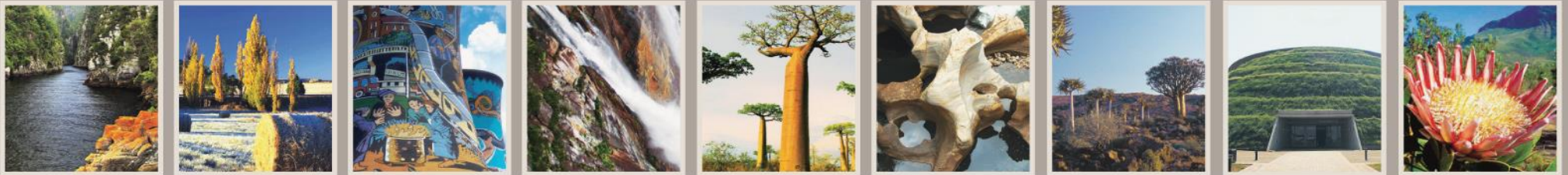


PFMA
2015-16



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence



Briefing to the Agriculture, Forestry and Fisheries Portfolio Committee

Audit outcomes of the portfolio for the 2015-16 financial year

1

The AGSA's promise and focus

1



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Reputation promise

The Auditor-General of South Africa (AGSA) has a constitutional mandate and, as the supreme audit institution (SAI) of South Africa, exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence

Role of the AGSA in the BRRR process

Our role as the AGSA is to reflect on the audit work performed to assist the portfolio committee in its oversight role of assessing the performance of the entities taking into consideration the objective of the committee to produce a BRRR



Our annual audits examine three areas

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1 FAIR PRESENTATION AND RELIABILITY OF FINANCIAL STATEMENTS

2 RELIABLE AND CREDIBLE PERFORMANCE INFORMATION FOR PREDETERMINED OBJECTIVES

3 COMPLIANCE WITH KEY LEGISLATION ON FINANCIAL AND PERFORMANCE MANAGEMENT



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Unqualified opinion with no findings (clean audit)



Auditee:

- produced credible and reliable financial statements that are free of material misstatements
- reported in a useful and reliable manner on performance as measured against predetermined objectives in the annual performance plan (APP)
- complied with key legislation when conducting their day-to-day operations to achieve their mandate

Financially unqualified opinion with findings



Auditee produced financial statements without material misstatements, but struggled in one or more areas to:

- align their performance reports to the predetermined objectives they committed to in their APPs
- set clear performance indicators and targets to measure their performance against their predetermined objectives
- report reliably on whether they achieved their performance targets
- determine the legislation that they should comply with and implement the required policies, procedures and controls to ensure compliance

Qualified opinion



Auditee:

- had the same challenges as those with unqualified opinions with findings but, in addition, they could not produce credible and reliable financial statements
- had material misstatements on specific areas in their financial statements, which could not be corrected before the financial statements were published
- did not comply with key legislation in certain instances

Adverse opinion



Auditee:

- has so many material misstatements in their financial statements that we disagreed with almost all the amounts and disclosures in the financial statements
- was unable to provide sufficient supporting documentation for amounts in the financial statements and achievements reported in the annual performance report
- did not comply with key legislation

Disclaimed opinion



Auditee:

- could not provide us with evidence for most of the amounts and disclosures reported in the financial statements, and we were unable to conclude or express an opinion on the credibility of their financial statements
- was unable to provide sufficient supporting documentation for amounts in the financial statements and achievements reported in the annual performance report
- did not comply with key legislation

2

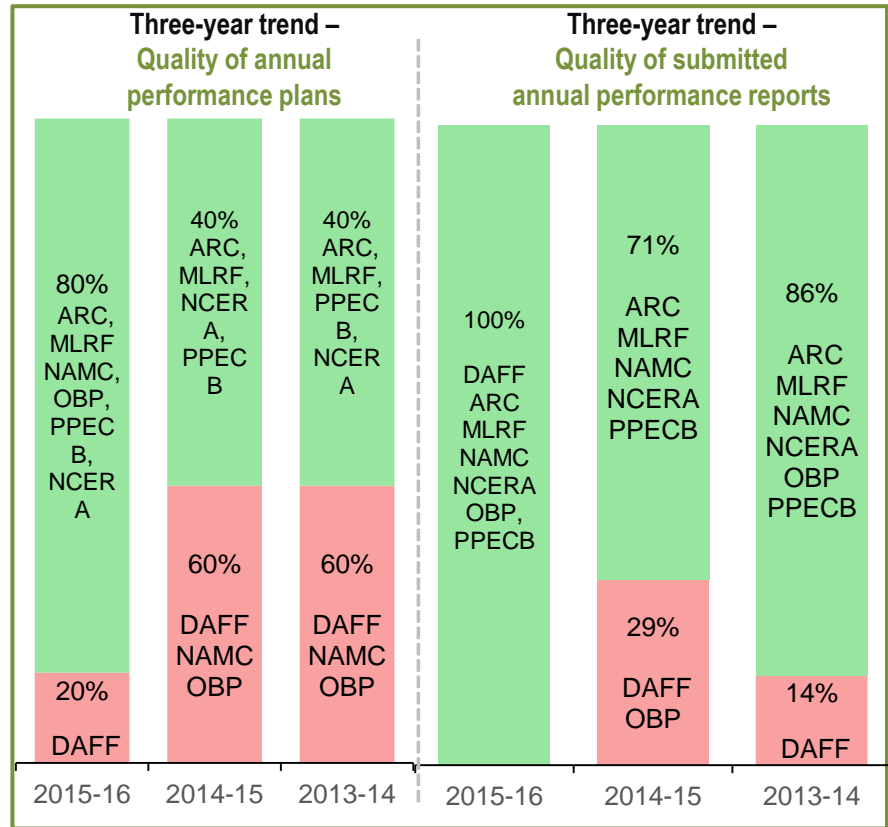
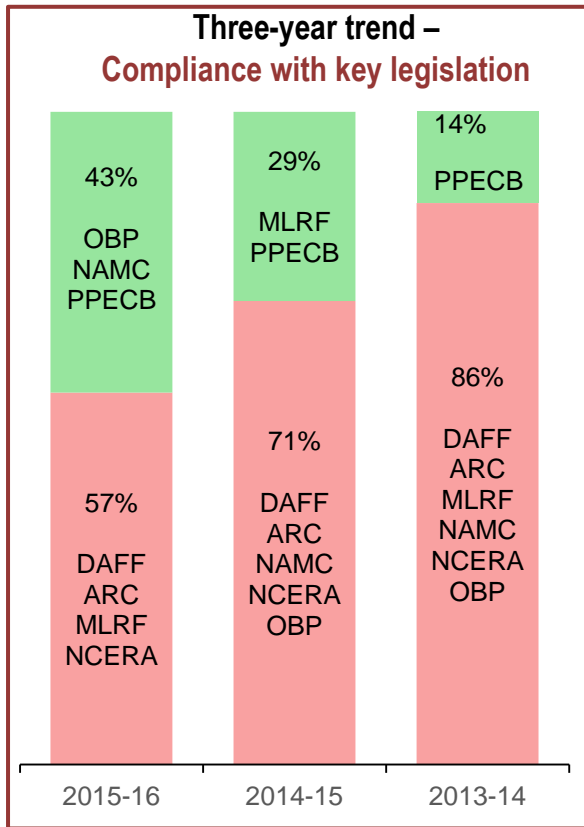
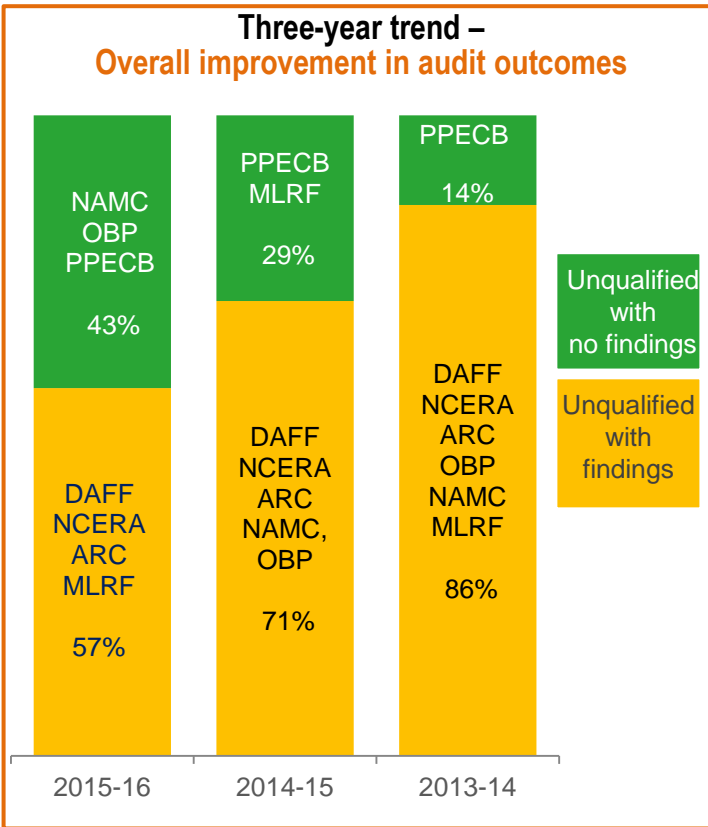
The 2015-16 audit outcomes and key messages

2



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Improvement in audit outcomes over three years



1 To improve/maintain the **overall audit outcomes**, we must enhance ...

2 ... the financial statement processes, **compliance** with key legislation and ...

3 ... **performance planning and reporting** by ...

The improvement in the portfolio's overall audit outcomes is a result of significant progress to address past material findings on their annual performance reports and compliance with legislation. This was achieved by:

- functioning and effective internal controls that are continuously enhanced
- proper record management
- leadership takes accountability and holds staff accountable

Compliance with legislation relating to material adjustments to the financial statement, procurement and contract management and irregular expenditure has improved, specifically in respect of irregular expenditure

The improvement was due to the functioning and effective internal controls that are continuously enhanced, and proper record management

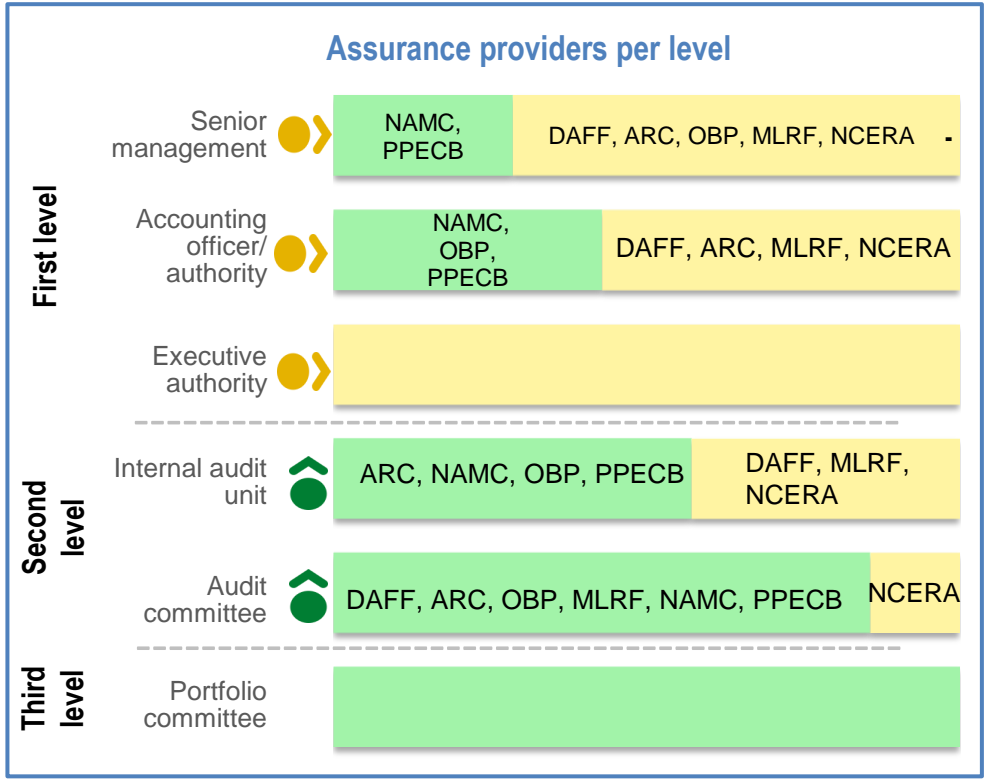
The quality of the annual performance reports submitted for auditing has improved as a result of improving internal controls to prepare the performance report. Notwithstanding the noted improvement:

- the DAFF submitted an annual performance report for auditing that contained material misstatements, some of which management subsequently corrected
- findings on the usefulness of DAFF's reported performance information were still raised due to targets not being specific on one of the programmes

With no material findings (green) With material findings (red)

Improvement in audit outcomes over three years - continued

Status of Key controls	DAFF	ARC	MLRF	MAMC	OBP	PPECB	Ncera Farms
LEADERSHIP	↑	↔	↔	↑	↑	↑	↑
- Effective leadership	Good	In progress	In progress	Good	Good	Good	Good
- Oversight responsibility	Good	Good	Good	Good	Good	Good	Good
- Effective HR management	Good	Good	Good	Good	Good	Good	Good
- Policies and procedures	Good	Good	Good	Good	Good	Good	Good
- Audit Action plans	Good	Good	Good	Good	Good	Good	Good
- ICT governance	Intervention required	Good	Good	Good	Good	Good	Good
FINANCIAL AND PERFORMANCE MANAGEMENT	↔	↑	↔	↔	↑	↑	↑
- Proper record keeping	Good	Good	Good	Good	Good	Good	Good
- Daily and monthly controls	Good	Good	Good	Good	Good	Good	Good
- Regular, accurate & complete financial and performance reports	Good	Good	Good	Good	Good	Good	Good
- Review and monitor compliance	Good	Good	Intervention required	Good	Good	Good	Good
- Design and Implement IT controls	Good	Good	Good	Good	Good	Good	Good
GOVERNANCE	↑	↔	↑	↔	↑	↑	↔
- Risk management	Good	Good	Good	Good	Good	Good	Good
- Internal Audit	Good	Good	Good	Good	Good	Good	Intervention required
- Audit committee	Good	Good	Good	Good	Good	Good	Intervention required



4 ...the key role players providing attention to the key controls ...

Although the financial audit outcomes were not modified, the department submitted financial statements that contained material misstatements. The accounting officer/ authorities should be held accountable for ensuring that credible and accurate information is submitted for audit. Reinforce the importance of implementing and sustaining monthly control disciplines and year-end processes to monitor financial statements for completeness and accuracy. The MLRF's SCM unit lacked competencies and did not adhere to SCM policies. Leadership needs to hold the accounting authority accountable for addressing the challenges posed by implementing the Microsoft Dynamic AX system within ARC, which resulted in errors in financial information. To address recurring audit findings, focus on addressing internal control deficiencies rather than the actual audit findings raised by the auditors when developing the action plans. Ncera Farms appropriate structures were not implemented to ensure an internal audit and audit committee that promotes accountability.

5 ... as part of their role in combined assurance

The level of assurance provided has remained stagnant. Senior management's efforts in developing and implementing post-audit plans and audit recommendations are, however, commended. The audit committee provided assurance and contributed towards sustained key controls, particularly those relating to financial and performance management. However, the focus of these governance structures must be intensified in the area of compliance with legislation.

Good
In progress
Intervention required
↑ Improved
 ↔ Stagnant
 Provides assurance
Provides some assurance

3

Performance management linked to programmes/objectives tested







3



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Quality of annual performance plan slightly regressed and submitted annual performance reports slightly improved

Outcomes of programmes/objectives selected for testing:

Auditee:	Move ment	Programmes/ Objectives	Usefulness	Reliability
Department of Agriculture, Forestry and Fisheries		Programme 2: Agricultural production, health and food safety	No material findings reported	No material findings reported
		Programme 3: Food security and agrarian reform	No material findings reported	No material findings reported
		Programme 4: Trade Promotion and Market Access	Material findings reported	No material findings reported
		Programme 5: Forestry and Natural Resources Management	No material findings reported	No material findings reported
Agriculture Research Council		Programme 1: Crop production, improvement and protection	No material findings reported	No material findings reported
		Programme 2: Animal health, production and improvement	No material findings reported	No material findings reported
		Programme 3: Natural resource management	No material findings reported	No material findings reported
National Agricultural Marketing Council		Programme 2: Markets and Economic Research Centre	No material findings reported	No material findings reported
		Programme 3: Statutory Measures	No material findings reported	No material findings reported
		Programme 5: Agribusiness Development	No material findings reported	No material findings reported
Onderstepoort Biological Products		Strategic focus area 1: Adjudicative Excellence	No material findings reported	No material findings reported
		Strategic Goal 3: Facilitate a more aggressive national and international market access and implement an effective distribution strategy.	No material findings reported	No material findings reported
		Strategic Goal 5: Contribute to government priorities in respect to emerging farmers, food security and economic growth.	No material findings reported	No material findings reported
Marine Living Resources Fund		Strategic goal 2: Enhanced production, employment and economic growth	No material findings reported	No material findings reported
		Strategic goal 3: Enabling environment for food security and sector transformation	No material findings reported	No material findings reported
		Strategic goal 4: Sustainable use of natural resources in the sector	No material findings reported	No material findings reported
Perishable Products Export Control Board		Operational Services	No material findings reported.	No material findings reported.
		Food Safety Services	No material findings reported.	No material findings reported.


Quality of annual performance plan slightly regressed and submitted annual performance reports slightly improved

Outcomes of programmes/objectives selected for testing:

Auditee:	Move ment			
Ncera Farms (Pty) Ltd		Programme 1: Finance & Administration	No material findings reported.	No material findings reported.

 Improved
  Stagnant

 No material findings reported

 Material findings reported

4

Financial management

4

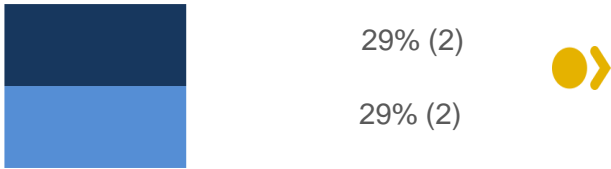


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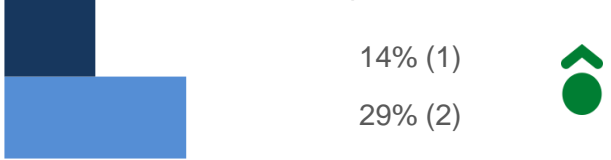
Slight improvement in compliance with legislation and quality of financial statements

Figure 1: Findings on compliance with key legislation – all auditees

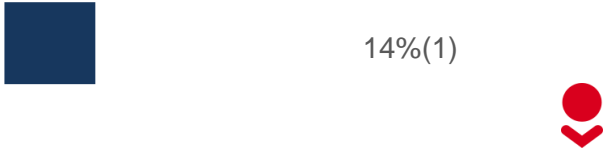
Material misstatements in submitted annual financial statements



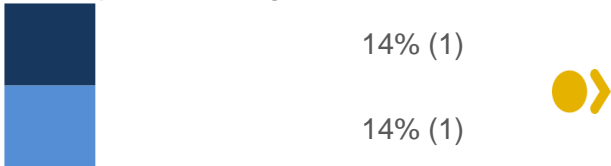
Prevention of unauthorised, irregular and/or fruitless and wasteful expenditure



Management of procurement and/or contracts



Consequence management



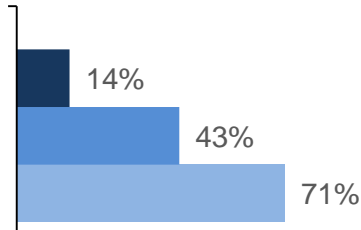
2015-16

2014-15

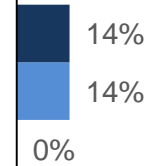
2013-14

Figure 2: Findings on compliance with key SCM legislation – all auditees

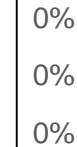
Uncompetitive or unfair procurement processes



Awards to other state officials



Inadequate contract management



Limitation in planned scope of audit of awards

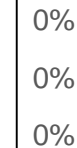
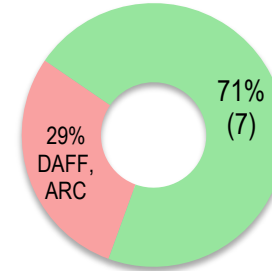


Figure 3: Quality of submitted financial statements

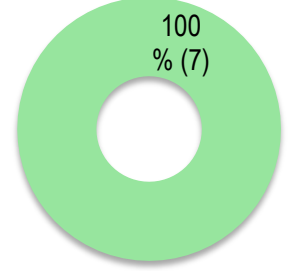
2 auditees (29%) [2014-15: 2 (29%)] avoided qualifications by correcting material misstatements during the audit process

2015-16

Outcome if NOT corrected

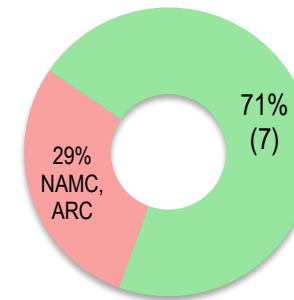


Outcome after corrections

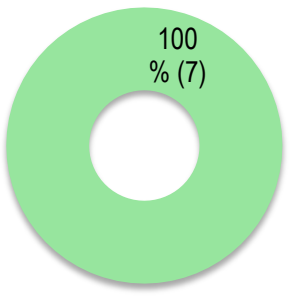


2014-15

Outcome if NOT corrected



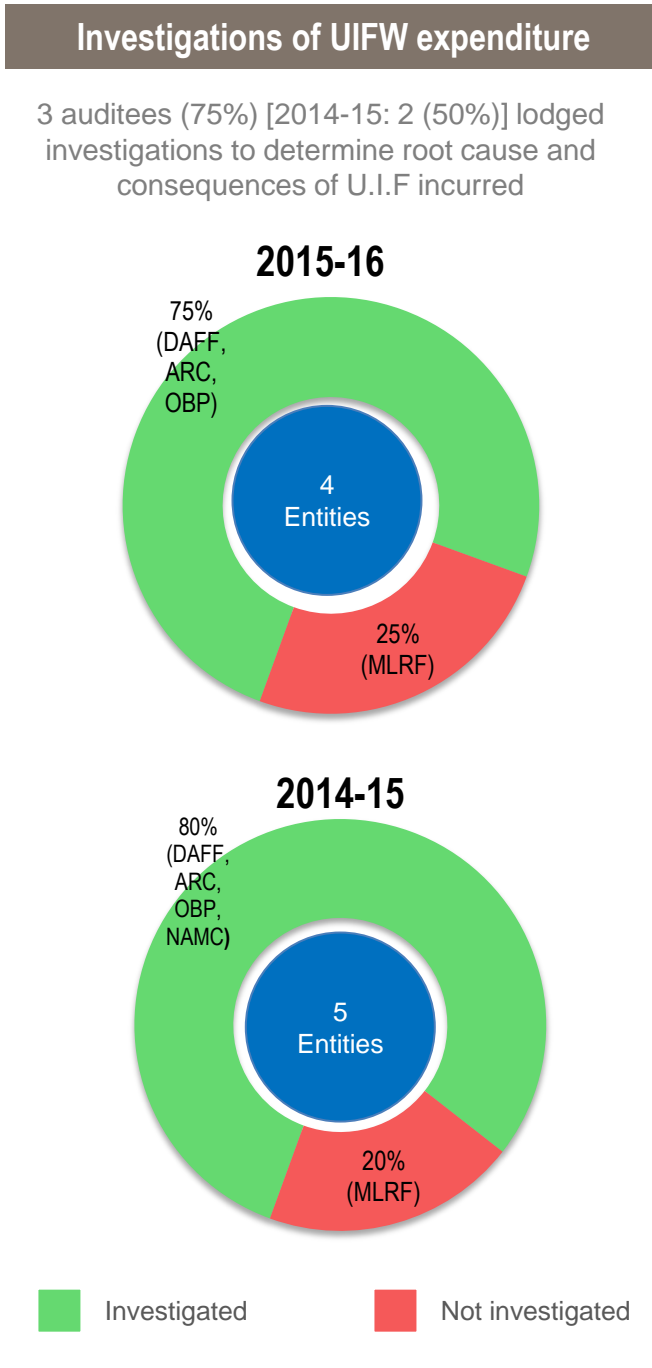
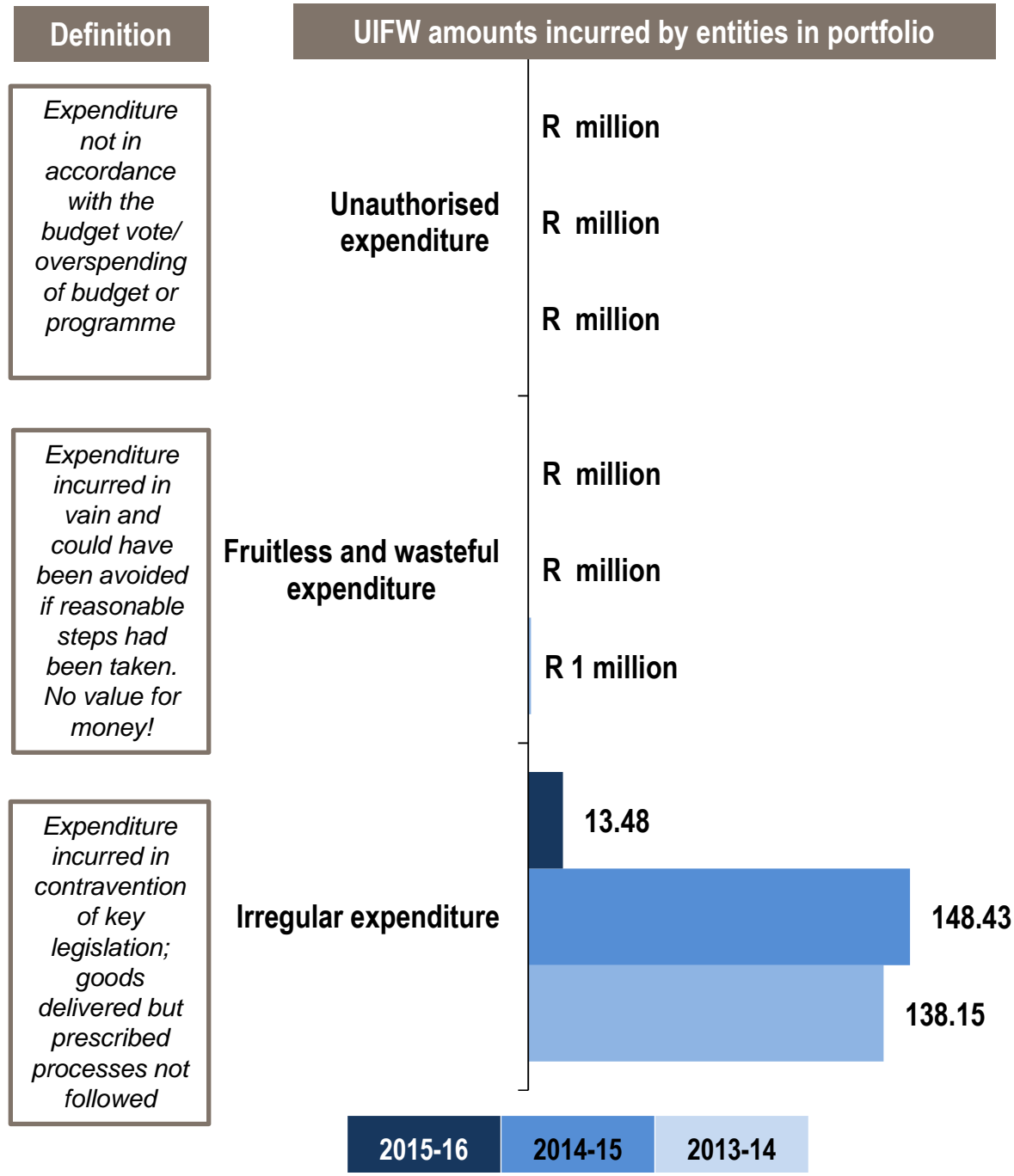
Outcome after corrections



With no material misstatements

With material misstatements

Unauthorised, irregular as well as fruitless and wasteful expenditure decrease over three years and follow up action



5

**Top three root causes, follow-up
on commitments and proposed
recommendations**

5



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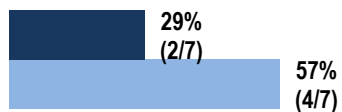
Top three root causes, follow up on commitments and proposed recommendations

1

... the following **root causes** must be addressed ...

Root causes

Slow response by management
(Accounting officer and senior management)



■ 2015-16 ■ 2014-15

- The key root causes relate to slow response by management to monitor and evaluate the quarterly reporting, as well as a lack of continuous training interventions to upskill staff in the finance unit to support the CFO effectively
- Lack of skill and competency in the supply chain management unit and non-adherence to SCM policy when appointing implementing agents
- Inadequate process and procedures to ensure that financial statements submitted for audit are valid, accurate and complete

2

... by honouring the following **commitments** made by the executive authority.....

Status of key commitments by minister

Checks and balances to ensure that the credibility and completeness of financial reports will be implemented

- 1) Implement a plan to identify specific areas where service delivery will take place
- 2) Ensure a linkage between the budget and the targets in the strategic plan. However, the department is currently consulting with National Treasury on this issue

1. The department will implement daily, weekly and monthly checks and balances to ensure the credibility and completeness of financial and performance information presented to management and oversight committees
2. Plan to support agricultural schools and encourage youngsters to study in the agricultural field
3. Collaborate with the provincial MECs to ensure proper monitoring and evaluation of DoRA funds, a task team was established to identify employees to assign to monitoring CASP funded projects

Not implemented In progress Implemented

3

... and implementing the following **proposed commitments** by the portfolio committee and management...

Portfolio committee

1. PC must request management to provide feedback on the implementation and progress of the action plan during quarterly reporting
2. PC must get independent assurance from internal audit and audit committee that completeness and credibility of information presented to the PC quarterly has been verified or at least that the controls systems used to produce quarterly reports are reliable and credible
3. The PCs must commit to requesting that departments and entities report on their impact and include a requirement that the department and entities APPs must indicate the impact to be achieved by the department and entities

Questions

