



agriculture, forestry & fisheries

Department:
Agriculture, Forestry and Fisheries
REPUBLIC OF SOUTH AFRICA

**AUDIT COMMITTEE CHAIRPERSON REPORT TO THE
AGRICULTURE, FORESTRY AND FISHERIES PORTFOLIO
COMMITTEE - 21 AUGUST 2018**

1. INTRODUCTION

I am pleased to present the Audit Committee Chairperson report for the financial year ended 31 March 2018.

2. AUDIT COMMITTEE RESPONSIBILITIES

2.1. The Audit Committee reports that it has complied with its responsibilities arising from Section 38 (1) (a) (ii) of the Public Finance Management Act and Treasury Regulations 3.1.10 and 3.1.13. The Committee also reports that it has adopted appropriate formal terms of reference as its Charter, has regulated its affairs in compliance with this charter and has discharged its responsibilities as contained therein.

2.2. The Audit Committee completed the following oversight functions during the period under review:

- Approved the Internal Audit Strategic Plans.
- Approved the reviewed Internal Audit Charter and Audit Committee Charter.
- Reviewed Internal Audit quarterly progress reports against plans.
- Approved the audit strategy for 2017/18.
- Reviewed the quarterly financial and performance information of the Department.
- Noted the development of a Combined Assurance Plan
- Reviewed progress on management action plans to address reported findings.
- Reviewed progress on the implementation of recovery measures to address areas of underperformance in core programmes.
- Considered the effectiveness of the risk management system.
- Approved the draft annual financial statements and the annual performance report for 2017/18 before submission to Auditor General.
- Reviewed the audited financial statements as well as the audit report from Auditor General.

2.3. The Audit Committee reviewed reports presented by management and audit reports from both internal and external audit. The Committee satisfied itself on the adequacy of these reports and sought the necessary assurance on the accuracy thereof from the Internal Audit Unit, the CFO, other members of Management and the Performance Monitoring Unit.

3. EFFECTIVENESS OF RISK, GOVERNANCE AND INTERNAL CONTROL

The system of governance and internal control generally still requires close attention from Management. Repeat findings continue to be a cause for concern particularly in supply chain management and performance information management. Further, the audit reports from both Internal Audit and Auditor General still point to incidents of noncompliance with the procedures and guidelines in conditional grant programmes as well as inadequate monitoring of the funded activities.

3.1. Management control and oversight

During the year under review, the Director-General was suspended for a number of months after which period the suspension was withdrawn following the High Court judgement outcome and the Director-General was restored to his position. This incident, unfortunately, resulted in a degree of leadership uncertainty which inherently weighs adversely on the internal control environment. The Committee further noted gaps in senior management oversight particularly relating to management responsibility to ensure corrective actions are taken regarding weaknesses in controls, with particular reference to the control and monitoring function.

3.2. Monitoring of conditional grants utilisation

During the financial year, a number of incidents were reported at provincial level where allegations of mis-management, fraud, and/or misuse of funding allocated by the Department under one or more of its programmes was raised. The Department, subsequent to the financial year end, instituted measures entailing focussed audits by the Internal Audit and outsourced forensic audits to follow through on the reported incidents. While these efforts are welcome, the Committee remains concerned about the adequacy and effectiveness of the departmental measures to monitor and control funded programmes implemented at provincial level.

The Committee welcomes the forensic audits initiated by the Department subsequent to the year end in the North West and Free State Provinces following irregularities reported in its conditional grant funded programmes particularly the Comprehensive Agriculture Support Programme (CASP). The Committee believes that this action shall act as a deterrent for fraud and abuse of the public resources.

3.3. Department budget

The Department is under pressure as its budget allocation from the National Treasury has been cut substantially during the past few years as part of austerity measures in the management of the national fiscus. This has resulted in underfunding for a number of high risk areas including ICT, boarder control, forestry management, etc. Management efforts however were noted in ensuring that the Department does not overspend.

3.4. Valuation of biological assets and forestry management practices

Material misstatements in the disclosure of the biological assets were identified during the audit process and corrected. These related to inaccuracies in the valuation of plantations. While these were corrected, the Audit Committee is concerned about gaps in departmental processes and controls applicable to the valuation of plantations. The concern further extends to forestry management practices including controls relating to timber sales. This matter shall receive close attention in the 2018/19 financial year.

3.5. The organizational structure and Human Resource matters

Vacant positions in senior management extended to periods exceeding six months. The following Deputy Director-General (DDG) positions are vacant with acting officials:

- DDG: Forestry and Natural Resources Management – Post vacant from 01 September 2017;
- DDG: Food Security and Agrarian Reform – Post vacant from 01 July 2017; and
- DDG: Economic Development, Trade and Marketing – Post vacant from 08 April 2017.

The impact of these vacancies on the effective management of the Department particularly on the monitoring and control functions should never be underestimated.

3.6. The status of Risk Management

While the Risk Management fundamentals have been put in place in the Department, the Committee is concerned with the level of maturity in the risk management processes. Significant delays were observed in concluding the 2017/18 and 2018/19 strategic risk assessment, and the monitoring of the risk management action plans has not effectively taken place. Risk management was not adequately prioritized within the Department during the 2017/18 financial year and hence did not receive the necessary attention. Attendance of the

Risk Management Committee meetings by senior management was poor with a number of meetings being cancelled and/or deferred.

The department is tasked with managing potential catastrophic risks that could have a huge adverse impact on the economy, people and animal health. For this reason, risk management is critical. The Committee has engaged the Accounting Officer on this matter and anticipates that measures will be instituted to ensure that risk management is accorded the attention it deserves.

3.7. Financial administration and reporting

The Committee reviewed the 2017/18 Annual Financial Statements, the Auditor General's Report and Management Report and noted with appreciation the unqualified audit opinion of the Auditor General. Management have assured the Committee that the misstatements identified by the Auditor General have corrected and that measures shall be put in place to avoid future occurrences.

4. CONCLUSION AND APPRECIATION

- 4.1. The Committee considered all information at its disposal and concludes that a system of governance and internal control is in place but needs improvement in certain areas as outlined above.
- 4.2. The Audit Committee expresses its sincere appreciation to the Executive Authority, Accounting Officer, AGSA, Management, and Internal Audit for their support and cooperation.
- 4.3. The Audit Committee further extends its appreciation to the Portfolio Committee on Agriculture, Forestry and Fisheries for its continued support and partnership in the quest for service delivery and good governance.