis for the development of the annual and rolling three-year strategic internal audit plans. These plans still have to be approved by the Audit Committee.

Strategies recorded in both the Risk Management Plan and the Fraud Prevention Plan will be implemented to prevent and minimize losses and risks.



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An Anti-fraud prevention and corruption policy and fraud prevention plan was developed during February 2006 and approved by the Accounting Officer during April 2006. Action was taken to have the key personnel declare their financial interest held everywhere so that any conflict of interest can be identified. The Code of Conduct, as developed for the Public Service, was shared with the staff. Senior Management and Financial Control Committee meetings are held on a regular basis. Safety, health and environment matters impacting on the Department and its staff are receiving attention in each division of the Department as and when they are identified.

**7. New activities**

The Free State Sport Science Institute was launched during November 2004 and is fully operational as from 1 April 2005.

**8. Progress with financial management improvement**

With the implementation of financial management improvements, such as the implementation of the Public Finance Management Act and other relevant financial legislation, an informal approach is followed and reviewed with each internal finance meeting.

**9. Asset management**

The Department undertook two major projects during the financial year under review:

- unique marking of the assets and capturing thereof in the Asset Register
- reconciliation of the asset purchases between the financial records and the asset register.

During the 2006/07-financial year, the following challenges will have to be considered:

- establishment of asset management units and asset management teams
- supporting the Provincial initiative with the asset management reform project
- continuous reconciliation and verification of the assets, and updating thereof, in the Asset Register.





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#### 10. PROPAC Resolutions

Reference to previous Audit Report and PROPAC Resolutions	Subject	Findings on progress
4.1 Housing Guarantees	Balances not externally confirmed with financial institutions.	Balances reconciled and followed up with financial institutions.
4.2.1(a) Personnel management	Various deficiencies with regard to leave admin, home owner allowances and service terminations.	Human Resources staff expanded to address the various controls.
4.2.1(b) Cellular telephone expenditure	Increase in outstanding cellular phone debts.	Procedures implemented and improved to take them on as debts for the purpose of deductions from salary payments. Implementation of the cellphone policy.
4.2.1(c) Loss Management	Thefts and losses suffered by the Department not sufficiently dealt with and finalized.	A major portion of the backlogs were removed during 2005/06. Loss Control Policy to be finalized 2006/07 and loss control matters to be recurring item on Financial Control Committee's agenda.
4.2.1(d) Information Systems	Various outstanding matters	Implementation strategies phased in over 2006/07.
4.2.1(e) Roles and responsibilities for each sphere of government to ensure proper control over libraries (PROPAC resolution 71/2005)	Due to lack of proper funding, agreement could not be entered with municipalities that run public libraries.	Roll-out plan prepared to take-over the libraries which is a provincial competency, subject to guidance by the National Department and Treasury with the extra fund allocation for public libraries.
PROPAC Resolution 30/2003 – Capacity of the Department	Organizational structure of the Department to be investigated and crucial posts to be filled.	Extra budget allocation 2005/06 enabled the Department to fill the majority of crucial posts during the period under review.
PROPAC Resolution 71/2005 – Establishing of an employee assistance programme	No mechanism in place to adequately deal with employee related issues.	Employee assistance programme now vested in the functions of a Special Programmes Officer, who will do roadshows on the programme over 2006/07.
PROPAC Resolution 3/2004 and 74/2005	Instigate a forensic audit through the Office of the Auditor-General into Phakisa Major Sport Events and Development Corporation	Forensic audit about 75 % finalized.





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**10. Performance information**

The Department utilizes a performance management approach, whereby performance monitoring is based on the Strategic Plan of the Department, which included strategic objectives, against which key performance indicators are measured. They have been included in the performance agreements with the programme directors. During the 2005/06-year quarterly reports, including non-financial data, were given on the strategic plan and this monitoring process will be refined as from 1 April 2006, as part of the National Treasury's framework, with the submission of the last quarterly reports during May 2006 and the subsequent Annual Report. The contents of these reports will be linked directly with the strategic objectives as per 3-year Annual Performance Plan 2006/07 – 2008/09 MTEF period. The performance information in the quarterly reports (to be consolidated into an annual report) are based on statistics (raw data of measurable outputs of the objectives), which should be verifiable by means of documents such as registers, actual transactions/events and media reports.

**11. Events after the reporting date**

**11.1 Change in the name of the Department**

As from 28 April 2006, the Department's name changed to the Department of Sport, Arts and Culture. The effect is that the Science and Technology Sub-programme within the Department will be abolished. The Department has embarked on the process to align its corporate profile accordingly.

**11.2 Investigation of possible fraudulent activities**

An investigation by the Department was conducted into the willful negligence with the loss of a digital camera and portable computer to a value of approximately R19 000. At the reporting date, the matter was still not finalized.

**12. Other**

During 1998 the Phakisa Corporation entered into a contract with an international license holder to host five international Moto Grand Prix events of which the contract expired in 2003. The Free State Provincial Government paid the rights fees annually. The expired contract made provision for the right to negotiate, within a window period, for a continuance following the event in 2003. The Free State Provincial Government resolved in July 2003 not to fund another contract for the continuance. However, in the meanwhile, the international rights holders had to finalize the 2004 MotoGP calendar and apparently assumed that the Free State Provincial Government would agree to provide further funding and had gone ahead to include the Phakisa Freeway as a venue for the South African MotoGP. Apparently the international rights holders were also advised that they could exercise their right in terms of the now expired Promotor's Agreement of 1998 to extend the staging of the MotoGP at the Phakisa Freeway to 2004. As a result of this, a claim of USD 5.35 million (approximately R37.450 million) by the license holder against the Corporation and the Free State Provincial Government is in the process of being litigated.

After reporting date a settlement agreement was reached between the Corporation and the license holder on the amount of \$700 000, the first \$200 000 payable on 21 August 2006, the second \$100 000 on 20 October 2006, the third \$200 000 on 31 May 2007 and the fourth \$200 000 on 31 May 2008. Legal expenses are not included in the final settlement amount and are yet to be determined.





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**Approval**

The Annual Financial Statements set out on page 12 to 49 have been approved by the Accounting Officer.



**Mrs BR Sempe**  
**ACCOUNTING OFFICER**  
31 May 2006



