

Budgetary review and recommendations report

**PFMA
2022-23**

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

06 February 2024



AUDITOR-GENERAL
SOUTH AFRICA



MISSION

The Auditor-General of South Africa 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.

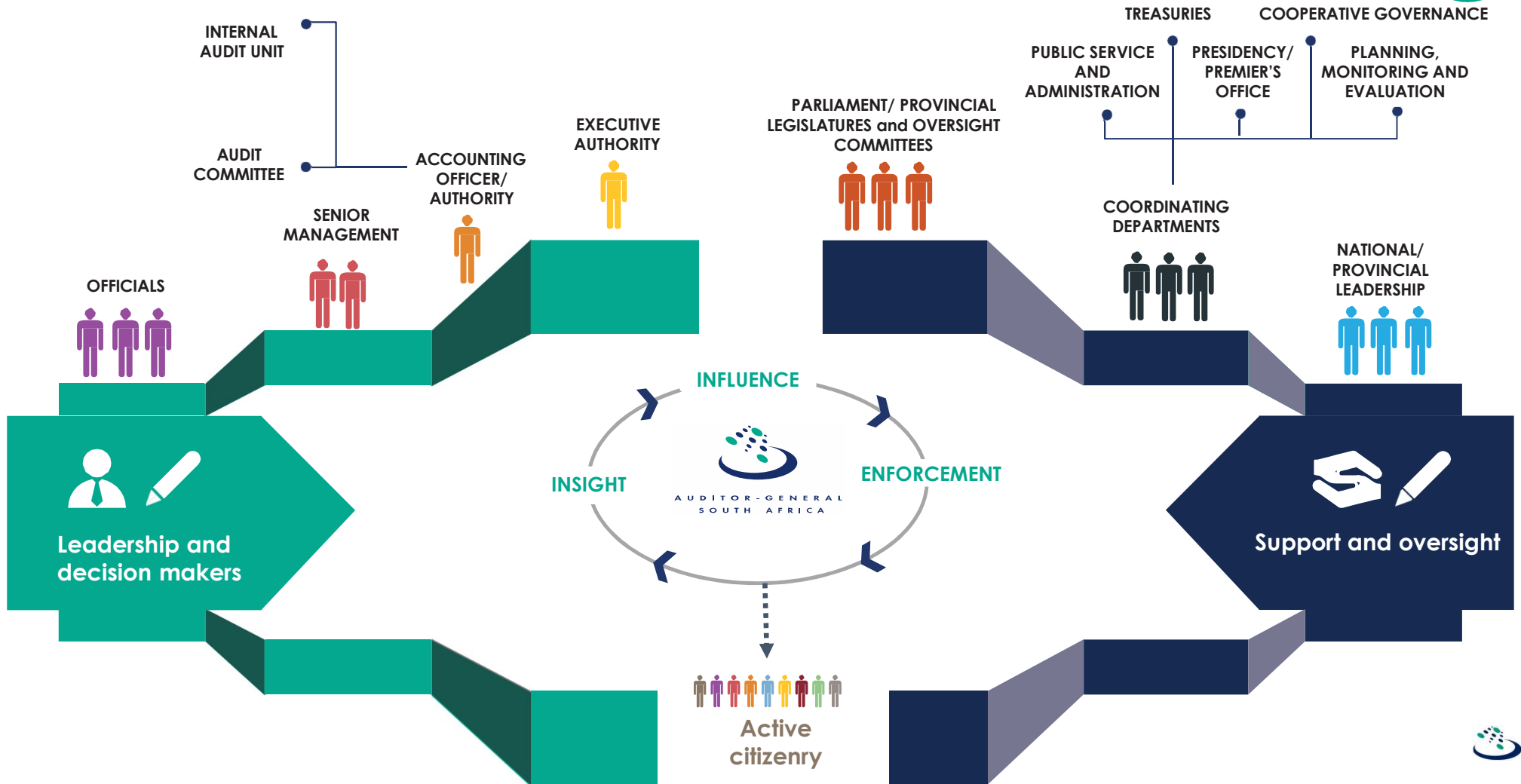


VISION





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



All have a role to play in accountability ecosystem



In 2021-22, we recommended the following:

-  Implementation of the action plans by the department, specifically those around ensuring that, where PESI vouchers were redeemed, farmers have received the goods.
-  There is an opportunity to enhance the controls around PESI, by ensuring that there is evidence to support that beneficiaries received the goods/farming produce for the remainder of the expenditure. →
-  Progress made by the entities in implementing responsive remedial plans in addressing root causes that resulted in deficiencies identified.
-  Quarterly follow up on the status of consequence management on all cases of irregular and fruitless and wasteful expenditure.

 Implemented

 In progress

 Not implemented

Overall reflections on implementation of recommendations:

The department implemented an action plan and followed up on some of the PESI vouchers previously redeemed. The department is continuing to implement the action plan, the executive authority and portfolio committee should track the progress made by the department and ensure that all evidence is obtained to prove that all vouchers were redeemed by qualifying beneficiaries.

We noted that the department improved the internal controls around the redemption of vouchers by farmers. Proof of goods delivery for subsequent redeemed vouchers are now maintained.

There has been minimal progress in addressing internal control deficiencies at entities of the department. The ARC, IT and ALHA remained qualified with findings. The OBP regressed to a qualified audit opinion and ITB and Deeds were unqualified with material non-compliance findings. This is indicative that preventative controls are not adequately designed and implemented.

Consequence management still remains a challenge within the portfolio, six auditees in this regard have material non-compliance.



Audit outcomes over administration term

	Unqualified with no findings (clean)	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Outstanding audits	
2019-20 FIRST YEAR OF ADMINISTRATION	3	4	3	2	0	0	12
2021-22	3	4	4	0	0	0	11
2022-23	3	4	4	0	0	0	11

MOVEMENTS FROM PREVIOUS YEAR:
2 ↑ 1 ↓

FROM FIRST YEAR OF ADMINISTRATION:
3 ↑ 2 ↓

Office of the Valuer-General (OVG)
Commission on Restitution of Land Rights (CRLR)

Perishable Production Export Control Board (PPECB)*

Department of Agriculture, Land Reform and Rural Development (DALRRD)
Deeds Registration Trading Entity (Deeds)
National Agricultural Marketing Council (NAMC)
Ingonyama Trust Board (ITB)

Agricultural Research Council (ARC)
Onderstepoort Biological Products (OBP)
Agricultural Land Holdings Account (ALHA).
Ingonyama Trust (IT)

None

None

Submission of financial statements by 31 July 2023 for the portfolio remained stagnant at **91%**. **Ingonyama Trust** submitted financial statements on **01 August 2023** for audit

* Section 4(3) not audited by the AGSA



Portfolio performance



Land reform and possible fiscus dumping



Total Expenditure

Monthly average spent of 8% vs. 9% spent in last 2 to 3 days of year end.

R17 113 148 000



R1 597 005 317

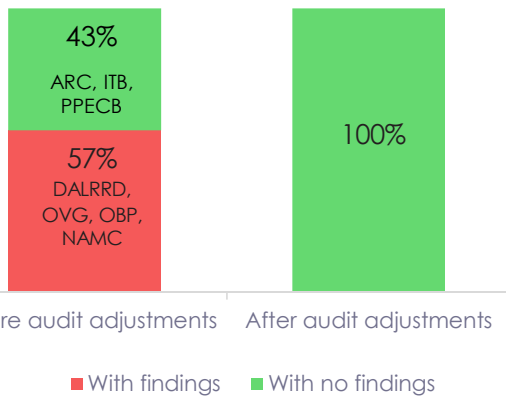
Impact

This gives impression that progress is made on land reform and money spent on government priorities. Funds that must be repaid to NRF are held in departmental entities.



- R171m was transferred to restitution bank accounts to acquire equity shares for land beneficiaries. There was no action for more than 12 months on these funds.
- Backlog of 17 566 land claims that were settled but not yet finalised.
- It takes over five years from the date of settlement to the date of finalisation (payment) for some land claims.
- Lack of capacity, legal and community disputes and poor research are some of the root causes in delayed settlement of claims.
- Highly unlikely that the department and Commission will make any meaningful impact on finalising the land restitution claims.
- Takes average of ten (10) months to allocate land acquired through leasing. Possible fiscus dumping was also identified at ARC. Funds were transferred 2 days before year end. Although in terms of the SLA, these funds could not be linked to any rendered services prior to the transfer. This is indicative of possible fiscus dumping. This has been common practice resulting in the entity having income received in advance relating to services yet to be rendered.

Quality of performance reports before and after audit



Findings: Planning for service delivery

The DALRRD, OVG, OBP and NAMC submitted performance reports with errors which were subsequently corrected, therefore there were no material findings reported on the final annual performance reports.

We commend the ARC, ITB and PPECB for maintaining credible performance reporting as no material errors were identified on the submitted annual performance report.

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

Observations

MTSF targets

- The Department is monitoring the key MTSF indicator for Expand access to and ownership of land by women, youth and persons with disabilities through the operational plan and therefore are not included in the APP/APR.

Foot and Mouth Disease (FMD) facility

- The ARC have targeted nothing for two indicators, i.e. Number of different types of vaccines developed and Number of FMD vaccine doses produced. The entity indicated that this is due to the non-completion of the FMD facility construction.



Performance against targets

1 Key service delivery targets/ key targets in medium-term strategic framework for the province

- Land acquired for redistribution, restitution and tenure reform.
- Sustainable land reform
- Smallholder farmers support
- Attract, recruit and train young people to pursue careers in the agricultural sector value chain

2 Key service delivery targets not included in plans of auditees

The Department is monitoring the following key MTSF indicator through the operational plan and therefore are not included in the APP/APR:

- Expand access to and ownership of land by women, youth and persons with disabilities.

3 Achievement of annual targets as reported in annual performance report (all indicators) – 2022-23

Key targets not achieved:

- Number of extension personnel recruited (DALRRD)
- Increased vaccine doses sold (%) annually (OBP)

Key targets Achievements:

- Number of farms supported through the Land Development Support Programme (DALRRD)
- Number of hectares allocated (DALRRD)
- Number of land claims settled(DALRRD)
- Number of land claims finalised. (DALRRD)

Indicators with no targets (ARC)

- Number of different types of vaccines developed.
- Number of FMD vaccine doses produced

4 Insights, root cause and impact of targets not achieved

DALRRD

- 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 do not use this policy during the evaluation and allocation of land.
- The funds to recruit extension personnel were made available late, due to the need for budget reprioritisation.
- There are 266 farmers identified who need LDS assistance, however the target was set at 83 farmers.
- Although the Department is over-achieving on allocation of land, it takes an average of 10 months to allocate the land from date of purchase, thus resulting in illegal occupations and invasions.
- The department have set the land claims target too low, given the backlog, it will take at least over 30 years to settle and finalise backlog land claims.

ARC

- The ARC has been allocated funds for the construction of FMD vaccine facility and there has been no progress on the construction of the facility for over 10 years. Currently, as the country we rely on other countries for vaccines.

OBP

- The entity was unable to meet its demand with regards to the number of vaccines produced and sold as per their mandate.

Strategically acquired land not leased out



The department is taking an average of at least ten (10) months to allocate land acquired through leases from the date of acquisition.

For some land acquired with the intention to allocate to farm dwellers, the transfer of the properties have not been finalised to the farm dwellers.

Strategically acquired land has not yet been leased.

The department has experienced a number of illegal land invasions and challenges to implement evictions.

Intended transfer of land to farm dwellers not timely achieved.

Exposure to various risks, such as theft, vandalism and illegal occupation of strategically acquired land not timely leased out



Infrastructure projects



Inadequate project and contract management on terminated or longer than 5 years infrastructure projects. Some had minimal or no progress in the current year.

Common reasons for termination were due to poor performance of initially appointed 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.

Since 2011-12 the Minister endorsed the plan to build new FMD facility, construction of the facility has not commenced.

Only R57.2m of the R535.5m funding made available has been utilised to date. Reasons cited by ARC include vaccine plant redesigns, delays in recruitment of consultants, tender and procurement processes. Currently vaccines are imported from neighbouring country, Botswana.



1

ARC: Foot and Mouth Disease (FMD) Facility

Amount budgeted: R535 546 298

Amount spent: R 57 175 076

The ARC 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 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 production.

2

OBP: Good Manufacturing Practice (GMP) facility

Amount budgeted: R492 400 000

Amount spent: R275 454 215

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.

Material irregularities



2011 -2017

R2.2 billion recapitalisation grants paid out and critical project monitoring phase R526 million not accounted for

2011-2020

Inadequate project management and monitoring of the recap grants.
Invoices not submitted and reconciliations not finalised

2021-22

Assessments of invoices and reconciliations not finalised/supported by evidence. Inadequate recovery of the money not accounted for

2022-23

MI issued in terms of Sec 45 of the PFMA – Officials did not implement responsibilities assigned to their role to adequately monitor the recap grants

Effective controls not implemented

Recovery of funds unaccounted funds

Response evaluation

Accounting Officer formal response and additional information requested on action plan to address the MI was evaluated.

We will closely monitor the implementation of actions committed to be taken by the Accounting Officer.

MI response due

Accounting Officer response was due 23 August 2023. Accounting Officer provided action plan to address the irregularity on 25 August 2023.



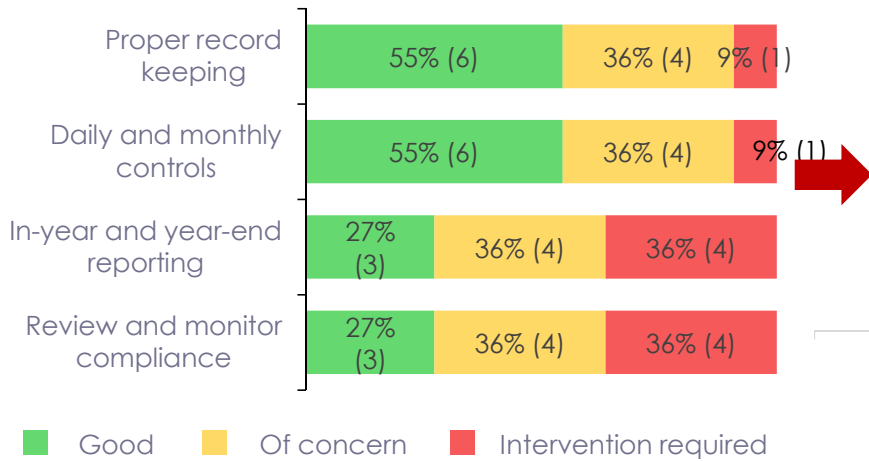


Financial management and compliance

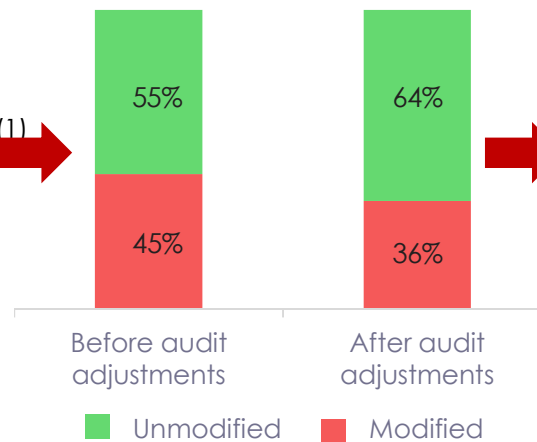


Quality of financial reporting

Financial management controls



Impact on quality of financial statements submitted for auditing



Main qualification areas

- Revenue from non-exchange transactions (ARC)
- Depreciation and amortisation (ARC)
- Property, plant and equipment (ARC)
- Irregular expenditure (ARC)
- Cost of sales (OBP)
- Inventories (OBP)
- Receivables (ALHA)
- Investment in subsidiary (IT)
- Loans to subsidiaries (IT)

Impact

- On ARC- Inadequate management of the entity's assets resulting in the inability to properly plan for the maintenance of the assets. Furthermore, the lack of dealing with irregular expenditure, creates a culture where non-compliance is tolerated.
- On OBP- There is no approved policy detailing how costs are allocated per unit of vaccine produced, furthermore, there is no process in place that accurately accounts for vaccines that are manufactured in line with the accounting framework.
- On ALHA – The entity has still not finalised the recap reconciliations, which impacts the successful recovery of unaccounted funds
- On IT – The funds invested/loaned by the Trust to its subsidiary might not be recoverable.

Overall – inadequate financial management controls result in financial statements that are not credible, thereby impacting on the ability of the oversight structures to rely on the financial statements and exercise the necessary oversight.

BACKGROUND

- ❑ The entity had disbursed recap grants between 2011 – 2019, to which evidence supporting the intended utilisation thereof could not be substantiated. This resulted in a qualified audit opinion over a number of years. .

IMPACT

- ❑ The longer it takes to finalise the reconciliations and commencement of the legal recovery processes, the **likelihood of successful recovery is reduced and**
- ❑ Opportunity to **reprioritize government funds elsewhere is lost** and a culture of non-accountability could be encouraged.

ROOT CAUSE

- ❑ **Inadequate project management and internal controls** during the active period of the contracts.
- ❑ **Delayed finalisation of reconciliations** and related assessments to account and recover monies not accounted for.

KEY RECOMMENDATION

- ❑ The progress and **finalisation of the reconciliations** should be closely monitored and tracked on a regular basis.
- ❑ Importantly, the **follow up of the fiscus** in this regard is crucial, including the **full implementation of the consequence management** processes.



Compliance with key legislation



2022-23



● No material findings ● Material findings

MOVEMENTS FROM PREVIOUS YEAR:
0 ↑ 0 ↓

Most common areas of non-compliance	DALRRD	ARC	OBP	NAMC	DEEDS	ITB	ALHA
Quality of financial statements	X	X	X				X
Prevention of irregular and fruitless and wasteful expenditure	X	X		X		X	
Consequence management	X	X		X	X	X	X
Revenue management	X						X



Status of compliance with legislation on procurement and contract management

2022-23 key findings

Breach of five pillars of procurement: Equitable, Fairness, Cost effectiveness, Transparency and Competitiveness	DALRRD
--	--------

Top contributor

DALRRD: R30.2m F&W

The department must monitor the progress of these investigations closely to ensure transgressors are held accountable and government monies are recovered.

Fruitless and wasteful expenditure

Background

- Accounting Officer commissioned investigation into allegations of misappropriation of funds.
- Investigation was completed and matter reported to SAPS for further investigation and prosecution.

F&W Expenditure relating to diners card

- ❖ Disclosed R30.2 million in the financial statements
- ❖ R234m under investigation for redeemed PESI vouchers.

This matter implicates senior officials within the department. The department reported these to the law enforcement agency in terms of PRECCA.

PFMA Compliance and Reporting Framework

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

Public objective of the Instruction note is to prescribe the **principles and compliance reporting requirements** for PFMA institutions to the Public Finance Management Act, 1999 regarding **unauthorised, irregular and fruitless and wasteful expenditure** (UIF&WE).

Framework

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


- 1** **Movement** in the disclosure note of IFWE has been moved from annual financial statements to the annual report under Part E.
- 2** **PFMA institutions** will only disclose IFWE incurred in the current year, with a one-year comparative analysis.
- 3** **Historical balances (i.e., opening balances)** have been completely removed from the annual financial statements

Message to portfolio committee

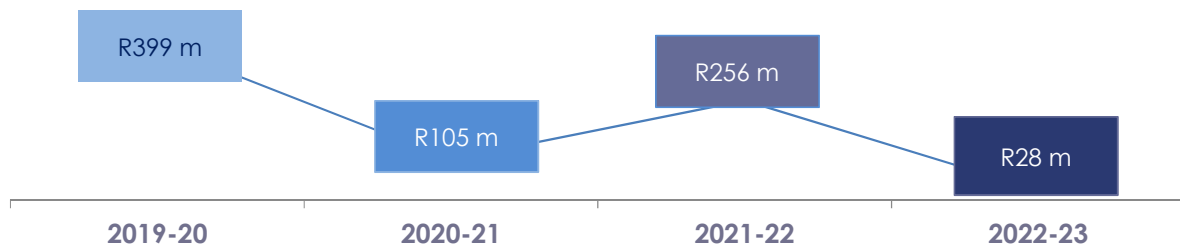
The change to **remove the disclosure of historical balances for IFWE** means that the **oversight structures may not be able to fully exercise their oversight roles**. Furthermore, **no audit assurance** will be provided on the additional disclosures that have been moved from the AFS to the annual report.

AGSA refined its audit approach to uphold transparency by continuing to audit the IFWE disclosure in the annual report

There is a clear messaging in the audit report on reliability of the IFWE disclosure in the annual report

The objective was to ensure that we could still be in a position to report to users of the AFS in cases where these historic balances of IFWE are not complete and accurate. This had no impact on the audit opinion. 

Annual irregular expenditure



Top contributors



Irregular expenditure is not complete

ARC was qualified on the accuracy and completeness of the disclosed irregular expenditure.

Note: The ARC qualification on irregular expenditure is a repeat qualification.

Impact of irregular expenditure incurred

Breach of five pillars of procurement – equitable, fair, cost effective, transparent and competitive:

- DALRRD: R15.37 in relation to deviations not approved by National Treasury and bids advertised for less than 21 days
- ARC: R7.44 related to splitting of quotations and assignment of a contract.
- ITB: R1.25 for contract variations not approved by NT, awards made without obtaining declaration of interest and appointment of service provider other than the highest point scorer

Other:

- NAMC for contract signed without delegation and employee cost related non-compliance

Opportunity cost of competitive market prices

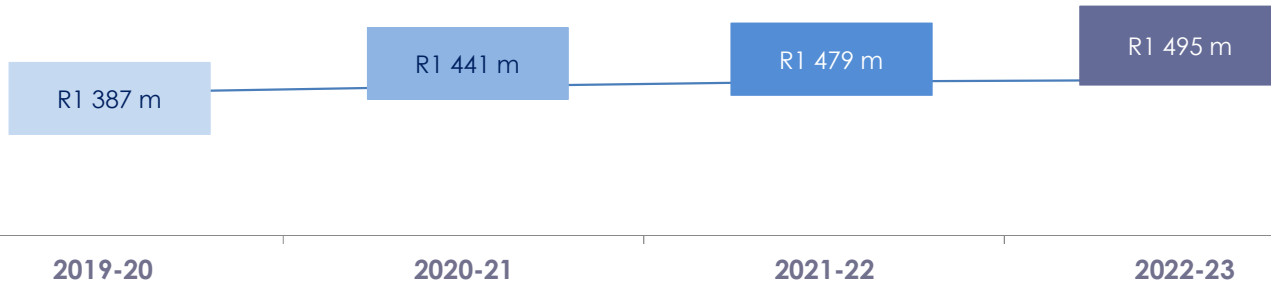
Inability contribution to SMMEs and creation of jobs

Lack of transparency of the process

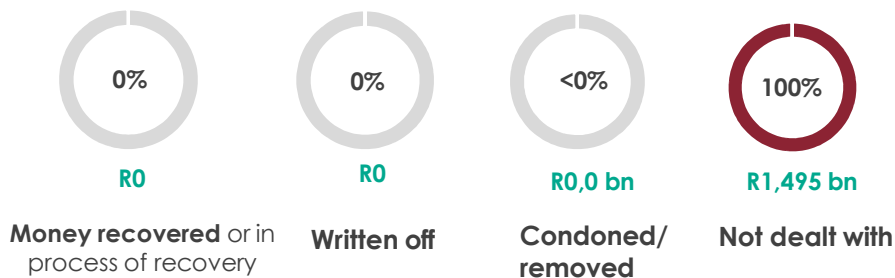


Consequence management – dealing with irregular expenditure

Closing balance of irregular expenditure continues to increase



How have auditees dealt with irregular expenditure



Top 5 contributors (R1 463 million) to irregular expenditure not dealt with constitute 97.9% of the R1 495 million



Reasons for IE not dealt with:

- Inadequate and proper record keeping of investigations or investigations not performed:
 - ARC
 - ITB
 - Deeds
 - ALHA
- Consequence management not timely:
 - DARLLRD
- Matters in the courts:
 - Deeds
- Investigations / determinations taking long to finalise:
 - NAMC





Conclusions and recommendations



Key root causes

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

Key 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.
- Instill 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.



THANK YOU



www.agsa.co.za



@AuditorGen_SA



Auditor-General of South Africa



Auditor-General of South Africa



AUDITOR-GENERAL
SOUTH AFRICA