



**PFMA  
2022-23**

# Budgetary review and recommendations report (BRRR) **Portfolio Committee on Tourism**

10 October 2023



AUDITOR-GENERAL  
SOUTH AFRICA

## MISSION



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

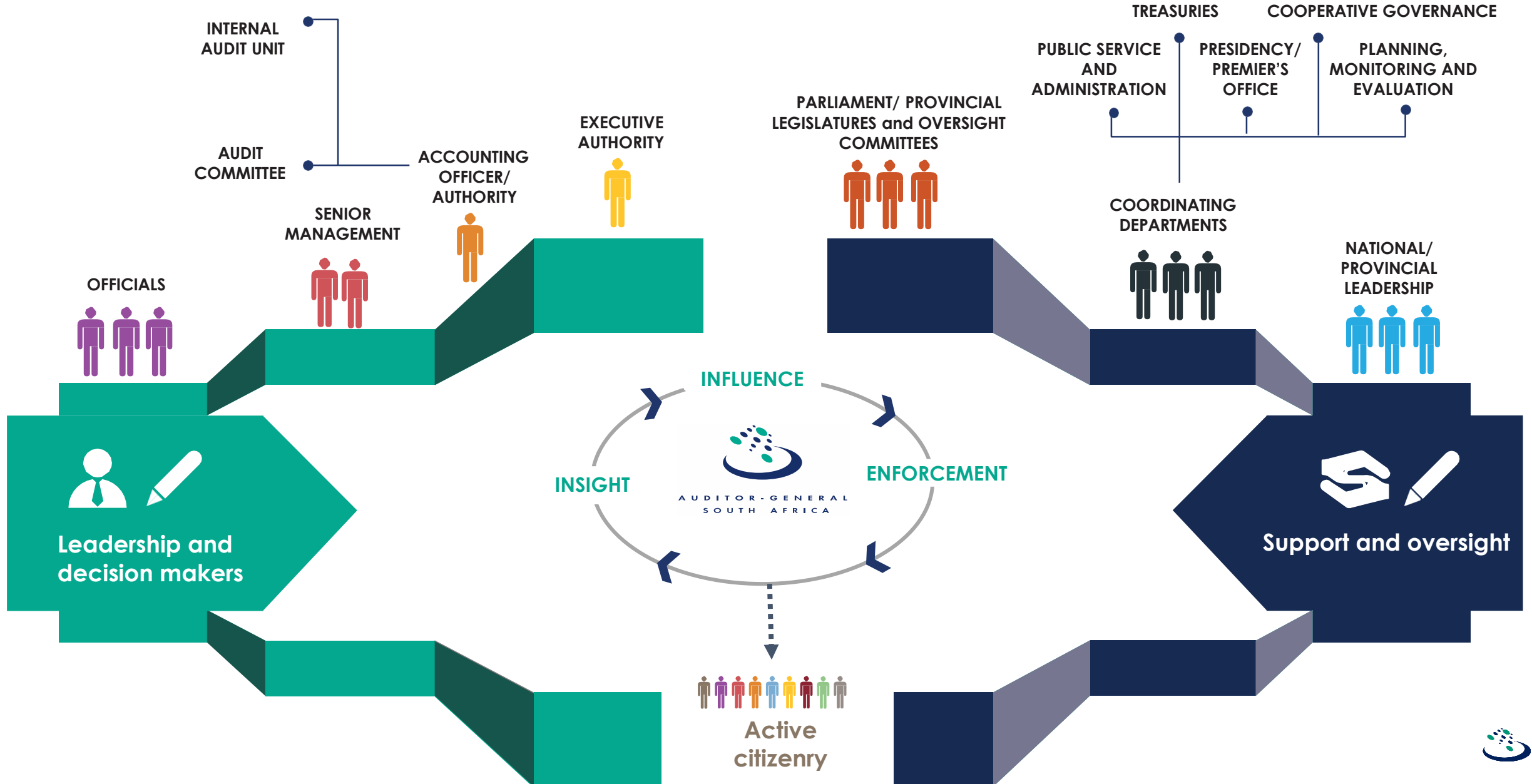


## VISION

To be recognised by all our stakeholders as a relevant supreme audit institution that enhances public sector accountability



# All have a role to play in accountability ecosystem



## Our 2021-22 recommendations to portfolio committee:

- Monitor and regularly follow up with executive authority, accounting officer and accounting authority on progress made in developing and implementing audit action plans
- Monitor implementation of appropriate preventative controls to prevent instances of non-compliance with supply chain management prescripts
- Closely monitor achievement of targets and implementation of the strategy for catching up on targets in which portfolio is underachieving or did not achieve

● Implemented

● In progress



## Overall reflections on implementation of recommendations:

### Action plans

- In progress: The committee held progress meetings on audit action plans, as recommendation by the AGSA, thus enhancing its oversight over the implementation of action plans. There was a significant reduction in the number of findings at NDT. However, the action plan for South African Tourism (SAT) did not result in an improvement in the quality of submitted annual financial statements and compliance with legislation.

### Preventative controls in supply chain management

- In progress: There was an increase in irregular expenditure in the tourism portfolio.

### Achievement of targets

- In progress: We noted a significant improvement in the achievement of targets at the National Department of Tourism (NDT), but SAT regressed significantly, from 73% in the prior year to 54%.



# No change over administration term

	Unqualified with no findings (clean)	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	
2019-20 FIRST YEAR OF ADMINISTRATION	0	2	0	0	0	2
2021-22	0	2	0	0	0	2
2022-23	0	2	0	0	0	2

**MOVEMENTS FROM PREVIOUS YEAR:**  
 → 2 ↑ 0 ↓

**FROM FIRST YEAR OF ADMINISTRATION:**  
 → 2 ↑ 0 ↓

None

National Department of Tourism (NDT)  
 South African Tourism (SAT)

None

None

None

Submission of financial statements by legislated date for the portfolio remained at 100%.



The overall audit outcome for the tourism portfolio has remained unchanged. **NDT** and **SAT** received financially unqualified opinions with findings on compliance with key legislation. NDT had a material finding on procurement and contract management, while SAT had material findings on the annual financial statements and expenditure management. No material findings were reported on the usefulness and reliability of the annual performance report.

## Quality of submitted annual financial statements

We commend the accounting officer and management of the department for submitting annual financial statements that are free from material misstatements. This was an improvement from the prior year as the department had made material adjustments to achieve an unqualified audit opinion.

The financial statements submitted by SAT contained multiple misstatements relating to **operating lease liabilities, contingent liabilities, segment information** and other inconsistencies between the amounts reported in the annual financial statements and the amounts in the notes. Senior management did not address previous deficiencies relating to oversight of the financial reporting process, including detailed reviews of the financial statements by delegated officials and related Internal controls. There were also **capacity constraints** within the finance division due to vacant key positions. The accounting authority should improve the financial statements preparation and review process to ensure that the annual financial statements submitted for auditing are accurate and prepared in accordance with the financial reporting framework. Vacant positions in the finance division should also be filled in a timely manner.

## Quality of submitted annual performance report

Overall, there was an **improvement in the credibility of submitted annual performance report**. SAT improved from the prior year as there was a material adjustment in the submitted annual performance report, while NDT maintained the quality of its annual performance report from the prior year. We commend the portfolio for submitting annual performance reports that are useful and reliable. The accounting officer and accounting authority should **maintain** the good performance management discipline in relation to the usefulness and reliability of the performance information.



## Expenditure management

Irregular expenditure increased from R8,6 million in the prior year to R14,6 million in the current year. SAT accounts for 68% of the total value of the portfolio's irregular expenditure at R9,9 million. Of the R4,7 million in irregular expenditure at NDT, R3,27 million relates to extension of employment contracts beyond a period (12 months) allowed in the Public Service Regulation (PSR), while the remaining R1,43 million relates to a multi-year security contract awarded in 2020-21 for which expenditure is still be incurred.

SAT had two material findings relating to expenditure management, one of which relates to **failure to prevent irregular expenditure** which increased from R6,8 million in the prior year to R9,9 million in the current year mainly due to the purchase of the DOME structure without following the competitive bidding process. The other material finding relates to instances at SAT where **prepayments of R17,6 million were made for the Summer Campaign** even though the contract did not make provision for prepayments, in contravention of treasury regulation 31.1.2(c).

Senior management did not implement sufficient procedures to **review and monitor compliance** with applicable legislation. The SAT accounting authority should ensure that sound preventative controls are implemented and that there is adequate monitoring of compliance with supply chain management prescripts and should institute disciplinary steps against officials who transgressed policies and procedures. The accounting authority should also implement measures to ensure efficient cash management practices that will avoid prepayments.

## Procurement and contract management

NDT had a material finding relating to awards to service providers whose tax matters were not confirmed to be in order prior to the award by the implementing agent. The accounting officer should obtain a written assurance from the implementing agent that the agent **implements effective, efficient and transparent financial management and internal control systems**, and should render the transfer of the funds subject to conditions and remedial measures requiring the entity to implement effective compliance monitoring and internal control systems.



## Governance

In the prior year, we emphasised the importance of filling key vacant positions in the portfolio. At NDT, the position of the chief financial officer was filled with effect from 1 October 2022, bringing much-needed stability to the finance division. We commend the accounting officer for taking the necessary steps to capacitate the finance department.

SAT did not have a board of directors between June 2022 and August 2022, which created a vacuum from an oversight perspective. There were multiple changes in terms of the composition of the board, starting with an interim board appointed in September 2022 followed by the board being appointed in October 2022. The multiple changes to the board exacerbated the **instability** across oversight committees for the entity. The instability at a board level during the 2022-23 financial year also resulted in delays in filling key vacant positions. Most of the senior management positions within SAT were occupied by acting incumbents at year-end, including the positions of **chief executive officer, chief financial officer, chief convention bureau officer, chief marketing officer, head of internal audit, and company secretary**.

After the end of the financial year, some board members resigned, with the SAT board itself later being dissolved. The former acting chief executive officer and chief marketing officer resigned in May 2023. Currently, the oversight over the entity is being exercised by an interim board appointed in April 2023. We recommend that the executive authority appoint a board so that key vacant positions in the entity can be filled.





## Achievement of targets by NDT

The department achieved 96% of its key performance targets linked to service delivery, compared to 80% in the prior year. We commend the department for this significant improvement. Targets achieved include creating 5 315 work opportunities under the **working for tourism programme** – 1 211 more work opportunities than targeted due to Development Bank of Southern Africa (DBSA) projects that moved to implementation in quarter 4. The department also implemented its **women in tourism business development and support programme**, which supported 225 women-owned small, medium and microenterprises (SMMEs) across the country (25 per province) and contributed positively to government's priority of increasing the tourism sector's contribution to inclusive economic growth. A capacity-building programme where **500 SMMEs and 2 500 unemployed and retrenched youth were trained on norms and standards for safe tourism operations** in all nine provinces provided the required capacity for emerging businesses in the tourism industry and created work opportunities for unemployed youth.

## Achievement of targets by SAT

SAT achieved only 54% of the targets in its annual performance plan despite overspending on its budget by R105 million. Key targets not achieved included **implementing the global tourism brand campaign plan, the integrated destination brand and marketing strategy, and the elements of the global advocacy programme**.

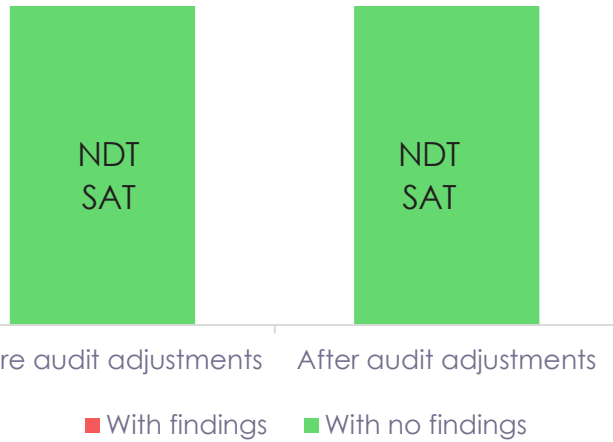
Instability at senior management level and the lack of oversight by the accounting authority contributed to the entity significantly underachieving on its key targets. Key actions that needed to be undertaken to achieve the planned targets were not performed in a timely manner. By not achieving these key targets, SAT may fail to achieve the desired impact of marketing South Africa as a preferred tourist destination. We recommend that the accounting authority and executive authority **enhance oversight** and monitor the achievement of targets on a quarterly basis to ensure that challenges are promptly addressed.



# Portfolio performance



## Quality of performance reports before and after audit



## Findings: Reporting

- No findings reported on usefulness and reliability of performance information

## Impact

- Credible performance reporting

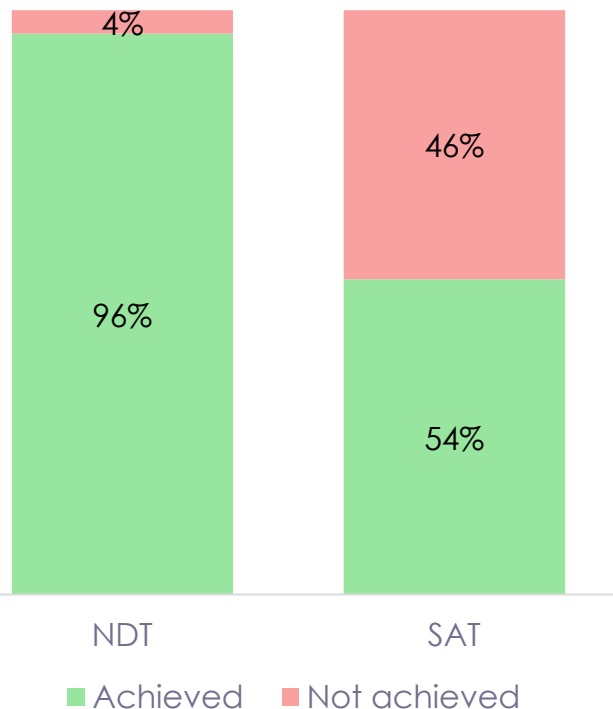


## Key targets in medium-term strategic framework for portfolio

Achievement of MTSF targets in the tourism portfolio is measured by:

- International tourist arrivals - The target is on track for achievement by the end of the MTSF period.
- Total tourist foreign direct spend - The target has been exceeded.
- Domestic holiday trips - The target has been exceeded.

## Achievement of annual targets as reported in annual performance report (all indicators) – 2022-23



### Key targets not achieved include:

- Tourism monitors programme implemented (NDT)
- Global tourism brand campaign plan implemented (SAT)
- Integrated destination brand and marketing strategy implemented (SAT)
- Elements of global advocacy programme implemented (SAT)

### Impact of targets not achieved

- Delays in improving tourist safety (local and international tourists) in certain attractions, and in providing skills and practical work experience to unemployed youth in Limpopo
- Delays in implementing global tourism campaigns, brand and marketing strategies and Global Advocacy programme may result in SAT not delivering on its mandate of marketing of the country as a preferred tourist destination in an effective manner, which will negatively affect government's priority of increasing the tourism sector's contribution to inclusive economic growth through direct spending by foreign tourists and its contribution on the GDP as well as the creation of employment opportunities in the tourism sector.



# Achieving key performance targets – summarised information from performance report

## NDT

Performance indicator	Target	Actual performance	Reason for non-achievement
Prioritised programmes implemented to enhance visitor service and experiences	Implementation of tourism monitors programme in all provinces	Tourism monitors programme was implemented nationally in line with project plans in all provinces except LP (EC, FS, GP, KZN, MP, NC, NW, and WC), as well as at SANParks and iSimangaliso	Tender for Limpopo closed on 15 December 2022, bid evaluation committee (BEC) finalised evaluations, and departmental bid adjudication committee (DBAC) convened on 3 April 2023 to deliberate on awarding process  Planning work for implementation in Limpopo to start in new financial year

## SAT

Performance indicator	Target	Actual performance	Reason for non-achievement
Global tourism brand campaign plan implemented	2022-23 global tourism brand campaign plan implemented	2022-23 global tourism brand campaign was developed with 7 of 10 planned activities implemented	2022-23 global tourism brand campaign was developed and implemented, but not approved by exco, which is non-compliance with technical indicator description (TID) and therefore underperformance  3 activities planned for Q3 were not executed due to budget constraints
Integrated destination brand and marketing strategy implemented	3-year integrated destination brand and marketing strategy	3-year integrated destination brand and marketing strategy was developed and approved	Roadmap was developed in Q3 instead of Q2 Q3 milestones were not executed Q4 milestones were executed
	Implementation of year 1 (2022-23) roadmap	Roadmap was developed and implemented in quarter 4	Roadmap was developed in Q3 instead of Q2 Q3 milestones were not executed Q4 milestones were executed

The department entered into an agreement with the Development Bank of Southern Africa (DBSA) in November 2020 to implement and manage the delivery of infrastructure projects.

For 2022-23 we selected a sample of 3 infrastructure projects to determine whether there is adequate infrastructure project management and that the implementation occurred as planned, by evaluating the following aspects:

- Time management
- Cost management
- Quality management
- Commissioning

The 3 projects we selected were:

1. Western Tembuland Cultural Village
2. Maluti hiking and horse trail
3. QwaQwa guest house





## Western Tembuland Cultural Village



Western Tembuland – restaurant



Western Tembuland – chalet

### Key observations

#### Site visit on 25 May 2023 for physical verification:

- Overall quality was acceptable with no defects identified
- Overall quality of project management for DBSA-appointed contractor was also good
- Project was still under construction (95% complete) at time of AGSA site visit and reached practical completion after site visit

Development of cultural village to celebrate Western Tembuland Culture – craft centre, museum with exhibition hall and reception area, multipurpose hall to double as training centre and dining area, ablution facilities and chalets

BUDGET	SOURCE OF FUNDS	SPENDING
R24,06 million	Fiscus	R18,7 million (31 March 2023)

#### Impact on service delivery:

- Refurbished tourism assets improve visitor experience
- Supports sustainability of tourism attractions
- Job creation in Eastern Cape





## Maluti hiking and horse trail



Constructed lapa in Madlangala

### Key observations

#### Site visit on 26 May 2023 for physical verification:

- Overall quality was acceptable with no defects identified
- Overall quality of project management for DBSA-appointed contractor was also good
- Project was still under construction (89% complete) at time of site visit and completion works currently being finalised

#### Project entails:

- Building 58m of wooden pedestrian suspension bridges at Kinirha River (24m), Jordan River (22m), Mokopo River (12m)
- Alien vegetation clearing
- Construction of 4 thatched lapas with braai facilities at 4 chalets (Makhulong, Malekgalonyane, Madlangala and Maboloka)
- Picnic facilities at 4 picnic spots along trail
- Fencing 4 hiking trail chalets

#### BUDGET

R22,9 million

#### SOURCE OF FUNDS

Fiscus

#### SPENDING

R19,5 million (31 March 2023)

#### Impact on service delivery

- Refurbished tourism assets increase visitor experience
- Supports sustainability of tourism attractions
- Job creation predominantly in rural areas







## Construction of QwaQwa guest house in Phuthadijhaba



Project entails:

- Re-roofing and fixing security building and main building
- Completing paving, landscaping
- Fixing palisade fence and fencing in property
- Finishing ceilings and painting buildings
- Repairing and furnishing buildings
- Fixing and supplying electrical, water and sewerage reticulation

BUDGET	SOURCE OF FUNDS	SPENDING
R17,2 million	Fiscus	R13,5 million (31 March 2023)

### Key observations

Site visit on 11 May 2023 for physical verification:

- Overall quality was acceptable with no defects identified
- Overall quality of project management for DBSA-appointed contractor was also good
- Project was still under construction but ahead of construction programme at 90% physical progress; construction still in progress

**Impact:**

- Refurbished tourism assets will increase visitor experience
- Refurbished tourism assets will support sustainability of tourism attractions
- Job creation predominantly in rural areas



# Material irregularities



# Implementation of material irregularity (MI) process

The material irregularity (MI) process was implemented at the following auditees:

- NDT
- SAT

No MIs were identified in the portfolio during the 2022-23 financial year.

means any **non-compliance** with, or **contravention** of, legislation, **fraud**, **theft** or a **breach of a fiduciary duty** identified during an audit performed under the Public Audit 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**

If **accounting officer / authority** does not appropriately deal with material irregularities, our expanded mandate allows us to:

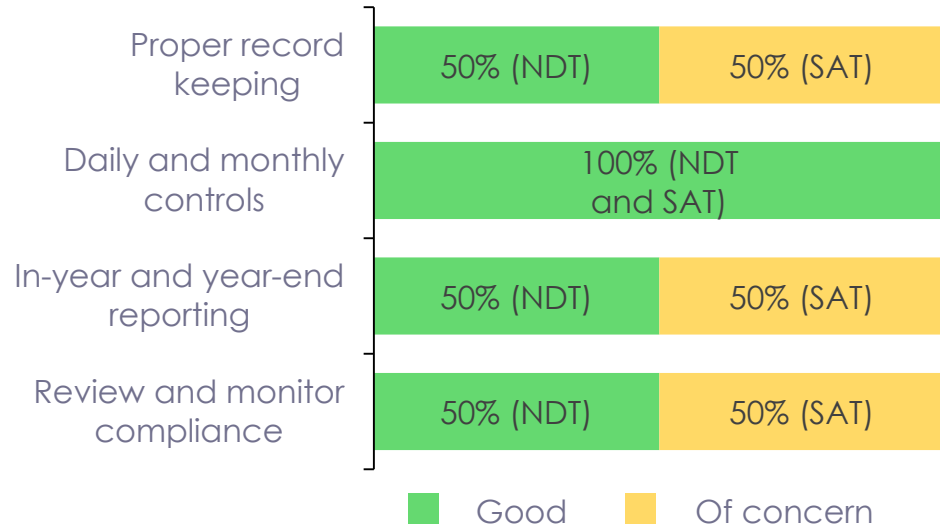




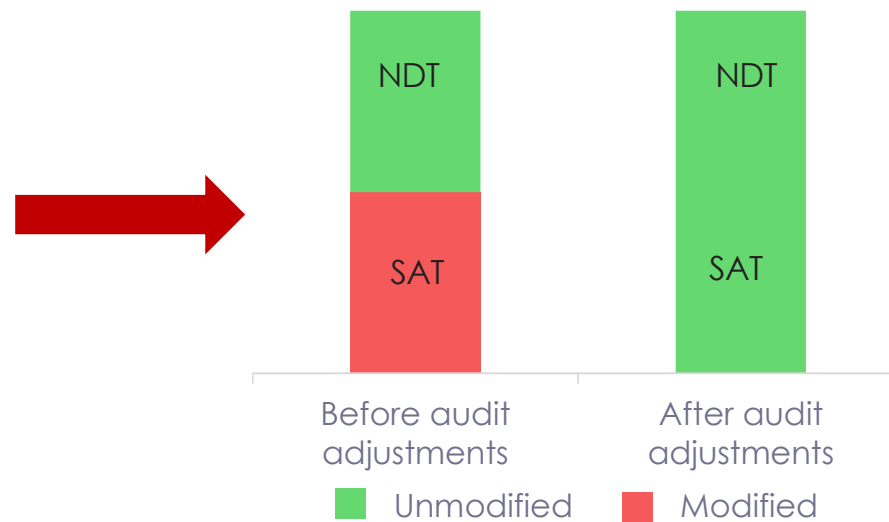
# Financial management and compliance



## Financial management controls



## Impact on quality of financial statements submitted for auditing



### Impact

- Continued dependence on audit process to identify material misstatements



## Revenue



Average debt-collection period = **19 days**

## Expenditure



Fruitless and wasteful expenditure incurred

- R1,23 million for **SAT**
- R36 thousand for **NDT**

### Fruitless and wasteful expenditure under assessment

R1,1 million for travel and accommodation-related expenses (cancellations, amendments for flights and car hire) was being assessed at year end by NDT

**Average creditor-payment period = 6 days**

- SAT – **3 days**
- NDT – **8 days**

## Impact



**1 (SAT) ended year in deficit** (expenditure exceeding revenue)

Net cash outflows for year from SAT operating activities = **R183 million**

Overall, financial health of tourism portfolio is good





2022-23



● No material findings    ● Material findings



Most common areas of non-compliance	NDT	SAT
Procurement and contract management	X	
Quality of financial statements		X
Prevention of irregular expenditure		X
Payment prior to goods and services being rendered		X



## Status of compliance with legislation on procurement and contract management



2022-23



● With findings

● With material findings

MOVEMENTS FROM PREVIOUS YEAR:  
1 ↑ 0 ↓

FROM FIRST YEAR OF ADMINISTRATION:  
1 ↑ 0 ↓

Details of procurement findings	NDT	SAT
Uncompetitive and unfair procurement processes		X
Winning bidder's tax status not confirmed prior to award	X	





National Treasury Instruction Note 4 of 2022-23: **PFMA Compliance and Reporting Framework** (instruction) which came into effect on **3 January 2023**, was issued in terms of section 76(1)(b), (e) and (f), (2)(e) and (4)(a) and (c) of the PFMA

Public objective of instruction note is to prescribe **principles and compliance reporting requirements** for PFMA institutions to Public Finance Management Act 1 of 1999 on **unauthorised, irregular and fruitless and wasteful expenditure** (UIFWE)

## Framework

New framework brought **significant changes** in relation to disclosure of **irregular, and fruitless and wasteful expenditure** (IFWE) as follows:

1

**Movement** in disclosure note of IFWE has been moved from annual financial statements to annual report

2

**PFMA institutions** will only disclose IFWE incurred in current year, with one-year comparative analysis

3

**Historical balances (i.e. opening balances)** have been completely removed from annual financial statements

## Message to portfolio committee

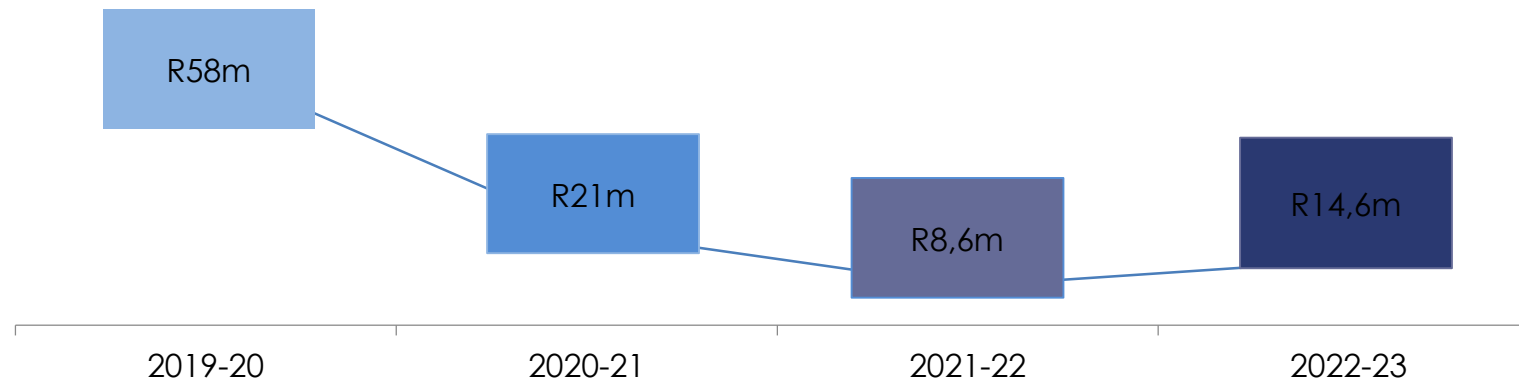
The change to remove the disclosure of historical balances and movements for IFWE from the annual financial statements (AFS) means that oversight structures would need to engage directly with the information disclosed in the annual report or request the information on historical balances directly from the relevant institution where not disclosed in the annual report to exercise their oversight responsibility.

AGSA refined its audit approach to uphold transparency by continuing to audit the IFWE disclosure in the annual report

There is a clear messaging in the audit report on reliability of the IFWE disclosure in the annual report

The objective was to ensure that we could still be in a position to report to users of the AFS in cases where these historic balances of IFWE are not complete and accurate. This had no impact on the audit opinion.

Annual irregular expenditure



### Top contributors

R9,9m	SAT
R4,7m	NDT

### Impact of irregular expenditure incurred

#### Breach of five pillars of procurement

##### Competitive:

- SAT – procurement of Dome structure without following competitive bidding process (R9,9 million)
- NDT – security contract awarded to second-highest scoring bidder (R1,43 million)

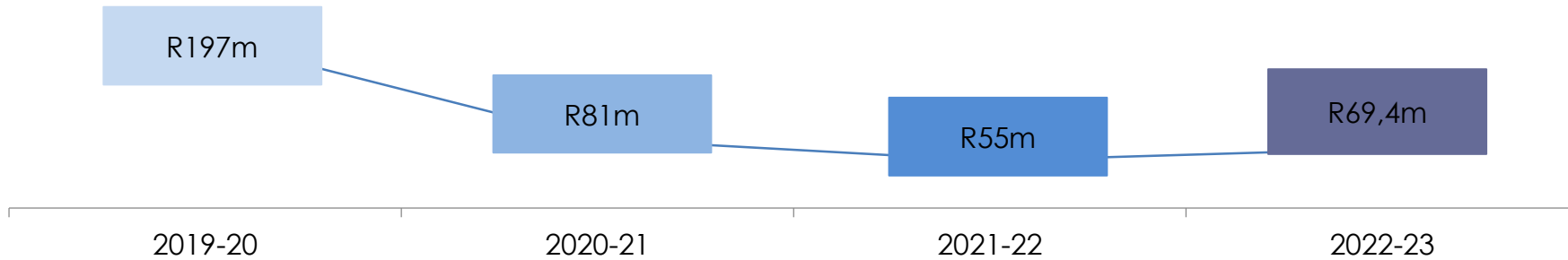
#### Other instances of irregular expenditure

- NDT – compensation for employees whose employment contracts were extended in contravention of Public Service Regulations (R3,27 million)



# Consequence management – dealing with irregular expenditure

Closing balance of irregular expenditure continues to increase



**Reasons for IE not dealt with:**

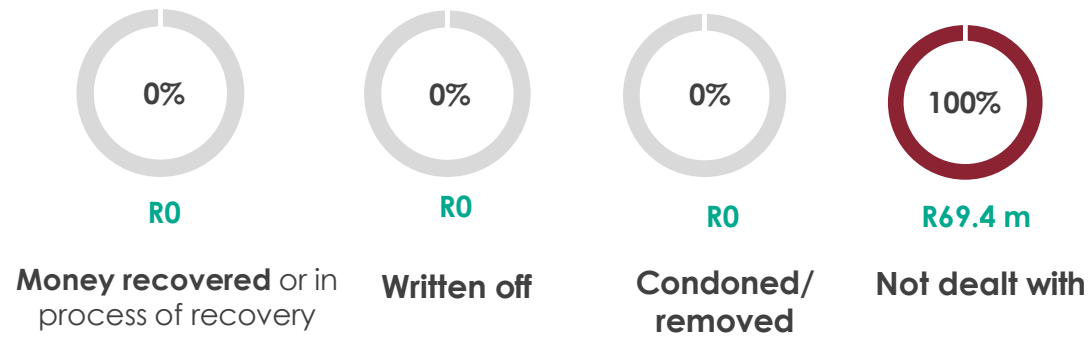
- Investigated and awaiting condonement
  - R51,9m (SAT)
  - R4,3m (NDT)

The irregular expenditure of R4,3 million for NDT was **condoned** subsequent to year end.
- Investigation in progress
  - R9,9m (SAT)
  - R3,3m (NDT)

**Top contributor (R 61,8 million) to irregular expenditure not dealt with constitutes 89% of R69,4 million**



**How have auditees dealt with irregular expenditure**



# Conclusions and recommendations



## Root causes, recommendations and commitments

### Key root causes

- Inadequate review of annual financial statements (SAT).
- Inadequate controls to prevent non-compliance with procurement legislation (SAT and NDT)
- Key vacant positions and instability at SAT

### Key recommendations

- Accounting authority should enhance annual financial statements review process to enhance quality and credibility of annual financial statements
- Accounting officer and accounting authority should implement preventative controls to prevent instances of non-compliance with applicable legislation
- Accounting authority should ensure that key vacant positions in finance division are filled in a timely manner

### Commitments by executive authority

- Continue to oversee progress on the development and implementation of root cause focused audit action plans to improve audit outcomes
- Monitor the implementation of appropriate preventative controls to prevent instances of non-compliance with supply chain management prescripts and consequence management.
- Expedite the appointment of the board of SAT and monitor the filling of key vacancies in the entity
- Closely monitor the achievement of targets at SAT.

## Overall message

- 1 Monitor and regularly follow up with executive authority, accounting officer and accounting authority on progress made in developing and implementing root cause focused audit action plans
- 2 Monitor implementation of appropriate preventative controls to prevent instances of non-compliance with supply chain management prescripts and consequence management
- 3 Closely monitor achievement of targets at SAT and implementation of strategy for catching up on targets in which entity is lagging behind in MTSF period
- 4 Monitor and follow up on filling key vacant positions at SAT.



# THANK YOU



[www.agsa.co.za](http://www.agsa.co.za)



@AuditorGen\_SA



Auditor-General of South Africa



Auditor-General of South Africa



AUDITOR-GENERAL  
SOUTH AFRICA