

Report of the auditor-general to the Free State Legislature on vote no. 11: Department of Agriculture and Rural Development

Report on the financial statements

Introduction

1. I have audited the financial statements of the Department of Agriculture and Rural Development set out on pages ... to ..., which comprise the appropriation statement, the statement of financial position as at 31 March 2016, the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the Modified Cash Standard prescribed by National Treasury and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA) and the Division of Revenue Act of South Africa, 2015 (Act No. 1 of 2015) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the

entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my adverse audit opinion.

Basis for adverse opinion

Movable tangible capital assets

6. The department did not recognise all items of machinery, equipment and biological assets relating to projects, as required by the chapter on capital assets in the Modified Cash Standard, since the department had incorrectly classified these payments as transfers and subsidies. As the department did not maintain adequate records of these payments, I was unable to determine the full extent of the understatement of movable tangible capital assets in note 29 amounting to R64 485 000, as it was impracticable to do so.

Immovable tangible capital assets

7. The department did not recognise all items of buildings and other fixed structures relating to projects, as required by the chapter on capital assets in the Modified Cash Standard, since the department had incorrectly classified these payments as transfers and subsidies. As the department did not maintain adequate records of these payments, I was unable to determine the full extent of the understatement of immovable tangible capital assets in note 31 amounting to R46 702 000, as it was impracticable to do so.

Transfers and subsidies

8. The department did not classify payments made for projects in terms of the nature of the transactions in accordance with the chapter on expenditure in the Modified Cash Standard. The department had classified these payments as transfers and subsidies instead of current expenditure: Goods and services and expenditure for capital assets: Tangible assets. Consequently, transfers and subsidies are overstated by R302 989 621 (2015: R236 685 097). In addition, I was unable to obtain sufficient appropriate audit evidence to determine the respective amounts by which current expenditure: Goods and services, and Expenditure for capital assets: Tangible assets were understated, as the supporting information was not provided. I was unable to determine the understatements by alternative means.

Irregular expenditure

9. The department did not include the required information on irregular expenditure in the notes to the financial statements, as required by section 40(3)(b)(i) of the PFMA. The department made payments in contravention of the supply chain management requirements, resulting in irregular expenditure of R661 913 310.

Adverse opinion

10. In my opinion, because of the significance of the matters described in the basis for adverse opinion paragraphs, the financial statements do not present fairly the financial position of the Department of Agriculture and Rural Development as at 31 March 2016 and its financial performance and cash flows for the year then ended, in accordance with the Modified Cash Standard and the requirements of the PFMA and DoRA.

Emphasis of matter

11. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Financial sustainability

12. Note 18 to the financial statements indicate material uncertainties relating to events and conditions which may cast significant doubt on the department's ability to meet its financial obligations as they fall due and its objectives as outlined in the annual performance plan.

Additional matters

13. I draw attention to the matter below. My opinion is not modified in respect of the matter.

Unaudited supplementary schedules

14. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

Report on other legal and regulatory requirements

15. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives of selected programmes presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading, but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion these matters.

Predetermined objectives

16. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information of the following selected programme presented in the annual performance report of the department for the year ended 31 March 2016:

- Programme 3: Farmer support and development on pages x to x.
17. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned programmes. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information (FMPPI)*.
18. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
19. I did not raise any material findings on the usefulness and reliability of the reported performance information for the following programme:
- Programme 3: Farmer support and development.

Additional matters

20. Although I raised no material findings on the usefulness and reliability of the reported performance information for the selected programmes, I draw attention to the following matter:

Unaudited supplementary schedules

21. The supplementary information set out on pages x to x does not form part of the annual performance report and is presented as additional information. I have not audited these schedules and, accordingly, I do not report on them.

Compliance with legislation

22. I performed procedures to obtain evidence that the department had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Financial statements and annual report

23. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework and supported by full and proper records, as required by section 40(1)(a) and (b) of the PFMA. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not be provided subsequently, which resulted in the financial statements receiving an adverse audit opinion.

Procurement and contract management

24. Sufficient appropriate audit evidence could not be obtained that goods and services with a transaction value below R500 000 were procured by obtaining the required price quotations, as required by treasury regulation 16A6.1.
25. Quotations were accepted from bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, which is prescribed in order to comply with treasury regulation 16A8.3.

Expenditure management

26. Effective steps were not taken to prevent irregular expenditure, as required by section 38(1)(c)(ii) of the PFMA and treasury regulation 9.1.1. The expenditure disclosed does not reflect the full extent of the irregular expenditure incurred as indicated in the basis for qualification paragraph.

Transfer of funds

27. Sufficient appropriate audit evidence could not be obtained that appropriate measures were maintained to ensure that transfers and subsidies to implementing agents were applied for their intended purposes, as required by treasury regulation 8.4.1.

Internal control

28. I considered internal control relevant to my audit of the financial statements, the annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for adverse opinion and findings on compliance with legislation included in this report.

Leadership

29. Management did not exercise effective control over financial management to ensure fair presentation of the financial statements in accordance with Modified Cash Standards as prescribed by National Treasury. This has resulted in material misstatements being identified by the auditors of which management was in disagreement, hence no correction was made to the financial statements. Furthermore, management did not adequately exercise effective control to address compliance with laws and regulations.

Financial and performance management

30. Management did not ensure that the departmental performance measures in support of procurement processes are developed and monitored when procuring through the use of the implementing agents which resulted in the department incurring irregular expenditure.

Governance

31. Internal audit did not include all the significant risks as identified in the previous year audit in the audit plan, therefore these matters resulted in misstatements.
32. The audit committee did not sufficiently perform their oversight function to adequately address the significant risks identified in the previous audit to enhance the control environment.

Other reports

33. I draw attention to the following engagements that could potentially impact on the department's financial, performance and compliance-related matters. My opinion is not modified in respect of these engagements that are either in progress or have been completed.

Investigations

34. An investigation was instituted by the National Treasury into establishing a dairy project in the Free State in line with the Department of Agriculture and Rural Development's Mohoma Mobung initiative. The mandate of the investigation was not made available but, according to the department, the investigation covered the appointment process of the relevant service provider / implementing agent and all subsequent expenditure relating to the project during the 2012-13 financial year. The investigation is currently in progress and a final report has not yet been submitted.
35. The Department of Agriculture and Rural Development appointed a forensic audit firm in June 2013 to investigate possible financial misconduct and irregular expenditure resulting from non-compliance with procurement processes of the supply chain management policy. The investigation has been concluded; however, the official resigned before the investigation was completed and no further action was taken by the department.

Auditor - General

Bloemfontein

31 July 2016



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence