

## **Budgetary Review and Recommendation Report of the Portfolio Committee on Tourism, Dated 23 November 2021**

The Portfolio Committee on Tourism (hereafter referred to as the Committee), having considered the financial and non-financial performance of the Department of Tourism (hereafter referred to as the Department) and South African Tourism (hereafter referred to as SA Tourism) for the 2020/21 financial year, reports as follows:

### **1. INTRODUCTION**

The 2020/21 financial year saw the advent of the novel corona virus, dubbed COVID-19, which put the tourism sector on a grinding halt globally, and South Africa in particular. The government of South Africa introduced the Risk Adjusted Strategy which introduced various levels of lockdown in the country. This meant that there was no international travel allowed into South Africa, which adversely affected the international arrivals. Domestic tourism was also severely affected as most sectors of the travel and tourism industry were prohibited to trade. The effects of COVID-19 are expected to be indelible in the sector as some businesses had to cut jobs, with others continuing to close down. The pandemic has also stifled the transformation trajectory in the sector that has been typically untransformed since the advent of democracy in South Africa.

The government had to reprioritise its budget to combat the effects of COVID-19 in society with a view to save lives and livelihoods. This resulted in the budget of the Department of Tourism being revised downwards in the adjusted appropriation for 2020/21 from R2 481.0 billion to R1 426.9 billion. At the end of the financial year, the Department had spent R1 392.2 billion or 97.6 percent of the available budget, which is R34.6 million (2.4 percent underspending) less than projected expenditure for the period under review.

The Department and South African Tourism regressed in their audit findings in the period under review, with the Department receiving an unqualified audit opinion with findings, a regression from the clean audit in the 2019/20 financial year. SA Tourism performed dismally as it received a qualified audit opinion with material findings, which was the first such finding in 17 years.

Having considered the Annual reports of the Department and SA Tourism, the Committee tables this report to provide the financial and non-financial performance against the backdrop of the aforementioned challenges in the organisational and service delivery environment.

#### **1.1 Mandate of the Committee**

The Portfolio Committee on Tourism is an extension of the National Assembly, and derives its functions from Rule 227 of the National Assembly. The Committee is established by Section 57 (2) (a) of the Constitution of the Republic of South Africa (Act 108 of 1996) as read with Rule 225 of the National Assembly.

#### **1.2 Core functions of the Department**

The Tourism Act (Act 3 of 2014) outlines the mandate of tourism as to promote the growth and development of the tourism sector; promote quality tourism products and services; provide for the effective domestic and international marketing of South Africa as a tourist destination; enhance cooperation and coordination between all spheres of government in developing and managing tourism; and promote responsible tourism for the benefit of South Africa and for the enjoyment of all its residents and foreign visitors.

The Department and SA Tourism execute their mandate through a myriad of legislative, policy, and strategic frameworks aimed at developing and marketing South Africa as a competitive and preferred tourism destination. The policy, legislative and constitutional imperatives that drive tourism are as follows:

##### **1.2.1 Constitutional and Legislative Mandate**

The Constitution of the Republic of South Africa (Act 108 of 1996) explicitly outlines the concurrent function of tourism in the country. Part A of Schedule 4 of the Constitution lists tourism as a functional area of concurrent national and provincial legislative competence. Part B of Schedule 4 lists local tourism as a local government competency. The concurrent nature of the tourism function has its challenges that can only be addressed through cooperation and collaboration amongst the three spheres of government in the country.

At a legislative level, the Tourism Act of 2014 (Act No. 3 of 2014) enjoins the Minister of Tourism to perform specific tasks to drive tourism policy and strategic direction. The Committee is awaiting the introduction of the Tourism Amendment Bill to Parliament by the Minister of Tourism to address the legislative and policy gaps that have been identified in the current enabling Tourism Act. The Tourism Amendment Bill will be drafted once the Department has finalised the policy review process which is currently underway.

### 1.2.2 Policy mandate

The mandate of the Department is driven through the White Paper on the Development and Promotion of Tourism in South Africa (1996) and a number of strategies at a national level. The significant policy instruments and strategies are provided hereafter:

#### 1.2.2.1 The National Development Plan

The National Development Plan (NDP) is the blueprint of government that recognises tourism as one of the main drivers of employment and economic growth. The target of the NDP is to create an additional 11 million jobs by 2030, and tourism plays a huge role towards attaining that goal. The NDP envisions tourism as a major source of revenue and employment creation for the country through investment in infrastructure, product and service development. It envisages rising employment, productivity and incomes as a way to ensure a long-term solution to achieve a reduction in inequality, an improvement in living standards, and ensuring a dignified existence for all South Africans.

The Committee will conduct oversight on the 2030 targets to ascertain if this is still feasible given the dire impact of the COVID-19 pandemic on the sector.

#### 1.2.2.2 The New Growth Path

The New Growth Path (NGP) acknowledges tourism as one of the six economic pillars of South Africa. Tourism is recognised as a labour-intensive sector, with a wide value chain that cuts across various economic sectors. The NGP is intended to address unemployment, inequality and poverty in a strategy that is principally reliant on creating a significant increase in the number of new jobs in the economy. The NGP thus envisages tourism as a vehicle to expedite transformation and inclusive tourism growth that encourages participation of all South Africans in the mainstream economy.

#### 1.2.2.3 The White Paper on the Development and Promotion of Tourism in South Africa

The current White Paper on the Development and Promotion of Tourism in South Africa (1996), recognises that tourism has been inadequately resourced and funded; has a myopic private sector; is characterized by limited integration of local communities and previously neglected groups into tourism; there is inadequate tourism education, training and awareness; inadequate protection of the environment; poor service; lack of infrastructure, particularly in rural areas; a ground transportation sector that is not geared to service tourists; lack of inclusive, effective national, provincial and local structures for the development, management and promotion of the tourism sector; and growing levels of crime and violence on visitors. Despite huge strides made by the Department in implementing the White Paper, the sector still reflects a number of challenges that were inherited from the past.

Based on the recommendations of the Committee to align the tourism policy with the contemporary global and domestic tourism trends, the Department has appointed a seven-member panel of experts

to review the policy. The Committee regards this as a commendable intervention as it will close the policy gaps that have been identified over a period of time.

#### 1.2.2.4 The National Tourism Sector Strategy

The Department is implementing the National Tourism Sector Strategy (NTSS) that spans a 10-year period (2016 - 2026). The vision of the NTSS is for South Africa to be a top world responsible tourism destination, a safe, rapidly and inclusively growing tourism economy that leverages South Africa's competitive edge in nature, culture and heritage, underpinned by Ubuntu and supported by innovation and service excellence. The Committee reiterates that the tourism policy review process should take into consideration the strategic thrusts of the current NTSS and offer propositions for amendments where necessary to ensure that the strategy is aligned with the new policy priorities.

#### 1.2.2.5 The Medium Term Strategic Framework (2019 - 2024)

The 2019 - 24 Medium Term Strategic Framework (MTSF) is the manifestation of an implementation for the NDP Vision 2030 and for the implementation of the electoral mandate of the sixth administration of government. It recognises tourism as a national priority sector that can play a key role in the country's economic transformation, addressing unemployment challenges and developing a better Africa and world.

#### 1.2.2.6 State of the Nation Address

Tourism continues to be an important economic sector that government can use to address the triple challenge of poverty, unemployment and inequality. As such, government has identified a number of bottlenecks and barriers that need to be addressed in ensuring that tourism becomes a thriving sector. In the 2021 State of the Nation Address, the President of the Republic announced that work was underway with the relevant departments to reform the visa and immigration regime to attract skills and grow the tourism sector. As international travel starts to recover in the wake of COVID-19, government was planning to undertake a full roll-out of e-visas to visitors from China, India, Nigeria, Kenya and 10 other countries.

The Committee will continue to track the undertakings made by government on facilitating the development and marketing of tourism in South Africa. To effectively do this, the Committee will continue following up on the work done by the Department, SA Tourism and various government departments that implement programmes that have direct and indirect impact on the performance of the tourism sector in South Africa.

### 1.3 Strategic Outcome Oriented Goals of the Department and Delivery Agreement targets for 2020/21

In line with its vision of complementing the national priorities, the Department identified objectives that would accelerate the delivery of services in the tourism sector. Outlined below are the strategic outcomes of the Department, as stated in the 2020/21 – 2024/25 Strategic Plan, which correlate with Government's Outcomes, namely:

**Table 1: Strategic Outcome-Oriented Goals which correlate with Government Outcomes**

MTSF Priority	MTSF Outcome	Departmental outcome
Priority 1: Building a capable, ethical and developmental State	<ul style="list-style-type: none"> <li>Improved governance and accountability.</li> <li>Functional, efficient and integrated government</li> </ul>	Achieve good corporate and cooperative governance.
Priority 2: Economic Transformation and Job creation	Re-industrialisation of the economy and emergence of globally competitive sectors.	Increase the tourism sector's contribution to inclusive economic growth.
Priority 7: A better Africa and world	Growth in tourism sector resulting in economic growth.	Increase the tourism sector's contribution to

		inclusive economic growth.
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**Source:** Department of Tourism Strategic Plan 2020/21 – 2024/25

## **1.4 Purpose of the Budgetary Review and Recommendation Report**

The Budgetary Review and Recommendation Report (BRRR) compilation process is governed by the Money Bills Amendment Procedure and Related Matters Act (Act 9 of 2009). The Act sets out the process that allows Parliament to make recommendations to the Minister of Finance to amend the budget of a national department. In October of each year, the Committee must compile the BRRR that assesses service delivery performance given available resources; evaluate the effective and efficient use and forward allocation of resources; and may make recommendations on forward use of resources. The BRRR also acts as a source document for the Standing/Select Committees on Appropriations/Finance when making recommendations to the Houses of Parliament on the Medium-Term Budget Policy Statement (MTBPS). The comprehensive review and analysis of the previous financial year's performance, as well as performance to date, form part of this process.

## **1.5 Method**

The Minister of Tourism tabled in Parliament the Annual Reports for the Department and SA Tourism. The Committee then scheduled a series of meetings to scrutinise and get more insights into the financial and non-financial performance of the tourism portfolio in the year under review. On the 9 November 2021, the Committee convened a meeting with the Office of the Auditor-General, the Internal Audit Committee of the Department and the Department itself. On the 16<sup>th</sup> November 2021, the Committee convened a meeting with SA Tourism. These meetings were convened in preparation of drafting and tabling the 2021 tourism portfolio Budget Review and Recommendation Report.

## **1.6 Outline of the contents of the Report**

The report is made up of five constituent parts as follows:

- (i) Constitutional, legislative and policy mandate of the Committee and the process that was followed in developing this Budget Review and Recommendation Report.
- (ii) Previous financial performance of the Department on both financial and non-financial aspects.
- (iii) Financial, non-financial and service delivery issues for the period under review.
- (iv) Key findings from the oversight work of the Committee, public hearings and research by external stakeholders that inform the recommendations.
- (v) Recommendations to the Ministers of Finance and Tourism in terms of the budgetary requirements, performance, and service delivery improvement of the Department.

## **2. OVERVIEW OF THE KEY RELEVANT POLICY FOCUS AREAS**

The current government legislative, policy and strategic frameworks aligned to the overall mandate of tourism in the country. There is a need to review some strategies and policies to be perfectly aligned to the Vision 2030 of the National Development Plan. The Department has started a process of policy review as indicated in this report. The policy review process will address a number of gaps raised by the Committee and the tourism sector at large to ensure that the country is competitive to other comparative tourism destinations.

### **2.1 Key Government policies**

The following policies and strategies are due for review within this medium term:

- White Paper on the Development and Promotion of Tourism in South Africa, 1996.
- Tourism Act, No. 3 of 2014.
- National Grading System.
- National Tourism Sector Strategy, 2016.

The review of the White Paper, Tourism Act and strategies will determine which aspects of these policies should be retained and which ones should be changed to enhance the tourism sector's performance

## 2.2 Overview of the revised Strategic Plan and Annual Performance Plans

The Department conducts its mandate through four Programmes, namely, Programme 1: Administration; Programme 2: Tourism Research, Policy and International Relations; Programme 3: Destination Development; and Programme 4: Tourism Sector Support Services.

The main cost driver under Vote 38 is Programme 2 (*Tourism Research, Policy and International Relations*), which consumes more than half (approximately 56.9 percent) of the total Vote allocation. This is mainly due to the significant transfer to the Department's Entity, South African Tourism. In contrast, Programme 3 (*Destination Development*) experienced a significant decrease at 37.1 percent in real terms. The Department reported that an amount of R540 million would be reprioritised over the medium term from this programme to Programme 4 (*Tourism Sector Support Services*) for the Tourism Equity Fund.

The major cost driver under Programme 3 is the Working for Tourism, Expanded Public Works Programme, sub-programme. The sub-programme's allocation also sees a significant decrease from R378.1 million in 2020/21 to R216.6 million in the current financial year. The Committee monitored how this decrease in funding affected deliverables under this sub-programme, especially in view of its aim towards job creation. The cost driver under Programme 4, the Tourism Incentive Programme, had a substantial increase for the year from R59.8 million in 2020/21 to R327.0 million in 2021/22. As alluded, a number of projects were cancelled for the 2020/21 financial year in this sub-programme. Some of these have been included for the 2021/22 financial year such as the Green Tourism Incentive Programme.

In line with its focus areas for the 6<sup>th</sup> Parliament, the Committee impressed on the Department to have a concerted focus on the Villages, Townships and Small Dorpies (VTSDs). The Strategic Plans of both the Department and SA Tourism introduce aspects of tourism development and marketing in the VTSDs, albeit minimal.

### 2.2.1 Strategic goals

In its efforts to accomplish its mandate, the Department was focusing on the following:

- improving its governance and accountability systems towards achieving an unqualified audit outcome;
- implementing the departmental integrity management programme to promote integrity and ethical conduct;
- in partnership with SA Tourism, implementing measures and initiatives to increase the number of international tourist arrivals and domestic travellers;
- increasing tourism's contribution to employment creation and the gross domestic product; increasing diversification of the country's product offering; and improving transformation levels in the sector.

### 2.2.2 Departmental programmes

As alluded, the Department fulfils its mandate through four Branches/Programmes, namely, Programme 1: Administration; Programme 2: Tourism Research, Policy and International Relations; Programme 3: Destination Development; and Programme 4: Tourism Sector Support Services. These four Programmes are interwoven and work collaboratively to deliver on the constitutional mandate of the Department. The Department was pursuing the strategic objectives and the strategic outcome-oriented goals through these four Programmes, with respective and thoughtful purposes as depicted in Table 2.

**Table 2: Departmental Programmes**

Programme	Name of the Programme	Purpose of the Programme
Programme 1	Administration	To provide strategic leadership, management and support services to management. The sub-

		programmes for Programme 1 are Ministry; Management; Corporate Management; Financial Management; and Office Accommodation.
Programme 2	Tourism Research, Policy and Internal Relations	To enhance a strategic policy environment, monitor the tourism sector's performance and enable stakeholder relations. The related strategic outcome-oriented goal is to achieve good corporate and cooperative governance
Programme 3	Destination Development	To facilitate and co-ordinate destination development. The strategic outcome-oriented goal is to increase the tourism sector's contribution to inclusive economic growth.
Programme 4	Tourism Sector Support Services	To enhance transformation of the sector, increase skills levels and support its development and to ensure that South Africa is a competitive tourism destination. The strategic outcome-oriented goal is to increase the tourism sector's contribution to inclusive economic growth.

**Source:** Adapted from the Department of Tourism 2020/21 Annual Performance Plan

### **2.3 Overview of key developments in the organisational and service delivery environments of the Department for 2020/21 and 2021/22 MTEF cycle.**

There were various developments in the organisational and service delivery environment in the year under review. A selected few include, but are not limited to:

- The emergence of the Novel COVID-19 pandemic in 2019 had a huge negative impact on the tourism sector. In a period just before the onset of the COVID-19 pandemic, the tourism sector in South Africa created 1.5 million jobs and contributed R425.8 billion to the GDP. The sector also represented 8.6 percent of all economic activity in the country, which made South Africa the largest tourism economy in Africa. The pandemic has had dire socio-economic effects on the sector, which caused job losses and closure of some tourism business, thus putting livelihoods of tourism employees in jeopardy. This also had a severe impact on the freelancers in the sector, such as tourist guides.
- Relief funds – in response to the impact of COVID-19 in the sector, the Department introduced some relief funds. The Tourism Relief Fund was established at an amount of R200 million. An amount of R30 million was also set aside to assist struggling tourist guides. The Department also facilitated the access of the sector to the Temporary Employee Relief Scheme (TERS) - UIF Fund paid by the Department of Employment and Labour to distressed economic sectors.
- Tourism Sector Recovery Plan - as it became clear that the tourism sector was the most affected economic sector, the Department responded by developing the Tourism Sector Recovery Plan (TSRP). This was meant to expedite the recovery of the sector. The TSRP is a product of a collaborative effort with key stakeholders from government, the sector and other social partners. Cabinet approved the TSRP on 21 March 2021.
- Interdiction of the Tourism Equity Fund - the civil organisations AfriForum and Solidarity took the Minister of Tourism, the Director-General and the Small Enterprise Development Agency (SEFA) to court to interdict the implementation of the Tourism Equity Fund. This was due to the concern raised by the litigants that the funds had unfair B-BBEE qualifying criteria. This was the second time the Department was taken to court by the same organisations. In the previous financial year, the Department was taken to court for similar reasons when they introduced the Tourism Relief Fund which was administered and disbursed by South African Tourism. These organisations were dissatisfied with the B-BBEE criteria.

### **3. SUMMARY OF PREVIOUS YEAR KEY FINANCIAL AND NON-FINANCIAL PERFORMANCE RECOMMENDATIONS OF THE COMMITTEE**

### **3.1 2019/20 BRRR recommendations**

#### **3.1.1 Summary of key financial and non-financial performance recommendations made by the Committee.**

The Committee made a number of recommendations in the 2019/20 Budgetary Review and Recommendation Report and received comprehensive responses from the Minister of Tourism.

##### **3.1.1.1 Responses by the Minister of Finance**

The urgent recommendation made to the Minister of Finance was to reimburse Vote 38: Tourism with the R1 billion reduced from the Adjustment Budget Appropriation to fund government interventions to save lives and livelihoods from the impact of the COVID-19 pandemic. This recommendation was responded to accordingly as the 2021/22 appropriation was brought back to R2.5 billion for Vote 38. The Committee had made other financial recommendations, such as appropriating and ringfencing a budget for sector recovery. These did not receive a positive response due to the constrained national fiscus.

##### **3.1.1.2 Responses by the Minister of Tourism**

The Committee made a number of recommendations covering audit findings, financial management, operations and the operational environment of the Department. The Department provided a comprehensive response on all the recommendations. The responses paint a picture that the Department has addressed all the issues raised by the Committee in the previous audit period. However, the 2020/21 audit findings revealed that what the Department responded to on paper is not actually what is taking place on the ground. The Committee will scrutinise the responses by the Department against the current audit findings to ascertain progress on work done to address the Committee recommendations.

### **3.2 2020/21 Committee Budget Report**

In this 2020/21 Budget Report the Committee makes a number of recommendations to the Minister of Finance and the Minister of Tourism. These are mainly related to budget allocation for the tourism portfolio in South Africa and the improvement of organisational financial performance against the appropriated budget. The Committee has observed that the recommendations related to financing the tourism function have not received adequate attention from the Minister of Finance/ National Treasury over the years. This has led to the sector being unable to perform at its optimal capacity. In turn, the tourism sector has not been able to adequately create the potential labour intensive jobs that it is capable of providing to South Africans. Given the impact of the COVID-19 pandemic, the Committee deems it necessary to provide more funding to assist the recovery of the sector.

The majority of the organisational recommendations to the Minister of Tourism are aimed at improving the financial performance, internal controls and adherence to laws and regulations. The Committee has observed continued regression in audit findings with more material findings in both the Department and SA Tourism. The regression in audit findings has serious consequences for the effective and efficient utilisation of allocated budget as there are more cases of irregular, fruitless and wasteful expenditure. In the 2020/21 Budget Report, the Committee mainly addressees the audit findings through making similar recommendations to those of the Auditor-General. This will assist the Committee in tracking the implementation of the recommendations made.

## **4. OVERVIEW AND ASSESSMENT OF FINANCIAL PERFORMANCE**

The Committee assessed the budget allocation and expenditure trends in the sector over the 2016/17 – 2020/21 financial years to establish the trends for Vote 38. The emerging trend is that the Department always spends almost 100 percent of its allocated budget whilst failing to achieve some targets set over the past five financial years.

### **4.1 Budget and expenditure, 2016/17 – 2020/21**

The Department has had a steady increase in the allocated budget over the past five years as depicted in Table 3. In the 2016/17 financial year the Department was allocated R2 009 516 000 and

spent R1 919 790 000, representing 95.5 percent expenditure of the appropriated budget. In the 2017/18 financial year the Department was allocated R2 140 156 000 and spent R2 133 976 000, which was 99.7 percent of the appropriated budget. In the 2018/19 financial year the Department was appropriated R2 261 817 000 and spent R2 234 802 000 which was 98.8 percent of its appropriated budget. In the 2019/20 financial year the Department was allocated R2.392 billion and was able to spend R2.384 billion, translating to 99.7 percent expenditure.

**Table 3: Overview of budgetary allocation and expenditure 2016/17 – 2020/21**

Year	Voted Allocation (R'million)	% change from previous year (nominal)	* Voted Allocation adjusted for inflation (R'million)	** % change from previous year (adjusted for inflation)	Adjusted Allocation (R'million)	Expenditure (R'million)	Expenditure as a percentage of Adjusted Allocation (%)
2016/17	2 009 516,0	11,6%	1 796 976,77	5,0%	2 009 516,0	1 919 646,0	95,5%
2017/18	2 140 156,0	6,5%	1 824 403,68	1,5%	2 140 156,0	2 133 976,0	99,7%
2018/19	2 261 817,0	5,7%	1 827 597,32	0,2%	2 261 817,0	2 234 802,0	98,8%
2019/20	2 392 670,0	5,8%	1 837 1 837		2 392 670,0	2 384 392,0	99,7%
2020/21	1 481 000,0	70,29%	765,58	0,6%	1 426 860,0	1 392 249,0	97,6%
* Real change in Rand value							
** Real change in percentage terms							

**Source:** Calculation adapted from previous ENEs

The Department is commended for good financial performance with regard to expenditure over the five-year period. This has led to four unqualified audits, two of which were clean audits which translates to 88.3 percent average expenditure over the five financial years. The Committee has, however, observed that the high expenditure by the Department is not commensurate to the performance against the predetermined objectives. The Department has struggled over the years to achieve the maximum targets set over the five financial years.

## 5. FINANCIAL PERFORMANCE FOR 2020/21

The financial performance of the Department in the year under review is as follows:

### 5.1 Financial statements for the 2020/21 financial year

The Department of Tourism's adjusted appropriation for 2020/21 amounted to R1 481.0 billion. This was a decrease from the initial appropriation of R2 481.0 billion, which was adjusted in response to the outbreak of the COVID-19 pandemic. Adjustment to allocations in the Special Adjusted Estimates Appropriation were tabled in June 2020, resulting in R1 billion being suspended from the Department's initial budget. A second adjustment was made to the budget, resulting in a final allocation of R1 426 860 billion. At the end of the financial year, the Department had spent R1 392.2 billion or 97.6 percent of the available budget, R34.6 million (2.4 percent) less than projected for the period. This means the Department incurred an underspending of R34 611 million in the year under review.

**Table 4: Budget and Expenditure Summary 2020/21**

Programme	Special Adjusted Budget	Adjusted Appropriation	Virements	Final Appropriation	Expenditure	Variance	Expenditure as % of final appropriation
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	(R'000)	(R'000)	(R'000)	(R'000)	(R'000)	(R'000)	%
1. Administration	307.1	299 644	(9 822)	289 822	289 819	3	100%
2. Tourism Research, Policy and Internal Relations	520.6	499 118	(16 973)	482 145	479 529	2 616	99.5%
3. Destination Development	469.4	465 894	(23 185)	442 709	427 495	15 214	96.6%
4. Tourism Sector Support Services	183.9	162 204	49 980	212 184	195 406	16 778	92.1%
<b>Total</b>	<b>1 481.0</b>	<b>1 426 860</b>	<b>-</b>	<b>1 426 860</b>	<b>1 392 249</b>	<b>34 611</b>	<b>97.6%</b>

**Source:** Department of Tourism Annual Report for 2020/21

The financial performance per Programme was as follows:

(i) Programme 1: Administration

Programme 1 provides strategic leadership, management and support services to management. Sub-programmes include Ministry, Management, Corporate Management, Financial Management, and Office Accommodation. The Actual spending in this Programme was 100 percent.

(ii) Programme 2: Tourism Research, Policy and International Relations

Programme 2 focuses on enhancing the strategic policy environment, monitoring the tourism sector's performance and enabling stakeholder relations. The actual spending at the end of the financial year was R479 529 million against the R482 145 million available for the year. The bulk of the R2 616 million underspending lies within Compensation of Employees due to strict policies adhered to by the Department to reduce expenditure on salaries and wages.

(iii) Programme 3: Destination Development

Programme 3 focuses on facilitating and coordinating destination development. The actual spending at the end of the financial year was R427 495 million against the R442 709 million available for the year. The bulk of the R15 214 unspent funds is due to funds allocated to the Expanded Public Works Programme Incentive which was not approved by the Department of Public Works for spending. These were therefore relinquished to the National Treasury as unspent funds.

(iv) Programme 4: Tourism Sector Support Services

Programme 4 focuses on enhancing transformation of the sector, increasing skills levels and supporting development to ensure that South Africa is a competitive tourism destination. The actual expenditure at the end of the financial year was R195 406 million against the R212 184 million available for the year. The bulk of the R16 778 million underspending lies within the Tourism Incentive Programme of which funds were set aside to provide financial relief to freelance tourist guides due to the effects of the COVID-19 pandemic on the tourism industry. Since the total allocation was not fully taken up by the tourist guiding sector, the remaining portion was relinquished back to the National Treasury.

#### 5.1.1 Quarterly spending trends

The Department experienced underspending throughout the four quarters of the 2020/21 financial year. At the end of the First Quarter, the Department achieved 48 (76.19 percent) of the 63 predetermined objectives set for the quarter. Of the 63 targets identified, the Department did not achieve seven (11.11 percent) wherein significant work had been done and eight (12.70 percent) required intervention.

In terms of financial performance, the Department spent R329 653 million (13 percent) of the R2 480 984 billion budget allocated. The 2020/21 First Quarter financial performance was against the

backdrop of the budget adjustments that were made to the Tourism Vote budget allocations. In the wake of the COVID-19 pandemic, R200 million and R30 million were made available in this quarter for the Tourism Relief Fund and the Tourist Guides Relief Fund respectively. An amount of R1 billion was also adjusted downwards from the initial appropriation of R2.5 billion. This caused the Department and SA Tourism to remove some of the initially planned activities such as marketing, various incentive schemes, some training programmes and the Working for Tourism Expanded Public Works implementation projects.

At the end of the Second Quarter the Department achieved 55 (82.09 percent) of the 67 targets identified for the quarter. Of the 12 targets not achieved, the Department completed significant work towards four (5.97 percent), whilst the remaining eight (11.94 percent) required intervention. In terms of financial performance, the Department spent R550 million (37.1 percent) of the R1 481.0 billion adjusted budget.

During the Third Quarter, the Department achieved 52 (77.61 percent) of the 67 targets identified for the quarter. Of the 15 targets not achieved, the Department completed significant work towards six (8.96 percent), whilst the remaining nine (13.43 percent) required intervention. In terms of financial performance, the Department spent R800.5 million (56.1 percent) of the R1 426.8 billion adjusted by the end of the Third Quarter.

By the end of the Fourth Quarter, the Department had achieved 56 (87.50 percent) of the 64 targets identified for the 2020/21 financial year. The Department reported that 8 (12.5 percent) targets were not achieved at the end of the 2020/21 financial year. In terms of financial performance, the Department had spent R1 393.1 billion (97.6 percent) of the R1 426.9 billion adjusted budget by the end of the financial year.

## **5.2 Transfers and subsidies**

The Department reported that the virements between the main divisions were towards the Tourism Incentive Programme. Approval was granted by National Treasury in accordance with Section 6.3.1 of the Treasury Regulations, to increase the Transfers and Subsidies allocation of the Tourism Incentive Programme (TIP) in order to fund the Tourism Equity Fund to be managed by the Small Enterprise Finance Agency (SEFA), as well as the creation of a new transfer line to house this transfer payment. The transfer amount approved was R77 million. Accordingly, approval was granted for the Department to shift R50 million from Goods and Services to Transfers and Subsidies: Private Enterprises for the new transfer item, as well as to shift R27 million within Goods and Services for Consultants: Business and Advisory Services under Programme 4: Tourism Sector Support Services.

## **5.3 Auditor-General Report**

The report of the Auditor-General is presented for both the Department and SA Tourism.

### **5.3.1 Auditor-General's Report with regard to the Department of Tourism**

The Department obtained an unqualified audit opinion for the 2020/21 financial year. The same audit opinion was received in the previous financial year. In 2018/19 the Department received a qualified audit opinion, which was a first for it in a period of four years. The Auditor-General made the following findings in respect of the Department's performance information:

#### **5.3.1.1 Pre-determined Objectives**

- No material findings were made on the usefulness and reliability of the reported performance information for the selected Programme: Programme 4 (Tourism Sector Support Services).
- Reported performance information is useful and reliable in all material respects.

#### **5.3.1.2 Financial Statements:**

- The Auditor-General's report states that the financial statements of the Department present fairly, in all material respects, its financial position as at 31 March 2021 (unqualified audit opinion).
- The Department's financial performance and cash flows for the year ended is in accordance with the Modified Cash Standard (MCS), as prescribed by the National Treasury and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of

1999) (PFMA) and the Division of Revenue Act of South Africa, 2019 (Act No. 16 of 2019) (Dora).

#### 5.3.1.3 Compliance with Laws and Regulations

The Auditor-General identified material findings on compliance with specific matters in key applicable legislation as follows:

- Procurement and contract management  
Some of the bid documentation for procurement of commodities designated for local content and production did not stipulate the minimum threshold for local production and content, as required by 2017 preferential procurement regulation 8(2).
- Expenditure Management
  - Effective and appropriate steps were not taken to prevent irregular expenditure amounting to R1 223 million, as disclosed in note 22, as required by section 38(1)(c)(ii) of the PFMA and Treasury regulation 9.1.1.
  - The overall irregular expenditure amounts to R36 155 million, in addition to the R34 932 million of prior years.
  - The majority of the irregular expenditure disclosed in the financial statements was caused by non-compliance with supply chain management procedures and irregular awarding of tenders.
- Internal Control Deficiencies
  - The Department compiled an action plan based on the audit report findings. However, it did not adequately monitor and implement the action plan. This resulted in material non-compliance and irregular expenditure recurring in the current financial year.
  - Inadequate reviews were performed by management to ensure consistency between the Annual Performance Plan and the Annual Performance Report.

#### 5.3.1.4 Other Reports

The Director-General instituted an independent investigation into the irregular, fruitless and wasteful expenditure incurred on the Expanded Public Works Programme projects. The investigation was completed by the time of this report and the Director-General had initiated the recommendations as per the investigation report.

### 5.3.2 Auditor-General's Report with regard to SA Tourism

The Entity received a qualified audit opinion for the 2020/21 financial year. This is a regression from the unqualified audit opinion with findings for the 2019/20 financial year. The Auditor-General (AG) emphasised the following:

#### 5.3.2.1 Marketing expenditure

- Included in marketing expenditure is R16 815 628 million for expenditure paid by a third party. The Entity did not have adequate internal controls to maintain records of marketing expenditure paid for by third parties.
- The Auditor-General was unable to obtain sufficient appropriate audit evidence to substantiate the marketing expenditure paid for by third parties disclosed in note 23 to the financial statements. As a consequence, the AG was unable to determine whether any adjustments were required to the financial statements arising from marketing expenditure paid for by third parties.

#### 5.3.2.2 Receivables from non-exchange transactions

- The Auditor-General was unable to obtain sufficient appropriate audit evidence for receivables from non-exchange transactions, as internal controls had not been implemented appropriately for the recording of expenditure incurred by the Entity and paid by the third party when it accrued in the financial records.
- The Auditor-General could not confirm whether all receivables from non-exchange transactions had been recorded by alternative means. Consequently, the AGSA was unable

to determine whether any adjustment was necessary to receivables from non-exchange transactions stated at R39 305 815 in the financial statements.

#### 5.3.2.3 Irregular expenditure

- As disclosed in note 36 to the financial statements, irregular expenditure of R20 063 332 million was incurred in the current year due to the Entity not following competitive bidding processes.

#### 5.3.2.4 Material findings on the usefulness and reliability of the performance information of the selected programme, Programme 3 (Leisure Tourism Marketing)

- Target: Traveller, trade, arts and culture partnerships
  - The AG was unable to obtain sufficient appropriate audit evidence that clearly defined the predetermined nature and required level of performance and method of calculation to be used when measuring the actual achievement for the target traveller, trade, arts and culture partnerships activated by 31 March 2021. This was due to insufficient measurement definitions and processes. Therefore, it was difficult to test whether the target for the indicator was clearly defined by alternative means.

### 5.3.3 Compliance with Laws and Regulations

The Auditor-General identified material findings on compliance with specific matters in key applicable legislation as follows:

#### 5.3.3.1 Annual financial statements and annual report

The financial statements submitted for auditing were not supported by full and proper records, as required by section 55(1)(b) of the PFMA. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not be provided subsequently, which resulted in the financial statements receiving a qualified opinion.

#### 5.3.3.2 Expenditure management

Effective and appropriate steps were not taken to prevent irregular expenditure amounting to R20 063 332 million, as disclosed in note 36 to the financial statements, as required by section 51(1) (b)(ii) of the PFMA. The majority of the irregular expenditure was caused by failure to follow a procurement process in terms of the National Treasury transcripts to invite competitive bids for expenditure paid by a third party on behalf of the Entity.

### 5.3.4 Procurement and contract management

- Some of the goods and services of a transaction value above R500 000 were procured without inviting competitive bids, as required by treasury regulation 16A6.1 and paragraph 3.4.1 of Practice Note 8 of 2007-08. This non-compliance was identified in the procurement processes for expenditure incurred by the Entity and paid by a third party.
- Some of the tenders that achieved the minimum qualifying score for functionality criteria were not evaluated further in accordance with 2017 preferential procurement regulation 5(7). This noncompliance was identified in the procurement processes for the appointment of the panel of internal auditors.
- The AG was unable to obtain sufficient appropriate audit evidence that contracts were awarded to bidders in an economical manner and that prices for the goods or services were reasonable, as required by section 57(b) of the PFMA. This limitation was identified in the procurement processes for expenditure incurred by the Entity and paid by a third party.

### 5.3.5 Internal control deficiencies

- Management did not design and implement effective internal controls to record transactions paid by third parties to ensure that expenses are recorded when the service is rendered. Management relied on external confirmation at year-end to provide the information to be included in the Entity's financial records.
- Management did not adequately review the Annual Performance Plan to ensure that the target, on Traveller, trade, arts and culture partnerships, was specific. The AG could not determine if the Entity had an over- or under achievement in the target indicated in this report.
- Management disregarded the Entity's internal policies, laws and regulations for appointing suppliers without following a procurement and contract management process. The Entity used third parties to make payments on its behalf for expenditure it had incurred. The Entity's internal processes and systems did not prevent material non-compliance of irregular expenditure from occurring.

#### **5.3.6 Other Reports**

Two investigations were undertaken relating to allegations of misappropriation of the Entity's assets. One of the investigations, which was at the request of the Entity's Chief Executive Officer (CEO), covered the 2017/18 financial year. The second investigation, which was at the request of the Accounting Authority, covered the period 1 April 2020 to 31 March 2021. The outcomes of the investigations had not yet been finalised at the time of the auditor's report.

#### **5.4 Summary of key issues contained in reports of Finance/Appropriation Committees**

In the period under review, the Department and SA Tourism had no issues raised by the finance or appropriation committees.

#### **5.5 Summary of key financial issues contained in any other relevant report(s)**

The Standing Committee on Public Accounts (SCOPA) did not raise any issues with regard to spending by the Department. The issues on the COVID-19 expenditure are detailed under the Report of the Auditor-General and Committee observations. No financial issues were identified from other sources in the period under review.

#### **5.6 2020/21 MTEF financial allocations**

##### **5.6.1 Summary of funding submissions to the National Treasury for the 2020/21 MTEF.**

The detailed funding submissions made to the National Treasury for the 2020/21 financial year were as follows:

- Reimburses the Department of Tourism with the R1 billion that was returned to the national fiscus.
- Assists SA Tourism on compliance with the procurement processes on transactions conducted in foreign country offices.
- Assists SA Tourism with determining the process to be followed to maximise TOMSA Levy collection from the tourism businesses.
- Provides ring-fenced funding to promote tourism development in villages, townships and small dorpiess.

The Committee is pleased with the response of the National Treasury to return the R1 billion reduced from the departmental budget in the previous financial year.

## **6. OVERVIEW AND ASSESSMENT OF SERVICE DELIVERY PERFORMANCE**

The service delivery performance assessment is presented for both the Department and SA Tourism.

## 6.1 The Department of Tourism

As alluded earlier, the Department executes its mandate through four programmes, namely, Administration; Tourism Research, Policy and International Relations; Destination Development; and Tourism Sector Support Services.

### 6.1.1 Service delivery performance for the 2020/21 financial year

The departmental performance against the predetermined objectives is indicated in Table 5.

**Table 5: Overview of the Department's performance for the 2020/21 financial year**

Branches / Programmes	Achieved	Not achieved; significant work done	Not achieved; intervention required	Insufficient information to express opinion
Administration	86.67% (13 of 15)	13.33% (2 of 15)	0.00% (0 of 5)	0.00% (0 of 15)
Tourism Research, Policy and International Relations	92.86% (13 of 14)	0.00% (0 of 14)	7.14% (1 of 14)	0.00% (0 of 14)
Destination Development	88.86% (8 of 9)	11.11% (1 of 9)	0.00% (0 of 9)	0.99% (0 of 9)
Tourism Sector Support Services	75.00% (15 of 20)	20.00% (4 of 20)	5.00% (1 of 20)	0.00% (0 of 20)
<b>Total</b>	<b>84.48% (49 of 58)</b>	<b>12.07% (7 of 58)</b>	<b>3.45% (2 of 58)</b>	<b>0.00% (0 of 58)</b>

**Source:** Department of Tourism 2020/21 Annual Report

Table 5 depicts that the Department achieved 56 (87.50 percent) of the 64 identified annual targets. Of the eight targets not achieved, the Department indicated that significant work was done towards achieving three (4.69 percent) of them, whilst the remaining five (7.81 percent) required intervention. Programme 4: Tourism Sector Support Services accounts for the bulk (four) of targets not achieved.

In its reporting, the Department indicated that most of the unmet targets relate to postponements resulting from the national lockdown caused by the outbreak of the COVID-19 pandemic. Some of the unmet or partially achieved targets result from delays in procurement processes for projects. The following section provides an outline of each programme's performance.

### 6.1.2 Programme Performance

#### 6.1.2.1 Programme 1: Administration

The purpose of this programme is to provide strategic leadership, management and support services to the Department.

**Table 6: Programme 1 - administration**

Total Target set	22
Targets achieved	20 (90.91%)
Targets not achieved	2 (9.09%)
Revised budget allocation	R308 593 million
Special Adjusted budget (Q2)	R307.1 million
Adjusted Budget (Q3)	R299.6 million
Final budget	R289 822 million
Budget spent	R289 819 million (99.9%)

As can be seen from the table above, the Department achieved 20 (90.91 percent) of its 22 targets under Programme 1 as at the end of the financial year, while spending 99.9 percent of its budget.

- The Department reported a variance in its vacancy rate at 11.2 percent from the annual target of 10 percent. It ascribed this variance to the recruitment process, natural attrition and promotions of staff to other Departments and the private sector, which continues to impact internal vacancies.
- The target on 50 percent women representation at Senior Management Service (SMS) level was not achieved, at 43.9 percent, as at the end of March 2021. This is as a result of lockdown restrictions that affected departmental recruitment processes. A decrease in this target was already evident from the 2019/20 financial year, at 46.5 percent. At its quarter four reporting the Department advised the Committee that efforts will be improved to achieve the desired target outcome. The Committee will monitor the attainment of this target in future, as its aligned to the transformation target of female representation at senior management level.
- The Department maintained its minimum representation of employees with disabilities at 4.3 percent, thus exceeding the target of a minimum of 3 percent representation of employees with disabilities.
- The Department also continued with its support of small micro medium enterprises, with 61.79 percent spent procuring from these businesses. The 100 percent payment of invoices within the stipulated 30 days is reassuring for the sustainability of said businesses.
- The Department was also able to implement all its initiatives focusing on reasonable access, gender equity and the promotion of integrity and ethical conduct among employees.

#### 6.1.2.2 Programme 2: Tourism Research, Policy and International Relations

The purpose of this programme is to enhance the strategic policy environment, monitor the tourism sector's performance and enable stakeholder relations.

**Table 7: Programme 2 -Tourism Research, Policy and Internal Relations**

Total Target set	13
Targets achieved	12 (92.31%)
Targets not achieved	1 (7.69%)
Revised budget allocation	R1 391 382 billion
Special Adjusted budget (Q2)	R520.6 million
Adjusted Budget (Q3)	R499.1 million
Final budget	R482.1 million
Budget spent	R479.5 million (99.5%)

Table 7 indicates that the Department achieved 12 of its 13 targets set under this programme. The Department spent 99.5 percent of its funding and achieved 92 percent of its targets under the programme.

- The annual target not achieved as planned relates to the development of a National Tourism Analytics System Framework. The Department reported that this resulted from challenges in appointing a service provider timeously. The framework is aimed at improving the Department's access to data, analytics and market intelligence required to guide planning, decision making and performance monitoring and evaluation. The Department seeks to develop a predictive model for the economic impacts of tourism and forecasting of tourism performance. The Committee was concerned about the service delivery implications of this delay for the sector.
- The Department has developed various reports during the financial year under this programme. Two reports were developed evaluating the impact of COVID-19 on the tourism sector. In addition, a report evaluating the impact of the Tourism Relief Fund on enterprises was also developed. These reports are important, especially in view of how they influence, if at all, some of the recommendations of the Tourism Sector Recovery Plan: COVID-19 Response.

- The Department reported that the draft review of the White Paper has been developed. In a meeting on 31 August 2021, the review panel advised the Committee of its intentions to widen its consultations on the White Paper. This will in turn ensure that an extensive number of stakeholder concerns and recommendations are represented in both the White Paper and ultimately legislation, where applicable.
- The Department continued in its endeavours to ensure South Africa's representation at multilateral fora and strengthening of bilateral relationships.

#### 6.1.2.3 Programme 3 - Destination Development

The purpose of the programme is to facilitate and coordinate tourism destination development. The Programme's final appropriation was R442 709 million in the 2020/21 financial year, the bulk of which (R389 844 million or 88.1 percent) was allocated to the Working for Tourism sub-programme. Working for Tourism consists of the Expanded Public Works Programme (EPWP) and Expanded Public Works Incentive Programme.

Table 8 shows that the Department achieved eight of its nine targets set for this Programme. The target not met relates to a viability study for the new Rail Tourism model, which was not developed. Preliminary findings indicated that while there is interest in rail as a tourism experience, the state of rail infrastructure in the country presents a significant challenge to meeting this desire. Thus, the Department did not deem it feasible to conduct the study until general rail infrastructure issues are addressed by Government and its partners.

**Table 8: Programme 3 - Destination Development**

Total Target set	9
Targets achieved	8 (88.89%)
Targets not achieved	1 (11.11%)
Revised budget allocation	R485 897 million
Special Adjusted budget (Q2)	R469.4 million
Adjusted Budget (Q3)	R465.9 million
Final budget	R442.7 million
Budget spent	R427.5 million (96.5%)

The Department spent 96.5 percent of its budget whilst achieving 89 percent of its targets under the programme. Other performance highlights under programme 3 include:

- The Department reported that the target on the piloting of the budget resort brand and network concept was achieved.
- The Department also achieved its target on the formulation of tourism implementation plans through the District Development Model (DDM) for the OR Tambo District Municipality, Waterberg District Municipality and eThekweni Metropolitan Municipality. The Committee will continue to monitor the implementation of this programme.
- The Department achieved its target on the number of work opportunities created for the year under review. A total of 2 772 work opportunities were created against an annual target of 2 500. The additional 272 work opportunities resulted from projects that overlapped from the 2019/20 financial year.

#### 6.1.2.4 Programme 4 : Tourism Sector Support Services

The purpose of this programme is to enhance transformation, increase skill levels and support the development of the sector to ensure that South Africa is a competitive tourism destination.

Table 9 depicts that the Department achieved 16 of its 20 targets under this programme. The Department spent 92.1 percent of its budget, while only achieving 80 percent of its targets. The underspending is attributed to unspent funds within the Tourism Incentive Programme (TIP) that were



set aside to provide financial relief to freelance tourist guides to minimise the effects of the COVID-19 pandemic. Since the total allocation was not fully taken up by the tourist guiding sector, the remaining portion will be surrendered to the National Revenue Fund.

**Table 9: Programme 4 - Tourism sector Support Services**

Total Target set	20
Targets achieved	16 (80%)
Targets not achieved	4 (20%)
Revised budget allocation	R295 112 million
Special Adjusted budget (Q2)	R183.9 million
Adjusted Budget (Q4)	R162.2 million
Final budget	R212.2 million
Budget spent	R195.4 million (92.1%)

- The Department reported that delays were experienced with the implementation of both the Technology Innovation Incubator and Tour Operator Incubator. The Technology Innovation Incubator experienced delays with the needs diagnostic assessment of enterprises and negotiations on the memorandum of agreement with the implementing agent took longer than anticipated. The Tour Operator Incubator experienced delays with the development of the programme's growth path including site inspections, which resulted in the lapse of the bid. The tender had to be re-advertised, thus resulting in both the Tour Operator and Technology Innovation Incubators not being implemented as planned for the financial year.
- The target on the New Venture Creation Programme for Youth was also not met. The programme was not implemented due to delays in appointing a service provider and in identifying project beneficiaries. The venture is aimed at empowering youth trained in food services to become owners and operators in the food services business. This is unfortunate, especially in view of the ripple effect a programme of this nature can have in addressing the challenge of youth unemployment.
- The annual target on the Women in Tourism (WiT) Enterprise Development Programme was not met at the end of the financial year as planned. Implementation of this target proved elusive throughout the financial period. In the first quarter the programme was not launched due to delays in planning and the fact that beneficiaries were not identified, resulting in these outcomes being moved to the third quarter. Targets for both quarter two and three were also not achieved, resulting from delays in finalising partnership agreements. This unmet target has ramifications for the Department's goal in achieving the MTSF priority on creating both employment and in achieving an inclusive economy.
- The annual target on the Food Safety Quality Assurers Programme was not achieved; this target has not been achieved for the past three financial years. The programme is aimed at training youth in the handling, preparation and storage of food to prevent food-borne illnesses in the hospitality industry. The continued delays in the implementation of this target have had significant implications for service delivery and job creation. The Department has over a period of three years missed continuous opportunities to create jobs for youth and improve livelihoods. A substantial number of beneficiaries could have benefitted from this programme over this period. In addition, many tourism businesses could have saved money, as this is an expensive service to outsource, from the skills provided by said beneficiaries. The Committee will continue to keep track of the implementation of this target in the 2021/22 financial year.
- The annual target on the development of the Tourism Environmental Implementation Plan for 2020-2025 was not achieved. The Department, as a result of the sector's impacts on the environment, is required by Section 11(1) of the National Environmental Management Act (NEMA), No. 107 of 1998, to develop the plan. The Department reported that considerable work has been undertaken towards the achievement of the target, however its finalisation will overlap into the 2021/22 financial year. The Committee will keep track of the implementation of the target in the 2021/22 financial year.

Some of the targets achieved under this programme include:

- Implementation of the United Nations World Tourism Organisation (UNWTO) Women in Tourism Pilot Project in Limpopo;
- Awareness sessions with Service Excellence ambassadors;
- Hosting of Local Government Tourism Peer Learning Network Sessions for municipal practitioners;
- Mandarin training for 20 Tourist Guides; and
- Enrolment of 20 black women in the Executive Development Programme for WiT.

## 6.2 South African Tourism 2020/21 Service delivery performance

The financial and non-financial performance for SA Tourism in the period under review was as follows:

The Entity executes its mandate through five programmes, namely. Corporate Support, Business Enablement, Leisure Tourism Marketing, Business Events and Tourist Experience. In the 2020/21 financial year, the Entity was able to achieve 23 (82 percent) of its 28 identified KPIs, spread across its five delivery Programmes. The Entity did not achieve five (18 percent) of its KPIs for the financial year. The following section provides an outline of each programme's performance

### 6.2.1 Programme Performance

The Programme performance for SA Tourism in the year under review is as follows:

#### 6.2.1.1 Programme 1: Corporate Support

The purpose of this programme is to provide support to the organisation and ensure compliance with statutory requirements.

**Table 10: Programme 1 - Corporate Support**

Total Target set	14
Targets achieved	11 (78.6%)
Targets not achieved	3 (21.4%)
Revised budget allocation	R111 445 million
Adjusted budget (Q3)	R126 722 million
Budget (Q4)	R130 245 million
Final budget	R111 445 million
Budget spent	R111 344 million (99.9%)
Under expenditure	R101 00

As indicated in Table 10, the Entity achieved 11 of the 14 targets set for this programme, while spending virtually all of its allocated budget.

The three targets not achieved in this programme include:

- Implementation of both internal and external audit recommendations. The inadequate implementation of audit recommendations can likely be linked to the Entity obtaining a qualified audit opinion for the financial year. The Entity reported that the outstanding recommendations will be finalised in the 2021/22 financial year. The Committee will follow-up in the implementation of this project.
- In relation to vacancy rate, 18 vacancies could not be filled due to the process underway of repurposing state entities and the related internal moratorium. According to the Entity, critical positions were only filled as approved by the Board.

- 100 percent automation of the supply chain management, legal and internal audit business processes as delays were experienced due to service provider capacity challenges. The Entity reported that penalty clauses, as a mitigation attempt, have been included in the agreement with the service provider.

The Entity's attempts at paying suppliers for services rendered earlier is appreciated, especially during this difficult period. Both targets for procuring from B-BBEE and youth and women owned businesses were achieved. The Entity was able to meet its target on the Workplace Skills Plan, with 23 learning programmes identified and implemented. The training programmes prioritised women and people with disabilities. The Entity was also able to meet both its equity targets on female representation at management level and increased representation of people with disabilities in the organisation. In the 2020/21 financial year, South African Tourism recorded an overall staff turnover rate of 4.8 percent, which is down from 8 percent in the previous financial year, with a voluntary turnover rate of 3.2 percent.

#### 6.2.1.2 Programme 2: Business Enablement

Table 11 shows that the Entity achieved only 60 percent of its targets set for the financial year under this programme while overspending by 17 percent on its allocated budget.

**Table 11: Programme 2 - Business Enablement**

Total Target set	5
Targets achieved	3 (60%)
Targets not achieved	2 (40%)
Revised budget allocation	R33 807 million
Adjusted budget (Q3)	R41 275 million
Budget (Q4)	R41 928 million
Final budget	R33 807 million
Budget spent	R39 841 million (117%)
Under expenditure	R6 034 million

- The Entity exceeded its target on the number of quarterly stakeholder meetings hosted. Additional meetings were held with stakeholders to discuss the impact of COVID-19 and the recovery of the sector.
- This also saw the timely publication of the monthly market insight reports, which were used to highlight both the impact of the pandemic and emerging factors in the sector.
- The annual target on the market access programme was also achieved. The programme is aimed at preparing small enterprises to be market ready for the recovery phase.
- The two targets not achieved include:
  - The B2B base portal, which is to be used to develop a two-way communication with industry members. Delays in the delivery of the portal were due to user acceptance testing and the decoupling of the payment portal from the platform.
  - The Market Investment Framework (MIF), which was due for an update. The updates on the MIF were delayed due to market changes resulting from dynamics introduced by the outbreak of COVID-19.

The Committee will monitor in the 2021/22 financial year the implications of these unmet targets, particularly as they relate to the Entity's strategic outcomes of achieving good corporate governance and increasing the Tourism sector's contribution to inclusive economic growth.

#### 6.2.1.3 Programme 3: Leisure Tourism Marketing

The purpose of the programme is to provide destination tourism marketing for leisure tourists for both international and domestic markets.

**Table 12: Programme 3 - Leisure Tourism Marketing**

Total Target set	4
Targets achieved	4

Revised budget allocation	R226 382 million
Adjusted budget (Q3)	R283 032 million
Budget (Q4)	R382 007 million
Final budget	R266 461 million
Budget spent	R405 555 million (152%)
Over expenditure	R139 094 million

This is the programme most affected by the COVID-19 pandemic, as it gives effect to the core mandate of the Entity.

- At the end of the financial year, the Entity managed to achieve all its targets under the programme, whilst overspending by 52 percent. Overspending under the programme at the end of quarter four was reported at 2 percent. The Entity reported that this was due to upfront payments, as per contractual agreements that were agreed to by the National Treasury. However, at the end of the financial year, the Entity reported an overspending of 52 percent under the programme.
- During the financial year, the Entity compiled a bank of digital content, incorporating villages, townships and small dorpiés aimed at developing brand content for all markets and business segments. The digital availability of this content will prove useful to tourism stakeholders in their marketing and promotion of products.
- The Entity also sought to reposition its brand for Africa's Travel Indaba, Meetings Africa and the Welcome Campaign. The repositioning strategies for all three initiatives were achieved.
- The Entity reported that the target for Digital Partnerships, which is aimed at extending the sector's digital footprint through a platform such as Google, was achieved. This includes the target for the Offline Partnerships, which is an online platform that offers access to various images, videos and digital stories of the country's tourism product offering.

#### 6.2.1.4 Programme 4: Business Events

The purpose of this programme is to market South Africa as a business events destination. The sub-programmes include: South African National Convention Bureau (SANCB) and Strategic events and exhibitions. The activities of this programme have been greatly affected by COVID-19.

- SANCB reported that 36 business events that were scheduled to take place in the country in 2020 and 2021 had to be postponed, due to the pandemic. Some of these, with an estimated contribution of R461 million, may be hosted in the fourth quarter of 2021 and 2022.
- Events such as Meetings Africa, scheduled for 22-23 February 2021, and Africa's Travel Indaba, scheduled for 12-14 May 2020, were also postponed due to COVID-19.
- In response to the challenge of COVID-19, SANCB instead focused its support across the bidding value chain, highlighting key economic sectors to maximise South Africa's chances of winning the rights to host business events.
- It also focused its efforts on supporting the recovery of this sub-sector by targeting leads generation for future business and facilitating the geographic spread of business events to be hosted in villages, townships and small dorpiés (VTSDs).

**Table 13: Programme 4 - Business Events**

Total Target set	2
Targets achieved	2
Revised budget allocation	R23 291 million
Adjusted budget (Q3)	R36 897 million
Budget (Q4)	R40 731 million

Final budget	R23 291 million
Budget spent	R30 836 million (132%)
Over expenditure	R7 545 million

As indicated in Table 13, the Entity achieved both its annual targets and overspent on its budget by 32 percent. In quarter four, the Entity reported an underspending of 28 percent under this programme, which it attributed to cancellations, deferrals and the move to online platforms of supported events.

Both targets under this programme were exceeded:

- At the end of the financial year, the Entity was able to support all the targeted bids. The sales team increased their resources during the financial year to achieve the set target.
- In addition, SANCB was able to generate 390 leads, significantly more than the 83 planned for the year, through the International Congress and Convention Association (ICCA) platform. The leads basically refer to the number of contacts, individuals, associations or organisers that SANCB has made that have an interest in hosting international and regional business events in the country.

#### 6.2.1.5 Programme 5: Tourist Experience

The purpose of this programme is to deliver a quality experience expected by international and domestic tourists by grading establishments, developing product capacity and creating itineraries for tourists.

**Table 14: Programme 5 – Tourist Experience**

Total Target set	1
Targets achieved	1
Revised budget allocation	R44 061 million
Adjusted budget (Q3)	R31 686 million
Budget (Q4)	R44 061 million
Budget spent	R34 487 million (78.3%)

Table 14 depicts that the Entity achieved the one target set for the financial year.

- The target entailed the implementation of the Basic Quality Verification (BQV) Programme, to provide basic quality support for SMME accommodation establishments. The programme seeks to recognise new entrants in the sector who are not able to be graded at the outset.
- The programme will allow products to reside as a BQV project for a maximum of two years, after which they will be encouraged to apply for full star grading assessment.
- According to the Entity, the implementation of the programme was adversely affected by the lockdown, with restrictions around interprovincial travel. Therefore, the programme only commenced in October 2020 with 108 SMMEs enrolled.
- As a mitigating measure, programme implementation has been extended to 31 October 2021.

The Entity reported that at the end of the financial year, 5 034 establishments were graded, which is a 3 percent (139) decline compared to the 5 173 establishments that were graded in the 2019/20 financial year. This target was not up for reporting in the financial year due to the impact of COVID-19 on businesses.

## 6.2.2 Overview and assessment of financial performance

### 6.2.2.1 Financial Statements for the 2020/21 financial year

The Entity receives approximately 83 percent of its annual budget from Government grants and subsidies, and 9 percent from the private sector through the Tourism Marketing South Africa (TOMSA) levy allocated through the Tourism Business Council of South Africa (TBCSA). The remaining 8 percent relates to income from exhibitions, such as Indaba and Meetings Africa (5 percent), grading fees (2 percent) and sundry income (1 percent).

In view of the COVID-19 crisis, the Entity had to revise its priorities and projections. During the period of travel restrictions, the Entity drastically reduced the ratio of its marketing expenditure, with more focus towards general operating expenditure. The Entity adjusted its annual budget for 2020/21 downwards from R1 560.6 billion to R438 986 million.

**Table 15: Budget and Expenditure Summary 2020/21**

Programme	2019/20			2020/21		
	Budget (R'000)	Actual Expenditure	(Over)/ Under Expenditure	Budget (R'000)	Actual Expenditure	(Over)/ Under Expenditure
1. Corporate Support	130 023	152 190	(22 167)	111 445	111 344	101
2. Business Enablement	80 730	79 059	1 671	33 807	39 841	(6 034)
3. Leisure Tourism Marketing	1 005 446	960 976	44 470	266 461	405 555	(139 094)
4. Business Events	180 068	178 855	1 213	23 291	30 836	(7 545)
5. Tourist Experience	102 031	77 021	25 010	44 061	34 487	9 574
<b>Total</b>	<b>1 498 298</b>	<b>1 448 101</b>	<b>50 197</b>	<b>479 065</b>	<b>622 063</b>	<b>(142 998)</b>

**Source:** South African Tourism Annual Report (2020/21)

By the end of quarter four, the Entity reported that its final budget stood at R626 597 million, with R627 813 million spent. At the end of the financial year, the Entity's final budget stood at R479 065 million, with R622 063 million spent as indicated in Table 15. This resulted in over expenditure of R142 998 million. Thus, the Entity overspent its 2020/21 budget allocation, while underperforming by 18 percent in respect of set performance targets.

#### 6.2.2.2 Quarterly expenditure for 2021/22

This following information provides financial expenditure of the Department for the first quarter of the 2021/22 financial year. This is critical in establishing whether there is improvement from the previous year's performance. The financial performance of the Department in the first quarter of the 2021/22 financial, as issued by the National Treasury to the Standing Committee on Appropriations, is as follows:

The Department of Tourism's main appropriation amounts to R2.5 billion for the 2021/22 financial year. At the end of quarter one, the Department spent R637.9 million or 26.3 percent of the available budget of R2.5 billion. This translates to R702.3 million or 52.4 percent slower against the projected spending of R1.3 billion for the quarter. The slower spending is mainly attributed to slow spending on goods and services as a result of delays in the Expanded Public Works Programme (EPWP) and transfers and subsidies due to delayed tranche payments towards the Tourism Equity Fund (TEF) pending the court interdict.

Programme 1: Administration: Actual spending for quarter one amounted to R64.4 million or 21.1 percent of the programme's available budget of R305.3 million for the financial year, representing a variance of R10.2 million or 13.6 per cent slower than the projected spending of 74.6 million for quarter one. The slower spending is due to delays in receiving invoices for office accommodation from the Department of Public Works and Infrastructure.

Programme 2: Tourism Research, Policy and International Relations: Actual spending was R533.7 million or 38.6 percent of the programme's available budget of R1.4 billion for the financial year, representing a variance of R524.3 million or 49.6 percent slower than the projected spending of R1.1 billion for quarter one. The slower spending is attributable to the second tranche payment towards the South African Tourism which will occur during the second quarter, as well as minimal spending on travel for international meetings, workshops and facilities by the department due to effects of the negative impact of COVID-19 on the tourism sector. Large variance in expenditure is due to department revising its expenditure plans downwards after submission of the projections for

the 2021/22 financial year, this was done in order to stay in line with the 45 per cent projected drawings rule for the first four months of the financial year.

Programme 3: Destination Development: Actual spending was R20.4 million or 6.7 per cent of the programme's total available budget of R305.6 million for the financial year, representing a variance of R55.3 million or 73.1 per cent slower than the projected spending of R75.7 million for quarter one. The slower spending is within the EPWP and other programme projects due to the COVID-19 lockdown restrictions that have limited physical interaction on projects.

Programme 4: Tourism Sector Support Services: Actual spending was R19.4 million or 4.4 per cent of the programme's total available budget of R436.6 million for the financial year, representing a variance of R112.5 million or 85.3 per cent slower than the projected spending of R131.9 million for quarter one. The slower spending is attributable to unspent funds within the Tourism Incentive Programme due to delayed tranche payments towards the Tourism Equity Fund pending the court interdict that has suspended the roll-out of the fund.

### **6.3 Key reported achievements**

The following are some of the key achievements reported by the Department in the 2020/21 financial year:

- In order to mitigate against the impact of COVID-19 and allow for business continuity, the Department revised its working arrangements, developed and implemented protocols in line with the national lockdown regulations.
- The Department put systems and mechanisms in place to ensure employee safety; made the tools of trade available to as many officials as possible to enable them to work remotely, whilst only accessing the building on an ad hoc basis to access office infrastructure.
- The Department has continued to provide leadership and made substantial contribution to government on tourism issues. The Department has continually informed and engaged the government, stakeholders and members of the public on tourism issues.
- The Department introduced and implemented the Tourism Relief Fund worth R200 million and the Tour Guides Relief Fund worth R30 million in response to the impact of COVID-19, particularly to the tourism SMMEs.
- The Department developed the Tourism Sector Recovery Plan which was released on 1 August 2020 for consultation with stakeholders and members of the public, and subsequently approved by Cabinet on 21 April 2021 and launched on 22 April 2021. The Plan is anchored on three interlinked pillars or strategic themes: protecting and rejuvenating supply, reigniting demand and strengthening enabling capability for long-term sustainability.

### **6.4 Non-financial Audit outcomes and steps taken to address adverse audit findings**

The Committee is generally not satisfied with the non-financial audit outcomes raised by the Auditor-general in the period under review. The following are some of the pertinent findings and remedial actions taken:

- In relation to consequence management, 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.
- In relation to internal controls:
  - 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.

- The Auditor-General made findings on the usefulness of reported performance information. This was because the reviews of annual performance plans and annual performance reports were inadequate. The Department management addressed the finding and, as a result, did not have a finding on performance reporting in the audit report. SA Tourism did not resolve the finding, which is included in the audit report.
- The impact of the COVID-19 pandemic and budget cuts on the portfolio resulted in significant adjustments to the SA Tourism annual performance plan. The entity implemented domestic travel activations and campaigns throughout the nine provinces to stimulate the domestic market and to obtain tourism-related content. This updated strategy was reported as achieved together with the strategy of creating a bank of digital content.

#### 6.4.1 Previous year issues

The following findings were made in the previous audit period:

- The Department received an unqualified audit in the 2019/20 financial year.
- No material findings on the usefulness and reliability of the reported performance information for the selected Programme: Tourism Sector Support Services. The reported performance information was useful and reliable in all material respects.
- Financial statements presented fairly, in all material respects, the financial position of the Department of Tourism as at 31 March 2020.
- Effective and appropriate steps were not taken to prevent irregular expenditure amounting to R8.4 million as disclosed in note 22, as required by section 38(1)(c)(ii) of the PFMA and treasury regulation 9.1.1. The majority of the irregular expenditure disclosed in the financial statements was caused by the preference point system not being applied by implementing agents on behalf of the department.
- Internal control deficiency was identified. The Department compiled an action plan based on the audit report findings; however, they did not adequately monitor the existing action plan.
- This resulted in material non-compliance re-occurring in the current financial year. The Director-General instituted an independent investigation regarding the irregular and fruitless and wasteful expenditure incurred on the EPWP projects. The investigation was completed by the time of this report. The Director-General had initiated the recommendations as per the investigation report.
- The 2019/20 audit findings depict a marked improvement from the 2018/19 financial year in which the Department received a qualified audit mainly on the basis of the insufficient audit evidence that immovable tangible capital assets were properly accounted for in accordance with the requirements of the Modified Cash Standard.

In relation to South African Tourism, the Entity received an unqualified audit opinion with material findings in the 2019/20 financial year. This is a regression from the previous audit period and pointed to repeat findings and the lack of effective measures implemented to address the matters raised by the Auditor-General in the previous audits.

### 6.5 Other service delivery performance findings

The following are pertinent issues within the tourism sector that need the Department's urgent attention as raised by the stakeholders in the sector:

#### 6.5.1 Supporting the Tourism Sector Recovery Plan



In the meeting with the Tourism Business Council of South Africa on the 9<sup>th</sup> June 2020 the following issues were raised for the urgent attention and resolution by the government:

- A need to introduce a real world-class e-visa with improved airport e-infrastructure.
- Waive visas for more source markets.
- Facilitating critical skills visas and temporary work visas.
- Resolving the vehicle licensing challenges posed by the National Public Transport Regulator (NPTR).
- Reduce other red tape, for example, liquor policies.
- Address VAT issues because they remain inconsistent.
- Providing additional funds for tourism marketing.
- Private Public Partnership to implement marketing and combine SA Tourism and Brand South Africa.
- Air liberalization and national air access initiative (more airlines to fly to South Africa).
- Facilitating investment incentives for resort developments in the Industrial Development Zones (IDZs).

#### 6.5.2 State of transformation in the tourism sector

In the State of Tourism Sector Transformation Report, 2018, the Committee noted that in terms of the B-BBEE Amendment Act No. 46 of 2013, all B-BBEE Sector Charter Councils are required to conduct B-BBEE studies to determine the level of compliance with the Sector Code and share information with the Minister, Parliament, Minister of Trade, Industry and Competition, B-BBEE Commission, B-BBEE Presidential Advisory Council, sector members, approved accreditation agencies and the general public. In performing its mandate, the Tourism Transformation Council of South Africa has implemented a number of surveys as follows:

- The 2018 Report revealed that although there was some evidence of transformation in the sector, the pace and extent of transformation show non-compliance with the B-BBEE Code.
- Supporting strategies such as the Tourism Sector Human Resources Development Strategy (2017);
- A limited number of enterprises had achieved the 30 percent black ownership target. Less than 50 percent of enterprises in the three sub-sectors (accommodation, hospitality and travel) achieved the minimum ownership targets.
- Whereas the Western Cape had more tourism enterprises, it was the least transformed. Limpopo Province was leading in terms of tourism products owned by black people, followed by Mpumalanga and KwaZulu-Natal Provinces.
- Management control, it was shown that despite the tourism sector employing a large number of women, only 11 percent of enterprises had black owned representation at board, executive and senior management levels with overall poor performance on the promotion of black management in general.
- Enterprises and supplier development was meant to be a key driver of transformation in the economy. Despite the significant opportunity to address this through preferential procurement from black-owned suppliers and inclusion of SMMEs in supply chains, the majority of large enterprises did not comply with the set target, with insignificant (almost zero) expenditure on procurement from enterprises with a majority black shareholding.
- The tourism sector performed well on socio-economic development and contribution to the Tourism Marketing South Africa (TOMSA) levy. About 66 percent of large enterprises were TOMSA levy collectors, whereas 56 percent of them contributed to socio-economic development.

The following were challenges recorded in the sector:

- Lack of marketing efforts to promote new and existing SMMEs and entrepreneurs.

- Low levels of staff members with relevant skills and passion, drive, correct attitude and interest in the sector.
- Inadequate accessibility due to lack of financial support.
- Lack of partnership, collaboration, willingness and trust between enterprises and key stakeholders to promote procurement opportunities for SMMEs and entrepreneurs.
- Lack of innovative infrastructure support for business operations.

With respect to the 2019 survey, it was different from previous surveys as it aimed to measure compliance with both the original Tourism B-BBEE Sector Code of 2009 and the amended Tourism B-BBEE Sector Code of 2015. Unlike the previous studies, it required tourism companies to submit data covering the two reporting periods. However, similar to previous studies the 2019 survey made the following key observations:

- Large enterprises performed poorly in two elements: ownership and preferential procurement, while qualifying small enterprises (QSEs) displayed erratic behaviour in four elements: ownership, management control, preferential procurement and enterprise development.
- In general, the response to the survey was slower than expected, particularly among large enterprises where efforts to encourage participation were mainly focused.
- A number of organisations expressed frustration about the administrative burden involved in the exercise. For example, B-BBEE scorecard information dating back earlier than 2013 was particularly difficult to source because most transformation managers had not been with their companies for the period under review.
- A number of potentially key respondents were not willing to participate in the survey because they felt it would have been pointless to do so, considering for their non-compliant status and the fact that transformation was not applicable to them as their market was international tourists.
- In general, the original Tourism B-BBEE Sector Code of 2009 was inefficiently implemented, both by Large Enterprises and by Qualifying Small Enterprises.

## **6.6 Relevant external research assessing performance of the Department**

The following information provides a universal view and future trajectory for the tourism industry in the global context as assessed by the World Tourism and Travel Council (WTTC).

The annual review by the World Travel & Tourism Council (WTTC) in 2019, indicated that South Africa created 1.5 million jobs and contributed R425.8 billion to the GDP. The sector represented 8.6 percent of all economic activity in the country, making South Africa the largest tourism economy in Africa. These numbers are expected to significantly decline when the assessment for the year under review is published.

At a global level, the COVID-19 pandemic has taken a significant toll on communities across the world and has had a devastating effect on Travel & Tourism. For 30 years, the World Travel & Tourism Council (WTTC) has been quantifying the economic impact of Travel & Tourism, highlighting the importance of the sector to the global economy. The 2021 annual research which covers 185 countries and economies (including South Africa), and 25 regions of the world, reveals the full extent and significance of the COVID-19 crisis to the sector in 2020. The effect of COVID-19 has emphasised the tremendous importance and positive contribution of Travel & Tourism. It enables socio-economic development, job creation, poverty reduction, driving prosperity and significant positive social impact, including providing unique opportunities to women, minorities, and youth.

The benefits of Travel & Tourism spread far beyond its direct impacts in terms of Gross Domestic Product (GDP) and employment; with indirect gains spreading through the entire ecosystem and the supply chain linkages to other sectors. In 2019, Travel & Tourism was one of the world's largest sectors, accounting for 10.4 percent of global GDP (USD 9.2 trillion), 10.6 percent of all jobs (334 million), and was responsible for creating 1 in 4 of all new jobs across the world. Moreover,

international visitor spending amounted to USD 1.7 trillion in 2019 (6.8 percent of total exports, 27.4 percent of global services exports). As a result of COVID-19 and the ongoing restrictions to international mobility, the Travel & Tourism sector suffered losses of almost USD 4.5 trillion, with its global contribution to GDP declining by 49.1 percent compared to 2019 to reach only USD 4.7 trillion in 2020; relative to a 3.7 percent GDP decline of the global economy.

Domestic visitor spending decreased by 45 percent, whilst international visitor spending fell by an unprecedented 69.4 percent. In 2020, 62 million jobs were lost, leaving just 272 million employed across the sector globally. This 18.5 percent decrease was felt across the entire Travel & Tourism ecosystem, with Small and Medium Sized Enterprises (SMEs), which make up 80 percent all global businesses in the sector, being particularly affected. Women, youth, and minorities have been disproportionately affected during the pandemic, while the threat of employment destruction persists. Millions of the remaining 272 million jobs that are currently supported by government retention schemes and reduced hours, could be lost without a full recovery of the Travel & Tourism sector.

The proactive action of some governments around the world has effectively enabled the sector to save millions of jobs and livelihoods at risk through retention schemes; without which the figures would be significantly worse. Yet, with the sector's contribution to GDP plunging by almost 50 percent in 2020, the support from public leaders remains more crucial than ever. While government support has been instrumental throughout this crisis, international coordination is more crucial than ever. The swift recovery of the sector will only be possible if leaders and public officials have a coordinated response to the resumption of international travel, including clear roadmaps, rules, and mobility protocols, providing certainty and restoring consumer confidence.

The WTTC urges that the world must learn to co-exist with the virus, managing the risk, offering a safe travel experience and easing the restrictions. This is all possible through a comprehensive solution including an aggressive global vaccination rollout, a comprehensive testing regime for all non-vaccinated travellers, the elimination of quarantines and continued health and hygiene protocols, including mask wearing. The WTTC research shows that if international mobility and travel is resumed by June 2021, the 62 million jobs lost in 2020 could return before the end of 2022, therefore powering global economic recovery.

The Tourism Sector Recovery Plan should therefore be implemented with all the aforementioned global trends to ensure that South Africa recovers swiftly. If the implementation of the TSRP is not effective and efficient, the country will be a slow starter in recovery and will be left behind from the global recovery.

## **7. FINANCE AND SERVICE DELIVERY PERFORMANCE ASSESSMENT**

The Department and SA Tourism did not perform satisfactorily with regard to financial management and achievement of predetermined objectives. As reported, the Department incurred underspending in three of its four Programmes with a total of R34.6 million. The Department spent 97.6 percent of its allocated budget whilst achieving 87.5 percent of set targets. This is a recurrence of the trends similar to previous financial years whereby the Department always spends almost 100 percent of the budget and falls short on achieving the predetermined objectives for the financial year. The Committee is also concerned about the reported financial management challenges in the implementation of the R200 million Tourism Relief Fund and the R30 million for the Tourist Guides Relief Fund.

In relation to SA Tourism, the Entity spent R622 063 million of its available R479 065 million budget for the 2020/21 financial year. This represents a serious over expenditure of 29 percent. The cause for concern is that the Entity was only able to achieve 23 of its 28 targets for the year, representing 82 percent performance. The over expenditure is thus not commensurate to the achievement of predetermined objectives.

The Entity also performed badly on its financial management as it incurred an irregular expenditure of R20.06 million due flouting competitive bidding processes. The amount of R39.30 million could also not be accounted for by the Auditor-General on whether all receivables from non-exchange transactions had been recorded. With regard to marketing expenditure, an irregular expenditure of R16.8 million was incurred as it was an expenditure paid by a third party.

The Committee acknowledges the impact of amortisation and non-cash items in the financial statements of the Entity. However, this does not justify the gloomy financial performance in the period under review. The Committee also acknowledges the impact of COVID-19 on the challenges faced by the Department and SA Tourism in achieving some of its set targets. However, this does not exonerate them on the financial mismanagement which has to do with poor internal controls, and flouting the enabling legislation and regulations.

## **8. KEY FINDINGS - COMMITTEE OBSERVATIONS AND RESPONSES**

The Committee has made a myriad of damning observations, particularly on financial management in the Department's and SA Tourism's performance in the 2020/21 financial year. In the light of the number of financial mismanagement incidents, the Committee makes observations based mainly on the Auditor-General findings to ensure that the portfolio avoids repeat findings.

### **Generic observations with both the Department and SA Tourism**

#### **8.1 Technical issues**

##### **8.1.1 The impact of COVID-19**

The pandemic had an impact on the tourism sector with budget cuts on the portfolio which resulted in significant adjustments to the SA Tourism annual performance plan. The Entity implemented domestic travel activations and campaigns throughout the nine provinces to stimulate the domestic market and to obtain tourism-related content.

##### **8.1.2 Repeat findings**

The Committee observed that there was a recurrence of audit findings in both the Department and SA Tourism. These were mainly caused by the lack of reviews and implementation of audit action plans, poor internal controls and non-adherence to laws and regulations.

##### **8.1.3 Quality of performance reporting**

The Committee observed that the quality of the annual performance report regressed in the portfolio, with both the Department and SA Tourism having negative audit findings. The Department and SA Tourism had findings on the usefulness of reported performance information. This was because the reviews of annual performance plans and annual performance reports were inadequate. The Department's management addressed the finding and, as a result, did not have a finding on performance reporting in the audit report. SA Tourism did not resolve the findings, which led to the qualified audit report. This is a repeat finding from previous financial years.

##### **8.1.4 Irregular expenditure**

The total irregular expenditure identified in the portfolio is R21.29 million. The bulk of this at R20,06 million, representing 94 percent of total, was incurred by the SA Tourism. This was mainly because procurement processes were not followed for expenditure incurred by the SA Tourism but paid by a third party.

The nature of the irregular expenditure for the Department is characterised by the bids that were not awarded to the bidder who scored the highest points (R1,06 million) and local content (R164.000). For SA Tourism an amount of 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).

The cause for concern is that the irregular expenditure is a recurrence from 2019/20 financial year whereby SA Tourism extended or modified contracts without the approval of the National Treasury (R49,96 million). SA Tourism also did not follow a procurement process for goods and services of R18,12 million paid by third parties. In relation to the Department, 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 Department for goods and services valued at R8,37 million.

#### 8.1.5 Fruitless and wasteful expenditure

The portfolio had a total fruitless and wasteful expenditure identified at R1,14 million. The bulk of this amounting to R977 750, representing 86 percent of total, was incurred by the SA Tourism, mainly relating to covid support expenditure. The Department incurred R158 000.00 for no shows for shuttles and accommodation as a result of flight amendments, which was subsequently recovered. This is a repeat finding as the Department also incurred R14 000.00 in the 2019/20 financial year for flight amendments and no shows. The Committee is concerned that this occurs every year without the Department finding a lasting solution, albeit the funds being recovered.

#### 8.1.6 Supply chain management

Both the Department and SA Tourism have challenges with enforcing supply chain management processes. The Department did not stipulate the minimum threshold for local content and production in bidding documents made available to bidders, similar to the previous year. Management also did not ensure that effective and appropriate steps were taken to prevent irregular expenditure for the current year and the prior period.

SA Tourism received goods and services from suppliers which was found to be aligned to the mandate of the entity. However, it could not be determined 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. In this instance, the Committee is concerned that the senior management of the Entity deliberately circumvented the procurement process, with reported transgressions committed at a Chief Executive Officer level. The Committee is satisfied that the Board has initiated an investigation. However, it is disconcerting if the senior management are the ones committing acts of financial misappropriation.

#### 8.1.7 Consequence management

The Committee is of the view that both the Department and SA Tourism have 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. However, the Committee is not satisfied with the lack of action taken against those who have been found to have committed wrong activities. The Committee is also not satisfied with the lack of and slow pace of prosecutions in matters that are before the courts.

### **Observations with regard to the Department**

## **8.2 Governance and operational issues**

### 8.2.1 Policy and legislative review

The Committee noted that the policy review is underway to replace the White Paper on the Development and Promotion of Tourism in South Africa developed in 1996. The Committee is of the view that the process is protracted and should be expedited.

### 8.2.2 Implications of the amended Public Audit Act on tourism

The Committee noted that the amendment of the Public Audit Act has introduced a new element of Material Irregularity. This relates to any non-compliance with, or contravention of, legislation, fraud, theft or a breach of a fiduciary duty identified during an audit performed under this Act that resulted in or is likely to result in 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. The Auditor-General indicated that this will be implemented in a phased approach and the Department of Tourism will not be part of such an audit in the current audit period. The Committee is of the view that the tourism portfolio should be

prioritised by the Auditor-General to instil the culture of good financial management in the Department and at SA Tourism.

#### 8.2.3 Reasons for underspending

The Committee observed a disturbing trend of underspending in the Department in that:

In Programme 2, an under expenditure of R2,6 million was incurred, accounting for 1 percent of the total budget. The bulk of this underspending lies within Compensation of Employees due to strict policies adhered to by the Department to reduce expenditure on salaries and wages.

In Programme 3, an under expenditure of R15.2 million was incurred, accounting for 3 percent of the allocated budget. The bulk of the unspent funds is due to funds allocated to the Expanded Public Works Programme Incentive which was not approved by the Department of Public Works for spending. These funds must therefore be relinquished back to the National Treasury as unspent funds.

In Programme 4, an under expenditure of R16.8 million was incurred, accounting for 8 percent of the allocated budget. The bulk of this underspending lies within the Tourism Incentive Programme of which funds were set aside to provide financial relief to freelance tourist guides due to the effects of the COVID-19 pandemic on the tourism industry. Since the total allocation was not fully taken up by the tourist guiding sector, the remaining portion must be relinquished back to the National Treasury.

#### 8.2.4 Implications of underspending

The underspending incurred by the Department has implications on transformation, service delivery and future appropriation to Vote 38.

- A total of R34.6 million had to be returned to National Treasury. This means that the Department was unable to maximise expenditure of the allocated budget for infrastructure projects, despite the R1 billion reduced during the special Adjustment Budget.
- The Committee has raised a challenge with the reduction in the Compensation of Employees budget for the Department and has made recommendations for the National Treasury to appropriate more budget for this economic classification in the 2021/22 Budget Adjustment. The underspending in this economic classification may mean that the Department does not necessarily need more budget for Compensation of Employees given that an amount of R2.6 million was not utilised in the 2020/21 financial year.
- The Committee noted with concern that the Expanded Public Works Programme Incentive scheme was not approved by the Department of Public Works for spending and that budget had to be returned to the National Treasury. This has implications for transformation as the incentive scheme is used to mainly assist the tourism SMMEs which are predominantly Black owned.

#### 8.2.5 COVID-19 spending

The Committee noted that the Department implemented two Relief Funds in the period under review.

##### 8.2.5.1 Tourism Relief Fund

In the period under review, the Office of the Auditor-General released a Citizens Report on the Financial Management of the Government's COVID-19 Initiatives. In regard to the Tourism Relief Fund, the Department made available an amount of R200 million to support qualifying small businesses in the tourism and hospitality sectors. An amount of R50 000.00 was disbursed to 4000 tourism businesses. The Committee noted that the Auditor-General had flagged risks that could emerge and the Department did not have an action plan in place to address these.

The Committee noted that challenges with the implementation of this relief fund was in relation to:

- Amendment of qualifying criteria
  - Steps were not taken to determine the full extent of the flagged matters.
- Beneficiaries did not meet set criteria
  - Steps were not taken to determine the full extent of the flagged matters.
- 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.

#### 8.2.5.2 Tourist Guides Relief Fund

With regard to the Tourist Guides Relief Fund, the Department availed an amount of R30 million for freelance tour guides. The Committee raised concerns with challenges that were experienced with the database that was provided by provinces. The Committee was concerned that the Department does not have a consolidated and updated database at a national level. Consequently, the Committee observed that the Department paid beneficiaries who did not qualify as follows:

- 58 beneficiaries who are employed by municipalities, municipal entities, departments and public entities
- 17 beneficiaries who were deceased
- 26 duplicate payments
- 273 beneficiaries who received SASSA grant
- 100 beneficiaries who received the Tourism Relief Fund
- 1172 beneficiaries with invalid ID or no ID numbers
- 641 beneficiaries who received UIF payments.

The Committee views this as a deliberate act of theft and negligence and requires an investigation by the Minister for further reporting to the Committee. Internally, for the 2020/21 financial year, the Department spent R600 000 on personal protective equipment and periodic disinfection of the head office building.

#### 8.2.6 Need for a proactive audit process

The Committee acknowledges that the Department also established the Tourism Equity Fund (TEF) during the 2020/21 financial year. Given the challenges experienced with disbursing the Tourism Relief Fund and the Tourist Guides Relief Fund, the Committee is of the view that there is a need to fully understand how the TEF is implemented. This is crucial as the Department is using the Small Enterprise Finance Agency (SEFA) to implement the fund. It is therefore important that controls are proactively put in place to ensure that only the qualifying enterprises benefit and there is no misappropriation of money.

#### 8.2.7 Recurrent reasons for non-achievement of predetermined objectives

The Department continued to experience the same challenges that have plagued its operations for a prolonged period. The Department seems to have no lasting solutions to the identified challenges, despite numerous recommendations made by the Committee to deal with them.

The recurrent reasons for non-achievement in the Fourth Quarter are as follows:

##### 8.2.7.1 Appointment of service providers

- There were delays in the development of the National Tourism Analytics System Framework. The cause was a challenge in appointing a suitable service provider. Request for quotations were sent out more than three times as there were no responses. The company that was eventually identified as a suitable service provider

could not be appointed due to conflict of interest. The Committee had previously recommended that the Department develops a national database for its services and also work with the National Treasury to source suitable service providers. This seems to not have been done, thus causing delays in the appointment of suitable service providers.

#### 8.2.7.2 Procurement challenges

- There were procurement related challenges in regard to implementation of the WiT Enterprise Development Programme in nine provinces. This is also related to poor planning as the Terms of Reference to appoint the service provider to implement the WiT Enterprise Development Programme have just been developed and approved. This would have been avoided had the Department developed the ToRs timeously and started implementation as per the Annual Performance Plan.

#### 8.2.7.3 Poor planning

- The Tourism Environmental Implementation Plan was not developed. The reason for non-achievement is that the approval of the Terms of Reference in order to appoint the service provider was granted in quarter 3, which was very late. The initial stakeholder consultation was conducted in February 2021, which was already late as the Fourth Quarter began in January 2021.
- The Food Safety Quality Assurers Programme was not implemented. The reason for non-achievement was a need for the re-development of the Terms of Reference in response to COVID-19. The re-advertisement of the tender and conclusion on appointment of suitable service provider/s affected the achievement/ implementation of the programme. The Committee should note that developing the Terms of Reference in the Fourth Quarter was already late as this should have been done in the First Quarter already. COVID-19 cannot, therefore, be cited as a cause for the delay. The reason given by the Department is therefore misleading the Committee.
- The Rail Tourism survey report was not done. The survey indicated that while there appears to be appetite for rail as a tourism experience and mode of local tourism / leisure transport, there are broader challenges in the state of rail infrastructure that would first have to be addressed in order to inform the new Rail Tourism Model. Thus, the viability study is halted until rail infrastructure issues are addressed. The Department should have known the state of the rail infrastructure in the country given the widely reported deterioration of the rail infrastructure countrywide and not included this project in the Annual Performance Plan.

### **Observations with regard to South African Tourism**

The following observations were made in relation to South African Tourism from the Report of the Auditor-General and the analysis of the Annual Report:

#### 8.2.8 Qualified audit with material findings

The Committee observed that SA Tourism received a qualified with material findings. The Committee noted the three key root causes of the qualified audit opinion as that:

- 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.

The Committee will work closely with the Office of the Auditor-General to track how the Department addresses these issues.

#### 8.2.9 Appointment of the Chief Executive Officer



The Committee noted that the Board of South African Tourism is in the process of appointing a new Chief Executive Officer at South African Tourism. The process has dragged from January 2021 where the post was advertised, shortlisting and interviews held but without a suitable candidate identified. The Committee also noted that the Board of SA Tourism has embarked on a head hunting process through the use of a service provider. Subsequently, Ms Sthembiso Dlamini who is the Chief Operations Officer for the Entity was appointed as an Acting Chief Executive Officer until the position is filled.

#### 8.2.10 Resignation of the Chief Operations Officer

The Committee noted that Ms Sthembiso Dlamini who serves the Entity in a capacity of the Acting Chief Executive Officer has resigned. The Committee extends its commendation to the excellent work done by Ms Dlamini for the Entity over the years and her contribution in providing stability to the organisation. The Committee is, however, concerned about the void created by the departure of Ms Dlamini as the Chief Operations Officer given that the position of the CEO is also still vacant. This has a potential of bringing instability to the organisation as the two critical positions at a senior management level are vacant.

#### 8.2.11 Repurposing public entities

The Committee noted the ongoing process of repurposing public entities by government to streamline the mandates, prevent duplication and maximise resource utilisation. The Committee is of the view that the process is too pedestrian and affects planning and staffing at South African Tourism. South African Tourism has had to put recruitment of staff in abeyance to allow the government process to be concluded. This may even affect the process of filling the Chief Executive Officer and possibly that of the Chief Operations Officer at South African Tourism.

#### 8.2.12 Possible instability at SA Tourism

The Committee has also noted that there has been another change at the helm of SA Tourism with Advocate Mojanku Gumbi now being an Acting Chairperson after a short stint of the previous chairperson in the position. This, together with the vacant position of the Chief Executive Officer, and the Chief Operations Officer having resigned, poses a potential instability at SA Tourism as an Organisation. The Committee will closely monitor the developments at SA Tourism in so far as these strategic positions are concerned.

#### 8.2.13 Health Passports and future of travel

The Committee has noted the increase in the appetite of health passports by a number of countries globally. The Committee had anticipated that some form of passport or proof of health status will likely be a lasting legacy of the COVID-19 pandemic. When that observation was made, the Committee made a recommendation to the erstwhile Minister of Tourism to work with her counterparts at a Cabinet level to explore the implementation of the Health Passport system for South Africa. This was recommended in the wake of the probable impact of COVID-19 on the future travel trends whereby it was anticipated that countries will be introducing the Health Passports. The Committee's prognosis has been confirmed as some countries in the world are now only accepting travellers who are fully vaccinated. It has been also observed that the international airlines are embracing the concept of Health Passports.

#### 8.2.14 Civil unrests and damage to the South African brand

The Committee is increasingly concerned about the continuing damage to the South African brand as a safe and a welcoming tourism destination. The perceptions around South Africa as an unsafe destination were rife even before the advent of the COVID-19 pandemic. The brand damage was further exacerbated by labelling the 501.V2 corona virus strain as a South African variant. The Committee is of the view that the damage to the South African brand has been further entrenched by the frenzy of civil unrest, looting and arson that gripped the country in July 2021, particularly in KwaZulu-Natal and Gauteng provinces. The country was reflected in a negative light as the scenes of violence and looting were being beamed on the international print, digital and television platforms. The Committee decries the fact that this has eroded the efforts made by the Department and SA Tourism in trying to rebuild the tarnished image of the country. The recent events call for an even

more robust international marketing and PR campaigns to rescue what is left of the South African brand as a safe tourist destination.

#### 8.2.15 Global Advocacy Campaign

The Committee applauds SA Tourism for conceptualising the Global Advocacy Campaign to mitigate the damage that has been done to the brand by a number of issues, including negative messaging about the South African variant of COVID-19 and the recent civil unrests in the country. Amongst other things, the Global Advocacy Campaign will alleviate the pressure put on the brand through red listing by a number of core markets. The campaign will also achieve brand power score and assist with the removing barriers that hinder international tourism.

The Committee is of the view that the Minister and the Board of SA Tourism need to put the recent events in their correct perspective and distance these incidents from the tourism fraternity. The Global Advocacy Campaign is seen as a pivotal platform to improve information dissemination about South Africa as a safe and cost effective destination. The Committee commends SA Tourism for partnering with the Department of International Relations and Cooperation through South African Missions abroad and the Foreign Missions in South Africa to change the perceptions and push factual information. The Committee also commends the Entity for engaging the international trade and media to provide correct information that changes the narrative about South Africa as a safe destination.

#### 8.2.16 The Sector Recovery Team

The Committee commends the Department for establishing a Sector Recovery Team that coordinates the efforts of the public and private sector in facilitating the recovery of the tourism sector. The Committee noted the cooperation amongst Director-Generals of the Department of Tourism; Health; Transport and the Tourism Business Council of South Africa in addressing issues such as e-Visas, vaccination roll-out, and other matters that will remove barriers for the recovery of the sector.

#### 8.2.17 Stimulating domestic tourism

Domestic tourism remains an anchor that will drive the recovery of the sector whilst international tourism is still struggling to emerge from the devastating impact of the pandemic. The Committee noted with optimism the interventions implemented by the Department and SA Tourism to reignite domestic tourism. The interventions include dealing with a supply side of tourism and marketing efforts by SA Tourism and the nine provincial Destination Management Organisations. The interventions include spreading meetings and events throughout the country.

### 9. RECOMMENDATIONS

The Committee, after a careful consideration of the Annual Reports of both the Department and SA Tourism in the implementation of the budget appropriated for Vote 38 makes recommendations to the Ministers of Finance and the Minister of Tourism respectively, for responding on or before the end of the 2021/22 financial year, namely 31 March 2022, and thereafter report quarterly on progress made in implementing the recommendations.

#### **Recommendations to the Minister of Finance**

It is recommended that:

- 9.1 The National Treasury works with the Minister of Tourism to determine the budget required to ensure the full recovery of the tourism sector.
- 9.2 The National Treasury, after determining the amount required for sector recovery, considers appropriating a special ring-fenced budget to rescue the tourism sector.

#### **Generic recommendations for the Department of Tourism and South African Tourism**

It is recommended that the Minister of Tourism must:

- 9.3 Institute investigations, using services of a reputable and independent body ,for all reported cases of financial maladministration in the Department and SA Tourism. The investigations may include, but are not limited to:
- Circumvention of financial management laws, regulations, supply chain management processes and other pertinent financial irregularities by the senior management;
  - Payment of beneficiaries that did not meet the qualification criteria for relief funds;
  - Lease agreement variations/ extention of lease agreements without proper supply chain processes being followed;
  - Awarding of bids without competitive bidding;
  - Awarding of bids to companies that were the lowest bidders.
- 9.4 Ensure the development and implementation of effective action plans to address audit findings, prevent repeat findings, and share these action plans with the Committee.
- 9.5 Avoid material misstatements through ensuring that financial statements submitted for auditing purposes are prepared in accordance with the prescribed financial reporting framework and comply with the enabling legislation.
- 9.6 Ensure that management enhances 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.
- 9.7 Implement consequence management for supply chain management transgressions and financial mismanagement in relation to the reported findings on expenditure management as well as procurement and contract management.
- 9.8 Take effective and appropriate steps to prevent irregular expenditure through proper contract management and expenditure management, and strengthen compliance with prescribed procurement prescripts.
- 9.9 Ensure the implementation of internal controls relating to expenditure and that expenses are recorded appropriately when incurred.
- 9.10 In relation to supply chain management:
- 9.10.1 Management must implement adequate controls to adhere to laws and regulations.
  - 9.10.2 Management must evaluate whether the goods and services received were at market value.
  - 9.10.3 The accounting authority must also investigate the awarding of bids and take action where necessary.
  - 9.10.4 Ensure that action plans are implemented in time to address the previous year's audit findings relating to local content.
  - 9.10.5 Preventative controls must be strengthened to ensure no irregular expenditure is incurred.
- 9.11 Continue working on strengthening internal processes to eliminate deficiencies through:
- 9.11.1 Automation of processes for early detection of potential non-compliance;
  - 9.11.2 Improving on compliance with applicable legislation and regulations;
  - 9.11.3 Improving on internal controls;
  - 9.11.4 Improving on internal audit and risk committee functions;

9.11.5 Improving reviews and tracking performance against the predetermined objectives.

9.12 Ensure that the expenditure of the budget appropriated is used in a cost effective manner.

### **Recommendations with regard to the Department of Tourism**

The Minister of Tourism must:

9.13 Constantly update the Committee on the process of reviewing the tourism policy review currently underway;

9.14 Table the high-level forensic report to the Committee on the infrastructure projects implemented through the Expanded Public Works Programme within three months;

9.15 Follow up on the corruption cases dismissed by the Disciplinary Committee Chairperson in relation to the Expanded Public Works Programme irregularities;

9.16 Table the Audit Action Plan to the Committee to ascertain how the Department will address the audit findings;

9.17 In relation to the Tourism Relief Fund:

- 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.
- 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.

9.18 In relation to the Tourist Guides Relief Fund and Tourism Equity Fund:

- The Minister of Tourism must conduct an investigation with regard to payments made to beneficiaries who did not qualify for the Tourist Guides Relief Fund and put a process in place to recover funds where misappropriation has been discovered.
- The Department must leverage from lessons learned from the Tourism Relief Fund and conduct a proactive audit.
- Management must investigate the exceptions and should implement a process to recover funds paid to non-qualifying beneficiaries.
- The department must recognise the receivables for the payments to beneficiaries who did not meet the set criteria.

9.19 Improve the uptake on the Tourism Transformation Fund through simplifying qualification criteria.

9.20 Develop an Investment Plan and engage more private developers to implement the outcomes of the Tourism Master Plans commissioned by the Department and provide quarterly feedback in that regard.

9.21 Constantly update the Committee on the status of the court interdict against the Tourism Equity Fund.

9.22 In case of Expanded Public Works Projects:

- 9.22.1 Share the high level forensic report with the Committee on the Expanded Public Works assessment of infrastructure projects.
- 9.22.2 Prevent irregular expenditure on supply chain processes and payments made by implementing agents.
- 9.22.3 Improve contract management for the projects implemented by external service providers.
- 9.22.4 Strengthen internal capacity for the implementation of infrastructure built projects.
- 9.22.5 Continue to strengthen project planning and contract management to eliminate delays in the implementation of projects.

## **Recommendations with regard to South African Tourism**

The Minister of Tourism must:

- 9.23 In line with the government process of repurposing entities, strengthen and stabilise governance at SA Tourism through:
  - 9.23.1 Ensuring that the Board has a permanent Chairperson.
  - 9.23.2 Expediting the process of appointing the Chief Executive Officer.
  - 9.23.3 Expediting the process of appointing the Chief Operations Officer.
- 9.24 Provide the Committee with the steps being followed to recover the funds allegedly misappropriated by the former Chief Executive Officer in regard to the TOMSA levies.
- 9.25 Share the forensic report commissioned by the Board on the misallocation and misappropriation of funds in relation to the collaborative fund and levy in the implementation of TOMSA levies.
- 9.26 Develop a strategy on hosting hybrid events to attract more international events to South Africa.
- 9.27 Implement a Marketing Investment Framework that prioritises domestic tourism to boost sector recovery.
- 9.28 Develop a framework on how SA Tourism intends to work with SA Missions abroad and collaboration with the Department of International Relations and Cooperation.
- 9.29 In the wake of recent civil unrests, implement international campaigns aimed at boosting the image of South Africa as a safe and a cost effective tourism destination
- 9.30 Provide a quarterly update on milestones reached in implementing the Tourism Sector Recovery Plan.
- 9.31 Provide a quarterly update on bids secured for South Africa and categorise these according to size, provinces and towns.
- 9.32 Provide a quarterly update on the number of enterprises enrolled in the Grading Incentive Programme and categorise according to provinces and towns.
- 9.33 Conduct a study on the future impact of COVID-19 to the sector in relation to health passports.
- 9.34 Provide a report on the experiences in the recent hybrid meetings hosted by the Entity.

## **10. CONCLUSION**

This report has outlined the performance of the Department and SA Tourism in relation to their predetermined measurable objectives for the 2020/21 financial year and budget allocated. The Department attempted to manoeuvre the uncharted waters resulting from the COVID-19 pandemic. While some of the challenges were beyond the Department's control, historical challenges on project management remain. Delays in the procurement of service providers for projects was one of the main challenges highlighted by the Department. This in turn resulted in delays with the commencement of projects. The audit outcome for the 2020/21 financial year is unchanged from the previous year. While this is positive news, the underlying expenditure patterns are concerning. The flouting of internal controls and ongoing irregular expenditure, as raised by the Auditor-General, are concerning. This speaks to a lack of progress in efficiently managing tax payer funds. The Auditor-General also reports that the Department did not adequately monitor and implement the action plan addressing previous audit report findings. In the 2019/20 financial year, the Department assured the Committee of its

commitment to addressing the findings of the action plan. This inadequate response to the action plan can potentially result in the Department's regression in performance in the following audit periods.

SA Tourism obtained a qualified audit opinion, which is a regression from the previous financial year. Some of the issues raised by the Auditor-General include: inadequate internal controls to maintain records of marketing expenditure paid for by third parties; lack of definition of a target resulting in difficulty to measure its achievement; material misstatements in financial statements were not adequately corrected; and tender irregularities. In the 2019/20 reporting period the Entity was equipped by the Auditor-General with an action plan to address audit findings. The regression in performance points to inadequate implementation of the action plan. In addition, some of the reasons cited for the audit opinion seem to have been within the control of the Entity and could have been avoided. The Committee raised concerns around the audit findings as the Entity has not done enough to avoid a continuation of this regressive behaviour. The Committee will work closely with the Auditor-General to track the implementation of the action plans to address the findings. The Committee will also monitor the achievement of the 2030 targets as set out in the National Tourism sector Strategy and the National Development Plan.

It is acknowledged that the COVID-19 pandemic has presented both challenges and opportunities for the industry both globally and locally. With more countries opening their borders, the process of recovery has started. SA Tourism is faced with both the challenge and opportunity to encourage recovery for inbound and local travellers.

In view of the issues raised in this report, the Committee impresses on the Minister to provide a quarterly feedback on progress made in implementing the recommendations made herein.

**Report to be considered.**