



AUDITOR - GENERAL
SOUTH AFRICA

Budgetary Review and Recommendations Report

Portfolio Committee on Sport, Art and Culture

3 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:

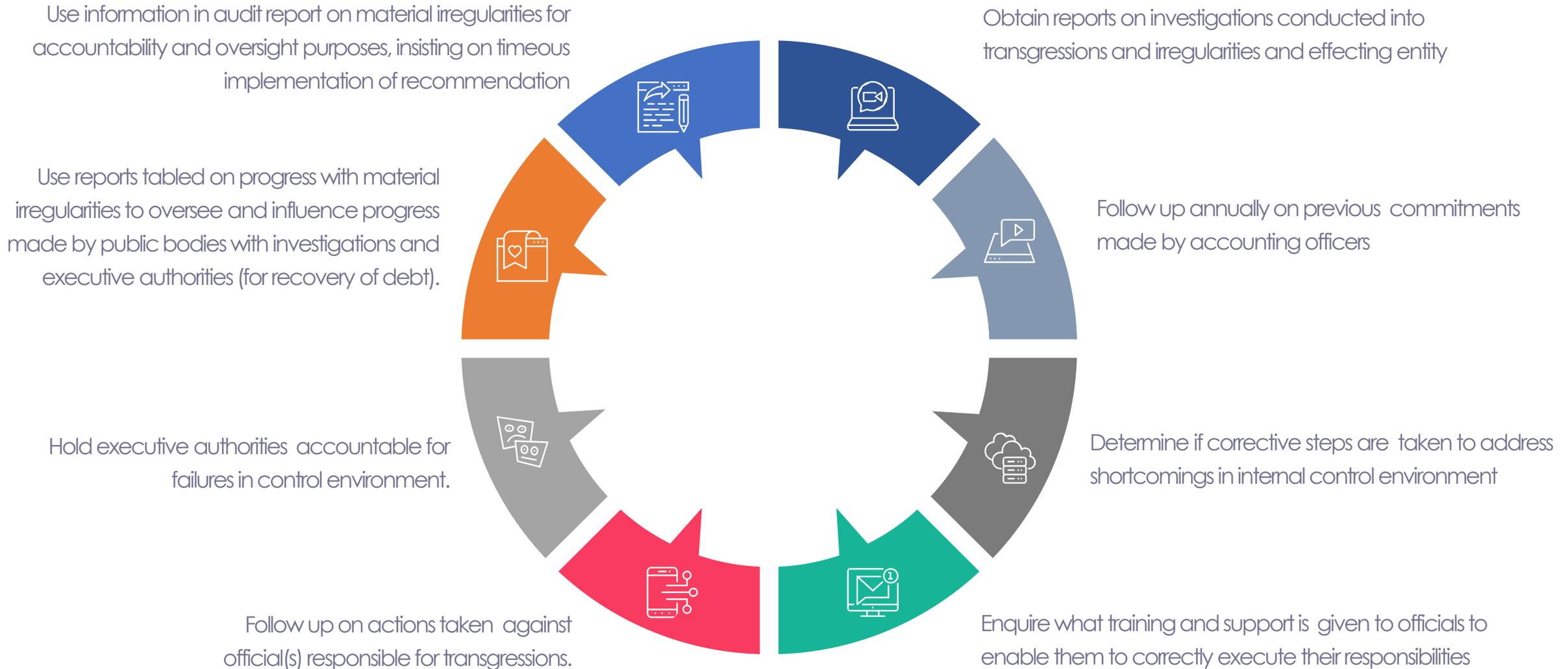
- Deal with bills and other matters falling within their portfolio, as referred to them in terms of the constitution, legislation or rules, or by resolution of the Assembly
- Maintain oversight of their portfolios of national executive authority, including implementation of legislation
- Consult and 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





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FOCUS



AGSA audit outcomes

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

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

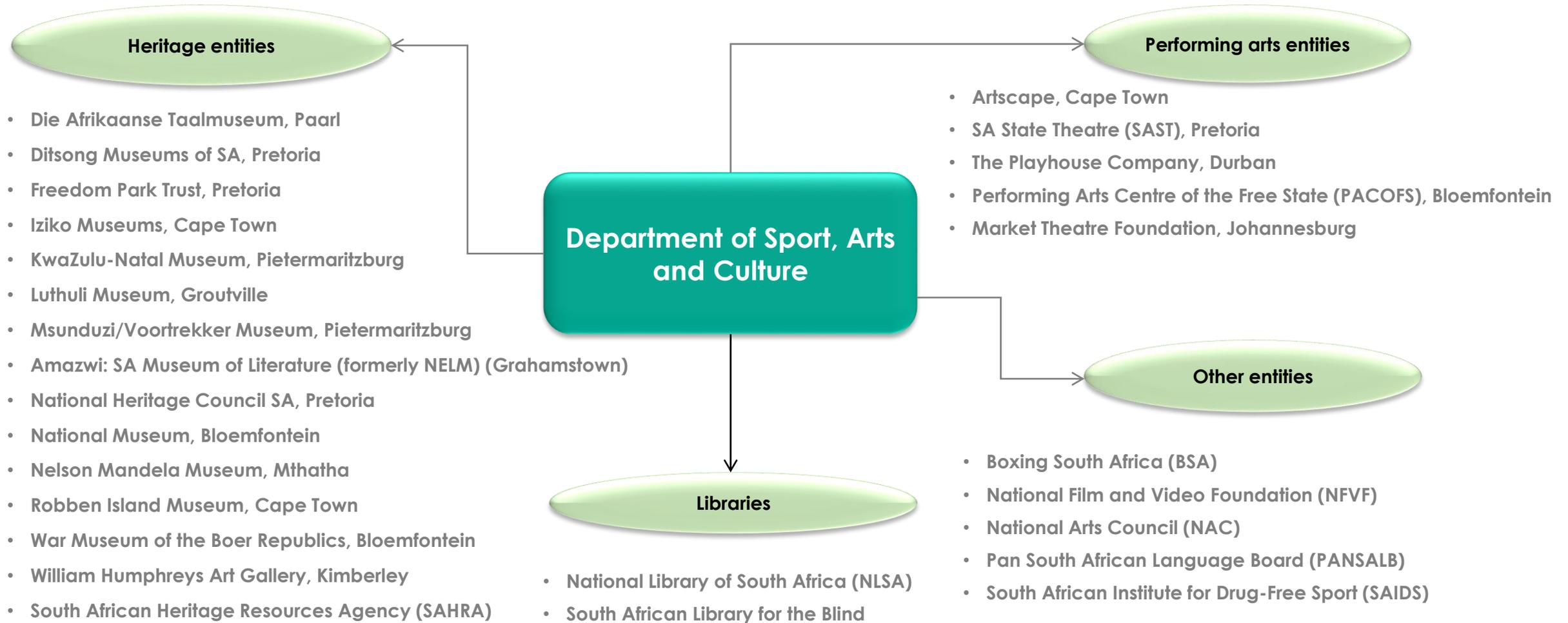
 Regressed



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Portfolio outcome

Sport, Arts and Culture portfolio auditees



Portfolio overall message

We commend management and the executive authority for the twelve auditees that achieved and continue to maintain clean audit outcomes.

These outcomes are attributed to the following;

- Oversight of adequate preventative controls and sound governance structures.
- Timely implementation of preventative controls.
- Monitoring compliance with legislation.
- Implementing a consequence management culture.

These entities have **effective governance structures** and **stable leadership** that ensures that actions are taken to address audit findings.

As these entities have been able to achieve clean audit outcomes, it is important that they focus on ensuring that this also translates into service delivery to citizens.

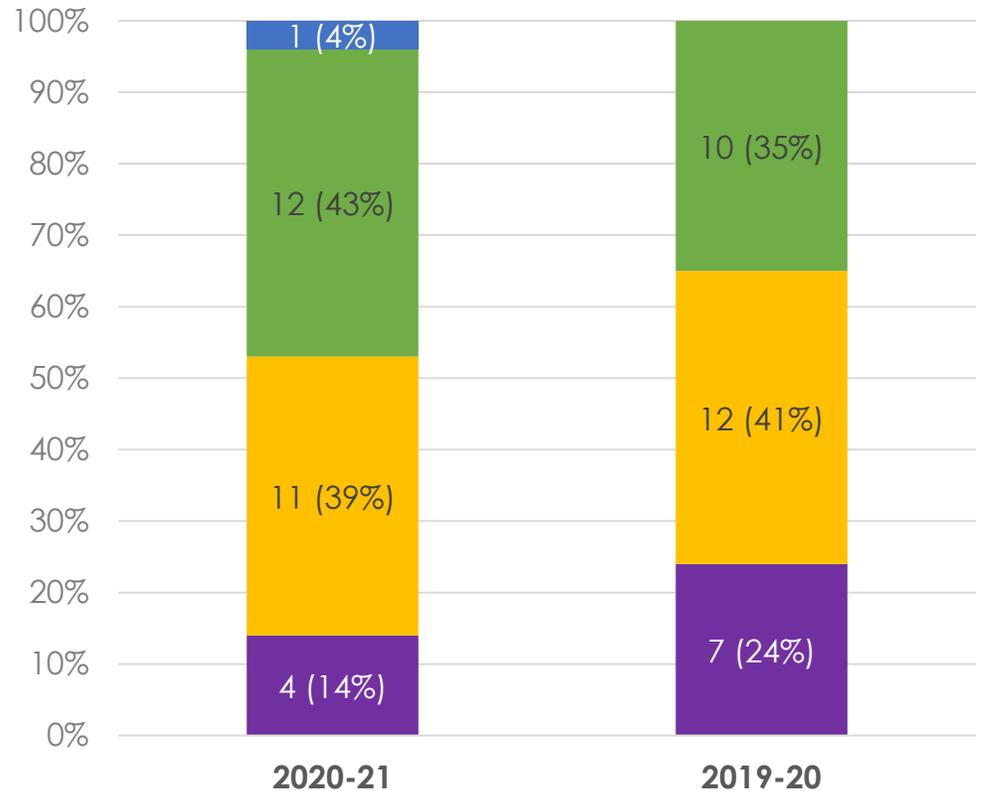
The remaining entities within the portfolio with findings on compliance with legislation and predetermined objectives should look at the good practices implemented by these entities, such as:

- Ensuring sufficient monitoring controls over compliance with supply chain management (SCM) legislation and implementing effective consequence management, which are key to addressing the matters highlighted in the portfolio.
- Monitoring the implementation of action plans to address findings and their the root causes.
- Implementing a proper record management system to maintain information that supports the reported financial and performance reporting.
- Preparing regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.
- Putting measures in place to prevent irregular expenditure and non-compliance with legislation.

The portfolio committee should enhance in-year monitoring processes to ensure that the good practices indicated above are implemented and maintained by all entities in the portfolio.

Audit outcomes of the Sport, Arts and Culture portfolio over 2 years

NB: Percentages in this presentation are calculated based on **completed audits of 28 auditees**, unless indicated otherwise.



Movement

▲	9
▼	5
▶	12

New audit

Department of Sport, Arts and Culture (DSAC)

- The overall outcomes in the portfolio have improved when compared to the prior year.
- Twelve auditees, representing 43% of the audits in the portfolio, have achieved an unqualified audit opinion with no findings (clean audit).
- Eleven auditees, representing 39% of the portfolio, received financially unqualified audit opinions with findings.
- Four auditees, representing 14% of the portfolio, received financially qualified audit opinions.

■ Outstanding Audits
 ■ Unqualified with no findings
■ Unqualified with findings
 ■ Qualified with findings

Audit outcomes of the Sport, Arts and Culture portfolio over 2 years

Audit outcome	Movement (2019-20 to 2020-21)			
	9 Improved	12 Unchanged	5 Regressed	1 New auditee 1 Outstanding
Unqualified with no findings =12	<ol style="list-style-type: none"> Msunduzi Museum National Museum William Humphreys Art Gallery ArtsCape South African Institute for Drug-Free Sport (SAIDS). National Heritage Council of South Africa (NHC) 	<ol style="list-style-type: none"> Kwazulu-Natal Museum South African Library for the Blind The Playhouse Company Nelson Mandela National Museum Iziko Museums of Cape Town Ditsong Museum of SA 		
Unqualified with findings =11	<ol style="list-style-type: none"> Performing Arts Centre of the Free State (PACOFs) Amazwi SA Museum for Literature Pan South African Language Board (PanSALB) 	<ol style="list-style-type: none"> Luthuli Museum Market Theatre Foundation Freedom Park Trust Boxing South Africa 	<ol style="list-style-type: none"> National Arts Council of South Africa (NAC) War Museum of the Boer Republics South African Heritage Resources Agency (SAHRA) 	<ol style="list-style-type: none"> Department of Sport, Arts and Culture (DSAC)
Qualified = 4		<ol style="list-style-type: none"> National Library of South Africa (NLSA) Die Afrikaanse Taal Museum 	<ol style="list-style-type: none"> South African State Theatre (SAST) National Film and Video Foundation (NFVF) 	<ol style="list-style-type: none"> Robben Island Museum



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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

Financial statements submitted without errors

Quality of final submission after audit

Movement



2020-21

2019-20

100% (28)

100% (29)

57% (16)

35% (10)

82% (23)

76% (22)

Root cause analysis

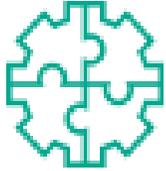
- **Seven** auditees (25%) submitted financial statements that contained material misstatements which were subsequently corrected (**DSAC, Luthuli Museums, Freedom Park, PACOFS, NAC, War museum and SAHRA**).
- **Four** auditees (14%) were qualified as they submitted financial statements that contained material misstatements which were not corrected (**NLSA, Die Afrikaanse Taal Museum, SAST and NFVF**).
- Material misstatements to financial statements were due to inadequate review of financial statements.
- In some instances, the findings raised were recurring despite discussions held with the auditees on the implementation of preventive control measures.

Recommendations

- Accounting officers/authorities must continue to do their work through audit committees to ensure management implements and enhances review processes for the financial statements.
- Internal audit should scope in the review of the financial statements.
- Accounting officers/authorities must thoroughly review the developed actions plans to ensure they address the root cause.
- Effective monitoring and oversight by the audit committee is critical to ensure that repeat findings are prevented in the next financial year

Second focus area: credible performance reporting

Performance report



Performance report submitted without errors

Performance report adjusted for material misstatements to improve reliability

Reliable reporting of achievements **(BSA, Amazwi Museum and PanSALB)**

Usefulness of performance indicators and targets **(BSA, Amazwi Museum and PanSALB)**

Movement



2020-21

2019-20

50% (14)

65% (19)

39% (11)

15% (2)

89% (24)

93% (27)

89% (24)

90% (26)

Root cause analysis

- There are three entities (11%) with findings on the audit of performance information (Boxing SA, Amazwi SA Museum for Literature and PANSALB).
- Boxing SA: The achievements reported in the annual performance report materially differed from the supporting evidence. In addition, the source information, evidence and method of calculation for measuring one planned indicator were not clearly defined, and related systems and processes were not adequate to enable consistent measurement and reliable reporting.
- Amazwi Museum for Literature: There were material findings on the usefulness and reliability of the performance information of programme 2 – curatorial division.
- Pan South African Language board: The material findings on the usefulness and reliability of the performance information of programme 2 – language use, development and equitability. As a result, the entity obtained an adverse conclusion

Recommendations

- Auditees need to design performance indicators that are well defined and adhere to the SMART criteria.
- Standard operating procedure/policies should be designed that contain processes to record information and store supporting evidence for measuring whether the planned indicator was clearly defined.
- 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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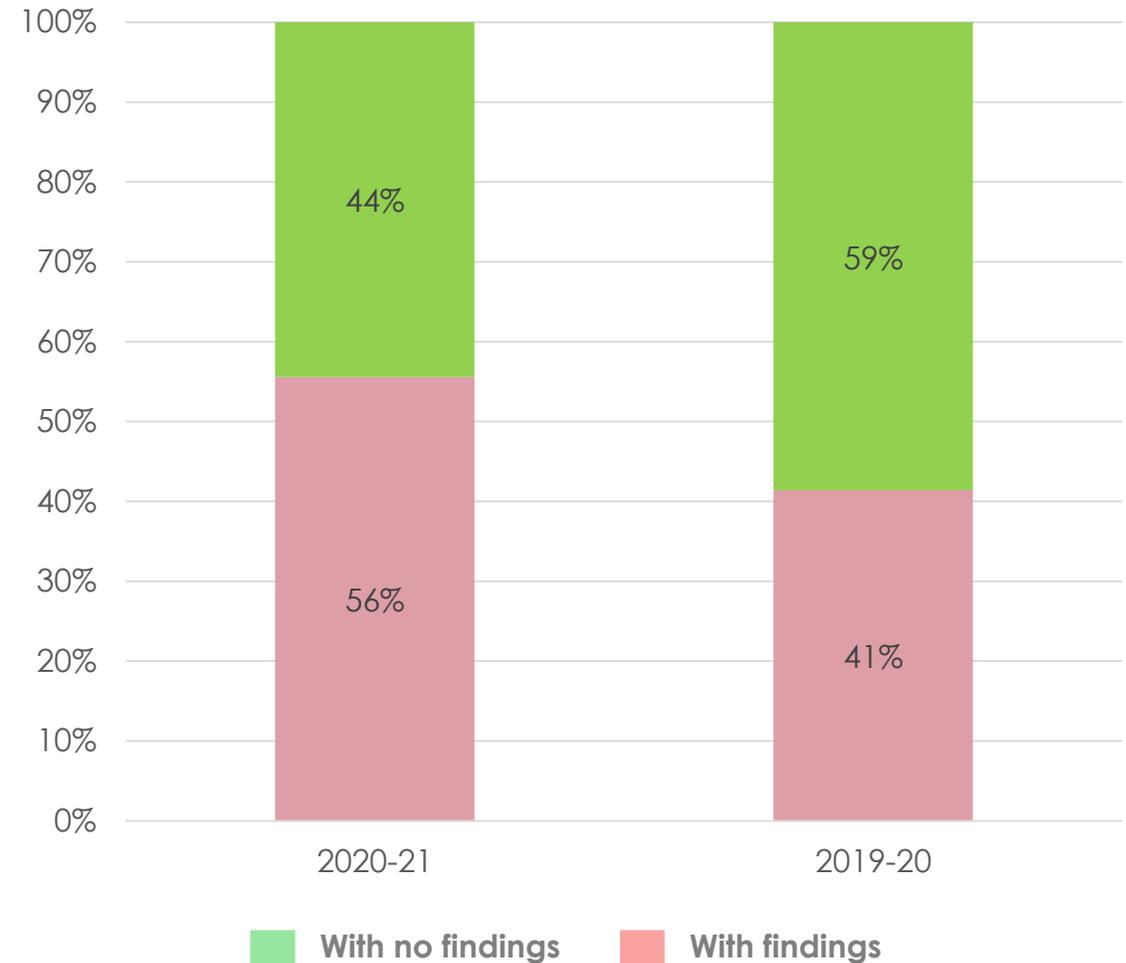
Compliance with legislation



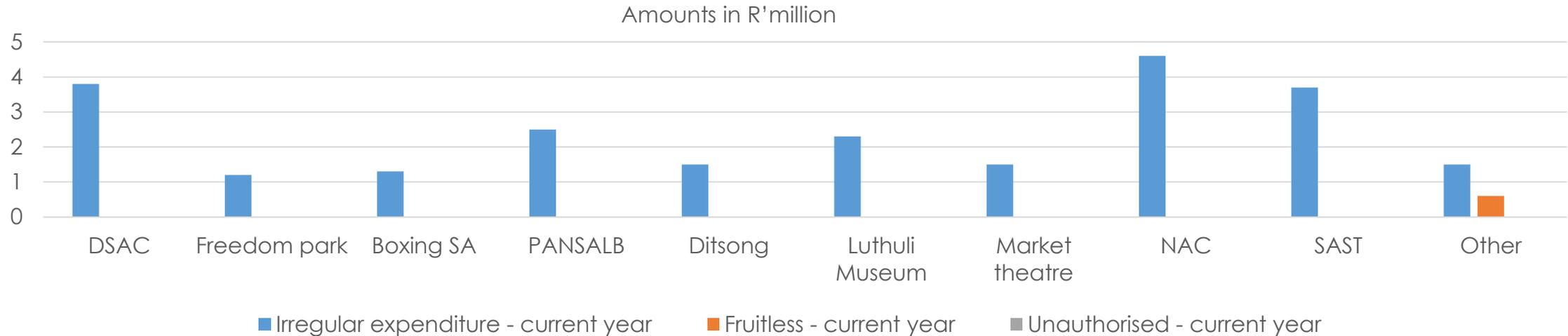
Third focus area: compliance with legislation

- In the current year there has been a regression in compliance with legislation.
- In most instances the non-compliance identified is similar to that reported in the prior year. These auditees 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 three sections, i.e. **expenditure management**, **procurement and contract management** and **consequence management**

Findings on compliance with key legislation



Irregular, unauthorised, fruitless and wasteful expenditure



Irregular expenditure

- Total irregular expenditure identified – R23 966 712.
- Highest contributors to irregular expenditure in the portfolio are:
 - NAC: R4 637 254
 - DSAC: R3 776 000
 - State theatre: R3 706 283
 - PanSALB: R2 511 000
 - Luthuli Museum: R2 275 220

Fruitless and wasteful expenditure

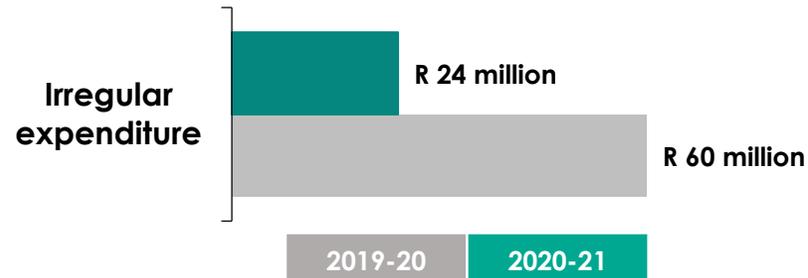
- The majority of the fruitless and wasteful expenditure (99%) was incurred by PACOFS due to a payment made to an incorrect supplier. The total fruitless and wasteful expenditure for this entity is R584 474.

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



- R23,97 million – non-compliance in 2020-21
- R59,6 million – non-compliance in 2019-20
- Irregular expenditure has reduced by 60% compared to prior year

Previous year irregular expenditure reported for investigation



2020-21

Investigated

2019-20

Not investigation

Nature of irregular expenditure

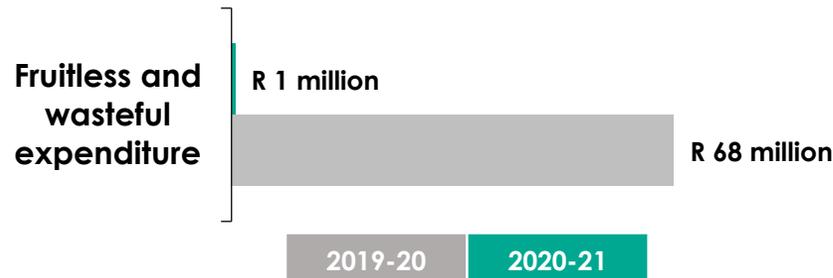
- The nature of the highest contributors to irregular expenditure in the portfolio are:
 - **NAC:** The majority of the non-compliance was in relation to Presidential Employment Stimulus Package (PESP). This was due to the approved budget being exceeded and some applications that were not evaluated in line with NAC regulations.
 - **DSAC:** Prior approval of variation from National Treasury was not obtained in the prior year and splitting of awards.
 - **State theatre:** relates to overspending on the budget.
 - **PanSALB:** Contract extended without prior approval from National Treasury, and supply chain management for awards below R500 000 were not followed.
 - **Luthuli Museum:** Three written quotations not obtained and preference points system was not applied

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

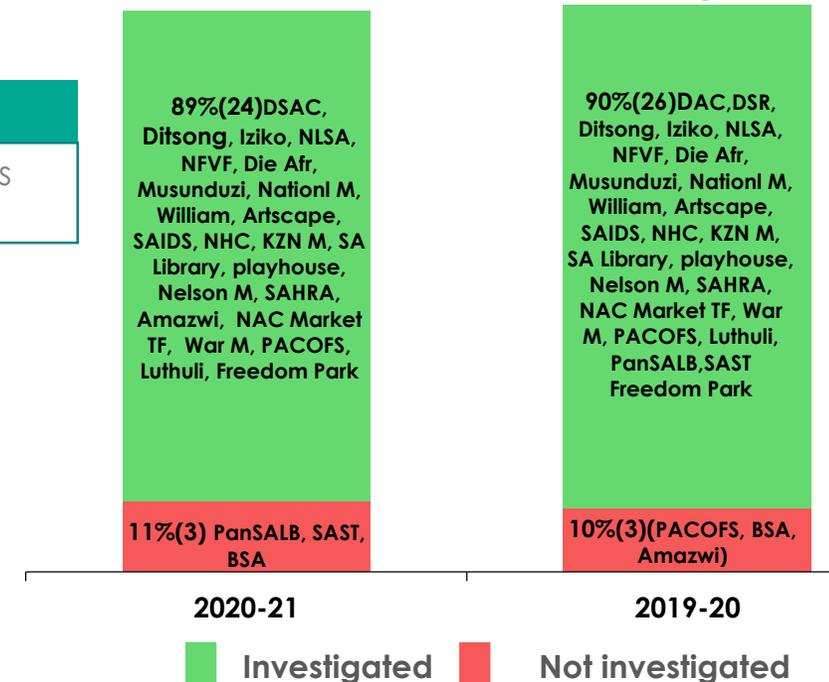


- R0,6 million – non-compliance in 2020-21 financial year
- R67,9 million – non-compliance in 2019-20 financial year
- Fruitless and wasteful expenditure significantly decreased by 99%

Nature of fruitless and wasteful expenditure

- The majority of the fruitless and wasteful expenditure (99%) was incurred by PACOFS, this was due to a payment made to an incorrect supplier.

Previous year fruitless and wasteful expenditure reported for investigation



Compliance with legislation



Consequence management

Overall, there has been some progress in implementing consequence management within the portfolio. The portfolio must, however, still strengthen its consequence management processes to ensure that all entities investigate and follow up on irregular and fruitless and wasteful expenditure promptly.

Consequence management findings were reported at the following entities:

- No adequate evidence that disciplinary actions were taken against staff who have caused irregular and fruitless and wasteful expenditure (PANSALB and Freedom Park).
- Disciplinary steps were not taken against officials who had incurred irregular expenditure (Boxing SA, PACOFS, Luthuli Museums and Freedom Park).
- Investigations were not conducted into all allegations of financial misconduct against officials (DSAC).

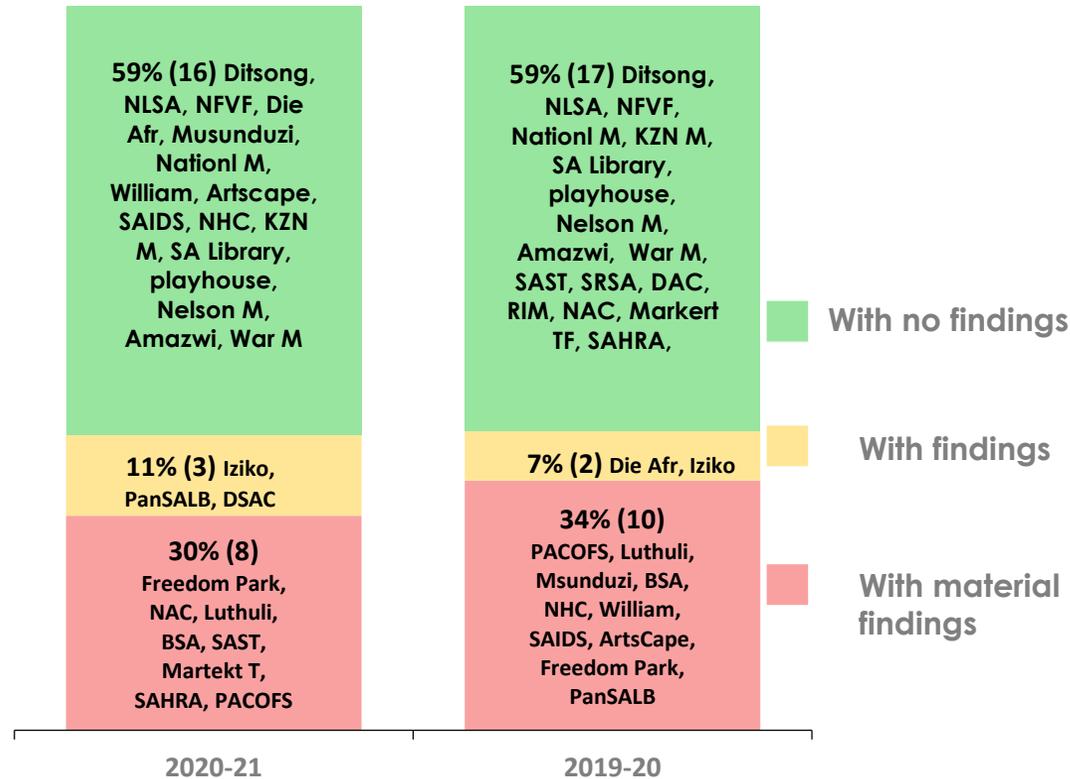
Recommendations

- There must be timely investigations of reported irregular expenditure, fruitless and wasteful expenditure and allegations of financial misconduct and disciplinary actions taken against those found responsible.
- Accounting officers/authorities must ensure that disciplinary actions are taken against staff that transgressed procurement regulations.
- Accounting officers/authorities must enhance the action plan to address repeat findings.
- Internal audit units and audit committees must monitor the implementation of the action plan.

Supply chain management

Overall there is a slight improvement in SCM compliance

All SCM findings should be investigated



Most common findings on supply chain management

Inadequate contract management (**Iziko, PANSALB**)

Local content (**Freedom Park**)

Goods and services procured without obtaining the required price quotations (**Market Theatre**)

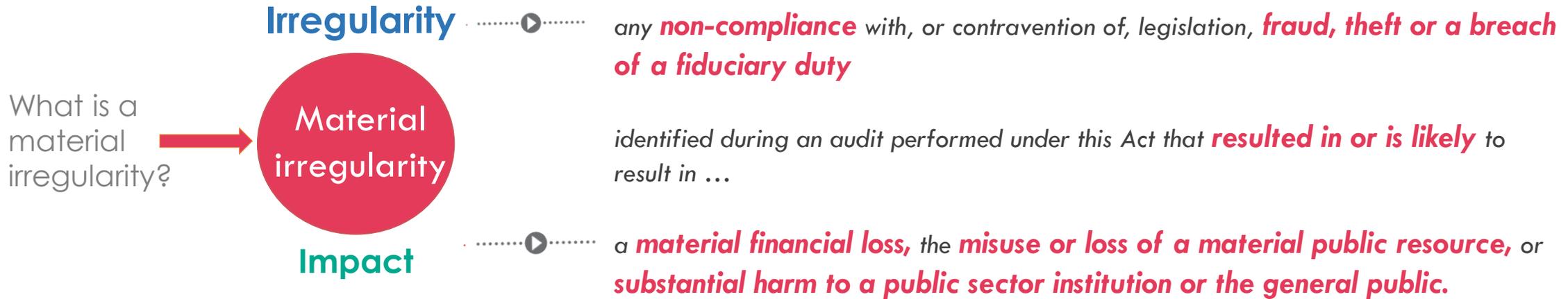
No prior approval obtained from National Treasury for deviating from normal SCM processes (**NAC**)

No competitive and fair procurement practices (**DSAC, PANSALB, Freedom Park, PACOFS, Market Theatre**)

Recommendations

- Accounting officers/ authorities should ensure procurement delays and poor project management are addressed
- Preventative controls should be strengthened to ensure no irregular/ fruitless and wasteful expenditure is incurred
- SCM training should be provided to ensure an understanding and application of legislation

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 entities under the portfolio were selected for MI implementation. For the next audit cycle, we will scope in some of the entities in this portfolio.**



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Portfolio snapshot



Portfolio snapshot 2020-21



Clean audits: 12
(2019-20: 10)

type of material
irregularity



**Financially unqualified
financial statements: 23**
(2019-20: 13)



**No. of findings on
performance reports: 3**
(2019-20: 9)



**No. of findings on
compliance with legislation:
16**
(2019-20: 13)



**Irregular expenditure: R23,97
million** (2019-20: R59,6 million)

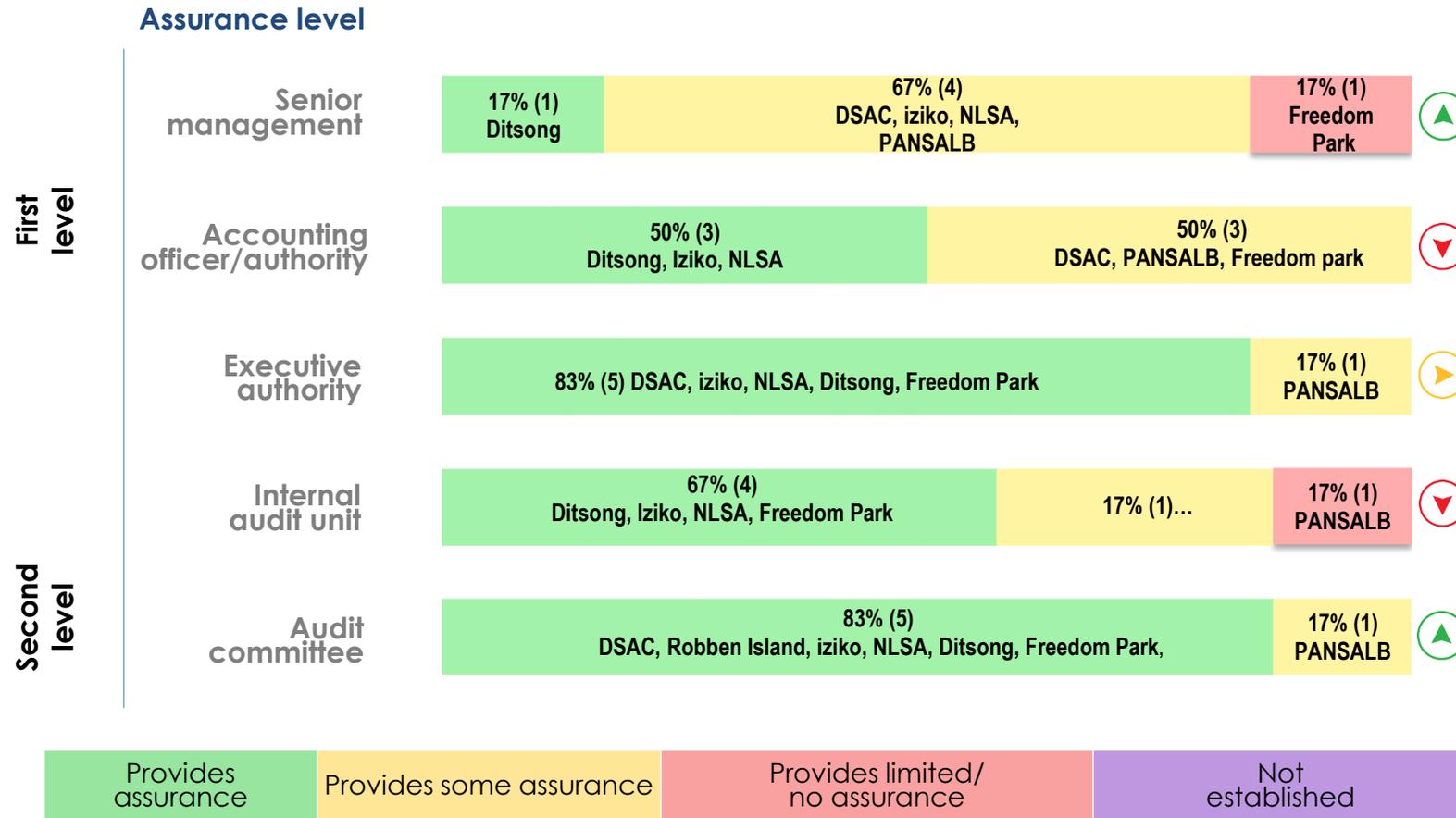


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Governance and internal controls

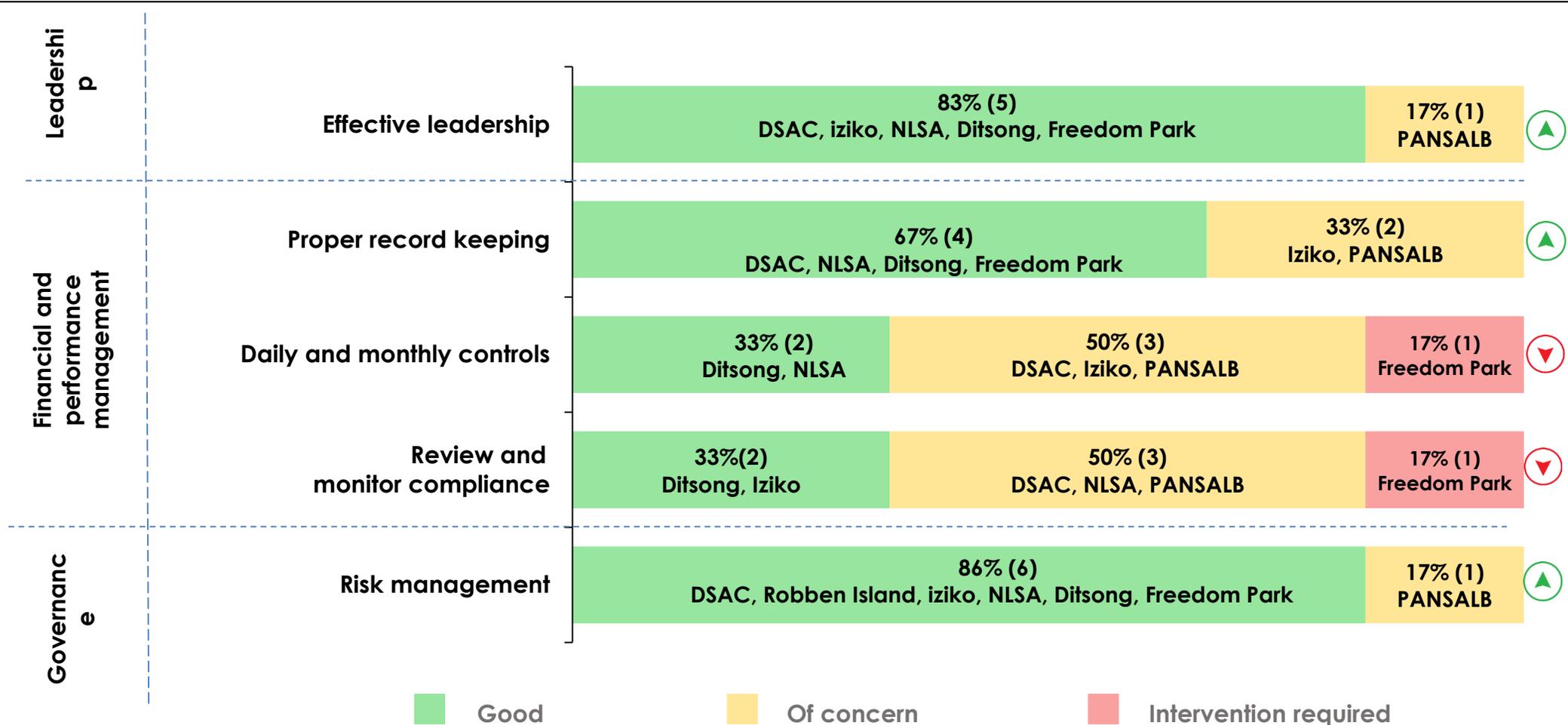


Assurance provided



Assessment above is based on six auditees not classified as small auditees, as per the AGSA methodology (DSAC, Ditsong, PANSALB, NLSA, Iziko and Freedom Park)

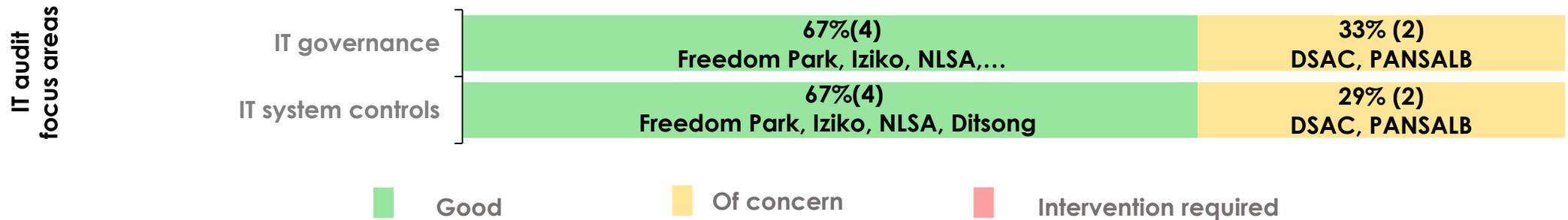
Status of internal control



Assessment above is based on six auditees not classified as small auditees, as per the AGSA methodology (DSAC, Ditsong, PANSALB, NLSA, Iziko and Freedom Park)

Status of information technology (IT) environment

- **IT governance** – there to ensure IT is effectively and efficiently used to enable entity to achieve its mandate by specifying decision rights and accountability framework to encourage desirable behavior in using IT
- **IT system controls** – there to ensure entity's IT operates as intended to achieve its mandate
- Effective IT governance and system controls will help ensure entities are not vulnerable to cyberattacks and business continuity concerns



Areas	Root cause	Recommendations
IT governance	Delays in designing and implementing adequate IT governance controls due to the merger of the Department of Sports and Recreation and Department of Arts and Culture.	Management should enforce a patch management policy and procedures, and monitor for compliance.
IT system control	The security management controls were not effectively managed as some workstations were running outdated and unsupported Microsoft Operating Systems. Lack of support implies that no new security patches for the product will be released by the vendor.	Management should ensure it tests and applies relevant patches for outdated hosts.

Assessment is based on six auditees not classified as small auditees as per the AGSA methodology. The six auditees are listed on the previous slides

Summary of 3 key root causes



Slow response in implementing adequate and effective preventative controls



Instability and/or vacancies



Inadequate consequence management



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Progress on the special report



Progress on the special report

Key observations as reported in SR2

- No mechanisms to prevent **disbursements to people with other sources of income** – potentially 286 beneficiaries identified out of 4169
- System deficiencies resulted in **duplicate payments and key information not being captured. Inadequate validations by the system and a lack of reconciliations** further increased the likelihood of invalid or inaccurate payments.
- **Weaknesses in the procurement process** for digital solution services and in the appointment and management of the payment agencies.

Follow up in the current year

- The accounting officer clarified the criteria for eligibility for the relief fund on Sport, Arts and Culture.
- Written assurance was obtained from the payment agencies to confirm that these entities had implemented effective, efficient and transparent financial management and internal control systems prior to the department transferring the funds to them.

Progress on the special report

Findings identified and conclusion

- Non-compliance on personal protective equipment (PPE) procurement – hand sanitisers were procured at prices above the annexure A price list from the National Treasury instruction note issued in 2020.
- The department did not differentiate between the management fee payable to the disbursing agents and the amount of transfer to disbursing agents for relief beneficiaries. This resulted in a misclassification of the management fees.
- Double-dipping – beneficiaries who benefited from both the department's covid-19 relief fund and relief funds from other government institutions, with a total value of R244 200.
- Non-compliance in the procurement process of digital solutions, whereby the supplier who received the highest points was not appointed.

Preventative controls and recommendations

- Management should put measures in place to ensure that emergency procurement is conducted in line with the relevant National Treasury instruction notes
- Management should consider the MOA and nature of transaction by separating the management fee from the transfer and subsidy figure, and classify the management fee as a good and service.
- Management should put effective controls in place that would ensure that applicants that have received funds from other state institutions are identified by checking against other government databases.
- Management should review and monitor compliance with applicable laws and regulations and ensure that the highest scorer is appointed. As no payments had been made yet, management should prevent the irregular expenditure.



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Recommendations



Recommendations for entities within the sport, arts and culture portfolio



Ensure adequate and effective implementation of preventative controls



Develop and implement effective action plans to address audit findings and key deficiencies



Improve on controls to monitor compliance and enforce consequence management



Improve on controls to ensure vacancies are filled and adequate staffing

Recommendations to the portfolio committee

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

- Implementation of action plans and preventative controls
- Implementation of consequence management in relation to irregular, fruitless and wasteful expenditure and all other allegations under investigation.

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

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