

Department of International Relations and Cooperation



Briefing by the Audit & Risk Management Committee to the Portfolio Committee on International Relations & Cooperation

07 October 2020

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1. Introduction

The Department of International Relations and Cooperation has established an Audit Committee in accordance with Section 38 (1) (a) (ii) of the Public Finance Management Act (PFMA), 1999 (Act 1 of 1999) and Treasury Regulation 3.1.13.

The affairs of the Audit Committee are conducted in terms of its Charter, which outlines the key responsibilities and mandate of the Audit Committee. The Charter serves to guide the activities of the Audit Committee on an ongoing basis.

The Audit Committee generally meet at least four (4) times per financial year with additional 2 special meetings.

All DIRCO Audit Committee members also serve in the ARF, and the Deputy Chairperson of the Audit Committee is also the Chairperson of the Risk Management Committee. Therefore, the Risk Management Committee functions *'more like'* as a subcommittee and the Audit Committee, even though with a slight different mandate.

The following are the standing invitees to the Audit Committee meetings:

- Director-General
- All the Deputy Directors-General (Senior Management)
- Representatives from the National Treasury (Office of the Accountant General)
- Representatives from the Office of the Auditor-General
- Chief Audit Executive^o
- Chief Risk Officer*
- Chief State Law Advisor

Where necessary, in-committee meetings are held with the Director-General, Chief Audit Executive, Auditor-General and any other relevant Senior Manager/s.

The table below discloses relevant information on the Audit Committee members:

No	Name	Highest Qualification	Industry/Profile	Number of years' experience
1.	Ms Precious Makhosazane Mvulane – Chairperson	B Com Honours Accounting CA (SA)	Public Service, Accounting, Auditing, Corporate Governance and Risk Management	20 years
2.	Dr Martin Collin Sehlapelo - Deputy Chairperson	DPhil in Information Sciences Post Grad Diploma in Future Studies Chartered Director (SA)	Risk Management, Corporate Governance, Information and Communication Technology	30 years
3.	Mr Zola Luxolo Fihlani	M Com Taxation CA (SA)	Accounting, Auditing, Corporate Governance and Risk Management	20 years
4.	Dr Claudelle von Eck [^]	DPhil in Leadership	Corporate Governance, Leadership, Culture,	28 years

		Certified Director (SA)	Ethics, Whistle Blower support	
5.	Mr Barry Wheeler [^]	National Diploma in State Finance B Com Post Grad Advanced Diploma in Public Administration	Public Service, Accounting, Auditing, Corporate Governance and Risk Management	45 years

[^]Only joined from 01 January 2020

^oThe Internal Audit also renders the secretarial services to the Audit Committee

^{*}The Risk Management Unit also renders the secretarial services to the Risk Management Committee

The purpose of this communique is to brief the Portfolio Committee on International Relations on the “Challenges facing the Department and the African Renaissance Fund’s performance in the 2019/20 financial year in addressing audit outcomes”.

It should be noted that the 2019/20 audit process has not yet been finalised, as a result, the audit outcomes have not yet been tabled to Parliament. The briefing will focus more on Audit Committees activities for the 2019/20 financial period, including the status of the recommendations relating to the 2018/19 audit outcomes.

2. Audit Committee responsibility

The Audit Committee responsibilities arising from Section 38 (1) (a) (ii) of the Public Finance Management Act (PFMA), 1999 (Act 1 of 1999) and Treasury Regulation 3.1.13 with adopted appropriate formal terms of reference as a Charter that has regulated its affairs. Based on these documents here are the key responsibility areas:

2.1 Financial Statements and the Finance Function

2.2 Governance

2.3 Performance Information

2.4 Risks Management and Internal Control

2.5 Compliance

2.6 Internal Audit function

2.7 External Audit

2.1. Financial Statements and the Finance Function

We have reviewed the following tabled quarterly financial reports:

- 2019/20 Audit Action Plan
- Expenditure (Actual spending vs Budget) for 2019/20
- Unauthorised, irregular, fruitless and wasteful expenditure for 2019/20
- 2019/20 Draft Annual Financial Statements (prior to submission for auditing by the Auditor General)

The following issues were identified and specific recommendations made:

No	Issues	Recommendations	Status update
1.	<p>The Audit Action Plan was inadequate, and the following gaps (amongst the others) were noted:</p> <ul style="list-style-type: none"> • Not all the audit findings from the 2018/19 AGSA Final Management Report were included i.e. only the qualification matters were included • The plan did not include Internal Audit findings • It was evident that a detailed root cause analysis was not performed prior to the compilation of the plan, resulting in some of the actions/recommendations not addressing internal control deficiencies from the audit findings. 	<ul style="list-style-type: none"> • Management was implored to go back and revise the Audit Action Plan, and obviously address the issues raised. • Expedite the investigation on the prior year misstatement (identified by the AG) in the Cash and Cash Equivalents line item. 	<ul style="list-style-type: none"> • The revised audit action plan was never presented to the Audit Committee, and there was never a status update on the implementation of the recommendations, even though this matter was a standard agenda item on all the quarterly meetings.
2.	<p>Overspending of the Employee costs line item, specifically for Programmes 2 and 3 (Unauthorised expenditure). Both the weakening of the Rand against the major foreign currencies and the high staff numbers in some of the missions were raised as the reasons.</p>	<ul style="list-style-type: none"> • In the short term: Continue engaging National Treasury (Budget Office) on the issue of the budget exchange rates used when allocating the budget. Exchange rates offered by National Treasury are far lower than the reality. • Work on expediting the exercise on the “Repositioning of South Africa’s presence in some of the foreign countries”, Organisational Structure Review, including the rationalisation of staff in some of the missions 	<ul style="list-style-type: none"> • The Department is still struggling to find a solution to the overspending on the Employee costs despite numerous promises to remedy the situation. • Therefore, the risk of incurring unauthorised expenditure remains.
3.	<p>Significant spending on foreign lease accommodation expenditure</p>	<ul style="list-style-type: none"> • For all the foreign lease contracts, perform an evaluation on whether it is cheaper to lease or buy, especially on the strategic missions. • Review all foreign accommodation, and in countries where there are vacant properties, utilise those for 	<ul style="list-style-type: none"> • The Audit Committee has not yet been updated (by Management) on the progress on these recommendations.

		accommodation. This will generate savings and also prevent the fruitless and wasteful expenditure incurred on vacant properties abroad.	<ul style="list-style-type: none"> The Audit Committee will do a follow up to ensure effective implementation.
4.	Slow spending on the Capital Expenditure (Programme 1)	<ul style="list-style-type: none"> Develop a rating system of all foreign properties (in order of strategic importance) to enable the department to prioritise the rehabilitation infrastructure program. 	<ul style="list-style-type: none"> Recent budget cuts, as a result of the need to reprioritise because of COVID-19 related expenditure has had a negative impact on this recommendation.

Furthermore, the Committee is concerned about the delay in the conclusion of the Skills Audit in the Finance Function. From the prior year's Auditor General's reports, it is evident that some of the audit findings are as a result of the skills gap.

2.2. Governance

The Committee has been concerned that the fundamentals of accountability, culture and reporting are inadequate. Consequently, in February 2020, we recommended that the Internal Audit should review the following:

- Review the integrated system of internal control/governance and confirm whether the Department has adopted appropriate governance principles that create a foundation for implementation of internal controls;
- Review the establishment of the necessary governance and management structures and its effective execution of their roles and responsibilities;
- Review whether management has taken steps to embed an ethical culture that promotes compliant behaviour;
- Review of governance best practices and not just compliance with laws and regulations.

The “Review of Governance” has been included on the Annual Internal Audit Plan for 2020/21.

Furthermore, the Committee has proposed various interventions, such as, the need for the Top Management to attend a Public Sector Governance course as offered by the National School of Government, including a workshop (to be conducted by the Office of the Accountant General) on how management should interact with various governance/oversight structures.

2.3. Performance Information

The performance information has been progressive and also responsive to the requirements by the auditors. However, we have raised the following concerns on efficiency and effectiveness of the organisation as a whole:

- What are the *key performance indicators* at the organisation, at function level, at service level i.e. missions and consulate generals, at individual level?
- Do we have the right *competencies and capability* to deliver on the expectations of all stakeholders – at all levels?

We therefore, recommend that DIRCO should conduct a full baseline assessment, including competency assessment for the whole organisation.

The baseline assessment will contribute towards redesigning the new organisational structure (currently underway) and eliminate the unauthorised expenditure which has resulted in overspending of the Employee Costs line item.

2.4. Risk Management and Internal Control

The Audit Committee is concerned about the effectiveness and prioritisation of the enterprise-wide Risk Management. This has been further exacerbated by a lack of proactive and innovative leadership (Tone at the top).

Management interventions and commitment regarding Risk Management are not effective and do not promote transparency as required by King IV Report on Corporate Governance. The Audit Committee emphasised that management must be committed on monitoring and management of risk faced by the department.

Due to the weak risk management systems, the effectiveness of internal controls is generally weak within the organisation. The current circumstances within which the country and world are in (in respect of the Coronavirus pandemic), have highlighted the need for a proactive approach in identifying and mitigating risks.

We, therefore, recommended that the Director-General's Forum (DGF) conducts an overall risk assessment both at strategic and operational level, specifically on the impact assessment from the COVID-19 pandemic. Furthermore, there should be monthly meetings between the Director-General and the Chief Risk Officer, for progress update on the interventions recommended, including the attendance of the DDGs in the Risk Management Committee meetings.

2.5. Compliance

For a highly legislated environment like DIRCO, compliance should be given the utmost priority. We have noted that there is no accountability for non-compliance being shared by management as a collective. This exposes the department to a number of non-compliance issues, as noted in the Auditor-General's report, lack of the monitoring of contracts/agreements (contract extensions resulting in irregular expenditure) and a number of litigation matters that the department is busy defending.

Small pockets of the compliance function are found across various business units such as Finance and Legal, which is not directly linked to supervision.

We recommended that each Branch or Business Unit should have a dedicated resource, to assist management in all the compliance requirements. The overall **co-ordinating** responsibility for compliance should reside in the Office of the Director-General.

2.6. Internal Audit

The Chief Directorate: Internal Audit is responsible for all the internal audit function of the department.

To safeguard its independence, the Internal Audit function is well positioned in the department, in that it *functionally* reports to the Audit Committee and *administratively* to the Director-General.

The function is currently not adequately capacitated e.g. the number of staff in the function is too small when compared to the size of the department (20 audit professionals, audit

universe comprises of Head Office, locations in South Africa such as airport lounges, guest houses and etc. and 124 missions abroad). Also, the function does not possess any forensic auditing experience and robotic process automation capability.

The internal audit function has recently undergone a 5 year external quality assurance review by independent consultants and got rated as being **partially compliant** with Internal Audit Standards. This means that deficiencies in the function that were judged to deviate from the Standards were noted, but these deficiencies did not preclude the internal audit activity from performing its responsibilities in an acceptable manner.

From the external assessment report, the function has developed an implementation plan to address (and monitor) the deficiencies noted. The plan has been approved and is being monitored by the Committee on a quarterly basis.

We, therefore, have made the following recommendations:

- Internal Audit function to champion the implementation of the Combined Assurance in the department
- The function should enforce the system and controls on the management of audit projects, including the escalation mechanisms thereof.
- The Committee to directly participate in the development and the signing off (to be co-signed by the Chair and the DG) of the performance agreement for the Chief Audit Executive, including the performance evaluation thereof.

2.7. Auditor-General South Africa (External Audit)

The Committee has a good working relationship with the office of the Auditor General and we do have in committee meetings to discuss matters which are sensitive. They attend all our meetings, contribute and provide guidance where necessary.

The signing off of the 2019/20 audit opinion (by the AG) has been postponed to 31 October 2020 (instead of 30 September 2020). This was necessitated by the delays in the finalisation of the execution of some of the audit work, such as, the physical verification of assets abroad, due to the ban on international travel.

While the audit has been reported as progressing very well, the concern remains regarding the prior year qualification on the Cash and Cash Equivalents balance.

3. African Renaissance Fund (ARF)

In terms of the audit outcomes, the ARF has progressed very well over the years.

There is a level of discomfort regarding the crafting of the Performance Indicators (not well defined) and the setting of the annual targets (SMART criteria). This matter is under discussion between the Committee and Management

4. Other matters

- 4.1 The current structure of reporting lines has not promoted systems of close supervision and personal accountability, and this has led to a lack of performance and consequence management. The principle of *'collegiality'* is not always evident. There is a need to review how the top management collectively leads the organisation to improve efficiency and effectiveness.
- 4.2 The slow pace of the implementation of the recommendations from the investigation reports on the prior years' irregular expenditure (and any other investigations such as Sponsorships, New York Building Project and etc.) identified by the Auditor-General. However, it is encouraging that an Acting Deputy Director-General: Corporate Management has now been appointed, and amongst his priorities is the implementation of the recommendations from the said reports.
- 4.3 From the review of the recommendations from the 2018/19 Budget Review and Recommendations Report (BRRR), it is apparent that the department is not doing well and the Audit Committee has been monitoring the progress on the implementation of the recommendations.

5. Appreciation

We appreciate the support by the Minister, the Director-General and his top management team and wish to encourage the expedition of the implementation of audit action plans, including ensuring that performance agreements of senior management do measure this outcome.

6. Recommendation

It is recommended that the Portfolio Committee on International Relations and Cooperation notes the report.



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Chairperson of the Audit Committee
Ms P Mvulane
Date: 06 October 2020