

BUDGETARY REVIEW AND  
RECOMMENDATIONS REPORT | PFMA  
2018-19

Briefing to Portfolio Committee on Arts and Culture



AUDITOR-GENERAL  
SOUTH AFRICA

## Reputation promise

The Auditor-General of South Africa (AGSA) has a constitutional mandate and, as the supreme audit institution (SAI) of South Africa, exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.



## Role of the AGSA in the reporting process

Our role as the AGSA is to reflect on the audit work performed to assist the portfolio committee in its oversight role of assessing the performance of the entities taking into consideration the objective of the committee to produce a *Budgetary Review and Recommendations Report (BRRR)*.



# The 2018-19 audit outcomes



# Our annual audit examines three areas

THE AG'S  
ANNUAL  
AUDITS  
EXAMINE

3

AREAS:



**1** FAIR PRESENTATION AND  
ABSENCE OF SIGNIFICANT  
MISSTATEMENTS IN  
FINANCIAL STATEMENTS

**2** RELIABLE AND CREDIBLE  
PERFORMANCE  
INFORMATION FOR  
PREDETERMINED OBJECTIVES

**3** COMPLIANCE WITH ALL  
LAWS AND REGULATIONS  
GOVERNING FINANCIAL  
MATTERS

# The AGSA expresses the following different audit opinions

## Unqualified opinion with no findings (clean audit)



Auditee:

- 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

## Financially unqualified opinion with findings



Auditee produced financial statements without material misstatements or could correct the material misstatements, but struggled in one or more area to:

- 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

## Qualified opinion



Auditee:

- 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.

## Adverse opinion



Auditee:

- 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

## Disclaimed opinion



Auditee:

- 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






# Important to note

The percentages in this presentation are calculated based on the **completed audits of 26 auditees**, unless indicated otherwise.

## Audit outcomes are indicated as follows:

 Unqualified with no findings	 Unqualified with findings	 Qualified with findings	 Adverse with findings	 Disclaimed with findings	 Outstanding audits
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## Movement over the previous year is depicted as follows:

 Improved	 Unchanged	 Regressed
Movement of 5% or less:		
 Slightly improved	 Slightly regressed	

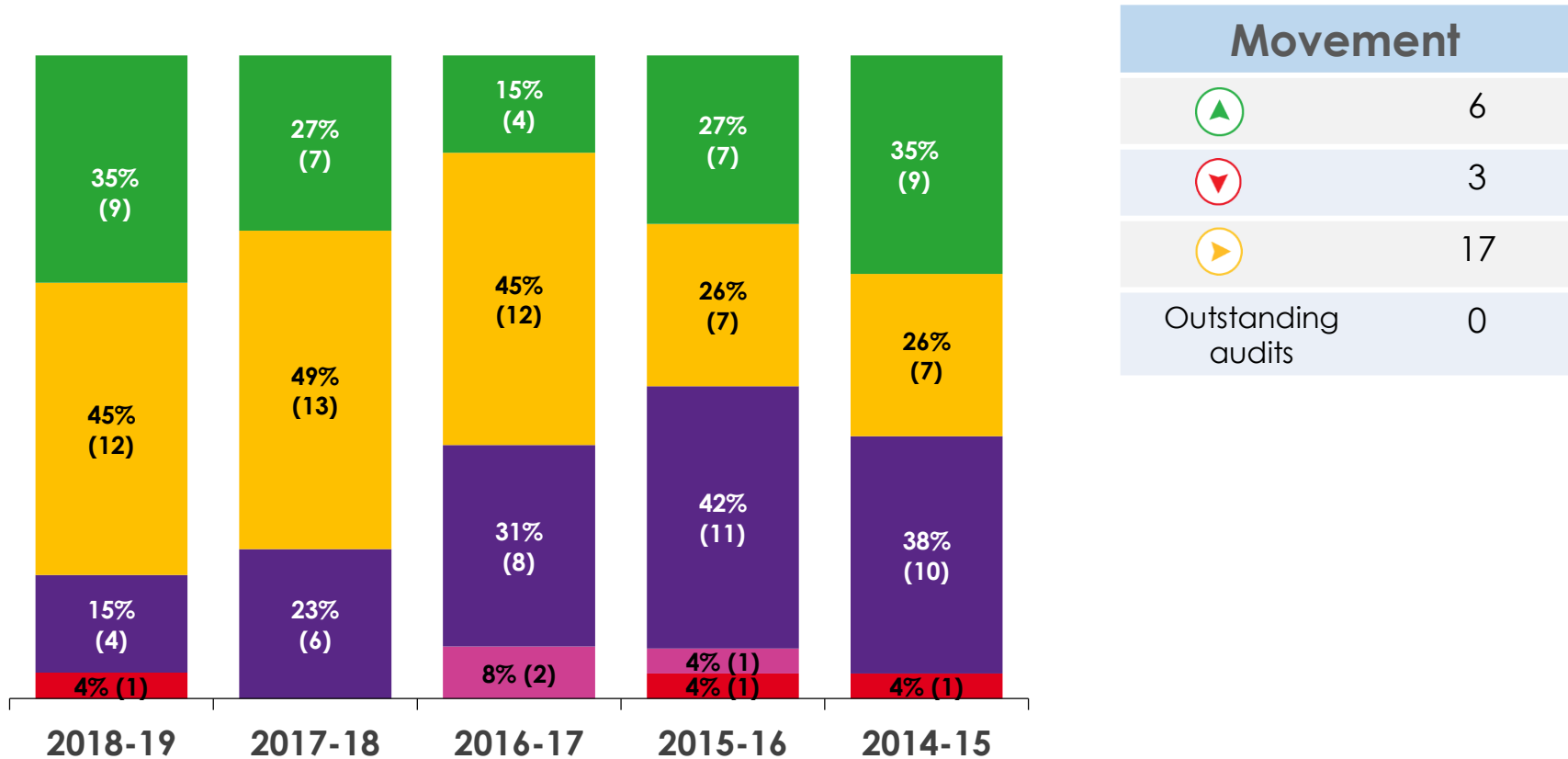


# ACCOUNTABILITY = PLAN + DO + CHECK + ACT





# Audit outcomes of portfolio over five years









- Increase in the number of auditees obtaining clean audit 9 (7: 2017/18), we commend National arts council for achieving a clean audit for three years in a row.
- concerns that Artscape regressed from a clean audit in the prior financial year audit to a qualified opinion.
- Concern still remain for the 4 audits that received qualified audit opinion in areas of **Property plant and equipment ,revenue ,expenditure and heritage assets**, this was due to slow response in implementing recommendation given by us and other assurance providers.
- **Material concern in Pacofs who regressed in 2018/19 from qualified opinion to disclaimed audit opinion.**



# Audit outcomes of portfolio per auditee

2017-18 audit outcomes			
Auditee	Audit opinion	Predetermined objectives	Compliance with legislation
Arts and Culture	Unqualified with findings	Material findings reported	Material findings reported
Ditsong: Museums of South Africa	Unqualified with findings	Material findings reported	Material findings reported
Freedom Park Trust	Unqualified with findings	No material findings reported	Material findings reported
Iziko Museums of Cape Town	Unqualified with findings	No material findings reported	Material findings reported
National Library of South Africa	Qualified with findings	No material findings reported	Material findings reported
Pan South African Language Board	Unqualified with findings	Material findings reported	Material findings reported
Robben Island Museum, Cape Town	Unqualified with findings	Material findings reported	Material findings reported
South Africa Heritage Resources Agency	Unqualified with no findings	No material findings reported	No material findings reported
Artscape	Qualified with findings	No material findings reported	Material findings reported
Die Afrikaanse Taalmuseum	Unqualified with findings	No material findings reported	Material findings reported
KwaZulu-Natal Museum	Unqualified with no findings	No material findings reported	No material findings reported
Luthuli Museum	Qualified with findings	No material findings reported	Material findings reported
Market Theatre Foundation	Unqualified with findings	No material findings reported	Material findings reported
Msunduzi/Voortrekker Museum	Unqualified with findings	No material findings reported	Material findings reported
National Arts Council of South Africa	Unqualified with no findings	No material findings reported	No material findings reported
National Film and Video Foundation	Unqualified with no findings	No material findings reported	No material findings reported
National Heritage Council of South Africa	Unqualified with no findings	No material findings reported	No material findings reported
National Museum	Unqualified with findings	No material findings reported	Material findings reported
Nelson Mandela National Museum	Unqualified with no findings	No material findings reported	No material findings reported
Performing Arts Centre of the Free State	Disclaimed with findings	Material findings reported	Material findings reported
South Africa Library for the Blind	Unqualified with no findings	No material findings reported	No material findings reported
The South African State Theatre	Unqualified with findings	No material findings reported	Material findings reported
National English Literary Museum	Qualified with findings	No material findings reported	Material findings reported
The Playhouse Company	Unqualified with no findings	No material findings reported	No material findings reported
War Museum of the Boer Republics	Unqualified with no findings	No material findings reported	No material findings reported
William Humphreys Art Gallery	Unqualified with findings	No material findings reported	Material findings reported

## Legends:

-  Unqualified with no findings
-  Unqualified with findings
-  Qualified with findings
-  Disclaimed with findings
-  Material findings reported
-  No material findings reported

# Movement table (2018-19 over 2017-18)

Audit outcome	MOVEMENT				
	6 Improved	17 Unchanged	3 Regressed	0 New auditee	0 Outstanding audits
Unqualified with no findings = 9	<ol style="list-style-type: none"> <li>Nelson Mandela museum</li> <li>SA Library of the blind</li> <li>NFVF</li> </ol>	<ol style="list-style-type: none"> <li>National Arts Council</li> <li>War Museum</li> <li>SAHRA</li> <li>KZN museum</li> <li>Playhouse</li> <li>National Heritage Counsel</li> </ol>			
Unqualified with findings = 12	<ol style="list-style-type: none"> <li>Ditsong Museum</li> <li>PANSALB</li> <li>Freedom park</li> </ol>	<ol style="list-style-type: none"> <li>DAC</li> <li>Iziko Museum of SA</li> <li>Afrikaans language Museum</li> <li>William Humphrey</li> <li>Market theatre</li> <li>National Museum</li> <li>Msunduzi museum</li> <li>SA State Theatre</li> <li>Robben Island</li> </ol>			
Qualified with findings = 4		<ol style="list-style-type: none"> <li>National English Literary Museum</li> <li>National Library</li> </ol>	<ol style="list-style-type: none"> <li>Artscape</li> <li>Luthuli Museum</li> </ol>		
Adverse with findings = 0					
Disclaimed with findings = 1			<ol style="list-style-type: none"> <li>PACOFS</li> </ol>		

Colour of the number indicates the audit opinion from which the auditee has moved.



# Credible financial reporting



## Financial statements

Submission of financial statements by legislated date (all auditees)

AFS submitted without errors

Quality of final submission after audit

### Movement



### 2018-19

### 2017-18

92%

100%

46%

42%

80%

77%

**35%** achieved unqualified opinions only because they corrected all material misstatements identified during the audit

## Top four qualification areas

- Heritage assets (**National Library and Luthuli Museum**)
- Property, infrastructure, plant and equipment (**Artscape and PAFOFS**)
- Expenditure (**Artscape and PACOFS**)
- Irregular expenditure (**National English Literary**)
- Leave accrual, receivables, payables other disclosures (**PACOFS**)





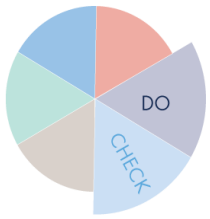
# Credible performance reporting



## Performance report

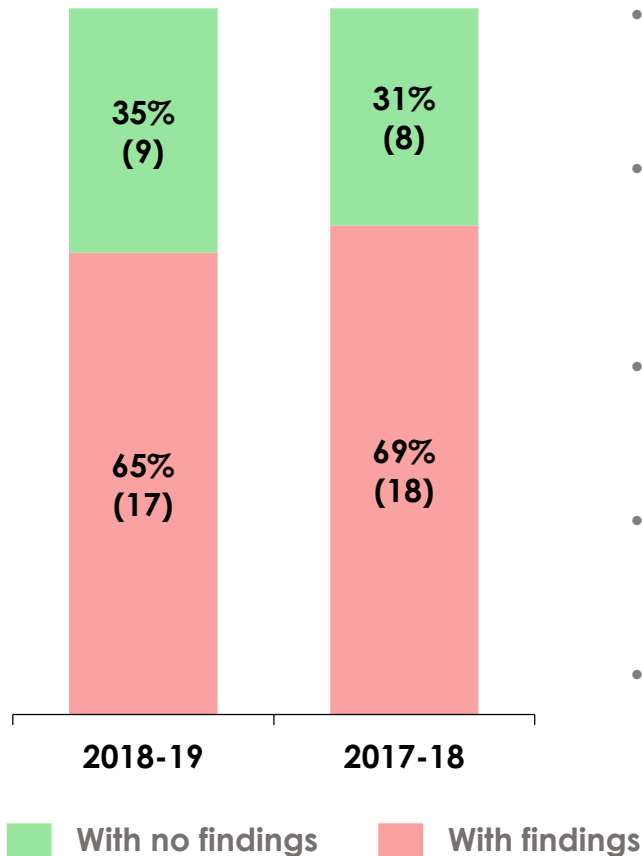
	Movement	2018-19	2017-18
APR submitted without errors	▲	46%	23%
Quality of final submission after audit	▲	77%	69%
<p><b>38 % had no material findings only because they corrected all material misstatements identified during the audit</b></p>			
Reliable reporting of achievements	▲	85%	73%
Usefulness of performance indicators and targets	▲	85%	81%





# Disregard for compliance with legislation

## Findings on compliance with key legislation



## Top five non-compliance areas

- Quality of submitted financial statements 13
- Irregular, Unauthorised and fruitless and wasteful expenditure 11
- Procurements and contract management 10
- Consequence management 7
- Expenditure management 4



# Status of internal control



Leadership

Effective leadership



Financial and performance management

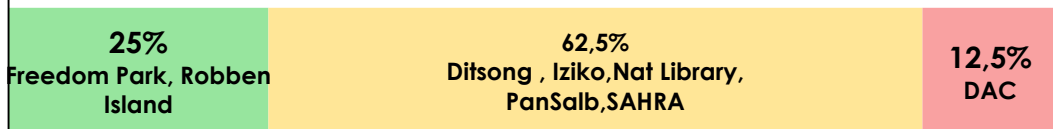
Proper record keeping



Daily and monthly controls

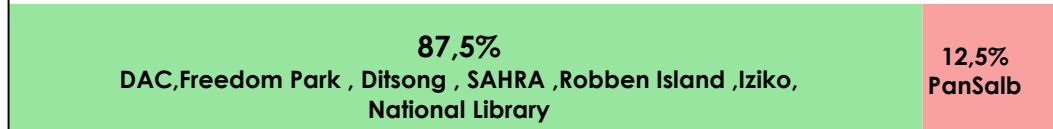


Review and monitor compliance



Governance

Risk management



**Assessment above is based on 8 auditees , not classified as small auditees ,per AGSA's methodology**

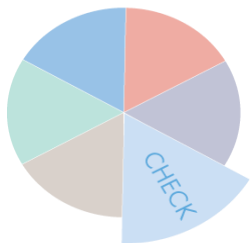
(Department of Arts and Culture , Pan South African Language Board ,Iziko Museums , Ditsong Museum , South African Heritage Resource Agency ,Freedom park ,Robben island Museum ,National Library of South Africa)

Good

Of concern

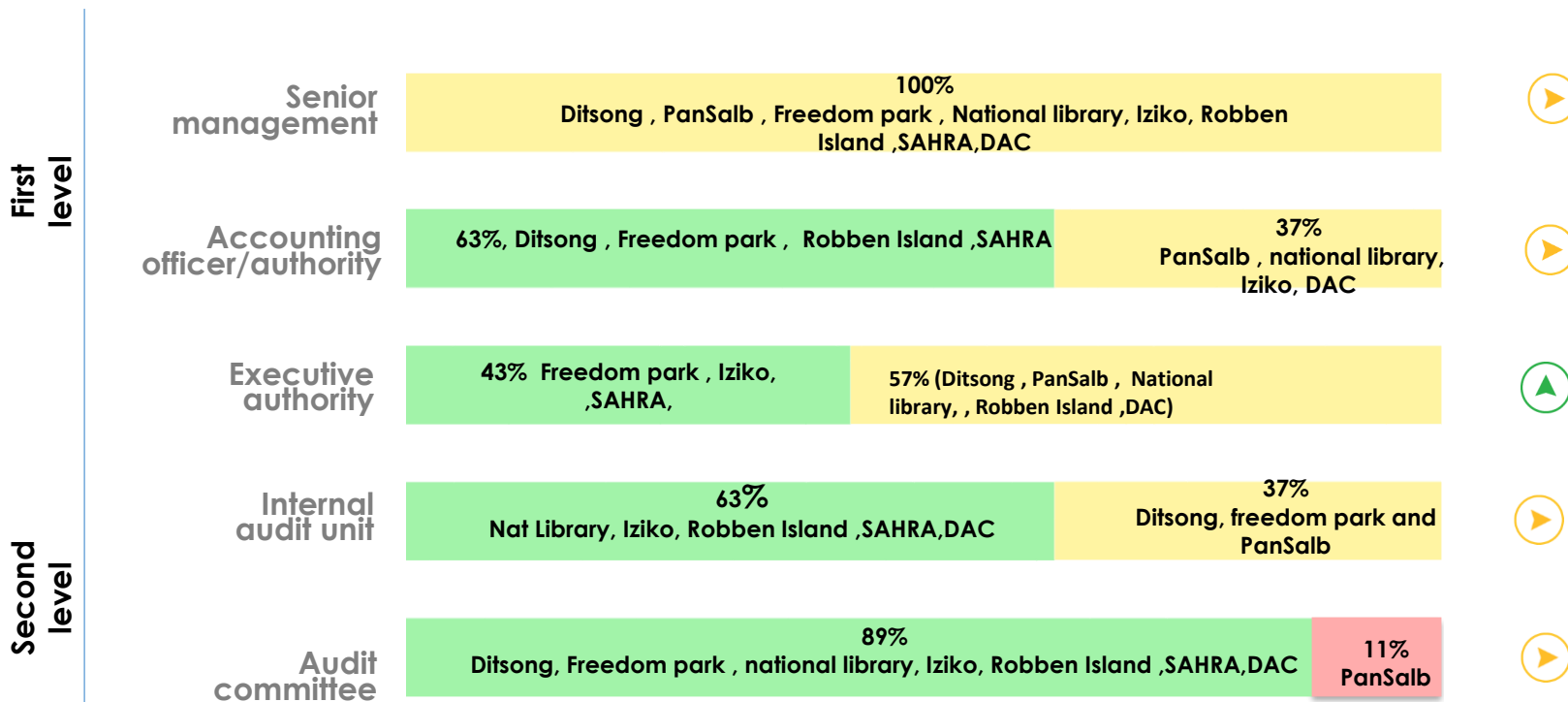
Intervention required

15



# Assurance provided

## Assurance



**Assessment above is based on 8 auditees , not classified as small auditees ,per AGSA's methodology**  
 ( Department of Arts and Culture , Pan South African Language Board ,Iziko Museums , Ditsong Museum ,South African Heritage Resource Agency ,Freedom park ,Robben island Museum ,National Library of South Africa





# Financial management

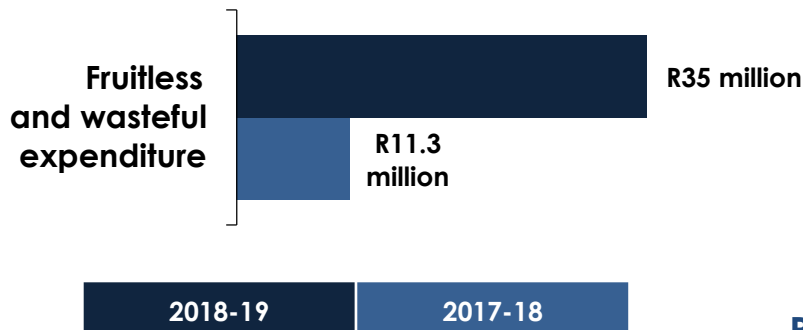


# Fruitless and wasteful expenditure decrease over 2 years

## Definition

*Expenditure incurred in vain and could have been avoided if reasonable steps had been taken. No value for money!*

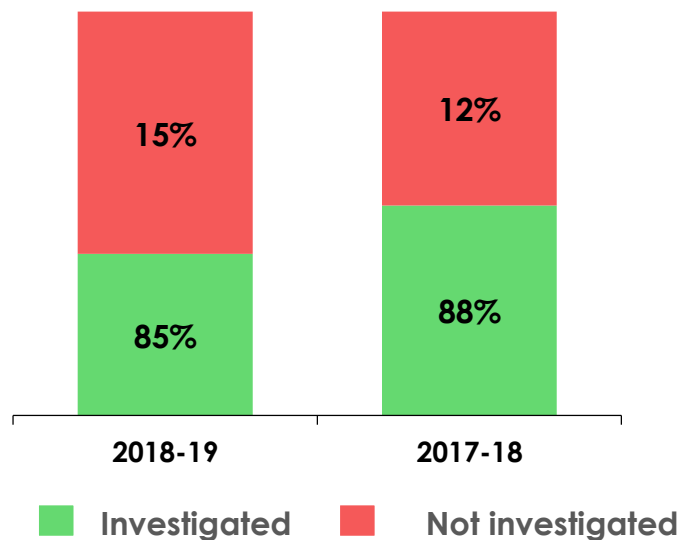
## Fruitless and wasteful expenditure incurred by entities in portfolio



## Nature of the fruitless and wasteful expenditure

- 79% (R8.8 million) of the disclosed fruitless and wasteful expenditure for the current year was caused by interest and fines due to the non payment of creditors incurred by The Department of Arts and Culture.

## Previous year fruitless and wasteful expenditure reported for investigation

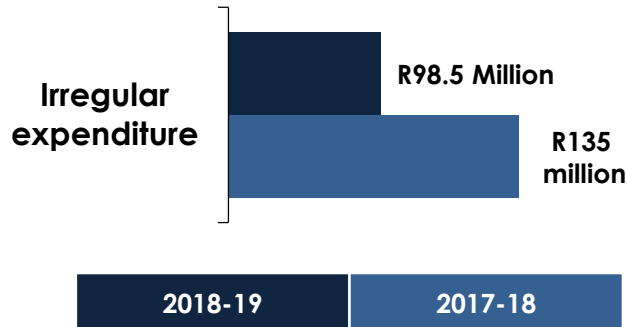


# Irregular expenditure decrease over 2 years

## Definition

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

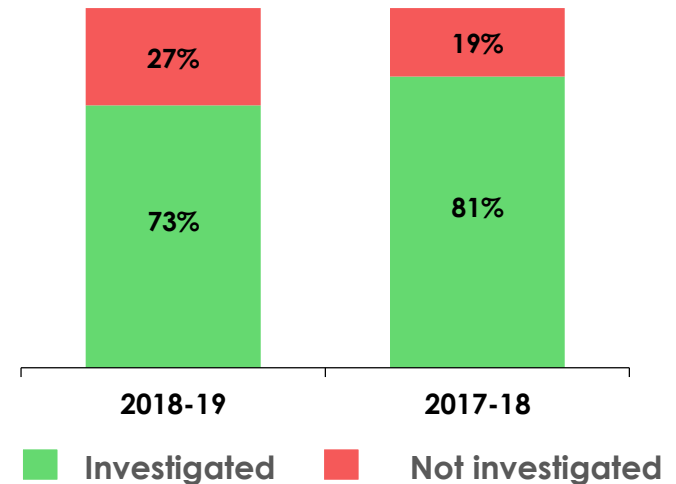
## Irregular expenditure incurred by entities in portfolio



### Did not investigate reported irregular (27%)

- DAC
- Freedom Park
- National Muesum
- PanSALB
- State Theatre
- Pacofs
- National Literary Muesum

### Previous year irregular expenditure reported for investigation



## Nature of irregular expenditure

### Top 5 auditee with irregular expenditure

- DAC (R17,5 million) (18%)
- Ditsong (R12,5 million) (13%)
- PanSALB (R17,9 million) (18%)
- Luthuli Museum (R9,7 million) (10%)
- Artscape (R28,7 million) (29%)



# Supply chain management

## Regression in SCM compliance (2018-19: 69% with no findings)

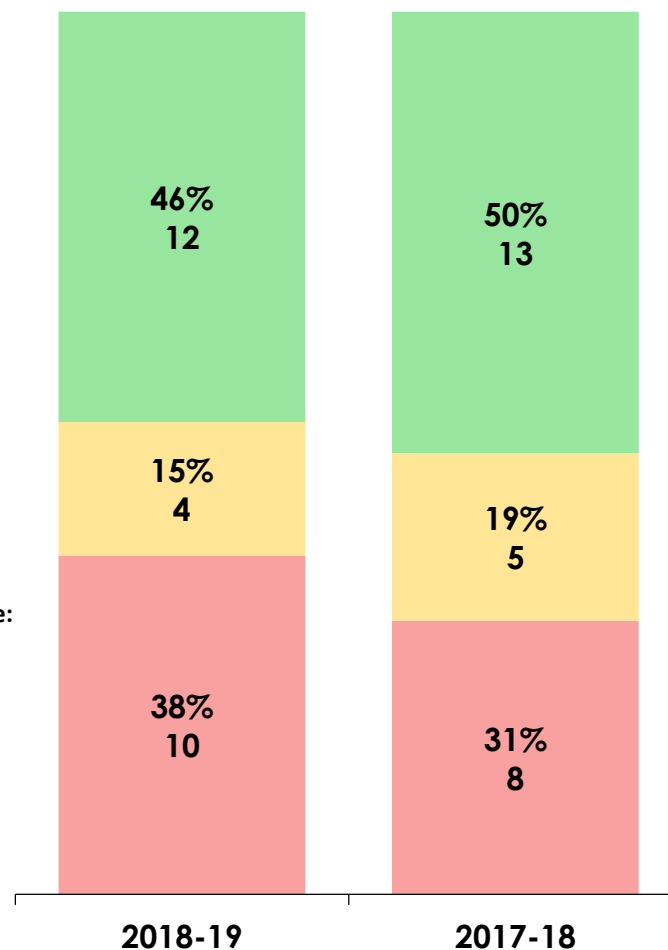
All SCM findings should be investigated

### Most common findings on supply chain management

- **Local content requirements** not met at **25% of auditees**
- **Uncompetitive and unfair procurement process** to bidders at **75% of auditees**
- **Awards to employees amounting to R 3 793 066,00. and awards to close family members amounting to R 3 244 022.**
- **Inadequate contract management** at **25% of auditees**

#### 10 Auditees with material non-compliance:

DAC  
Ditsong  
Freedom Park  
Robben Island  
National Literary Museum  
Artscape  
Die Afrikaans taalmuseum  
Luthuli Museum  
Msunduzi Museum  
Pacofs



With no findings



With findings



With material findings 20

# Key expansion of our mandate



**Refer material irregularities** to relevant public bodies for further investigations



**Take binding remedial action** for failure to implement the AG's recommendations for material irregularities



**Issue a certificate of debt** for failure to implement the remedial action if financial loss was involved

# What is a material irregularity?

## Irregularity



any **non-compliance** with, or contravention of, legislation, **fraud, theft or a breach of a fiduciary duty**

Material  
irregularity

identified during an audit performed under this Act that **resulted in or is likely** to result in ...

## Impact



a **material financial loss, the misuse or loss of a material public resource or substantial harm to a public sector institution or the general public.**



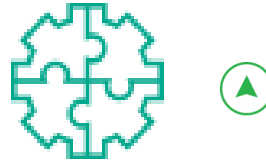
# Portfolio snapshot (2018-19)



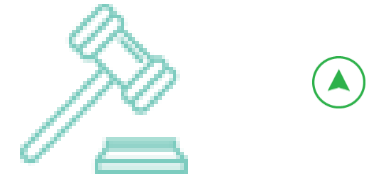
**Clean audits: 35%**  
(2017-18: 27%)



**Financially unqualified financial statements: 80%**  
(2017-18: 77%)



**No findings on performance reports: 77%**  
(2017-18: 69%)

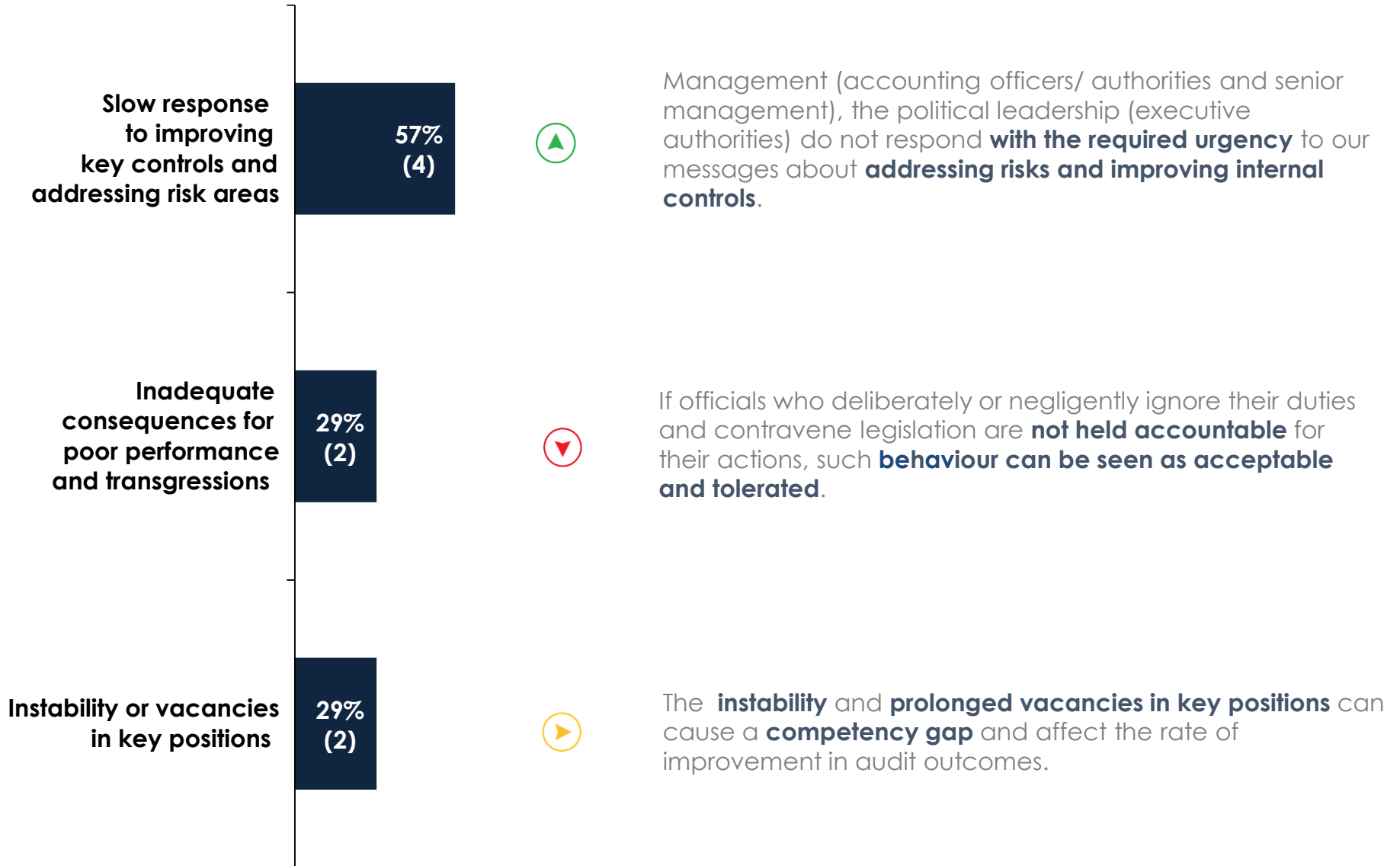


**No findings on compliance with legislation: 35%**  
(2017-18: 31%)



**Irregular expenditure: R98.5 M**  
(2017-18: R135m)

# Root causes





# Recommendations

## To department and its entities

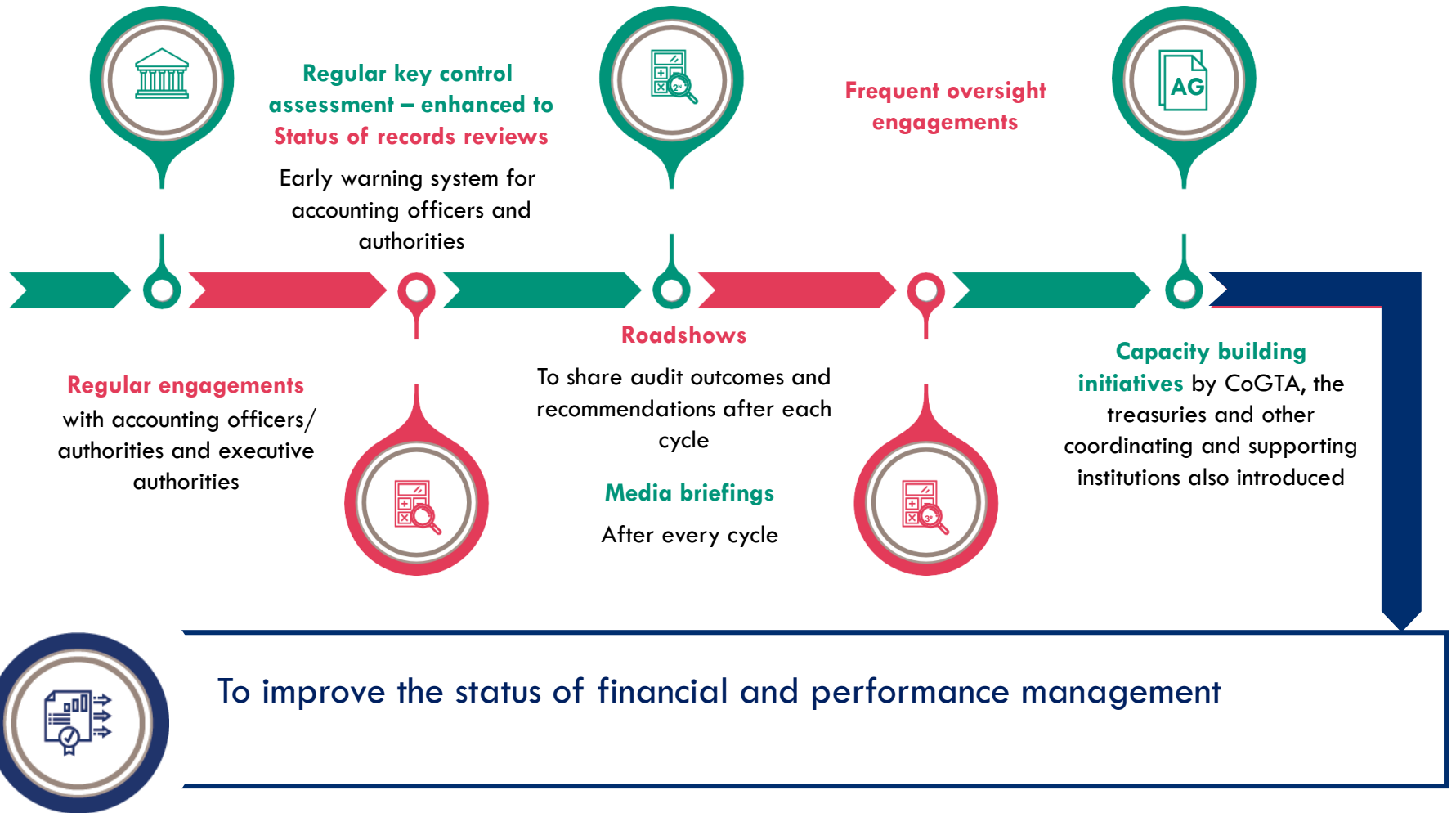
- The department and its entities should develop an effective action plan. The action plan should cover the financial statements, compliance with legislation and performance reporting. These action plans should be adequately monitored and consequence management should be implemented. These action plans should also form part of the performance contracts of key officials. In addition, a task team within the department should monitor the implementation of each entity's action plan.
- Key vacancies should be prioritised and filled with competent officials.
- Consequence management should be prioritised and implemented as and when transgressions and/or poor performance is identified and addressed effectively and timeously.
- The department and its entities should review and re-design and improve systems and controls to ensure quality of the financial statements, compliance with legislation and quality performance reporting.

## To the portfolio committee

- Request regular feedback on action plans and implementation thereof. Effective monitoring by the portfolio committee should ensure that officials are held accountable, emphasis on the 5 auditee who were qualified in the current year.
- Monitoring of appointments for key vacancies and stability within the governance structures of the portfolio.
- Request the department to report and account on the monitoring and evaluation of the 25 entities reporting to it.
- Monitor and request feedback from the department on the planning, monitoring and reporting of grants and funding provided by it and other entities within the sector.



# Additional efforts were introduced



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