home affairs

Department:
Home Affairs
REPUBLIC OF SOUTH AFRICA

230 Johannes Ramokhoase Street, Private Bag X114, PRETORIA, 0001
Paliamentary Office, 120 Plein Street, Private Bag X9048, Cape Town, 8000

Mr N T Godi, MP
Chairperson: Standing Committee on Public Accounts
Parliament
PO Box15
Cape Town
8000

Dear Mr Godi

REPORT TO STANDING COMMITTEE ON PUBLIC ACCOUNTS ON CIRCUMSTANCE THAT LED TO THE DEPARTMENT INCURRING UNAUTHORISED EXPENDITURE OF R687.304 MILLION AND R301 MILLION DURING THE 2010/11 AND 2012/13 FINANCIAL YEARS RESPECTIVELY

1. PURPOSE

To provide the Standing Committee on Public Accounts (SCOPA) with a report on the circumstances that led to the Department incurring unauthorised expenditure amounting to R687,304 million for the 2010/11 and R301 million for the 2012/13 financial years respectively.

2. BACKGROUND

During the 2007/08 financial year, the Department (DHA) requested Cabinet's approval for the Support Intervention Team to be deployed in the Department in order to stabilise the Department that was on the brink of collapse and identify the reasons for weak management, poor service delivery and widespread corruption.

The team comprised representatives from National Treasury, the Department of Public Service and Administration (DPSA) and the Public Service Commission (PSC). During the second quarter of the 2007/08 financial year a strategic partner (FeverTree) was appointed from the earmarked funds from National Treasury with the primary goal of assisting the Department to drastically improve service delivery and restore public confidence in the Department. A key turnaround strategy was for the DHA to take control of critical processes such as the delivery of identity documents (IDs) and passports and produce quick wins. A related strategy was to change the culture of the DHA to one which put the citizen and other clients first.

The strategic goals of the turnaround strategy were substantially achieved with regard to service delivery, changing the culture of the DHA and regaining public confidence. However, important areas of management remained weak, including financial management. The involvement of FeverTree in financial management in the Department was limited to the clearing of audit queries and the preparation of financial statements by a consultant who was contracted to fulfill the role of Chief Financial Officer after the dismissal of several senior managers including the then Chief Financial Officer.

The incoming administration in 2009 inherited a bankrupt Department in that the Department was being litigated by service providers who had not being paid for services already rendered, which resulted in long outstanding debts.
These included the following

- Fever Tree/AT Kearney Consulting (Consulting Work) and Marpless (Home Affairs National Identification System {HANIS}) where services had already been rendered with the view of claiming later;
- Government Printing Works (GPW) (Enhancement and printing of passports); and
- Department of Internationals Relations and Cooperation (DIRCO) (for claims paid on behalf of DHA for services rendered in various foreign missions)

Management performed a debts quantification exercise that resulted in contingent liabilities amounting to approximately six billion rand (R6 billion) and a debt amounting to R754 million . Some of these liabilities were resolved as evidence showed that the Department had already paid for claims that were lodged, these were not for DHA as such services were not rendered and contracts entered into were not valid. Our current contingent liabilities now amount to R1, 435 billion.

To exacerbate the situation, HANIS, a critical system for the rendering of enabling documents to clients, was collapsing, but funding was not available for important maintenance work on the system. As such, the suppliers were requested to do rectification work on this system and be paid when budget became available.

approximately R387.00 per passport for the increased security features whilst clients were charged R140.00 per passport. Costs in this regard were not budgeted for. Litigation costs escalated as a result of wrongful arrests, incorrect names used on the enabling documents processed by Department upon application, denial of certain permits to asylum seekers and foreign travellers.

In addition, claims from the DIRCO relating to expenditure incurred on behalf of the Department of Home Affairs at various missions were only submitted later after the closure of the accounting period and/or financial year. These could not be paid as funds in this regard could not be requested under rollover in the following financial years since this expenditure did not meet the criteria for roll-overs.

As indicated above, the Department did not have adequate financial management capacity hence under spending on its budgets between 2007/08 to 2009/10 financial years whilst suppliers could not be paid.

The following table illustrates the state of budget versus expenditure:

Financial Year	Allocation R000	Expenditure R000	Under/over spending R000	% Under/Over spending
2007/2008	3 520 898	3 241 727	279 171	7.93
2008/2009	4 816 608	4 666 560	150 048	3.1
2009/2010	5 263 784	5 195 409	68 375	1.29

During the 2010/11 financial year, it became clear that the Department was no longer able to function as it could not quantify its debts to suppliers, who continued to submit claims of unpaid invoices. In light of this, management quantified and reconciled all outstanding debts emanating from the challenges outlined above. To avoid further litigation and total collapse, the Department approached National Treasury, outlining the challenges it faced and seeking funding to settle all valid debts.

The Department tabled this state of affairs through a presentation to National Treasury's Public Finance in August 2010 as part of the budget process. Refer to the table below for a summary:

No	Supplier Name	Details of services rendered	Amount paid R'000	Reason for non-payment
1	FeverTree/AT Kearney Consulting	Consultancy fees on the implementation of the Turn-around project	79 745	Delays in the finalization of the civic and finance project
2	Legal Services for Litigation Fees	Legal fees Claims from Department of Justice where Senior Council in opposing motions and defending the Department	12 024	Claims for legal fees submitted late
3	Security Services	Cash in Transit costs	7 456	Accruals of invoices for expenditure incurred in the previous financial years
4	DIRCO	Cost of Living expenditure for officials posted abroad	252 798	Delays in submission of supporting documents
5	Public Works	Leases for office accommodation	45 495	Escalations and accruals and commitment emanating from delays in submission of PACE reports
6	GPW	Printing cost for production of enabling documents	160 716	Shortfall on the printing of Passport in light of the increased security futures
7	MARPLES	Retention on HANIS DB Expansion, NIIS Maintenance	97 640	Project was not funded based on the scope expansion and budget constraints
8	IT Related contractual obligations	SITA for data Processing	31 430	Budget constraints and increased utilization of the network
	TOTAL		**687 304**	

In its feedback on the outcome of the 2011 budget process **(Annexure A)** National Treasury informed the Department that, in order to deal with all outstanding debts not budgeted for as at the end of 2009/10 financial year, they would recommend to Parliament that the matter be dealt with through the Finance Bill in the year 2011 and that the following be done with respect to the transactions:

- The Department should process with immediate effect all confirmed expenditure and consult with the Department's Auditors to find a way of processing all unconfirmed expenditures. This would result in the Department projecting an overspending at the end of 2010/11. This should be concluded at the end of the third quarter of 2010/11;
- The Department should comply with section 39(b) (iii) and (c) of the PFMA by reporting the impending overspending of the Department's vote or a main division within the vote;
- All the relevant Parliamentary bodies (Portfolio Committee on Home Affairs, SCOPA and Standing Committee on Appropriation) should be informed of the situation leading to the over spending;
- The Office of the Accountant General and the Auditor General should be kept informed of developments and where possible their advice should be obtained; and
- *Once the Finance Bill had been approved the Office of Accountant General would inform* the Department of the next steps and processes to follow.

"In light of the above, National Treasury therefore requested that the Department cooperate with it by not delaying the processing of all outstanding transactions to ensure a successful resolution of this matter"

Furthermore, in its preliminary feedback on the outcome of the 2011 budget process **(Annexure B)**, National Treasury informed the Department that the requests for additional funding including for the passport services were not considered despite serious budget implications for the Department. However, the following were recommended:

- Alternative funding models be explored for the financing of the passport service in future as per the resolution of the MinComBud; and
- Approval of the establishment of Trading Account to be the source of funding for passport services and that this trading account be broaden to include other income generating services provided by the Department such as IDs as its response to the Department's request for funding.

The purpose of the Trading Account was to retain revenue generated from issuing of enabling documents and the defrayment of expenses incurred in generating the revenue. In this regard, the following expenditure items were identified in consultation with National Treasury:

- Government Printer;
- Courier Services; and

- Cash in Transit

During the 2012/13 financial year, the Department engaged in a process of establishing a Trading Account. Significant progress was made as the Department procured an accrual accounting system (PASTEL), opened a bank account and drafted the accounting policy for the management of the Trading Account.

In the development of the accounting policy, certain challenges were recognised in particular for the recognition and measurement of transactions related to the revenue collected. In analysing the requirements for the Department to fully comply to the Generally Recognized Accounting Principles (GRAP) standards, it was found that certain functions would have had to be shifted out of the Department, which was not the intention behind the establishment of the Trading Account.

The reason for non-implementation of the Trading Account was due to concerns raised late (on 15 May 2013) in the 2012/13 financial year by the Auditor General with regard to the GRAP standards **(Annexure C)**. Considering the complexities with regard to compliance with the GRAP standards, the Department approached National Treasury during 2012/2013 financial year to evaluate the best option for the utilisation of the revenue collected to defray the related expenses, as well as to postpone the implementation of the Trading Account.

After consultation with National Treasury, it was agreed to postpone the implementation of the Trading Account and National Treasury advised the Department as follows **(Annexure D)**:

- Account for all expense incurred with respect to the issuance of enabling documents in the vote;
- Surrender all revenue collected during the 2012/13 financial year;
- Prepare final account only for the vote; and
- Disclose the unauthorised expenditure in the annual report as required by the PFMA.

Based on the above, it was agreed that Treasury would:

- Submit to SCOPA a favourable recommendation with respect to the overspending; and
- Engage the Department with respect to the re-introduction of the self-financing method for the 2013/14 financial year.

As a result of this approach the following self-financing was granted:

Financial Year	Additional Allocation R000	% Under/(Over) Spending R000	Revenue collected and Deposited to NRF R000
2011/2012	327 000	0	720 057*
2012/2013	0	(301 036)	712 090
2013/2014	600 000	underway	Under way

Self-financing work on the basis that Department must first collect the revenue before it is allocated by National Treasury during the adjustment estimate of national expenditure (AENE) around September of each financial year. The challenge in this regard is that it is not always possible to match revenue to be collected against the planned expenditure and *vice versa*. This often exposes the Department to under or over spending at financial year end.

During the 2012/13 financial year, the Department overspent its allocation by R301 million due to utilisation of earmarked funds for the DHA IT Modernisation project (R140 million) and R160 million due to the non-implementation of the envisaged Trading Account. Expenditure in this regard related to printing costs for GPW, Courier Services and Cash In Transit for the transportation of cash collected.

National Treasury and Oversight Committees were duly informed of this and were requested to also table this unauthorised expenditure for consideration. Based on the letter dated 7 April 2014, this unauthorised expenditure (R301 million) has been approved *de facto* and recommended to SCOPA that the unauthorised expenditure be approved with additional funding in other to regularise the over spending incurred during 2012/13 financial year.

3. DISCUSSION

3.1 R687.304 MILLION UNAUTHORISED EXPENDITURE INCURRED DURING THE 2010/2011 FINANCIAL YEAR

Details of this amounts are as follows:

No	Supplier Name	Details of services rendered	Amount paid R'000	Reason for non-payment
1	FeverTree/AT Kearney Consulting	Consultancy fees on the Implementation of the Turn-around project	79 745	Delays in the finalization of the civic and finance project
2	Legal Services for Litigation Fees	Legal fees Claims from Department of Justice where Senior Council in opposing motions and defending the Department	12 024	Claims for legal fees submitted late
3	Security Services	Cash in Transit costs	7 456	Accruals of invoices for expenditure incurred in the previous financial years
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5	Public Works	Leases for office accommodation	45 495	Escalations and accruals and commitment emanating from delays in submission of PACE reports
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7	MARPLES	Retention on HANIS DB Expansion, NIIS Maintenance	97 640	Project was not funded based on the scope expansion and budget constraints
8	IT Related contractual obligations	SITA for data Processing	31 430	Budget constraints and increased utilisation of the network
TOTAL			R687 304	

3.2 R301 036 UNAUTHORISED EXPENDITURE 2012/13 FINANCIAL YEAR

Details of this amount are as follows:

No	Supplier Name	Details of services rendered	Amount paid R'000
1	Government Printing Works	Printing of Enabling Documents	279 272
2	G4S	Cash in Transit	8 817
3	SkyNet	Courier Services	12 947
Total			**301 036**

4 MEASURES IMPLEMENTED TO AVOID REOCCURRENCE

Further to the implementation of oversight structures in order to address financial management in the Department, the following initiatives were implemented to improve the situation:

- Establishment of the self-financing vehicle to finance unbudgeted operational costs;
- Advance payment of known costs for posted officials abroad;
- Proposal to do baseline shift to DIRCO for all foreign operations performed on behalf of DHA with effect from 2015/2016 financial year **(Annexure E)**;
- There is no longer set off of income and expenditure between DIRCO and Home Affairs for foreign operations;
- Budget of the Department is effectively monitored to avoid overspending;
- Setting up of finance and supply chain management oversight structures to deal with budget and expenditure management;
- Signing of memorandum of understanding with DIRCO to ensure advance payment of know costs for officials posted aboard, accelerating the retrieval and processing of outstanding vouchers from mission and setting amounts due to each department;
- Settling all valid invoices emanating from the current year; and

- Ensuring that all programme (Deputy Directors-general), sub programme (Chief Directors) and responsibility managers (Directors) are duly appointed to ensure effective and efficient management of State resources and that such formal appointments be used in disciplinary cases involving financial misconduct.

5 RECOMMENDATION

It is recommended that SCOPA consider this report in the context that the Department has no space in its baseline to absorb approval of unauthorised expenditure without additional funding considering budget cuts that had been imposed in light of the fiscal pressures.

Should additional funding via the Finance Bill not be available, the Department proposes to the Committee that an alternative to funding the unauthorised expenditure from the baseline is through the self-financing vehicle over a period of three to five years to avoid impacting negatively on operations and service delivery.

MKUSELI APLENI
DIRECTOR GENERAL
DATE: 18/11/2014

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national treasury

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Mr Mkuseli Apleni
Director-General: Department of Home Affairs
Private Bag X 114
PRETORIA
0001

2010 -12- 15
RSA
DIRECTOR-GENERAL'S SECRETARIAT

Dear Mr Apleni

OUTSTANDING DEBTS FROM PREVIOUS YEARS OWED TO SUPPLIERS AND NOT BUDGETED FOR IN 2010/11.

Section 40 (1)(a) of the PFMA require that the accounting officer for the department, trading entity or constitutional institution must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards. However, the treatment of expenditure related to foreign missions has been a serious challenge for the department. This has resulted in unpaid claims accumulated over the years due to the Department of International Relations and Cooperation. The department is now unable to meet these commitments because of insufficient budget in the baseline. This situation cannot be allowed to continue unattended and resolved as this will remain a vicious circle.

National Treasury has taken note of the measures implemented by the department with the signing of a memorandum of understanding between the two departments. This will see the Department of Home Affairs making advance payments in 2010/11 to DIRCO with respect to the foreign missions. This will ensure that no debts are accumulated and the books balance to the budget at the end of each financial year. In order to deal with all outstanding debts not budgeted for as at the end of 2009/10, National Treasury will recommend to Parliament that the matter be dealt through the Finance Bill in the year 2011. Therefore, the following should happen with respect to the transactions:

1. The department should process with immediate effect all confirmed expenditure and consult with the department's Auditors to find a way of processing all unconfirmed expenditures. This will result in the department projecting an overspending at the end of 2010/11. This process should be completed by the end of the third quarter of 2010/11.
2. The department should comply with section 39 (b) (iii) and (c) of the PFMA by reporting the impending overspending of the department's vote or a main division within the vote.

3. All the relevant Parliamentary bodies i.e. (Portfolio Committee on Home Affairs, Standing Committee on Appropriation and Standing Committee on Public Accounts) should be informed of the situation leading to the overspending.
4. The Office of the Accountant General and the Auditor-General should be kept informed with the developments and where possible their advice should be obtained.
5. Once the Finance Bill has been approved the Office of the Accountant General will inform the department of the next steps and processes to follow.

In light of the above, National Treasury therefore, request that the department cooperate with it by not delaying the processing of all outstanding transactions to ensure a successful resolution to this matter.

Kind regards

Gillian Wilson
Chief Director: Administrative Services
For Deputy Director-General: Public Finance
Date: 30/11/2010

B

national treasury

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Mr Mkuseli Apleni
Director-General: Department of Home Affairs
Private Bag X 114
PRETORIA
0001

Dear Mr Apleni

PRELIMINARY FEEDBACK ON THE 2011 BUDGET PROCESS

Although there have been signs that the economy is on the path to recovery from the global economic crisis, recent events in Europe (Greece and Ireland in particular) have signalled the need for governments to take decisive measures in ensuring that similar financial turmoil is not encountered in the near future. The effects of the recession still prevail in South Africa with the budget deficit remaining large, revenue collections suppressed and economic growth slow. These conditions call for more efficient use of the existing resources, while still ensuring that core service delivery outcomes are met. More specifically, the 2011 budget process centred on realigning the current budget to the 12 identified outcomes across departments.

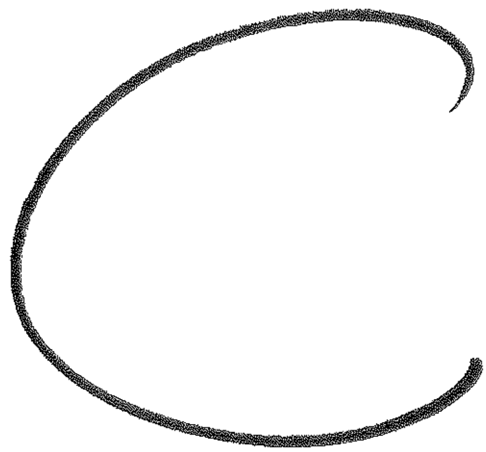
The department's requests for additional funding was given serious consideration, however, due to the tight fiscal framework and limited resources no additional funds were allocated. The only adjustments that were made were towards the municipal rates and salaries, furthermore, additional funds were allocated for the Electoral Commission in the first and outer years for the local government elections and the 2014 general elections. The details of the amounts allocated will be contained in the allocation letter to be sent out at the end of November. The request for the passport service was also not considered despite serious budget implications for your department. MinComBud recommended that alternative funding models be explored for the financing of the passport service in future, because it is not known with certainty at this stage how long the unfavourable economic conditions and the tight fiscal framework will continue.

In light of the above, Treasury has approved that a trading account be established to provide a source of funding for the passport service. Furthermore, it has been recommended that the trading account be broadened to include other income generating services provided by the department such as the identity documents. Treasury has proposed that such an entity become known as "The Civic Affairs Trading Account".

You are therefore advised to immediately consult with the budget examiner for your department in Public Finance towards the establishment of the trading account. Therefore, consider appointing officials from your department to work with Treasury officials in the project. It is expected that the projected be completed by the end of the current financial year and the trading account be up and running at the beginning of the 2011/12 year.

Kind regards

Gillian Wilson
Chief Director: Administrative Services
For Director-General: National Treasury
Date: 25/11/2010



AUDITOR-GENERAL
SOUTH AFRICA

Mr M Apleni
The Director-General
Department of Home Affairs
231 Johannes Ramokhoase Street
Hall mark Building
Pretoria
0001

15 May 2013

Reference: 06731REG1213

Dear Sir

Formal response – Accounting policies in respect of the Civic and Immigration Affairs Trading Account (Trading account) for the financial period ending 31 March 2013

Background

1. On 15 March 2013, we were provided with the following regarding the establishment of the Trading account:
   - Final Draft Accounting policy;
   - Draft business process for revenue recognition;
   - Draft business plan for the Trading account.

2. We have reviewed these documents, and note the following :

   Section 19 of the Treasury regulations specifically deals with trading entities. The following requirements are stated: Treasury regulations 19.2.1 states the following regarding the Trading entity – *" For purposes of this regulation, a trading entity is regarded as an entity operating within the administration of a department. All obligations on departments in these regulations apply to trading entities, unless the context indicates otherwise."* Section 19.2.2 requires that the *"The accounting officer of the department operating a trading entity must ensure that the head of the trading entity complies with the Act and these Treasury Regulations."*

   2.1 Establishment of the Trading Entity

   - On 21 November 2012 management, through the Chief Financial Officer (CFO) provided the audit team with correspondence between management and National Treasury regarding the establishment of the Trading account. The contents of the various correspondence with National Treasury are summarised in Annexure A attached.

As per discussions with management it has been indicated that the 2012/13 financial year is the first accounting period for the Trading account, however, based on a review of the correspondence, it is evident that the 2011/12 financial year was the first year of operation of the Trading account. As a result, financial statements should have been prepared for the 2011/12 financial year. Although management has stated that National Treasury postponed the operational start date to 1 April 2012, no formal correspondence has been provided to confirm this disposition.

We request that you engage with National Treasury and particularly the Accountant General's Office, in order to determine the disposition of the Trading account for the 2011/12 financial year and what will be required of the department in this regard.

- National Treasury refers, in its correspondence to the department dated 3 March 2011, to a preliminary work plan that was prepared and further that a detailed project plan be submitted. We request that these documents be provided to us in order to facilitate our further understanding of the activities of the Trading account.

2.2 Budget

- Section 26 of the PFMA requires that an annual budget must be prepared for National departments and include the following:
  - estimates of all revenue expected to be raised during the financial year to which the budget relates; and
  - estimates of current expenditure for that financial year per vote and per main division within the vote; and
  - estimates of revenue excluded in terms of a national department operating a trading entity, if the money is received in the ordinary course of operating the trading entity.

  The strategic plan for 2012/13 – 2014/15 dated 7 March 2012 does not include any budget amount for revenue or any reference to the trading account.

- Section 19.8.1 of the Treasury regulations states *"The accounting officer of a department controlling a trading entity must provide the monthly information as required by section 40 (4) (b) and (c) of the Act in respect of such a trading entity in the monthly report of the department."*

  No monthly reporting of revenue, as per section 40(4) of the PFMA, was submitted to National treasury as management is still in the process of analysing and recording revenue from foreign operations.

2.3 Expenditure management

- Treasury Regulation (TR) 19.5.2 states *"In determining charges for goods or services, the head of the trading entity must aim to recover the full cost of providing the goods or services, unless the relevant treasury approves lower charges."*

- The recognition criteria for expenses as set out in the Generally Recognised Accounting Practice (GRAP) Framework for the Preparation and Presentation of Financial Statements, par .133, requires that expenses are recognised in the statement of financial performance on the basis of a direct association between the costs incurred and the earning of specific items of revenue. This process, commonly referred to as the matching of costs with revenues, involves the simultaneous, or combined recognition of revenues and expenses that result directly and jointly from the same transactions or other events.

- GRAP 1 – Presentation of financial statements states, *Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses set out in the Framework for the Preparation and Presentation of Financial Statements. The application of Standards of GRAP with additional disclosures when necessary, is presumed to result in financial statements that achieve a fair presentation.*

  An entity whose financial statements comply with Standards of GRAP shall make an explicit and unreserved statement of such compliance in the notes. Financial statements shall not be described as complying with Standards of GRAP unless they comply with all the requirements of Standards of GRAP.

  In reply to a letter from the department, the National Treasury – Public Finance unit stated in its letter, dated 8 February 2013, *"The approval objective of the trading account was to accommodate all expenditure items incurred in the production and delivery of all enabling documents. Therefore the following expenditure items should be catered for in the trading account; printing of forms, and face value documents, courier costs for forms and face value documents, and costs on the cash in-transit services for the collecting of cash in various offices."*

  Furthermore, in National Treasury's correspondence dated 25 November 2010 wherein approval is granted for the establishment of a Trading account, reference is made to funding for the "passport service".

  Based on discussions held with management, it is our understanding

that the only expenditure that management intends on accounting for in the financial statements of the Trading account for the 2012/13 financial year are those in respect of printing, courier and cash in transit costs.
This approach that is to be adopted by management does not comply with TR 19.5.2 or the requirements of the GRAP Framework for the Preparation and Presentation of Financial Statements.

- *We request that you engage with National Treasury and particularly the Accountant General's Office, in order to clarify the accounting processes applicable to the expenditure incurred in generating the revenue that will be accounted for in the Trading account. Clarification is required on how* 'the simultaneous, or combined recognition of revenues and expenses that result directly and jointly from the same transactions or other events' *will be achieved in the financial statements of the Trading account.*

2.4 Accounting policies and processes

The policy and processes provided are in draft and no final policy or procedures were in place for the 2012/13 financial year.

The draft accounting policies are generic in nature and do not clearly define the specifics as pertains to the activities of theTrading account.

Furthermore, we have noted that management intends recognising revenue receivable from fines imposed on the basis of payments received. This is in contravention with the GRAP framework and standards, specifically GRAP 23.86 &87, in respect of initial recognition.

2.5 Financial records

Section 40(1)(a) of the PFMA states *"The accounting officer for a department, trading entity or constitutional institution must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards".*

In terms of Treasury Regulation 7.2.1 : "*The accounting officer of an institution must manage revenue efficiently and effectively by developing and implementing appropriate processes that provide for the identification, collection, recording, reconciliation and safeguarding of information about revenue.*"

Accounting records for the Trading account were not maintained throughout the financial year.
In order for the audit team to commence with the Trading account audit various other information was requested to assist with the planning:

- Visa Statistics – requested on 9 January 2013. Complete and accurate information could not be provided by management of the Trading account;

- Mission Cashbooks were then requested during March 2013 due to the visa statistics not being provided. This information was submitted on 19 April 2013. Management however did not confirm that this was accurate, valid and complete information and therefore the audit team is unable to use this information. Further the cashbooks do not provide sufficient information concerning the Revenue of the Trading Account.

  In the light of insufficient financial information not being provided the audit team the planning of theoffices to be visited cannot be finalised. This will impact the performance and finalisation of the audit within the legislated timelines.

Conclusion

In light of the above we request the following:

- Representation that all documentation and correspondence with National Treasury has been provided to the audit team.
- The preliminary work plan and detail project plan that was submitted to National Treasury .
- Final approved accounting policies and business processes that fully comply with all the relevant GRAP standards and the Framework.
- Financial information that is confirmed by management as being accurate, valid and complete .
- The accounting officer liaise with the Accountant General's Office to:
    - obtain guidance and consensus regarding the recognition and measurement of the expenditure to be recorded in the financial records of the Trading account and how compliance with the GRAP standards and framework is achieved. This could impact for the recognition of assets used in the generation of revenue. Thus a wholistic response is required in this regard.
    - obtain guidance and consensus regarding the disposition of the financial statements of the Trading account for the 2011/12 financial year.
    - obtain guidance from National Treasury regarding the correct drafting of accounting policies for the Trading account and to ensure that a complete set of accounting policies are in place.
- All deliberations and consensus reached with the Accountant General should be in writing from a duly delegated official and be made available to the AGSA audit team .

The resolution of these matters is crucial to facilitate an effective audit of the entity. At this stage the entity is unauditable and we are concerned about that management will not be able to resolve these matters in a manner that will permit compliance with the legislated deadlines for the submission of information for audit and completion of the audit.

Your urgent intervention in this matter will be appreciated.

We would appreciate your acknowledging receipt of this letter. Please feel free to contact us should you have any questions in this regard.

Your co-operation in this matter is deeply appreciated.

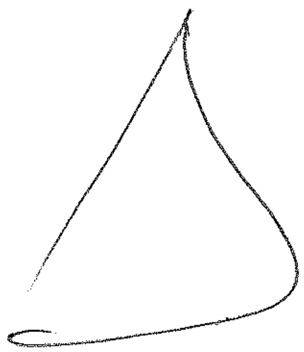
Yours sincerely

Naveen Mooloo
Senior Manager: National E

Enquiries: Masuda Shaik
Telephone: 082 7499 581
Email: masudas@agsa.co.za

Annexure A

Correspondence between DHA and National Treasury	
25-Nov-2010	Letter from NT to DHA Letter approves that a trading account be established to provide source of funding for passport services Expected that the project to be completed by end of 2010/11 and that the trading account be up and running at the beginning of 2011/12.
3 March 2011	Letter from NT to DHA. Letter stating that a preliminary work plan of activities required to establish a trading account was compiled, and the duration required in establishing a trading account was estimated to be around 18 months. In light of this it would be impossible to have a fully functional by beginning of 2011/12. So it will be divided in 2 phases. Phase 1 implementing of self financing status of for passport service, 2 all remaining revenue generating services delivered by DHA. NT approves implementation of phase 1 with effect from 1 April 2011. Approval entails that all revenue generated by the dept for the issuing of passports will be appropriated as self financing during the 2011 adjusted estimates of national expenditure. Dept requested to submit project plan for the TE
21 July 2011	Letter from DHA to NT. Request to retain revenue from passports with effect from 01 April 2011 and continue in the establishment of bank account for the trading entity.
31 August 2011	Letter from DHA to NT. DHA requesting allocation of the amount generated from I April 2011- July 2011 as well as the projected revenue till end of the year in the adjustments budget.
2 September 2011	Letter from DHA letter NT requesting to open a bank account for the trading entity.
30 January 2013	Letter from DHA to NT. Letter stating that during the 2012/13 the department has fully implemented the trading entity and that all monies received by DIRCO from 01/04/2012 will be accounted for in the trading entity
08 February 2013	NT letter to DHA confirming expenses to be covered from the revenue generated in the trading entity.



national treasury
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REPUBLIC OF SOUTH AFRICA

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Mr. Mkuseli Apleni
Director-General: Department of Home Affairs
Private Bag X114
Pretoria
0001

Dear Mr Apleni

DISPOSING THE OPERATIONS OF THE TRADING ACCOUNT FOR THE YEAR 2012/13 AND SUBSEQUENT YEARS

Further to our meeting of 24 May 2013, I would like to advise as follows.

Discussions were held between DHA and National Treasury in 2010 on options for retaining revenue collected by the department, in order to defray costs related to the modernization of equipment and supply of official documents. In our correspondence to the DHA dated 25 November 2010 and 3 March 2011, we agreed that a trading account or entity might be established for this purpose.

The establishment of a trading entity was to follow a two-phase approach. Recognising that considerable preparatory work needed to be done to structure and manage a trading entity, the first phase involved a simple appropriation of funds in the adjustments appropriation on a "self-financing" basis, taking into account actual revenue collected during the first six months of the year and forecast revenue for the remainder of the year. The second phase would involve an operational trading account, with revenue retained in order to meet the expenses associated with specified services.

The DHA, on the strength of our advice, sought to establish a trading account in 2012/13, in which revenue derived from issuing official documents would be retained and expenses incurred in generating this revenue would be defrayed from the account. However, the Auditor-General, in reviewing the audit plan for the operations of the department and the trading account, has identified various concerns. In broad terms, it would appear that there is insufficient clarity at this stage about the specific activities and associated costs to be accounted for within the trading account. There is also uncertainty about the legal status of these arrangements, as no specific legislative authority exists for a dedicated trading revenue account, as envisaged in our discussions and correspondence of 2010 and 2011.

The Department has therefore approached the Office of the Accountant-General for advice on how to proceed and on how to address the issues. After careful analysis and assessment of the issues raised by the Auditor-General, the OAG advised that a full resolution of these issues will take some time, and that before formally establishing a trading entity further preparatory work will need to be undertaken, which might include legislative amendment.

We are therefore agreed that the envisaged trading account should not be implemented for the 2012/13 year. In practice, this means that (1) all expenses incurred with respect to the issuing of all enabling documents should be expensed against the vote, as in the past; (2) all revenue generated through supply of official documents should be paid over to the National Revenue Fund; (3) final accounts should be prepared only for the vote, and not for a separate trading account; and (4) the resulting over-expenditure on the vote should be disclosed as unauthorized expenditure in the annual report as required by the PFMA.

National Treasury recognizes that the revenue collected in 2012/13 was intended to cover this over-expenditure, and substantially exceeds the over-spending against the vote. On this understanding, we are in a position to condone the over-expenditure and will recommend to SCOPA that it should be approved for inclusion in a Finance Bill, in due course. It is clearly important that the issues raised by the Auditor-General should be addressed in full, in order to deal satisfactorily with the department's accounts for the 2013/14 year and beyond. Please be assured of our availability to assist in this. I would like to express my appreciation for your prompt attention to this matter and the cooperation of your CFO in its resolution.

Kind Regards

PP

Andrew Donaldson
DEPUTY-DIRECTOR-GENERAL: PUBLIC FINANCE
NATIONAL TREASURY
Date: 31/5/2013

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home affairs

Department:
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REPUBLIC OF SOUTH AFRICA

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Paliamentary Office, 120 Plein Street, Private Bag X9048, Cape Town, 8000

The Director-General
Department of International Relations and Co-Operation
Private Bag X152
PRETORIA
0001

Dear Ambassador Matjila,

IMPLEMENTATION OF A BASELINE TRANSFER TO THE DEPARTMENT OF INTERNATIONAL RELATIONS AND COOPERATION (DIRCO) FOR EXPENDITURE INCURRED ON BEHALF OF THE DEPARTMENT OF HOME AFFAIRS AT VARIOUS MISSIONS WITH EFFECT FROM 1 APRIL 2015

1. PURPOSE

To request the Department of International Relations and Cooperation (DIRCO) to agree to the implementation of a baseline shift with effect from 1 April 2015 for expenditure incurred by DIRCO on behalf of Department of Home Affairs (DHA) for cost of living allowances with regard to officials posted abroad and operational costs such as accommodation (rented and or hotel) of such officials and operational costs of performing DHA duties at various missions (excluding office rental and ad hoc travel by non-posted officials) as well as any other related expenditure that is agreed upon by both Departments.

2. BACKGROUND

DHA maintains a presence in certain missions and places DHA officials abroad. Expenditure is incurred on a daily basis in respect of the accommodation and other ancillary costs associated with such placements. DIRCO incurs the expenditure and claims the expenditure back from DHA. Accounting for such expenditure is problematic for both departments, with consequent administrative and cost burdens.

During the 2013-14 financial year both Departments held several discussions through the Chief Financial Officers in this regard in which an in principle agreement was reached for the baseline shift. DHA has also further sought approval from National Treasury as per the attached letter (Annexure A) for such baseline shift. This agreement could not be implemented at the beginning of the 2014-15 financial year due to various operational and budgetary challenges.

My Department has requested National Treasury to consider and include this request in the 2015 ENE process. In order to facilitate this process, your concurrence on the proposed baseline shift is required.

3. REGULATORY COMPLIANCE

Public Service Act and Public Service Regulations
Public Finance Management Act and Treasury Regulations

4. FINANCIAL IMPLICATIONS

The projected baseline transfer for the MTEF cycle is R294,3 million and is broken down as follows:

- 2015-16 – R92 220 000
- 2016-17 – R98 580 000
- 2017-18 - R103 509 000

It should be noted that these amounts are based on the 5 per cent annual increase and did not take into account the MINCOMBUD proposed baseline spending reductions to finance the shortfalls in the fiscal framework.

Should it be necessary for DHA to substantially increase its operations and to post additional officials at missions that could put pressure on the proposed amount to be shifted, normal funds requests through the budget process would need to be undertaken by our respective departments.

5. RECOMMENDATION

It is recommended that you indicate your concurrence to the proposed baseline shift with effect from 1 April 2015 as agreed in principle in order to facilitate the 2015 ENE process.

We remain committed to working with DIRCO in the best interests of our Government, taking due cognizance of our respective mandates. The details of such cooperation will be set out in a Memorandum of Understanding.

DIRECTOR GENERAL
DATE: 24/10/2014

CC : M SASS - Accountant General
CC : M SACHS - Budget Office
CC : M SYMMOND - Public Finance

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