



AUDITOR - GENERAL
SOUTH AFRICA

Budgetary Review and Recommendations Report

Portfolio Committee on Tourism

9 November 2021

Our mission and vision



OUR MISSION

We have a constitutional mandate and, as the supreme audit institution of South Africa, exist to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.



OUR VISION

To be recognised by all our stakeholders as a relevant supreme audit institution that enhances public sector accountability

Mandate for the AGSA and portfolio committees

AGSA mandate

Constitution section 188

AGSA must audit and report on accounts, financial statements and financial management of government institutions

PAA section 20(2)

- AGSA must prepare an audit report containing an opinion/ conclusion on:
 - the fair presentation of the financial statements
 - compliance with applicable legislation
 - reported performance against predetermined objectives
- Discretionary audits (including special audits, investigations and performance audits).

Section 5(1B)

- Auditor-General has the power :
 - to take an appropriate remedial action
 - where an accounting officer/authority has failed to comply with remedial action, to issue a certificate of debt, as prescribed.

Portfolio committees

National Assembly Rule 227

Portfolio committees may, amongst other things, perform the following functions:

- Deal with bills and other matters falling within their portfolio, as referred to them in terms of the constitution, legislation or rules, or by resolution of the Assembly
- Maintain oversight of their portfolios of national executive authority, including implementation of legislation
- Consult and liaise with any executive organ of state or constitutional institution
- Monitor, investigate, enquire into and make recommendations concerning any such executive organ of state, constitutional institution or other body or institution, including the legislative programme, budget, rationalisation, restructuring, functioning, organisation, structure, staff and policies of such organ of state, institution or other body or institution
- Consult and liaise with any executive organ of state or constitutional institution

Role of the AGSA in the reporting process

Our role as the Auditor-General of South Africa (AGSA) is to reflect on the audit work performed to assist the portfolio committee in its oversight role of assessing the performance of entities, taking into consideration the committee's objective to produce a *Budgetary review and recommendations report (BRRR)*.



What we understand as the role of oversight

Use information in the audit report on material irregularities for accountability and oversight purposes, insisting on timely implementation of recommendation.

Use reports tabled on progress with material irregularities to oversee and influence progress made by public bodies with investigations and executive authorities (for recovery of debt).

Holding the executive authorities accountable for failures in the control environment.

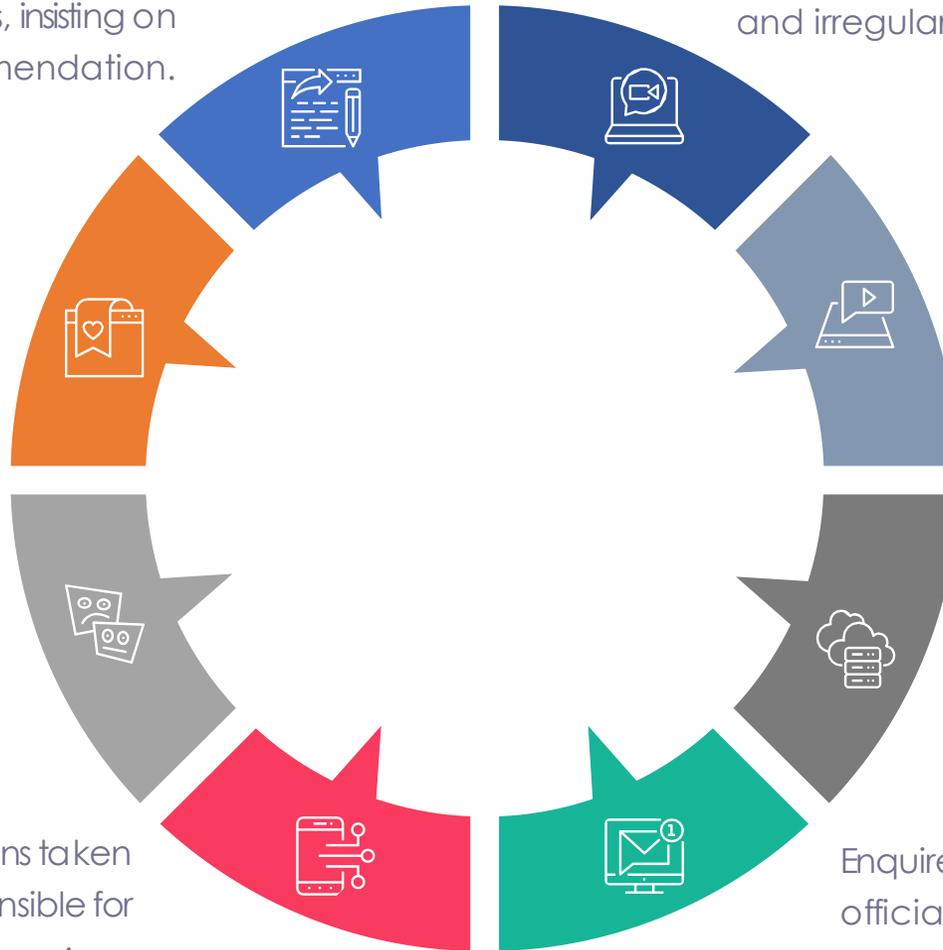
Follow up on the actions taken against the official(s) responsible for transgressions.

Obtain reports on investigations into transgressions and irregularities conducted and effecting the entity.

Follow-up annually on the previous commitments made by the accounting officers.

Determine if corrective steps are taken to address the shortcomings in the internal control environment.

Enquire what training and support is given to officials to enable them to correctly execute their responsibilities.





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FOCUS



AGSA audit outcomes

NB: Percentages in this presentation are calculated based on **completed audits of 13 auditees**, unless indicated otherwise.

				
<h3>Unqualified opinion with no findings (clean audit)</h3>	<h3>Financially unqualified opinion with findings</h3>	<h3>Qualified opinion</h3>	<h3>Adverse opinion</h3>	<h3>Disclaimed opinion</h3>
<p>Auditee:</p> <ul style="list-style-type: none"> produced credible and reliable financial statements that are free of material misstatements reported in a useful and reliable manner on performance as measured against predetermined objectives in the annual performance plan (APP) complied with key legislation in conducting their day-to-day operations to achieve their mandate 	<p>Auditee produced financial statements without material misstatements or could correct the material misstatements, but struggled in one or more area to:</p> <ul style="list-style-type: none"> align performance reports to the predetermined objectives they committed to in APPs set clear performance indicators and targets to measure their performance against their predetermined objectives report reliably on whether they achieved their performance targets determine the legislation that they should comply with and implement the required policies, procedures and controls to ensure compliance 	<p>Auditee:</p> <ul style="list-style-type: none"> had the same challenges as those with unqualified opinions with findings but, in addition, they could not produce credible and reliable financial statements had material misstatements on specific areas in their financial statements, which could not be corrected before the financial statements were published. 	<p>Auditee:</p> <ul style="list-style-type: none"> had the same challenges as those with qualified opinions but, in addition, they had so many material misstatements in their financial statements that we disagreed with almost all the amounts and disclosures in the financial statements 	<p>Auditee:</p> <ul style="list-style-type: none"> had the same challenges as those with qualified opinions but, in addition, they could not provide us with evidence for most of the amounts and disclosures reported in the financial statements, and we were unable to conclude or express an opinion on the credibility of their financial statements

The AG's annual audits examine:

1. Fair presentation and absence of significant misstatements in **financial statements**
2. Reliable and credible **performance information** for predetermined objectives
3. **Compliance with laws and regulations** governing financial matters

Movement over the previous year is depicted as follows:

	Improved
	Unchanged
	Regressed



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Portfolio outcome



Tourism portfolio auditees



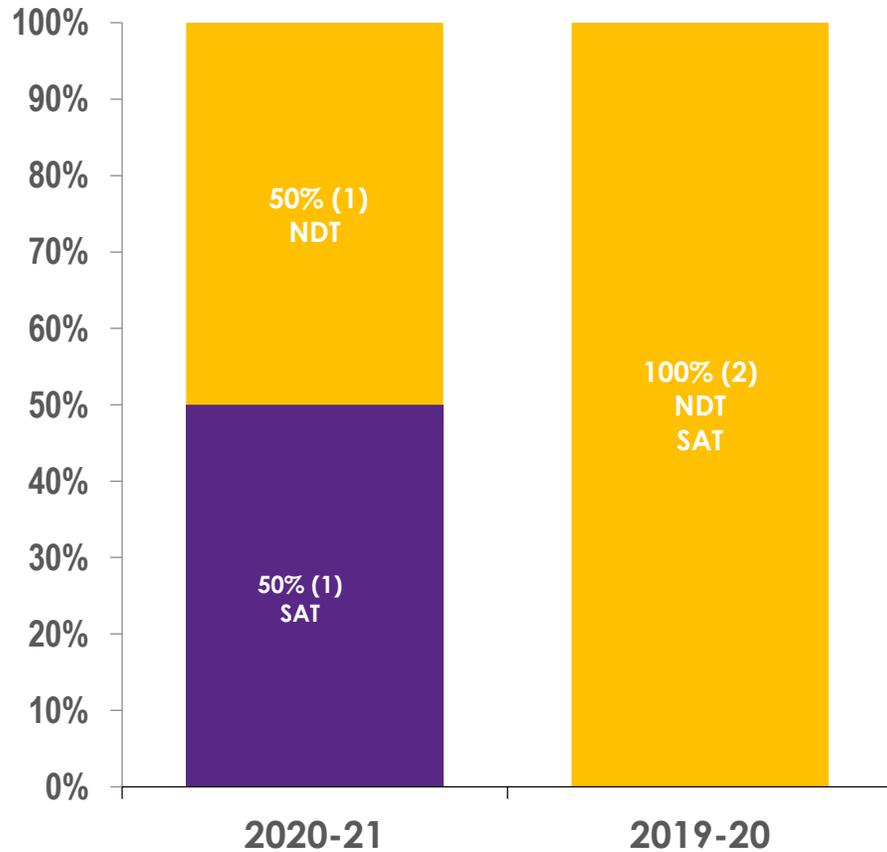
tourism

Department:
Tourism
REPUBLIC OF SOUTH AFRICA



SOUTH AFRICAN TOURISM

Audit outcomes of the tourism portfolio over 2 years



Movement	
▲	-
▼	1
▶	1

Outstanding audits
Not applicable

- The overall audit outcome of the portfolio regressed when compared to the prior year as the **SAT** received a qualified audit opinion. This was because of the limitations reported on expenditure and receivables from non-exchange transactions.
- The **SAT** also had findings on non-compliance with legislation and findings on the annual performance report.
- The **NDT** audit outcomes remain unchanged from the prior year with financially unqualified opinion with findings on non-compliance with legislation.

Audit outcomes are depicted as follows:



Portfolio overall message

The portfolio's overall audit outcomes have regressed from the prior year.

The **SAT** received a qualified audit opinion as a result of a limitation of scope on expenditure and receivables from non-exchange transactions.

The audit outcome of the **NDT** remained unchanged as financially unqualified with findings on compliance with legislation. We commend the **NDT** for submitting financial statements that were free from material misstatements.

The quality of the annual performance reports regressed in the portfolio. The **NDT** had a material misstatement on **consistency** as the description of the indicators in the annual performance report submitted for audit differed from the description in the annual performance plan. This inconsistency was subsequently corrected by management.

At **SAT** we reported a material finding on the usefulness of the target for programme 3: leisure tourism marketing, which was not **specific**. We could not determine the actual achievement due to insufficient measurement definitions and processes.

Although we reported material non-compliance in the **NDT's** supply chain management, this was an improvement on the number of findings from the previous year. The **SAT's** material non-compliance was in procurement and contract management, as supply chain management processes were not followed for expenditure incurred by SAT and paid by a third party. This resulted in irregular expenditure of R34 million.

We also followed up on the six recommendations for the **Tourism Relief Fund (TRF)**, which was audited in the previous year as part of the covid-19 proactive audits. We noted that the only action taken was to hand over the duplicate payment of R50 000 to the state attorney for recovery from the beneficiary. The other five recommendations were not implemented.

The department also had a relief fund for tour guides, with a budget of R30 million of which R17,28 million was used by 31 March 2021. The covid-19 relief fund for tour guides under distress (**TGF**) granted beneficiaries R1 500 per month for three months. Our findings were that the tour guides grant was approved for, and paid to, individuals who received other grants such as the Sassa R350 grant; beneficiaries who did not meet the set criteria; and beneficiaries who were approved without validating their ID numbers.

Portfolio overall message (cont.)

Key root causes in the internal control environment

- The SAT management disregarded procurement processes for expenditure incurred by the entity and paid by a third party (TOMSA). **Preventative controls** relating to recording expenditure incurred by the entity and paid by a third party were lacking.
- The **SAT's** regression in the quality of annual performance reports was caused by management's **inadequate reviews** of the annual performance plan and annual performance report.
- Notwithstanding the improvement in SCM, the **NDT's** action plans were not implemented in time to address the previous year's audit findings and corrective processes were not implemented to prevent a recurrence of findings on compliance with legislation relating to local content.
- The **TRF** lacked **preventative controls** to mitigate the **risk** of payments to beneficiaries who did not meet the qualifying criteria.
- The **NDT** did not implement **preventative controls** for the **TGF** to mitigate the **risk** of payments to beneficiaries who did not meet the qualifying criteria.

Recommendations:

- Develop and implement **action plans in** time to address audit findings, which includes implementing internal controls relating to expenditure recording and procurement processes.
- Management should enhance **review processes** on the annual performance report and annual performance plan to ensure consistency between the planned and reported performance information, and that performance indicators are specific.
- Implement consequence management for supply chain management transgressions.
- **Investigate** the exceptions reported in the TGF and have a process to **recover** the funds from non-qualifying beneficiaries or beneficiaries who were not under distress.

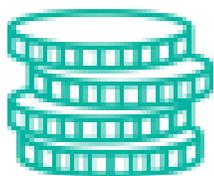


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Quality of financial and performance reporting

First focus area: credible financial reporting

Financial statements



Submission of financial statements by legislated date **(NDT and SAT)**

Financial statements submitted without errors **(NDT)**

Quality of final submission after audit **(SAT)**

Movement



2020-21

2019-20

100% (2)

100% (2)

50% (1)

50% (1)

50% (1)

100% (2)

Root cause analysis

The **SAT's** qualification is due to our inability to test expenditure and receivables from non-exchange transactions as **preventative controls** relating to expenditure were **lacking**.

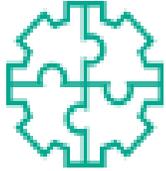
The **SAT** management did not implement a **system to record** the transactions that they incurred but were paid by a third party. As a result, transactions incurred by the SAT but paid by third parties were not appropriately recorded, in accordance with the financial reporting framework.

Recommendations

- The accounting authority should develop and implement action plans in time to address audit findings.
- Implement internal controls relating to expenditure and ensure that expenses are recorded when incurred.

Second focus area: credible performance reporting

Performance report



Performance report submitted without errors **(NDT)**

Quality of final submission after audit **(NDT)**

Usefulness of performance indicators and targets **(NDT)**

Movement



2020-21

2019-20

0% (0)	50% (1)
50% (1)	50% (1)
50% (1)	0% (0)

Root cause analysis

- The regression in the quality of performance reporting was as a result of **inadequate reviews** of the annual performance plan and annual performance report by management.

Recommendations

- Management should enhance the **review processes** on the annual performance report and annual performance plan to ensure consistency between the planned and reported performance information, and that performance indicators are specific.
- Management should develop an **action plan** to address findings raised and internal audit should monitor the action plan developed by management.
- Effective **monitoring** and oversight by the audit committee is critical.



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Compliance with legislation

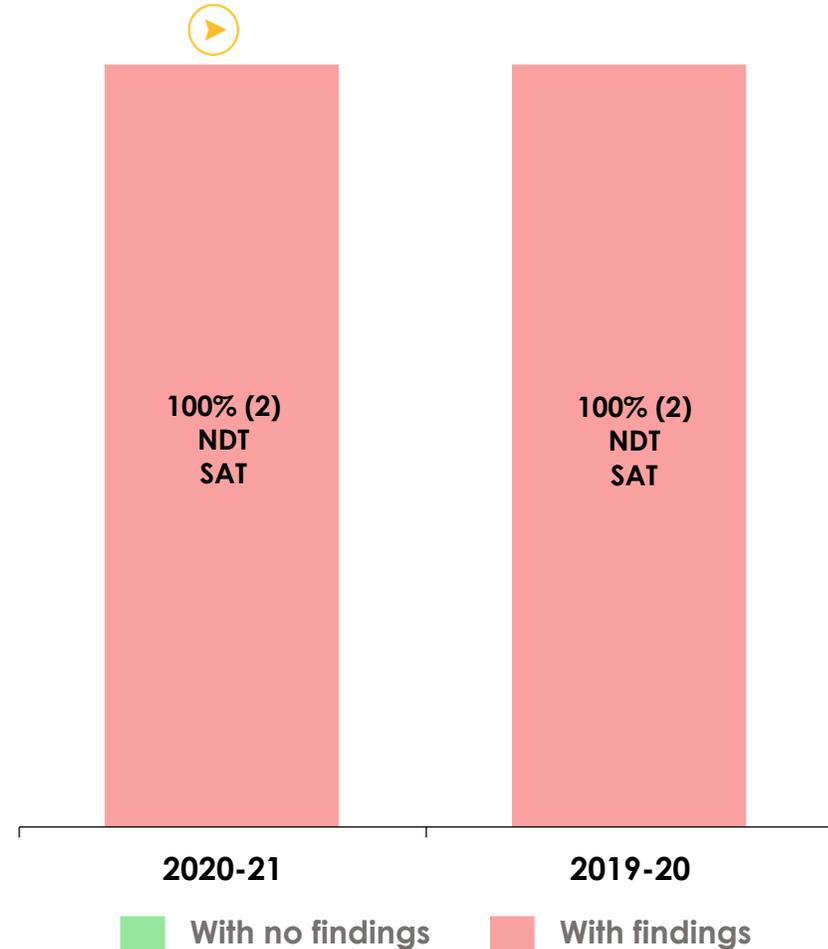
Third focus area: compliance with legislation

In the current year there has been a **stagnation** in the compliance with legislation when compared to the previous year.

Some instances of non-compliance identified are similar to those reported in the previous year. Auditees in the portfolio did not implement **effective action plans** to address significant internal control deficiencies relating compliance with legislation.

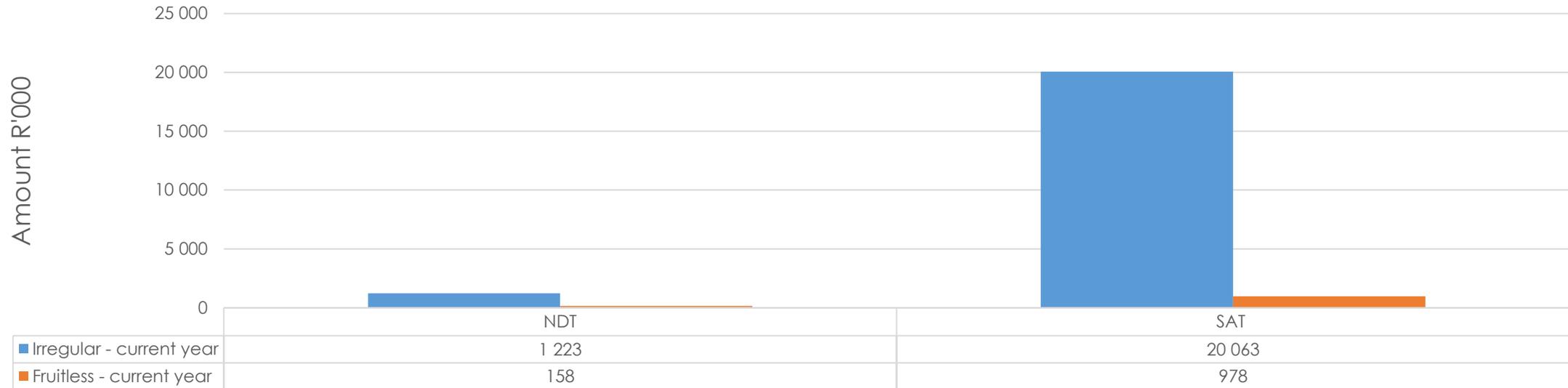
We will further unpack the challenges of compliance in two sections, i.e. **expenditure management (Irregular and fruitless and wasteful expenditure)** and **procurement and contract management**

Findings on compliance with key legislation



Irregular, fruitless and wasteful expenditure

Irregular, fruitless and wasteful expenditure 2020-21



Nature of irregular, fruitless and wasteful expenditure

Irregular expenditure

- Total irregular expenditure identified – R21,29 million.
- R20,06 million (94% of total) was incurred by the SAT mainly because procurement processes were not followed for expenditure incurred by the SAT but paid by a third party.

Fruitless and wasteful expenditure

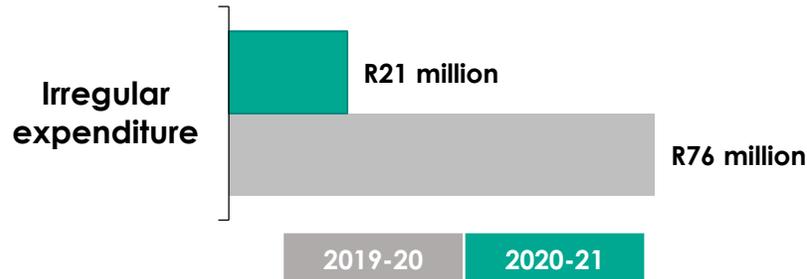
- Total fruitless and wasteful expenditure identified – R1,14 million.
- R977 750 (86% of total) was incurred by the SAT, mainly relating to covid support expenditure.

Irregular expenditure over 2 years

Definition

Expenditure incurred in contravention of key legislation; goods may have been delivered but prescribed processes not followed

Irregular expenditure incurred by entities in portfolio



- R21,29 million – Relates to non-compliance identified in 2020-21. R18,12 million is expenditure relating to prior year non-compliance identified in the current year.
- R76,50 million represents non-compliance identified and reported in the prior year
- Irregular has been reduced by 72% when compared to the prior year.

Nature of irregular expenditure

Irregular expenditure

2020-21: NDT – bids were not awarded to the bidder who scored the highest points (R1,06 million) and local content (R164 thousand).

SAT – R20,06 million irregular expenditure comprises a lease variation in the Netherlands (R1,77 million), covid support (R1,48 million) and marketing expenditure paid for by third parties (R16,82 million).

2019-20: SAT – contracts were extended or modified without the approval of the National Treasury (R49,96 million).

SAT – no procurement process for goods and services of R18,12 million paid by third parties.

NDT – the preference point system was not applied to some procurement of goods and services. This non-compliance was identified in the procurement processes by implementing agents on behalf of the NDT (R8,37 million).

Previous year irregular expenditure reported for investigation



Fruitless and wasteful expenditure over 2 years

Definition

Expenditure incurred in vain and that could have been avoided if reasonable steps had been taken – **no value for money!**

Fruitless and wasteful expenditure incurred by entities in portfolio



- R1,14 million – non-compliance in 2020-21 financial year
- R14 thousand – non-compliance in 2019-20 financial year

Nature of fruitless and wasteful expenditure

Fruitless and wasteful expenditure

2020-21:

NDT – R158 thousand was incurred for no shows for shuttles and accommodation as a result of flight amendments, which was subsequently recovered.

SAT – R977,75 thousand fruitless and wasteful expenditure relates to covid support expenditure incurred during the financial year.

2019-20:

NDT – R14 thousand was for flights amendments and no shows at the NDT, which was subsequently recovered in the same year.

Previous year fruitless and wasteful expenditure reported for investigation



Consequence management



Consequence management

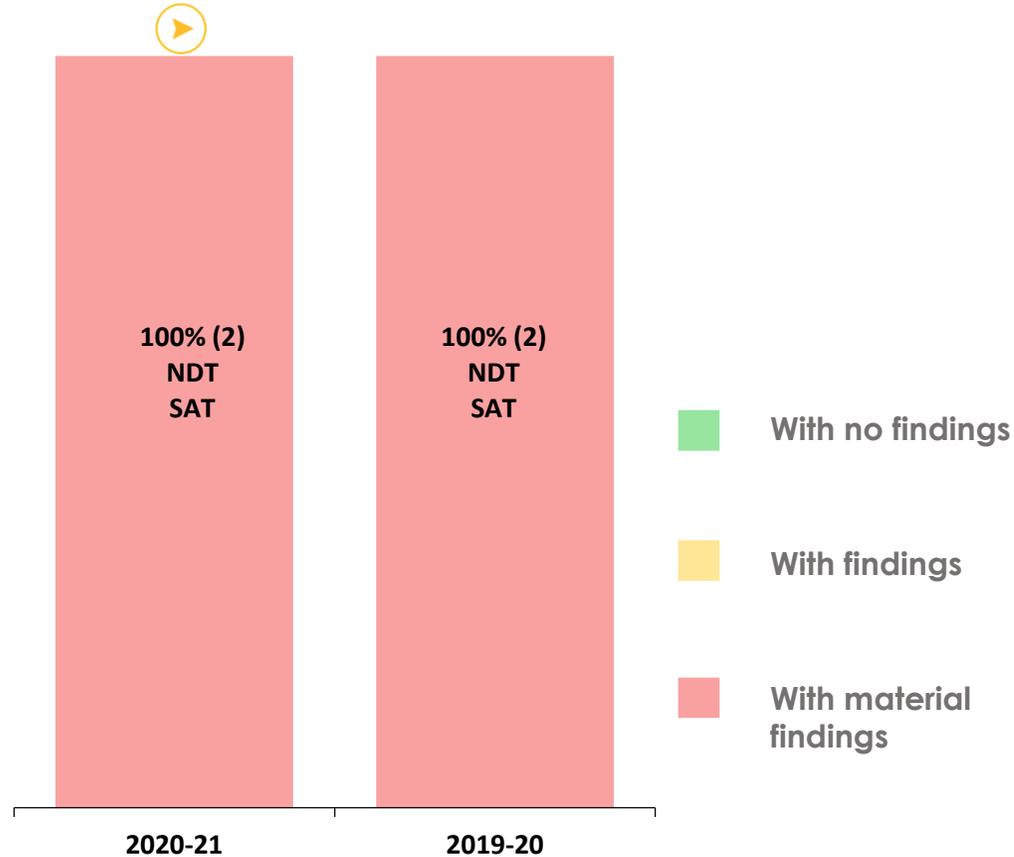
Overall, the portfolio has effective consequence management processes in place to investigate and follow up on irregular expenditure and the recovery of fruitless and wasteful expenditure identified in the previous year.

Recommendations

- While auditees in the portfolio were able to investigate and follow up on instances of irregular and fruitless and wasteful expenditure from the previous year, the department's accounting officer and the entity's accounting authority should ensure that instances identified in the 2020-21 financial year are investigated and consequence management implemented based on the outcome of the investigation.

Supply chain management

Overall stagnation in SCM compliance All SCM findings should be investigated



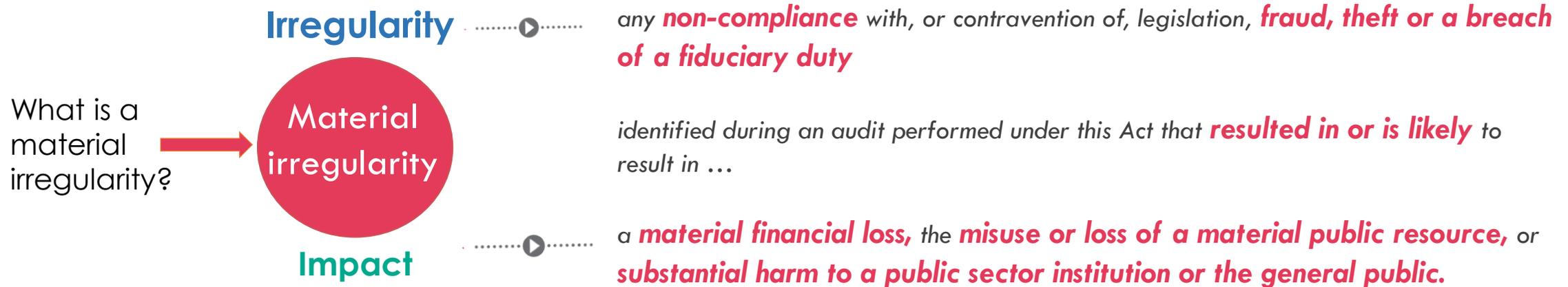
Most common findings on supply chain management

- **SAT** incurred irregular expenditure for not following **competitive bidding processes**.
- **SAT** received goods and services from suppliers which was found to be aligned to the mandate of the entity. However we could not determine whether the goods and services were **cost effective** as the entity did not solicit bids from the market. This relates to the procurement done through the third party.
- **NDT** did not stipulate the minimum threshold for **local content** and production in bidding documents made available to bidders, similar to the previous year.
- **NDT** management did not ensure that effective and appropriate steps were taken to **prevent irregular expenditure** for the current year and the prior period.

Recommendations

- Management should implement adequate controls to adhere to laws and regulations.
- Management must evaluate whether the goods and services received were at market value.
- The accounting authority should also investigate the awards and take action where necessary.
- The department needs to on ensuring that action plans are implemented in time to address the previous year's audit findings relating to local content.
- Preventative controls should be strengthened to ensure no irregular expenditure is incurred.

At the center of the PAA amendments – material irregularity



To allow for establishing capacity and processes, we will follow a **phased-in approach** for identifying MIs in 2020-21 based on:

1. the type of material irregularity to be identified and reported
2. the auditees where it will be implemented

Type of material irregularity

Selection criteria

Any non-compliance in line with the definition stated above.

The MI process is implemented at selected auditees audited by the AGSA that represent **a significant portion of the expenditure budget and the irregular expenditure** of national, provincial and local government, including state-owned entities. The selection is also focused on auditees that are key contributors to **government priorities**. **For 2021, no auditee was selected for MI implementation in the tourism portfolio.**



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Portfolio snapshot

Portfolio snapshot 2020-21

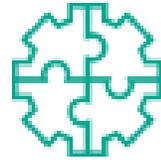


Clean audits: 0
(2019-20: 0)

type of material
irregularity



**Financially unqualified
financial statements: 1**
(2019-20: 2)



**No findings on performance
reports: 1**
(2019-20: 1)



**No findings on compliance
with legislation: 0**
(2019-20: 0)



Irregular expenditure: R21 million
(2019-20: R76,5m)

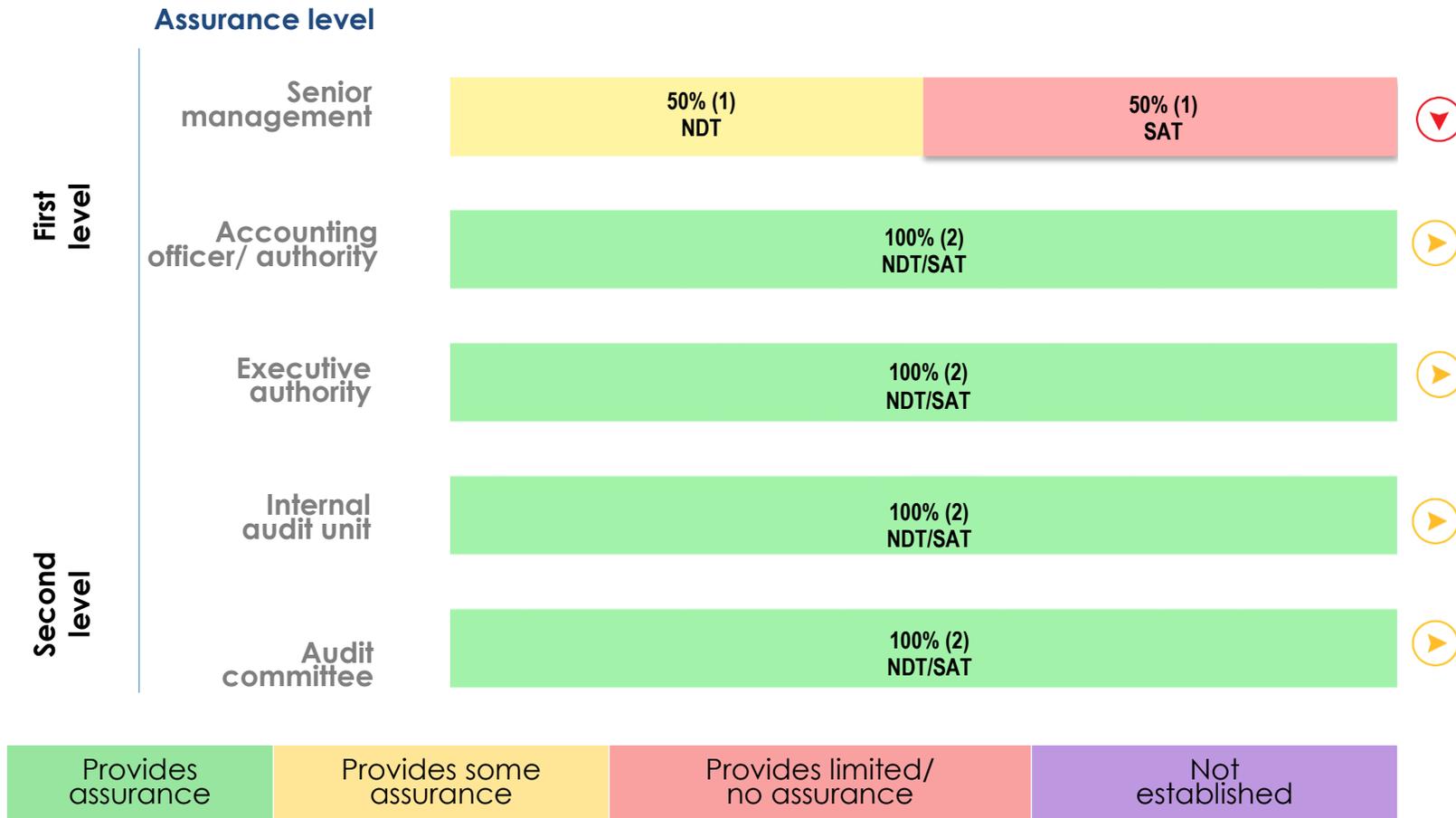


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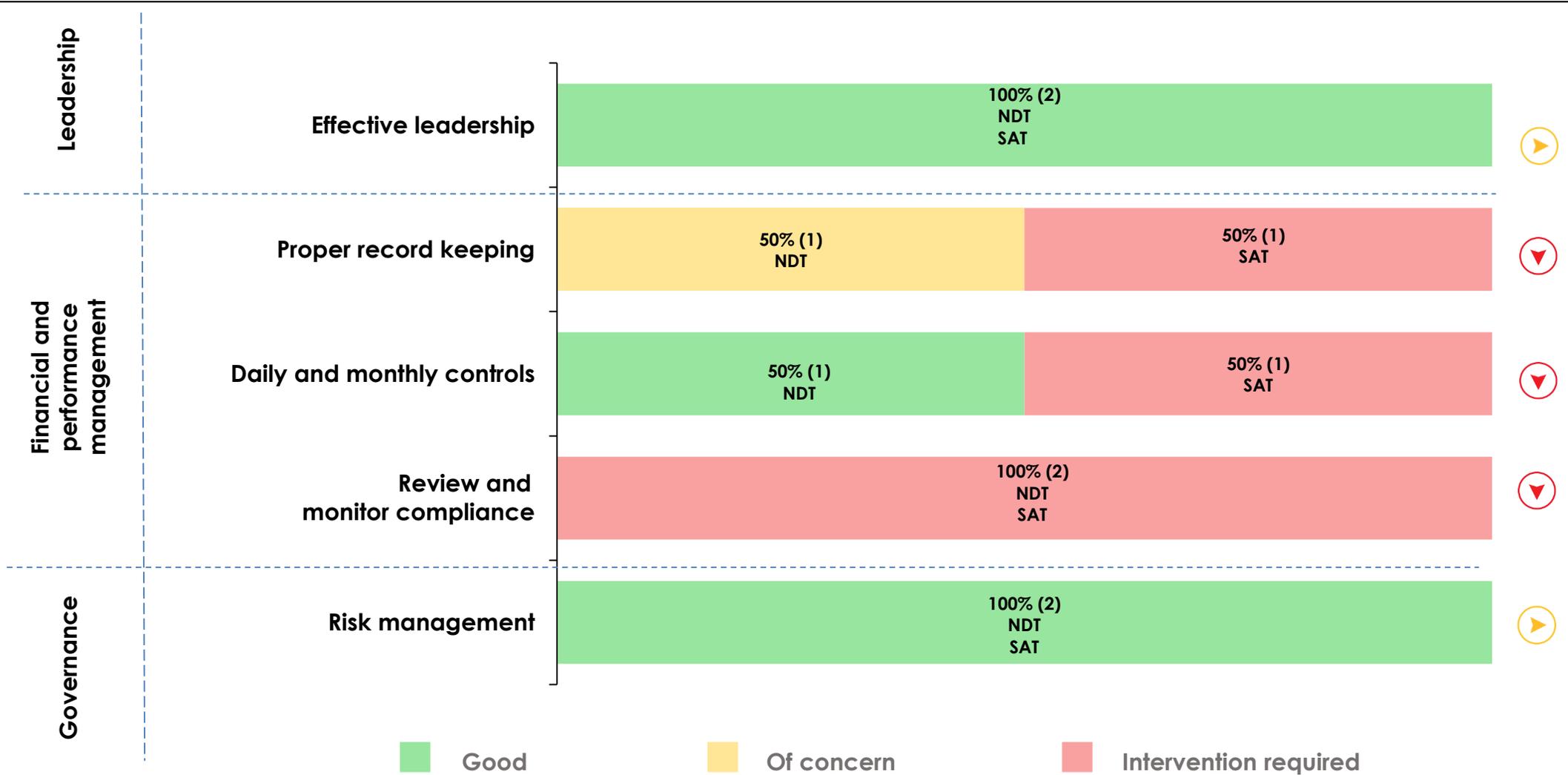
Governance and internal controls



Assurance provided



Status of internal control



Summary of 3 key root causes



Management did not put in place adequate controls to prevent non-compliance with procurement legislation



Management did not implement adequate review and monitoring controls over preparation of financial statements



Management was not effective in developing and monitoring implementation of action plans



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Progress on the special report



Progress on the special report : Tourism Relief Fund

Findings identified and conclusion

Follow up in the current year

As part of the 2020-21 audit, we followed up on the recommendations relating to findings reported in the second special report. We noted that management did not have an action plan in place to address the identified findings.

1. Amendment of qualifying criteria

- Steps were not taken to determine the full extent of the flagged matters.

2. Beneficiaries did not meet set criteria

- Steps were not taken to determine the full extent of the flagged matters.

3. Beneficiaries were incorrectly approved and paid

- The only action the accounting officer had taken was to hand over the duplicate payment of R50 000 to the state attorney for recovery from the beneficiary. Steps were not taken to determine the full extent of the flagged matters.

Preventative controls and recommendations

In the second special report, we recommended that the accounting officer:

- Investigate whether evaluation criteria and processes were applied consistently and determine whether instances of preferential treatment of applicants occurred. Where such instances are identified, the necessary steps should be taken to recover the funding.
- Recover the payments made to beneficiaries who did not meet the criteria.
- Re-evaluate the entire population rather than a selected sample, determine the full extent of the non-adherence, and take appropriate action based on the outcome of the investigation.
- Investigate the above instances and take appropriate action.
- Improve the control environment to detect whether persons in the service of the state are related to applicants or have an interest in businesses that claimed from the fund, and recover the overpayment to a beneficiary.

Progress on the Relief Fund for Tourist Guides and Tourism Equity Fund

NDT also implemented the Relief Fund for Tourist Guides which was opened to those individuals who were registered as tour guides and were not registered with the Unemployment Insurance Fund (UIF) up to and including December 2019. Due to the urgency of the matter, there was no additional criteria implemented and no application process was followed. Listed below are the findings identified and recommendations to the department.

Findings identified and conclusion

- Beneficiaries who are employed by municipalities, municipal entities, departments and public entities
- Beneficiaries who were deceased
- Duplicate payments
- Beneficiaries who received Sassa grant
- Beneficiaries who received the tourism relief fund
- Beneficiaries with invalid ID or no ID numbers
- Beneficiaries who received UIF payments

Recommendations

- The department should leverage from lessons learned from the tourism relief fund proactive audit.
- Management should investigate the exceptions and should implement a process to recover funds paid to non-qualifying beneficiaries.
- The department should recognise the receivable for the payments to beneficiaries who did not meet the set criteria.

The department also established the Tourism Equity Fund (TEF) during the 2020-21 financial year. We are obtaining an understanding of the TEF which is implemented by the Small Enterprise Finance Agency (SEFA) on behalf of the department. This is an important initiative and, as part of the 2021-22 audit, we will engage with the accounting officer to ensure that preventative controls are in place to mitigate against the risk of misappropriation of these funds.



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Recommendations

Recommendations for entities within the tourism portfolio



Develop and implement effective action plans to address audit findings at the **NDT** and **SAT**



Implement internal controls relating to expenditure at the **SAT** and ensure that expenses are recorded when incurred



Monitor performance and consequence management in relation to the reported findings on expenditure management as well as procurement and contract management at the **NDT** and **SAT**



The accounting officer should conduct follow ups with regard to payments made to beneficiaries who did not qualify for tourist guide funds and recovery procedures implemented (**NDT**)

Recommendations to the portfolio committee

Monitor and regularly follow up with the executive authority and accounting officer/authority on:

- progress on audit action plans put in place by the department and entity
- follow up on irregular, fruitless and wasteful expenditure incurred to ensure there is consequence management
- progress on the investigation and where applicable, recovery of relief funds and their impact on the objective of relief efforts by government.

The **culture** of **consequence management** should be enforced in the portfolio.

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