AUDITOR-GENERAL
SOUTH AFRICA

BUDGETARY REVIEW AND RECOMMENDATIONS REPORT (BRRR):

Portfolio Committee briefing on Agriculture, Land Reform and Rural Development portfolio

February 2024

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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 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 Role of the AGSA

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

1.3 Role of the portfolio committee

Section 5(2) of the Money Bills Procedures and Related Matters Amendment Act 9 of 2009 allows for each committee to compile a BRRR, which must be tabled in the National Assembly. Section 5(3) provides for a BRRR to contain the following:

- An assessment of entities' service delivery performance given available resources
- An assessment on the effectiveness and efficiency of entities' use and forward allocation of available resource
- Recommendations on the forward use of resources

1.4 Mandate of the AGSA and the portfolio committee

AGSA mandate	Portfolio committee mandate

Section 188 of the Constitution
 	
The AGSA must audit and report on the accounts, financial statements and financial management of government institutions.
 	
Section 20(2) of the Public Audit Act (PAA)
 	
• The 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) of the PAA
 	
The auditor-general has the power to:
• issue a material irregularity
• include recommendations in the audit report
• take an appropriate remedial action
• issue a certificate of debt, as prescribed, where an accounting officer/authority has failed to comply with remedial action.
	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, any executive organ of state falling within its portfolio, any constitutional institution falling within its portfolio, and any other body or institution in respect of which oversight was assigned to it
	• 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
	• Perform any other functions, tasks or duties assigned to it in terms of the Constitution, legislation, these rules, the Joint Rules or resolutions of the Assembly, including functions, tasks and duties concerning parliamentary oversight or supervision of such executive organs of state, constitutional institutions or other bodies or institutions.

1.5 Purpose of this document

The purpose of this briefing document is for the AGSA to reflect on the audit outcomes and to assist the portfolio committee in its oversight role of assessing the performance of the department and entities taking into consideration the objective of the committee to produce a BRRR.

1.6 Shifting the public sector culture through the accountability ecosystem

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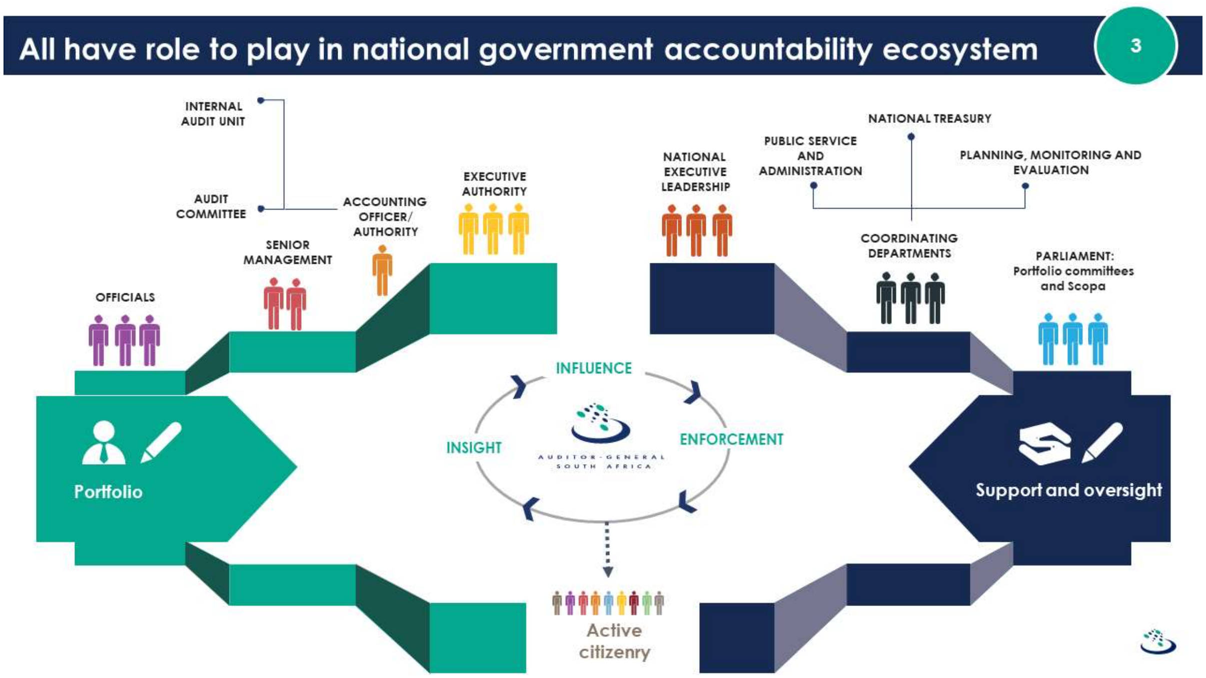
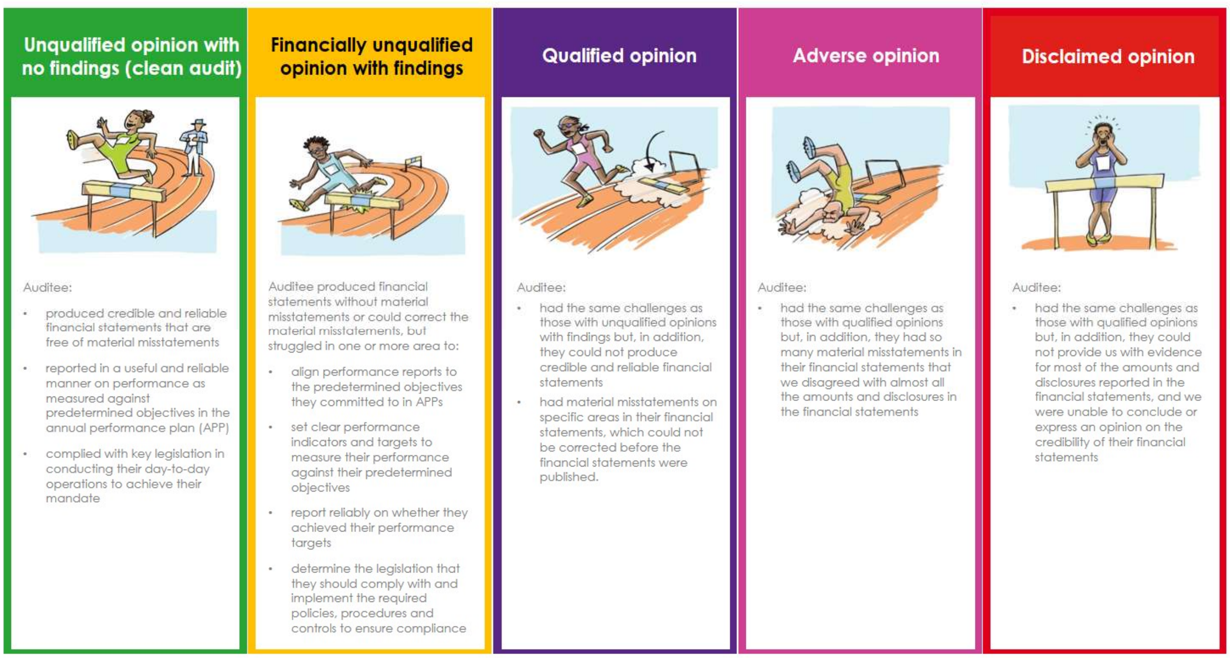


- *The accountability ecosystem is the network of stakeholders that have a mandate and/or responsibility, whether legislative or moral, to drive, deepen and/or insist on public sector accountability.*
- *A more active and engaged accountability ecosystem would add to the much-needed effort of shifting public sector culture and would alleviate the overreliance on the AGSA to assume responsibility for improving audit outcomes and enforcing consequences.*

- *Shifting the public sector culture towards one that is characterised by performance, accountability, transparency and integrity can only be accomplished if all role players in the broader accountability ecosystem fulfil their respective responsibilities and mandates.*
- *Given the nature of the AGSA's mandate, by the time that we audit the financial statements of auditees and report on adverse findings, multiple failures have already occurred along the accountability value chain. After our audits, other steps are required to complete the accountability cycle.*
- *Improvement in sound financial management to enhance the lives of citizens does not only reside within the domain and responsibility of the accounting officer or authority and the auditors. It depends on the entire accountability ecosystem to enable a culture of accountability in a sustainable and meaningful way.*

1.7 Audit outcomes explained



2. Audit outcomes of the Department of Agriculture, Land Reform and Rural Development and its entities

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2.1 Overview

The Office of the Valuer-General (OVG) and Commission on Restitution of Land (CRLR) obtained an unqualified opinion with no findings, the outcome remained unchanged from the prior year, we commend these entities for maintaining this outcome.

The Department of Agriculture, Land Reform and Rural Development (DALRRD) improved from a qualified opinion to unqualified with findings. The department performed a verification process and was able to provide proof of delivery for some vouchers redeemed and paid for on the Presidential Employment Stimulus Initiative (PESI), however some vouchers could not be verified, these were reported as fruitless and wasteful expenditure under investigation, we urge the department to continue following the money for these vouchers.

The Onderstepoort Biological Products (OBP) regressed from unqualified with findings to a qualified with findings audit opinion with findings. The entity did not establish a system of inventory management that will facilitate accurate reporting on the inventory and costs of sales of the entity.

The portfolio's audit outcomes remained fairly stagnant compared to the prior year and over the administration period. There has been minimal progress in addressing internal control deficiencies at entities of the department. The ARC remains qualified with findings. Deeds and ITB were unqualified with material non-compliance findings. This is indicative that action plans are not responsive to the deficiencies in the internal control environment of these entities. Consequence management still remains a challenge within the portfolio, with five auditees having material non-compliance on consequence management.

2.2 Department of Agriculture, Land Reform and Rural Development (DALRRD)

The department made adjustments to prepayment expense (PESI) that was qualified in the prior year resulting in improvement from a qualified opinion to unqualified with findings in the current year.

From our audit process we noted a combination of positives and negatives within the PESI environment. Our observations can be summarised as follows:

- There we no material concerns noted in the vouchers redeemed during the 2022-23 period. This improvement can be attributed to the fact that the proof of delivery of deliveries were maintained and that there has been a change in the profile of suppliers used for redemption in the 2022-23 compared to the ones in 2021-22.

- From our analysis of the suppliers used in 2022-23 compared to 2021-22, we noted that the number of suppliers and service points used reduced from 487 to 303. From these, we noted that intermediary suppliers were no longer used or were used to a much lesser extent. We believe the use of intermediaries introduced additional risks to the programme which were not adequately mitigated on the vouchers redeemed during the 2021-22 period.

- The department did not maintain a centralised register that could provide an overview of which farmers were verified and which ones still needed to be verified.

- We performed site visits on a sample of farmers who had redeemed their vouchers and some of the farmers indicated to us that they did not receive their vouchers or goods.

- Of concern from the interviews we held with the farmers is that some of the farmers indicated that they provided their vouchers to suppliers and the suppliers had committed that they will redeem their vouchers and deliver the goods to the beneficiaries, which they never did. Some even indicated that they agreed to exchange the vouchers for cash with certain suppliers, but the suppliers never gave them the cash. These are indicators of fraud from both suppliers and beneficiaries within the PESI programme.

- Internal audit also noted same observations from their verifications of farmers not receiving their production inputs and some attempting to exchange them for cash. Internal audit had recommended to management that suppliers noted as having redeemed and not supplied the production inputs be investigated.

- Overall we concluded that, although there was an improvement in the 2022-23 redeemed vouchers and there was some effort from the department to address the PESI qualification. Management subsequently revisited the population of redeemed vouchers and adjusted the disclosure in the financial statements to appropriately indicate the value of vouchers where proof of delivery was maintained.

Compliance with laws and regulations	Material non-compliance on the quality of financial statements was noted because of material misstatements that were identified and corrected during the audit, which resulted in the unqualified opinion.

	Effective steps were not taken to prevent fruitless and wasteful expenditure amounting to R30 055 000 for payment of invoices for services not rendered. Disciplinary steps were not taken against the officials who had incurred and/or permitted irregular expenditure as required by section 38(1) (h) (iii) of the PFMA. Effective and appropriate steps were not taken to collect all money due, as required by section 38(1) (c) (i) of the PFMA.
Performance information report	No material findings were noted in the performance report of the entity.

2.3 Agricultural Research Council (ARC)

The ARC was established in terms of section 2 of the Agricultural Research Act 86 of 1990. The objects of the ARC are, through research, development and technology transfer, to promote agriculture and industry and thereby to contribute to the improvement of the quality of life of the people of the Republic, and having regard to the protection of the environment to perform such other functions as may be assigned to the ARC by or under this Act. The Agricultural Research Council is a premier science institution that conducts research, develop partnerships and human capital, to foster innovation for a sustainable agriculture sector.

Below are the qualification paragraphs per the audit report:

Revenue from non-exchange transactions

> *I was unable to obtain sufficient appropriate audit evidence that revenue from non-exchange transactions were properly accounted for, due to the entity recognising a conditional grant as revenue without sufficient evidence. I was unable to confirm whether the conditions of the grant were met by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to revenue from non-exchange transactions stated at R1 061 835 096 in the financial statements and unspent conditional grants.*

Property, plant and equipment

> *I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for property, plant and equipment, as the public entity did not have adequate systems to record and maintain proper accounting records for adjustments made to corresponding figures of property, plant and equipment. There were material differences between the financial statements, fixed assets register and underlying schedules relating to the adjustments to the corresponding figures. I was unable to confirm property, plant and equipment by alternative*

means. Consequently, I was unable to determine whether any adjustment was necessary to property, plant and equipment, stated at R1 931 601 461 (2022: R1 953 841 423) in note 20 to the financial statements.

There is a consequential impact on the following amounts in the financial statements:

- *Prior year adjustments to property plant and equipment of R19 847 353, as disclosed in note 37 to the financial statements.*
- *Prior year depreciation and amortisation amounting to R81 071 378, as disclosed on note 6 to the financial statements.*

Some items of property, plant and equipment recorded in the public entity's fixed asset register could not be physically located, thus property, plant and equipment were overstated by these items. Consequently, property, plant and equipment were overstated by R12 347 061

The public entity did not record some of the fixed assets in the fixed asset register, this has resulted in the understatement of the property, plant and equipment balance in the financial statements. I was unable to determine the full extent of the overstatement of property, plant and equipment, stated at R1 931 601 461 (2022: R1 953 841 423) in note 20 to the financial statements as it was impracticable to do so.

Depreciation and amortisation

The financial statements of the public entity were materially misstated, as the public entity did not depreciate property, plant and equipment as required by GRAP 17, Property, plant and equipment. The useful lives of property, plant and equipment were reassessed during the year but the entity could not provide sufficient and appropriate evidence on the assumptions and methodology followed for the reassessment of useful lives as required by GRAP 17 Property, plant and equipment. Some items of property, plant and equipment were also not included on the reassessment of useful lives and some were not included in the depreciation calculations. I was unable to quantify the full extent of the misstatements of the depreciation amount and of property, plant and equipment as it was impracticable to do so. I was unable to determine whether any adjustment was necessary to depreciation stated at R67 570 123 (2022: R81 071 378) in note 6 to the financial statements. Consequentially, Property, plant and equipment is also misstated.

Irregular expenditure and fruitless and wasteful expenditure

Not all irregular expenditure was included in the note 43 to the financial statements, as required by section 55(2) (b) (i) of the PFMA. This was due to payments made in contravention of the supply chain management requirements, which resulted in irregular expenditure of R7 442 451.31 and were not included in note 43. Consequently, I was unable to determine whether any further adjustments were necessary to the irregular expenditure stated at R0 in note 43 of the financial statements.

Compliance with laws and regulations	Material non-compliance for expenditure management was identified as a result of irregular expenditure identified during the audit. There was an improvement on procurement and contract management as no material non-compliances were reported. The audit also identified instances where consequence management was not implemented on the officials responsible for the irregular expenditure incurred in previous years as required by section 51(e) of the PFMA as no evidence of consequence management was provided to the audit team.
Performance information report	No material findings were identified in the audit of performance information.

Overall message

The entity still struggles to manage its assets. The general controls around assets management are weak and, in some instances, not effectively applied. The entity did not have adequate systems to record and maintain proper accounting records for adjustments made to prior years' figures. There is also poor maintenance of records relating to assets as the entity does not maintain an adequate asset register. The asset register could not be reconciled to the annual financial statements. There is an urgent need to look into reconciling all of the entity's assets and update the assets register as this has an impact on the maintenance of the assets and the valuation thereof. The entity should develop adequate business processes that include detailed monthly and daily controls on the maintenance of assets and the asset register. The processes must be communicated and implemented across all the institutes and regular monitoring must be in place. The daily and monthly processes for the management of assets were not effectively implemented. As a result, the following deficiencies were not prevented by the current systems:

- There were assets that could not be traced to the assets register and assets that were on the asset register that could not be verified,

- Reconciling items between the Fixed Assets Register and Annual Financial Statements were not cleared and corrected prior to the finalisation of the financial statements,
- Misstatements were noted on the depreciation calculations for assets.
- Prior period adjustment journals processed for Property, Plant and Equipment could not be supported by reliable evidence.

Although investigations into irregular expenditure were conducted for irregular expenditure identified in the prior year, the investigations did not meet criteria for investigations as per the irregular expenditure framework as not all requirements were met or could not be demonstrated.

The entity was tasked with building the FMD facility a number of years ago. Although funds have been received, there has been little progress in building the facility and not much ground work has been done to date. There is an urgent need to accelerate this process in order for the country to start having sufficient access to the much needed vaccines, currently the vaccines are being imported from countries such as Botswana even though there are funds to build our own facility and start local mass production.

2.4 Onderstepoort Biological products (OBP)

OBP is an entity which manufactures vaccines for the animal health care industry, primarily in South Africa and various other countries. The main objective, as one of the competitors in the pharmaceutical industry being a state-owned vaccine maker, is to manufacture animal vaccines with the aim of preventing and controlling animal diseases that impact food security, human health and livelihoods. In ensuring that its constitutional and legislative mandate materialises. OBP is required to ensure that vaccines are consistently produced and are made available to the end users.

Below are the qualification paragraphs per the audit report:

Cost of sales and inventories

> *I was unable to obtain sufficient appropriate audit evidence to substantiate the amount recognised as cost of sales and inventories in relation to intermediate and finished goods, as the public entity did not implement effective systems of internal control to maintain reliable accounting records and information to support the amounts disclosed in the financial statements. I could not confirm the amount for cost of sales and inventories by alternative means as the public entity's records did not permit the application of alternative audit procedures. Consequently, I was unable to determine whether any adjustments relating to inventories stated*

at R52 076 192 and cost of sales stated at R51 494 797 in notes 5 and 17 to the financial statements were necessary.

Compliance with laws and regulations	Non-compliance identified was in relation to the quality of financial statements that were submitted for audit, which resulted in the qualified audit opinion.
Performance information report	No material findings were noted in the performance report of the entity.

Overall message

During the financial year under review, the entity regressed with regards to the number of vaccines sold in relation to the previous financial year. Consequently, the entity was negatively impacted in terms of achieving set performance targets. Furthermore, the public entity reported an achievement of –27% in the current financial year for the following performance indicator: percentage increase in vaccines sold from the prior to the current year. This is indicative of the fact that the entity has not been able to meet its demand for vaccines. The role players in the accountability ecosystem need to ensure that the root causes for the inability of the entity to achieve its demand are addressed.

As a matter of emphasis, the Good Manufacturing Practice (GMP) facility is an ongoing project, the completion of which will allow the entity to enter new international markets. In 2013 government support was provided to OBP through a grant to assist in the development and construction of the GMP facility. It was noted that the project has been suspended since 31 October 2021 as a result of ongoing legal matters. The entity should, as a matter of priority, ensure that the necessary actions are implemented to ensure the continuation of the development of the project to aid the entity in its financial growth and sustainability.

2.5 Office of the Valuer General

The audit outcome of the public entity remained unchanged with unqualified opinion with no material findings on performance information and compliance with legislation. We commend the public entity for submitting financial statements that were free from material misstatements.

Compliance with laws and regulations	No material findings were notes in relation to compliance with legislation for the entity
Performance information report	No material findings were noted in the performance report of the entity.

2.6 National Agricultural Marketing Council (NAMC)

The public entity obtained unqualified opinion with findings, which is the same as the prior year.

Compliance with laws and regulations	We were not able to confirm that effective and appropriate steps were taken against officials that incurred the irregular expenditure. This was because investigations were not finalised and approved at year-end to institute disciplinary steps.
Performance information report	No material findings were noted in the performance report of the entity.

2.7 Deeds

The public entity obtained unqualified opinion with findings, same as the prior year.

Compliance with laws and regulations	We were not able to confirm that effective and appropriate steps were taken against officials that incurred the irregular and fruitless and wasteful expenditures. This was due to proper and complete records that were not maintained as evidence to support the investigations into irregular, fruitless and wasteful expenditure.
Performance information report	No applicable, the performance information of the entity is reported in the annual performance report of the department.

2.8 Ingonyama Trust Board

ITB received unqualified opinion with findings on compliance, which is the same as the previous year.

Compliance with laws and regulations	Effective and appropriate steps were not taken to prevent irregular expenditure disclosed in the financial statements as required by section 51(1)(b)(ii) of the PFMA. This was due to continued use of expired contracts without approval by National Treasury. Effective and appropriate steps were not taken to prevent fruitless and wasteful expenditure disclosed in the financial statements as required by section 51(1)(b)(ii) of the PFMA. This was caused by penalties and interest charged by SARS for late payment of PAYE. Material non-compliance on procurement and contract management was reported due to use of contracts that were expired without approval of National Treasury, and procurement of goods and services without following the quotation process. We were not able to confirm that effective and appropriate steps were taken against officials that incurred the irregular expenditure. This was because the entity did not perform investigations into the irregular expenditure. A culture of consequence management should be enforced in the entity.
Performance information report	No material findings were noted in the performance report of the entity.

2.9 Ingonyama Trust (IT)

IT submitted the financial statements on 1 August 2023 for audit and received a qualified opinion, which is the same as the previous year.

Compliance with laws and regulations	I did not identify any material non-compliance with the selected legislative requirements. However, it should be noted that the Trust does not have the same legislative requirements as other PFMA entities and therefore if subject to these requirements, non-compliances may have been reported.
Performance information report	The Trust does not prepare a performance report. Therefore this is not applicable.

The accounting authority did not provide effective oversight regarding compliance with laws and regulations in a timely manner as evidenced by repeat findings. Additionally there was no accounting authority (board) from 01 December 2022 to the end of the financial year, 31 March 2023. The board was subsequently appointed on 22 May 2023.

The entity did not develop an audit intervention plan to address external audit findings which could be monitored by the accounting authority to enable implementation in a timely manner. This is evidenced by the repeat deviation by the wholly controlled entity from the Companies Act.

Ingonyama Holdings (Pty) Ltd non preparation of financial statements was not timeously addressed during the Trust financial reporting cycle, resulting in consolidated financial statements not being prepared and presented for audit.

The review, approval and implementation of policies and procedures is still a challenge at the Trust. The Trust did not have documented and approved internal policies and procedures to address the process of consolidating Ingonyama Holdings and recovering the loan made to the controlled entity. As a result, no financial reports were obtained from Ingonyama Holdings in order to prepare consolidated financial statements. Furthermore, there was no loan repayment received from Ingonyama Holdings and no interest income was recorded in the Trust financial statements for non-payment. The Trust did not adequately monitor compliance with laws and regulations when issuing loans to the subsidiary and did not ensure that they comply with the following KwaZulu Natal Ingonyama Trust Act (KITA) Financial Regulation requirements.

Root causes:

- No tone at the top to drive a culture of accountability and the debt collection unit was not fully resourced
- No appropriate financial management to safeguard the resources of the Trust
- Audit action plan not developed to timeously respond and address external audit findings

Recommendations:

- Debt collection unit must be fully resourced to support the entity to be self-sustainable and maintain a good financial position
- Implement appropriate financial management, develop policies that strengthen the control environment of the entity and its controlled entity and mitigate occurrence of financial losses.
- Develop an audit action plan to enable the Trust to timeously respond and address external audit findings.
- Regular monitoring of quality assured progress updates on action plans.

2.10 Agricultural Land Holdings Account (ALHA)

Below is the qualification paragraph per the audit report:

Trade and other receivables from non-exchange transactions

I was unable to obtain sufficient appropriate audit evidence for trade and other receivables from non-exchange transactions and the related provision for impairment. The entity was required to perform reconciliations to determine if any amounts are to be recognised as receivables, where funds were not utilised accordingly. As at 31 March 2023, some of the reconciliations were still not finalised for the grants disbursed to the farmers from 2011 to 2019, as part of the recapitalisation and development programme. According to the grant agreements, the farmers needed to submit proof that the funds were utilised for the intended purpose and due to lack of internal controls, the proof of documents was not followed up by the entity. Consequently I am unable to determine if there is any adjustment necessary to trade and other receivables from non-exchange transactions stated at R774 607 000 (2021-22: R553 745 000), the events after the reporting date and the prior period error disclosure for the recapitalisation and development grants in note 7, 27 and 25 of the financial statements, respectively. I could not confirm the adjustment amounts by alternative means.

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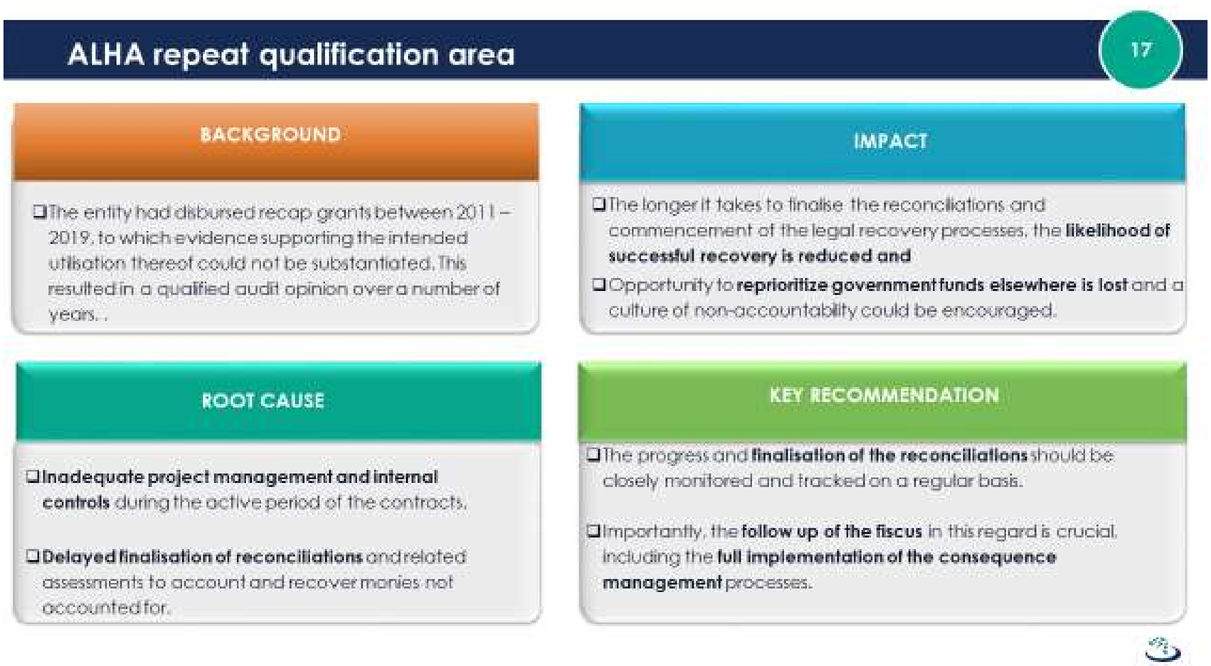

The prior year qualification on ALHA relating to recapitalisation grants remains unresolved for the 4th year in succession. Although progress has been made to address the qualification areas, the entity has still not finalised all the reconciliations relating to the unaccounted for recapitalisation grants.

Compliance with laws and regulations	Effective and appropriate steps were not taken to collect all money due, as required by section 38(1) (c) (i) of the PFMA. Disciplinary steps were not taken against the officials who had incurred and/or permitted irregular expenditure, as required by section 38(1)(h)(iii) of the PFMA Disciplinary hearings were not held for confirmed cases of financial misconduct committed by the officials, as required by treasury regulation 4.1.1.
Performance information report	The performance information of the entity is reported in the annual performance report of the department.

2.11 Material irregularity

Since the implementation of the material irregularity process, we have identified one material irregularity at the Department in the current year relating to recapitalisation grants.

The material irregularity was issued to the accounting officer on 26 July 2023. The accounting officer had 20 days to respond to the material irregularity. The materiality irregularity was included in the audit report, however the details was not included as the notification was recently issued and the accounting officer’s response was not yet due at the date of the auditor’s report. We received responses form accounting officer and we requested additional information regarding the planned action plans as part of evaluating the accounting officer’s written response.

Below is the pictorial diagram of the life cycle of the recapitalisation grants:

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2.11.1 PFMA Compliance and Reporting Framework

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National Treasury Instruction No. 4 compliance reporting framework matter.

1. National Treasury Instruction No. 4 of 2022/2023: PFMA Compliance and Reporting Framework (Instruction) which came into effect on 03 January 2023, was issued in terms of section 76(1)(b), (e) and (f), (2)(e) and (4)(a) and (c) of the PFMA.
2. The objective of the Instruction note is to prescribe the principles and compliance reporting requirements for departments, trading entities, constitutional institutions and public entities listed in Schedules 2 and 3 to the Public Finance Management Act, 1999 with regard to unauthorised, irregular and fruitless and wasteful expenditure (UIF&WE).

Background on the key changes to irregular and fruitless and wasteful expenditure disclosure requirements as a result of the National Treasury Instruction no.4: PFMA compliance and reporting framework.

3. The new framework brought significant changes in relation to the disclosure of irregular, and fruitless and wasteful expenditure (IFWE). These changes are as follows:

a) The movements in the disclosure note of IFWE such as condoned, recoverable, removed, written off, under assessment, under determination and under investigation have been moved from Annual Financial Statements and now will be disclosed in the Annual Report.

b) PFMA institutions will only disclose IFWE incurred in the current year, with a one-year comparative analysis in the Annual Financial Statements notes disclosure.

c) The historical balances (i.e. opening balances) have been completely removed from the annual financial statements (AFS).

Message to oversight on the AGSA's position on the audit of IFWE that should be disclosed in the annual report.

4. The purpose of disclosing irregular, fruitless and wasteful expenditure in the financial statements is to enable the oversight and monitoring structures of South Africa (e.g., Parliament) to perform their role to ensure that funds are spent in line with s217 of the Constitution and to hold officials and the executive accountable.

5. The fact that the disclosure of IFWE (historical balances and movements) is no longer required on the annual financial statements and no audit assurance is provided thereon, the oversight structures would need to engage directly with the information disclosed in the annual report or request the information on historical balances directly from the relevant institution where not disclosed in the annual report to exercise their oversight responsibility.

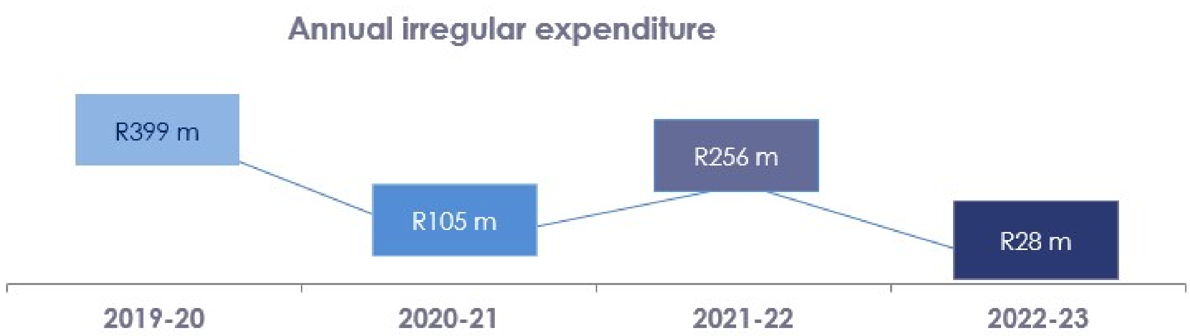
6. From an audit perspective, transparency and accountability is further limited by the fact that currently no audit assurance will be provided on the additional disclosures that have been moved from the AFS.

7. As a response to this, the AGSA refined their audit approach to uphold transparency and accountability through our audits notwithstanding the implementation of the framework. We therefore through our audits continued to audit the IFWE registers of historical balances as well as any IFWE disclosure included in the annual report.
8. Have clear messaging in the audit reports whereby we identified material misstatements to what was disclosed in the annual reports and the audit evidence gathered through the audit of these registers.

9. While we were not in a position to modify audit opinions due to inadequate systems to detect, record and appropriately disclose historical IFWE in the AFS, the objective was to ensure that we could still be in a the position to report to the users of the AFS in cases where these registers of historical balances of IFWE are not completely and accurately maintained. This had no impact on the audit opinion of the financial statements.

2.12 Irregular expenditure analysis

Annual irregular expenditure within the portfolio remains high year on year. The portfolio incurred irregular expenditure of R27.7 million for the current year.



Two entities (ARC and ITB) within the portfolio had a material non-compliance for not taking effective and appropriate steps to prevent irregular expenditure. Below is a breakdown of the major instances of the irregular expenditure noted from the portfolio.

Entity	Nature of non-compliance	Amount
DALRRD	R15 036 000 relates to irregular expenditure incurred on procurement through deviations that was not approved by National Treasury and R308 051 was incurred in relation to bid that were advertised for less than 21 days. The rest of the irregular expenditure was due to a deviation from the normal procurement process by obtaining less than 3 quotations without approval.	R15 369 000
ARC	R1 560 000 was incurred in relation to deliberate splitting of procurement to avoid tender process. R5 875 000 related to expenditure incurred on assignment of a portion of a contract to another service provider. The rest of the irregular expenditure was due to a deviation from the normal procurement process by obtaining less than 3 quotations without approval. * Note that ARC was qualified on the accuracy and completeness of irregular expenditure, thus amount disclosed is not accurate and complete.	R7 442 000*
NAMC	R1 476 000 in relation to expenditure incurred on contracts signed without following delegation of authority policy. R624 000 was incurred in relation to non-compliance with recruitment policy on the appointment	R2 113 000

Entity	Nature of non-compliance	Amount
	of company secretary. The rest of the irregular expenditure was in relation to procurement without a contract in place.	
ITB	R829 000 relates to the continued use of expired contracts without the approval of the National Treasury.R369 000 relates to a deviation from the normal procurement process on appointment of service provider for cleaning services, which resulted on an award to a bidder other than the bidder that scored the highest points on 80/20. The rest of the irregular expenditure was in relation procurement awards made without obtaining declaration of interest	R1 253 000

Impact assessment of irregular expenditure incurred
Breach of the five pillars of procurement process- Equitable, Fairness, Cost effectiveness, Transparency and Competitiveness, was identified at the above entities

2.13 Fruitless and wasteful expenditure analysis

The fruitless and wasteful expenditure for the portfolio amounts to R30 325 828. DALRRD and ITB had a material non-compliance for not taking effective and appropriate steps to prevent fruitless and wasteful expenditure. Below is the summary of some of the high value fruitless and wasteful expenditure incurred in the portfolio:

Entity	Nature of fruitless and wasteful expenditure	Amount
DALRRD	There was a significant increase in current year F&W expenditure due to expenditure incurred on misappropriation of diners' card through the travel agency.	30 055 000
ITB	Interest and penalties charged by SARS on late payment of PAYE	R190 000
Impact assessment of fruitless and wasteful expenditure incurred		
The incurrence of fruitless and wasteful expenditure by the entities in the portfolio results in a loss of funds that could have been utilised for achievement of the portfolio's mandate.		

2.14 Investigations of irregular expenditure and fruitless and wasteful expenditure

There is slow progress on irregular expenditure investigation at DALRRD relating to a joint venture contract amounting to R111 900 690. The irregular expenditure was reported in the 2018/19 audit cycle. The matter was referred for investigation in 2021/22 as there are criminal elements and indicators of fraud on this matter. The investigation was still ongoing by the end of 2022/23 financial year. Not acting swiftly on matters of criminality and fraud, reduces the chances of recovering any funds on such matters.

There has also been slow progress on the fruitless and wasteful expenditure case relating to Centurion buses amounting to R26 854 411 at DALRRD. The case was reported in the 2018/19 financial year and it was still under investigation by the end of 2022/23 financial year.

Consequence management still remains a challenge within the portfolio, DALRRD, Deeds, ARC, NAMC and ITB have material non-compliance as they have not completed investigations or implemented the recommendations of completed investigations.

2.15 Internal control assessment

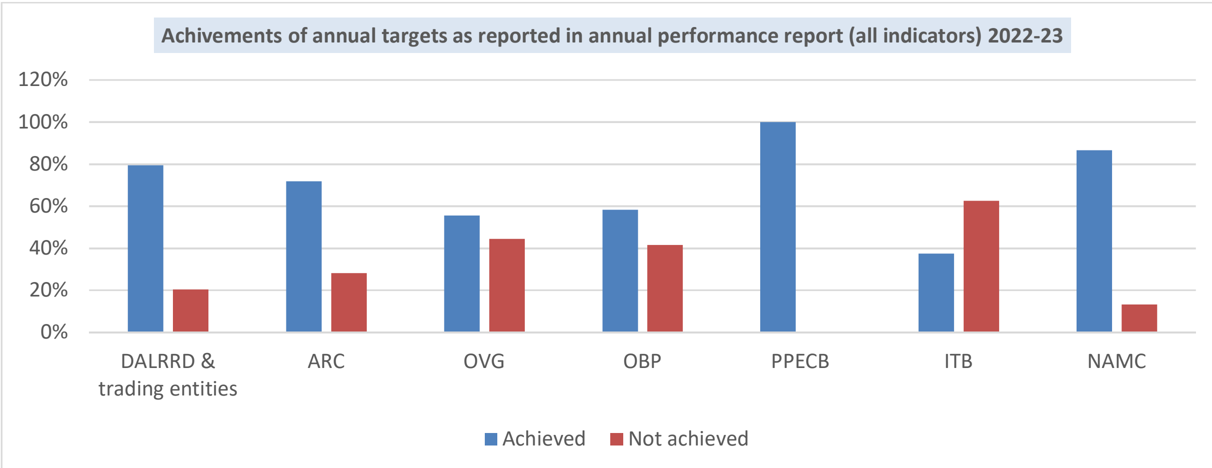
Leadership did not exercise adequate oversight and effective leadership over financial reporting and compliance with legislation, as the controls in place did not prevent or detect internal control deficiencies.

The department and some its entities did not have an adequate record management system that allowed for ease of retrieval of information to support the financial statements. In some instances, information was not readily available resulting in significant limitations on the audits as sufficient and appropriate evidence could not be obtained. This has negatively impacted the effectiveness of the daily and monthly internal controls relating to financial reporting.

Inadequate review mechanism to monitor compliance with legislation is impacting majority of the entities within the portfolio. The most impacted areas relate to irregular expenditure, lack of consequence management and supply chain management.

The department’s action plans to address the previous year audit outcome require close monitoring as repeat findings were identified. There were repeat findings on compliance as well as record keeping.

2.16 Further analysis of the performance information and annual reports



Farms / land not leased

The department/entity achieved 80% of their overall target however we have made some observations on the following targets that were achieved:

Indicator	Target	Actual performance
5.4.1 Number of hectares acquired through the Proactive Land Acquisition Strategy (PLAS)	35 182 ha	50 700,9657 ha
5.4.2 Number of hectares acquired for farm dwellers and/or labour tenants or ESTA occupiers	5 000 ha	5 270,0455 ha
5.5.1 Number of hectares allocated	34 043	63 764,7959 ha

We noted that there are some strategically acquired land that has not yet been leased/allocated. Majority of these properties have farm dwellers on them, and the department has not yet disposed the land because of the land claims not yet finalised to ensure that farm dwellers have the land transferred accordingly.

We observed that in some instances, properties have an average of four (4) years since acquisition and are still to be leased. Some properties have eviction notices against them, while others are still under land claims and some requires re-advertising.

The department and its trading entity are exposed to the various risks, such as theft, vandalism and illegal occupation of strategically acquired land not timely transferred or leased out.

We further noted that the department is taking an average of ten (10) months to allocate land acquired through leases from the date of acquisition. In most cases, land acquired took at least 12 months before it was approved for leasing purposes. The delay in allocation was attributed to Circular 4 of 2021, which came into effect in November 2020.

Due to the length of time it takes to lease acquired land, the department has experienced a number of illegal land invasions. In some cases the eviction notices were sought to remove illegal occupants however the department has not always been successful in removing them resulting in land acquired not utilised for its intended purpose.

It was noted that in some instances, leases are not in place for land acquired with the intention to allocate to farm dwellers who are currently occupying the farms, even though acquisition was finalised, and the families are already occupying and utilizing the land for livestock farming. Lack of formal leases for these farm dwellers results in rentals not charged and collected.

Although the department is taking time from acquisition to generation of leases, it was noted that once property management receive the project file to generate leases, the turnaround time is normally within 30 days.

Adequacy of government support and commercialise smallholder farmers:

We obtained insights into the spending where significant funds were paid to suppliers for support to farmers. We noted that majority of funds were for farming infrastructure (boreholes, windmills, water tanks), inputs (livestock, seeds, fertilizers) and vehicles (tractors/ bakkies), which will assist farmers to become commercially viable and contribute to food security.

We further gathered understanding where there is a significant amount of funds in the grant holding bank accounts not spent by farmers. We noted that farmers in Gauteng do not understand how the LDS grants should be spent. However, there was an LDS workshop provided to farmers in April 2022, reminders for procurement quotations for inputs were also sent to farmers in August and November 2022. In some instances farmers submitted quotations, however they were not accepted by the department on the basis that they are not in line with the LDS policy. This indicates that farmer's workshop was not effective in providing farmers with understanding to equip them with the necessary knowledge of spending of grant monies available.

We noted that the unfortunate passing of some farmers resulted in a pause in spending. However, the department through its trading entity is currently working on reallocating the leases to beneficiaries. Additionally, in the Northern Cape, it came to our attention that the department had terminated its agreement with the commodity organization due to poor performance. Consequently, this has led to a decrease in spending by most farmers on their LDS allocations. The cancellation of the agreement may have a significant impact on the emerging red meat producers supported. Based on the information available, it is evident that farmers in this region require assessments and specifications from the engineers at the head office before they can proceed with spending the remaining grant allocations. This requirement may pose challenges in efficiently utilising the allocated funds until the necessary assessments and specifications are provided.

In the Free State, beneficiaries encountered delays in spending on infrastructure due to disputes with contractors. The absence of a proper SCM (Supply Chain Management) process increases the risk of permanent structures not meeting CIDB (Construction Industry Development Board) requirements and encourages the use of contractors not registered in accordance with CIDB regulations. Since farmers must source quotes without the entity's assistance, this may lead to challenges in ensuring timely and compliant construction, potentially resulting in hindered progress in utilizing the grant funds effectively.

Majority of beneficiaries selected indicated that over 90% of the remaining grant is intended for sourcing infrastructure. However, they are still awaiting specifications from engineers at head office before commencing construction. The rest of the grants are allocated for production inputs and operational costs in the upcoming planting season. There is a significant risk of spending stagnation where farmers have to wait for engineers to perform assessments, which could take considerable amount of time

Land restitution

The department is currently achieving the set targets for land restitution as indicated below:

Performance indicator	Target	Actual performance
5.6.1 Number of land claims settled	336	355
5.6.2 Number of land claims finalised	372	429

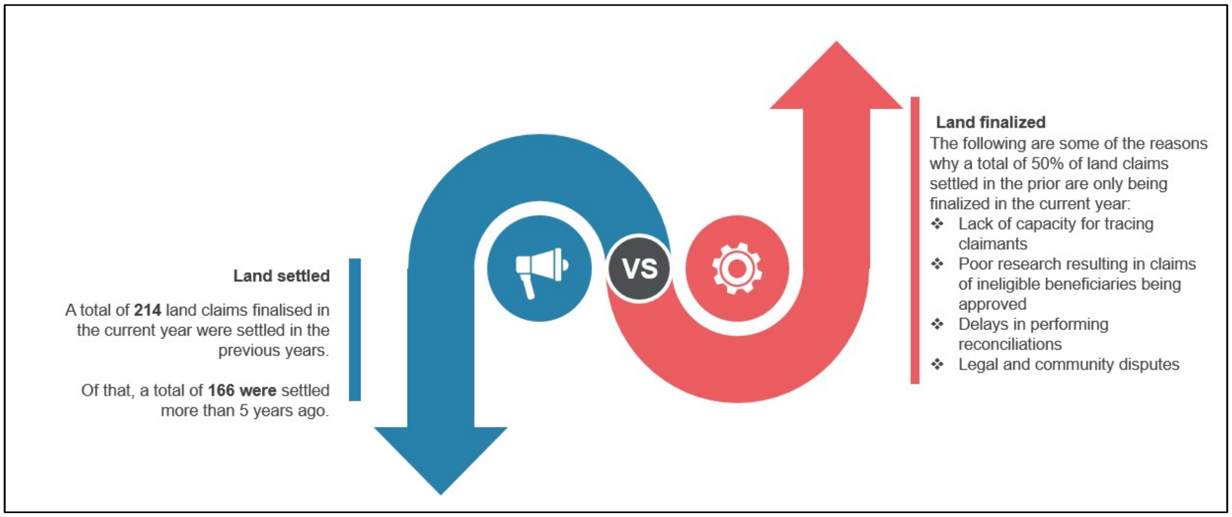
The Department have a backlog of restitution claims that are settled but not yet finalised. Settled means that the claim was approved while finalised refer to the claims where payment is made, land is transferred to the beneficiaries, declaration of funds or both. As at 31 March 2023 the Department had a backlog of 17 566 land claims that were settled but not yet finalised.

We noted that the Department is in possession of restitution land that is supposed to be transferred to the beneficiaries. Upon interrogating the reasons why the land is not being transferred to the beneficiaries, we noted that there are legal court battles that prevent the department to transfer the properties to the beneficiaries. Some of these legal cases are due to poor research by the department resulting in ineligible claimants being approved.

We further analysed the period it takes the department to finalise settled land claims and noted that in some instances, it takes over five years from the date of settlement to the date of finalisation. At this rate and considering the backlog land claims, it is highly unlikely that the department will make any meaningful impact on finalising the land restitution claims.

In some engagements with the department, financial constraints has been cited by management that only so much can be achieved with the funds allocated for land restitution claims.

The below diagram paints a picture of the time it took for current year land claims to be finalised.



Land reform and access to land by woman, youth and people with disabilities

The revised MTSF (2019-2024) indicates prioritisation of land allocation to women, youth and persons with disabilities. The Department does not prioritise land allocation to these designated groups. The key indicator on land reform and access to land has not been disaggregated in terms of woman, youth and people with disabilities in the Annual Performance Plan (APP). Disaggregation was previously included in the 2021/22 (APP) and the department was struggling to achieve on the target. In the 2022-23, the targets for the disaggregation was removed from the APP.

We observed that the Department has a beneficiary selection policy that prioritise women, youth and people with disabilities, however the policy is not applied consistently across all the provinces. Some provinces use the policy while some do not use it during the evaluation and allocation of land.

The Department does not have processes and systems to monitor the effectiveness of any programmes / initiatives implemented during the year to prioritise women, youth and people with disabilities. However, the department does report on these numbers. Without targets and monitoring processes, it would be difficult to determine whether the department is making meaningful impact to the achievement of the MTSF targets of 50% to women, 40% to youth 10% to persons with disabilities. The department has indicated that this information is reported in the operational plans. Management further indicated that in certain instances, certain farms are specifically earmarked for allocation to women, youth and people with disabilities and are indicated as priority on the relevant advertisements.

Land claims finalised not necessarily paid out (possible fiscus dumping):

Part of the department's process to finalise (payout) financial compensation land claims, is to transfer funds to the ABSA bank and the bank will transfer the money to the related land claimants based on banking details provided by the department. This process of settlement has a normal settlement timing period of one (1) month.

In the current year, we noted that there was a payment of R171 294 467 that was made in March 2022. The payment was to settle the land claim through the purchase of equity shares in certain companies for the benefit of the land claimants. For more than 12 months, no processes were initiated to acquire the equity shares for land claimants.

ABSA bank can only pay out land claims where there are bank accounts of land claimants provided by the department. Processing of this payment as a normal financial compensation to ABSA is considered fiscus dumping as ABSA would not have been able to do anything with this money.

In the current year, we observed a significant amount of payments made towards the end of the financial year. A total of R1.5 billion was made in the last 3 days of the financial year. Such trends are indicative of fiscus dumping, specifically if such amounts are being paid as prepayments or advance payments. Prepayments and advances are allowed if provided for in contractual obligations, however they are not encouraged.

Infrastructure projects

The Department has disclosed in their financial statements capital projects as either terminated projects or projects longer than five years. From our evaluation of these projected, we noted that there was inadequate project and contract management on some of the projects to ensure timely completion of the following projects. For some of these projects, there was minimal or no progress in the current year under review.

The common reason for termination of these projects was due to poor performance of initially appointed contractors and service providers. It is understandable to terminate poor performing contractors, however adequate alternative plans should be timely put in place to ensure that these projects are successfully completed.

FMD vaccine facility (ARC)

South Africa's only Foot-and-Mouth Disease (FMD) vaccine production facility at the ARC OVR Campus ceased functioning in December 2005. Lack of FMD vaccine production at this facility has increased the risk for the effective management of potential disease outbreaks.

ARC developed a Business Plan outlining its intensions to construct a new state-of-the-art FMD vaccine production facility. The business plan was presented to National Treasury on 01 March 2010. The document was endorsed by the Minister of Agriculture and funded by the National Treasury over the 2011/2012 financial year. In April 2019, the National Treasury allocated the shortfall of R400 million of additional funding to the ARC in support of the FMD vaccine factory.

To date, there has been slow progress on the construction of the facility. The ARC has cited the following as reasons for the slow progress;

- Modification of the original business plan and requirement for additional funding
- Recruitment of independent consultants or contractors was only finalized during the 2022-23 financial year
- Delays in tender and contracting processes
- Vaccine plant and facility redesign

A total amount of R535 546 298 has been received to date and total expenditure incurred amounts to R57 175 076.

3. Main root causes and recommendations

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All role players in the accountability ecosystem 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

Root causes

- Inadequate consequence management.
- Preventative controls are not adequately designed and implemented.
- Inadequate monitoring of effective implementation of the action plans.

Recommendations

- Design and implement preventative controls.
- Foster a values-driven portfolio by investigating all instances of non-adherence to laws and regulation that led to Irregular, fruitless and wasteful expenditure or fraud.
- Instil a culture where internal controls are adhered to, this can be done by holding those accountable where there is a break down in controls e.g senior manager
- Regular monitoring of quality assured progress updates on action plans.
- Recap reconciliations and related assessments should be finalised and supported by adequate consequence management processes.
- Monitor the progress made by the accounting officer in responding to the material irregularity.
- There is an urgent need for the OBP and ARC to complete the FMD and GMP facilities given the lack of sufficient vaccines in the country. The entities have not been able to meet the demand for vaccines. Viable alternative means of production should be put in place until the projects are finalised.