



**PFMA
2021-22**

Budgetary review and recommendations report (BRRR) **Portfolio Committee on International Relations**

11 October 2022



AUDITOR-GENERAL
SOUTH AFRICA



MISSION

The Auditor-General of South Africa has a constitutional mandate and, as the supreme audit institution 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

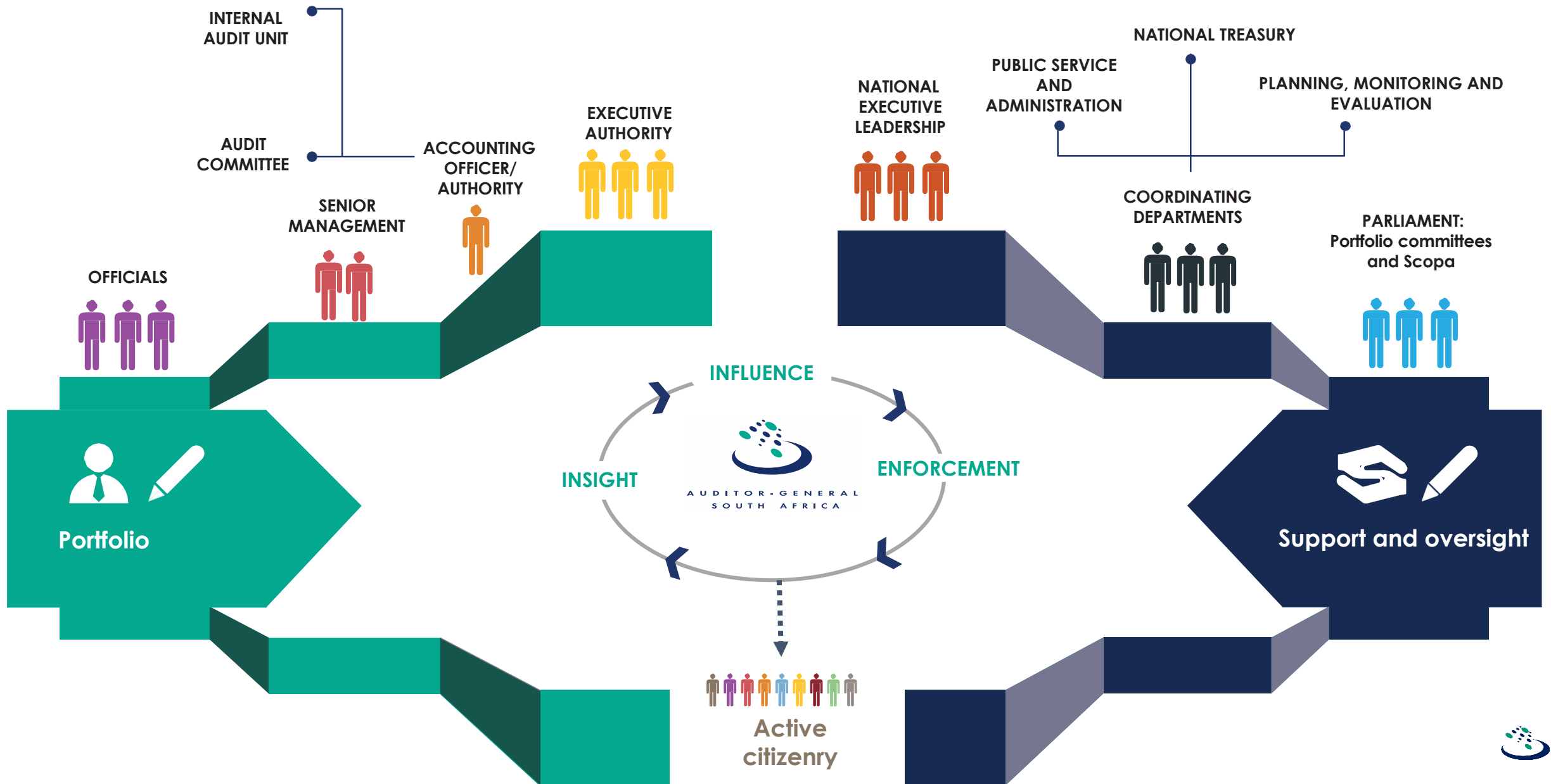


VISION

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



All have role to play in national government accountability ecosystem





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



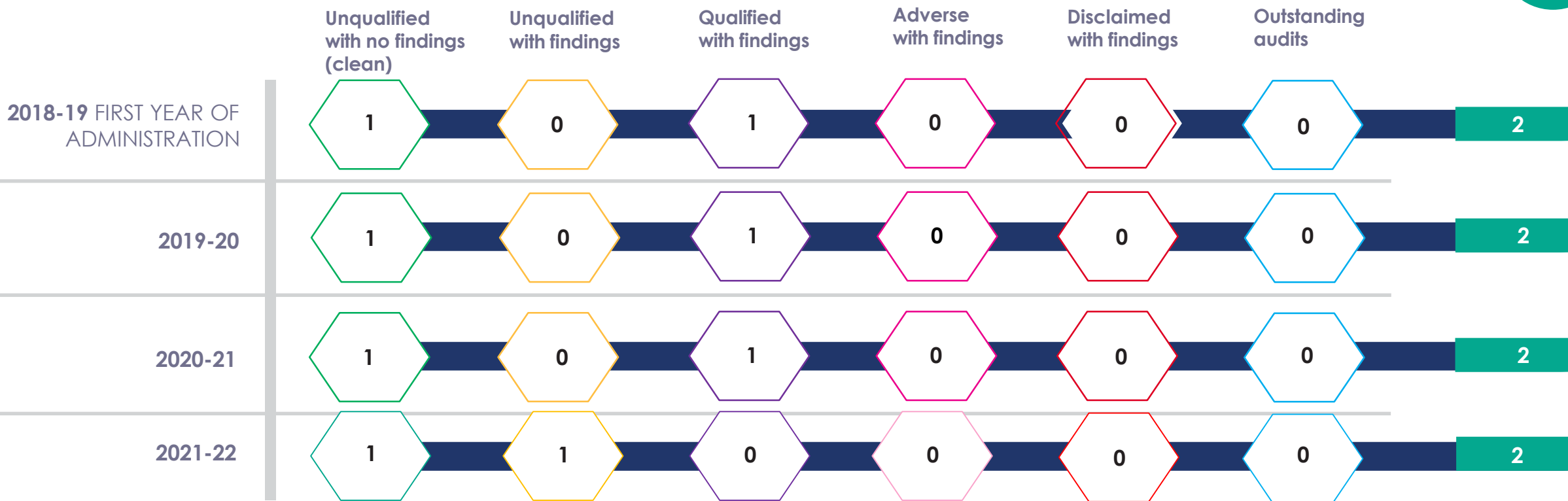
Disclaimed opinion

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



Improvement over administration term



MOVEMENTS FROM PREVIOUS YEAR:
 1 ↑ 0 ↓

African Renaissance and International Cooperation Fund (ARF)

Department of International Relations and Cooperation (Dirco)

No qualified audits for 2021-22

FROM FIRST YEAR OF ADMINISTRATION:
 1 ↑ 0 ↓

Outstanding audits
 There were no outstanding audits.



Overall outcomes

- The overall audit outcomes in the portfolio has improved when compared to the prior year. Dirco moved from financially qualified with findings to financially unqualified with findings and ARF sustained the clean audit outcome mainly due to maintaining basic financial discipline of preparing credible financial reports supported by reliable information, review and monitoring of compliance with applicable laws and regulations.
- We commend management for addressing Dirco's prior year qualification on the current receivables: disallowance and damages account by ensuring corrective action was timeously implemented. Management is encouraged to maintain the controls that were implemented in clearing the disallowance account to avoid regression in this area.
- Compliance with legislation remains a challenge for the department especially in the following focus areas: annual financial statements, supply chain management (SCM), expenditure management and consequence management. This is mainly due to consequence management not being implemented in a timely manner to address previously reported deficiencies and lack of adequate reviews at various levels supporting the preparation of annual financial statements. An additional non-compliance in revenue management was identified and reported in the current year. There must be focused interventions to address these matters.

Performance information

- The department has continued to produce a credible annual performance report that is useful and reliable. The department has managed to achieve 97% (33 of 34) of the planned targets on its key programmes namely: international relations; international cooperation; public diplomacy and protocol services and international transfers.
- We noted that the department's mandate is linked to Priority 7: A better Africa and world of the 2019-2024 Medium Term Strategic Framework (Framework (MTSF).
- In the current year, we scoped in for audit programme 2: international relations; the department achieved 100% of its annual planned targets for the current year. The purpose of this programme is to promote relations with foreign countries through the three (3) branches of the department, namely Africa; Asia and the Middle East and Americas and Europe.



Performance information...(continued)

- Despite the challenges of limited air travel and covid-19 related restrictions, here are some of the key achievements we noted that contributed directly to the mandate of the department:
 - Missions continued to engage in economic diplomacy activities to promote the increase of value-added South African exports and the expansion of the South African investment footprint. Economic relations were strengthened through activities such as the hosting of business seminars, networking sessions and engagements with potential high-level investors and importers.
 - South Africa continued to strengthen bilateral relations and cooperation with countries on the continent through Structured Bilateral Mechanisms and High-level Visits and engagements during the period under review.
- Dirco, through its missions, collaborates with other government departments, particularly the Department of Trade Industry and state-owned entities (SOEs). Missions have, as part of their strategy, their own initiatives but also remain available to support initiatives by private-sector companies or SOEs. The department and its missions are fully aware that, in the end, conclusion of business transactions will be between the business parties without them necessarily involving the missions
- The department is encouraged to continue in the execution of South Africa's foreign policy as these efforts will contribute to foreign investment into South Africa, as well as increased trade and growth in the tourism sector.

Governance and stability

- Although the portfolio is stable; there are vacant positions in the portfolio which cannot be filled due to the compensation of employee ceiling.
- The department reported at least 237 positions at supervisory (196) and senior management level (41), these positions include the position of the DDG: global governance and CFO. Through discussions with management, currently some of the positions are being filled.



Governance and stability ...(continued)

- We noted the appointment of the DG after year end (01 April 2022); this appointment will ensure the continued stability in the portfolio.
- The vacancy of the CFO is in the process of being filled with shortlisting planned for October 2022. Subsequent to year-end, we noted that ARF financial manager position became vacant and is in the process of being filled.
- The overall vacancy rate in the department is 16%, which is above the national average vacancy rate of 10%. The rate has increased from the prior year (15%). These vacancies are not budgeted for in the current year.
- Due to the high number of vacancies in the supervisory and senior management roles, this has negatively impacted on the quality of information supporting the annual financial statements and adherence to applicable laws and regulations.
- Due to the limit imposed by the ceiling, it is critical that the positions be aligned to areas of concern as per internal control weaknesses identified and areas where delivery of the mandate is done at the cost of employees' health.
- There should be an assessment of non-critical positions held by employees with the necessary skills to fill critical positions. This assessment can be used to close non-critical positions by restructuring without retrenchments.

Quality of submitted financial statements

- ARF is commended for submitting annual financial statements (AFS) that are free from material misstatements. The quality of the Dirco AFS submitted for audit remains a challenge as it contained material misstatements which were subsequently corrected by management resulting in the department receiving financially unqualified opinion and material non-compliance with section 40 of the Public Finance Management Act.
- This could be attributable inadequate reviews at various levels as most material misstatements came from supporting schedules which were not agreeing to the AFS submitted for audit.



Quality of submitted financial statements...(continued)

- There are also capacity issues in the finance department with the critical CFO position being vacant which might have created added pressure on those acting. Some of the key staff within the finance division were posted to missions abroad, which resulted in an added pressure on the remaining staff.

Procurement and contract management/Supply Chain Management (SCM)

- ARF is commended for sustaining its compliance status as we did not identify material findings with compliance to legislation.
- Compliance with SCM prescripts remains a challenge for the department, mainly at missions where procurement prescripts were not followed in the procurement of goods and services (similar matters were reported in the prior year) i.e. minimum quotations required were not obtained resulting in irregular expenditure being incurred. This was due to the lack of oversight and monitoring by those involved in the compliance processes which must be addressed as part of the audit findings action plan.

Expenditure management

- ARF is commended for not incurring irregular and fruitless and wasteful expenditure over the past two years.
- We remain concerned that there have been notable increase in the levels of irregular expenditure in the portfolio at R311 million (2021: R187 million). The department has incurred irregular expenditure relating to the current year amounting to R109.9 million when compared to the prior year amount of R19.3 million. This represents more than 100% increase in irregular expenditure. The increase in irregular expenditure in the current year is as a result of non-compliance with the appropriation act, by exceeding the compensation of employee (CoE) budget without obtaining necessary approvals which contributed R100 million to the total irregular expenditure and non-compliance with SCM legislation that contributed R10 million.
- We also noted an increase in irregular expenditure arising from old contracts in the current year (R201 million) when compared to the prior year (R167 million). This was due to the department continuing to use the services from contracts previously declared as irregular, due to the critical nature of the services to the operations of the departments and its missions.



Revenue management

- A new non-compliance was identified relating to revenue management of the department where effective and appropriate steps were not taken to collect all money due to the department from rental deposit refunds, as required by section 38(1)(c)(i) of the PFMA. This was due to inadequate controls including the lack of reconciliations of the rental deposits account and a lack of consequence management on employee-tenants and corporate services managers for deposits not returned. Due to lack of effective and appropriate steps to collect rentals deposit refunds, the department wrote off R26.9 million in rental deposits not collected in the current year.
- There should be an agreement between the missions and the transferred officials which incorporates acknowledgement of debt at the beginning of the rental period. The agreement should also incorporate a standard period to return deposits; should the deposit not be returned within a certain time frame, collection should be made through other means, e.g. deduction from payroll.
- Finance division should implement controls to ensure that proper reconciliations are performed on the rental deposit account during the year.

Consequence management

- Whilst acknowledging the consequence management actions taken by the Minister in the prior year that resulted in dismissal of the CFO and DG in the current year, there is slow progress in these processes filtering down to the rest of the department which remains a concern. We noted that only 25% of the prior years' irregular expenditure has been investigated and all the fruitless and wasteful expenditure arising from 2017-18, 2018-19 and 2019-20 has not been investigated by the department resulting in poor consequence management.
- It needs to be taken into consideration that investigated and uninvestigated matters will still be assessed for material irregularities and could still be assessed as MI.



Consequence management...(continued)

- The DG's plan to address consequence management, included requesting National Treasury to assist with the investigation into irregular and fruitless and wasteful expenditure since the department did not have capacity to conduct the investigations. We also take note that the DG is working on clarifying the reporting lines within the department to ensure that there is clear understanding as to who is responsible for implementing consequence management at different levels.
- If the root causes leading to non-compliance with legislation are not addressed, the department runs a risk of continuing to incur irregular, and fruitless and wasteful expenditure, which could lead to material irregularities in terms of the PAA.
- The department needs to ensure that the current action plan is enhanced to address the repeat findings relating to compliance with legislation. The internal audit function must continue monitoring the action plan and the audit committee should play an oversight role in the implementation and monitoring the effectiveness of the action plan.

Material irregularities

- In the current year, Dirco was included for implementation of the material irregularity definition in terms of the PAA. We have not identified and reported any material irregularity in the current year.
- The department received a condonation approval from National Treasury on the payments made for the procurement of the property in New York. The department is also pursuing the matter through the courts in an effort to try and recover the monies paid.
- The audit team is currently assessing whether all non-compliances reported in the current and prior years resulted or is likely to result in material financial losses. Should it be concluded that there is any material financial loss, a notification will be issued to the accounting officer in due course. This may occur even after the audit report is issued.



Financial health

- We noted a reduction in unauthorised expenditure over the past two years, RNil in the current year compared to prior year (R150 million). This can be attributable to closure of some missions and non-filling of vacant positions in an effort to maintain the CoE within budget. Although the CoE celling implemented by National Treasury was exceeded, it did not result in unauthorised expenditure but irregular expenditure as the overall budget for main division was not exceeded.

Information technology (IT)

- The department continued to use old IT infrastructure due to ongoing delays in the implementation of the infrastructure modernisation project to replace the old and obsolete infrastructure. A service provider was appointed; however, they couldn't access some of the products they needed in the project as it is an international service provider and there were restrictions in countries due to covid-19 restrictions.
- Due to the delays and vacancies in key IT positions including the IT Security manager who is responsible for overseeing the overall entity's information and communication technology (ICT) Security, the IT control enhancements committed to in the previous cycle were not implemented, resulting in repeat IT findings. Some of the key IT findings due to old infrastructure and some of which are due to lack of oversight included:
 - Patches were deployed manually into the production environment without being tested
 - Numerous backup failures were experienced due to obsolete backup solution and infrastructure.
 - Program changes were not tested prior migration to the production environment.
 - Employees no longer in the employ of the department not terminated in the systems
 - Some system have a limitation as they did not have the functionality to log changes made on these applications. As per discussions with management, this is due to high cost involved in redesigning the systems.
- The above IT findings might also lead the department to being vulnerable to the risks of cyber-attacks and business continuity risk.



Financial assistance to Cuba (ARF):

- In terms of the ARF act, the fund was established to enhance co-operation between the Republic and other countries, in particular African countries. Currently, Cuba is the only non- African country that is receiving funding from the ARF and the reasons for the funding of Cuba is based on the long-standing respectable, cordial and political relationship the two countries share.
- In a contract, dated 03 February 2012 signed between the government of Republic of South Africa (SA) and the government of the Republic of Cuba on economic assistance, a funding package of R350 million was agreed on. Per the entity's reconciliations, the total assistance already dispersed to Cuba is R210 million.
- There is R50 million that was earmarked to be provided to Cuba and it has not yet been provided as it is now a subject of a court interdict. AfriForum was granted an interdict to stop Dirco from dispersing the R50 million aid assistance to Cuba.
- Dirco subsequently applied to have direct access to the constitutional court to have the matter heard, however the application was dismissed without hearing the merits of the matter. The department is currently awaiting a high court date to have the merits of the case to be heard.
- During the audit process, we inspected approval documents for the amount and noted that it has followed the processes as per ARF Act and was also cordially approved by both the Minister of International Relations and the Minister of Finance.



Key root causes in the internal control environment

- Ineffective oversight over financial reporting and compliance.
- Inadequate reviews of the annual financial statements.
- Lack of accountability to address previously reported deficiencies and instances of non-compliance.
- Ineffective action plan on compliance monitoring and the quality of financial statements
- Consequence management not implemented within the department as some of irregular expenditure and fruitless and wasteful expenditure for 2017-18, 2018-19 and 2019-20 was not investigated.
- Ineffective oversight over performance reporting on ARF
- Inadequate reviews of the annual performance report on ARF

Recommendations:

To the accounting officer/authority

- Continue with the investigation of the remaining irregular expenditure cases, extend the investigation to fruitless and wasteful expenditure and action the recommendations of the investigation reports for the investigated cases.
- Enhance oversight role on compliance with key legislations applicable to the department, by taking corrective action for non-compliance especially on repeat matters.
- Take necessary actions against officials not fulfilling their roles and responsibilities.
- Enhance reviews of the AFS and APR before submission for audit purpose.
- Relook at the policy for posting of officials abroad as some of the Corporate Service Managers (CSMs) do not have formal finance background training and experience. CSMs are charged with the day to day running of the missions which amongst others include managing finances.



Recommendations (continued):

To the accounting officer/authority (continued)

- DDGs need to assist the department by working closely with the heads of mission and the CSMs in order to determine the true root causes for repeat findings coming from their respective missions as this will have a positive contribution in the department's action plan for 2022-23.
- Ensure the action plan is root cause focused and is assessed for effectiveness in addressing the findings.

To the Minister

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

To the Portfolio Committee on International Relations:

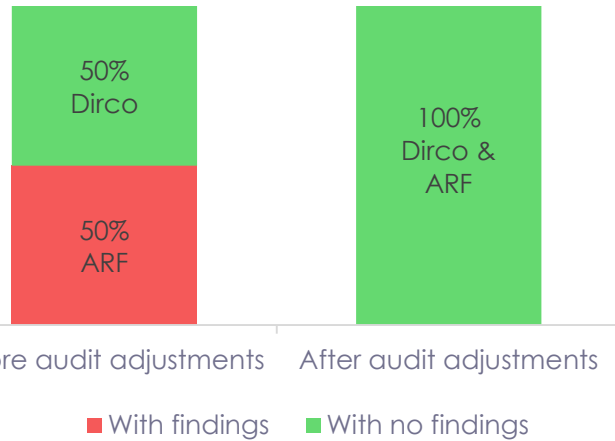
- Monitoring and regular follow up with the executive authority and the accounting officer/authority on:
 - progress on audit action plans put in place by the department and its entity to improve audit outcomes
 - progress on consequence management
 - the filling of the CFO vacancy to ensure stability
 - the implementation of the IT modernisation project



Portfolio performance



Quality of performance reports before and after audit



Findings: Planning for service delivery

- No findings identified on both Dirco and ARF

Findings: Reporting

- ARF: Material misstatements were identified on the accuracy of some of the reported achievements which were subsequently corrected by management

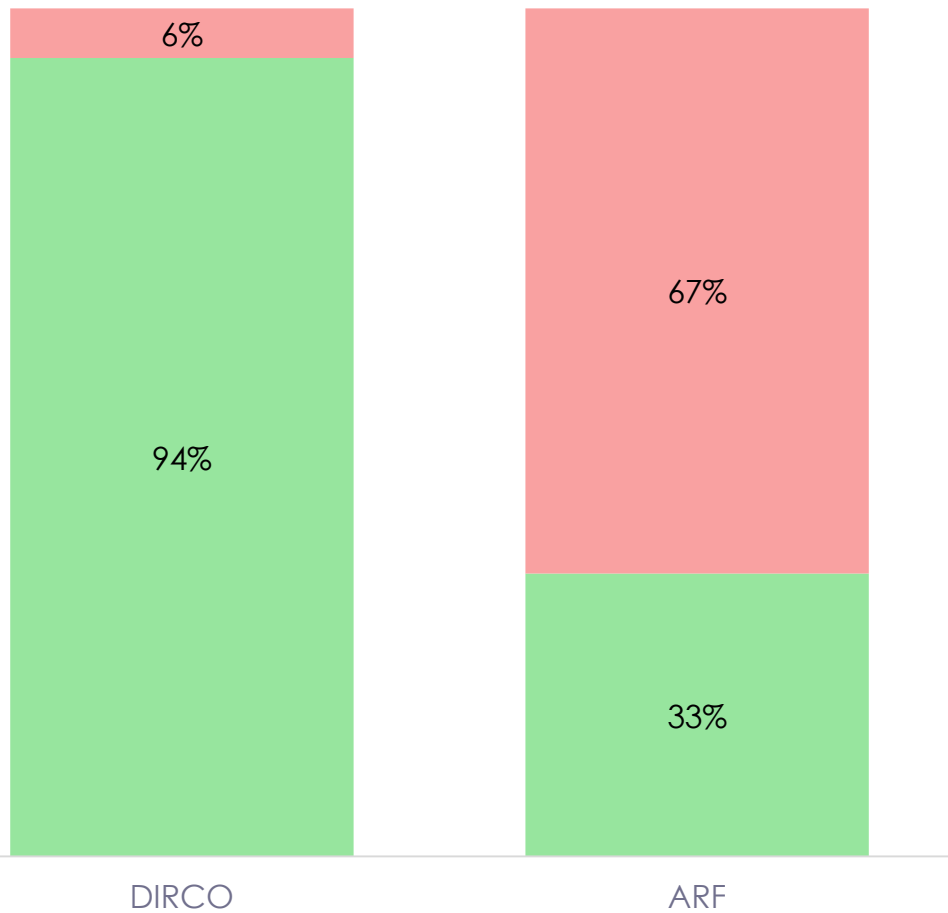
Impact

Despite covid-19, Missions continued to engage in economic diplomacy activities to promote the increase of value-added South African exports to the rest of the world and the expansion of the South African investment footprint. Economic relations were strengthened through activities such as the hosting of business seminars, networking sessions and engagements with potential high-level investors and importers.

South Africa continued to strengthen bilateral relations and cooperation with countries on the continent through structured bilateral mechanisms and high-level visits and engagements during the period under review.



Achievement of annual targets as reported in annual performance report (all indicators) – 2021 -22



■ Achieved ■ Not achieved

Key targets not achieved include:

Dirco

- Bi-annual progress report on the implementation of the approved strategy - draft strategy is in the final stages of development while awaiting inputs on the African Union Commission positions that South Africa could pursue.
- Bi-annual monitoring reports on South Africa's contribution to the operationalisation of identified Agenda 2063 flagship projects

ARF

- 100% (one of one) SADC election observers for Dirco funded - due to increase in covid-19 infections and deaths, a decision was made to conduct virtual engagements as opposed to physical visit.
- 100% (one of one) of projects funded to operationalise the African Continental Free Trade Area (AfCFTA) provide - potential projects for AfCFTA are still in preliminary consultation phase
- 100% (one of one) of training development and capacity-building projects funded - no requests for funding received
- 100% of requests evaluated by the ARF Advisory Committee - Dirco branch/division failed to deliver a presentation to the Committee



Role and mandate of Dirco

The Department of International Relations and Cooperation (Dirco), being the lead department in pursuit of South Africa’s foreign policy objectives, needs to manage and coordinate the other domestic role-players contributing, directly or indirectly, to the achievement thereof. Dirco is constitutionally responsible to provide consular services to South African nationals in distress abroad.

Indicators`	Programme	Priority
Number of regional political reports including the outcomes of structured bilateral mechanism and high-level visits aligned with the achievement of the National Development Plan and government’s 2019-2024 medium term strategic framework per year	International Relations	Priority 7: A better Africa and world
Number of quarterly progress reports on the regional investment strategies per year	International Relations	
Number of quarterly progress reports on the regional trade strategy aligned with the integrated national export strategy per year	International Relations	
Number of biannual assessments of South Africa’s contribution towards peace, stability, socioeconomic development, good governance, democracy, regional integration and the implementation of the revised regional indicative strategy development plan per year	International Relations	



Indicators`	Programme	Priority
<p>Number of reports per year on the outcomes of multilateral and multistate organisations reflecting South Africa's participation and interests including that of the African Agenda on:</p> <ul style="list-style-type: none"> - Peace and security - Human rights - Economic and social development 	International Cooperation	Priority 7: A better Africa and world
<p>Number of assessment reports reflecting how the outcomes of African partnerships are aligned with the African Union's Agenda 2063 per year</p>	International Cooperation	
<p>Number of reports on the outcomes of South-South engagements reflecting South Africa's participation and interests including that of the African Agenda per year</p>	International Cooperation	
<p>Number of reports on the outcomes of North-South engagements reflecting South Africa's participation and interests including that of the African Agenda per year</p>	International Cooperation	



Indicators`	Programme	Priority
Number of platforms per year used to inform and promote South Africa's foreign policy to domestic and international audiences through: - Public participation programmes - Media statements published - Opinion pieces published	International Cooperation	Priority 7: A better Africa and world
Percentage of requests for consular assistance rendered per year	International Cooperation	

Based on the assessment of Dirco's role and mandate against the department's programmes and indicators, **the department's programmes and performance indicators are relevant and complete as they contribute to the achievement of the departments' role and mandate.**



Material irregularities



MI process implemented at:

- Dirco – No MIs identified in the current year

means any **non-compliance** with, or **contravention** of, legislation, fraud, theft or a **breach of a fiduciary duty** identified during an audit performed under the Public Audit Act that **resulted in or is likely to result in a material financial loss, the misuse or loss of a material public resource, or substantial harm to a public sector institution or the general public**



If **accounting officer / authority** does not appropriately deal with material irregularities, our expanded mandate allows us to:



1

Refer material irregularities to relevant public bodies for further investigations

2

Recommend actions to resolve material irregularities in audit report

Take binding remedial action for failure to implement recommendations

3

Issue certificate of debt for failure to implement remedial action if financial loss was involved



Identified MIs – next steps and responsibilities

1 AO/AA is dealing with MI

AO/AA... implements the committed actions to address the MI and improves controls to prevent recurrence

AGSA... follows up in the next audit if actions were implemented and if outcomes were reasonable. If not, can include recommendations in audit report on how the MI should be addressed by a specific date

2 MI is referred to a public body

AO/AA... cooperates with public body and implements any remedial actions / recommendations made. Improves controls to prevent recurrence

AGSA... provides information on MI to public body, monitors progress with investigation and follows up in audits on implementation of any remedial actions/ recommendations

3 Recommendation included in audit report

AO/AA... implements the recommendations by the date stipulated in the audit report and improves controls to prevent recurrence

AGSA... follows up by stipulated date if recommendations were implemented and if outcomes were reasonable. If not, issues remedial action to AO/AA that must be implemented by a specific date

4 Remedial action issued

AO/AA... implements the remedial action by the date stipulated in the audit report and improves controls to prevent recurrence

AGSA ... follows up whether the remedial actions have been implemented. If not, issues a notice of intention to issue a certificate of debt (CoD) to the AO/AA. Request a written submission on reasons not to issue CoD within 20 working days



Executive and oversight

Executive... monitors progress and supports AO/AA in addressing the MI and improving controls

Oversight... monitors progress and calls AO/AA to account for actions taken and outcomes



Executive and oversight

Executive... supports public body investigation and the AO/AA in improving controls. If responsible for public body, monitors progress with investigation

Oversight... monitors progress with investigation and calls public body to account for undue delays in Investigation.



Executive and oversight

Executive... monitors progress and supports AO/AA in implementing recommendations and improving controls

Oversight... request action plan or implementation, monitors progress and calls AO/AA to account for actions taken and outcomes



Executive and oversight

Executive... monitors progress and supports AO/AA in implementing remedial action and improving controls

Oversight... monitors progress and calls AO/AA to account for actions taken and outcomes



Dirco

- In the current cycle, the department was selected for the implementation of the material irregularity definition in terms of the PAA. We have not identified and reported any material irregularity for the 2021-22 audit.
- The department received a condonation approval from the National Treasury on the payments made for the procurement of the property in New York. The department is also pursuing the matter through the courts in an effort to try and recover the monies paid.
- The audit team is currently assessing whether all non-compliances reported in the current and prior years resulted or is likely to result in material financial losses. Should it be concluded that there is any material financial loss, a notification will be issued to the accounting officer in due course. This may occur even after the audit report is issued.

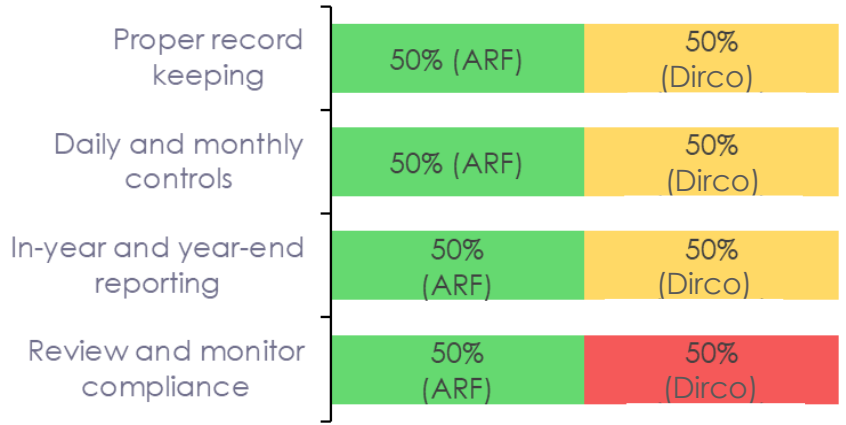




Financial management and compliance

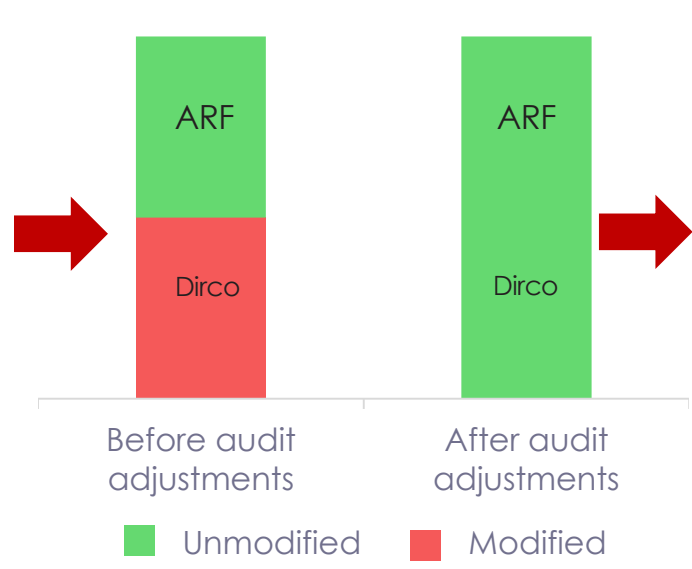


Financial management controls



■ Good
 ■ Of concern
 ■ Intervention required

Impact on quality of financial statements submitted for auditing



■ Unmodified
 ■ Modified

Main qualification areas
 No qualifications in the portfolio

Impact

- More focus is placed on dealing with weak controls in response to the audit rather than mandate delivery.
- Due to weaknesses in daily and monitoring of controls, more time is taken in reconciling information that could have been reconciled accurately from the source.
- The above creates a ripple effect and leads to inaccurate financial information being submitted for audit and thereby increasing the risk of a poor quality submission.



- Although there are no going concern uncertainties on both Dirco and ARF, Dirco has unfavourable overall financial viability indicators. Dirco has an overdraft amounting to R163 million on PMG account and the department's spending on compensation of employees exceeded the budget by R100 million due to COE ceiling implemented by the National Treasury which does not cover the cost of filled positions. The department's effort of reducing the shortfall on CoE such as revising the organisational structure and closing of missions are noted and the department is encouraged to continue with these efforts.





2021-22



● No material findings ● Material findings



Most common areas of non-compliance	ARF	Dirco
Procurement and contract management		X
Quality of financial statements		X
Prevention of irregular, unauthorised, and fruitless and wasteful expenditure		X
Consequence Management		X
Revenue Management		X

X Previous year's finding addressed X New finding identified in 2021-22 X Repeat finding



Status of compliance with legislation on procurement and contract management



2021-22



● With no findings

● With material findings

MOVEMENTS FROM PREVIOUS YEAR:

No Change

FROM FIRST YEAR OF ADMINISTRATION:

No Change

Details of procurement findings

ARF

Dirco

Three quotations not obtained

X

The finding above is the material instance of non-compliance on the procurement findings, however there were other procurement findings stemming from:

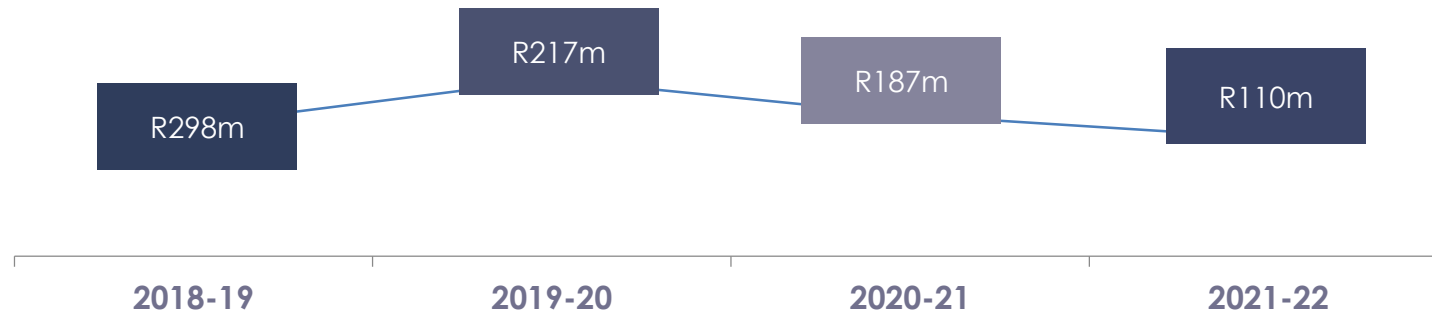
- Contract not prepared in accordance with the general conditions of contracts (GCC)
- Specifications did not stipulate the minimum threshold for local production and content.



Annual irregular expenditure

Top contributors

R110m (Dirco)



Impact of irregular expenditure incurred

Breach of five pillars of procurement – equitable, fair, cost effective, transparent and competitive: 1 (Dirco): R10 million (Non-compliances relating to three quotations, local content specifications and deviations not approved at the appropriate level)

Other: 1 (Dirco): R100 million (Cost of employees ceiling exceeded)

Description	Auditee	Amount R million	Comment
Three quotations not obtained, deviation not approved, contract not prepared according to GCC	Dirco	R1,6 million	Twenty-nine (29) awards to the value of R1 366 579 were procured without inviting at least the minimum prescribed number of written price quotations from prospective suppliers and the deviation was not approved by a properly delegated official.
Local Content not stipulated	Dirco	R0,63 million	Specifications for one (1) award with a total value of R63 050 did not stipulate the minimum threshold for local production and content.
Cost of employee ceiling exceeded	Dirco	R100 million	The department exceeded the budget allocation of compensation of employees as per the allocation stated in the Adjusted Appropriation Act 18 of 2021.
Other contraventions of SCM legislation.	Dirco	R7,77 million	Various matters identified by Dirco management including but not limited to expired contracts and SCM processes not followed
TOTAL		R110 million	

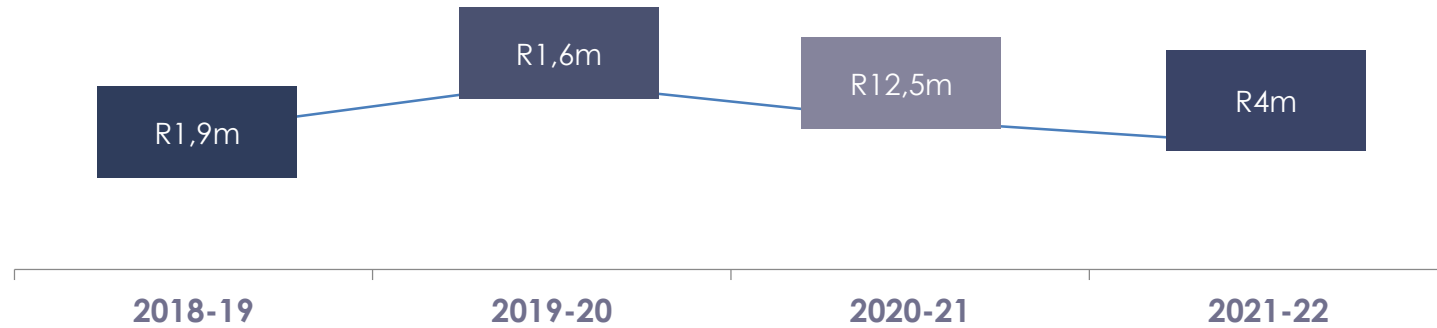
Fruitless and wasteful expenditure

Fruitless and Wasteful irregular expenditure

Top contributors

R4m

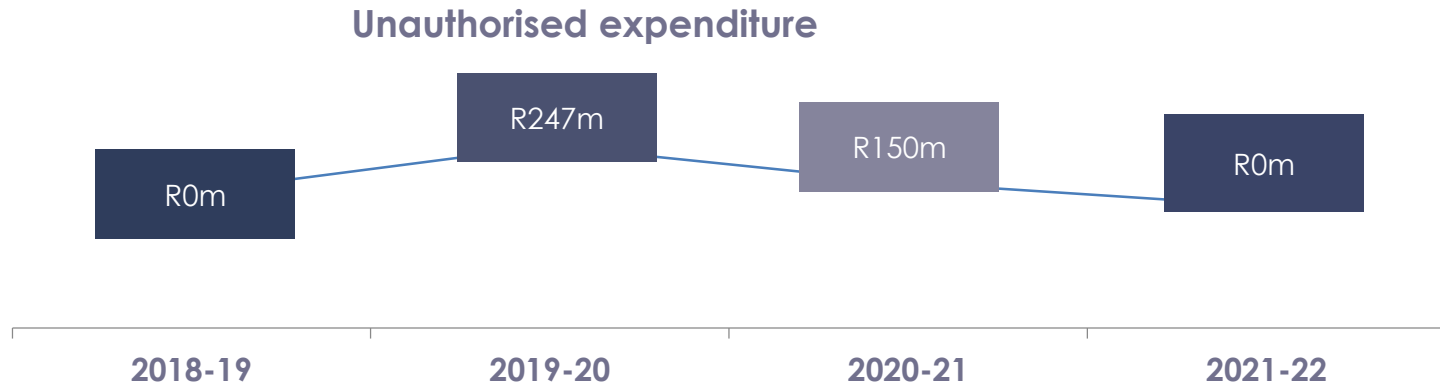
(Dirco)



Impact of fruitless and wasteful expenditure incurred

Major contributor to fruitless and wasteful expenditure in 2021 - 22 relating to leave, salary allowance and COLA payments while the employee was absent from work without taking leave amounting to R2,9 million.



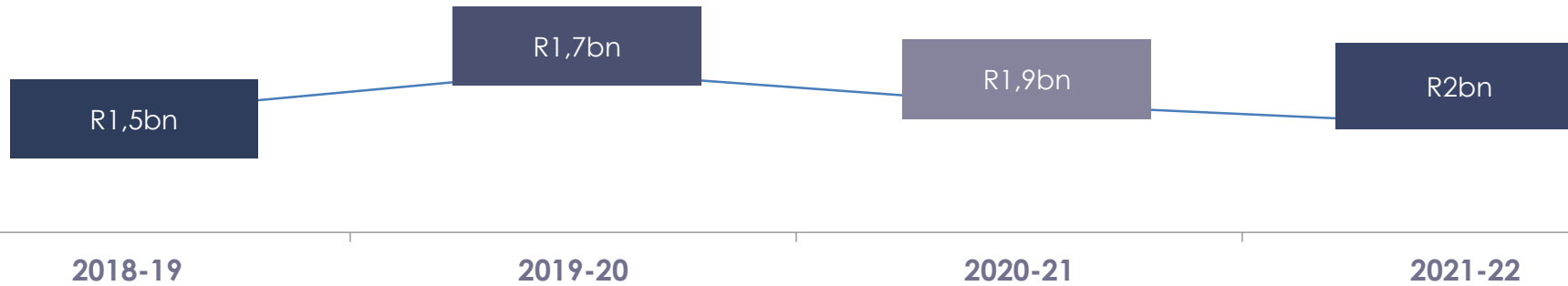


Impact of unauthorised expenditure incurred

<p>Cost of employee ceiling exceeded</p>	<p>Dirco</p>	<p>R100 million</p>	<p>The department exceeded the budget allocation of compensation of employees as per the allocation stated in the Adjusted Appropriation Act 18 of 2021.</p> <p>This was found to be irregular and not unauthorised as identified in previous years.</p>
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Closing balance of irregular expenditure continues to increase



Top irregular contributor (R2 billion) is Dirco. Irregular expenditure not dealt with constitute 70% of R2 billion



How have auditees dealt with irregular expenditure

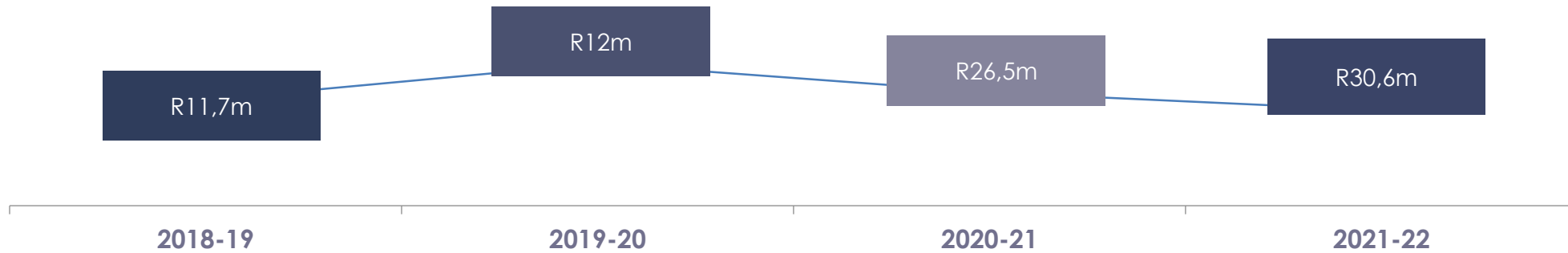
	Money recovered or in process of recovery	R0m (0%)
	Condoned (only in 2021-22)	R139m (7%)
	Written off	R0m (0%)
	Not dealt with	R1,4bn (70%)

Reasons for IE not dealt with:

- Dirco management indicated capacity issues which led to a backlog in investigations







Closing balance of fruitless and wasteful expenditure continues to increase



Top fruitless and wasteful contributors are Dirco (R30,6 million). Fruitless and wasteful expenditure not dealt with constitute 86% of R30,6million



How have auditees dealt with Fruitless and Wasteful

	Money recovered or in process of recovery	R0m (0%)
	Condoned (only in 2021/22)	R0m (0%)
	Written off	R0m (0%)
	Not dealt with	R26,4m (86%)

R26,4m Dirco



Reasons for FWE not dealt with:

- Dirco management indicated capacity issues which led to a backlog in investigations



Conclusions and recommendations



Overall root causes of significant findings

- Inadequate reviews of financial statements (Dirco); annual performance report (ARF) and monitoring controls of compliance with applicable legislation.
- Lack of oversight: The accounting officer/authority did not implement adequate review over the preparation of the financial statements (Dirco); annual performance report (ARF) and monitoring controls of compliance with applicable legislation.
- Lack of accountability and ineffective action plan to address previously reported deficiencies and instances of non-compliance.

Key recommendations to, and commitments by, accounting officers and authorities

- Filling of key positions with skilled and experienced personnel.
- Enhance the review processes of the quarterly, interim and annual financial statements to improve the quality of the financial information reported (detailed reviews and compilation of checklist where possible)
- The performance information on ARF should be adequately reviewed against the portfolio of evidence supporting prior to reporting in the annual performance reports.
- Enhance the controls for monitoring compliance with key legislations applicable to the department and take necessary corrective actions for non-compliance
- Enhance oversight role on compliance with key legislations applicable to the department, by taking corrective action for non-compliance
- Take necessary actions against officials not fulfilling their roles and responsibilities



In 2020-21, we recommended the following to the PC:

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

- progress with 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.



Overall reflections on implementation of recommendations:

- The qualification has been cleared and the DG position filled.
- Unfortunately, non-compliance as well as consequence management remains a concern

Key messages going forward

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

- progress with audit action plans put in place by the department to improve audit outcomes
- monitor the progress on the filling of the CFO position to ensure stability of leadership
- the culture of consequence management should be enforced in the portfolio.

The committee is also reminded of the preventative control guides - the guides cover the main preventative controls that should be in place and include key questions that oversight structures and executive authorities can ask to obtain assurance on whether the controls have been implemented and are working effectively.



THANK YOU



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