Briefing to the Portfolio Committee of Agriculture, Land Reform and Rural Development

9 March 2021

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

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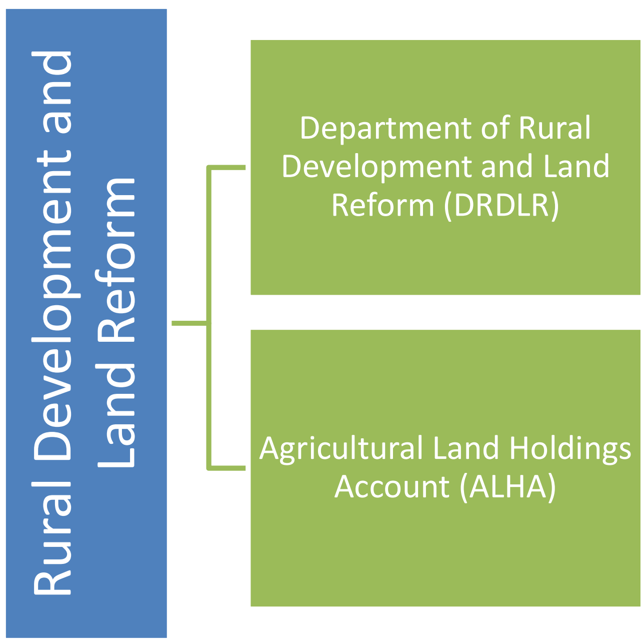
1. Introduction

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, exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.

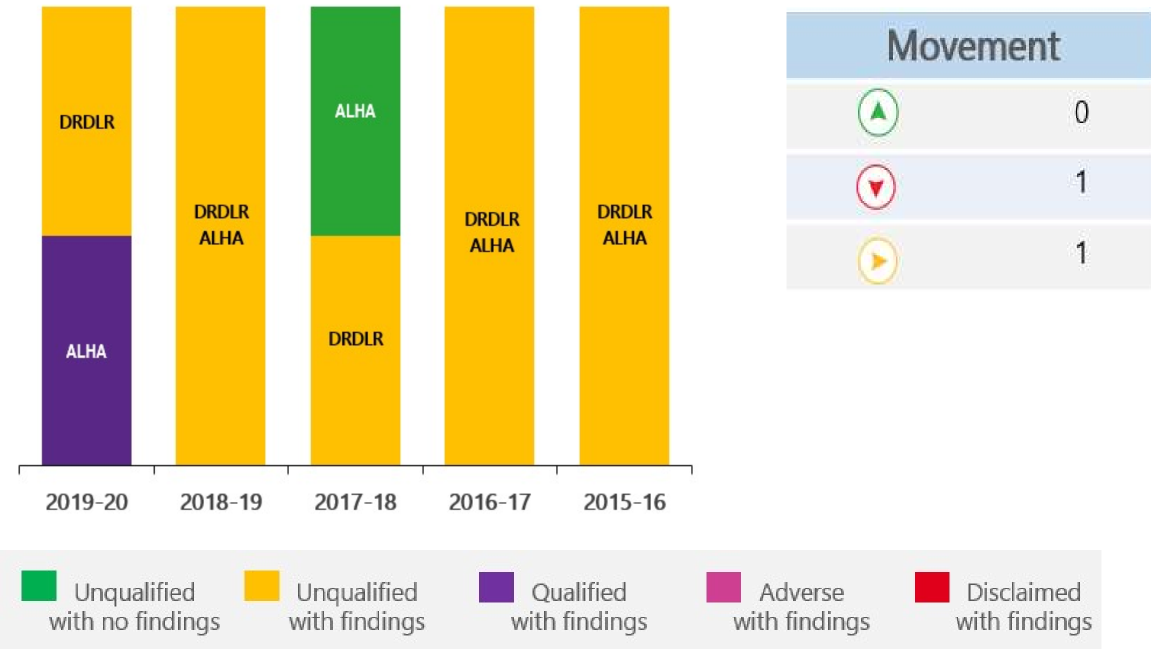
Purpose of document

To provide an overview of the audit outcomes and other findings in respect of the 2019-20 financial year period for the following auditees:



2. Summary of audit outcomes

Audit opinion history over five years



Department of Rural Development and Land Reform

Audit outcomes for the then Department of Rural Development and Land Reform (DRDLR) has been stagnant for the past five years. Financial statements preparation remains a concern as material misstatements were identified in the financial statements submitted for audit. This is attributed to inadequate implementation of action plans and lack of a culture of basic financial management in the preparation of reliable financial statements that are supported by schedules and reconciliations.

Proper record keeping and verification within the department needs to be enhanced to ensure that the audit process is undertaken without undue delays.

We identified conflicts of interests with the department’s employees, suppliers and other employees employed by other entities of the state. In some instances, the necessary declarations of interest were not submitted for audit, as a result we were unable to assess the conflicts for instances of non-compliance. This is a repeat material non-compliance from prior year.

The department has a high number of investigations that are on-going, with others being investigated by the Special Investigating Unit. Delays in finalising the investigations results in appropriate disciplinary actions and enhancement of the internal controls not timeously implemented. Where investigations were completed with recommendations for consequence management, the recommendations for disciplinary steps were not implemented.

Agricultural Land Holdings Account

The entity has regressed in its audit outcomes. Material misstatements were noted in the financial statements of both the 2018-19 and 2019-20 financial year. The preparation and review process of the financial statements was inadequate, as it did not identify material misstatements in the financial statements before submission for audit. Management did not correct some of the misstatements identified, resulting in a qualified audit outcome on receivables disclosed in the financial statements for 2019-20 financial year.

The qualification area is mainly as a result of inadequate processes to monitor and account for grants given to the farmers as part of the recapitalisation programme. We identified that adequate assessments of the utilisation of the grants advanced to the beneficiaries was not performed, as a result monies owed to the entity were not accounted for in the financial statements.

Below is a summary of other material misstatements identified during the audit, however management was able to correct them:

- The disclosure of future minimum lease receivables in the financial statements did not agree to the underlying supporting schedules.
- The disclosure on the cash generated from operations note did not appropriately account for the non-cash items, such as interest income not received and provisions.
- The financial risk management disclosures incorrectly disclosed receivables as part of risk items impacting liquidity and cash flow of the entity, whereas the entity will not be required to settle any receivables. This is not in line with the reporting framework.
- The Strengthening of Relative Rights grant expenditure was incorrectly recorded.

The entity did not comply with the legislated requirement to submit financial statements timely for audit. In the 2019-20 financial year, despite National Treasury having extended the submission date by two months, the entity submitted financial statements two months late.

3. ALHA conditional grants

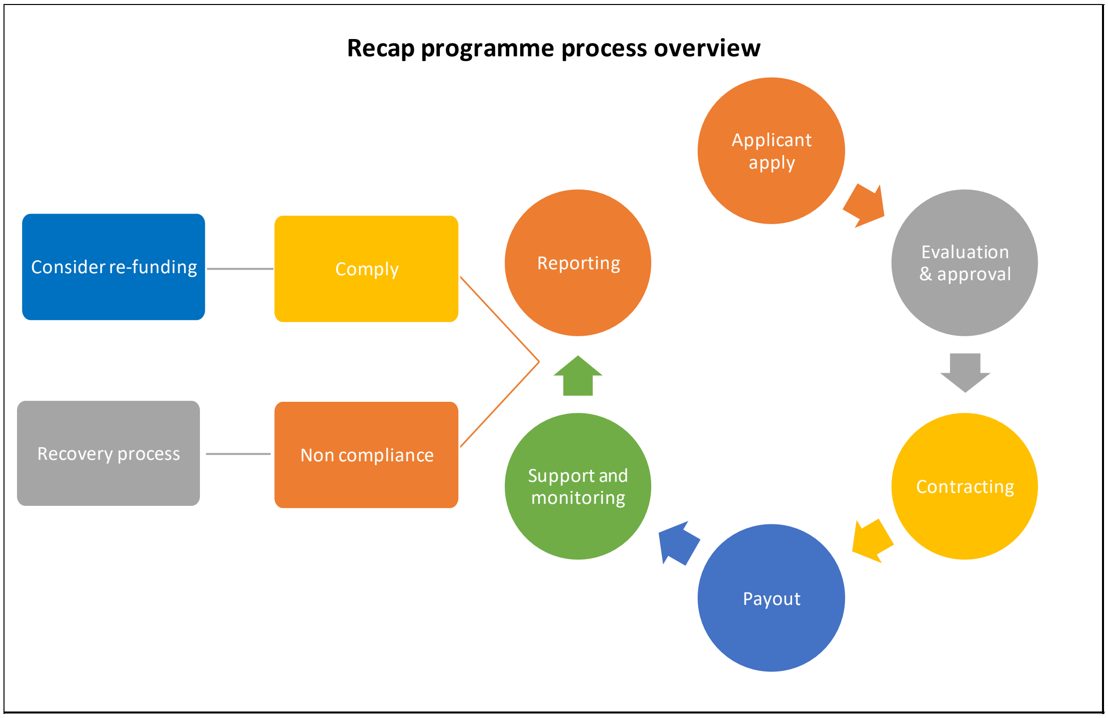
The entity, as part of its land support programme during 2011 and 2017, provided grant beneficiaries with funding based on approved business plans amounting to R2, 292 billion. The first grant tranche payments were paid out as advances and the grant recipients needed to maintain detailed accurate financial and accounting records, including supporting documents such as progress reports, invoices, receipts and vouchers as proof of their spending in terms of the business plan.

The entity was required to monitor compliance with the grant conditions, and in terms of the policy of the grants, the beneficiaries had to account for at least 80% of the grants before a second tranche grant can be paid out.

The agreements entered into stipulated that expenses incurred that do not comply with quality standards or which were not utilised in accordance with the approved business plan will not be considered qualifying expenses.

In instances where the monitoring process identifies non-compliance to the grant terms and conditions, the beneficiaries were required to repay back the grant monies advanced.

The graphic below provides a summary of this process:



As at 31 March 2019, out of the R2, 292 billion paid out, a total of R1, 726 billion was reconciled and confirmed by the entity that the monies were utilised as per the business plans, however the balance of R566 million still requires supporting evidence from the farmers. Management had provided various reasons why the balance remained unaccounted, which include among others:

- Inadequate project management and monitoring by the entity;
- Poor record keeping by the entity where some farmers provided information to provincial offices;
- Farmers that are not cooperative or not responsive; and
- Funds not used for the intended purpose as per the approved business plans.

In the prior years, the entity indicated that they explored various avenues in an attempt to determine the extent of the grants that must be repaid or what legal steps can be pursued to recover the monies. Some of these efforts indicated by management included:

- Seeking legal advice from the State Attorney office;
- Holding meetings with grant beneficiaries;
- Appointing consultant to perform site visits;
- Piloting the recovery of the monies through a debt collector; and
- Taking legal action to recover the grants unaccounted for.

From our audit, we identified several indicators that support that some of the funds are owed to the entity in line with the conditions set in the grant contracts. Therefore a detailed assessment should have been performed and these funds be accounted for accordingly. Some of the indicators we identified are the following amongst others:

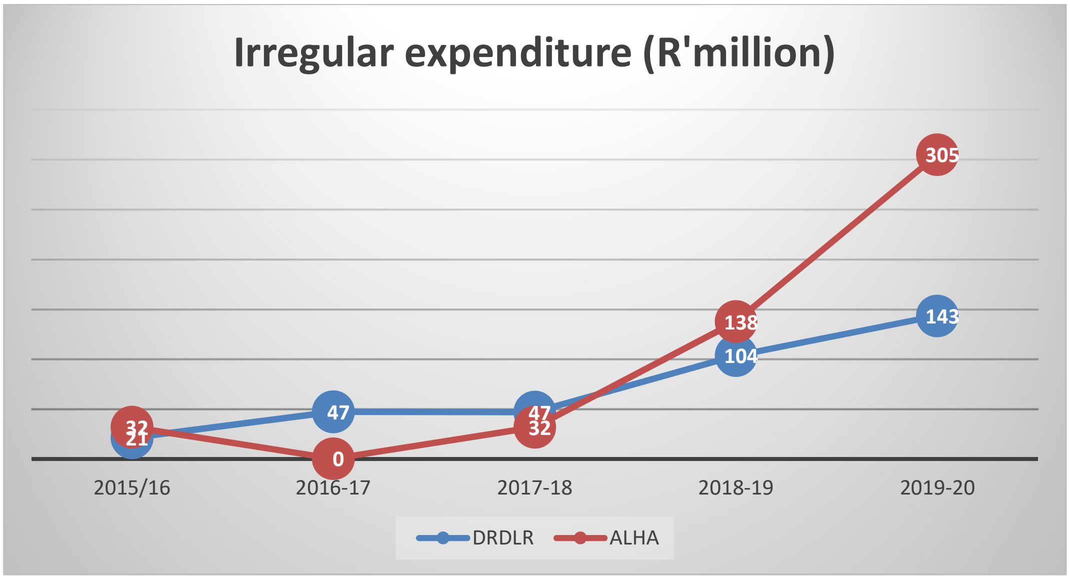
- The production cycle for the farming activity the funding was intended for has lapsed;
- Invoices supporting how the funds were used were not submitted timely or were not submitted at all;
- Some projects were under litigation due to misuse of funds;
- Deviations were noted on the actual expenditure from the approved business plans;
- Incomplete inventory listings were maintained of assets bought with the grant funds;
- Some assets could not be verified that were allegedly bought with the grant funds; and
- Allegations of misuse of the grant funds.

Management ought to have performed a detailed assessment of these indicators on a contract-by-contract basis and determine the extent of the monies that must be repaid back to ensure that the grants provided which were not utilised according to the business plans are paid back by the beneficiaries.

4. Irregular expenditure and fruitless and wasteful expenditure

Irregular expenditure

The DRDLR and ALHA did not take effective and appropriate steps to prevent irregular expenditure. Below is a cumulative balance of the irregular expenditure over the past five years:

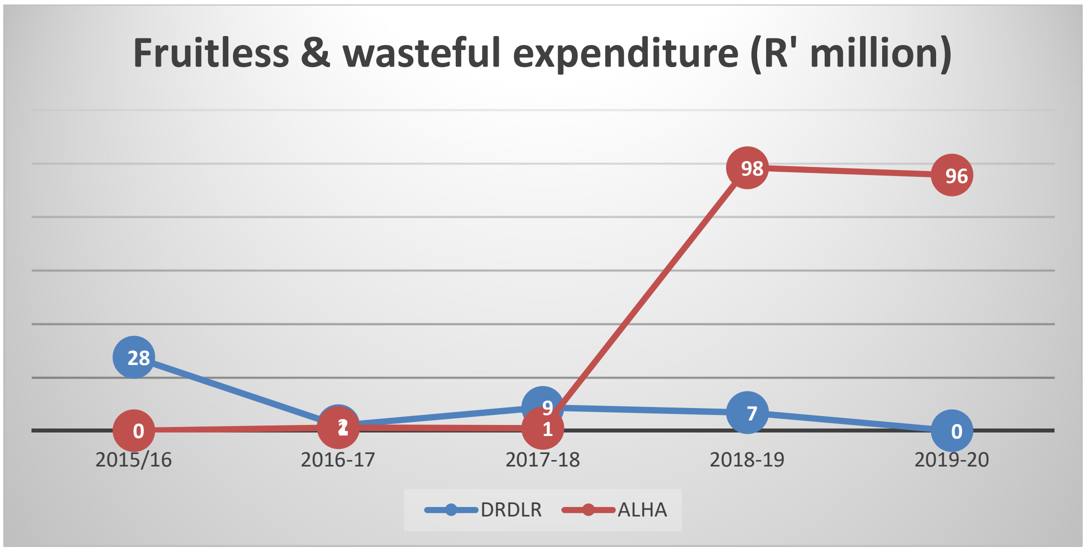


Below is the summary of the non-compliance matters of the irregular expenditure incurred during the 2019-20 financial year:

Non-compliance	DRDLR	ALHA
Bids not advertised for 21 days	39 773 000	-
Use of implementing agents (commodity organisations) without following SCM process on Land Development Support projects	-	155 145 891
Appointment of business rescue practitioner without following SCM process for SRR project	-	1 120 293
Deviation procurement on drought relief	-	11 000 000
TOTAL	**39 773 000**	**167 266 184**

Fruitless and wasteful expenditure

ALHA's current year fruitless and wasteful decreased significantly compared to prior year. The bulk of the fruitless and wasteful expenditure incurred in the prior years relates to the SRR projects where grants were provided to rescue some projects. An investigation on the SRR projects had been commissioned and completed. Management is in the process of implementing the recommendations from the forensic investigation report.



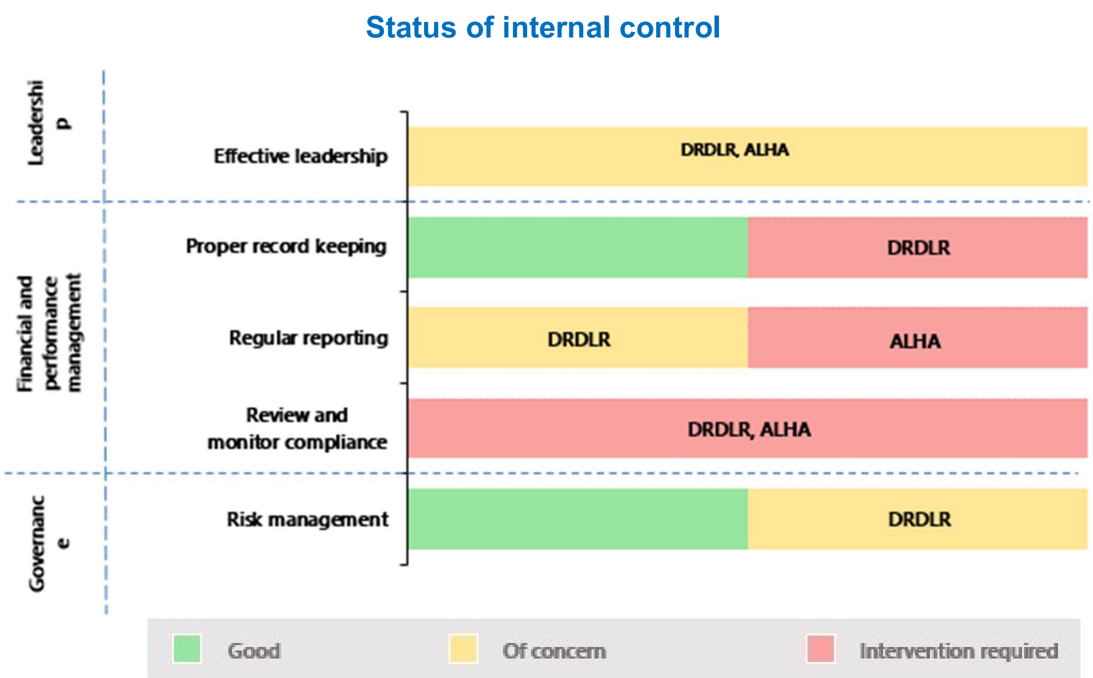
Below is the detail of the fruitless and wasteful expenditure incurred during the 2019-20 financial year:

Nature of incident	DRDLR	ALHA
Interest paid on late payments of invoices, contract cancellations / arbitration	169 000	83 000
Duplicate payments made on travel invoices	381 000	
TOTAL	**550 000**	**83 000**

The PFMA requires that the accounting officer must prevent irregular, fruitless, and wasteful expenditure. However, should there be irregular and fruitless and wasteful expenditure identified there are key general responsibilities that the accounting officer (section 38) should take, i.e.:

- Recover any financial losses from the responsible officials.
- Institute a formal investigation if there are indications of fraud, corruption or other criminal conduct. If confirmed, take further action, e.g. report the matter to the SAPS.
- Recover any financial losses from an external party.
- Take steps against the responsible official (which can include a financial misconduct investigation).

5. Assessment of Internal Controls



Leadership

Management did not effectively exercise oversight responsibility over financial reporting and compliance and related controls. This is evidenced by the annual financial statements containing material misstatements and the significant increase in the irregular expenditure incurred by ALHA.

Action plans to address internal and external audit findings was developed, but the review and implementation monitoring to ensure implementation has not been effective. This is evident because of certain repeat findings that occurred on the financial statements and compliance to legislation.

Financial and performance management

Management did not ensure that there were adequate controls to confirm the accuracy of information in the preparation of financial reporting and compliance with legislation. The audit revealed significant weaknesses in the internal control environment, which is not ideal for preparation of complete and credible financial information (monthly, quarterly and annual) that is free of material errors and misstatements.

Significant delays were experienced in submission of information for both interim and final audit, therefore highlighting the need for better controls regarding proper record keeping and verification by management.

A culture of compliance with legislation needs to be enforced and monitored to ensure that SCM procurement transcripts are complied with and financial statements submitted for audit per legislated deadlines.

The significant irregular expenditure incurred in ALHA was as a result of non-compliance with SCM prescripts in instances where implementing agents were used.

6. Recommendations

The Department is slow in attending to internal control deficiencies. There should be the required urgency by management in addressing risks identified and improving internal controls. Action plans developed should be regularly monitored to ensure that they are implemented effectively.

The department needs to improve on record keeping and the process for the preparation and review of the financial statements needs to be enhanced.

The results of the daily and monthly controls should inform the reporting process. The financial statements should be adequately reviewed to ensure that they are accurate and complete.

ALHA should perform a detailed assessment of the grants that are not adequately accounted for. Beneficiaries who do not comply with the requirements of the contractual agreements should be identified and where the grants are repayable, legal collection efforts should be pursued.

Daily and monthly monitoring controls over the existing or new projects should be implemented to ensure that any non-complying beneficiaries are timeously identified and where necessary corrective action taken.

Department needs to enhance their mechanisms to comply with SCM transcripts, more specifically relating to advertisement of bids and identifying false declarations of interests.

The high number of investigations in progress within the department should be finalised, which will allow consequence management to be implemented where necessary.

Consequence management should be implemented for officials who were responsible for the irregular, fruitless and wasteful expenditure incurred in both the Department and ALHA.

Submission of financial statements for ALHA for audit timely needs to be closely monitored to ensure compliance.