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## **AFRICAN RENAISSANCE AND INTERNATIONAL CO-OPERATION FUND ACCOUNTING OFFICER'S REPORT for the year ended 31 March 2007**

Report by the Accounting Officer to the executive authority and Parliament of the Republic of South Africa.

### **1. INTRODUCTION**

The African Renaissance and International Co-operation Fund (hereafter referred to as the Fund) was established in terms of section 2(1) of the African Renaissance and International Co-operation Fund Act, 2000 (Act No. 51 of 2000) and is under the control of the Director-General: Department of Foreign Affairs (DG). The current Act replaced the former Economic Co-operation Promotion Loan Fund Act, 1968 (Act No. 68 of 1968) that was repealed on 22 January 2001. The report covers the activities of the Fund during the 2006/2007 financial year in terms of the objectives and goals of the Act.

### **2. PURPOSE OF THE FUND**

The purpose of the Fund is to promote economic co-operation between the Republic of South Africa and other countries by granting loans and/or rendering of other financial assistance in respect of development projects in such countries. Therefore, the Fund will enable the South African government to identify and fund, in a proactive way:

- co-operation between the Republic of South Africa and other countries, in particular African countries;
- promotion of democracy and good governance;
- prevention and resolution of conflict;
- socio-economic development and integration;
- humanitarian assistance; and
- human resource development.

Loans or other financial assistance are granted in accordance with an agreement entered into by the country in question and the Minister of Foreign Affairs (hereafter referred to as the Minister). Assistance granted is subject to such terms and conditions as may be agreed upon

by that country and the Minister, acting in each case in consultation with the Minister of Finance.

An Advisory Committee has been established to manage the Fund and to also make recommendations to the Minister and the Minister of Finance on the disbursement of funds through loans or other financial assistance. The Advisory Committee consists of the following members:

- the director-general of Foreign Affairs or the delegate of the director-general.
- three officers of the department appointed by the Minister.
- two officers of the Department of Finance appointed by the Minister of Finance.

### **3. RELATED PARTIES**

As explained in note 2 above, 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. This has resulted in the opening of control accounts (Payables and Receivables) in the books of the Department and the fund. This 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.

### **4. GENERAL REVIEW OF THE STATE OF FINANCIAL AFFAIRS**

#### **4.1 Income**

In terms of the Act, the fund amongst other sources consists of money appropriated by Parliament for the fund. During the year, under review, a transfer payment of R150 million was effected by the Department of Foreign Affairs to the fund.

The interest received from investments relates to the amount deposited with the Corporation for Public Deposits in the South African Reserve Bank.

## 4.2 Expenditure

During the year under review an amount of R392.4million was approved to fund the following projects:

### **(a) Presidential elections assistance to the Democratic Republic of Congo - R278 million**

South Africa's efforts to assist the DRC on its road to peace culminated in the conclusion of the Global and All-Inclusive Agreement between various stakeholders in Pretoria in December 2002 and the subsequent endorsement thereof at the final session of the Inter-Congolese Dialogue at Sun City in April 2003. In terms of the Agreement the signatories committed themselves, among others, to the establishment of a representative transitional government and the holding of presidential, legislative and provincial elections by June 2005. The Transitional Government was established in May 2003 and the Constitution that paves the way for the adoption of an electoral law was approved after a referendum with more than seventy five percent support. The DRC is a large country with poorly developed infrastructure. It has an estimated population of 60 million people.

The purpose of the project was to contribute towards the creation of an institutional framework and a climate that is conducive for the holding of credible general election. The holding of credible elections would not only pave the way for the installation of legitimate, democratically elected government in the DRC, but also hopefully to bring an end to military hostilities and banditry within the Great Lakes region. Furthermore, successful elections will reinforce South Africa's relations with the DRC and open the door for greater economic interaction, trade and development. In addition the project is aligned with the objectives expressed in the NEPAD to promote peace, security and stability

The DRC's Constitution and Electoral law provides that a candidate can only be declared as a President if he/she obtains a clear majority of 51%. The Presidential and Legislative Elections in the DRC took place on 30 July 2006 and there was no candidate who obtained a clear majority. Therefore, in terms of the Constitution and Electoral law that necessitated a presidential runoff between the top

two candidates from the first round. The South Africa's contribution was towards the following items:

- Procurement and printing of ballot papers;
- Air transportation of the ballot papers to 14 elections hubs in the DRC;
- Deployment of Election Experts and S.A. Observer Mission all over DRC

### **(b) Humanitarian Assistance to the Western Sahara - R 10 million**

As reported in the last financial year (2005/06) report, the Western Sahara, which is located in the north west of the African continent, remains as the last of the African states yet to be de-colonised.

During the 2005/2006 financial years, an interdepartmental task team consisting of Departments of Foreign Affairs, Health and Social Development was mandated to perform a situational assessment of the refugee camps in Tindouf. This was done in consultation with the UN partner agencies currently active in the refugee camps with the view to co-ordinate efforts and complement activities in order to avoid unnecessary duplication. Based on the assessment results, South Africa identified projects, which will contribute to the wellbeing of the Sahrawi people, particularly women and children in terms of food and nutrition, health, water and sanitation needs. Three projects of co-operation were therefore identified for implementation during the 2005/2006 financial years, namely Health (R 3 million), Food and Nutrition (R2 million), Water and Sanitation (R5 million). Concurrence of R10 million was requested by the Minister from the Minister of Finance and was subsequently received during the 2006/2007 financial years.

Furthermore, in July 2006 the Saharawi Minister and Chief Negotiator, Mr Mohammed Khadad as well as the Minister for International Co-operation, Mr Sleek Baba visited the South African Government and met the Deputy Minister of Foreign Affairs, Mr Aziz Pahad to discuss the current humanitarian situation in the Saharawi Arab Democratic Republic (SADR) and to request for further humanitarian assistance from the South African Government.

The Embassy of the Saharawi Republic submitted a further request after a decision by the UNHCR to reduce the volume of the assistance to the refugees to 50 percent. Funding amounting to R10 million per year for a period of three years (totalling R30 million) with an option to be extended after three years was made available.

**(c) Comoros Post Conflict Reconstruction Project – R 10 million**

South Africa has identified Comoros as her key priority country for the 2006/07 financial year. The Round Table Donors' Conference on the Comoros was held on 8 December 2005 in Mauritius. The Conference was in line with the Executive Council decision calling on the AU Commission, South Africa and Mauritius to provide all necessary support to convene the Donors' Conference to mobilise the financial resources necessary for the socio-economic recovery of the Comoros. In line with South Africa's approach, this is guided by the idea that there can only be sustained peace on the African continent if there is also sustained socio-economic development.

South Africa's pledge would assist in providing technical assistance in evaluating the needs of the Comoros in tourism, agricultural sectors, and strengthening of judicial Institutions and Organisations, Public Finance Reform, Budgetary Policy, Auditing, Customs and Taxation Systems as well as capacity building in the field of Security for the organisation of elections held in 2006

**(d) Burundi Project - R 10 million**

The Arusha Peace and Reconciliation Agreement of 28 August 2000 provides for the creation of a Transitional Government for the thirty six months before elections can be held in Burundi. The initial peace talks succeeded in encouraging the Transitional Government of Burundi and the Armed Political Parties and Movements to conclude the power sharing agreements. However, the FNL remained outside the peace process.

Minister Nqakula was appointed as the Facilitator of the Burundi Peace Process negotiations on 10th May 2006. Following a visit to the region for consultations with the

role-players, Minister Nqakula opened a plenary session on 29th May 2006 in order to permit the protagonists to arrive at a solution to the Burundi issue. This culminated in an Agreement on Political and Military Principles on 18th June 2006, wherein the parties committed themselves to various political actions, to reconvening the negotiations to arrive at a formal cease-fire, and to finalise the peace agreement. This led to the signing of the Comprehensive Cease-Fire Agreement on 7th September 2006. However, the implementation of the Cease-Fire Agreement will commence. The implementation of the Agreement will involve finalising various modalities regarding the Security Sector Reform (SSR) and the Disarmament, Demobilisation and Reintegration (DDR) processes including the integration of the Palipehutu- FNL into the Burundian military structures, as well as the safety concerns of FNL leadership.

To monitor the implementation of the Burundi Peace Process and the signing of the Comprehensive cease Fire Agreement, the facilitator proposed that an office be established in Burundi. The Office will be used by the following structures; the Joint Verification and Monitoring Mechanism and the Joint Liaison Teams.

**(e) Dept. of Defence - DRC Security Project - R 7,5 million**

This is the additional funding to the project initiated in 2004/05 financial year. This relates to South Africa's efforts to assist the DRC on its road to peace which culminated in the signing in Pretoria of the Global and All- Inclusive Agreement between the belligerents in December 2002 and the endorsement thereof at the final session of the Inter-Congolese Dialogue at Sun City in April 2003. In terms of that agreement, the parties involved committed, among others, to the establishment of a representative transitional government and the holding of elections by June 2005.

During the state visit to the DRC in August 2004, all the role-players emphasised the continued support of South Africa, particularly during the transitional period leading up to the elections. The constitution was launched in Kinshasa on 16 May 2005 and paved the way for the adoption of an electoral law.

In order to assess South Africa's assistance to the DRC, various government departments and institutions were deployed in the country to finalise material needs on the ground. The South African Defence Force has been engaged in a project to promote integration, peace and stability.

**(f) UNISA / DFA Project - R 27 million**

This relates to the project aimed in assisting in the post conflict reconstruction and development of Sudan.

The overall objective is to assist in providing the necessary skills to the Southern Sudan leadership that will be responsible for governing and service delivery. This will enable the SPLM/A leadership to participate equitably in the Transitional National Government of the Sudan during the six-year transition period, which in turn, will contribute positively to the process of post-conflict reconstruction of the Sudan.

The project is to provide training in areas of governance, financial management, public administration, diplomacy and international relations, as well as telecommunications and information systems.

The project will also assist in equipping the SPLM/A cadre with the necessary skills for governing and delivering of basic social services to the people of South Sudan as provided for by the Machakos Protocol of July 2002. The training will serve to lay foundation for the work to be carried out by the African Union (AU) Committee on Post-Conflict Reconstruction of Sudan, chaired by South Africa.

The parties to the project agreed that theoretical training for capacity and institutional building would take place in South Sudan as well as in Kenya, while practical training will be provided in South Africa. It was further agreed that the University of South Africa (UNISA) will co-ordinate the aspect of the theoretical training. The facilitators will be drawn from UNISA and other South African institutions. The South African government and UNISA are jointly funding the project.

This project supports South Africa's commitment to the

African Renaissance and the creation of a better world for all. It is also in line with the vision of the AU to promote peace, security and stability on the continent as a key for the implementation of the development and integration agenda of the AU. The success of the project will not only benefit the people of Sudan, but the Horn of Africa region and the entire African Continent.

**(g) United Cities and Local Governments of Africa - R 5 million**

The United Cities and Local Governments of Africa (UCLGA) is a facility that aims to increase and strengthen the capacities of African local governments to deliver services and to contribute to local development and poverty eradication, especially from the perspective of achieving the MDGs.

A proposal which outlined five development plans that relate to capacity building and NEPAD implementation at local government level was presented. It was further explained that South Africa had been requested to host the UCLGA on a temporary basis (until the end of 2007) as Morocco's offer to host UCLGA was not accepted by the African Union due to their non-membership of the organisation.

**(h) United Nations Mission (UNMIL/UNPOL) - R 7,1 million**

On 13 December 2006, the Secretary-General of the United Nations wrote to members of the United Nations seeking funding support for the ongoing restructuring of the Liberian National Police, following years of civil conflict in that country. The United Nations Mission (UNMIL/UNPOL) in Liberia has been undertaking the rebuilding of the new Liberian National Police (LNP) force since the implementation of the Comprehensive Peace Agreement in 2003. Progress has been made by the UN and its donors in restructuring and training the new Liberian National Police. The programme for 2007 is however experiencing a funding shortfall for the year.

The project is aligned with the concern expressed by the NEPAD programme to end conflicts in Africa, and to

promote stability, democracy and good governance. West Africa continues to be an area of conflicting political and economic interests. The region has already suffered greatly in the past due to economic colonisation and the role played by corrupt military leaders. The NEPAD objective is geared towards ending such a paradigm, through its promotion of African-bred solutions and on harnessing the positive intentions of the African leadership and people, in genuine partnership with other countries and international institutions. Furthermore, the project is compatible with South Africa's policy principles aimed at promoting stability and security on the African continent as well as assisting with post-conflict reconstruction and development in the region.

In view of South Africa's stated objective of providing for post-conflict reconstruction and development in the African continent, the project is supported. The funding will be provided through the United Nations to ensure the completion of the LNP restructuring exercise as well as the operationalising of the new LNP. The UN will also provide the mobilizing and auditing of expenditure.

#### **(i) Guinea - Museum project in Kindia R 5 million**

During a working visit to Guinea on 3 July 2006, President Mbeki visited a military camp at Kindia, 120 kilometres from Conakry. The camp has historical significance for South Africa in that the first members of the revolutionary political parties that went to exile in the early 1960's received rudimentary military training at the camp. The pledge was made to marking the historical link of the camp to South Africa through the construction of a museum at Kindia. The project includes the building of the museum as well as the complete renovation of the camp which would then become a peacekeeping training centre.

#### **(j) Government of Seychelles - R 26,3 million**

The Republic of Seychelles is one of the smallest independent countries in the world, both by physical and population size. Whilst the Government's efforts to surmount economic difficulties of recent times start to bear fruits, much needed external aid and access to concessionary loans have on the other hand become

increasingly difficult. Much of the reform process has come about through fiscal austerity and other growth impeding measures. The reform took a massive setback with the December 2004 Tsunami, which costed the country some \$50million in damages, especially to public infrastructures. Being a small island state, with most infrastructures lying alongside the coastal areas, the impact of the destruction was felt across the economy. Whilst some international assistance were pledged for reconstruction, much of the public and domestic infrastructures remained un-repaired and livelihood of communities remains affected, for reasons of unavailability of constructions materials and lack or readily available funding. The shortage of construction materials have caused the prices across the building and construction industry to shoot up, putting extra burden on the budget, in view of government's heavy investment in houses, schools, roads and hospitals.

The Ministry of Finance of Seychelles has sought assistance from the Government of South Africa for the purpose of stabilizing the situation in the building and construction industry, by making available urgently needed construction materials, mainly timber and steel.

The grant would be utilized to bring the country's socio-economic infrastructures back to the pre-tsunami level, hence be able to sustain the increasing level of socio-economic progress. The main beneficiary of the project will be the people of Seychelles, through improved public infrastructures, enhanced the development of communities and foster their participation and integration in the mainstream of society. The assistance would also relax the current pressure on Government's finance, allowing it to continue on course with its social programmes, such as public housing, schools, health centre projects and rural community development, empowerment and integration.

The results of the project would also be aligned with the African Renaissance Fund sub-objective, which is 'socio-economic development and integration,' by providing basic social infrastructure and ensuring community participation in social development. On a more global perspective the project is also in line with efforts by the Government to remain on track with the targets of the 'Millennium Development Goals' (MDGs). While it would be noted that

Seychelles has a good track record vis-à-vis the MDGs, the challenge is to sustain and level of achievement and avoid falling into poverty.

#### **(k) Association of SADC Chamber of Commerce and Industry – R 6,5 million**

The Board of Directors of the Association of SADC Chambers of Commerce (ASCCI) presented a list of projects currently being developed for 2007/8, which focused on regional integration. Currently the Association which has a membership of 18 Chambers of Commerce throughout the SADC region has a low asset base to drive its programmes, and an imbalance in the capacity of its membership despite the association's existence since 1992; Efforts were made to develop programmes to capacitate the members such as the SADC Toolkit, which serves to support SMMEs. In 2004, a Memorandum of Understanding with the NEPAD Secretariat was signed consolidating the Association of Chambers as the "voice of business in the region". It is envisaged that the Association shall be fully sustainable in the next three to five years.

The following two projects were identified for implementation, namely: the SMME Business toolkit and Trade Missions to the Democratic Republic of Congo and Tanzania. The Department of Trade and Industry supports the work of the Association and are working on the trade missions to be held in the DRC on April 2007 and Tanzania in June 2007. In the light of this working relationship, the two organizations have drafted a Memorandum of Understanding that will ensure that the Department of Trade and Industry takes responsibility for monitoring and evaluation of the projects.

#### **4.3 Loans**

As reported in the previous year, the conversion of non-recoverable loans to grants was being pursued, since the Minister of Foreign Affairs in consultation with the Minister of Finance has in terms of the Act, the prerogative to convert loans to grants. A decision was taken by the Advisory Committee to recommend for the writing-off the loans of the previous defunct Economic Co-operation Promotion Loan Fund Act, 1968 (Act No.

68 of 1968), amounting to R76 million. It is pleasing to report that an approval has been granted to write-off all the loans of the previous defunct Economic Co-operation Promotion Loan Fund.

#### **4.4 Payables**

As reported in the previous financial years that 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 renders the tournament a non starter without South Africa's support.

Since South Africa was intending to bid for the hosting of the 2006 World Cup it was prudent that support to the AFCON initiative be given in order to gain the confidence of the world that Africa can host 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 be in a position to host the tournament successfully at such a late stage.

The Department of Sports and Recreation was responsible for the management of the project through a Mali Trust Fund. However, due to increased costs the Minister of Finance requested the audit of the Trust Fund before he can issue a letter of concurrence, which has been duly done by the Auditor General. The Audit report together with the request for concurrence letter has been submitted to the Minister of finance.

#### **5. SCOPA Resolutions**

The table below summarises the Standing Committee on Public Accounts (SCOPA) resolutions under implementation, as contained in SCOPA seventy-seventh report, 2003 on the report of the Auditor-General on the financial statements of the African Renaissance Fund and International Co-operation Fund for the year ended 31 March 2002 [RP206/2002]:

Reference to previous audit report and SCOPA resolutions	Subject	Findings in progress
<p>Resolution – audit report 2001/02</p> <p>The Committee recommends that the department submits a report to Parliament within 60 days after the tabling of this report in Parliament indicating the age analysis of the various loans, and the nature of the measures it has taken or intends taking to recover the instalments in arrears.</p>	Long-term loans	This matter has been resolved as all the loans have been written off, refer to paragraph 3.3 of the accounting officer's report

Apart from the above-mentioned, there have been no other SCOPA resolutions since the 2001-02 audit report.

The financial position of the African Renaissance and International Co-operation Fund as at 31 March 2007 and the results of its operations are set out in the attached annual financial statements:

- Statement of Financial Performance
- Statement of Financial Position
- Statement of Changes in Net Assets
- Cash Flow Statement
- Notes to the Annual Financial Statements
- Annexure 1
- Annexure 2
- Annexure 3

The accounting officer has approved the above-mentioned financial statements.



**Dr A Ntsaluba**  
**Director-General: Department of Foreign Affairs**  
**Date: 31 May 2007**



A U D I T O R - G E N E R A L

## **REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF AFRICAN RENAISSANCE AND INTERNATIONAL CO-OPERATION FUND FOR THE YEAR ENDED 31 MARCH 2007**

### **REPORT ON THE FINANCIAL STATEMENTS Introduction**

1. I have audited the accompanying financial statements of the African Renaissance and International Co-operation Fund which comprise the statement of financial position as at 31 March 2007, 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 notes, as set out on pages 11 to 22.

#### **Responsibility of the accounting officer for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting determined by the National Treasury, as set out in note 1 to the financial statements and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) and the African Renaissance and International Co-operation Fund Act, 2000 (Act No. 51 of 2000). 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
- making accounting estimates that are reasonable in the circumstances.

#### **Responsibility of the Auditor-General**

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) and section 6(1) of the African Renaissance and International Co-operation Fund

Act, 2000 (Act No. 51 of 2000), my responsibility is to express an opinion on these financial statements based on my audit.

4. I conducted my audit in accordance with the International Standards on Auditing read with General Notice 647 of 2007, issued in Government Gazette no. 22919 of 25 May 2007. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

5. 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 judgment, 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.

6. An audit also includes evaluating the:

- appropriateness of accounting policies used
- reasonableness of accounting estimates made by management
- overall presentation of the financial statements.

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

#### **Basis of accounting**

The Fund's policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as set out in the accounting policy note 1 to the financial statements.

#### **Opinion**

8. In my opinion the financial statements present fairly, in all material respects, the financial position of the African Renaissance and International Co-operation Fund as at 31 March 2007 and its financial performance and cash flows

for the year then ended, in accordance with the basis of accounting determined by the National Treasury of South Africa, as described in the accounting policy note 1 to the financial statements, and in the manner required by the Public Finance Management Act.

#### **OTHER MATTERS**

I draw attention to the following matter that is ancillary to my responsibilities in the audit of the financial statements:

9. Matters of governance: Note 3: Local and foreign aid assistance and Annexure 1 to the financial statements

As reported in the previous years' report, the payables of R 164,8 million (2005/06: R 86,5 million) as disclosed in note 3 to the financial statements included a series of payments totaling R29.9 million, which the department of Foreign Affairs had effected in 2002 on behalf of the fund to the Mali Trust Fund to enable the hosting of the twenty-third African Cup of Nations Soccer tournament. At that time, the Mali Trust Fund had been managed by Sports and Recreation South Africa.

The total payments of R29.9 million exceeded the initial amount pledged and contrary to section 5 of the African Renaissance and International Co-operation Fund Act 2000 (Act No 51 of 2000), these payments have not been regularised by the advisory committee and concurrence by the Minister of Finance was not obtained.

10. Delay in finalisation of audit

Due to the national public sector strike action during June 2007 the Auditor-General had to delay the finalisation of the affected entities, although this entity has not been affected. As a result, the Auditor-General's consistency review process of the audit reports could only be conducted subsequent to 31 July 2007, the consequence of which was a delay in the finalisation of the audit of this fund for the 2006/07 financial year.

#### **OTHER REPORTING RESPONSIBILITIES**

I have not audited any performance information because of the reasons as indicated in paragraph 15 and 16 below.

Responsibilities of the accounting officer for public entities

11. The accounting authority has additional responsibilities as required by section 55(2)(a) of the PFMA to ensure that the annual report and audited

financial statements fairly present the performance against predetermined objectives of the public entity.

#### **Responsibility of the Auditor-General**

12. I conducted my engagement in accordance with section 13 of the Public Audit Act, 2004 (Act No. 25 of 2004) read with General Notice 646 of 2007, issued in Government Gazette No. 29919 of 28 May 2007.

13. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgment.

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

#### **Audit findings**

15. As per the requirement of the PFMA section 55(2)(a) and Treasury Regulation 5.3.1 the annual report of the entity did not include any performance information in order to fairly present its performance against predetermined objectives and quarterly reports were not prepared thereon;

16. A separate strategic plan could also not be provided for auditing purposes.

#### **APPRECIATION**

17. The assistance rendered by the staff of the Department of Foreign Affairs during the audit is sincerely appreciated.



**GO Randall**  
**for Auditor-General**  
**Pretoria**  
**31 August 2007**



**A U D I T O R - G E N E R A L**

## STATEMENT OF ACCOUNTING POLICIES AND RELATED MATTERS for the year ended 31 March 2007

### 1. Basis of accounting

The financial statements have been prepared in accordance with the South African Statements of Generally Accepted Accounting Practices (GAAP) including any interpretations of such Statements issued by the Accounting Practices Board, with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board replacing the equivalent GAAP Statement as follows:

Standard of GRAP	Replaced Statement of GAAP
GRAP 1: Presentation of financial statements	AC101: Presentation of financial statements
GRAP 2: Cash flow statement	AC118: Cash flow statements
GRAP 3: Accounting policies, changes in changes in accounting estimates and errors and errors	AC103: Accounting policies, accounting estimates

The recognition and measurement principles in the above GRAP and GAAP Statements do not differ or result in items presented and disclosed in the financial statements. The implementation of GRAP 1,2 & 3 has resulted in the following significant changes in the presentation of the financial statements:

#### 1. Terminology differences:

Standard of GRAP	Replaced Statement of GAAP
Statement of financial performance	Income statement
Statement of financial position	Balance sheet
Statement of changes in net assets	Statement of changes in equity
Net assets	Equity
Surplus/deficit for the period	Profit/loss for the period
Accumulated surplus/deficit	Retained earnings
Contributions from owners	Shared capital
Distribution from owners	Dividends
Reporting date	Balance sheet date

#### 2. The cash flow statement can only be prepared in accordance with the direct method.

#### 3. Specific information such as:

- (a) receivables from non-exchange transactions, including taxes and transfers;
- (b) taxes and transfers payable;
- (c) trade and other payables from non- exchange transactions; must be presented separately on the statement of financial position

#### **4. The amount and nature of any restrictions and cash balances is required to be disclosed.**

Paragraph 11 – 15 of GRAP 1 has not been implemented as the budget reporting standard is in the process of being developed by the international and local standard setters. Although the inclusion of budget information would enhance the usefulness of the financial statements, non-disclosure will not affect fair presentation.

#### **2. Revenue**

Revenue from state contributions and interest from investments is accounted for on the accrual basis of accounting. Interest on loans is brought into account in the year in which it is capitalised or accrued. Interest on loans is calculated bi-annually in arrears on the balance outstanding, and where withdrawals were made during the period, from the date of each withdrawal. In accordance with international practice interest is calculated on the basis of a 360 day year, consisting of 12 months of 30 days each. Interest is not charged on instalments in arrears.

#### **3. Comparative figures**

The comparative figures shown in these financial statements are limited to the figures shown in the previous year's audited financial statements and such other comparative figures that the Department may reasonably have available for reporting in terms of the Public Finance Management Act.

#### **4. Debts written off**

In terms of the current Act "the Minister may, in consultation with the Minister of Finance and upon recommendation of the advisory committee, write off or convert to grants any outstanding debts owed to the previous Economic Co-operation Promotions Loans Fund".

#### **5. Financial Instruments**

The Fund's principal financial assets are Cash and Cash Equivalents, Receivables and Long Term Loans granted to other countries. These financial assets are reported at fair value at year end as reduced by provision for impairment.

Financial liabilities are classified according to the substance of the agreement or arrangement entered into. The main financial liabilities of the Fund are amounts due to the Department of Foreign Affairs for loans that are awaiting concurrence letters from the Minister of Finance, as well as amounts owed to outside parties in respect of projects approved in terms of the African Renaissance and International Co-operation Fund Act, 2000 (Act No. 51 of 2000)

#### **6. Impairment of assets**

The carrying amounts of the Fund's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If there is any indication that an asset may be impaired, its recoverable amount is estimated. In arriving at the recoverable amount management uses its judgement. The impairment loss is recognised in the statement of financial performance as an expense whenever the carrying amount of an asset exceeds its estimated recoverable amount.

#### **7. Rounding**

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

#### **8. Related party transactions**

Related party is the department of Foreign Affairs that controls the Fund in making financial and operating decisions. Specific information with regards to the department's transactions is included in the disclosure notes.

**African Renaissance and International Co-operation Fund**  
**Statement of Financial Performance**  
**for the year ended 31 March 2007**

	Notes	31/03/2007 R'000	31/03/2006 R'000
<b>Revenue</b>			
Transfers and Subsidies Received	1	150,000	100,000
Other income	2	28,957	22,449
<b>Total revenue</b>		<b>178,957</b>	<b>122,449</b>
<b>Expenditure</b>			
<b>Expenditure</b>			
Local and foreign aid assistance	3	(392,421)	(59,850)
Other operating expenses	4		(33,186)
<b>Total expenditure</b>		<b>(392,421)</b>	<b>(93,036)</b>
<b>Surplus/(Deficit) for the year</b>		<b>(213,464)</b>	<b>29,413</b>

**African Renaissance and International Co-operation Fund**  
**Statement of Financial Position**  
**for the year ended 31 March 2007**

	Notes	31/03/2007 R'000	31/03/2006 R'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Loans and Receivables	5	0	0
<b>Current assets</b>			
Loans and Receivables	6	8,742	8,742
Cash and cash equivalents	7	215,804	350,987
<b>Total assets</b>		<b>224,546</b>	<b>359,729</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Local and foreign aid assistance payable	3	164,815	86,534
<b>Total liabilities</b>		<b>164,815</b>	<b>86,535</b>
<b>NET ASSETS</b>			
Accumulated Surplus/Deficit	10	59,731	273,195
<b>Total Net Assets and liabilities</b>		<b>224,546</b>	<b>359,729</b>

**African Renaissance and International Co-operation Fund**  
**Statement of Changes in Net Asset**  
**for the year ended 31 March 2007**

	Notes	Accumulated Surplus/(Deficit) R'000
Balance at 01 April 2005 as originally stated	10	243,782
Surplus for the year		29,413
Prior year adjustments		0
Balance as at 31 March 2006		273,195
Deficit for the year		(213,464)
Prior year adjustments		0
Balance as at 31 March 2007		59,731

**African Renaissance and International Co-operation Fund**  
**Cash Flow Statement**  
**for the year ended 31 March 2007**

	Notes	31/03/2007 R'000	31/03/2006 R'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash Receipts from Customers		150,000	100,000
Cash paid to suppliers and employees		(314,140)	(80,042)
<b>Cash generated from/(utilised in) operations</b>	<b>8</b>	<b>(164,140)</b>	<b>19,958</b>
Interest received		28,957	22,449
<b>Net cash inflows/outflows from operating activities</b>		<b>(135,183)</b>	<b>42,407</b>
Net increase/(decrease) in cash and cash equivalents		(135,183)	42,407
Cash and cash equivalent at the beginning of the year	7	350,987	308,580
Cash and cash equivalent at end of the year	7	215,804	350,987

**African Renaissance and International Co-operation**  
**Notes to the Annual Financial Statements**  
**for the year ended 31 March 2007**

	Notes	31/03/2007 R'000	31/03/2006 R'000
<b>1. Transfers and subsidies received</b>			
National Departments		150,000	100,000
<b>Total</b>		<b>150,000</b>	<b>100,000</b>
<b>2. Other income</b>			
Interest on loans		0	1,048
Interest on investments		28,957	21,401
<b>Total</b>		<b>28,957</b>	<b>22,449</b>
<b>3. Local and foreign aid</b>			
Local and foreign aid assistance payable	Annexure 1	164,815	86,534
Local and foreign aid assistance paid	Annexure 2	(392,421)	(59,850)
<b>4. Other operating expenses</b>			
Impairment of financial assets		0	33,186
<b>Total</b>		<b>0</b>	<b>33,186</b>
<b>5. Loans</b>			
Non-current loans	Annexure 3	0	0
<b>Total</b>		<b>0</b>	<b>0</b>
<b>6. Trade and receivables</b>			
Other receivables		6,670	6,670
Prepayments		2,072	2,072
<b>Total</b>		<b>8,742</b>	<b>8,742</b>

**African Renaissance and International Co-operation  
Notes to the Annual Financial Statements  
for the year ended 31 March 2007**

	Notes	31/03/2007 R'000	31/03/2006 R'000
<b>7. Cash and cash equivalents</b>			
Cash and balances with banks		205,804	350,987
Cash In Transit		10,000	0
<b>Total</b>		<b>215,804</b>	<b>350,987</b>
<b>For the purpose of the cash flow statement:</b>			
Cash & cash equivalents		215,804	350,987
Bank Overdraft		-	-
Cash & cash equivalents at 1 April 2005			308,580
<b>8. Cash generated from/(utilised in) operations</b>			
Surplus before taxation		(213,464)	29,413
Impairment of financial assets		0	33,186
Investment income		(28,957)	(22,449)
Operating cash flows before working capital changes		(242,421)	40,150
Working capital changes		78,281	(20,192)
<b>Cash generated from operations</b>		<b>(164,140)</b>	<b>19,958</b>
<b>9. Net cash inflows/outflows from operating activities</b>			
Cash receipts from customers		150,000	100,000
Cash payments to suppliers and employees		(314,140)	(80,042)
<b>Cash generated from/(utilised in) operations</b>		<b>(164,140)</b>	<b>19,958</b>
Interest received/(paid)		28,957	22,449
<b>Net cash inflows/ outflows from operating activities</b>		<b>(135,183)</b>	<b>42,407</b>
<b>10. Accumulated Surplus</b>			
<b>Accumulated surplus</b>			
Balance at 1 April as originally stated		273,195	243,782
Net surplus/deficit for the year		(213,464)	29,413
<b>Total</b>		<b>59,731</b>	<b>273,195</b>

**African Renaissance and International Co-operation Fund**  
**Annexure to the Annual Financial Statements**  
**for the year ended 31 March 2007**

**Annexure 1 Statement of local and foreign aid assistance payable**

	Name of Donor	31/03/2007 R'000	31/03/2006 R'000
<b>Current</b>			
Foreign Aid payable	Department of Foreign Affairs	59,026	46,797
	SA Contribution to AU Peace Fund for Comoros	5,084	5,084
	SA Contribution to Guinea Elections	81	81
	DFA/SPLM/UNISA		303
	Burundi Peace Process		8,943
	Zimbabwe Elections	2,226	2,226
	Sahrawi Humanitarian		10,000
	Department of Public Service and Administration		1,400
	AISA		1,700
	DRC Observer Mission	10,000	10,000
	UNISA / DFA Project	22,976	
	United Cities and Local Governments of Africa	3,000	
	Burundi Project	10,000	
	United Nations Mission (UNMIL/UNPOL)	7,141	
	Guinea - Museum project in Kindia	5,000	
	Government of Seychelles - Support Grant	26,281	
	Association of SADC Chamber of Comm&Industry	6,500	
	Dept. of Defence - DRC Security Project	7,500	
<b>Total foreign aid assistance payable</b>		<b>164,815</b>	<b>86,534</b>

**African Renaissance and International Co-operation Fund**  
**Annexure to the Annual Financial Statements**  
**for the year ended 31 March 2007**

**Annexure 2 Statement of local and foreign aid assistance paid**

	Name of Donor	31/03/2007 R'000	31/03/2006 R'000
Foreign Aid paid			
Grant	Africa Institute of South Africa		1,700
Grant	Liberian Government		25,750
Grant	Independent Electoral Commission		11,000
Grant	Sahrawi		10,000
Grant	DRC Observer Mission		10,000
Grant	DPSA		1,400
Grant	DRC Electoral Process (Round 1)	150,000	
Grant	DRC Electoral Process (Round 2)	128,000	
Grant	Comoros Post Conflict Reconstruction Project	10,000	
Grant	UNISA / DFA Project	27,000	
Grant	United Cities and Local Governments of Africa	5,000	
Grant	Sahrawi Humanitarian Assistance Programme	10,000	
Grant	Burundi Project	10,000	
Grant	United Nations Mission (UNMIL/UNPOL)	7,141	
Grant	Guinea - Museum project in Kindia	5,000	
Grant	Government of Seychelles - Support Grant	26,280	
Grant	Association of SADC Chamber of Comm&Industry	6,500	
Grant	Dept. of Defence - DRC Security Project	7,500	
Grant			
Grant			
		392,421	59,850

**African Renaissance and International Co-operation Fund**  
**Annexure to the Annual Financial Statements**  
**for the year ended 31 March 2007**

**Annexure 3**

	Note	31/03/2007 R'000	31/03/2006 R'000
<b>Granted to Comoros</b>			
Opening Balance		-	14,415
Interest Charged		-	553
Provisions		-	(14,968)
<b>Closing balance</b>		<b>-</b>	<b>0</b>
<b>Granted to Gabon</b>			
Opening Balance		-	2,652
Provisions		-	(2,652)
<b>Closing balance</b>		<b>-</b>	<b>0</b>
<b>Granted to Lesotho</b>			
Opening Balance		-	403
Provisions		-	(403)
<b>Closing balance</b>		<b>-</b>	<b>0</b>
<b>Granted to Mozambique</b>			
Opening Balance		-	3,538
Provisions		-	(3,538)
<b>Closing balance</b>		<b>-</b>	<b>0</b>
<b>Granted to Malawi</b>			
Opening Balance		-	6,150
Interest Charged		-	203
Provisions		-	(6,353)
<b>Closing balance</b>		<b>-</b>	<b>0</b>

**African Renaissance and International Co-operation Fund**  
**Annexure to the Annual Financial Statements**  
**for the year ended 31 March 2007**

**Annexure 3**

	Note	31/03/2007 R'000	31/03/2006 R'000
<b>Granted to Paraguay</b>			
Opening Balance		-	154
Provisions		-	(154)
<b>Closing balance</b>		<b>0</b>	<b>0</b>
<b>Granted to Central Africa</b>			
Opening Balance		-	2,809
Interest Charged		-	292
Provisions		-	(3,101)
<b>Closing balance</b>		<b>0</b>	<b>0</b>
<b>Granted to Swaziland</b>			
Opening Balance		-	2,016
Provisions		-	(2,016)
<b>Closing balance</b>		<b>0</b>	<b>0</b>
<b>Total Long term Loans</b>		<b>0</b>	<b>0</b>



