



28 October 2008

**SUMMARY AND ANALYSIS OF THE ANNUAL REPORT OF THE CASTLE OF GOOD HOPE FOR
THE FINANCIAL YEAR ENDING 31 MARCH 2008**

1. INTRODUCTION

The purpose of this summary and analysis is to assist the Portfolio Committee on Defence in its oversight over the Annual Report of the Castle of Good Hope. This is in line with Section 55 (2) of the Constitution that the National Assembly is required to provide mechanisms to ensure that executive organs of the state and public entities in the national sphere of government are accountable to it.

The Defence Endowment Property and Account Act (Act 33 of 1922) transferred the Castle to the now Republic of South Africa for the exclusive use of defence organisations, establishments and land defences. The Castle Management Act (Act 207 of 1993) provided for a Castle Control Board (CCB) to govern and manage the Castle on behalf of the Minister of Defence and deal with the aspirations and concerns of all relevant stakeholders. Since then the Castle has been governed and managed by the Minister of Defence (MOD).¹

The matter of ownership is important for its survival and therefore the transfer of the management of the Castle has been under discussion during the past few years. Recently, there was an attempt to repeal the Castle Management Act and to transfer the Castle to the Department of Arts and Culture (DAC). The main reasons for this were:

- The protection of cultural heritage is the core business of the DAC;
- The Act entrusted powers to the MOD that legitimately belong to the DAC Minister; and
- The DOD is neither structured nor capacitated to execute these functions and powers.²

The Repeal Bill was withdrawn on the 3rd of June 2008, maintaining the *status quo* that the Castle Control Board is responsible to manage the Castle.

- Has any investigation been done by the CCB/DOD to investigate the various options regarding the future of the Castle as discussed during the Public Hearings on the Castle Management Act Repeal Bill [B9 -2008]?
- As one of the options was the public-private partnership, has there been any feedback on this?

2. MANDATE AND MISSION STATEMENT

The **vision** of the Castle of Good Hope is a dignified tourist attraction, which respectfully and objectively strives to communicate our unique diverse cultural and military history to all members of the community.

¹ Castle of Good Hope Annual Report 2008. p. 7

² Memorandum to on the objects of the Castle Management Act Repeal Bill, 2008. p.3



The **mission** is to be a service oriented public entity, striving to optimise its tourist potential and accessibility to the public and to preserve and protect its cultural and military heritage.³

3. TECHNICAL ASPECTS

The Annual Report was presented to the Minister of Defence⁴ and tabled in Parliament on 30 September 2008.⁵ The layout of the Report is clear and the information contained within the Report seems to be generally comprehensive. There is, however, no formal Strategic/Business Plan to guide the activities of the Castle.⁶ Three strategic objectives are being utilised as stipulated in the Castle Management Act as a short term measure. However, regarding the actual performance against the required outcome, the quantitative measurements are not indicated to gauge the actual performance.

- Explain why the Annual Report has been delivered in three different batches?
- The first batch was not properly printed and bound. Why?
- Are there plans to draft a Strategic/Business Plan for the Castle?

4. OVERVIEW OF PERFORMANCE: ACHIEVEMENTS AND CHALLENGES 2007

4.1 Selected Achievements

- The CCB received an unqualified report from the Auditor-General.⁷
- The CCB managed to show a net profit of R1 863 million.
- which was a fourteen per cent (14%) increase the previous year's net profit.
- Active involvement in supporting the arts through an interest in helping communities for non-commercial purposes.
- Co-hosting the Cape Town Military Tattoo with the SANDF.
- The withdrawal of the Castle Management Control Act Repeal Bill, signifying that the Castle will remain under the control of the MOD.
- An increase of 5 per cent in visitors.⁸

4.2 Selected Challenges

- No formal business plan for the Castle.
- The failure to appoint a CEO, CFO and an Audit Committee in terms of the PFMA.⁹
- The heavy reliance on the SANDF for the day to day maintenance of facilities.

³ Castle of Good Hope Annual Report 2008. p. 8.

⁴ Capt Morkel delivered 10 copies to the Minister's office on 30 September 2008, and another 10 copies on 6 October. 535 copies were also delivered to Parliament on 6 October 2008.

⁵ Announcements, Tablings and Committee Reports (ATC), Parliament, 30 September 2008.

⁶ Castle of Good Hope Annual Report, 2008. p. 12.

⁷ Castle of Good Hope Annual Report, 2008. p. 21.

⁸ Castle of Good Hope Annual Report, 2008. p. 13.

⁹ Castle of Good Hope Annual Report, 2008. p. 12.



- The postponement of non-essential maintenance expenditure¹⁰ resulting in major works on the Castle remaining in arrears.
- No action could be taken to rectify or improve non-compliance matters because of the proposed transfer to the DAC.¹¹

5. KEY RESULT AREAS

The Castle Control Board has set three strategic objectives as stipulated in the Castle Management Act in the absence of a formal strategic/business plan:

- To preserve and protect the military and cultural heritage of the Castle,
- To optimise the tourist potential of the Castle, and
- To maximise the accessibility to the public.¹²

The strategic objectives are monitored by the CCB by means of quarterly board meetings to ensure continuity in the management of the Castle.¹³ These strategic objectives are further divided into key objectives.

- With respect to strategic objective 1, specifically key objective one, the key inputs are indicated as preparation of exhibition on the wars of the Eastern Cape; and publication on military events at the Cape (1830 – 1895). The actual performance does not indicate the extent to which these have been met. For instance, was the exhibition of the Eastern Cape Wars done, and did the publication of military events take place? This is also the case with the other outputs versus actual performance.

6. FINANCIAL STATEMENTS AND REPORT OF THE AUDITOR GENERAL

The Annual Financial Statements reveal that the Castle is in a good financial position. It is specifically the cash position which allows the Castle to cover for certain contingencies in the future. One cannot really express an opinion on the Current ratio of the Castle since the ratio of Current Assets: Current Liabilities is 525:1 - which mean that for every R1 owed by the Castle it has R525 available to cover for it. The table below highlights some of the main features of the Castle's financial position.

¹⁰ Castle of Good Hope Annual Report, 2008. p. 14.

¹¹ Castle of Good Hope Annual Report, 2008. p. 18.

¹² Castle of Good Hope Annual Report, 2008. p. 14.

¹³ Castle of Good Hope Annual Report, 2008. p. 12.



S/NO	ISSUE	EXPLANATION	REFERENCE	COMMENT
1	Increase in Net Profit of 14% between the two financial years	Increase mainly attributable to increase in other income in the form of Military Tattoo Also due to an increase in investment income of 89%	Note 2 page 31	This is commendable and besides the military tattoo and investment income, tickets sales contributed significantly.
2	Increase in profit from operations	Increase of 10%	Page 24	This increased from R1 246 000 to R1 372 000
3	Main expenditure item	Administrative expenses make up 39% of total expenditure	Page 24 and 31	This is the largest portion of expenditure and consists of items such as advertising, insurance and museum expenses.
4	Maintenance as a percentage of total expenditure	23%	Page 24 and 31	This is above the norm of 10% and should be seen against the background of the huge amounts required to maintain the Castle.
5	Increase in maintenance on property and buildings	The increase between the two years came to 543%	Note 4 page 31	As above, this seems justified in the light of the substantial work that has to be done.
6	Plant and equipment increase by 130% between two financial years	This is due to additions in office furniture and fittings to the amount of R44 000 and Museum antiques to the value of R9 000.	Note 6 page 32	The increase in plant and equipment is mainly as a consequence of a revaluation of museum antiques.
7	Decrease in inventory	Decrease of 25% between two years	Page 32	However the cost associated with the sale of goods increased by 15%.
8	Increase in investment income	This is as a result of a 89% increase in interest earned on bank deposits	Note 5 page 31	This is commendable and should be further encouraged
9	Trade receivables decreased but payables increased	A decrease of R20 000 in trade receivables and an increase of R8 000 in payables	Page 25	This means that people who owe money to the Castle decreased and those to whom the Castle owes money increased
10	Cash and cash equivalents increased	The increase by 35% is mainly attributable to an increase in short term investments	Page 25	While the cash at bank decreased with R416 000, the short term investments increased with R1 445 000.



- The increase in maintenance is worrisome, especially since it is the responsibility of the Department of Public Works, and that the Castle has spent more than R2 million in the past five years on maintenance. What is the latest regarding the funding of renovations? What can the Portfolio Committee do to assist the CCB in this regard?
- In Strategic Objective 1, reference is made to Related Parties on page 13 as well as on page 34. What does this entail and does the "unconfirmed balance" column refer to outstanding payments?
- Explain the 'over and above' amount of R12 095.78 due to the Castle Manager. Has a similar amount been paid out in the previous year?

6.1 Report of the Auditor-General

The Castle received an unqualified report, albeit with a few matters of concern:

- The failure to establish an Audit Committee,
 - The failure to establish an Internal audit function,
 - The vacant post of the Executive Director,
 - The non-appointment of a Vice-chairperson,¹⁴
 - A supply chain policy has been developed but not implemented,
 - No appointment letters for the representatives of the City of Cape Town, the Tourism Board, the two representatives appointed by the Minister and the provincial government,
 - There was no risk management policy, and
 - The Castle should apply for income tax exemption as the revenue received from making venues available for hire could constitute taxable income.¹⁵
- Please give feedback regarding the Risk Management Policy as well as the income tax exemption issue.
 - What is the latest regarding the vacancies on the Castle Control Board?

7. GOVERNANCE

7.1 Human Resources

The Castle Section currently comprises a total of eighteen members of whom eleven are remunerated by the Department of Defence. It employs seven (7) members to execute duties related to posts no longer occupied by SANDF personnel. The salaries of these seven members comprise more than 10% of the Castle's annual income.¹⁶

- As discussed earlier, there is a heavy reliance on the DOD regarding financial and human resources support. Some of the DOD members have been replaced before and the question is whether the Castle would be able to operate if all 11 members are to be withdrawn? What would

¹⁴ The above were also mentioned in the Castle Annual Report of 2007, p. 21.

¹⁵ Castle of Good Hope Annual Report 2008, p. 21.

¹⁶ Castle of Good Hope Annual Report 2008, p. 9.



the implications of such a move be and would the Castle be able to sustain itself with funds generated by it?

- Has any contingency plan been considered for such an eventuality?

7.2 State support

SANDF personnel from Army Support Base (ASB) Western Cape seconded to the Castle of Good Hope for implementation of Castle Management tasks and functions are fully supported by the DOD in terms of all expenditure including but not limited to wages and salaries and day-to-day maintenance of facilities. The Director Facilities is appointed as Acting Chairperson to the CCB as an additional function and responsibility to the formal post profile. The DOD carries all expenses regarding subsistence allowance, air transport and accommodation in terms of Board requirements.

- What other expenditure such as salaries, subsistence allowance, air transport and accommodation are the DOD responsible for regarding their support to the Castle?
- Do all these expenses come from the budget of the ASB Western Cape?
- Is it possible to put an amount to the total contributions that the DOD is making towards the management and upkeep of the Castle?

7.3 Corporate governance

The section on Corporate Governance indicates the following regarding attendance of meetings:

Present	Representing	Attendance of meetings held: 4
Members		
Brigadier General E.P. Navratil (Acting Chairperson)	DOD Director Facilities	1
Mr R.M. Hudson-Bennett CA(SA) (Vice Chairperson)	Cape Town Regional Chamber of Commerce and Industry	4
Colonel J.P.M. Kobbie	Officer Commanding ASB Western Cape	4
Prof H.C. Bredekamp	CEO Iziko Museums of Cape Town	4
Mr F. Johnson	Regional Manager DPW	3
Ms B. Crouts-Knipe	Regional Manager SAHRA	2
Capt Morkel (Secretary)	Castle section	4

- While it is clear that the task of acting chairperson is an additional task for the Director Facilities, this has *inter alia* led to him only attending one meeting. What are the implications for the proper management of the Castle regarding this poor attendance and what can be done to alleviate/address the situation?



7.4 System of internal control

There was no formal Internal Audit System, but the CCB gave the assurance that a physical stocktaking of assets was performed in the reporting period.¹⁷

- Can the stocktaking be viewed as a viable alternative for an Internal Audit System?
- What were the results of this stocktaking?
- What is the latest on the Internal Audit System?

8. CONCLUSION

The management of the Castle seems to be in capable hands as can be deduced from the healthy financial position and the unqualified report from the Auditor-General. It is especially the prudent and responsible handling of the Castle's revenue that is commendable. Challenges faced by the CCB revolve around the appointment of representatives and the establishment and implementation of management tools such as an Internal Audit System, an Audit Committee, a Supply Chain Policy and a Risk Management Policy.

References

- Castle Management Act Repeal Bill. [B9 – 2008], Republic of South Africa. 22 February 2008.
- Castle Management Act, Act 207 of 1993. Republic of South Africa.
- Castle of Good Hope, Annual Report 2007 – for the year ended 31 March 2007.
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- Defence Endowment Property and Account Act, Act 33 of 1922. Republic of South Africa.
- PFMA. 1999. Public Finance Management Act, Act 1 of 1999. Republic of South Africa.
- RSA. 2007. Estimates of National Expenditure 2007. National Treasury.

¹⁷ Castle of Good Hope Annual Report 2008. p. 11.