



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

PFMA
2019-20

9 March 2021



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.



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).



The 2019-20 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 area 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

Audit outcomes are indicated as follows:

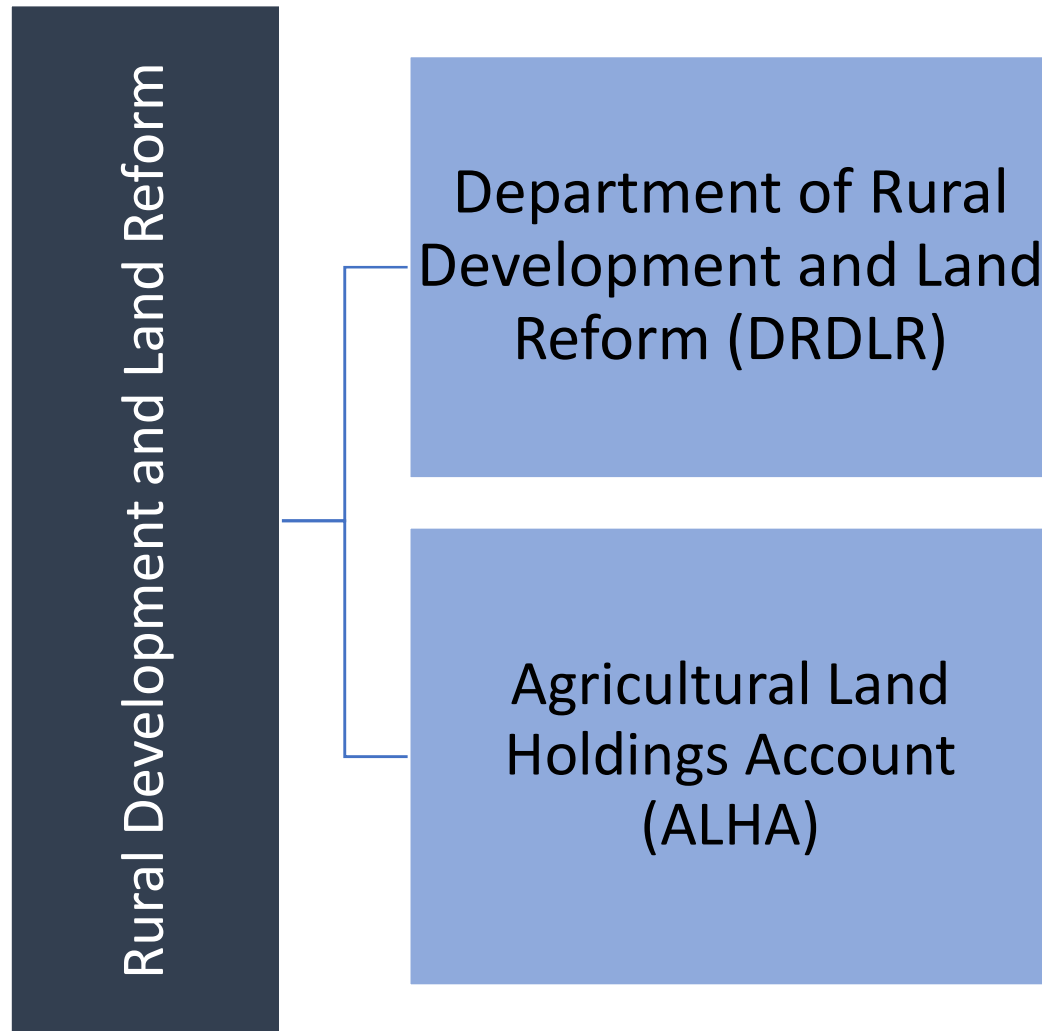
 Unqualified with no findings	 Unqualified with findings	 Qualified with findings	 Adverse with findings	 Disclaimed with findings	 Outstanding audits
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Movement over the previous year is depicted as follows:

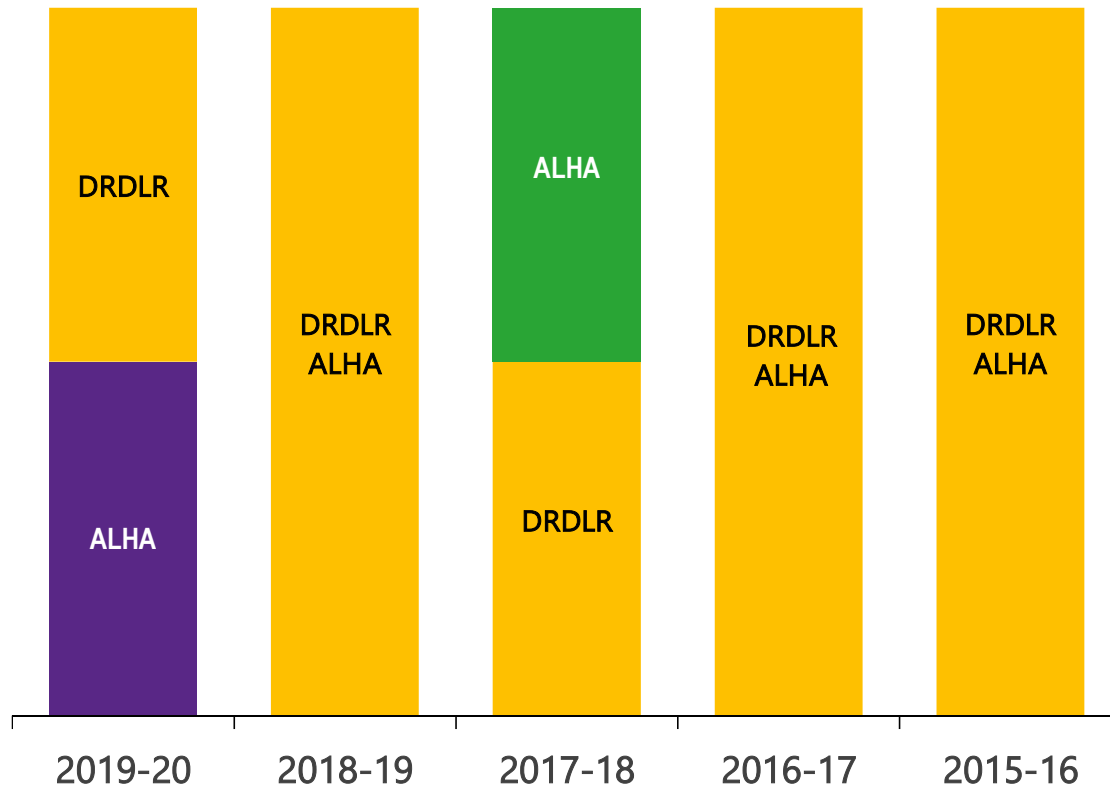
 Improved	 Unchanged	 Regressed
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Department of Rural Development and Land Reform Portfolio



Audit outcomes of the Department and ALHA over five years



Movement	
▲	0
▼	1
▶	1

- There was a regression in the audit outcome due to **ALHA** being qualified.
- Financial statement preparation remains a concern as material adjustments were effected to annual financial statements submitted for audit purposes at **DRDLR**.
- Management is **slow in responding** to audit queries and there was inadequate oversight and review of the financial statements preparation and review process in both **DRDLR** and **ALHA**





Credible financial reporting



Financial statements

Submission of financial statements by legislated date (DRDLR)

Movement

2019-20

2018-19



1

1

Financial statements submitted without errors



0

0

Quality of final submission after audit (DRDLR)



1

2

ALHA did not submit financial statements by legislated deadline (repeat non-compliance)

DRDLR achieved unqualified opinion only because they corrected all misstatements identified during the audit

ALHA received a qualified audit opinion with findings

ALHA qualification area:

Management did not adequately assess the grants that had indicators that monies needed to be repaid back by beneficiaries who did not comply with the grant agreement terms and conditions . This was mainly as a result of inadequate monitoring of the grant expenditure.





Credible performance reporting



Performance report

	Movement	2019-20	2018-19
Performance report submitted without errors (DRDLR)		1	1
Quality of final submission after audit (None)		0	0
<i>No material findings identified during the audit</i>			
Reliable reporting of achievements		0	0
Usefulness of performance indicators and targets		0	0





Non-compliance with legislation

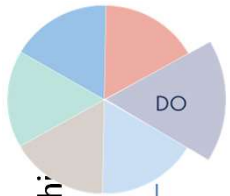
Findings on compliance with key legislation



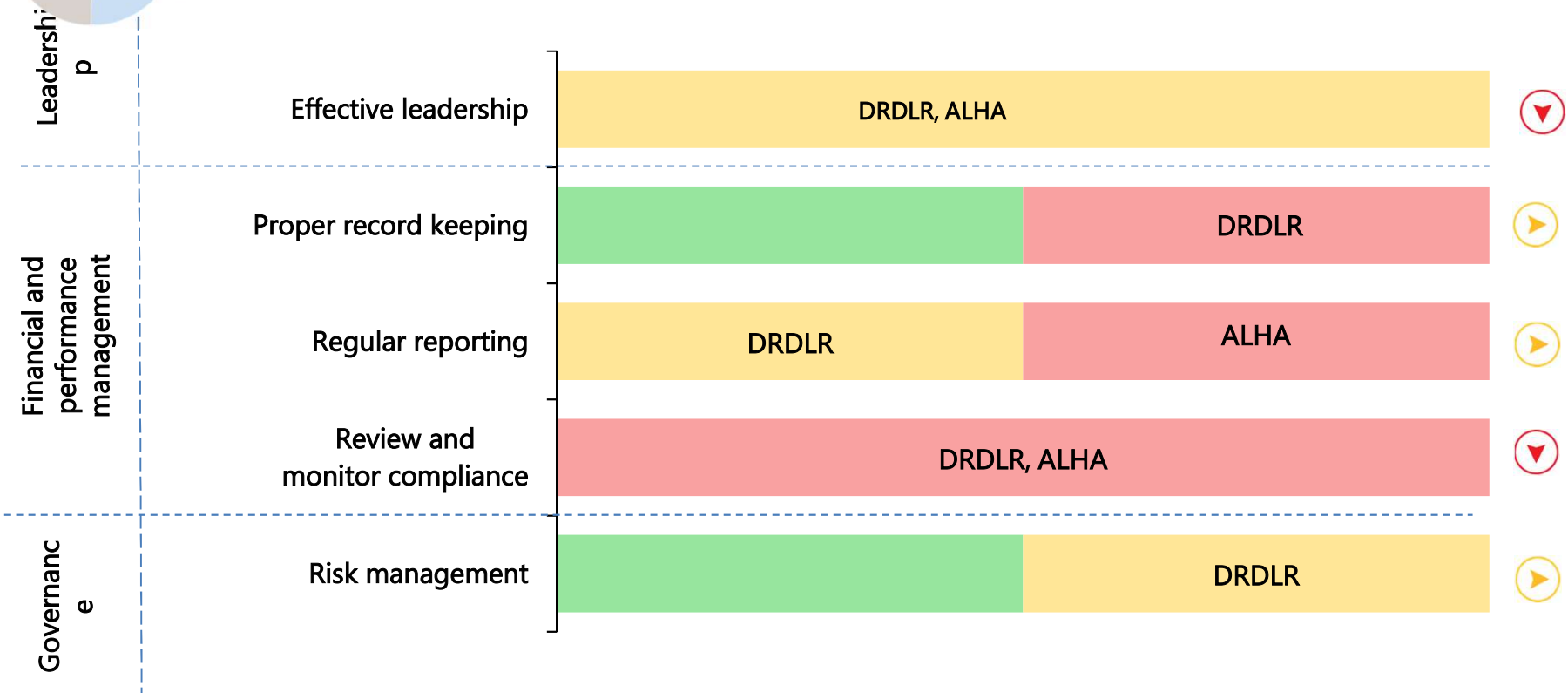
Non-compliance areas

- Late submission of financial statements (ALHA)
- Quality of financial statements (DRDLR, ALHA)
- Procurement and contract management (DRDLR)
- Prevention of irregular expenditure (DRDLR, ALHA)
- Prevention of fruitless and wasteful expenditure (DRDLR)
- Expenditure management (DRDLR)
- Consequence management (DRDLR)





Status of internal control



- Significant delays were experienced in submission of information for both interim and final audit, therefore highlighting the need to strengthen the controls regarding proper record keeping and verification by management.
- Inadequate daily and monthly controls to confirm the accuracy of information in the preparation of financial reporting, which is not ideal for the preparation of complete and credible financial information that is free of material errors and misstatements.
- A culture of compliance with legislation needs to be enforced and monitored to ensure that SCM procurement transcripts are complied with and financial statements submitted for audit are free of material misstatements.
- The significant irregular expenditure incurred in ALHA was as a result of non-compliance with SCM prescripts in instances where implementing agents were used.



Good



Of concern



Intervention required

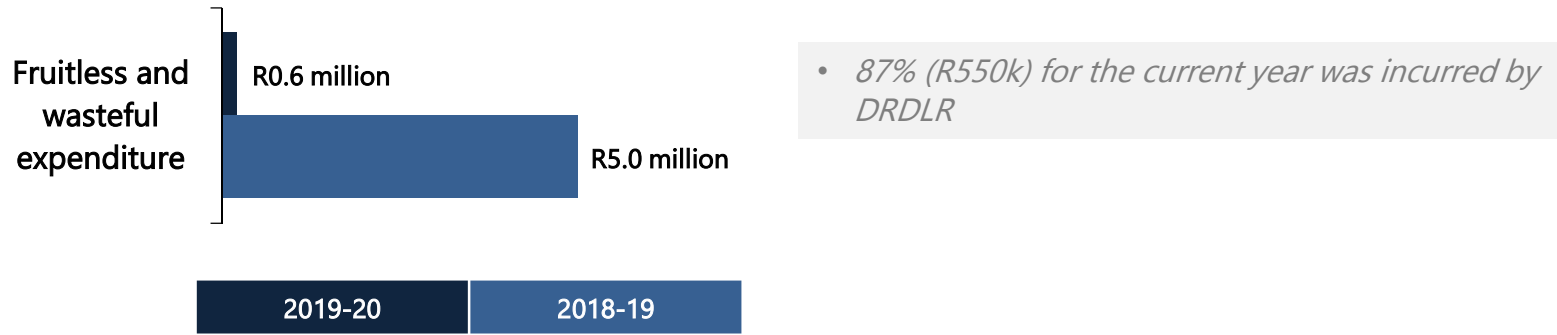
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Fruitless and wasteful expenditure decreased over 2 years

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



Nature of the fruitless and wasteful expenditure

- *The disclosed fruitless and wasteful expenditure for the current year was caused by duplicate payments on travel invoices and interest payments. (DRDLR)*

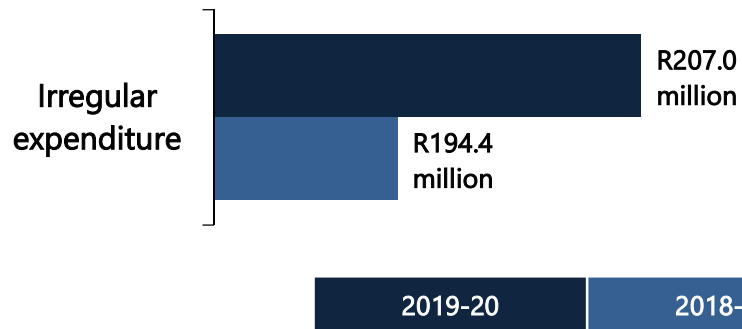


Irregular expenditure increased over 2 years

Definition

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

Irregular expenditure incurred by entities



- *81% (R167m) of the irregular expenditure for the year was incurred by ALHA mainly due to non-compliance with SCM legislation*

Nature of the irregular expenditure

- *The irregular expenditure for DRDLR relates to bids which were not advertised for a minimum period of 21 days.*
- *R155 million (93%) of irregular expenditure for ALHA relates to the Land Development Support programme where commodity organisations were used. Another R11m was incurred under the drought relief programme where there was a deviation from the SCM process.*



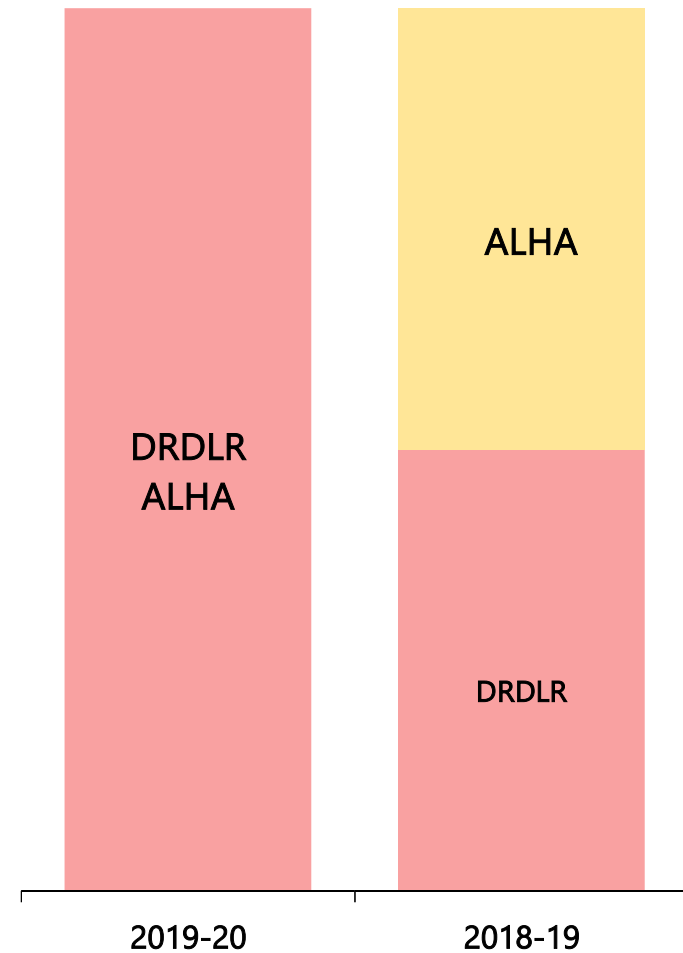
Supply chain management

Regression in in SCM compliance

All SCM findings should be investigated

Most common findings on supply chain management

- Bids not advertised for the minimum period of 21 days at **DRDLR**
- Declarations of interest not submitted by persons in service of the department at **DRDLR**
- Declarations of interest not submitted by persons in service of the department whose partners or associates had a private or business interest in contracts at **DRDLR**
- Declarations of interest not submitted by persons in service of other state institutions who had a private or business interest in contracts at **DRDLR**
- Procurement without following SCM process for the land development support programme (**ALHA**)



With no findings



With findings



With material findings 16

ACCOUNTABILITY = PLAN + DO + CHECK + ACT



Recommendations

Department

- The Department is slow in attending to the internal control deficiencies. There should be the required urgency by management in addressing risks identified and improving internal controls.
- Proper record management and the process for the preparation and review of the financial statements needs to be enhanced at the Department.
- Department needs to enhance their mechanisms to comply with SCM transcripts, more specifically relating to advertisement of bids and identifying false declarations of interests.
- The high number of investigations in progress within the department should be finalised, which will allow for consequence management to be implemented where necessary.
- Internal controls needs to be enhanced and monitored to ensure that invoices are paid timeously within the required 30 days period.

Overall management in the department should ensure a stronger commitment in adhering to internal controls and where transgressions are identified consequences should be implemented timeously. These recommendations should be implemented as a matter of urgency so that these do not impact on the new merged department.



Recommendations (continued)

ALHA

- ALHA should perform a detailed assessment of the grants that are not adequately accounted for. Beneficiaries who do not comply with the requirements of the contractual agreements should be identified and where the grants are repayable, legal collection efforts should be pursued.
- Daily and monthly monitoring controls over the existing or new projects should be implemented to ensure that any non-complying beneficiaries are timeously identified and where necessary corrective action taken.
- The results of the daily and monthly controls should inform the reporting process. The financial statements should be adequately reviewed to ensure that they are accurate and complete.
- Consequence management should be implemented for officials who were responsible for the irregular, fruitless and wasteful expenditure incurred.
- Submission of financial statements for ALHA for audit timely needs to be closely monitored to ensure compliance.



Thank you



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