

**MINUTES OF THE MEETING OF THE PUBLIC ACCOUNTS STANDING COMMITTEE
HELD ON MONDAY 31 JANUARY 2005 IN THE MAIN CHAMBER, LEGISLATURE
COMPLEX AT 09H00**

ATTENDANCE

J M Downs (Chairperson)
P McKay
M A Kubheka
Dr L P H M Mtshali
S B Ngidi
F X Gasa
W Thusi
R Keys

ARTS, CULTURE AND TOURISM PORTFOLIO COMMITTEE

L R Mbuyazi

COMMITTEE SUPPORT STAFF

B F Khanyile
N Sukraj

DEPARTMENT OF ECONOMIC DEVELOPMENT

W Ngcobo

DEPARTMENT OF ARTS, CULTURE AND TOURISM

J M Mtshali
M B Mnguni

KWAZULU-NATAL TOURISM AUTHORITY

M Matola (Chief Executive Officer)
N Khoza (Chief Financial Officer)
V Mkize
B Shezi

SHARKS BOARD

G Charter (Chief Executive Officer)
N Mchunu (Chief Financial Officer)
E Dhai
K Mkhize

TRADE AND INVESTMENT KZN

R Morar (Audit Committee chairperson)
A Patel (BSA Chartered Accountants)
J Naidoo

OFFICE OF THE AUDITOR-GENERAL

B R Wheeler
D Sewrathan
M Harkhu
D Reddy
O Anthoo
J Nkosi

APOLOGIES

Liquor Bill hearings:

M A Tarr
V C Xaba
L Johnson
J Slabbert
P Govender

Tourism meeting:

S Thakur-Rajbansi
T Jeebodh

Incapacitated:

B J Msomi
B F Scott
M R Mzobe

E S Mbatha
A J Hamilton

R M Burrows

(Mr Burrows recused himself from this hearing due to the fact that he was the executive authority for the period under review.)

Recording Secretary: S Engelbrecht

1. OPENING AND WELCOME

The Chairperson welcomed everyone to the meeting and apologized for the late start which was due to there being no quorum to begin the meeting. The meeting began at 09:15.

2. BRIEFING BY THE AUDITOR-GENERAL ON THE KWAZULU-NATAL TOURISM AUTHORITY FOR THE 2003-2004 FINANCIAL YEAR

The Auditor-General conducted the hearing according to the document tabled in the meeting.

It was agreed that the matters raised in the audit report would be discussed with the representatives of KZN Tourism Authority.

(Following the briefing by the Auditor-General a prayer was said by Mrs Gasa. The representatives of KZN Tourism and the Sharks Board joined the meeting at this stage and took the oath.)

3. HEARING WITH THE KWAZULU-NATAL TOURISM AUTHORITY ON THE AUDIT OF THE 2003/2004 FINANCIAL STATEMENTS

The 2003/2004 Annual Report of KZN Tourism was submitted for consideration by the committee.

3.1 Qualification: Journals

(Item 3.1 of the report of the Auditor-General)

The Chief Executive Officer explained that a plan had been put in place to address the queries raised in the 2003/2004 audit report. The issues raised under this item had been mainly due to the lack of financial systems for recording assets. A meeting had taken place with the Auditor-General to correct this and journals were now being checked by the Chief Financial Officer. Disciplinary steps had been taken against the staff responsible.

Thereafter, noting item 3.1 of the report of the Auditor-General and noting that the authority had made good progress in dealing with this query,

The committee resolves:

That the Accounting Authority of the KwaZulu-Natal Tourism Authority report by 31 March 2005 and quarterly thereafter, until this qualification is resolved.

3.2 Qualification: Suspense account

(Item 3.2 of the report of the Auditor-General)

The Chief Financial Officer advised that the amount of R92 666 which had been in the suspense account had been written off.

The Chairperson requested that this matter be cleared from the financial statements so that it would not appear in the audit report of the 2004/2005 financial year.

In response to questions from the committee, the Auditor-General provided the following information regarding write off of funds by a public entity:

Provision needed to be made for the amount to be written off.

The authority to write off an amount would come from the Board, in conjunction with the MEC if necessary.

Thereafter, the committee noted the intention of the authority to write off this amount. This item was flagged for review in the next hearing with the authority.

3.3 Foreign exchange

(Item 5.1.1 of the report of the Auditor-General)

The Chief Financial Officer explained that this query had arisen due to a misinterpretation of AC112 of the Generally Accepted Accounting Practice.

(Due to certain members having to leave the meeting for a period of time, there was no quorum present until the end of the hearing with the Sharks Board. All resolutions taken during that time were ratified by the committee when a quorum was present, directly after the hearing with the Sharks Board.)

3.4 Interest paid

(Item 5.1.2 of the report of the Auditor-General)

The Chief Financial Officer explained that this query had arisen due to weaknesses on the part of financial staff of the authority. In this regard training in VAT had been arranged for staff.

The committee resolves:

That the Chairperson write a letter to the Board of the KwaZulu-Natal Tourism Authority bringing to the attention of the board that in terms of the Public Finance Management Act, the board must provide reasons if they decide not to recover the interest paid and that, if this expenditure was due to negligence, the Chief Executive Officer and then the Board would be held responsible if recovery was not affected.

3.5 Accounting Policy

(Item 5.1.3 of the report of the Auditor-General)

The Chief Financial Officer explained that the authority had never had a policy for management of debtors. Such a policy was being formulated.

The committee resolves:

That the above three items included under emphasis of matter in the report of the Auditor-General also be reported on in the quarterly report requested under item 3.1.

3.6 Overstatement of income and expenditure

(Item 5.2 of the report of the Auditor-General)

It was noted that the Auditor-General had advised the authority on how these entries should be done in future and that the necessary corrections would be done.

3.7 Internal control weaknesses

(Item 5.3 of the report of the Auditor-General)

The Chief Financial Officer assured the committee that proper controls had been put in place to address the weaknesses identified by the Auditor-General.

The committee resolves:

That the Accounting Authority of the KwaZulu-Natal Tourism Authority report by 31 March 2005 on the controls mentioned above and the policies put in place to address the control weaknesses to avoid contravention of Section 51(1)(a)(i) of the Public Finance Management Act, 1999.

3.8 Staff complement in the finance department

(Item 5.4 of the report of the Auditor-General)

The Chief Financial Officer assured the committee that this matter had been rectified and that necessary training was being provided for staff.

3.9 Non-compliance with laws and regulations – late submission of financial statements

(Item 5.5 of the report of the Auditor-General)

It was noted that the authority had submitted their final statements on 23 July 2004, in contravention of Section 55(1) (c) of the Public Finance Management Act, 1999. The authority was urged to comply with this provision in future and submit their financial statements to the Auditor-General within two months of the end of the financial year.

3.10 De-registration of Section 21

The committee resolves:

That the Accounting Authority of the KwaZulu-Natal Tourism Authority report by 31 March 2005 on the reasons for the de-registration of the authority as a Section 21 company.

4. HEARING WITH THE SHARKS BOARD ON THE AUDIT OF THE 2003/2004 FINANCIAL STATEMENTS

4.1 POD Holdings Ltd: Long-term debtor

(Item 4.1 of the report of the Auditor-General)

The Chief Executive Officer provided some background information on POD Holdings Ltd, the reasons for the investment of R9 million in POD Holdings by the Sharks Board and the problems which had been experienced in the development of the Protective Oceanic Device.

The Chief Executive Officer stated that he was sure the investment would be recouped over time, since the POD system would be developed in future and there had been some royalties which had already accrued to the board.

It was noted that the financial statements had been corrected as per the comments of the Auditor-General in item 4.1 of his report.

That the Chief Executive Officer advised that the financial statements of POD Holdings were being prepared and that those statements would be forwarded to the Auditor-General as soon as they were complete. It was noted that those statements would be included in the next report of the Sharks Board.

The committee resolves:

That Chief Executive Officer of the Sharks Board ensures that the financial statements of POD Holdings Ltd are submitted to the committee.

4.2 Internal control weaknesses

(Item 4.2 of the report of the Auditor-General)

The newly appointed Chief Financial Officer explained that some of the internal control weaknesses raised by the Auditor-General were due to there being no Chief Financial Officer to exercise financial control over the entity for approximately eight months.

The Chief Financial Officer advised the committee of steps that had been put in place to rectify the problems and to ensure that those problems did not arise again.

The Chief Executive Officer accepted that the Sharks Board was responsible for ensuring that such weaknesses in the financial systems did not occur and that if any financial losses were experienced as a result of inadequate systems, the board would be responsible for those losses. The Chief Executive Officer stated that no fraudulent activity had resulted from the internal control weaknesses.

4.3 Items of non-compliance

4.3.1 No strategic plan

(Item 4.3(a) of the report of the Auditor-General)

It was noted that this item was being addressed by the Sharks Board.

4.3.2 No materiality framework

(Item 4.3(b) of the report of the Auditor-General)

It was noted that this matter was being addressed by the Sharks Board and it was agreed that the Auditor-General would provide the Chief Executive Officer with examples of other materiality frameworks which were in place, to assist in formulating such a framework between the board and the Department of Arts, Culture and Tourism.

The committee resolves:

That the Chief Executive Officer report by 31 March 2005 on progress made in this matter.

4.3.3 **Register of board members interest in contracts**

(Item 4.3(c) of the report of the Auditor-General)

The Chief Executive Officer reported that a register of interests of board members in contracts awarded by the board had been done for the last and current financial years and confirmed that no board member had had any interest in any contract awarded during this time.

4.3.4 **No exemption to invest surplus funds**

(Item 4.3(d) of the report of the Auditor-General)

The committee expressed displeasure at the contravention of Treasury Regulation 31.3.3 in this case.

4.3.5 **Fixed assets**

(Item 4.3(e) of the report of the Auditor-General)

Noting that a new system of asset management was being introduced which would address the concerns expressed by the Auditor-General in his report,

The committee resolves:

That the Chief Executive Officer report on progress in this regard by 31 March 2005.

4.4 **POD – Special investigation**

(Item 4.4 of the report of the Auditor-General)

The committee resolves:

That the Chairperson write to the Department of Economic Development to request that a copy of the report on the investigation into the background of the Protective Oceanic Device and into the fate of POD Holdings Ltd. be submitted to the Public Accounts Committee, the Auditor-General and the Sharks Board by 31 March 2005.

5. **2003/2004 FINANCIAL STATEMENTS OF THE SHARKS BOARD**

There were no matters raised on the financial statements.

6. **INVITATION FOR THE COMMITTEE TO VISIT THE SHARKS BOARD**

The Chief Executive Officer invited the members of the committee to visit the Sharks Board. It was agreed that the Chief Executive Officer would write to the committee with a suggested date for such a visit.

(There being no further items for discussion, the hearing with the Sharks Board closed at 11:30. At this stage the representatives of Trade and Investment KZN joined the meeting and took the oath.)

7. HEARING WITH TRADE AND INVESTMENT KZN ON THE AUDIT OF THE 2003/2004 FINANCIAL STATEMENTS

The Chairperson of the Audit Committee of Trade and Investment KZN (TIKZN) addressed the committee and pointed out that there had been no issues raised by the independent auditors in the 2003/2004 audit report.

Discussion then took place on the status of TIKZN as an unlisted public entity. It was noted that it had been delisted by the national Minister on 31 March 2003 and was now a Section 21 company.

The Auditor-General explained that TIKZN did not meet the first criteria of a public entity: that the entity must be established by statute. Furthermore, in terms of the Public Audit Act, the Auditor-General would have first choice in auditing listed public entities. No decision had been taken by the national Auditor-General regarding unlisted public entities.

8. 2003/2004 FINANCIAL STATEMENTS OF TRADE AND INVESTMENT KZN

Brief discussion took place on the following items in the financial statements:

Decrease in value of assets from 2002/2003 to 2003/2004.
Rent paid for office accommodation.
Consultant fees paid.

9. TRANSVERSAL RESOLUTION: UNLISTED PUBLIC ENTITIES

The committee resolves:

1. That the Accounting Officers of all departments provide a list of all entities accountable to the Legislature, which have been created by departments.
2. That the Accounting Officers ensure that the audit reports and financial statements of those entities are submitted to the committee each year.

10. CLOSURE

There being no further items for discussion, the meeting was declared closed at 11:55.

CERTIFIED AS THE TRUE RECORD OF PROCEEDINGS

CHAIRPERSON

DATE

(Minutes confirmed at a meeting on 8 February 2005. Proposed: S B Ngidi, seconded: P McKay)