

# **AGRICULTURAL RESEARCH COUNCIL**

## **Update on ARC Implementation Plan 4<sup>th</sup> Quarter Progress on Audit Outcomes for 2016/17**

**Portfolio Committee Presentation on  
21 August 2018**



# ARC MANDATE, VISION & MISSION

## MANDATE

*The Agricultural Research Council (ARC) is mandated to promote the agricultural and related sectors through:*

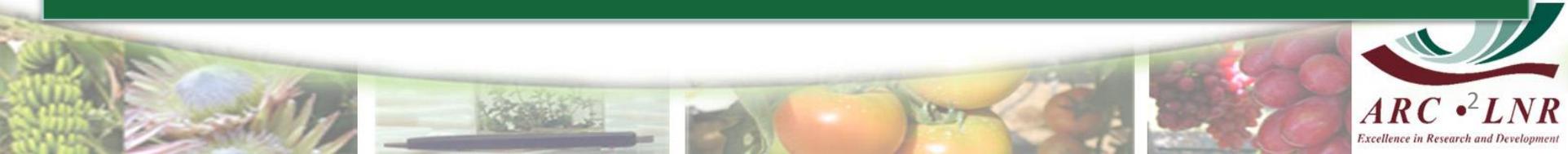
- **Research:** *the furtherance, accumulation and improvement of knowledge in the agricultural and related sciences through original and other investigations and methods of a scientific nature with the advancement of agriculture as its object;*
- **Development:** *as activities by which knowledge acquired through research is utilized; and*
- **Technology Transfer:** *transfer of knowledge, techniques & processes for application thereof.*

## VISION

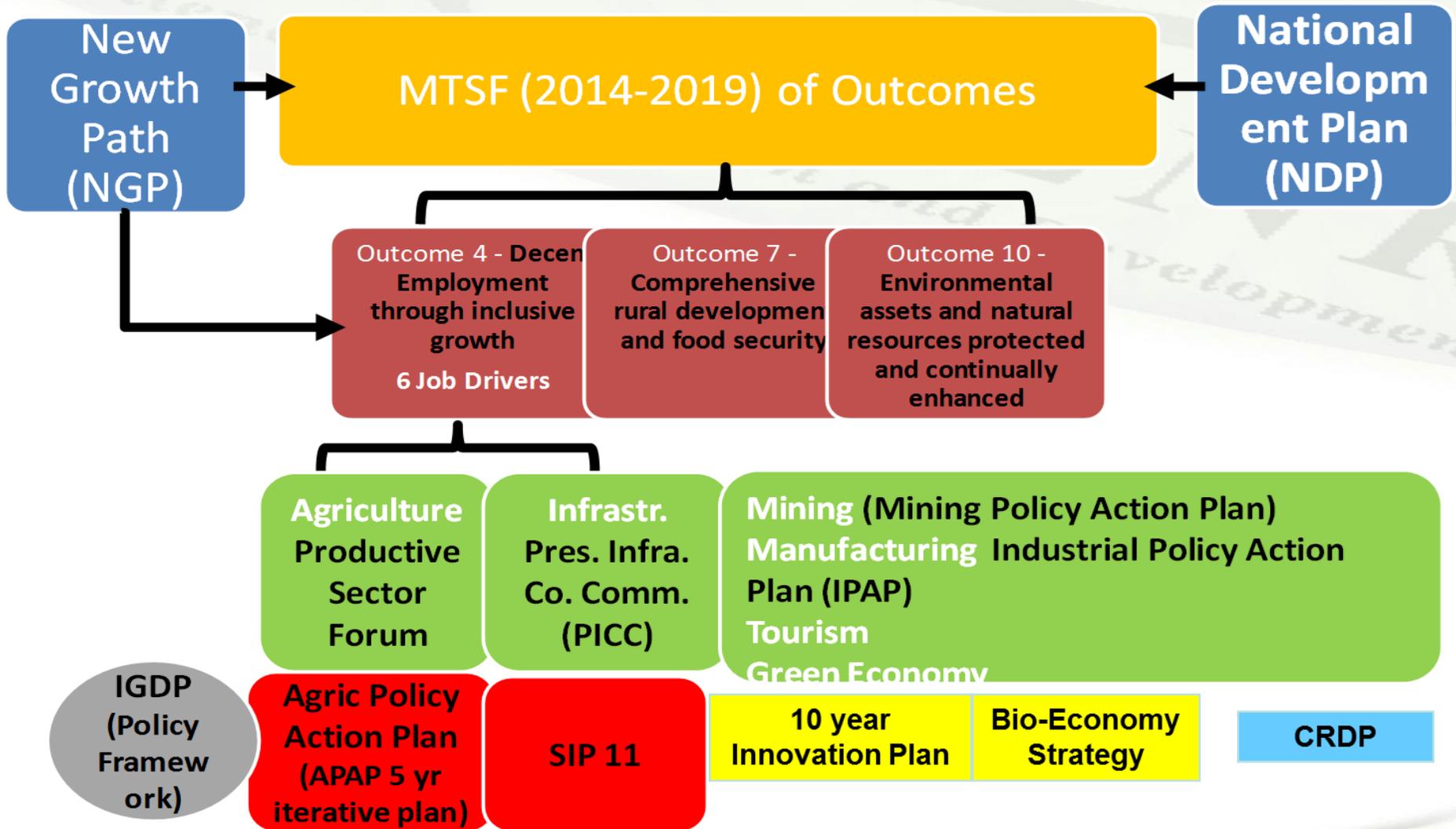
*Excellence in agricultural research and development*

## MISSION

*The Agricultural Research Council is a premier science institution that conducts research with partners, develops human capital and fosters innovation to support and develop the agriculture sector.*



# ARC ALIGNMENT TO NATIONAL PRIORITIES AND POLICIES



# SCIENCE IN ARC FOR THE AGRICULTURE ECONOMY

## SCIENCE COUNCIL

- Innovation in science
- Basic/fundamental research
- Applied research (technologies)
- Intellectual assets
- Skilled scientists & engineers
- Volume & quality publications
- Scientist ratings
- Number of PhDs
- Number of doctoral fellows
- Number of postdoc fellows
- Scientific awards

## AGRICULTURE DEVELOPMENT

- Economic link to Innovation
- Applied research
- Technology Transfer/dissemination
- Intellectual Asset Use
- Agricultural Production & productivity
- Food Security – hunger
- Environmental Sustainability
- Import Substitution
- Export Promotion
- Agrarian Transformation
- New products (vaccines, cultivars etc.)



# ARC AUDIT IMPROVEMENT PLAN

1. Overview and nature of ARC Audit Improvement Plan
2. Progress made on ARC Audit Improvement Plan
3. Constraints and challenges
4. Way forward

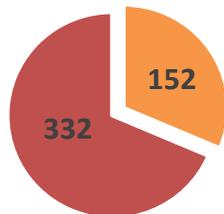


# OVERVIEW AND NATURE OF AUDIT IMPROVEMENT PLAN

1. An Audit Improvement Plan (AIP) was devised in consultation with ARC Internal Audit and the Auditor General of South Africa (AGSA);
2. AIP was approved by ARC Audit & Risk Committee and ARC Council in September 2017;
3. Due to nature and composition of AIP the audit scope of Internal Audit was reviewed to ensure alignment to AIP focus areas. Internal Audit focus now incorporates testing of control adequacy and effectiveness in combination with a substantive testing approach;
4. The AIP comprises a total of 332 treatment actions directly aligned to the total of 152 findings raised by the AGSA. The treatment actions was developed in order to deal and close out the root causes of all the findings raised;
5. Of the 332 treatment actions, 162 actions are directly linked to the areas of qualification, i.e. *property plant and equipment, receivables from exchange transactions and payables from exchange transactions*, as was identified by the AGSA (see earlier extracts of presentation made the AG);
6. With respect to the qualification areas, the nature of the treatment actions (162) was to ensure, amongst others, for the correction of all prior financial year errors, i.e. 14/15, 15/16 & 16/17, the undertaking of a 100% asset verification across all 11 Campuses of ARC and the introduction of more stringent measures pertaining to the management of our debtors.

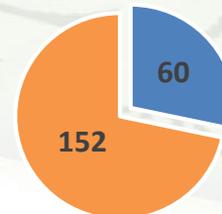
# OVERVIEW AND NATURE OF AUDIT IMPROVEMENT PLAN (Graphical Display)

Treatment Actions in relation to Overall AG Findings



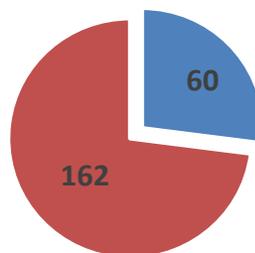
1 Overall AG Findings Treatment Actions

Areas of Qualification within overall AG findings



2 Qualification Findings Overall AG Findings

Treatment Actions in relation to Areas of Qualification

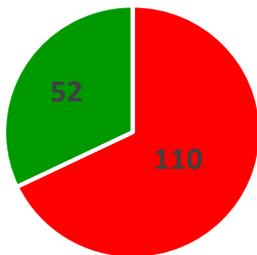


3 Qualification Findings Treatment Actions

# PROGRESS MADE ON AUDIT IMPROVEMENT PLAN

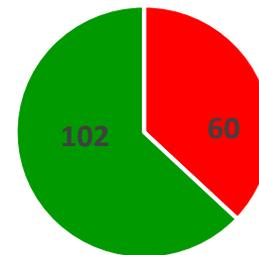
1. Progress updates, on the status of treatment actions, was done on a weekly basis commencing on 05 October 2017 until 12 December 2017. During this period, the ARC Internal Audit independently reviewed and verified all weekly status updates. Between the period 01 January – 31 May 2018, an additional four reviews were undertaken by Internal Audit.
2. Status update reports were compiled and communicated to ARC President & CEO, Acting Chief Financial Officer, Council Audit & Risk Committee, ARC Council and AGSA;
3. The pie chart below and bar graph (on next slide) provide a snap shot of progress on treatment actions that are directly linked to the areas of qualification:

**Progress on Treatment Actions for  
Areas of Qualification**  
(as of 31 December 2017)



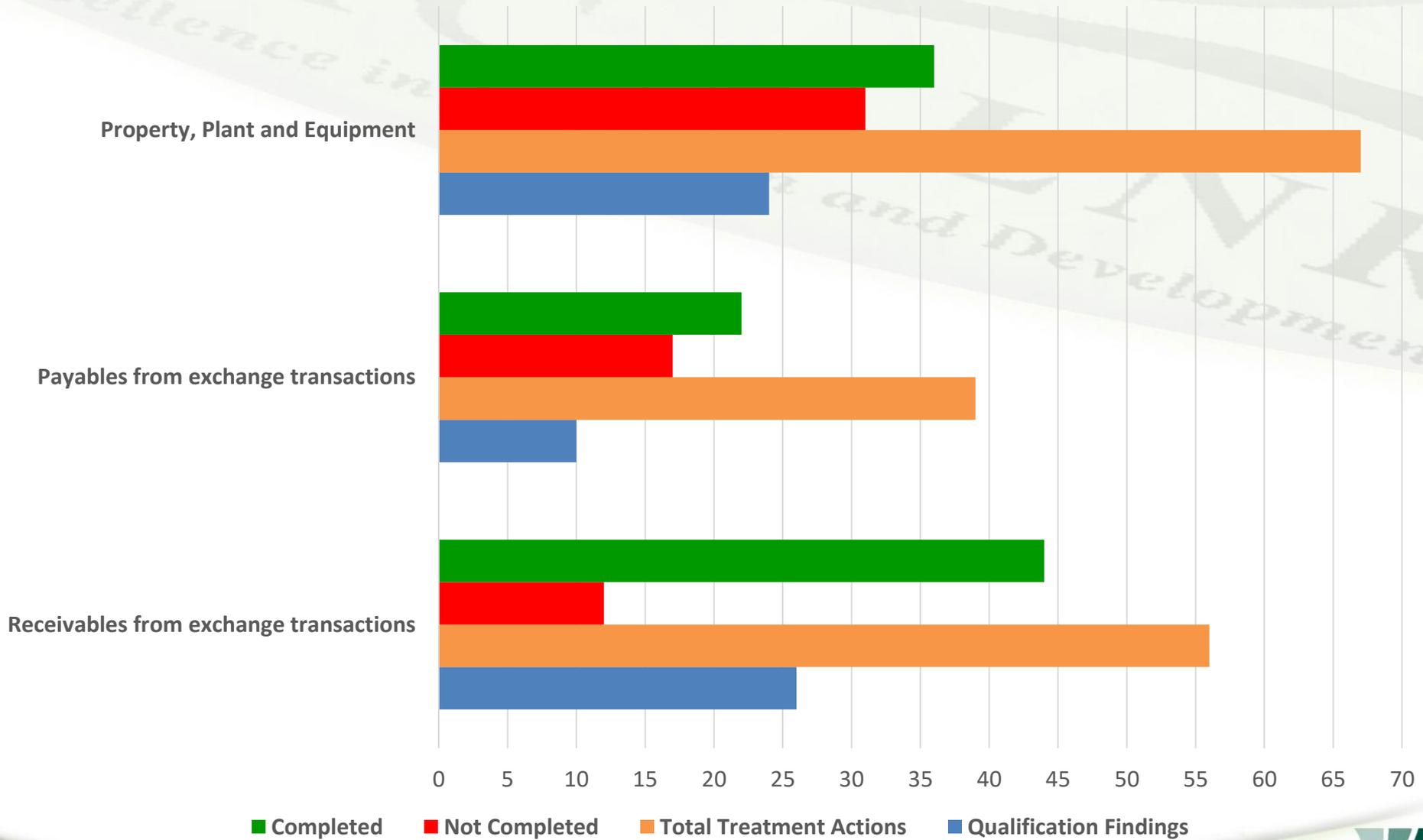
■ Not Completed    ■ Completed

**Progress on Treatment Actions for  
Areas of Qualification**  
(as of 31 May 2018)



■ Not Completed    ■ Completed

# Progress on Audit Qualification Areas - as at 31 May 2018



# CONSTRAINTS AND CHALLENGES

The following were identified as having significantly contributed to the delays in the completion of the treatment actions:

## A) System Constraints & Challenges

- **the appointed service provider, identified as being key in enhancing the functionality requirements of the current ERP (AX) system, have not managed to complete all key enhancements on the ERP (AX) system; and**
- **AX system configuration, technical errors and system bugs, presented limitations in the finalisation and processing of multi prior and current financial year adjustments, corrections and the clearing of invalid commitments.**
- **Version of ERP (AX) system deployed at ARC requires purchase of updates rather than automatic system updates with higher versions.**

## B) HR Constraints and Challenges

- human resources void left by resignations of both CFO and Group Financial Manager and E staff member who has gone on maternity leave. ARC CO finance personnel had to continue with their normal work activities, inclusive of completing treatment actions. These voids presented challenges in the allocation of key activities, required under the AIP, and also the establishment of a new team that would be focusing on the WIP treatment action areas; and
- temporary redeployment of staff from various Campuses, to work on specific treatment actions, provided some relief but in turn caused additional work pressures at Campus level.
- Some finance personnel were subjected to disciplinary action, which impacted on effective focus on audit findings and business operations
- Resignation of the Group Executive responsible for Information Communication Technology hampered the effective supervision of the service provider commissioned to assist in sorting ERP (AX) system errors.
- Recruitment process delayed the deployment of highly skilled personnel to accelerate the clearing of audit findings.



# CONSTRAINTS AND CHALLENGES

The following were identified as having significantly contributed to the delays in the completion of the treatment actions:

## C) AIP Constraints and Challenges

- activities were undertaken on majority of AIP action items, some of which were completed (although “not sufficient” evidence were provided), some action items required a review / adjustment (e.g. matter of contracts requiring change of contract clauses), some action items were of an ongoing nature (e.g. debt collection process, etc.) and the remaining ones could not be completed due to time limitations (e.g. development and approval of various Policies and SOPs) or information not readily available (e.g. actual contracts for lease and IP agreements);
- extended engagements with key external government departments and agencies, namely: National Treasury, AGSA, SARS, Companies and Intellectual Property Commission, Departments of Agriculture, Forestry and Fisheries, Rural Development and Land Reform and Environmental Affairs, etc.; and
- reviewing, calculating and confirming prior year errors and subsequent adjustments (where required) of prior financial year information, dating back to 2014 until current (17/18), as part of WIP process and other reconciliations (e.g. salary control accounts, etc.)
- Irregular expenditure in terms of the Agricultural Research Act was condoned by Minister of Agriculture, Forestry and Fisheries.
- ARC did not receive the support from the DAFF on the condonation of irregular expenditure in terms of the PFMA from Minister of Finance.



# WAY FORWARD

1. Although not all of the AGSA audit finding areas could be addressed, the achievements recorded were made under the constraints and challenges, which was further coupled with time constraints and pressures to close out all 152 audit findings, before the next AGSA audit;
2. Appointment of a new ARC Chief Financial Officer (CFO), due to the recent resignation of the CFO, and the Group Executive: ICT & Infrastructure;
3. Appointment of a new ERP (AX) System Support Service Provider, who will be tasked to review the entire configuration and customisation of system, upgrading current system to a higher version (as this would enhance functionality) and review and address functionality requirements as identified by users;
4. Continue with the work plan of action to deal with People, Process and Technology issues:
  - Devising of an improved and revised Audit Improvement Plan
  - Cleaning up problematic account balances:
    - Accounts Payable (WIP in particular), Account Receivable, Property Plant and Equipment
  - Improve revenue recognition and collection processes
  - Improve and enhance general control environment, with assistance from Internal Audit
  - Urgently resolving system issues
  - Fill key vacancies
5. Devise a plan to address going concern challenges, which has been exacerbated by the continued underfunding of the ARC and long outstanding government debtors.



# Comments or Questions?

Re a Leboha!

Siyabonga!

Ria Livhuwa!

Ha Khensa!

Siyathokoza!

Re a leboga

Siyabulela!

Baie Dankie!

Thank You

