



Briefing to Portfolio Committee on International Relations and Cooperation

PFMA
2019-20

11 November 2020



AUDITOR-GENERAL
SOUTH AFRICA

Reputation promise

The Auditor-General of South Africa (AGSA) has a constitutional mandate and, as the supreme audit institution (SAI) 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.



Role of the AGSA in the reporting process

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 performance of the entities taking into consideration the objective of the committee to produce a *Budgetary Review and Recommendations Report* (BRRR).



The 2019-20 audit outcomes



Our annual audit examines three areas

THE AG's
ANNUAL
AUDITS
EXAMINE

3

AREAS:



1 FAIR PRESENTATION AND
ABSENCE OF SIGNIFICANT
MISSTATEMENTS IN
FINANCIAL STATEMENTS

2 RELIABLE AND CREDIBLE
PERFORMANCE
INFORMATION FOR
PREDETERMINED OBJECTIVES

3 COMPLIANCE WITH ALL
LAWS AND REGULATIONS
GOVERNING FINANCIAL
MATTERS

The AGSA expresses the following different audit opinions

Unqualified opinion with no findings (clean audit)



Auditee:

- produced credible and reliable financial statements that are free of material misstatements
- reported in a useful and reliable manner on performance as measured against predetermined objectives in the annual performance plan (APP)
- complied with key legislation in conducting their day-to-day operations to achieve their mandate

Financially unqualified opinion with findings



Auditee produced financial statements without material misstatements or could correct the material misstatements, but struggled in one or more area to:

- align performance reports to the predetermined objectives they committed to in APPs
- set clear performance indicators and targets to measure their performance against their predetermined objectives
- report reliably on whether they achieved their performance targets
- determine the legislation that they should comply with and implement the required policies, procedures and controls to ensure compliance

Qualified opinion



Auditee:

- had the same challenges as those with unqualified opinions with findings but, in addition, they could not produce credible and reliable financial statements
- had material misstatements on specific areas in their financial statements, which could not be corrected before the financial statements were published.

Adverse opinion



Auditee:

- had the same challenges as those with qualified opinions but, in addition, they had so many material misstatements in their financial statements that we disagreed with almost all the amounts and disclosures in the financial statements

Disclaimed opinion



Auditee:

- had the same challenges as those with qualified opinions but, in addition, they could not provide us with evidence for most of the amounts and disclosures reported in the financial statements, and we were unable to conclude or express an opinion on the credibility of their financial statements

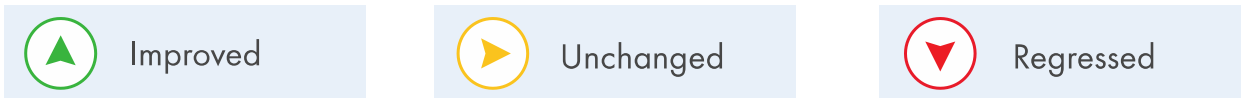
Important to note

The percentages in this presentation are calculated based on the **completed audits of two auditees**, unless indicated otherwise.

Audit outcomes are indicated as follows:



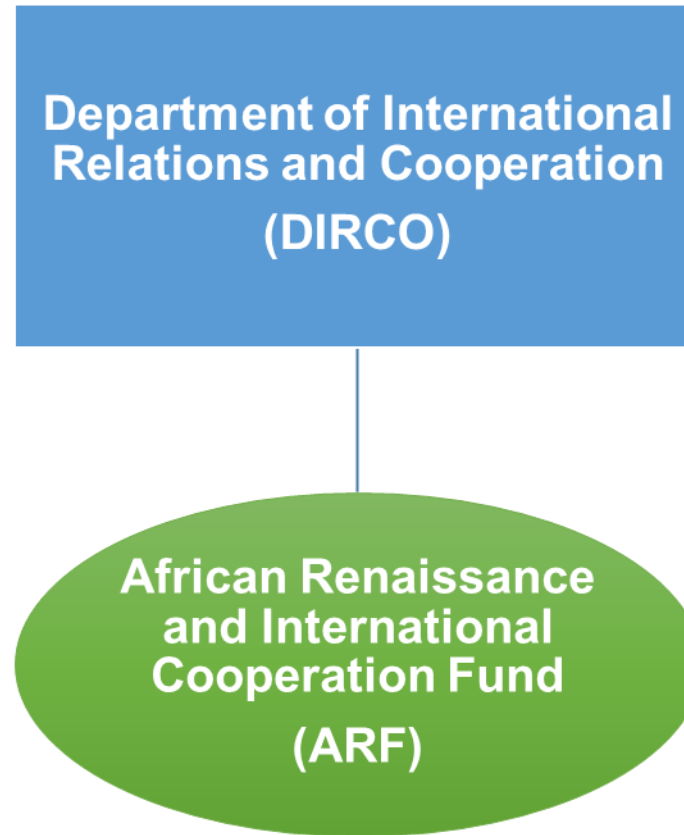
Movement over the previous year is depicted as follows:



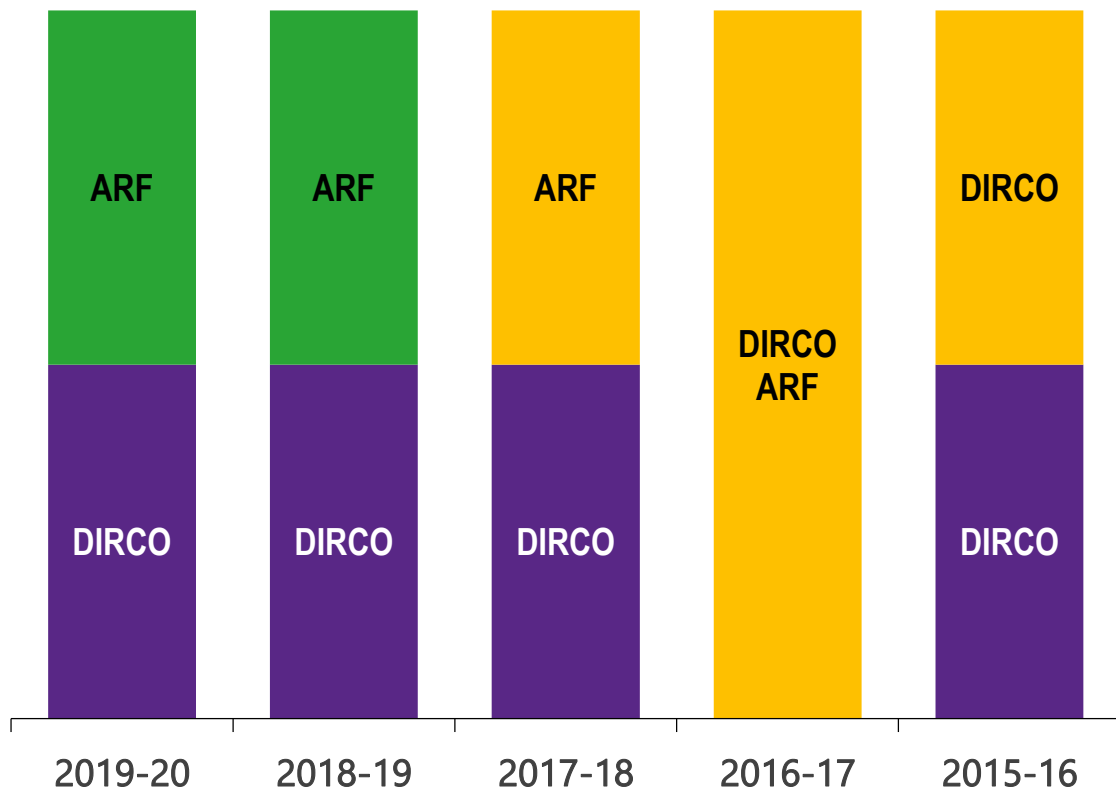
ACCOUNTABILITY = PLAN + DO + CHECK + ACT



International Relations and Cooperation



Audit outcomes of portfolio over five years



Movement	
	0
	0
	2
Outstanding audits	0

Legends	
	Unqualified with no findings
	Unqualified with findings
	Qualified with findings

- The audit outcomes has remained unchanged compared to the prior year. ARF has obtained an unqualified audit opinion with no findings which is the same as the prior year. DIRCO received a qualified audit opinion in the current on receivables. This is a new qualification as DIRCO was qualified in tangible capital assets, cash and cash equivalents in the prior year. DIRCO managed to address prior year qualification on movable tangible and cash and cash equivalents.
- Financial statement preparation remains a concern for DIRCO as material adjustments are effected to AFS submitted for audit.
- Compliance with applicable legislation is another area of concern for DIRCO especially in supply chain management (SCM).

Update on prior year qualification area (DIRCO)

Cash and cash equivalents

- The material misstatements in cash and cash equivalents that resulted in a qualification in the prior year, were as a result of differences between the balances as per the cash book and the balances as reported in the annual financial statements. The root cause was a lack of proper reconciliations between the cash book and the actual bank accounts/statements and where there are differences no one was tasked with following up.
- This matter was reported in the previous year and has affected the department in prior years as well.

Process management followed to clear the qualification matter on prior year cash and cash equivalents

- Management determined a plan to resolve the matter after consultation with the National Treasury,
- To rectify the issue in the current year, a reconciliation of the cash book and actual bank accounts were done,
- Management reconciled the cash books to the amounts of cash and cash equivalents as recorded in BAS (Annual financial statements) for 31 March 2019,
- The unexplained differences under cash and cash equivalents and petty cash were then moved to a suspense account under "receivables" called "disallowance and damages account",
- In terms of the accounting standards, this account is used to investigate transactions which are not clear to management,
- The differences that could not be explained amounted to R187 million (2018/19: R140 million) which has resulted in a material misstatement of the disallowance account under "receivables", as it could not be audited, and
- Management has now committed to perform regular reconciliations in order to prevent similar issues in future. More reviews to be done at a chief director level.



Update on prior year qualification area (DIRCO)

Movable tangible capital assets

- In an effort to move away from using excel as an asset tool, the department received approval from NT to procure an asset management software (Nettrace). Nettrace was brought into use from 01 Nov 2019 after the department went through the migration process.
- Internal audit performed proactive reviews in a form of computer assisted auditing techniques (CAATs) to ensure migration of assets from excel to Nettrace was done effectively.

Preventative controls that management should continue to implement:

- The department has performed a 100% asset verification processes at all the missions as part of the clean up as from 01 November 2019.
- All variances that were identified during the verification process were communicated to the director: Asset management for approval before the asset register could be edited,
- Management collaborated with internal audit to run CAATs on the registers to identify exceptions to follow up, and
- Monthly reconciliations of fixed asset register to the accounting system (BAS) were performed during the clean up process and that should continue in the future

The above are controls implemented that assisted in our audit process as it was easier to work with a credible fixed asset register. See next slide for details of how we audited the assets in the 2019-20 audit.



Update on prior year qualification area (DIRCO)

Movable tangible capital assets...(continued)

Process we have followed on the audit of assets

- We tested the credibility of the asset register by running Computer-assisted audit techniques (CAATs) data before we could select samples to test,
- The outcome of tests were positive as no material issues were picked up, and
- With the assistance of international audit firms, we have finalised the audit process on assets as planned and no material findings were identified.
- No material misstatements identified on movable tangible capital assets and this has therefore led to the improvement in the audit of tangible capital assets in the current year.

It should be noted that even though the department has managed to overturn the qualification on assets, there were findings which were identified during the audit process.

The findings were not material to be escalated to the audit report. The findings were on:

- Assets selected from the asset register which could not be verified, and
- Assets which were selected from the floor but not recorded in the asset register.

The department is commended for the positive outcomes on the issue of assets. This is a positive step in the right direction and we would like to encourage management to maintain the consistency and commitment they have shown in the 2019-20 audit when resolving the assets issues.





Credible financial reporting



Financial statements

	Movement	2019-20	2018-19
Submission of financial statements by legislated date		2 (100%)	2 (100%)
Financial statements submitted without errors		1 (50%)	1 (50%)
Quality of final submission after audit		1 (50%)	1 (50%)

DIRCO submitted AFS that contained material errors, and they could not correct all of them, as a result, they received a qualified opinion

ARF submitted AFS that are free from material misstatements.

- Current assets: Receivables - Disallowance and damages – The uncorrected misstatements for cash on hand and investment foreign that was identified in 2018/19 audit of the department was reclassified to current receivables – disallowance and damages. The restated and current year amount in disallowance and damages could not be substantiated by supporting audit evidence. This has resulted in a limitation of scope.





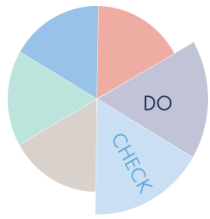
Credible performance reporting



Performance report

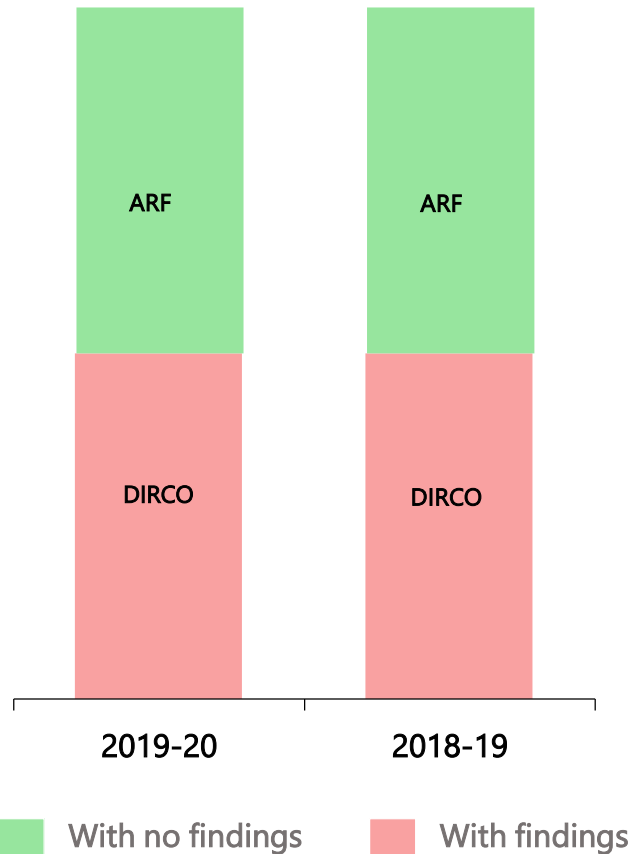
	Movement	2019-20	2018-19
Performance report submitted without errors	➤	1 (50%)	1 (50%)
Quality of final submission after audit	➤	2 (100%)	2 (100%)
<p><i>ARF submitted performance report which had material misstatements which were corrected during the audit. This was also the case in 2018-19.</i></p> <p><i>DIRCO submitted performance report which was free from material misstatements.</i></p>			
Reliable reporting of achievements	➤	2 (100%)	2 (100%)
Usefulness of performance indicators and targets	➤	2 (100%)	2 (100%)





Disregard for compliance with legislation

Findings on compliance with key legislation



Top three non-compliance areas

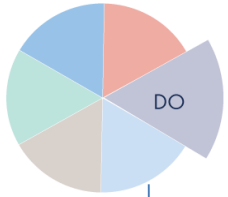
ARF

No material non-compliance identified

DIRCO

- Procurement and contract management:
 - Contracts extended or modified and/or deviations without appropriate approval,
 - Services procured not in accordance with transversal contract terms,
 - Award to bidders who did not submit the required declarations and
 - At least 3 quotations not obtained on procurement of goods and services,
- Expenditure management: Effective and appropriate steps were not taken to prevent irregular expenditure of R211 million (R8,51million identified through audit) and fruitless and wasteful expenditure of R1,63 million (R582 000 identified through audit).
- Annual financial statements: Material misstatements in submitted financial statements.

Status of internal control



Leadership

Effective leadership

ARF

DIRCO



Proper record keeping

ARF

DIRCO



Daily and monthly controls

ARF

DIRCO



Review and monitor compliance

ARF

DIRCO



Risk management

ARF

DIRCO



Financial and performance management

Governance



Good



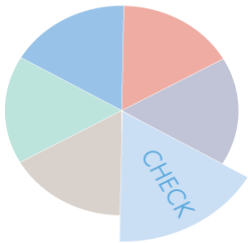
Of concern








Intervention required

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Assurance provided

Assurance		
First level	Senior management	DIRCO & ARF 
	Accounting officer/authority	DIRCO & ARF 
	Executive authority	DIRO & ARF 
Second level	Internal audit unit	DIRCO & ARF 
	Audit committee	DIRCO & ARF 

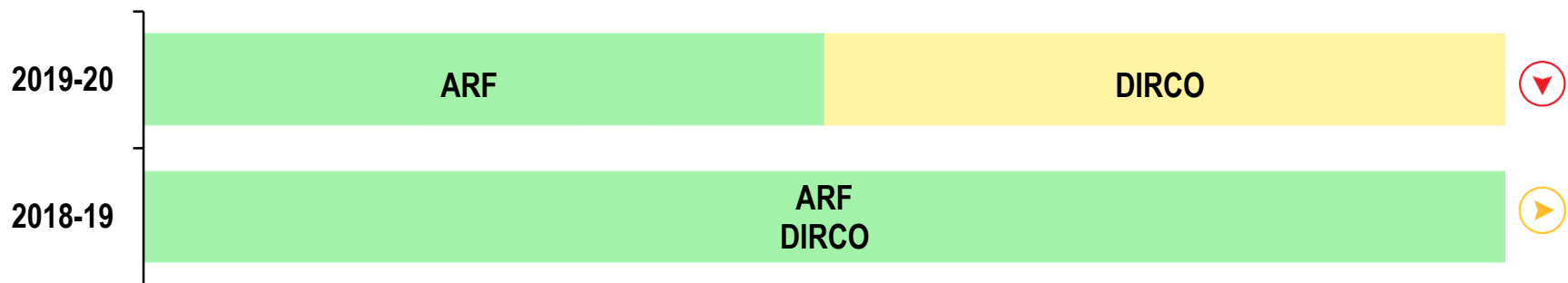


Financial health and financial management



Financial health

- There were no material uncertainty identified on whether auditees in the Portfolio can continue to operate in the future



High-level comments

- Although there are no going concern uncertainties on both DIRCO and ARF, DIRCO has unfavourable indicator. DIRCO incurred unauthorised expenditure of R247 million in 2019-20.



Good



Of concern



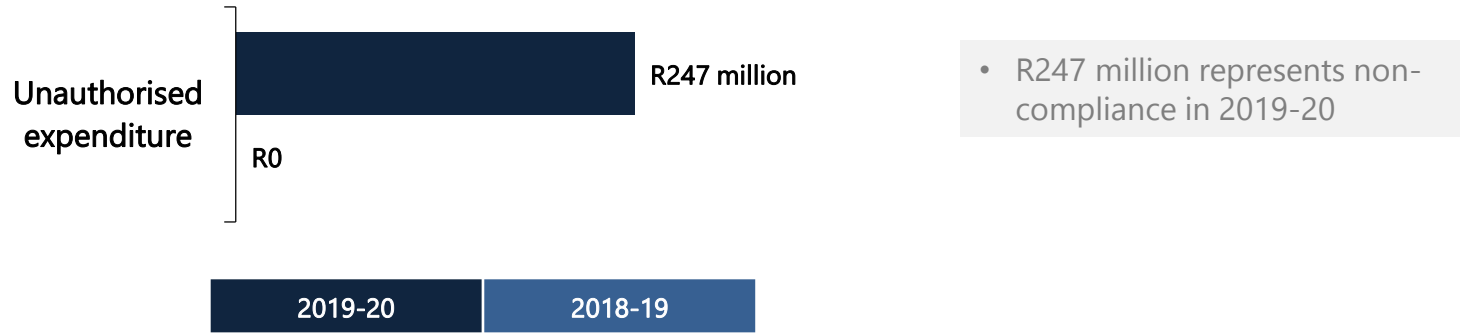
Intervention required

Unauthorised expenditure increased over 2 years

Definition

Unauthorised expenditure means overspending of a vote or a main division within a vote; expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division

Unauthorised expenditure incurred by entities in portfolio



Nature of the unauthorised expenditure

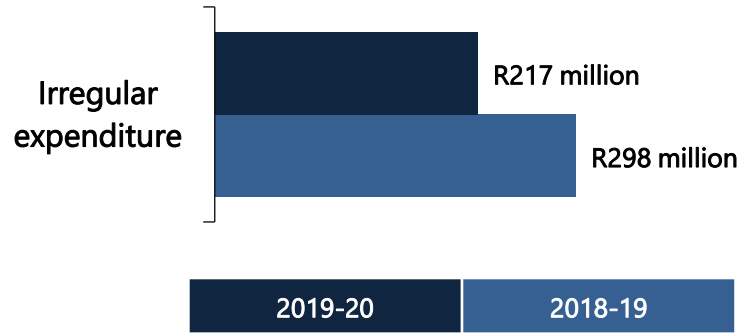
- *There was no unauthorised expenditure incurred in 2018-19*
- *Unauthorised expenditure is due to the overspending on compensation of employees (COE). The national treasury has implemented a ceiling on COE which does not cover the cost for the filled positions as well as the depreciation of Rand against major currencies which impacted expenditure incurred in foreign currency.*

Irregular expenditure decreased over 2 years

Definition

Expenditure incurred in contravention of key legislation; goods may have been delivered but prescribed processes not followed

Irregular expenditure incurred by entities in portfolio



ARF

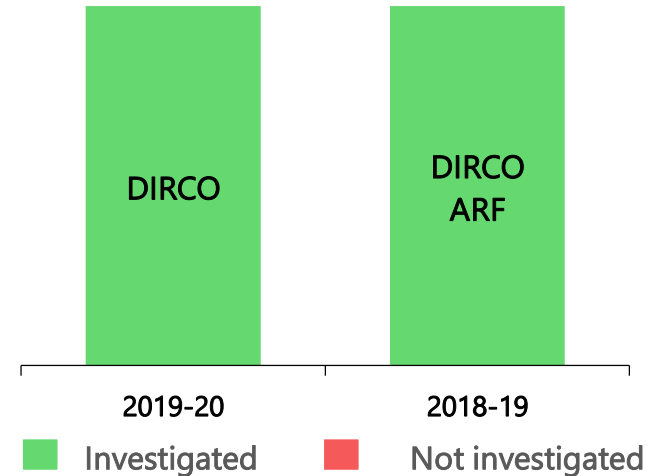
- No irregular expenditure incurred in both years
- ### DIRCO
- R204 million represents non-compliance in 2018-19. The expenditure on ongoing multi-year contracts.

Nature of the irregular expenditure

DIRCO

- Procurement of goods and services through transversal contracts not in accordance with Treasury Regulation (TR)16A6.
- Three quotations not obtained as required by TR16A6 and insufficient documentation on deviations process.
- Awards made to suppliers who did not submit declarations as required by TR16A8.3
- Contracts extended/modified not in accordance with TR16A.6

Previous year irregular expenditure reported for investigation for DIRCO and ARF

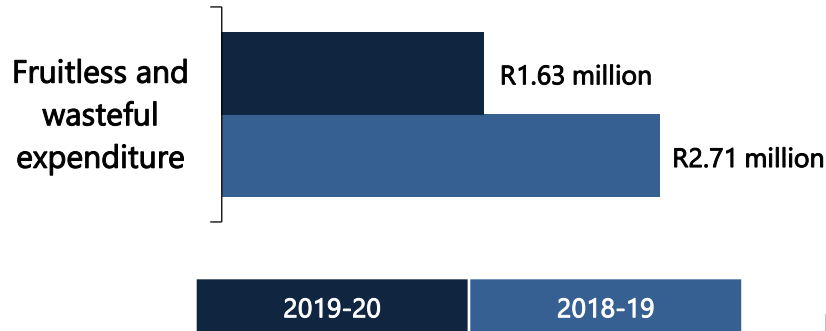


Fruitless and wasteful expenditure increased over 2 years

Definition

Expenditure incurred in vain and could have been avoided if reasonable steps had been taken. No value for money!

Fruitless and wasteful expenditure incurred by entities in portfolio



ARF

- No fruitless and wasteful expenditure in both years

DIRCO

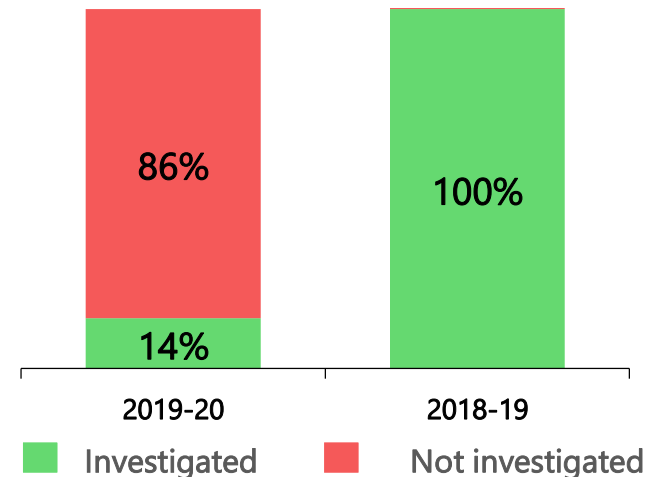
- R1,63 million represents non-compliance in 2019-20

Previous year fruitless and wasteful expenditure reported for investigation for DIRCO

Nature of the fruitless and wasteful expenditure

DIRCO

- *Unoccupied state properties abroad where plans to put the properties to better use were abandoned.*
- *Cancellation of services (i.e.. cancellation of flight tickets, functions, etc..)*



Supply chain management

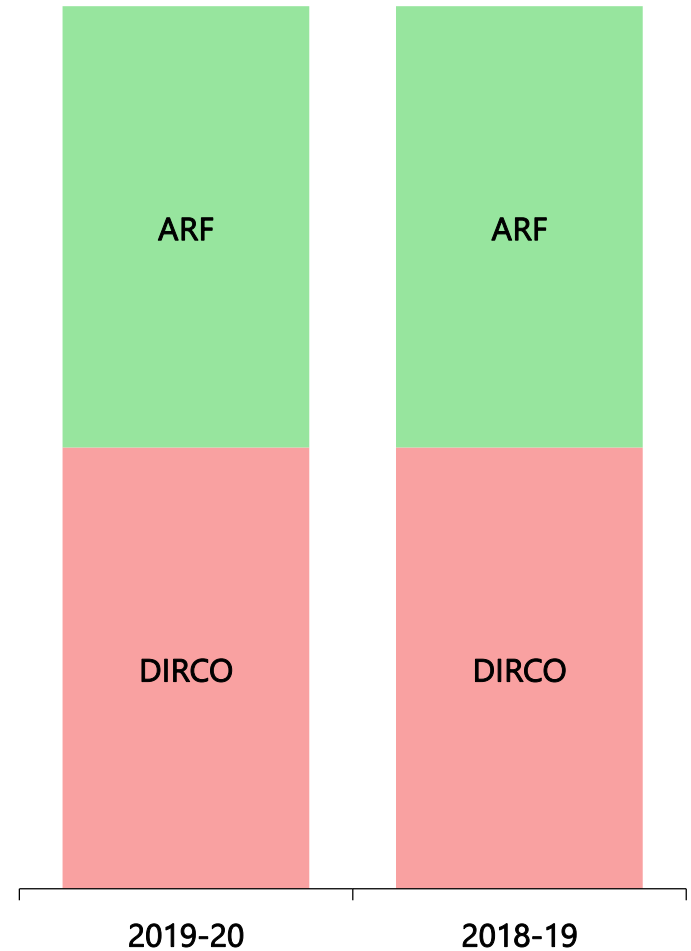


Stagnant in SCM compliance
(2018-19: 50% with no findings)

All SCM findings should be investigated

Most common findings on supply chain management

- Contracts extended or modified and/or deviations without appropriate approval
- Award to bidders who did not submit declaration
- Service procured not in accordance with the transversal contract terms



With no findings



With findings



With material findings

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Root causes



Recommendations

To department and its entity

- Implement action plans timeously to address audit findings, especially in compliance with legislation.
- Ensure that all procurement process has been subjected to review by SCM unit prior to approval or award.
- Improve communication between the missions and head office to avoid instances where there is contradicting information supporting annual financial statements as evidenced in the audit of cash and cash equivalents, Receivables and tangible capital assets.
- Prepare proper monthly reconciliations between the accounting records and the fixed assets register (FAR). Continue with the 100% asset verifications annually.
- The accounting officer should ensure that a culture of consequence management is maintained in the department.

To the portfolio committee

- The PC should request accounting officer and the Minister to provide feedback on the implementation and progress of action plans to ensure improvement in the audit outcomes of the portfolio.



Thank you



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