

# SCOPA BRIEFING NOTE



PFMA audit outcomes of the 2017-18 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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Under embargo

## 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 2017-18 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
Chief Director: Rural Development	Toni Xaba
Chief Director: Farmer Support and Development	Mogale Sebopetsa
Chief Director: Structured Agricultural Education and Training	Labeeqah Schuurman

### 1.5 Funding

As disclosed on page 33 of the department's annual report, the Western Cape Department of Agriculture spent R866,9 million of a budget of R877,6 million, resulting in an overall under-expenditure of R10,8 million or 1,2% (2016-17: 1% underspent). The main explanations for the underspending on the expenditure budget are set out on pages 30 and 250 to 252 of the department's annual report.

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As disclosed on page 31 of the department’s annual report, the department’s revenue budget of R29,2 million was exceeded by R19,3 million or 65,9% (2016-17: 38,8% over-collected).

The main explanations for the over-collection on the revenue budget are set out on page 31 of the department’s annual report.

**2. Audit opinion history**

Details	2017-18	2016-17	2015-16
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	Yes	No	No
Internal control deficiencies	Yes	Yes	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 R259 191 000 (2017: R274 340 625) 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.
- Principal-agent relationships were not disclosed.

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. These and the prior year misstatements, remained unresolved.

## 2.2 Significant emphasis of matter

No matters were raised.

## 2.3 Significant other matter

**Unaudited supplementary schedules:** The supplementary information set out on pages 285 to 298 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 2018:

Programmes	Pages in the annual performance report
Programme 2 – sustainable resource management	103 to 109
Programme 3 – farmer support and development	114 to 119
Programme 4 – veterinary service	125 to 131

The material findings in respect of the reliability of the selected programmes are as follows:

#### Programme 2 – sustainable resource management

##### Sub-programme 2.2: LandCare – promote the conservation of the natural agricultural resources

**Indicator P.2.2.4 – number of protection works:** I was unable to obtain sufficient appropriate audit evidence to validate the existence of a system and processes that enable reliable reporting of actual achievement against the indicator. Sufficient appropriate audit evidence could not be provided in some instances while in other cases, the supporting evidence provided did not agree to the reported achievements in the annual performance report. Based on the supporting evidence provided, the achievements were different from those reported in the annual performance report, but I was unable to further confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any further adjustments were required to the reported achievements of the indicator.

**Indicator P.2.2.6 – number of veld utilisation works:** I was unable to obtain sufficient appropriate audit evidence to validate the existence of a system and processes that enable reliable reporting of actual achievements against the indicator. Sufficient appropriate audit evidence could not be provided in some instances; while in other cases, the supporting evidence provided did not agree to the reported achievements in the annual performance report. Based on the supporting evidence provided, the achievements were different from those reported in the annual performance report, but I was unable to further confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any further adjustments were required to the reported achievements of the indicator.

**Indicator P.2.2.10 – number of farm plans updated for sustainable farming purposes:** I was unable to obtain sufficient appropriate audit evidence to validate the existence of a system and processes that enable reliable reporting of actual achievements against the indicator. Sufficient appropriate audit evidence could not be provided in some instances; while in other cases, the supporting evidence provided did not agree to the reported achievements in the annual performance report. Based on the supporting evidence provided, the achievements were different from those reported in the annual performance report, but I was unable to further confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any further adjustments were required to the reported achievements of the indicator.

### **Programme 3: Farmer support and development**

I did not raise any material findings on the usefulness and reliability of the reported performance information on this programme.

### **Programme 4: Veterinary service**

I did not raise any material findings on the usefulness and reliability of the reported performance information on this programme.

### **Other matters relating to predetermined objectives**

I draw attention to the following matters:

**Achievement of planned targets:** Refer to the annual performance report on pages 103 to 109, 114 to 119 and 125 to 131 for information on the achievement of planned targets for the year and explanations provided for the under-/over-achievement of a number of targets. This information should be considered in the context of the material findings on the reliability of the reported performance information reflected above for programme 2.

**Adjustment of material misstatements:** I identified material misstatements in the annual performance report submitted for auditing. The material misstatements in programme 4 - veterinary services were subsequently corrected by management. As management only corrected some of the material misstatements on the reported performance information of programme 2 - sustainable resource management, I raised material findings on the reliability of the reported performance information.

### **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:** Although leadership exercised adequate oversight over financial reporting, the audit outcome has been modified due to the technical requirement on how entities should be accounting for funds transferred to them, which consequently resulted in the misclassification of the funds transferred by the department to the entities.

**Financial and performance management:** The annual performance report contained misstatements of material indicators, some of which were corrected. There were also limitations on the evidence provided as per the technical indicator description. This was due to an inadequate system and processes to collate evidence required for those indicators.

#### 4. SCOPA resolutions

Page 190 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.

##### 5.3 Risks that require continuous monitoring

**Local content:** The compliance requirements of local content for commodities within designated sectors are applicable for all tenders. The term tender in terms of the Preferential Procurement Regulations of 2017 is attributed to all awards above R30 000.

**B-BBEE Act:** Paragraph 13G requires all spheres of government, public entities and organs of state to report on their compliance with broad-based black economic empowerment in their audited annual financial statements and annual reports required under the PFMA. Discussions are ongoing between the AGSA and B-BBEE Commission to scope this requirement into the audit for the 2018-19 financial year.