



## **1. INTRODUCTION**

The Department has an obligation to maintain the highest standards of governance in the management of public finances and resources. The Department applies a number of measures to ensure that the taxpayers and communities at large receive efficient services, with reduced incidence of fraud and corruption, at best value for money.

## **2. RISK MANAGEMENT**

The Department has a risk management policy and conducts regular risk assessments to determine the effectiveness of its risk management strategy and to identify new and emerging risks. There is a Risk Management Committee that advises management on the overall system of risk management, especially the mitigation of unacceptable levels of risk. The Audit Committee (Provincial Treasury) advises the Department on risk management and independently monitors the effectiveness of the system of risk management. There has been significant progress in the management of risks, particularly in the area of Information Technology.

## **3. FRAUD AND CORRUPTION**

The Department's has a fraud prevention plan which is closely monitored by the Internal control and Risk Management unit. The Department has a Hotline managed through the Office of the MEC, where activities of fraud and corruption may be reported.

## **4. MINIMISING CONFLICT OF INTEREST**

All employees are made aware to declare any activities that may be in conflict with the work for which they are officially remunerated. Senior Managers declare their financial interests on an annual basis. Furthermore, members in all committees of the Department declare their interest prior to participating in official meetings.

## **5. CODE OF CONDUCT**

The code of conduct /ethics document is distributed to all staff on an annual basis. Posters are also displayed on all entrance halls of Departmental offices. This ensures that all employees are aware of the expected conduct while on duty, as well as the channels of recourse that may be followed in the event of violation of these.

## **6. HEALTH SAFETY AND ENVIRONMENTAL ISSUES**

The Department prioritizes issues of Health Safety and Environmental and has a fully functional committee which convenes on a quarterly basis.

## 7. PORTFOLIO COMMITTEES

The Department has regular engagements with the Agriculture and Rural Development Portfolio committee. Most matters raised by the Portfolio Committee have been addressed by the Department during the year. The ongoing concerns such as the filling of critical posts and finalizing the implementation of the forensic investigations will be continuing in 2015/16.

## 8. SCOPA RESOLUTIONS

The Public Accounts Standing Committee met with the department on 14 October 2015 to deliberate on the Auditor-General report for the 2014/15 financial year. The table below are resolutions that emanated from the hearing that pertain specifically to the department. The responses, as submitted to the committee, are also provided.

Resolution No.	Subject	Details	Response by the department	Resolved (Yes/No)
107/2015	Compliance with laws and regulations	Findings that funded vacant posts were not filled within 12 months and Loss Control Committee not fully functional.	<p>During July 2015 the Department received concurrence from DPSA on the implementation of the new structure. During the implementation of a new structure the advertising and filling of posts should be limited to critical posts only to prevent staff from being rendered redundant. Engagements with Organised Labour on the appropriate implementation ensued and were resolved during December 2015.</p> <p>This new structure which was aligned to the new strategic direction of the department resulted in the creation of new senior positions. The placement of top management was then rearranged based on their skills and qualifications which thereafter resulted in core critical posts being vacant.</p> <p>In light of the Provincial Directive on the Cost Cutting Measures, the department identified critical posts and approval was sought from the MEC: Finance. Approval was then received in January 2016 which resulted in 34 critical posts being advertised, inclusive of 5 key management posts viz:</p> <ul style="list-style-type: none"> <li>SGM: Agricultural Development Services</li> <li>SGM: Rural Development</li> <li>GM : Veterinary Services</li> <li>GM: Agricultural Research, Development and Training Institutes</li> <li>SM: Office of the HOD</li> </ul> <p>The recruitment processes were underway with an envisaged finalisation date of 31 March 2016 but has since been waylaid by the</p>	Yes, Filling of critical posts is ongoing and monitored by the Agriculture and Rural Development Portfolio Committee

			<p>announcement of the freezing of all vacant posts on Persal.</p> <p>The new structure will only be effective as at 1 April 2016 and only then will posts be available for filling after obtaining relevant approval.</p> <p>The Loss Control Committee has been appointed and is fully functional with effect from September 2015. The Terms of Reference for the committee were reviewed and approved by the Head of Department in August 2015.</p>	
108/2015	Irregular expenditure	Effective steps were not taken to prevent irregular expenditure	<p>The department has created a policy register that lists all the relevant laws and regulations affecting the department as well as all the approved policies with date of approval and when it's due to be reviewed. The Standard Operating Procedures developed are based on these Acts, Regulations and approved policies. With regard to the SCM environment, the SCM Policy and Delegations was reviewed and approved during the Provincial Treasury intervention at the department's SCM unit in 2014. The department developed an SCM Checklist which lists all the controls that must be followed during the procurement process and forms part of the source documentation to the payment voucher.</p> <p>The contract management section of the department has been expanded in the new organizational structure that will contribute to better management of contracts, including timeous renewal where necessary. This will eliminate the need for month-to-month contracts which eventually constitute irregular expenditure.</p> <p>Further to the above, the department's Internal Control and Risk Management Unit will be undertaking a comprehensive review of the risk and controls in SCM during the first quarter of the 2016/17 financial year.</p> <p>Finally, an analysis of the irregular expenditure over the past few years shows a decline in the amount of irregular expenditure incurred by the department from a high of R117.829 million in 2012/13 to R22.335 million in 2013/14 and R17.360 million in 2014/15. This is a positive trend in the right direction as the department is committed to eliminate the occurrence of irregular expenditure.</p> <p>Disciplinary action has resulted in one official being dismissed and one suspended without pay for a period of three months due to SCM irregularities. A further twenty seven officials have received written warnings for remunerative work outside public services.</p>	Yes
109/2015	Mjindi Farming, Investigation on misappropriation of entity's assets	(a) That the Department of Agriculture and Rural Development	The Board of Mjindi Farming (Pty) Ltd and CEO analyzed the report. Two officials are mentioned in the report with alleged to have committed supply chain management irregularities and misappropriation of the assets of the entity. The	Yes

		<p>requested an independent consulting firm to perform an investigation based on misappropriation of entity's assets and supply chain management irregularities.</p> <p>(b) That the entity received the final reports and in the process of analyzing the recommendations and evidence provided.</p>	<p>forensic report recommended that the 2 employees be subjected to a disciplinary process.</p> <p>Subsequently, the Mjindi sought expert opinion from Mjindi Lawyers who undertook representations from the 2 employees. The firm of lawyers carried out further investigation on both employees to obtain more information on the allegations raised in the forensic report.</p> <p>Allegations against one official could not be substantiated and no further disciplinary action instituted.</p> <p>The second official was found guilty of misconduct and suspended without pay for one and half months coupled with written warning.</p>	
110/2015	<p>Reports on review of public entities: Mjindi Farming and AgriBusiness Development Agency</p>	<p>The MEC for Agriculture and Rural Development is in the process of reviewing the following aspects of the public entities (Mjindi Farming and the Agri Business Development Agency) which were funded by the Department:</p> <p>The continued operation of Mjindi Farming as a public entity in view of recent developments around land claims in the Makhathini Flats, the question of the sustainability of the development of the farming operations at Makhathini Flats which was presently being independently investigated.</p> <p>The review of the mandate of the Agri-Business Development Agency so as to avoid duplication or takeover of functions that should be carried out by the Department and whether the provincial government is receiving value for money from</p>	<p>The Department is in the process of mechanical review of Mjindi (PTY) Ltd through the services of the consultants. The mandate of Mjindi is to provide water, services and the maintenance of the canal and the irrigation network, roads and other infrastructure. In addition it provides extension support to farmers, mechanization services and administering the lease agreement for the farmers in the irrigation scheme.</p> <p>Despite years of providing this service, the agricultural potential of the farmers remains poor due to poor and lower quantities of produce. This has not improved the viability of farmers operations and neither has it lifted their socio-economic status.</p> <p>Mjindi as an organization itself has not been able to effectively collect the revenue efficiently. This said in the background of the annual capital injection by the state of R50 million as against R4 million revenue collected. The farmers perpetually rely on government support.</p> <p>As of 2015/2016, the Department has undertaken a review of its strategy and policies which guide the implementation of the projects. A decision was reached for the department to concentrate efforts on primary agriculture with farmers. In the past, Agriculture Development Agency (ADA) also operated in the same space. ADA was tasked to concentrate more on secondary and tertiary agriculture.</p> <p>The settlement of land claims does not have a direct impact on the revenue that can be generated by Mjindi Farming Pty Ltd. The entity collects revenue only from the irrigation scheme. The new mandate of Mjindi includes;</p> <p>(i) Repair, upgrading and maintenance of the</p>	<p>No, the mechanical review of Mjindi not finalised. Also, the Provincial Treasury is undertaking a review of all public entities in the Province</p>

		<p>the continued existence of this entity..</p>	<p>infrastructure on the land under irrigation.</p> <ul style="list-style-type: none"> <li>(ii) To sustain the Makhathini irrigation scheme as a viable and sustainable Farmer Settlement Project.</li> <li>(iii) To collect water tariffs from farmers to sustain the irrigation scheme and in turn to supply ter.</li> <li>(iv) To assist with the planned and approved expansion of the irrigation scheme to approximately 15 000ha for the settlement of additional farmers.</li> <li>(v) To assist and support the Department with the planning and implementation of the Makhathini Integrated Master Development Plan.</li> <li>(vi) Explore and facilitate new agri-business opportunities on the irrigation scheme.</li> <li>(vii) And at a particular point, transform/hand over its responsibilities to an established farmer-land owner driven entity.</li> </ul> <p>The erroneous transfer of the land and the buildings under the control of Mjindi has not been corrected. Some of the transferred assets are now being utilized by the Trust. Negotiations for Mjindi to lease some properties from the Trust have been concluded. The sustainability of the development of the farming operations at Makhathini flats is part of the mechanical review which is yet to be undertaken that aims at reviewing the viability of the farming operations and the upliftment of socio-economic conditions for the farmers in the area.</p> <p>The outcome of the review exercise for ADA was the change in focus. ADA now concentrates on agro-processing and industrial crops, whilst DARD continues with primary production. In this regard ADA exists as a catalytic commercial vehicle to facilitate the growth of a robust, transformed, diversified, competitive and sustainable agro-processing/agribusiness in collaboration with DARD. A five year plan has been submitted to DARD for comments and to be tabled to Legislature.</p> <p>ADA strives to promote, establish, facilitate and support the growth of black owned and managed agribusiness enterprises along agricultural value chains in KwaZulu-Natal through partnerships with individuals, communities, private sector and other public sector institutions in order to achieve a transformed Agribusiness Sector in KZN.</p> <p>Its services include the following amongst others;</p> <ul style="list-style-type: none"> <li>(i) Commercialization of production.</li> <li>(ii) Provision of infrastructure for processing</li> </ul>	
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			<p>(machinery, automation, dairies, etc.)</p> <p>(iii) Induce diversification the agricultural sector through focusing on industrial crops e.g. Wine, coffee, castor etc.</p> <p>(iv) Building new agricultural industries like cocoa.</p> <p>(v) Forging partnerships with commodity associations and agro-processing associations.</p> <p>(vi) Attraction and unlocking of investment, through for example private-public-partnerships and joint ventures (increasing the role of the private sector).</p> <p>(vii) Capacity building to support and develop entrepreneurship and business acumen.</p> <p>(viii) Linking farmers and agribusinesses to market.</p> <p>(ix) Supporting quality &amp; standards (adherence to).</p> <p>(x) Leveraging of funds.</p> <p>(xi) Warehousing shares for clients/beneficiaries.</p> <p>This will ensure continuous existence of ADA and will slowly remove it from depending on the government fiscus. ADA recently applied and received R40 million Jobs Fund funding and has put together business plans for more funding from the Jobs Fund. Ada has also started charging project management fees when implementing projects for other organizations either than DARD. In line with the DARD approach the ADA is also seeking partnerships and alignment with the private sector and commodity organizations. It is key that these partners are harnessed to build capacity and build networks for primary producers and agro-processing companies</p>	
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## 9. PRIOR MODIFICATIONS TO AUDIT REPORTS

The Department received an unqualified audit opinion for 2014/15 financial year.

## 10. INTERNAL CONTROL UNIT

- g) The Internal Control unit monitored the implementation of action plans emanating from all audits, such as Auditor General, Provincial Treasury Internal Audit and audits conducted internally. The internal control environment is subsequently strengthened.

**REPORT OF THE AUDIT & RISK COMMITTEE ON  
VOTE 3 – AGRICULTURE AND RURAL DEVELOPMENT**

**1. Objective and responsibility of the Audit and Risk Committee**

The Provincial Audit and Risk Committee (PARC) is the shared audit and risk committee for the provincial departments and is further sub-divided into three Cluster Audit and Risk Committees (CARC's) that provide oversight of key functions to the KZN Provincial Government Departments. The Department of Agriculture and Rural Development is served by the Economic Cluster Audit & Risk Committee.

The PARC is primarily responsible for reviewing the following:

- (a) the effectiveness of the internal control systems;
- (b) the effectiveness of the internal audit function including its annual work programme, co-ordination with external auditors, the reports of significant investigations and responses of management to specific recommendations;
- (c) the risks associated with the Department's operations covered in the scope of internal and external audits;
- (d) the adequacy, reliability and accuracy of the financial and performance information provided to management and other users of such information;
- (e) any accounting and auditing concerns identified as a result of internal and external audits;
- (f) the effectiveness of strategies, policies and procedures to prevent and detect fraud and corruption and
- (g) the institution's compliance with legal and regulatory provisions.

The Committee reports that it has discharged all of its responsibilities in compliance with the Public Finance Management Act, No.1 of 1999 (PFMA), Treasury Regulations 3.1, including all other related prescripts, that it has adopted appropriate formal terms of reference contained in its Audit and Risk Committee Charter. The Committee is pleased to present its report for the financial year ended 31 March 2016.



## 2. Audit Committee Members and Attendance

The PARC was appointed on 23 February 2015. During the financial year under review, certain terms and conditions of the members' conditions of appointment were amended and the contracts of five members were renewed effective from the 30<sup>th</sup> of October 2015.

The table below also outlines the PARC and Economic CARC meetings held and attendance thereof by members during the reporting period.

#	Name of Member	PARC Meetings Attended	Economic Meetings Attended	Special Meetings
1.	Mr S Simelane(Acting Chairman of PARC and Economic CARC)	3	4	2
2.	Mr V Ramphal	3	4	2
3.	Mr P Christianson	3	2	2
4.	Mr D O'Connor	3	N/A	2
5.	Ms T Njozela	2	N/A	2

## 3. The Effectiveness of Internal Control

The Committee has reviewed the reports of the Internal Auditors, the Audit Report on the Annual Financial Statements and Management Report of the Auditor General of South Africa (AGSA) and has noted with concern, the weaknesses in controls around the following areas:

- Isikhowe Juncao Mushroom Project with specific concerns being the production database and awareness campaigns
- Expenditure Management, with specific concern being Irregular Expenditure
- Asset Management - Moveable Assets
- Subsistence & Travel Expenditure
- Performance Information
- Supply Chain Management

#### 4. Risk Management

The Committee has, as defined in its Charter, adequately provided oversight on management's processes of identifying and monitoring business risks. For the period under review, the committee's responsibilities have been focused, among other things, on the quarterly review of the department's risk register and progress made by the department with regard to implementation of risk mitigation plans. The Department has constantly been advised about best practices to consider to improve the management of key business risks and opportunities.

As at the end of this financial year, the department's risk register status was as follows:

	Risk Grouping					Total
	Critical	Major	Moderate	Minor	Insignificant	
Number of risks identified	0	6	22	4	0	32
Number action Plans Identified	0	12	56	4	0	72
Number of action plans completed	0	2	41	2	0	45

The Committee is concerned about the slow progress made by the department in addressing risks classified as Major. The Committee has also been concerned about the department's failure to review and update its risk register on a regular basis. The department is, therefore, urged to treat the risk register as a dynamic document which should be reviewed and updated continuously to include emerging risks, and risk that has materialized. Furthermore, the department was urged to improve its risk management systems and procedures to ensure the linkage to department's business strategy (encompassing its vision, mission and objectives), its operational imperatives and philosophies, policies plans and initiatives with positive impact on service delivery.

#### 5. Forensics Investigations

During the period under review, the Committee noted that there were nine (9) forensic investigations, all relating to alleged procurement irregularities and mismanagement of funds, which the department has referred to the Provincial Internal Audit Services for investigation. Three (3) of these investigations were

completed and six (6) are in-progress. The department and the Provincial Internal Audit Service are urged to promptly finalize the outstanding investigations, and work together to implement recommendations on the finalised investigation.

The Committee is unable to comment on the completeness of the investigations conducted during the year under review as the department failed to respond to the request to furnish the Provincial Internal Audit Services (PIAS) with a list of any other in-house or outsourced investigations to other service providers by the Department. As a result, the committee is unable to further comment on the completeness of the department's fraud risk profile.

## **6. Quality of in year management and monthly/quarterly reports**

The Committee was satisfied with the content and quality of quarterly reports in respect of in year management and quarterly performance reports submitted in terms of the PFMA and the Division of Revenue Act prepared and issued by the Accounting Officer of the Department during the year under view.

## **7. Evaluation of Financial Statements**

The Committee has:

- Reviewed and discussed the audited Annual Financial Statements to be included in the Annual Report, with the Auditor General and the Accounting Officer; concerns have been noted around restatement of corresponding figures as disclosed in note 32 to the financial statement. It should be noted that the Department is a defendant in various claims and no provision for any liability that may result has been made in the financial statements;
- Reviewed the Auditor General's Management Report;
- Reviewed the Department's processes for compliance with legal and regulatory provisions, concerns have been noted around procurement and contract management; failure to prevent irregular expenditure amounting to R47,7 million as a result of non-compliance to supply chain management prescripts; financial statements submitted for auditing were not prepared in accordance with prescribed financial reporting framework and material misstatements of commitments; transfer payments and expenditure were identified.

## **8. Internal Audit**

In line with the PFMA and the King III Report on Corporate Governance, the Internal Audit Function is required to provide the Audit & Risk Committee, as well as Management, with reasonable assurance on the adequacy and effectiveness of internal controls. This is primarily achieved through the implementation of a risk based Internal Audit plan. The Committee has, through the CARC monitoring processes, considered internal audit reports at its quarterly meetings detailing the assessment of the adequacy and effectiveness of controls designed to mitigate the risks associated with operational and strategic activities of the department. The Committee also considered the appropriateness of the corrective actions proposed by management to improve the control environment.

The Committee has noted with concern, imposed financial and other limitations place upon Internal Audit during the year under review. During the forthcoming financial year, the Committee will monitor the progress made by the Internal Audit Function in resolving any potential budgetary or operational difficulties in order to ensure that it fulfills its mandate and continues to add value to the department.

## **9. Auditor-General's Report**

The Committee has monitored the implementation of corrective action plans to address the audit issues raised by the Auditor General in the prior financial year. Furthermore, the Committee has met with the Auditor General of South Africa to discuss and evaluate the major issues that emanated from the current regulatory audit.

The Committee will ensure that corrective actions in respect of detailed findings emanating from the current regulatory audit continued to be monitored on a quarterly basis through the CARC processes.

The Committee notes the Auditor General's unqualified opinion regarding the Annual Financial Statements, and proposes that the Audited Annual Financial Statements be accepted and read together with the report of the Auditor General.

## **10. Appreciation**

The Committee wishes to express its appreciation to the Management of the Department, the Auditor General of South Africa, and the Provincial Internal Audit Services for the co-operation and support they have provided to enable us to compile this report.



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**Mr S Simelane**

**Acting Chairman: Provincial Audit and Risk Committee**

**05 August 2016**