



**PFMA
2022-23**

Budgetary review and recommendations report (BRRR) **Portfolio committee on sport, arts and culture**

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.

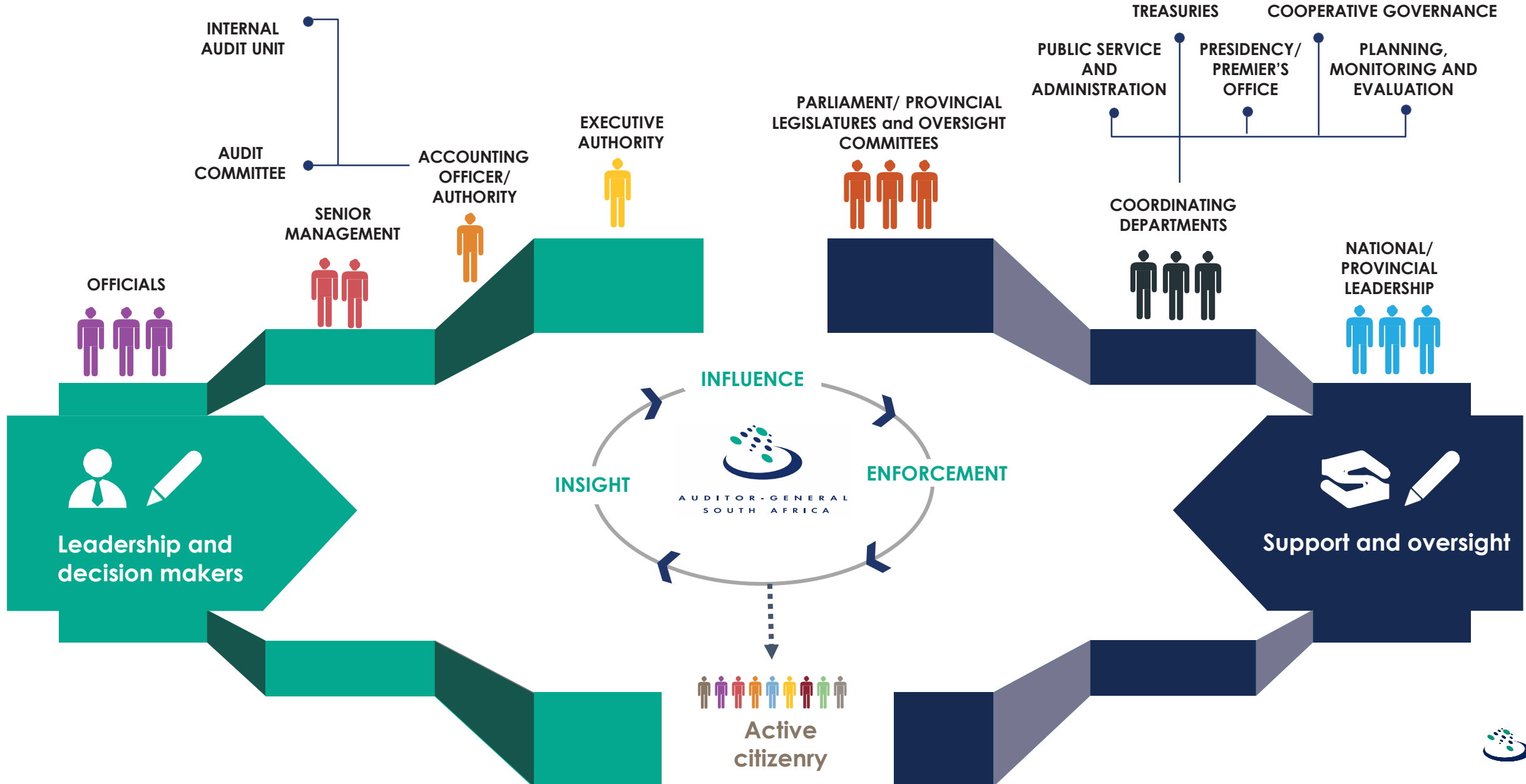


VISION

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



In 2021-22, we recommended the following to the portfolio committee:

- Obtain and actively track commitments made, specifically in relation to AO/AA implementing action plans and other corrective measures to ensure improvement in portfolio audit outcomes
- Portfolio committee to continue actively engaging with all roleplayers within accountability ecosystem to ensure that appropriate measures are taken to implement consequence management
- Portfolio committee to assess department's and public entities' strategic and annual performance plans to ensure that auditees plan and deliver in line with their respective mandates
- Use preventative control guides developed by AGSA to assist other oversight functions to ask relevant questions during their oversight processes



Overall reflections on implementation of recommendations:

- The committee had several interactions whereby it monitored and called on the executive authority and accounting officer/authorities to account for the implementation of action plans and consequence management
- There has been slow implementation of the recommendations by the department and its entities

Implemented

In progress

Not implemented



Slight regression over current administration term

	Unqualified with no findings (clean)	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Outstanding audits	
2019-20	10	12	7	0	0	0	29
2020-21	13	11	4	0	0	0	28
2021-22	10	15	3	0	0	0	28
2022-23	9	16	3	0	1	0	29

MOVEMENT FROM PREVIOUS YEAR:
 2 ↑ 22 → 4 ↓

FROM FIRST YEAR OF ADMINISTRATION: Overall slight regression ↓

Refer to next slide for the 9 auditees that obtained clean audit opinion

Refer to next slide for 16 auditees that obtained unqualified audit opinion with findings

Refer to next slide for 3 auditees that obtained qualified audit opinion

Not applicable

Various misstatements were identified on assets, liabilities, revenue, expenses, disclosure items and corresponding figures.

Submission of financial statements by legislated date for portfolio regressed from 100% to **97%**, the Mandela Bay Theatre Complex submitted AFS late

Disclaimer audit
 Mandela Bay Theatre Complex submitted the AFS late and the audit was concluded on 22 September 2023 for two(2) financial years since this is the first time the entity is being audited by the AGSA.



Movement from previous year



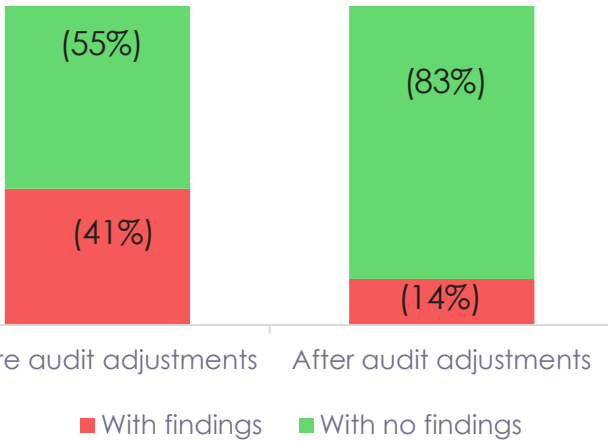
	2 Improved	22 Unchanged	4 Regressed	1 New auditee	0 Outstanding audits
Unqualified with no findings = 9	1. South African State Theatre (SAST) 2. War Museum of the Boers Republics	1. William Humphreys Arts Gallery 2. National Museum 3. Die Afrikaanse Taal Museum 4. SA Institute for Drug-Free Sport (SAIDS) 5. KwaZulu-Natal Museum 6. South African Heritage Resources Agency (SAHRA) 7. The Playhouse Company			
Unqualified with findings = 16		1. Department of Sport, Arts and Culture (DSAC) 2. Market Theatre Foundation 3. National Film and Video Foundation (NFVF) 4. Performing Arts Centre of the FS (PACOFs) 5. National Arts Council (NAC) 6. Amazwi SA Museum for Literature 7. Luthuli Museum 8. Boxing SA 9. Nelson Mandela National Museum 10. Robben Island Museum 11. National Heritage Council (NHC) 12. SA Library for the Blind (SALB) 13. Ditsong Museum	1. ArtsCape 2. Pan SA Language Board (PanSALB) 3. Msunduzi Museum		
Qualified with findings = 3		1. National Library of South Africa (NLSA) 2. Iziko Museum	3. Freedom Park		
Adverse with findings = 0					
Disclaimed with findings = 1				Mandela Bay Theatre Complex	
Outstanding = 0					



Portfolio performance



Quality of performance reports before and after audit



***Mandela Bay Theatre still outstanding

Findings: Planning for service delivery

DSAC:

Indicator 2.3: percentage of national federations (NFs) meeting 50% or more of all prescribed charter transformation targets

- The method of measurement of the target linked to the indicator was not defined in a manner that allows for the indicator to have a clear meaning, easy to understand and to use. It is not clear what the required level of performance is based on (not specific).

Nelson Mandela Museum:

Programme 1: business development

Various findings were raised due to the following:

- Performance indicators not well defined and targets not specific

National Arts Council of South Africa:

Indicator: percentage increase in the number of approved grants

- The indicator was included in the approved annual performance plan but then not clearly defined during planning processes, as the output indicator referred to a percentage and the planned annual target and actual achievement was expressed in a number. Consequently, the information might be less useful for measuring performance.

Findings: Reporting

Nelson Mandela Museum:

Programme 1: business development

Various findings were raised due to the following:

- Reasons for variances between planned and actual performance not disclosed in APR
- Reported indicators in APR not consistent when compared to planned indicators in APP

Freedom Park:

Indicator: number of books acquired

- The achievement of books acquired was materially misstated, the number of books acquired reported in the APR did not agree to evidence provided.

Impact

- Entities may not be able to track all key indicators linked to their respective mandates resulting in negative impact on service delivery (Nelson Mandela Museum and NAC)
- Challenges with credibility of performance information reported in annual report may impact future decisions based on these results (Freedom Park)
- Required performance achievement was difficult to measure, thus negatively affecting planned outcomes linked to indicator (DSAC)



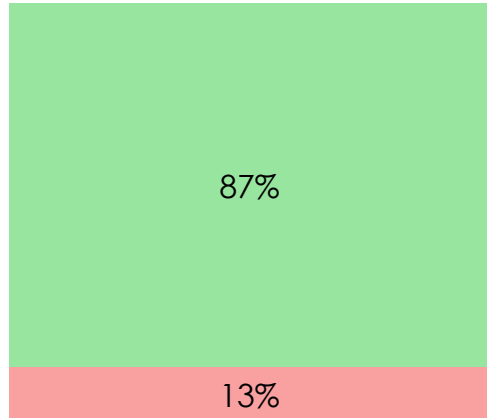
Key targets in Medium-Term Strategic Framework (MTSF) for portfolio

PRIORITY 6: SOCIAL COHESION AND SAFE COMMUNITIES

Some of the key MTSF indicators not achieved

- Number of gender-based and femicide programmes financially supported (100% implementation of national strategic plan (NSP) by 2024)
- Develop and/or maintain heritage legacy facilities (including resistance and liberation heritage route (RLHR) sites) to transform the national heritage landscape (5 by end of March 2024)

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



DSAC

■ Not Achieved ■ Achieved

Key targets not achieved include:

- 1) Number of prioritised manual services modernised
- 2) Percentage (%) of national federations meeting 50% or more of all prescribed charter transformation targets
- 3) Number of heritage legacy facilities (including RLHR sites) developed
- 4) Number of gender-based violence and femicide initiatives financially supported
- 5) Number of monitoring reports on implementation of social compact for social cohesion and nation building
- 6) Number of projects through which target groups are supported

Impact of targets not achieved

- Key indicators which were underachieved may negatively impact the portfolio's intended response in addressing its objectives, which include MTSF targets relating to gender-based violence, transformation, safety in communities and building a nation with good morals.
- The underachievement of number of heritage facilities developed results in the department incurring losses due to price increases caused by project delays and budget increases. It also affects the livelihood of citizens who are supposed to benefit from these projects.



Achieving key performance targets – summarised information from performance report

Performance indicator (DSAC)	Target	Actual performance	Reason for non-achievement (as disclosed by DSAC in annual report)
Percentage (%) of national federations meeting 50% or more of all prescribed charter transformation targets	89.5%	0	The transformation status could not be assessed due to late or non-submission of data sheets by national federations. Of the 19 federations due for submission, only 16 had submitted their data sheets. Those of Chess SA, Basketball SA and South African Football Association (SAFA) were outstanding at the end of the financial year. Of the 16 that had submitted, five had been captured and were in the process of being analysed and verified.
Number of heritage legacy facilities (including RLHR sites) developed and/or maintained to transform national heritage landscape	3	1	<p>Enyokeni project: Environmental impact assessment (EIA) has not yet been approved. It turned out on following up the approval that further engagements are required with the traditional leadership in KwaZulu-Natal.</p> <p>Sarah Baartman Centre of Remembrance: The contractor terminated a contract and vacated the site in July 2021 due to contractual disputes with DPWI (implementing agent). At the time of reporting, a formal acceptance of the project by the DBSA as the new implementing agent was awaited from DPWI.</p>



Performance indicator (DSAC)	Target	Actual performance	Reason for non-achievement (as disclosed by DSAC)
Number of gender-based violence and femicide initiatives financially supported	3	2	The third initiative, named Silapha, was regarded as not achieved because of insufficient evidence.
Number of monitoring reports on implementation of social compact for social cohesion and nation building	2	0	The implementation is dependent on the existence of the social compact for social cohesion and nation building, itself, a project that has not been finalised (signed off) because of dependency on other stakeholders.
Number of projects through which target groups are supported	8	0	Because of departmental processes and decisions such as the change of funding model mid-year, the implementation of projects was delayed resulting in implementation commencing mid-March 2023. Consequently, the eight appointed NPOs were unable to complete the projects and report.



Conditional grant: community library and service grant

- The provincial departments underspent grants by R149,3 million (9%) of the R1,6 billion funds transferred. North West and Limpopo had the highest percentage of underspending at 20%, and Gauteng at 18%.

Impact

- Previously disadvantaged communities that are primarily targeted by the grant were unable to gain access to knowledge and updated information that will improve their socio-economic status.
- Missed opportunities to contribute to eradicating unemployment because the appointment of staff was delayed.

Infrastructure projects

- In the previous year, we reported on the delays in infrastructure projects. In the current year, we followed up on JL Dube and Enyokeni heritage site projects.
- The Enyokeni project was still on hold while the JL Dube project commenced, but continued delays were hindering its completion.

Impact

- The project was not yet available and accessible to the local community and thus could not yield socio-economic benefits to the community of Inanda. It could also not boost local tourism and provide further employment, training and economic opportunities for the people of the area, including the youth.
- The delays also resulted in the department being unable to achieve its set target as per the APP.
- Structures start to deteriorate while the projects are on hold and thus require additional funds for restoration once the project resumes.

Root causes

- Delays in procurement process & staff appointment by provinces.
- Disputes between communities and contractors.

Recommendations

- The department should encourage the provincial departments to expedite appointment of service providers, fill vacancies and engage communities on awareness of benefits of having a library to promote social cohesion.



Root causes

- Poor planning and budget management on infrastructure projects.
- Lack of project management and delays in completing infrastructure projects, resulting in variations.

Recommendations

- Close monitoring and active project management on infrastructure projects.
- Ensure that IA/suppliers are paid on time and for the value provided to avoid losses later when the quality needs to be reworked.



Mzansi National Philharmonic Orchestra (MNPO)

During 2021, DSAC established the MNPO. The process of establishing this entity (which is registered as a non-profit organisation) started in 2019 when an advisory board was appointed to conduct a feasibility study that will pave the way for the establishment of the national orchestra. During November 2021, the department concluded a memorandum of understanding (MoU) with the National Arts Council (NAC). The main purpose of the MoU was to facilitate the transfer of ring-fenced funds from the NAC to the newly established Mzansi orchestra.

Impact

- Non-compliance with Treasury Regulations
- Limitation regarding sufficient evidence to adequately substantiate that funds were spent as intended

Cause

- Lack of oversight by the NAC and the department on monies transferred
- Non-adherence to the provisions as agreed in the MoU

Recommendations to accounting officer

- Monitor implementation of the spending by the MNPO and obtain outstanding reports to confirm if monies were spent in line with the objectives

Overall observations

Oversight not implemented by the department

- The department did not provide adequate oversight over the use of funds transferred to the MNPO, resulting in non-compliance with treasury regulation 8.4.1. This was because the department did not obtain comprehensive quarterly reports to support the spending by the MNPO as provided for in the MoU with the NAC. The department also allowed the NAC to disburse a higher tranche payment that was not aligned with the MoU.

Potential conflict of interest

- The chief executive and artistic director of the MNPO (which allocates funding to orchestras, including Johannesburg and KZN Orchestras), hold similar positions in these orchestras. The only safeguard in place is the declaration of interest and recusal from decision making.

Expenditure report on spending by the advisory board not supported

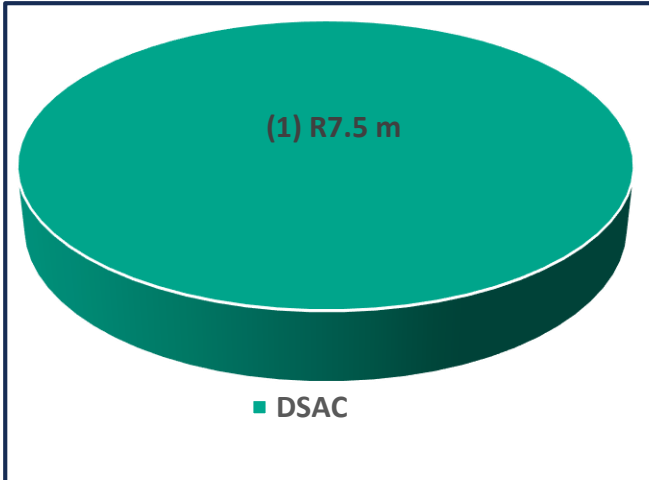
- The expenditure report provided did not include a breakdown of the nature of expenditure nor were invoices provided. As a result, we were unable to confirm what the amount was used for.



Material irregularities



MATERIAL IRREGULARITIES



MI DESCRIPTION

The department made transfer payments amounting to R7,5 million to a beneficiary for implementing a project in broadcasting. The department did not implement timely and appropriate procedures to monitor the usage of funds by the beneficiary. No evidence could be provided to confirm that the funds were used for the project as agreed between the department and the beneficiary.

This resulted in non-compliance with treasury regulation 8.4.1. and a financial loss of R7,5 million to the department.



ACTIONS TAKEN BY AUDITEES

R7,5m

Financial loss **in process of recovery**

1

Responsible officials identified and **disciplinary process** in progress

1

Investigation instituted

Observations from MI process

- The AO has concluded a forensic investigation into the matter
- The AO is taking appropriate disciplinary action against the responsible official
- The AO is pursuing civil recovery against the official and a criminal case with SAPS was opened against the beneficiary for theft, fraud and misrepresentation

Recommendations for portfolio committee

- Provide oversight and closely monitor the implementation of recommendations of the forensic report by executive authority and AO



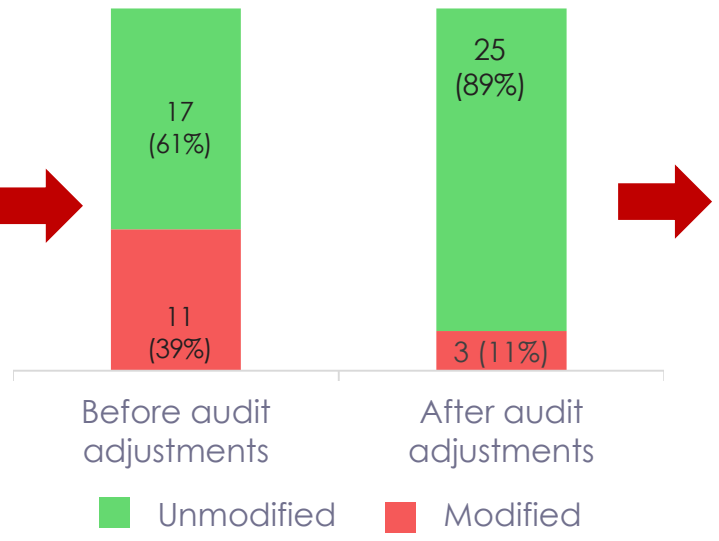
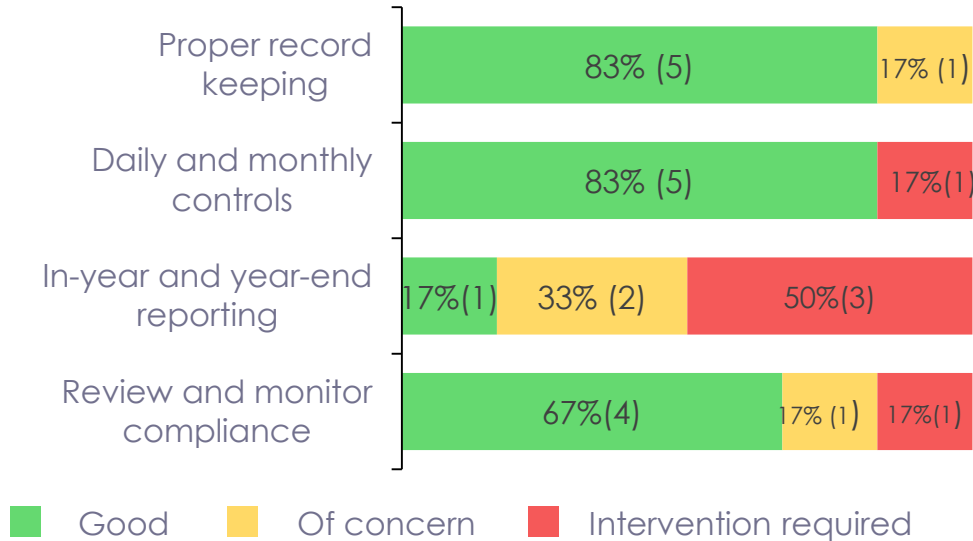


Financial management and compliance



Impact on quality of financial statements submitted for auditing

Financial management controls



Main qualification areas

NLSA and Iziko Museum

- Heritage assets

Freedom Park

- Property, plant and equipment
- Cash flow statement
- Statement of comparison of budget and actual amounts

Impact

- The weak control environment (e.g. lack of adequate review of financial statements and supporting schedules) impacted the quality of the financial statements submitted for auditing. This can be noted above as 8 auditees that attained unmodified opinions were only able to do so after processing material adjustments to the financial statements submitted for auditing. This represents 29% of the portfolio auditees. This excludes Nelson Mandela Bay Theatre as the audit has not been finalised yet.
- Financial management control graph is based on 6 auditees not classified as small auditees per AGSA's methodology (DSAC, Iziko Museum, Ditsong Museum, Freedom Park, PanSALB and Robben Island Museum).



Auditee	Details on qualification areas
Freedom Park	<p>Statement of comparison of budget and actual amounts</p> <p>The public entity did not accurately disclose the budget and the actual amounts, as required by the relevant financial reporting standard (GRAP 24). As a result, the actual and budgeted expenditure as presented in the statement of comparison of budget and actual amounts were materially misstated.</p> <p>Cash flow statement</p> <p>Net cash flows from operating activities were not correctly prepared and disclosed as required by the relevant financial reporting standard (GRAP 2). This was due to multiple errors identified in relation to cash flows from operating activities.</p> <p>Property, plant and equipment</p> <p>Depreciation was incorrectly calculated as the public entity did not establish adequate internal controls to calculate it. This resulted in asset (property, plant and equipment) amounts being overstated in the financial statements.</p>
National Library of South Africa	<p>Heritage assets</p> <p>We were to obtain sufficient appropriate audit evidence that heritage assets had been properly accounted for as required by the relevant accounting standard. The matter relates to heritage assets acquired before 1 April 2012 which were not recognised in the financial statements. This was due to the public entity not maintaining adequate records of the heritage assets. This is a repeat finding.</p>
Iziko Museum	<p>Heritage assets</p> <p>We were unable to obtain sufficient appropriate audit evidence that heritage assets for the current and previous year had been properly accounted for. This was due to duplications identified in the population and the heritage assets register not being complete. This is a repeat finding.</p>



Revenue



Expenditure



Debt-collection period > 90 days at **2** auditees

Freedom Park recorded a debt-collection period of **191** days for the financial year

Iziko recorded a debt-collection period of **177** days for the financial year

Average debt-collection period = **72 days**

Creditor-payment period > 30 days at **5** auditees

Ditsong had creditor-payment period of **189** days for the financial year

PanSALB had creditor-payment period of **114** days for the financial year

Freedom Park had creditor-payment period of **67** days for the financial year

Robben Island had creditor-payment period of **61** days for the financial year

Iziko had creditor-payment period of **32** days for the financial year

Average creditor-payment period = 78 days

Although the creditor-payment period exceeds 30 days, only 2 (Freedom Park – R31 000; PanSALB – R17 000) of the above entities reported fruitless and wasteful expenditure relating to interest paid due to late payments

Impact



50% of auditees **ended year in deficit** (expenditure more than revenue), namely:

- **Ditsong at R1,8 million**
- **Freedom Park at R240 million**
- **PanSALB at R22 million**

Although no **going concern** issues were identified, should the current status remain on the indicators reflected, **service delivery** may be impacted in future.

Assessment above is based on 6 auditees not classified as small auditees per AGSA's methodology (DSAC, Iziko Museum, Ditsong Museum, Freedom Park, PanSALB and Robben Island Museum)





2022-23



● No material findings ● Material findings

MOVEMENT FROM PREVIOUS YEAR:
2 ↓ 26 →

Most common areas of non-compliance	Auditees
Procurement and contract management	Amazwi, Market Theatre Foundation, Luthuli Museum, Robben Island Museum, Nelson Mandela Museum, Artscape, Msunduzi Museum, SA Library for the Blind
Quality of financial statements	Amazwi, PanSALB, PACOFS, Boxing SA, Luthuli Museum, Nelson Mandela Museum, National Arts Council, SA Library for the Blind
Prevention of irregular, unauthorised, and fruitless and wasteful expenditure	Market Theatre Foundation, Luthuli Museum, National Heritage Council, National Arts Council
Effecting consequences	DSAC, PACOFS, Boxing SA, NAC

Root cause:
The portfolio has not adequately implemented action plans developed to respond to non-compliance findings raised in prior years. The entities continue to transgress laws and regulations, as previously reported.



Status of compliance with legislation on procurement and contract management



2022-23



MOVEMENT FROM PREVIOUS YEAR:

27 1

● With no findings ● With findings

Details of procurement findings	Auditees
Uncompetitive and unfair procurement processes	Amazwi, Market Theatre Foundation, Luthuli Museum, Robben Island Museum, Nelson Mandela Museum, Artscape, Msunduzi Museum, SA Library for the Blind
Preference point system and criteria not applied	Robben Island Museum, Nelson Mandela Museum, Artscape

Payment for goods and services not received or of poor quality

All goods paid for were received and of an acceptable quality; no findings were identified.



National Treasury Instruction No. 4 of 2022-23: **PFMA compliance and reporting framework** (instruction note), 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 the instruction note is to prescribe the **principles and compliance reporting requirements** for PFMA institutions regarding **unauthorised, irregular, and fruitless and wasteful expenditure** (UIF&WE)

Framework

The new framework brought **significant changes** in relation to the disclosure of **irregular, and fruitless and wasteful expenditure** (IFWE). These changes are as follows:

1

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

2

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

3

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

Message to portfolio committee

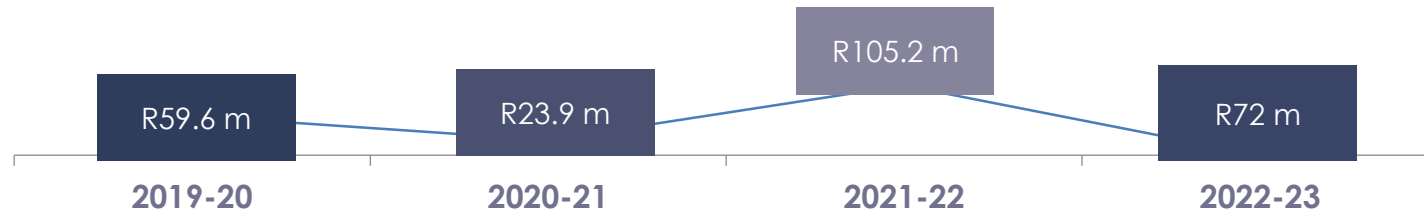
The change to **remove the disclosure of historical balances for IFWE** means that the **oversight structures may not be able to fully exercise their oversight roles**. Furthermore, **no audit assurance** will be provided on the additional disclosures that have been moved from the AFS.

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

There is 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 historical balances of IFWE are not complete and accurate. This had no **impact on the audit opinion.**

Annual irregular expenditure



Top contributors



Impact of irregular expenditure incurred

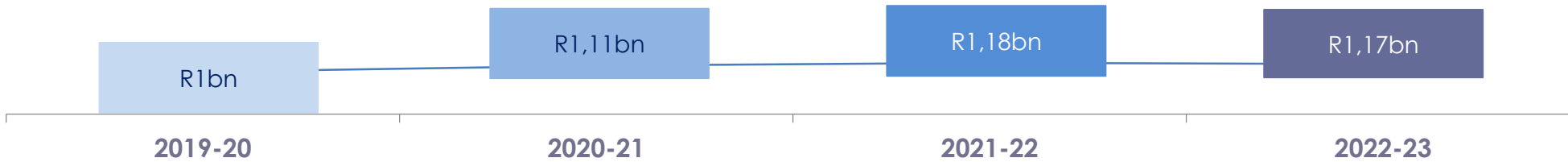
NAC, Ditsong, Boxing SA, Luthuli Museum, Freedom Park, Market Theatre, NHC, SAST, PanSALB, Iziko, SAIDS, SAST, NFVF, Robben Island, NLSA, Die Afrikaanse Taal Museum, Nelson Mandela Museum, and Artscape had all breached one or more of five pillars of procurement – equitable, fair, cost effective, transparent and competitive

Other impact:

NAC: R3 614 971 relates to non-compliance with budget framework



Closing balance of irregular expenditure remains high



Reasons for IE not dealt with:

Investigations into some irregular expenditure to the value of R23 727 428 at DSAC were not performed as required by section 38(1)(h)(iii) of the PFMA.

Investigations into irregular expenditure incurred in the prior years were not performed at NAC.

Not all Irregular, fruitless and wasteful expenditure cases from the prior years at Boxing SA were investigated by management there was also poor implementation of recommendations made on the investigation reports.

How have auditees dealt with irregular expenditure



Top 5 contributors (R1,17bn)



Conclusions and recommendations



Root causes, recommendations and commitments

Key root causes

- Slow response to implementation of recommendations
- Lack of timeous implementation of consequence management

Key recommendations and commitments

- Implement sufficient monitoring controls over compliance with legislation and implementation of effective consequence management
- Monitor implementation of action plans to address findings and address root causes
- **Commitments by accounting officer:** Monitor the implementation of audit action plans and consequence management

Commitments by executive authority

- Provide oversight regarding processes taken by the AO and AAs in implementing consequence management.
- Encourage, monitor and track timeous implementation of actions plans by leadership within the portfolio.

PC overall message

- 1 Obtain and actively track commitments made, specifically in relation to the AO/AA implementing action plans and other corrective measures to ensure improvement in the portfolio's audit outcomes.
- 2 Portfolio committee should continue to actively engage with all role players within the accountability ecosystem to ensure that appropriate measures are taken to implement consequence management.
- 3 Portfolio committee should continue to assess the strategic and annual performance plans of the department and public entities to ensure full alignment with their respective mandates and conduct oversight visits to monitor attainment of service delivery.



THANK YOU



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