

**Portfolio Rural Development and Land Reform**

**14 October 2015**

PC

PFMA audit outcomes of the 2014-15 financial year

CONTENTS

**1. Introduction 1**

**2. Audit opinion history 3**

**3. Key focus areas 6**

**4. Other matters of interest 11**

**5. Drivers of internal control 14**

**6. Other AGSA reports 15**

**7. Combined assurance on risk management in the public sector 17**

**8. Minister’s commitments and progress on these commitments 18**

**9. Commitments from the portfolio committee 20**

1. **Introduction**

**1.1 Reputation promise of the Auditor-General of South Africa**

The auditor-general 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 Department of Rural Development and Land Reform and its entities for the 2014/15 financial year.

**1.3 Overview**

The mandate, vision and mission of the department as stipulated in the annual reportis to initiate, facilitate, coordinate, catalyse and implement an integrated rural development programme.

**1.4 Organisational structure**

1. **Audit opinion history**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Audit opinions** | | | | | **Movement from prior year to current year** | **14/15** | **13/14** | | **12/13** | **11/12** | **10/11** |
| * Department of Rural Development | | | | |  |  |  | |  |  |  |
| * Agricultural Land Holding Account (ALHA) | | | | |  |  |  | |  |  |  |
| * Registration of Deeds Trading Account | | | | |  |  |  | |  |  |  |
| * Ingonyama Trust Board | | | | |  |  |  | |  |  |  |
| **Qualification areas** | | | | |  | **14/15** | **13/14** | | **12/13** | **11/12** | **10/11** |
| Department of Rural Development | | | | |  |  |  | |  |  |  |
| * Immovable assets | | | | |  |  |  | |  | **✓** | **✓** |
| Registration of Deeds Trading Account | | | | |  |  |  | |  |  |  |
| * Expenditure and accruals | | | | |  |  |  | |  | **✓** |  |
| Ingonyama Trust Board | | | | |  |  |  | |  |  |  |
| * Property, plant and equipment and investment property | | | | |  | **✓** | **✓** | | **✓** | **✓** | **✓** |
| * Royalty revenue | | | | |  | **✓** | **✓** | | **✓** | **✓** | **✓** |
| * Provision | | | | |  | **✓** |  | | **✓** | **✓** |  |
| **Predetermined objectives** | | | | |  | **14/15** | **13/14** | | **12/13** | **11/12** | **10/11** |
| * Department of Rural Development | | | | |  |  |  | | **✓** | **✓** | **✓** |
| * Registration of Deeds Trading Account | | | | |  |  | **✓** | | **✓** | **✓** | **✓** |
| * Ingonyama Trust Board | | | | |  |  | **✓** | |  |  |  |
| **Compliance with legislation** | | | | |  | **14/15** | **13/14** | | **12/13** | **11/12** | **10/11** |
| * Department of Rural Development | | | | |  | **✓** | **✓** | | **✓** | **✓** | **✓** |
| * Agricultural Land Holding Account | | | | |  | **✓** | **✓** | | **✓** | **✓** | **✓** |
| * Registration of Deeds Trading Account | | | | |  | **✓** | **✓** | | **✓** | **✓** |  |
| * Ingonyama Trust Board | | | | |  | **✓** | **✓** | | **✓** | **✓** | **✓** |
|  | | **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 | | | |
| **✓** |  | | Department/entity had findings (in the related matter) | | | |

**2.1 Significant emphasis of matters**

| **Department/ entity** | **Emphasis of matter raised** |
| --- | --- |
| Department of Rural Development and Land Reform | **Impairments**   * As disclosed in note 13.1 to the financial statements, provision was made for impairment of an investment of R16 million. This related to Inala Farms (Pty) Ltd, which was in the process of being liquidated, and the investment might not be recovered. * As disclosed in note 29 to the financial statements, provision was made for impairment of R99 million, of which R43 million related to non-recovery of lease debtors and R28 million related to provision for doubtful debts: conveyancers as a result of inadequate debt collection controls.   **Significant uncertainties – disclosed in the financial statements**   * As disclosed in note 19.1 to the financial statements, claims were instituted against the department, amounting to R2 123 million. These claims were subject to the outcome of legal proceedings. The ultimate outcome of these matters could not be determined at present, with the result that no provision for any liability that might result was made in the department’s financial statements. * As disclosed in note 19.1 to the financial statements, the department had a possible liability towards the claimants in terms of the Restitution of Land Rights Act, 1994 (Act No. 22 of 1994). The total amount in claims verified and pending approval in terms of section 42D of this act was approximately R113 million, which, once approved by the minister, would increase the commitment amount disclosed in note 19 to the annual financial statements.   **Restatement of corresponding figures**   * As disclosed in note 35.1 to the financial statements, the corresponding figures for 31 March 2014 were restated as a result of an error discovered during the 2014-15 financial year in the financial statements of the department at, and for the year ended, 31 March 2014. |
| Agricultural Land Holding Account | **Restatement of corresponding figures**   * As disclosed in note 26 to the financial statements, the corresponding figures for 31 March 2014 were restated as a result of an error discovered during the financial year ended 31 March 2015 in the financial statements of the ALHA at, and for the year ended, 31 March 2014.   **Impairment of trade receivables**   * As disclosed in note 7 to the financial statements, the trading entity had receivables from exchange transactions totalling R307 103 000 (2014: R287 120 000), with an allowance for impairment of R264 098 000 (2014: R241 926 000), at 31 March 2015. The extent of the recoverability of these amounts was uncertain.   **Impairment of receivables from non-exchange transactions**   * As disclosed in note 8 to the financial statements, the trading entity had receivables from non-exchange transactions totalling R376 273 000 (2014: R374 716 000), with an allowance for impairment of R225 798 000 (2014: R187 295 000), which had not been recovered from strategic partners to set off the receivables from non-exchange transactions. |
| Registration of Deeds Trading Account | **Restatement of corresponding figures**   * As disclosed in note 22 to the financial statements, the corresponding figures for 31 March 2014 were restated as a result of an error discovered during the financial year ended 31 March 2015 in the financial statements of the Registration of Deeds Trading Account at, and for the year ended, 31 March 2014.   **Impairments**   * As disclosed in note 3 to the financial statements, an impairment provision for R23 937 000 relating to prepayment made to a service provider was raised as a result of the entity not foreseeing that the full amount paid would be recoverable from the service provider through service delivery. * As disclosed in note 4 to the financial statements, provision for doubtful debts to the amount of R3 556 000,00 was raised for estimated irrecoverable trade debtors.   **Significant uncertainties**   * With reference to note 20 to the financial statements, three contingent liabilities were disclosed in the notes to the annual financial statements. The entity was disputing the services reportedly provided to the entity by three services providers. The three cases were still under investigation, and discussions with the service providers were ongoing; therefore, the ultimate outcome regarding these matters could not be determined at the reporting date. |
| Ingonyama Trust Board | **Material impairments**   * As disclosed in note 24 to the financial statements, material impairments to the amount of R6,0 million (2014: R3,4 million) were incurred as a result of the annual review of the recovery of trade debtors. |

1. **Key focus areas**

****

**3.1 Material errors/omissions in submitted annual financial statements**

| **Department/entity** | **Finding** | **Root cause** | **Recommendation** |
| --- | --- | --- | --- |
| Department of Rural Development and Land Reform | * Incorrect classification of restitution commitments due to negative balance at year-end disclosed in the financial statements * Incomplete implementing agencies disclosure note in the AFS * Restatement of opening balance without supporting evidence * Subsequent events disclosure not included for all transactions * Incorrect classification of contingent assets restatement * Understatement of contingent liabilities (legal cases) * Disclosure on immovable asset additions note not in accordance with the modified cash standard | Improvement was required regarding the department’s oversight of financial and performance reporting and related internal controls. This was evidenced by the fact that the department still needed to improve its internal monitoring controls to ensure full compliance with the modified cash standard for financial reporting and accurate reporting of the performance report, given that the auditors had identified misstatements in this regard.  Lack of daily and monthly controls to ensure accurate record keeping and preparation of financial and performance information | The department needs to focus on implementing action plans to address the root causes of the internal control deficiencies identified going forward.  Attention should be given to the daily and monthly controls, as well as information systems environment, as systems were found with several weaknesses and did not constitute an ideal mature information system environment. |
| Registration of Deeds Trading Account | * Budget amount disclosed in the statement of comparison of budget and actual amount not agreeing with the published budget * Contracts commitments relating to services disclosed incorrectly as operating lease commitments in the financial statements * Useful life of assets not reassessed and cost of assets not correctly valued at date of recognition, resulting in fully depreciated assets being recorded | The implemented internal monitoring of controls currently failed to ensure accurate financial reporting. These deficiencies resulted in the material misstatements identified by the auditors.  Lack of daily and monthly controls to ensure accurate record keeping and preparation of financial and performance information | The entity needs to focus on implementing action plans to address the root cause of the internal control deficiencies identified going forward.  Attention should be given to the daily and monthly controls, as well as information systems environment, as systems were found with several weaknesses and did not constitute an ideal mature information system environment. |
| Ingonyama Trust Board | * No valuation of land performed * Incorrect accrual of royalty revenue * Provision incorrectly recognised, resulting in overstatement of provision and expenditure * Irregular expenditure not recorded due to bidding process not being followed for capital expenditure | The accounting authority did not adequately exercise its oversight responsibilities with regard to the implementation and monitoring of internal controls relating to financial reporting.  A system established by the accounting authority for monitoring compliance with legislation relating to supply chain management, as well as full compliance with the South African Standards of GRAP, was inadequate. | Management should ensure that implementation and monitoring of controls are in place to ensure that the financial statements are prepared free of material misstatement.  Management should ensure that the current controls in place are effective and should develop an action plan to address the shortfall in the existing controls. |

**3.1.1 Comments on additional AGSA interactions to help improve financial outcomes**

| **Department/entity** | **Additional interaction/ service (for example, workshops, etc.)** | **Impact/outcome** |
| --- | --- | --- |
| Department of Rural Development and Land Reform  and  Registration of Deeds Trading Account | * Meeting with the department and the entities to go through prior-year findings, root causes and recommendations to identity quick wins * An interim audit was performed on disclosure note items, which were considered to be a significant risk, for early warning and correction. | The number of material adjustments decreased compared to the previous year. |
| Ingonyama Trust Board | * Meeting with management to discuss prior-year findings during dashboard interactions | The entity remained qualified. |

* 1. **Predetermined objectives**

| **Department/entity** | **Finding** | **Root cause** | **Recommendation** |
| --- | --- | --- | --- |
| Department of Rural Development and Land Reform | The supporting document provided did not agree with the technical indicator description and was not valid to substantiate targets achieved for various indicators within programmes 3 and 5. | Lack of daily and monthly controls to ensure accurate record keeping and preparation of financial and performance information  Furthermore, inadequate monitoring and review of evidence to ensure that targets achieved were supported by reliable evidence | Attention should be given to the daily and monthly controls, as well as information systems environment, as systems were found with several weaknesses and did not constitute an ideal mature information system environment. |

**3.2.1 Comments on additional AGSA interactions to help improve audit of predetermined objectives (AOPO) outcomes**

| **Department/entity** | **Additional interaction/service (for example, workshops, etc.)** | **Impact/outcome** |
| --- | --- | --- |
| Department of Rural Development and Land Reform | * Meeting with the department and the entities to go through prior-year findings and root causes * An interim audit was performed on AOPO, which was considered to be a significant risk for reliability. | The number of material adjustments decreased compared to the previous year. |
| Ingonyama Trust Board | * Meeting with management to address AOPO findings and the SMART principle at dashboard interactions | AOPO improved to an unqualified conclusion. |

* 1. **Compliance with legislation**

| **Department/ entity** | **Finding** | **Root cause** | **Recommendation** |
| --- | --- | --- | --- |
| Department of Rural Development | * Material correction in annual financial statements * Expenditure management – irregular and fruitless and wasteful expenditure incurred | Lack of daily and monthly controls to ensure accurate record keeping and preparation of financial and performance information | Attention should be given to the daily and monthly controls, as well as information systems environment, as systems were found with several weaknesses and did not constitute an ideal mature information system environment. |
| Agricultural Land Holding Account | * Revenue management – significant amount of receivables not being recovered | Improvement was required regarding the department’s oversight of internal controls relating to compliance. | The entity needs to focus on implementing action plans to address the root cause of the internal control deficiencies identified going forward. |
| Registration of Deeds Trading Account | * Material correction in annual financial statements submitted for audit purposes | Lack of daily and monthly controls to ensure accurate record keeping and preparation of financial and performance information | Attention should be given to the daily and monthly controls, as well as information systems environment, as systems were found with several weaknesses and did not constitute an ideal mature information system environment. |
| Ingonyama Trust Board | * Material correction in annual financial statements * Expenditure management – irregular and fruitless and wasteful expenditure incurred | Lack of monitoring process and inadequate review to ensure that all transactions were in compliance with the applicable legislation | The accounting authority should implement adequate controls to ensure that the requirements of GRAP are applied in the preparation of the annual financial statements. |

* 1. **Human resource management and consequence management**

| **Department/ entity** | **Finding** | **Root cause** | **Recommendation** |
| --- | --- | --- | --- |
| Department of Rural Development and Land Reform | Employees did not have prior approval from the executive authority to be re-appointed in a post in which they had acted for six months. | Effective HR management was not implemented to ensure that the process of appointment or renewal of contract was followed. | The department should ensure that the process of appointment and re-appointment is strictly followed and always complies with the relevant legislation. |
| Registration of Deeds Trading Account | * Not all employees had signed performance agreements for the current performance period, and some performance agreements relating to senior management and other employees had not been signed within the first two months of the new cycle as per EMPS policy and DPSA circular 14/4/1. * Performance bonuses paid to senior management were incorrectly calculated, resulting in an overpayment. | Effective HR management was not implemented to ensure that the process was followed and complied with relevant legislation. | Processes in place should be aligned with the required legislation and be followed strictly. |

* 1. **Information technology (control environment)**

The national department provides IT services to ALHA and Deeds. An analysis of the audit outcomes indicated that adequate progress had not been made in addressing previous findings as risks remained in all of the focus areas. Many previously raised findings had not been adequately addressed specifically in the areas of user access management and IT service continuity where controls had not been adequately designed and implemented.

This could mainly be attributed to infrastructure changes still taking place at the national department, inadequately designed policies and procedures, a lack of monitoring and review of access rights and activities and a lack of adequate human resources to design and implement certain controls.

We therefore recommend that governance structures should be strengthened to ensure accountability for resolving issues arising from previous year’s reports.

1. **Other matters of interest**
2. 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 |  | None |  |  |  |

1. Irregular expenditure (expenditure incurred in contravention of key legislation)

| **Department/entity** | | **Irregular expenditure** | | | | |
| --- | --- | --- | --- | --- | --- | --- |
| **Movement** | **Amount R 2014/15** | **Amount R 2013/14** | **Root cause** | **Recommenda-tion** |
| 1 | *Department of Rural Development and Land Reform* |  | R25 286 000 | R12 647 000 | Review and monitoring of compliance with applicable legislation were not performed, resulting in transactions incurred being irregular. | Controls should be put in place to ensure that transactions entered into are reviewed before they are processed and finalised. |
| 2 | *Registration of Deeds Trading Account* |  | R0 | R5 946 993 | Review and monitoring of compliance with applicable legislation were not performed, resulting in transactions incurred being irregular. | Controls should be put in place to ensure that transactions entered into are reviewed before they are processed and finalised. |
| 3 | *Ingonyama Trust Board* |  | R2 024 576 | R0 | The accounting officer did not exercise oversight in ensuring that goods were procured in a manner that was fair, equitable and transparent and in compliance with the Treasury Regulations. | The accounting authority should ensure that the procurement process and supply chain management (SCM) policies are adhered to.  The accounting authority should, furthermore, implement effective monitoring controls to ensure compliance with SCM Treasury Regulations.  The accounting authority must review all payments to identify similar instances, which must be quantified and disclosed, together with the above amount, as irregular expenditure in the notes to the financial statements. |

1. 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** | **Recommenda-tion** |
| 1 | *Department of Rural Development and Land Reform* |  | R6 073 000 | R5 417 000 | Review and monitoring of compliance with applicable legislation were not performed, resulting in transactions incurred being irregular. | Controls should be put in place to ensure that transactions entered into are reviewed before they are processed and finalised to avoid fruitless and wasteful expenses being incurred.  Furthermore, consequence management concerning the related official who incurred the amount should be strictly followed. |
| 2 | *Agricultural Land Holding Account* |  | R60 000 | R35 000 | Review and monitoring of compliance with applicable legislation were not performed, resulting in transactions incurred being irregular. | Controls should be put in place to ensure that transactions entered into are reviewed before they are processed and finalised to avoid fruitless and wasteful expenses being incurred.  Furthermore, consequence management concerning the related official who incurred the amount should be strictly followed. |
| 3 | *Registration of Deeds Trading Account* |  | R7 000 | R20 000 | Review and monitoring of compliance with applicable legislation were not performed, resulting in transactions incurred being irregular. | Controls should be put in place to ensure that transactions entered into are reviewed before they are processed and finalised to avoid fruitless and wasteful expenses being incurred.  Furthermore, consequence management concerning the related official who incurred the amount should be strictly followed. |

1. **Drivers of internal controls**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Drivers of internal control** | | | | | | | | | | | | | | |
| **Department and entities** | **Leadership** | | | | | | **Financial and 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 Rural Development and Land Reform |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Agricultural Land Holding Accounts |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Registration of Deeds Trading Account |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Ingonyama Trust Board |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

1. **Other AGSA reports**

**6.1 Investigations**

Department of Rural Development and Land Reform

As at 31 March 2015, 55 cases were under investigation by internal audit and the SIU, as requested by the department. These investigations related mainly to the following:

* Allegations of fraud and procurement irregularities
* Allegations relating to S&T
* Allegations of fraud and corruption
* Allegations of misuse of funds and state assets
* Allegations of falsified leave and leave irregularities
* Alleged undertaking of remunerative work outside the public service
* The appointment of a service provider
* The appointment of an official within the department

The financial impact of the above has not been quantified at this stage, as the investigations are still in progress.

As at 31 March 2015, internal audit had completed 15 investigations for the period under review. These investigations related mainly to the following:

* Allegations of mismanagement of communal property association
* Allegations relating to nepotism
* Allegations of misuse of government garage and rental vehicles and state assets
* Allegations relating to fronting
* Allegations relating to corruption
* Allegations relating to housing allowance mismanagement
* Allegations of misconduct by employees
* Allegations relating to information technology procurement irregularities

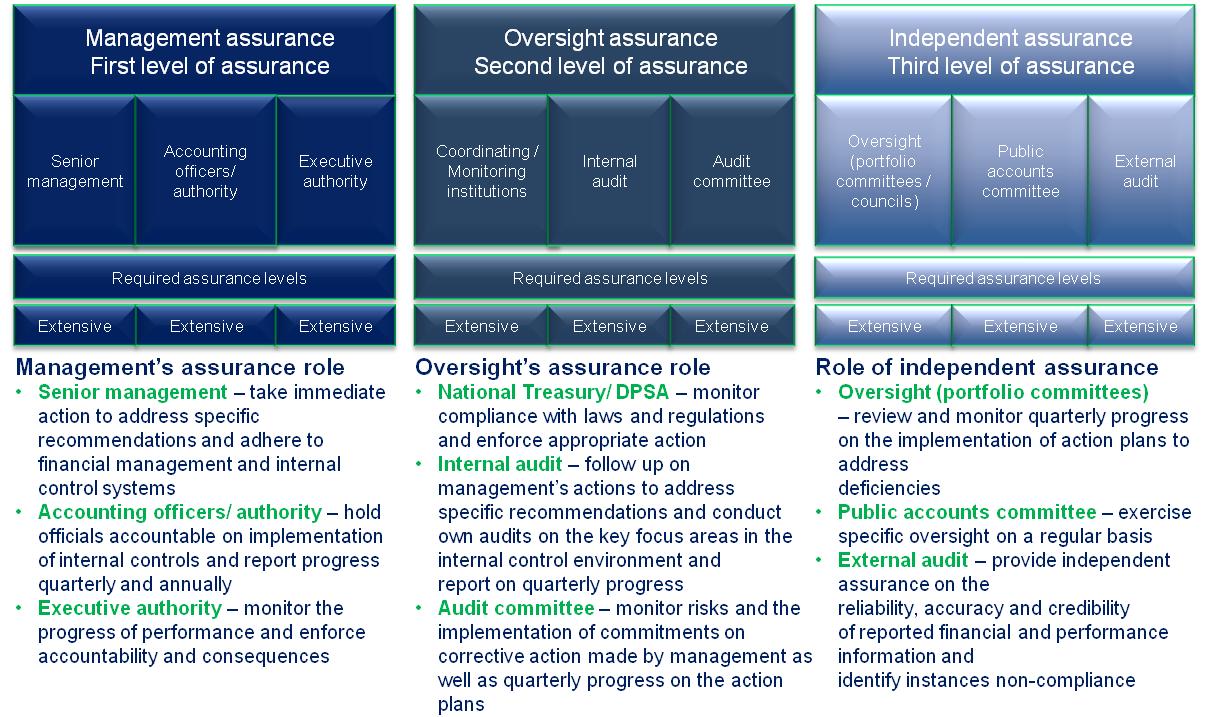
Agricultural Land Holding Account

* As at 31 March 2015, 17 cases were under investigation by internal audit. These investigations related mainly to allegations of financial mismanagement and financial irregularities at the entity. The investigation was still in progress at year-end and was expected to be finalised during the 2015-16 financial year.
* As at 31 March 2015, 10 cases under investigation by internal audit had been finalised. These investigations related mainly to allegations of financial mismanagement and corruption at the entity. The financial impact of these cases was considered and found not to be material to the annual financial statements.

Registration of Deeds Trading Account

* As at 31 March 2015, two cases were under investigation by internal audit as requested by the department. These investigations related to the allegation of financial mismanagement at the entity. The investigations started in the 2013-14 period and were still in progress at year-end. They were expected to be finalised in the 2015-16 period.
* As at 31 March 2015, eight cases under investigation by internal audit and the SIU had been finalised. These investigations related to the following:
* Allegations relating to corruption and financial mismanagement at the Deeds Office
* Allegations relating to allegations of manipulation of the deeds registration system
* Allegations of fraudulent state land transfers
* The financial impact of these cases was considered and found not to be material to the annual financial statements.

1. **Combined assurance on risk management in the public sector**



1. **Minister’s commitments and progress on these commitments**

The following includes prior-year commitments and new commitments made:

|  |  |  |  |
| --- | --- | --- | --- |
| **Focus area** | **Commitment** | **Due date** | **Status** |
| Staff vacancy | Ensure that the internal audit function is fully staffed.  This will also assist to ensure that credibility checks have been performed on all financial and performance information submitted by management to the different stakeholders. | March 2014 | Internal audit was now staffed and performing its function effectively; no consultant was appointed for internal audit due to inadequate capacity. |
| Monitoring and review of strategic plan | Develop the strategic plans for the 2011-2015 financial years using the new planning framework, ensuring that the department-wide objectives are clearly defined, that risks associated with each objective will be defined, and that these will be controlled throughout the financial year. | March 2014 | The strategic plan and annual performance plan for 2015/16 were clearly defined, and objectives were well defined. |
| Staff vacancy | Reduce the vacancy rate by filling vacancies of key management positions. | March 2014 | Vacancies had decreased, and the key management position was filled. |
| Action plan to address internal and external audit findings | Develop action plans to address weaknesses in internal controls and to sustain existing controls. | March 2014 | An action plan was developed; however, some of the implementation of the action plan was not being monitored and did not address the root causes of the finding, resulting in a number of repeat findings being identified. |
| Effective monitoring and controls for project management | Implement effective project management in order to avoid irregular expenditure incurred by the department. | March 2015 | Lack of monitoring of the status of projects was identified during the year for Narysec, resulting in irregular and fruitless and wasteful expenditure being identified during the year. |
| Action plan to address internal and external audit findings | The root cause of the audit finding had not been identified correctly; this was evident, as a number of repeat findings were identified during the audit.  Management should develop a proper process to identify the reason for deficiencies in addressing root causes of all audit findings. An appropriate action plan should be prepared, and the implementation of the action plan should be strictly monitored. | March 2016 | A new commitment was identified in the current year. |

|  |  |
| --- | --- |
| **STATUS LEGEND** | |
|  | Commitment has been implemented |
|  | Commitment in progress |
|  | Commitment has not been implemented |
|  | New commitment made in current year |

1. **Commitments from the portfolio committee**

The following recommended commitments are to be actioned by the committee:

* Follow up with the department and the entities within the portfolio on the outcome of the targets reported as achieved compared to the spending of the allocated budget per programme.
* Ensure creditability of the information submitted to the portfolio, which is to be thoroughly checked by internal audit and the audit committee to ensure reliability of information.