

Budgetary Review and Recommendation Report of the Portfolio Committee on Tourism, Dated 20 October 2023

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 2022/23 financial year, reports as follows:

1. INTRODUCTION

In the 2022/23 financial year, the period under review, the Committee continued to conduct robust oversight work over the Executive as enjoined by the Constitution. This culminated in several interventions sanctioned by the Committee to enhance compliance by the Executive. These include but are not limited to; summoning the erstwhile Minister of Tourism to attend meetings of the Committee and account for her activities as an executive authority. The Committee also intervened, compelling the Board of South African Tourism to cancel the sponsorship deal of R910,997,814.75 earmarked for Tottenham Hotspur Football Club; and later recommending to the National Assembly that budget not be appropriated to SA Tourism until special conditions were met to improve governance and financial management.

With the arrival of the new Minister of Tourism in March 2023, Hon. Patricia de Lille, the Committee continued to encounter governance issues in both the Department and SA Tourism for the greater part of the period under review. The main oversight issues included dealing with matters such as proper implementation of infrastructure projects; and the dysfunctional Board of South African Tourism; an entity faced with leadership crises and operated by a temporary/acting executive management, including the Acting Chief Executive Officer, Acting Chief Financial Officer, Acting Chief Marketing Officer, Acting Chief Strategy Officer, and Acting Chief Conventions Bureau Officer.

All the governance and operational issues had a direct impact on how the budget appropriated to the tourism portfolio was spent. The unfortunate unintended consequence of maladministration and incompetence in SA Tourism was that valuable time was spent on oversight over governance and operational matters, disproportionate time focused on the recovery of the sector and other germane challenges. This document, therefore, purports to provide a Budget Review and Recommendation Report that comprehensively scrutinizes the financial and non-financial performance of the Department and SA Tourism in the 2022/23 financial year.

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 still 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 the 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 characterised by limited integration of local communities and previously neglected groups into tourism; that 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 several 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 appointed a seven-member panel of experts to review the policy. The Committee is, however, concerned with the time it has taken the Department to finalise the policy.

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 sixth administration of government developed its 2019 - 2024 Medium Term Strategic Framework (MTSF), which purports to give effect to the implementation of the NDP Vision 2030 and for the execution of the majority electoral mandate. The MTSF 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 The Economic Reconstruction and Recovery Plan (ERRP)

The Economic Reconstruction and Recovery Plan (ERRP), published in late 2020, is the country's plan for overall economic recovery after the COVID-19 pandemic. The ERRP identifies eight priority interventions to drive the reconstruction and recovery of the South African economy. In addition to tourism being identified as one of the priority areas of intervention in the ERRP, the tourism sector has a contribution to make to a number of other priorities of the ERRP.

1.2.2.7 The Tourism Sector Recovery Plan (TSRP)

The Tourism Sector Recovery Plan (TSRP) acknowledges the need for targeted and coordinated action to mitigate the impact of the COVID-19 pandemic and to set the sector on the most optimal path to recovery, transformation and long-term sustainability. The TSRP is anchored on three interlinked pillars with a number of strategic interventions to support each theme. The TSRP also identifies enablers to support tourism recovery.

1.2.2.8 State of the Nation Address

The 2022 State of the Nation Address (SoNA) was delivered against the backdrop of the Tourism Sector Recovery Plan (TSRP) that was developed to caution the industry against the devastating impact of the COVID-19 pandemic. The TSRP cannot be confined to the mandate of the Department alone as tourism is an interdependent sector reliant on the mandate of other sector departments. The importance of inter-departmental cooperation is critical in realising the full potential of the tourism mandate. Accordingly, the implications of SoNA are that without efficient infrastructure, electricity, water distribution and broadband networks, less red tape, and fast-tracking of E-visas, the tourism sector would not reach its full potential. The Department, therefore, cannot work in isolation but should partner with relevant sector departments and other parliamentary committees.

1.3 Strategic Outcome-Oriented Goals of the Department and Delivery Agreement targets for 2022/23

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 the Government's Outcomes, namely:

1.3.1 Strategic priorities for 2022/23

The Department pursues the following priorities in the 2019 – 2024 government Medium Term Strategic Framework:

- Priority 1 - Building a capable, ethical and developmental State;

- Priority 2 - Economic Transformation and Job creation; and
- Priority 7 - A better Africa and world.

In line with the MTSF, the work of the Department of Tourism over the medium term is outlined to focus on:

- Strengthening capabilities internally to ensure the long-term sustainability of the sector;
- Enhancing and maintaining core tourism assets and infrastructure, and in so doing creating work opportunities;
- Supporting historically disadvantaged tourism enterprises;
- Implementing norms and standards for safe operations across the tourism value chain; and
- Enhancing tourism safety in collaboration with the South African Police Service.

The 2022/23 strategic priorities are captured in Table 1.

Table 1: Strategic priorities for 2022/23

Outcome	MTSF Outcome	MTSF priority supported
Priority 1: Building a capable, ethical and developmental State	<ul style="list-style-type: none"> • Conducting business in a manner that creates public confidence in the state. • This requires excellent systems for the management of public resources, ridding the system of any inefficiency and enabling oversight by institutions of the state in the interest of the public. 	Achieve good corporate and cooperative governance.
Priority 2: Economic Transformation and Job creation.	<ul style="list-style-type: none"> • Jobs created, contribution to GDP, and revenue generated from tourism activity. Observing principle of inclusivity to drive tourism-sector transformation. 	Increase the tourism sector's contribution to inclusive economic growth.
Priority 7: A better Africa and world	<ul style="list-style-type: none"> • Increasing tourism's economic contribution driven by an increase in domestic and international tourist arrivals and tourist spend. 	Increase the tourism sector's contribution to inclusive economic growth.

Source: Department of Tourism Annual Performance Plan – 2021/22 – 2023/24

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 Annual Report for the Department was published in the parliamentary Announcements, Tablings and Committee Reports (ATC) No. 128 of 28 September 2023. 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 10 October 2023, the Committee convened a meeting with the Office of the Auditor-General (AGSA), and the Department on the departmental annual performance outcomes. On 17 October 2023, the Committee convened a meeting with SA

Tourism. These meetings were convened in preparation for drafting and tabling the 2023 tourism portfolio Budget Review and Recommendation Report. The 2023 Committee's Budget Review and Recommendation Report was then adopted and published in the ATC on 20 October 2023.

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/observations 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 are aligned with the overall mandate of tourism in the country. There is a need to review some strategies and policies to be perfectly aligned with 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 with 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.

2.1.1 Policy review process

There is significant progress made in the policy review process with Cabinet having approved the Green Paper on the Development and Promotion of Tourism in South Africa. The key elements of the Green Paper include, but are not limited to:

- Implementation of a research-based tourism safety response programme in partnership with relevant agencies;
- Develop and regularly review tourism crisis management framework to enable a response to crises;
- Implementation of Tourism BBBEE Codes & strengthening mechanism for access to finance;
- Facilitation of ease of access to the destination, especially as it relates to immigration and transport.
- Recommitting the sector to the responsible tourism agenda.
- Regulation of short-term rental accommodation to ensure policy certainty.

The Green Paper focuses on four policy thematic areas with a specific focus under each.

The four thematic areas are:

- Evolving former policy areas: Tourism governance, safety and security management and transformation.
- Emerging policy issues: Embracing technology, crisis management, accessing the destination, quality visitor services, skills supply and employment and tourist services.
- Policy issues for targeted growth: Prioritising rural & peri-urban tourism, enhancing domestic tourism for destination resilience and destination marketing and branding.
- Sustainable growth model: Responsible tourism, knowledge management research and insights, tourism diplomacy and tourism trade & investment.

2.2 Overview of the revised Strategic Plan and Annual Performance Plans

The revised Annual Performance Plan for 2022/23 aligned to the tabled 5-year Strategic Plan. The Department performs 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.

2.2.1 Budget allocation in line with the reviewed strategic plan

The overall budget allocation to the Department decreased by 6.33 percent in real terms to R2 491.6 billion in 2022/23 when compared to the budget of R2 545.4 billion in the 2021/22 financial year. The budget was allocated across the Programmes as follows:

- Programme 1: Administration (R325.1 million);
- Programme 2: Tourism Research, Policy and International Relations (R1 416.0 billion);
- Programme 3: Destination Development (R393.9 million); and
- Programme 4: Tourism Sector Support Services (R356.6 million).

2.2.2 Departmental programmes

The Department was pursuing the strategic objectives and the strategic outcome-oriented goals through these four Programmes as outlined in Table 2.

The budget allocation for Programme 1 increased by 4.9 percent in nominal terms from R309.8 million in 2021/22 to R325.1 million in 2022/23. Of this amount, R174.1 million (53.5%) was for Compensation of Employees. The major cost driver under this programme was Corporate Management, with an allocation of R182.2 million for the 2022/23 financial year. The allocation for this sub-programme is in response to the Department seeking to strengthen internal capacity.

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 2021/22 Annual Performance Plan

Programme 2 received a budget allocation of R1 416.0 billion for 2022/23, of which R1 329.2 billion was transferred to South African Tourism (SAT). This represents 93.9 percent of the Programme's budget allocation. The remaining allocation available for this Programme was

R86.8 million, of which R57.4 million (66.1%) was allocated to Compensation of Employees. This left the programme with just about R29.4 million for the rest of its projects/programmes. Budget allocation reverted to 2019 allocations as a result of the lifting of global lockdowns and travel bans and vaccination rollouts. The increase in allocation was aimed at recovery initiatives for the sector. Some of the projects under this programme include research partnerships with universities, policy development and evaluation, and international relationship management through bilateral agreements and memberships at various fora.

Programme 3 was allocated R393.9 million for 2022/23, the bulk of which, i.e., R311.7 million (79.1%), was allocated to the Working for Tourism sub-programme. A total of R333.8 million was allocated to Goods and Services. The budget allocation for Programme 3 decreased by 19.16 percent in real terms from R466.3 million in 2021/22 to R393.9 million in 2022/23. The main cost driver under this programme, at R311.7 million, was the Working for Tourism expanded public works programme. This sub-programme entails various skills development programmes and tourism projects. Through these, the Department planned to create 12 370 work opportunities over the medium term. However, the budget for this sub-programme substantially decreased for the financial year by 21 percent in real terms. Another substantive decrease in allocation was experienced in sub-programme 1, Destination Development Management, by 18.67 percent in real terms. Some of the activities under this sub-programme include destination enhancement initiatives at the tourism site and supporting South African National Parks sites through infrastructure maintenance programmes. These projects are critical for destination attractiveness, bringing in revenue to destinations and creating employment.

Programme 4 was allocated R356.6 million for the 2022/23 financial year. This included Compensation of Employees with a budget allocation of R79.4 million and the Tourism Incentive Programme (TIP) with a budget allocation of R242.0 million. The projects within TIP included tourism market access, tourism grading support, tourism destination development and energy-efficient projects. The TIP consumed 67.8 percent of the total Programme budget whilst the Enterprise Development and Transformation sub-programme consumes 13.3 percent. The budget allocation for Programme 4 decreased by 11.73 percent in real terms from R386.6 million in 2021/22 to R356.6 million in 2022/23. Allocation to this sub-programme decreased by 15.85 percent in real terms. The Tourism Incentive Programme sub-programme, at R242.0 million, is the main cost driver in this programme. This programme aims to incentivise priority areas, including providing market access support, tourism grading support, implementation of energy efficiency initiatives and funding of transformation initiatives in the tourism sector towards unlocking capital investment by black tourism entrepreneurs. Initiatives in this Programme are in line with the Department's strategic priorities towards economic transformation and job creation, responsible tourism, and transformation of the sector.

2.3 Overview of key developments in the organisational and service delivery environments of the Department for the 2022/23 and 2023/24 MTEF cycle.

The significant developments in the period under review include, but are not limited to:

- Dissolution of the Board of South African Tourism by the Minister and appointment of a three-member Board for the Entity,
- The 2023/24 appropriation of budget to Vote 38 with conditions,
- Approval by Cabinet of the Green Paper on the Development and Promotion of Tourism in South Africa,
- Out-of-court settlement that resolved the interdict against the implementation of the R1.2 billion Tourism Equity Fund, and
- Intervention by the Committee to stop the R910,997.75 million sponsorship deal to Tottenham Hotspur Football Club.

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

3.1 2021/22 BRRR recommendations

The Committee convened a meeting with the Department and SA Tourism to assess the extent to which the 2021/22 BRRR recommendations were implemented. The Committee is of the view that the Department did not adequately respond to the recommendations as it provided general responses to specific recommendations. In some instances, the Department just indicated that the recommendation was noted without explaining how they would address issues raised. Some of the issues that emanated from the implementation of the BRRR recommendations include, but are not limited to:

- Sustainability framework - the Department is at an advanced stage of the development of the project sustainability framework which will ensure that infrastructure projects implemented by the Department are operational and sustainable.
- Forensic reports - the guidance from the Minister and the Deputy Minister was that the Committee may consider having a closed session. The Committee agreed to a closed session meeting which was scheduled for 28 November 2023.
- Investment facilitation – the Department is currently working on the framework to determine which projects will be supported. A recommendation by the Committee to develop Standard Operating Procedures has also been taken on board by the Department. The Department facilitates matchmaking for investment-ready projects with the Development Finance Institutions (DFIs).
- Audit Action Plans – Audit Action Plans were developed by both the Department and SA Tourism.
- Tourist Guide Fund beneficiaries – the consequence management on the payment of irregular tourist guides was effected. Criminal cases were opened in case of claims that were made on behalf of deceased beneficiaries. The Committee demanded that the Department should provide a comprehensive report on this matter.
- Collaboration with South African Police Services (SAPS) through the Memorandum of Understanding – the Committee insisted that the safety monitors be trained, and collaboration intensified with the SAPS. On a recommendation of insourcing tourism monitors, the response by the Department about budget constraints made it clear that this recommendation was not going to be implemented. The Committee encouraged the Department to work closely with SAPS to ensure the safety of tourists.
- Employment of foreign nationals - the Committee will invite the industry to discuss the matter of citizens being prioritised for employment and that fair compensation of employees is practised in the tourism sector.
- Grading Council – the Committee insists that whether there are financial implications or not, the Grading Council should be housed outside of SA Tourism. The tendency of big operators refusing to be graded should be stopped and a policy should be in place to compel all establishments to be graded.
- National Public Transport Regulator (NPTR) - the Committee insists that the Department should continue working with the NPTR to address delays in issuing tour operator licences.
- Intergovernmental support on infrastructure projects - the Department pointed out that they promote intergovernmental coordination amongst various departments. The Committee was of the view that the Department should have reported on progress made in implementing intergovernmental coordination across various stakeholders.
- On the merger of SA Tourism and Brand SA - the Committee was satisfied with the explanation that the merger has been put in abeyance. The Committee insists that it wants Brand SA to report to the Department of Tourism to align activities.
- Environmental health certificates - the Committee was concerned about health certificates that are not issued timeously to restaurants. The Department confirmed that it has received a number of complaints about the delays in issuing certificates. The Committee will invite the Federated Hospitality Association of South Africa (FEDHASA) and the South African Township and Village Tourism Association (SATOVITO) to get more information on this and other related matters.
- E-visas - the Committee reiterated that the E-visa regime should be fast-tracked to facilitate the movement of tourists and tracking of illegal immigrants who come to South Africa. The inclusion of more countries was acknowledged, but more need to be added.
- Infrastructure collapse - the broader infrastructure neglect in South Africa heavily affects the tourism sector. This includes road networks, electricity supply, water reticulation, and others.
- Asset management – the Committee raised a concern about fixed assets and the asset register. SA Tourism indicated that the asset management issue has been resolved as the asset register has been developed.

- Monthly performance dashboards on performance – the Committee was concerned that if the Entity has developed a monthly dashboard on performance, why was there still underperformance? The Committee insists on improved monthly and quarterly performance against set targets.
- Recruitment of staff by SA Tourism - the Committee was concerned by the Entity's use of a recruitment agency for appointing the CFO, and urged the Entity to consider what would be the cost-benefit analysis of appointing internally against using external service providers.
- Impact of National Treasury Regulations- the Department indicated that the National Treasury Regulations did have an impact on the implementation of infrastructure projects, but this has been since resolved.
- Cluster approach – the Department indicated that they have opted for a cluster approach in troubleshooting cross-cutting tourism issues. Through this approach, they are able to prioritise issues that pertain to tourism. The Department raises tourism matters in the clusters and conducts follow-up on issues, e.g., the Department currently serves in the NATJOINTS where tourist safety issues are prioritised.
- Recognition of Prior Learning (RPL) – the Department indicated that the intention is to work with the provincial Registrar of Tourist Guides in Limpopo province to provide accredited training and RPL for site guides. The Registrar detects at what level the site guides are, in order to determine the level of training required.
- Collaboration with TVET colleges – the Department indicated that they are currently accessing the database of learners who have gone through theoretical training and are in need of a practical aspect. These learners will be assisted through Expanded Public Works Programme training processes. The challenge is that government institutions are also expected to bid, otherwise, it becomes an offence for the Department to spend money on another government entity.

3.2 Oversight reports

The Committee undertook two oversight visits during the period under review. One oversight visit was undertaken to Mopani and Vhembe Districts, Limpopo Province from 19-22 April 2022 to assess the implementation of tourism infrastructure development projects. Another oversight visit was undertaken to the North West Province on 18-21 April 2023.

The Committee observed similar issues in both provinces. Some of the observations included, but were not limited to:

- The Department is involved in projects that are not investment-ready, such as in the case of Legaga La Nkwe, where the Environmental Impact Assessment had not been completed.
- Poor Community participation in project conceptualisation and implementation leading to ownership challenges and vandalism of infrastructure. This included a call for sub-contractors to be from the local community for the 30 percent value of the project and employment of local people in projects construction.
- The general observation was that roads in both provinces are not in a good condition appropriate for a tourism destination. There are also poor roads leading to project sites and there is a lack of tourism signage.
- Vandalism, dilapidation, and negligence of projects, with structures stripped off all the fittings, including electricity wiring and bathroom amenities.
- Slow pace of law enforcement where the Committee observed that there was no prosecution on all cases that had been opened on vandalised projects.
- There was no information availed to the Committee on the forensic audits and the role of the Public Protector in some projects.
- Poor project designs and inferior workmanship whereby the Committee observed poor workmanship and unusable project concepts.
- Involvement of the Development Bank of Southern Africa who had taken over implementation of all the infrastructure projects supported by the Department.
- Need for revised project planning in Lotlamoeng Dam and improved intergovernmental coordination and collaboration to render the project a comprehensive project precinct, incorporating Credo Mutwa's site and Mahikeng concentration camp cemetery.
- Lack of institutional capacity for the Department to implement infrastructure projects and a planned establishment of a Project Unit in the Department.

- The Committee observed poor value for money with cost escalations and projects needing more money for completion.

4. OVERVIEW AND ASSESSMENT OF FINANCIAL PERFORMANCE

The Committee assessed the budget allocation and expenditure trends in the sector over the 2018/19 – 2022/23 financial years to establish the trends for Vote 38. The assessment confirmed the trend that the Department always spends almost 100 percent of its allocated budget whilst failing to equivalently achieve the set targets.

4.1 Budget and expenditure 2018/19 – 2022/23

Budget allocation over the five-year period increased steadily, albeit inadequate to satisfy the needs of the sector. Table 3 depicts budget allocation over the period under review. 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. In the 2021/22 financial year, the Department was allocated R2.5 billion and was able to spend 99.7 per cent. In the 2022/23 financial year, the Department was allocated R2.5 billion and was able to spend R2.47 billion, equivalent to 99 percent of expenditure.

A worrying trend was observed at SA Tourism in the 2022/23 financial year where the Entity overspent its allocated budget by R105 million and incurred a deficit of R183 million.

Table 3: Overview of budgetary allocation and expenditure 2018/19– 2022/23

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 (%)
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%	1 837 765,58	0,6%	2 392 670,0	2 384 392,0	99,7%
2020/21	1 481 000,0	70.29%	1 426 860,0	5,0%	1 426 860,0	1 392 249,0	97,6%
2021/22	2 545 338,0	1 002.9			2 545 338,0	2 537 776,0	99,7%
2022/23	2 502 357,0	33.3%	2 502 357,0	2.4%	2 502 357,0	2 473 720,0	98.9 %
* Real change in Rand value							
** Real change in percentage terms							

Source: Calculation adapted from previous ENEs

5. FINANCIAL PERFORMANCE FOR 2022/23

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

5.1 Financial statements for the 2022/23 financial year

The Department of Tourism's adjusted appropriation for 2022/23 amounted to R2 502.4 billion. This was an increase from the initial main appropriation of R2 491.6 billion.

Table 4: Financial Statement of 2022/23

Programme R million	Main Appropriation	Adjusted Budget	Actual Expenditure	Expenditure as % of available budget	Underspending/ Overspending	% Underspending/ Overspending
1. Administration	325.1	330.2	323.5	98.0%	6.7	2.0%
2. Tourism Research, Policy & International Relations	1 416.0	1 417.5	1 395.1	98.4%	22.4	1.6%
3. Destination Development	393.9	395.6	411.6	104.0%	-16.0	-4.0%
4. Tourism Sector Support Services	356.6	359.1	343.5	95.7%	15.6	4.3%
TOTAL	2 491.6	2 502.4	2 473.7	98.9%	28.6	1.1%

Source: National Treasury: SCOA Report Quarter 4 (2022/23)

At the end of the financial year, the Department spent R2 473.7 billion or 98.9 percent of the available budget of R2 502.4 billion.

5.1.1 Quarterly spending trends

The quarterly spending trends of the Department are depicted in Table 5.

Table 5: Quarterly spending trends

Programme	Quarter	2022/23 ENE Allocation (R'000)	Actual Expenditure (R'000)	Actual Expenditure as % of ENE Allocation	% Cumulative Projected Expenditure	% Variance from Cumulative Projected Expenditure
Programme 1	Q1	325 119	74 857	23%	24%	1%
	Q2	1 415 983	548 309	39%	39%	0%
	Q3	393 871	96 478	24%	36%	12%
	Q4	356 607	24 400	7%	9%	2%
Total		2 491 580	744 044	30%	32%	2%
Programme 2	Q1	325 119	152 008	47%	48%	1%
	Q2	1 415 983	649 921	46%	47%	1%
	Q3	393 871	145 931	37%	53%	16%
	Q4	356 607	57 699	16%	18%	2%
Total		2 491 580	1 005 558	40%	44%	4%
Programme 3	Q1	330 185	234 340	71%	70%	-1%
	Q2	1 417 467	1 288 669	91%	92%	1%
	Q3	395 610	255 898	65%	75%	10%
	Q4	359 095	90 671	25%	28%	3%
Total		2 502 357	1 869 578	75%	77%	2%
Programme 4	Q1	335 735	323 490	96%	12 245	4%
	Q2	1 404 094	1 395 094	99%	9 816	1%
	Q3	416 542	411 612	99%	4 930	1%
	Q4	345 170	343 524	100%	1 646	0.5%
Total		2 502 357	2 473 720	99%	28 687	1%

Source: Adapted from 2022/23 quarterly reports

The Department had a steady increase in expenditure during the 2022/23 financial year. Cumulatively, in terms of financial performance, the Department spent R2.47 billion (98.9%) of the R2.5 billion adjusted budget. The Department incurred an under-expenditure of R28.6 million (1.1%) of its allocated budget. The achievement of the predetermined objectives at 96 percent was commensurate to the 99 percent expenditure. At the end of the financial year, the Department achieved 42 (89.36%) of the 47 targets identified for the year, but 96 percent if only the Programmes

that deal with service delivery are considered. The Department reported that, while not achieved, it had completed significant work towards five (10.64%) targets. The high expenditure without achieving all the targets has become an established pattern over the past financial years.

5.1.2 First Quarter performance for the 2023/24 financial year

The Department's main appropriation for the 2023/24 financial year amounts to R2.5 billion. At the end of quarter one, the Department spent R770 million or 30.5 percent of the available budget of R2.5 billion. This translates to a slow spending of R477.5 million or 38.3 percent, against the projected spending of R1.3 billion. The slow spending was mainly on Goods and Services as a result of delays in the implementation of the Expanded Public Works Programme (EPWP); reduced transfer payments to South African Tourism; delays in transfer payments to the United Nations World Tourism Organisation (UNWTO); delays in the processing of invoices within the Tourism Incentives Programme; and delayed payments to the Federated Hospitality Association of South Africa and the National Tourism Careers Expo.

For Programme 1: Administration: Expenditure for quarter 1 amounted to R75.8 million or 23.3 percent of the programme's available budget of R324.9 million. This translates to an underspending of R1.6 million or 2.1 percent relative to the projected expenditure of R77.4 million, due to slow spending in operational payments within the Corporate Management subprogramme together with payments linked to Office Accommodation, owing to delayed invoices from the Department of Public Works and Infrastructure (DPWI).

In Programme 2: Tourism Research, Policy, and International Relations: Expenditure for quarter 1 amounted to R606.1 million or 42.2 percent of the programme's available budget of R1.4 billion. This translates to an underspending of R360.7 million or 37.3 percent relative to the projected expenditure of R966.8 million, due to reduced transfer payments to SA Tourism, this is in line with lower than anticipated funding requirements by the entity as well as delays in transfer payments to the United Nations World Tourism Organisation (UNWTO)-to defray foreign exchange losses, the transfer required a virement process.

For Programme 3: Destination Development: Expenditure for quarter 1 amounted to R50.8 million or 12.7 percent of the programme's total available budget of R401.1 million. This translates to an underspending of R93.1 million or 64.7 percent relative to the projected expenditure of R143.9 million, due to slow spending within the Expanded Public Works Programmes (EPWP) owing to delays in receiving invoices and signing of contracts with implementing agencies.

In Programme 4: Tourism Sector Support Services: Expenditure for quarter 1 amounted to R37.3 million or 10.3 percent of the programme's total available budget of R363 million. This translates to an underspending of R22.1 million or 37.2 relative to the projected expenditure of R59.4 million due to the Tourism Incentives Programme, owing to delays in receiving invoices and signing of contracts with implementing agencies together with delayed payments to the Federated Hospitality Association of South Africa and the National Tourism Careers Expo.

5.4 Auditor-General Report

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

5.4.1 Auditor-General's Report with regard to the Department of Tourism

The Department of Tourism obtained an unqualified audit opinion in the 2022/23 financial year. This achievement is a significant improvement given that the Department did not have any findings on misstatements on annual financial statements as was the case in the previous financial year.

The issues raised by the Auditor-general relate to:

- Some of the quotations were awarded by an implementing agent to suppliers whose tax matters had not been declared by the South African Revenue Service to be in order, as required by Treasury Regulation 16A9.1(d).

- Senior management did not establish and implement sufficient procedures to review or monitor compliance with supply chain management prescripts and internal controls when procuring goods and services through an implementing agent.

The findings of the Auditor General are as follows:

Opinion

- (i) I have audited the financial statements of the National Department of Tourism set out on pages 126 to 199, which comprise the appropriation statement, statement of financial position as at 31 March 2023, statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.
- (ii) In my opinion, the financial statements present fairly, in all material respects, the financial position of the National Department of Tourism as at 31 March 2023, and its financial performance and cash flows for the year that ended in accordance with the Modified Cash Standard (MCS) and the requirements of the Public Finance Management Act 1 of 1999 (PFMA) and the Division of Revenue Act 5 of 2022 (Dora).

Basis for opinion

- (iii) I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the responsibilities of the auditor-general for the audit of the financial statements section of my report.
- (iv) I am independent of the Department in accordance with the International Ethics Standards Board for Accountants' *International code of ethics for professional accountants (including International Independence Standards)* (IESBA code) as well as other ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
- (v) I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other matters

- (vi) I draw attention to the matters below. My opinion is not modified in respect of these matters.

National Treasury Instruction No. 4 of 2022/2023: PFMA Compliance and Reporting Framework

- (vii) On 23 December 2022 National Treasury issued Instruction Note No. 4: PFMA Compliance and Reporting Framework of 2022-23 in terms of section 76(1) (b), (e) and (f), 2(e) and (4)(a) and (c) of the PFMA, which came into effect on 3 January 2023. The PFMA Compliance and Reporting Framework also addresses the disclosure of unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure. Among the effects of this framework is that irregular and fruitless and wasteful expenditure incurred in previous financial years and not addressed is no longer disclosed in the disclosure notes of the annual financial statements, only the current year and prior year figures are disclosed in note 22 to the financial statements. The movements in respect of irregular expenditure and fruitless and wasteful expenditure are no longer disclosed in the notes to the annual financial statements of the National Department of Tourism. The disclosure of these movements (e.g., condoned, recoverable, removed, written off, under assessment, under determination and under investigation) is now required to be included as part of other information in the annual report of the auditees. I do not express an opinion on the disclosure of irregular expenditure and fruitless and wasteful expenditure in the annual report.

Unaudited supplementary information

- (viii) The supplementary information set out on pages 200 to 213 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion on them.

Responsibilities of the accounting officer for the financial statements

- (vix) The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the MCS and the requirements of the PFMA and Dora; and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
- (x) In preparing the financial statements, the accounting officer is responsible for assessing the Department's ability to continue as a going concern; disclosing, as applicable, matters relating to going concern; and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the Department or to cease operations or has no realistic alternative but to do so.

Responsibilities of the auditor-general for the audit of the financial statements

- (xi) My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and to issue an auditor's report that includes my opinion.
- (xii) Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Report on the audit of the annual performance report

- (xiii) In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I must audit and report on the usefulness and reliability of the reported performance against predetermined objectives for selected programmes presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.
- (xiv) I selected the following programmes presented in the annual performance report for the year ended 31 March 2023 for auditing (*Programme 3: Destination Development and Programme 4: Tourism Support Sector services*). I selected programmes that measure the Department's performance on its primary mandated functions and that are of significant national, community or public interest.
- (xv) I evaluated the reported performance information for the selected programmes against the criteria developed from the performance management and reporting framework, as defined in the general notice. When an annual performance report is prepared using these criteria, it provides useful and reliable information and insights to users on the Department's planning and delivery of its mandate and objectives.
- (xvi) I performed procedures to test whether:
- the indicators used for planning and reporting on performance can be linked directly to the Department's mandate and the achievement of its planned objectives.

- the indicators are well defined and verifiable to ensure that they are easy to understand and apply consistently and that I can confirm the methods and processes to be used for measuring achievements.
 - the targets can be linked directly to the achievement of the indicators and are specific, time bound and measurable to ensure that it is easy to understand what should be delivered and by when, the required level of performance as well as how performance will be evaluated.
 - the indicators and targets reported on in the annual performance report are the same as what was committed to in the approved initial or revised planning documents.
 - the reported performance information is presented in the annual performance report in the prescribed manner.
 - there is adequate supporting evidence for the achievements reported and for the reasons provided for any over- or underachievement of targets.
- (xvii) I performed the procedures for the purpose of reporting material findings only; and not to express an assurance opinion.
- (xviii) I did not identify any material findings on the reported performance information of selected programmes.

Other matter

- (xix) I draw attention to the matter below.

Achievement of planned targets

- (xx) The annual performance report includes information on reported achievements against planned targets and provides explanations for over- and under-achievements.

Report on compliance with legislation

- (xxi) In accordance with the PAA and the general notice issued in terms thereof, I must audit and report on compliance with applicable legislation relating to financial matters, financial management and other related matters. The accounting officer is responsible for the Department's compliance with legislation.
- (xxii) I performed procedures to test compliance with selected requirements in key legislation in accordance with the findings engagement methodology of the Auditor-General of South Africa (AGSA). This engagement is not an assurance engagement. Accordingly, I do not express an assurance opinion or conclusion.
- (xxiii) Through an established AGSA process, I selected requirements in key legislation for compliance testing that are relevant to the financial and performance management of the Department, clear to allow consistent measurement and evaluation, while also sufficiently detailed and readily available to report in an understandable manner. The selected legislative requirements are included in the annexure to this auditor's report.
- (xxiv) The material finding on compliance with the selected legislative requirements, presented per compliance theme, is as follows:

Procurement and contract management

- (xxv) Some of the quotations were awarded by an implementing agent to suppliers whose tax matters had not been declared by the South African Revenue Service to be in order, as required by Treasury Regulation 16A9.1(d).

Other information in the annual report

- (xxvi) The accounting officer is responsible for the other information included in the annual report. The other information referred to does not include the financial statements, the auditor's

report and those selected programmes presented in the annual performance report that have been specifically reported on in this auditor's report.

- (xxvii) My opinion on the financial statements, the report on the audit of the annual performance report and the report on compliance with legislation, do not cover the other information included in the annual report and I do not express an audit opinion or any form of assurance conclusion on it.
- (xxviii) My responsibility is to read this other information and, in doing so, consider whether it is materially inconsistent with the financial statements and the selected programmes presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
- (xxix) If, based on the work I have performed, I conclude that there is a material misstatement in this other information, I am required to report that fact.
- (xxx) I have nothing to report in this regard.

Internal control deficiencies

- (xxxi) I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.
- (xxxii) The matter reported below is limited to the significant internal control deficiencies that resulted in the material finding on compliance with legislation included in this report.
- (xxxiii) Senior management did not establish and implement sufficient procedures to review or monitor compliance with supply chain management prescripts and internal controls when procuring goods and services through an implementing agent.

5.5 Summary of key issues contained in reports of Finance/Appropriation Committees

In the period under review, the Department and SA Tourism did not have any matters reported by the finance and appropriation committees.

5.6 Summary of key financial issues contained in any other relevant report(s)

The Standing Committee on Public Accounts (SCOPA) did not report any matters with regard to the Department of Tourism and SA Tourism.

5.7 2022/23 MTEF financial allocations

5.7.1 Summary of funding submissions to the National Treasury for the 2022/23 MTEF.

The detailed funding submissions made to the National Treasury for the 2022/23 financial year were as follows:

- (ix) The National Treasury appropriates a ring-fenced budget that will be used to develop, enhance, and market domestic tourism which is a cornerstone for successful tourism destinations.
- (x) The National Treasury appropriates budget that will allow sector recovery and assists in surpassing the 2019 performance levels before the advent of the COVID-19 pandemic.

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

At the end of the fourth quarter of the 2022/23 financial year, the Department was able to achieve 42 of its 47 identified targets, with five (10.64%) targets being partially achieved as depicted in Table 6.

The achievement in the four Programmes was as follows:

Table 6: Achievement of Targets Per Programme

Programme	Planned Targets	Achievement		Non-Achievement	
		Total Achieved	% achieved	Total not achieved	% not achieved
1. Administration	10	7	70%	3	30%
2. Tourism Research, Policy and International Relations	12	11	91.67%	1	8.33%
3. Destination Development	10	10	100%	0	0.0%
4. Tourism Sector Support Services	15	14	93.33%	1	6.67%
Total	47	42	89.36%	5	10.64%

Source: Adapted from Department of Tourism 2022/23 Annual Report

At the end of the 2022/23 financial year, the Department achieved 7 of its 10 targets under Programme 1 but spent virtually all of its budget (98%) whilst achieving only 70 percent of its targets. Under the programme, the Department underspent by 2 percent (R6.7 million) of its adjusted allocation. The Department maintained its minimum representation of employees with disabilities at 4.5 percent, exceeding the set target of 3 per cent. The Department continued with its support of small, micro, and medium enterprises (SMMEs), continually exceeding the set target of 30 percent across all four quarters. The Department also reported that it implemented its Audit Action Plan for the 2021/22 financial year, which led to positive audit findings for the 2022/23 financial year.

Under Programme 2, the Department achieved 11 of its 12 targets set for the financial year. The Department spent 98.4 percent of its budget and achieved 91.67 percent of its targets; thus spending is more or less aligned to performance.

In Programme 3, the Department achieved all its 10 targets for the financial year. However, it overspent on its budget by 4 percent, which translates into R16 million. The Department reported that the overspending was due to project re-evaluations on contractual obligations with the Development Bank of Southern Africa (DBSA), in line with the Expanded Public Works Programme (EPWP). Programme 3 achieved all its set targets for the second year in a row.

The Department achieved 14 of its 15 targets for the financial year under Programme 4. The Department spent 95.7 percent of its annual budget under this programme and achieved 93.33 percent of its targets. This translates to an underspending of R15.6 million (4.3%). Spending and performance are more or less aligned.

6.2 South African Tourism 2022/23 Service delivery performance

The Entity executes its mandate through five programmes, namely, Programme 1: Corporate Support, Programme 2 : Business Enablement, Programme 3 : Leisure Tourism Marketing, Programme 4: Business Events and Programme 5: Tourist Experience.

6.2.1 Overview and assessment of financial and non-financial performance

SA Tourism had 33 targets set for the 2022/23 financial year across its five Programmes. At the end of the financial year, the Entity had achieved 20 (61%) of these targets and 13 (39%) were not achieved. In terms of financial performance, the Entity was allocated R1.45 billion and spent R1.56 billion, which is an over-expenditure by 10 percent.

As part of the National Tourism Recovery Strategy, over the 2022/23 financial year, the Entity continued to focus on interventions that promote the recovery of the sector. These included increasing international and domestic demand for tourism within South Africa; diversifying and ensuring the supply of quality tourism products and services; leveraging data and technology to enhance operational and marketing efficiencies; and optimising the tourism portfolio by focusing on partnerships and collaboration in the tourism value chain.

The purpose of Programme 1 is to provide support to the organisation and ensure compliance with statutory requirements. The programme focuses on providing efficient, effective, and proactive legal, governance, enterprise risk and compliance support. The Entity achieved six (67%) of its nine targets. Programme 1 was allocated R158 090 million. At the end of the financial year R208 884 million was spent, incurring an over expenditure of R50 794 million, accounting for 32 percent over expenditure.

In Programme 2, the Entity achieved all three (100%) of its targets by the end of the financial year. The allocated budget for Programme 2 was R84 620 million and by the end of the financial year, the Entity had spent R70 202 million (83%) incurring an under-expenditure of R14 418 million (17%).

In Programme 3, the Entity achieved all five (42%) of its 12 targets by the end of the financial year. The allocated budget for Programme 3 was R1 069 287 billion and by the end of the financial year, the Entity had spent R935 194 million (87%), incurring an under-expenditure of R134 093 million (13%).

In Programme 4, the Entity achieved all four (100%) of its targets planned for the financial year. The allocated budget for Programme 4 was R92 222 million and by the end of the financial year, the Entity had spent R286 325 million (310%) incurring an over-expenditure of R194 103 million (210%). The Entity reported that the reasons for overspending include increased marketing activities at strategic events and Meetings Africa 2023 expenditure.

In Programme 5, the Entity achieved two (40%) of its 5 targets planned for the financial year. The allocated budget for Programme 4 was R51 350 million and by the end of the financial year, the Entity had spent R59 915 million (117%) incurring an over-expenditure of R8 565 million (17%). The Entity reported that the overspending was due to projects that were undertaken to assist with the achievement of targets in the Tourism Grading Council Business unit.

5.4.2 Auditor-General's report on South African Tourism

Opinion

- I have audited the financial statements of South African Tourism set out on pages 114 to 154, which comprise the statement of financial position as at 31 March 2023, statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.
- In my opinion, the financial statements present fairly, in all material respects, the financial position of South African Tourism as at 31 March 2023, and its financial performance and cash flows for the year then ended in accordance with Standards of Generally Recognised Accounting Practice (Standards of GRAP) and the requirements of the Public Finance Management Act 1 of 1999 (PFMA).

Basis for opinion

- I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the responsibilities of the auditor-general for the audit of the financial statements section of my report.
- I am independent of the entity in accordance with the International Ethics Standards Board for Accountants' *International code of ethics for professional accountants (including International Independence Standards)* (IESBA code) as well as other ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
- I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other matter

I draw attention to the matter below. My opinion is not modified in respect of this matter.

National Treasury Instruction No. 4 of 2022/2023: PFMA Compliance and Reporting Framework

- On 23 December 2022 National Treasury issued Instruction No. 4: PFMA Compliance and Reporting Framework of 2022-23 in terms of section 76(1)(b), (e) and (f), 2(e) and (4)(a) and (c) of the PFMA, which came into effect on 3 January 2023. The PFMA Compliance and Reporting Framework also addresses the disclosure of unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure. Among the effects of this framework is that irregular and fruitless and wasteful expenditure incurred in previous financial years and not addressed is no longer disclosed in the disclosure notes of the annual financial statements, only the current year and prior year figures are disclosed in note 35 and 36 to the financial statements. The movements in respect of irregular expenditure and fruitless and wasteful – are no longer disclosed in the notes to the annual financial statements of South African Tourism. The disclosure of these movements (e.g., condoned, recoverable, removed, written off, under assessment, under determination and under investigation) are now required to be included as part of other information in the annual report of the auditees. I do not express an opinion on the disclosure of irregular expenditure and fruitless and wasteful expenditure in the annual report.

Responsibilities of the accounting authority for the financial statements

- The accounting authority is responsible for the preparation and fair presentation of the financial statements in accordance with standards of GRAP and the requirements of the PFMA and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
- In preparing the financial statements, the accounting authority is responsible for assessing the entity's ability to continue as a going concern; disclosing, as applicable, matters relating to going concern; and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Responsibilities of the auditor-general for the audit of the financial statements

- My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
- A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

- In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I must audit and report on the usefulness and reliability of the reported performance against predetermined objectives for selected programmes in the annual performance report. The accounting authority is responsible for the preparation of the annual performance report.
- I selected the following programmes presented in the annual performance report for the year ended 31 March 2023 for auditing (Leisure Tourism Marketing, Business Events and Tourist Experience). I selected programmes that measure the Entity's performance on its primary mandated functions and that are of significant national, community or public interest.

- I evaluated the reported performance information for the selected programmes against the criteria developed from the performance management and reporting framework, as defined in the general notice. When an annual performance report is prepared using these criteria, it provides useful and reliable information and insights to users on the entity's planning and delivery of its mandate and objectives.
- I performed procedures to test whether:
 - the indicators used for planning and reporting on performance can be linked directly to the entity's mandate and the achievement of its planned objectives,
 - the indicators are well defined and verifiable to ensure that they are easy to understand and apply consistently and that I can confirm the methods and processes to be used for measuring achievements the targets can be linked directly to the achievement of the indicators and are specific, time bound and measurable to ensure that it is easy to understand what should be delivered and by when, the required level of performance as well as how performance will be evaluated,
 - the indicators and targets reported on in the annual performance report are the same as what was committed to in the approved initial or revised planning documents,
 - the reported performance information is presented in the annual performance report in the prescribed manner,
 - there is adequate supporting evidence for the achievements reported and for the reasons provided for any over-or underachievement of targets.
- I performed the procedures for the purpose of reporting material findings only; and not to express an assurance opinion.
- I did not identify any material findings on the reported performance information of selected programmes.

Other matter

- I draw attention to the matter below.

Achievement of planned targets

- The annual performance report includes information on reported achievements against planned targets and provides explanations for over-and underachievement.

Report on compliance with legislation

- In accordance with the PAA and the general notice issued in terms thereof, I must audit and report on compliance with applicable legislation relating to financial matters, financial management and other related matters. The accounting authority is responsible for the entity's compliance with legislation.
- I performed procedures to test compliance with selected requirements in key legislation in accordance with the findings engagement methodology of the Auditor-General of South Africa (AGSA). This engagement is not an assurance engagement. Accordingly, I do not express an assurance opinion or conclusion.
- Through an established AGSA process, I selected requirements in key legislation for compliance testing that are relevant to the financial and performance management of the entity, clear to allow consistent measurement and evaluation, while also sufficiently detailed and readily available to report in an understandable manner. The selected legislative requirements are included in the annexure to this auditor's report.
- The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Annual financial statements and annual report

- The financial statements submitted for auditing were not fully prepared in accordance with the prescribed financial reporting framework as required by section 55(1)(b) of the PFMA. Material misstatements in contingent liabilities, segment information, operating lease commitments and other disclosure items identified by the auditors in the submitted financial statements were corrected subsequently, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

- Effective and appropriate steps were not taken to prevent irregular expenditure as disclosed in note 36 to the annual 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 Treasury transcripts to invite competitive bids.
- Prepayments were made before goods and services were received, in contravention of treasury regulation 31.1.2(c).

Other information in the annual report

- The accounting authority is responsible for the other information included in the annual report. The other information referred to does not include the financial statements, the auditor's report and those selected programmes presented in the annual performance report that have been specifically reported on in this auditor's report.
- My opinion on the financial statements, the report on the audit of the annual performance report and the report on compliance with legislation, do not cover the other information included in the annual report and I do not express an audit opinion or any form of assurance conclusion on it.
- My responsibility is to read this other information and, in doing so, consider whether it is materially inconsistent with the financial statements and the selected programmes presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
- If based on the work I have performed, I conclude that there is a material misstatement in this other information, I am required to report that fact. I have nothing to report in this regard.

Internal control deficiencies

- I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.
- The matters reported below are limited to the significant internal control deficiencies that resulted in the material findings on compliance with legislation included in this report.
- Senior management did not address previously deficiencies relating to oversight of the financial reporting process, including detailed reviews of the financial statements by delegated officials, and related Internal controls.
- Senior management did not establish and implement sufficient procedures to review and monitor compliance with applicable legislation.

6.3 Key reported achievements

The Department realised a number of achievements in the 2022/23 financial year. The following is a list of selected key achievements observed by the Committee in its oversight work during the reporting period:

6.3.1 Achievements by the Department

- The Department is currently operating four incubators namely, Emerging Tour Operators for 44 emerging tour operators, Food Services Incubator for 113 incubates, Community-Based Tourism Incubator Pilot which involved eight community-based potential tourism projects and the Tourism Tech Incubator with 20 innovators.
- The Department has supported the implementation of 30 community-based Tourism Projects. These were in Limpopo (Va Tsonga, Matsila Lodge, Phiphidi Waterfall, The Oaks Lodge, Ngove, Tisane, Nandoni Dam, Tshathogwe Game Farm, Mapate Recreational Social Tourism Facility, Mtiti Game Farm, Royal Khalanga Lodge) Free State (Qwa Qwa Guest House, Vredefort Dome, Monotsha) North West (Manyane Lodge, Lotlamoreng Dam, Sol Plaatjie Museum, Lehurutse Liberation Heritage Museum) Northern Cape (Platfontein Lodge, Kamiesburg, McGregor Museum), KwaZulu-Natal (Muzi Pan, Anton Lembede Museum eThekweni Municipality, Ama Hlubi Cultural Heritage), Eastern Cape (Maluti Hiking Trail, Mthonsi Lodge, Qatywa Lodge, Nyandeni Chalets, Western Thembuland), and Mpumalanga (Numbi Gate).
- During the 2022/23 financial year, the Department implemented Youth Skills Development Programmes targeting 2 500 retrenched and unemployed youth between the ages of 18-35 years. The learners were also trained on the norms and standards for safe tourism operations in line with the skills development programmes that they attended.
- Training and placement of 2 517 retrenched and unemployed youth on various skills development programmes was conducted in the 2022/23 financial year. This was against the targeted 2 500. The youth were enrolled on the following programmes: Food and Beverage, Professional Cookery, Food Safety Quality Assurers, Wine Service Training and Hospitality Youth Training Programme (Fast Food).
- In the period under review, domestic tourism activations were done to support geographic spread in less visited provinces as well as off-peak travel. The aim was to educate and create awareness among South Africans about the different tourism products and experiences they can partake in, which are close to where they reside and are affordable, and to educate them about the importance and benefits of travelling domestically. The following activations were undertaken:
 - Eastern Cape in the Mbizana area focusing on a group of young people who have tourism businesses and organised groups of hikers to introduce them to overnight hiking trails and the use of homestays as alternative accommodation.
 - Free State with youth and community leaders from the Ficksburg area.
 - Gauteng with tourism associations and young aspiring tourism business owners from Mogale City, Cullinan, Merafong and West Rand municipalities.
 - North West with tourism school-going learners from Tsetse village just outside Mahikeng.
 - Northern Cape (Petrusville area).
- Systems and process improvements were required to ensure efficient licensing of tour operators. This was in order to enable new and support the continuation of existing tour operators' activities which include improved turnaround times in the issuance of tour operator licenses. To this end, an Interim National Public Transport Regulator (NPTR) Committee was appointed in April 2022, and the backlog on issuing of tour operator licenses was cleared. The National Land Transport Information System was being developed and the National Land Transport Bill was being finalised. Furthermore, the NPTR has engaged the Tourism Business Council of South Africa (TBCSA) to create awareness and assist tour operators in finalising their applications. This achievement is not a direct responsibility of the Department of Tourism but falls in the purview of the Department of Transport. This had a huge significance on addressing tour operator licence backlog.

6.3.2 Achievements by SA Tourism

- Number of international tourist arrivals achieved (April 2022 - March 2023): 6 772 315.
- Number of domestic holiday trips achieved (April 2022 - March 2023): 9,9 million.
- Total tourism revenue: R178,4 billion.
- Total Tourist Foreign Direct Spend (TTFDS) achieved (April 2022 - March 2023): R74,6 billion
- Total Domestic Direct Spend (TDDS): R103,8 billion achieved (April 2022 - March 2023).
- Number of business events hosted in South Africa: 61 (April 2022 - March 2023).
- Number of bid submissions: 95 bid submissions. The 95 bids submitted have a combined estimated economic value of R1.2 billion and can potentially attract 49 232 international and regional delegates to South Africa between 2022 and 2029. These secured business pieces will contribute R338 million to South Africa's economy between 2022 and 2025 and attract 16 505 international and regional delegates. In addition, the SANCB invested R19,2 million in bid submissions through its Bid Support Programme to attract business events linked with the National Government's development priorities.
- Number of accommodation establishments graded (April 2022 - March 2023): 4 959.
- Number of graded rooms (April 2022 - March 2023): 122 963.

7. OBSERVATIONS

The Committee observations are presented for both the Department of Tourism and South African Tourism as follows:

7.1 Observations in relation to the Department

7.1.1 Delays in policy and legislative review processes

The Committee acknowledges that the Department has started the policy review process, which is at an advanced stage. It is noted that on 30 August 2023, the Minister gazetted the Green Paper on the Development and Promotion of Tourism in South Africa. The public comments are solicited for 60 days from the date of publication. The elements include but are not limited to:

- Implementation of a research-based tourism safety response programme in partnership with relevant agencies;
- Develop and regularly review tourism crisis management framework to enable a response to crises;
- Implementation of Tourism Broad-Based Black Economic Empowerment (BBBEE) Codes and strengthening mechanism for access to finance;
- Facilitation of ease of access to the destination, especially as it relates to immigration and transport.
- Recommitting the sector to the responsible tourism agenda
- Regulation of short-term rental accommodation to ensure policy certainty.

The process has been delayed for several years. The legislative review process hinges on the finalisation of the policy review process. The Committee had wanted to institute a legislative review process with the tenure of the 5th Parliament. However, the delay in the policy review process has rendered this legislative function of the Committee unattainable.

It is notable that the grading system is not discernably prioritised in the policy review process. The Committee has recommended that the grading system be made mandatory but free of charge. The Committee is also of the view that the Tourism Grading Council of South Africa should be dissociated from SA Tourism. This is intended to ensure that all tourism establishments in the country are graded, including big international hotel groups and independent hotels that opt out of the current voluntary grading system.

7.1.2 Improvement in audit outcomes

The Committee commends the Department for obtaining an unqualified audit opinion with findings on non-compliance with legislation in the 2022/23 financial year. The Committee noted that there is no improvement in the audit findings given that the Department had received a financially unqualified opinion with findings on compliance with key legislation in the previous financial year. However, the Department is commended for submitting annual financial statements that were 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 findings raised by the Auditor-general relate to:

- Regression noted in the area of compliance with applicable legislation. Instances of non-compliance with supply chain management legislation were identified in relation to quotations procured on behalf of the Department by the Development Bank of Southern Africa (DBSA).
- Some of the quotations were awarded by an implementing agent to suppliers whose tax matters had not been declared by the South African Revenue Service to be in order, as required by Treasury Regulation 16A9.1(d).
- Senior management did not establish and implement sufficient procedures to review or monitor compliance with supply chain management prescripts and internal controls when procuring goods and services through an implementing agent.

7.1.3 Expenditure

The Department's adjusted appropriation for 2022/23 amounted to R2 502.4 billion. This was an increase from the initial main appropriation of R2 491.6 billion. At the end of the financial year, the Department spent R2 473.7 billion or 98.9 percent of the available budget of R2 502.4 billion. This is a commendable expenditure pattern by the Department.

7.1.4 Achievement of targets

At the end of the financial year, the Department achieved 38 (88.37%) of the 43 targets identified for the year. The Department reported that, while not achieved, it had completed significant work towards five (11.63%) targets. The high expenditure without achieving all the targets has become an established pattern over the past financial years. However, if the performance of the Department is viewed only from a service delivery perspective, without including Programme 1 which services the internal organisational operations, the Department achieved 96 percent of its set targets. The 96 percent achievement of service delivery targets is commendable.

7.1.5 Under expenditure

The Department incurred an under expenditure of R28.6 million which translates to 1.1 per cent underspending in the 2022/23 financial year. The underspending was incurred as follows:

- Programme 1: Administration (R12,2 million or 3%): Most of the underspending lies within the Compensation of Employees due to staff turnover and the slow filling of posts.
- Programme 2: Tourism Research, Policy and International Relations (R9,8 million or 0.7%): The bulk of this underspending lies within the Compensation of Employees due to staff turnover and the slow filling of posts. The slight underspending on Goods and Services is mainly due to international meetings being held virtually, resulting in unspent funds linked to travel and subsistence. A further underspending was realised under transfers and subsidies for the United Nations World Tourism Organisation (UNWTO) contributions due to foreign exchange rate fluctuations.
- Programme 3: Destination Development (R4,9 million or 1.2%): The bulk of this underspending lies within the Compensation of Employees due to staff turnover and the slow filling of posts. The slight underspending on Goods and Services is due to unspent funds within travel and subsistence due to the virtual attendance of meetings with stakeholders.
- Programme 4: Tourism Sector Support Services (R1,6 million or 0.5%): The bulk of this underspending lies within the Compensation of Employees due to staff turnover and the slow filling of posts. The slight underspending on Goods and Services is due to unspent funds within travel and subsistence due to the virtual attendance of meetings with stakeholders.

7.1.6 Transfer payments

In the year under review the Department transferred funds to various government and private agencies as follows:

- South African Tourism - R1.3 billion
- Tourism Equity Fund - R90.4 million
- United Nations World Tourism Organisation - R2.5 million
- Federated Hospitality Association of Southern Africa (Fedhasa) - R443 000
- Bursaries (non-employee) - R3.8 million
- Industrial Development Corporation – R130 million
- CATHSSETA – R181 000

7.1.7 Fruitless and wasteful expenditure

The fruitless and wasteful expenditure incurred for the 2022/23 financial year amounts to R36 thousand. There were 29 new confirmed cases. The main reasons were cancellations/amendments and no-shows for travel and accommodation services. R22 thousand was recovered and R13 thousand was written off.

7.1.8 Irregular expenditure

The Department incurred several instances of irregular expenditure as follows:

- An irregular expenditure of R1.43 million due to a security contract awarded to the second-highest-scoring bidder;
- Another instance of R3.27 million irregular expenditure was incurred due to compensation for employees whose employment contracts were extended in contravention of Public Service Regulations. However, the Committee noted that this was due to compensation of staff that was employed by the Executive and not the accounting officer of the Department.
- It was noted that the irregular expenditure of R4.3 million for the Department was condoned subsequent to year-end and R3.3 million was still being investigated.

The Committee was, however, concerned that these instances of irregular expenditure were not disclosed by the Department but only identified by the Committee in the report of the Auditor-General. The Department stated in its Annual Report that there was no irregular expenditure in the 2022/23 financial year. This may be construed as misleading information.

The Department should have disclosed the irregular expenditure incurred in line with the provisions of the National Treasury Instruction No. 4: PFMA Compliance and Reporting Framework of 2022-23 in terms of section 76(1)(b), (e) and (f), 2(e) and (4)(a) and (c) of the PFMA, which came into effect on 3 January 2023. The Department is urged to disclose all pertinent information in the subsequent years.

7.1.9 Procurement and contract management and poor contract management

The Committee noted that due to flouting procurement and contract management, instances of non-compliance with supply chain management legislation were identified in relation to quotations procured on behalf of the Department by the Development Bank of Southern Africa (DBSA). The tax compliance status verification was not performed at the time of award, resulting in non-compliance with National Treasury Instruction No. 09 of 2017/2018. This was due to lack of oversight and monitoring of compliance with the Supply Chain Management (SCM) prescripts by the DBSA. However, it was noted that this was done by the implementing agent outside the internal procurement processes of the Department. The Department had cleared all its previous findings on the matter.

7.1.10 Claims against the Department

The claims against the Department amount to R7.3 million. These claims relate to the breach of contract; payment of retention fees and administration costs; unfair dismissal and accident damages. The Department reported in its Annual Report that due to the sensitivity of claims, they are currently within the legal domain, and no indication can be provided on the possible outflow or reimbursement.

7.1.11 Gifts and Donations Received in kind from Non-Related Parties

The Committee noted that the Department received sponsorship from Seeza Tourism Growth Network for three officials to attend the International Federation for Information Technology and Travel and Tourism (IFITT) ENTER 23 conference. The Department did not receive any other gifts or donations in kind from non-related parties in the 2022/23 financial year.

7.1.12 Human resources

It was noted that as at 31 March 2023, the Departmental post establishment was at 521 with 480 positions filled and 51 positions vacant translating to a 7.9 percent vacancy rate. The Committee noted that 2022/2023 was the first year where a vacancy rate below 10 percent was achieved. As reported, the Department implemented a reprioritisation system for positions based on available funds resulting from terminations of other positions. The Department has consistently performed above 4 percent on employment of People with Disabilities which is 2 percent above the national target. In all, 40 employees were appointed to the Department while 31 employees exited the Department. There were 10 resignations at 32.2 percent, five transfers out of the Department at 16.1 percent, five retirements at 16.1 percent and two terminations on account of death at 6.4 percent.

7.1.14 Implementation of tourism infrastructure projects

The Committee noted that the Department continued to implement infrastructure projects through the services of the Development Bank of Southern Africa. The DBSA was appointed by the Department following a Memorandum of Agreement (MoA) which the DBSA signed with the Department on 20 November 2020. The MoA expires on 30 November 2023 and there is a need to review it as the last project is due for completion in 2025. In its presentation to the Committee, DBSA had indicated that they were implementing 70 projects in total. There were 47 active projects, with a total of 30 projects due for completion by September. By December 2023, a total of 11 were reported to be due for completion, and 6 more projects will be completed after December 2023. All 47 projects will be delivered by March 2024. The Committee is satisfied that the DBSA has improved infrastructure project delivery as confirmed by the Auditor-General in the three projects that were selected for the audit, namely, Western Tembuland Cultural Village, Maluti hiking and horse trail, and QwaQwa guest house. The general sentiment of the Auditor-General which provides reassurance to the Committee is that:

- Overall quality of projects is acceptable with no defects identified.
- Overall quality of project management for DBSA-appointed contractor is also good.
- Projects were still under construction at the time of the site visit and completion works and were due for completion on time.

7.1.15 Removing barriers to tourism growth

The Committee acknowledges that efforts are being made by the Department, in partnership with other sector departments, to remove barriers to tourism development and promotion for the country. Some of the barriers remain the introduction of e-visas, tourist safety, airlift capacity and quicker turnaround times in the processing of tour operator licenses. Notable strides have been made in some of them.

On the E-visa system, it is noted that it has been active in 14 countries since February 2022. Once the online visa system has been stabilised for the 14 countries, the aim is to make it available to a larger number of nationalities. The South African government has announced the removal of visa requirements for Kenyans travelling to the country for up to 90 days. The Committee continues to call for expediting the Remote Work Visa; special visa for tourism; and granting visa waivers to more countries with potential as markets for South Africa.

On facilitating the issuance of tour operating licenses, systems and process improvements were required to ensure the efficient licensing of tour operators. This was in order to enable new and support continuation of existing tour operators' activities which include improved turnaround times in the issuance of tour operator licenses. It is also commendable that the National Public Transport Regulator has engaged the Tourism Business Council of South Africa (TBCSA) to create awareness and assist tour operators in finalising their applications.

On tourist safety measures, the Committee has noted the efforts of the Minister in facilitating the activities of the National Tourism Safety Forums (NTSF) responsible for the coordination and integration of safety response mechanisms for tourists in distress. It is noted that the key objectives of the Tourism Action Plan are noted to:

- Increase visibility at identified tourist attractions and sites;
- Train Tourism Monitors to ensure that they are safe when executing duties; and
- Facilitate integrated implementation and support of safety programmes.

The Committee also notes the six tourist safety awareness campaign sessions that were conducted for the continuous training of Tourism Monitors across the country.

7.1.16 Enhancing domestic tourism

The Committee reiterates that domestic tourism remains underdeveloped in the country. Several recommendations have been made previously to the Department and SA Tourism to prioritise domestic tourism. The Committee continues to call for a more and sharper focus on the development and promotion of domestic tourism in South Africa. This is necessary to make the sector competitive and self-reliant like in other mature tourist destinations in the world.

7.1.17 Transformation

The Committee notes that transformation remains a major challenge in the tourism industry. The Department had a setback when the Tourism Equity Fund was interdicted. The Minister reported to the Committee that an out of court settlement had been reached with the litigants. The Committee is awaiting feedback on the way forward on the implementation of the Tourism Equity Fund.

7.1.18 Villages, Townships and Small Dorpies (VTSDs)

The Committee notes efforts to invest and develop VTSDs through the Department's infrastructure projects, the budget resort network initiative, precinct development in townships, community-based projects in rural provinces and business support offered to SMMEs in both rural and peri-urban areas. These initiatives are significant towards the development of an inclusive tourism economy, that ensures product development, economic growth, and employment creation in the more remote areas of the country.

7.1.19 Timely submission of reports

The Committee notes that the Department continues to delay submitting requested reports in a timely manner. This includes both reports published by the Department and written submissions requested by the Committee on issues raised during quarterly oversight meetings. The Committee requests the Department to adhere to agreed upon timelines, as these deadlines are on record, for the submission of requested reports and written feedback on clarity seeking questions raised by the Committee; these all form part of oversight.

7.2 Observations in relation to South African Tourism

7.2.1 Adverse audit findings

The Committee is concerned that South African Tourism received an unqualified audit opinion with findings on compliance with key legislation in the 2022/23 financial year. This means that the audit outcomes remained unchanged from the 2021/22 financial year, with serious recurring findings. The Entity failed to address the findings made by the Auditor-General and the Committee in the previous audit period. This points to failure in governance and incapacity in delivering effective operations at the Entity.

7.2.2 Financial statements

The financial statements submitted by SA Tourism 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. The Committee views this as a consequence of the vacant position of the Chief Financial Officer.

7.2.3 Expenditure

SA Tourism had a total budget of R1 455.6 billion in the 2022/23 financial year. The Entity spent a total of R1 560.5 billion in the same period. This is an over expenditure of R104. 9 million. The cause for concern is that the Entity overspent by R105 million whilst only achieving just above 50 percent of the set targets.

7.2.4 Achievement of targets

It was noted that the Auditor-General reported that SA Tourism achieved 54 percent of set targets but overspent on its budget by R105 million. This is worsened by the fact that the Entity had a surplus in the previous year and had requested from the National Treasury to keep that profit but overspent on its budget. The main 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. The targets not met form the core of SA Tourism's mandate. Failure to achieve these targets is equivalent to the Entity failing in its mandate.

However, the Entity reported that it achieved 20 of its 33 planned annual targets, as outlined in the 2022/23 APP, thus achieving 61 percent performance. For seven of the 13 annual targets that were not achieved, the Entity said it should be noted that these targets were delivered but are recorded as underperformance due to non-compliance with the Technical Indicator Descriptions (TIDs) for each of these targets and indicators. This is a reporting discrepancy when considering the findings of the Auditor-General.

7.2.5 Irregular expenditure

It was observed that the Entity failed to prevent irregular expenditure, and this increased from R6.8 million in the prior year to R9.9 million in 2022/23. This was due to the purchase of the DOME structure without following the competitive bidding process. An amount of R51.9 million is being investigated and awaiting condonement. This is tantamount to uncompetitive and unfair procurement processes, as expressed by the Auditor-General.

7.2.6 Payment prior to goods and services being rendered

The Committee observed that the Entity had another material finding relating to instances 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). The Committee continues to call for the strengthening of internal financial controls at the Entity.

7.2.7 Fruitless and wasteful expenditure

It was noted that the Entity continued to incur fruitless and wasteful expenditure at R1,23 million.

7.2.8 Going concern

The Committee is concerned about the status of the Entity as a going concern, whether the Entity is financially stable and can operate with the expectation of indefinite existence. This is due to the reported information that SA Tourism ended the 2022/23 financial year in deficit, with expenditure exceeding revenue. The net cash outflows for the year from operating activities were at R183 million.

7.2.9 Overspending

The entity overspent on its budget by R105 million. It was noted that the Entity had a surplus (profit) in the previous year and had requested from the National Treasury to keep that profit. Despite these profits, the Entity still overspent on its budget in 2022/23 financial year.

7.2.10 Governance

In line with the oversight work of the Committee, the Auditor-General found that SA Tourism 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 functionaries for the Entity. Currently, the oversight over the entity is being exercised by the Board appointed in April 2023. The Committee did not concur with the composition of the Board and recommended to the Minister that the number be increased from 3 to five. However, this was never acceded to by the Minister.

In line with the consistent recommendation of the Committee, the Auditor-General recommended that the executive authority appoint a Board so that key vacant positions in the entity can be filled.

7.2.11 Developments since 1 April 2023

The Committee observed that since 1 April 2023, governance challenges have persisted at SA Tourism. This does not auger well for the next audit period. The challenges since the beginning of the current financial year have been as follows:

- Eight of the 12 South African Tourism Board members resigned between 6 and 8 April 2023, after which the Board was dissolved on 21 April 2023.
- An Interim Board came into effect on 21 April 2023.
- The former Acting Chief Executive Officer (CEO), who was also the Chief Marketing Officer (CMO), resigned on 5 May 2023.
- The Chief Operations Officer (COO) was appointed to act as the CEO with effect from 6 May 2023. The Committee has raised concerns about the current arrangement.
- The Chief Quality Assurance Officer (CQAO) was appointed to act as the CMO with effect from 7 May 2023.
- The acting Chief Executive Officer was removed from the position based on the investigation triggered by the whistle blower.

These developments in the Entity demonstrate that governance challenges continue to confront the institution. If the current situation continues unabated, the Entity is bound to sink into more governance challenges. There is, however, a glimpse of hope that the situation may improve as the Minister has initiated the process of appointing a new Board. The current Board has also started the process of appointing the executives to fill the strategic positions in the Entity. The Committee continues to monitor developments in this regard with keen interest.

7.2.12 Human Resources matters

The instability at a Board level during the 2022/23 financial year 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. The former Acting Chief Executive Officer and Chief Marketing Officer resigned in May 2023. The Committee has raised issues with the current untenable arrangement whereby the Acting CEO is also a Chief Financial Officer (CFO), which makes her a referee and a player. The major concern is with the financial delegations of the CFO as a CEO in that there will be no clear demarcation if the Acting CEO who is the CFO takes financial decisions with organisational implications.

The Committee has learned that the Board has initiated the process of filling the executive positions at the Entity. A speedy conclusion of the process will alleviate staffing challenges that have collapsed operations at the Entity, albeit the Committee questioning whether it is in the purview of the current Board to fill the vacant positions, or this should wait for the new Board.

7.2.13 Investigations conducted by SA Tourism

The Committee noted that the following investigations/reviews were executed and completed by internal audit during the period under review with some still in progress:

- Unethical conduct – irregular appointment (in Progress).
- Unethical conduct - concerns pertaining to the recruitment processes of leadership (in Progress)
- Corruption – alleged corruption pertaining to a bribe
- Corruption – payments made to supplier without services rendered (in Progress)
- SCM probity assessments
- Human capital leave pay-out reviews
- Leave balances accuracy review

The Committee is interested in the nature of these investigations, the sources of complaints and the outcomes for each of them. The Committee is also interested in the steps that were taken by the Entity to effect the outcomes of the investigations.

7.2.14 Need for urgent improvement

The Committee noted that in its own assessment, the Entity acknowledged that based on the results of the audit engagements, consultancy services rendered, and reports considered on governance, risk management and internal controls, both financial and non-financial, the overall Internal Audit opinion is that, in all significant respects, South African Tourism's control environment requires improvement.

The Committee is interested in what the Minister and the Board are going to do in ensuring that the Entity is stabilised, and all identified organisational deficiencies are addressed.

7.2.15 Dysfunctional South African Tourism Board

The Committee is concerned about the continued untenable matters pertaining to the Board of SA Tourism which it deems the major source of all the challenges at the Entity. The Committee acknowledges that upon her appointment, the Minister on 6 April 2023 wrote to the Chairperson of the SAT Board, requesting reasons why she should not dissolve the Board in terms of Section 16(3) of the Tourism Act, 3 of 2014. In it, she indicated that she referred to the conduct of the Board in the Tottenham Hotspurs football club transaction and the composition of the Board in terms of section 13 of the Tourism Act. The Minister further referenced the contents of a letter dated 16 March 2023, received from the acting CEO of South African Tourism, wherein the acting CEO made serious allegations against the Board and some of its members and consequently requested her to dissolve the Board.

The Board had until 18 April 2023 to respond to the Minister's letter. She received no correspondence as to why she should not dissolve the Board. Subsequently eight (8) Board members out of eleven (11), including the Chairperson, resigned. This left the Board unable to quorate. On Friday 21 April 2023, in terms of Section 16(3) of the Tourism Act and by way of a Government Gazette, she formally dissolved the Board. At the same time, she appointed three people to oversee the Board until such time that the full Board is appointed. The three Board members are Mr. Tim Harris, Ms. Kholeka Zama, and Mr. Zwelibanzi Mntambo. The appointment gives the Board the full powers conferred by the Tourism Act on the Board, which is implicit in section 16(3)(b), which provides that the appointees may manage the affairs of the Board. The Committee was opposed to the appointment of a three-member Board and recommended an additional two members, a recommendation that was not positively considered by the Minister. This has caused continuous uproar in the questionable work and conduct of the three-member Board. However, the Committee acknowledges that the Minister was within her rights to appoint the current Board.

7.2.16 Proposed Tottenham Hotspur FC Sponsorship Deal

The Committee commends the Minister on her swift action when the Committee raised concerns that SA Tourism intended to sponsor Tottenham Hotspur Football club based in the United Kingdom in tune of R910,997,814.75. The Committee acknowledges that on 22 March 2023, the Minister wrote to the Chairperson of the SA Tourism Board, referring to the Board resolution, dated 31 January 2023, to enter a partnership deal with the Tottenham Hotspur Football Club. After a series of interventions with the Board, the Minister announced on 30 March 2023 in a media statement that the proposed deal had been stopped.

8. RECOMMENDATIONS

The Committee makes recommendations to both the Minister of Finance and Minister of Tourism as follows:

8.1 Recommendations to the Minister of Finance:

It is recommended that the Minister of Finance:

- 8.1.1 Conducts a cost-benefit analysis of merging SA Tourism and Brand SA and provide some advice on the appropriate trajectory to be taken by government in this regard. There is a duplication of functions between South African Tourism and Brand SA and the merger of the two entities will result in them being more impactful on issues around branding, marketing, and investment in destination South Africa. Brand SA reporting to the Department of Tourism will also ensure a more efficient use of financial resources.
- 8.1.2 Provides ring-fenced budget for developing and promoting domestic tourism in South Africa to assist the country to be on par with other mature destinations.

8.2 Recommendations to the Minister of Tourism

It is recommended that the Minister of Tourism:

Transversal recommendations for the Department and SA Tourism

- 8.2.1 Ensures that the Department and SA Tourism develop Audit Action Plans and report implementation progress to the Committee on a quarterly basis.
- 8.2.2 Ensures that financial controls are strengthened at both the Department and SA Tourism to improve expenditure management with the intention to eliminate irregular expenditure and fruitless and wasteful expenditure.
- 8.2.3 Ensures that internal controls, including internal audit functions are strengthened at both the Department and SA Tourism.
- 8.2.4 Ensures that the Department and SA Tourism enhance internal controls to guarantee compliance with legislation on procurement and contract management.
- 8.2.5 Ensures that the Department and SA Tourism implement appropriate preventative controls to prevent instances of non-compliance with supply chain management prescripts and administer appropriate consequence management.
- 8.2.6 Closely monitors the achievement of targets at the Department and SA Tourism and implement strategies for catching up on targets in which both organisations are lagging behind on quarterly basis.
- 8.2.7 Ensures that all the key vacant positions are filled up at the Department and SA Tourism.
- 8.2.8 Engages the MECs of provinces to determine a set of priorities critical in developing and sustaining tourism in South Africa, provide joint funding using the intergovernmental relations Act through signing a Memorandum of Agreement of implementing the identified priorities and monitor implementation thereof.
- 8.2.9 Engages other sector departments that provide services which impact on tourism to provide an enabling environment that eliminates barriers to tourism growth, including ease of travel, with specific attention to E-visa and remote work visa regime; safety and security for tourists; facilitating operating licenses; funding tourism SMMEs; developing by-laws at local level; ensuring energy supply; maintaining the road network in the country; providing tourism signage; and other related services.
- 8.2.10 Finalises the tourism policy review process.
- 8.2.11 Finalises the process of the appointment of the Board of SA Tourism by the end of November 2023.
- 8.2.12 Significantly improves oversight over SA Tourism to improve governance, financial management and operations.

- 8.2.13 Ensure that there is continuous improvement in the credibility and quality of submitted annual performance reports.
- 8.2.14 Improves the working relationship with the Committee for the common purpose of developing and sustaining the tourism sector in South Africa.

Recommendation specific to the Department of Tourism:

- 8.2.15 Ensures that the Development Bank of Southern Africa strengthens their supply chain management (SCM) controls to prevent instances of non-compliance with SCM prescripts.
- 8.2.16 Improve implementation of tourism infrastructure projects through involvement of all stakeholders at a national, provincial and local level, with the emphasis on the involvement of local communities and beneficiaries thereof.
- 8.2.17 Submit both requested reports and agreed-upon written submissions to the Committee timeously. The Committee requests the Department to adhere to agreed-upon timelines, as these deadlines are on record, for the submission of requested reports and written feedback on clarity-seeking questions raised by the Committee during quarterly meetings.
- 8.2.18 Ensure that all capacity building programmes are implemented as planned in the stipulated financial year across all provinces. The Tourism Monitors programme was not implemented in the Limpopo province as planned in the 2022/23 financial year.

Recommendations specific to SA Tourism:

- 8.2.19 Impress on the Board of SA Tourism to improve the quality of submitted annual financial statements by ensuring that the annual financial statements submitted for auditing are accurate and prepared in accordance with the financial reporting framework.
- 8.2.20 Encourages the Board of South African Tourism to fully embrace the opportunities offered by technology in conducting their legislative mandate in the operations of the entity.
- 8.2.21 Encourages the Entity to work closely with the Tourism Business Council of South Africa and other interested and affected parties in bolstering current efforts and introducing more effective strategies to develop and grow domestic tourism.
- 8.2.22 Engages the Minister of Home Affairs in exploring introducing tourism visas and granting visa waiver for more countries with potential as source markets for South Africa.

9. CONCLUSION

The Committee is generally satisfied that the overall audit outcome for the tourism portfolio has remained unchanged with both the Department and SA Tourism receiving financially unqualified opinions with findings on compliance with key legislation. The Committee is even more satisfied with the performance of the Department as it achieved 96 percent of its service delivery targets set for the period under review. The issue of a material finding on procurement and contract management incurred through the Development Bank of Southern Africa needs urgent attention to prevent recurrence.

The performance of SA Tourism is, however, of great concern as the Entity had material findings on the annual financial statements and expenditure management. The Minister is urged to pay special attention to oversight of SA Tourism. The Entity has proved to be remiss on governance at a Board level, internal controls, financial management, and human resources management. The Committee considers SA Tourism as an almost dysfunctional Entity that requires special attention. Intrinsically, the Committee will continue conducting robust oversight over the tourism portfolio, with a particular focus on SA Tourism.

The issues raised in the report point to a need for a change in the mindset and the way the Department and SA Tourism have been dispensing their mandates. This calls for an intensive and more focused approach to maximising partnerships and intergovernmental relations to unblock barriers to tourism growth. It is becoming increasingly glaring that the Department and SA Tourism cannot fulfil their mandate without sound partnerships and carefully crafted implementation strategies crystalised through the intergovernmental relations framework. The Minister needs to work closely with the provincial government counterparts to ensure that tourism development and promotion are adequately addressed at all levels of government in line with the constitutional obligations as a concurrent function.

Report to be considered.