



PFMA 2016-17



Budgetary review and recommendations briefing

Portfolio Committee on Rural Development and Land Reform

September 2017



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Reputation promise

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.



Role of the AGSA in the reporting process

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



Our annual audit examines three areas



1 FAIR PRESENTATION AND RELIABILITY OF FINANCIAL STATEMENTS

2 RELIABLE AND CREDIBLE PERFORMANCE INFORMATION FOR PREDETERMINED OBJECTIVES

3 COMPLIANCE WITH KEY LEGISLATION ON FINANCIAL AND PERFORMANCE MANAGEMENT



Unqualified opinion with no findings (clean audit)



Auditee:

- produced credible and reliable financial statements that are free of material misstatements
- reported in a useful and reliable manner on performance as measured against predetermined objectives in the annual performance plan (APP)
- complied with key legislation in conducting their day-to-day operations to achieve their mandate.

Financially unqualified opinion with findings



Auditee produced financial statements without material misstatements or could correct the material misstatements, but struggled in one or more areas to:

- align their performance reports to the predetermined objectives they committed to in their APPs
- set clear performance indicators and targets to measure their performance against their predetermined objectives
- report reliably on whether they achieved their performance targets
- determine the legislation that they should comply with and implement the required policies, procedures and controls to ensure compliance.

Qualified opinion



Auditee:

- had the same challenges as those with unqualified opinions with findings but, in addition, they could not produce credible and reliable financial statements
- had material misstatements on specific areas in their financial statements, which could not be corrected before the financial statements were published.

Adverse opinion



Auditee:

- had the same challenges as those with qualified opinions but, in addition, they had so many material misstatements in their financial statements that we disagreed with almost all the amounts and disclosures in the financial statements.

Disclaimed opinion



Auditee:

- had the same challenges as those with qualified opinions but, in addition, they could not provide us with evidence for most of the amounts and disclosures reported in the financial statements, and we were unable to conclude or express an opinion on the credibility of their financial statements.

1 NO POVERTY



2 ZERO HUNGER



3 GOOD HEALTH AND WELL-BEING



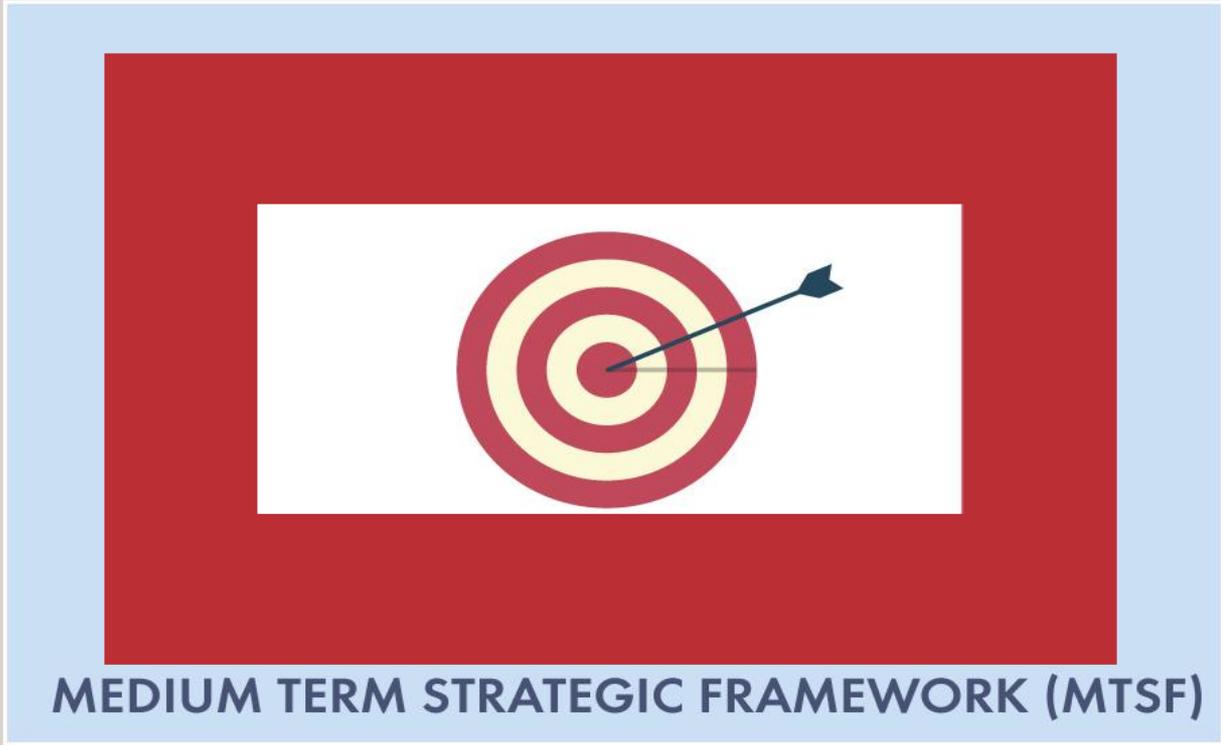
4 QUALITY EDUCATION



5 GENDER EQUALITY



NATIONAL DEVELOPMENT PLAN (NDP)



MEDIUM TERM STRATEGIC FRAMEWORK (MTSF)

17 PARTNERSHIPS FOR THE GOALS



16 PEACE, JUSTICE AND STRONG INSTITUTIONS



15 LIFE ON LAND



14 LIFE BELOW WATER



6 CLEAN WATER AND SANITATION



7 AFFORDABLE AND CLEAN ENERGY



8 DECENT WORK AND ECONOMIC GROWTH



13 CLIMATE ACTION



12 RESPONSIBLE CONSUMPTION AND PRODUCTION



11 SUSTAINABLE CITIES AND COMMUNITIES



10 REDUCED INEQUALITIES



9 INDUSTRY, INNOVATION AND INFRASTRUCTURE





ACCOUNTABILITY = PLAN + Do + CHECK + ACT

"Plan-Do-Check-Act Cycle", also the Deming cycle , courtesy of the International Organization for Standardization





ACCOUNTABILITY = PLAN + DO + CHECK + ACT



Our revised audit methodology



We have enhanced our **audit methodology** to ensure you continue to receive a **valuable** and **relevant product**

It was the result of a robust and methodical process:



In-depth research



Numerous local and international discussions



Thousands of hours of testing

The audits will be more **focused** and **integrated** with a robust risk approach, allowing you to continue driving **accountability** and **good governance**.



ACCOUNTABILITY = PLAN + DO + CHECK + ACT

Our percentages are based on the completed audits of four auditees, unless indicated otherwise

The overall audit outcomes are indicated as follows:

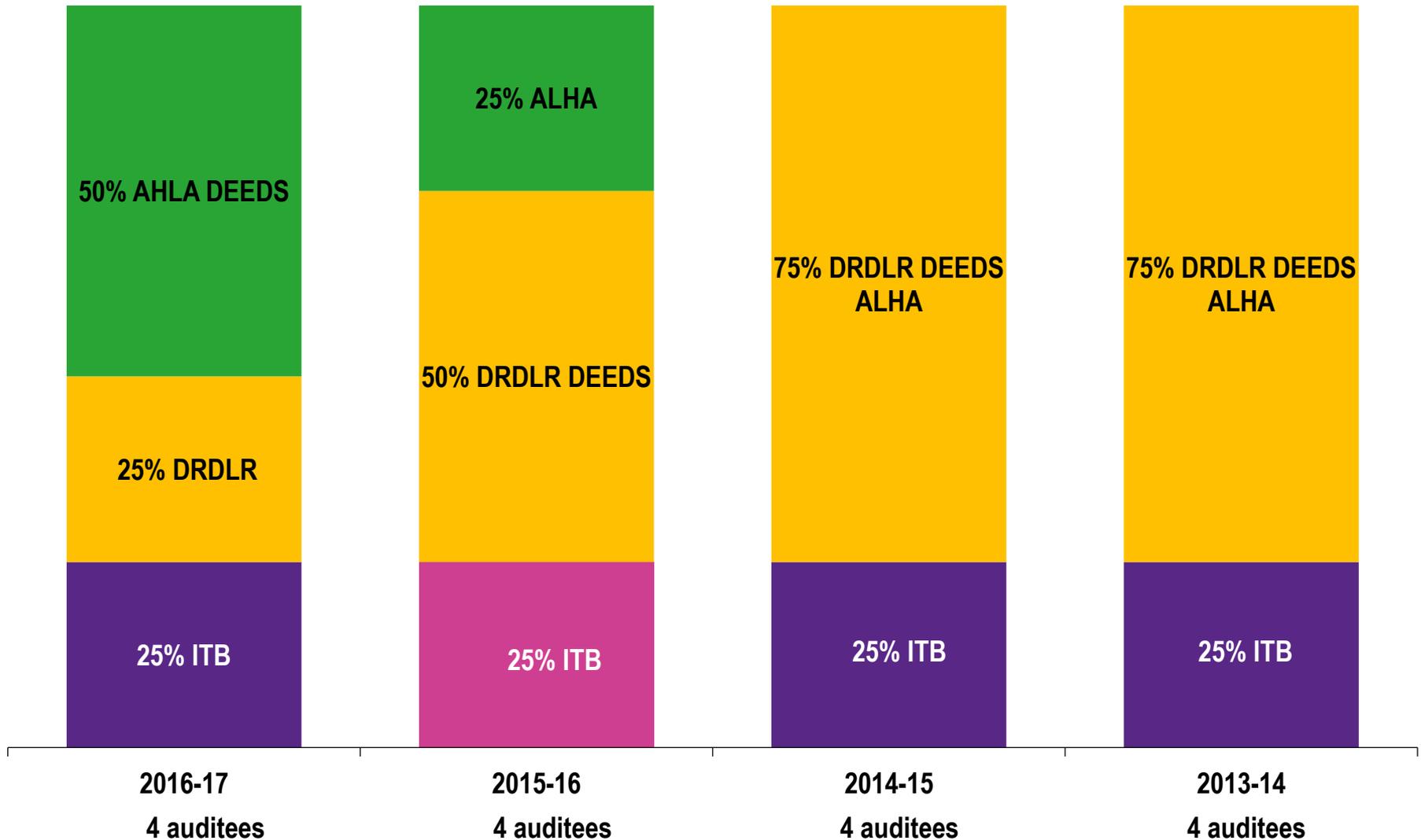
-  Unqualified with no findings
-  Unqualified with findings
-  Qualified
-  Adverse
-  Disclaimed
-  Audits outstanding

Movement over a period is depicted as follows:

-  Improved
-  Unchanged
-  slight improvement
-  slight regression
-  Regressed



Audit outcomes of portfolio over four years



Movement table (2016-17 over 2015-16)

	<div style="display: flex; align-items: center; justify-content: center;"> <div style="margin-right: 10px;"> Movement </div> <div style="background-color: #0070c0; border-radius: 50%; width: 30px; height: 30px; display: flex; align-items: center; justify-content: center; color: white; font-weight: bold; font-size: 24px;">1</div> </div> <div style="display: flex; align-items: center; justify-content: center;"> <div style="margin-right: 10px;"> Audit outcome </div> <div style="background-color: #444; border-radius: 50%; width: 30px; height: 30px; display: flex; align-items: center; justify-content: center; color: white; font-weight: bold; font-size: 24px;">3</div> </div> <div style="display: flex; justify-content: space-around; width: 100%;"> Improved Unchanged </div>	
Unqualified with no findings	DEEDS	ALHA
Unqualified with findings		DRDLR
Qualified with findings	ITB	
Adverse with findings		
Disclaimed with findings		

Colour of the number indicates the audit opinion from which the auditee has moved.

Management and delivery on key programmes – spending, performance and reporting – DRDLR

Programme	Budget spent	Material misstatements	Unauthorised, irregular and fruitless and wasteful	Findings on material indicators			Achievement of targets – from performance report
				Indicator	Not useful	Not reliable	
Programme 2: geospatial and cadastral services	98,8%	No	None	No findings			4 out of 5 targets
Programme 3: rural development	99,0%	No	None	No findings			6 out of 7 targets
Programme 4: restitution	99,8%	No	None	No findings			All targets achieved
Programme 5: land reform	99,5%	No	None	No findings			9 out of 12 targets

 Good

 Of concern



Management and delivery on key programmes – spending, performance and reporting – ITB

Programme	Material misstatements	Unauthorised, irregular and fruitless and wasteful	Findings on material indicators			Achievement of targets – from performance report
			Indicator	Not useful	Not reliable	
Programme 2: land management	No	None	No findings			3 out of 5 targets
Programme 3: rural development	No	None	No findings			3 out of 5 targets
Programme 4: traditional council support	No	None	No findings			1 out of 4 targets

 Good

 Of concern



Management and delivery on key programmes – findings on key projects

Programme 5: land reform

Strategic objective: provide comprehensive farm development support to smallholder farmers and land reform beneficiaries for agrarian transformation by 2020.

The recapitalisation and development indicators within the land reform programme were selected for value-adding procedures. The following findings were raised and recommendations made based on the review:

Findings

- The lack of sufficient monitoring and support of the implementation of the business plans has a negative impact on the sustainability of some of the projects.
- Spending of grant monies was not always in line with the approved business plans.
- Amendments to the business plans were not always pre-approved, which could affect the successful implementation of the project.
- The departments indicated that the policy for selecting beneficiaries was approved late in the financial year, and the implementation will therefore be reviewed in the next financial year.

Recommendations

- The department should consider to develop an average pricing list for goods and services acquired
- The project officers should receive further training on the specification of goods and services acquired (for example, bore holes or animal feeds).
- Since the recapitalisation targets will move to the DAFF from 2018-19, there should be close cooperation between the departments to ensure that food security, job security for the workers and the sustainability of the farms are not affected.



Management and delivery on key programmes – findings on key projects

Programme name: land reform

Strategic objective 5.1: promote equitable land redistribution and agricultural development by acquiring strategically located land by 2020.

Indicator 5.1.5: number of farms on the strengthening relative rights (SRR) policy.

The strengthening of relative rights indicator was also reviewed. The following recommendations were made based on the review:

Recommendations

The department should review the policies and procedures that govern the implementation of the programme. The policies and procedures should cover, at a minimum, the following components:

- Clearly defined objectives of the programme, how it aligns to the mandate of the department and how will the objectives will be met.
- The selection criteria for projects to be supported under the programme.
- The selection and allocation of beneficiaries to projects being supported.
- Monitoring of the implementation of the projects by the agent and the ALHA.

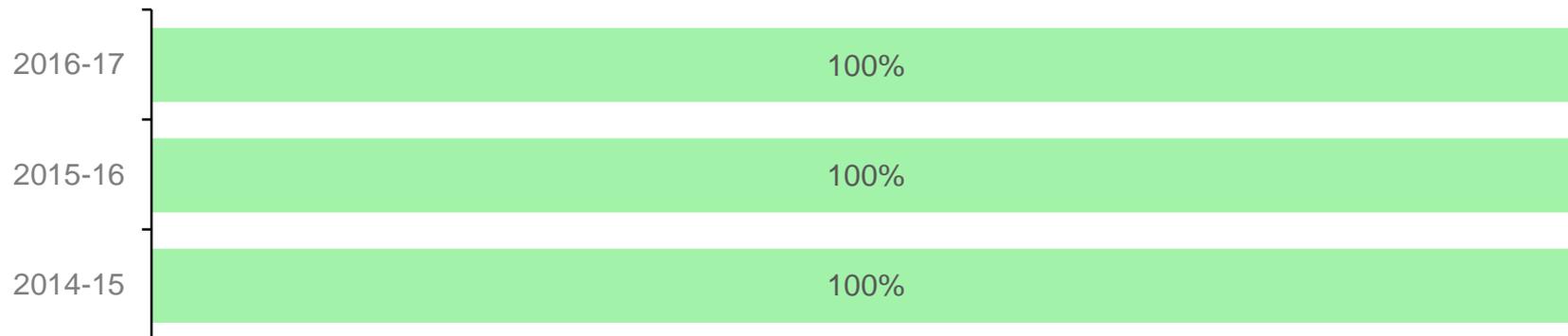
We further recommend that a review be performed on the processes followed in the implementation of the programme from initiation, appointment of the agent and its alignment to achieving the SRR objective.



Financial health

No material uncertainty exists, i.e. whether auditees can continue to operate in future.

Chart excludes the ITB as it is classified as a small entity.



Key concerns identified

- The department had a substantial commitments balance. The settlement of these commitments could potentially have a negative impact on the department's ability to reach targets and on service delivery. The current budget allocation will not be adequate to cover these commitments should they be payable immediately.
- The monitoring of the spending of grants transferred and collectability of the lease income remains a concern for the ALHA. This is evidenced by the provisions for bad debts balance, which is almost the full amount of the outstanding balance of prepayments. This could have a negative impact on the sustainability of the ALHA and the success of the farms in the future.

-  Two or less unfavourable indicators
-  More than two unfavourable indicators
-  Significant doubt that operations can continue in future and/or auditee received a disclaimed or adverse opinion, which meant that the financial statements were not reliable enough for analyses

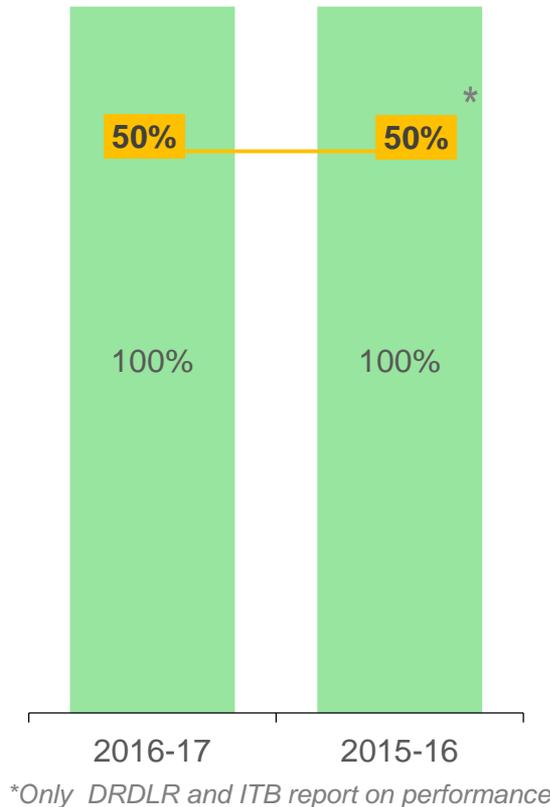


Movement on the quality of financial statements, annual performance reports and compliance

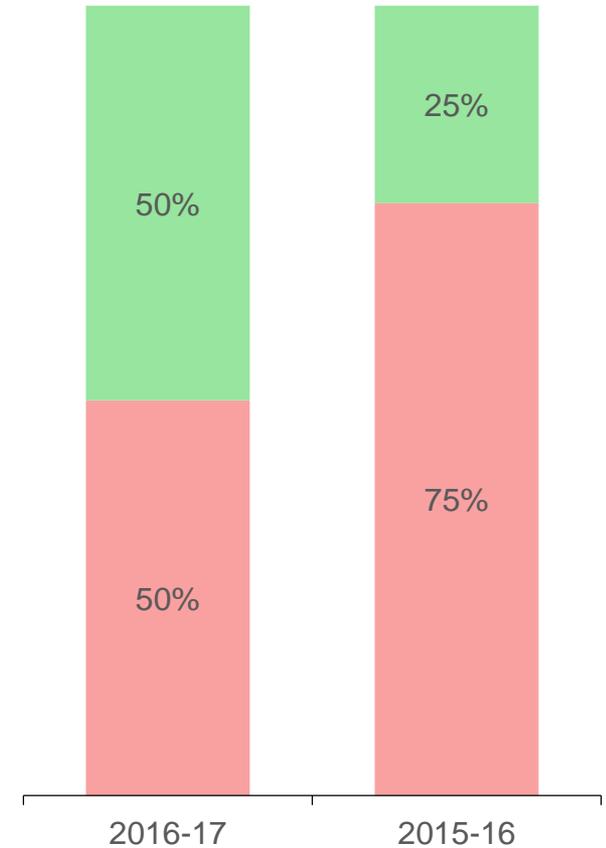
Audit of financial statements



Findings on annual performance reports



Findings on compliance with key legislation



Unqualified Qualified Adverse

AFS submitted on time AFS and APR submitted with no material misstatements

With no findings With findings



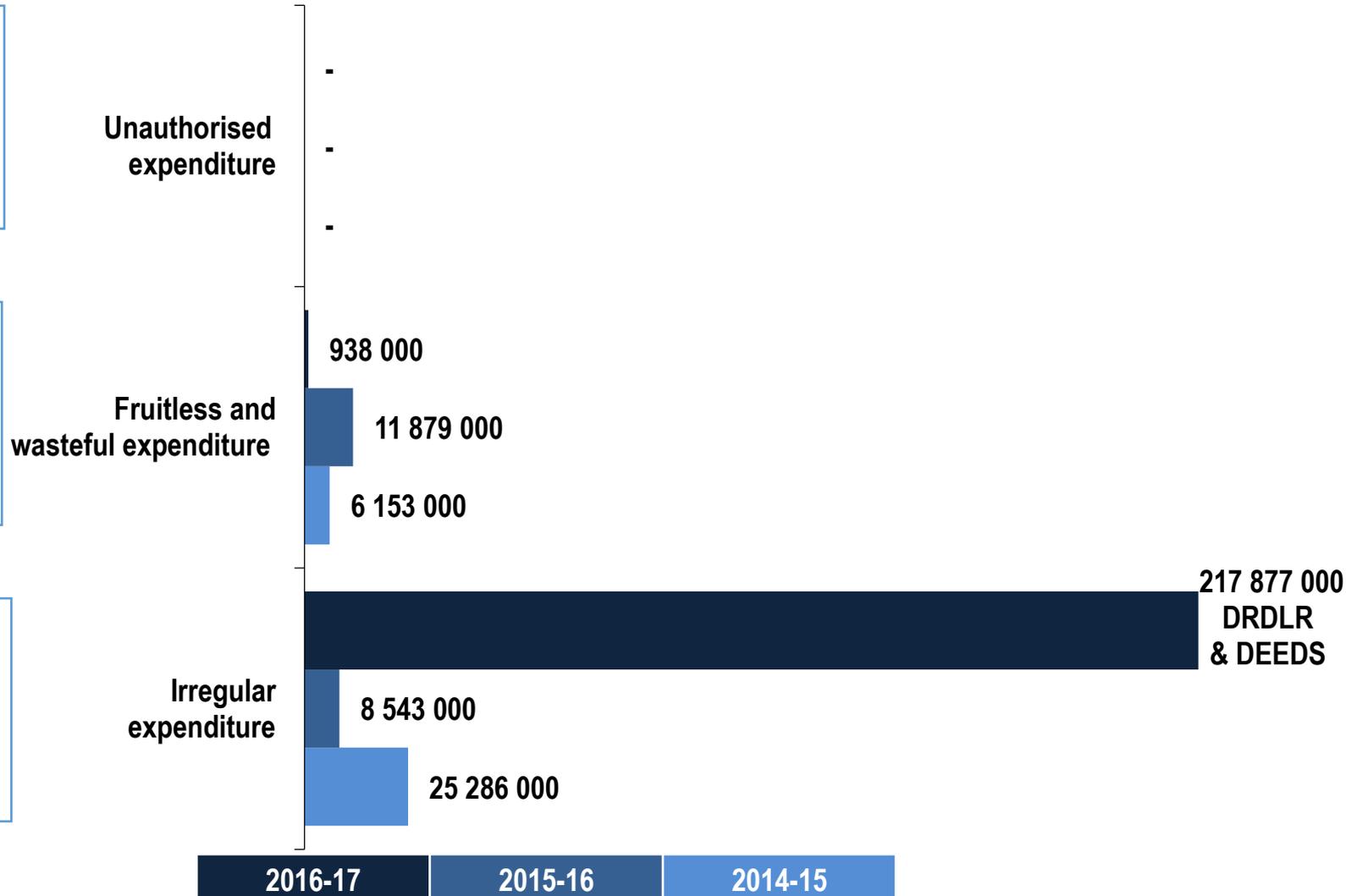
Unauthorised, irregular as well as fruitless and wasteful expenditure increase over 3 years

Definition

Expenditure not in accordance with the budget vote/ overspending of budget or programme

Expenditure incurred in vain and could have been avoided if reasonable steps had been taken. No value for money

Expenditure incurred in contravention of key legislation; goods delivered but prescribed processes not followed



Fraud and consequence management

Allegations of financial and/or fraud and SCM misconduct (four auditees)

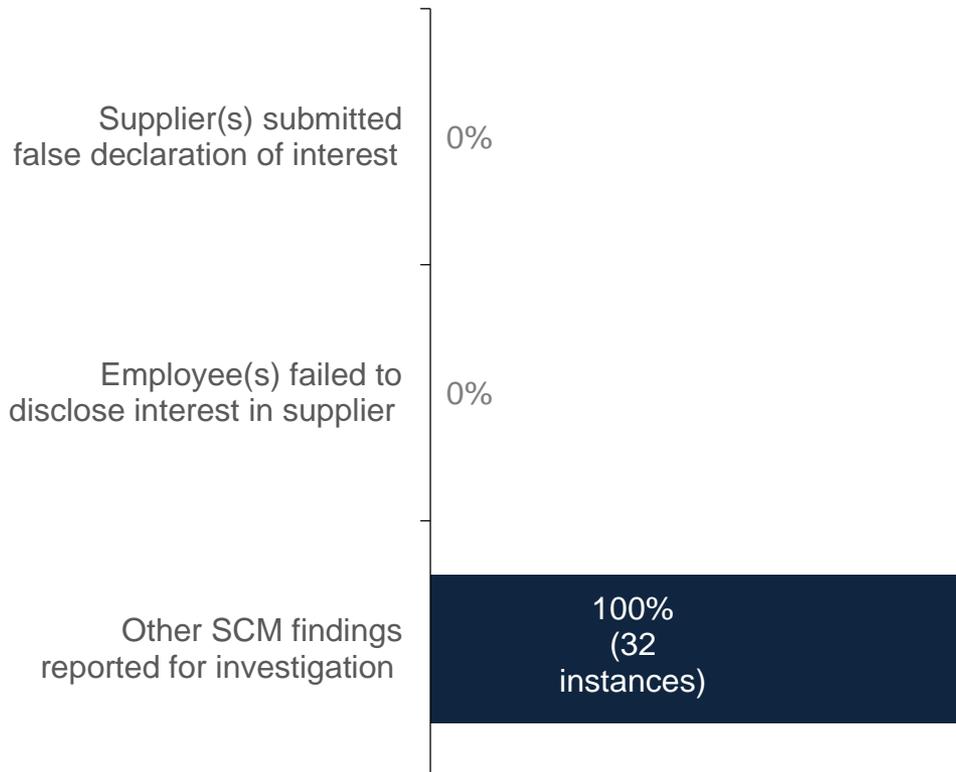


Previous year's unauthorised, irregular and fruitless and wasteful expenditure reported for investigation

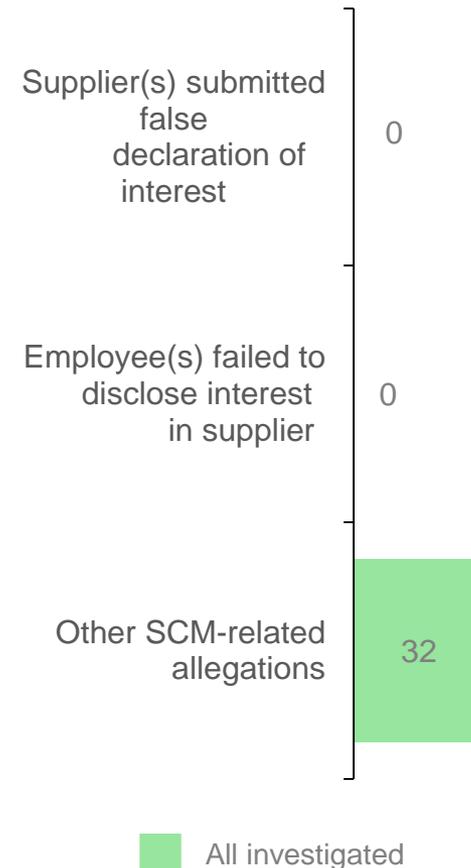


Supply chain management findings reported to management for investigation

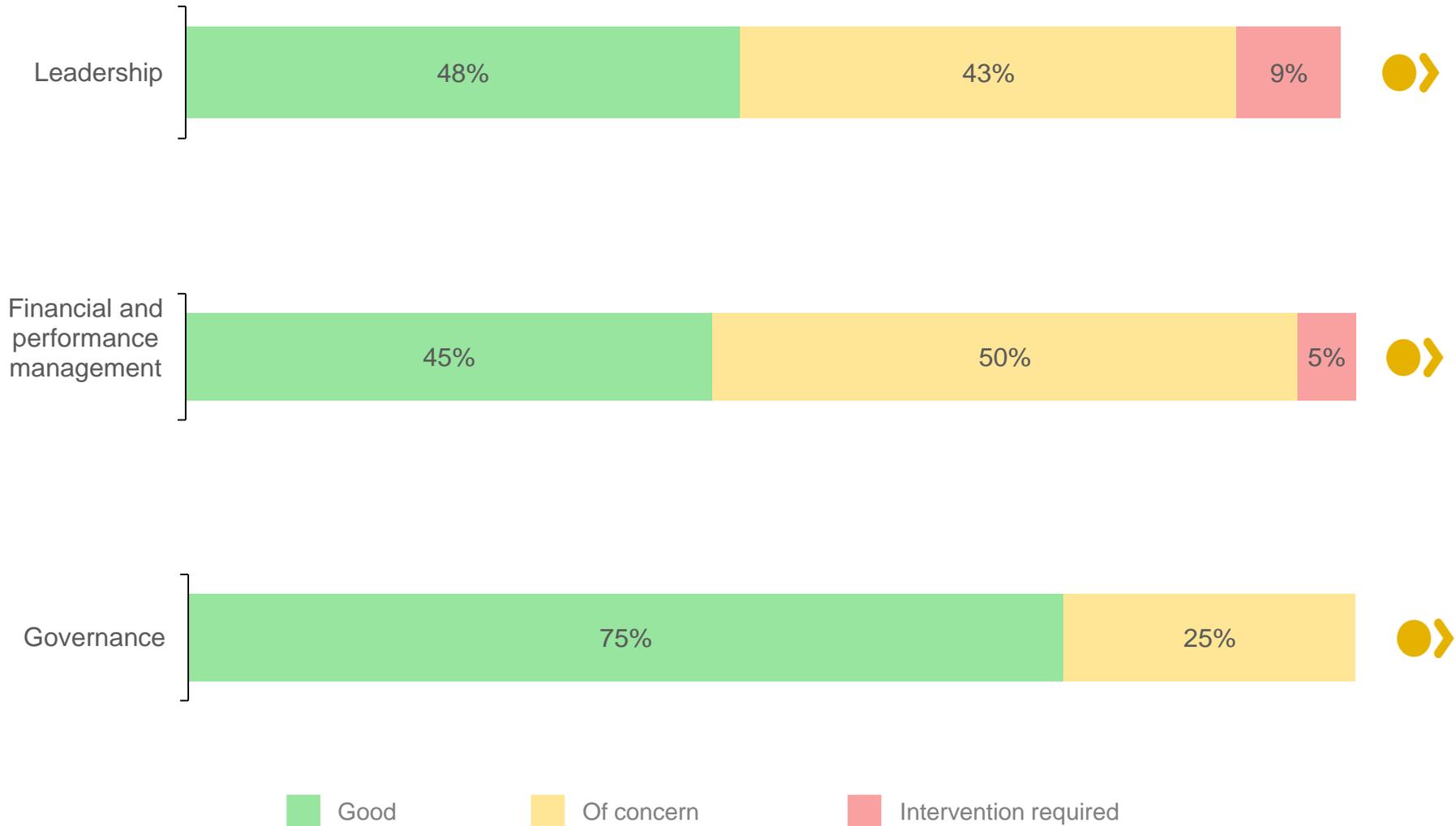
SCM findings reported for investigation during the 2015-16 audit process (all auditees)



Follow-up of the previous year's SCM findings reported for investigations

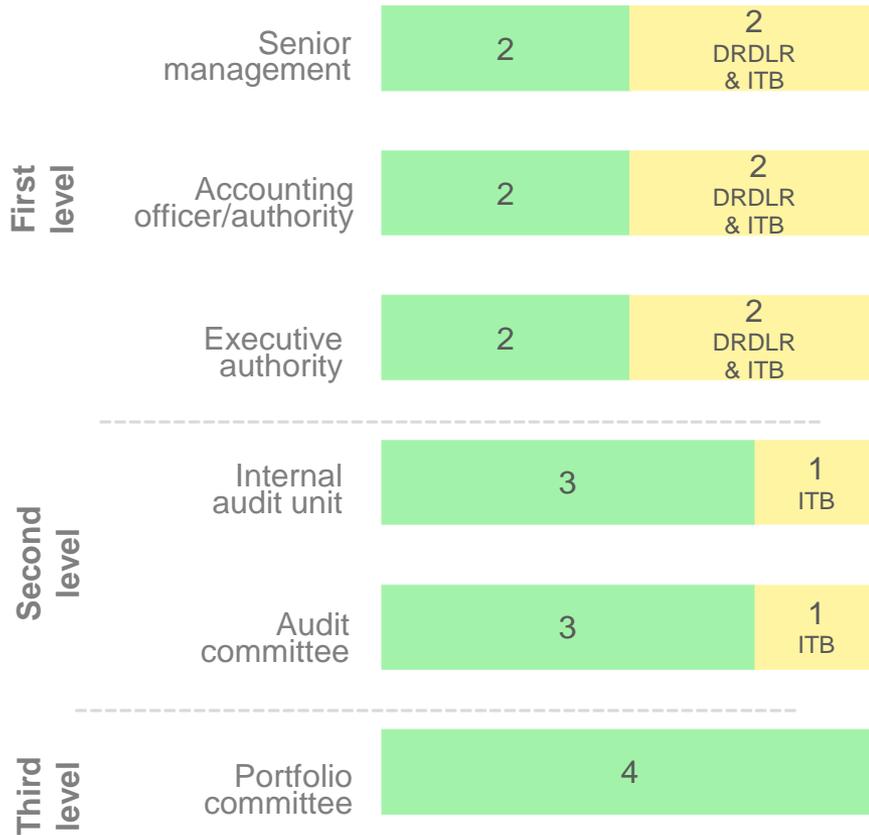


Status of internal control



Assurance and key controls

Assurance



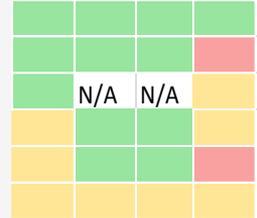
Provides assurance

Provides some assurance

Key controls

LEADERSHIP

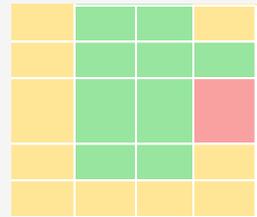
- Effective leadership
- Oversight responsibility
- Effective HR management
- Policies and procedures
- Audit action plans
- ICT governance



FINANCIAL AND

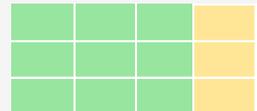
PERFORMANCE MANAGEMENT

- Proper record keeping
- Daily and monthly controls
- Regular, accurate & complete financial and performance reports
- Review and monitor compliance
- Design and Implement IT controls



GOVERNANCE

- Risk management
- Internal audit unit
- Audit committee



Good

Of concern

Intervention required



Root causes

Slow response to improving key controls and addressing risk areas



Management does not respond **with the required urgency** to our messages on **addressing risks and improving internal controls**





Engaging accounting officers in conversations that are insightful, relevant and have an impact

Key control engagements/status of records review – objectives

Identify key areas of concern that may derail progress in the preparation of financial and performance reports and compliance with relevant legislation, with consequential regression in audit outcomes

Provide our assessment of the status of key focus areas that we reviewed

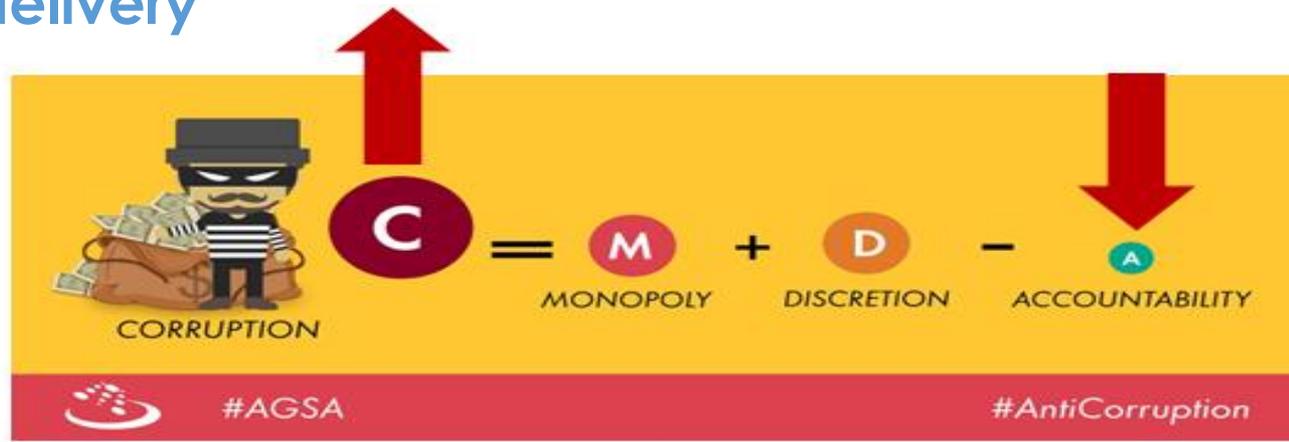
Assess progress made in implementing action plans/follow through with commitments made in previous engagements

Identify those matters that add value when measures and action plans have been put in place well in advance to mitigate risks

Key control engagements/status of records review – focus areas



Correlation between low accountability, corruption and impact on service delivery



Source: Robert Klitgaard (academic anti-corruption research)



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