**THE BUDGETARY REVIEW AND RECOMMENDATION REPORT OF THE PORTFOLIO COMMITTEE ON ARTS AND CULTURE, DATED 24 OCTOBER 2017**

The Portfolio Committee on Arts and Culture (hereinafter referred to as the Committee), having considered the performance of Vote 37: Department of Arts and Culture (hereinafter referred to as the Department), reports as follows:

## 1. INTRODUCTION

### 1.1. Mandate of Committee

The Portfolio Committee on Arts and Culture (the "Committee") is empowered, through the Constitution, to ensure that executive organs of the state in the national sphere of government are accountable to it. The Constitution further empowers committees in the National Assembly to maintain oversight of the exercise of the national executive. In order for the Committee to provide oversight, the Budget Review and Recommendation Report (BRRR) is an essential tool to assess the Department's performance and strategic direction. The BRRR also acts as a mechanism to measure service delivery and identify areas that require urgent interventions. This process enables the Committee to understand how the Department has implemented its appropriated budget.

### 1.2. Description of Core Functions of the Department

The Department derives its mandate from the Constitution with specific focus on language and culture, access to information and, to some extent, education. The Department further seeks to unleash the potential of the Arts, Culture and Heritage sector to contribute to job creation and economic growth and development through the Mzansi Golden Economy (MGE) strategy. In addition, the Department is also responsible for the promotion of the performing arts in South Africa; provision and promotion of official languages and enhancement of linguistic diversity in South Africa; and provision and maintenance of the declared cultural institutions, National Archives and Library of South Africa. The Department is responsible for 26 entities that were established to enable the Department to deliver on its mandate, amongst these entities is the Robben Island Museum, which is a World Heritage Site and a site of historical importance in South Africa.

### 1.3. Purpose of the BRR Report

Section 5 of the Money Bills Amendment Procedure and Related Matters Act (No. 9 of 2009) requires the National Assembly, through its Committees, to produce a Budgetary Review and Recommendation Report, which assesses the performance of each national department with reference to the following:

a) The Medium Term Estimates of Expenditure, Strategic Priorities and Measurable Objectives, as tabled in the National Assembly;
b) Prevailing Strategic Plans;
c) The Expenditure Report as published by the National Treasury in terms of section 32 of the Public Finance Management Act (No. 1 of 1999);
d) The Financial Statements and Annual Reports;
e) The Reports of the Committee of Public Accounts; and
f) Any other information requested by or presented to a House of Parliament.

### 1.4. Method

In compiling the 2017/18 BRRR the Committee utilised the following documents:

- 2017 President's State of the Nation Address;
- 2014-2019 Medium Term Strategic Framework;
- 2015/16-2019/20 Strategic Plan of the Department of Art and Culture;
- 2017/18 Annual Performance Plan of the Department of Arts and Culture;
- 2017/18 first quarterly report of the Department of Arts and Culture and entities;
- 2016/17 Annual Report of the Department of Arts and Culture and entities;
- 2016/17 Budget Review and Recommendation Report of the Portfolio Committee on Arts and Culture; and
- The National Development Plan (NDP): Vision for 2030.

### 1.5. Portfolio Committee's Oversight Environment

The publication of the 2014 – 2019 Medium Term Strategic Framework (MTSF) was heralded by the establishment of the fifth Parliament and the fifth administration after the 2014 general and provincial elections. The 2014-2019 Medium Term Strategic Framework (MTSF) identified the following priorities:

- Radical economic transformation, rapid economic growth and job creation
- Rural development, land and agrarian reform and food security;
- Ensuring access to adequate human settlements and quality basic services;
- Improving the quality of and expanding access to education and training;
- Ensuring quality health care and social security for all citizens;
- Fighting corruption and crime;
- Contributing to a better Africa and a better world; and
- Social cohesion and nation building.

These priorities were then expounded into fourteen outcomes and their associated activities and targets. Outcome 14, '*a diverse, socially cohesive society with a common national identity'* which responds to the NDP is assigned to the Department of Arts and Culture.

The President emphasised that during the 2014-2019 MTSF sport and culture will play a major role as unifying factors as they both respond to Outcome 14. It also became pertinent for the government to promote inclusive heritage by erecting monuments as well as symbols that honour the heroes and heroines of the struggle who delivered the freedom and democracy in South Africa.

During his 2017 State of the Nation Address, President Zuma said very little with regards to matters pertaining to the arts, culture and heritage sector. Nonetheless, the SONA indicated the following:

- 2017 is the year of unity in action by all South African, which is in line with the social cohesion and nation building as one of the outcomes of government.
- South Africa remembers Mariam Makeba, who made history when she addressed the United Nations in 1963, appealing for action against the apartheid regime.
- South Africa's mission remains the quest for a united, democratic, non-sexist, non-racial and prosperous South Africa.
- Radical socio-economic transformation by using the arts, the country can open doors for tourism, which will catalyse economic activity. During times like Cape Town Jazz Festival, Standard Bank Joy of Jazz and Macufe, economy in the respective towns booms, and enhancing these activities can result in socio-economic transformation.

- The President also extended condolences on the passing of artists (musicians), Sifiso Ncwane and Lundi Tyamara, who have contributed to the country's arts and culture sector.

### 1.5.1 The Portfolio Committee oversight approach

Since the beginning of the fifth parliament, the Committee has been actively involved in oversight functions that seek to ensure that the delivery of arts, culture and heritage services is accelerated and South Africans enjoy the value of their diverse heritage. The Committee has challenged Department's entities to align themselves with broader strategic priorities of government and the National Development Plan to contribute to economic growth and job creation. The Committee robustly engaged its entities (Nelson Mandela Museum, Market Theatre, Windybrow Theatre, and Msunduzi Museum) in an attempt to assist the Department to ensure that these entities fulfil their constitutional mandate.

The Committee acknowledges that the Department has a pivotal role to play in realising the vision of the NDP. The Committee believes that the amplification of the current programmes of the Department could enhance the delivery of services and a realisation of a dream of a 'better life for all'. The President has set the target to increase the number of foreign visitor arrival to South Africa to be more than 15 million annually by 2017. In order to attain these targets, all sectors of society need to embark on various progressive interventions to create a sustainable tourism appetite in the country. This may enable the country to spur the economy. Thus, creative ways by museums and artists are needed to come with new ways of exhibiting their skills and prowess.

### 1.5.2 Oversight role of the Committee

As mandated by section 55 of the Constitution of the Republic of South Africa, 1996, the Committee exercised it oversight function through robust portfolio committee meetings where the executive accounts on a regular basis. In addition, the Committee conduct oversight visits where members of the Committee visit institutions and projects that are implemented by those entities.

1.5.2.1 **Oversight visits**

From the outset, the Committee committed to focusing on the entities of the Department. This focus was informed by the percentage (80%) of the budget the Department transfers to the entities and the (poor) status of the entities. The Committee adopted an approach whereby it assured that during oversight it meets with all staff in an institution (from the lowest to the CEO) so that it can determine the nature and the severity of the problems the institution has and establish a way of resolving them. The Committee undertook three oversight visits in 2017, which were in Gauteng, Free State and Mpumalanga. All the oversight visits focused on the entities of the Department.

## 2. OVERVIEW OF THE KEY RELEVANT FOCUS AREAS

The following policy developments characterised the sector during the 2016/17 financial year:

### 2.1. White Paper Review

The Department deemed it necessary to review the White Paper after almost two decades of its existence and implementation. Consultation processes have taken over two years.

The White Paper is reviewed in order to develop new financing instruments, rationalize the institutional framework and suggest new structures to fill the gaps identified in the sector. The White paper should address the protection of the rights of artists and envisages the name change of the Department into the Department of Arts, Culture and Heritage. The name change will allow the Department to recognize the full scope of the portfolio and its mandate.

**2.2. Africa Month Programme**

In 2016, the Department hosted the second edition of the Africa Month Programme to expand the knowledge of Africa and its offerings. Dialogues were held at National and Provincial level. There were fashion shows, exhibitions and expositions. Africa Month colloquia programme with various themes that were led by distinguished individuals was a resounding success. As part of the Africa Month, the acclaimed Amandla Musical Ensemble was hosted at Emalahleni. Lectures and seminars were delivered by prominent experts and thinkers like Professor Wole Soyinka. Significantly, the celebrations coincided with the centenary of Fort Hare University, an institution that has nurtured generations of African leaders.

**2.3. Africa Cultural Seasons**

The first two instalments of Africa Cultural Seasons were held in Algeria and Gabon on 24 February -04 March 2017 and on 09 -17 May 2017 respectively. Both these Cultural Seasons assisted to strengthen the Africa bilateral relations.

**2.4. BRICS Countries**

In recognising South African talent in the BRICS Countries, Mr Thabo Rametsi won the best actor in the inaugural film festival of the BRICKS Countries.

**2.5. Palestine and Western Sahara – FISAHARA**

From 28 November to 04 December, DAC hosted a Solidarity Day with the people of Palestine in a form of Cultural Week. DAC also participated at the FISAHARA Film Festival in Western Sahara.

**2.6. Nation Building and Social Cohesion**

The Department of Arts and Culture leads and coordinates efforts to reconstruct our fractured and divided past to a more socially and economically inclusive society that is proud of all its cultural expressions. DAC held 33 community conversations across all nine provinces, to bolster social cohesion.

**2.7. Historical Sites**

The DAC has put plans in place to revamp and refurbish historical sites of resistance and liberation, namely; Winnie Mandela House in Bradfort in Free State and the House of Charlotte Maxeke in Gauteng.

**2.8. Placement of artists in schools**

The Department's human capital development strategy entails initiatives that seek to entrench the appreciation of arts, culture and heritage at an early developmental stage of child development. The flagship programme in this regard is the placement of artists in schools. The year under review saw 342 artists were placed in 321 schools.

### 2.9. Living legends programme

The Living Legends Legacy Programme was launched in November 2015 to recognize and celebrate the role of Living Legends in arts, culture and heritage and provide opportunities between the legends and aspiring young artists. During the year under review, the Living Legends Legacy Programme was supported through 27 Living Legends Master classes.

## 3. SUMMARY OF PREVIOUS KEY FINANCIAL AND PERFORMANCE RECOMMENDATIONS OF COMMITTEE

### 3.1. 2015 BRRR Recommendations

During the 2016 BRRR the Committee made the following recommendations:

- Appointment of the Director General to ensure that there is leadership stability in the portfolio is crucial.
- Appointment of personnel in strategic and management positions in the Department and the entities should be prioritized.
- Auditees that submitted financial statements of poor quality for auditing should strengthen their processes and controls to create and sustain a control environment that supports reliable reporting.
- There should be effective consequence management relating to financial mismanagement within the Department and entities
- Management should act on recommendations made by the Auditor General South Africa in a timely manner and implement action plans for internal controls that are sustainable.
- Accounting officer or authority must successfully implement basic internal controls and accounting disciplines by preparing regular and accurate financial statements and performance reports.
- Senior management, leadership and oversight structures should continue to pay close attention to the occurrence of supply chain management transgressions.
- Senior Management should investigate the incidents of non-compliance and take appropriate corrective steps, and implement consequence management when required.
- Accounting authorities and the accounting officer should consult the National Treasury and Accounting Standards Board for clear guidance on the application of GRAP 103 Standard for Heritage Assets.

### 3.2. 2016/17 Committee Budget Report

The Committee supported the 2016/17 budget of the Department and its Annual Performance Plan (APP). It also supported the strategic alignment of the Department's programmes with the NDP.

## 4. OVERVIEW AND ASSESSMENT OF THE 2016/17 VOTE PERFORMANCE

### 4.1. Service Delivery Performance for 2016/17

The following are the highlights of the Department's achievements during the 2016/17 financial year:

- The Department achieved 73% of its targets (52 out of 71 targets).

- Under Nation building and social cohesion, 33 community conversations were held and four outcome 14 reports were produced for cabinet.
- 6 115 toolkits were produced and 504 AU flag installations were provided to schools in preparation for their special events.
- Eminent thinkers were invited from the rest of Africa and the Diaspora to join in conversation about the continent.
- The Department placed 342 artists in 321 schools across the country.
- On the MGE, over 500 qualifying applications were adjudicated, with 146 funded to the value of R53.4 million.
- Since the inception of the incubator programme 2 480 young people have been provided with education, training, production and technical opportunities.
- The Living Legends Legacy Programme was supported through 27 Living Legends Master classes.
- 150 community arts centre (CAC) programmes were supported and seven centres were provided with support for refurbishment projects.
- DAC awarded 445 language bursaries and 69 heritage study bursaries, both in excess of the planned targets of 320 and 65, respectively.
- The year 2016/17 also marked the 40th anniversary of the brutal murder of the black consciousness leader Steve Bantu Biko. In recognition of this important event in SA history, the Department hosted the Human Rights Day national celebration at the Victoria Sports ground in King Williams Town (near Ginsberg) in the Eastern Cape, the same grounds where the funeral of Steve Biko was held 40 years ago.
- Forty-three libraries were upgraded and furthermore twenty (20) new libraries were built across the country.

### 4.2. Voted funds and expenditure patterns

### 4.2.1. Summary of virements and shifts per programme

Below is the Department's appropriation statement for the 2016/17 financial year. This shows appropriation per programme:

| Voted funds and direct charges R'000 | Adjusted appropriation | Shifting of funds | Virement | Final appropriation | Actual expenditure | Variance | Expenditure as % of final appropriation |
|---|---|---|---|---|---|---|---|
| | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | % |
| Programme | | | | | | | |
| 1. Administration | 262 601 | (261) | - | 262 340 | 242 684 | 19 656 | 92.5% |
| 2. Institutional Governance | 325 217 | (696) | (84 823) | 239 698 | 192 230 | 47 468 | 80.2% |
| 3. Arts and Culture Promotion and | 1 068 236 | 4 844 | (53 032) | 1 126 112 | 1 099 327 | 26 785 | 97.6% |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Development | | | | | | | |
| 4. Heritage Promotion and Preservation | 2 406 518 | (3 887) | 31 791 | 2 434 422 | 2 423 226 | 11 196 | 99.5% |
| **TOTAL** | **4 062 572** | **-** | **-** | **4 062 572** | **3 957 467** | **105 105** | **97.4%** |

*Source: Department of Arts and Culture (2017), pg.129*

As reflected above, overall expenditure amounted to 97.4 per cent of the final appropriation. All programmes did not completely expend their respective budget allocations, although programme 4 was just short of 0.5 percent. It is important to note that even though funds were shifted from and vired out of Programme 2, this programme still only spent 80.2 percent of its final appropriation.

### 4.2.2. Expenditure variance per economic classification (Compensation of Employees)

| | **Final Appropriation** | **Actual Expenditure** | **Variance** | **Expenditure as a % of final appropriation** |
|---|---|---|---|---|
| | **R'000** | **R'000** | **R'000** | |
| Administration | 100,032 | 96,508 | 3,524 | 96.5% |
| Institutional Governance | 35,784 | 33,524 | 2,260 | 93.7% |
| Arts and Culture Promotion and Development | 48,618 | 45,699 | 2,919 | 94.0% |
| Heritage Promotion and Preservation | 53,269 | 50,175 | 3,094 | 94.2% |
| **Total** | **237,703** | **225,906** | **11,797** | **95.0%** |

*Source: Department of Arts and Culture (2017), pg.130*

In all the Programmes, there was a variance of R11.7 million. The variance was caused by posts that the Department could not fill and commit in 2016/17, given the risks of over-expenditure on the compensation budget for 2017/18 due to budget cuts in the MTEF allocation. The table below shows variance in each Programme.

4.2.3. Expenditure variance per economic classification (Goods and Services)

| | **Final Appropriation** | **Actual Expenditure** | **Variance** | |
|---|---|---|---|---|

| | | | | |
|---|---|---|---|---|
| | R’000 | R’000 | R’000 | |
| Administration | 148,715 | 138,311 | 10,404 | 93.0% |
| Institutional Governance | 37,223 | 37,223 | - | 100.0% |
| Arts & Culture Promotion & Development | 81,277 | 81,069 | 208 | 99.7% |
| Heritage Promotion &Preservation | 60,285 | 58,584 | 1,701 | 97.2% |
| **Total** | **327,500** | **315,187** | **12,313** | **96.2%** |

*Source: Department of Arts and Culture (2017), pg.130*

A total variance amount of R12 million was mainly due to journals for operating leases paid on behalf of public entities being posted from the Office Accommodation. The delay in the appointment of a service provider to assess the conditions of infrastructure for DAC and its entities' buildings negatively affected the finalisation of the User Asset Management Plan (UAMP). As a result, repairs and maintenance to entities' infrastructure could not be done optimally.

### 4.3. Department's performance against the pre-determined objectives

The table below provides a concise overview of general performance for the period under review.

| | |
|---|---|
| Total budget spent | 97.4% |
| Total targets set | 71 |
| Targets achieved | 52/71 |
| Targets not achieved | 27 |
| Success rate | 73% |

### 4.4. Contextualising the report of the Auditor General of South Africa and its implications

#### 4.4.1. Financial Audit

The Department has achieved a financially **unqualified audit opinion** with findings. The audit opinion thus remains unchanged from that achieved in 2015/16. The following section contains an overview of matters raised by Auditor-General of South Africa (AGSA).

#### 4.4.2. Audit on pre-determined objectives

The AGSA performed procedures to obtain evidence about the usefulness and reliability of the reported performance for the following programmes: Programme 3: Arts and Culture Promotion and Development and Programme 4: Heritage promotion and preservation. The AGSA performed further procedures to determine whether the indicators and related targets were measurable and relevant and whether the information was valid, accurate and complete.

On Programme 3: Arts and culture promotion and development, the AGSA found out that the target of number of individuals provided with temporary work opportunities was misstated. The evidence provided indicated that 5 059 work opportunities were provided instead of 7 590 that was reported. The target of artists placed in schools was misstated as the real number was 405 not the reported 342.

On Programme 4: Heritage promotion and preservation, the AGSA could not audit the reported performance information relating to number of schools supported through the provision of national symbol toolkits. The AGSA established that the target achieved about the national symbol toolkit did not talk to the planned indicator.

**4.4.3. Compliance with the laws and regulations**

1. **Annual financial statements**

The financial statements submitted were not prepared in accordance with the prescribed financial reporting framework as required by section 40(1)(b) of the PFMA. The AG identified material misstatements in the annual performance report submitted for auditing. These misstatements were on the reported performance information on Programmes 3 and 4. The Department corrected only some of the misstatements.

2. **Procurement and contract management**

Goods and services of a transaction value above R500 000 were procured without inviting competitive bids, as required by Treasury Regulations 16A6.1. However, the accounting officer approved deviations.

3. **Expenditure management**

Inadequate systems to prevent irregular, fruitless and wasteful expenditure: Effective steps were not taken to prevent irregular expenditure amounting to R15 201 000 as required by section 38(1)c)(ii) of the PFMA and treasury regulations 9.1.1. Effective steps were not taken to prevent fruitless and wasteful expenditure amounting to R493 000.

4. **Consequence management**

Disciplinary steps were not taken against officials who had incurred and permitted irregular and fruitless and wasteful expenditure in prior years as required by section 38(1)(h)(iii) of PFMA.

5. **Other issues**

The AG highlighted an investigation conducted by an independent consulting company on behalf of the Department on the construction of the Enyokeni Cultural precinct. The investigation has been completed and the results were given to the Department.

**4.4.4. Internal control deficiencies**

a. **Leadership**

There are no adequate controls in place to monitor implementation of approved policies and procedures. Oversight was not always implemented to ensure that, all laws and regulations are complied with. Position of the accounting officer remained vacant for the period longer than 12 months.

b. **Financial and performance**

Regular monthly and quarterly reviews were not performed to ensure that performance information reported is accurate and complete. Policies and procedure that ensure that there is compliance with laws and regulations were not adhered to at all times, therefore leading to non-compliance with laws and regulations.

### 4.5. Observations

- The DAC lacks consequent management, because DAC does not reprimand people who commit fruitless, wasteful and irregular expenditure.
- The DAC failed to prevent irregular, fruitless and wasteful expenditure in the year under review as it has done before.
- There has been persistent underspending on the Mzantsi Golden Economy (MGE) projects points to inefficiencies and inadequacies in the funding model of MGE work streams.
- Slow spending on Capital Works projects remains a challenge for the Department due to its reliance on the Department of Public Works.
- DAC officials do not show interest in the arts that are not funded by the DAC.

### 4.6. Recommendations

- There should be effective consequence management relating to financial mismanagement within the Department and entities.
- DAC should strengthen its internal controls to curb irregular, fruitless and wasteful expenditure. Officials that commit irregular, fruitless and wasteful expenditure should be reprimanded.
- The Department should put proper plans in place to address under expenditure across all programmes (e.g. MEG projects)
- The DAC and DPW should ensure that they stick to the timelines to achieve their targets in Capital Works. Managers that are assigned to the Capital Works projects should ensure timeous output.
- The DAC officials should take interest on all arts and culture activities, even if they are not funded by the DAC.

## 5. ENTITIES

### 5.5 National Film and Video Foundation (NFVF)

The National Film and Video Foundation (NFVF), which has been operating since 2001, is governed by the National Film and Video Foundation Act (Act 73 of 1977), as amended by the Cultural Laws Amendment Act (Act 36 of 2001), to develop and promote the film and video industry in South Africa. Over the medium-term, the NFVF aims to award 198 bursaries to the value of R4.6 million for various aspects of film and video studies; and develop 204 local content scripts and produce 120 local content films. The NFVF’s main source of revenue is in the form of transfers from the Department; over the medium-term an estimated 97.4 per cent of its total revenue comes from the Department. The budget allocation for the 2016/17 financial year is R126.5 million.

#### a. Operational performance

The entity had 31 targets for the year under review and it achieved all of them (100%).

#### b. Auditor General Report

The entity received an unqualified audit opinion with findings for 2016/17. Corresponding figures for 31 March 2016 were restated in the financial statements as the AGSA discovered errors during the audit. The AG did not identify any material findings on the usefulness and reliability of the reported performance information. The entity procured goods over R500 000 without inviting competitive bids, which was a contravention of regulations. There were no internal controls.

**c. Observations**

- The entity received a qualified audit opinion and this is a regression from the previous year, because of not going on tender when procuring goods and services.
- The entity has a relatively high staff turnover caused by its flat structure, which does not have prospects for growth of employees.
- Compared to previous years, the entity has rejected more people for assistance because of the huge number of applicants.

d. **Recommendations**

- The entity should follow the SCM policies and PFMA prescripts on all its procurement processes.
- The entity should find means and ways of staff retention to stem the high staff turnover.
- The entity should find new avenues to raise funds so that it can assist more applicants in the film industry.

### 5.6 South African Heritage Resources Agency (SAHRA)

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.

**a. Operational performance:**

The entity had 25 targets for the year under review and it achieved 17 targets, which makes 68 percent achievement. The targets under the three programmes are as follows:

**Programme 1:** Administration: This programme had eight targets and six targets were achieved. The entity could not find a suitable service provider to ensure that a SAHRA Business model is developed and approved by the Council. The entity could not find a service provider to develop a funding model.

**Programme 2:** Business Development: This programme had 11 targets and six were achieved. The entity could not receive 100 percent of: compliant heritage assessments; compliant permit applications; compliant heritage objects export application and process them within 21 days.  The entity was unable to re-assess and grade heritage resources as these were still in the process of being declared.

**Programme 3**: Public Engagement: This programme had six targets and five were achieved. The entity had planned to have two capacity programmes facilitated for youth, however, as these were aimed at schools, this target was not in line with the school calendar, hence the entity could achieve only one.

**b. Expenditure**

| Programme | Adjusted Budget | Actual Spent | Variance | % Spent |
|---|---|---|---|---|
| | **R'000** | **R'000** | **R'000** | |
| Administration | 42 511 | 40 720 | 1 791 | 96% |
| Business Development | 43 911 | 40 462 | 3 449 | 92% |
| Public Engagement | 1 720 | 1 710 | 10 | 99% |
| **Total Expenditure** | **88 142** | **82 892** | **3 666** | **94%** |

Compared to 2015/16, spending has reduced from R93 832 million to 82 892 million in 2016/17. The entity had R49 182 336 irregular expenditure, which relates to the contract awarded to the service provider in 2015 for the rehabilitation of Delville Wood Memorial in France was condoned by the previous council.

**c. Auditor General Audit Report**

The entity received an unqualified audit opinion with findings for 2016/17. The AG did not identify any material findings on the usefulness and reliability of the reported performance information. The entity incurred irregular expenditure because of non-compliance with Treasury Regulation 16A6.3(c). This regulation deals with supply chain management, and specifically states that goods and services procured by way a bidding process must be advertised in the Government Tender Bulletin for a minimum of 21 days before closure, except in urgent cases when bids may be advertised for such shorter period as the accounting officer or accounting authority may determine. This resulted in SAHRA incurring irregular expenditure amounting to R20.3million in the current financial year. The implementation, review and monitoring controls were not always adhered to.

**d. Observations**

- The entity has an interim CEO as its CEO is on precautionary suspension, pending the outcome of the investigation on the Delville Wood Memorial in France.
- The total budget spent by the entity at South African National Memorial Delville Wood in France is R35 million since 2015/16 financial year.

**e. Recommendations**

- The entity should expedite the investigation on the Delville Wood Memorial so that it can have a permanent CEO.
- The entity should establish whether the budget that was spent on the South African Memorial Delville Wood is commensurate with the work done.

### 5.7 National Arts Council (NAC)

The National Arts Council derives its mandate from the National Arts Council Act, 1997 (Act No. 56 of 1997). The National Arts Council is mandated allocate funds to artists, cultural institutions, Non-Governmental Organisations, Community Based Organisations to promote the creation, teaching and dissemination of literature, oral history and storytelling, music, dance, theatre, opera, design, visual arts and craft which fully reflect the country's diversity; and to provide study bursaries in the fields of arts and culture to practitioners, administrators and educators.

a. **Operational performance**

The entity had 32 planned targets and 75% of the targets were achieved, which is a regression from the 100% achievement of the previous financial year.

b. **Income and Expenditure trends**

| **NAC** | **2014/15** | **2015/16** | **2016/17** |
|---|---|---|---|
| | **R'000** | **R'000** | **R'000** |
| **Income** | 96,084 | 98,983 | 104,627 |
| Government Grant | 91,865 | 96,089 | 102,054 |
| Other Income | 4,219 | 2,894 | 2,573 |
| **Expenditure** | (99,411) | (102,567) | 107,859 |
| **Deficit** | **(3,327)** | **(3,584)** | ****(3,232)** |

**The deficit is attributable to the accounting treatment of the NAC income and expenditure. The new and existing grants are charged on the current year allocation and the remaining amount is defrayed from the accumulated surpluses.

c. **Auditor General Audit Report:** The entity received a clean audit.

d. **Observations**

- The NAC board is investigating themselves, although they claim that the issue under investigation emanated from the old board.
- The salary of the CFO almost doubled over a year and the salary of the CEO went up by 18 percent.
- During salary increment, all employees received 7 percent increment instead of a sliding scale as per DPSA regulations.
- The Committee is concerned that the Company Secretary suspension may be because of the issues she raised with the Committee during the oversight visit.

e. **Recommendations**

- The NAC board should find an independent person to conduct the investigations as it is not appropriate to investigate itself.
- A proper investigation should be instituted to establish whether the salaries of the CFO and CEO were increased within the acceptable margin by law.
- In the next salary increment, the entity should use the sliding scale as per the DPSA prescripts.
- The entity should realize that the Powers, Privileges and Immunities Parliament and Provincial Legislatures Bill section 16(3) protect a witness that gives information to the Committee.

## 5.8 Pan South African Language Board (PanSALB)

The Pan South African Language Board (PanSALB) was established based on the interim Constitution of the Republic of South Africa (Act No. 200 of 1993) by the PanSALB Act (No. 59 of 1995, as amended by the PanSALB Amendment Act, No. 10 of 1999). The PanSALB Act establishes the Board as a juristic person. The Board's mandate includes language promotion, the defence of linguistic rights and creating conditions for the development and equal use of all languages used in South Africa.

### a. Operational performance

The entity achieved 81 percent of its targets, which is an improvement from 65 percent from the previous financial year. The entity has two programmes: Programme 1: Language Use, Development and Equitability and Programme2: Administration and Institutional Support. There were 46 targets in Programme 1, and the entity achieved 33 targets, which is 72 percent achievement. The entity could not appoint language research staff because of pending legacy litigation. In general, the entity could not do research because of staff shortage. In Programme 2, there were 28 targets and the entity achieve 27, which is 96 percent achievement. The one target that was not achieved was to lower the vacancy rate to 20 percent, but the entity could lower it to 23.75 percent.

### b. Expenditure

The total revenue of the entity was R121 430 000 and the entity spent R98 565 000 which is 81.2 percent expenditure. Fruitless and wasteful expenditure was R157 000 and irregular expenditure was 3 529 000 in the year under review. A surplus amount was R22 753 000. There was over-expenditure in the following sub-programmes:

- Finance and supply chain management (R10.5million).
- Information technology (R1.4million).
- Human resources management (R6.1million).

### c. Auditor General Audit Opinion

The entity has improved from a qualified audit opinion in 2015/16 to an unqualified audit opinion in 2016/17. There were no findings on financial statements. The AGSA had findings on predetermined objectives and on compliance. The reported information on predetermined objectives was neither useful nor reliable. The entity did not submit a strategic plan in Parliament and there were no preventative measures to prevent irregular and wasteful expenditure.

### d. Observations

- The entity has done well and they have moved from a qualified audit to an unqualified audit.
- There was over-expenditure on three sub-programmes that are under Administration and Institutional Support programme.
- The budget for language research went unspent for the year under review.

- The entity did not take any action against employees who permitted irregular expenditure.
- The entity did not appoint staff for language research because of pending legacy litigation.
- The entity is starting to introduce dictionaries in indigenous languages.

**e. Recommendations**

- The entity should strive for a clean audit in the 2017/18 financial year.
- The entity should ensure that spending in all programmes and sub-programmes is within the budget of that programme and sub-programme.
- The language budget should be spent to address the deficiencies in language development in indigenous languages.
- The entity should take appropriate action against employees who permit irregular expenditure.
- The entity should expedite the legacy litigation so that it can appoint research staff.
- The dictionaries in indigenous languages should be made available to the respective races and schools as soon as possible.

### 5.9 PACOFS

The Performing Arts Company of the Free State (PACFOS) is a cultural institution established in terms of section 3 of the Cultural Institutions Act (No. 119 of 1998) and it is a schedule 3A national public entity. The entity receives an annual transfer through the Department of Arts and Culture (DAC). Its mandate is to advance, promote and preserve performing arts in South Africa; enhance the contribution of arts and culture to the national Gross Domestic Product (GDP); and create job opportunities and initiatives that will enhance nation building. The theatre is responsible for the development of the performing arts, mainly in the Free State Province.

**a. Operational performance**

The entity achieved 40 percent of its targets. The non-achievement of targets is caused by the instability. The entity has three programmes: Programme 1: Administration: Programme 2: Business Development and Programme 3: Public Engagement. The entity held only one internal audit committee meeting instead of four. The internal auditor was still yet to be appointed at the time of the annual report publication. The entity was unable to attract the set number of audiences to its production, which led to failing to achieve the targeted revenue generated though the attendance of productions by paying patrons.

**b. Revenue and Expenditure**

The total revenue of the entity was R48 973 595 and the expenditure is R46 345 670. The revenue is comprised of Government Grant (R45 480 876) and Revenue (R3 492 719). The total expenditure was R48 345 670 which is 94.6 percent of the total revenue. The entity committed fruitless and wasteful expenditure at a value of R86 108 and irregular expenditure at a value of R3 958 324. The entity has a surplus of R2 627 925.

## c. Auditor General Audit Opinion

The entity received an adverse audit opinion, which is a regression from a qualified audit opinion from the previous year. The AGSA findings were on predetermined objectives and non-compliance. The information on predetermined objectives was not useful and there were various findings of non-compliance. The entity submitted financial statements that were not prepared fully. There were no preventative measures to prevent irregular and fruitless expenditure. Procurement of goods was not done in line with the National Treasury regulations and disciplinary measures were not taken against officials that were involved in irregular, fruitless and wasteful expenditure.

## d. Observations

- There is leadership instability at the entity such that it has an interim CEO now, as the CEO that was appointed in January 2017 resigned.
- The management of the entity has always been at loggerheads with the labour unions.
- The entity is involved in various litigation cases, such that to date it has spent R955 000 on litigation.
- The entity held only one internal audit committee meeting in the year under review.
- The entity had no internal auditor.
- The entity lacks proper planning for core business, such that it largely depends on outside people for its operations.
- The entity has many casual people who have been there for over 29 years.
- The revenue generated through paying patrons was less than targeted.
- The entity has an obligation to pay an amount of R670 000 to the previous Acting CFO/CEO which arose from the CCMA award.
- One of the two unions in the entity has management staff as its members.

## e. Recommendations

- To achieve stability, the entity should appoint a permanent CEO as soon as possible.
- The management should create an enabling environment for employees and listen to labour unions in order to achieve the mandate of the entity. The Management and the labour Unions should sign a recognition agreement to smooth their relationship. If there are disagreements, they should find an external person to broker their cases.
- The Committee needs to get a full report on the litigations at the entity. PACOFS senior management should pay out of their pockets for the cases they have lost.
- The management of the entity should ensure that they hold four internal audit committee meetings as per the law.
- The entity should appoint an internal auditor as soon as possible.
- The entity should develop an operational plan from its annual performance plan to address its dependency on outside people for its core business.
- The entity should put an end on casualization of employees.

- The entity should develop a marketing/PR strategy that will enable it to attract more paying patrons to the playhouse.
- The entity should abide by the ruling of the CCMA in the issue of the Acting CFO/CEO.
- All managers that are union members should consider their positions and assess if it is assisting the entity.

### 5.10 Robben Island Museum (RIM)

The core business of Robben Island Museum is to conserve and act as a custodian of the multi-layered tangible and intangible heritage of Robben Island; offer an inclusive, holistic and balanced interpretation of the island to the visitors and showcase many of its possible experiences; and present a responsible, ethical, environmentally-sensitive and inspirational tourism experience.

The annual visitor numbers for 2016/2017 was **370 152**, showing a 2% increase against last year's **364 021.** The year on year shows that visitor numbers are showing an upward trend. This is directly attributable to the availability of hired vessels that allowed higher numbers of tourists to be taken over to the Island per tour.

#### a. Operational performance

During the financial year 2016/2017 RIM had a total of 55 performance targets, 27 targets were achieved, 14 targets were partially achieved and 14 targets were not achieved. Thus, RIM achieved 50 percent of its targets. The partially achieved programmes were due to time constraints.

Programme1: Business Development had 31 targets and 14 were achieved. One of the unachieved targets was to develop a landzone plan for Robben Island, and this was not achieved due to capacity constraints.

Programme 2: Public Engagement had nine targets and six targets were not achieved.

Programme 3: Administration had 15 targets, and seven targets were achieved. The entity could not develop and implement a performance management system and could not perform skills audit on competencies of all employees.

#### b. Expenditure

The entity had a final budget of R192 252 588 and it used R216 141 525, which is R23 888 937 above the budget.

#### c. Auditor General Audit Opinion

The entity received an unqualified audit opinion from the AGSA with no findings.

#### d. Observations

- The entity continues to face uncertainty regarding the funding in respect of diesel, which is necessary for power generation on the Island. Previously, this function was assigned to the Department of Public Works (DPW) but it has now been transferred to the RIM without necessary funding.
- Capital Expenditure projects and maintenance at RIM is behind schedule due to challenges associated with the procurement of service providers.
- There are ferry operation challenges with vessels.
- The number of visitors has been increasing over the years.
- The entity has an inappropriate organisational structure to execute targets successfully.
- The entire senior management is comprised of males.

**e. Recommendations**

- The DAC working with DPW should ensure that funding follow function by giving RIM funding for diesel, which used to be given to DPW.
- RIM should plan thoroughly all their projects and procure service providers on time for the Capex and maintenance of the Island.
- RIM should attend to all ferry challenges so that visitors are not negatively.
- RIM should ensure that the number of visitors increases on year to year.
- RIM should align its organisational structure to its programmes so that it can execute its targets successfully.
- When there are vacancies at management level, RIM should try by all means to appoint females to balance gender.

## 6. Summary of the Audit outcomes of the Department and the entities

The Committee notes that the entities that got clean audits decreased from seven in 2015/16 to four in 2016/17. The major contributor to the overall regression in the portfolio is because of the requirements of GRAP 103, which became effective from 2014/15 financial year. Most entities in the portfolio had challenges in implanting GRAP 103. The Committee notes that the number of unqualified audits with no findings has also reduced over the years.

- The following entities got an unqualified audit opinion with no findings: The Playhouse Company, Artscape, National Arts Council of South Africa and Robben Island Museum.
- The following entities got an unqualified audit opinion with findings: Iziko Museum, Msunduzi Museum, Nelson Mandela Museum, Pan African Language Board, Department of Arts and Culture, Die Afrikaanse Taal Museum, Market Theatre Foundation, National Heritage Council, South African Heritage Resources Agency, Freedom Park, Luthuli Museum and National Film and Video Foundation.
- The following entities got qualified audit opinion with findings: South African State Theatre, National Library of South Africa, KZN Museum, William Humphreys Arts

Gallery, National English Literacy Museum, War Museum and South African Library for the Blind.

- The following entities got adverse findings: Ditsong Museum of South Africa and Performing Arts of Free State.

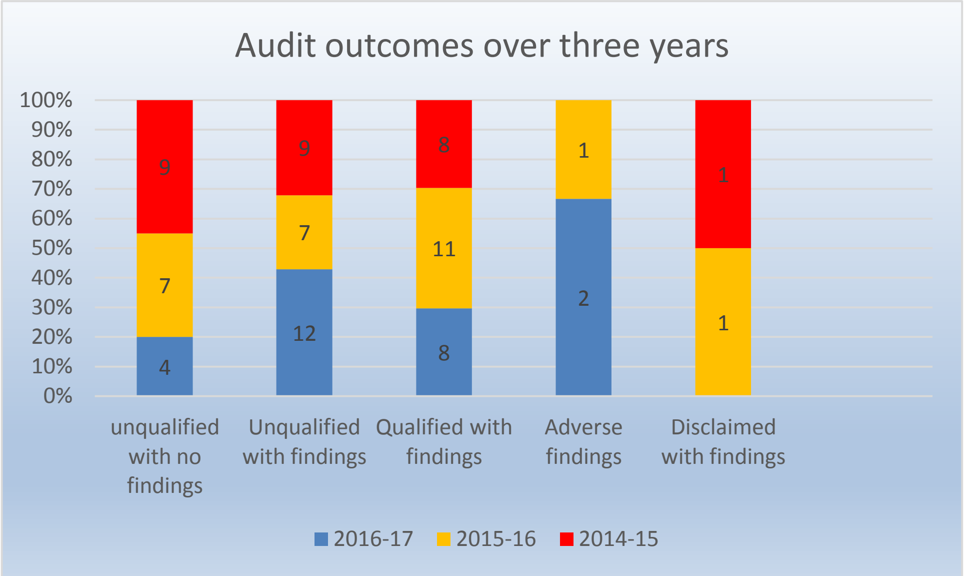


Figure 1: Audit outcomes in the portfolio over a three-year period. (*Source: AGSA presentation to the PC Arts and Culture on 03 October 2017)*

### 6.1 Impact of General Recognised Accounting Practise (GRAP) 103 standard to the audit outcomes

The major contributor to the overall regression in the portfolio is because of the requirements of GRAP 103, which was effective from 2014/15 financial year. Most of the entities within the portfolio encountered challenges with respect to the implementation thereof.

### 6.2 Top 5 entities with irregular expenditure within the vote

The total fruitless and wasteful expenditure incurred in the portfolio in the current financial year is R789 000 as compared to R4 million and R9 million in the previous financial years. The Department and entities did not take effective steps to prevent fruitless and wasteful expenditure and this is a concern to the Committee. The Committee views perpetual irregular expenditure with displeasure as it has a malevolent impact on the public trust of the Department and its entities. However, the Committee notes the overall decrease of committed irregular expenditure within the vote. The following table shows the top 5 entities that committed irregular expenditure.

| | Department/entity | Irregular expenditure | | |
|---|---|---|---|---|
| | | Movement | Amount (R) 2016/17 | Amount (R) 2015/16 |
| 1 | DAC | ⬇ | 15 202 000 | 111 493 000 |
| 2 | Freedom Park | ⬆ | 11 742 841 | 41 000 |
| 3 | Iziko Museums | ⬆ | 10 256 217 | 83 000 |
| 4 | SAHRA | ⬇ | 20 266 363 | 30 209 590 |
| 5 | South African State Theatre | ⬆ | 16 727 442 | 13 344 000 |

Figure 3: Irregular expenditure within the vote[1]

## 7 Performance overview of 2016/17

### 7.1 Expenditure within the Vote

For the 2016/17 financial year, the total budget allocation was R4.1 billion. The Department has spent R3.9 billion or 97.4 percent of its adjusted budget by 31 March 2017. R3.3 billion or 83.7 per cent of total expenditure was spent on transfers and subsidies and R537.7 million or 13.6 per cent of total expenditure was on current expenditure. The bulk of operational spending was mainly on goods and services and compensation of employees. The department underspent by R104.6 million or 2.6 per cent in 2016/17, which is R40.9 million more than the previous financial year's total underspending of R63.7 million.

As at 30 June 2017, the Department has spent R912.9 million or 20.5 per cent of the available R4.4 billion budget. This is lower by R162.8 million or 15.1 per cent compared to its projections to spend and is mainly attributed to programmes 2, 3 and 4 under goods and services, payment for capital assets and transfers and subsidies. However, expenditure on compensation of employees is higher than projected by R609 000 mainly in programmes 1 and 2.

The Committee notes that spending on personnel was R226.1 million or 94.8 per cent of the compensation budget, resulting in a R12.3 million underspending which is R6.9 million more when compared to the previous financial year's underspending on the same item due to the vacant post of the Director-General as well as senior and middle management posts.

Programme 1: Administration has spent R243, which is 92.4 percent of the budget. The bulk of the underspending in this programme is mainly on operating leases (R12 million) for unpaid invoices for municipal services and leases from the private sector due to non-receipt of invoices from DPW by 31 March 2017. This amount is R10.8 million lower than

[1] AGSA, PFMA audit outcome of the 2016-17 financial year: Arts and Culture Portfolio, presented to the Portfolio Committee on Arts and Culture, Parliament of RSA, 03 October 2017, pp.24.

the 2015/16 underspending on the same line item; which shows an improvement in the processing and submission of invoices by DPW.

Programme 2: Institutional Governance: The bulk of the underspending of R48.3 million or 46.2 per cent is in the Capital Works sub-programme due to contractual challenges between the Department of Public Works and the Department of Arts and Culture regarding the implementation of the National Archives heating, ventilation and air conditioning (HVAC) project; as well as the pending investigation into whether the National Heroes Acre statues project by the National Heritage Company was funded twice, by the Department of Arts and Culture and the National Lotteries Commission.

Programme 3: Arts and Culture Promotion and Development: The R22.1 million total underspending in this programme, of which R20 million was by the Capital Works of Performing Arts Institutions sub-programme as a result of delays in the provision of documents for the upgrading of Community Arts Centres such as business plans, quotations, and memoranda of agreement by the relevant owners of these community art centres. The underspending by this sub-programme is R8.5 million more than in 2016/17.

Programme 4: Heritage Promotion and Preservation: This programme underspent by R15 million, mainly on the item Departmental agencies and accounts (non-business entities) due to delays in the submission of the final report and audited financial statements by the South African Heritage Resources Agency (SAHRA) on the transfer for the Delville Wood project.

## 8 Overall observations

- The DAC had planned to achieve a clean audit, but it could only achieve unqualified audit with findings.
- According to the AGSA, some entities have improved in their audit, some have regressed and some received adverse findings, which shows their bad state of affairs.
- Most entities and the DAC submitted financial statements of poor auditing to the AGSA, such that they had to correct them.
- The DAC has not paid close attention to PACOFS as the entity is in a bad state, and it received adverse findings.
- The DAC has an arm’s length kind of monitoring and oversight on the entities. Taking into consideration the 80 percent of the DAC budget is transferred to entities, the number of staff (only seven) who are tasked with overseeing the entities is inadequate.
- The Councils of entities are not adequately inducted as they think that when the Committee is doing its work, it is interfering.
- Over the years, the DAC has underspent its budget, which to a large extent shows poor planning.
- Programme 2: Institutional Governance, shifted and vired some funds, but it could only spend 80.2 percent of its remaining budget (after shifting and virements have been done). The bulk of the underspending of R48.3 million or 46.2 per cent is in the Capital Works sub-programme.
- The Enyokeni Cultural Precinct project was not properly planned by the DAC, but the forensic audit has been conducted and recommendations were done.

- The Khoisan project that was meant to support the Khoisan Heritage Route has been discontinued.
- During the courtesy visit to the KwaZulu-Natal Museum, the Committee observed that the building of the museum is not conducive for the preservation of some of the Museum's heritage collections, thus, the institution is in desperate need for bigger and more appropriate storage facilities. Subsequently, the DAC reported that they have secured the old St Anne's Hospital property at 92 Jabu Ndlovu Street to move the Museum to it.
- The DAC provides various bursaries to students, but it does not have the demographics in terms of disability and home language of bursary recipients.
- GRAP 103 played a huge role for the regression of most entities.

## 9 Overall recommendations

- The DAC should ensure that it achieves all the targets by planning thoroughly and holding respective managers accountable for non-performance. The DAC should ensure that they respond to the matters raised by the AGSA and work on them to get a clean audit.
- The Committee commends all the entities that have improved in their audits. Senior management, leadership of the entities that have regressed should pay close attention to all the AGSA findings and matters of emphasis that made them to regress. The Accounting Authorities of entities should strengthen their oversight and monitoring.
- Auditees that submitted financial statements of poor quality for auditing should strengthen their processes and controls to create and sustain a control environment that supports reliable reporting. Their internal processes (internal audit) should be strengthen to enable them to identify misstatements on the financial statements and correct them before they send them to the AGSA for auditing.
- The DAC should strengthen their oversight and monitoring unit so that the problems that occurred at PACOFS do not recur. The management at PACOFS should act on recommendations made by the Auditor General South Africa in a timely manner and implement action plans for internal controls that are sustainable. The DAC should strengthen its oversight and monitoring of all its entities.
- The DAC should ensure that when inducting these Councils they spell out the Committees' legislative mandate.
- The DAC has to plan meticulously so that it achieves its targets and expends the budget appropriately.
- The underspending on Capital Works projects is a recurring matter. The officials who are involved in the Capital Works projects should account for this. The DAC should plan in such a way that the scoping work is given a full year to be completed and the following year, it must done over a year and be planned accordingly. (refers to KZN Museum)
- The DAC should ensure that it achieves what it has planned and it expends the funds accordingly. The DAC should do quarterly reviews on its expenditure to check if it is on track on its expenditure. The Committee declares under-expenditure unacceptable.
- The DAC should ensure that they follow-up to the recommendations as per the forensic report of the Enyokeni project and ensure that perpetrators are brought to book.

- The challenge in relation to the procurement processes for the Khoisan Heritage Route should be resolved by the DAC as soon as possible so that the project can continue.
- Although the report from the DAC states that, the confirmation of the commencement of the project will be issued in the 2018/19 financial year, for the time being, the DAC should put a project plan in place. As the DAC states that, they will do the project by themselves by appointing experts to assist in planning and implementation of the project, meanwhile the DAC should be looking for those experts, so that when the time comes, the project can commence without any delays.
- The DAC should ensure that it gets reports from universities of all its bursary recipients with all their demographics (language and disability).
- The Committee brought the DAC, AGSA and National Treasury (NT) together to resolve the challenges of GRAP 103. The Department should use the information from the meeting they had with the AGSA and NT to guide and assist the entities to overcome the problems brought by GRAP 103.

## 10 Appreciation

The Committee thanks the support of the Department and entities that worked hard to produce documents that were required to generate this report.

**Report to be considered.**