

# Audit Committee

**“Update on the Implementation of the Audit Action Plan & Risks negatively impacting the financial performance of the Department”**

**Briefing to the Portfolio Committee**

**18 August 2021**



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REPUBLIC OF SOUTH AFRICA

# Presentation Outline

- Part A – General overview of the Audit Committee’s purpose and authority
- Part B – Progress update on matters raised with the Portfolio Committee in the past
- Part C – Observations from the Audit Action Plan compilation and implementation processes
- Part D – Progress update on the implementation of the Audit Action Plan
- Part E - Other risks negatively impacting the financial performance of the Department
- Part F – Positive observations



# **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)

- In line with Treasury Regulation 3.1.12, an audit committee must report and make recommendations to the accounting officer, but the accounting officer retains responsibility for implementing such recommendations.
- 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: Progress update on matters raised with the Portfolio Committee in the past**



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# Persistent challenges

No	Matters	Recommendations	Status update
1.	Budget overspending on the Compensation of Employees	Review South Africa's presence in some of the missions abroad	In progress (6/12 missions already closed). 4 expected to be closed in Dec 2021
2.	Underfunding for some of the expenditure such as international transfers, forex losses, summits and conferences (unfunded mandates), leases abroad and etc.	Review South Africa's membership in some of the international organisations/fora Consistently engage with National Treasury for any potential unfunded mandates Implement the property acquisition strategy	In progress (discussions are taking place at various levels) Limited progress (linked to implementation of the FSA and vacancies)
3.	Recurring irregular, fruitless and wasteful expenditure	Investigate all the irregular, fruitless and wasteful expenditure incurred and take corrective action	In progress

# Persistent challenges (continues)

No	Matters	Recommendations	Status update
4.	Non-implementation of consequence management	Management to regularly report on disciplinary matters/cases	In progress (Hearings for both the AO and CFO currently underway)
5.	Leadership deficiencies in some parts of the Department, resulting in a culture of impunity and low staff morale	<p>Conduct a culture survey and implement the recommendations timely</p> <p>Break the culture of impunity within the Department.</p>	<p>No progress</p> <p>In progress (refer to 4 above)</p>
6.	<p>ICT infrastructure is outdated and requires upgrade and continuous maintenance</p> <p>The implementation of the infrastructure refresher plan is very slow, 6 years after the decision was made.</p>	<p>Capacitate staff involved in the implementation of the ICT refresher plan</p> <p>Fill the post of the Chief Information Officer (CIO), has been vacant for more than 12 months</p>	<p>No progress (budgetary constraints in filling out the vacancies)</p> <p>Completed (CIO appointed from August 2020)</p>



# Persistent challenges (continues)

No	Matters	Recommendations	Status update
7.	Challenges in the maintenance and the reporting of assets (Asset Register)	Migrate the assets data from an Excel spreadsheet to an Asset Management Software	Completed
		Conduct regular physical asset counts and follow up on the exceptions from the count	Completed



# **PART C: Observations from the Audit Action Plan compilation and implementation processes**



# Observations from the Audit Action Plan, including hindrances on the “effectiveness”

- Delayed conclusion of the 2019/20 external audit process i.e. report signed off on 30 Sept 2020, effectively 6 months into the end of the financial year
- Despite the Audit Committee highlighting to management the need to give immediate attention to resolve the Damages and Disallowances Account in 2020/21, the extent of work and complexity required was under estimated, resulting in “too little too late”
- Inadequate root cause analysis performed when developing the plan e.g. the perceived lack of capacity, skills and experience within the Financial and Asset Management Unit has not been addressed anywhere in the plan.
- Internal assurance providers (Internal Audit & Risk Management) are not adequately capacitated to execute their mandate in full e.g. the analysis of the root cause was inadequate, internal audit is unable to adequately to do follow up audits once implementation has been completed.



# Observations from the Audit Action Plan, including hindrances on the “effectiveness”

- The Audit Action Plan itself was inadequate as it did not include the Internal Audit findings nor detailed actions and target dates required by management as an assurance provider, this was subsequently addressed.
- At times Internal Audit is perceived to be less important (by Management) compared to the Auditor General. This points to a lack of understanding the value of internal audit and incorrect comparisons with other assurance providers
- The audit action plan is not split to deal with the design of the control to address the root cause followed by the implementation of the control from a specific point in time.
- Internal Audit provided limited assurance on the annual financial statements before submission to the external auditors (AG) on 31 May 2021.



# **PART D: Progress update on the implementation of the Audit Action Plan**



# Progress update

No	Audit findings	Recommendations	Status
1	<p>Damages &amp; Disallowances account (2019/20 qualification): Misstatements noted in the adjustments processed when clearing reconciling items in Cash and cash equivalents: Investment (Foreign)/Cash with Commercial banks (CWC) – scope limitation (2021 - R51m: 2020 – R186,8m)</p>	<ul style="list-style-type: none"> <li>• Perform a forensic investigation.</li> <li>• Perform adequate monthly reconciliations and role clarification to be outlined in the SOP between Missions and Head Office.</li> </ul>	<ul style="list-style-type: none"> <li>• A final report with recommendations was submitted to all the relevant recipients on 18 June 2021.</li> <li>• As at 31 March 2021, the exceptions have been reduced from R186, 8 million to R51 million.</li> <li>• Monthly reconciliations have been performed by all missions. Consolidated reconciliation have been performed up to end of June 2021.</li> </ul>



# Progress update (continues)

No	Audit findings	Recommendations	Status
2	Some of the contract variations above 15% were not approved by National Treasury	<ul style="list-style-type: none"><li>• Terminate the irregular contracts resulting from variation.</li></ul>	<ul style="list-style-type: none"><li>• Termination of the irregular contracts has been implemented, except for one ICT contract which could not be terminated as the department is still in the process of procuring the new service provider.</li></ul>



# Progress update (continues)

No	Audit findings	Recommendations	Status
3	<p>Unauthorised expenditure incurred on the Compensation of Employees (2021: R239m).</p>	<ul style="list-style-type: none"> <li>• Review the organisational structure for both missions and Head Office.</li> <li>• Closure of some of the missions abroad.</li> <li>• Defer the transfer of some of the officials abroad</li> </ul>	<ul style="list-style-type: none"> <li>• The review of the structure is underway.</li> <li>• A few missions have either been closed or identified for closure</li> <li>• The transfer of officials abroad is being done in a staggered manner</li> </ul>





# Progress update (continues)

No	Audit findings	Recommendations	Status
4	Fruitless and Wasteful expenditure incurred in prior year not investigated (2021 - R23m: 2020 – R12m)	<ul style="list-style-type: none"> <li>• All cases where liability in law has been determined to be referred to Labour</li> <li>• Debts to be raised where liability in law has been determined</li> </ul>	<ul style="list-style-type: none"> <li>• The determination of liability in law is currently being performed.</li> <li>• Upon completion action as per the recommendations will be taken.</li> </ul>



# Progress update (continues)

No	Audit findings	Recommendations	Status
5	Services procured not in accordance with transversal contract RT61 – 2018: Charter flights	<ul style="list-style-type: none"> <li>All procurement to be done through the supply chain management unit in order to be able to adequately monitor compliance with laws and regulations.</li> <li>SCM to arrange a workshop with the relevant Officials</li> </ul>	<ul style="list-style-type: none"> <li>All charter flight procurement to be done through the supply chain management unit centralisation in order to be able to adequately monitor compliance with laws and regulations.</li> <li>Meeting with the relevant officials was held</li> </ul>



# Progress update (continues)

No	Audit findings	Recommendations	Status
6	Assets on the register but could not be physically verified - Existence	<ul style="list-style-type: none"> <li>• Training of officials to effectively conduct physical asset verification and clear exceptions identified during the asset verification process</li> </ul>	<ul style="list-style-type: none"> <li>• Physical asset verification and the clearing of exceptions for the financial year 2020/21 conducted. Preliminary external audit results have indicated an improvement.</li> </ul>
7	Assets physically verified but not recorded in the asset register – Completeness	<ul style="list-style-type: none"> <li>• Training of officials to effectively conduct physical asset verification and clear exceptions identified during the asset verification process</li> </ul>	<ul style="list-style-type: none"> <li>• Physical asset verification and the clearing of exceptions for the financial year 2020/21 conducted. Preliminary external audit results have indicated an improvement.</li> </ul>



# Progress update (continues)

No	Audit findings	Recommendations	Status
8	<p>Inconsistencies (exceptions) identified between the 2018/19 fixed asset register and the 2019/20 fixed asset register submitted for audit</p>	<ul style="list-style-type: none"> <li>• Computer Aided Auditing Techniques (CAATS) to be performed to enhance quality assurance on the FAR.</li> <li>• Nettrace to be requested to upgrade/enhance the system as part of asset management improvement</li> </ul>	<ul style="list-style-type: none"> <li>• On the 2019/20 and 2020/21 asset registers, CAATS were performed with the assistance of Internal Audit and recommendations from the CAATS results implemented</li> <li>• Nettrace has been upgraded to address the current compliance requirements</li> <li>• The outcomes were useful for the preparation of the FAR that was submitted with the AFS.</li> </ul>



# Progress update (continues)

No	Audit findings	Recommendations	Status
9	<p>Long outstanding amounts payable to the Department of Home Affairs (DHA) – may pose liquidity challenges to the department. (2021 – R288m: 2020 – R364m)</p>	<ul style="list-style-type: none"> <li>• Communication to be forwarded to all missions with amounts owing to DHA to return the funds to HO.</li> <li>• Adequate reconciliations on DHA to be performed monthly</li> </ul>	<ul style="list-style-type: none"> <li>• Monthly reconciliations have been performed for DHA up to 31 May 2021.</li> <li>• Large amounts are still being owed to DHA, and this is putting a strain in the available cash.</li> </ul>



# PART E: Other matters



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# Other risks negatively affecting the financial performance

1. A number of ICT related findings have not yet been resolved (only 2/14 resolved), primarily due to budgetary constraints on the filling of vacant posts, obsolete infrastructure, system limitations that require financial resources for redesigning and etc.
2. The following interventions have been put in place:
  - Align ICT Structure with the Digital Strategy and Re-skilling of the current resources
  - To expedite the implementation of the Infrastructure modernisation
3. Excessive spending on the lease for the New York Mission and a lack of contract – on 01 June 2021, the Mission moved to the new leased premises



# Other risks negatively affecting the financial performance (cont.)

5. Protracted organisational structure review process – after more than 2 years, the process is yet to be concluded. Consultations are still ongoing, likely to be concluded within 3 months. This is further compounded by the current unusual high vacancy rate. The envisaged savings may take longer to realise.
6. Various property management challenges such as, the continued backlog in maintenance and renovations activities caused by a lack of a fully-fledged and professionally staffed property management portfolio unit at Head Office as well as in Missions.
  - With the “revised” organizational structure, the Property Management Unit will be moved to the Office of the Chief Operations Officer
  - Positions for both the Chief Director and Director: Property Management are at the shortlisting stage
  - 34 properties have been identified and funded for maintenance in 2021/22





# Other risks negatively affecting the financial performance (cont.)

7. Delays in the implementation of the Foreign Service Act, mainly caused by the delay in finalising the regulations. Anticipated improvements in areas such as governance, professionalization of the foreign service, efficiencies and coordination during the implementing the foreign policy may not be realised.
8. Delays in establishing the Contract Management Unit (to track the contract end dates so as to proactively start procurement processes, monitor the performance of service providers, amongst others)
9. Unusually high number of litigations - the Department is dealing with 74 cases, wherein 42 have been instituted against the Department and are being adjudicated in South Africa
10. The COVID 19 dynamics is posing challenges - lack of the tool of trade (laptops)
11. Irregular expenditure on the New York Building Project – the matter is subject of a court process with the intention of setting aside the award and recover the monies already paid.



# PART F: Positive observations



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# Positive observations

Despite the various areas of concern raised above, the Department has shown significant improvement, resilience and excellency in some of areas, such as:

1. Resuscitation of the Risk Management Committee, including management's commitment on attendance of meetings and implementation of the recommendations from the Committee.
2. Quality improvement on the work of Internal Audit, subsequent to the external quality review that was performed on the Unit.
3. Move towards the institutionalisation of the Combined Assurance by Management is laudable as well.
4. Business continuity, this is despite the suspensions on some of the leadership positions, and rotational work due to COVID 19 restrictions e.g. the 2020/21 annual financial statements were submitted on time.
5. The continued support of the Audit Committee's work by the Executive Authority is also noted and laudable.



# Recommendation

It is recommended that the Portfolio Committee notes:

1. That due to operational reasons in the Auditor-General of South Africa, the signing off of the 2020/21 external audit process has been delayed i.e. will only be finalized on 31 August 2021 instead of 31 July 2021.
2. The presentation on the “Implementation of the Audit Action Plan and risks negatively impacting the financial performance of the Department”.



Thank you!

