



arts and culture

Department:
Arts and Culture
REPUBLIC OF SOUTH AFRICA

Private Bag X897, Pretoria, 0001, South Africa
Tel: (+27 - 12) 441 3000
Fax: (+27 - 12) 441 3699

Private Bag X9015, Cape Town, 8000, South Africa
Tel: (+27 - 21) 461 3135/3147
Fax: (+27 - 21) 461 4510 • www.dac.gov.za

Mr R Sonto
Acting Chairperson of the Portfolio Committee
Arts, Culture and Language
PO Box 15
CAPE TOWN
8000

Dear Mr Sonto

WITHHOLDING OF SUBSIDIES TO THE DEPARTMENTS PUBLIC ENTITIES IN 2005/06

1. The purpose of this letter is to respond to the attacks made by the National Film and Video Foundation (NFVF) against the Department in a Portfolio Committee meeting in October 2005. In his presentation the CEO of the NFVF, Mr Eddie Mbalo asked the Portfolio Committee to urgently intervene in its increasingly dysfunctional relationship with the Department of Arts and Culture. Core to this request was the withholding by the Department of a portion of their October 2005 subsidy, due to certain deficiencies raised in their Audit Report for 2004/05
2. As Chairperson of the Audit Committee of the Department of Arts and Culture I would like to defend this step taken by the Department.
3. The full background is as follows:
 - 3.1 The Department had 26 Public Entities under its ownership control for 2004/05.
 - 3.2 All of these Public Entities have to adhere to the requirements of the Public Finance Management Act (PFMA) as well as other applicable legislation.
 - 3.3 Although these institutions are governed by Councils/Boards/Trustees as accounting authorities, the Executive Authority (Minister of Arts and Culture) and by implication the Department has ownership control of these institutions in terms of Section 63 of the PFMA.
 - 3.4 The Department therefore cannot have an arms length relationship with these Public Entities, as regards their responsibilities of public and financial accountability, and has set up procedures to monitor their overall corporate governance. We still maintain an arms length relationship as regards other issues, e.g. artistic policy. One

mechanism to assess their compliance with legislation and performance are the audit reports issued by the Auditor-General.

4. Reflecting on the 2004/05 Audit Reports, received by 30 September 2005 the audit opinions and outcomes were as follows compared to that of the Public Entities 2003/04:

	<u>Adverse</u>	<u>Qualified</u>	<u>EOM</u>	<u>Clean</u>	<u>Total</u>
2004/05	0	8	14	4	26
2003/04	1	10	9	5	25

5. A detailed schedule comparing audit issues for Public Entities is attached at Annexure A. This schedule shows:

- (a) 129 issues reported upon in 2004/05 compared to 142 in 2003/04.
- (b) 8 issues have been reported on for 4 years in succession.
- (c) 8 issues have been reported on for 3 years in succession.
- (d) 35 issues have been reported on for 2 years in succession.

6. Although there was improvement in the outcomes compared to the previous years, this improvement is only marginal. The overall outcome was also not acceptable to the Department given the fact that the PFMA had come into effect on 1 April 2000.

7. The Department in the past had not penalised the Public Entities for receiving inadequate Audit Reports although it engaged in extensive interaction with the relevant institutions to improve the audit reports and general governance. The assessment of the Audit Report issues were an indication that the Public Entities did not heed the warnings that were given in the past and did not always take compliance to the PFMA seriously. It was therefore decided that the time had come to invoke Treasury Regulation 8.4.2 which states that:

"An accounting officer may withhold transfers and subsidies to any entity if he or she is satisfied that -

- (a) conditions attached to the transfer and subsidy have not been complied with;
- (b) financial assistance is no longer required;
- (c) the agreed objectives have not been attained; and
- (c) the transfer and subsidy does not provide value for money in relation to its purpose or objective.

Compliance with the PFMA and the practice of good governance are generally included in as conditions and objectives of each institution.

8. Based on the foregoing the following cuts were applied:

- 8.1 Public Entities whose Audit Report was "Qualified" received a 20% cut on the October 2005 grant payment (in effect 1.67% of their annual grant).
- 8.2 Public Entities whose Audit Report contained "Emphasis of Matter" received a 10% cut on the October 2005 grant payment (in effect 0.83% of their annual grant).

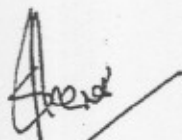


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9. These Public Entities were required to, by 31 October 2005, report to the Department on the mechanisms put in place to rectify the issues by 31 March 2006, together with a plan of action on how the audit issues would be resolved.
10. The decision to cut the subsidies was consistently applied to all Public Entities and in some cases may have been a bit harsh. It was however not done to be malicious but rather to install a sense of urgency on the matter.
11. The cuts applied also did not impact on the institutions financial solvency.
12. On receipt of the adequate action plans and reports from the various Public Entities the grants were immediately restored to original levels, including the refund of the portion withheld in October 2005.
13. As can be seen from the above the Department had no intention of targeting specifically the NFVF
14. We trust that you will accept our explanation and the reasons for which a small portion of the grant payments were temporarily withheld.

Kind regards



SIKKIE KAJEE
CHAIRPERSON: AUDIT COMMITTEE
DEPARTMENT OF ARTS AND CULTURE
DATE:

(Letter Chairperson of Portfolio Comm)

Cc: Minister of Arts and Culture
Chairperson of the Select Committee



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