

PFMA
2015-16



International Relations and Cooperation Portfolio

PC briefing note



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Purpose of the presentation

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 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 of assessing the departments' performance, taking into consideration the objective of the committee to produce a BRRR.

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1. Introduction

1.1 Reputation promise of the Auditor-General of South Africa

The Auditor-General of South Africa has a constitutional mandate and, as the supreme audit institution of South Africa, 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 of the Vote 6 and its entity for the 2015-16 financial year.

1.3 Overview

The President is ultimately responsible for South Africa's foreign policy and it is the President's prerogative to appoint heads of South Africa's diplomatic missions, receive foreign heads of diplomatic missions conduct inter-state relations and enter into international agreements.

The Minister of International Relations and Cooperation (Minister), in accordance with her Cabinet portfolio responsibilities, is entrusted with the formulation, promotion and execution of South Africa's foreign policy. The Minister assumes overall responsibility for all aspects of South Africa's international relations in consultation with the President. In practice, the Minister consults the Cabinet and individual Cabinet Ministers on aspects of importance, as well as on cross-cutting issues that have a bearing on the programmes of other ministries and departments.

The department is the principal adviser on foreign policy, and lead coordinator and manager of South Africa's international relations and cooperation.

Oversight and accountability in the formulation and conduct of South Africa's foreign policy are vested in the Parliamentary Portfolio Committee on International Relations and Cooperation.

Vision

DIRCO's vision is 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

Strategic goals

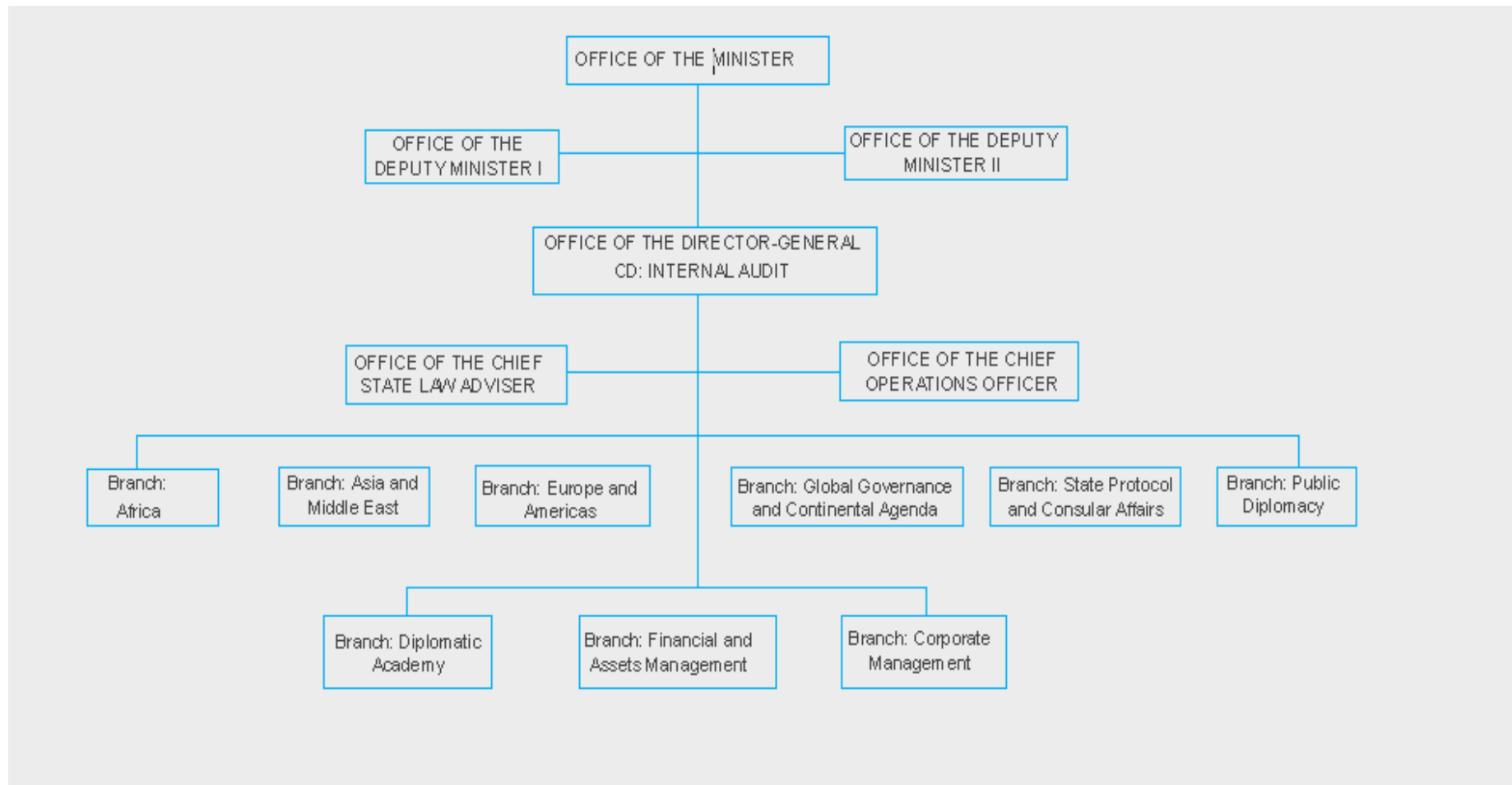
DIRCO is committed to promoting South Africa's national interests and values, the African Renaissance and the creation of a better world for all.

The department strategic goals over the MTEF period are to:







- Achieve an efficient, effective, economical and fully capacitated department;
- Promote policies, strategies and programmes to advance South Africa's national priorities through strengthened political, economic and social relations with targeted countries;
- Participate in the Global System of Governance to enhance international responsiveness to the needs of developing countries and Africa in particular through a reformed, strengthened and equitable rules-based multilateral system;
- Enhance the African Agenda and sustainable development;















- Strengthen political and economic integration of SADC;
- Strengthen South-South relations;
- Strengthen relations with strategic formations of the North to advance national priorities, the African Agenda, and the Development Agenda of the South;
- Provide strategic public diplomacy direction nationally and internationally to ensure a better understanding of South Africa's foreign policy;
- Provide effective State Protocol services;
- Strengthen multilateralism through financial contributions.

1.4 Organisational structure



2. Audit opinion history

	Clean audit opinion: Financially unqualified opinion with no findings on PDO and compliance
	Financially unqualified opinion with findings on PDO and compliance
	Qualified audit opinion (with findings)
	Disclaimed/adverse audit opinion
	No material findings
	Material findings reported

DESCRIPTION	Movement	15-16	14-15	13-14
Audit opinions				
Department of International Relations and Cooperation (DIRCO)				
African Renaissance and International Cooperation Fund (ARF)				
Qualification issues				
Tangible assets		✓	✓	✓
Heritage assets		✓	✓	
OTHER MATTERS				
Predetermined objectives				
DIRCO				
ARF			✓	✓
Compliance with legislation				
DIRCO		✓	✓	✓
ARF		✓	✓	✓

The audit outcomes of the international relations and cooperation's portfolio remained stagnant with no improvement over the three years from 2013-14 to 2015-16. The lack of improvement in the overall audit outcomes was caused by Department of International Relations and Cooperation (DIRCO) receiving a qualified audit opinion on its financial statements for the third consecutive year. The African Renaissance and International Cooperation Fund (ARF) remained unqualified with findings on compliance with legislation over the three year period.

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

3.1 Predetermined objectives

Department/ entity	Finding	Best practice	Recommendation
DIRCO	No material finding	Increased awareness of the performance reporting requirement, which was mostly due to our interactions with leadership and their willingness to implement our recommendations	Continue to create awareness on the performance information reporting requirements.
ARF	No material finding		

3.2 Compliance with legislation

Department/ entity	Finding	Common root cause	Recommendation
DIRCO	DIRCO did not adequately implement proper control systems to safeguard and maintain assets	Lack of consequences for repeated poor performance and transgressions	Implement consequences for repeated poor performance and transgressions
	DIRCO did not always follow competitive bidding processes or requested three quotations when procuring goods and services		Training of Heads of Missions and Corporate Service Managers on how to apply the SCM policies, financial and asset management
	DIRCO did not take effective steps to prevent unauthorised, irregular and fruitless and wasteful expenditure		
	DIRCO did not take effective and appropriate disciplinary steps against officials who made and /permitted irregular , fruitless and wasteful expenditure, while non-compliance with SCM prescripts was not investigated	Lack of consequences for repeated poor performance and transgressions	Implement consequences for repeated poor performance and transgressions
	DIRCO borrowed money through a commercial bank forex settlement account without the approval of the Minister of Finance or an official authorised by the Minister	Management did not ensure that proper approvals are obtained from the relevant treasury and the department complies with the applicable laws and regulations due to lack of accountability	Management should engage National Treasury regarding this commercial bank account and approvals should be obtained from the Minister of Finance to continue utilising this bank.
ARF	The ARF did not submit the financial statement within two months after year end	Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and	Management should ensure that the Annual Financial statements are submitted on time as required by PFMA to the auditors. For this to happen management have daily financial management disciplines are performed.

Department/ entity	Finding	Common root cause	Recommendation
		performance reporting	
	The ARF did not invest money from old projects not required for immediate use	The accounting authority did not ensure that all the monies that are not required for immediate use by the entity are reinvested. This is further caused by lack of spending at ARF.	The accounting authority should develop a checklist that covers all the critical compliance requirements of ARF Act. The checklist should be reviewed regularly and any non – compliance should be followed up to ensure compliance with all the requirements of the
	The ARF did not take effective and appropriate steps to collect all money due to it	The accounting authority did not ensure that the money due by DIRCO to the entity are followed up and collected. This is due to ARF being managed by the DIRCO management.	The accounting authority should ensure that all revenue due to the public entity is followed up, collected and banked promptly and any funds not immediately required should be invested. Follow up should also be made on the progress of SADPA.

3.3 Financial health

Department/entity	Finding
DIRCO	<i>There are no significant financial health indicators relating to 2015/16 audit in the portfolio. However, 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 deliver and execute South Africa's foreign policy</i>
ARF	<i>No material uncertainty regarding the financial health of the entity.</i>

4. Other matters of interest

4.1 Unauthorised, Irregular and fruitless and wasteful expenditure

DIRCO did not take effective steps to prevent unauthorised, irregular and fruitless and wasteful expenditure. This resulted in DIRCO reporting an irregular expenditure of R338.8 million which is an increase of R236.4 million compared to the prior year. Only 33% of the amount was identified by the auditee. 100% of irregular expenditure in the portfolio related to transgressions of SCM regulations. DIRCO reported R166.5 million of unauthorised expenditure which was as result of depreciation of rand against major currencies and R5.5 million of fruitless and wasteful expenditure which were as a result of late cancellations of bookings, rental payment of unused building amongst others.

5. Drivers of internal control

Drivers of internal control			
Auditee	Leadership	Financial and performance management	Governance
DIRCO			
ARF			

STATUS LEGEND

	Good
	In progress
	Intervention required

Leadership

The accounting officer has been slow in addressing the significant deficiencies noted over his oversight regarding financial and performance reporting, compliance and related internal controls due to an overall lack of accountability. This was evidenced by the number of material misstatements identified in the annual financial statements and the material non-compliance matters reported and most misstatements relate to repeat findings.

There is inadequate enforcement of proper consequence management within the department by senior management and function managers. The accounting officer has not ensured that consequence management is executed for those responsible for repeat findings. This was evidenced by the number of material misstatements identified in the annual financial statements.

Financial and performance management

The adherence to basic controls implemented over key daily and monthly processing and reconciling of transactions has remained inadequate despite being reported repeatedly. This was mainly due to a lack of accountability by the officials responsible.

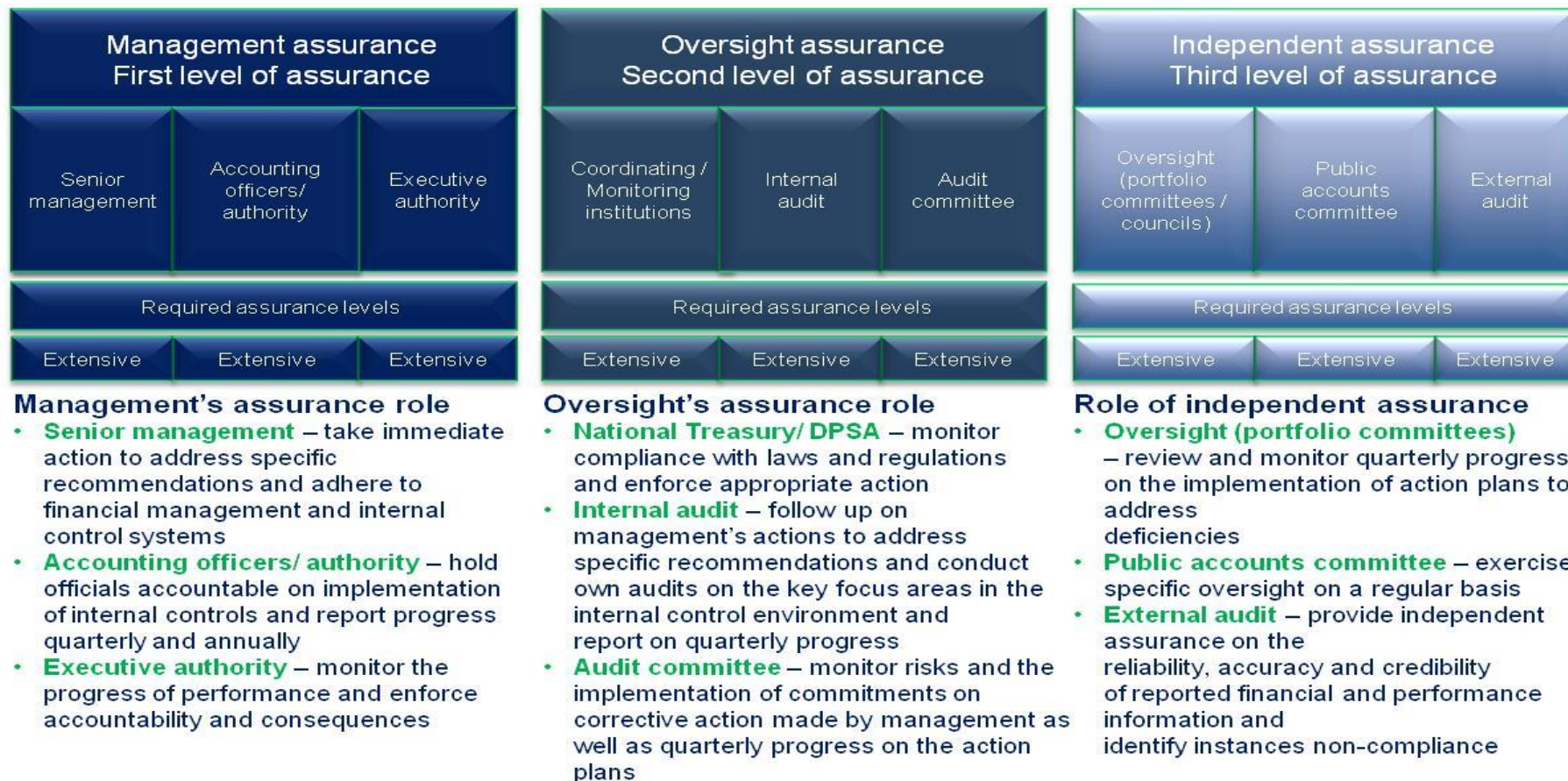
The financial statements contained a number of misstatements that were not detected by the department's processes as well as non-compliance issues that were not identified due to a lack of review and accountability by those involved in the compilation of the financial statements

6. Other reports

6.1 Investigations

- The accounting officer requested an investigation into allegations of impropriety at the Public Diplomacy branch, a programme within DIRCO. The investigation covered the period 1 October 2015 to 31 December 2015. It was conducted by a government official and concluded on 22 December 2015.
- The accounting officer requested an investigation into the allegations of theft of \$32000 and an undetermined amount of South Sudanese Pounds at the South African Consulate General in South Sudan. The investigation was concluded on 11 April 2016
- The accounting officer requested an investigation into the allegations of possible misapplication of donations and sponsorships at the South African Embassy in Abidjan, Ivory Coast. The investigation covered the period 2013 to 2015. It was conducted by the Chief Directorate: Internal Audit and concluded on 8 February 2016. At the time of this report, the Directorate: Labour Relations was conducting a further investigation.

7. Combined assurance on risk management in the public sector



8. Minister's commitments and progress on these commitments

The following are commitments made by the minister and their progress:

Focus area	Commitment	Status
<i>Financial, Compliance with legislation</i>	<i>Effectiveness of action plans to address findings.</i>	
<i>Financial, Compliance with legislation</i>	<i>Enhance performance and consequence management.</i>	
<i>Financial</i>	<i>Prepare monthly financial statements and reconciliations including disclosure notes.</i>	
<i>Financial</i>	<i>Engage with OAG on the heritage asset to obtain guidance and perform and assessment.</i>	
<i>Compliance with legislation</i>	<i>Close monitoring of SCM compliance matters.</i>	
<i>IT audit</i>	<i>CIO to address identified IT deficiencies</i>	
<i>Financial, Compliance with legislation</i>	<i>Perform detailed root cause analysis for recurring asset issues.</i>	

STATUS LEGEND

	Commitment has been implemented
	Commitment in progress
	Commitment has not been implemented

9. Assessment of the Portfolio committee

The criteria used to evaluate the level of assurance for the Portfolio Committee was based on the progress made in Implementation of the commitments made to improve the audit outcome of the portfolio.