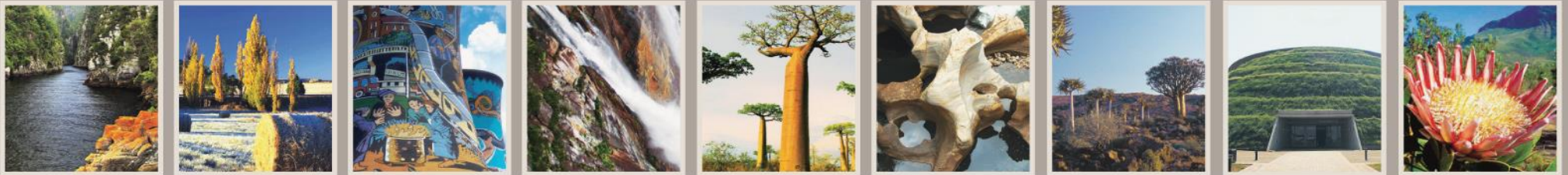


PFMA  
2015-16



AUDITOR-GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*



# Rural Development and Land Reform Portfolio

*October 2016*

1

## The AGSA's promise and focus



# Reputation promise

2015-16  
PFMA

The Auditor-General of South Africa (AGSA) has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, it 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 AGSA in the BRRR process

- Our role as the AGSA is to reflect on the audit work performed to assist the portfolio committee in its oversight role in assessing the performance of the entities taking into consideration the objective of the committee to produce a BRRR.
- To provide the portfolio committee with applicable information and guidance on the Economic Development portfolio's 2015-16 audit outcomes so that they, the committee, can ensure effective oversight.
- To enable oversight to focus on areas that will lead to good governance.



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# Our annual audits examine three areas

2015-16  
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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



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## Unqualified opinion with no findings (clean audit)



Auditee:

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

## Financially unqualified opinion with findings



Auditee produced financial statements without material misstatements but struggled to:

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

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## Qualified opinion



Auditee:

- had same challenges as those that were unqualified 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.
- did not comply with key legislation in certain instances.

## Adverse opinion



Auditee:

- has so many material misstatements in their financial statements that we disagree with almost all the amounts and disclosures in the financial statements.
- was unable to provide sufficient supporting documentation for amounts in the financial statements and achievements reported in the annual performance report.
- did not comply with key legislation.

## Disclaimed opinion



Auditee:

- 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.
- was unable to provide sufficient supporting documentation for amounts in the financial statements and achievements reported in the annual performance report.
- did not comply with key legislation.

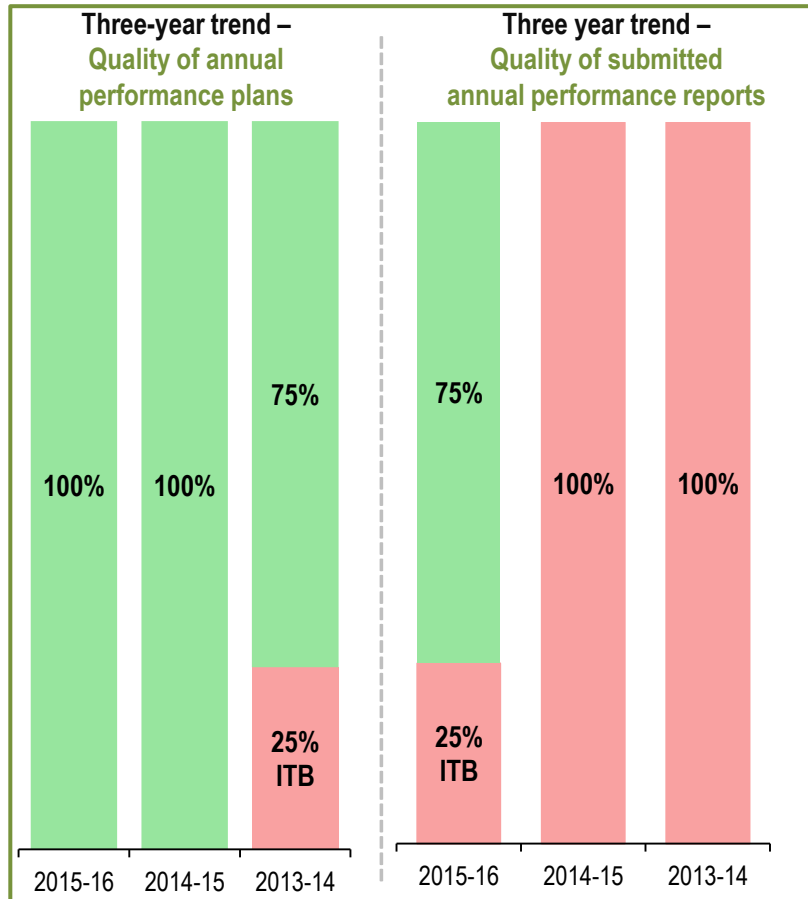
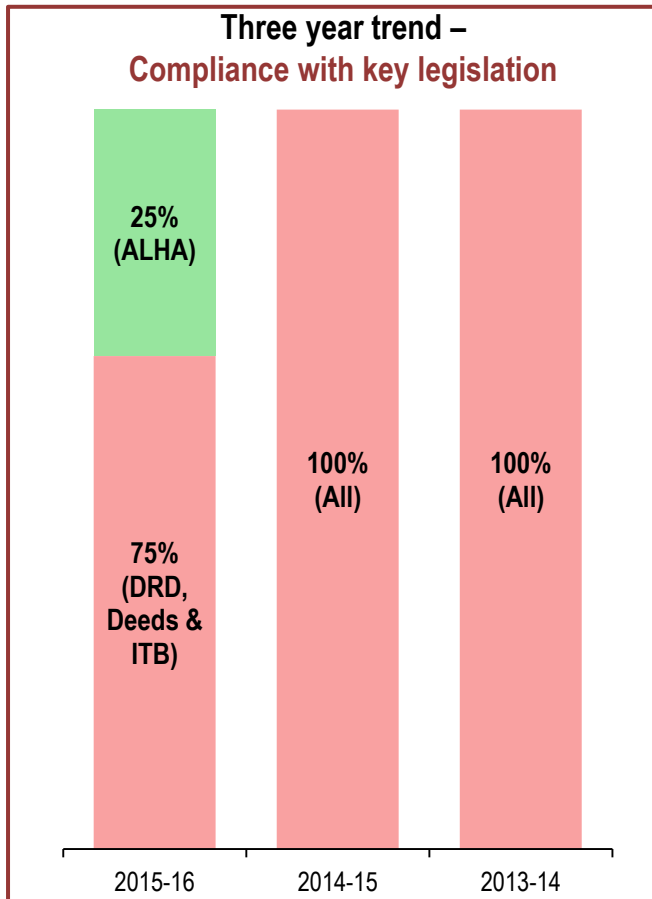
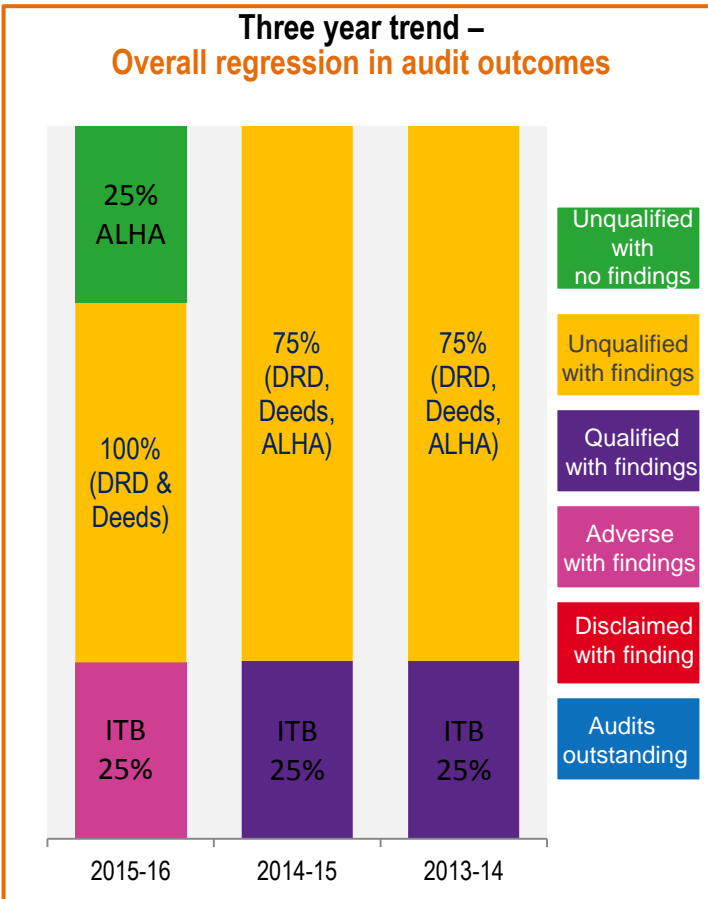


2

## The 2015-16 audit outcomes and key messages



# Improvement in audit outcomes over 3 years



**1 To improve/maintain the overall audit outcomes, financial statements processes,**

The portfolio's overall outcomes have remained the same overall from the prior year. The overall improvement in ALHA, Deeds and DRDLR is mainly due to the fact that actions plans are being implemented and monitored by management and also due to the fact that key vacant positions have been filled from the prior year with competent staff. There has been one regression from the prior year being ITB which moved from qualified to adverse conclusion not because administration has deteriorated but because it has since been confirmed that ITB are in fact two separate entities and therefore need to submit 2 sets of financial statements for audit.

**2 .... compliance with key legislation and....**

The quality of financial statements for DRD and Deeds submitted for audit still remains a concern due to inadequate review processes as the internal controls did not prevent, detect or correct material misstatements to the annual financial statements before the audit of 2015-16 therefore resulting in the non-compliance.

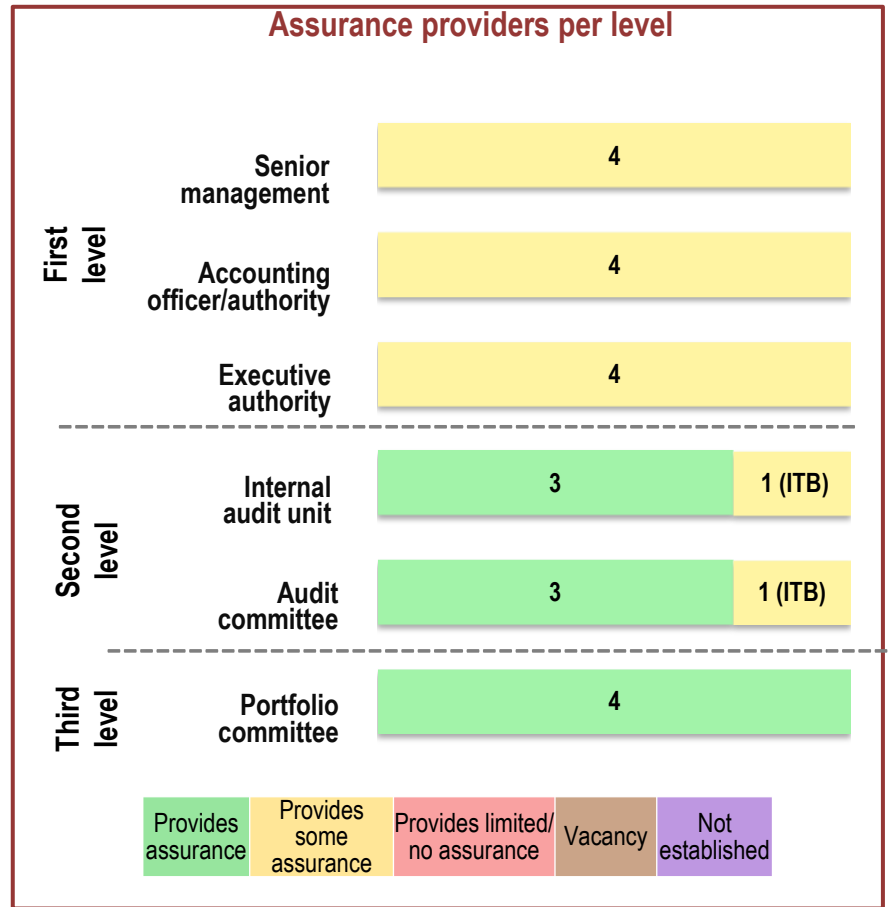
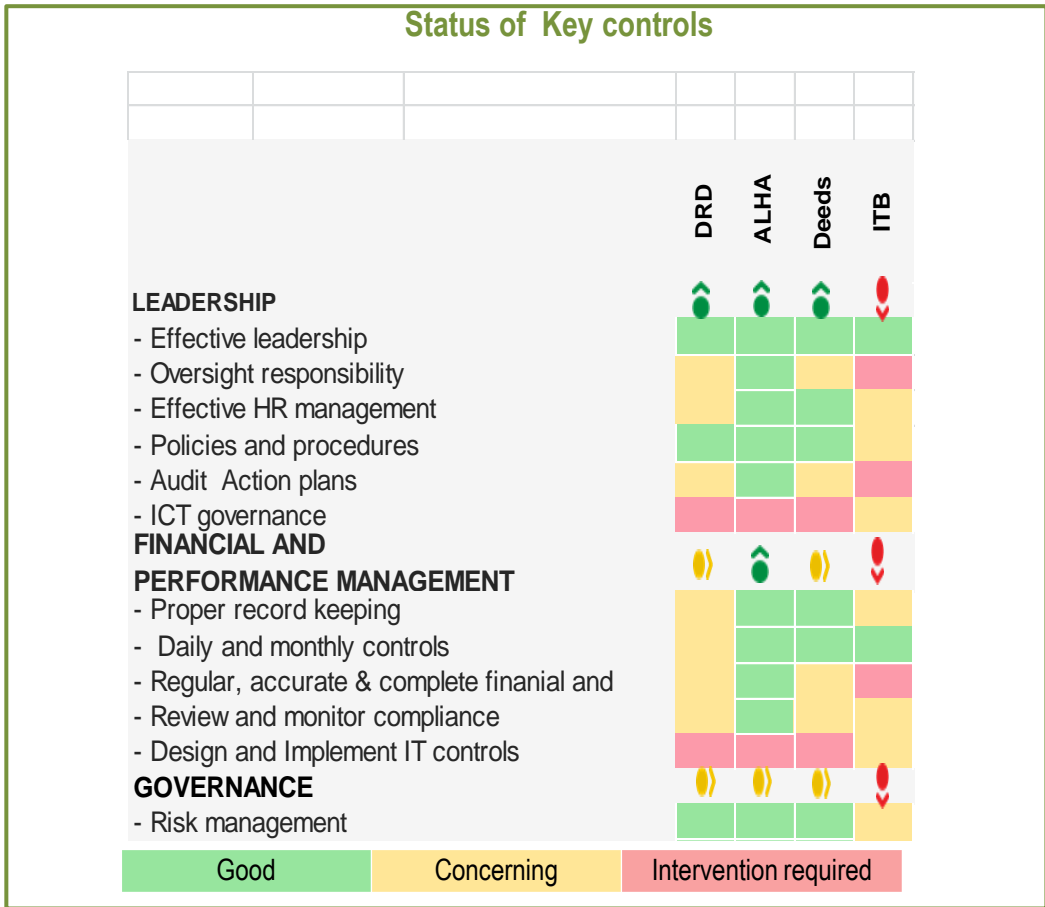
Another common non-compliance through out the portfolio is non-compliance to the PFMA regarding prevention and detection of irregular and fruitless and wasteful expenditure.

**3 .... performance planning and reporting must be improved by....**

The quality of the annual performance report of DRDLR has improved over the past 3 years. The annual performance report (which includes performance for ALHA and Deeds) included information on performance against predetermined objectives that was useful and reliable for the programmes and objectives that were selected for audit, and no material misstatements were identified during the audit. During the audit of ITB performance reports some material misstatements were identified that was corrected during the audit process.



# Improvement in audit outcomes over 3 years - continued



**4** ... providing attention to the **key controls** by...

ITB regressed on their overall key controls mainly due to repeat material misstatements being identified in the financial statements submitted that have not yet been resolved and therefore management action plans not being effective

Despite the rest of the portfolio not receiving any modified financial audit outcomes, focussed interventions and commitments are still required in order to improve the current status of the overall key controls for the portfolio. Attention needs to be given in addressing internal controls deficiencies via implementation of effective actions plans that address the correct root cause.

**5** ... the key role players as part of their role in **combined assurance**

The level of assurance provided has remained stagnant. Senior management's efforts in developing and implementing post audit plans and audit recommendations are however commended. The internal audit and the audit committee have however provided assurance and contributed towards improved and sustained key controls, particularly those relating to performance management however the focus of these governance structures must be intensified in the area of financial reporting and compliance with laws and regulations



3

**Performance management linked  
to programmes/ objectives tested**



# Quality of submitted annual performance reports improved

Outcomes of programmes/objectives selected for testing:

Auditee:	Move ment	Programmes/ Objectives	Usefulness	Reliability
DRD		<i>Programme 2: Geospatial and Cadastral Services</i>	No material findings reported.	No material findings reported.
		<i>Programme 3: Rural Development</i>	No material findings reported.	No material findings reported.
		<i>Programme 4: Restitution</i>	No material findings reported.	No material findings reported.
		<i>Programme 5: Land Reform</i>	No material findings reported.	No material findings reported.
ALHA		There is no separate performance report and performance plan for Deeds and ALHA, the performance targets for these entities are included in the department s performance report and audited as part of programme 2 and 5.		
Deeds				
ITB		<i>Programme 2: Land management</i>	No material findings reported.	No material findings reported.
		<i>Programme 3: Rural development</i>	No material findings reported.	No material findings reported.
		<i>Programme 4: Traditional council support</i>	No material findings reported.	No material findings reported.



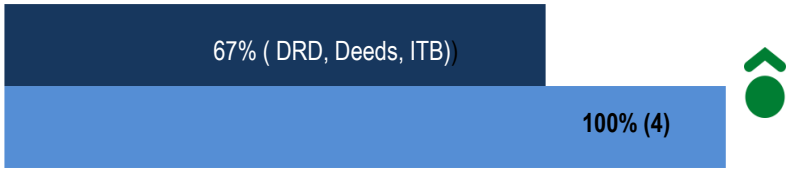
4 **Financial management**



# Slight improvement in compliance with legislation and quality of financial statements

Figure 1: Findings on compliance with key legislation – all auditees

**Material misstatements in submitted annual financial statements**



**Prevention of unauthorised, irregular and/or fruitless and wasteful expenditure**

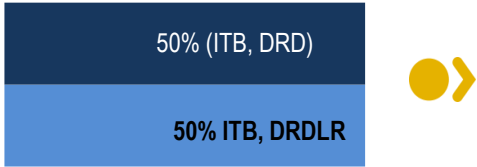
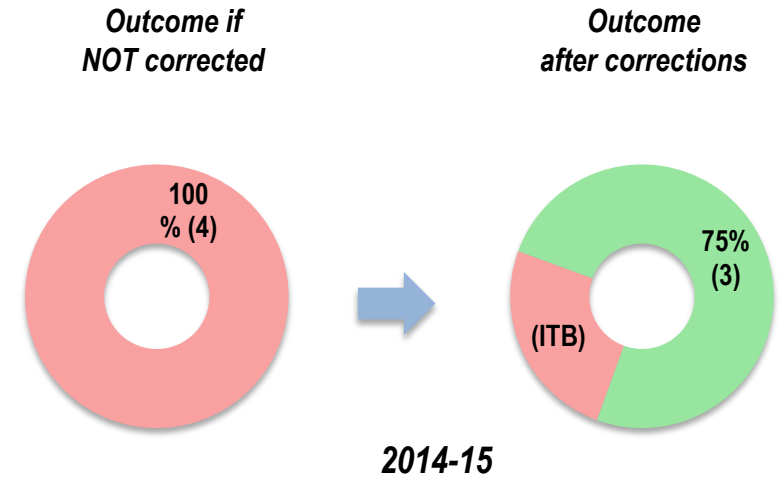
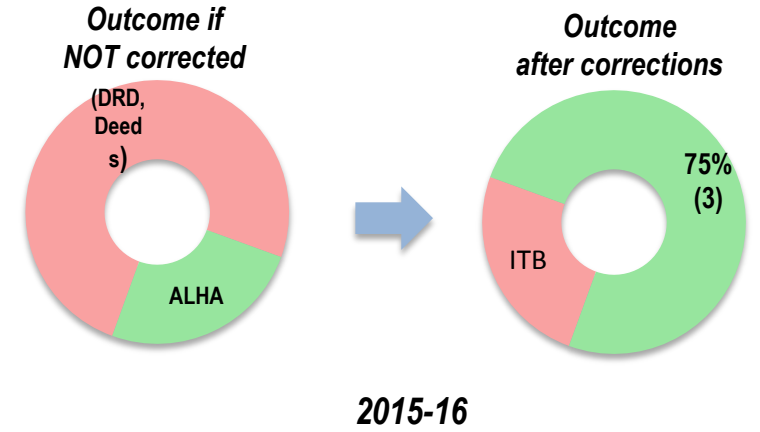


Figure 2: Auditees who avoided qualifications due to the correction of material misstatements during the audit



With no material misstatements (Green)      With material misstatements (Red)

2015-16      2014-15

Improved (Green up arrow)      Stagnant (Yellow right arrow)      Regressed (Red down arrow)

# Unauthorised, irregular as well as fruitless and wasteful expenditure over 3 years and follow up action

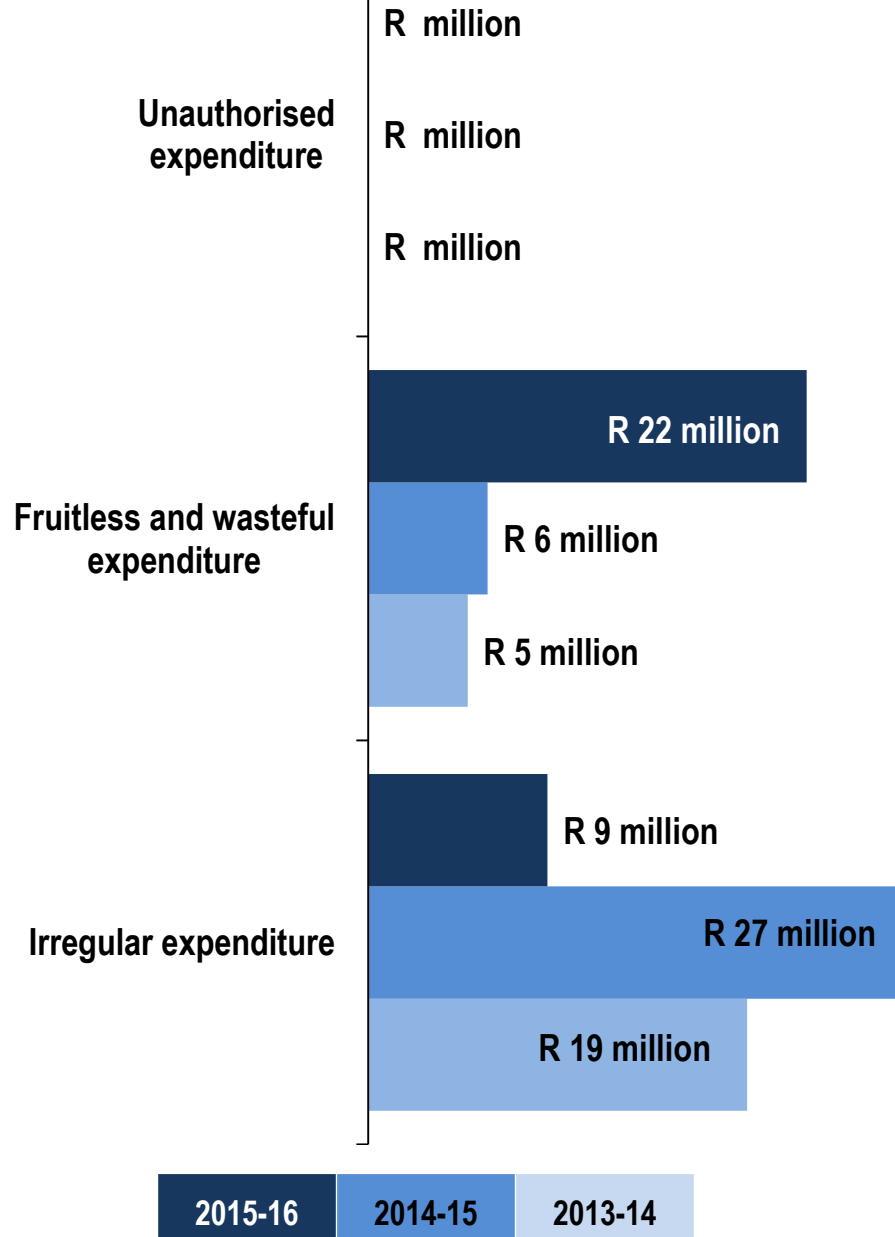
## Definition

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

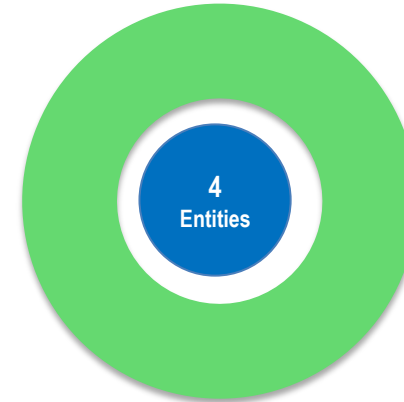
## UIF amounts incurred by entities in portfolio



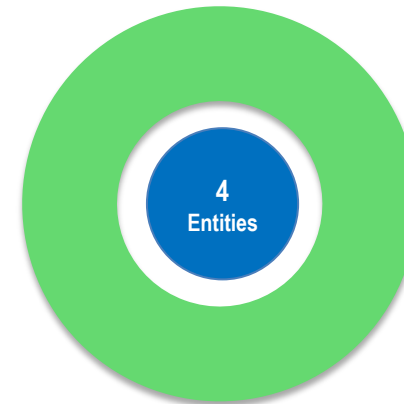
## Investigations of U.I.F expenditure

All auditees lodged investigations to determine root cause and consequences of U.I.F incurred

2015-16



2014-15



Investigated Not investigated

5

**Top three root causes, follow up on commitments and proposed recommendations**



# Top three root causes, follow up on commitments and proposed recommendations

1

... the following **root causes** must be addressed ...

## Root causes

Slow response by management  
(Accounting officer and senior management)

100%

100%

Key Officials lack appropriate competencies

0%

67%

Instability or vacancies in key positions

0%

50%

■ 2015-16 ■ 2014-15

Action plans have been drafted and are being monitored by audit committee on a quarterly basis. However attention needs to be given to make sure that the correct root cause is identified by management and addressed through action plan. This is because some repeat findings did occur which questions the effectiveness of the action plans being implemented.

2

... through honouring the following **commitments** made by the executive authority.....

## Status of key commitments by minister

Identify proper root causes for repeat control deficiencies. Develop appropriate action plans to address those root causes and ensure that the implementation of action plans are monitored.

Implement effective project management in order to ensure proper process is being followed to avoid deterioration of service delivery.

Reduce vacancy rate by filling in vacancies of key management positions.

Ensure that internal audit function is fully staffed.

This will also assist to ensure credibility checks were performed on all financial and performance information submitted by management to the different stakeholder

Develop the strategic plans for 2011-2015 financial years using the new planning framework, ensuring that the department wide objectives are clearly defined, risks associated with each objective will be defined, and it will be controlled throughout the financial year.

Not implemented In progress Implemented New

We met with the minister on 1<sup>st</sup> of September 2016. The outcomes were discussed with the minister and the status of the implementation of the above commitments were followed up with the minister.

3

... and implementation of the following **proposed commitments** by the Portfolio committee and management...

1. Regular monitoring of the action plans to ensure that the identified deficiencies are addressed to avoid repeat findings and continued non-compliance. PC should request management to provide feedback on the implementation and progress of the action plans to address internal and external audit findings during quarterly reporting.
2. Although internal control processes exist, it must be consistently monitored and adhered to by all employees. Regular assessments of the status of internal controls, especially regarding financial statement preparation and implementation of the different accords, must be undertaken by management to address deficiencies as and when they arise. PC must request management to provide quarterly feedback on status of key controls.
3. It further recommended that PC engage with audit committee and internal audit to confirm what processes department have in place to submit credible information to PC



# Questions

