

**Portfolio: International
Relations and Cooperation
Date: October 2015**



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

Annually oversight committees set aside time to focus on assessing the performance of departments. On completion of the process, portfolio committees are required to develop department-specific reports, namely budgetary review and recommendations reports (BRRR) which express the committee's view on the department's budget for recommendation to the National Treasury ahead of the following year's budget period.

Our role as the AGSA is to reflect on the audit work performed to assist the portfolio committee in its oversight role in assessing the performance of the departments taking into consideration the objective of the committee to produce a BRRR.

1.3 Overview

The lack of improvement in the overall audit outcomes was due to DIRCO receiving a qualified audit opinion on its financial statements for a second consecutive year. The ARF remained unqualified with findings on compliance with legislation.

The main findings arising from our audit, as reported in the audit reports, which should be addressed to improve the overall audit outcomes, are as follows:

Financial statements

The published financial statements of DIRCO included the following material misstatements:

- Tangible capital assets and minor capital assets were materially understated. This is due to the department not maintaining an updated asset register as well as enhancement of the entire asset management process.
- DIRCO did not perform an assessment of their works of art and paintings to determine whether the heritage asset criteria as per the Modified Cash Standard had been met. As a result, I was unable to determine the impact on the classification of these assets. Further, works of art and paintings acquired prior to 1/04/2002 were not measured in accordance with the requirements of the Modified Cash Standard.

The financial statements submitted for auditing by DIRCO and ARF contained material misstatements in the areas of immovable assets, movable tangible capital assets, irregular expenditure, fruitless and wasteful expenditure, related parties, payables, expenditure, commitments and contingent liabilities. ARF received an unqualified audit opinion only because they corrected all the misstatements we had identified during the audit process. DIRCO could not make all the corrections due to lack of a credible asset register and failure to perform an assessment of works of art and paintings.

The following controls should be strengthened to create a control environment that supports reliable financial reporting.

- All personnel responsible for preparing the financial statements should be trained on the application of the Modified Cash Standard to ensure that valid, accurate and complete financial statements are compiled and are supported by appropriate documentation, including proper reconciliations. Financial reporting discipline, including mandatory controls over these key reconciliation processes and review of compliance matters, should be enforced.
- The asset management strategy should include the following:

- Mandatory asset verification
- Disposal of old and/or obsolete assets, including those in storage facilities, if a decision has been made that these assets are surplus to business needs
- Investigate missing assets and write these assets off if they cannot be located after a proper investigation and approval process had been followed
- Timeously update the asset register for additions, disposals and retirements/scraping
- Implement quality assurance processes to ensure that a credible asset register is produced.
- The oversight provided by key role players of the financial reporting process, including detailed reviews of the financial reports, and corrective action taken to address audit findings, including the functioning of the asset task team, should be strengthened and the monitoring mechanisms used by these role players in monitoring progress and the enforcement of consequence management should be improved.

Annual performance report

The annual performance report submitted for auditing by ARF contained material misstatements. They avoided material findings in their audit report only because they corrected all the misstatements we had identified during the auditing process.

The following control should be strengthened to create and sustain a control environment that supports useful and reliable reporting on the performance of the portfolio.

- Quality assurance processes for the ARF should be strengthened to ensure that detailed reviews of the annual and quarterly performance reports are performed.

Compliance with legislation

We identified material non-compliance with legislation (excluding non-compliance with the PFMA due to the submission of financial statements that contained material misstatements) by DIRCO and ARF in the following areas:

- DIRCO did not adequately implement proper control systems to safeguard and maintain assets.
- These two auditees did not always follow competitive bidding processes or request three quotations when procuring goods and services.
- Neither of the auditees took effective steps to prevent irregular and fruitless and wasteful expenditure. This resulted in both auditees reporting a combined irregular expenditure of R103,5 million. DIRCO reported R363 000 in fruitless and wasteful expenditure.
- Neither of the auditees took effective and appropriate disciplinary steps against officials who made and/or permitted irregular, fruitless and wasteful expenditure, while non-compliance with supply chain management (SCM) prescripts was not investigated.
- Neither of the auditees took effective and appropriate steps to timeously collect all money due. The delay in collection of the appropriated funds resulted in the ARF not timeously investing surplus funds.
- DIRCO did not ensure that oversight and governance with regard to the ARF's performance reporting processes were effective.
- DIRCO transferred funds to the ARF without rendering the transfer of the funds subject to the ARF establishing effective, efficient and transparent financial management and internal control systems.
- The ARF was unable to provide evidence that the proposed strategic plan had been submitted to the executive authority in accordance with the legislated time frames.

- The ARF did not timeously develop and document policies and procedures in order to strengthen operational activities.

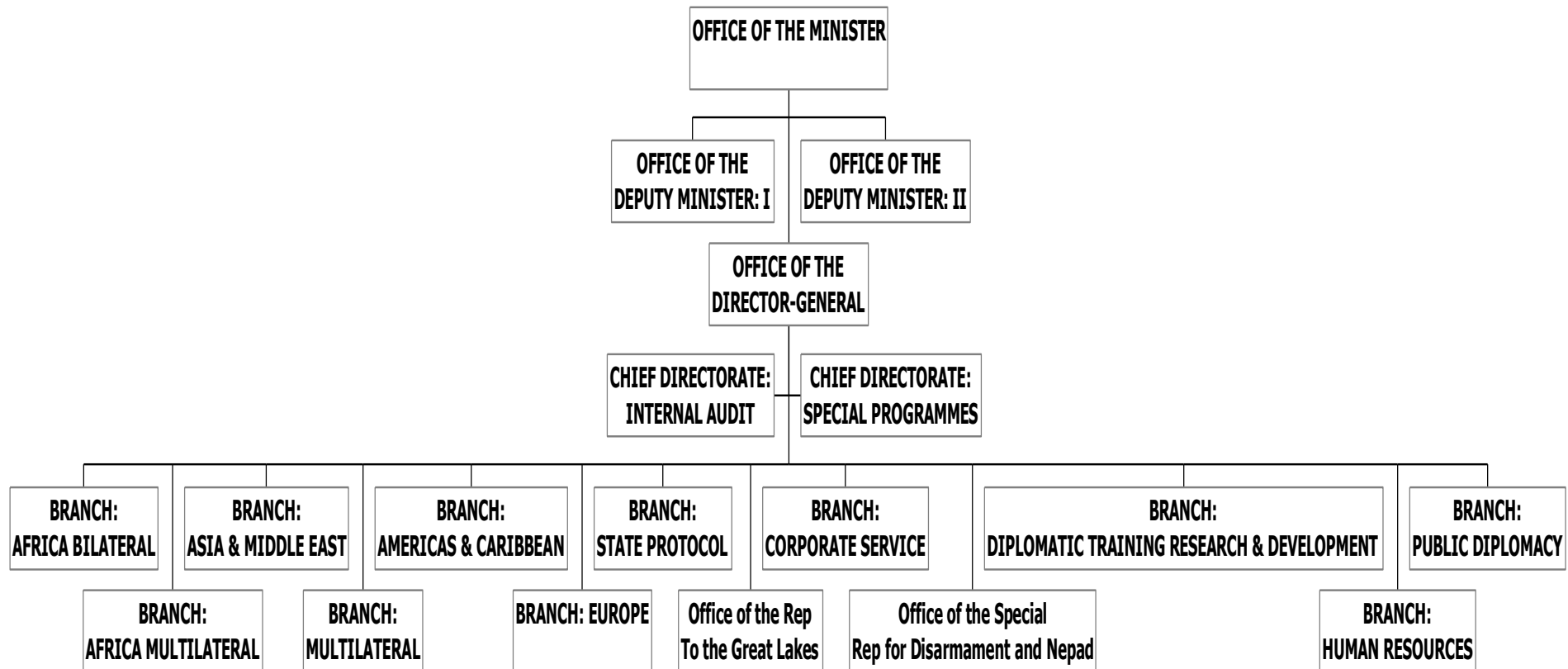
DIRCO incurred R102,3 million in irregular expenditure, which represents an increase of R68,1 million compared to the prior year. Only 2% of the amount was identified by the auditee. Hundred per cent of irregular expenditure in the portfolio related to transgressions of SCM regulations.

Procurement, contract management and the related controls are not always effective to ensure a fair, equitable, transparent, competitive and cost-effective process. The SCM system, including the processes, controls and the knowledge of legislative requirements of key SCM personnel, need to be strengthened to comply with legislation.

The following controls should be strengthened to create a control environment that supports compliance with legislation:

- Staff involved in procurement and senior management should be trained on SCM legislative requirements and performance management to ensure that non-compliance is prevented.
- Consequence management should be implemented in respect of the employees who continuously fail to comply with legislation and to address previously reported deficiencies.
- Compliance with the laws and regulations should be monitored.

1.4 Organisational structure at 31 March 2015



2. Audit opinion history

Audit opinions	14-15	13-14	12-13	11-12	10-11
• <i>Department of International Relations and Cooperation (DIRCO)</i>					
• <i>African Renaissance and International Cooperation Fund (ARF)</i>					
Qualification areas	14-15	13-14	12-13	11-12	10-11
• DIRCO – assets	✓	✓			
Predetermined objectives	14-15	13-14	12-13	11-12	10-11
• DIRCO			✓	✓	✓
• ARF	✓	✓	✓	✓	✓
Compliance with legislation	14-15	13-14	12-13	11-12	10-11
• DIRCO	✓	✓	✓	✓	✓
• ARF	✓	✓	✓	✓	✓

AUDIT OPINION LEGEND

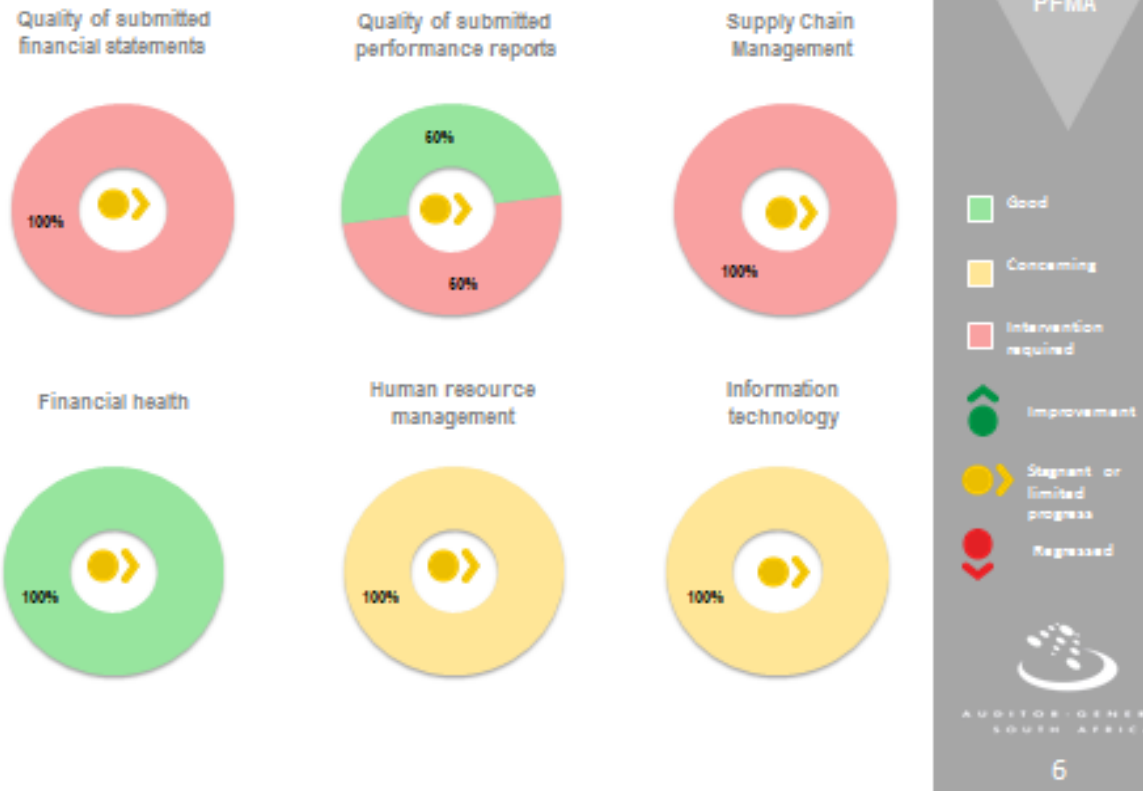
	Clean audit opinion: No findings on PDO and compliance
	Unqualified with findings on PDO and compliance
	Qualified audit opinion (with/without findings)
	Disclaimed/adverse audit opinion
	entity not yet established
✓	department/entity had findings (in the related matter)

2.1 Significant emphasis of matters

Department/entity	Emphasis of matter raised
• DIRCO	Restatement of corresponding figures
• ARF	Restatement of corresponding figures

3. Key focus areas

Auditor-General six key focus areas



3.1 Material errors/omissions in submitted annual financial statements

Department/ entity	Finding	Root cause	Recommendation
DIRCO	The annual financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework and supported by full and proper records as required by section 40(1)(a) and (b) of the PFMA. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected, which resulted in the financial statements receiving a qualified audit	<p>There was a slow response by the accounting officer and senior management in addressing significant deficiencies, including those related to asset verification and follow-up processes and reviews of financial statements due to a lack of accountability.</p> <p>There was a lack of consequences for staff who failed to perform their allocated job responsibilities and failed to honour commitments made to</p>	<p>The recruitment and selection of staff involved in the financial reporting process need to be enhanced to ensure that sufficiently skilled and experienced staff members are employed by the department. All chief directors involved in the compiling of the financial statements should be sent on training to enhance their understanding of the Modified Cash Standard, including the specimen financial statements and disclosure requirements.</p> <p>The entire oversight of the compilation and review of the financial reporting process requires substantial</p>

Department/ entity	Finding	Root cause	Recommendation
	opinion.	<p>address audit findings.</p> <p>Key personnel involved in the financial reporting process lacked the required competencies and had not been adequately trained on the application of the MCS.</p> <p>The lack of accountability and discipline by senior management involved in the financial reporting process contributed to the significant findings identified.</p>	<p>improvement by all officials involved in this process. The level of review of the financial statements performed by the chief financial officer should be improved to ensure that it addresses the accuracy and completeness of information as well as compliance with the MCS and specimen financial statements.</p> <p>The accounting officer should include 'clean audit outcomes' as one of the key performance indicators for the chief financial officer, and the chief financial officer should include 'asset clean-up' as one of the key performance indicators for the chief director: supply chain management; if targets are not met, there should be consequences for non-achievements.</p> <p>The chief financial officer and chief director: supply chain management should closely monitor that key monthly reconciliations are performed and that the 100% asset verification is performed and reconciled to the asset register. Consequence management should be implemented for all staff members who do not perform their duties.</p> <p><i>The accounting officer should closely monitor progress made with regard to the asset management strategy.</i></p>
ARF	The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework as required by section 55(1) (a) and (b) of the PFMA. Material misstatements on payables, irregular expenditure, related parties, contingent	There was a lack of a proper review of the financial reporting processes, resulting in a numbers of errors that remained undetected in the financial statements issued on 31 May 2015 due to a lack of discipline by all involved in this	<p>The chief director: financial management should confirm all amounts reported in the financial statements to the underlying supporting documents and schedules and ensure that the GRAP requirements are adhered to.</p> <p>The chief financial officer should perform a proper review of the financial statements and ensure that consequence management</p>

Department/ entity	Finding	Root cause	Recommendation
	liabilities and expenditure identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.	<p>process.</p> <p>Processes implemented to address this issue were inadequate and had limited to no impact.</p> <p>The entire oversight of the compilation and review of the financial reporting process required substantial improvement.</p> <p><i>The chief financial officer had not implemented a consequence management process to address the issue of continuous non-performance by staff.*</i></p>	processes are implemented for staff not performing their allocated job responsibilities.

3.1.1 Comments on additional AGSA interactions to help improve financial outcomes

Department/entity	Additional interaction/service (for example, workshops, etc.)	Impact/outcome
DIRCO	Feedback on shortcomings on asset management strategy	The shortcomings and concerns that were identified when the asset management strategy was presented to the audit team were discussed with senior management. However, as these shortcomings and concerns were not addressed, the issues around asset management remained unaddressed.

3.2 Predetermined objectives

Department/entity	Finding	Root cause	Recommendation
ARF	There were material misstatements in the annual performance report submitted for auditing of the reported performance information. These were subsequently corrected.	<i>The misstatements were as a result of a lack of proper review of the annual performance report submitted for audit against the annual performance plan. There was a slow response by the accounting authority in addressing reported significant deficiencies.</i>	The entity should implement a process to ensure that the annual performance report is consistent with the planned targets. This will ensure that no material adjustments have to be made to the performance reports after submission for auditing.

3.3 Compliance with legislation

Department/entity	Finding	Root cause	Recommendation
DIRCO ARF	Material adjustments to AFS	Key officials lacking competencies	Staff involved in procurement and senior management should be trained on SCM legislative requirements and performance management to ensure that non-compliance is prevented and performance and consequence management is enhanced.
DIRCO ARF	Non-compliance with SCM prescripts	Lack of consequences for transgressions	
DIRCO ARF	Ineffective steps to prevent irregular and fruitless and wasteful expenditure	Lack of consequences for transgressions	
DIRCO	Transfer of funds to entity without entity establishing proper financial management and internal control systems	Slow response by accounting officer	
DIRCO ARF	Effective and appropriate steps not taken to collect all monies due	Slow response by accounting officer/ authority	The oversight provided by key role players, including the DG, DG Forum, internal audit and the audit committee of the corrective action taken to address audit findings should be improved, together with the monitoring mechanisms used by these role players in monitoring progress.
DIRCO	Inadequate asset management	Slow response by accounting officer	
DIRCO ARF	Lack of consequence management	Lack of consequences for transgressions	
DIRCO	Inadequate public entity oversight	Slow response by accounting officer	
ARF	No evidence of submission of proposed strategic plan	Lack of consequences	All personnel who provide inputs into

Department/entity	Finding	Root cause	Recommendation
		for transgressions	the financial statements should be trained on the accounting framework to ensure that valid, accurate and complete financial statements are compiled and are supported by appropriate documentation, including proper reconciliations. Adequate compliance monitoring controls should be implemented, and a compliance culture should be enforced.
ARF	Late adoption of policies and procedures	Slow response by accounting authority	
ARF	Non-compliance with ARF Act	Slow response by accounting authority	

3.4 Financial health

Department/entity	Finding	Root cause	Recommendation
DIRCO	While there were no significant financial health indicators of concern relating to the 2014-15 audit, the depreciation of the rand against major currencies and the differential between forex rates used during the MTEF process versus prevailing forex rates could negatively impact DIRCO's ability to effectively function, deliver and execute South Africa's foreign policy.	Budgetary constraints	The accounting officer and senior management should continue engagements with National Treasury on long-term proactive measures to counter the effects of negative forex fluctuations, in addition to appropriation adjustments.

3.5 Human resource management and consequence management

Department/entity	Finding	Root cause	Recommendation
DIRCO	Internal control deficiencies noted in leave management	The director: human resources and chief director: human resources did not monitor the controls over compliance with the DPSA policies regarding leave due to a lack of	Adequate compliance monitoring controls should be implemented, and a compliance culture should be enforced.

Department/ entity	Finding	Root cause	Recommendation
		accountability and consequence management.	
DIRCO and ARF	<p>Effective and appropriate disciplinary steps were not taken against officials who made and/or permitted irregular and fruitless and wasteful expenditure as required by the PFMA and Treasury Regulations.</p> <p><i>Allegations of failure to comply with the supply chain management system against officials and/or role players in the supply chain management system were not investigated as required by Treasury Regulation 16A9.1(b).</i></p>	<p>There was a slow response by the accounting officer and senior management in addressing significant deficiencies due to a lack of accountability.</p> <p>There was a lack of consequences for staff who failed to perform their allocated job responsibilities and failed to honour commitments made to address audit findings.</p>	Staff should be held accountable for their allocated job responsibilities, and consequence management must be enforced throughout the portfolio.


3.6 Information technology (control environment)

Department/ entity	Finding	Root cause	Recommendation
DIRCO	<p>Deficiencies were noted in the ICT control environment in the following areas:</p> <ul style="list-style-type: none"> • Security management regarding passwords • User access controls (inadequate design and implementation of user account management policy and procedures) • Programme change management (inadequate implementation of policy) • IT service continuity (inadequate design of ICT disaster recovery plan and back-up policy, including implementation) • IT governance (inadequate design of IT steering committee charter) 	<p>There was a slow response by senior management in addressing previously reported findings.</p> <p>There was a lack of ICT management oversight in ensuring that the AD system administrators amended the AD settings in accordance with the recently approved policy and procedures.</p> <p>Systems had been inadequately developed and configured to meet the department's needs, and system administrators and users of the system were not knowledgeable about the purpose of the system, as no adequate training had been provided to the users.</p>	<p>ICT management should ensure that the AD system administrators amend system configurations in accordance with the recently approved policies and procedures.</p> <p>Furthermore, the policies and procedures should also be communicated to the business system administrators to enable them to configure the NUQ and HardCat systems in accordance with the approved policies and procedures.</p>


Department/ entity	Finding	Root cause	Recommendation
		There were inadequate design and, in some cases, implementation and communication of IT policies and procedures.	<i>Senior management should take reasonable steps to ensure that deficiencies in policies and procedures are addressed and adherence is enforced; for failure to do so, disciplinary action processes should be initiated.</i>


4. Other matters of interest

(a) Unauthorised expenditure (expenditure not in accordance with the budget vote)

Department/entity		Unauthorised expenditure			
		Movement	Amount R 2014/15	Amount R 2013/14	Root cause Recommendation
1	DIRCO		215 568 000	215 568 000	Uncovered exposure to foreign exchange fluctuations The CFO should continue engagements with National Treasury on proactive measures to counter the effects of negative forex fluctuations, in addition to appropriation adjustments.


(b) Irregular expenditure (expenditure incurred in contravention of key legislation)

Department/ entity		Irregular expenditure			
		Movement	Amount R 2014/15	Amount R 2013/14	Root cause Recommendation
1	DIRCO		102 369 000	34 219 000	The chief director: supply chain management did not adequately review and The accounting officer should take effective and appropriate steps to prevent irregular expenditure by ensuring that SCM

Department/ entity		Irregular expenditure				
		Movement	Amount R 2014/15	Amount R 2013/14	Root cause	Recommendation
					<p>monitor compliance with the supply chain management (SCM) prescripts due to a lack of accountability.</p> <p>There was a lack of consequences for staff who continuously breached legislative prescripts and failed to honour commitments made to address audit findings.</p>	<p>legislation is adhered to.</p> <p>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.</p> <p>On a monthly basis, the procurement officer should prepare a list of expenses that may constitute irregular expenditure. The CFO and accounting officer should review the report and take immediate corrective actions to create a culture of compliance.</p> <p>The performance of the supply chain management unit must be assessed under the supervision of the accounting officer and the CFO on a monthly basis to determine whether there is any non-compliance with SCM legislation and SCM internal policy, and corrective actions should be taken immediately.</p>
2	ARF		1 219 141	25 085 000	There was a slow response by the accounting authority in	<p>All adopted policies should be enforced.</p> <p>Management should implement</p>

Department/ entity		Irregular expenditure				
		Movement	Amount R 2014/15	Amount R 2013/14	Root cause	Recommendation
					addressing significant deficiencies in the establishment of a proper governance framework over the activities of the ARF, including the timeous adoption of policies and procedures.	monitoring controls according to which all awards will be reviewed to ensure that the necessary SCM documents have been obtained prior to making an award in order to detect instances of non-compliance by the relevant officials. Appropriate action should be taken against officials not following the SCM prescripts.

- (c) Fruitless and wasteful expenditure (expenditure that should not have been incurred/incurred in vain that could have been avoided, and no value for money received)

Department/ entity		Fruitless and wasteful expenditure				
		Movement	Amount R 2014/15	Amount R 2013/14	Root cause	Recommendation
1	DIRCO		363 000	665 000	The accounting officer failed to implement an effective system, including monitoring controls, over the prevention, identification and disclosure of irregular and fruitless and wasteful expenditure due to a lack of accountability to address reported deficiencies.	The accounting officer must implement an effective monitoring system over compliance matters, including the prevention and identification of irregular expenditure and fruitless and wasteful expenditure.

5. Drivers of internal control

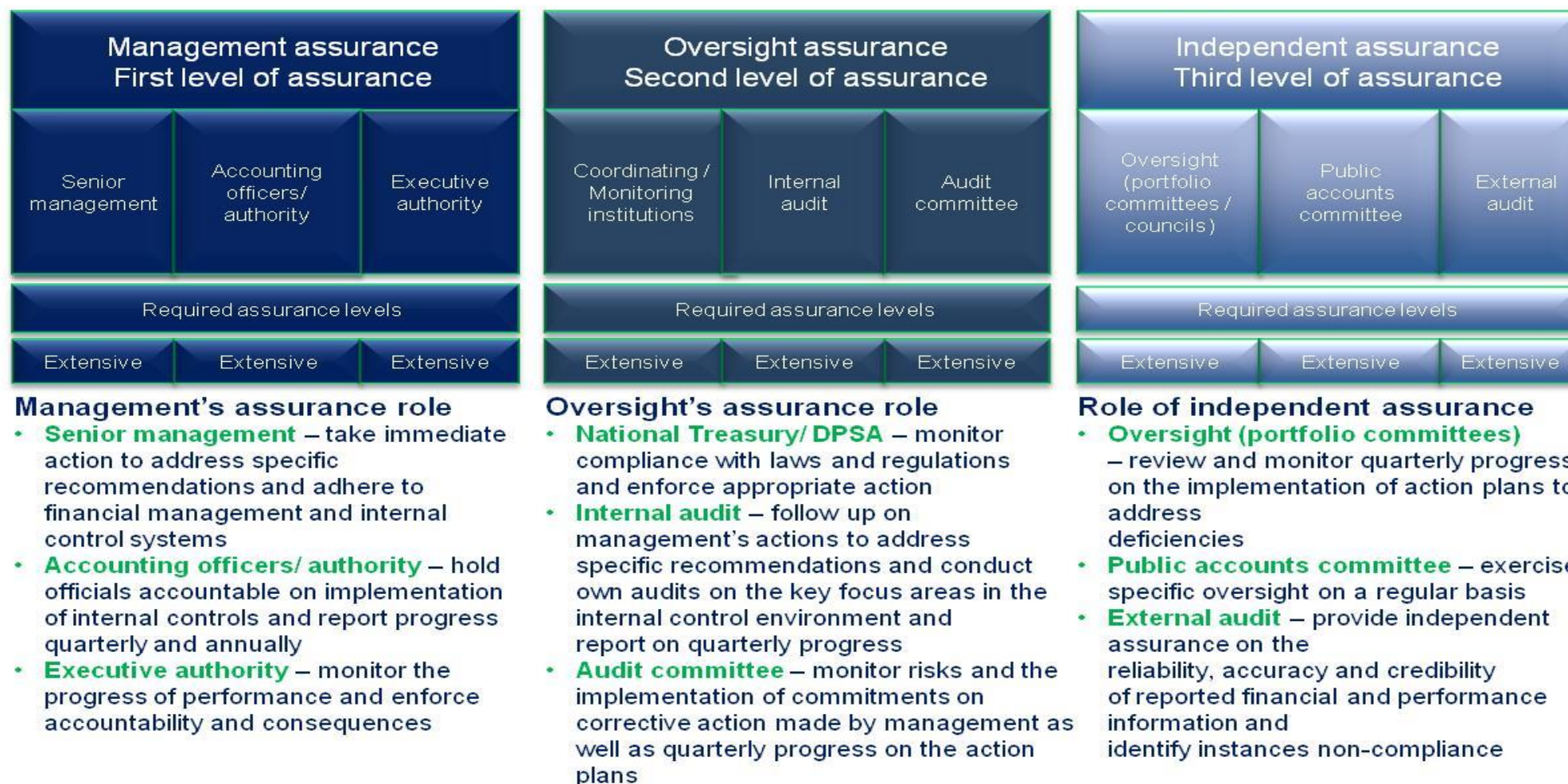
Drivers of internal control														
Department and entities	Leadership						Financial and performance management					Governance		
	Effective leadership culture	Oversight responsibility	HR management	Policies and procedures	Action plans	IT governance	Proper record keeping	Processing and reconciling controls	Reporting	Compliance	IT systems controls	Risk management	Internal audit	Audit committee
DIRCO														
ARF														

6. Other AGSA reports

6.1 Investigations

- The department's internal audit performed an investigation at the request of the department, which covered the period 1 April 2011 to 31 July 2013. The objective was to conduct a special audit on the administration processes at the South African High Commission in Ghana in order to determine facts on the allegations made. The investigation was concluded on 31 October 2013 and resulted in disciplinary proceedings being instituted against one employee. These proceedings were closed, and criminal proceedings were instituted against this employee.
- The accounting officer requested an investigation into allegations of impropriety at the Public Diplomacy branch. This investigation is currently in progress.
- The accounting officer requested an investigation into allegations of theft of \$32 000 and local currency at the South African Consulate General in South Sudan. This investigation is currently in progress.

7. Combined assurance on risk management in the public sector



8. Minister's commitments and progress on these commitments

The following includes prior-year commitments and new commitments made:

Focus area	Commitment	Due date	Status
Action plan to address internal and external audit findings	Improve the monitoring mechanisms used by oversight structures to monitor progress made in achieving clean administration.	March 2016	N/A
	Implement proper oversight mechanisms of the ARF, and ensure that a framework is implemented to govern the activities of the entity.	March 2016	
	Follow up on the development of the existing and new finance team to perform effective financial management, including monthly reconciliations.	March 2016	
	Monitor the compiling of monthly financial statements and reconciliations, including disclosure notes.	March 2016	
	Perform a detailed root cause analysis for recurring asset issues despite new interventions being rolled out, so that appropriate action can be taken.	March 2016	
	The CFO is to commit/deploy resources to deal with the timely update of fixed asset registers at head office.	March 2016	
	Perform close monitoring of SCM compliance and HR management.	March 2016	
	The CIO is to address identified IT deficiencies.	March 2016	
	Enhance performance and consequence management.	March 2016	
	Improve the oversight provided by key role players of the corrective action taken to address repeat audit findings.	March 2016	

STATUS LEGEND

	Commitment has been implemented
	Commitment in progress
	Commitment has not been implemented
N/A	New commitment made in current year

9. Commitments from the portfolio committee

The following recommended commitments are to be actioned by the committee:

- Commitment by the department to resolve the asset issues at missions and at head office
- Commitment by the department to address repeat audit findings and ensure that consequence management is instituted against officials who fail to address findings
- Status update on the criminal proceedings instituted against the previous Accra high commissioner and recoveries of monies
- Monitoring of the status of implementation of SADPA and the impact on the activities of the ARF
- Meeting the chairperson of the audit committee at least biannually with a view to all levels of assurance having a common understanding of the issues within the portfolio