

Portfolio Committee on International Relations and Cooperation

**Presentation on the Implementation of the Audit Action Plan by
DIRCO and ARF for the 2021/22 financial year**

Audit Committee and Risk Management Committee

11 October 2022



**international relations
& cooperation**

Department:
International Relations and Cooperation
REPUBLIC OF SOUTH AFRICA

1. DIRCO received an “Unqualified audit opinion with findings” in 2021/22

- 1.1 From the outset, as the Audit Committee, we wish to first and foremost congratulate DIRCO on getting an ***unqualified audit opinion with findings*** from the Auditor General for the financial year 2021/22, after four years of successive qualifications. This milestone would not have been achieved, had it not been for the support, dedication and commitment of the Minister, Senior Management and staff, the Portfolio Committee and various oversight structures within the Department.
- 1.2 We have encouraged the Department to keep up the good work and make it a priority to work towards the achievement of a ‘clean’ audit opinion from now on.



2. Purpose

- 2.1 For the Audit Committee as well as the Risk Management Committee to provide an ***“independent”*** advisory to the Portfolio Committee on the progress made by the Department and the ARF on the implementation of their 2021/22 Audit Action Plans.
- 2.2 The Audit Committee is advisory and should not perform any management function or assume any management responsibilities. As such, in accordance with Treasury Regulation 3.1.9, “An audit committee must report and make recommendations to the accounting officer, but the accounting officer retains responsibility for implementing such recommendations”.



3. Context to the progress update reported

- 3.1 As a standard practice, after each auditing cycle all departments and public entities are expected to develop and implement an audit action plan based on both the internal and external audit findings.
- 3.2 During the development of the audit action plan, various stakeholders such as Internal Audit, Risk Management, Audit & Risk Committee, Treasury and the Auditor General are consulted for their inputs prior to its finalisation.
- 3.3 More emphasis should be placed on the identification of the root causes (to the findings), and both the adequacy and effectiveness of the audit action plan.



3. Context to the progress update reported (cont..)

- 3.4 Both the Audit Steering Committee and the Audit & Risk Committees play a leading role in terms of (quarterly) reporting and monitoring of the implementation of the Audit Action Plan
- 3.5 Furthermore, the review of the audit action plan's effectiveness is included as part of the Internal Audit Annual Operational Plan
- 3.6 The reporting on the audit action plan is also one of the standard agenda items in all Ministerial Management Meetings.



4. Audit Committee's role in the formulation of the 2021/22 Audit Action

4.1 AC made recommendation to conduct in depth root cause analysis based on people, policy/process, technology enablers to prevent repeat findings.

4.2 Reviewed the post audit action plan from an adequacy perspective

4.3 Independent assurance on the “effectiveness” was also provided by Internal Audit.



PROGRESS UPDATE ON THE IMPLEMENTATION OF THE AUDIT ACTION PLAN FOR 2021/22 - DEPARTMENT ON INTERNATIONAL RELATIONS AND COOPERATION (DIRCO)



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5. Statistical summary of progress made.

Management Assessment		Internal Assessment	Audit Follow Up	Variance
Activity	Number of Findings	Assessment	Follow Up	
Number of actions/findings.	89 (100%)	89 (100%)		None
Finding adequately closed	10	10 (11%)		None
Findings are 100% completed, but no evidence attached.	14	14 (16%)		None
Findings are 100% completed but audit test revealed insufficient evidence.	25	25 (28%)		None
Partially implemented (with implementation ranging from 40% complete to 90% completed)	35	35 (40%)		None
Findings affecting financial statements for 2020/21 were not tested because the current set of 2021/22 financial statements override discrepancies which were noted in the previous set of financial statements.	5	5 (6%)		None



6. High level observations by the Audit Committee

- 6.1 The AC commends the Department for having an Audit Action Plan in place for 2021/22 and for successfully addressing a prior year qualification matter: Disallowance Account. However, the Audit Action Plan was not effectively implemented. This was evidenced by several repeat audit findings.
- 6.2 It was evident that a detailed root cause analysis was not performed prior to the compilation of the plan, resulting in some of the actions/recommendations not addressing internal control deficiencies from the audit findings.
- 6.3 Management was encouraged to perform a detailed root cause analysis for each finding, and the expectation is that the proposed corrective measures will address the root cause, and therefore prevent the audit finding from recurring.



6. High level observations by the Audit Committee (cont..)

- 6.4 Management was also advised to ensure that all findings in the Management Report are completely transferred onto the Audit Action Plan for 2022/23. And the Audit Action Plan must include all internal audit findings and recommendations, in order to successfully implement the Combined Assurance Model.
- 6.5 Most of the ICT related findings/recommendations were either not implemented or in progress due to various reasons.



7. Financial Statements and the Finance Function

- 7.1 The quality of the Financial Statements for 2021/22 that were submitted for audit still contained material misstatements and errors.
- 7.2 Most of the material misstatements and errors identified by the audit were for Lease Commitments'/ Pre-payments and Assets.
- 7.3 In addition, there may be gaps in terms of skills and capacity in the Finance Function.
- 7.4 This environment must be strengthened to ensure the credibility of the reported financial information through the urgent appointment of the CFO.
- 7.5 Fixed assets management remains a significant area of concern.



8. Non-compliance with laws and regulations

8.1 Unauthorised Expenditure: The Department is commended for not incurring unauthorised expenditure in the 2021/22.

8.2 Irregular expenditure: Numerous non-compliance with legislation were identified for Supply Chain Management related requirements.

8.3 Consequence management: Though the Department investigated a few of the previous years' irregular expenditure, it is still of serious concern that consequence management has not been implemented against officials who incurred the irregular expenditure.

8.4 Furthermore, it is concerning that no steps were taken against officials who incurred fruitless and wasteful expenditure. This is due to the fact that not all instances of fruitless and wasteful expenditure were investigated and therefore not recovered.



8. Non-compliance with laws and regulations (cont..)

8.5 Fruitless and wasteful expenditure: The AC commends the Department for a decrease in the fruitless and wasteful expenditure incurred in the current year (R4 million) as compared to the previous year (R13 million).

8.6 Rental deposits: The Department has failed to implement effective and appropriate steps to recover refunds from rental deposits after the transferred officials' term expire, the Department had to write off an amount of R26.9 million.



9. Information Communication Technology (ICT)

- 9.1 The department continued to use obsolete IT infrastructure due to ongoing delays in the implementation of the infrastructure modernization project to replace the obsolete IT infrastructure.
- 9.2 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, as such the IT controls committed to in the previous cycle were not implemented, to ensure that all the designed controls are implemented and operating effectively to prevent repeat IT repeat findings.
- 9.3 Some of the key findings on IT audit which were due to old infrastructure in place and some of which are due to lack of oversight.
- 9.4 The nonresolution of these and other findings might also open up the department to risks of cyber attack and business continuity.



10. Property Management

- 10.1 As discussed during various Portfolio Committee meetings, we are equally concerned about the challenges around property management, especially the physical state of some of the properties abroad (lack of renovations, poor and/or non-maintenance).
- 10.2 As a result, we paid particular attention to property related matters during our oversight visit to some of the missions abroad. A report on the outcomes of the visit has already been shared with the Director-General.
- 10.3 Furthermore, Property Management discussions are now a standard agenda item on all quarterly AC meetings.
- 10.4 In addition, we have- advised that a holistic property management strategy be informed by integrated thinking and that it should provide insight into how it supports the overall strategy of the department.



PROGRESS UPDATE ON THE IMPLEMENTATION OF THE AUDIT ACTION PLAN FOR 2021/22 - AFRICAN RENAISSANCE FUND (ARF)



11. High level observations by the Audit Committee

- 11.1 The entity continues to obtain “clean” audit outcomes for five years in a row, and it is our wish that this practice will continue into the foreseeable future.
- 11.2 As a result, the AC was satisfied with the implementation of the 2021/22 audit action plan.
- 11.3 The only areas of concern are on the Performance Information reporting which still requires more attention, especially the crafting of the performance indicators and targets, and Compliance with BBBEE Act reporting.



12. Other matters

12.1 Delays in the approval and/or implementation of the reviewed organisational structure. This is a concern because it is anticipated that the implementation of the new organisational structure will result to reduced Cost of Employment.

12.2 Succession planning: From a people practices perspective, what is key for the Committee is a coherent Skills and Leadership continuity plan that ensures delivery on a well-thought-out strategy, based on the mandate.

12.3 There are still prior year's BRRR recommendations which have not yet been fully actioned such, consequence management, impact assessment on the ARF etc.

12.4 We appreciate the support by the Director-General, the then Acting Director General, the Acting CFO and the rest of the Department's management team towards the work of the committee.



13. Recommendation

13.1 The Portfolio Committee to continue its oversight of the Budget Review and Recommendations Report implementation of the recommendations.

13.2 The Portfolio Committee to note the Progress report on the Implementation of the 2021/22 Audit Action Plans for both DIRCO and ARF.





Thank you!



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