



AUDITOR - GENERAL
SOUTH AFRICA

2021-22 audit outcomes of the Department of Forestry, Fisheries and the Environment (DFFE)

SCOPA briefing

28 February 2023



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1. Introduction

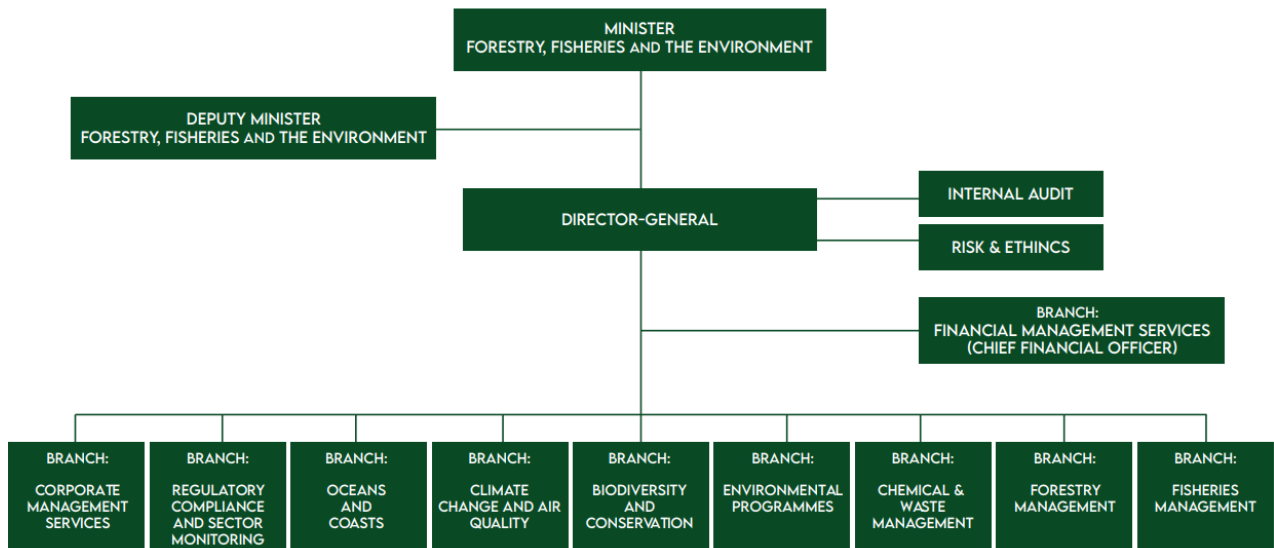
1.1 Reputation promise of the Auditor-General of South Africa

The Auditor-General of South Africa (AGSA) 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.

1.2 Purpose of this document

The purpose of this briefing document is for the Auditor-General of South Africa (AGSA) to brief SCOPA on the audit outcomes and other findings in respect of the annual financial statements, compliance with legislation and performance against predetermined objectives of the Department of Forestry, Fisheries and the Environment (DFFE) for the 2021-22 financial year-end.

1.3 Overview of the department



1.4 Executive summary

The **overall audit outcome of the department remained stagnant**, with the department receiving a qualified audit opinion.

Over the years from the 2018/19 qualification areas. We commend management for the reduction in the qualification areas in the current year however, the internal control environment must still improve to address the remaining areas.

The gradual reduction in the qualification areas is a reflection of the efforts by management to improve the quality of the financial statements submitted for audit through improvement of the monitoring of the financial statements' preparation; and ongoing strive to ensure that the financial statements are supported by reliable and complete information that has been quality checked.

Another key initiative was the centralisation of the reporting of various processes to the office of the chief financial officer, which streamlined expectations and ensured consistent reporting processes. Management should maintain the efforts implemented so far and continue to build on these implemented processes.

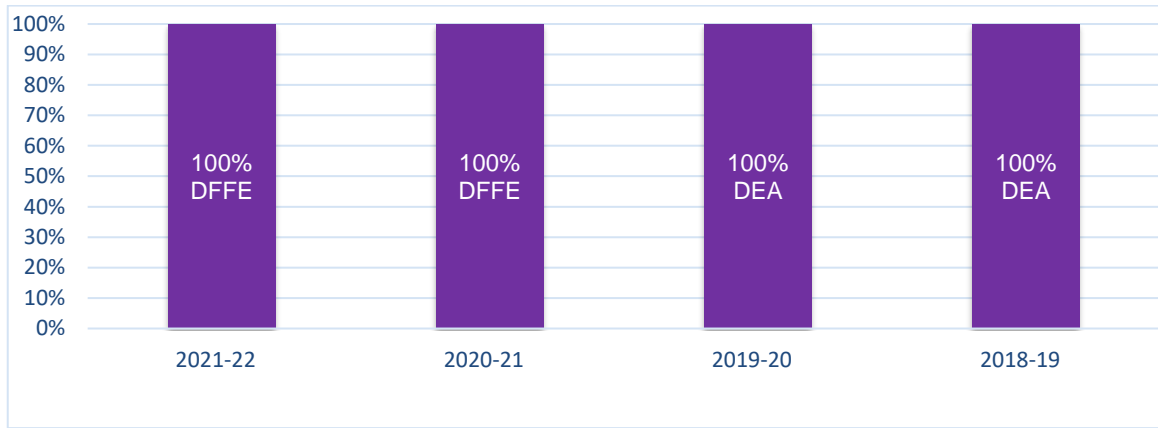
Irregular expenditure has consistently been qualified over the past years under reflection, while capital work-in-progress has been consecutively qualified since last year. Management must ensure that the information required to support these balances is compiled timely and, whilst prioritised in the action plan, the consistent implementation and monitoring thereof will be key in preventing repeat findings in these areas.

There was also an increase of the irregular expenditure incurred in the current financial year, which also contributed to the increase in the overall irregular expenditure balance.

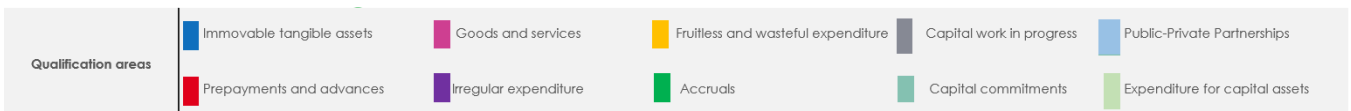
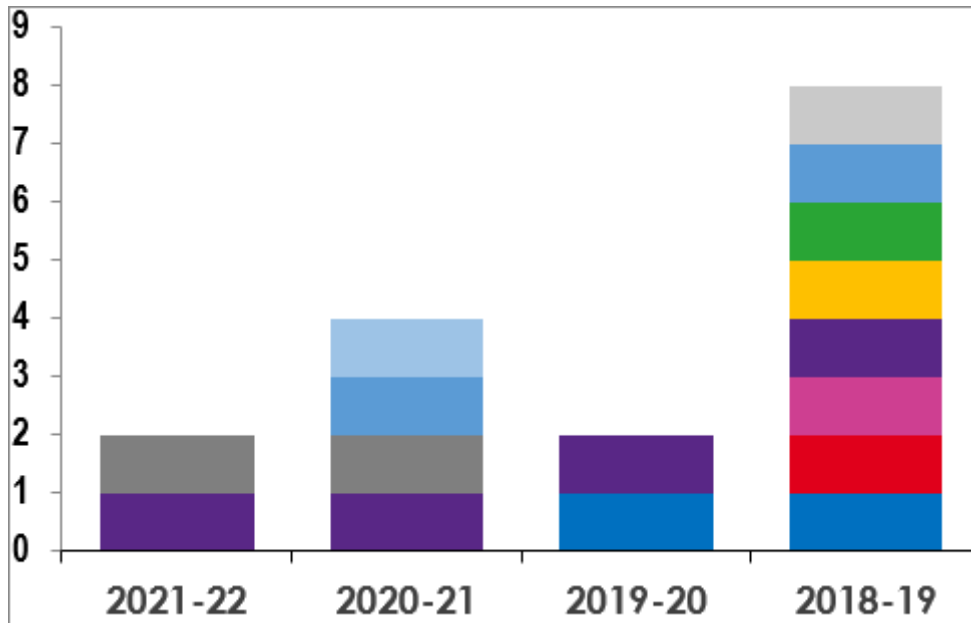
Management of DFFE must continue with their efforts to ensure and effect consequence management through covering all the required matters in this regard. This includes ensuring that the efforts in this regard also cover the instances of non-compliance and recent years' irregular expenditure.

2. Stagnation in audit outcomes over administration term

Four-year audit outcomes



Four-year audit outcomes - detail of components that informed the basis for the qualified opinions.



2.1 Findings on the audit of the annual financial statements

| Finding | Root cause | Recommendation |
|---|--|--|
| <p><u>Irregular expenditure</u> The department did not account for irregular expenditure in the notes to the financial statements, as required by section 40(3)(i) of the PFMA. The department did not implement adequate internal control systems to identify and record all instances of irregular expenditure incurred in both the current and prior years. This resulted in the irregular expenditure disclosure being understated. The full extent of the misstatement identified could not be quantified and I was unable to confirm the amount of irregular expenditure, stated at R5,4 billion (2020-21: R4,8 billion) in note 24 to the financial statements, by alternative means</p> | <p>The action plan prepared by DFFE management to address the prior year misstatements was effective in resolving some of the qualification matters, relating to material limitations on the audit scope and non-disclosure of material items. DFFE management successfully collaborated with the assurance providers in using the limited time available after the conclusion of the prior year audit to address the matters resolved. The department did not adequately review the completeness of the irregular expenditure disclosure note through confirming that all expenditure relating to irregular awards and contracts are included as required.</p> | <p>Management should review and strengthen the current controls in place for confirming the completeness of irregular expenditure to ensure that all irregular expenditure identified by management and the assurance providers is included in the irregular expenditure disclosure note to the annual financial statements. Check all contracts to ensure that the instances of non-compliance are detected and account for all costs related to non-compliant contracts.</p> |
| <p><u>Capital work In progress</u> The department did not adequately account for the project related costs as required by MCS chapter 11, <i>Capital Assets</i>. The department did not consider whether expenditure incurred during the construction of immovable tangible capital assets was directly attributable to the construction of the assets. As a result, the department inaccurately accounted for direct and indirect costs that resulted in the misstatement of capital work in progress. I was unable to determine the full extent of the misstatement of capital work in progress, stated at R226,1 million (2020-21: R156,9 million) in note 33.2 to the financial statements as it was impracticable to do so. Consequentially, the impact on capital commitments stated at R222,7 million (2020:21: R265,1 million) in note 19 and the prior period errors stated at R272,9 million in note 33.2 to financial statements could not be determined</p> | <p>The department did not implement controls over daily and monthly processing and reconciling of transactions to ensure that amounts capitalized on CWIP is accurately recorded.</p> | <p>The department should implement controls over daily and monthly processing and reconciling of transactions to ensure that amounts capitalised on CWIP is accurately recorded and correctly classified.</p> |

2.2 Findings on the audit of the annual performance report and achievement of targets

| Auditee | Material findings | Number of targets achieved against number of targets planned for 2021-22 (%) | Impact of targets not achieved |
|---------|---|--|--|
| DFFE | <p>Programme 7 – chemicals and waste management</p> <p><i>Indicator: Percentage waste diverted from landfill sites (prioritised waste streams)</i> Some planned targets for indicator percentage waste diverted from landfill sites (prioritised waste streams) as per the approved revised annual performance plan and the performance against the planned target were not reported in the annual performance report. We were unable to obtain sufficient appropriate audit evidence for the achievement of 12, 52% tonnes of waste tyres diverted reported against the target of 15% waste tyres in the annual performance report due to the lack of accurate and complete records. We were unable to confirm the reported achievement by alternative means. Consequently, we were unable to determine whether any adjustments were required to the reported achievement.</p> <p><i>Indicator: Number of waste management legislative and regulatory instruments developed</i> The achievement of situational analysis report for draft green public procurement strategy for stimulating demand of construction and demolition waste developed was reported against target situational analysis report for draft green public procurement strategy for stimulating demand of construction and demolition waste developed in the annual performance report. However, the supporting evidence provided materially differed from the reported achievement.</p> <p><i>Percentage decrease of HCFC consumption</i> The achievement of 60.4% HCFC Quantity Reduction was reported against target HCFC consumption reduced by 40% in the annual performance report. However, the supporting evidence provided materially differed from the reported achievement.</p> | 8 out of 14 (57 %) | The department may not be making significant progress in achieving its mandate as a result various reasons, resulting in the NEMA and other applicable laws not being fully complied with. |
| DFFE | <p>Programme 8 – forestry management</p> <p><i>Indicator: Number of small contractors trained on various practices such as harvesting, chainsaw operations, business management and essential labour-related practices in the sector</i> We were unable to obtain sufficient appropriate audit evidence that clearly defined the predetermined evidence to be used when measuring the actual achievement for the indicator. This</p> | 10 out of 14 (71 %) | The forestry management unit is reliant on service providers for the achievements of some of their targets therefore the work that has not been completed in the current year |



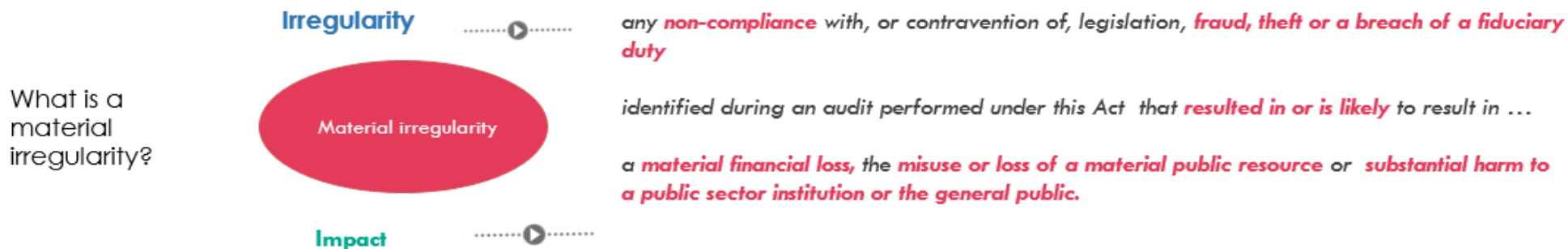
| Auditee | Material findings | Number of targets achieved against number of targets planned for 2021-22 (%) | Impact of targets not achieved |
|---------|--|--|--|
| | <p>was due to lack of measurement definitions and processes. We were unable to test whether the indicator was well defined by alternative means.</p> <p><i>Indicator: Various indicators</i></p> <p>We were unable to obtain sufficient appropriate audit evidence for the reported achievements of five of the 15 indicators relating to this programme. This was due to the lack of accurate and complete records. We were unable to confirm the reported achievements by alternative means. Consequently, we were unable to determine whether any adjustments were required to the reported achievements in the annual performance report for the indicators identified.</p> <p>The approved changes to some of the targets per the initially approved annual performance plan were not disclosed in the annual performance report</p> <p><i>Indicator: Number of hectares in State forests rehabilitated (clearing of alien invasive)</i></p> <p>The achievement of 200ha of state indigenous rehabilitated forests rehabilitated (clearing of alien invasive) was reported against target of 200ha rehabilitated in the annual performance report. However, some supporting evidence provided materially differed from the reported achievement, while in other instances we were unable to obtain sufficient appropriate audit evidence to substantiate the reported achievement. This was due to the lack of accurate and complete records. We were unable to confirm the reported achievement by alternative means. Consequently, we were unable to determine whether any further adjustments were required to the reported achievement.</p> | | <p>might create a backlog in the coming years that will result in the department being unable to deliver on the mandate. This will further impact on the lack of adequate management of the plantations resulting in losses because of the department not being able benefit from their investments.</p> |

Root cause and Recommendations for predetermined objectives findings

Refer to section 4.



2.3 Material irregularities



Material irregularities identified during the 2021-22 audit.

No material irregularities were confirmed as at financial year end, as possible MIs were still being consulted on. **Subsequent to the audit report date, the following MIs were notified to the accounting officer:**

| Description | Actual / likely Loss | Status of MI |
|---|----------------------|--|
| Payments made to perform remedial work on vandalised deliverables that were already completed | R2 359 461 | Assessing accounting officer responses |
| Payments made for waste disposal project deliverables not received | R8 290 558 | Assessing accounting officer responses |
| Lease payments made for no value for leasing of land required for tyre storage and processing | R4 035 438 | Assessing accounting officer responses |

2.4 Financial health risk

The were no material financial health risk indicators at the department. The department did however underspend on its budget with R1,609 billion, mainly on Programme 6: Environmental programmes (R1, 047 billion) and Programme 8: Forestry management (R229 million).

2.5 Irregular expenditure analysis

During the year under review, the department incurred irregular expenditure amounting to R888 million, which was disclosed in the financial statements. The analysis of irregular expenditure shows that irregular expenditure increased by 238%, compared to the prior year amount of R263 million. **This should be read in conjunction with the qualification reported earlier.** The expenditure reported per the financial statements is broken down below:

| Auditee | Description | Amount (R) | Root cause | Impact |
|---------------------------|----------------------|--------------------|---|---|
| DFFE | SCM objectivity | 603 068 000 | Objectivity criteria not applied as prescribed by the Preferential Procurement Policy Framework Act (PPFA) mainly from ongoing contracts; | Breach of five pillars of procurement – equitable, fair, cost effective, transparent, and competitive for most of the indicated awards –some instances will be followed up and assessed in the current year for potential losses. |
| | Waste Bureau | 270 338 000 | | |
| | EPIP | 486 000 | | |
| | SCM non-compliance | 3 360 000 | | |
| | NRM: Working on Fire | 11 002 000 | Procurement of services not in line with Service Level Agreements (Working-on-Fire); and | |
| | | | Procurement without following competitive bidding or quotation process. | |
| | | | Poor contract management resulting in payments for goods or services not indicated in the MOA. | |
| Total IE disclosed | | 888 254 000 | | |

2.6 Fruitless and wasteful expenditure analysis

During the year under review, the auditees incurred fruitless and wasteful expenditure amounting to R9 million, which was disclosed in the financial statements. The analysis of fruitless and wasteful expenditure shows a significant decrease when compared to the prior year. The expenditure is broken down below:

| Auditee | Amount (R) | Root cause | Impact |
|----------------------------|------------------|---|--|
| DFFE | 9 016 000 | Fruitless and wasteful expenditure was incurred by DFFE due to work not completed by the implementing agents, depots that are non-compliant and overpayment of suppliers. | Incurring of financial losses (Confirmed MI 3 on section 2.3, and the rest is being evaluated) |
| Total FWE disclosed | 9 016 000 | | |

2.7 Findings on compliance with legislation

The following material non-compliance issues were identified and reported:

| Finding | Root cause | Recommendation |
|--|--|---|
| <p>Annual Financial Statement The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework. Material misstatements identified by the auditors in the submitted financial statements were corrected (except where auditees were qualified).</p> | The effectiveness of the action plan was not timely enough to ensure that all prior year findings are resolved prior to the submission of the AFS for audit purposes. | Continue to leverage of the processes implemented to ensure that financial statements submitted for audit, are adequately supported by substantiating evidence. The processes to review financial statements must also be enhanced to ensure that the financial statements comply with the standards. |
| <p>Expenditure Management Effective and appropriate steps were not taken to prevent irregular expenditure, as required by section 38(1)(b)(ii) of the PFMA.</p> | There is improvement in the extent of procurement and contract management findings noted, however as new cases of non-compliance were noted in the current year, such cases resulted in irregular expenditure being incurred. The irregular expenditure was therefore, because of a lack of monitoring controls within the SCM environment and the procurement function being decentralised. | Effective steps must be implemented to ensure that irregular expenditure is prevented through implementation of preventative controls. The department must also properly account for all the irregular expenditure that have been incurred in the prior years by analysing the instances that have already been identified and ensuring that they have quantified the amounts correctly |

| Finding | Root cause | Recommendation |
|---|---|--|
| <p>Expenditure Management Effective steps were not taken to prevent fruitless and wasteful expenditure as required by section 38(1)(b)(ii) of the PFMA.</p> | <p>Management did not implement adequate controls that ensure that payments are made for goods and services that have been received.</p> | <p>Management is encouraged to continue discourage prepayments and pay service providers based on the work that have been verified by the project managers</p> |
| <p>Consequence Management We were unable to obtain sufficient appropriate audit evidence that disciplinary steps were taken against officials who had incurred irregular, fruitless and wasteful expenditure as required by section 38(1)(e)(iii) of the PFMA.</p> | <p>The department had not investigated the irregular, fruitless and wasteful expenditure that related to the 2020-21 financial year as the department had prioritised the investigation of irregular expenditure arising from the 2017-18 financial year. This decision was based on the magnitude of the latter irregular expenditure disclosed.</p> | <p>Proper and timely investigations on all instances of irregular, fruitless and wasteful expenditure (deal with backlog and focus on recent events), as well as timely implementation of consequence management based on the recommendations from the investigation reports (impact).</p> |
| <p>Strategic planning and performance management Specific information systems were not implemented to enable the monitoring of progress made towards achieving targets, core objectives and service delivery as required by public service regulation 25(1)(e)(i) and (iii).</p> | <p>Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.</p> <p>Strategic Management, monitoring and evaluation did not ensure that the information reported by the branches is adequately verified and validated to ensure that the reported information in the quarterly reports (and subsequently the Annual Performance Report) is valid and supported by the accurate and reliable information).</p> | <p>Information reported on the annual report should be supported by verified source information that has been reviewed by all the relevant officials.</p> |

2.8 Consequence management

The following material non-compliance issues relating to consequence management were identified and reported:

| Finding | Root cause | Recommendation |
|---|---|--|
| <p>We were unable to obtain sufficient appropriate audit evidence that disciplinary steps were taken against officials who had incurred irregular, fruitless and wasteful expenditure as required by section and 38(1)(h)(iii) and 38(1)(e)(iii) of the PFMA.</p> | <p>The department had not investigated the irregular, fruitless and wasteful expenditure that related to the 2020-21 financial year as the department had prioritised the investigation of irregular expenditure arising from the 2017-18 financial year. This decision was based on the magnitude of the latter irregular expenditure disclosed.</p> | <p>Proper and timely investigations on all instances of irregular, fruitless and wasteful expenditure (deal with backlog and focus on recent events), as well as timely implementation of consequence management based on the recommendations from the investigation reports (impact).</p> |



3. Value for money and key strategic mandate audit



DFFE Waste tyre management

Impact

Reduced rate at which the tyres are processed possibly resulting in tyre pile up and consequentially hampering the successful management of waste tyre management.

Cause

Deficiencies in the implementation of the established internal controls, resulting in breach of contracts.

Recommendations to AO

Revisit the effectiveness of internal controls within Waste Bureau to ensure that tyres are collected and processed as required for effective waste tyre management



Depot site visits were performed in **all 9 provinces** by multiple teams
The aim of the visits was to assess whether **value is being derived from payments made** within the waste tyre management programme

Inadequate monitoring of the waste management implementation plan

The department did not report on 3 out of the 4 targets that are aimed at measuring waste diverted from landfill sites (E-waste, lighting waste, paper and packaging waste) that were removed during the mid term review. This was due to changes in EPR Regulations during the financial year. These targets are meant to measure the threats on environmental quality and human health.

The department did not have processes in place to measure the number of tyres that have been processed by the tyre processors. As a result, a material misstatement was reported on the remaining target. Therefore, the impact of the diversion of waste tyres from landfill sites could not be measured reliably.

The following control deficiencies were noted within waste tyre management:

- Inadequate contract management resulting in contracts with depot operators ending and/or extension required
- Delays in paying depot owners resulting in them restricting access to depot operators

Key message

We could not confirm that the department is effectively implementing the waste management initiatives and facilitation of sustainable socio- economic growth and development opportunities and strategies in the environmental sector.

Ultimately the lack of and inadequate reporting on such key information does not assist in ensuring that interventions put in place to control pollution and reducing the impact of waste on the environment and ordinary citizens have not been implemented accordingly.

4. Main root causes, recommendations and commitments for the portfolio

All role players should continue to work together to strengthen the capacity, processes and controls of entities in the portfolio, which will enable credible financial and performance reporting, compliance with key legislation, sound financial management and improved service delivery.

Overall root causes of significant findings in the Environmental portfolio

| Root cause | Recommendation | Commitment |
|--|--|--|
| Deficiencies in the quality assurance controls that ensure that the reported performance information is supported by credible and reliable supporting evidence | Assess the credibility of the source documentation used to validate reported achievements | The DG to follow up on the progress of implementation of audit action plan on a quarterly basis. |
| Inadequate consideration of the SMART criteria in planning and defining the planned indicators and targets | Revisit the process followed in determining and defining annual indicators and targets to ensure that they are well defined and that targets are specific. | |
| Inadequate controls were put in place by management to prevent material non-compliance findings \ | Institute reviews of the implementation of compliance monitoring control in place to reduce material non-compliance and the resultant irregular expenditure. | |

Key recommendations to, and commitments by, accounting officers and authorities

| Root cause | Recommendation | Commitment |
|--|---|---|
| Inadequate review of the validity, accuracy and completeness of the information presented for audit, as included in the financial statements and the annual performance report | Monitor the timeous implementation of the AFS and APR preparation plans, which will enable management to have adequate time to address misstatements identified before submission for audit purposes. | AO agreed to get feedback from audit committee chair quarterly on progress with implementation of audit action plan. Quarterly feedback by the CFO and DDG is to be provided to the DG on the progress made on the action plan and the ARC will monitor the progress on a quarterly basis. |

Commitments by executive authority

| Commitment | Status |
|---|-------------|
| Follow up with DG (AO) on progress of implementation of audit action plan. | In progress |
| Minister agreed to corporate governance agreements with the entities in the portfolio to create alignment in the execution of the overall mandate of the department | |

5. Way forward and key recommendations

The continued oversight exercised by the committee is encouraged as it assists the assurance providers in monitoring the progress made in addressing key deficiencies that have been identified that prevented the auditees from achieving their mandate. The oversight further assists in promoting accountability on how the funds allocated to the department and entities are managed for the benefit of the lived experiences of the citizens.

Key messages going forward: Oversight

- 1 Request regular feedback from the portfolio on the irregular expenditure in order to identify the movements in the expenditure incurred. Request the department and entities to provide action plans on how they will implement preventative controls to deal with the repetition of instances of non-compliance.
- 2 Request and review progress reports of feedback on the tracking and identification of emerging risks in the portfolio, and how the department is mitigating the risks identified that could prevent achievement of key objectives linked to the mandate.
- 3 Request feedback on the progress made in ensuring that the planned indicators and targets not only adhere to the SMART criteria, but that they contribute to what the portfolio wants to achieve and is responsible for in terms of delivery.
- 4 Continue the engagements on requesting proper detailed briefs on how the portfolio continues to deal with the irregular expenditure investigations. This feedback must clearly indicate the actions taken in terms of consequence management implemented by the department and entities.



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