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NATIONAL TREASURY
Republic of South Africa
Office of the Accountant-General

Portfolio Committee on Home Affairs

**Progress Report on the Investigation of
the Financial Management Systems at
Home Affairs**

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National Treasury: Republic of South Africa
15 March 2007

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Management reports

- **Completed:**
 - Revenue & accounts receivable
 - Expenditure with ref to HR (management comments o/s)
 - Assets (vehicles & moveable assets)
 - Internal audit
- **In progress:**
 - Internal control
 - Bank and cash
 - Expenditure with ref to supply chain management
 - Information systems

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Overview of Findings

- Capacity constraints
- Skills shortage
- Lack of managerial supervision
- Policies not properly rolled-out
- Internal control weaknesses

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Recommendations

- Consider use of retired professionals to augment internal skills
- Finalise HR plan and eliminate bottlenecks in recruitment process
- Risk assessment should be reviewed regularly and used in the internal audit planning process
- Finalise IA co-sourcing arrangements
- Develop a comprehensive asset management plan
- Finalise the financial management manual
- Tighten controls on overtime management and take corrective action on the past non-compliance

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Recommendations

- Tighten controls on cash registers and recording of revenue
- Develop a receivables policy and implement
- All reconciliations should be monthly
- Strict managements of penalty debtors – send statements regularly
- Stricter control on subsistence claims
- Management meetings should follow up on all audit findings

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THANK YOU

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Reporting structure

Six Generic processes:

- Policies & planning
- Organizing
- Finance
- Personnel
- Working methods
- Control

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Background

- DHA had qualified reports since PFMA implementation
- Audit got delayed in 2004/05 resulted in a disclaimer
- Minister of Home Affairs requested support
- National Treasury & Home Affairs agreed on ToR for an investigation into systems of financial management & internal control
- Key priority areas prepared by audit team

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Scope

Two stage approach agreed upon:

Stage 1:

- Bank & cash management
- Revenue and accounts receivable
- Expenditure & accounts payable
- Asset management
- Supply chain management

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Scope (continued)

Stage 2:

- Other areas in ToR will be discussed with Accountant-General & audited after stage 1 areas
- Performance audit on service delivery ability will be performed
- Will also focus on areas where information systems do not support meeting objectives

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Policies and planning

- **HR:**
 - Strat plan – 14/28 key outputs not addressed
 - HRM plan does not exist
 - Multiple HR policies
 - Selection panel too big resulting in delays
- **Internal audit:**
 - Risk ratings not included in audit plan
 - Inadequate link between internal audits performed & strategic audit plan

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Policies and planning (continued)

- **Asset management:**
 - Deficiencies with asset management system
 - No annual maintenance plan mainly for vehicles
 - No approved vehicle management plan
- **Revenue**
 - Deficient departmental financial manual

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Organization

- **Human Resources**
 - Peral does not agree to organizational chart
 - Vacancies = 31% at 15 Jan'07
 - Deficient controls in the management of overtime
 - Attendance registers not maintained
- **Internal audit**
 - Capacity of internal audit not adequate
 - Internal audit plan not carried out

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Finance

- **Payroll**
 - Payrolls not validated in accordance with Treasury Regulations
- **Revenue**
 - Delays in recording of revenue
 - Receivables clearing accounts not cleared
 - Recovery of debtors not effective
 - No breakdown of damages & losses

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Finance (continued)

- **Revenue (continued)**
 - Penalties & administrative fines not updated on BAS
 - S&T advances not cleared
 - Deposit slips not reconciled to bank statements
 - Poor safeguarding of revenue
 - Handing over certificates not utilized
 - Long periods to investigate misconduct

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Personnel

- HR servicing ratio higher than norm
- Long turnaround times for recruitment
- Percentage of performance awards not within DPSA guideline
- Personnel files do not include all required documentation

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Working methods

- **Internal audit:**
 - * Quality assurance & peer reviews not performed on internal audit
- **Asset management**
 - * Ineffective analysis of the need for assets
 - * Recording of assets – no recons performed; asset register not regularly updated

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Working methods (continued)

- **Asset management (continued)**
 - * Wesbank fleet management system not utilized
 - * Loss register not updated regularly
 - * Replacement & utilization of vehicles – differences in level of utilization
- **Revenue**
 - * Debtors files not regularly updated

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Control

- Weaknesses in reporting process on recruitment
- Performance agreements not signed on time
- No correlation between outcome of quarterly review & annual assessment
- Remedial actions taken by supervisors against poor performers
- Lack of controls pertaining to payroll
- Overtime not approved in advance

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Asset management

- Disposal & scrapping of assets not in a timely manner
- Assets to be disposed of not adequately safeguarded
- Weaknesses in security

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Approach

- Use the Auditor-General already has capacity
- Link to the regularity audit
- Avoid choking the department with the investigation
- Ensure due process is followed
- Recognise the investigation is initiated by the DHA Minister
- Ensure appropriate skills and time is devoted to the investigation
- Benchmark against an ideal control environment
