



Briefing to Portfolio Committee on Tourism

PFMA
2019-20

10 November 2020



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 2019-20 audit outcomes: National Department of Tourism (NDT) and the South African Tourism (SAT)



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 **two auditees (NDT and SAT) in the portfolio**, 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
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ACCOUNTABILITY = PLAN + DO + CHECK + ACT



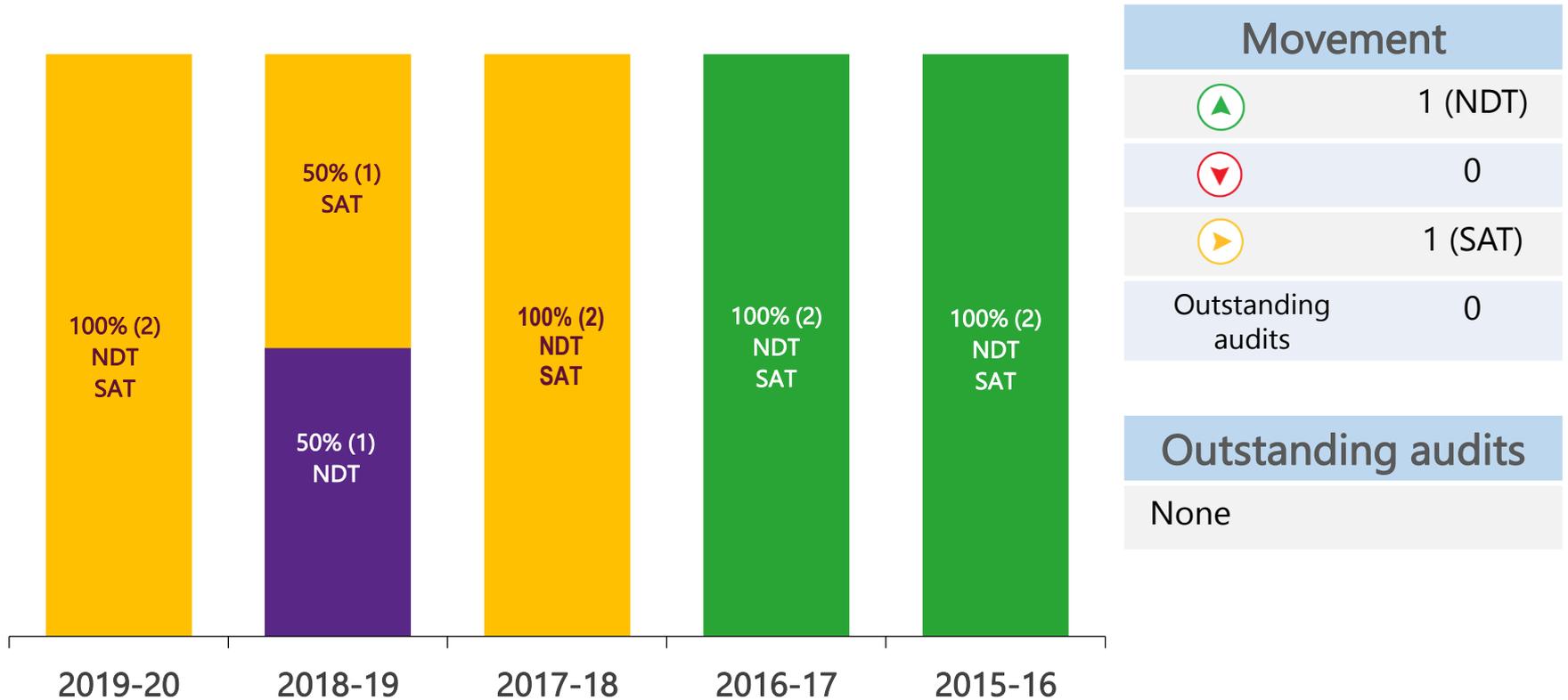
Tourism Portfolio

Department of
Tourism (NDT)

South African
Tourism (SAT)



Audit outcomes of portfolio over five years



- The overall audit outcomes of the portfolio have improved compared to the prior year. NDT has improved from a qualified audit opinion to an unqualified audit opinion with findings on compliance. SAT has remained unqualified with findings on predetermined objectives and compliance.
- Financial statements preparation remains a concern as material misstatements were identified in the financial statements submitted by SAT. These were corrected and resulted in the financial statements receiving an unqualified audit opinion.
- NDT and SAT incurred irregular expenditure as a result of non-compliance with procurement prescripts.





Credible financial reporting



Financial statements

	Movement	2020-19	2018-19
Submission of financial statements by legislated date	▶	100%(2)	100%(2)
Financial statements submitted without errors (NDT)	▶	50%(1)	50%(1)
Quality of final submission after audit (SAT)	▶	100%(2)	50%(1)

NDT

There was an Improvement of the qualified opinion of NDT from the 2018-19 year. The department put an action plan in place to address the qualification matters relating to immovable assets and fruitless and wasteful expenditure. (Refer to slide:12)

SAT

- Material misstatements: an **understatement of revenue from non-exchange transactions** whereby the December 2019 Voluntary Tourism Marketing South Africa (TOMSA) levies and Expenditure paid on behalf of SAT, was not recognised.
- The **segment information disclosure note was misstated** whereby differences between the amounts of the disclosure note and the amounts as per the statement of financial position and the statement of financial performance were identified by the auditors in the submitted financial statements.

These misstatements were corrected, resulting in the financial statements receiving an unqualified audit opinion.



Update on prior year qualification areas- NDT

Previous year issues

The internal control deficiencies relating to the qualification areas of immovable tangible capital assets (EPWP Infrastructure projects) and fruitless and wasteful expenditure were as follows:

- The department did not have adequate capacity and appropriate competencies to ensure that appropriate oversight is exercised on the EPWP Infrastructure projects;
- There was inadequate project management and sufficient records were not kept,
- There were no detailed feasibility studies performed before approval of infrastructure projects;
- There were no regular site visits being conducted during the construction of the infrastructure projects as part of project management, and
- Implementing agents did not follow procurement prescripts when procuring goods and services on behalf of the department.

Process management followed to address the qualification matter from prior year

- Appointed consulting engineers who conducted onsite audits and reviewed progress reports against what was delivered.
- Utilised the engineers' reports to adjust the immovable tangible capital assets balance and quantified the fruitless and wasteful expenditure relating to those projects.
- Requested guidance from National Treasury on the handover of infrastructure assets in terms of section 42 of the PFMA. This guidance assisted the department specifically to comply with section 42 of the PFMA.

Preventative controls

- Adequate reviews on accurate recording of infrastructure projects were implemented. Training was provided on SCM prescripts to implementing agents.
- The department received approval from National Treasury to approach DBSA to assist with project management of these infrastructure projects.
- The physical verification of the projects which was conducted by the quantity surveyors.



Update on prior year qualification areas- NDT (Cont...)

Audit process

The above controls implemented by management assisted in the audit of a credible immovable tangible capital asset register and fruitless and wasteful register. The department should maintain the controls to ensure proper project management on the EPWP Infrastructure Projects. Process we have followed to audit on the qualification areas.

- The AGSA quantity surveyors accompanied the departments quantity surveyors to some sites to physically verify the projects.
- We tested the reasonability of the assumptions used by the management expert to determine the value of the projects.
- We recalculated the amount paid and the de-escalated amount of the projects and quantified the fruitless and wasteful expenditure.

It should be noted that even though the department has managed to address the qualification areas, there were findings identified during the audit process which were not material to be escalated to the audit report but could jeopardise the unqualified audit report in future if not addressed. These findings were on:

- Lack of close-out reports, completion and occupation certificates for the projects to ensure compliance to the National Building Regulations and Building Standards Act (1977) s14 par 1

The department is commended for the positive outcomes in the current year audit, which is attributable to the controls put in place by management. This is a positive step in the right direction and we would like to encourage management to maintain the consistency and commitment they have shown in the 2019-20 audit when resolving the prior year qualification areas.





Credible performance reporting



Performance report

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

Quality of final submission after audit

Movement



	2020-19	2019-18
Performance report submitted without errors (NDT)	50%(1)	0%
Quality of final submission after audit	50% (1)	50%(1)



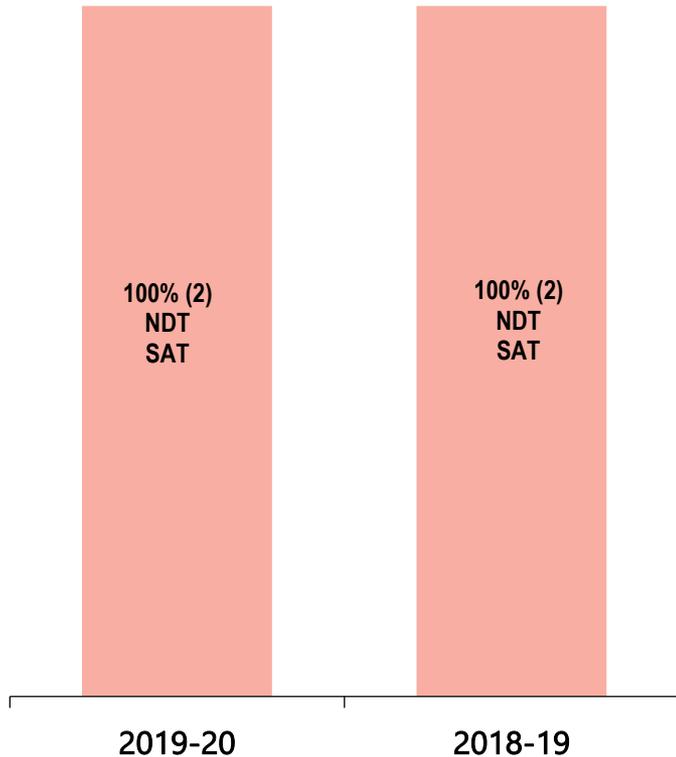
Material findings on reliability (SAT). The annual performance report for SAT on reported achievements did not agree with the supporting evidence provided.





Disregard for compliance with legislation

Findings on compliance with key legislation



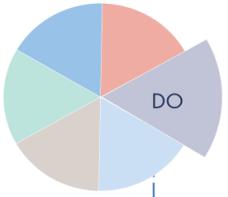
With no findings With findings

Top three non-compliance areas

- **Procurement and contract management:**
 - Minimum threshold was not stipulated for local content (NDT); And commodity designated for local content and production was procured from suppliers who did not submit a declaration on local production and content (NDT);
 - Sufficient appropriate audit evidence could not be obtained that one commodity designated for local content and production, were procured from suppliers who met the prescribed minimum threshold for local production and content (NDT); and
 - Suppliers did not declare if they are employed by the state and have an interest, SBD 4 (SAT)
- **Expenditure management:** Effective and appropriate steps were not taken to prevent irregular expenditure of R49.9 million (SAT) and R8.4 million for (NDT)
- **Annual financial statements misstatements:** Material misstatements in submitted financial statements (SAT)



Status of internal control



Leadership

Effective leadership

NDT / SAT



Financial and performance management

Proper record keeping

NDT

SAT



Daily and monthly controls

NDT / SAT



Review and monitor compliance

SAT

NDT



Governance

Risk management

NDT / SAT

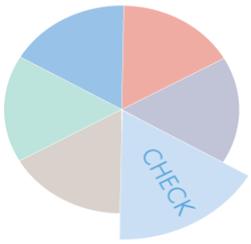


■ Good

■ Of concern

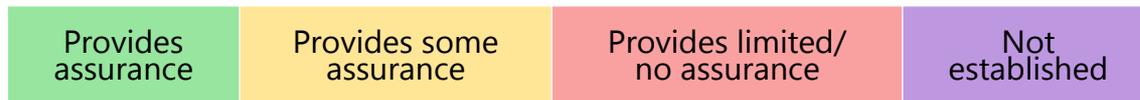
■ Intervention required

16



Assurance provided

Assurance	
First level	Senior management NDT / SAT
	Accounting officer/authority NDT / SAT
	Executive authority NDT / SAT
Second level	Internal audit unit NDT / SAT
	Audit committee NDT / SAT



Financial management

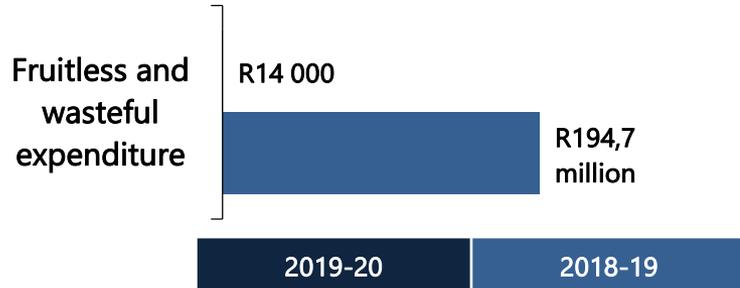


Fruitless and wasteful expenditure decreased over 2 years

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

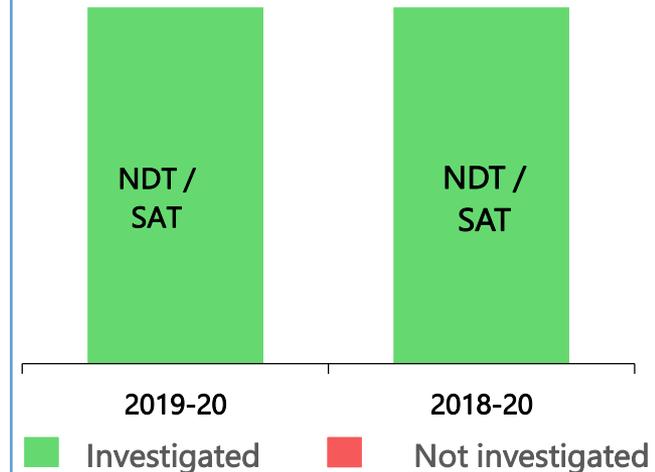


• R194.7 million is expenditure relating to the prior years

Nature of the fruitless and wasteful expenditure

- 2019/20 NDT incurred fruitless and wasteful expenditure (FWE) of R14 000 was for flights amendments and no shows at NDT which was subsequently recovered. The reduction is due to consequence management implemented on the FWE
- 2018/19: At NDT, R119.84 million was identified in the prior year for infrastructure projects. With a further R723 000 relating to interest and penalties and travel delays as a result of visa challenges. (total was R120.5 million)
- In the current year the department investigated and quantified FWE relating to infrastructure projects of prior years and this resulted in a prior period adjustment of R74 million. This was as part of the prior year action plan to address the qualification on completeness of FWE.
- The adjusted 2018/19 for infrastructure project is R193.84 million with a new total of R194.7 when adding FWE for other reasons mentioned above.
- R778 473 (SAT: R66 473 and NDT: R712 000) related to interest and penalties and travel delays as a result of visa challenges.

Previous year fruitless and wasteful expenditure reported for investigation

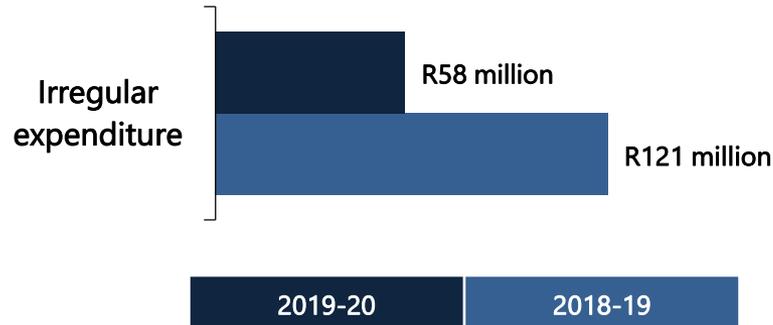


Irregular expenditure decreased over 2 years

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

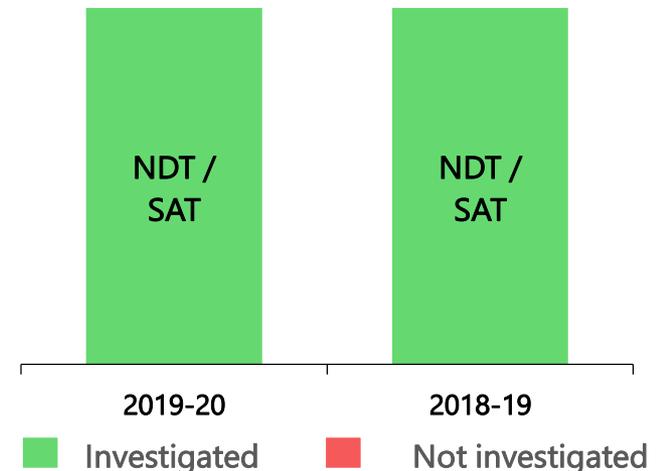


- R15.4 million represents non-compliance in 2019-20
- R43 million is expenditure relating to prior year non-compliance

Nature of the irregular expenditure

- SAT was the main contributor to irregular expenditure with the total of R49.96 million. Some of SAT's contracts were extended or modified without the approval of National Treasury as required by paragraph 9.1 and 9.2 of National Treasury Instruction note 3 of 2016/17 R43.01 million. (2019: R94.4 million).
- The preference point system was not applied in some of the procurement of goods and services. This non-compliance was identified in the procurement processes by implementing agents on behalf of the department R8.37 million. (2019: R24.8 million).

Previous year irregular expenditure reported for investigation



Supply chain management

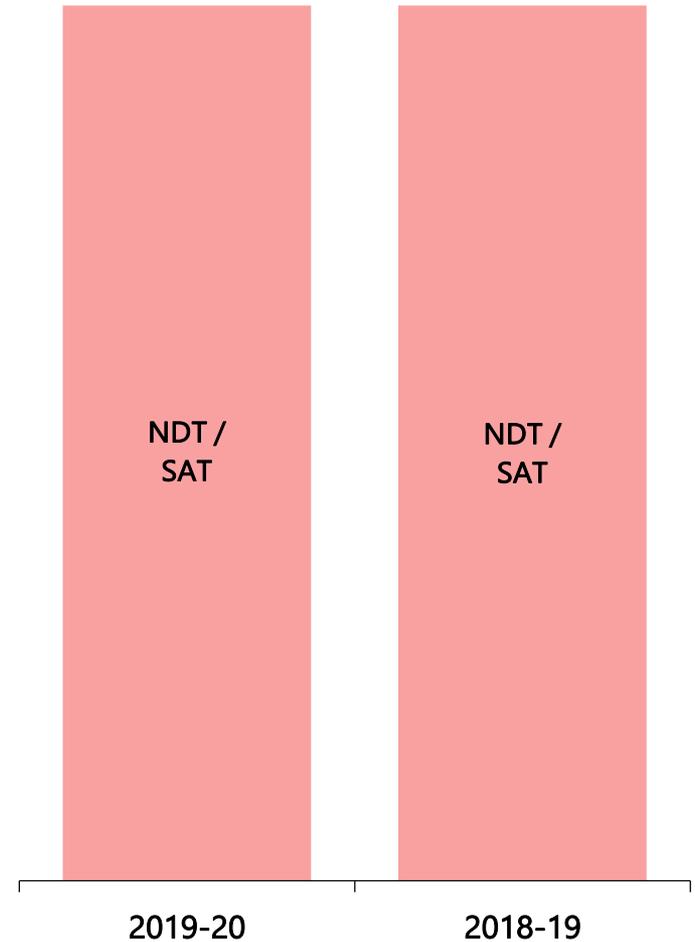


Stagnation in SCM compliance

All SCM findings should be investigated

Most common findings on supply chain management

- Minimum threshold was not stipulated for local content (NDT);
- one commodity designated for local content and production was procured from suppliers who did not submit a declaration on local production and content (NDT);
- Sufficient appropriate audit evidence could not be obtained that one commodity designated for local content and production, were procured from suppliers who met the prescribed minimum threshold for local production and content (NDT); and
- Suppliers did not declare if they are employed by the state and have an interest, SBD 4 (SAT)



With no findings



With findings



With material findings

21

Consequence management

NDT

- The department has incurred fruitless and wasteful and irregular expenditure regarding the EPWP Infrastructure projects.
- The Director-General (DG) instituted an independent investigation on these projects. The investigation report was received in June 2020.
- The DG has initiated the recommendations as per the investigation report.
- A follow-up will be done on the recommendations during 2020-21 audit.

SAT

- SAT reported an increase in irregular expenditure in the prior year and an investigation on the irregular expenditure has been conducted by the internal auditors.
- The investigation is completed and the report has been discussed with management and was tabled at the audit committee. No financial loss was identified.



Root causes

Slow or No response to improving key controls and addressing risk areas

NDT / SAT



Management did not respond **with the required urgency** to our messages about **addressing all risks and improving all internal controls**.



Recommendations

To the department and its entities

- Develop and implement action plans timeously to address audit findings.
- Monitor performance and consequence management especially around supply chain management (including EPWP implementing agents).
- Management should complete the process of obtaining close-out reports, completion and occupation certificates for the projects to ensure compliance to the National Building Regulations and Building Standards Act (1977) s14 par 1.

To the portfolio committee

- The PC should request accounting officer/authority and the Minister to provide feedback on the implementation and progress of action plans to ensure improvement in the audit outcomes of the portfolio,
- Follow up with the department to ensure that the department has implemented preventative controls to manage effectively EPWP Infrastructure projects,
- Follow up on both entities to ensure that there is compliance with legislation and more specifically on supply chain management, and
- The culture of consequence management should be maintained in the portfolio.



Thank you



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