



7 March 2022

BRIEF: AUDIT & RISK COMMITTEE (NATIONAL DEPARTMENT OF TOURISM)

1. INTRODUCTION

On several occasions, performance issues have been raised by the Portfolio Committee on Tourism (hereafter '*PC on Tourism*') with the Department of Tourism in various reports. However, there is no clear indication of how these are incorporated in the business improvement plans of the Department. This has resulted in numerous repeat audit findings and recurring causes for non-performance by the Department, such as delays caused by the projects implemented with third parties, poor project planning and implementation, procurement challenges, and infrastructure projects. The non-implementation of some PC on Tourism recommendations has culminated in the audit findings by the Auditor-General.

The purpose of the meeting is for the Department of Tourism's Audit and Risk Committees to show the PC on Tourism how it conducts its work, particularly on incorporating PC on Tourism recommendations. The aim is also to establish the operations of the Audit and Risk Committees and how their work is prioritised internally by the Department. The meeting will also engage on the recent findings by the Auditor-General on the Department's 2020/21 financial and non-financial performance, including some of the challenges faced by the Audit and Risk Committees in conducting their work.

2. AUDIT AND RISK COMMITTEES IN THE PUBLIC SECTOR

The Public Finance Management Act (Act No. 1 of 1999) makes it compulsory for all national or provincial public sector organisations to establish an (or share an established) audit committee.¹ According to the PFMA (Act No. 1 of 1999), Section 77, an audit committee:

- Must consist of at least three persons of whom, in the case of a department:
 - One must be from outside the public service;
 - The majority may not be persons in the employ of the department, except with the approval of the relevant treasury; and
 - The chairperson may not be in the employ of the department.
- Must meet at least twice a year;
- May be established for two or more departments or institutions if the relevant treasury considers it to be more economical.

An Audit Committee is established to serve as an independent governance structure whose function is to provide an oversight role on the systems of internal control, risk management, and governance. The Audit Committee is the only committee recognised in the PFMA as being responsible for the oversight of risk management.² In terms of the revised Treasury Internal Audit Framework, risk

¹ PFMA Section 76 & 77 (1999).

² National Treasury Internal Audit Framework (2009).



management is an essential part of effective corporate governance, and whilst it is a management responsibility, management expects the Audit Committee to oversee and provide advice on the organisation's risk management. Where there is no separate Risk Management Committee, the risk oversight responsibilities of the Audit Committee should be identical to those ascribed to the Risk Management Committee by the Framework.³ The Committee plays a distinct and integral role in the risk management process of the institution in that it independently assesses and oversees the entire risk management function, coupled with counsel and guidance to improve the system. The Audit Committee is responsible to review and recommend disclosures on risk matters in the annual financial statements, annual reports, to also report on financial risks including fraud and Information Technology (IT) risks. The effective function of the role of the Audit Committee in risk management should enhance the internal controls of the institution not only to assist with sound financial management but also assist the institution in achieving its public mandate.⁴

The Audit Committee must, amongst others, review the following:⁵

- effectiveness of the internal control systems;
- effectiveness of the internal audit function;
- risk areas of the institution's operations;
- adequacy, reliability, and accuracy of the financial information;
- any accounting and auditing concerns identified as a result of internal and external audits;
- the institution's compliance with the legal and regulatory provision; and
- the activities of the internal audit function, including its annual work programme, coordination with the external auditors, the reports of significant investigations, and the responses of management to specific recommendations.

The roles and responsibilities of the Audit Committee in the public sector are important in enhancing transparency and accountability concerning the financial and performance reporting and governance processes. This includes interacting with the external auditors throughout the audit process, ensuring that the internal audit function is functioning effectively, assessing the internal control environment, reviewing the annual financial statements and annual performance report (including areas of significant judgment and uncertainties in both), and advising the accounting officer or accounting authority on financial and other matters.⁶

One of the biggest issues facing all audit committees about their reporting processes is to find the balance between reporting transparently to the stakeholders of the department, maintaining confidentiality in terms of information that could expose the department to uncertainties such as litigation, and having sufficient assurance from the various assurance providers to comment on mandated disclosures and statements. Furthermore, the Audit Committee must ensure that its report is based on the reports that it has received from the internal audit function, the external auditors, and other assurance providers and forms a credible view of its assessment of the matters that it considered during the year.⁷ It is important to ensure that the terms of reference of the Audit

³ National Treasury Internal Audit Framework (2009).

⁴ Public Sector Audit Committee Forum (2019).

⁵ Treasury Regulations 3.1 / 27.1 (2001).

⁶ Public Sector Audit Committee Forum (n.d).

⁷ Public Sector Audit Committee Forum (n.d).



Committee stipulate its roles and responsibilities so that it can measure and report on whether it has met its obligations in terms of the mandate provided to it.

3. NATIONAL DEPARTMENT OF TOURISM: AUDIT COMMITTEE⁸

The primary purpose of the Audit Committee is to assist the Department in fulfilling its oversight responsibilities and to ensure that the Department has and maintains effective, efficient, and transparent systems of financial, risk management, governance, and internal control. This is achieved by:

- supporting management in respect of financial reporting and a system of internal control;
- enhancing business ethics and trust in the Department;
- ensuring and enhancing the independence of internal audit activity;
- ensuring that risks facing the Department are identified, and that appropriate procedure is implemented to manage and minimise risks;
- ensuring the proper functioning of the audit process; and
- monitoring compliance with laws, regulations, and codes of conduct.

The Department of Tourism's Internal Audit Unit provides assurance and consulting services while conducting its affairs in terms of an approved Internal Audit Charter. The Unit follows a risk-based audit approach, in terms of which the Department's Risk Strategy and the Internal Audit Unit's assessment of risks are the drivers of internal audit activities and the approved Internal Audit Plan. During the 2020/21 financial year, the Internal Audit Unit performed the following audits:

- Pre-determined objectives;
- ICT Governance;
- Risk Management – Business Continuity;
- Pre-Audit Review of the EPWP Projects: Readiness Assessment;
- Covid-19 Compliance Review - OHS;
- Review of the annual report;
- Procurement - Quotation;
- Follow-up on AGSA Report;
- Contract Management; and
- Follow-up on the Tourism Relief Fund.

For the 2020/21 financial year, the Audit Committee's review of the findings of the Internal Audit work was based on the risk assessments conducted in the Department. These revealed certain weaknesses, which were then raised with the Department. The Audit Committee then advised the Department that strong steps be taken by the Department to strengthen the oversight function and their control environment. Progress on the implementation of the internal audit plan is monitored and reported on at each Audit Committee meeting.

⁸ NDT Annual Report (2020/21).



4. 2020/21 AGSA AUDIT FINDINGS

The Department of Tourism 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 four years.⁹ The Auditor-General made the following findings in respect of the Department's performance information:

4.1.1 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.

4.1.2 Financial Statements

- The Auditor's report states that the financial statements of the Department present fairly, in all material respects, its financial position as of 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).

4.1.3 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 expenditure¹⁰ 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.

⁹ Department of Tourism Annual Report (2018/19).

¹⁰ **Irregular expenditure** – as a result of significant breakdown in controls, entities entered into transactions that were not carried out in accordance with regulations and other prescripts.



- 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 Controls 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.

- **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. ISSUES FOR CONSIDERATION BY THE COMMITTEE

- The Audit Committee states¹¹ that progress on the implementation of the internal audit plan is monitored and reported on at each Audit Committee meeting. How frequent are these meetings with the Department?
- For the 2020/21 audit findings, can the Audit Committee advise how and when it arrived at recommending an audit action plan to the Department?
- When the Audit Committee raises concerns to the Department, while acknowledging the uniqueness of each concern, how much time does the Department normally have to address these before the annual external audit process commences?
- How regularly does the Audit Committee engage the Office of the Auditor-General to ensure that the Department complies with laws and regulations?
- The PC on Tourism publishes a Budgetary Review and Recommendation Report (BRRR) every financial year, as required by legislation. Recommendations from this report are shared with the Minister of Tourism for consideration and implementation. Does the Audit Committee engage on these recommendations, where relevant, and incorporate them in their planning and oversight engagements?
- Can the Audit Committee provide the PC on Tourism with the progress being made in the implementation of the current Audit Action Plan?

¹¹ NDT Annual Report (2020/21).



- What are some of the challenges the Audit Committee has encountered, from the Department, when carrying out its duties?
- In the audit report for the 2020/21 financial year, the AGSA stated that the Department failed to monitor and implement the action plan on previous audit findings, resulting in material non-compliance and irregular expenditure recurring in the financial year. The same concern was raised by the AGSA in the previous financial year and the Department made assurances to the PC on Tourism about strengthening its monitoring and implementation of the action plan. Can the Audit Committee clarify its role in overseeing the implementation of the action plan provided by AGSA to the Department?
- In the same report, the AGSA stated that inadequate reviews were performed by management to ensure consistency between the Annual Performance Plan and the Annual Performance Report. According to the agreed-upon terms of reference between the Department and Audit Committee, what role does the Audit Committee play in this instance?
- The Government Technical Advisory Centre (GTAC), was appointed to assist the Department with the Working for Tourism projects. This partnership resulted in several infrastructure projects being discontinued and significant financial losses for the Department. What role did the Audit Committee play, if any, over the years in assisting the Department address the challenges resulting from these projects?

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ANNEXURE A: AUDIT COMMITTEE MEMBERS¹²

Name	Qualifications	Internal / External	Date appointed
Prof. H de Jager	D. Com (Acc); CA (SA) RGA	External	1 August 2015 and re-appointed 4 April 2019
Mr. PR Mnisi	LLB; Post Graduate Certificate in Compliance Management	External	1 August 2015 and re-appointed 20 October 2018
Ms. HN Masindi	B. Compt. Hons; M Com (Computer Auditing; Higher Diploma in Computer Auditing; Post Graduate Diploma in Management	External	1 August 2015 and re-appointed 20 October 2018
Ms. MP Ramutsheli	CIA; Certified Ethics Officer; MA Internal Auditing	External	20 October 2018

¹² NDT Annual Report (2020/21).