Part 5
Annual Financial Statements

Accounting Officer's Report for the year ended 31 March 2010

1. GENERAL REVIEW OF THE STATE OF FINANCIAL AFFAIRS

Report by the Accounting Officer to the Executive Authority and Parliament of the Republic of South Africa.

1.1 Introduction

The Department of International Relations and Cooperation (department) is responsible for the formulation, application and execution of all aspects of South Africa's foreign policy as entrusted to the Minister of International Relations and Cooperation (minister). Liaison with foreign governments on matters of international relations is conducted through South Africa's accredited representatives abroad. The Head of a South African mission abroad acts as the representative of the Head of State. In pursuit of the achievement of South Africa's foreign policy, the Department is currently represented in one hundred and twenty four (124) South African diplomatic missions located in 107 countries throughout the world.

In line with the Public Finance Management Act, 1999 (Act No. 1 of 1999 as amended) (PFMA) and the Treasury Regulations, the Department submitted its strategic plan for the Medium Term Expenditure Framework (MTEF) period 2009/10 to 2011/12. The following strategic priorities which were previously identified were reconfirmed for implementation during the year under review:

- Consolidation of the African Agenda;
- South-South Co-operation;
- North-South Dialogue;
- Global Governance;
- Bilateral Relations;
- Organisational support; and
- Organisational Strengthening.

In order to align the resources of the Department to its strategic priorities and to enable the Department to comply with the monitoring, evaluation and reporting processes required by government, departmental programmes are structured as follow:

- Administration provides for the overall policy development and management of the Department.
- International Relations and Cooperation promotes relations with foreign countries, and participate in international organisations and institutions, in pursuit of South Africa's national values, interests and foreign policy objectives.
- Public Diplomacy and Protocol promote an understanding, both domestically and internationally, of South Africa's role and position in international relations, and provide State protocol services.
- International Transfers provide for the payment of membership fees and transfers to international organisations.

During 2009/10 the Auditor General conducted an audit of the financial affairs of the Department as reported in the Annual Financial Statements for the 2008/09 financial year. The Auditor- General issued an unqualified audit opinion, without matters of emphasis, with regard to the Department's 2008/09 financial statements.

Economic Diplomacy

One of the key strategies of government during the year under review and a strategic focus for the future continues to focus on Economic Diplomacy and the enhancement of economic diplomacy skills of our diplomats. The Department, through the Diplomatic Training, Research and Development Branch has conducted extensive research into the area of diplomacy and the results of the research have been included in the training programme offered by DIRCO. Economic diplomacy will be further researched and enhanced during the coming year.

This report seeks to assist readers in measuring the extent to which the Department's resources allocated for the 2009/10 financial year were utilised in terms of the PFMA.

1.2 Revenue

During the year under review, the Department received total revenue of **R5, 576** billion made up of voted funds and non-voted funds as explained hereunder:

Annual Appropriation - R5, 553 billion

The Department received a budget allocation of R5, 553 billion for the 2009/10 financial year after the adjustment estimates. The 2009/10 budget allocation shows a decrease of R17 million in comparison to 2008/09. However, the 2009/10 budget has decreased in real terms, due to the inflation adjustments, foreign exchange rate implications, and the reduction of the funds earmarked for the construction of the permanent headquarters for the Pan African Parliament. The decrease in the budget, in real terms, amounts to approximately R350 million. In order to achieve its strategic objectives with the reduced budget, the Department implemented cost-saving measures especially in the areas of entertainment, catering, travel, telecommunications as well as downscaling on infrastructure commitments.

Departmental Revenue - R23 million

Departmental receipts are generated from: interest earned from mission bank accounts; rent on state owned property; refunds received through value added tax refunds from missions related to previous financial years; foreign exchange gains; and the sale of capital items, such as furniture and fixtures identified for disposal. During the year under review the revenue collected decreased from R44 million to R23 million in comparison with the 2008/09 financial year. It is expected that over the MTEF period revenue is expected to continue to decline to levels below R20 million due to the global recession and the strengthening of the rand against the major currencies.

1.3 Expenditure

South Africa maintains diplomatic relations with countries and organisations through 124 missions located in 107 countries throughout the world. The bulk of its expenditure is incurred in foreign currencies. Expenditure is processed using the major currencies mainly because of the non-availability of local currencies. The conversion of the Rand to the major currencies and the conversion of the major currencies to local currencies results in either foreign exchange gains or losses.

Thus, National Treasury and the Department agreed on a fixed budget exchange rate for the major currencies to be used during the financial year and also the fixed exchange rate is reviewed during the adjustment estimates process (mid-term).

However, should the Department experience a significant movement of the Rand against major currencies after the adjustment estimates process, i.e. In the event of foreign exchange rate loss, the Department is required to fund such foreign exchange rate losses from its allocated resources or recognise the loss in the Annual Financial Statements as an unauthorised expenditure. However, in the event of the foreign exchange rate gains, the Department would have to pay over the foreign exchange rate gains to the National Revenue Fund.

During the 2008/09 the Department reported unusable currencies to the value of R152 million that was collected on behalf of Department of Home Affairs. Of this amount R54 million related to the devaluation of the Zimbabwean currency. Consequently the department has recognised R54 million as a foreign exchange loss in the accounts of the department for 2009/10.

During the period under review, the Department realised foreign exchange rate gains of approximately R387 million, which is attributable to the strengthening of the Rand against the major currencies, particularly in the 3rd and 4th quarters of the financial year.

National Treasury granted approval for the Department to utilise these foreign exchange gains to fund priorities that were not previously funded by the National Treasury and which could not be funded from within the Department's baseline. The foreign exchange gains were utilised to fund, inter alia, the following projects:

- Recognition of Non Statutory Forces service as pensionable service - R99 million
- South Africa's participation in the 2010 Shanghai World Expo - R106 million
- Payment of South Africa's membership and assessment contribution to International Organisations, UN-R31 million and AU R74 million.

ANALYSIS OF UNDER/ OVER EXPENDITURE PER PROGRAMME

The Department has recorded a net savings of R135,5 million for the 2009/10 financial year as reflected in the following table:

ANALYSIS OF UNDER/ (OVER) EXPENDITURE PER PROGRAMME

Programme Description	Voted 2009/10	Actual Expenditure	Savings (excess)	Expenditure %
	R'000	R'000	R'000	VOTE
1: Administration	1,226,323	1,197,838	28,485	97,7%
2: International Relations	2,948,393	2,851,587	96,806	96.7%
3: Public Diplomacy and Protocol	257,615	252,855	4,760	98.2%
4: International Transfers	1,120,624	1,115,161	5, 463	99.5%
TOTAL	**5,552,955**	**5,417,441**	**135,514**	**97.6%**

During the year under review, the Department utilised 97.6% of the budget (R5,553 billion) which resulted in a net saving of R135,5 million. In addition, the Department processed virement of R123,6 million from programme 2 to programme 1 and to programme 4 respectively to defray expenditure relating to priority projects in accordance to the National Treasury approval.Furthermore the net saving of R135,5 million is also attributable largely to the following projects that were not completed due to circumstances that were unforeseeable and unavoidable:

- Capital projects;
- Pan African Parliament; and
- 2010 Shanghai World Expo

The analysis of under expenditure per programme can be attributed to the following reasons:

Programme 1: Administration - R28 million

Construction and Refurbishment of Capital Projects:

The under spending is attributable to the decision to suspend the construction of the permanent headquarters for the Pan African Parliament at the site in Midrand, Johannesburg because of the environmental concerns that were raised with regard to the identified site and also the financial considerations with regard to the continuation of construction. The departments of Public Works, National Treasury and International Relations and Cooperation are currently investigating alternative models of funding as well as a suitable site for the provision of permanent accommodation for the Pan African Parliament.

The under spending was also attributed to the international property portfolio that the Department manages through the construction, acquisition and refurbishment of properties abroad for the provision of office accommodation and staff residences. During the year under review, the following capital projects were not completed as detailed below:

- Abuja - Nigeria

Construction delays were caused by the overall slow progress made by the contractor as well as delays realised in the importation of materials from outside of Nigeria.

- Maseru - Lesotho

The final completion was delayed mainly because of slow construction progress and unforeseen site conditions that resulted in a complete redesign of foundations for all structures on site.

- Athens - Greece

The delay was caused by the need to import materials from outside of Greece.

Programme 2: International Relations and Cooperation R96, 8 million

Participation in the 2010 Shanghai World Expo

It was previously recorded that National Treasury approved that the Department utilise foreign exchange gains to also fund South Africa's participation in the Shanghai World Expo. The approval from National Treasury for the utilisation of R106,6 million was obtained in December 2009 and the Department immediately commenced with the arrangements for the procurement of the required goods and services. However, the spending that the Department could manage within three months before the end of the financial year was R17,1 million despite considerable effort and accelerated processes to construct the pavilion and to also procure the required goods and services. This resulted in unspent funds. National Treasury has been requested to roll-over these funds to the 2010/11 financial year since the bulk of expenditure will be incurred during the 2010/11 financial year.

APPROPRIATION FOR UNAUTHORISED EXPENDITURE

For the 2002/03 financial year the Department has reported unauthorised expenditure of R6,879 million. SCOPA has recommended that the expenditure be authorised. The Department will process the necessary transactions once formal authorisation has been received from the National Treasury.

1.4 Lease payments

The Department negotiated a contract whereby official vehicles for Heads of Mission are provided on a financial lease basis. In line with the PFMA, approval was granted by National Treasury for the Department to enter into such financial lease. The Department had entered into an agreement with BMW AG, Germany for the supply BMW vehicles during a 3-year period ending December 2009. Funding facilities have been obtained from KBC Bank Deutschland AG on a bi-annual payment basis to the Bank.

In the 2009/10 financial year, the Department acquired 24 BMW vehicles for Heads of Mission in accordance with this agreement. The contract expired in December 2009, with a total of 105 official vehicles being purchased during the period 2007 – 2009 for Ambassadors, High Commissioners, Consul Generals and Ministers with Head of Mission privileges.

The Department has also awarded a Seat Management Services Tender (SITA) 285, whereby computer desktops, laptops and printers are provided through an operational lease for head office and all missions. This option was taken to replace all obsolete computers and printers and to provide equipment that is capable of handling the new technologies that are currently being deployed. Significant progress has been made in the deployment of the equipment. During the year under review the Department relocated to its new Head Office Campus. ICT equipment for staff members at the new Head Office building was provided under this contract.

2. OTHER ORGANISATIONS TO WHOM TRANSFER PAYMENTS WERE MADE

Transfer payments primarily arise from obligations undertaken by South Africa at international, regional and sub-regional multilateral levels. The payments, which are made by the Department, generally take the form of:

- Membership fees due to organisations such as the UN, the AU, the SADC, and the Commonwealth.
- Contributions to peacekeeping operations of the UN.
- Meetings of state parties (parties to international treaties) of which South Africa is a member, and in which South Africa has participated.
- Voluntary pledges that South Africa has made to international organisations for the purpose of humanitarian assistance, technical assistance, etc.

In the context of the UN, South Africa's assessed contributions to the regular budget are calculated at 0.290% of the total budget, while peacekeeping contributions are calculated at the rate of Level I contributors (member states with a per capita GNI less than the average for all Member states with a threshold of USD5,518). This translates to an assessed rate of 0.0610% (affectively a discounted rate of 80%) of the total cost of each UN peacekeeping operation. Contributions to other UN organisations, treaty bodies, etc. are determined on the basis of the calculation for South Africa's contribution to the UN regular budget as adjusted to the membership of the particular organisation or body.

South Africa's current scale of contribution to the Commonwealth is 3.90%, making her the fourth largest contributor to the organisation. As a commitment to multilateralism South Africa honours its assessed contributions in full, on time and without any preconditions.

With regard to the AU, South Africa's scale of assessment is at 15% of the total budget, which was duly paid. There was a resolution to split the budget of the AU into a component comprised of Operational budget (contribution based on Scale of Assessment) and Programme Budget (provided on voluntary basis). South Africa also contributes 20% to the budget of SADC, which was duly paid.

The Development Bank of Southern Africa (DBSA) has hosted the New Economic Partnership for Africa Development (NEPAD) since its inception in 2001. During 2009/10 NEPAD relocated to new premises at Oracle House in Sandton. NEPAD is a socio-economic programme that was established by African leaders to eradicate poverty and to place Africa on a path of sustainable growth and development as well as to participate actively in the world economy. The South African contribution to the NEPAD secretariat is channelled through the Department of International Relations and Cooperation.

The Trilateral Dialogue Forum of India, Brazil and South Africa (IBSA) on 4 and 5 March 2004 resolved to establish a facility for poverty and hunger alleviation. Following the announcement, the Governments of IBSA decided to establish a trust fund for this purpose, in the interest of developing countries. The trust fund is administered by a Board of Trustees appointed by the IBSA countries and the Board is located in New York, USA. The UNDP is utilized as a mechanism to implement projects on behalf of the IBSA Trust Fund. These projects are launched to contribute to the fight against poverty and hunger, including actions in the areas of improved access to health, sanitation, education, and food security. In this regard the Heads of State and Government of the IBSA countries committed to make a contribution on an annual basis to the trust fund, with effect from the 2006/07 financial year.

With regard to accountability, these organisations and institutions prepare detailed financial statements, which are subject to auditing and public scrutiny. The detailed list of the transfer payments made by the Department is per note 11 and Annexure 1F of the Annual Financial Statements.

3. SERVICES RENDERED BY THE DEPARTMENT

(i) Consular services

Consular Services are mandated in terms of Article V of the Vienna Convention on Consular Relations, 1963. Consular Services are therefore those services rendered to South African citizens who travel, work, study or reside abroad and who require assistance or protection under circumstances of distress or destitution.

Consular services rendered to South Africans abroad include, but are not restricted to the following areas: visitation of injured and hospitalised persons; assistance to detained and imprisoned persons; interventions in cases of child abduction and child stealing; assistance to destitute persons and victims of crime; assistance to South African companies in circumstances of distress abroad; assistance to families of deceased persons; consular notarial services and transmitting judicial processes between states. Certain of these services involve both Mission and Head Office personnel travelling to destinations where the services are to be rendered.Numerous interventions were made internationally to protect the interests of distressed and destitute South Africans whose own access to recourse had become limited or non-existent.

Consular training interventions (in conjunction with the Diplomatic Academy) were standardised in line with SAQA standards and are being uniformly presented to the Diplomatic trainees (including Cadets) as well as Corporate Services Managers and Attachés.

(ii) Legalisation Services

A further service that is rendered is the legalising of South African public documents for utilisation abroad. During this process documents can be either affixed with an Apostille (if documents are to be utilised in countries party to the Hague Convention Abolishing the Requirement for Legalisation of Foreign Public Documents of 05 October 1961) or a Certificate of Authentication (if countries are not party to the aforementioned Hague convention).

(iii) Agency Services

An agency service is rendered on behalf of the Department of Home Affairs where that department is not represented abroad.

4. PUBLIC ENTITIES

The Department, in consultation with the National Treasury, is responsible for the administration of the African Renaissance and International Co-operation Fund (Fund).

The Fund is under the control of the Director-General of International Relations and Cooperation who, as the accounting officer, keeps records and accounts of all payments into and out of the Fund. An Advisory Committee was appointed to make recommendations to the Ministers of International Relations and Cooperation, and Finance on the disbursement of funds, as provided for in the African Renaissance and International Co-operation Fund Act, 2000 (Act No. 51 of 2000). Due to the urgency of some of the projects as well as the lengthy process to be followed to finalise the projects, the Department had to utilise its own funds after the approval of the Director-General or the Minister. This is done with a view of claiming it back from the Fund once a letter of concurrence has been received from the Minister of Finance. Such arrangement has resulted in the opening of control accounts (Payables and Receivables) in the books of the Department and the Fund. The arrangement poses a risk to the Department, as the amount owed by the Fund is not enforceable in the event that the Minister of Finance does not issue the letter of concurrence.

During 2001/02, the Government of the Republic of Mali made a request for financial assistance in hosting of the 23rd Africa Cup of Nations (AFCON) 2002 Tournament, which was held from 19th January to 10th February 2002. At the time of our intervention, it was established that the preparations for hosting of the tournament were still at initial stages, which rendered the tournament a non starter without South Africa's support.Since South Africa was intending, at that stage, to bid for the hosting of the 2006 FIFA Soccer World Cup it was prudent that support to the AFCON initiative was given in order to gain the confidence of the world that Africa was capable of hosting an event of the magnitude of the World Cup.

Had the South African Government not intervened, the AFCON Tournament would not have taken place as no other African country would have been in a position to host the tournament successfully at such a late stage. An increased contribution of R29 042 million was made, paid from the Department.

The Department of Sports and Recreation was responsible for the management of the project through the Mali Trust Fund. However, due to the increased costs incurred the Minister of Finance requested the audit of the Trust Fund before he could consider issuing a letter of concurrence, which was duly completed by the Auditor General. The Audit report together with the request for concurrence letter had been submitted to the Minister of Finance for his consideration. The Mali Trust Fund received a qualified audit report and has resulted in the Minister of Finance not granting the required concurrence.

This matter was pursued vigorously with the National Treasury and a final request was made in March 2010 to the Minister of Finance to condone the expenditure. The Minister of Finance, however, recommended that the Department of International Relations and Cooperation write off this amount. The amount was duly written off against the department's 2009/10 budget.

The financial statements of the Fund are prepared separately from the Department as the Fund is registered as a Public Entity in terms of the Public Finance Management Act.

5. HUMAN RESOURCE CAPACITY

The Human Resources strategy seeks and continues to strike a balance between addressing current organisational challenges and being innovative in responding to emerging issues. To this end a number of interventions have been implemented and attended to, to strengthen people management processes in the Department. Below are some of our achievements during the past financial year.

Talent Management

Through its concerted employee branding activities, the Department was rated, for the the 3rd year running, as the second best employer of choice by tertiary students studying towards qualifications in Humanities. This graduate survey conducted by Magnet Communications annually, involves over 100 private organisations from a variety of industries and focuses on students from across the 23 Universities in South Africa. The Department was also rated the second best employer amongst Public Sector employers in the same survey.

Apart from this, the Department for the first time hosted a Career Exhibition Day at Head Office on 18 March 2010. A varied audience was invited to engage with officials on the work of the Department as well as the available career opportunities. There was also a strong focus on career management in the Department, involving interventions such as individual career counseling and group career counselling processes. These actions were undertaken with the aim of assisting employees to take advantage of available career opportunities within the Department and to manage their careers in a proactive manner.

Employee Wellbeing Centre (EWC)

The EWC continues to implement health promotion programmes and render psycho-social support to all DIRCO employees and their family members. In the past financial year, the EWC intensified its efforts to support transferred employees and their families. To this end, we developed and started with enhanced implementation of strategies aimed at supporting employees and families in Hardship Missions. Secondly, the EWC focused on enhancing the support provided to spouses of transferred employees. This led to the process of establishing a dedicated office that will ensure that the support to spouses/families is provided in a structured and systematic way; and that the needs of the spouses are also taken care of.

Initiatives to raise awareness on HIV/AIDS and encourage employees to know their HIV status continues to be pursued through the provision of on-site Voluntary Counselling and Testing (VCT). For the first time, the VCT and other wellness promotion programmes were extended to employees in the Cape Town offices as well as at all State Protocol lounges. The 2009 campaign saw 258 employees participating in the VCT process.

Organisational Culture and Transformation

There are concerted efforts towards improving the organisational culture within the Department through varied intervention platforms. In demonstrating its commitment to service delivery the Department has in the past year developed the Service Delivery Improvement Plan which will be implemented throughout the organization in the next financial year. Different leverage areas of promoting the desired culture continue to be integrated into organisational processes and practices and will be implemented in the period ahead.

Performance Management and Development System (PMDS)

The Branch continues to entrench a performance culture within the Department. Of note is the continued training on PMDS processes at all levels including training of Moderating Committee members to enhance the moderation of appraisals. Guidelines and procedures on Performance Management and Development processes have been communicated during training sessions to ensure common understanding and application of the System.

Locally Recruited Personnel (LRP)

The Branch has embarked on a project to review the dispensation of the Locally Recruited Personnel (LRP) employed at our Missions abroad. This includes the review of compensation packages, benefits, and organisational structure and job titles of LRP in Missions. This is a three year project and will continue during the next financial year.

6. CAPACITY BUILDING AND RESEARCH

The Department, through the Branch: Diplomatic Training, Research & Development, addresses the skills developmental needs of the DIRCO and carries out policy research on priority issues for South Africa's foreign policy. The Diplomatic Academy is accredited with the Public Services Sector Education and Training Authority (PSETA) as a training institution and offers training in preparation for Foreign Service to Departmental officials. Diplomatic training is offered to Diplomats at various career levels, Heads of Mission, Counsellors and entry level diplomats. In addition to diplomatic training the following training was delivered: **Mission Administration, Foreign Languages, Computer training, English Language training, Protocol, various courses for Management Development and generic training in line with the Workplace Skills Plan (WSP).**

Answering the call to job creation and skills development, the Department's Cadet Programme offers unemployed graduates a chance to further their learning and pursue their career in the Department. In addition, the Department offers access to a Masters Degree in Diplomacy to further enhance the skills profile of the senior management dealing with international relations in the public sector.

As part of DIRCO's contribution towards enhancing the skills level of all South Africans, learnerships are offered to young unemployed South Africans who have completed their Senior Certificates (Grade 12) and Internships are offered to provide work experience to university graduates.

In pursuit of the consolidation of the African Agenda the Diplomatic Academy offers various training interventions to the Southern African Development Community (SADC) and individual African countries.PRAU has become a catalyst for both internal and external debates on priority issues for South Africa's foreign policy through the hosting of the PRAU Discussion and Current Affairs Fora and through its research and analysis of foreign policies and global issues.

7. MANAGEMENT OF THE DEPARTMENT'S PROPERTY PORTFOLIO

The property portfolio managed by the Department is divided into two (2) areas of focus, namely the international property portfolio and the local property portfolio.

On the international front, the Department is responsible for all properties owned by the South African government in countries outside our borders. All acquisition of land and buildings as well as the construction, maintenance and refurbishment of chanceries, official residences and staff housing are managed on an ongoing basis. In addition, the Department also concludes and manages lease agreements for the renting of chanceries, residences and staff housing where no state owned accommodation is available in a specific country. As at the end of March 2010, the Department manages a state owned property portfolio of 112 properties, valued at approximately R 4,8 billion and a rented property portfolio of 708 properties.

The local property portfolio deals with the acquisition and management of all properties used by the Department and agencies for which the Department is responsible within the RSA. The largest of these properties is the O R Tambo Building in Soutpansberg Road, Pretoria, which is the Department's new head office. Other properties managed in this portfolio include the diplomatic guest houses, State Protocol Lounges at international airports, accommodation for UN agencies, Pan African Parliament and NEPAD. In this financial year the Department also funded and oversaw the design and construction of a State Protocol Lounge at the new King Shaka International Airport in Durban. It is expected that this facility will be completed in time for the 2010 Soccer World Cup.

During the 2009/10 financial year, the Department finalized the purchase agreement in respect of the acquisition land in New Delhi, earmarked for the development of a new Chancery and Official Residence. Furthermore, the Department purchased an Official Residence in Washington DC as well as the OR Tambo house in London.

The construction of a new Chancery and diplomatic village, (consisting of 8 staff houses and a clubhouse), together with the renovation of the Official Residence in Maseru reached practical completion and the mission relocated to its new facilities. The construction of a Chancery and Official Residence in Abuja, Nigeria progressed. It is expected that both these facilities will be ready for occupation during the first half of the 2010/11 financial year.

With regard to renovations of state owned properties, the Department completed the renovation of 6 staff houses in Lilongwe, the consular reception area of the Chancery in Buenos Aires, the Chancery and Official Residence in Canberra as well as the Chancery in Ottawa. Planning and design work for the renovation of the Chancery and Official Residence in Washington has been completed and construction will commence in 2010/11. Renovation of the lifts in South Africa House in London, electrical works in Maputu and Official Residence in Athens has commenced and will be completed early in the 2010 /11 financial year. Planning for major renovations in Copenhagen, The Hague, London, Paris and Juba has commenced and will be pursued in the next financial year.

8. INFORMATION COMMUNICATIONS TECHNOLOGY

The Department continued with its strategic rollout detailed in the master system plan (MSP). The MSP was informed by the ICT Strategic Plan, Business Plan, Audit Report and Risk Assessment. During the 2009/10 reporting period under review, ICT continued with the following projects:

- UKUSA (Voice Over Internet Protocol {VOIP} and Windows 2003)
- Implementation of new security solution for HO and all missions
- Business Process Management
- Completion ICT Infrastructure installation for the new Head Office Building
- Web Portal Project

(a) UKUSA (Voice Over Internet Protocol (VOIP) & Windows 2003)

This project involves converged networks connecting all missions and the Head Office. The end product provides an integrated, effective and efficient communication infrastructure for DIRCO. The system will furthermore ensure collaboration and improved service delivery within the entire department, integrating the telephone, e-mail and other applications which will take advantage of the benefits of unified messaging and related reduced costs.

The UKUSA Project is drawing to a close. The Internet Protocol Telephone (IPT) Voice Cut over and the installation of 5 Portable Facilities Cabinets (PFC) remain outstanding.

The 5 PFCs were delivered to the missions and the service provider was paid in full however the installation will be completed in 2010/11 financial year and the quality audit of work performed as well as the functioning of the system will also be undertaken during the 2010/11 financial year.The Department is currently in the final stages of formalising a Service Level Agreement with the service provider.

(b) Implement new security solution for Head Office and all missions

ICT embarked, during the reporting period, with the implementation of new security devices for Head Office and all missions. A Pilot test project at Head Office has been completed with a 60% success rate. Consequently, alternative equipment is being considered.

(c) Business Process Management

The aim of this project is the automation of the business processes, providing optimized workflow with built-in business rules for Consular Services and Diplomatic Immunities and Privileges. Development of Consular Management System (CMS) processes has been completed and tested with 4 processes in production. With the assistance of the SITA database of service providers and suppliers, a service provider has been identified to continue with the development of the Diplomatic Immunities and Privileges (DIAP) Project. Development will continue in earnest during the 2010/11 financial year.

(d) Completion of ICT Infrastructure installation for the new Head Office Building

The relocation process of all ICT infrastructure and applications to a new centralized building was successfully executed. This involved consolidation of the ICT infrastructure in seven buildings around Pretoria into a single campus at the OR Tambo building. The lines of work involved Networking, Back Office, IPT, and Network Security.

(e) Web Portal Project

In 2005 DIRCO (DFA) identified the need to improve the Intranet and Internet for Head Office and the missions' Web sites. The purpose of the project is to enhance the DIRCO`s current Intranet, Internet and Mission web sites.

The Intranet will be used also as a Document Management System to assist with information according to management requirements. The Intranet is utilized as the DIRCO's Information Management System. As such, the Intranet must provide fast and easy access to information at any time.

The intranet will be used as a document management and collaboration system to assist the internal units of DIRCO with their day to day information management requirements. GijimaAST was awarded the contract to develop and implement phase 1 solution. The project stalled due to disengagement of the team members. The project was re-started at the beginning of September 2008. The re-scoping and resuscitation of project meetings resumed in October 2008.

The Development has been completed and the Department is currently busy with the testing and documentation.

ICT Operations

ICT Operations has provided solutions and technical infrastructure in terms of maintenance, services, technology and development, to support Head Office and Regional Operations infrastructure and also to ensure compliance with best practice standards for quality and competitiveness. A total of 18 604 calls has been logged at our Service Desk through the call logging system and 17 469 calls have been resolved which represent a 93.8 % achievement. The service desk provides a first line of support of desktop support for our end users with the assistance of engineers stationed at 6 technical hubs around the world.

The global network is supported by a team of networking engineers working on a full time basis with an achievement of 98% availability of the network.

9. CORPORATE GOVERNANCE ARRANGEMENTS

During the financial year 2009/10 the Department has made concerted efforts in subscribing to the relevant provisions of the good corporate governance and the provisions of government protocol on corporate governance. Policies, practices and processes were further evaluated and developed and are in compliance with the principles enshrined in the Constitution, Public Finance Management Act, Treasury Regulations and other relevant prescripts.

Furthermore departmental policies, processes and practices are benchmarked against international best practices and comply with the principles of economy, efficiency and effectiveness. The Department has prepared plans with interventions to be implemented during the 2009/10 financial year on enhancing administrative processes at Head Office and strengthening of Missions' management.

The Department developed and implemented the Management Monitoring Schedule which serves as a self assessment tool for both Missions and Head Office Units. This Management tool guides Management in implementing measures and in ensuring that all administrative and management functions of the Mission are carried out.

(i) Policies, Processes and Procedures

The existence of a valid, approved set of policies, processes and procedures is one of the fundamental requirements for the existence of an adequate, effective system of internal controls. During the year under review, the Department continued with the reviewing of existing policies, processes and procedures and compiling of policies, processes and procedures where these were either inadequate or non-existent. The Department enhanced this process by introducing a policy register which continue to provide reasonable assurance that all existing policies are being promptly updated, and in this regard, numerous policies were updated and adopted by the Department during 2009/10 financial year. During the new financial year (2010/11) further improvements and enhancement will be made to policies and frameworks.

The following policies and frameworks will be given attention during 2010/11:

- Economic diplomacy, trade and tourism promotion
- Finance, Asset Management, Property Management and Supply Chain
- Management Performance Information Management

Procedures relating to the following areas will also be reviewed and updated:

- Human Resource Administration
- Asset Management
- Property Management
- Supply Chain Management

(ii) Enterprise Wide Risk Management Approach

The Department of International Relations and Cooperation has adopted Enterprise –Wide Risk Management as one of the management tools for the effective, efficient management of operations. The Department furthermore follows the risk-based approach in respect of the systems of internal controls. During 2009/10 financial year, the Department continued to implement Enterprise-Wide Risk Management processes and a comprehensive Risk Management plan was developed and approved in line with the Risk Management policy and strategy.

In line with the Departmental risk management policy and plan, an extensive risk assessment was conducted by the Department which resulted in the development of a risk profile (risk register), which was presented, considered and endorsed by the Departmental Management Committee (Risk Management Committee) and the Audit Committee.

Risk Assessments conducted and the results of the risk assessments were used as a platform and foundation for identifying and responding to the business risks of the Department. Furthermore a detailed Strategic Risk Profile as well as Operational Risk Profiles were developed for each unit in the department to assist managers in managing business risks and to utilise risk management as an effective management tool. During the 2010/11 financial year, considerable effort will be devoted to the further enhancement of the risk management processes within the Department. A revised three year rolling Enterprise -Wide Risk Management Plan will be developed and implemented.

(iii) Fraud Prevention

The Department has approved a Fraud Prevention Policy and Strategy.

The Fraud Prevention Control Committee that was established to oversee the implementation of the requirements of the Policy and Strategy, met regularly for the purposes of implementing the Policy and Strategy. The Fraud Prevention Policy and Strategy, and the Fraud Awareness Manual were made available and presented to all new employees of the Department. Furthermore, the Fraud Awareness continuous to be included in departmental activities. The Fraud Hotline implemented by the Office of the Public Service Commission was also communicated to all officials. The presentation on fraud awareness was included in the training programmes of the Department. Officials were encouraged to report alleged instances of fraud and corruption and were assured of the Government’s and the Department’s stance against fraud and corruption. The Department will continue its efforts in promoting a fraud and corruption free environment.

(iv) Audit Committee and Internal Audit

The Audit Committee and the Internal Audit Unit have been functional since 2002 and continue to play an important and critical role in the corporate governance mechanism of the Department. The Unit was strengthened during the year with the appointment of the three new Directors and a number of other Internal Auditors to fill all Internal Audit vacant posts.

During the beginning of the 2009/10 financial year, Internal Audit developed its Three Year Strategic Rolling Plan for the period 2009-2012 and the Operational Plan for the 2009/10 financial year, which was adopted by Departmental Management and approved by the Audit Committee. The Unit has conducted a number of internal audits both at Missions and Head Office during the year and has offered the Department comprehensive recommendations for improvement, where relevant and necessary. The Unit also presented possible internal control weaknesses with recommendations in the management of Missions by Head Office to the Departmental Management Committee, and these recommendations were adopted and incorporated into the business plans of various components for implementation during the 2010/11 financial year.

Furthermore, during the year under review, the Internal Audit Unit facilitated the development and the approval of the Departmental Risk Management Policy, and continued to facilitate the risk assessment sessions and workshops. The Departmental Risk Register and Risk Profile have been endorsed and accepted by both the Audit Committee and Departmental Management.

The Audit Committee received quarterly reports from Internal Audit Unit reporting their performance against the Operational Plan for the 2009/10 financial year, which enabled the Audit Committee to continually monitor the performance of the Internal Audit Unit.

(v) Continuous Updating of Good Corporate Governance Principles and Management of Conflict of Interest

The Department has also implemented measures to ensure that management and departmental staff members are continuously updated on good corporate governance principles. In pursuance thereof, Corporate Governance is included in the training offered to newly appointed Heads of Mission, candidates undertaking the Mission Administration Course and those candidates on the Diplomatic Training Course.

Corporate Governance is also included as part of the Internal Audit matters as a standing item in the Departmental Management Committee meetings. Departmental Management Committee members are continuously updated on the latest developments on corporate governance.

The Department furthermore complies with the requirement that all senior managers disclose their financial interests to the Office of the Public Service Commission on an annual basis and has implemented mechanisms to manage any possible conflict between private and departmental interests of employees. In this regard all officials are required to disclose all conflicts, potential or otherwise, with regard to any activity that the employee may be involved in.

(vi) Audit Steering Committee

An Audit Steering Committee comprising of representatives from each branch within the department has been established as part of the corporate governance mechanism. The role and functions of the Audit Steering Committee is to ensure that all audit recommendations, both external and internal, are accorded due attention by the Department and implemented.

This Committee made considerable effort to continually monitor closely the ICT projects being planned and implemented by the Department. The Audit Steering Committee has met regularly during the year under review and has incorporated the Fraud Prevention Control Committee and the ICT Steering Committee.

(vii) Performance Information Quality Assurance Committee

The Department reports Performance Information in its Annual Report in accordance with the guidelines on performance information issued by the National Treasury. In this regard, a Departmental Performance Information Quality Assurance Committee was established to monitor and review the performance information that is produced, to ensure the quality of the information reported and also to ensure that the performance information reported complies with the National Treasury Performance Information Framework.

During the year under review the Committee monitored the consolidation of the Departmental Performance Information by each Branch and ensured that every component reported quarterly on their performance.

10. PERFORMANCE MANAGEMENT AND INFORMATION

The Department developed its strategic plan for the next MTEF period, which articulates the strategic priorities of the Department. The plan includes all statutory requirements as defined in chapter 5 of the PFMA and chapter 1, part III B of the Public Service Regulations (2001). As stated above, the Department reports performance information in accordance with the Guidelines for Reporting of Performance Information issued by National Treasury.

(i) Performance management system

The performance management and development system is a management tool for the effective monitoring of individual performance to ensure that departmental goals are achieved in line with its strategic plan. The Department's performance management system is well integrated into the Strategic Planning process of the Department, and encourages a cascading effect of priorities and goals from the Departmental Strategic Objectives to Business unit level and down to the individual's performance agreement.

During the year under review, the Department ensured that Business Units have business plans and all employees have signed performance agreements and that their activities are ultimately tied to the broader organisational goals. A committee was established to ensure alignment of Performance Agreements to Business Plans. However, the implementation of the PMDS still poses some challenges with particular reference to compliance and evaluation of business unit performance as against predetermined objectives.

With regard to Branch performance evaluations, a two-pronged approach was adopted, whereby for the period April to September 2009 individual branch reviews were conducted and for the period October 2009 to March 2010 a departmental review was conducted. Branches and Units also conducted reviews of their performance on a quarterly basis. To ensure that Branches report against predetermined objectives as stated in the departmental Strategic plan, a template was designed for the submission of these reports. Furthermore, the designed template is in accordance with the requirements of the National Treasury Performance Information Reporting Framework and was utilised for the submission of quarterly reports. To strengthen the implementation of PMDS, Business Units and Missions were not allowed to utilise their budget without the submission of Business Plans and Performance Agreements.

The Department has gone to some lengths in embedding the PMDS and rewards. Extensive training was provided for Moderation Committees and detailed guidelines were developed for the evaluation process. The recognition for employees was based on the performance appraisal outcomes as against the individual performance agreement as well as the performance of the Unit.

(ii) Systems of implementation and monitoring

The Minister, Deputy-Ministers and Director-General monitor the implementation of policy and the strategic plan by heads of missions at South African diplomatic missions abroad and by senior officials of the Department. Branches of the Department and the programme managers at Chief Director level determine regional priorities and objectives, which are aligned to the Department's strategic plan and priorities. Directorates at Head Office and missions abroad implement business plans, which are country and region-specific. This level monitors implementation of performance through a system of quarterly reports to head office on progress, supported by weekly and regular interaction and reports on the substance of the set objectives.

The monitoring of progress and performance is further enhanced by the following systems:

- Business unit business plans and quarterly reports;
- Mission business plans and quarterly reports;
- Six-monthly reviews of the operating environment and priorities;
- A performance management system at all levels; and
- A departmental in-house six-monthly/annual strategic review.

These systems are further integrated and co-ordinated by a process of departmental management committees to ensure a coherent and focused approach. As part of the strategic monitoring process, as explained above, the branches have engaged in midterm as well as quarterly reviews to determine the extent to which goals were achieved and, mid-term budget reviews were also conducted with missions to ensure that objectives are accomplished within the budgetary confines.

11. PUBLIC PRIVATE PARTNERSHIPS (PPP)

The Department of International Relations and Cooperation relocated to its newly constructed OR Tambo building in September 2009 and the building was officially named and opened by the President of the Republic in December 2009. This facility has been procured under the National Treasury's Public Private Partnership initiative and will be managed by the Private Party for the next 25 years.

12. MISSION FINANCIAL SYSTEM

The Department continued with the deployment of a financial system for the missions that would enable the Department to meet its reporting obligations as required by the PFMA. The Department implemented the Mission Cash Book system (electronic cash book) in 102 missions including 22 missions that were used as a test project in 2008/09. These are missions in Africa, Asia and Middle East, Europe and Americas. This system uses the spot rates to determine the Rand value of the expenditure incurred at missions abroad. It is planned that the system will be rolled out to the remaining 18 missions during the 2010/11 financial year.

13. RECEIVABLES

The bulk of the amounts owed to the Department relates to foreign allowances and accommodation expenses in respect of employees of other partner departments stationed in SA diplomatic missions abroad. The Department incurs the expenditure on a recoverable basis and there is always a time lag with regard to forwarding accounts to partner Departments, and for departments to pay these accounts.

In order to reduce the balance owed by other partner departments for the year under review and also to improve the cash-flow of the department, DIRCO has entered into a memorandum of understanding (MoU) with ten (10) partner departments that have residency in South African missions abroad. Certain aspects of the MoUs (for instance advance payments were made on a quarterly basis for all the obligatory expenditures such as the rentals for officials' accommodation, foreign services allowances, payments for locally recruited labour and education related expenses), were implemented during the year under review.

The Department continued with its efforts in managing partner departments' accounts. It should be noted that due to the implementation of the MoUs and the prudent management of these debts, the Department was able to recover 71% of claims issued during the year under review.

An analysis of the partner departments and institutions debts is as follows:

Debt category	**Claims**	**Recoveries**	**% Recoveries**	**Balance owed**
Partner departments	513m	-371m	72%	142m
Institutions & other	285m	-198m	69%	87m
Total (excl DHA)	**798m**	**-w569m**	**71%**	**229m**
DHA	**1 051m**	**-342m**	**32%**	**709m**

The Department has processed claims to the value of R798 million and collected an amount of R569 million, which represents a 71 % recovery of the claims issued. It should, however, be noted that due to the change in process regarding the treatment of DHA account, there has been little progress with regard to collection from the DHA. The MoU with the DHA was formalised towards the end of the year under review. However, it is also important to report that claims to the value of R168 million (R92 million for other departments and R76 million for DHA) were not submitted to the departments, therefore these claims should be treated as claims in transit.

14. OTHER DEBTORS

Included in the other debtors are staff debts to the value of R23 million, that originate from the provisions of the Foreign Services dispensation (FSD). The FSD provides for advance payments to be made to officials serving abroad when purchasing a vehicle as well as advances in respect of Cost of Living adjustment for the officials whilst stationed abroad. These advances are payable over three and four years respectively, whilst the official is still serving abroad. The repayments are deducted monthly from the employee's foreign allowance.

15. PAYABLES

Apart from incurring expenses on behalf of other departments that have residency in SA missions abroad, the Department also collect revenue on behalf of the Department of Home Affairs (DHA). Prior to the 2009/10 financial year the net amount (the difference between amounts collected on behalf of the DHA and amounts paid on behalf of the DHA for expenditure incurred abroad) was claimed from or paid to the DHA. During 2008/09 financial year, it was required of the Department to split the DHA account into receivables (for expenses incurred on behalf of DHA) and payables (for revenue collected on behalf of DHA) and to disclose these amounts separately in the annual financial statements.

During the year under review, the Department has recorded the DHA transactions separately. The Department has engaged with both National Treasury and DHA to determine the most economic and effective way of accounting for and managing the revenue collected at the missions abroad. With the approval of National Treasury, separate bank accounts have been opened at all SA missions abroad for accounting and managing of revenue collected on behalf of the DHA.

According to the current procedure, both departments must reconcile the revenue collected and the vouchers supporting the revenue must be submitted by the Department to DHA. Once there is agreement on the reconciliation, the reconciled amount is paid over by the Department to the Department of Home Affairs.Revenue collected abroad is normally in the foreign currency of the specific country, as per the financial regulatory framework of the various countries. For accounting purposes the revenue is converted into the South African rand. The table below indicates the amount owed to the DHA as at 31 March 2010.

Amount owed by/to DHA as at 31 March 2010

Payables (amount owed to DHA) (2005-2010)	R 1,761 million
Less: payments made	(R 867 million)
Amount due to DHA 31 March 2010	**R 894 Million ***

*It must however, be borne in mind that an amount of R709 million is reflected as being receivable from the DHA. Therefore, the net amount payable to the DHA is R185 million.

16. RENTAL ADVANCES

The budget of the Department includes amongst others the amount for rental payments in advance especially for missions in the Asia and Middle East regions where rentals are paid in advance for periods from one year to up to three years. The Department therefore budgets for these amounts in the financial year in which they will be paid.

17. UNAUTHORISED EXPENDITURE

During the year under review the department has not incurred any unauthorised expenditure and has furthermore not recorded any irregular and, fruitless and wasteful expenditure. For the past financial years, the Department has been reporting unauthorised expenditure of R104 816 million, (R6, 879 million (2002/03) and R97, 936 million (2006/07). During 2008/09 Parliament has authorised the expenditure of R6, 879 million however no additional funding was granted. The Department was informed that if funds were surrendered to the National Revenue Fund in the previous years, these funds can be requested again. The matter has been addressed with National Treasury and the Department is awaiting response from the National Treasury in this regard.

18. MANAGEMENT OF FIXED ASSETS

(i) Management of Departmental assets

The Department is continuously enhancing the management of its assets. An asset management strategy was developed at the beginning of the financial year which resulted in the following key initiatives:

• Monthly reconciliations of Asset Register

The Asset Management Framework requires that the value of assets in the asset register reconcile with the expenditure on assets as per accounting system.A particular focus was placed on the monthly reconciliation of the fixed asset register with the accounting system to ensure that all assets acquired during the financial year are accounted for and are reflected at appropriate values.

• Disposal assets no longer required and the creation of an asset register for the new Head Office building

During the year under review the Department relocated to the new Head Office building. The new building came fully furnished with furniture and equipment necessary for the Department to discharge its mandate. As a result, the assets that the Department had been utilising in the vacated Head Office buildings were no longer required by the Department. The Department embarked on a disposal project for these assets. The bulk of the assets were disposed through donations to other Government Departments and related organisations. This method of disposal was not only cost effective but also ensured that state assets are being utilised for the purposes for which they were acquired and also that the Department meets social responsibility objectives. Remaining assets were disposed through public auction.

The Department has also created an asset register for the new Head Office building to ensure that the assets are properly managed and accounted for. All assets located in the new Head Office building are bar coded.

• Accuracy and completeness of the asset register

The Department has also focused on the physical verification of all its assets globally and the continuous update of the asset register to ensure its accuracy and completeness as required in terms of the PFMA.

(ii) Inventories

The Department keeps inventories at various Missions abroad and at its main store in Pretoria. Whilst Head Office has an electronic inventory management system (LOGIS), Missions do not have such a system. A Excel based inventory system, however, has been developed towards year end of 2009/10 financial year and will help in the management of inventories during 2010/11 financial year and also assist in determining the value of stock on hand at year end.

Stock count of inventories was conducted at Head Office at year end. Where necessary, adjustments were made on the inventory management system. The stock of inventories on hand as at year end amounted to R5,5 million.

19. PROGRESS WITH FINANCIAL MANAGEMENT IMPROVEMENTS

During the year under review, the Department identified the following critical issues as part of its strategy in improving financial management.

(i) Effective management of debtors

During 2009/10, a 71% recovery rate was achieved on current debts despite the time lag experienced with regard to receiving vouchers and accounts from our diplomatic missions abroad. This recovery rate was realised because of several interventions that have been introduced to improve the management of departmental debts. These are:

- Reviewing the process of paying on behalf of partner departments and institutions for delegations visiting abroad;
- Performing monthly reconciliations, monitoring of the accounts and analysing debts in order to determine the risk of bad debts occurring;
- Regularly despatching monthly statements to all debtors;
- Vigorous collection of debts; and
- Finalisation of Memoranda of Understanding (MOU's) with identified partner departments.

(ii) Develop and implement policies and standard operating procedures

As part of the ongoing efforts of improving the internal control culture in the Department, a crucial element of financial management, a number of policies and procedures were developed and reviewed.

(iii) Resource Management

During the year under review the Department continued with the budget review sessions with all Missions and Head Office as a mechanism of ensuring that Head Office and Missions operate within their allocated budget and that sound financial management principles required in terms of the PFMA are complied with.

20. CONTINGENCY LIABILITIES

(i) Housing and motor finance guarantees

This relates to the financial guarantees made to commercial banks in respect of employees when they purchase a dwelling or a vehicle in terms of the housing policy or motor finance scheme. In the event that an employee fails to meet his/

her obligation to the bank, the Department either deducts the guarantee amount in instalments from that employee's salary or in full against his/her pension. In addition, should the employee resign from the service, the Department notifies the bank concerned and terminates the guarantee.

(ii) Financial guarantees

The Department of Water Affairs and the Lesotho Highlands Development Authority, through the Departments of International Relations and Cooperation of the respective countries, entered into a water treaty agreement in terms of which the Lesotho Highlands Development Authority was to supply water to South Africa.

In order for the Lesotho Highlands Development Authority to meet this obligation, it had to improve its infrastructure. The Lesotho Highlands Development Authority then applied for a loan from the Development Bank of South Africa. As part of the agreement, the Department stood surety for the loan. It is important to report that all the repayments have been kept up to date.

(iii) PPP AGREEMENT

PPP Agreement for the construction and furbishment of permanent Headquarters for the Department – R19 million.

On 13 March 2009, the department finalised the Public Private Partnership Agreement (PPPA) with Imbumba Agnanang for the construction and furbishment of a Head Office campus for the department. Construction was completed and DIRCO relocated to the new premises during September 2009.

The PPP Agreement makes provision for the payment of a Unitary Fee to the Private Party and it is provided that the unitary payment will be escalated with the CPIX rates from date of commencement of payment. However, the Department of Statistics no longer publishes the CPIX information and a proposal had been received from the Private Party to utilise the CPI rates instead. The utilisation of the Headline CPI for escalation resulted in a further R19 million being payable to the Private Party and the Annual Financial Statements do not reflect the amount as a contingent liability as the amount was confirmed after the reporting date.

21. WRITE-OFF OF LONG OUTSTANDING BALANCES

(i) Long Outstanding Partner Department Balances - R27 million

The books of the department reflect balances relating to partner departments for the period up to March 2006. The supporting vouchers for the large proportion of these debts are no longer available. The department embarked on an extensive exercise to locate the vouchers and recover the balances from the respective departments. However, despite every possible effort being accorded to this task, the locating of the vouchers and the recovery of these debts proved fruitless.

(ii) Balance of Conversion Accounts - R9 million

The Department operated its accounting transactions on Financial Management System (FMS) until 31 March 2003 when National Treasury introduced Basic Accounting System (BAS). With the introduction of BAS, the balances on FMS had to be converted to BAS (FAF). Because the conversion process was not undertaken electronically, journals had to be processed to convert balances from various different suspense accounts on FMS to a single account on BAS (FAF). A further conversion took place on 01 April 2004 from BAS (FAF) to BAS (SCOA) which resulted in the old balances being further converted without being cleared.

A project was launched to clear these old balances, where possible, to reduce the number of uncleared transactions. Transactions were investigated to determine the origin; however, because of the non availability of supporting documents to validate the transactions, these transactions could not be cleared.

The Department carried credit transactions amounting to R35 million and debit amount of R44 million which could not be substantiated by source documents and therefore could not be cleared despite vigorous efforts to identify and locate source documents and clear the balances. There were no irregular and unauthorised transactions processed, these are merely the results of multiple conversions with regard to the upgrading of Government's accounting systems.

(iii) Africa Cup of Nations, Mali, 2002 - R29 million

During 2001/02, the Government of the Republic of Mali made a request for financial assistance in hosting of the 23rd Africa Cup of Nations (AFCON) 2002 Tournament, which was held from 19th January to 10th February 2002. At the time of our intervention, it was established that the preparations for hosting of the tournament were still at initial stages, which rendered the tournament a non starter without South Africa's support.

Since South Africa was intending, at that stage, to bid for the hosting of the 2006 FIFA Soccer World Cup it was prudent that support to the AFCON initiative was given in order to gain the confidence of the world that Africa was capable of hosting an event of the magnitude of the World Cup. Had the South African Government not intervened, the AFCON Tournament would not have taken place as no other African country would have been in a position to host the tournament successfully at such a late stage. An increased contribution of R29 million was made paid from the Department.

The Department of Sports and Recreation was responsible for the management of the project through the Mali Trust Fund. However, due to the increased costs the Minister of Finance requested the audit of the Trust Fund before he could consider issuing a letter of concurrence, which was duly completed by the Auditor General. The Audit report together with the request for concurrence letter has been submitted to the Minister of Finance for his consideration. The Mali Trust Fund received a qualified audit report and has resulted in the Minister of Finance not granting the required concurrence. This matter was pursued vigorously with the National Treasury and a final request was made in March 2010 to the Minister of Finance to condone the expenditure. The Minister of Finance, however, recommended that the Department of International Relations and Cooperation write off this amount. The amount was duly written off against the department's 2009/10 budget.

22. EVENTS AFTER REPORTING DATE

2010 Soccer world cup clothing and tickets

During the 2009/10 financial year the department did not expend any funds on the procurement of 2010 FIFA Soccer World Cup clothing and tickets. However in accordance with the President's invitation to the African Heads of State / Government to attend both the opening and closing ceremonies of the 2010 FIFA World Cup, and in accordance with Cabinet approval, the Department procured a Presidential Suite during 2010/11 financial year for the purposes of according the necessary courtesies to the President invitees. The department procured the Presidential Suite at Soccer City stadium for the opening and closing ceremonies at a cost of R10,3 million. A further amount of R2 million was spent on accommodation for the invited Heads of State / Government.

23. SCOPA RESOLUTIONS

The table below summarises the Standing Committee on Public Accounts (SCOPA) resolutions:

Reference to previous audit report and SCOPA resolutions	Subject	Findings in progress
(3) Resolution – audit report 2003/04 The Committee recommends that: ● Parliament approves the over-expenditure of R6.879 million relating to the 2002/03 financial year ● Control measures are put into place to prevent unauthorised expenditure from re-occurring.	Unauthorised expenditure for travelling and related protocol services	This resolution reached the Department during February 2008 and has been implemented.

Apart from the above-mentioned, there have been no other SCOPA resolutions.

DR. A NTSALUBA
Director-General: Department of International Relations and Cooperation

Date: 28 July 2010

Report of the Auditor-General to Parliament on the Financial Statements of Vote No. 3: Department of International Relations and Cooperation for the year ended 31 March 2010

REPORT ON THE FINANCIAL STATEMENTS

Introduction

I have audited the accompanying financial statements of the Department of International Relations and Cooperation (DIRCO), which comprise the Appropriation Statement, the Statement of Financial Position as at 31 March 2010, and the Statement of Financial Performance, Statement of Changes in Net Assets and Cash Flow Statement for the year then ended, and a Summary of significant Accounting Policies and other Explanatory Information, as set out on pages 16 to 84.

Accounting Officer's responsibility for the financial statements

The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the modified cash basis of accounting determined by National Treasury, as set out in accounting policy note 1.1 to the financial statements and in the manner required by the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996) and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with International Standards on Auditing and General Notice 1570 of 2009 issued in Government Gazette 32758 of 27 November 2009. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Department of International Relations and Cooperation for the year ended 31 March 2010, and its financial performance and its cash flows for the year then ended in accordance with the modified cash basis of accounting determined by National Treasury, as set out in accounting policy note 1.1 to the financial statements and in the manner required by the PFMA.

Emphasis of matter

I draw attention to the matter below. My opinion is not modified in respect of this matter:

Basis of accounting

The department's policy is to prepare financial statements on the modified cash basis of accounting determined by the National Treasury, described in accounting policy note 1.1 to the financial statements.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In terms of the PAA and General notice 1570 of 2009, issued in Government Gazette No. 32758 of 27 November 2009 I include below my findings on the report on predetermined objectives, compliance with the PFMA and financial management (internal control).

Predetermined objectives

No matters to report.

Compliance with laws and regulations

No matters to report.

INTERNAL CONTROL

I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives and compliance with the PFMA, but not for the purposes of expressing an opinion on the effectiveness of internal control. The matters reported are limited to the deficiencies identified during the audit.

Findings

No matters to report.

Auditor-General

Pretoria
29 July 2010

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Statement of Accounting Policies and Related Matters for the year ended 31 March 2010

ACCOUNTING POLICY

The Financial Statements have been prepared in accordance with the following policies, which have been applied consistently in all material aspects, unless otherwise indicated. However, where appropriate and meaningful, additional information has been disclosed to enhance the usefulness of the Financial Statements and to comply with the statutory requirements of the Public Finance Management Act, Act 1 of 1999 (as amended by Act 29 of 1999), and the Treasury Regulations issued in terms of the Act and the Division of Revenue Act, Act 2 of 2006.

1. PRESENTATION OF THE FINANCIAL STATEMENTS

1.1 Basis of preparation

The Financial Statements have been prepared on a modified cash basis of accounting, except where stated otherwise. The modified cash basis constitutes the cash basis of accounting supplemented with additional disclosure items. Under the cash basis of accounting transactions and other events are recognised when cash is received or paid.

1.2 Presentation currency

All amounts have been presented in the currency of the South African Rand (R) which is also the functional currency of the department.

1.3 Rounding

Unless otherwise stated all financial figures have been rounded to the nearest one thousand Rand (R'000).

1.4 Comparative figures

Prior period comparative information has been presented in the current year's financial statements. Where necessary figures included in the prior period financial statements have been reclassified to ensure that the format in which the information is presented is consistent with the format of the current year's financial statements.

1.5 Comparative figures - Appropriation Statement

A comparison between actual amounts and final appropriation per major classification of expenditure is included in the appropriation statement.

2. REVENUE

2.1 Appropriated funds

Appropriated funds are recognised in the financial records on the date the appropriation becomes effective. Adjustments to the appropriated funds made in terms of the adjustments budget process are recognised in the financial records on the date the adjustments become effective.

Total appropriated funds are presented in the statement of financial performance.

Unexpended appropriated funds are surrendered to the National Revenue Fund. Amounts owing to the National Revenue Fund at the end of the financial year are recognised in the statement of financial position.

2.2 Statutory Appropriation

Statutory appropriations are recognised in the financial records on the date the appropriation becomes effective. Adjustments to the statutory appropriations made in terms of the adjustments budget process are recognised in the financial records on the date the adjustments become effective.

Total statutory appropriations are presented in the statement of financial performance.

Unexpended statutory appropriations are surrendered to the National Revenue Fund. Amounts owing to the National Revenue Fund at the end of the financial year are recognised in the statement of financial position.

2.3 Departmental revenue

All departmental revenue is paid into the National Revenue Fund when received, unless otherwise stated. Amounts owing to the National Revenue Fund at the end of the financial year are recognised in the statement of financial position.
Amounts receivable at the reporting date are disclosed in the disclosure notes to the annual financial statements.

• Tax revenue

Tax revenue consists of all compulsory unrequited amounts collected by the department in accordance with laws and or regulations (excluding fines, penalties & forfeits).

Tax receipts are recognised in the statement of financial performance when received.

• Sales of goods and services other than capital assets

The proceeds received from the sale of goods and/or the provision of services is recognised in the Statement of Financial Performance when the cash is received.

• Fines, penalties & forfeits

Fines, penalties & forfeits are compulsory unrequited amounts which were imposed by a court or quasi-judicial body and collected by the department. Revenue arising from fines, penalties and forfeits is recognised in the Statement of Financial Performance when the cash is received.

• Interest, dividends and rent on land

Interest, dividends and rent on land is recognised in the statement of financial performance when the cash is received.

• Sale of capital assets

The proceeds received on sale of capital assets are recognised in the Statement of Financial Performance when the cash is received.

- **Financial transactions in assets and liabilities**

Repayments of loans and advances previously extended to employees and public corporations for policy purposes are recognised as revenue in the Statement of Financial Performance on receipt of the funds.

Cheques issued in previous accounting periods that expire before being banked are recognised as revenue in the Statement of Financial Performance when the cheque becomes stale. When the cheque is reissued the payment is made from Revenue.

Foreign Exchange gains are recognised when the relevant transaction is processed on the Basic Accounting System.

- **Transfers received (including gifts, donations and sponsorships)**

All cash gifts, donations and sponsorships are paid into the National Revenue Fund and recorded as revenue in the Statement of Financial Performance when received. Amounts receivable at the reporting date are disclosed in the disclosure notes to the financial statements.All in-kind gifts, donations and sponsorships are disclosed at fair value in an annexure to the financial statements.

2.4 Direct Exchequer receipts

All direct exchequer fund receipts are recognised in the Statement of Financial Performance when the cash is received.

2.5 Local and foreign aid assistance

Local and foreign aid assistance is recognised as revenue when notification of the assistance is received from the National Treasury or when the department directly receives the cash from the donor(s). All in-kind local and foreign aid assistance are disclosed at fair value in the annexures to the annual financial statements

The cash payments made during the year relating to local and foreign aid assistance projects are recognised as expenditure in the Statement of Financial Performance. The value of the assistance expensed prior to the receipt of the funds is recognised as a receivable in the statement of financial position.

Inappropriately expensed amounts using local and foreign aid assistance and any unutilised amounts are recognised as payables in the statement of financial position.

2.6 CARA Fund assistance

All CARA funds received must be recorded as revenue when funds are received. The cash payments made during the year relating to CARA earmarked projects are recognised as current or capital expenditure in the statement of financial performance.Any unspent CARA funds are transferred to Retained Funds as these funds do not need to be surrendered to the National Revenue Fund.

3. EXPENDITURE

3.1 Compensation of employees

3.1.1 Short-term employee benefits

Salaries and wages comprise payments to employees (including leave entitlements, thirteenth cheques and performance bonuses). Salaries and wages are recognised as an expense in the Statement of Financial Performance when final authorisation for payment is effected on the system (by no later than 31 March of each year). Capitalised compensation forms part of the expenditure for capital assets in the Statement of Financial Performance1. All other payments are classified as current expense. Short-term employee benefits that give rise to a present legal or constructive obligation are disclosed in the disclosure notes to the financial statements. These amounts are not recognised in the Statement of Financial Performance or Position.

3.1.2 Post retirement benefits

The department provides retirement benefits (pension benefits) for certain of its employees through a defined benefit plan for government employees. These benefits are funded by both employer and employee contributions.

Employer contributions (i.e. social contributions) to the fund are expensed when the final authorisation for payment to the fund is effected on the system (by no later than 31 March of each year). No provision is made for retirement benefits in the financial statements of the department. Any potential liabilities are disclosed in the financial statements of the National Revenue Fund and not in the financial statements of the employer department.

The department provides medical benefits for certain of its employees. Employer contributions to the medical funds are expensed when final authorisation for payment to the fund is effected on the system (by no later than 31 March of each year).

3.1.3 Termination benefits

Termination benefits such as severance packages are recognised as an expense in the Statement of Financial Performance as a transfer (to households) when the final authorisation for payment is effected on the system (by no later than 31 March of each year).

3.1.4 Other long-term employee benefits

Other long-term employee benefits (such as capped leave) are recognised as an expense in the Statement of Financial Performance as a transfer (to households) when the final authorisation for payment is effected on the system (by no later than 31 March of each year).

Long-term employee benefits that give rise to a present legal or constructive obligation are disclosed in the disclosure notes to the financial statements. These amounts are not recognised in the Statement of Financial Performance or Position.

3.2 Goods and services

Payments made for goods and/or services are recognised as an expense in the Statement of Financial Performance when the final authorisation for payment is effected on the system (by no later than 31 March of each year). The expense is classified as capital if the goods and services were used for a capital project or an asset of R5000 or more is purchased. All assets costing less than R5000 will also be reflected under goods and services.

3.3 Interest and rent on land

Interest and rental payments are recognised as an expense in the Statement of Financial Performance when the final authorisation for payment is effected on the system (by no later than 31 March of each year). This item excludes rental for the use of buildings or other fixed structures. If it is not possible to distinguish between payment for the use of land and the fixed structures on it, the whole amount should be recorded under goods and services.

3.4 Financial transactions in assets and liabilities

Debts are written off when identified as irrecoverable. Debts written-off are limited to the amount of savings and/or under spending of appropriated funds. The write off occurs at year-end or when funds are available. No provision is made for irrecoverable amounts but amounts are disclosed as a disclosure note.

Foreign Exchange losses/gains are recognised in the Statement of Financial Performance, when then transaction is processed on the Basic Accounting System using the average foreign exchange rate. All other losses are recognised when authorisation has been granted for the recognition thereof.

3.5 Unauthorised expenditure

When discovered unauthorised expenditure is recognised as an asset in the statement of financial position until such time as the expenditure is either approved by the relevant authority, recovered from the responsible person or written off as irrecoverable in the Statement of Financial Performance.

Unauthorised expenditure approved with funding is recognised in the Statement of Financial Performance when the unauthorised expenditure is approved and the related funds are received. Where the amount is approved without funding it is recognised as expenditure, subject to availability of savings, in the Statement of Financial Performance on the date of approval.

3.6 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is recognised as an asset in the statement of financial position until such time as the expenditure is recovered from the responsible person or written off as irrecoverable in the Statement of Financial Performance.

3.7 Irregular expenditure

Irregular expenditure is recognised as expenditure in the Statement of Financial Performance. If the expenditure is not condoned by the relevant authority it is treated as an asset until it is recovered or written off as irrecoverable.

3.8 Transfers and subsidies

Transfers and subsidies are recognised as an expense when the final authorisation for payment is effected on the system (by no later than 31 March of each year).

3.9 Expenditure for capital assets

Payments made for capital assets are recognised as an expense in the Statement of Financial Performance when the final authorisation for payment is effected on the system (by no later than 31 March of each year).

4. ASSETS

4.1 Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at cost.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held, other short-term highly liquid investments and bank overdrafts.

4.2 Other financial assets

Other financial assets are carried in the Statement of Financial Position at cost.

4.3 Prepayments and advances

Amounts prepaid or advanced are recognised in the statement of financial performance when final authorisation for payment is effected on the system (by no later than 31 March of each year)", and

Amount prepaid must be disclosed in the disclosure notes to the annual financial statements.

4.4 Receivables

Receivables included in the Statement of Financial Position arise from cash payments made that are recoverable from another party. Receivables outstanding at yearend are carried in the Statement of Financial Position at cost plus any accrued interest.

4.5 Investments

Capitalised investments are shown at cost in the statement of financial position. Any cash flows such as dividends received or proceeds from the sale of the investment are recognised in the statement of financial performance when the cash is received. Investments are tested for an impairment loss whenever events or changes in circumstances indicate that the investment may be impaired. Any loss is included in the disclosure notes.

4.6 Loans

Loans are recognised in the statement of financial position at the nominal amount when cash is paid to the beneficiary. Loan lances are reduced when cash repayments are received from the beneficiary. Amounts that are potentially irrecoverable are included in the disclosure notes. Loans that are outstanding at year-end are carried in the statement of financial position at cost.

4.7 Inventory

Inventories purchased during the financial year are disclosed at cost in the notes.

4.8 Capital assets

A capital asset is recorded on receipt of the item at cost. Cost of an asset is defined as the total cost of acquisition. Where the cost cannot be determined accurately, the capital asset should be stated at fair value. Where fair value cannot be determined, the capital asset is included in the asset register at R1.

Projects (of construction/development) running over more than one financial year relating to assets, are only capitalised as assets on completion of the project and at the total cost incurred over the duration of the project.

Disclosure Notes 42,43 and 44 reflect the total movement in the asset register for the current financial year.

5. LIABILITIES

5.1 Voted funds to be surrendered to the Revenue Fund

Unexpended appropriated funds are surrendered to the National Revenue Fund. Amounts owing to the National/Provincial Revenue Fund at the end of the financial year are recognised in the Statement of Financial Position.

5.2 Departmental revenue to be surrendered to the Revenue Fund

Amounts owing to the National Revenue Fund at the end of the financial year are recognised in the statement of financial position at cost.

5.3 Bank overdraft
The bank overdraft is carried in the statement of position at cost.

5.4 Payables
Recognised payables mainly comprise of amounts owing to other governmental entities. These payables are recognised at historical cost in the statement of financial position.

5.5 Contingent liabilities
Contingent liabilities are included in the disclosure notes.

5.6 Commitments
Commitments are not recognised in the statement of financial position as a liability or as expenditure in the statement of financial performance but are included in the disclosure notes.

5.7 Accruals
Accruals are not recognised in the statement of financial position as a liability or as expenditure in the statement of financial performance but are included in the disclosure notes.

5.8 Employee benefits
Short-term employee benefits that give rise to a present legal or constructive obligation are disclosed in the disclosure notes to the financial statements. These amounts are not recognised in the statement of financial performance or the statement of financial position.

5.9 Lease commitments
Finance leases
Finance leases are not recognised as assets and liabilities in the statement of financial position. Finance lease payments are recognised as an expense in the statement of financial performance and are apportioned between the capital and the interest portions. The finance lease liability is disclosed in the disclosure notes to the financial statements.

Operating leases
Operating lease payments are recognised as an expense in the statement of financial performance. The operating lease commitments are disclosed in the disclosure notes to the financial statements.

6. RECEIVABLES FOR DEPARTMENTAL REVENUE

Receivables for departmental revenue are disclosed in the disclosure notes to the annual financial statements.

7. NET ASSETS

7.1 Capitalisation reserve
The capitalisation reserve comprises of financial assets and/or liabilities originating in a prior reporting period but which are recognised in the statement of financial position for the first time in the current reporting period. Amounts are transferred to the National/Provincial Revenue Fund on disposal, repayment or recovery of such amounts.

7.2 Recoverable revenue
Amounts are recognised as recoverable revenue when a payment made in a previous financial year becomes recoverable from a debtor in the current financial year.

8. RELATED PARTY TRANSACTIONS

Specific information with regards to related party transactions is included in the disclosure notes.

9. KEY MANAGEMENT PERSONNEL

Compensation paid to key management personnel including their family members where relevant, is included in the disclosure notes.

10. PUBLIC PRIVATE PARTNERSHIPS

A description of the PPP arrangement, the contract fees and current and capital expenditure relating to the PPP arrangement is included in the disclosure notes.

APPROPRIATION STATEMENT for the year ended 31 March 2010

Appropriation per programme									
	2009/10							2008/09	
APPROPRIATION STATEMENT	Adjusted Appropriation	Shifting of Funds	Virement	Final Appropriation	Actual Expenditure	Variance	Expenditure as % of final appropriation	Final Appropriation	Actual Expenditure
	R'000	R'000	R'000	R'000	R'000	R'000	%	R'000	R'000
ADMINISTRATION									
Current payment	773,002	118,819	17,242	909,063	902,442	6,621	99.3%	484,616	637,102
Transfers and subsidies	6,730	4,382	1,337	12,449	12,234	215	98.3%	14,129	14,130
Payment for capital assets	428,012	(123,201)	-	304,811	283,162	21,649	92.9%	1,232,322	987,204
FOREIGN RELATIONS									
Current payment	3,023,274	(14,400)	(123,579)	2,885,295	2,802,766	82,529	97.1%	2,581,486	2,581,218
Transfers and subsidies	6,430	14,400	-	20,830	20,449	381	98.2%	18,955	18,955
Payment for capital assets	42,268	-	-	42,268	28,372	13,896	67.1%	52,830	52,670
PUBLIC DIPLOMACY & PROTOCOL									
Current payment	233,244	(29,000)	-	204,244	199,955	4,289	97.9%	134,640	134,639
Transfers and subsidies	24,371	-	-	24,371	24,038	333	98.6%	16,160	16,160
Payment for capital assets	-	29,000	-	29,000	28,862	138	99.5%	1,823	1,823
INTERNATIONAL TRANSFER									
Current payment	-	-	-	-	-	-		-	-
Transfers and subsidies	1,015,624	-	105,000	1,120,624	1,115,161	5,463	99.5%	1,032,826	1,028,363
Payment for capital assets	-	-	-	-	-	-		-	-
TOTAL	**5,552,955**	**-**	**-**	**5,552,955**	**5,417,441**	**135,514**	**97.6%**	**5,569,787**	**5,472,264**