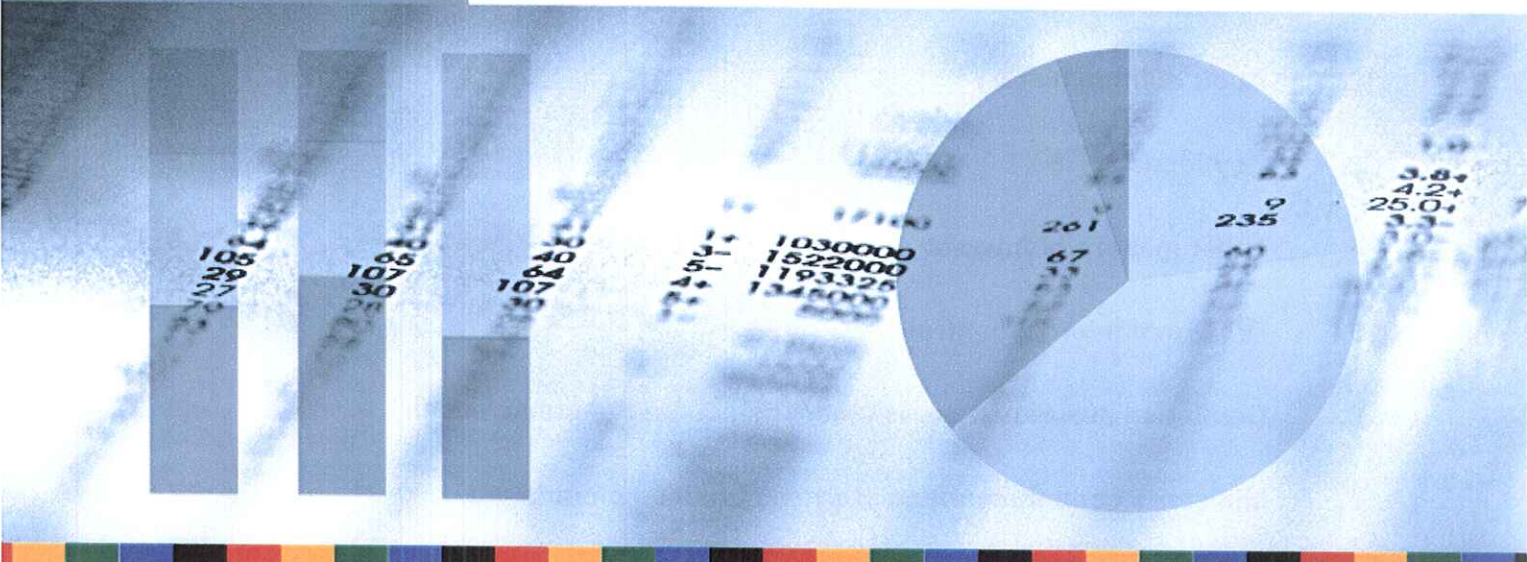


PC BRIEFING NOTE



PFMA audit outcomes of the 2014-15 financial year

Environmental Affairs Portfolio

13 October 2015



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 briefing document is for the Auditor-General of South Africa (AGSA) to provide an overview of the audit outcomes and other findings in respect of the Environmental Affairs portfolio for the 2014-15 financial year.

1.3 Overview

The Department of Environmental Affairs (DEA) is mandated to ensure the protection of the environment and conservation of natural resources, balanced with sustainable development and the equitable distribution of the benefits derived from natural resources. In its quest for better use and management of the natural environment, the Department of Environmental Affairs is guided by its constitutional mandate, as contained in section 24 of the Constitution.

The Department of Environmental Affairs fulfils its mandate through formulating, coordinating and monitoring the implementation of national environmental policies, programmes and legislation.

The department was created from the former Department of Environmental Affairs and Tourism as well as the Department of Water Affairs and Forestry. In 2009 President Jacob Zuma announced the establishment of the Ministry of Water and Environmental Affairs. In 2010 the Department of Environmental Affairs and Tourism separated. In 2014 President Jacob Zuma announced the split and Environmental Affairs now has its own minister.

In line with the oversight responsibilities as set out above, the department has oversight of four entities, namely (1) South African National Parks (SANParks), (2) South African Weather Service (SAWS), (3) South African National Biodiversity Institute (SANBI) and (4) iSimangaliso Wetland Park Authority.

The lack of improvement in the overall audit outcome was caused by SANParks not preventing material findings on their annual performance report and compliance with legislation; however, leadership was stabilised at SANParks after the appointments of the CEO and CFO. The regression in the audit outcome of SANBI was due to the institute receiving material findings on compliance with legislation. The SAWS received a clean audit opinion by addressing past material findings on compliance with legislation. The DEA and iSimangaliso Wetland Park Authority maintained their clean audit opinions. The National Treasury has exempted the department from applying the Modified Cash Standard in respect of infrastructure development assets in the current and previous year. The DEA and National Treasury are in dialogue to resolve the matter.

The unchanged audit outcome of SANParks was due to a lack of skills relating to performance information which led to the non-compliance and material findings on predetermined objectives in the audit report.

The quality of financial statements submitted for audit regressed at SANBI causing a finding of material non-compliance, whilst the quality of financial statements at SANParks improved from the previous year.

The quality of annual performance reports at SANParks remained unchanged due to management not receiving regular training to adequately review the annual performance

reports for accuracy, validity and completeness; however, findings were noted at the DEA, SAWS and SANBI which did not affect the audit report.

Leadership was ineffective in improving the IT control environment at the DEA, iSimangaliso, SANBI, SANParks and SAWS.

Management at SANParks and SANBI have action plans in place to resolve audit issues. These plans are monitored by their respective CEOs and audit committees. Internal audit are also playing a vital role in improving their audit outcomes.

Aim of the vote

Lead South Africa’s environmental sector to achieve sustainable development towards a better quality life for all.

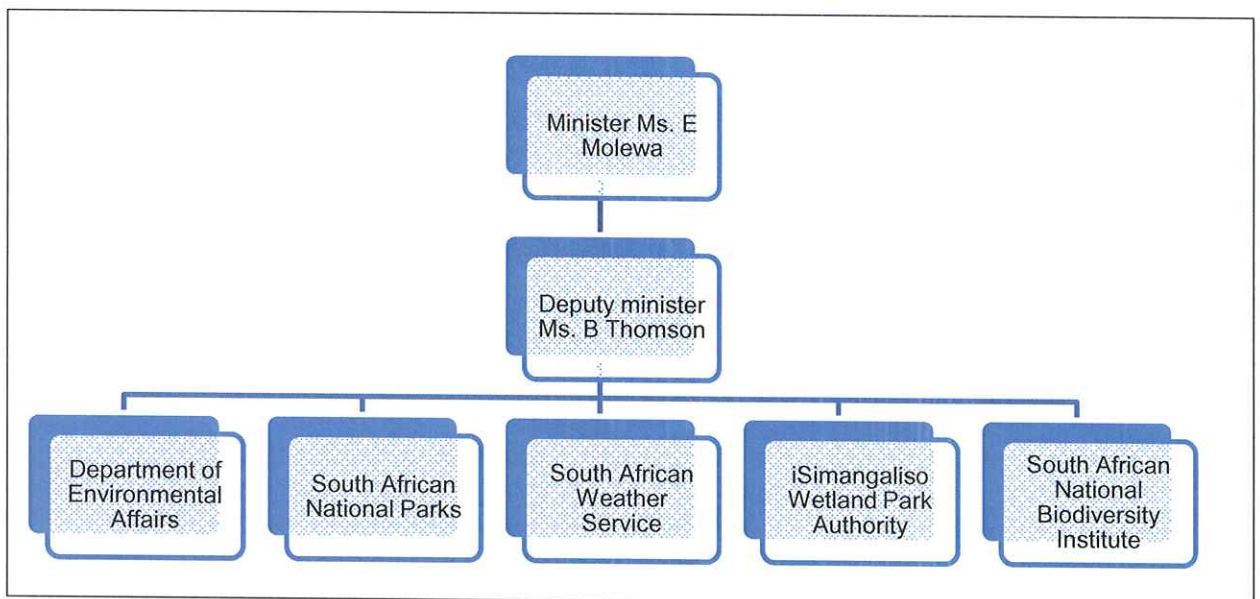
Vision

A prosperous and equitable society living in harmony with our natural resources.

Mission

Providing leadership in environmental management, conservation and protection towards sustainability for the benefit of South Africans and the global community.

1.4 Organisational structure



2. Audit opinion history

Audit opinions	10-11	11-12	12-13	13-14	14-15
• Department of Environmental Affairs					
• South African National Parks					
• South African Weather Service					
• South African National Biodiversity Institute					
• iSimangaliso Wetland Park Authority					
Qualification issues	10-11	11-12	12-13	13-14	14-15
No reports were qualified for the last five years					
Other matters	10-11	11-12	12-13	13-14	14-15
<i>Predetermined objectives (PDOs)</i>					
• Department of Environmental Affairs					
• South African National Parks				✓	✓
• South African Weather Service					
• South African National Biodiversity Institute					
• iSimangaliso Wetland Park Authority					
<i>Compliance with legislation</i>					
• Department of Environmental Affairs			✓		
• South African National Parks	✓			✓	✓
• South African Weather Service			✓	✓	
• South African National Biodiversity Institute	✓	✓	✓		✓
• iSimangaliso Wetland Park Authority					

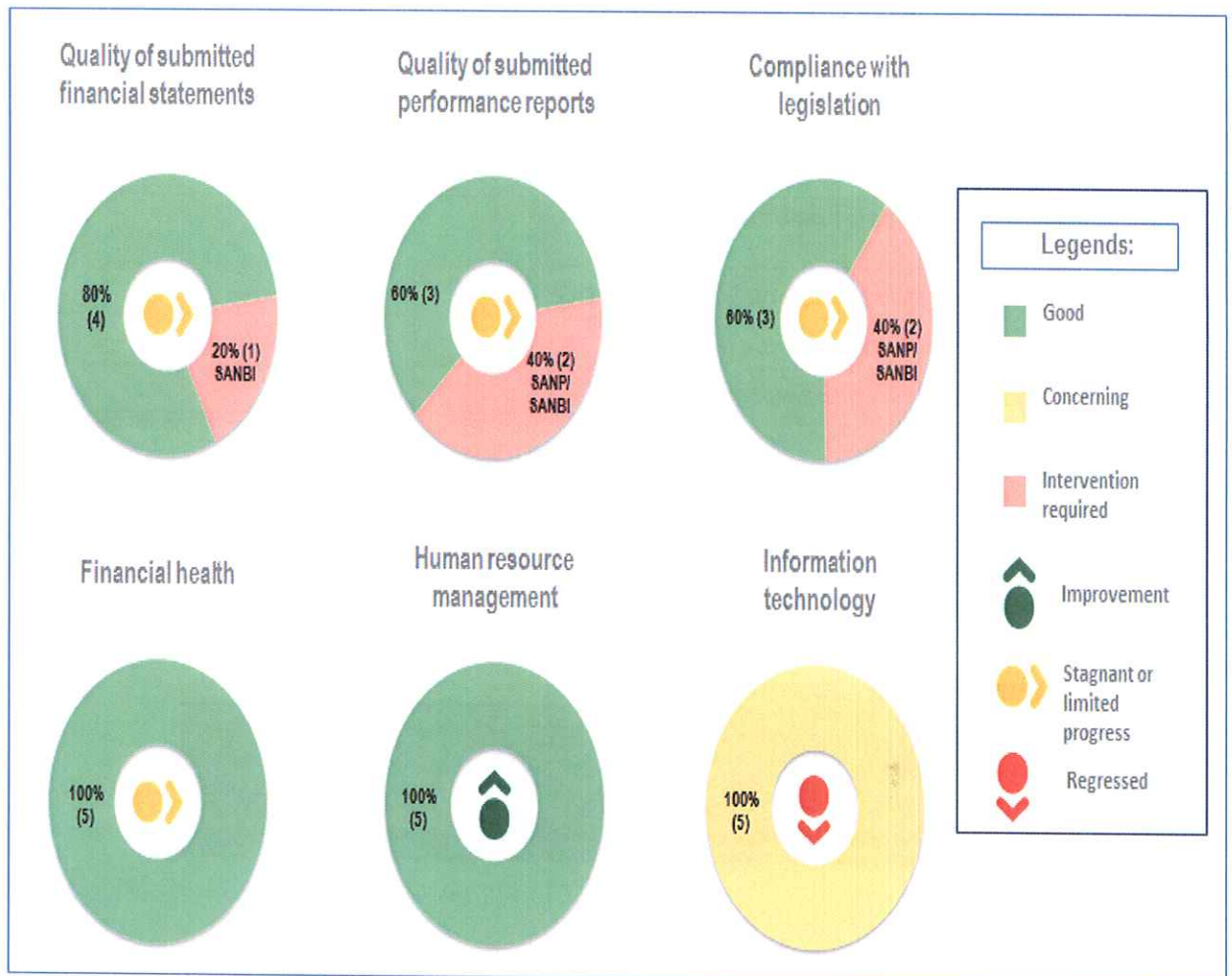
AUDIT OPINION LEGEND

	Clean audit opinion: No findings on PDO and Compliance
	Unqualified with findings on PDO and Compliance
	Qualified audit opinion (with/without findings)
	Disclaimed/ADVERSE AUDIT OPINION (with/without findings)
✓	Department/entity had findings (in the related matter)

2.1 Significant emphasis of matter(s)

Department/Entity	Emphasis of matter(s) raised
Department of Environmental Affairs	The National Treasury exempted the department from applying the Modified Cash Standard in respect of infrastructure development projects.
South African National Biodiversity Institute	Management restated corresponding figures for 31 March 2014 as a result of errors discovered during the 2014-15 financial year in the financial statements for the year ended 31 March 2015.

3. Key focus areas



3.1. Material errors in annual financial statements submitted

Entity	Finding	Root cause	Recommendation
South African National Biodiversity Institute	The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework as required by section 55(1)(a) and (b) of the PFMA. Material misstatements of disclosure items were identified.	Management did not ensure that the financial statements submitted for audit were free from material misstatements and supported by accurate and reliable source documentation.	Management should ensure that a thorough review process is in place prior to the submission on 31 May.

3.1.1 Comments on additional AGSA interactions to help improve financial outcomes

Department/Entity	Additional interaction/added service	Impact/Outcome
Department of Environmental Affairs	Interim audit of the interim financial statements. Numerous interactions with management throughout the year.	Sustained clean audit outcome.
South African National Parks	Interim audit of the interim financial statements. Numerous interactions with management throughout the year.	No material amendments to the annual financial statements for the 2014-15 financial year.
South African Weather Service	Interim audit of the interim financial statements. Numerous interactions with management throughout the year.	Improved to clean audit outcome.

3.2. Predetermined objectives

Entity	Finding	Root cause	Recommendation
South African National Parks	<p>The published annual performance report of SANParks was not useful and reliable for:</p> <p>Objective 3: Integrating strategy implementation and</p> <p>Objective 4: Promoting effective management of national parks.</p>	Lack of training to ensure the annual performance report was adequately reviewed to meet the usefulness and reliability criteria.	<p>Management should regularly attend training to adequately review the annual performance report for usefulness and reliability.</p> <p>Staff should be held accountable for incorrect reporting on performance information.</p>
South African National Biodiversity Institute	<p>The published annual performance report of SANBI was not useful for:</p> <p>Programme 2: Manage and unblock benefits of the network of National Botanical Gardens.</p> <p>Programme 5: Provide biodiversity and climate change adaptation policy tools and advice in support of South African development.</p> <p>Programme 6: Drive human capital development, education and awareness in response to SANBI's mandate.</p> <p>As well as not reliable for programmes 2 and 6 listed above.</p> <p>SANBI avoided a qualification on their annual performance report by making the corrections on the above findings.</p>	Lack of training to ensure the annual performance report was adequately reviewed to meet the usefulness criterion as well as for accuracy against supporting documentation.	Management should regularly attend training to adequately review the annual performance report for accuracy as well as to ensure that indicators and targets meet the usefulness criterion.

3.2.1 Comments on additional AGSA interactions to help improve AOPO outcomes

Department/Entity	Additional interaction/added service	Impact/Outcome
Department of Environmental Affairs	Interim audit of usefulness of the 2015-16 annual performance plan. Numerous interactions with management throughout the year.	Sustained clean audit outcome.
South African National Parks	Interim audit of usefulness of the 2015-16 annual performance plan. Numerous interactions with management throughout the year.	Reduction in audit findings.
South African Weather Service	Interim audit of usefulness of the 2015-16 annual performance plan. Numerous interactions with management throughout the year.	No material amendments to the annual performance plan for the 2014-15 financial year.

3.3. Compliance with legislation

Entity	Finding	Root cause	Recommendation
South African National Parks	The public entity did not maintain an effective, efficient and transparent system and internal controls regarding performance management of the reported objectives, which described and represented how the institution's processes of performance planning, monitoring, measurement, review and reporting would be conducted, organised and managed, as required in terms of section 51(1)(a)(i) of the PFMA.	Lack of training to ensure the annual performance report was adequately reviewed to meet the usefulness and reliability criteria. Management did not review and monitor compliance with legislation.	Management should regularly attend training to adequately review the annual performance report for usefulness and reliability. Furthermore management should review and monitor compliance with legislation.
South African National Biodiversity Institute	The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework as required by section 55(1)(a) and (b) of the PFMA.	Management did not ensure that the financial statements submitted for audit were free from material misstatements and supported by accurate and reliable source documentation. Management did not review and monitor compliance with legislation.	Management should ensure a thorough review process is in place prior to the submission on 31 May. Furthermore management should review and monitor compliance with legislation.

3.4. Financial health

No matters to report on.

3.5. Human resource management


No matters to report on.

3.6. Information technology controls


Entity	IT governance	Security management	IT service continuity	User access management
Department of Environmental Affairs	✓	✓	✓	
South African National Parks	✓	✓	✓	✓
South African Weather Service		✓		✓
South African National Biodiversity Institute				✓
iSimangaliso Wetland Park	✓			

4. Other matters of interest


(a) Unauthorised expenditure: *Expenditure not in accordance with the budget vote*

Department/Entity		Unauthorised expenditure				
		Movement	Amount R 2014-15	Amount R 2013-14	Root cause	Recommendation
1	None identified		0	0	n/a	n/a

(b) Irregular expenditure: *Expenditure in contravention of key legislation*

Department/Entity		Irregular expenditure				
		Movement	Amount R 2014-15	Amount R 2013-14	Root cause	Recommendation
1	SANParks		126 000	0	Lack of review of supplier database to identify and remove prohibited suppliers.	Management should ensure their database is adequately and regularly updated to ensure no payments are made to prohibited suppliers.

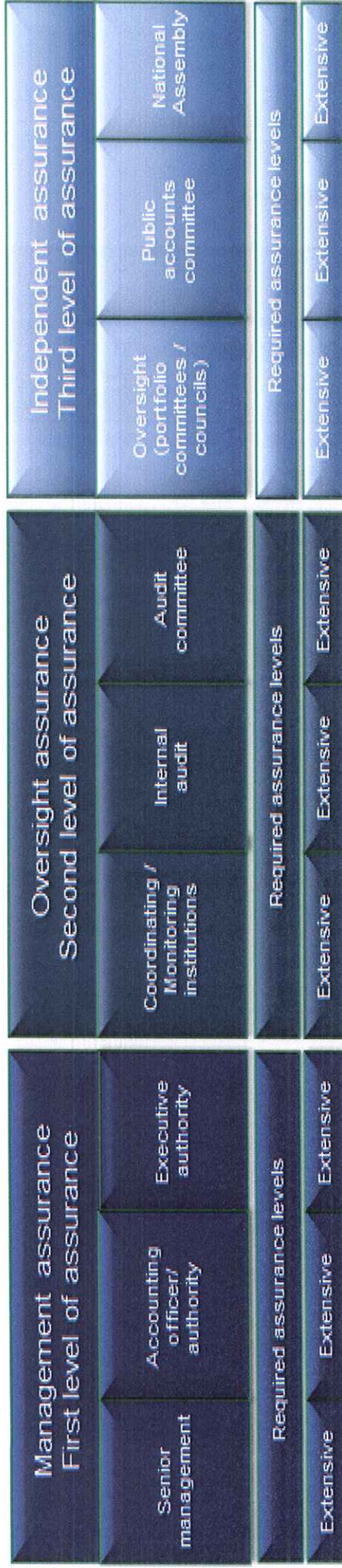
(c) Fruitless and wasteful expenditure: *Expenditure that should not have been incurred (incurred in vain that could have been avoided and no value for money received)*

Department/Entity		Fruitless and wasteful expenditure				
		Movement	Amount R 2014-15	Amount R 2013-14	Root cause	Recommendation
1	SANParks		2 951 000	0	Management did not have adequate processes in place to avoid interest, penalties, cash embezzlement and stock losses.	Management should implement processes to avoid interest, penalties, cash embezzlement and stock losses.

5. Drivers of internal control

Drivers of internal control														
Department/Entity	Leadership					Financial & performance management					Governance			
	Effective leadership culture	Oversight responsibility	HR management	Policies and procedures	Action plans	IT governance	Proper record keeping	Processing and reconciling controls	Reporting	Compliance	IT systems controls	Risk management	Internal audit	Audit committee
Department of Environmental Affairs	Green	Green	Green	Green	Green	Orange	Green	Green	Green	Green	Orange	Green	Green	Green
South African National Parks	Green	Green	Green	Green	Green	Orange	Green	Green	Red	Orange	Orange	Green	Green	Green
South African Weather Service	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Orange	Green	Green	Green
South African National Biodiversity Institute	Green	Green	Green	Orange	Green	Green	Orange	Orange	Orange	Orange	Orange	Green	Green	Green
iSimangaliso Wetland Park	Green	Green	Green	Green	Green	Orange	Green	Green	Green	Green	Green	Green	Green	Green

6. Combined assurance on risk management in the public sector



Management's assurance role

- **Senior management** – take immediate action to address specific recommendations and adhere to financial management and internal control systems
- **Accounting officer/ authority** – hold officials accountable on implementation of internal controls and report progress quarterly and annually
- **Executive authority** – monitor the progress of performance and enforce accountability and consequences

Oversight's assurance role

- **National Treasury/ DPISA** – monitor compliance with laws and regulations and enforce appropriate action
- **Internal audit** – follow up on management's actions to address specific recommendations and conduct own audits on the key focus areas in the internal control environment and report on quarterly progress
- **Audit committee** – monitor risks and the implementation of commitments on corrective action made by management as well as quarterly progress on the action plans

Independent assurance role

- **Oversight (portfolio committees)** – review and monitor quarterly progress on the implementation of action plans to address deficiencies
- **Public accounts committee** – exercise specific oversight on a regular basis on any report which it may deem necessary
- **National Assembly** – provide independent oversight on the reliability, accuracy and credibility of National and provincial government







7. Minister’s commitment and progress on this commitment

The following refers to a previous year’s commitment:

Focus area	Commitment	Due date	Status
Leadership (HR management)	A commitment was made to have the CEO and CFO positions at SANParks filled.	31 March 2015	Commitment has been implemented

STATUS LEGEND

	Commitment has been implemented
	Commitment in progress
	Commitment has not been implemented
	New commitment made in current year