

SCOPA BRIEFING NOTE



PFMA audit outcomes of the 2016-17 financial year for

**Western Cape
Department of Agriculture**

26 February 2019

*Issued under embargo until SCOPA is briefed on
the audit outcome*



**AUDITOR - GENERAL
SOUTH AFRICA**

Auditing to build public confidence

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1. Introduction

1.1 Reputation promise of the Auditor-General of South Africa

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

1.2 Purpose of document

The purpose of this document is to provide an executive summary of the audit outcomes of the financial audit, audit of performance information and compliance with key legislation of the Western Cape Department of Agriculture for the 2016-17 financial year.

1.3 Overview

The aim of the department is to unlock the full potential of agriculture to enhance the economic, ecological and social wealth for all people the of the Western Cape.

1.4 Organisational structure

Designation	Incumbent
MEC	Minister Alan Winde
Head of department (accounting officer)	Ms Joyene Isaacs
Deputy Director General: Agricultural Development and Support Services	Darryl Jacobs
Chief financial officer	Floris Huysamer
Chief Director: Research and Technology Development Services	Dr Ilse Trautman
Chief Director: Veterinary Services	Dr Gininda Msiza
Acting Chief Director: Rural Development	Toni Xaba
Chief Director: Farmer Support and Development	Mogale Sebopetsa
Acting Chief Director: Structured Agricultural Education and Training	Rashida Wentzel

1.5 Funding

As disclosed on pages 31 and 32 of the department's annual report, the Western Cape Department of Agriculture spent R807,8 million of a budget of R815,9 million, resulting in an overall under-expenditure of R8,1 million or 1% (2015-16: 1% underspent). The main explanations for the underspending on the expenditure budget are set out on pages 32 and 260 to 261 of the department's annual report.

As disclosed on page 30 of the department’s annual report, the department’s revenue budget of R28,9 million was exceeded by R11,2 million or 38,8% (2015-16: 54,9% over-collected). The main explanations for the over-collection on the revenue budget are set out on page 30 of the department’s annual report.

2. Audit opinion history

Details	2016-17	2015-16	2014-15
Audit opinion			
Findings on compliance with key legislation	No	No	No
• Material misstatements in financial statements submitted	No	No	No
• Procurement and contract management	No	No	No
• Revenue management	No	No	No
• Expenditure management	No	No	No
• Utilisation of conditional grants	No	No	No
• Strategic planning and performance management	No	No	No
• Consequence management	No	No	No
Findings on predetermined objectives	No	No	No
Internal control deficiencies	Yes	No	No

Audit opinions

	CLEAN AUDIT OPINION (no findings on PDO or compliance with laws & regulations)
	UNQUALIFIED with findings on PDO and/or compliance
	QUALIFIED AUDIT OPINION (with or without findings)
	DISCLAIMER/ADVERSE AUDIT OPINION

PDO = Predetermined objectives (audit of performance information/service delivery/annual performance report)

2.1 Qualified opinion

Transfers and subsidies: The department did not account for payments made to implementing agents in accordance with the requirements of the Modified Cash Standard (MCS), prescribed by the National Treasury. The department budgeted and accounted for these payments as transfers and subsidies instead of either expenditure for capital assets or goods and services, as required by the MCS. Consequently, transfers and subsidies is overstated by R274 340 625 in the current year and by R250 067 615 in the prior year and the following components of the financial statements are understated or not disclosed:

- Expenditure for capital assets or goods and services classified according to the nature of the expense incurred.
- Capital assets that belong to the department acquired or created under these arrangements.
- Prepayments representing advance payments provided to implementing agents that were unspent as at year-end.
- Appropriate adjustments to the appropriation statement to reflect the correct classification of transactions as required by the MCS.

I was not able to determine the full extent of all the affected financial statement components and to determine the individual misstatements as it was impracticable to do so.

Irregular expenditure: The department entered into contracts with implementing agents without applying Treasury Regulations. When implementing agents are contracted by the department, this does not release the department from ensuring that funds spent on its behalf by the agents comply with the requirement for an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective. Supply chain management (SCM) practices utilised by these implementers were not consistent with the principles of the PFMA and the Treasury Regulations. The department did not identify and disclose any irregular expenditure resulting from non-compliance with applicable SCM prescripts by implementing agents as required by section 40(3)(b)(ii) of the PFMA. Consequently, irregular expenditure is understated. I was not able to determine the full extent of the understatement as it was impracticable to do so.

2.2 Significant emphasis of matter

No matters were raised.

2.3 Significant other matter

Unaudited supplementary schedules: The supplementary information set out in the annexures on pages 294 to 301 of the department's annual report does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion on them.

3. Key focus areas

3.1 Compliance focus areas

No material findings were raised on any of the compliance focus areas indicated in paragraph 2 of this document.

3.2 Predetermined objectives

I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected programmes presented in the annual performance report of the department for the year ended 31 March 2017:

Programmes	Pages in the annual performance report
Programme 3 – farmer support and development	100 to 104
Programme 4 – veterinary service	109 to 115

I did not raise any material findings on the usefulness and reliability of the reported performance information for these programmes.

Other matters relating to predetermined objectives

I draw attention to the following matters:

Adjustment of material misstatements: I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of programme 4 – veterinary services. As management subsequently corrected the misstatements, I did not raise material findings on the usefulness and reliability of the reported performance information.

Achievement of planned targets: Refer to the annual performance report on pages 100 to 104 and 109 to 115 of the department's annual report for information on the achievement of planned targets for the year and explanations provided for the under-/over-achievement of a number of targets.

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3.3 Internal control deficiencies

I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion.

Leadership: Leadership did not exercise adequate oversight over financial reporting to ensure that there is consistency in how the entities are accounting for funds transferred to them; which consequently resulted in misclassification of the funds transferred by the department to the entities.

The inadequate oversight by the department also resulted in non-adherence to SCM prescripts by the entities not being prevented which resulted in irregular expenditure being incurred.

4. SCOPA resolutions

Pages 173 to 174 of the department's annual report details feedback on the resolutions or matters of concern included/raised in the prior year's *Report of the Standing Committee on Public Accounts*.

5. Emerging risks

5.1 New pronouncements

Modified cash standards

Componentisation of assets: Departments are encouraged to componentise assets in their asset registers as it will become a requirement in future. The effective date to componentise assets has not been determined yet.

Inventory: Departments are encouraged to develop their inventory management systems as the inventory disclosure note will become a requirement in future. The effective date to disclose inventory is still to be determined by the accountant-general.

5.2 New legislation

Treasury regulations: The treasury regulations are currently being revised, which may introduce a number of new requirements once effective.

National instruction notes: Instruction notes are issued by the National Treasury on a continuous basis in terms of section 76 of the PFMA. The arrangement in the Western Cape is that the Provincial Treasury reviews these instruction notes and re-issue them to the various departments and entities on a selective basis. The risk exists that material non-compliance could arise if certain national instruction notes are not complied with, where the necessary approval from the National Treasury to depart from them was not obtained as required by section 79 of the PFMA.

Accounting manual on transfer payments: The National Treasury is currently drafting an Accounting Manual to, amongst others, distinguish between "Goods and services" and "Transfer payments". This can potentially influence the future classification of these transactions.

5.3 Risks that require continuous monitoring

B-BBEE certificates: Footnote 3 in Treasury Instruction 4A of 2016-17 noted that the Central Supplier Database (CSD) does not verify B-BBEE status level and set a future date for verification of B-BBEE status (1 October 2016). The office of the chief procurement officer (OCPO) failed to achieve this deadline and up to now the CSD does not verify the B-BBEE status of suppliers. The instruction did not exempt institutions from complying with the PPPF Act requirements for obtaining a valid evidence of B-BBEE level status (e.g. sworn affidavits).

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Central Supplier Database: The OCPO introduced the Central Supplier Database on 1 September 2015 accessible on www.csd.gov.za, which will reduce the administrative burden on both the supplier and the administrator. The system verifies and validates information with the South Africa Revenue Service (SARS), Companies and Intellectual Property Commission (CIPC), and Department of Home Affairs amongst others. The system was mandatory from 1 April 2016 for all suppliers to national and provincial government and entities at these two spheres of government.

Permission was granted for the Western Cape Government to run the Western Cape Supplier Database (WCSD) concurrently with the CSD for a year (up to 31 March 2017), provided that the CSD is the master of supplier information and such information cannot be modified by the WCSD and suppliers registered on the CSD should not be excluded or disadvantaged in any way by the existence of the WCSD.

eTenders Portal: Suppliers who meet all compliance requirements can access opportunities on www.eTenders.gov.za. The portal enables suppliers to have access to tenders published on the platform. The compulsory implementation of this portal was from 1 April 2016.

Public Service Regulations: The new Public Service Regulations, effective from 1 August 2016 as gazetted, still pose a number of risks for the department that need to be addressed in subordinate and administrative directives as well as circulars by the Department of Public Service and Administration (DPSA) in order to give further guidance on its implementation.