

# **Audit Committee**

## **DIRCO & ARF BRRR 2018**

### **Briefing to the Portfolio Committee on challenges causing financial performance concerns**

**17 October 2018**



**international relations  
& cooperation**

Department:  
International Relations and Cooperation  
REPUBLIC OF SOUTH AFRICA

# Regression in the 2017/18 Audit Outcomes

“From the onset, as the Audit Committee, we are very disappointed with the regression of the Department’s audit outcomes for the financial year 2017/18 (DIRCO moved from from an unqualified opinion to a qualified opinion)

This could have been avoided, had Management implemented the recommendations of the Audit Committee timely, specifically the development, implementation and the monitoring of the audit action plan.

On numerous occasions, we have implored management to put the audit turnaround plan in place with limited success.”



# Presentation Outline

- Part A – General overview of the Audit Committee’s purpose and authority
- Part B – Root causes/behaviour that contributed to the regression in the audit outcomes
- Part C – Progress update on matters raised with the Portfolio Committee in the past
- Part D – Current/persistent challenges for the attention of the Portfolio Committee



# **PART A: General overview of the Audit Committee's purpose and authority**



# Purpose and legal authority of the Audit Committee

- Section 38(1)(a)(ii) of the PFMA prescribes that:  
“The accounting officer for a department, trading entity or constitutional institution must ensure that a Department, trading entity or constitutional institution maintains a system of internal audit under the control and direction of an audit committee complying with and operating in accordance with regulations and instructions prescribed in terms of sections 76 and 77.”



# Purpose and legal authority of the Audit Committee (continues)

- The Audit Committee is **advisory** and **should not perform** any management function or assume any management responsibilities and, may make **recommendations** to the Director General for his approval or final decision. The Director-General retains the responsibility for implementing such recommendations.
- The Audit Committee shall assist the Director General in the oversight of the financial information, performance information, effectiveness of internal controls and risk management, effectiveness of internal audit and compliance with the laws and regulations.



# **PART B: Root causes that contributed to the regression in the outcomes**



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# Root causes that contributed to the regression in the audit outcomes

- Late implementation of the Audit Turnaround Plan
- Capacity and skills constraints within the Finance and Asset Management Unit
- At times, misleading reports by Management to the Audit Committee e.g. New York Building Project, misleading quarterly reports on asset management matters
- Dysfunctional Audit Steering Committee
- Inadequate utilisation of the internal assurance providers, such as Internal Audit and Risk Management
- Management's reluctance (incl lack of openness and frankness) to regularly interact with the various oversight stakeholders, such as the National Treasury, Audit Committee and the Auditor General



# **PART C: Progress update on matters raised by the Portfolio Committee in the past**



# Matters raised in the past, including progress update

No	Matters	Status update
1	Dissatisfaction that most of the findings from the previous financial years were not addressed	Limited progress
2	Challenges in the maintenance and the reporting on the Asset Register	No progress
3	Maintenance of state owned properties abroad	No progress
4	Adherence/compliance to the Supply Chain Management prescripts	Limited progress
5	Compliance with the legislation, including the reinforcement or monitoring of consequence management.	Limited progress
6	Poor ICT infrastructure and outdated technology	Limited progress
7	Non-payment of the ARF monies by DIRCO (non-compliance matter)	Completed



# **PART D: Current/persistent challenges for the attention of the Portfolio Committee**



# Current challenges

No	Matters	Recommendations	Status update
1.	Non-functioning Audit Steering Committee	Resuscitate the Audit Steering Committee, including the appointment of the chairperson who will 'mostly' be available	No progress
2.	Administrative deficiencies at some of the Missions	Clarify the role of the HOMs, including the amendments of performance agreements to reflect the administrative responsibilities	In progress
3.	Recurring irregular, fruitless and wasteful expenditure	Commission an investigation into all the irregular, fruitless and wasteful expenditure incurred	Limited progress



# Current challenges (continues)

No	Matters	Recommendations	Status update
4.	Non-implementation of the consequence management	Management to regularly report on disciplinary matters/cases	Limited progress
5.	Accumulated unauthorised expenditure incurred on unfunded mandates, forex losses	Management to liaise with the PC on seeking support for condonement by SCOPA	In progress
6.	Leadership deficiencies in some parts of the Department, resulting in a culture of impunity and low staff morale	Conduct a culture survey and implement the recommendations timely	No progress
7.	Employee cost ceiling reached i.e. spending above budget	Rationalise the missions Strike a balance between the contracted appointees and the career diplomats (Heads of Mission appointment)	No progress

# Current challenges (continues)

No	Matters	Recommendations	Status update
8.	Increased spending on the residential accommodation in Missions	<p>Develop an asset acquisition strategy</p> <p>Conduct an assessment on the possibility of leasing out or disposing off unused state-owned properties abroad</p>	<p>In progress</p> <p>No progress</p>
9.	<p>ICT infrastructure is outdated and requires upgrade and continuous maintenance</p> <p>The implementation of the infrastructure refresher plan has taken more than 3 years to take off</p>	<p>Capacitation of staff involved in the implementation of the ICT refresher plan</p> <p>The management of projects should be formalised by the development and the implementation of project management methodology</p>	Limited progress

# Other matters

- ❖ Lack of clarity regarding the future of the asset management system – contract has expired but has not been renewed yet
- ❖ Audit Committee documents not discussed/quality assured by Senior Management prior to tabling in the Audit Committee
- ❖ Inadequate “follow-up audits” conducted due to the size of the Internal Audit Unit – although all the posts have been filled, overall the unit is too small in relation to the size of the Department
- ❖ The identification of risks is happening, but the response strategy to mitigate the risks is not effective



Thank you!

