PARLIAMENT
OF THE REPUBLIC OF SOUTH AFRICA

131008 pchome

RESEARCH UNIT

PO Box 15 Cape Town 8000 Republic of South Africa
Tel: 27 (21) 403 8273 Fax: 27 (21) 403 8118
www.parliament.gov.za

ANALYSIS OF THE DEPARTMENT OF HOME AFFAIRS 2012/13 ANNUAL REPORT

8 October 2013

1. Introduction

The primary strategic goal of the Department of Home Affairs (DHA) is to secure and affirm the identity and status of citizens; and to manage immigration in the interest of national security and development priorities.

This brief seeks to review whether the Department has fulfilled its constitutional mandate for the 2012/2013 year and what successes and challenges it has encountered in this regard. This is done by (a) summarising the key findings of the Auditor-General's (AG) Report, (b) evaluating the Department's performance against targets in each programme and (c) scrutinising the financial statements of the DHA in relation to its stated strategic objectives and previous performance.

The review is in accordance with section 55(2) of the Constitution (Act 108 of 1996) which empowers Parliament to provide mechanisms to "ensure that all executive organs of state in the national sphere are accountable to it". In addition, Parliament has an obligation to "maintain oversight of the exercise of the national executive authority including the implementation of legislation". Moreover, Section 65(1) of the Public Finance Management Act (No. 1 of 1999) stipulates that "the executive authority responsible for a department [...] must table in the National Assembly [...] the annual report and financial statements [...] and the audit report on those statements, within one month after the accounting for the department [...] received the audit report".[1]

2. Overview of Auditor-General (AG) report

The AG's report, contained within the annual reports of government departments and entities, speaks to the reliability of information contained in the annual report as well as the achievement of performance targets in recent years. The AGs audit opinion can be categorised in four general levels of importance:

- Audit Opinion;
- Matters of Emphasis;
- Additional/Other Matters; and
- Performance against Objectives and Compliance with laws.

From 2006/7 the DHA made gradual improvements from a disclaimer to qualified opinions in 2008/9 and 2009/10. In 2011/12, the DHA relapsed back to a qualified audit after receiving its first unqualified report in a number of years in 2010/11. In 2012/13, the DHA once again received a qualified opinion expressed by the AG. This is similar to 2011/12 where the DHA was in the lowest 15% of Departments and Entities in terms of audit findings (where 81 Departments and Entities had clean audits, 227 that had unqualified reports, 44 with qualified audits and 11 with adverse audit opinions).[2]

[1] Constitution of South Africa (Act 108 of 1996)
[2] Auditor General (2012)

The AG expressed his qualified opinion for 2012/13 based on four main areas where insufficient audit evidence or records were available (in 2011/12 it was in one main area: contingent assets):

1. **Receivables Revenue**: The AG was unable to confirm revenue from goods and services, fines, penalties and forfeitures and thus whether adjustments to these were necessary. A total of R2.67 billion (which equals 47% of the total annual budget) is insufficiently accounted for. The biggest part of this is Departmental revenue and National Revenue Fund Receipts stated at R750 million which the DHA indicate were not retained as planned in a trading account which was not established. It is unclear as to why it was not established and whether the amounts have been returned to National Treasury. The amount of R16 million of contingent assets in 2012/13 is a significant reduction from the R173 million of unsupported documentation from the Department of International Relations in 2011/12 which was the only area for which the DHA received its qualified audit in that year, however issues with Payments from DIRCO have impacted on several other areas of qualification.

2. **Accruals:** Insufficient evidence was available to audit foreign expenditure which relates to note 21 on page 157 of the annual report for a total of R273 million. Of this, only R21.6 million is unconfirmed for the 2012/13 year from the Department of International Relations. According to the DHA annual report presentation, this relates to the lease of a building in London. The unsupported nature of this amount is not distinguished in the Annual Report from amounts outstanding to other government Departments stated on Annexure 4 (page 170). This in turn makes the verification of adjustments to all other accruals.

3. **Employee benefits:** This relates to insufficient evidences to verify leave taken in 2011 and 2012. As a result the need to restate vacation leave to 30 days for employees with over 10 years service (due to a Public Service Bargaining Council Resolution) to an amount of R82.1 million (compared to R70.75 million in 2011/12) could not be confirmed.
4.
5. **Movable and Tangible Assets:** Inadequate records were available to record and thus adjust major tangible assets valued at R1 billion and minor assets of R179.6 million.

In addition to the basis for qualification, the DHA received six matters of emphasis (compared to 3 in 2011/12) as well as 2 additional matters (compared to 3 in 2011/12) and 2 issues with Legal and Regulatory Requirements (compared to 5 in 2010/11) and 22 additional matters (30 in 2011/12). Three of the matters of emphasis continue from previous years. These are:

- **Financial Reporting Framework**: This again relates to the difficulties in securing, proving and receiving cash due from DIRCO to the DHA.

- **Significant Uncertainties:** relating to contingent assets and liabilities, particularly outstanding legal claims against the Department amounting to R1.2 billion from previous years and R138 million in 2012/13 for which the DHA have made no provisions. R407 million of these claims are older than 3 years.

- **Restatement of corresponding Figures:** The DHA had to restate figures relating to information presented in the 2011/12 financial year in order to address audit concerns about foreign revenue, fines, penalties and forfeits. The two amounts involved are R32 million and R46 million and they relate to several budget categories.

New matters of Emphasis are:

- **Material Losses/Impairments:** This is stated as R26 million worth of assets that were lost during the financial year, although this number cannot be clearly found in the annual report.
- **Material Overspending:** The DHA incurred unauthorised expenditure of R301 million by overspending on its budget by 6%. The DHA indicate that this is due to the non-implementation of the trading account for the DHA to use its income to cover certain costs. The account was not established due to the need for certain functions to be shifted out of the DHA if the account was to comply with accounting standards. This was agreed to by National Treasury subject to them submitting a favourable review to the Standing Committee on Public Accounts.
- **Payables:** This relates R41 million in payments made beyond the required 30 day term.

Questions on Audit Opinion

1. What comprises the R750.4 million stated by the AG as having insufficient audit evidence for Departmental Revenue and Revenue Fund receipts to be surrendered to the revenue fund? How is this different from the Revenue stated as R712 million and receivable stated as R684 million in the same basis for qualification?
2. If the inability to establish a trading account was beyond the DHA's control and was agreed to by National Treasury, why was it still considered unauthorised expenditure by the AG?
3. What evidence is needed to properly verify tangible assets as indicated by the AG?
4. Does the insufficient appropriate evidence needed by the AG for accruals relate to the entire R273.4 million in note 21 on page 157 of the Annual Report or just to the unconfirmed outstanding balance from DIRCO in annex 4 on page 170?
5. What is the status of some of the larger litigation against the DHA such as one relating to a tender of R602 million to new dawn technologies and a claim of R375 million that is over three years old? Since this matter keeps occurring what provision could be made for these liabilities as required by the AG?
6. Why was there a need to restate figures relating to information presented in the 2011/12 financial year in order to address audit concerns about foreign revenue, fines, penalties and forfeits?
7. Where in the annual report is the amount of R26 million is los assets indicated by the AG is stated?

3. Irregular and Fruitless Expenditure

During 2012/13, the Department incurred R4.2 million in irregular expenditure, as compared to R5.7 million in 2011/12. This relates primarily to utilisation of service providers beyond their contract period (R3.5 million).

Fruitless expenditure is also less in 2012/13 at R374 thousand as compared to R700 thousand in 2011/12. The fruitless expenditure again mostly relates to having to pay interest on overdue payments to service providers.[3]

4. Performance

The DHA has achieved only 25% of its targets set for the year (13 out of 51 targets). In contrast, 21 targets (41.2 %) were partially achieved and 33.3% of targets were not achieved.[4] This is a regression from the already low performance in the 2011/12 financial year in which 26% of 50 targets were achieved; 50% of targets were partially achieved and 24% were not achieved.[5]

Programme 1: Administration: Only 4 of 17 targets were achieved (23.5%) in 2012/13. This is a significant decline compared to the 50% of targets achieved in 2011/12. The reliability of the targets presented for the Administration programme is also once again questioned by the AG given that, as in 2011/12, they do not always equate with the source information/ evidence provided. Due to the reduced budget allocation to the DHA in 2012/13, all programmes within the DHA had a cut in expenditure. The biggest reduction was for the Administration programme, which was 11.8% or R223.8 million less than in 2011/12 in nominal terms, largely due to a large once off capital investment for Transversal Information Technology in that year. The DHA, however under spent on this programme by 9% or R140 million.[6]

Programme 2: Civic Services: 6 out of 19 targets (31%) were achieved in 2012/13 compared to the 21% of targets achieved in 2011/12. This is the best performing of the three programmes in DHA, however the AG has indicated that significant targets within the programme were misstated due to inadequate review of reported achievements against source documents provided and the related lack of standard operating procedures for accurate recording of achievements. The Citizen Affairs budget declined by 9% or R306.3 million from 2011/12, mostly due to an 80% decrease in the Status Services sub-programme in that year. This was a 14% decline in real terms. The DHA overspent on this programme by R226 million.

Programme 3: Immigration Services, only managed to fully achieve 3 of its 16 targets (19%). Of the 13 targets not achieved, 3 were partially achieved. This is an improvement compared to 2011/12 where only 1 of 15 targets (6%) was achieved. Immigration services received 4.2% less in 2012/13 than 2011/12. This R24.2 million reduction is mostly due to a halving of allocation to the Immigration Affairs Management sub-programme. The DHA overspent on this budget programme by 11% or R74 million.

According to the Presidency Management Performance Assessment Tool for the 2012/13, the continued low performance of the DHA against its targets is not as much a result of inadequate strategic planning or financial management but rather low performance on governance, accountability and human resource management. As far as governance and accountability is concerned, the DHA performed better than average on service delivery improvement and risk

[3] DHA (2013)
[4] DHA (2013)
[5] DHA (2012)
[6] Salmon (2012)

assessment, but it performed particularly low the functionality of management structures and ensuring professional ethics and fraud prevention.[7]

Performance related Questions

1. The Presidency Management Performance Assessment tool indicates that the DHA is underperforming on the functionality of management structures and ensuring professional ethics and fraud prevention. What more can be done to address these shortfalls?

5. Human Resources

As indicated above, according to the Presidency Management Performance Assessment Tool for the 2012/13, part of the reason for the low performance and poor reporting of the DHA is due to sub-standard Human Resource Management. Whilst HR strategy and planning is above the government average, it is still not meeting minimum standards as far as organisational design and implementation are concerned. In addition, the DHA scores particularly low on HR Practice and Administration due to sub-standard Pay Sheet Certification and Management of Diversity. Management of Performance and Employee relations are also not meeting minimum standards (for the 10 areas the Presidency assessed HR in the DHA, it only managed to achieve the minimum acceptable score in three areas).[8]

The AG has indicated that HR has not advertised funded vacant posts within six months of their becoming vacant and not filling them within 12 months, as required by Public Service Regulations (at the end of 2012/13, 48% of vacant funded posts had been filled). In addition, the AG indicated that the Accounting Officer (the Director General) did not ensure that all leave taken by employees was accurately recorded as per the same regulations.[9] The DHA has indicated that, in order to address the recruitment shortfall, it would implement an e-recruitment system and delegate appointment up to level 8 by Provincial managers (level 8 is skilled production/service staff). Moreover, the DHA indicates in the 2012/13 annual report that robust steps will be implemented to ensure compliance with leave and absenteeism management.[10]

The overall vacancy rate in the Department is recorded as 10.3%, with the highest rate in Immigration Affairs of 15%. This can be seen reflected in the lowest performance against targets compared to the other programmes in the DHA. In terms of critical occupation categories there is a particularly high vacancy rate of 23% for Regulatory Inspectors. This in turn can be seen in the higher levels of non-compliance with regulations noted by the AG. The turnover rate for Senior Management from levels 13-16 is very high at 114% or 35 appointments versus 32 terminations. Employees with disabilities account for 0.9% of all staff and seven out of 503 appointments made had disabilities (1.3%). Of the reasons for staff leaving the Department, the majority (25%) are due to dismissals for misconduct (97 persons). Table 7.4 on page 187 indicates that one Senior Manager received a performance reward of R25.7 million.[11]

[7] Presidency (2013)
[8] Presidency (2013)
[9] DHA (2013)
[10] DHA (2013)
[11] DHA (2013)

Training was not distributed evenly across the Department, with the very low spending per employee on training in the Citizen Affairs and Immigration Programmes (R18 and R178 respectively). The significantly higher spending on the Administration Programme of around R9000 per employee did not lead to tangible improvements in achieving of targets with only 24% achieved (less than the average rate of performance against targets of 25%).[12]

Questions on Human Resources

2. In Human resources, what is the status of the envisaged e-recruitment system and delegation of recruitment to Provincial Managers?
3. What are the robust measures put in place to address the shortfalls in accurate recording of absenteeism?
4. What measures are in place to ensure that the average expenditure on training per employee is more equal across programmes/branches?
5. Despite significantly higher expenditure on training for the Administration Branch/Programme, there have not been improvements in achievement of targets. What can be done to ensure that training better relates performance against work targets?
6. The turnover rate for Senior Management from levels 13-16 is very high at 114% or 35 appointments versus 32 terminations. What is this indicative of?
7. Table 7.4 on page 187 indicates that one Senior Manager received a performance reward of R25.7 million. Is this an error, if not please indicate the justification.

References

DHA (2012) Annual Report 2011/12
DHA (2013) Annual Report 2012/13
Presidency (2013) Management Performance Assessment Tool - National Departments Score Cards 2012/13 (version 2)
Salmon, A (2012) Analysis of the DHA Annual Report 2011/12. Parliament of South Africa.

[12] DHA (2013)