

BUDGETARY REVIEW AND
RECOMMENDATIONS REPORT | PFMA
2018-19

Briefing to Portfolio Committee on Department
Agriculture, Land Reform and Rural Development



AUDITOR-GENERAL
SOUTH AFRICA

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.



The 2018-19 audit outcomes



Our annual audit examines three areas

THE AG'S
ANNUAL
AUDITS
EXAMINE

3

AREAS:



1 FAIR PRESENTATION AND
ABSENCE OF SIGNIFICANT
MISSTATEMENTS IN
FINANCIAL STATEMENTS

2 RELIABLE AND CREDIBLE
PERFORMANCE
INFORMATION FOR
PREDETERMINED OBJECTIVES

3 COMPLIANCE WITH ALL
LAWS AND REGULATIONS
GOVERNING FINANCIAL
MATTERS

The AGSA expresses the following different audit opinions

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 performance reports to the predetermined objectives they committed to in 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





Important to note

The percentages in this presentation are calculated based on the **completed audits of 10 auditees**, unless indicated otherwise.

Audit outcomes are indicated as follows:

-  Unqualified with no findings
-  Unqualified with findings
-  Qualified with findings
-  Adverse with findings
-  Disclaimed with findings
-  Outstanding audits

Movement over the previous year is depicted as follows:

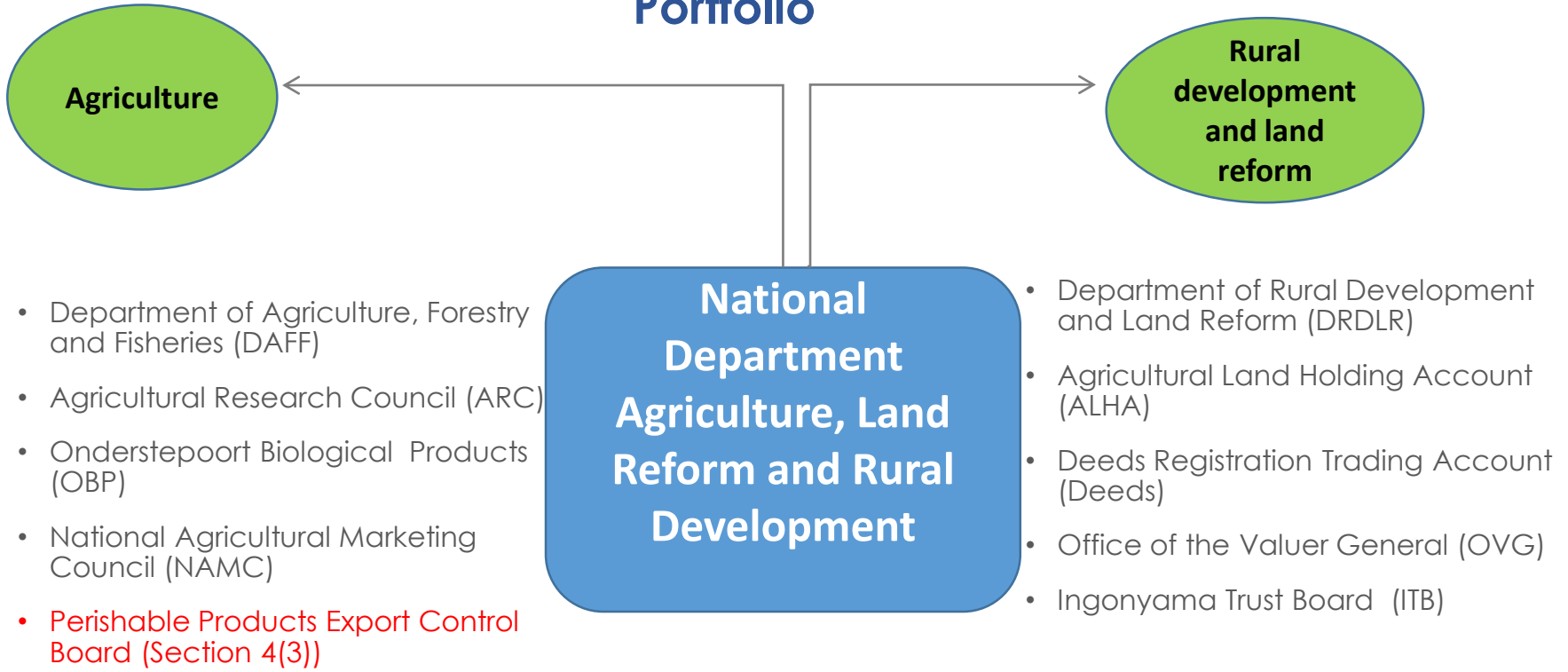
-  Improved
-  Unchanged
-  Regressed



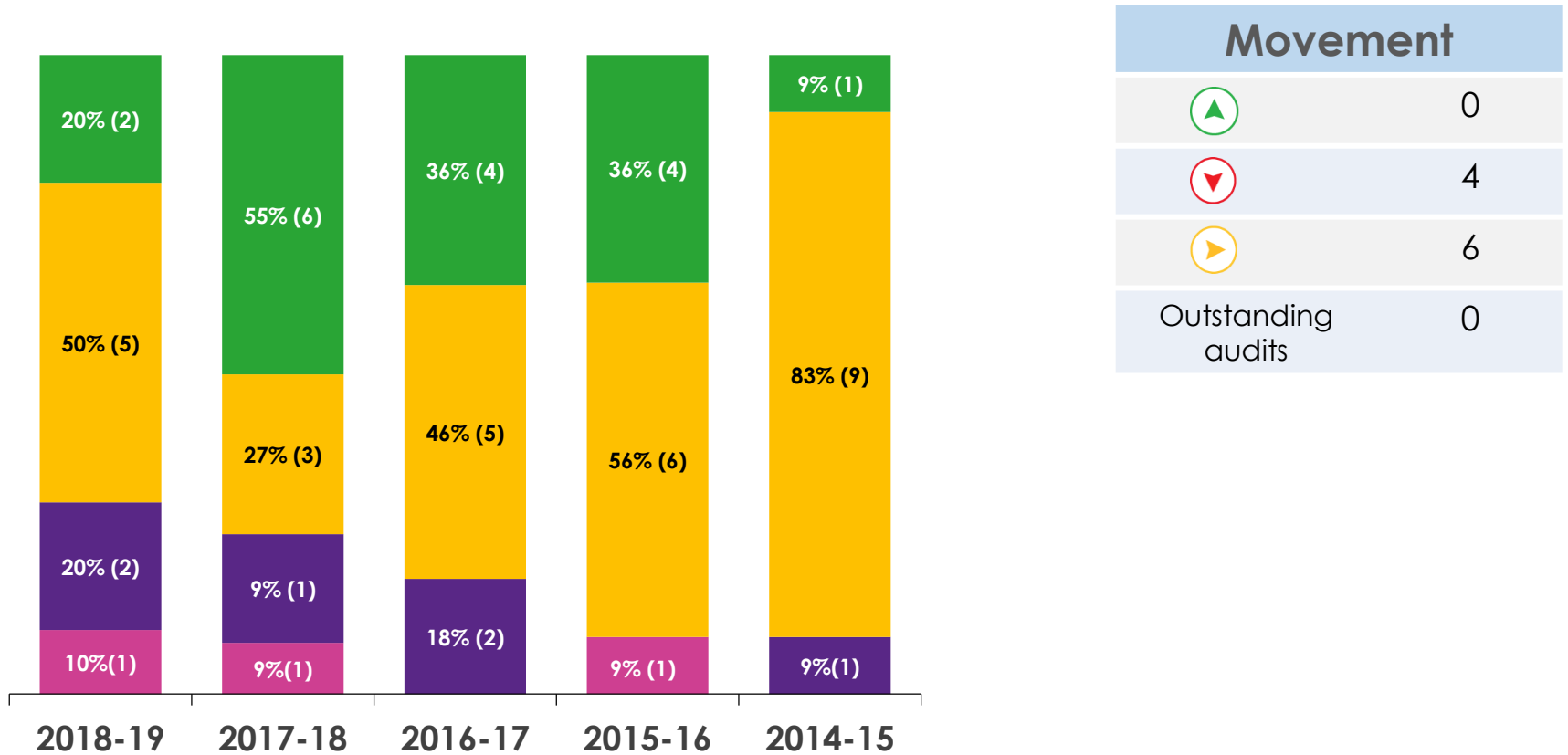
ACCOUNTABILITY = PLAN + DO + CHECK + ACT



Department of Agriculture, Land Reform and Rural Development Portfolio



Audit outcomes of portfolio over five years



- We commend the PPECB and DEEDS for retaining the clean audit outcome.
- Financial statement preparation remains a concern as material adjustments were effected to annual financial statements submitted for audit purposes at DAFF, ARC, NAMC, OBP, DRDLR, ALHA and ITB.
- The DAFF received a qualification on the accuracy of biological assets and ARC on property, plant and equipment, inventories, receivables for exchange transactions and revenue from rendering of services.
- ITB received an adverse opinion with qualification on the following times: property plant and equipment, expenditure management, irregular expenditure and contingent liabilities.
- Note that there was a reduction in auditees during the 2019 financial year as Ncera Farms was deregistered.



Movement table (2018-19 over 2017-18)

Audit outcome	MOVEMENT				
	0 Improved	6 Unchanged	4 Regressed	0 New auditee	0 + 0 Outstanding audits
Unqualified with no findings = 2		PPECB DEEDS			
Unqualified with findings = 5		DRDLR OBP	ALHA OVG NAMC		
Qualified with findings = 2		ARC	DAFF		
Adverse with findings = 1		ITB			
Disclaimed with findings = 0					

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



Credible financial reporting



Financial statements

Submission of financial statements by legislated date (all auditees)

Financial statements submitted without errors

Quality of final submission after audit

Movement



2018-19

2017-18

90%

100%

30%

59%

70%

75%

40% achieved unqualified opinions only because they corrected all misstatements identified during the audit

Qualification areas

- Biological assets (DAFF)
- Property, plant and equipment (ARC and ITB)
- Receivables (ARC)
- Payables from exchange transactions (ARC)
- Inventories (ARC)
- Revenue for services rendered (ARC)
- Expenditure management (ITB)
- Irregular expenditure (ITB)
- Contingent liabilities (ITB)





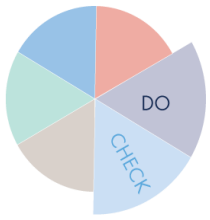
Credible performance reporting



Performance report

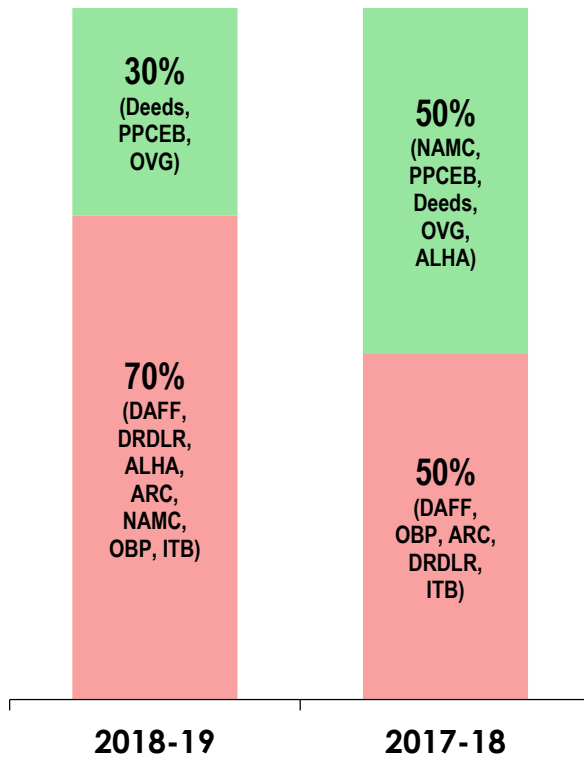
	Movement	2018-19	2017-18
Quality of initial submission for audit purposes (PPECB, OBP)	▲	25%	44%
Quality of final submission after audit (PPECB, OBP, ARC, DRDLR, ITB)	▲	62.5%	44%
<p>37,50% had no material findings only because they corrected all misstatements identified during the audit</p>			
Reliable reporting of achievements (ARC, NAMC, OBP, DRDLR, ITB, PPECB, OVG)		75%	75%
Usefulness of performance indicators and targets (ARC, OBP, DRDLR, ITB, PPECB, DAFF)		87,5%	88%

Note: DEEDS and ALHA performance reporting is included in DRDLR performance report. OVG did not report on performance information because they were a newly listed entity. Ncera Farms was deregistered and not reported during the 2019 year.



Disregard for compliance with legislation

Findings on compliance with key legislation



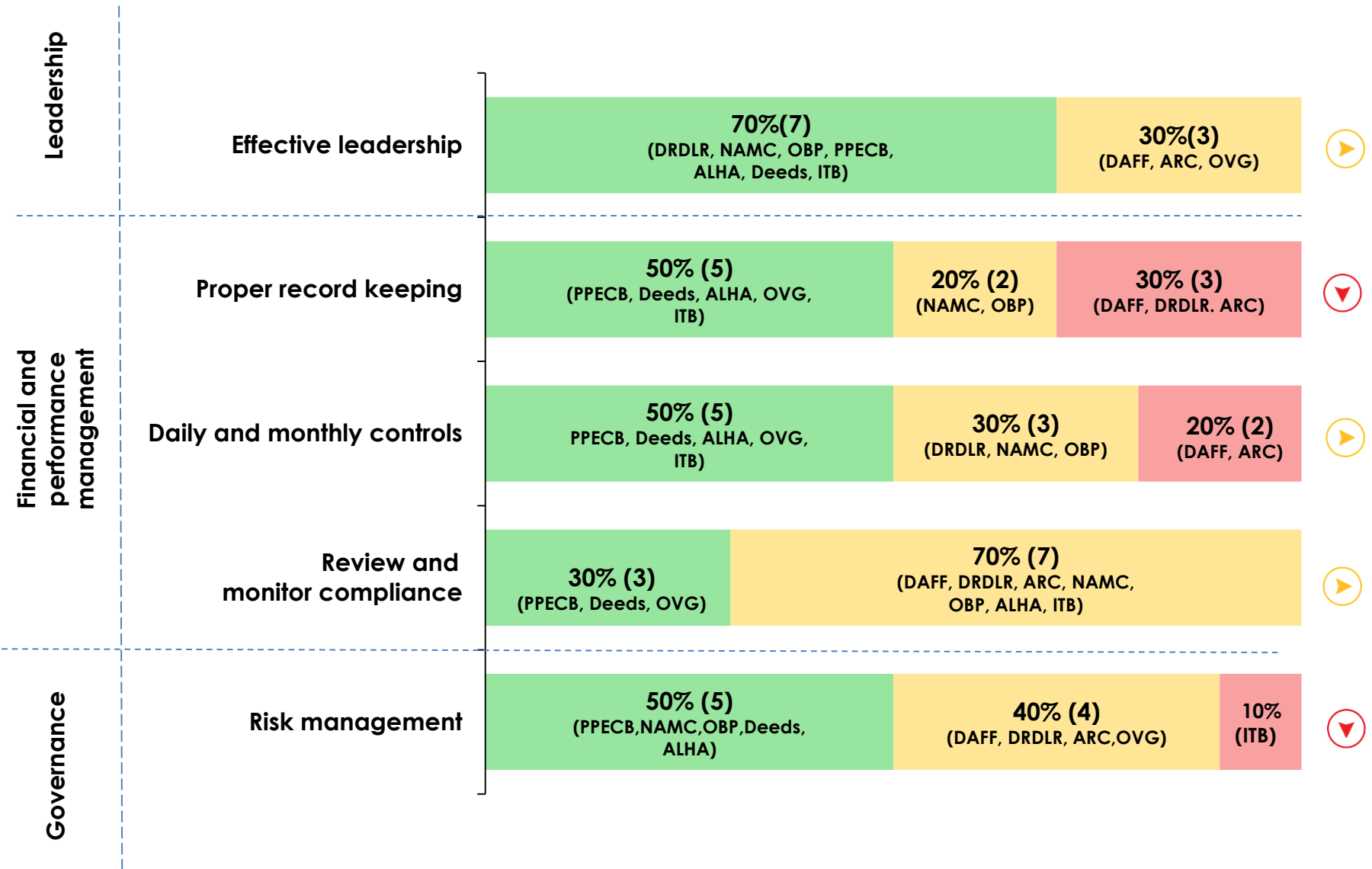
■ With no findings
 ■ With findings

Top five non-compliance areas

- Financial statements, performance and annual reports (DAFF, DRDLR, ALHA, ARC, NAMC, OBP, ITB)
- Procurement and contract management (DAFF, DRDLR, NAMC, OBP, ITB)
- Expenditure management (DAFF, DRDLR, ALHA, ARC, OBP)
- Revenue management (ARC)
- Consequence management (DAFF)



Status of internal control



Good

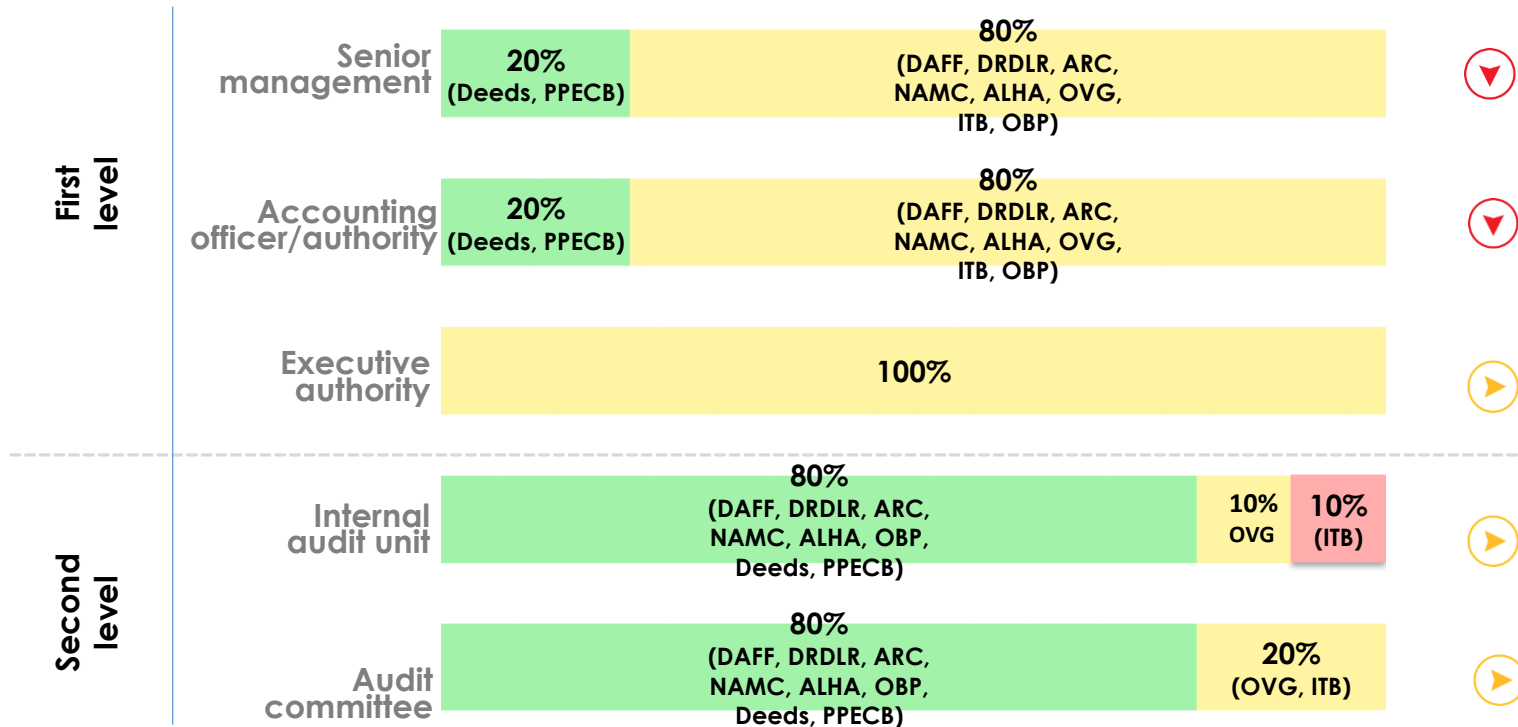
Of concern

Intervention required

14

Assurance provided

Assurance

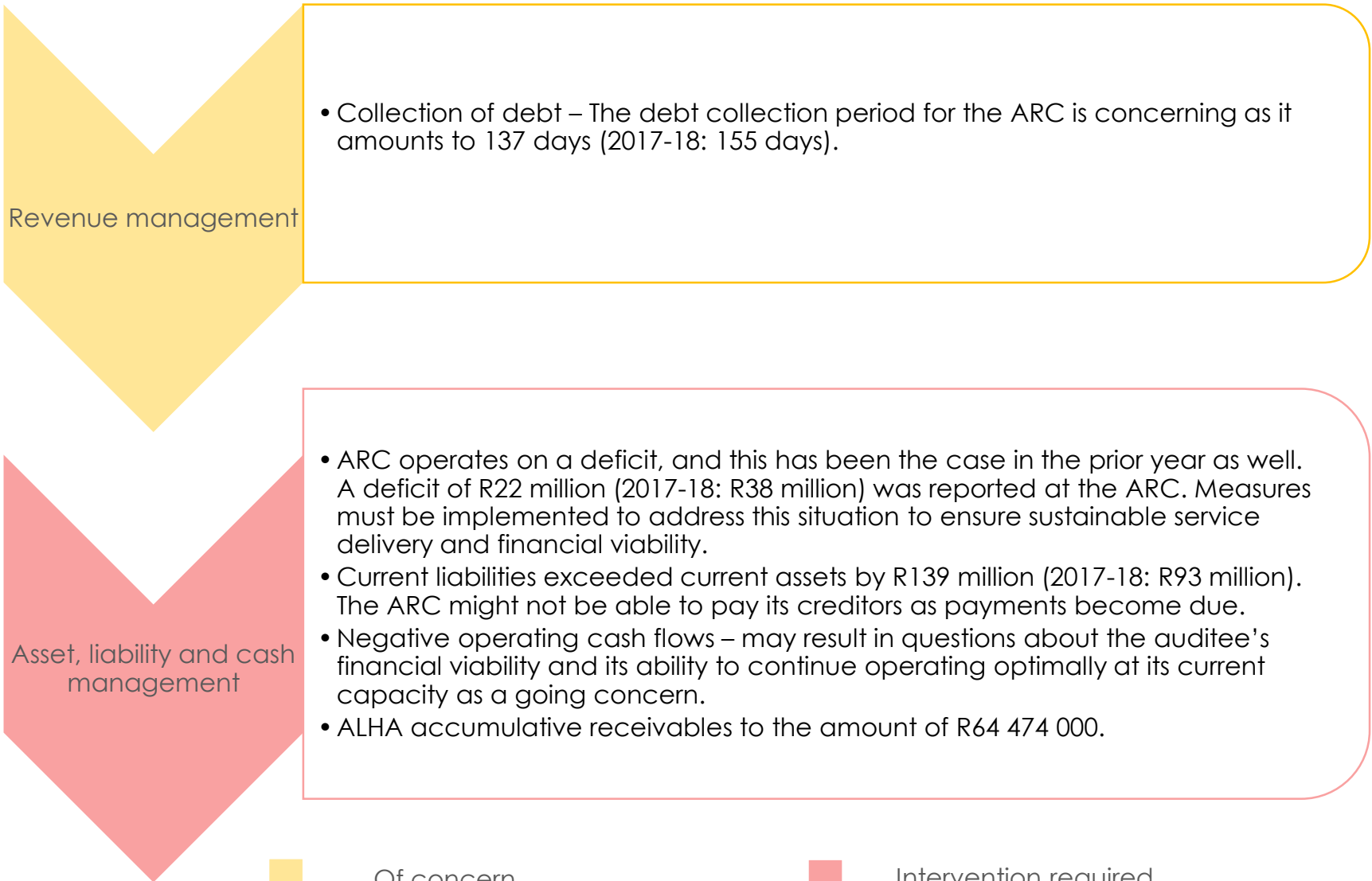


Financial health and financial management



Financial health

Material uncertainty exists whether **10%** of auditees can continue to operate in future

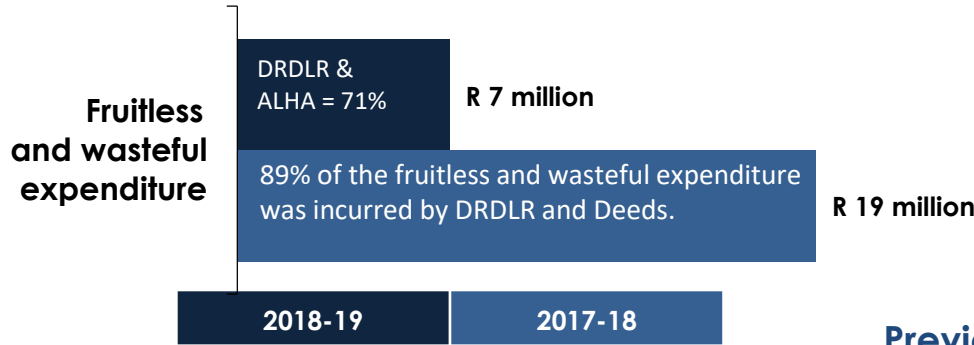


Fruitless and wasteful expenditure increased over two years

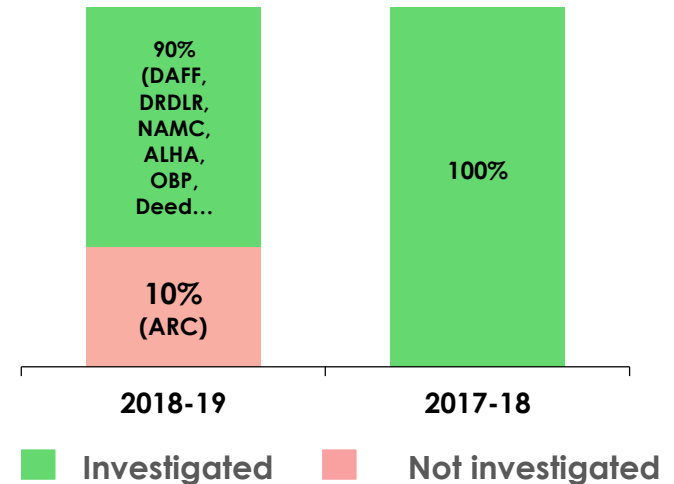
Definition

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

Fruitless and wasteful expenditure incurred by entities in portfolio



Previous year fruitless and wasteful expenditure reported for investigation



Nature of the fruitless and wasteful expenditure

- DRDLR – As a result of: duplicate payments, cancellation of contracts, as well as claims and litigation.
- ALHA – Mostly as a result of interest and penalties.
- OBP – As a result of: interest and penalties being charged for late payment of invoices.
- NAMC – As a result of: expenditure incurred in respect of a project whereby the NAMC was acting as an agent for a project that was cancelled without any deliverables being met.

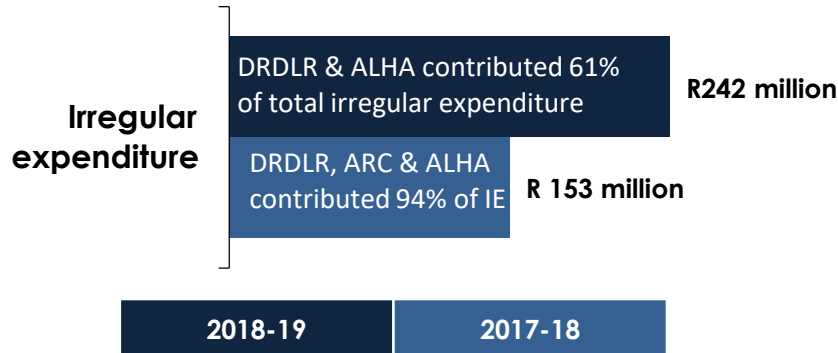


Irregular expenditure increased over 2 years

Definition

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

Irregular expenditure incurred by entities in portfolio

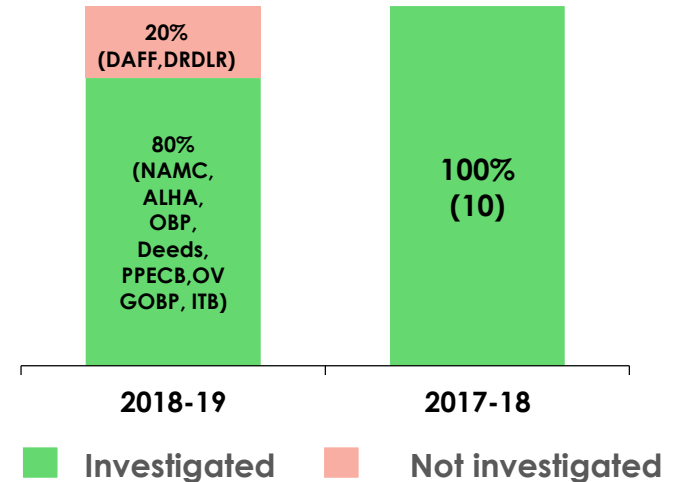


• **R61 million** represents IE identified in the current year relating to the prior year (DRDLR)

Nature of irregular expenditure

- DRDLR – The majority is non-compliance with SCM process
- ALHA – It related to SRR grant non-compliance and non-compliance with SCM
- DAFF – The majority of irregular expenditure incurred is in respect of payment of overtime > 30% of basic salaries during the 2017 and 2018 financial years, in contravention of the PSR and PSA.
- NAMC – This was due to payment of unauthorised performance bonus and non-compliance with procurement regulations for projects implemented. The latter was also noted at the OBP.

Previous year irregular expenditure reported for investigation



Supply chain management

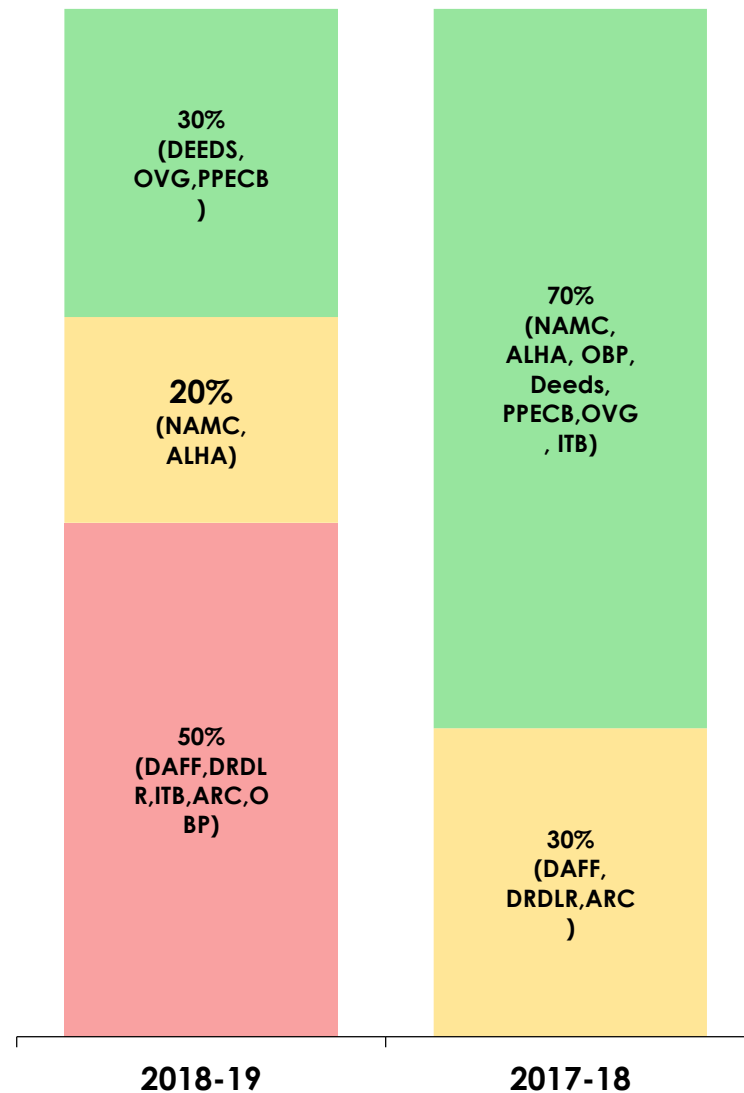


Regression in SCM compliance
(2018-19: 30% with no findings)

All SCM findings should be investigated

Most common findings on supply chain management

- Major projects were **procured without a proper needs assessment** being conducted in the form of a project evaluation.
- **Uncompetitive and unfair procurement** processes at **50% of auditees**
- False declarations of interest made by **three suppliers**



With no findings



With findings

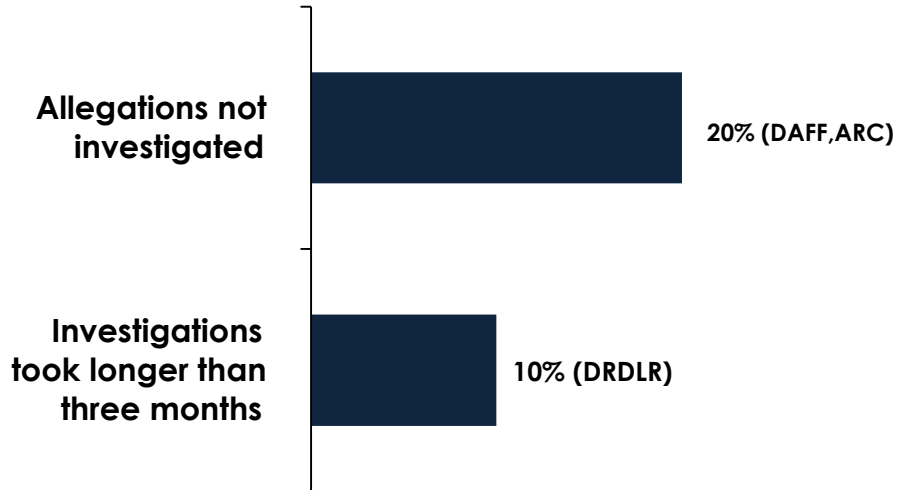


With material findings 20



Fraud and lack of consequences

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



- DAFF, DRDLR and ARC – Reported irregular expenditure during the prior year was not investigated as required in terms of the PFMA in order to determine the consequences management applicable.



Root causes

Slow or No response to improving key controls and addressing risk areas



Management (accounting officers/authorities and senior management) does not respond **with the required urgency** to our messages about **addressing risks and improving internal controls**.

Inadequate consequences for poor performance and transgressions



Management (accounting officers/ authorities and senior management) **must hold staff accountable** for poor performance. Consequence management should include instances of non-implementation of action plans developed to address AGSA findings reported.



Recommendations

- Senior management did not ensure adequate and complete financial and performance reporting. Various misstatements were identified in the submitted financial statements, some entities obtained the unqualified opinion due to correcting the misstatements identified through the audit process. Compliance with legislation is not monitored adequately throughout the entities in the portfolio. Leadership must instill a culture of accountability.
- The auditees within the portfolio should develop responsive action plans and allocate responsibilities to officials accordingly. These action plans should be monitored regularly to ensure effective implementation. All assurance providers should be properly incorporated in all processes. This will ensure that the reporting by the portfolio is credible, thereby an environment that is conducive to service delivery.
- Performance management processes should be implemented and as such there should be consequences for transgressions. Disciplinary action should be taken against employees who are not performing at the required level, who have committed financial misconduct, are responsible for fraud and corruption, improper conduct in supply chain management as well as irregular and fruitless and wasteful expenditure within a reasonable time.
- The risks emanating from the merger of the two departments must be thoroughly analysed, evaluated and mitigated to ensure reliable financial and performance reporting, as well as compliance with laws and regulations.



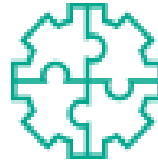
Portfolio snapshot (2018-19)



Clean audits: 20%
(2017-18: 50%)



Financially unqualified financial statements: 70%
(2017-18: 82%)



No findings on performance reports: 75%
(2017-18: 57%)

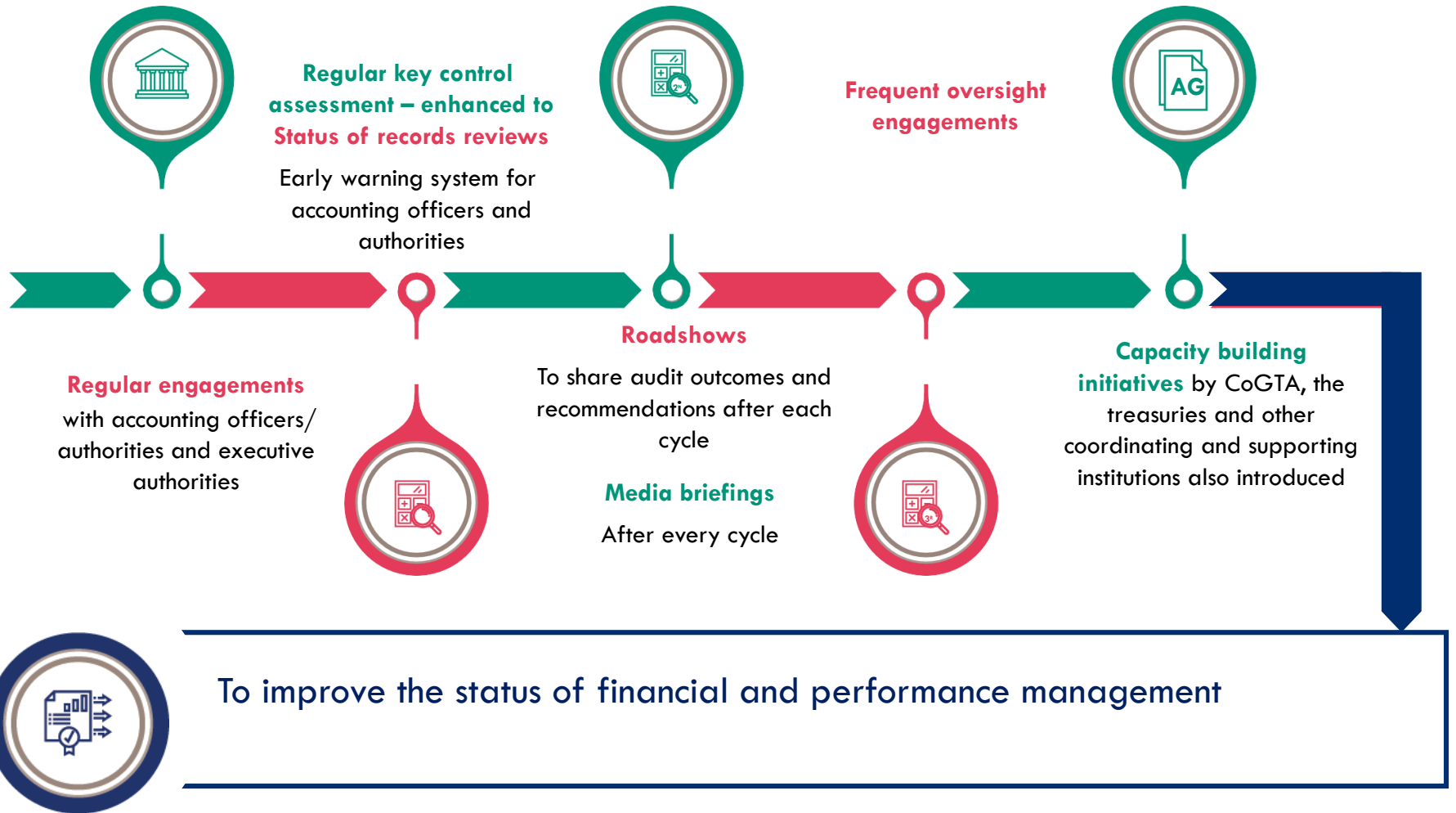


No findings on compliance with legislation: 30%
(2017-18: 50%)



Irregular expenditure: R242 million
(2017-18: R153 million)

Additional efforts were introduced



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