



AUDITOR-GENERAL
SOUTH AFRICA

Budgetary Review and Recommendations Report

Portfolio Committee on International Relations

10 November 2021



Our mission and vision



OUR MISSION

We have a constitutional mandate and, as the supreme audit institution of South Africa, exist to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.



OUR VISION

To be recognised by all our stakeholders as a relevant supreme audit institution that enhances public sector accountability

Mandate for the AGSA and portfolio committees

AGSA mandate

Constitution section 188

AGSA must audit and report on accounts, financial statements and financial management of government institutions

PAA section 20(2)

- AGSA must prepare an audit report containing an opinion/ conclusion on:
 - the fair presentation of the financial statements
 - compliance with applicable legislation
 - reported performance against predetermined objectives
- Discretionary audits (including special audits, investigations and performance audits).

Section 5(1B)

- Auditor-General has the power :
 - to take an appropriate remedial action
 - where an accounting officer/authority has failed to comply with remedial action, to issue a certificate of debt, as prescribed.

Portfolio committees

National Assembly Rule 227

Portfolio committees may, amongst other things, perform the following functions:

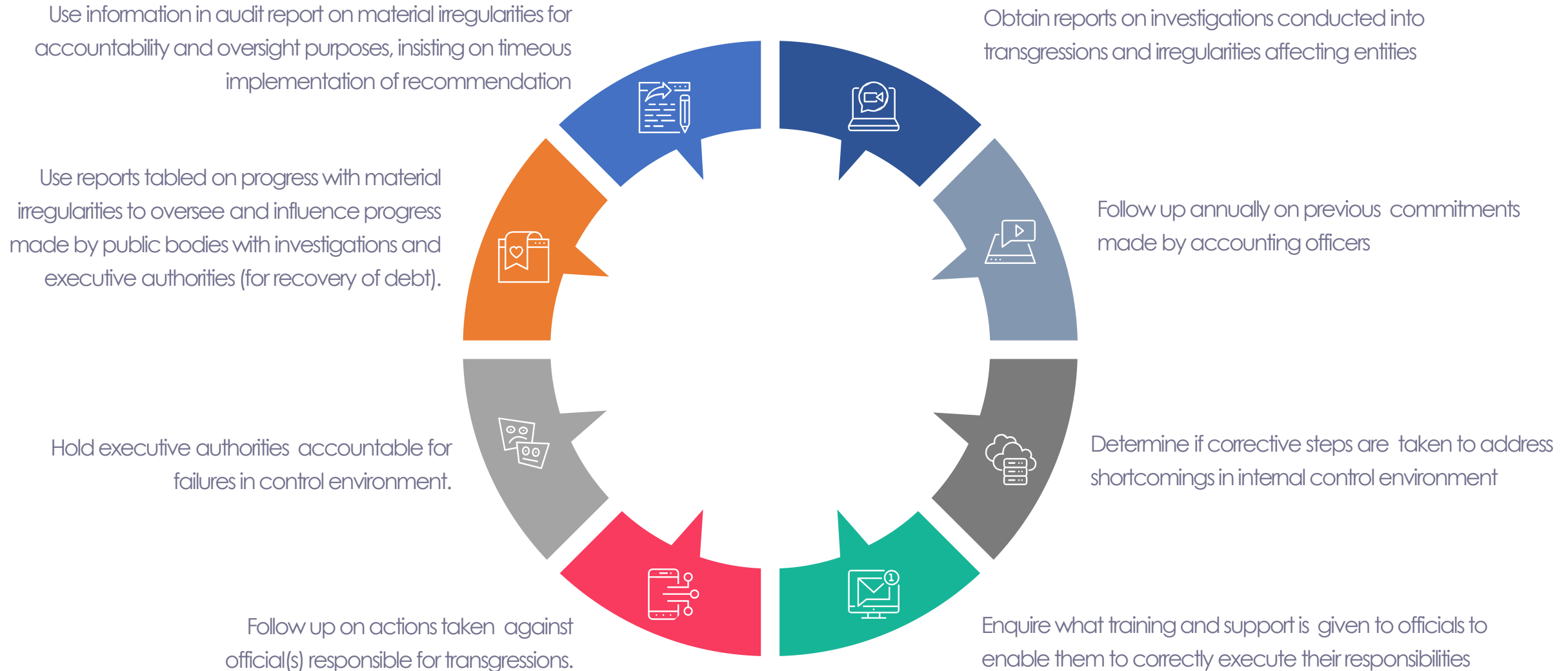
- Deal with bills and other matters falling within their portfolio, as referred to them in terms of the constitution, legislation or rules, or by resolution of the Assembly
- Maintain oversight of their portfolios of national executive authority, including implementation of legislation
- Consult and liaise with any executive organ of state or constitutional institution
- Monitor, investigate, enquire into and make recommendations concerning any such executive organ of state, constitutional institution or other body or institution, including the legislative programme, budget, rationalisation, restructuring, functioning, organisation, structure, staff and policies of such organ of state, institution or other body or institution
- Consult and liaise with any executive organ of state or constitutional institution

Role of the AGSA in the reporting process

Our role as the Auditor-General of South Africa (AGSA) is to reflect on the audit work performed to assist the portfolio committee in its oversight role of assessing the performance of entities, taking into consideration the committee's objective to produce a *Budgetary review and recommendations report (BRRR)*.



What we understand as the role of oversight





AUDITOR-GENERAL
SOUTH AFRICA

Focus

AGSA audit outcomes

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

The AG's annual audits examine:

1. Fair presentation and absence of significant misstatements in **financial statements**
2. Reliable and credible **performance information** for predetermined objectives
3. **Compliance with laws and regulations** governing financial matters

Movement over the previous year is depicted as follows:



Improved



Unchanged



Regressed

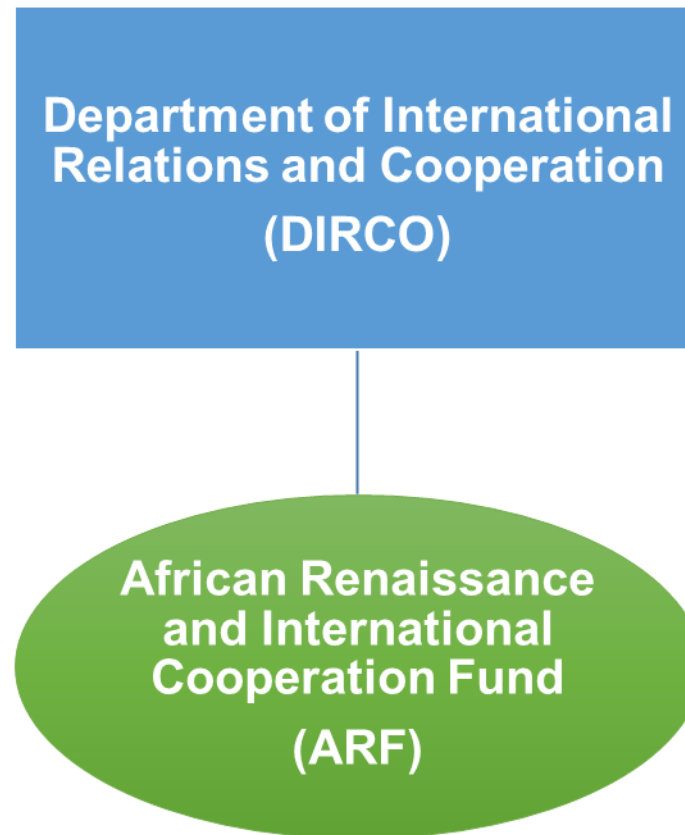


AUDITOR-GENERAL
SOUTH AFRICA

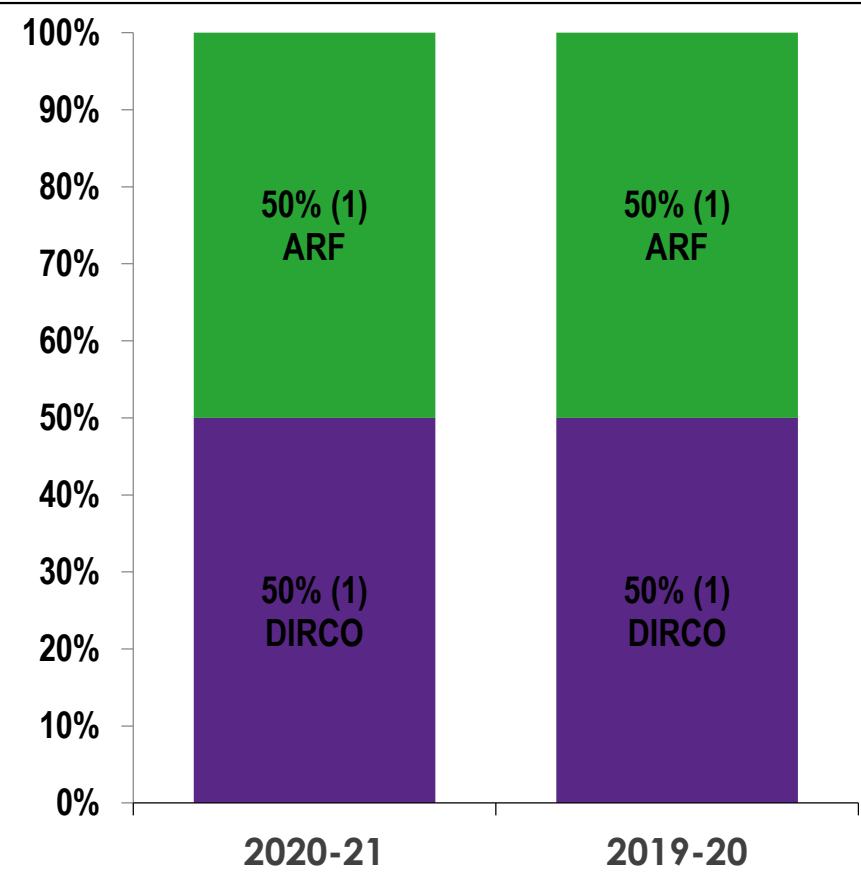
Portfolio outcome

International relations portfolio auditees

The objective of this document is to brief the international relations portfolio committee on the audit outcomes of the International Relations portfolio for the period ended 31 March 2021. In this presentation we highlight audit outcomes, root causes and recommendations in order to improve audit outcomes for the portfolio.



Audit outcomes of the international relations portfolio over 2 years



Movement	
	0
	0
	2

- The overall audit outcomes of the portfolio remained unchanged from the prior year.
- **DIRCO** received a financially qualified audit opinion with findings on compliance with legislation and **ARF** was able to maintain clean outcomes (unqualified opinion with no findings).

Audit outcomes are depicted as follows:



Unqualified with no findings



Unqualified with findings



Qualified with findings



Adverse with findings



Disclaimed with findings



Outstanding audits

Portfolio overall message

The overall audit outcomes of the portfolio remained unchanged from the prior year. DIRCO received a financially qualified audit opinion with findings on compliance with legislation and ARF received an unqualified opinion with no findings.

The prevalent instances of non-compliance are in the areas of expenditure management, supply chain management, consequence management and material misstatements identified in the financial statements submitted for audit. Findings raised are in most instances recurring findings indicating that audit action plans and a culture of consequence management is not exercised effectively.

The department is still struggling to resolve the prior year qualification area on current receivables (disallowance and damages account) even though there were efforts to address this matter. As part of the audit action plan for the current year, this is an area that the department has prioritised to resolve. Even though the department has obtained the services of a forensic investigation firm to assist in addressing the qualification area, this did not have a positive impact.

The department has reduced the material misstatements in this account from R186 million to a balance of R73 million, however it was not enough to address the qualification. We commend the department for this effort and we encourage them to continue to investigate this account to address the qualification in the financial statements.

Compliance with legislation remains an area of concern when compared to the prior year. The department has continued to incur irregular expenditure due to non compliance with legislation. The department has incurred irregular expenditure relating to the current year amounting to R14.6 million when compared to the prior year of R7.3 million. This represents a 50% increase in irregular expenditure. The increase in new irregular expenditure in the current year is as a result of non-compliance with legislation findings on supply chain management (SCM) processes.

Portfolio overall message (cont.)

This was mainly from missions where procurement prescripts were not followed in the procurement of goods and services i.e. quotations not obtained or expenditure incurred on expired contracts. This was due to lack of oversight and adequate reviews by those involved in the compliance processes.

We do however note the significant decrease in irregular expenditure coming from old contracts in the current year (R162 million) when compared to the prior year (R209 million). This was due to the department taking a stance and cancelling contracts that were declared as irregular in the past.

We commend the minister on the consequence management implemented at the highest level within the department and promoting a culture of consequence management. While we note the Minister's efforts on consequence management, this has not filtered down to the rest of the department. This is due to the fact that the irregular expenditure arising from 2017-18, 2018-19 and 2019-20 has not been investigated by the department resulting in poor consequence management. We urge Department to investigate all the irregular and fruitless and wasteful expenditure, implement consequence management and continue to put measures in place to ensure compliance with legislation. Failure to implement consequence management, encourages a culture where there is a disregard for legislation, policies and procedures thrive in any organisation. The department needs to also ensure that the current action plan is enhanced to address the repeat findings in compliance with legislation. The action plan must be monitored by the internal audit function and the audit committee should play an oversight in the implementation and monitoring of the action plan.

The department has continued to produce a credible annual performance report that is useful and reliable. The department has managed to achieve about 83,33% and 80% of the planned targets on its key programmes of international relations and international cooperation respectively.

Portfolio overall message (cont.)

We commend management and the executive authority for the ARF that achieved and continue to maintain clean audit outcomes. This positive audit outcomes were maintained from the prior year.

The ARF maintained their clean audit outcomes because it has consistently demonstrated the basic financial discipline, consistent reviews and monitoring of compliance with applicable laws and regulations.

As this entity has been able to achieve clean audit outcomes, it is important that they focus on ensuring that this also translates into service delivery to citizens.

The department should look at the good practices implemented by its entity such as:

- A leadership culture that is committed to take action to address any findings identified supported by implementation of consequence management.
- Continuously implementing, reviewing and monitoring of internal controls over financial reporting and compliance with applicable legislation.
- Internal audit function that effectively executes their mandate with the thorough follow up of audit action plans.
- The audit committee that plays an active oversight role in the monitoring of the implementation of the actions plans to address prior year audit findings.

Portfolio committee should enhance in-year monitoring processes to ensure that the good practices as indicated above are implemented and maintained by all entities in the portfolio.

Portfolio overall message (cont.)

Key root causes in internal control environment

Slow response to improving key controls and addressing risk areas such as:

- Basic financial discipline of preparing and performing detailed reviews of monthly reconciliations
- Ineffective action plan on compliance monitoring and the quality of financial statements
- Inadequate SCM compliance monitoring processes
- Consequence management not implemented within the department as irregular expenditure for 2017-18, 2018-19 and 2019-20 was not investigated

Recommendations:

To the accounting officer

- Implement action plans timeously to address audit findings, especially in compliance with legislation.
- Enhance the review by SCM unit to sustain the improvement made in the prior year findings, address the new non-compliance identified in the current year and prevent instances of non-compliance going forward.
- Finalise the process of clearing the disallowance and damages account and ensure that record management is enhanced to prevent repeat limitation finding.
- The accounting officer should ensure that a culture of consequence management is maintained in the department.
- The department needs to relook at their policy for posting of officials abroad as some of the Corporate Service Managers (CSMs) do not have formal finance background training and experience.
- Internal audit function together with the audit committee to review the audit action plan to ensure that root causes are properly identified and that it is adequate to address findings reported

Portfolio overall message (cont.)

Recommendations (continued):

To the accounting officer

- Heads of political branches (Deputy Director-Generals) should assist the department by working closely with the heads of missions and corporate service managers to work out some of the true root causes for repeat findings coming from their respective missions. This will have a positive contribution in the department's action plan for 2021-22.

To the Minister

- Follow up with the accounting officer to ensure that recommendation above are closely monitored and implemented to achieve clean administration in the portfolio.



AUDITOR-GENERAL
SOUTH AFRICA

Quality of financial and performance reporting

Quality of financial and performance reporting

Quality of submitted financial statements

- **ARF** is commended for submitting annual financial statement that are free from material misstatements.
- **DIRCO** submitted annual financial statement that contained material misstatements.
- This was mainly as result of misstatements identified relating to the clearing of the disallowance accounts. This was also due to material balance in the disallowance and damages account that could not be substantiated by sufficient and appropriate audit evidence resulting in material limitation of scope and qualification on receivables. The finance team should continue analysing the account in order to clear the remaining balance.
- We also identified material misstatements on payables: DHA, accruals and payables not recognised, disclosure note for public private partnership (PPP) other obligation and lease commitments, which were subsequently adjusted by management. This was due to an oversight during preparation and review of the financial statements at various review levels.
- The accounting officer should work through management to enhance review processes on the financial statements. The internal audit functions should enhance their review of the financial statements and the audit committee should ensure adequate oversight over the review process.

Quality of performance reporting

- **ARF** submitted performance report which had material misstatement which were corrected during the audit. This was also the case in 2019-20. This was due to inadequate review of the annual performance report by senior management and accounting authority.
- We identified a material misstatement in the annual performance report submitted for auditing. This material misstatement was on the reported performance information of programme: administration. As management subsequently corrected the misstatement, we did not raise any material findings on the usefulness and reliability of the reported performance information.
- **ARF** achieved 47% of their planned targets.
- **DIRCO** submitted performance report which was free from material misstatements, due to detailed/rigorous evidence validation processes and detailed reviews of the quarterly and annual performance report.
- **DIRCO** has managed to achieve about 83,33% and 80% of the planned targets on its key programmes of international relations and international cooperation respectively.

First focus area: credible financial reporting

Financial statements

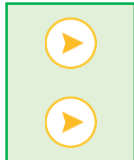


Submission of financial statements by legislated date

Financial statements submitted without errors

Quality of final submission after audit

Movement



2020-21

2019-20

100% (2)

100% (2)

50% (1)

50% (1)

50% (1)

50% (1)

Root cause analysis

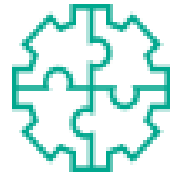
- Material misstatements was due to an oversight during preparation and review of the financial statements at various review levels.
- This was also due to material balance in the disallowance and damages account that could not be substantiated by sufficient and appropriate audit evidence resulting in material limitation of scope.
- The findings raised are recurring and this is despite discussions held with the auditees on the implementation of preventive control measures.

Recommendations

- The accounting officer should work through management to enhance review processes on the financial statements. The internal audit functions should enhance their review of the financial statements and the audit committee should ensure adequate oversight over the review process.
- The finance team should continue analysing the disallowance and damages account in order to clear the remaining balance.
- The developed actions plans must be thoroughly reviewed by the accounting officer to ensure that they address the root cause.
- Effective monitoring and oversight by the audit committee is also critical to ensure that these repeat findings are prevented in the next financial year.

Second focus area: credible performance reporting

Performance report



- Performance report submitted without errors
- Performance report adjusted for material misstatements to improve reliability
- Reliable reporting of achievements
- Usefulness of performance indicators and targets

Movement



2020-21

2019-20

50% (1)	50% (1)
50% (1)	50% (1)
2	2
2	2

Root cause analysis

- There were recurring challenges identified with the annual performance report (APR) of the ARF that resulted in material adjustments made to the submitted APR due to inadequate reviews by management and the accounting authority.

Recommendations

- The accounting authority should work through management to enhance review processes on the annual performance report.
- The internal audit functions should enhance their review of the performance report and the audit committee should ensure adequate oversight over the review process.
- The developed actions plans must be thoroughly reviewed by the accounting authority to ensure that they address the root cause.
- Effective monitoring and oversight by the audit committee is also critical to ensure that these repeat findings are prevented.



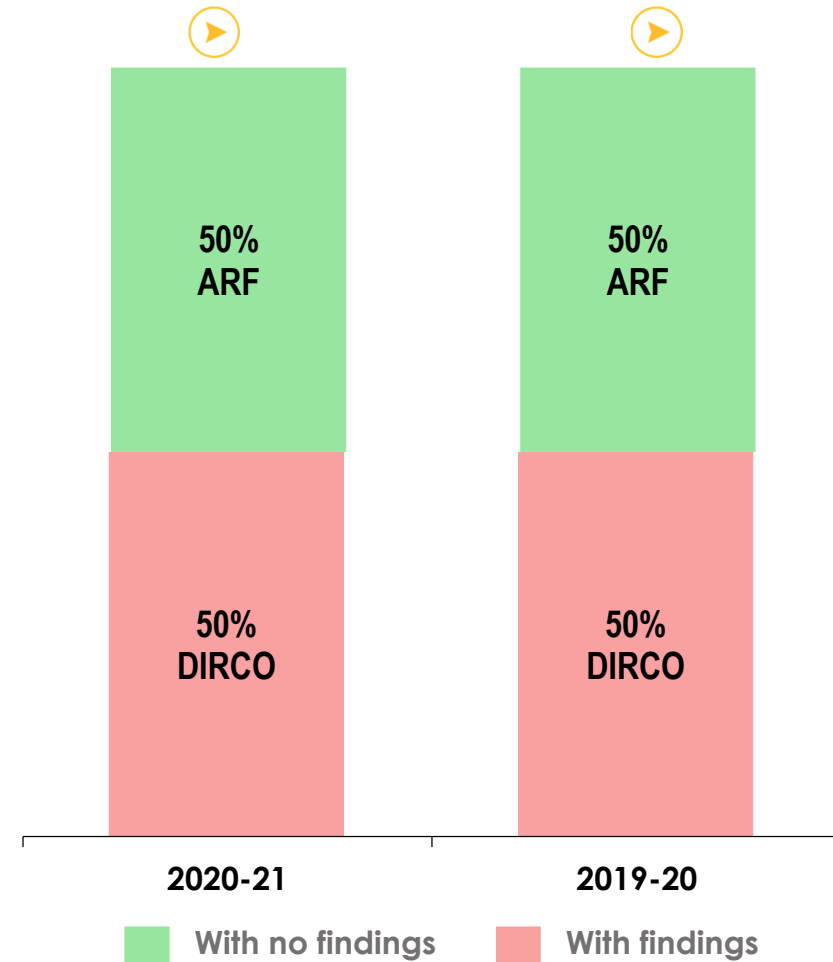
AUDITOR-GENERAL
SOUTH AFRICA

Compliance with legislation

Third focus area: compliance with legislation

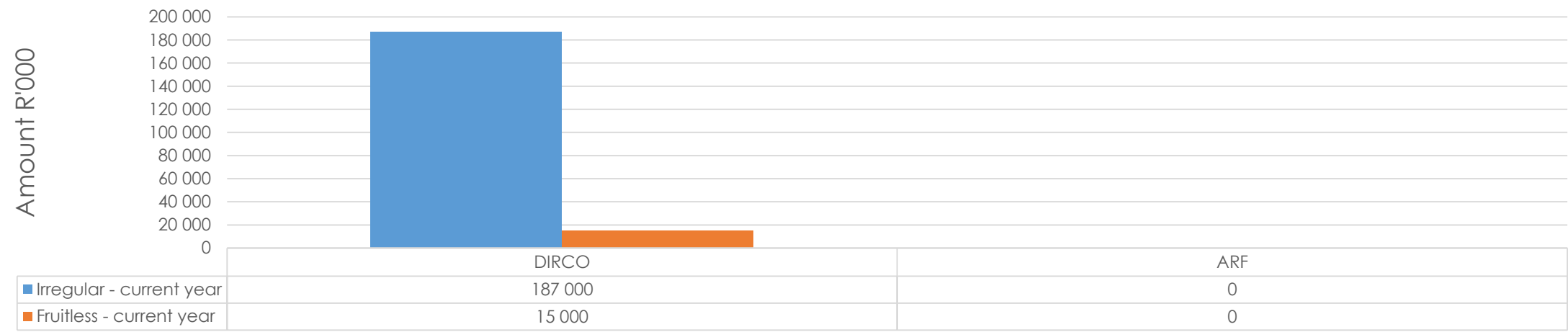
- In the current year compliance with legislation status remained the same as in the prior year.
- One (1) out of two (2) auditees have received a qualified audit opinion with findings on compliance. DIRCO continue to struggle with the compliance with legislation.
- The non-compliance identified is similar to those reported in the prior year. **DIRCO** did not implement effective action plans to address significant internal control deficiencies relating compliance with legislation.
- We will further unpack the challenges of compliance in three (3) sections, i.e. **expenditure management**, **procurement & contract management** and **consequence management**.

Findings on compliance with key legislation



Irregular, unauthorised, fruitless and wasteful expenditure

Irregular, fruitless and wasteful expenditure 2020-21



Nature of irregular, fruitless and wasteful expenditure

Irregular expenditure

- Total irregular expenditure that was identified R187 million.
- All irregular expenditure is incurred by DIRCO.

Fruitless and wasteful expenditure

- Total fruitless and wasteful expenditure that was identified R15 million.
- All fruitless and wasteful expenditure is incurred by DIRCO.

Irregular expenditure over 2 years

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

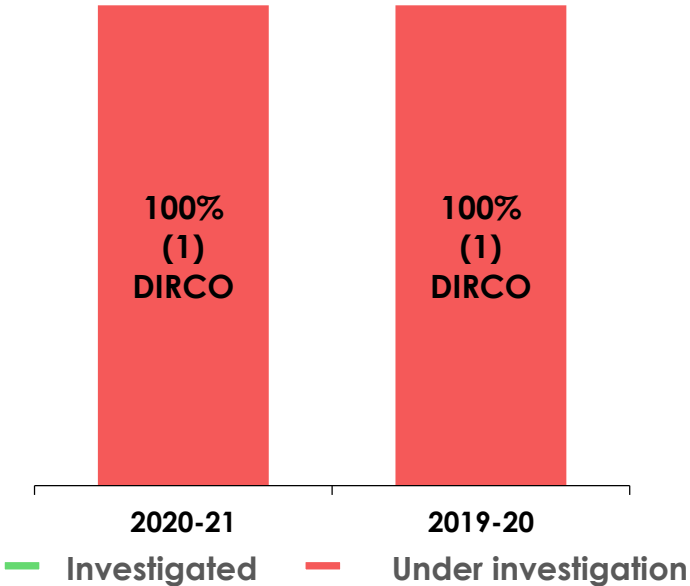
Irregular expenditure incurred by entities in portfolio



Nature of the irregular expenditure

- The highest contributors to irregular expenditure in the portfolio:
- Local content requirements not indicated in the terms of reference (TOR);
 - At least 3 quotations not obtained on procurement of goods and services;
 - Lowest quotations not selected;
 - Payment made without approval at the appropriate level as the delegation of authority;
 - Award to suppliers with non-compliance tax status; and
 - Award to bidders who were not registered on central supplier database (CSD).

Previous year irregular expenditure reported for investigation

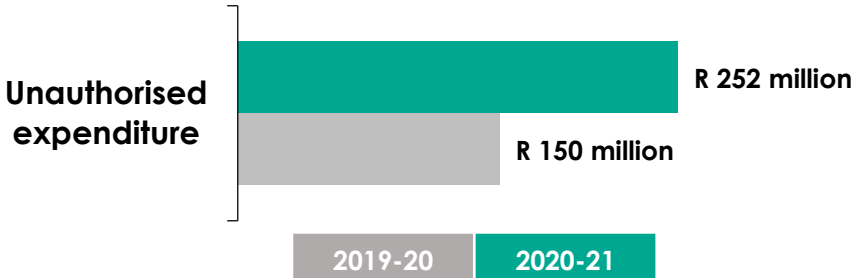


Unauthorised expenditure over 2 years

Definition

Overspending of a vote or a main division within a vote, or expenditure that was not made in accordance with the purpose of a vote or, in the case of a main division, in accordance with the purpose of the main division

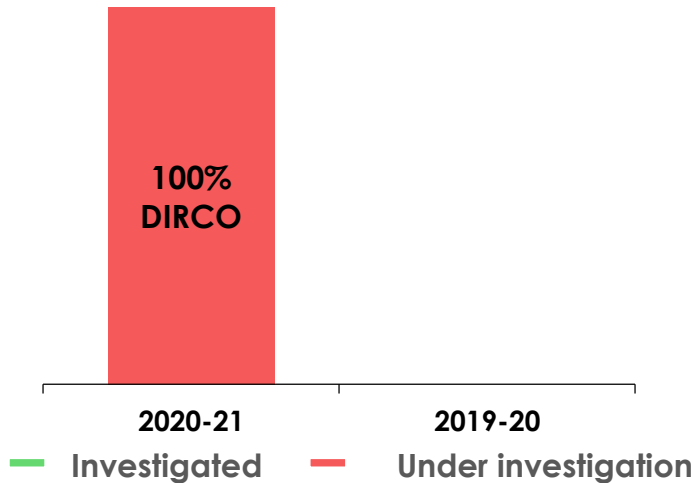
Unauthorised expenditure incurred by entities in portfolio



Nature of unauthorised expenditure

- 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.
- Unauthorised expenditure incurred in both years relates to overspending of the vote or a main division within a vote.

Previous year unauthorised expenditure reported for investigation



Fruitless and wasteful expenditure 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

Fruitless and wasteful expenditure



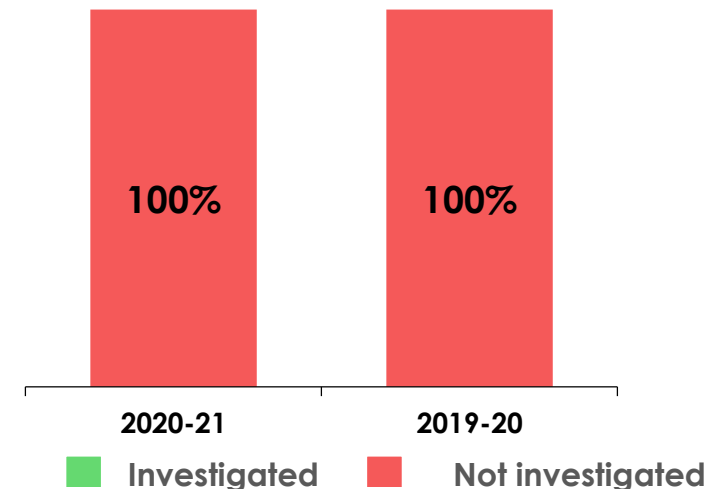
ARF - No fruitless & wasteful expenditure incurred in both years
DIRCO

- R13 million represents non-compliance in the 2020-21 financial year.
- R2 million represents non-compliance in 2019-20 financial year.

Nature of the fruitless and wasteful expenditure

- Total fruitless and wasteful expenditure that was identified amounts to R15 million and has increased from the reported prior year value of R2 million.
- Cancellation costs as well as interest on overdue accounts.
- Steps were not taken against officials who had incurred fruitless and wasteful expenditure. This was because investigations into fruitless and wasteful expenditure were not performed.

Previous year fruitless and wasteful expenditure reported for investigation



Consequence management



Consequence management

- Overall, the portfolio is struggling with consequence management as irregular expenditure arising from 2017-18, 2018-19 and 2019-20 has not been investigated by the department resulting in poor consequence management.
- The non-compliance findings were raised relating to the lack of investigation.
- There is inadequate disciplinary actions taken against staff who have caused irregular, fruitless and wasteful expenditure due to lack of investigations.

Recommendations

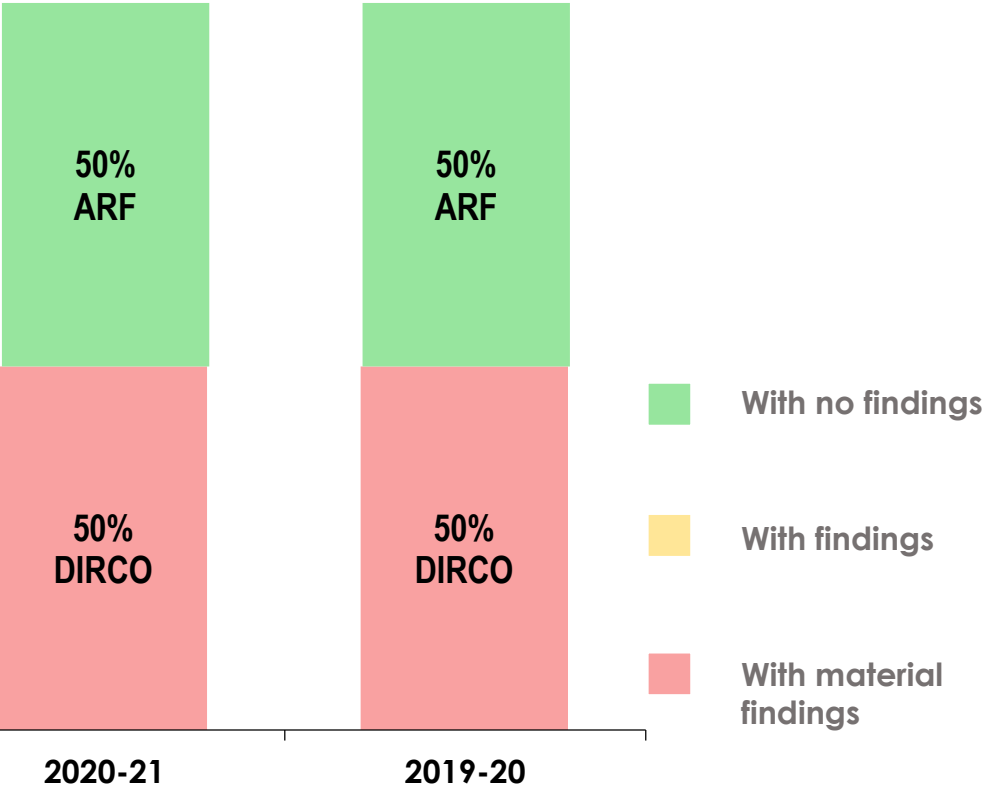
- There must be timely investigations of the reported irregular, fruitless and wasteful expenditure and disciplinary actions be taken against those found responsible for such expenditure.
- Accounting officer need to ensure that disciplinary actions are taken against staff that transgressed procurement regulations.
- The accounting officer need to enhance action plan to address the repeat findings in compliance with legislation.
- Internal audit and audit committee must monitor implementation of action plan.

Supply chain management



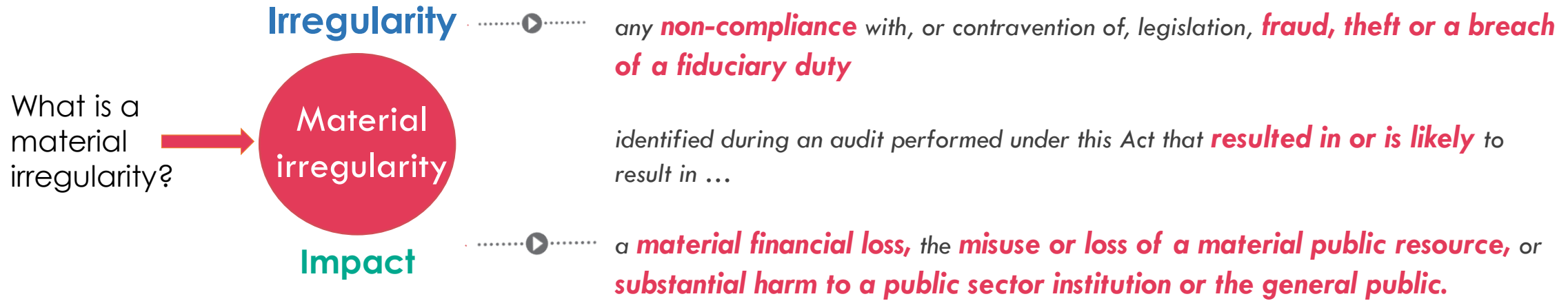
Overall stagnation in SCM compliance

All SCM findings should be investigated



Most common findings on supply chain management	Recommendations
<ul style="list-style-type: none"> Contract awarded to a bidder based on criteria that differ from the original specifications Local content requirements not indicated in the terms of reference (TOR) At least 3 quotations not obtained on procurement of goods and services, Lowest quotations not selected 	<ul style="list-style-type: none"> The accounting implement action plan timeously to address audit findings. The accounting officer should enhance SCM review and monitoring processes to ensure compliance with procurement legislation. Preventative controls should be strengthened to ensure irregular/ fruitless and wasteful expenditure is not incurred. The accounting officer should ensure that a culture of consequence management is maintained in the department.

At the center of the PAA amendments – material irregularity



To allow for establishing capacity and processes, we will follow a **phased-in approach** for identifying MIs in 2020-21 based on:

1. the type of material irregularity to be identified and reported
2. the auditees where it will be implemented

Type of material irregularity

Selection criteria

Any non-compliance in line with the definition stated above.

The MI process is implemented at selected auditees audited by the AGSA that represent **a significant portion of the expenditure budget and the irregular expenditure** of national, provincial and local government, including state-owned entities. The selection is also focused on auditees that are key contributors to **government priorities**. **For 2021, no auditees in the international relations portfolio were selected for implementation.**



AUDITOR-GENERAL
SOUTH AFRICA

Portfolio snapshot

Portfolio snapshot 2020-21

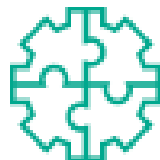


Clean audits: 1
(2019 - 20: 1)

type of material
irregularity



**Financially unqualified
financial statements: 1**
(2019-20: 1)



**No findings on performance
reports: 2**
(2019-20: 2)



**No findings on compliance
with legislation: 1**
(2019-20: 1)








**Irregular expenditure:
R187m**
(2019-20: R217m)



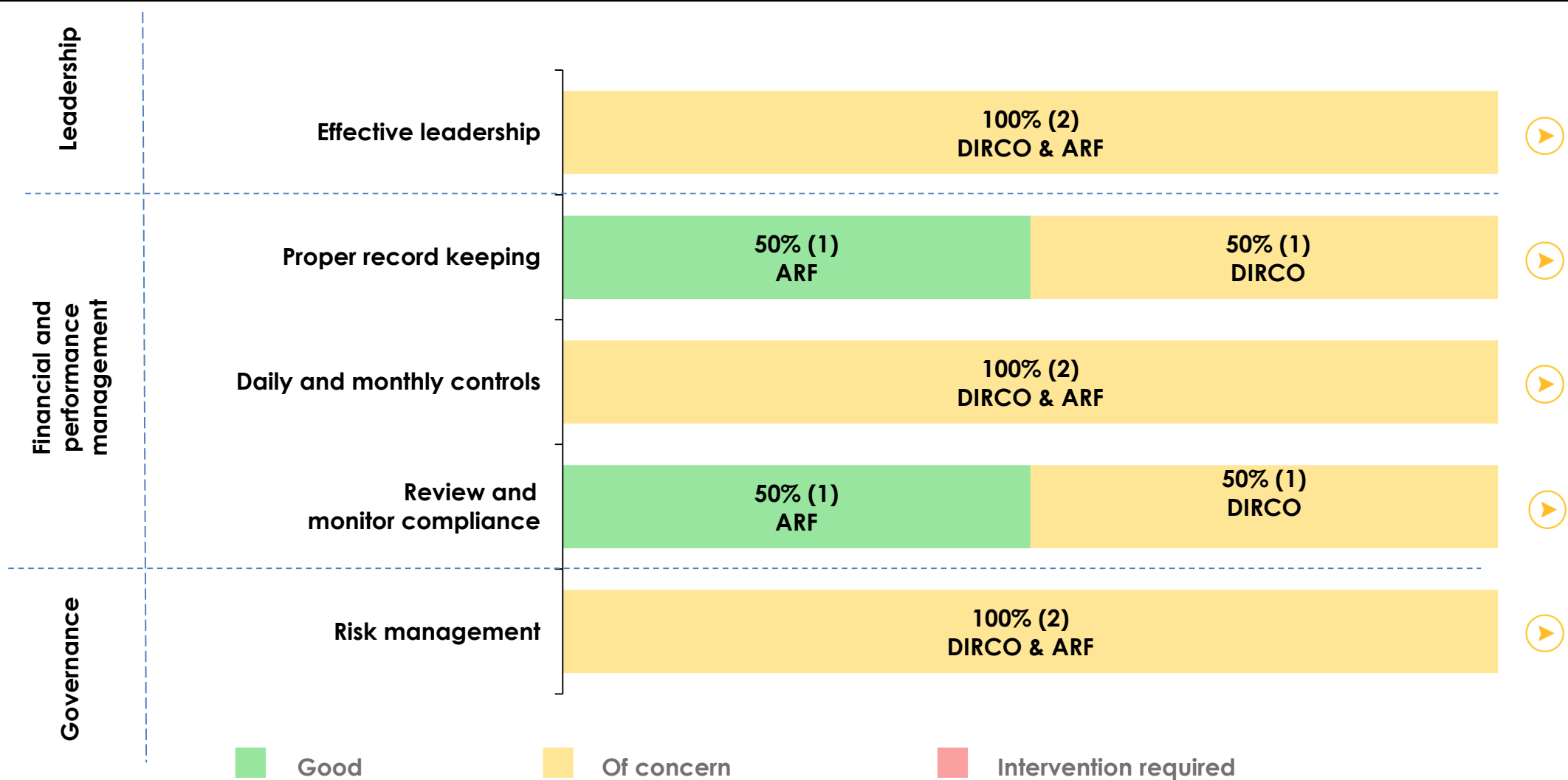
AUDITOR-GENERAL
SOUTH AFRICA

Governance and internal controls

Assurance provided

Assurance level				
First level	Senior management	100% (2) DIRCO & ARF		
	Accounting officer/authority	100% (2) DIRCO & ARF		
Second level	Executive authority	100% (2) DIRCO & ARF		
	Internal audit unit	100% (2) DIRCO & ARF		
	Audit committee	100% (2) DIRCO & ARF		
Provides assurance		Provides some assurance	Provides limited/ no assurance	Not established

Status of internal control



Summary of 3 key root causes



Inadequate controls were put in place by management to prevent non-compliance with applicable legislation and implement consequence management.



Management did not implement adequate review and monitoring controls over the preparation of the financial statements.



Management was not effective in developing and monitoring the implementation of action plans.



AUDITOR-GENERAL
SOUTH AFRICA

Recommendations

Recommendations to the portfolio committee

Monitoring and regular follow up with the executive authority and the accounting officer/authority on:

- Progress on clearing of the disallowance and damages account and audit action plans put in place by the department and its entity.
- Irregular, fruitless and wasteful expenditure to ensure there is consequence management.
- Implemented controls to prevent non-compliance with applicable legislation.
- Monitor the filling of the DG and CFO vacancies to ensure stability of leadership.

The **culture** of **consequence management** should be enforced in the portfolio.

THANK YOU

AUDITING TO
BUILD PUBLIC CONFIDENCE



www.agsa.co.za



Auditor General of South Africa



@AuditorGen_SA



Auditor-General of South Africa