



AUDITOR-GENERAL
SOUTH AFRICA

Budgetary Review and Recommendations Report

Portfolio Committee on Department of Agriculture, Land Reform and Rural Development – Ingonyama Trust Board

16 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.

Portfolio committees

National Assembly Rule 227

Portfolio committees may, amongst other things, perform the following functions:

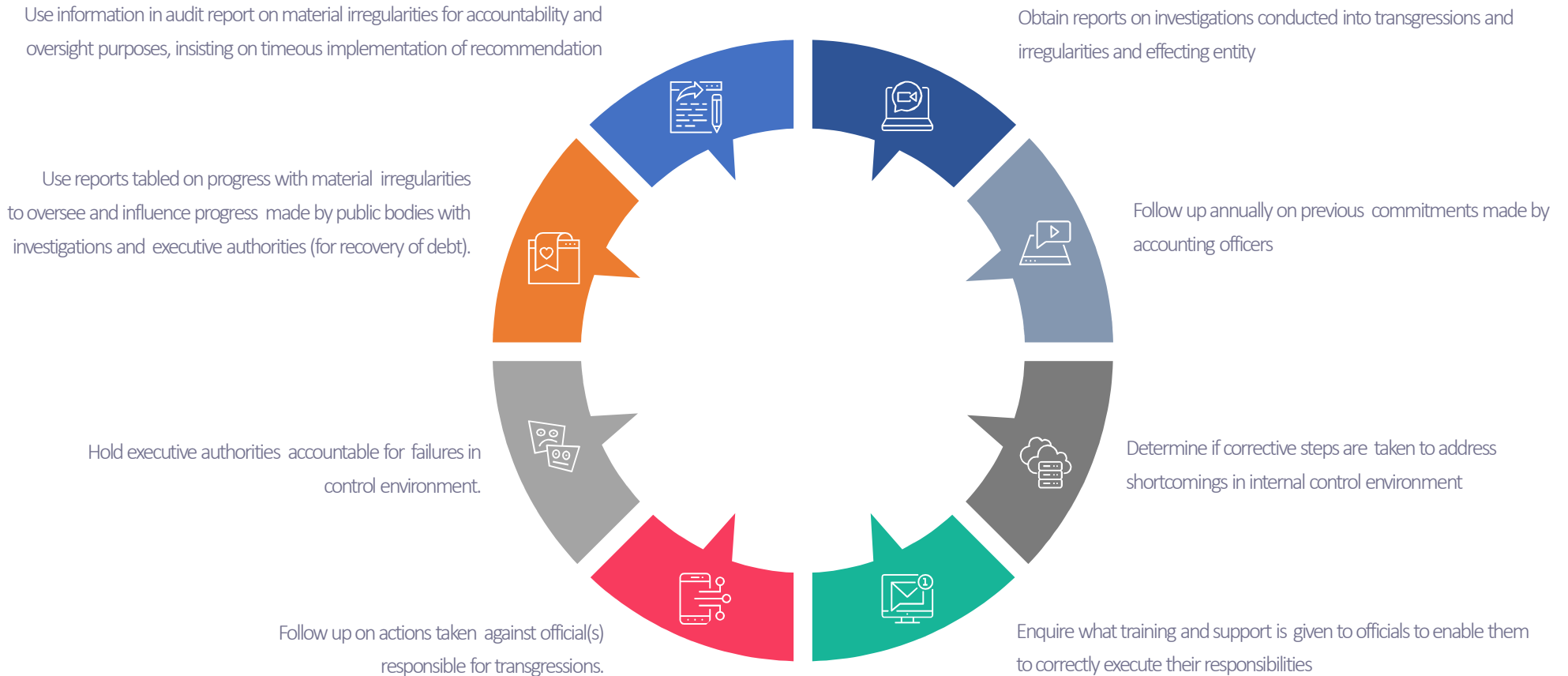
- Deal with bills and other matters falling within their portfolio, as referred to them in terms of the constitution, legislation or rules, or by resolution of the Assembly
- Maintain oversight of their portfolios of national executive authority, including implementation of legislation
- Consult and liaise with any executive organ of state or constitutional institution
- Monitor, investigate, enquire into and make recommendations concerning any such executive organ of state, constitutional institution or other body or institution, including the legislative programme, budget, rationalisation, restructuring, functioning, organisation, structure, staff and policies of such organ of state, institution or other body or institution
- Consult and liaise with any executive organ of state or constitutional institution

Role of the AGSA in the reporting process

Our role as the Auditor-General of South Africa (AGSA) is to reflect on the audit work performed to assist the portfolio committee in its oversight role of assessing the performance of entities, taking into consideration the committee's objective to produce a *Budgetary review and recommendations report (BRRR)*.



What we understand as the role of oversight










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Focus

AGSA audit outcomes

Unqualified opinion with no findings (clean audit)	Financially unqualified opinion with findings	Qualified opinion	Adverse opinion	Disclaimed opinion
 <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>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>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>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>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

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:

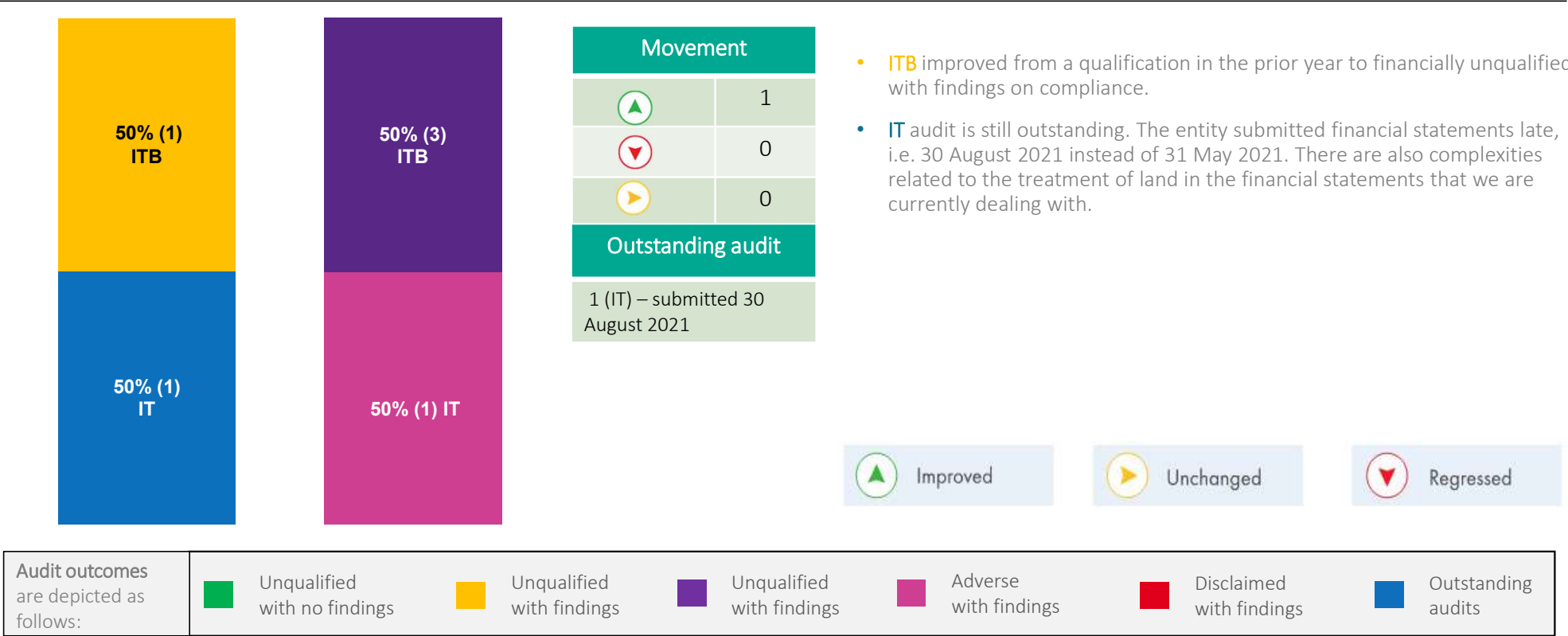
Improved

Unchanged

Regressed

Ingonyama Trust Board audit outcome

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

- **ITB** submitted financial statements that contained material misstatements which were corrected.
- This was caused by inadequate review of the financial statements against supporting documentation as a result of regular reconciliations of such information not occurring during the financial year.

Quality of performance reporting

- **ITB** had no material findings because they corrected all misstatements identified during the audit.
- Misstatements were caused by inadequate reviews of the annual performance report against supporting documentation to validate the reported performance.



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Compliance with legislation

The material findings on compliance with legislation

Annual financial statements

- Financial statements were not submitted for auditing within the prescribed period after the end of the financial year, as required by section 55(1)(c)(i) of the PFMA. Financial statements were received on 31 July 2021.
- The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework, as required by section 55(1)(b) of the PFMA. Material misstatement of revenue identified by the auditors in the submitted financial statements was corrected, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

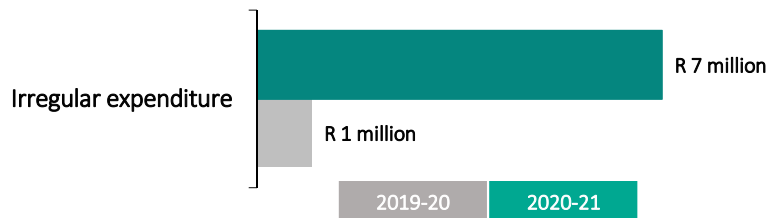
- Effective and appropriate steps were not taken to prevent irregular expenditure amounting to R7,02 million and fruitless and wasteful expenditure amounting to R29 000 as disclosed in notes 22 and 16 to the annual financial statements respectively, as required by section 51(1)(b)(ii) of the PFMA. The majority of the irregular expenditure was caused by overspending of the approved budget. This was due to inadequate budget monitoring; the budget was submitted late to the executive authority and ultimately there was an insufficient budget to cover all expenses incurred.

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:

- **R4.1m** – *Overspending of employee costs and general expenditure in contravention of section 53(4)*
- **R2.9m** – *contravention of supply chain management policies, procedures and regulations.*

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

The fruitless and wasteful expenditure for the year was R29k, compared to R26k in the prior year.

The material findings on compliance with legislation (continued)

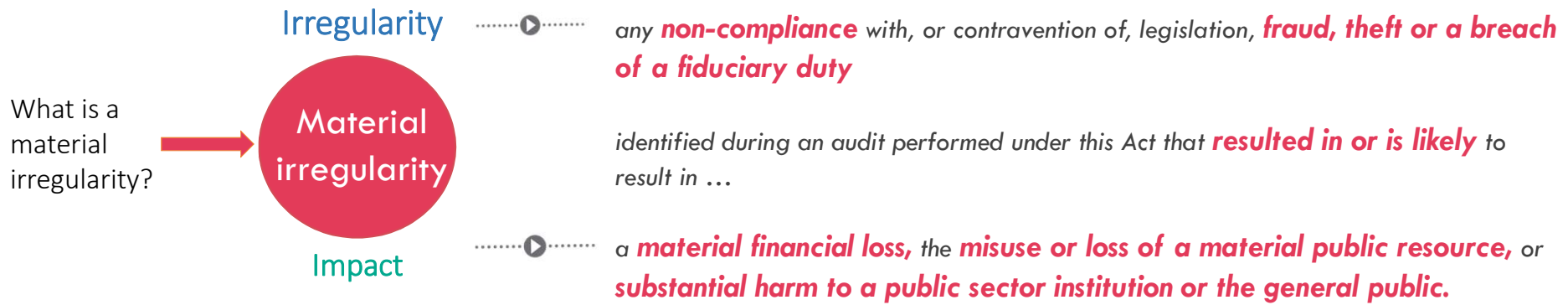
Procurement and contract management

- The entity did not have an SCM manager during the year to monitor and ensure compliance with SCM legislation.
- Some of the goods and services with a transaction value below R500 000 were procured without obtaining the required price quotations, as required by treasury regulation 16A6.1 and paragraph 3.3.1 of Practice Note 8 of 2007/08. Similar non-compliance was also reported in the prior year.
- Some of the quotations were accepted from prospective suppliers who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by treasury regulation 16A8.4 and paragraph 4.1.2 of Practice Note 7 of 2009/10. Similar non-compliance was also reported in the prior year.
- Some of the quotations were awarded to suppliers whose tax matters had not been declared by the South African Revenue Services to be in order as required by treasury regulation 16A9.1(d). Similar non-compliance was also reported in the prior year.

Consequence management

- I could not obtain sufficient audit evidence that disciplinary steps were taken against officials who had incurred irregular expenditure as required by section 51(1)(e)(iii) of the PFMA. This was because investigations into irregular expenditure were not performed.

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

Type of material irregularity

Selection criteria

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

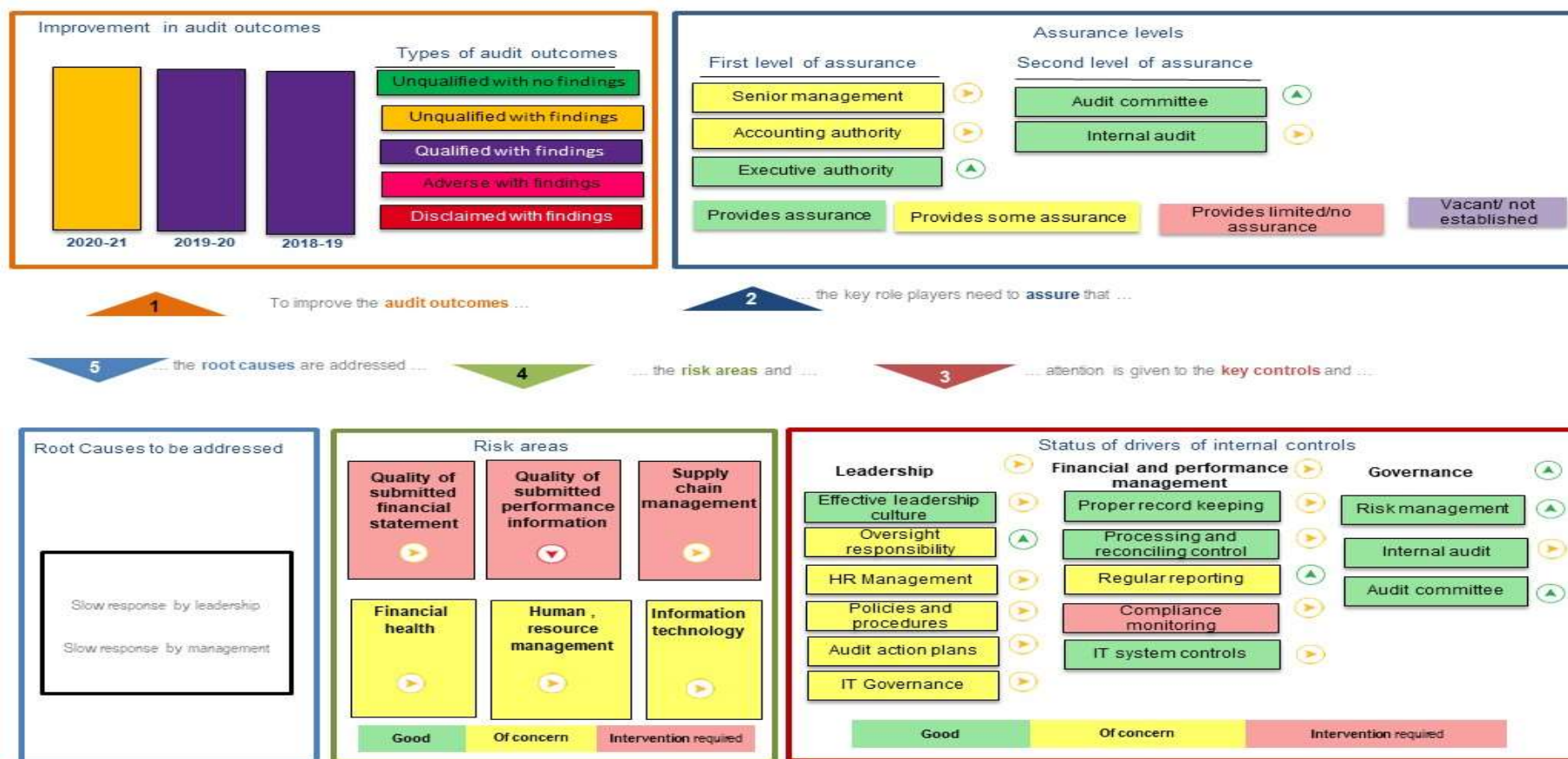
The MI process is implemented at selected auditees audited by the AGSA that represent **a significant portion of the expenditure budget and the irregular expenditure** of national, provincial and local government, including state-owned entities. The selection is also focused on auditees that are key contributors to government priorities. For 2021, the ITB and IT were not selected for implementation.



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Governance and internal controls

Key messages





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Root causes and recommendations

Root causes and recommendations to the entity

Key root causes in the internal control environment

- Regular reporting and monitoring not implemented adequately throughout the year.
- The financial statements contained material misstatements. Leadership did not effectively review the financial statements and monitor compliance with laws and regulations. This was due to inadequate controls to prevent non-compliance from occurring.
- Inadequate review of performance information against supporting documentation.
- No SCM manager to monitor and ensure compliance with SCM legislation.
- Financial health is poor taking into account insufficient funds and poor controls over monitoring of budget processes.
- Senior management and employees did not have signed performance agreements.
- The entity did not approve the Information Technology Governance Framework and the Information Technology Strategic Plan.

Recommendations

- Improved oversight through the implementation of internal controls around financial, performance and compliance reporting.
- Implementation of stricter procedures around supporting documentation required before procurement process takes place.
- Regular reporting processes throughout the financial year to support a more streamlined annual financial statements preparation process.
- Focus on strengthening and improving existing controls with a view to addressing gaps identified in compliance monitoring and ensuring accountability of all officials.

Recommendations to the portfolio committee

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

- Compliance framework that will ensure that the entity is compliant with laws and regulations applicable to the entity.
- The entity's internal controls mechanism to ensure that the financial statements are accurate and reliable.
- Investigations initiated by the accounting authority relating to allegations of possible misappropriation of assets and alleged irregularities relating to supply chain management that are currently in progress.

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