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BRIEF OVERVIEW AND ANALYSIS OF THE PERFORMANCE OF ARTS AND CULTURE PUBLIC ENTITIES WITH QUALIFIED AUDIT REPORTS: KEY ACHIEVEMENTS AND CHALLENGES

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1. INTRODUCTION

The Department of Arts and Culture (DAC) manages and funds 28 institutions. This includes 14 heritage and art institutions governed by the Cultural Institutions Act No. 119 of 1998. The complete list of institutions and their relevant enabling legislation can be found in the Department's 2011 – 2016 Strategic Plan[1]

The aim of this paper is to provide a brief overview and concise analysis of the performance of three public entities: the Performing Arts Centre of the Free State (PACOFS); the South African State Theatre; and the South African Heritage Resources Agency (SAHRA). The overview will provide background information in preparation for briefings by these institutions to the Portfolio Committee on Arts and Culture.

2. PERFORMANCE OVERVIEW

The Public Finance Management Act (PFMA) of 1999 requires all Government departments, constitutional institutions and public entities to develop three-year strategic plans. It is against these strategic plans that annual performance is measured. The performance of the three above-mentioned public entities will be analyses based on the requirements of the PFMA.

2.1. THE PERFORMING ARTS CENTRE OF THE FREE STATE (PACOFS)

Background

The Performing Arts Centre of the Free State (PACOFS) is the flagship of theatre activities in the Free State Province. According to the Annual Report, *"It is a playhouse where an environment is provided for artists to practice and perform their different art forms. This institution is responsible for the promotion, development and presentation of an artistic tapestry in and around the country."*[2] It employs an integrated artistic philosophy to deliver services relevant to the performing arts sector.

Key Achievements

[1] Department of Arts and Culture. (2011) *Strategic Plan 2011 – 2016.*

[2] Performing Arts Centre of the Free State. (2012) *Annual Report 2011/2012.*

A range of achievements accomplished by PACOFS in the 2011/12 financial year are listed below:

- The Annual Performance Plan (APP) for the 2012/13 financial year was compiled and submitted to DAC.
- An asset register has been updated and is now complete.
- Ten human resource management policies were developed and reviewed.
- All Information Technology systems were upgraded and implemented.
- In order to create a platform for professional musicians, four music concerts were presented; 15 drama productions were staged; and three festivals were held as part of the strategy to develop appreciation for the performing arts.
- In spite of leadership challenges, 12 partnerships were created with stakeholders in the arts.

Key Challenges

The following were some of the challenges faced during financial year 2011/12:

- Over-expenditure during the period under review amounts to R6.1 million. According to the report of the Auditor-General, this was incurred through irregular expenditure due to inadequate procurement processes followed and overspending on the approved budget.
- PACOFS incurred fruitless and wasteful expenditure of R1.3 million mainly due to salaries paid to suspended officials.
- The extended absence of the Chief Executive Officer (CEO) has hampered the achievement of a number of planned targets, including strategic leadership meetings and regular meetings with stakeholders and corporate organisations.
- Adherence to the PFMA is a major challenge. Monthly reports were not submitted to DAC and while the APP is reported to have been compiled and submitted to DAC, the PACOFS Council did not approve the APP.
- PACOFS has a vacancy rate of a staggering 56 per cent. A mere 99 out of 181 funded posts were filled during the period under review. Two critical posts not filled in 2011/12 are those of Technical Director and Artistic Director.
- Reporting with regard to the Supply Chain Management (SCM) policy is not very clear. While a draft SCM policy appears to have been drafted in the period under review, PACOFS failed to implement risk management strategies within SCM.
- PACOFS does not have a Performance Management System in place and therefore no performance reviews or assessments were carried out.
- An Employment Equity Plan (EEP) is still to be developed.

- A number of targets for Programme 2 were not achieved. PACOFS cites budget constraints in a number of places were reasons for variance are provided. In other instances, reasons for not achieving targets are simply not justified.

KEY QUESTIONS AND ISSUES FOR CONSIDERATION

- The Auditor General has noted a range of issues on which the Portfolio Committee on Arts and Culture should be briefed. These include the following:
    - Over half (57 per cent) of the planned targets were not achieved as a result of capacity challenges and instability in leadership.
    - The internal audit function is non-existent. This is in contravention of the PFMA and Treasury Regulations.
    - Effective steps were not taken to prevent irregular expenditure, fruitless and wasteful expenditure, once again a requirement by the PFMA (see pages 28-30 of the Annual Report).
    - Irregularities with regard to procurement and contract management were highlighted. Further investigation would be useful in clarifying matters related to the award of contracts and the procurement of goods and services above the value of R500,000 without inviting competitive bids even though there was no obvious reason for the accounting officer not to do so.
- Instability in the Council was also noted by the A-G. What measures did DAC put in place to correct the situation?
- Investigations into allegations of financial misconduct committed by the suspended CEO were not conducted. Is an investigation planned for the 2012/13 financial year? If so, the outcomes should be presented to the Portfolio Committee as soon they as become available.
- The annual report states that monthly reports were submitted to DAC. The entity should report on the challenges that were presented to the Department in the monthly reports and the priority assigned to each. Furthermore, the Department should also report on the monitoring mechanism and intervention strategies that were implemented to assist the entity with its challenges.
- The Annual Report indicates to some Human Resource (HR) challenges within PACOFS. The entity should therefore present a report on the ten HR policies were developed and reviewed in the 2011/12 financial year, as well as indicate whether these are sufficient to ensure the effective and efficient operation of the HR Department. If not, the entity should indicate the policy areas that need to be covered, how many policies still need to be developed, as well as the timeframes for completion of all HR policies.
- The Annual Report indicates that the vacancy rates of some sections within the entity are very high. Although this has not been highlighted as a priority area in the Annual Report, it is nevertheless a matter of concern that the Committee should be briefed on. In its report to the Committee, PACOFS should indicate whether it has a recruitment strategy and/or a retention strategy. If not, what strategy will the entity use to ensure that it fills all positions and retains the skills and HR capacity?

2.2. THE SOUTH AFRICAN HERITAGE RESOURCES AGENCY

Background

The South African Heritage Resources Agency (SAHRA) is a statutory organisation established under the National Heritage Resources Act (NHRA), No 25 of 1999, as the national administrative body responsible for the protection of South Africa's cultural heritage. SAHRA exists to coordinate the identification and management of national estate. The aims are to introduce an integrated system for the identification, assessment and management of heritage resources and to enable provincial and local authorities to adopt powers to protect and manage them.[3]

The entity's overall strategic objectives are as follows:

- Deliver Heritage Conservation and Management as legislated with a specific focus on formal protection.
- Maximise the performance and effectiveness of SAHRA management and employees.
- Implement good corporate governance.
- Enhance management of heritage resources through capacity building to deliver on SAHRA's mandate.

It is important to note that SAHRA recently underwent a major restructuring process in an effort to downscale its operations. Offices in all provinces were closed during this process to allow provinces to focus on the national mandate. This process impacted labour turnover with 20 per cent of employees opting for voluntary severance.[4]

Key Achievements

Major achievements during the period under review:

- Two audit projects to ensure the growth of the National Inventory were launched. These include the audits of the Genadendal Museum Collection as well as the audit of the Library Anthropological Collection of Walter Sisulu University.
- SAHRA has made efforts to develop strategic partnerships. A draft Memorandum of Understanding (MOU) with the Culture Arts, Tourism, Hospitality and Sport Sector Education and Training Authority (CATHTSETA) was developed. CATHTSETA is committed to skills development in a number of sub-sectors including Arts and Culture. This signals SAHRA's interest in aligning with DAC's Mzansi Golden Economy Strategy.
- SAHRA conducted three events in which awareness of South Africa's history was raised. These included events raised awareness of the cultural significance of Irma Stern's

[3] South African Heritage Resources Agency. [Internet] Available from < http://www.sahra.org.za/about/sahra> [Accessed 04 October 2012].

[4] SAHRA. (2012) *Annual Report*, p. 33.

painting, *Arab Priest*; the declaration of the Voortrekker Monument as a national heritage site; and underwater cultural heritage in Simonstown.

- In line with the 2012 State of the Nation Address, three graves of national liberation struggle personalities were conserved and protected. These are the graves of Thomas Mapikela (founder member of the ANC); Rev. Zacharias Mahabane (ANC President 1924 – 1927); and Chief James Moroka (ANC President, 1949 – 1952). Furthermore, the graves of Steve Biko, R.M. Sobukwe, O.R. Tambo, P. Seme, S.M. Makgatho, JT Gumede, AJ Luthuli, A. Xuma and L. Dube were graded and approved for declaration.
- SAHRA has successfully raised awareness of national underwater heritage. External funding was obtained from the Embassy of the Kingdom of the Netherlands. This aided SAHRA to conduct training in Cape Town and Durban. In addition to training, an integrated law enforcement strategy was launched.

Key Challenges

- The internal audit committee was not properly constituted during the period under review.
- An outsourced internal audit service provider was appointed in April 2011. This happened contrary to the Council's instructions. In addition, the correct SCM procedures were not followed in the process of appointing the service provider.
- Proper accounting records were not kept. As a result, the reliability of SAHRA's financial records has been questioned by both the internal audit committee and the Auditor-General.
- The extensive ten-page report of the A-G raises a number of points of concern which, going forward, should be closely monitored[5]. These include concerns regarding, amongst others:
  - Irregular expenditure. The entity failed to include all irregular expenditure in the notes to the financial statements. Failure to include payments made in contravention of the SCM requirements resulted in irregular expenditure being understated by an amount of R14.469.990,
  - Leave provision. Due to insufficient audit evidence supplied, the A-G could did not agree to the valuation of the leave provision amounting to R1.162.00.
  - Fruitless and wasteful expenditure. The A-G was not satisfied with the evidence provided in support writing off fruitless and wasteful expenditure amounting to R344.889

[5] Ibid. pp.133-142.

KEY QUESTIONS AND ISSUES FOR CONSIDERATION

- Based on the Annual Report, the Report of the Auditor-General (presented within the former), as well as observations made at the briefing of 5 September 2012, it is clear that SAHRA has been in a state of disarray for a number of years. While problems within SAHRA were not officially reported on, it is concerning that DAC did not exercise sufficient and effective oversight over this public entity. There has been a clear regression of the audit result – from an unqualified audit report in 2010 to a disclaimer of audit opinion in 2011, with the Auditor-General highlighting shortcomings in almost every area of assessment. The regressing financial situation of the entity requires urgent intervention.
- The Annual Report does not account for vacancy rates within SAHRA. While this entity has recently undergone restructuring, there should be some indication of at least the critical posts either currently filled or vacant. SAHRA should present its organgram and recruitment plan (if any) to the Committee.
- SAHRA has, as recently as September 2012, been requested to brief the Portfolio Committee on Arts and Culture. A number of concerns were highlighted by Council Chairperson, Dr. Somadoda Fikeni. The PC is aware that the following challenges within SAHRA were noted:
    - Lack of succession planning. At the time of the briefing the positions of CFO, Company Secretary and Legal Advisor, Head of Corporate Services, Supply Chain Manager, and HR Manager were all vacant.
    - Poor planning on closure of SAHRA operations in provinces.
    - An institutional culture of poor performance and lack of accountability. This is confirmed by the Auditor-General's report to Parliament.
- How will SAHRA's decision to downscale operations impact on its ability to deliver on its mandate? What was DAC's role in approving this process? Was this simply a cost-cutting exercise to the detriment of the core function of DAC and SAHRA, i.e. the conservation and preservation of national heritage, or was pre-planned?
- Since SAHRA is the only entity of its nature managed by DAC, and given the importance of its mandate, what progress was made by the 'turnaround' Task Team?
- Due to the serious nature of the larger challenges at hand, it is recommended that SAHRA present progress on pertinent matters, including:
    - Investigation of CEO for misconduct,
    - Institutional organogram (does one exist post restructuring?)
    - Vacancy rates,
    - Establishment of an internal audit committee,
    - New strategic plan, and
    - Investigations into irregular, unauthorised, fruitless & wasteful expenditure.

2.3. THE SOUTH AFRICAN STATE THEATRE

Background

The State Theatre, situated in Pretoria, was opened in May 1981. According to its website, "*The South African State Theatre saw the birth of, and was the driving force behind, the establishment of the performing arts in all spheres in South Africa. The Theatre today plays a leading role in the development of the performing arts, and is host to the colourful variety of entertainment found in the diverse cultures of our wonderful country.*"[6] This entity has been host to a number of world-renowned shows, *inter alia* '*Sarafina!*', '*Cats*' and '*The Phantom of the Opera*'.

Key Achievements

Some of the key achievements for 2011/12 are as follows:

- The entity employed 142 actors/performers during the period under review. This is higher than the planned target of 110. It has also planned to set a higher target for 2012/13.
- An increase in audience figures in the Opera Theatre and the Drama audience is reported.
- The goal to increase the diversity of audience was evidently achieved, as evidenced by the number of complimentary tickets issued, productions that contribute to education (i.e. set-work/educational productions), and presenting productions by external producers. However, many planned targets within the key focus area of increasing audience diversity were either partially or not achieved.
- The Theatre hosted the Mzansi Fela Festival which featured the participation of a range of people. The ten-day Festival started with a march from the Union Buildings in commemoration of World AIDS Day.

Key Challenges

The entity presented a number of challenges on various levels in 2011/12. The key challenges are outlined below.

- The evaluation of the financial statements resulted in the entity receiving a qualification from the Auditor-General.
- The entity has not developed an Employment Equity Plan (EEP). This is despite the fact that this is required in terms of the Employment Equity Act, No. 55 of 1998 of employers with 50 or more workers.[7]

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[6] The South African State Theatre. (2011) *About the South African State [sic].*

[7] *Employment Equity Act (Act 55 of 1998)*

- The lack of implementation of effective HR management impacts on monitoring of performance.
- The entity incurred irregular, fruitless and wasteful expenditure.

KEY QUESTIONS AND ISSUES FOR CONSIDERATION

Issues pertaining to leadership, financial and performance management, as well as governance were highlighted in the Auditor-General's report to Parliament. The following should be noted:

- Irregular expenditure – payments in contravention of the SCM processes amounted to R1.6 million. There was no system of control over irregular expenditure and it was not properly recorded. The findings of the Auditor-General show that the accounting authority did not take preventative steps in this regard. How and why was this expenditure incurred? The entity should provide a detailed report to the Committee in this regard.
- Performance targets were largely not specific, measureable and well defined. Of the total planned targets, 56 per cent was not achieved during the year under review.
- Formal controls over Information Technology (IT) systems must be designed and implemented to ensure reliability of systems and quality, protection and availability of information.
- With regard to governance, the accounting authority did not conduct regular risk assessments to ensure prevention of IT risks and fraud. The report of the Auditor-General indicated that a risk strategy must be developed. On the contrary, the entity reports that a risk management policy has been in place since the 2006/07 financial year and a fraud prevention plan has been put in place. The entity should therefore present its risk management strategy and explain its internal control environment to the Committee in order for the Committee to assess the adequacy and effectiveness of the risk management strategy and internal control environment. It is concerning that the entity incurred irregular expenditure even though there is a risk management strategy in place. What are the gaps in the policy, and how will the entity fill these gaps to make the policy more effective? How can the Department assist in this regard?

In regard to EE, entity reports 100 per cent presentation at the different post levels. However, the following should be considered:

- In the last seven years, ratios of total Black to White employees in middle management and high level specialists has remained at almost 1:1. In 2011/12 the ratio changed to 3:1. What efforts are in place to ensure better representation at this occupational level?

Reporting on vacancy rates is not clear. The entity should provide the Committee with a detailed report on the vacancy rates in terms of occupational levels and post level. How many of the vacant positions are critical posts? What plan is in place to fill these posts in order not to hamper service delivery?

3. REFERENCES

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