



AUDITOR-GENERAL
SOUTH AFRICA

Budgetary Review and Recommendations Report

Portfolio Committee on Department of Agriculture, Land Reform and Rural Development and entities

9 November 2021

OUR MISSION AND VISION



OUR MISSION

We have a constitutional mandate and, as the supreme audit institution of South Africa, exist to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.



OUR VISION

To be recognized by all our stakeholders as a relevant supreme audit institution that enhances public sector accountability.

Mandate for the AGSA and portfolio committees

AGSA mandate

Constitution section 188

AGSA must audit and report on accounts, financial statements and financial management of government institutions

PAA section 20(2)

- AGSA must prepare an audit report containing an opinion/ conclusion on:
 - the fair presentation of the financial statements
 - compliance with applicable legislation
 - reported performance against predetermined objectives
- Discretionary audits (including special audits, investigations and performance audits).

Section 5(1B)






- Auditor-General has the power :
 - to take an appropriate remedial action
 - where an accounting officer/authority has failed to comply with remedial action, to issue a certificate of debt, as prescribed.



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Focus


AGSA audit outcomes


<p>Unqualified opinion with no findings (clean audit)</p>  <p>Auditee:</p> <ul style="list-style-type: none"> produced credible and reliable financial statements that are free of material misstatements reported in a useful and reliable manner on performance as measured against predetermined objectives in the annual performance plan (APP) complied with key legislation in conducting their day-to-day operations to achieve their mandate 	<p>Financially unqualified opinion with findings</p>  <p>Auditee produced financial statements without material misstatements or could correct the material misstatements, but struggled in one or more area to:</p> <ul style="list-style-type: none"> align performance reports to the predetermined objectives they committed to in APPs set clear performance indicators and targets to measure their performance against their predetermined objectives report reliably on whether they achieved their performance targets determine the legislation that they should comply with and implement the required policies, procedures and controls to ensure compliance 	<p>Qualified opinion</p>  <p>Auditee:</p> <ul style="list-style-type: none"> had the same challenges as those with unqualified opinions with findings but, in addition, they could not produce credible and reliable financial statements had material misstatements on specific areas in their financial statements, which could not be corrected before the financial statements were published. 	<p>Adverse opinion</p>  <p>Auditee:</p> <ul style="list-style-type: none"> had the same challenges as those with qualified opinions but, in addition, they had so many material misstatements in their financial statements that we disagreed with almost all the amounts and disclosures in the financial statements 	<p>Disclaimed opinion</p>  <p>Auditee:</p> <ul style="list-style-type: none"> had the same challenges as those with qualified opinions but, in addition, they could not provide us with evidence for most of the amounts and disclosures reported in the financial statements, and we were unable to conclude or express an opinion on the credibility of their financial statements
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The AG’s annual audits examine:

1. Fair presentation and absence of significant misstatements in **financial statements**
2. Reliable and credible **performance information** for predetermined objectives
3. **Compliance with laws and regulations** governing financial matters

Movement over the previous year is depicted as follows:


Improved


Unchanged

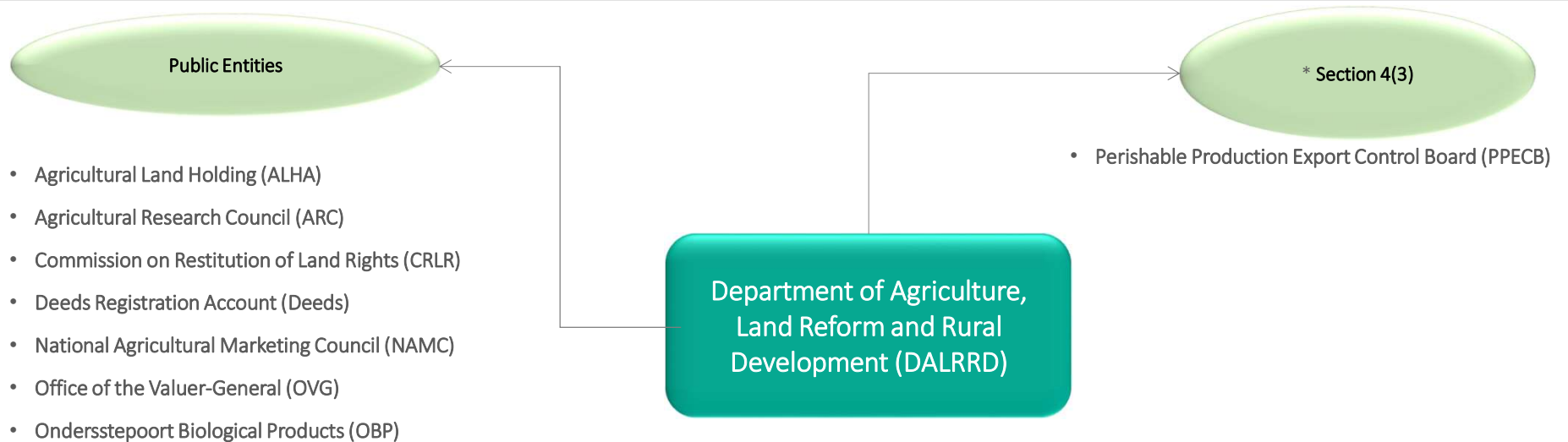

Regressed



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Portfolio outcome

Department of Agriculture, Land Reform and Rural Development portfolio auditees

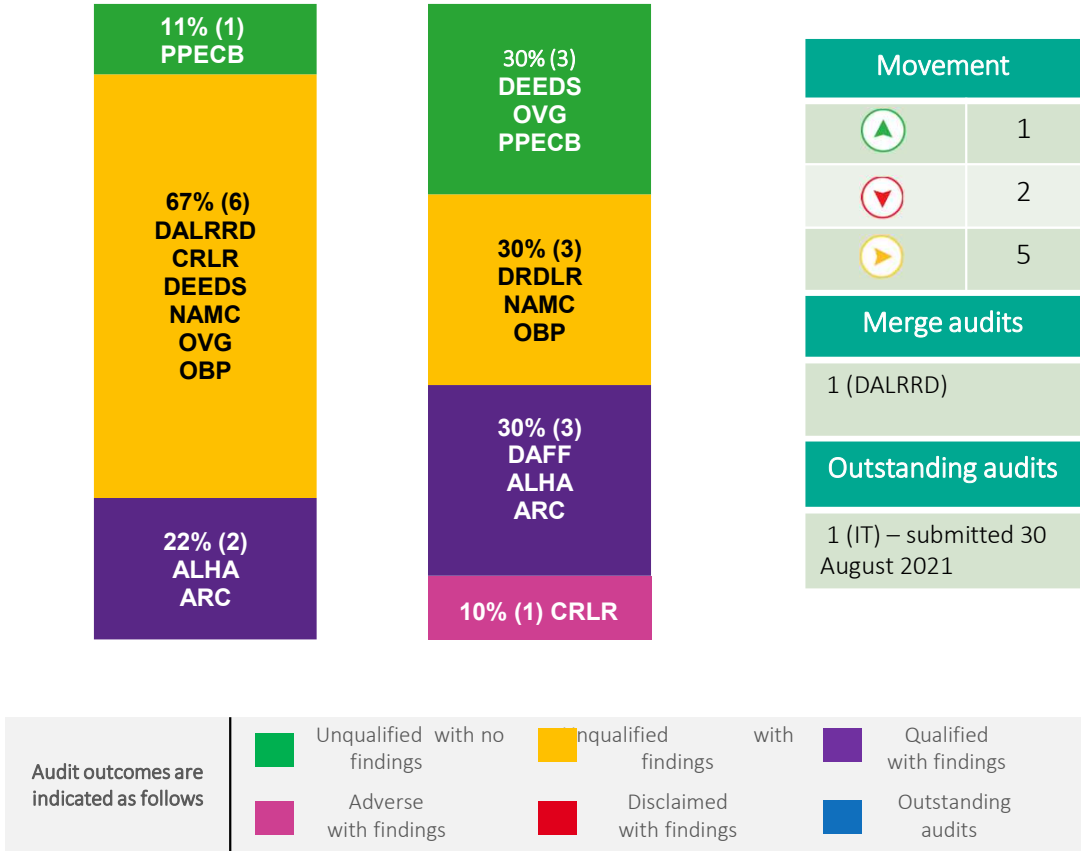




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Audit outcomes for DALRRD and public entities

Audit outcomes of the portfolio over 2 years





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Quality of financial and performance reporting

Quality of financial and performance reporting

Quality of submitted financial statements

- Four (4) auditees submitted financial statements that did not contain material misstatements and we wish to commend these entities (**DALRRD, DEEDS, NAMC, PPECB**).
- Three(3) of the auditees (**OBP, CRLR and OVG**) submitted financial statements that contained material misstatements which were corrected.
- **ALHA** repeat qualification has not been finalised due to historic inadequate contract project management and record keeping that would enable adequate assessment of unaccounted for receivables/grants.
- **ARC** repeat qualification on property, plant and equipment. The entity changed its accounting policy by selecting the revaluation model, however, did not ensure adequate process are in place to enable them to determine the appropriate revaluation amounts to be disclosed. The prior year qualifications on revenue and commitments were resolved.

Quality of performance reporting

- **ARC, NAMC, OVG and PPECB** submitted performance report without errors and had no findings reported on the reliability and usefulness.
- **DALRRD and OBP** had no material findings only because they corrected all misstatements identified during the audit.

Due to the impact of covid-19, the department indicated that the following key targets were not achieved:

- *Planned targets to support subsistence farmers were delayed in the current year. Management indicated that this was due to the inability to perform verifications as a result of Covid-19 restrictions. This impacted small farmers that require the support during the pandemic.*
- *Management further indicated that the lockdown also impacted the allocation of state land as the placement of the necessary adverts was delayed, this will further result in a backlog of the achievement of the highly topical matter of land distribution.*

First focus area: Credible financial reporting

Financial statements



- Submission of financial statements by legislated date
- Financial statements submitted without errors (DALRRD, DEEDS, NAMC, PPECB).
- Quality of final submission after audit (OBP, CRLR, and OVG)

DALRRD, DEEDS, NAMC, PPECB are encouraged to continue with instilling the culture of adherence to controls, in order to sustain the audit outcomes. The timely submission of financial statements within the portfolio needs to be closely monitored as this is a recurring trend. DEEDS, OVG and NAMC submitted financial statements late for audit.

Movement	2020-21	2019-20
<div> <div>▼</div> <div>▲</div> <div>▲</div> </div>	67% (6)	90% (9)
	44% (4)	40% (4)
	33% (3)	20% (2)

Root cause analysis

For ALHA, ARC, CRLR and OVG

- Inadequate review of the financial statements to underlying supporting records and schedules to ensure reliable and transparent reporting.
- Poor record keeping of supporting evidence, therefore information not readily retrievable.
- There is also undue reliance on the audit process to identify misstatements.
- ARC and ALHA did not develop an action plans that respond adequately to the root causes.

Recommendations

- Reviews of the financial statements should incorporate agreeing disclosures to underlying supporting records and schedules.
- ARC must have systematic processes that are implemented by all role players. Ensure that all assets are identified and carrying amounts are determined reliably.
- Adequate record keeping systems should be put in place to ensure financial information is supported by credible and reliable evidence.

Audit outcomes of the ALHA

Qualification area

- During 2011 and 2017 ALHA provided farmers with grants amounting to R2.2 billion.
- R566 million of the funds have not been supported by evidence to conclude that the funds were utilised for qualifying expenditure or their intended purpose.

2019-20 reported matters

We were unable to obtain sufficient appropriate evidence for trade receivables non exchange and the related provision for impairment as the trading account **did not adequately assess** the recapitalisation and development grants where there were **indicators that the grants must repaid** and be recognised as receivables.


2020-21 current year matters

The prior year **qualification was not adequately addressed**. Management **commenced with the assessment** of the recap contracts, however the assessment of some of the contracts was **not finalised as at 31 March 2021**. Some of the **invoices were not assessed** and the necessary **reconciliations were not performed** for all contracts. Evidence of correspondence with some of the farmers were not available for audit purposes.

Way forward

The detailed assessment of the grants not accounted for **should be finalised** and the **assessment should be supported** by evidence, including correspondences with the farmers and reconciliations. A proper determination should be done on whether the funds can be repayable and implement processes to recover the funds where necessary.

Second focus area: Credible performance reporting

Performance report		Movement	2020-21	2019-20
	Performance report submitted without errors	▲	67% (4)	57% (4)
	Performance report adjusted for material misstatements to improve reliability ((DALRRD includes ALHA, CRLR and DEEDs) and OBP)	▲	33% (2)	14% (1)
	Reliable reporting of achievements ((DALRRD includes ALHLA, CRLR and DEEDs) and OBP)	▲	2	1
	Usefulness of performance indicators and targets	▲	0	1

Recommendations

The performance indicators and targets of the portfolio were found to be useful and the actual reported achievements in the annual performance report were reliably and accurately reported. This provides a proper basis to facilitate oversight and decision making for both the department and government.

The portfolio is encouraged to continue with ensuring that they sustain the culture of daily recording and the monitoring controls over performance reporting.



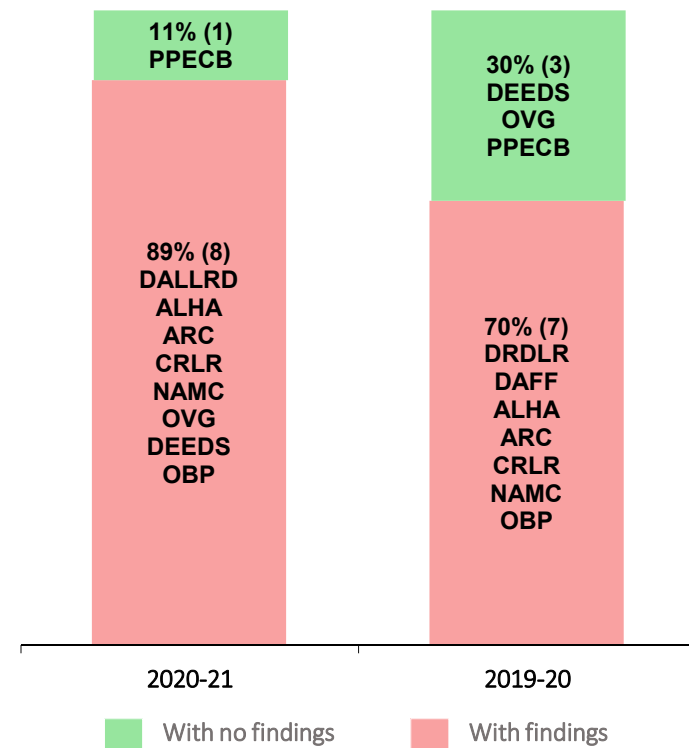
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Compliance with legislation

Third focus area: Compliance with legislation

- In the current year there has been a regression in the compliance with legislation.
- Eight (8) out of the ten (9) auditees have received material findings on compliance, auditees continue to struggle with ensuring credible and reliable annual financial statements are submitted for audit.
- These non-compliance identified is similar to those reported in the prior year, indicating that **DALRRD, ALHA, ARC, CRLR, NAMC, OVG and OBP** did not implement effective action plans to address significant internal control deficiencies relating compliance with legislation.
- We will further unpack the challenges on compliance in the subsequent slides.

Findings on compliance with key legislation

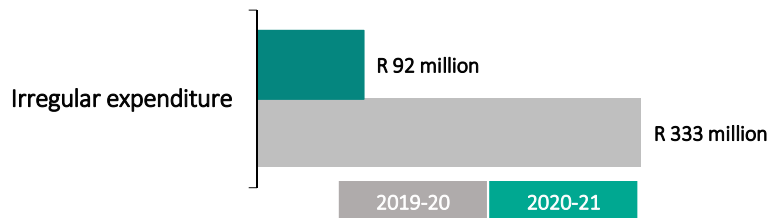


Irregular expenditure over 2 years

Definition

Expenditure incurred in contravention of key legislation; goods may have been delivered but prescribed processes not followed

Irregular expenditure incurred by entities in portfolio



Nature of the irregular expenditure

The highest contributors to irregular expenditure in the portfolio:

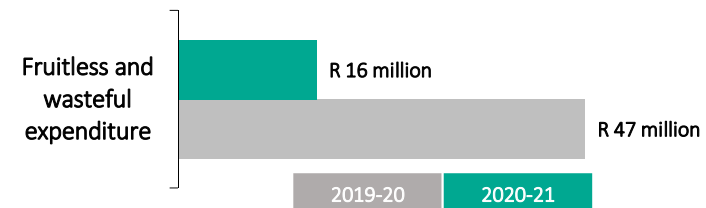
- **DALRRD** – R30,9m Specifications for 3 awards with a total value of R 29,9m that did not stipulate the minimum threshold for local production and content.
- **NAMC** – R 25m relates to NRMDP project contract was entered into without the approval of the delegation of authority.
- **ALHA** – R13,9m from Land Development Support implementing agents that procured goods and services without following SCM transcripts
- **OBP** – R 9,4 m procurement processes not followed for the goods and services

Fruitless and wasteful expenditure over 2 years

Definition

Expenditure incurred in vain and could have been avoided if reasonable steps had been taken. No value for money!

Fruitless and wasteful expenditure incurred by entities in portfolio



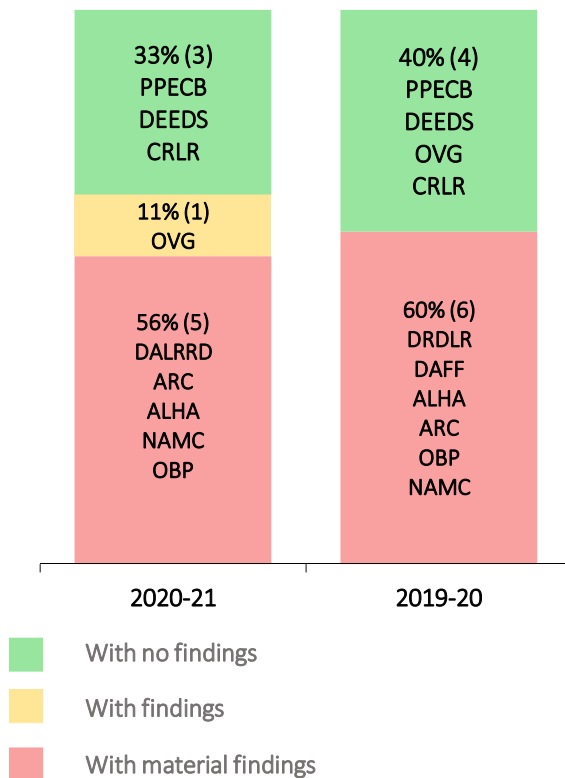
Nature of the fruitless and wasteful expenditure

The highest contributors to fruitless and wasteful expenditure in the portfolio:

- R10,91 million fruitless and wasteful expenditure for the year was incurred by **DALRRD** related to interest paid on late payments of invoices and non attendance of meetings
- R4.9 million by for Inventory items purchased but not delivered at **OBP**.

Supply chain management

Overall stagnation in SCM compliance



Most common findings on supply chain management

Competitive bidding were not advertised for min 21 days (**DALRRD**)

Bid document did not stipulate the minimum threshold for local production and content (**DALRRD**)

No competitive and fair procurement practice (**OBP**)

Inadequate evidence on award was based on pre-qualification criteria (**NAMC**)

Recommendations

- The accounting officers/ authorities should ensure procurement delays and poor planning, which leads to deviations and emergency procurement are avoided.
- The need for emergency procurement should be carefully considered taking into account the practicality of implementing the emergency procurement within timelines in the deviation approval.
- Preventative controls should be strengthened and embedded into the SCM processes to ensure that irregular/ fruitless and wasteful expenditure is not incurred.

Consequence management



Consequence management

Consequence management remains a challenge at the following entities within the portfolio:

- DALRRD
- NAMC

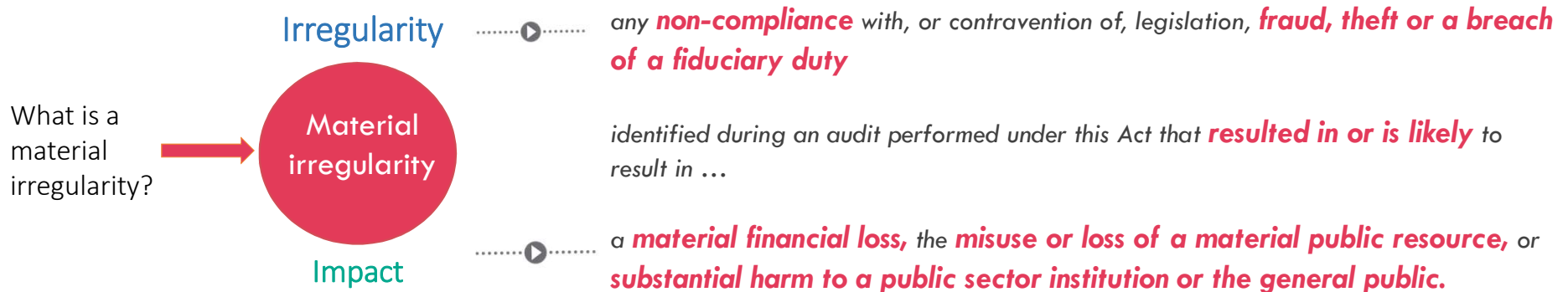
Disciplinary actions were not taken against officials who caused some of the irregular, fruitless and wasteful expenditure at DALRRD.

We were unable to obtain sufficient appropriate audit evidence that disciplinary steps were taken against officials who had incurred irregular, fruitless and wasteful expenditure at NAMC.

Recommendations

- Accounting officers/ authorities must ensure that disciplinary actions are taken against staff that transgressed procurement regulations that resulted in irregular, fruitless and wasteful expenditure incurred.
- Adequate record keeping must be implemented and maintained as evidence of disciplinary steps taken against officials that incurred irregular, fruitless and wasteful expenditure.

At the center of the PAA amendments – material irregularity



To allow for establishing capacity and processes, we will continue to follow a phased-in approach for identifying MIs in 2021-22 based on:

1. the type of material irregularity to be identified and reported
2. the auditees where it will be implemented

Selection criteria

Any non-compliance in line with the definition stated above.

The MI process is implemented at selected auditees audited by the AGSA that represent a **significant portion of the expenditure budget and the irregular expenditure** of national, provincial and local government, including state-owned entities. The selection is also focused on auditees that are key contributors to government priorities.

For 2021, the Department and its entities were not selected for implementation, however **for 2022, the Department and ALHA have been selected**. This should further elevate the level of accountability relating to irregular, fruitless and wasteful expenditure within the portfolio.



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Governance and internal controls

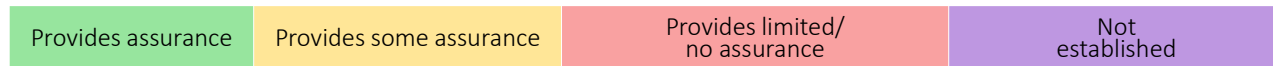
Assurance provided

	Assurance level	Confidence level	Confidence level	Confidence level	Confidence level
First level	Senior management	11% (1) PPECB	89% (8) DALRRD, ALHA, ARC, CRLR, DEEDS, NAMC, OBP, OVG,		
	Accounting officer/authority	11% (1) PPECB	89% (8) DALRRD, ALHA, ARC, CRLR, DEEDS, NAMC, OBP, OVG,		
Second level	Executive authority	67% (6) ALHA, CRLR, DEEDS, OVG, PPECB,, OBP	33% (3) DALRRD, ARC, NAMC		
	Internal audit unit	78% (7) DALRRD, ALHA, CRLR, DEEDS, NAMC, OBP, PPECB	11% (1) ARC	11% (1) OVG	
	Audit committee	89% (8) DALRRD, ALHA, ARC, CRLR, DEEDS, NAMC, OBP, PPECB	11% (1) OVG		

Senior management and accounting authority provides some assurance throughout the portfolio. Some financial statements within the portfolio submitted for audit had material misstatements that had to be corrected. Furthermore, there is stagnation in the material non-compliance findings raised in the portfolio. There is an opportunity for the portfolio to perform a further analysis of the underlying root causes within their value chain that is hindering the improvement of the internal control environment to address the findings.

The prior year qualification on ALHA was not adequately addressed. Management commenced with the assessment however this was not finalised as at 31 March 2021.

Management did not implement proper record keeping to ensure that complete, relevant and accurate information was accessible and available in a timely manner to support financial reporting. There were inadequate controls relating to daily and monthly processing and reconciliation of transactions.





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Portfolio snapshot

Portfolio snapshot 2020-21



Clean audits: 1
(2019 - 20: 3)



Financially unqualified
financial statements: 7
(2019-20: 6)



No findings on performance
reports: 6
(2019-20: 5)



No findings on compliance with
legislation: 1
(2019-20: 3)



Irregular expenditure:
R92m
(2019-20: R333m)

Portfolio overall message

Key root causes in the internal control environment

- Regular reporting and monitoring not implemented adequately throughout the year. Action plans do not always reflect on the comprehensive value chain of the entities, and as such address the root causes.
- Inadequate review of the financial statements to underlying supporting records and schedules to ensure reliable and transparent reporting, and the recommendations from assurance providers are not always implemented on time.
- Inadequate integration of divisions to ensure adequate to financial reporting
- Non-adherence to processes and prescripts
- Poor record keeping of supporting evidence, therefore information not readily retrievable

Recommendations

- The portfolio will benefit from continued leadership posture that promotes a preventative control environment and accountability with a combined assurance providers model effectively implemented.
- A concerted effort must be made to finalise the reconciliations of the recap grant funding. The detailed assessment of the grants not accounted for at ALHA should be finalized and the assessment should be supported by evidence, including correspondence with farmers and supporting reconciliations.
- The need for and approval for emergency procurement should be carefully considered taking into account the practicality of implementing the emergency procurement within the timelines stipulated in the motivation for approval.
- It is critical that the position of the accounting officer be filled.
- There should be an analysis of the future planned indicators and targets , to ensure that the objectives of the portfolio are still met over the next 3 to 5 years, in line with strategic plans and government objectives



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Recommendations

Recommendations to the portfolio committee

Monitoring and regular follow up with the executive authority and the accounting officer/authority on:

- The filling of the accounting officer position at the department.
- Progress on audit action plans put in place by the department and entities.
- Investigations and consequence management for cases that incurred irregular expenditure and fruitless and wasteful expenditure.
- Implementation of the preventative and detective controls.

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