



MLRF Annual Reports and Financial Statements for the 2020/21 financial year

Portfolio Committee Presentation

16 November 2021



forestry, fisheries
& the environment

Department:
Forestry, Fisheries and the Environment
REPUBLIC OF SOUTH AFRICA



Presentation Outline

- Annual Report
- Audit Outcome
- Irregular Expenditure matters
- Audit Action Plan
- Statement of Financial Position
- Conclusion



INTRODUCTION AND BACKGROUND

PURPOSE:

- Promote the development and sustainable use of South Africa's fisheries and aquaculture sectors.
- The MLRF comprises of six sub-programmes, namely Aquaculture Development, Monitoring Control and Surveillance, Marine Resource Management, Fisheries Research and Development, Fisheries Operations Support, and the Marine Living Resources Fund.
- Aquaculture Development: To ensure sustainable growth, responsible management and development of the aquaculture sector as well as the freshwater (Inland) fisheries.
- Monitoring, Control and Surveillance: Ensures the protection, promotion and sustainable use of marine living resources by intensifying enforcement and compliance.
- Marine Resources Management: Ensures the sustainable, equitable and orderly use of and access to the marine living resources through improved management and regulation.
- Fisheries Research and Development: Ensures the promotion of the sustainable development of fisheries resources and ecosystems by conducting and supporting appropriate research.
- Fisheries Operations Support: Provides support for the Fisheries Branch through managing the risk, audit and reporting functions in order to ensure compliance with government prescripts.
- Marine Living Resources Fund: Oversees and manages the financial, revenue, asset management and supply chain management functions of the Fisheries Branch. The MLRF receives transfers for the management and sustainable use of marine living resources to supplement the revenue received from levies on fish and fish products, permits, licences and application fees.



STRATEGIC OBJECTIVES

Strategic Objectives (SOs)

- SO 2.1: Ensure increased production and productivity in prioritised areas as well as value chains.
- SO 3.1: Lead and coordinate government food security initiatives.
- SO 4.1: Ensure the conservation, protection, rehabilitation and recovery of depleted and degraded natural resources.



PERFORMANCE INFORMATION

Aquaculture:

- The Aquaculture Development Bill was revived but there was a request for the Bill to be withdrawn in order for the Department to have further consultations with the Aquaculture Industry. Subsequent to this the Implementation Plan for the Aquaculture Bill could not be developed because the Aquaculture Bill has not been passed as an Act in Parliament. The Department will conduct further consultations with the Aquaculture Industry stakeholders. During this period the inland (freshwater) fisheries policy was endorsed by MINMEC and NEDLAC for submission to Cabinet. In terms of Operations Phakisa Oceans Economy aquaculture initiatives four (4) new projects registered became operational bringing a total number of registered operational projects to thirty-four (34). The projects have contributed towards job creation, production output, income generation and economic growth.
- The small-scale aquaculture programme/framework implementation plan was finalised and approved. At least 30 individuals were trained on various fields of aquaculture at the Gareip Dam Training Centre and training reports produced. The Aquaculture sector status year book 2019 was completed and published. In terms of research and development during this period twenty-one (21) students were co-supervised and eight (8) papers were published in collaboration with Universities and Industry. Five (5) new strategic research studies were undertaken namely: New candidate species (clams): life cycle analysis; Validate the detection method of EUS (*Aphanomyces invadans*) DNA in fish tissue samples; Food safety for new aquaculture species: sea urchins, Research on climate change impacts on aquaculture: oxygen and acidification, Aquaculture animal disease prevention: understanding of the microbial diversity in integrated aquaculture systems under varying physiochemical conditions.



PERFORMANCE INFORMATION

Small-Scale Fishing Rights Allocation

- The process of allocating small-scale fishing rights to communities is at an advanced stage as 15-year small-scale fishing rights were allocated to 108 small-scale fishing co-operatives in the Eastern Cape (72) and KwaZulu-Natal (36), while the Northern Cape received their fishing rights in the previous financial year. It was not possible to allocate rights for Western Cape due to an audit done on the verification process and subsequent decision by the Minister of Forestry, Fisheries and the Environment to apply to the Western Cape High Court to review and set aside the decisions in the Western Cape Province. In planning to support the small-scale fishing co-operatives allocated 15- year fishing rights in the small-scale fishing sector, an Integrated Development Support Strategy was developed and approved.
- The target of reviewing policies and application forms for fishing sectors which expired on 31 December 2021 was not achieved. Cabinet approved the extension of the period to complete the allocation of these rights to December 2021. The Department has started with the process of preparing and gearing up for the 2020/2021 FRAP process. The Minister has appointed the Delegated Authorities; the FRAP project teams have been identified and appointed; a provisional roadmap has been identified, and internal discussions have commenced on the apportionment of resources between the small-scale and commercial sectors in those nearshore fisheries that qualify for the small-scale basket of species.

Working for Fisheries Programme

- The Working for Fisheries Programme (WFFP) contributed to increasing the number of work opportunities through employing 46 persons, of which 24 were female and 4 were youths. The WFFP created 69 Full Time Equivalents Jobs in 2020-2021.



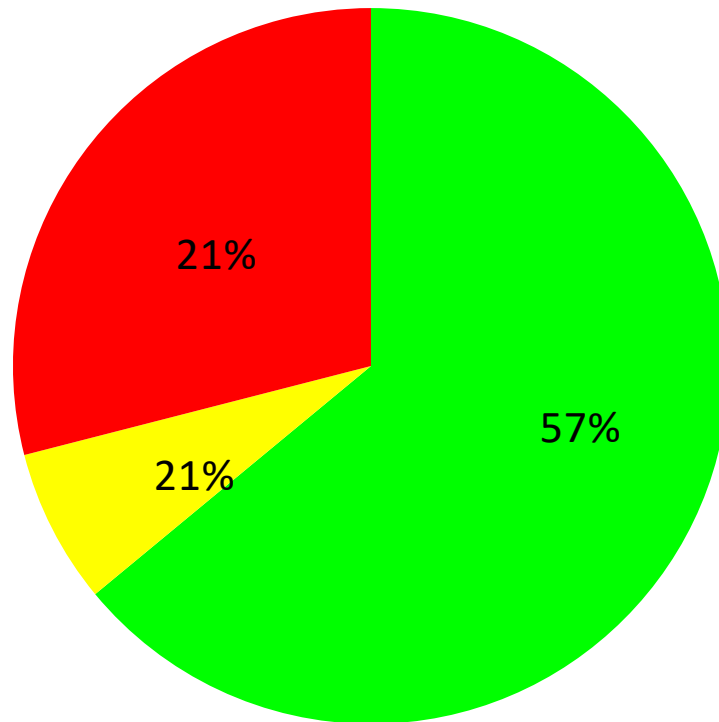
CHALLENGES WHICH CONTINUE TO IMPACT ON IMPLEMENTATION OF PLANNED ACTIVITIES

- Time lost in first quarter as a results of restrictions brought about by the National Lockdown which made engagements, including stakeholder engagement related activities difficult.
- Suspension of academic calendar impacted on strategic partnerships with universities as they provide key support on science/policy interface programme of work.
- Ongoing Human Resource capacity constraints
- Permit backlog delays in issuing of permits due to migration resulting in a number of permits being lost or unaccounted for.



OVERALL SUMMARY OF MLRF ANNUAL PERFORMANCE

% ACHIEVED	% PARTIALLY ACHIEVED	% OFF TARGET
57% (8/14)	21% (3/14)	21% (3/14)



MARINE LIVING RESOURCES FUND

Outcome: Effective and enabling regulatory framework for the management and development of marine and freshwater living resources (oceans, coasts, rivers, and dams.)		
Output indicator	2020/21 Annual Target	Programme Annual Progress and Analysis
Aquaculture regulatory framework developed and Finalised.	Aquaculture Development Bill / Act revived. (Partially Achieved)	Progress: Planned annual target not achieved. However significant work has been done towards reaching the target Challenges: Delays related to additional comments received from the industry which needed to be considered and responded to by the Department. The delays experienced during Q3 affected Q4 targets and as such, this has resulted in the planned Q4 targets being missed. Corrective measures: The process with consultation has started, and the Bill will be re-introduced to Parliament.

 = On target

 = work in progress

 = Off target

 = No milestone



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
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MARINE LIVING RESOURCES FUND

Outcome: Effective and enabling regulatory framework for the management and development of marine and freshwater living resources (oceans, coasts, rivers, and dams.)

Output indicator	2020/21 Annual Target	Programme Annual Progress and Analysis
Fisheries Management policies developed and approved.	Revised General Policy on the Allocation of Fishing Rights Approved. (Off target)	<p>Progress: Revised General Policy on the Allocation of Fishing Rights not yet approved.</p> <p>Challenges: Delays due to in Supply Chain Management processes and stoppage by the Government Printers in Publication and gazetting of bids.</p> <p>Corrective measures: Bids have been advertised on the Departmental Websites and e-Tender portal.</p>

 = On target

 = work in progress

 = Off target

 = No milestone

MARINE LIVING RESOURCES FUND

Outcome: Effective and enabling regulatory framework for the management and development of marine and freshwater living resources (oceans, coasts, rivers, and dams.)

Output indicator	2020/21 Annual Target	Programme Annual Progress and Analysis
National Freshwater (inland) Wild Capture Fisheries Policy developed and approved	NEDLAC consultation on National Freshwater (inland) Wild Capture Fisheries Policy finalised. (Achieved)	<p>Progress: NEDLAC consultation on National Freshwater (inland) Wild Capture Fisheries Policy finalised.</p> <p>Challenges: None.</p> <p>Corrective measures: None.</p>
Marine Living Resources Fund (MLRF) revenue model developed and approved	New MLRF revenue streams/fees gazetted. (Partially achieved)	<p>Progress: Draft gazette for New MLRF revenue streams/fees prepared and is on route for approval.</p> <p>Challenges: Capacity Challenges, target has dependencies not in control of the Department.</p> <p>Corrective measures: No corrective measures can be implemented as these processes have legal implications if shortened.</p>

 = On target

 = work in progress

 = Off target

 = No milestone


MARINE LIVING RESOURCES FUND

Outcome: A well-managed fisheries and aquaculture sector that sustains and improves economic growth and development

Output indicator	2020/21 Annual Target	Programme Annual Progress and Analysis
Number of aquaculture research studies conducted to improve competitiveness and sustainability of the aquaculture sector.	5 research studies conducted. (Partially achieved)	<p>Progress: 1 research study conducted and four are underway. Extensive work has been done towards finalising the other studies.</p> <p>Challenges: A gap in data remains due to restriction of travel and undertaking field samples during Q1.</p> <p>Corrective measures: Further sampling will be undertaken to obtain a full picture of spawning cycle and relationship with environmental variables. This will be done simultaneously with spawning trials.</p>
Number of Operation Phakisa registered aquaculture projects in production phase	4 Operation Phakisa registered aquaculture projects in production phase. (Achieved)	<p>Progress: 4 Operation Phakisa registered aquaculture projects in production phase.</p> <p>Challenges: None.</p> <p>Corrective measures: None.</p>

 = On target

 = work in progress

 = Off target

 = No milestone

MARINE LIVING RESOURCES FUND

Outcome: A well-managed fisheries and aquaculture sector that sustains and improves economic growth and development

Output indicator	2020/21 Annual Target	Programme Annual Progress and Analysis
Number of proclaimed fishing harbours which are functional.	12 proclaimed fishing harbours operational. (Achieved)	Progress: 12 proclaimed fishing harbours operational. Challenges: Staffing is a major challenge. Corrective measures: Identified positions were advertised.
Number of Inspections conducted in the 6 priority fisheries (hake; abalone; rock lobster; line fish, squid and pelagic).	5500 inspections conducted per annum. (Achieved)	Progress: 5 886 Inspections conducted in the 6 priority fisheries. Challenges: The Chief Directorate has exceeded the target for the number of inspections conducted this quarter. Additional inspections were received from outlying stations after reporting had been completed for the quarters 1 – 3. Corrective measures: The IT migration of the email domain has been completed ensuring effective communication and reporting.



= On target



= work in progress



= Off target



= No milestone



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MARINE LIVING RESOURCES FUND

Outcome: A well-managed fisheries and aquaculture sector that sustains and improves economic growth and development

Output indicator	2020/21 Annual Target	Programme Annual Progress and Analysis
Number of verifications of right holders conducted.	280 verifications. (Achieved)	<p>Progress: 78 (296) combined verifications of right holders conducted.</p> <p>Challenges:The deliverable should include both verifications and inspections.</p> <p>Corrective measures: The output indicator will be corrected for 2021/22 APP.</p>
Small-scale aquaculture support programme developed and implemented	Small-scale Aquaculture Support Programme Implementation Plan developed and approved. (Achieved)	<p>Progress: Small-Scale Aquaculture Support Programme Implementation Plan developed and approved</p> <p>Challenges: Only virtual consultations could take place due to Covid-19.</p> <p>Corrective measures: None.</p>

 = On target

 = work in progress


 = Off target

 = No milestone

MARINE LIVING RESOURCES FUND

Outcome: Socio-economic conditions for fishing communities Improved

Output indicator	2020/21 Annual Target	Programme Annual Progress and Analysis
Number of small scale fishing Cooperatives allocated fishing rights.	Small-Scale Fishing rights allocated to cooperatives in Western Cape. (Off target)	<p>Progress: Small scale fishing rights not allocated in the Western Cape.</p> <p>Challenges: Minister and the Department took a decision to bring an application in the High Court to review and set aside the entire process of verification and recognition of small-scale fishers in the Western Cape.</p> <p>Corrective measures: To await for the outcomes of the court process. Should the court order be granted in favour of the Minister, a new verification and recognition process, rights allocation and appeals process will be facilitated.</p>

 = On target

 = work in progress

 = Off target

 = No milestone

MARINE LIVING RESOURCES FUND

Outcome: Socio-economic conditions for fishing communities Improved

Output indicator	2020/21 Annual Target	Programme Annual Progress and Analysis
Integrated Development Support programme for small-scale fishers developed and Implemented.	Draft Integrated Development Support Strategy developed. (Achieved)	Progress: Integrated Development Support Strategy Approved. Challenges: None. Corrective measures: None.
Alternative Livelihood Strategy developed for fishing Communities.	Alternative Livelihoods concept plan Approved. (Achieved)	Progress: Alternative Livelihoods Strategy approved. Challenges: None. Corrective measures: None.



= On target



= work in progress



= Off target



= No milestone



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MARINE LIVING RESOURCES FUND

Outcome: Socio-economic conditions for fishing communities Improved

Output indicator	2020/21 Annual Target	Programme Annual Progress and Analysis
Socio-Economic Condition for Fishing Communities.	266 FTE's (Off target)	<p>Progress: Work Opportunities 190 work opportunities cumulatively</p> <p>Challenges: National Treasury has cut the Working for Fisheries Budget for 2020/21, hence some projects were not able to be implemented due to the lack of funding.</p> <p>Corrective measures: More human resources have been committed to assist with the administration of the BAS payments for workers.</p>



= On target



= work in progress



= Off target



= No milestone



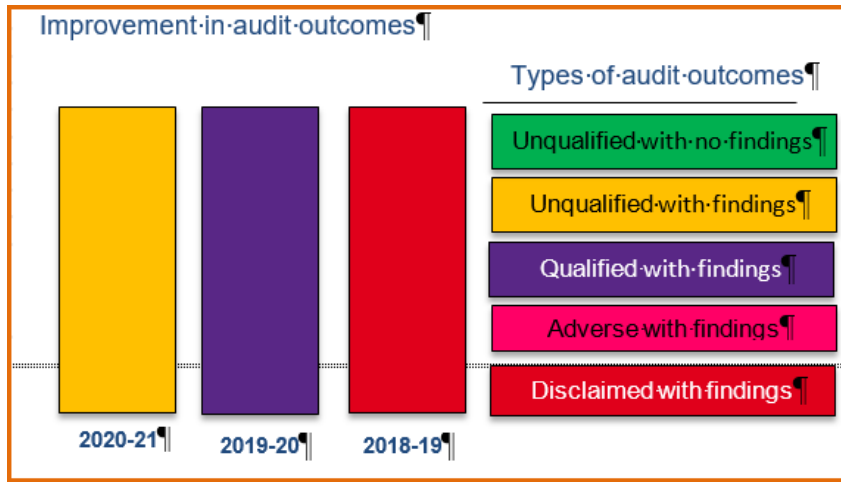
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2020/2021 Audit Outcome

- AGSA expressed an unqualified audit opinion.



- Graph present the audit improvement over the last 3 years.



2020/2021 Challenges

Challenges encountered	Remedial Actions
<ul style="list-style-type: none"> ○ Material corrections done after AFS were submitted for auditing as well as non compliance with GRAP. ○ Asset management which include the recapitalization program for old assets to be replaced was not in place in the 2020-2021 year. ○ Capacity challenges 	<ul style="list-style-type: none"> ○ GRAP training is planned for January 2022 and key positions have been advertised. Management has implemented the preparation of AFS on a quarterly basis to ensure compliance with GRAP ○ The asset verification process has started and the replacement of old equipment is happening on a continuous basis. ○ Vacancies has been filled which include Director SCM, Director Finance and CFO.
<p>Lack of internal control function</p>	<ul style="list-style-type: none"> ○ The internal audit function is outsourced. The contract expired in 2020-2021 financial year. The new service provider has been appointed through an open and transparent process.



Irregular Expenditure Breakdown

- The MLRF appointed a service provider to investigate irregular expenditure. The investigation was finalized after the audit. The recommendations of the report will be implemented in the current financial year.
- The Irregular Investigations were instituted to assess and determine the:
 - Reasons for the tenders being irregularly awarded;
 - Whether any losses were suffered;
 - Whether the MLRF received value for money;
 - Whether any officials/third parties had committed any acts of fraud and/or corruption; and
 - Whether any person/s can be held liable in law for the irregular expenditure



Irregular Contracts Award Breakdown

- Non-compliant contracts result in Irregular Expenditure as soon as the payment is made, for the duration of the contract until expiry of such contracts. The irregular expenditure recorded on such non-compliant contracts is as follows.
 - 2018 -2019 Opening balance R183 386 615 (These are individual amounts that were incurred under DAFF)
 - 2019-2020 Irregular expense R 108 566
 - Removal of SAMSA incorrectly classified amount as irregular - R 28 554 000
 - 2020-2021 Irregular expense R 56 925
 - Total irregular expense R154 198 106
-
- The 2018-2019 amount of R183 M consist of Samsa R70M, Working for Fisheries project 6 contracts worth R55M, Barnabas Xulu R40M and Imang Basadi R6M. The remainder of R12m consist of non compliance matters where procurement processes were not adhered to.
 - The 2019-2020 amount of R108 566 relates to non compliance to local content requirements.
 - The 2020-2021 amount of R56 925 relates non compliance to PPE Treasury practice note
 - Irregular investigation recommendations will be implemented in the current year and it will reduce the balance .



Audit Action Plan

Audit Finding	Remedial Action
<p>Annual Financial Statements</p> <ul style="list-style-type: none"> ▪ Material adjustments and non compliance to PFMA and GRAP 	<ul style="list-style-type: none"> • GRAP training is planned for early next year • Interim Financial Statements will be prepared on a quarterly basis in order to improve the quality, accuracy and validity of financial reporting. • Filling of vacancies to address capacity matters are ongoing.
<p>Assets</p> <ul style="list-style-type: none"> • Non compliance to GRAP 17 that deals with the efficient management of assets. No evidence of useful life assessment on other assets excluding vessels • Asset register was not maintained leading to assets that could not be traced to the physical location, per the asset register. 	<ul style="list-style-type: none"> • Management has started the process of retiring old and non functional assets. The asset team and management are assessing the useful lives of all assets whilst asset verification is taking place. • Internal control measurements are being tighten through quarterly asset verification of reports. • Mandatory asset verification has started.



Audit Action Plan

Audit Finding	Remedial Action
Irregular Expenditure	<ul style="list-style-type: none">• No material SCM matters were reported by the AG for the current year.• Training has been provided by the Office of the Chief Procurement Officer (OCPO) in Treasury and DTI to the SCM staff, End-users and Bid Committees for SCM and local content aspects. More training is planned for SCM and End users through the National School of Government.• The Oracle system is being upgraded to have better control over SCM processes and expenditure• Disciplinary steps have been taken against implicated officials for most of the irregular expenditure transactions whose investigations were concluded.• The outcome of the investigation report of the irregular expense will be implemented in the 2021-2022 financial year.
Consequence Management	<ul style="list-style-type: none">• Consequence management on matters relating to the R183 M opening balances was implemented.



Audit Action Plan

Audit Finding	Remedial Action
<p>Expenditure</p> <ul style="list-style-type: none">▪ No material finding was reported by the AG on expenditure▪ Non-compliance to legislation on paying service providers within 30 days from receipt of an invoice	<ul style="list-style-type: none">• Management has nevertheless ensured that reconciliations are performed on a monthly basis to identify wrong allocations.• The MLRF measures payment of invoices from invoice date. The AG has calculated that the average payment time for invoices is 38 days. Management has included the 30 day payment requirement as part of the Finance Directorates performance indicator. Creditor reconciliations are also performed monthly to proactively identify delays in payments.



Audit Action Plan

Audit Finding	Remedial Action
<p>Internal Audit and risk management</p> <ul style="list-style-type: none"> No internal audit function for the 2020-2021 Risk committee did not have a charter and no regular risk assessment concluded 	<ul style="list-style-type: none"> The internal audit function tender has been awarded. The finding has been addressed in the 2021-2022 financial year. The Risk committee has met, and the risk register was finalised. The Risk committee function has been strengthened by approving the appointment of a Chief Risk Officer on the structure of the DFFE. A draft charter is in place and require approval.
<p>Predetermined Objectives and Performance information</p>	<ul style="list-style-type: none"> All material matters raised by the AG were corrected during the audit.
<p>IT Governance:</p> <ul style="list-style-type: none"> AG reported that regular training did not take place as planned MLRF specific systems (ORACLE and MAST) were not included in the DRP for DFFE. No disaster recovery test were performed for ORACLE and MAST 	<ul style="list-style-type: none"> Training of staff will possibly take place during the last quarter of 2021-2022 financial year. The Chief Director IT is currently in the processes of upgrading Oracle The DFFE is reviewing the Disaster Recovery Plan (DRP) in order to include MLRF systems. Disaster recovery test will be performed once Sita contract has been amended to include the MLRF.



Statement of Financial position 31 March 2021

	Note(s)	2021 R	2020 Restated R
Assets			
Current Assets			
Inventories	2	73 271 272	60 394 945
Receivables from exchange transactions	3	3 346 505	3 789 674
Receivables from non-exchange transactions	3	10 967 405	6 039 823
Cash and cash equivalents	4	192 755 836	319 187 162
		280 341 018	389 411 604
Non-Current Assets			
Property, plant and equipment	5	253 001 506	282 175 383
Intangible assets	6	195 701	504 362
		253 197 207	282 679 745
Total Assets		533 538 225	672 091 349
Liabilities			
Current Liabilities			
Payables from exchange transactions	7	57 365 560	54 314 599
Total Liabilities		57 365 560	54 314 599
Net Assets		476 172 665	617 776 750
Accumulated surplus		476 172 665	617 776 750
Total Net Assets and Liabilities		533 538 225	672 091 349



Statement of financial performance 31 March 21

	Note(s)	2021 R	2020 Restated R
Revenue from exchange transactions			
Grant of right fee		164 815	343 045
Sale of confiscated assets and fish products		36 636 809	18 475 545
Application fee		3 014 459	4 097 782
Licences and permits		37 480 447	30 107 372
Harbour fees		2 901 561	2 710 091
Interest revenue		9 969 364	21 379 870
Other income		933 844	42 673
Total revenue from exchange transactions		91 101 299	77 156 378
Revenue from non-exchange transactions			
Government grants & subsidies		193 767 000	273 978 000
Levies		52 900 421	46 726 361
Fines		614 477	1 115 470
Fair value of confiscated assets and fish product (movement)		20 672 960	11 962 319
Service in kind	8	346 475 641	407 417 342
Gain on foreign exchange		214 624	-
Total revenue from non-exchange transactions		614 645 123	741 199 492
Total revenue		705 746 422	818 355 870



Statement of financial performance 31 March 21

Expenditure			
Financial contributions	9	(8 444 021)	(9 069 438)
Advertising costs		(107 983)	(159 356)
Depreciation and amortisation	5 & 6	(32 549 666)	(32 859 909)
Impairment of debtors		626 871	129 288
Operating lease payments	10	(1 332 120)	(2 057 235)
Bad Debts written off		(1 181 119)	(920 001)
Transportation costs		(31 826 881)	(37 082 305)
Loss on foreign exchange		-	(467 141)
Inventory impairment		-	(47 450 477)
Vessel operating costs	11	(197 377 706)	(212 112 861)
Refund of surplus funds		(160 700 000)	-
Service in kind	8	(346 475 641)	(407 417 342)
Other operating expenses	12	(59 578 621)	(97 569 594)
Loss on sale of fixed assets		(606 988)	(700 350)
Cost of sales		(7 796 632)	(5 236 889)
Total expenditure		(847 350 507)	(852 973 610)
Deficit for the year		(141 604 085)	(34 617 740)



AUDITED ANNUAL FINANCIAL STATEMENT HIGHLIGHTS

- The MLRF liquidity ratios signal that the MLRF is financially healthy and is a going concern.
- The cash is adequate to cover current liabilities
- The debtors collection lead time is less than 30 days which means cash to pay creditors is always available
- All revenue streams improved compared to the 19/20 fin year, except for Gov grant, interest and service in kind. The govern grant reduction was to assist NT on funding Covid expenses.
- Expenditure was tightly managed to ensure `cost containment is adhered to especially taking into account the impact of Covid where funding had to be found to procure PPE
- Fuel prices is impacting negatively on Vessel operating and transport cost. These cost remains the main cost drivers of the MLRF.
- The Africana vessel lifespan has been extended twice. The original lifespan of the Africana was 25 years and is currently at 40 years. The vessel has been decommissioned in order to replace the certain components of the Africana.



Conclusion

- Management is engaging AG on various matters raised in the current year. These involve more internal control matters.
- Management is currently capacitating the MLRF.
- Management has already started implementing the recommendations of the AG.
- The Accounting Authority has strengthened the governance structure within the MLRF by appointing the internal audit function and as well as new Audit committee members.
- The Risk committee will be strengthened with a full time Chief Risk Officer.



THANK YOU!

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Thank You



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