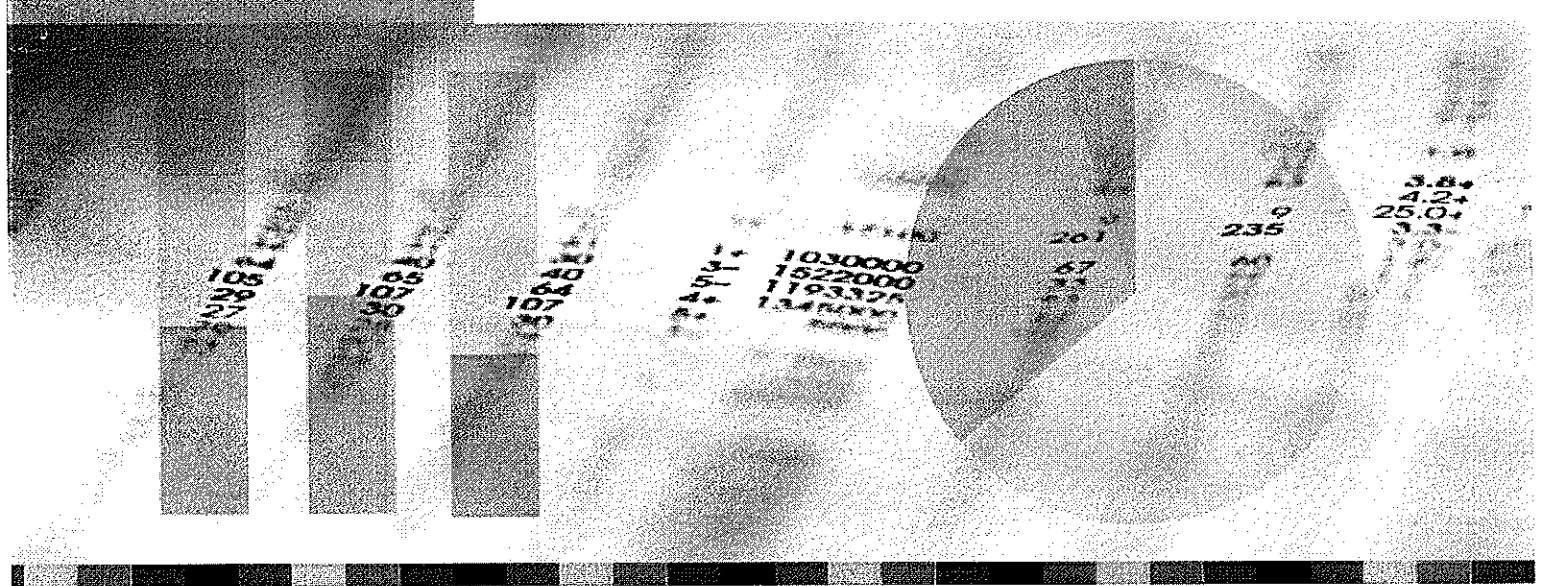


150311 SCOPA

SCOPA BRIEFING NOTE



PFMA audit outcomes of the 2013-14 financial year for

Department of International Relations and Cooperation

25 February 2015



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

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1. Introduction

1.1 Reputation promise of the Auditor-General of South Africa

The Auditor-General has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, it exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.

1.2 Purpose of document

The purpose of this briefing document is for the Auditor-General of South Africa (AGSA) to provide an overview of the audit outcomes and other findings in respect of the Department of International Relations and Cooperation (DIRCO) for the 2013/14 financial year.

1.3 Overview

According to the Constitution, the president is ultimately responsible for the foreign policy and international relations of South Africa. It is the prerogative of the president to appoint heads of mission, to receive foreign heads of mission, to conduct state to state relations, and to negotiate and sign all international agreements.

International agreements that are not of a technical, administrative or executive nature will only bind the country after being approved by Parliament. Parliament also approves the country's ratification of or accession to multilateral agreements. All international agreements must be tabled in Parliament for information purposes.

The Minister of International Relations and Cooperation is entrusted with the formulation, promotion, execution and daily conduct of South Africa's foreign policy.

The department's overall mandate is to work for the realisation of South Africa's foreign policy objectives. This is done by:

- coordinating and aligning South Africa's international relations abroad
- monitoring developments in the international environment
- communicating government's policy positions
- developing and advising government on policy options, creating mechanisms and avenues for achieving objectives
- protecting South Africa's sovereignty and territorial integrity
- contributing to the creation of an enabling international environment for South African business
- sourcing developmental assistance
- assisting South African citizens abroad.

Dirco has 125 missions abroad and 20 were visited during the audit, selected based on the level of expenditure and agreed with management, this represents a total of 51% of total expenditure incurred by DIRCO during the financial year 2013/14. The number of missions selected and visited provided sufficient audit coverage to enable the auditors to form an opinion whether the financial statements are free from material misstatements and fairly present, in all material respects, the financial position of the Department of International Relations and Cooperation as at 31 March 2014 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.

Aim of the vote

Formulate, coordinate, implement and manage South Africa's foreign policy and international relations programmes.

Vision

An African Continent, which is prosperous, peaceful, democratic, non-racial, non-sexist and united, and which contributes to a world that is just and equitable.

Mission

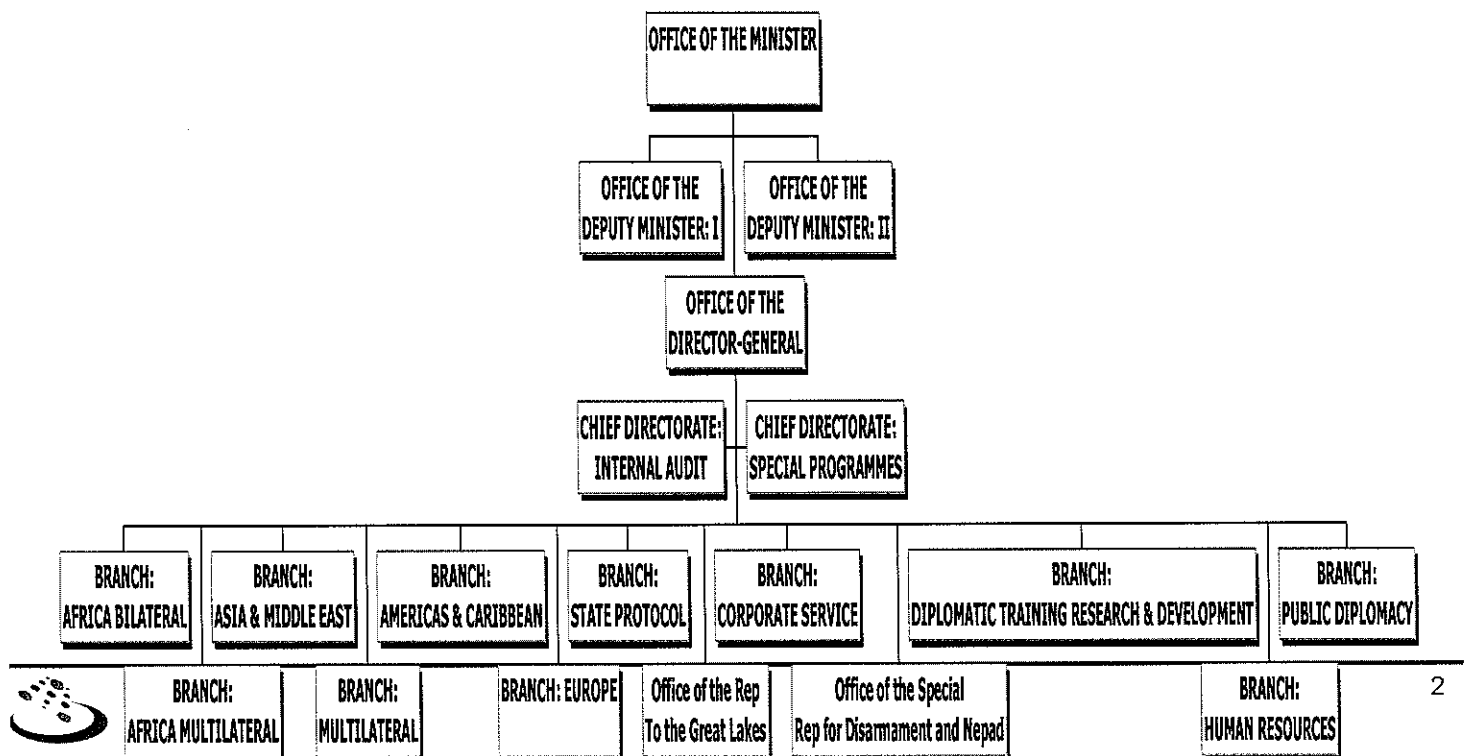
To promote South Africa's national interests and values, the African Renaissance and the creation of a better world for all.

Strategic goals

The department's strategic goals over the medium term are to:

- Through bilateral and multilateral interactions protect and promote South African National interests and values
- Conduct and co-ordinate South Africa's international relations and promote its foreign policy objectives
- Monitor international developments and advise government on foreign policy and related domestic matters
- Protect South Africa's sovereignty and territorial integrity
- Contribute to the formulation of international law and enhance respect for the provisions thereof
- Promote multilateralism to secure a rules based international system
- Maintain a modern, effective and excellence driven department
- Provide consular services to South African nationals abroad
- Provide a world class and uniquely South African State Protocol service

1.4 Organisational structure



1.5 Funding






The department is primarily funded through funds appropriated in terms of the annual Appropriation Act (and the Adjustments Appropriation Act), the final appropriation for the 2013/14 financial year amounted to R5 754 646 000 (2012/13: R5 271 525 000).

2. Audit opinion history

| AUDIT OPINIONS | 09/10 | 10/11 | 11/12 | 12/13 | 13/14 |
|---|-------|-------|-------|-------|-------|
| <ul style="list-style-type: none"> Department of International Relations and Cooperation (DIRCO) | | | | | |
| QUALIFICATION ISSUES | 09/10 | 10/11 | 11/12 | 12/13 | 13/14 |
| <ul style="list-style-type: none"> Assets | | | | | ✓ |
| OTHER MATTERS | 09/10 | 10/11 | 11/12 | 12/13 | 13/14 |
| <ul style="list-style-type: none"> Predetermined objectives | | ✓ | ✓ | ✓ | |
| <ul style="list-style-type: none"> Compliance with laws and regulations | ✓ | ✓ | ✓ | ✓ | ✓ |

Stable over the past four years and regressed in the 5th year, 2013/14 financial year, due to a qualification on Movable tangible capital assets and minor capital assets while it improved on the predetermined objectives reporting.

AUDIT OPINION LEGEND

| | |
|---|--|
|  | CLEAN AUDIT OPINION: No findings on PDO and Compliance |
|  | UNQUALIFIED with findings on PDO and Compliance |
|  | QUALIFIED AUDIT OPINION (with/without findings) |
|  | DISCLAIMER/ADVERSE AUDIT OPINION |
|  | N/A New department |

2.1. Significant emphasis of matters

Restatement of corresponding figures

As disclosed in notes 18 (Voted funds to be surrendered to the Revenue Fund*) and 44 (Public Private Partnership**) to the financial statements, the corresponding figures for 31 March 2013 have been restated as a result of errors discovered during the year ended 31 March 2014 in the financial statements of the department at, and for the year ended, 31 March 2013.

*Duplication of recorded information for rental deposits. The department has erroneously recorded rental deposit in two accounts that is receivables and payables of the same information. This created erroneous account owing to National Treasury.

The Department had erroneously recorded an amount owed to National Treasury as non-current payables instead of voted funds to be surrendered.

**Public Private Partnership building was incorrectly valued and the Public Private Partnership obligation was not disclosed in the prior years.

2.2. Significant additional matters

No matters to report on.

3. Qualification paragraph

Basis for qualified opinion

Movable tangible capital assets and minor capital assets

The department did not maintain an updated asset register in accordance with the requirements of the Modified Cash Standard. We could not find assets to value of R83 824 891* which are on the asset register and we found assets to the value of R95 517 582* on the floor that were not in the register. This, together with the ineffective system of control over assets as reported in the non-compliance matters, had an impact on the amounts recognised as tangible capital assets and minor capital assets. Consequently, tangible capital assets and minor capital assets were understated by R24 938 000.

*Extrapolated figures

4. Key focus areas

4.1 Supply chain management

| Entity | Finding | Root cause | Recommendation |
|---|--|---|---|
| Department of International Relations and Cooperation | Management did not take effective steps to prevent irregular expenditure as per the requirements of section 38(1)(c)(ii) of the PFMA and Treasury Regulation (TR) 9.1.1 | There was an in adequately review and monitoring of compliance with the supply chain management (SCM) prescripts due to a lack of accountability. | Management should take effective and appropriate steps to prevent irregular and expenditure by ensuring that SCM legislations is adhered to. |
| | Contracts and quotations were awarded to 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 TR 16A8.3. | There is a lack of consequences by management in respect of employees that continuously fail to comply with the SCM prescripts. | Appropriate disciplinary steps should be taken against officials who make or permit irregular expenditure as required by section 38(1) (h) (iii) of the PFMA and Treasury Regulation 9.1.3. |
| | Competitive bidding processes and request for three quotations were not always | | On a monthly basis the management should prepare a list of expenses which may constitute irregular expenditure. The senior management should review the report and take immediate corrective actions to create a culture of compliance. The performance of the supply chain management unit must |



| Entity | Finding | Root cause | Recommendation |
|--------|---|------------|--|
| | *followed, as prescribed by Treasury Regulation 16A6.1. | | be assessed under the supervision of the senior management on a monthly basis to determine if there is any non-compliance with SCM legislation and SCM internal policy and corrective actions should be taken immediately. |

4.2 Human resources

| Entity | Finding | Root cause | Recommendation |
|---|---|---|--|
| Department of International Relations and Cooperation | <p>Internal control deficiencies were noted in HR management in the following areas:</p> <ul style="list-style-type: none"> - Certification of employees on the payroll report not performed before the payment date. - Medical certificates not provided for the sick leave taken as required by Determination and Directive on Leave of Absence in the Public Service - No assessment of employees who are conditionally granted incapacity leave as required by Determination and Directive on Leave of Absence in the Public Services - Incapacity leave conditionally granted exceeds 30 days and not approved within 30 days as required by Determination and Directive on Leave of Absence in the Public Service | <ul style="list-style-type: none"> - HR Management did not ensure that all payroll reports are submitted to respective divisions on time and also did not ensure that the reports are certified before payment was made due to a lack of accountability and consequences. - There is inadequate monitoring and follow up on the implementation of human resources policies by HR management due to a lack of accountability and consequences. | <ul style="list-style-type: none"> - HR Management should ensure that the payroll reports are sent to the divisions before payment date to allow time to detect and fix any inaccuracies. - There should be consequences for staff not adhering to the requirements. - HR Management should enhance the monitoring controls on sick leave to ensure that leave transactions comply with the medical certificate requirements when sick leave for more than two occasions during the eight week cycle is taken and there are consequences for staff not adhering to the requirements. - HR Management should also timeously execute the investigations into the nature and extent of the employees' illness or injury to justify whether the employees qualify for the incapacity leave or not. - HR Management should ensure that the Department complies with the Determination and Directive on leave of absence in the public service of August 2012 paragraph 15.8 on incapacity leave and ensure that investigations are conducted within 30 days. |

4.3 Information technology controls

| Entity | Finding | Root cause | Recommendation |
|--|--|---|---|
| <p>Department of International Relations and Cooperation</p> | <p>Deficiencies were noted in the ICT control environment in the following areas:</p> <ul style="list-style-type: none"> - Security management. - User access management controls were not effective - Disaster recovery plan was inadequately documented. - Significant backup failures were experienced at times | <ul style="list-style-type: none"> - Lack of ICT management oversight in ensuring that the active directory (AD) system administrators amend the AD settings in accordance with the recently approved policy and procedures - Policies and procedures governing how the password settings should be configured on the NUQ and HardCat systems had not been communicated to the application system administrators - The financial systems senior management did not take full responsibility to ensure that the prior year audit recommendations are implemented by the due date. - System had been inadequately developed and configured to meet the department's need and system administrators and users of the system are not knowledgeable about the purpose of the system. | <ul style="list-style-type: none"> - ICT management should ensure that the AD system administrators amend system configurations in accordance with the recently approved policies and procedures. - All financial systems senior management in consultation with the ICT management should ensure that the user account management procedures are amended to include the monitoring aspects during the review of the procedures. - Furthermore, senior management should take reasonable steps to ensure adherence to the procedures, failure to do so, disciplinary action processes should be initiated. - All financial systems senior management should document a segregation of duties matrix (which depicts how system functions should be allocated to users) in consultation with National Treasury, if necessary, to complement the user account management procedures. This matrix will assist the system controller to identify any conflicting rights when users request access to the system. - The ICT management should ensure that the DRP solution is sourced as a matter of urgency to address the backup management process. Once the DRP solution has been sourced, the policies and procedures should be updated to conform to the solution. |



4.4 Financial health status

There were no matters to report on the financial health status.

4.5 Material Misstatements to Financial Statements

| Entity | Finding | Root cause | Recommendation |
|---|---|---|---|
| Department of International Relations and Cooperation | The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework as required by section 40(1) (b) of the Public Finance Management Act. Material misstatements on assets identified by the auditors in the submitted financial statement were not corrected resulting in the financial statements receiving a qualified audit opinion. | <ul style="list-style-type: none"> - There is a lack of a proper review over the financial reporting processes resulting in a numbers of errors that have remained undetected in the financial statements issued on 31 May 2014 due to a lack of discipline by all involved in this process. - Processes implemented to address this issue are inadequate and have limited to no impact. - The entire oversight over the compilation and review of the financial reporting process requires substantial improvement. - Management has not implemented a consequence management process to address the issues of continuous non-performance by staff. - There are notable gaps in terms of the skills, competencies and knowledge of the department's | <ul style="list-style-type: none"> - The Finance senior/ management should include the 'asset clean up' as one of the key performance indicators for the management in Supply Chain Management and if targets are not met there should be consequences. - The recruitment and selection of the finance staff needs to be enhanced to ensure that sufficiently skilled and experienced staff members are employed by the department. - The finance team should be sent on further training to enhance their understanding of the Modified Cash Standard including the disclosure requirements. - Management should ensure that annual financial statements are prepared regularly. It is critical that a full and proper set of financial statements (including all disclosure notes) are prepared on a monthly basis. - These annual financial statements should be reviewed by the governance structures i.e. management, internal audit and audit committee. |



| Entity | Finding | Root cause | Recommendation |
|--------|---------|--|----------------|
| | | finance team with regard to the application of the modified cash standard even though some staff have attended training. | |

5. Drivers of internal controls

| Drivers of internal control | | | | | | | | | | | | | | |
|---|------------------------------|--------------------------|---------------|-------------------------|--------------|---------------|------------------------------------|-------------------------------------|-----------|------------|---------------------|-----------------|----------------|-----------------|
| Entity | Leadership | | | | | | Financial & performance management | | | | Governance | | | |
| | Effective leadership culture | Oversight responsibility | HR management | Policies and procedures | Action plans | IT governance | Proper record keeping | Processing and reconciling controls | Reporting | Compliance | IT systems controls | Risk management | Internal audit | Audit committee |
| Department of International Relations and Cooperation | | | | | | | | | | | | | | |

| | | | |
|----------------|------|-----------------|-----------------------|
| Legend Drivers | Good | Causing Concern | Intervention required |
|----------------|------|-----------------|-----------------------|



6. Commitments

The following commitments are being tracked by the Portfolio Committee:

- Commitment by the department to resolve the asset issues especially in the missions.
- Investigation on the administration processes/alleged procurement irregularities in the South African High Commission in Accra.
- Monitor the status of implementation of SADPA and the impact on the activities of the ARF.
- Meet the Chairperson of the Audit Committee at least bi-annually with a view that all levels of assurance have a common understanding of the issues within the portfolio.

7. SCOPA resolutions

No previous resolutions.

8. Other matters of interest

(a) Unauthorised expenditure:

| Details | Unauthorised expenditure |
|---|--------------------------|
| | Amount R 2014 |
| Opening balance: 01 April 2013 | 98 918 000 |
| Incurred during the current year, analyzed as follows | 116 650 000 |
| - Administration | (60 606 000)* |
| - International relations – foreign exchange losses | 131 877 000 |
| - International Cooperation | (323 000)* |
| - Public Diplomacy & Protocol – State Funeral | 20 094 000 |
| - International transfers – Foreign exchange losses | 25 608 000 |
| Closing balance: 31 March 2014 | 215 568 000 |

*Indicates a saving/underspending



(b) Fruitless and wasteful expenditure:

| Auditee | | Fruitless and Wasteful expenditure | | |
|---------|---|------------------------------------|---------------|---------------|
| | | Movement | Amount R 2014 | Amount R 2013 |
| 1 | Department of International Relations and Cooperation | ↓ | 665 000* | 1 063 000* |

*Mainly as a result of cancellation fees and penalties on accommodation and storage costs

(c) Irregular expenditure:

| Auditee | | Irregular expenditure | | |
|---------|---|-----------------------|---------------|---------------|
| | | Movement | Amount R 2014 | Amount R 2013 |
| 1 | Department of International Relations and Cooperation | | 34 219 000* | 10 876 000* |

*Mainly as a result of the following:

- Minimum number of quotations not obtained and/or service was rendered without obtaining approval of the delegated authority R20 143 823
- Contract signed with the supplier not prepared in terms of SITA and its regulations R5 432 599
- Tender not advertised for 21 days R2 790 067
- Contracts and quotations were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state R2 754 846
- Procurement of IT related goods and services not done through SITA R1 727 222
- No contracts with the consultants R1 370 443

9. Other reports

Investigations

- An investigation (by internal audit) was performed on the administrative processes in the South African High Commission in Ghana. The investigation concluded on 31 October 2013 and resulted in disciplinary proceedings being instituted against one employee. These proceedings are currently in progress.